

# The Rhode Islander

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ARTS & ENTERTAINMENT

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## The lone dissenter



THE PROVIDENCE JOURNAL / SANDOR BODO

**Karl Wadensten**, the president of Richmond-based industrial company VIBCO, is one of the few EDC board members to remain in place after the 30 Studios bankruptcy.

### EDC's Wadensten explains why he voted no on 38 Studios' loan

When 38 Studios collapsed, you'd think Karl Wadensten would have rushed to the limelight as the hero who tried to warn us.



**Mark Patinkin**

His was the lone no vote when the state Economic Development Corporation voted 8 to 1 two years ago, approving a

\$75-million

loan guarantee for Curt Schilling's video-game company through the issuing of bonds.

Soon after 38 Studios went bankrupt in June, I left a message at Wadensten's company asking for an interview. No return call. I kept at it. But nothing.

Finally, the other day, Wadensten got back to me. He said he'd been busy.

For over a month?

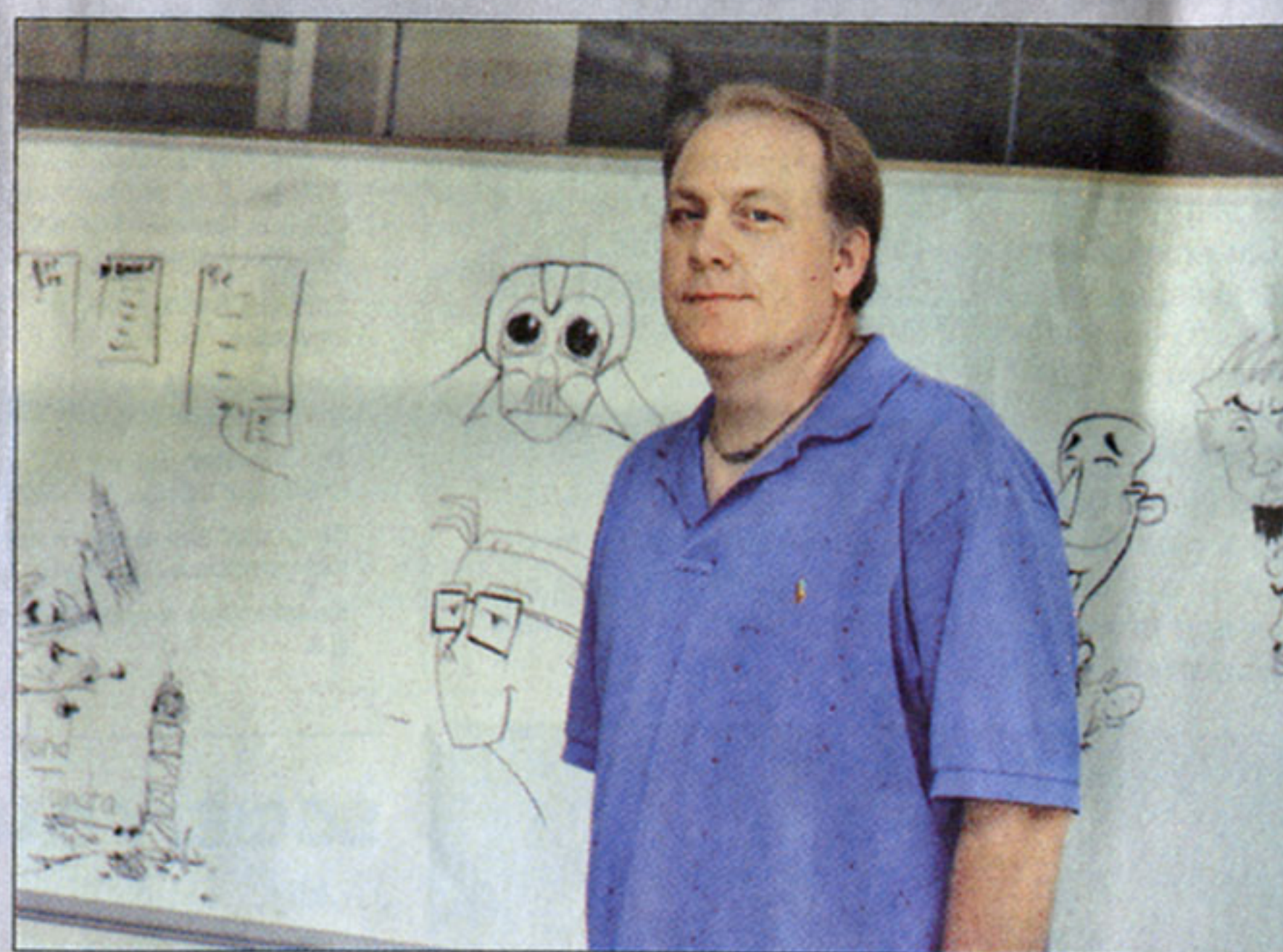
Well, he explained, he's still a member of the EDC, and as a team player, he didn't want to be a distraction until things settled.

