

Meet America's Fastest-Growing Private Companies...

Inc.

The Magazine for Growing Companies



...and the Superstar Entrepreneurs Who Run Them

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No. 1



JERE THOMPSON JR., Ambit Energy
THREE-YEAR GROWTH **20,369.4%**
2009 REVENUE **\$325 MILLION**

Imagine trying to live up to the kind of entrepreneurial legacy Jere Thompson Jr.—whose grandfather Joe Thompson started the iconic 7-Eleven chain in 1927—faces every day when he heads to work. But the younger Thompson has been establishing an impressive track record of his own, most recently by building a company that sells electricity and natural gas in the deregulated energy markets. The company doesn't actually produce or deliver energy. Rather, it buys power at wholesale prices and resells it to customers acquired through a direct sales channel. That process is powered by an army of some 70,000 independent agents, who get paid to sign up new customers and other agents.

How I seized this opportunity

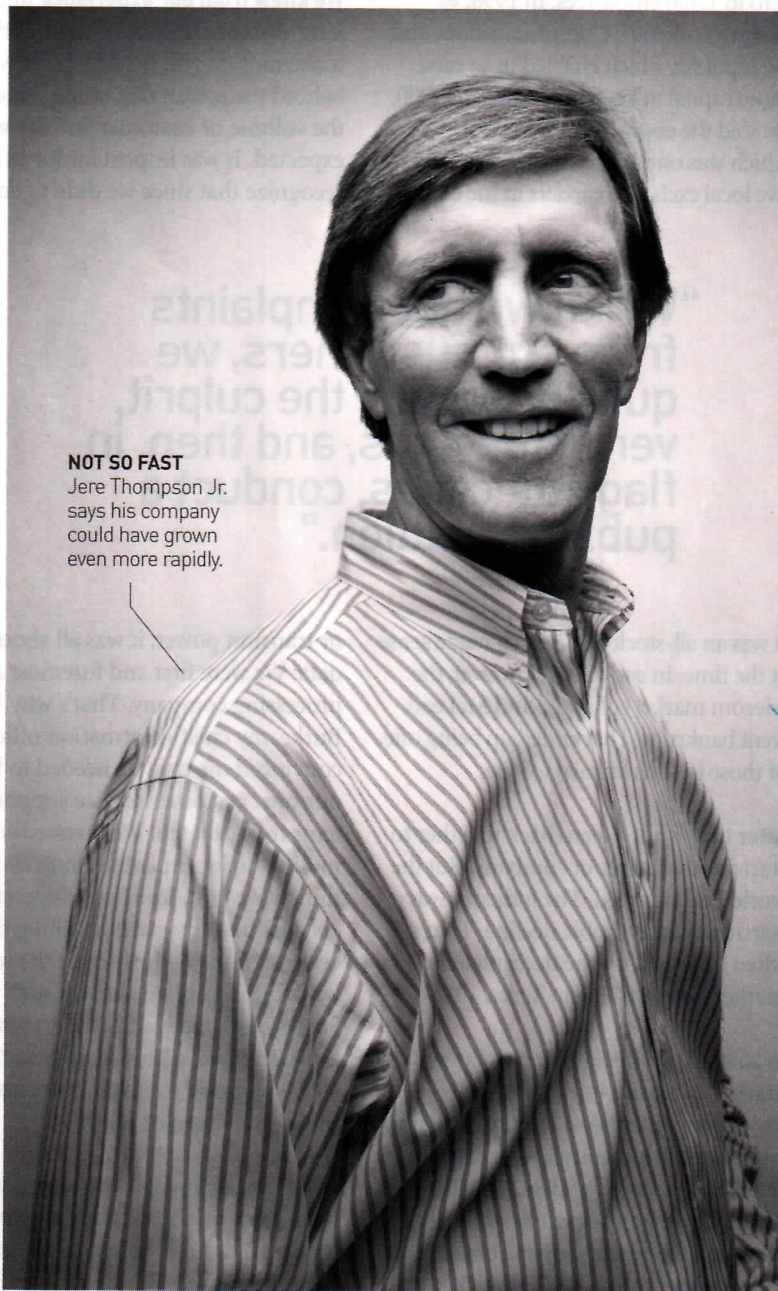
I grew up working in the family business, on the dairy farms, ice trucks, and distribution centers. My father believed in giving me and my four brothers and two sisters the chance to work hard. I started working for 3 cents an hour when I was 7 years old.

