JUDGMENT CALL

Bad credit for charity

MasterCard's foundation may be good-hearted, but not good for business

by Eric Grover

MasterCard Inc.'s establishment of a charitable foundation as part of its initial public offering is an egregious and public example of bad corporate governance practice. It received scant criticism from the press and analysts, and it appears not to have concerned investors. It was nonetheless a blemish on an otherwise successful, indeed a transformational, IPO.

MasterCard, however, cannot be faulted for inadequate disclosure. The payment network made its plan abundantly clear in its S1 Securities and Exchange Commission filing.

In their seminal 1932 work "The Modern Corporation and Private Property," A.A. Berle and Gardiner Means noted professional management and owners in the modern public corporation may have different interests. Given often significant expertise and information asymmetries, control and governance systems aligning their interests are crucial. MasterCard's charitable foundation illustrates the problem.

It insulates management from independent shareholders' influence.

A significant block of shares is guaranteed to remain in hands friendly to management for decades. The charitable foundation holds 17% of MasterCard's voting shares. It will hold its shares for 10 years, at which point it will have to disburse roughly 35% of them. Twenty years hence, the charitable foundation will still hold 30% of the shares MasterCard donated as part of its IPO.

The charitable foundation, created by MasterCard, granted stock by MasterCard and heavily subsidized by MasterCard, is likely to vote its shares with management, diluting independent shareholders' influence.

Additionally, the charitable foundation siphons off after-tax money, which otherwise could be spent pretax growing MasterCard's business, or disbursed to shareholders via dividends.

MasterCard initially plans to give the foundation $40 million and is prepared to make further donations to support its operating costs and, perhaps, more charitable activity. This will keep the charitable foundation beholden to MasterCard management for the foreseeable future.

The donations are funds that will not be spent developing additional payments business, not spent trying to win interbank processing business in national markets such as France, South Korea, Spain and Turkey, and not spent enriching its credit, debit and prepay products.

The charitable foundation also provides psychological compensation to management.

MasterCard management undoubtedly feels good about setting up the charitable foundation, whose purpose is "to support programs and initiatives that help children and youth to access education, understand and utilize technology and develop the skills necessary to succeed in a diverse and global work force." It will also support microlending activities in emerging markets. This is motherhood and apple pie. One could hardly design a system insulating management from activist shareholders engendering, by its nature, greater reluctance to criticize than MasterCard's charitable foundation.

People feel good about helping children and about their professional and personal networks knowing they helped children. However, the purpose of public corporations is to pursue profits and maximize shareholder value, not charitable undertaking.

Corporations do good by serving customers, and creating value for their shareholders. Individual employees and shareholders who want to contribute to charity should feel good about themselves, and be lauded, for doing so, on their own nickel. MasterCard management's desire to help the needy should be applauded. They should act on that intention by pulling out their personal check books or better yet, charging a donation on their personal MasterCard credit or debit cards.

If management believes microlending has promise, the global payment network could tailor credit products to facilitate microlending, enabling commerce in developing markets, and generating MasterCard revenue.

The charitable foundation is bad corporate governance incarnate.

Hard-nosed investors', analysts' and the press' reluctance to criticize MasterCard establishing a charitable foundation and granting it considerable equity and subsidies testifies to a certain guilt about the morality of companies pursuing profit. Public corporation management should be measured on their ability to ethically compete, grow their businesses, improve margins and deliver compelling earnings growth. Period. ■

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Avista buys out partner in Thompson Publishing

by Kelly Holman

PRIVATE EQUITY **MidOcean Partners LLP** said it has agreed to sell its interest in **Thompson Publishing Group Inc.** to co-owner **Avista Capital Partners**.

Terms were undisclosed, but a source said Avista is paying about $50 million for the 50% stake of the Washington-based business-to-business publisher that it doesn't already own. Thompson has an enterprise value of $200 million, the source said.

The company specializes in regulatory compliance information for business and government, putting out books, newsletters and Web subscription products. Its 110,000 subscribers are in such sectors as banking, human resources, education and government grants.

MidOcean, a private investment firm based in New York and London, announced the deal late Monday.

Avista is a New York buyout firm that specializes in energy, healthcare and media investments.

"This is a business we know quite well. It's a well-proven acquisition platform and there's a lot of potential to build the business through strategic acquisitions that we can bolt on," said OhSang Kwon, a partner at Avista.

James Finkelstein, chairman of Thompson Publishing and an Avista industry partner, said in a statement he was "excited about the opportunities for internal growth and acquisitions available to Thompson."

Kwon said Thompson's strong, subscription-based business model protects it against economic downturns. Although he declined to disclose the company's financial figures, citing its privately held nature, he said it generates strong recurring revenue.

Tyler Zachem, a MidOcean managing director, said the firm's decision to exit Thompson was predicated on a price and terms that were simply too attractive to pass up. He declined to specify MidOcean's return from the sale.

MidOcean acquired Thompson alongside DLJ Merchant Banking Partners, the private equity arm of **Credit Suisse Group**, in May 2004 for $40 million. In 2005, Thompson bought Austin, Texas-based banking and insurance publisher Sheshunoff Information Services Inc. for an undisclosed sum and renamed the company **Alex eSolutions Inc.**

Then, in July, Avista bought out Credit Suisse's 50% stake in the company for $130 million.

One month later, Thompson acquired healthcare newsletter publisher American Health Consultants from Stamford, Conn.-based **Thomson Corp.** for an undisclosed sum through an auction run by **Berkery Noyes & Co. LLC**. ■

(For more details, see www.TheDeal.com)