

Vulcan International Is The Epitome Of A Dark Company

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by: Jan Svenda

Summary

- Vulcan Corp.'s value is predominantly in a large stock portfolio amassed in the past three decades. They are hiding it from investors as shareholders are required to sign NDAs.
- The lack of information is no longer a significant problem as their 2016 financials recently surfaced.
- Their liquid stock portfolio is discounted by the market by at least \$22 million. If we add their real estate assets there could be an upside potential of 76% here.
- The management is happy with the status-quo and disrespects the minority shareholders. While they do not actively burn the value of the company, they are not utilizing it.
- The situation might change. VULC is likely liable to file 13F form which could add transparency without the need of change in management's attitude. This would act as a catalyst.

Investment Thesis

I believe that Vulcan International (OTCPK:VULC) is presenting investors with an attractive opportunity even despite having one of the most obscure corporate setups out there in the 'public' OTC market.

The company is deregistered from the SEC and forces shareholders to sign a non-disclosure agreement (NDA) when they want to see VULC's financials. The family that still owns a significant stake in the business is not open to minority shareholders and defends their secretive way of operating the business in court. In other words, VULC is the epitome of a 'dark company'.

However, there are clear signs that at the current share price the business is still undervalued as the 2016 financials has recently surfaced and allowed the broader public to see what the company owns.

- While the company is operating a small rubber & foam manufacturing facility, the core

value is in its stock portfolio which has materially appreciated since the financial crisis. It provides both a material dividend stream and a clear upside potential for investors. In 2016 the portfolio provided the company with \$3 million in dividends and is now likely valued at around \$161 million as per updated Nate Tobik's assessment. This compares well with the current market capitalization of roughly \$106 million.

- The portfolio is not the only valuable asset. Their real estate holdings are overdepreciated. Despite the fact that the manufacturing facility is losing money, the underlying real estate is likely to be valuable and could be worth at least \$4 million as per property tax assessment. They also own large timber holdings in around Michigan which could add up to \$14 million. Lastly, they develop real estate from time to time which is troublesome to track without the update financials but could add at least \$7 million (based on property tax assessment) to the valuation.
- One might think that the current discount to the potential value of the assets could be partially justified given the OTC trading, family control and lack of information. However, there could be a catalyst that could force the management to be more transparent. The catalyst is tied to form 13F which is regularly filed by investment companies which own over \$100 million in securities. The form shows their exact positions. VULC is likely to be liable to file this form even though they are not registered with the SEC and they are not an 'investment company' per se. If they file such form the market might be more comfortable in repricing the shares higher and closing the discount.

On the other hand, one has to account for the following risk;

- The corporate governance is terrible. As mentioned the insiders are treating minority shareholders as something to be dealt with in court and through NDAs. They also do not seem to be open to strategic alternatives as the state of the business remained the same for the past few years with the dividend stream being burdened by the money-losing manufacturing facility. At least they do not burn cash and do pay out a small dividend.

While the corporate governance is far from ideal, it does not fully offset the upside potential. The management is not actively destroying any of the value, it is just not utilizing it well and tries to hide it.

Company Background

Before VULC became the infamous dark company in the OTC circles, it was able to build a successful rubber shoe product business that in the 1970's operated 28 factories throughout the US. However, as the foreign competition entered the market in the 1980's the business started to face increasing challenges which ultimately forced VULC to exit most of the operations.

During this tumultuous period, the company was steered by the previous management team which mainly revolved around Benjamin Gettler and Lloyd Miller II., father of the famous small-cap investors Lloyd Miller III.

After the downturn, they sold most of the operations and put proceeds into the stock market. Since the end of 1980's they only maintain a manufacturing facility in Clarksville, Tennessee which is generating a small amount of revenue at a loss.

The story complicates in early 1990's after Lloyd Miller II. died and his son succeeded him. Due to what likely was a troublesome relationship with the board, Lloyd Miller III. decided to exit the investment. He got paid for most of his shares and signed a release form. At this point, the Gettlers became the key shareholders and control more than 50% of the shares.

One can read about the whole situation in the biography of Benjamin Gettler.

In the 1990's VULC continued to stagnate. There were no significant developments in the manufacturing business. Their income from dividends was the major reason for their profitability in that period as per their SEC filings.

As there was no change to be seen at the beginning of the 21st century, the company decided to deregister from the SEC to save cost and lessen the regulatory burden.

Miller's Lawsuit

Since then they were operating in the dark. Only shareholders had the opportunity to understand what has been happening and only if they signed the NDA.

The stock might still lay dormant and unnoticed if it hadn't been for Lloyd Miller III. who started to buy shares of VULC again sometime in the 2000's. He accumulated a meaningful position and wanted to see how the company is doing. Thus, he requested financials.

He faced an uphill battle as the management was not forthcoming and declined to give him the information. In the meantime, Benjamin Gettler died and his son Thomas Gettler, a lawyer, became the main voice of the company. He acts as a legal counsel for the company and is on the board of directors.

