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**32 Driving a Stake Into Lone Star**

A shareholder activist is elected to the board, booting out the CEO.

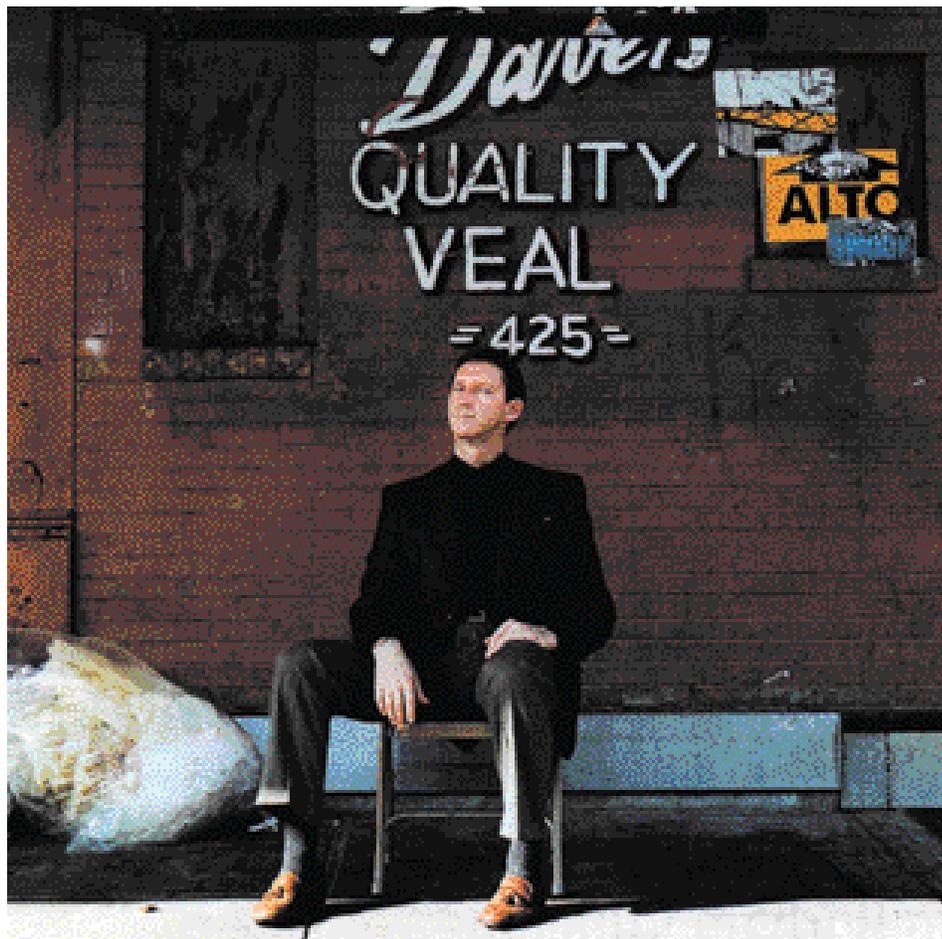
BY JEFFEREY H. DAVID

# Driving a Stake Into Lone Star

BY GRAINEGER DAVID ■ Guy Adams has no background in restaurants, no experience on corporate boards, and no real plans for Lone Star Steakhouse & Saloon. Nonetheless, stockholders in this struggling casual-dining chain recently elected Adams—a first-time shareholder activist—to Lone Star’s board of directors, replacing the CEO and founder, Jamie B. Coulter.

For the past few months Lone Star and Adams have been locked in the strangest contest of a strange proxy season. A whopping 67% of dissident candidates have won proxy battles against management this year, according to the Investor Responsibility Research Center. But Adams—whose victory became official July 20 at a teleconference from the company’s Wichita headquarters—is the first individual shareholder to unseat a CEO from the board of his own company. The plain-spoken Louisiana State University graduate and former petroleum-well-digging record holder says he plans to make a career in shareholder activism. “What I like is proactive investing,” Adams says. “There’s so much evidence that this type of investing is too lucrative to ignore. But people don’t want to get dirty.” That’s because shareholder activism, as Adams practices it, is something like bull riding: Provoke, then hold on for dear life.

In his initial Letter to Shareholders in June, Adams, who owns 1,100 shares of Lone Star—0.005% of the company—announced his candidacy for the board and outlined his case with a few bullet-point kicks to the company hindquarters. The stock has sunk more than 75% between 1995 and 2000; Coulter’s pay more than tripled last year; the company repeatedly repriced options, largely to benefit directors; and last year the board overturned a 70% vote for its declassification without so much as a nod to shareholder accountability. “Are the actions of the board consistent with the company’s stock performance or operating performance?” Adams wrote in bold type, with triple question marks. No, says Institutional Shareholders Services, a proxy voting recommendation service, which supported Adams’ candidacy despite some serious reservations. “Frankly, he falls short of the requirements we would normally have in endorsing a dissident board slate,” said



Guy Adams doesn't know meat, but that makes no difference to Lone Star shareholders.

Patrick McGurn, a vice president of ISS. "What we're balancing that recommendation against is one of the worst-governed companies in America."

Adams' attacks were less surprising for their ferocity than for the response they drew: Lone Star sued his activist chaps off. It filed for an injunction to stop Adams' candidacy and force him to correct errors in his filings. Its lawyers deposed everyone he had talked to about the case and even dug up his divorce papers and phone records. He was "virtually insolvent," they said (the suit listed his monthly disposable income at \$765), and was acting as a "stalking horse for an outside party." A U.S. district court ruled Adams had to correct two misstatements in his filings but could continue his candidacy.

Now that Adams has won, what happens to Lone Star? Coulter remains CEO, but the board must elect a new chairman. Adams says he plans to be a "watchdog" for

investors and "hire an investment bank of national reputation" to help with strategy. The irony of the tale is that while this infighting dragged on, the company's financial situation began to improve: "[Lone Star] has probably one of the better balance sheets in the casual-dining industry," says Mike Smith of Fahnestock & Co., who rates Lone Star a buy. The company has no debt and owns more than 150 of its properties. It is, after all, a "deep-value investment," which is why Adams got involved in the first place. The stock, which is now trading around \$11, has climbed 16% since Adams initiated the fight and bought his shares. That comes to a \$1,650 profit for Adams—probably the hardest-earned dollars in corporate bull riding.