GLENAYRE

USUALLY, IN SUCCESSFUL VALUE INVESTING you rarely have that big home run. I call it the business with the least mistakes. You know, Green Bay Packers stuff — two yards at a time, no Hail Mary touchdowns. One particular investment was by far the most successful we had at Cramer Rosenthal, and here's the story.

Glenayre Technologies started out as a Canadian company called Nu West Industries. The United States headquarters was in Phoenix. I was in town attending a party, and there I met a man in his mid-twenties named Steve McConnell. He told me he was the president of a publicly traded company. I was impressed. Then he said that his company was bankrupt and that although he wasn't responsible for that turn of events, he was the only one left. Everyone else had jumped ship. The chief executive and the chairman were gone, and he'd been Peter Principled to head the company. He was a Harvard Business School graduate, but the school never taught him what to do when a company went bankrupt.

I offered to help him, since I had a fair amount of experience in that area. A bankrupt company generally means a new beginning. (The term "bankrupt" comes from the old peddlers who sat on a bench selling their wares. When they couldn't pay their bills, the police would break their bench. "Bankrupt" means "breaking the bench.")

I was with McConnell for a year strategizing how we were going to resurrect Nu West Industries. I was in charge of raising the money, but before I wrote a meaningful check, I told McConnell that anybody who worked with me in a business venture had to put up some real monies. If he had $50,000 to his name, I said, he would need to put up at least half. That's my philosophy. No matter how much or how little money somebody has, he needs to have a monetary stake in the enterprise.

McConnell surprised me by offering to invest a million dollars. He said that his father had the money, that he had his father's backing, and that the father believed in him and the company.

McConnell put up $1 million, and my group raised $13 million. I personally was one of the larger investors in December 1986, when we acquired Nu West. I recognized this was an opportunity where I could not lose because I knew that Nu West's assets were solid. The company owned land in Las Vegas. (Some of the great hotels in Las Vegas sit on land we used to own.) It also owned a resort in Hawaii and mineral rights in Australia. And our job was to turn the assets we had into cash and as quickly as possible at a decent price. Not the highest price, but a decent price.

We liquidated all the assets of Nu West Industries and ended up with about $45 million in cash — the money from the liquidation plus the new cash we had put in. We now had a shell of a company with shareholders, and we were on the Toronto Stock Exchange.

More important, the accumulated losses of $200 million Nu West had from its previous businesses that could, because of the tax laws, be utilized against future earnings. Nu West had been primarily in the real estate business, building homes in western Canada and in Arizona. As such, it became a victim of its owing too much money to the bank at extremely high interest rates, and that's what brought it down.

The question then was: What do we do with our shell?

We looked at a lot of opportunities for several years. We almost bought the Oppenheimer Mutual Fund complex. We almost bought the Big Bear Stores supermarket chain in Ohio, and we looked at other things, too. It's hard to pull a deal off when you want to buy it right.

Eventually, in November 1992, we found another unique opportunity in Canada. An immigrant from Eastern Europe had started a business there replacing automobile glass. That's a good business because automobile glass is always under threat from thieves, the elements, and accidents, and this immigrant made a lot of money in his glass business. He had three sons, and he gave each a pot of capital and told them to go find a business.

Son #1 was a graduate of the Julliard School of Music in New York City. He was a good pianist — not a good businessman. He invested in the infrastructure end of the paging industry, i.e., making transmitters and receivers for pagers. His management team was in North Carolina. From a cultural perspective, those managers were totally different from him. They were former executives at General Electric, a company known as having some of the most hard-driving, well-organized business executives in the world. And they were not happy with Son #1 because the type of music he played was not music to their ears. Son #I got the message and put the company up for sale.

We began negotiations to buy the company, which was called Glenayre Technologies.

There is a science to such negotiations. We constructed a team consisting of the lawyers, the accountants, the lead negotiator, and me. I was the chairman. The prospective sellers have their team, too, and you sit and you trade, saying, "I'll give you this if you give me that." It's like diplomacy. Then you play games, like when you think you're at an impasse, you call for a caucus and you leave. You can usually resolve what was on your mind in about a minute, but strategically you stay out a long period just to make the other side anxious.

During this pause, one of my guys taught me how to play solitaire on the computer. I was playing solitaire when the chairman of the Canadian team asked to see me. I was in the middle of a game, so I replied, "Just a minute." He insisted it was important. I put up my hand to indicate "Don't bother me." I finally ran the deck of cards and felt really good, which I carried with me when I met with the chairman. We solved the problems between our two teams in about five minutes and made the deal.

Afterward, in a celebration dinner, when we were talking about how difficult the negotiations had been and how respectful we were of each other's efforts, the Canadian chairman said, "I want to make a toast to this Cramer team. They are so smart. They are no match for us Canadians. They are so computer literate. Even the old fart of a chairman was calculating on the computer all the time."

