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180s CEO Le Gette departs

High-profile city business

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by Julekha Dash Staff

An executive with more than two decades of retail experience has taken over the helm at one of Baltimore's most visible startup firms, 180s LLC, replacing high-profile CEO Brian Le Gette.

Susan Shafton's new leadership represents the culmination of numerous changes at the performance apparel firm that had been experiencing growing pains in the past year, retail and investment experts say. Revenue growth at the company, best known for its wrap-around ear warmers, has slowed as the company shifted its retail strategy from a firm with wide consumer distribution channels -- such as QVC and national chain stores -- to one that relied on niche fashion and athletic apparel markets, some former employees say.

Drawing national media attention from the New York Times, USA Today and Inc. Magazine., 180s LLC and Le Gette, 39, had come to represent Baltimore's new breed of entrepreneurial talent, much like Under Armour Performance Apparel or Advertising.com. The Wharton School graduate's love of skateboarding and adventure sports earned him a reputation as a free-wheeling, fast-moving personality, both inside and outside the office.

Le Gette said he resigned from the firm in order to spend more time pursuing personal and philanthropic pursuits, such as climbing Mount Kilimanjaro in Tanzania and volunteering in an AIDS clinic in Haiti. He is also considering several professional opportunities, which he cannot yet discuss.

"I'm looking forward to a little bit of a break and the next challenge. I never took a vacation," Le Gette said.

Shafton, who began working at 180s July 12, said she was not ready at this time to speak to the Baltimore Business Journal. Previously, Shafton was a founding member of a New York-based advisory firm, Abacus Solutions, and counts a host of retail stalwarts, such as Office Depot Inc., Walt Disney Co., Saks Fifth Avenue and Nike Inc., as former clients. Prior to Abacus, Shafton headed the retail segment at Deloitte Consulting and has worked as a buyer for the Gap Inc.

Both Le Gette and officials at 180s said the former CEO made a voluntary decision to leave. "I'm real happy she's there to take my place," Le Gette said. "I'm looking forward to my stock value increasing."

But Le Gette's departure comes shortly after Patriarch Partners LLC, a New York City-based private equity firm that manages more than $4 billion in assets, invested an undisclosed amount of money in 180s in April. Patriarch is now the performance apparel firm's majority owner, said 180s spokeswoman Natalie Van Buskirk.

Owners of growing companies will often appoint a seasoned industry veteran to take the firm to the next stage in development, said Mark Millman, who heads retail staffing firm Millman Search Group in Owings Mills.

"The number one investment criterion post the tech-bubble is experienced management," said Douglas M. Schmidt, CEO of Chessicap Inc., an investment banking firm at Bethesda.

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The Company That Grew Too Fast

By: **John Anderson**

The thing about growth is that you have to finance it. And that, as Brian Le Gette learned the hard way with one-time Inc. 500 company 180s, can be tricky.

THERE was nothing on the door to suggest that anything special went on behind it. No name, no plaque. Just an anonymous white door. But when you got inside, the first thing you noticed was that all the windows were frosted over. No prying eyes allowed. This was the war room at 180s, the innovative Baltimore-based sports apparel company made famous by its patented ear warmers that wrap around the back of the head and fold up into tiny disks. But the goal of 180s had long been to get beyond a one-brand, seasonal product like ear warmers, and that's what the war gaming and the secrecy were all about.

The company's vice president for R&D, Nestor Benavides, stood next to a pair of marker boards. Resting on a table was a sample of a new prototype, fresh from a factory in China: the Quantum Vent running jacket. On each side of the jacket's front was a tab. Pull the tabs down and a vent opened, letting in air to cool the runner's back. Pull up tabs on the back of the jacket and the vent closed, holding in the warmth.

But the sizing still wasn't right, Benavides explained, and a deadline was looming. Fearful that it could lose its place in line at the factory in China, the company's managers, marketers, and designers all pondered last-minute changes to the jacket's design, all except the boss, co-founder and CEO Brian Le Gette, who toyed absent-mindedly with a cell phone. And then he excused himself abruptly: "Gotta go, folks. My day is just starting." His life, he added, had become "a seamless series of meetings."

