

Asset Management Firm Looks to Resist Friction

INVESTMENT: Legion aims to avoid repeat of conflict in proxy battle with RCM.

By **MATT PRESSBERG** Staff Reporter

The guys at **Legion Partners** don't want to act like raging corporate raiders charging into boardroom battles. The Beverly Hills asset management firm is trying to do activist investing with a happier face.

The company launched with that philosophy two years ago. But in only its second investment late last year it fought a proxy battle with the management of **RCM Technologies**, a Pennsauken, N.J., business staffing and services company. Legion, which had become RCM's largest investor, said management had made poor acquisition decisions and failed to address falling profits.

Legion attacked the company's "abysmal capital allocation track record" and RCM accused Legion of statements that were "false, misleading and incomplete." Legion and RCM reached a settlement Jan. 23, resulting in the departure of the company's longtime chief executive, although he retains a board seat.

"That's actually a great example of the type of situation that we like to avoid," said **Brad Vizi**, a managing director at Legion. "In the perfect situation, the public doesn't hear anything from us beyond our initial filing."

Legion hopes its involvement with future portfolio companies will be a lot less contentious.

"There are activists that tend to get hostile right away," said **Ted White**, another Legion managing director. "Their first action is a threatening letter. That's not how we want to do things."

There should be plenty of opportunity to try it their way: Legion launched a fund Jan. 2,



Well Funded: Kiper, left, White, Katz and Vizi at Legion's office in Beverly Hills.

seeded by a \$200 million investment from the California teachers' retirement fund, CalSTRS.

Unlike traditional private equity firms, which tend to buy into privately held businesses, Legion plans to invest exclusively in companies that trade on the major stock exchanges. White said that the firm wants to take a "private equity approach to public companies."

Legion plans to take a 5 percent to 10 percent stake in the companies it chooses to invest in with the new fund and to hold shares of no more than 10 companies.

"When we buy stock in a company, we pretend like we own the whole thing and we

approach it that way," said **Chris Kiper**, another managing director at Legion.

Legion's first deal was an investment in Atlanta children's clothing company **Carter's**. Since then it has made investments in RCM and bearing manufacturer **Timken** in Canton, Ohio. Legion has since exited Carter's and Timken; today it has about \$215 million under management.

Legion, which recently hired partner **David Katz**, plans to invest in North American businesses in most fields. The firm will avoid banks and casinos, where regulators would have to approve any proposed changes to the board.

Legion officially opened in April 2012. Vizi and Kiper had worked together for three years

at West L.A. investment company **Shamrock Capital Advisors**, which was founded in 1978 to manage money for the Disney family.

White had worked at **Knight Vinke Asset Management**, a New York activist firm that focuses on European markets, and California's public employee pension fund, CalPERS.

David Jonas, chief executive of **Straight Path Communications**, a Glen Allen, Va., wireless spectrum services provider that Legion invested, was struck by Kiper's attention to detail from their first interaction.

"I remember getting a list of questions and thinking, 'Well, they are very thorough investors,'" said Jonas. "It felt almost like getting a test."

Once Legion invests in a company, it reworks its capital structure or brings in an experienced operator, or both. As an example of the latter, Legion recruited **Roger Ballou**, a former chief executive of RCM's main competitor, to the company's board.

In an email to the Business Journal, **Kevin Miller**, chief financial officer of RCM, still contests Legion's earlier statements about the effectiveness of the company's management. Since 2009, Miller said, the company has performed well. However, Miller said that there are no lingering hard feelings.

"I can tell you that they're not easy to negotiate with," he said. "But I have tremendous respect for their sense of purpose and their mission to deliver value to their stakeholders."

As the RCM case demonstrates, Legion's leaders are prepared to do battle with management when necessary. Fear of confronting poor managers "perpetuates bad governance," said White.

"Our style tends to be much more diplomatic and we think of ourselves as long-term partners, but the reality is those types of situations find you every two or three years," said Vizi. "We certainly don't go out looking for them."

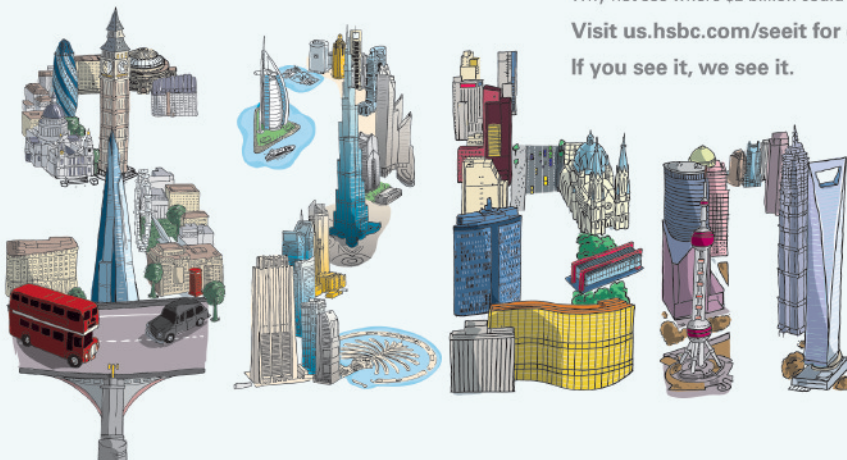
WE'VE DOUBLED OUR COMMITMENT TO HELPING BUSINESSES GROW INTERNATIONALLY.

In 2013, HSBC provided American businesses \$1 billion to help unlock the potential of international markets. In 2014, we're doubling this funding so we can help more companies realize their expansion goals.

Why not see where \$2 billion could take your business?

Visit us.hsbc.com/seeit for details.

If you see it, we see it.



HSBC 
Commercial Banking

Applies to qualifying loans offered by HSBC Bank USA, N.A. to businesses with sales turnover between \$3 Million and \$500 Million. Other restrictions may apply. United States persons (including entities) are subject to U.S. taxation on their worldwide income and may be subject to tax and other filing obligations with respect to their U.S. and non U.S. accounts. US persons and entities should consult a tax advisor for more information. Trade and supply chain transactions may be subject to credit approval. Other restrictions, including specific country regulations may apply. Foreign currency exchange rates may apply to certain trade transactions. HSBC Bank USA, N.A. Member FDIC, Equal Credit Opportunity Lender. © Copyright HSBC Bank USA, N.A. 2014 ALL RIGHTS RESERVED.