We changed Nu West's name to Glenayre Technologies. So now, how do we progress?

First, we made sure that the company management members felt that they were our partners. We did this by making them co-owners. We gave or sold stock cheaply to them, so that they owned 13 percent to 14 percent of the company from the start. They were on our team. We were on the same side of the table. We had a parallel interest in the business. And, amazingly, once we signed the contract and once they had their ownership, the business boomed. I still suspect that in their desk drawers there had been some orders that were supposed to be delivered months earlier but that they were waiting for the opportunity to book when they were in charge.

At that time, paging was going through a rejuvenation. For example, people, especially teenagers, had colored pagers to match their jeans. Pagers became the first of the universal communications instruments. This is before cellphones and the Internet took off. It was an amazing phenomenon. And our stock, which was now listed on Nasdaq, went crazy. It went literally crazy. It became the honey of every investor. We were the best-performing stock on any exchange for two consecutive years in the mid-1970s. Our cost basis of 80 cents or 85 cents, adjusting for splits, was at one point $60. That was almost eighty times your money. You don't sell it at its high, but most of our monies were cashed in the $40 range, which was still fifty times your money. That was a home run, a grand-slam home run.

I was the chairman. The company received good assistance and advice from board member Tom Israel, Ace's very capable son. Barry Gray, chief of staff to the Israels, a lawyer, a C.P.A., and a great human being, and Ed Rosenthal were especially helpful in representing shareholder interests.

Glenayre became the talk of Wall Street. I lectured on the Glenayre story, how we moved a company from Canada, how we monetized the net operating loss carry forward, how we incentivized operating management, how we protected our intellectual property. I lectured on this at law schools and at the Columbia Business School, and it became a case study for many students of high finance.

That was my best investment ever.

But, remember, a successful investor is the one who makes the fewest mistakes. You don't have to find a fifty-time winner. There's something that I call my great religion. It's the law of compounding rates of return. If you make 8 percent a year, how long do you think it takes to double your money? Not twelve years. You're compounding, so the answer is more like ten years. If you make 20 percent on your money, how long does it take to double your money? Four years. The compounding effect of money — it's amazing how it grows.

I will tell you my "rooster theory." A rooster wakes at dawn and crows cock-a-doodle-do, and the sun comes up. The rooster sticks out his chest and believes he made the sun rise. The same thing happens with certain people. They believe they exclusively brought the success at Glenayre, and certain members of our management team at Glenayre thought they no longer needed the Cramer Rosenthal group or the Israels. They believed they were the ones who made this glorious event happen, and in their minds we became obstacles.

To them we became an even greater obstacle because of our interest in protecting shareholder value. Glenayre was a public company. We had the interests of all the shareholders in mind. I was in conversations with the AT&T group at Bell Labs trying to interest them in buying Glenayre. If that had happened, all of the shareholders would have sold their stock for at least $65 to $70 a share to a major company, and it would have been easy to liquefy.

When Glenayre's management heard what I was doing, I became persona non grata. Those executives thought I was a foe. They didn't get it. They thought that it was their company and that I was along for the ride. So at that point, I resigned as chairman of the board and sold most of our stock. The price of the shares gradually went into a decline that eventually went down to $1. (Of course, paging was eventually eclipsed by the cellular industry. Few people use pagers today.)

Greed is easy to explain. After all, if you're a tennis player, you always want to win another tournament. If you're a golfer, you want to go out the next day and shoot a subpar round. For some people, money is a trophy. Most rich people don't need as much money as they have. But neither can most people ever have enough. Money brings power, and it's nice when you go to your country club that you're worth more than the other guy. In fact, in Texas, during the great oil boom, oilmen didn't say that they were worth \$10 million or \$50 million; the terminology instead was "units." A unit to them was \$50 million. Before you became *wealthy*, you had to have a unit. So these oilmen asked each other how many units they had.

Money in abundance is a useful commodity. It gives a sense of well-being and security. I call it "fuck you" money, FU money for short. The phrase means that a person has enough money to pursue what he really wants to do and not have to work for somebody or work in a job or in an industry that's boring or not fruitful. A person spends most of his lifetime working, so he should be happy in what he is doing. FU money gives him this freedom.

Then a person gets to another point in his life, the one where he has won enough tennis tournaments, he has played enough golf. There is a point where a man has enough money. Then the next mission in life is not to accumulate more money but to protect himself from blowing it. It's so easy to blow money. I've seen so many people, mature, intelligent people, take a shot on some start-up company on the basis of the next great widget and then go from being worth many millions of dollars to almost nothing because they borrowed too much money. It's like Nu West, which in the end leveraged itself too much.

The last part: After you make it, keep it. Then you give back to society. You give it away to charity. That's the story of money.