After earning my M.B.A. from the University of Texas, I joined the family investment business, where we invested capital in small businesses. I realized that I enjoyed the operational side of business much more than investing. So I left to find something I could start on my own. I started researching this new chain of stores called Blockbuster. But when I looked at the kinds of threats posed to the business, I read about something called fiber-optic technology, which would connect homes and download data at tremendous speeds. The more I dug into it, the more I thought it was really cool stuff.

Around that same time, I visited south Texas along the border with Mexico. I thought it was weird that I didn't see any of those "Do Not Dig" signs that

NOT SO FAST

Jere Thompson Jr. says his company could have grown even more rapidly.



protect buried cable. With all the long-distance phone traffic between the U.S. and Mexico, I expected to see those. So, I called the three phone companies I could think of, AT&T, Sprint, and MCI, and asked them about it. They told me to build it and they would come. That was the start of CapRock Fiber Network.

We were at the right place at the right time. The company grew like crazy, from zero to 1,300 employees. In 1998, we merged with IWL Communications and went public, which enabled us to raise more capital to keep expanding. In 2000, we sold the company to McLeodUSA, which was one of the strongest competitive local exchange carriers in the country.

“When we get complaints from our customers, we quickly identify the culprit, verify the facts, and then, in flagrant cases, conduct a public execution.”

It was an all-stock deal, which made sense at the time. In early 2002, however, the telecom market collapsed and McLeod went bankrupt. That ended up being one of those lessons learned for me.

After that, I put a team back together to start another telecom company. But the world had changed. The industry was starting an irreversible decline. That’s when I focused on the deregulated market for electricity in Texas.

In 2002, Texas deregulated its energy market, breaking it into three pieces: the power generators; the transmission and distribution companies; and the retail electricity providers, or REPs, which buy energy at wholesale prices and then sell to customers at retail rates. That’s what we are. REPs don’t generate

or distribute power; they just sign up customers and then bill them for their power usage. The system is set up so that power is always delivered to the customer. How you buy that power, along with your cost structure, determines your gross profit. I thought if you did a good job hedging on the prices you pay while keeping your overhead costs under control, you could make some money at this.

We knew from our experience in the long-distance telephone market that to make money, you needed great systems behind the scenes that could handle the volume of customer activity we expected. It was important for us to recognize that since we didn’t generate

or transmit power, it was all about the data. We were first and foremost a data-processing company. That’s why John Burke, my chief information officer, convinced me that we needed to build our own customer service support systems from scratch. We invested several million dollars in automating everything we could, from switching customers over to our system to billing them every month. We knew that the more we could automate, the less stuff would fall through the cracks. That’s why our office feels like a library; it’s so quiet. The only noise you hear is the hum from the computer room.

From the beginning, we decided to focus exclusively on the residential market. I was Ambit’s first customer. My parents were the second. But we quickly learned

that not everyone was as comfortable with switching over their electricity provider as they were with changing, say, their long-distance provider. They would look at us and say, You want to do what? There was some concern about whether their lights would come on. Two weeks after we started, my wife called me up at the office to ask why the lights were out at home. It was a hot afternoon in March, and I broke out in a cold sweat. I wondered what we had done wrong. Turns out, there were rolling brownouts all over Dallas because of the heat. That was a big relief.

Once we tested the system enough to know that we had the basics down of switching, billing, collections, and customer care, we started thinking about how we could acquire customers at a low cost. That’s where Chris Chambless, our co-founder and chief marketing officer, came in. Chris had worked at Excel Telecommunications, a reseller of long-distance service. Excel used direct sales to grow from \$30 million to \$1.5 billion in sales in five years. He brought us the road map of what had worked and what didn’t when using independent sales consultants.

Today, we have more than 70,000 independent sales consultants. They get a monthly residual payment for every customer they bring in, provided that customer pays their bill. We also pay them a bonus commission when they recruit consultants who sign up a required number of customers. Our consultants do pay a fee to join. But those fees only make up about 2.4 percent of our revenues.

