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A stone in the shoe

John Fisher, the fourth-generation leader of the athletic shoe maker Saucony Inc., was clear about why he hired advisers to shop the public company last summer.

Saucony, he said, needed deeper pockets and greater marketing clout to elevate itself to a higher level of competition in the shoe business. A month ago, Peabody-based Saucony finally struck a deal with Stride Rite Corp., of Lexington, to be bought for $23 per share, or $170 million, in cash.

The official view: mission accomplished. Fisher said Saucony found the partner it needed and managed to maximize the value of its public stockholders' investments at the same time.

Fisher, his sister, and his brother-in-law, executive vice president Charles Gottesman, own about a quarter of Saucony's stock and would collect more than $40 million in the sale. I presume they are pleased, though company executives did not return calls.

But some other big shareholders aren't happy at all. They don't like the sale price, the deal structure, or the process the company went through to find a buyer.

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My question: Why was Saucony really sold? It almost certainly wasn't for the reasons Fisher, 57, has asserted all along.

Though some stockholders have a list of complaints about the sale of Saucony, the real beef is over price. Those investors point to the fact that Stride Rite stock jumped by about 15 percent on news of the deal as evidence that Saucony accepted a low-ball price.

"It's shocking to me they didn't receive more than $23," says Atticus Lowe, a vice president at West Coast Asset Management, which had owned a 7.5 percent stake in Saucony. Lowe said his firm dumped all its Saucony stock after the sale was disclosed June 2.

Ben Stoller, a hedge-fund manager at Harman Stoller Capital Partners, calls the negotiation and eventual transaction "very shareholder unfriendly."

Fairview Capital Investment Management, which owns 2.6 percent of Saucony's stock, actually issued a press release criticizing the deal and its price.

Scott Clark of Fairview Capital notes the sale will trigger combined payments of $5.2 million to Fisher and Gottesman (negotiated down from $8 million), based on their contracts. He estimates those payments add about $3 per share to the sale price for Fisher and Gottesman, who occupy two of Saucony's five board seats.

"I wouldn't be complaining as loudly if I was getting $26," Clark says.

The price of the Saucony sale may indeed seem low, but it is at least debatable. The company produces pages of statistics supporting the price.

The sale process itself was unusual in some ways, but again, the actual impact is open to interpretation.

The real Saucony mystery is about cash. Why would the sellers take cash instead of Stride Rite stock (which could also offer tax advantages) if they were so focused on potential business growth?

Four months ago, the bidding process for Saucony stalled, and it seemed the company could end up with no potential buyers. The response: Saucony began to look into a leveraged recapitalization, in which the company would have used cash on hand and a big new bank loan to issue a very large dividend to shareholders.

Cash for stockholders, debt for Saucony. That option, detailed in Saucony's proxy paperwork, is exactly what you would do if the objective was to extract cash from equity. It's precisely what you would not do if the point was to take your company's brand to the next competitive level.

But Stride Rite came back to the table soon, and a deal was sealed June 1. On a conference call the next day, Stride Rite's chief financial officer answered questions about potential business synergies by highlighting how much of Saucony's overhead expenses could be cut by 2007.

Why was Saucony sold? Follow the cash to find the answer.

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