But now he was ready.

I drove to the village of Wyoming in the town of Richmond where he runs VIBCO. It makes industrial vibrators used in dump trucks, asphalt repair and a thousand other functions, such as shaking railroad cars carrying salt to keep the cargo loose.

Wadensten met me with a cigar in his mouth. He said he never lights up — just chews them to channel nervous energy. There was an Army helmet on display — he wears it when he gives speeches as a

SEE **PATINKIN, G8**



THE PROVIDENCE JOURNAL / CONNIE GROSCH

**Curt Schilling** was expected to bring hundreds of high-paying jobs here with the approval of a \$75 million loan guarantee for his video-game company.

### Arts

The Wickford Art Festival is celebrating its 50th anniversary, and for Gail Shawn Burda, it's her 47th show. **G5**

### Travel


Glacier National Park offers challenges for the serious hiker and great views for everyone else. **G4**

### Books

Remembering when camels rode the West and when "Portnoy's Complaint" scandalized. **G6**

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A list of ways you can contribute to your community, from cleaning up a park to helping at an event and more. **G2**

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# PATINKIN

## Why he was lone dissenter

Continued from G1

symbol of his war against inefficiency, both in government and business.

He insisted we begin with a quick tour. Our first stop was a conference room lined with big animal-head trophies he's bought. They're here, he explained, because his wife doesn't think they work in their Narragansett home. He told me he tries to do what his wife says. They have a daughter, 18, and three sons, ranging in age from 12 to 16.

He wore a headset and took a quick call as we walked. He hates it when companies put him on hold, and he doesn't want to do that to his own customers. The headset also avoids wasted time. Wadensten hates waste.

He paused to talk to most employees, including Lucy Manley, who still loves coming to work after 26 years. I asked her job and she responded with a philosophy. "It doesn't leave here unless it's perfect," she said.

Wadensten said his own job is to do whatever customers tell him, which is why VIBCO makes 1,400 separate products. "So people get exactly what they need. Two of these, three of those, bing-bang-boom. We do cool stuff."

I asked if he does production in places like China. He looked horrified at the question.

"Everything here is U.S.-made and bought," he said. "We can do it better, faster and cheaper here. Through innovation. Thinking outside the box. And we have control."

We returned to his office, which overlooks the factory floor. The walls are covered with pictures of muscle cars. He owns a few himself and says they symbolize the golden age of U.S. manufacturing. He sees no reason it can't still be that way.

Wadensten was born in New Jersey, but his family summered in Misquamicut. His father, Ted, started VIBCO, relocating it to Rhode Island after he was wooed by Gov. Joe Garrahy with a \$180,000 low-interest loan, which the company has since repaid. Karl Wadensten was 14 when the family moved here. He has been VIBCO's president since 1985, growing it from 5 employees to 75.

As we talked, the lights in the factory behind him went dark. It was 2:30 p.m. I asked what happened.