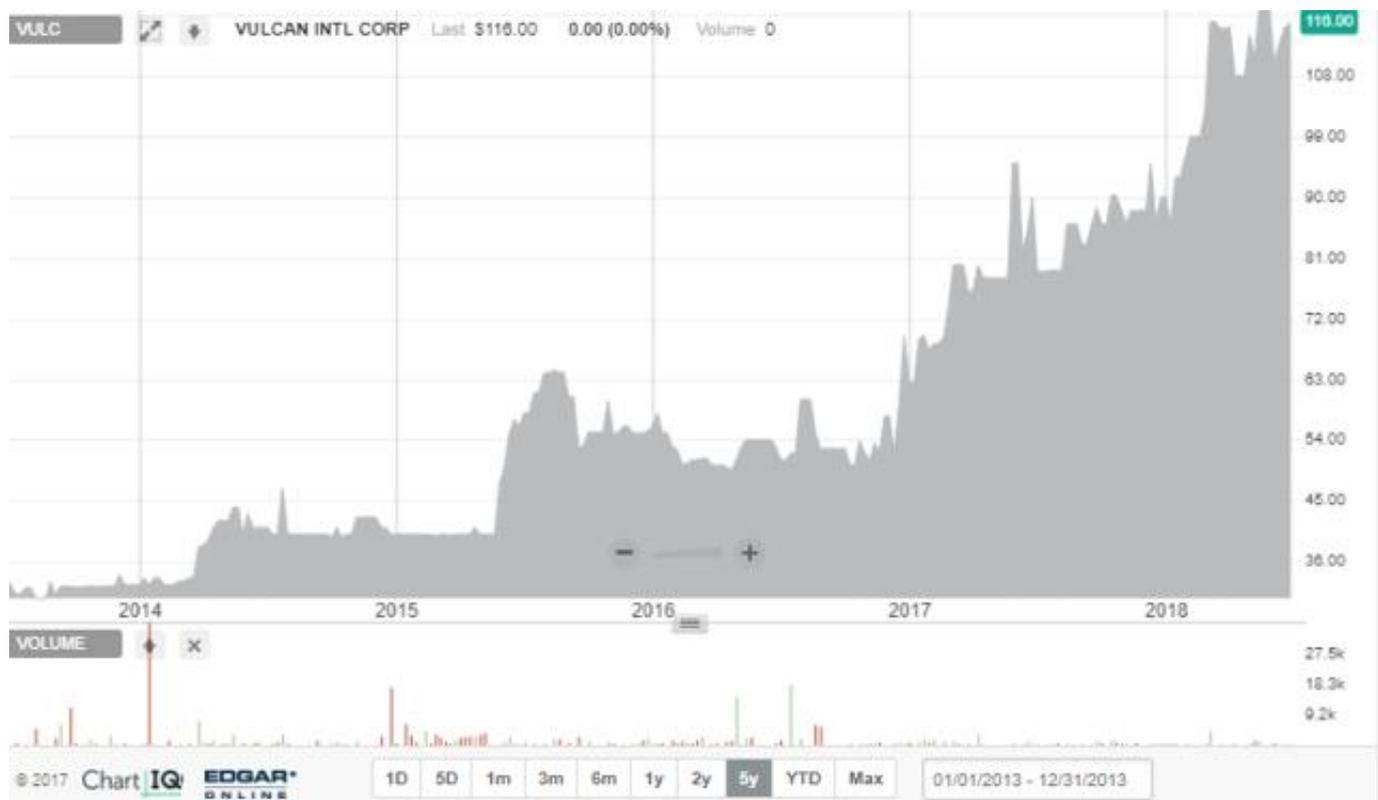
Miller resorted to filing comprehensive requests based on Section 220 of the Delaware General Corporation Law, but even this did not work. The main argument of the management was that Mr. Miller signed a release in 1991 which prevents him from making any claims. Mr. Miller started to sue VULC and the judge was not impressed by VULC's argument, however, Miller and VULC decided to settle the case out of court. The court filings can be accessed via PACER.

Increasing Interest

While this could have stirred an interest in the company, the main issue around 2014 was still the fact that shareholders that have seen the financials were tied by the NDA they were forced to sign. Thus, the increased interest could not replicate.

The first major break for the company came in 2015 when Nate Tobik wrote about the company on his blog. He did not provide specific numbers as he did not see the financials but he alluded to what could be the value of the company (the stock portfolio) and he provided basic background information.

The share price jumped, and more OTC investors started to scrutinize the company.



The share price languished in 2016 but since 2017 has been increasing continuously until it reached the current highs.

Release of Financials

As we have learned in May of this year the share price action was completely justified. One day Nate received an envelope containing the raw audited financials of the company for 2016 and 2015. Apparently, it came from the sister of Thomas Gettler.

The tangible book of the company in 2016 was \$102 million which roughly matches the current market as can be seen below.

