

Annual Meeting of Stockholders: two cases as two types

In Japan I never held a stock share, which is still regarded to be connected with rich and immoral, but once I had an opportunity to observe a case, as well as a type, of annual meeting of stockholders of a medium-sized local company in Numazu of Shizuoka.

Since Japanese companies do not publish quarterly financial report but only annual report, in the annual meeting of stockholders, companies also report the past annual business and introduce the coming annual development. All companies' annual meeting of stockholders are held on a same day in March all over Japan (Japan's fiscal year starts from April 1). The reason is that there are some sokaiya's ("professional stockholders" holding only trivial stock shares), who make their earn on the annual meeting of stockholders, would make troubles for companies' management in the annual meeting of stockholders. Every "publicly traded" (but privately owned and operated) company has something to hide and is afraid of being questioned by both well-intentioned stockholders and sokaiya's in the annual meeting of stockholders. In a losing year, for example, well-intentioned holders would question the company's executive directors' ability. In a profitable year, for example, just before election, a sokaiya, waving a photo of a man with a girl, may ask the company's president's relation with the girl. Who knows what kind of question will be raised up in the annual meeting of stockholders?

On the day of annual meeting of stockholders in 1995 March, young men (me included) at my company's headquarters were ordered to "assist" (guard) the annual meeting of stockholders. There were not so many young men at the headquarters because the company's most business was in Tokyo or Osaka. The Human Resource director gave us instructions: "This is another tough year but our meeting will be as usual. No local stockholder will make trouble with us. It should be safe for you since sokaiya's will be attracted to big companies' annual meeting of stockholders in Tokyo. Even if there are sokaiya's coming to our meeting, your appearance at the meeting is a signal to them that we are prepared to bring the meeting under control." Indeed, big companies save medium and small companies, usually by providing black money to sokaiya's before the annual meeting of stockholders. The director was right. The 1995 Nippon MIC Co. Ltd. annual meeting of stockholders left nothing to be remembered.

The Japanese type of annual meeting of stockholders is an indication of Japanese type of Capitalism: most stock shares are held by mutually-invested or controlling companies, there is no quarterly report pressure from the stock market, labor laws make lay-off almost impossible unless facing bankrupt, ... all these make individual stockholders with relatively large shares ("investors") powerless at the annual meeting of stockholders. American investors in Japanese companies had to ask their Washington government to press Japan "reform" the Japanese company structure, after losing fights in Japanese annual meeting of stockholders and courts.

In contrast to Japan and Germany (where employees in relatively big companies even can send representatives to Board of Directors), American and British's Anglo-Saxon economy is stock-driven. In the U.S., even children hold stocks, mainly due to the

sophisticated tax system. In 2003 February, three same letters were mailed to my home from Applied Materials' Chairman and CEO James Morgan:

“Dear Applied Materials Stockholders:

We cordially invite you to attend Applied Materials' 2003 Annual Meeting of Stockholders, which will be held at the Santa Clara Convention Center, 5001 Great America Parkway, Santa Clara, California 95054 on Thursday, March 20, 2003 at 11:00 a.m.

At this year's Annual Meeting, stockholders will be asked to elect ten directors.”

I decided to utilize this opportunity to conduct a field study of American annual meeting of stockholders. I arrived at the Convention Center earlier than usual, not only because this is my first annual meeting of stockholders in the U.S. and my first annual meeting of stockholders as a “stockholder,” but also because America has just been declared into a hot war attacking Iraq (besides the “war on terrorism”) at March 19th night. I anticipated something unusual this time.

There was security check at the gate to the meeting hall, but I was even not requested to show my ID (usually driver license) nor my proxy card. Will there be a sokaiya in the annual meeting of stockholders? How could the annual meeting of stockholders be completed in one hour?

There were about two hundred people in the meeting hall. The main purpose of the annual meeting of stockholders to elect ten directors has been done before the meeting because stockholders with majority shares have voted through mailing, by telephone, or over Internet. There are about 5-8 stockholders bringing their proxy cards to the meeting but certainly that will not change the result. I did not move to vote, not only because my shares are too trivial but also because I found I mistakenly brought my seven-year-old son's proxy card. In just minutes, the secretary announced that all ten nominees were elected. This is the essence of genuine Capitalism: stock shares, not people, count.

The Chairman & CEO and the President delivered a presentation and answered questions. Even though the company's net sales has dropped from \$9,564 million in 2000 to \$5,062 million in 2002 and earnings per share dropped from \$1.20 in 2000 to \$0.16 in 2002, there was no tough inquiry or complaint. American company executives are loyal enough to stockholders and American stockholders are rational. It seems that Applied Materials is exempt from financial scandals. The Chairman & CEO “recommended to the Committee in December 2000 that his salary, as well as the salary for all other officers, not be increased as the Committee had approved.” He “received a salary of \$854,058” with 400,000 securities underlying options (Notice of 2003 Annual Meeting of Stockholders, p.11 and p.15).

I did prepare some questions, from general American corporate governance issues to specifically Applied Materials' “structure realignment” (shift to China or India,

workforce reduction, work sharing). For example, only in “Restructuring Charges”, the Annual Report 2002 mentions “During the second fiscal quarter of 2001, Applied Materials completed a voluntary plan that resulted in a headcount reduction of approximately 1,000 employees, or three percent of its global workforce, for a cost of \$47 million.” “During the fourth fiscal quarter of 2001, Applied Materials eliminated approximately 2,000 additional positions, or 10 percent of its global workforce, for a cost of \$54 million.” (p.42) Should I stand up to ask this kind of questions on behalf of Applied Materials’ employees and Santa Clara community in the annual meeting of stockholders as a stockholder? I lacked the courage to be regarded a sokaiya in this American leading technology company’s annual meeting of stockholders, this first time.

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