"It's break time," he said. The lights went back on 10 minutes later, but they're also off at lunch and morning break, which saves 216 hours a year of energy use. He said efficiency is essential — especially in Rhode Island, a tough place to run businesses.

So why stay?

He laughed. "I'm a knucklehead for Rhode Island. I love it. The way of life. The sound of the ocean. The people. I travel the whole world, and can't wait to get back."

He calls himself a zealot for making both business and government leaner, and until recently, hosted a radio show on WPRV 790 AM to talk about it. That's partly why Gov. Don Carcieri asked him to join the EDC board in early 2010. At first, Wadensten worried about one more obligation. But he'd long thought the state takes local companies for granted. Perhaps he could be their voice.

He was impressed with the board, which included top execs at Hasbro, Gilbane and Lifespan.

"Some of the titans of Rhode Island," he said. "Worldly guys who see the big picture. God, yes, I respect them."

They met monthly, sometimes voting loans or grants to help companies train workers or improve facilities. Some were big, such as Toray Plastics, some small, such as the Westerly YMCA. He said the loans ranged from thousands of

dollars to a couple million. Wadensten was in favor every time.

Then a very different deal came before them.

At a regular meeting at the EDC's headquarters in a converted Providence mill on Iron Horse Way, Executive Director Keith Stokes stood to say the state had a major opportunity. He described 38 Studios as a video-game company with offices in Massachusetts and Baltimore that was looking to relocate and expand. He told the board that Curt Schilling would move hundreds of high-paying jobs here if Rhode Island could help with a big loan guarantee. Everyone was intrigued.

Wadensten says the deal wasn't rushed through. They discussed it for months. At first, a few members such as Hasbro's board chairman, Alfred J. Verrecchia, worried about betting on a hit-or-miss entertainment product. Others struggled with whether to give \$75 million to one company.

But Stokes, Carcieri and other EDC staffers were enthusiastic. This could seed a new industry positioned to draw from resources such as the Rhode Island School of Design and Brown University. At one meeting, Schilling came in with other 38 Studios execs and they made their own presentation. Wadensten was impressed.

"Curt had assembled the dream team of video-game creation," he said. "He'd gotten the best of the best. He wasn't ham-and-egging this thing. And he'd invested — he had skin in the game."

But Wadensten had concerns. Most of the presentations were about the company's potential, and only a few about the risks. More importantly, he remembered something his father had taught him. From time to time, a huge order would come into VIBCO out of the blue. Young Karl Wadensten would want to jump at it — why not — but his dad was cautious. He would ask: Who are they? What kind of company? Do we know they can pay?

The lesson sunk in and now, as an EDC board member, Wadensten decided to do his own homework. One day, he walked across the VIBCO factory floor to his engineering department. He knew some of the guys there were hardcore gamers. He'd seen them with video-game magazines. He asked what they'd heard about Schilling's company.

It wasn't the reaction he expected. "They said he's got something, but it was wait and see," Wadensten recalled. "It wasn't like the super buzz we'd been told was going on — that it was going to take off like a rocket."

Wadensten had long been a member of a global business group called the Young Presidents' Organization. He began to make calls and got referred to contacts who knew about gaming. No one considered it a solid bet.

Still, by the decision day — July 26, 2010 — everyone at EDC was sold. The job count was a huge factor. It was the biggest shot the state had seen, and wasn't that their mission? The \$75 million, after all, was job-creation money.

It was a hot summer day and a crowded public meeting. The media were there. Schilling and his team were in the audience.

EDC Deputy Director J. Michael Saul began with a big presentation, saying the state had done five months of due diligence. According to the minutes, he described the company with superlatives, saying the management team at 38 Studios had more than 100 years of experience with top companies such as Nintendo. He said Schilling would bring in 450 direct jobs and 1,113 indirect ones — perhaps more in coming years. Briefly, he did note the negatives: It's a pre-revenue company focused on a



THE PROVIDENCE JOURNAL / MARY MURPHY

Schilling leaves the state Economic Development Corporation's Providence office after a meeting with the EDC board in May. In June, 38 Studios filed for bankruptcy.