Consolidated	
Assets (in millions)	Q4 2016
Inventories	\$ 0.08
Current Marketable Securities	\$ 1.55
Cash and Cash Equivalents	\$ 2.96
Prepaid Income Tax	\$ 0.01
Assets Held for Sale	\$ 2.55
Account Receivables	\$ 0.52
Deferred Income Taxes	\$ 1.31
Total Current Assets	\$ 8.98
PP&E	\$ 1.04
Marketable Securities	\$ 137.94
Other Assets	\$ 0.03
Total Assets	\$ 147.99
Liabilities (in millions)	
Notes Payable	\$ 2.01
Accounts Payable	\$ 0.21
Accrued Salaries	\$ 0.09
Accrued Other Expenses	\$ 0.32
Total Current Liabilities	\$ 2.63
Deferred Income Taxes	\$ 41.14
Other Liabilities	\$ 0.77
Total Liabilities	\$ 44.54
Current Market Cap.	\$ 106.70
Tangible Book	\$ 102.14

Source: Audited Company Data

Note: VULC has a defined benefit pension plan, however, the asset base is small, and the underfunded liability is only \$0.7 million.

The income stream was unchanged as the manufacturing facility kept on losing money and the dividend stream acted as an offsetting factor.

(in millions)	2016	2015
Net Sales - Rubber / Foam	\$ 4.02	\$ 4.06
Real Estate - Timber	\$ 0.14	\$ 0.30
Real Estate - Commercial	\$ 0.79	\$ 0.63
Total Revenue	\$ 4.94	\$ 4.99
Cost of Sales	\$ 3.36	\$ 3.47
Operating Expenses	\$ 0.99	\$ 0.97
G&A	\$ 2.06	\$ 2.29
Interest Expense	\$ 0.04	\$ 0.03
Total Expenses	\$ 6.44	\$ 6.75
Operating Income / Loss	\$ -1.49	\$ -1.76
Operating Margin	-30.21%	-35.30%
Dividends and Interest	\$ 3.02	\$ 2.88
Net Gain on Sale of PP&E	\$ 0.20	\$ 0.04
EBT	\$ 1.73	\$ 1.16
Provision for Tax (benefit)	\$ 0.12	\$ -0.07
Net Income	\$ 1.62	\$ 1.24
Number of Shares	0.91	0.91
EPS	\$ 1.77	\$ 1.35
Cash Flow From Operations	\$ 1.27	\$ 1.27
Cash Flow From Investing	\$ 2.17	\$ -1.01
Cash Flow From Financing	\$ -0.94	\$ -0.59

Source: Audited Company Data

The valuation

While the share price action was justified, some might now be wondering why I believe that there is still plenty of upside left. The company trades at its tangible book from 2016 and generated only minuscule profit that does not really ask for a significant premium.

However, one has to remember the nature of the balance sheet. Most of the value is in a stock portfolio. Thus, one needs to adjust the value for the share price developments of their holdings. Unfortunately, the financials do not break down each position, however, Nate has shared an assessment of their portfolio based on positions from 2000's.

According to Nate, other VULC's shareholders have confirmed that this is a relatively accurate assessment. One can support this assertion by looking at the income statement or cash flow which did not show any realization of the positions in either 2016 or 2015. Thus, management is unlikely to trade frequently.

I have updated the assessment to reflect the current prices.

Stock Position	Shares	Share Value as of 19/06
Vodafone Airtouch PLC (VOD)	16027	\$ 393,302.58
Verizon (VZ)	40823	\$ 1,971,342.67
Frontier Communications Corp. (FTR)	17000	\$ 132,090.00
AT&T (T)	213204	\$ 6,907,809.60
Cincinnati Bell (CBB)	42820	\$ 610,613.20
Convergys (CVG)	182000	\$ 4,579,120.00
Duke Power (DUK)	14313	\$ 1,082,635.32
NextEra Energy (NEE)	64750	\$ 10,502,450.00
CenturyLink (CTL)	2534	\$ 46,752.30
Consolidated Communications (CNLSL)	468	\$ 6,172.92
Enbridge (ENB)	12300	\$ 391,755.00
PNC Financial (PNC)	659090	\$ 93,491,916.50
U.S. Bancorp (USB)	783441	\$ 40,229,695.35
Prudential Financial (PRU)	259	\$ 25,216.24
Principal Financial Group (PFG)	6165	\$ 343,267.20
Piper Jaffray (PJC)	7834	\$ 627,346.72
Grand total		\$ 161,341,485.60

Now one must remember that this portfolio value does not take into account the capital gains tax liability which was standing at \$41 million in 2016. As the marketable securities were valued at only \$137 million then, one should expect this liability to change.

However, one must account for the recent change in the tax code which lowered the tax rate thus, the liability is lower than in 2016 in the end. It could be around \$33 million (current gains * tax rate). Thus, the net value of the portfolio in a liquidation scenario would be around \$128 million.

There are ways for VULC to side-step the liability and try to either eliminate or minimize the effect of taxes. One example strategy could be to exchange some of stocks in the portfolio for VULC. A potential acquirer could also perform a stock exchange which would result in a similar tax minimizing effect.