I admit that I did have some concerns about using direct sales and multilevel marketing. Chris and I were concerned about our reputations. We didn’t want to wake up in five years with a big company but feel embarrassed about how we did it. So I called up a friend in Dallas who worked at Mary Kay at the time, and asked him how they did this in a

way that people looked at them with pride and respect. He told me, "Never sacrifice integrity for growth." Since then, we have held that as our mantra.

We don't tolerate misbehavior on the part of our consultants. When we get complaints from our customers, we quickly identify the culprit, verify the facts, and then, in the most flagrant

cases, conduct a public execution. We e-mail all of our consultants and tell them what happened. We make it clear that if anyone does something we consider wrong, we will get them out of the business immediately.

You can build spreadsheets that help you dream that someday you can see the kind of growth that we're experi-

encing now. But we have just kept our focus on the day-to-day details. We had a lot of great ideas, but we kept focused on just a few simple things, like automation and residential customers. We could have grown two to three times faster than we have, but we have tried to keep things under control. It sounds crazy, but despite how fast we have grown, it has never felt chaotic. **■**

The Honorees

HOW THE 2010
INC. 500 COMPANIES
WERE SELECTED

This year's list measures revenue growth from 2006 through 2009. To qualify, companies must have been founded and generating revenue by June 30, 2006. Additionally, they had to be U.S.-based, privately held, for profit, and independent—not subsidiaries or divisions of other companies—as of December 31, 2009. (Since then, a number of companies on the list have gone public or been acquired.) The minimum revenue required for 2006 is \$80,000; the minimum for 2009 is \$2 million. Revenue figures given in the company profiles are for calendar year 2009, as are employee counts. Full-time and part-time employees are included in the employee counts; independent contractors are not. As always, Inc. reserves the right to reject applicants for subjective reasons. The companies of the Inc. 500 represent the top tier of the Inc. 5000, which can be found on Inc.com.

RANK	COMPANY	INDUSTRY	THREE-YEAR GROWTH	2009 REVENUE	NUMBER OF EMPLOYEES	YEAR FOUNDED
1	Ambit Energy DALLAS CEO: Jere Thompson Jr., ambitenergy.com Resells electricity and natural gas to consumers and businesses in Texas, New York, and Illinois.	Energy	20,369.4%	\$325 MILLION	171	2006
2	ModCloth PITTSBURGH CEO: Eric Koger, modcloth.com Sells women's fashions from independent designers online.	Retail	17,191%	\$15.6 MILLION	100	2002
3	Luke & Associates MERRITT ISLAND, FLA. CEO: James Barfield, lukeassoc.com Provides medical care for soldiers; also offers consulting services to government agencies.	Government Services	16,636.6%	\$37.5 MILLION	588	2004
4	Lexicon Consulting EL CAJON, CALIF. CEO: Jamie Arundell-Latshaw, lexiconinc.com Trains military personnel in cultural immersion and awareness.	Government Services	14,017.7%	\$14.4 MILLION	50	2005
5	WDFa Marketing SAN FRANCISCO CEO: Raj Prasad, wdfamarketing.com Specializes in guerrilla, grass-roots, and micromarketing.	Advertising and Marketing	13,969.5%	\$17.9 MILLION	46	2006
6	Coyote Logistics LAKE FOREST, ILL. CEO: Jeffrey Silver, coyotelogistics.com Provides logistics and supply-chain management services.	Logistics and Transportation	13,846.8%	\$249.8 MILLION	351	2006
7	Debt Free Associates OKLAHOMA CITY CEO: Bradley Smith, debtfreeassociates.com Offers debt-consolidation and settlement services to individuals and businesses.	Financial Services	12,376.2%	\$26.2 MILLION	46	2006
8	LifeLock TEMPE, ARIZ. CEO: Todd Davis, lifelock.com Provides identity-theft protection.	Security	11,474.3%	\$131.4 MILLION	482	2005
9	Carbonite BOSTON CEO: David Friend, carbonite.com Provides computer data backup to individuals and small businesses.	IT Services	11,207.6%	\$19.1 MILLION	100	2005
10	KPaul INDIANAPOLIS CEO: Kevin Paul, tekmentum.com Sells computers and accessories, office products, software, and first-aid supplies to the government.	Government Services	10,925.6%	\$11.2 MILLION	60	2004