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Alexander Is Prime Example of CEO Americanus: Graef Crystal

Dec. 17 (Bloomberg) -- Kobi Alexander, founder and chief executive officer of Converse Technology Inc., a telecommunications-equipment manufacturer, is a prime example of CEO Americanus.

That's a person who's only too happy to haul away millions during good times, and who, when bad times show up, figures a way to continue to haul away millions more.

Without some "ifs," Alexander wouldn't be your all-too-typical CEO Americanus: If he hadn't sold off all but a handful of his shares. If he hadn't repriced his stock options. If he hadn't crafted a lucrative termination allowance for himself to be paid under any and all circumstances.

Let's start with his selling Converse shares.

Alexander is down to owning only 25,260 shares, worth just \$430,000 as of yesterday's close.

Why has Alexander sold all his shares? Why does someone flee a burning building? Converse's stock was once a high-flier, closing at \$121.16 a share on Jan. 24, 2001. On Oct. 8, 2002, it closed at \$6.82.

But wait. Hasn't the Long Island, New York-based company's stock risen smartly lately? It has. From that low closing price of \$6.82, it has climbed 150 percent in the last 14 months. So maybe Alexander should have held on to his shares.

Then there's the repricing of his stock options.

Old for News

On Dec. 23, 2002, Alexander turned in 2.3 million option shares carrying strike prices as high as \$85. He received back 1.9 million shares carrying a new strike price of \$10.52. As of yesterday's close, that deft maneuver transformed what would have been a paper loss of \$58 million into a paper profit of \$13 million.

In justifying the action, under which the turn-in of 100 underwater option shares resulted in the issuance of 85 at-the-money option shares, Converse's board compensation committee declared that the repricing "was implemented because the compensation committee had determined that the exercise prices of the canceled incentive stock options limited their effectiveness as a tool for employee retention and as a long-term incentive."

If you have an \$85 strike price and the current price is just \$10.52, I suppose it's fair to say that particular option doesn't offer much in the way of either a retention incentive or a long-term incentive.

Bonuses

But in Alexander's case, his lack of monetary motivation has been mainly due to a self-inflicted wound, i.e., his decision to sell all but a few thousand of his Converse shares. Had he been a Warren Buffett, who has held on to all his shares, he would have had plenty of monetary motivation to find ways to increase his company's share price, underwater options or no.

During the run up to that high stock price of \$121.16 a share, Alexander wasn't shy about taking lots

of money. His bonuses for the fiscal years ended Jan. 31, 1999, through 2001 were, respectively, \$3.4 million, \$4.7 million and \$7.5 million. Since fiscal 1995, he also exercised Comverse options with an aggregate gain of \$120 million. His high water mark for option gains was \$93.1 million in fiscal 2000.

In all, Alexander exercised options covering 2.37 million Comverse shares during that period. Apparently, he found the notion of holding on to those shares to be decidedly non-appealing.

When his company's fortunes turned, Alexander, to his credit, took no bonuses for the fiscal years 2001 and 2002, and he even cut his salary during fiscal year 2001.

Two Other Companies

That made sense, given that Comverse's net sales dropped to \$736 million for fiscal 2002 from \$1.3 billion the year before and given that the company lost \$130 million in fiscal 2002 after earning \$249 million two years earlier.

But the potential value of his repricing last December effectively restored his lost bonuses and one-year salary cut.

In recent years, Alexander's investment gaze has shifted from Comverse to two companies that Comverse controls. Although he was holding only \$430,000 of Comverse stock as of yesterday's close, on the same day he was holding \$7.5 million of stock in Ulticom Inc. and \$2.5 million of stock in Verint Systems Inc.

Alexander also holds options on Verint stock. Given his insider knowledge, maybe investors should consider shorting Comverse and buying the stock of the Ulticom and Verint.

There is also the ethical issue raised by holding stock or stock options in a parent company and also stock or options in other companies the parent company controls. How does one make impartial indecisions in that situation?

Termination Payment

As Comverse's November-filed proxy dryly states with respect to the Verint options: ``These options, under certain circumstances, could cause the option holders' interests to conflict with those of the company's shareholders generally."

Alexander also has an unusual goodie buried in his employment agreement. He stands to receive a substantial termination payment under any and all circumstances. He doesn't have to be fired to get it, and he doesn't have to quit for ``good reason." This payment is in addition to the usual severance package that is offered for incompetence or for a change in control.

For the three fiscal years 2000 through 2002, the annual accruals to fund this termination allowance were, respectively, \$317,000, \$361,000 and \$410,000, for a compounded annual growth of 13.8 percent a year.

As of this November's proxy filing, Alexander was 51. If that 13.8 percent rate continues until he reaches 65, his final year's accrual will be a stunning \$2.5 million. And that's just for one year's worth of termination allowance.

Life Insurance

Alexander also has been given \$40 million of life insurance.

The sad thing about all this is that Alexander's very long-term performance is good. For the 10 years ended with yesterday's close, Comverse's total return was 13.3 percent a year. That compares with 10.8 percent a year for the Standard & Poor's 500 Index and 9.8 percent a year for the Nasdaq Composite Index. And that's despite the gut-wrenching decline that occurred in the 2001-2002 period, when Comverse's stock plunged to \$6.82 from \$121.63.

Now if he'd just clean up his compensation act.

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