One of those meetings, later in the day, was with a visiting reporter, who listened as Le Gette explained how stressful things had become at 180s despite years of spectacular growth. Actually, Le Gette said, things had gotten stressful *because* of that spectacular growth. Just the previous year, the company had placed No. 32 on the Inc. 500 list. In retrospect, Le Gette confessed, "I should have tapped the brakes sooner."

That conversation was in February. On April 4, a New York City-based private equity firm, Patriarch Partners, took control of the company. Three months later, on July 12, the new ownership installed its own CEO. In the end, it didn't matter that 180s was still churning out cool products like the ear warmers, the vented jacket, the Exhale glove -- featuring a patented system that allows the wearer to blow warm air into the glove via a tiny nozzle in the front -- and a new line of underwear for the Marines in Iraq (180s Battle Apparel) that Le Gette was vowing to turn into "the Hummer of T-shirts." It didn't matter that the company had moved into 48,000 square feet of sleek new office space on Baltimore's Inner Harbor. It didn't matter that everything about the young, athletic, fresh-faced people who filled the office's vast open areas, with even Le Gette's module marked only by the stuffed monkey that swung above it, suggested that this just might be the coolest small company in America.

> "I still don't understand why this happened," says the company's longtime outside counsel. "They had such great numbers. They had phenomenal growth. It's incredible."

And it certainly didn't matter that no one had seen the takeover coming. In part, that was because it was almost impossible not to get caught up in Le Gette's enthusiasm. Everything always sounded so good. Even insiders thought the company was unstoppable. "I'm a Wharton School graduate, and I still don't get why this happened," says Curt Golkow, who provided outside legal counsel to 180s for seven years. "They had such great numbers. They had phenomenal growth. It's incredible." Well, maybe -- to insiders anyway, those for whom losing control of their baby is their worst nightmare. But to investment professionals, the people who finance growth companies, it's actually quite common. In fact, though entrepreneurs sometimes lose sight of this, it's really business as usual.

Originally known as Big Bang Products, the company started out as the brainchild of Le Gette and his partner Ron Wilson. Eventually, they would split, and their breakup would help propel the company into Patriarch's arms. But in the beginning they were a close-knit pair. With his short-cropped dark hair, stocky build, red cheeks, and husky voice, Wilson is Le Gette's physical and emotional opposite. "We're unalike in just about every way," says Wilson, and few who know them would disagree. Wilson was a country boy. He was a family man, too, while Le Gette was single. Not alone among their friends, Daphne Howard, a former QVC executive, has vivid memories of Le Gette driving flashy cars in the company of a series of very good-looking girlfriends. "Movie-star good-looking," says Curt Golkow.

For all their differences, Le Gette and Wilson both started out as engineers and both knew they wanted to be entrepreneurs. They met over a beer in the late summer of 1993 during their first week as graduate students at the University of Pennsylvania's Wharton School. The two students, in their mid-20s at the time, discovered immediately that they had an interest in athletics -- and a passion for entrepreneurship. By the time they'd finished their beer that night, says Le Gette, "we were saying, 'Hey, we're going to start a business together!' Of course, we didn't know what it was."

It was a class project that brought it all together for them. "Brian and Ron," recalls Bill Besselman, who was a classmate and for a brief time Le Gette and Wilson's partner, "were like a machine coming up with product ideas: churning, churning, churning." After their first idea -- rotating CD racks made in China -- fell through, it was Wilson who hit upon the magic words: ear warmers.

Actually, he had been thinking about them since college. As an engineering student at Virginia Tech, he had had to walk across its Quad daily -- "and it was just one big wind tunnel." Seven years later, summer had turned to fall, and fall was about to give way to winter, and the idea resurfaced. Le Gette recalls how he would walk through the kids' section at Wal-Mart, buy a toy, and take it home, where he and Wilson would break off whatever piece they thought might work in the evolving design of the ear warmer. "We did a hundred different designs," says Le Gette.