This portfolio then provides a straightforward and strong margin of safety and clear upside potential.

What makes VULC even more attractive is the rest of the balance sheet which is overdepreciated and hidden in the PP&E item.

As mentioned VULC still owns and operates the Clarksville facility. While the business is unlikely to have much value, the underlying real estate certainly does. One can take the appraised value of the county property assessor which stands at \$3.87 million.

The company also holds a material investment in timberland around Michigan. VULC still owns 14,000 acres as per 10K from 2005. One can see that the asset value for timberland in 2016 is the same as in 2005. One can check Keweenaw Land Association (OTCPK:KEWL), a timber company operating in the area, for price per acre which comes to about \$1,000 per acre, or \$14 million for VULC. One has to remember that this would also be subject to corporate tax in the event of liquidation.

VULC also ventures into real estate developments. Probably their most valuable holding could be the Cincinnati Club building which they hold at the balance sheet since at least 1996. The market value assessment comes out at \$4.39 million (due to this and this assessments which are for different parts of the building). One can't forget the Florida asset held for sale on the balance sheet which was valued at \$2.5 million in 2016.

They also bought a mall for \$3.8 million in 2017. However, the value of that could be relatively the same since the acquisition thus I am not going to include it in the valuation.

Finally, there is \$4.5 million on the balance sheet which comprises of the cash and current marketable securities in 2016.

Putting all this together we can come up with a solid upside potential.

Valuation (in millions)	
Main Assets	
Stock Portfolio	\$ 161.31
Michigan Timberland	\$ 14.00
Potential Tax Liability	\$ -35.46
Other Assets	
Clarksville Facility	\$ 3.87
Cash + Current Stocks	\$ 4.50
Cincinnati Club	\$ 4.39
Florida Asset	\$ 2.50
Total Other Liabilities	\$ -3.40
Total Value with Tax	\$ 151.71
Implied Share Price	\$ 166.35
Upside to Current Price	43%
Total Value without Tax	\$ 187.17
Implied Share Price	\$ 205.23
Upside to Current Price	77%

As you can see even if one takes the tax liability into account there is a solid opportunity currently present. However, as aforementioned, it is likely that VULC would be able to eliminate or minimize such a liability and significantly increase the upside.

13F Form as a Catalyst

As mentioned in the thesis, investors might be sceptical about the upside. They can argue that the discount is rightfully in place given the attitude of management towards the minority shareholders and the unknown status of the financials. Not many people are willing to take an investment decision without knowing the exact current situation.

This could change soon, and we might not need to wait for the insiders to understand how a management of a public company should behave.

The reason behind this is a 13F form which VULC is likely liable to file with the SEC.

The 13F is normally filed by 'institutional investment managers' that have over \$100 million in their portfolios. The form shows all of their stock positions. The definition of 'institutional investment manager' is relatively broad as per this paper. You can see it below, the emphasis is mine.

For the purposes of Section 13(f), an institutional investment manager is an entity that invests in or trades securities for its *own account*, or a person or entity that exercises investment discretion over someone else's account.

As it is broad, it certainly applies to VULC. They have a portfolio worth over \$100 million which they acquired through investing. The fact that they do not manage money for anyone else but them does not matter.

I have two examples to support this assertion.

First is the Daily Journal (DJCO). This publishing business is filing its 13F despite the fact it does not manage the portfolio actively and invests only their own capital.

The SEC questioned DJCO whether the company is not an investment company under the 1940 Act which would lead to further regulatory requirements. The company argued that it is not, and the SEC agreed (more on this later), however after this conversation they did start to file the 13Fs. Their portfolio is worth over \$100 million. Thus, it seems that they are liable to file since they can be labelled as an 'institutional investment manager'.

DJCO is registered with the SEC thus some might say that VULC could be a different case.

However, I have an example of Koch Industries, a company that is private and not registered with the SEC. They routinely file their 13Fs and according to what I know, they do not manage outside capital. The entity 'Koch Industries', which operates several lines of businesses, is specifically named as an institutional investment manager. They do mention another manager, Spring Creek Capital LLC, which I believe is a family office and thus should also invest only for its own account.

Due to these two examples, VULC is likely to be liable to file 13F as it certainly can be described as an institutional investment manager under the definition of the SEC. As shown in the second example it should not matter whether they are registered or not.

VULC is also likely an investment company

Not only that VULC should be liable to file the form because the 'institutional investment manager' definition can be applied to the company, but they could also be defined as an investment company under the 1940 Act. This would again mean that they need to file a 13F which further supports the main thesis.

The core of the argument revolves around the Investment Company Act of 1940 which dictates which entity should be regarded as an investment company.

The case of Daily Journal is useful as it shows how the company argued that they are not an investment company despite having a large stock portfolio.

The core legal section of the act is the wording regarding exemption from the act which states that the exempt company needs to be 'primarily engaged... in a business... other than investing, reinvesting, owning, holding or trading in securities' (abbreviated for clarity).