38 STUDIOS

Schilling's company released its much anticipated "Kingdoms of Amalur: Reckoning," a single-player role-playing game, in February.



THE PROVIDENCE JOURNAL / SANDOR BODO

Wadensten says he suggested a professional consultant visit 38 Studios to guide the company, but to no avail.

"hit-driven" product, taking 60 percent of the state's job-creation money. But he went on to say the state could make a 47-percent return on investment.

There were only a few neutral questions, including one about who would monitor 38 Studios' progress, but no one challenged the deal.

Discussion quickly ended. Carcieri, partly in charge of the meeting, was ready to have the vote. "I love the governor," Wadensten told me. "He reminds me of my dad."

That's when Karl Wadensten raised his hand. "Yes, Karl?" said Carcieri.

Wadensten was concerned.

Although the official minutes only summarize his questions, Wadensten remembers it this way:

"I said, 'Governor, my business develops products all the time, and it always takes us twice as long and three times as much money than we expect.' What, he asked, if 38 Studios needs more money?"

Carcieri said it could turn to other investors. The governor looked around for others to speak. No one did.

So, slowly, Wadensten put his hand up again. He smiles recalling the moment. He said the governor rubbed his forehead and asked, "Yes, Karl?"

4 "Governor, \$75

the only dissenting vote?"

But he kept his hand down.

And raised it a moment later to oppose the deal — alone — as everyone stared his way.

"It was one of the hardest things I ever did in my life," he recalled.

When the meeting ended, he made a decision.

"I was opposed, but I'm a team player. We gave them the money. I was going to do my damndest to make sure it grows for the State of Rhode Island. I wanted this to succeed."

So he didn't speak out against it. The EDC and 38 Studios were partners now. He began to ask Stokes when board members could visit the firm — and not just for a hello. He hoped to give structured guidance — PDCA, as he puts it: Plan, do, check and adjust.

"We'll put it on the next agenda," he was told.

It didn't happen. So he kept asking — through the end of the Carcieri administration and into the new era with Governor Chafee. But nothing.

During that same period, Wadensten thought that perhaps there should be a professional consultant's visit. He had worked with a group called Stat A Matrix that improved performance for clients ranging from Nestlé to the U.S. Army. He offered to bring them to 38 Studios. But again, nothing happened.

It convinced Wadensten there was a problem. "There are hardworking people at the EDC," he told me, "but it was never set up to oversee this kind of deal. To support it. Nurture it. If a venture fund had done this — I know those guys — they're so far up your shorts making sure their money doesn't go south it's not even funny. As soon as they see something going negative, they send teams to correct it. They don't just sit there."

But the EDC did.

Still, Wadensten had faith. "I wanted to see this work, God yes," he said. "I thought it would be a hard row, and they might not succeed the way they hoped — but the company would survive and stay this little incubator of a few hundred people. I really didn't think it would completely fail."

He was stunned when it did.

The fallout swept away most of the EDC board, but Wadensten has remained, and was recently made treasurer. Today, he says the state should learn four lessons from the 38 Studios saga: Don't bet on assumptions. Don't give outsized loans to one company. Monitor your investments. And most important, don't let promises of a big job-count blind you from making decisions on a company's fundamentals.

As for those who voted yes, Wadensten still admires them. "Some of the smartest people in the state," he said.

But, he added: "Sometimes, there can be individual brilliance and group stupidity."

We'd talked for almost three hours. He'd made an exception and mostly ignored his headset during our interview, but calls had piled up. So had other tasks.

He walked me to reception, where he paused to pose for a photo, first putting on the Army helmet that symbolizes his war against waste. He clipped his cigar and resumed chewing it.

And then Karl Wadensten, the only one who said no, turned around and went back to work.

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