The EDGAR® Online® Guide to Decoding Financial Statements

Tips, Tools, and Techniques for Becoming a Savvy Investor

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You Have a Right to Vote

As noted at the beginning of this chapter, you have the right to vote at the annual meeting. In most cases, you get one vote for every share you own. Typically, you can vote for such things as directors of the firm, the hiring of an auditor, and mergers. You will also see shareholder proposals, as described in the preceding section. A group of shareholders may put up some issues for vote, such as changing executive compensation or even proposing a new slate of directors. However, shareholder proposals can be an expensive process, requiring legal and marketing expenses (for example, sending letters to shareholders to get support).

Voters in political elections tend to be apathetic these days, and they're models of active participation compared to individual investors with proxy votes. But even if you have only a few shares, you should vote anyway. It is your right. Besides, it is easy to vote. That is, you fill out a proxy card and send it in. Some companies even allow you to use the Internet to vote by entering your vote on sites such as ProxyVote.com (see Figure 10.1).

So you think your measly few votes will not matter? Here's one case where an individual investor's dissent was very important. The company in question runs a chain of cafeterias known as Luby's, which definitely have a homespun environment. But in 1997, the company hired a new CEO who took an aggressive cost-cutting program. Among many other things, he got rid of cloth napkins and replaced them with paper ones. As a result, customers thought Luby's was losing its charm.

Les Greenberg, a retired attorney, owned 5,600 shares of Luby's, a small fraction of the total. But he was a big fan of the restaurants and was very concerned about the direction of the company. He started to post messages on chat rooms to garner support to unseat the CEO and even make a shareholder proposal to elect four board members.

In his fight, Greenberg encouraged shareholders to send letters to management calling for reform and demanding the ouster of the CEO. Soon the CEO resigned. In the end, Greenberg was unable to elect his slate of directors — but the message got through. The new CEO started to reverse the changes at the restaurants. The food was being made from scratch again, and — yes — the napkins were made of cloth.

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"If you are seriously interested in not making the same mistakes many investors did in the late 90s, then ***The EDGAR Online Guide to Decoding Financial Statements*** *is the book for you."*

—**Nathan Richardson**, General Manager, Yahoo! Finance

"After all that has happened over the past few years, ***The EDGAR Online Guide to Decoding Financial Statements*** *helps investors think for themselves rather than consistently relying on the advice of others."*

—**Vance Wells**, Founder, CallStreet LLC

Despite the passage of Sarbanes-Oxley legislation, navigating through a company's financial statements can still be a tricky proposition. It is absolutely critical to have the necessary tools for effective analysis. ***The EDGAR Online Guide to Decoding Financial Statements*** covers not only how to find the red flags but also how to find the signs of underlying financial strength. Clear and accessible, written in an easily readable, step-by-step style that hits every key element, this book gives you those tools. It is perfect for investors, students and non-finance executives looking to see how a company's actions affect its financial statements.

The EDGAR Online Guide to Decoding Financial Statements helps you:

- Clear through the clutter and focus on the important information from the financial statements, especially the Big Three: balance sheet, income statement, and cash flow statement
- Understand how today's financial system works and how it shapes financial statements
- Read the forms that disclose insider purchases and sales
- Interpret financial ratios to assist you in finding the signs of strength and weakness within a company's capital and operational structure
- Analyze specialized transactions like IPOs, spin-offs and tracking stocks and cutting-edge issues such as dealing with intangibles (patents and copyrights), Sarbanes-Oxley legislation, and the emergence of environmental annual reports
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