

One Investor's Story

Tired of overpaid, underperforming CEOs? What you can learn from Guy Adams

IN FEBRUARY 2000, Guy W. Adams, a Los Angeles investor, bought 1,000 shares of Lone Star Steakhouse & Saloon for \$9,200. Thanks to aggressive overexpansion, Lone Star's share price had dropped to around \$9. Adams, 51, liked the stock, especially since the company had no debt and loads of cash.

Excited about his investment, Adams attended the annual meeting that summer to ask management about its anti-takeover measures and CEO pay, which he'd read about in the company's proxy statement. At the meeting, he recalls, "the company's lawyers read me the rules like I was some rabble-rouser."

After such a caustic reaction, Adams decided that the only way to get his views heard was to get elected to the board. He launched a five-month campaign to convince big institutional shareholders like Calpers (the California Public Employees' Retirement System) to back him; he received 56% of the votes cast at the July 2001 annual meeting. Although he served less than one year as a director, Adams pushed through several corporate reforms, including removing the company's "poison pill" anti-takeover defense and adding three independent directors to Lone Star's board. When he resigned in May 2002, Lone Star sent out a press release crediting Adams with the changes. Better still, Lone Star's stock had risen 140% during his 16-month involvement.

Guy Adams' success as an agitator is remarkable. Not many disappointed investors will run for a seat on the board, let alone win one, and then be praised by the company for forcing reform. But

Adams' story has lessons for all investors about what it takes to be a smarter, more active stakeholder.

Dig into proxy statements

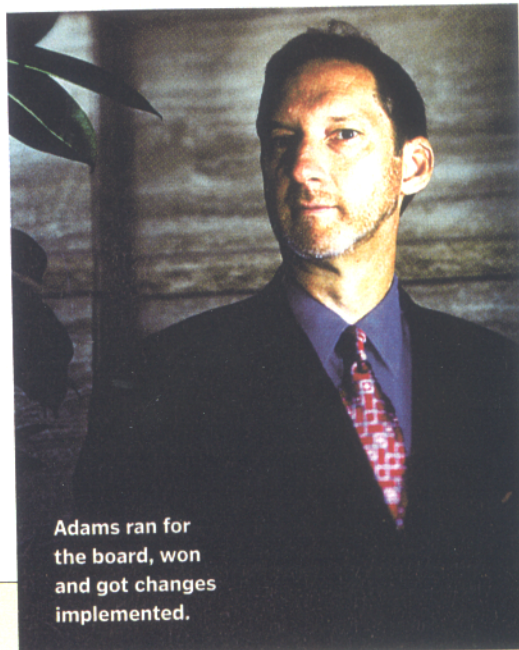
Like Adams, begin by studying the proxy, also known as 14-A in SEC filings. It contains loads of important information, including disclosure of executive compensation and bios of current directors and board nominees. What's more, proxies include shareholder resolutions (recommendations to the board of directors to change shareholder-unfriendly policies, such as holding staggered board elections) that are up for vote. Yet most shareholders pay no attention to proxy statements, let alone the resolutions detailed inside. "Shareholders are getting the proxy cards and simply voting with management," observes Charles Elson, a professor of corporate governance at the University of Delaware. Clearly, that's not the way to have impact on the company. So consider how each resolution would affect your investment, and vote

for nominees to the board who aren't company executives and don't have business ties with the company. Candidates, ideally, should also own a significant amount of stock in the company.

File a shareholder proposal

If you disagree strongly with board policies or bylaws, then file your own resolution. As long as you own \$2,000 worth of stock, or 1% of the eligible voting shares of a company, and have been a shareholder for at least a year, you can get a shareholder proposal on the next proxy ballot. "The key is not to make it about personal or social issues," advises Elson. Resolutions must be 500 words or less and should address governance issues, such as the minimum number of independent directors. The deadline for filing proposals can be found in the prior year's proxy. A few caveats: You cannot name your own candidate for the board or use resolutions to criticize existing directors or executives. (See thecorporatelibrary.com for more details on filing resolutions.) The resulting vote is usually advisory only—even if your proposal passes, the company is not obliged to abide by it. However, it sends a strong message to management.

So does attending the annual meetings and asking about business practices. The more specific your question, the better. "Ask, on a scale of 1 to 10, with Enron being 10 and 1 being the most conservative auditing around, where they fall and how they know," suggests Nell Minow, editor of the Corporate Library, a website devoted to corporate advocacy. —STEPHANIE D. SMITH



Adams ran for the board, won and got changes implemented.