Daily Journal was arguing that it passes the 'five-factor' test that is usually used to determine whether a company is exempt or not. I believe that VULC fails at least 2 if not 3 of the factors and certainly fares much worse than Daily Journal which did end up filing the 13F.

Note that the linked article about the five-factor test mentions that factor #4 and #5 are usually the most important ones. I believe VULC fails exactly these two factors.

The following are the individual factors;

- The Company's Historical Development

I believe it is relatively clear that VULC has been unable to profitably run the manufacturing facility. Not only that, the revenues tied to the facility has been dwindling. While in the 1990's the company generated roughly \$10 million from it, in 2016 they registered a mere \$4 million revenue stream. The nature of the company has been tied to its stock portfolio over the past three decades. Without it they would not be in business as the income has always offset the losses.

In fact, one might be even able to argue that the insiders kept on running the facility in order to prevent the entity to be regarded as an investment company.

Thus, it would be dubious to say that the company passes this factor easily.

Sure, they are likely trying to be *engaged* in the manufacturing business, however they *primarily* make money from the securities portfolio. While this is a grey area, I believe VULC could potentially fail this factor.

- The Way the Company Presents Itself to the Public

Well if we accept that the website of VULC is the way they present themselves to the public and we totally write off the fact that the company is anything but transparent, then one could make the argument that they are not portraying themselves as an investment company.

However, describing Vulcan Corporation as 'a rubber and foam manufacturing facility housing 272,000 square feet of manufacturing space with a total mixing capacity exceeding 50,000,000 pounds annually.' is dubious to say the least. Where is the part about the \$160 million stock portfolio??

- The Activities of the Company's Officers and Directors

Not much can be said here as we do not much about the roles etc. It is likely that VULC insiders could paint themselves as managers who accidentally bought some stocks and did not do any research etc.

- The Nature of the Company's Present Assets

It should be clear that VULC will have a hard time defending itself on this factor as the portfolio represented 94.2% of the total assets (including the current stocks) in 2016. One argument that Daily Journal noted was the outsized value of the portfolio was due to

appreciation. VULC could again try to paint themselves as lucky investors, however, given the size of the portfolio I believe it is hard for them to do so.

I believe VULC should fail this factor.

- The Source of Company's Present Income

The last factor is also the clearest. I believe that in any way you try to 'skin the cat' the result is the same.

VULC's profitability is solely based on the portfolio income. If they were to stop trying to be engaged in the manufacturing business their income statement would be better off. Their gross profit is abysmal when one compares it with the operating and general and administrative expenses (\$0.7 million versus \$3 million).

I have not been able to think of any argument that VULC could use here. Yes, they do from time to time sell real estate assets, but that is nowhere near the amount of dividends collected from the portfolio over the years. I also do not need to even use the 'comprehensive income' to prove my point here. Plainly put they generate a material amount of dividends and are profitable because of them.

Thus, VULC should easily fail this factor and more likely than not become liable to file a 13F if the entity is ever contested on this topic.

If you believe like I do that VULC should not be exempt from filing a 13F then you can alert the SEC and fill out a complaint.

Managerial Incentives

After all of this, one is likely to ask why on earth is the management so secretive about the company? They could increase their own wealth just by becoming more transparent and avoid potential problems.

I believe that it could be because of estate taxes. They want to keep the share price as low as possible in order to avoid increasing their tax burden. They could also prefer to sustain the status-quo, or in other words 'leave us alone' preference. This, in my experience, can be an underappreciated incentive of the management teams in the OTC world.

The insiders are likely paying themselves comfortable compensation and do not need to put much effort into the company, i.e. they value the long-term cash flow they can receive. While they are not burning value of the company, they are certainly not creating much. It is

a 'symbiotic' relationship of sorts between the management team and the stock portfolio.

Other than that, I have not been able to find another reason. One might think about fraud here as the previous two reasons might seem weak at first. I believe that the possibility is low given the audited results from 2016. Their mid-sized local auditor is based in Ohio and does not seem to show any clear red flags.

How to request financials

If you are further interested in VULC and are willing to buy one share or already own some and would like to see the current financials in order to be more comfortable with the investment I am sharing a straightforward way to request the needed information. A simple email or a call is unlikely to suffice here, a letter is needed.

First, you need to use the following address; Thomas Gettler Law Office 950 3rd Ave, Floor 31, New York, NY 10022-2705

Secondly, in the letter, you need to state that you request the financials under the Section 220 of the Delaware Corp. law. Connected to this you need to state the purpose for the demand. One can read more about the purposes here. However, a simple purpose of 'performing a valuation of one's investment' is sufficient.

Thirdly, you need to show them proof of ownership. A broker statement (blacked out apart from VULC position) should be enough.

Finally, be aware that not all brokers allow the purchase of VULC shares.

Conclusion

The secrecy of Vulcan's management has unsurprisingly backfired and for a good reason. Even after the recent developments the shares continue to be undervalued. While the insiders might try to continue to hide and not utilize the value of the company, I believe that the situation is unsustainable.

The company is likely liable to file 13F form which could provide a clear catalyst as it would show their stock portfolio. This would certainly realize part of the significant upside potential.

