

# VALUE IN NORTHEAST OHIO

July 2009

## INSIDE THIS ISSUE:

Stadium Naming Rights 2

Epilogue 1 3

Epilogue 2 3

## SEC Proposal to Boost Shareholders

On my website I said that there is more democracy in Iran than in U.S. public companies. I will have to change that. At the moment they are now roughly equivalent with Iran giving the illusion of choice and U.S. companies providing no choice.

The Securities and Exchange Commission (SEC) is seeking to change this. Exchange Act Rule 14a-11 would allow large shareholders to nominate candidates for directors. Large is holders of 1% of stock of companies with Net Assets (Assets minus Liabilities) over \$700 million, 3% of stock for companies with net assets of \$75 million to \$700 million, and 5% of stock for companies below \$75 million in net assets.

The current system largely allows boards of directors to act independently of shareholder interests. When a board vacancy occurs they have their own nominating committee select a replacement. The proxy statements give shareholder the right to vote yes or no on directors. For companies with plurality voting this has virtually no impact as single share's vote could be enough to re-elect a director. Some companies require majority vote, but given no other choice the typical shareholder will usually vote yes (I do).

The only way that shareholders can reign in the board requires a proxy fight and the challenge is funded out of the challengers pockets. The incumbent board uses Company funds.

With corporate indemnification of directors and Directors & Officers insurance, suing directors is usually not much of a deterrent to actions that don't serve the shareholders interest. Such lawsuits usually yield puny payouts to some shareholders effectively paid by current shareholders.

The result of the insulation of public company boards has been a decades long escalation in executive pay, particularly CEO pay beyond the rate of inflation. That pay has been frequently structured such that mediocre and even very poor performance is rewarded handsomely.

A good example is General Motors. According to the Washington Times GM's North American market share was 33.2% in 1994, the year that he became Chief of North American operations. By February 2009 the market share had shriveled to 18.3 percent. The stock price while Rick Wagoner was CEO went from \$60 to less than \$2. Yet the only way he was sent packing was the U.S. Government insisted upon it



## SEC Proposal, Continued

in order for GM to get more bailout money.

Mr. Wagoner made \$14 million in total comp in 2007 up from \$10 million in 2006, this after GM posting net losses of \$10 billion, \$ 2 billion, and \$39 billion in 2005-2007 respectively. Can you see why he would get a raise let alone keep his job?

The benefits to shareholders are a perception of greater accountability to

share holders and more rational risk taking. The reduction in perceived riskiness of American companies will enable them to have somewhat higher earnings multiples. likely to be somewhat lower executive pay, which would have a negligible impact on stock

I am strongly in favor of this move by the SEC as a step towards making corporate governance less collegial and more effective.

Vote for one option.

- Joe Smith
- John Citizen
- Jane Doe
- Fred Rubble
- Mary Hill

## Stadium Naming Rights: A Sell Signal?

When I embarked on researching this topic I was expecting that the stock of companies buying naming rights were terrible performers. After all you have virtually the entire airline industry, numerous banks, automobile companies, and Enron.

Of the 82 instances I utilized, 10 company stocks went to zero including a couple tech bubble companies (PSI Net and CMGI), six airlines, Enron, Adelphia & Conesco.

However the conclusion I came away with was not that naming rights are a glaring manifestation of corporate self-indulgence. On the whole there was some underperformance between the performance of the naming rights companies and the S&P 500. The average rate of return was 0.24% less than the S&P 500 and the median was 1.3% less than the S&P 500.

Depending on the industry the results went from very bad: airlines, and banks, to very good: service, technology & telecoms.

Almost as interesting as the results of these companies are the names of companies who don't have naming rights: Exxon/Mobil, Chevron, BP, Microsoft, State Farm, Allstate, Google, Kraft, Unilever, and Johnson & Johnson, are just a few of the corporate giants with large cash flows that do not participate.

My conclusion is that a company getting their name on the stadium may be a cause for taking a second look at what the company is doing, not an automatic sell signal.

I have a more detailed explanation of my methodology, data and conclusions on my website, [www.jcfcva.com/newsletters.aspx](http://www.jcfcva.com/newsletters.aspx).



## Epilogue 1—Housing

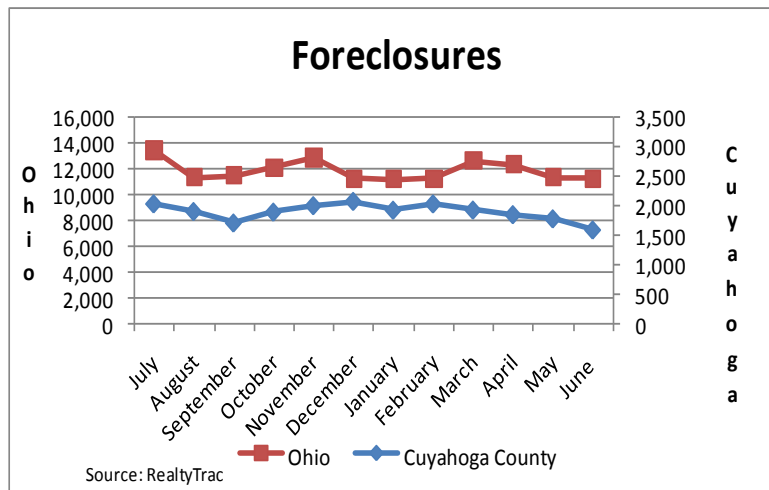
I would like to follow up on a couple of items from my first newsletter. First, home prices in the Cleveland area rose 4.1%, in the month of May the most in the nation according to S&P's Case-Shiller index. The Cleveland index went from 96.86 in March to 98.07 in April, to May's 102.11 reading.

Foreclosures have been fairly level in Ohio. During the past 12 months the peak month was July 2008 with 13,457 foreclosures. After that the monthly foreclosures

have been fairly trendless ranging between 11,260 (Dec '08) and 12,883 (Nov '08).

Cuyahoga County foreclosures may be beginning a discernible downtrend as they have declined for 4 straight months from 2,028 in February to 1,595 in June.

I am still not anticipating a red-hot housing market, but the signs are growing that the worst has passed.



## Epilogue 2—Convention Center

On May 4 an agreement was announced between the city of Cleveland and Cuyahoga

County on the sale of the Cleveland Convention Center for \$20 million.

*Joshua C. Feldman, CPA, CFE, CVA provides business valuations for Income, Gift and Estate tax planning and return preparation. Valuations are also performed for advisory purposes on business purchase and sales. Business process documentation, financial analysis, and interim financial management are other services provided.*

*Turnaround management services are preformed in collaboration with the Richard Henry Group.*

**JOSHUA C. FELDMAN,  
CPA, CFE, CVA**

20862 Byron Road  
Shaker Heights, Ohio 44122

Phone: 216-534-2759  
E-mail: [joshfeldman@netscape.net](mailto:joshfeldman@netscape.net)

[www.jcfcva.com](http://www.jcfcva.com)