By fall 1994, they had a prototype. And before long, Wilson was carrying a backpack laden with 40 or 50 ear warmers, hawking them on the Penn campus -- where most onlookers assumed they were either giving stuff away or protesting something. "It was embarrassing," says Wilson.

Their breakthrough came in March 1995, when Wilson got the name of a buyer at the then-infant cable station QVC and called for an appointment. He was told he could have two minutes. Wilson and Le Gette took it and drove the 45 minutes from Philadelphia to the QVC studios in West Chester, Pa. The buyer liked what he saw and set them up with a more senior QVC exec, Daphne Howard.

Unfortunately, the sample that Le Gette and Wilson brought with them -- made of collapsable plastic and covered in fleece -- fell apart when Howard went to try it on. "Well, you both went to Wharton, and you both seem pretty smart," said Howard, "so I guess I'll give you a chance." It didn't hurt, Howard says, "that they were two cute guys."

When Brian Le Gette went on the air on Friday night, November 10, 1995, the partners -- having raised close to $100,000 from 18 investors, most of them Wharton classmates -- believed in their hearts that it was now or never. In the first four minutes on the air, Le Gette sold nothing. In the next four minutes, he sold out -- 5,000 ear warmers, with another 2,000 people waiting on hold. During his next two appearances, in January, he sold 17,000. Soon he was a regular on QVC. "You couldn't pay for that kind of time today," he says.

"Brian can sell his ass off," recalls Bill Besselman. "Five thousand units in five minutes one night. After that, the train just took off."

In 1997, Le Gette and Wilson decided to move the company -- which had been known variously as the Gorgonz Group, Gray Matter Holdings, and Big Bang Products -- to Baltimore. There, Le Gette and Wilson were joined by Wharton classmates Bill and Autumn Besselman and by Jim Waring and Ty Matlin, toy designers who had worked for Milton Bradley. The idea going forward was to come up with a seasonal counterpoint to the ear warmer. Eventually, the name would be changed to 180s -- which was meant to emphasize the company's innovativeness. "Over time," says public relations specialist Natalie Van Buskirk, "people take things for granted, accept what they have, whether it is the best solution or not, and simply make do. They develop blind spots to what might be possible. We look at products differently and do a 180 on them."

Backed by a $1.5 million round of financing -- most of it coming from the original 18 Wharton investors -- the new partnership focused on developing what Besselman calls "crazy cool ideas." Some were just crazy: a radio-controlled kite-glider, a collapsable beach mat, a talking children's lunch bag. In late '97, Gib Mason, a Baltimore accountant who would eventually be CFO and later president of 180s, was brought in to help with a second tranche of financing. This one raised $1.97 million. Part of the money came from a private equity fund run by an original 180s investor, Tampa-based Wharton graduate John Touchton Jr., who invested along with three other individuals. In return, Touchton received a new class of preferred equity stock.

The real push began to come up with countercyclical products. Under a separate Kelsyus brand, the company turned to making sunglasses, beach towels, and pool flotation devices. A line of collapsable beach chairs that turned into backpacks became the most successful of these summer products. But the dynamic never changed. "The other products all together didn't deliver nearly as much revenue as the ear warmers," says Golkow.

But behind the ear warmers, revenue leaped from $1 million in 1999 to $7.4 million in 2000, and the work force almost doubled to 17. "We didn't make a dime," says CFO Mason. "But we didn't lose money either." The next year revenue and staffing both doubled, to $15.2 million and 36.

Along the way Le Gette and Wilson were learning to live the good life. Besselman, who has remained friends with both, recalls a vacation they took with their significant others in 2002. The venue was Vail, Colo. Wilson showed up in a new Hummer H2, while Le Gette drove up in a Porsche.

But over cocktails, the Wharton grads had a debate about the relative merits of single brands versus multiple brands, "BMW versus GM," in the words of Besselman. A former McKinsey & Co. management consultant, Besselman was surprised when he sensed that the discussion was drifting over the heads of Wilson and Le Gette. "That's when I thought to myself: 'Maybe they're not so good at operating a company after all.'"