Disclosure: I/we have no positions in any stocks mentioned, but may initiate a long position in VULC over the next 72 hours.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Editor's Note: This article covers one or more stocks trading at less than \$1 per share and/or with less than a \$100 million market cap. Please be aware of the risks associated with these stocks.

Comments (13)

jwallingcfa

Nice article Jan. It's a risky proposition anytime you take a minority position in a closely held company. While better information in the market may drive up the price temporarily, my question is simple....when do I see cash flow. Based on what you have said about the management they have voting control so can simply tell the minority shareholders to 'go pound sand' when it comes to any exit, buyback or special dividend. If they like the status quo and there is nothing that can force them to change then, IMHO, buying these shares is betting on the "greater fool" theory.

02 Jul 2018, 11:24 AM

Jim Rivest

Jan, I was hoping you would be the one to take up the good fight here, as this is an area you specialize in and have a large following of similar minded investors who have an interest in the OTC space. I signed an NDA for the 2014-2015-2016 Vulcan financials, so I can't speak to the financials for those years, but as you have noted, the 2015-2016 financials are now public. I can speak about other Vulcan issues though and I plan on it.

A bit of personal history first with respect to my ownership of VULC, as it has grown into my largest position.

A friend mentioned Vulcan to me in the year 2000, which I thought was interesting, but I also thought it a value trap and I had no interest buying it. Fast forward to 2012, when my largest holding by far was PNC warrants and I couldn't help but recall what he had mentioned to me years earlier about Vulcan's largest presumed portfolio holding - PNC. I knew PNC well and was now wondering if this was a very cheap way of owning it. The PNC warrants were cheap, but they had timing risk, while owning PNC through Vulcan had obvious agency risk.

Since VULC's stock price had flat-lined in the intervening 12 years (but their assumed stock holdings had not), it became increasingly interesting to me, so I decided to buy a few shares in 2012 and dig into the story more deeply. You had to be a shareholder and sign a ridiculous NDA to get their financials. I saw enough to know I wanted a lot more shares, but very few shares traded. So I bided my time and waited until some shares would eventually shake loose.

I equated this cheap illiquid situation to Warren Buffett's Sanborn Maps and Ben Graham's Northern Pipe. This was a modern day version that should no longer exist and a case could be made that it was at least equally as

good as both those situations. Buffett and Graham knew the 2 companies they were buying owned a portfolio of securities that well exceeded the price of their respective parent companies. Buffett managed to buy a large enough block of Sanborn over a couple of years to win any potential proxy fight and the company knew it and relented.

With respect to Northern Pipe, Graham noted at the time that "he had treasure in his hands", but wasn't sure how he would extract it because management was intractable and uncompromising. He was dogged in his pursuit, though, so like Buffett with Sanborn, he also got the company to distribute a special dividend to Northern Pipe shareholders.

While these situations look great in hindsight, they were also not without hair. These veritable hairballs were illiquid and managed by folks who considered outside shareholder a bothersome nuisance. So this was not about passively buying a great compounder and hanging on for the ride, it took some real work after the purchase was made.

So getting back to Vulcan, as luck would have it, lots of VULC shares were offered at year end 2014, but unfortunately, at exactly the same time I was doing the biggest and best tax arb of my life (CSWC).

These particular tax arbs are exceedingly rare because everything has to align just right. This BDC planned on selling their long held appreciated portfolio, retaining the gains, and paying the 35% corporate tax rate. Almost all BDC's distribute these gains, but if retained, shareholders who own the BDC in retirement accounts get 100% tax credit from the IRS. So it was a situation of holding something for less than a week (actually only one particular day of ownership was required) and being virtually guaranteed a safe 9% return on all monies invested. Well, you want to play something like that in very large size.

On Christmas week in 2014, I was vacationing in Costa Rica with my family. I was familiar with BDC's, but I never saw one retain such large realized gains and pay the 35% tax rate. The opportunity here was buying everything I could in my Roth IRA and being credited the tax CSWC paid - all tax-free!

And the more I read about the company, the more I realized a 9% profit was the minimum I would make. But then something happened that created a real dilemma. I wanted to get very large in CSWC, but I also saw big blocks of VULC available that same day. I believe it was Piper Jaffray finally throwing in the towel after holding their shares for close to a decade with nothing to show for it.

I'm generally fully invested and like everything I own, but now I needed big bucks for both CSWC and VULC.

I'd put in an order for 2500 shares of VULC (what was offered) and scoff them up, then another 2500 shares were immediately offered, it happened over and over again and it's the day I bought most of my shares. I had no intention of buying that much at that point in time because of the CSWC tax arb, but you have to buy when very cheap 'trade-by-appointment' stocks become available, so other stocks were sold to raise cash.