Beneath the surface, all was not well. For one thing, Le Gette and Wilson had been taking note of their differences. "It always surprised me that they got along so well so long," says Daphne Howard. Le Gette, Howard recalls, was the big-picture guy. Wilson, says Howard, was more nuts and bolts, more focused on keeping the production line moving. Le Gette doesn't disagree: "Ron was all about getting the product on the shelf." Le Gette, by contrast, didn't want the product on the shelf "until it was perfect." It made, he adds, "for a great struggle" -- and a great partnership -- for a long time anyhow.

Wilson resigned as co-CEO two years ago. "You can't have two daddies," is how he explains it. "That was okay when we were a little company. But we weren't a little company anymore. When you have two daddies, and something goes wrong, the kids go to the daddy they like and complain about the daddy they don't like.

"Not good."

Even before Wilson left, Le Gette had set about changing the company. For one thing, he started hiring people who were more like, well, him. "The current 180s people," Le Gette told a reporter in February, "are my people. They aren't Ron's people. Who they are is a reflection of me." That's exactly right, says Curt Golkow. "They all looked like Brian -- GQ men and WASPy blonde women." They didn't come cheap, either: "Brian was good at incentivizing his people."

Le Gette's goal was to transform the company. In the early days, says former GM Rick Olson, who left the company following the Patriarch takeover, 180s found success by reaching for "the low-hanging fruit, the large retailers." The company's rapid growth -- fueled by sales of ear warmers to the May Co. and Federated Department Stores -- meant, says Olson, "that every other department in the company was trying desperately to keep up with sales. That was the adage: If you can sell it, we can build it."

It was in 2003 that Le Gette decided to change the company's name to 180s. Perhaps more important, he also changed the company's distribution strategy. Where the old business plan began and ended with sales to the big department stores, the new paradigm looked like a pyramid, with the department stores at its base. Under the new system, products would be introduced at the top. The entry product would be state-of-the-art apparel sold at specialty running and skiing shops. The initial buyers would be highly competitive athletes. As part of this new strategy, the company decided to sponsor a team of nonprofessional athletes, Team 180s.

After a year or two, the product would then find its way into nationwide sporting goods stores like Modell's and the Sports Authority. The user now would be a weekend runner or occasional skier. Only later would the same product wind up on the shelves of a department store for sale to the general public. It was understood that the new strategy might cost the company revenue in the first year for a given product -- when the target would be high-margin sales to specialty buyers -- but the theory was that it would lead to greater sales down the road when the product hit the department stores.

This paradigm shift would have a profound effect on growth and the need for additional financing at 180s. For one thing, sponsoring Team 180s was costly. More important, where the three big sporting goods companies had perhaps 1,500 to 2,000 stores, the department store chains had 15,000 or more. As a result, Besselman explains, 180s "went from a two-year return on investment to a three-year return."

Wilson's departure in 2003 was hastened by a controversial plan for a stock buyback. The plan split the company's executives and investors, with Wilson wanting to take some money off the table while Le Gette believed the company was not in a position to hand out cash. But Wilson, who was in the midst of a messy divorce, insisted. "Ron needed the money," says Le Gette.

In part because some of the newer investors wanted out as well, Le Gette eventually caved. In the ensuing buyback, stock was priced at $80 a share, and the value of the company set at what former CFO Mason thinks was a realistic $45 million to $65 million. Those who cashed in "made off like bandits," says Besselman. Most of the original investors stayed put -- "and were left holding the bag two years later," he adds ruefully. Shortly after the buyback, Wilson left the company.

Most important, the buyback brought additional pressure, costing money that the company did not have to throw around -- as much as $3 million, according to Besselman. It seemed as if 180s always needed more capital, both to finance the growth in ear-warmer sales -- which required a huge cash infusion every year -- and to finance the never-ending search for a second successful product. In early 2004, the company turned to Chicago-based Trans Cap Trade Finance for a $20 million line of credit. "Chasing after money was our bane," says Mason, who left that November to join another Baltimore-based company as its CFO.