This is an interesting dilemma. If you don't have unlimited funds, what would you choose? A security you believe could produce 15%-20% annually over the next decade or one that could produce 9% by owning it for just one day. The problem is that one day coincided, so I had to make a choice. There was absolutely no guaranty that VULC would ever be available again at that size and that price. And while I believed it would grow intrinsically in value by at least 15% annually, that doesn't mean the market price would follow suit in lockstep fashion. It could be a situation where value was accreting every year, but as the prior 10 year history

indicated, it would not be reflected in the stock price.

I ended up buying every share of VULC that was offered, which I still own, and all the balance of my cash went into CSWC.

Jury is still out where that capital should have been allotted on that day, but I believe I made the right decision.

02 Jul 2018, 11:34 AM

Jim Rivest

After I bought a few VULC shares, I contacted the company and had very cordial conversations with Tom Gettler. He's a member of the board and the family contact person who handles all shareholder queries and communication. He's an attorney but I'm not sure if he's officially the Corporate Counsel for Vulcan, but he effectively is. (I've never seen anyone at the company labelled CEO or Chairman either, so they aren't big on titles).

In the first couple of years, Tom Gettler told me "to be patient" as my suggestions were being taken "very seriously". I am patient, so I was fine with the board discussing possibly being more open and transparent and if they needed a couple of years to change things, I was fine with that. Well a couple of years came and went and nothing changed.

I then started writing letters to all the board members, making my case for more disclosure and being more shareholder-friendly. I received no responses to any of my letters.

Tom Gettler also became increasingly more difficult to reach, so voicemails weren't returned, that is until Nate Tobik publicly posted the 2016 Vulcan financials.

The following is some excerpts of letters I sent to the newest board member, Karl Dostal. I was very happy to see an independent board member elected to Vulcan's board. I was even happier when I read his bio,

"Karl's areas of expertise include tax planning, internal controls and accounting procedures, projections, research and compliance, financial statement preparation and forecasts, compensation agreements, merger and acquisition analysis and general business consulting."

Dear Mr. Dostal,

I wrote to you 10 days ago and I hadn't heard back so wanted to reach out and try to communicate again. While I'm sure you are a busy man, I also assume you were given instructions not to engage with or respond to shareholder concerns.

Tom Gettler finally did pick up the phone (after my leaving messages over a period of months), but it wasn't an overall pleasant conversation. He sent me an NDA to sign and then sent me a slightly less restrictive NDA to

sign a day later. After you read this letter you will see why I can't sign even the latest iteration.

Tom was demonstrably irate about the public posting of Vulcan's 2016 financials. It didn't matter that I told him I had nothing to do with it – and neither did any associate or advisor of mine - yet he continued to insinuate that I was the person who likely provided this information.

When I told him the blogger mentioned it was actually his sister, he said that wasn't possible. He stated that the blogger wrote it was the sister of the chairman, so he questioned why I said in a prior voicemail it was Gail Gettler. Since I knew there was no chairman, and I have read Ben Gettler's biography and know the history and family tree, I just assumed the blogger made an understandable error and that Gail Gettler was the person being referred to. A very simple solution would have been for Tom to call his sister and ask her if she did it and, if so, why, how, and what was her motivation instead of interrogating a shareholder in an accusatory manner. I don't know Gail Gettler or the answers to any of these questions, as I have never contacted her or spoken to her, but out of curiosity I just googled her and she sounds like a wonderful person (see the link below).

www.bozemandailychronicle.com/...

While I had nothing to do with the 2016 financials being posted on a blog site, that isn't to say I wasn't excited and thrilled for the financials see the light of day. In fact, when I initially read the blog I felt like I did as a little boy opening my presents on Christmas. Then, to see the company's stock portfolio spelled out in all its glory, well I now felt like the boy in "A Christmas Story" receiving my hoped for Daisy Red Ryder BB gun! To my knowledge, the stock portfolio has never been publicly revealed, so this was a wonderful development and I thought maybe things would finally change for the better as Tom hinted at a few years ago.

Links to that blog have been re-posted on other blogs and sites on the internet and the downloads of the financials are now approaching 500. The cat is out of the bag and so I naively thought Tom would now see the light and finally just post them publicly on the company website and avoid all this secretive and expensive nonsense and gamesmanship. Instead, he sadly and inexplicably appears to have doubled down and is making the NDAs even more restrictive, further entrenching the company in a blanket of secrecy.

Now, any shareholder advisors (e.g., lawyers and accountants) have to read the NDA and within 5 days I have to send a signed notarized copy to the company. This is just one more inconvenience and I cannot now in good faith sign an NDA that is a complete gag order, as even the SEC can not be contacted!

As I explained to Tom, although I had nothing to do with the 2016 financials being posted publicly, I have spoken about the company to friends and family. Some of these people have bought a few shares and were instructed to contact the company directly in order to get the financials. Some have received the financials, while others have been interminably delayed or totally ignored. I have told Tom that this process is far from 'efficient' (a term he used) as many shareholders are forced to make numerous phone calls and send letters. He told me "they were lying" and wanted names because he said everybody who sends in a proper letter gets the NDA and the financials after they sign the NDA.