> "In the end," says an original investor, "they grew the top line, but they didn't manage the bottom line. They got sucked into the vortex."

By late that fall, executives within the company knew the problems were getting serious. The complexity of the company's finances had by now become "overwhelming," says Le Gette. Having tapped out his original investors -- not to mention having already "taste-tested every type of debt instrument you can imagine" -- he began looking desperately for a financial angel. "In the end," says Besselman, "they grew the top line, but they didn't manage the bottom line. They got sucked into the vortex."

That happened in 2004 when the revenue stream stalled at $50 million, which wasn't nearly as big as Le Gette had anticipated. The initial Marine Corps contract hadn't been followed by the megadeal he'd promised. The Hummer of T-shirts, so far, was just another T-shirt, albeit one worn by a bunch of Marines in Iraq. All along, 180s had kept adding one debt or equity infusion on top of another. "They just kept bootstrapping," says Besselman. "They'd build a tenement house on top of a tenement house on top of a tenement house. That's how it was."

Besselman says he knew something was up when Le Gette stopped returning his phone calls. When Le Gette finally did call back, this past spring, he told Besselman, "We're falling apart a lot faster than I realized. We're in a really tight bind." By this point, Le Gette was working 14-hour days, six days a week, sometimes seven -- much of it trying to solve the financial mess. "Brian almost stopped being Brian," says Besselman. "His strength was the product."

An investment banker at Legg Mason eventually hooked Le Gette up with Lynn Tilton, the principal of New York City's Patriarch Partners, a private equity firm that specializes in distressed debt. Tilton arranged for Le Gette to get the financing he needed, although Patriarch won't say how much. "Low eight figures," is how Le Gette puts it. "Somewhere just south of $20 million," says someone with intimate knowledge of the company's finances.

But the financing came with a very steep cost. First, it gave Patriarch majority control of the company. Not only did Patriarch supply a big infusion of cash, it also bought out the debt holders and the institutional equity. That of course meant that the stock still owned by Le Gette and the original investors was now heavily diluted. "I'd say they'd be lucky to get 10 cents on the dollar," says Bernie Tenenbaum, a venture capitalist who used to run Wharton's entrepreneurial program and who considered investing in 180s at one point. Actually, it was eight cents.

One of those investors, Besselman, who'd been present at the creation, says he called Le Gette afterward and told him, "Forget the money. It's gone. It's you that we care about, dude. What can we do to help you?"

Le Gette assured him that he would be okay. "He always knew this might happen," says Besselman. "Brian said it was like he was in the jaws of the monster. In the end, I think he was just happy to get out alive."

Le Gette's last day at 180s was July 11. He took his monkey with him. His Patriarch-installed successor, Susan Shafton, took over his module on July 12. A former Deloitte & Touche management consultant and a veteran of the apparel industry, Shafton comes with operations, sourcing, finance, and strategy experience. Before taking over, she had spent a few days at 180s as an on-site consultant to Patriarch while Le Gette still ran the show.

How, she is asked, does she intend to solve the company's problems? Shafton laughs. Seated at a big conference-room table, she responds: "What problems?"

If anything, she says, 180s under Le Gette was too successful. Sustaining such high growth eventually required an infusion of significant additional capital, and that's what Patriarch's partners provided. "They fell in love with the product," she says. "I fell in love with the product."

She is vague about whether the company will return to its original marketing strategy of emphasizing the department stores. She's also vague about whether she thinks any of the products in the pipeline will counterbalance the ear warmers. And she won't say whether she expects revenue to be up this year or whether the company will make a profit. She does say that the company has to learn to manage its growth -- but that's better than trying to manage falling sales. "When a company goes from $50 million to $20 million," she says, "now that's a problem."

Contributing editor John Anderson wrote about wine retailer Zachys in the April 2005 issue.

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