I believe a good deal of the discrepancy in what Tom says and what actually has transpired is due to the fact that shareholders are unaccustomed to this process because it's virtually unheard of, so most shareholders are unaware of how to do it properly. First, a shareholder would have to know the correct address, which is not a small consideration since there are multiple Vulcan addresses and it appears the letters are not forwarded to the correct address when the wrong address is used. Then, an investor would have to make a proper "220 demand" - which is Greek to most investors - and if not properly stated, or if proof of ownership is not included, the process takes much longer or is ignored completely. Things would be much simpler, faster, and cheaper if emails were acceptable, phones were answered and messages were returned. So it's possible Tom has always responded to a proper demand when correctly addressed, but it's also possible that many shareholders have not made a proper demand and/or sent it to the wrong address.

Tom insisted on getting shareholder names and their experience in trying to get information. I didn't spend a lot of time on this, but I contacted shareholders and their experiences are included in the attached file. As noted above and as you will see, some shareholders have to be dogged and extremely persistent to get financials because it's often far from easy. I included the experiences of 6 such shareholders.

As it stands today, I believe board members have not acted in the best interest of minority shareholders and may even be liable. Consider the following situation. I was the largest minority shareholder in a public dental practice that went "dark" here in South Florida called Coast Dental (CDEN). The controlling family was non-transparent and shareholders had no idea if the assets on the books were actually money-good. They claimed \$20/share in tangible book value, but it was mostly comprised of a receivable among various family members and entities. I wrote letters to the board and their accounting firm (Deloitte & Touche) that they would be held responsible if the assets proved to be ephemeral, as most investors actually believed because the stock was selling for just \$3/share. Within a year they no longer wanted to deal with any minority shareholders and went private.

The price they paid to minority shareholders was multiples higher than the market price, but also significantly lower than its intrinsic value. This might be something for Vulcan to seriously consider. If Vulcan tendered for shares in an exchange for PNC and/or USB, I have no doubt many shareholders would seriously consider the offer. It could be made to be a win/win for all parties involved.

I know some shareholders would not consider a takeout price that wasn't three digits and starting with a 2, but I also know of several large minority shareholders (including me) who would consider a price considerably above the current market price, but also significantly below Vulcan's intrinsic value. The advantage here for the company is that the transaction would be quite accretive for the remaining shareholders and they would be using an appreciated security pregnant with a very large deferred tax liability to buy a security well below what it is actually worth. Minority shareholders who tender will have a liquidity event at a decent price, but not a fully valued price. Please pass on this proposal to other board members. I attached a file where this was done in a similar transaction.

Now, if the company were to open up, I would have absolutely no interest in selling and would be content to hold VULC for a very long time (decades even). But after my recent contentious conversation with Tom, I'm not holding my breath that shareholder communication and transparency are going to change any time soon. I don't plan on ever signing another Vulcan NDA in its current form, but as long as I'm a Vulcan shareholder, I will continue to press for increased transparency and disclosure in the best manner I see fit.

Mr. Dostal, in your short tenure as an independent board member, you must have recognized that minority shareholders are ill-served by such a lack of transparency. When I first wrote to you, I was hoping that you might be the agent for positive change. You could provide a real service to all of Vulcan's shareholders by vindicating that hope. I look forward to hearing from you.

02 Jul 2018, 12:06 PM

Jim Rivest

Tom Gettler believes Vulcan does not have to file a 13F for two reasons:

- (1) He does not consider the company to be an institutional money manager or an investment fund.
- (2) Vulcan is a 'dark' company and free of all future SEC filing obligations.

Let's take these one at a time.

It's arguable that they would not be considered an 'investment fund' in the eyes of the SEC. Based on the most important criteria of assets and earnings, they most definitely qualify, but on the squishier criteria of promoting the stock portfolio and actively managing the fund, they don't qualify. They do everything they can to not advertise the value of the stocks they own and they've been on automatic pilot for decades with virtually no trading. It's a moot question though because any corporation with \$100M of 13F securities has to file a 13F.

www.sec.gov/...

With respect to being a deregistered company and freeing them from all future SEC filing obligations, that is incorrect. You can deregister if you have less than 300 registered shareholders and meet all the other requirements, but if your registered shareholder base grows to 500+, you then have to file once again.

"If any of these examples were to occur, and the number of shareholders increased beyond 300 or 500 (depending on the company's assets), an issuer would be required to file periodic reports on the first day of the next fiscal year until the beginning of the following fiscal year when the company could once again examine its obligations to file. So, despite the seeming finality of the deregistration process, the filing and effectiveness of a Form 15 does not eliminate the possibility that an issuer will be required to comply with reporting requirements at some future date."

The link from Morrison & Foerster LLP states the following:

media2.mofo.com/...

"An issuer can never "terminate" its reporting obligations under Section 15(d); rather the reporting obligation arising under Section 15(d) can only be suspended. In 1964, when the SEC adopted amendments to the Securities Act, Section 15(d) was added to reflect a policy concern that the SEC had with respect to investors who purchase securities in an offering registered under the Securities Act. The SEC's view was that such investors need the benefit of continued disclosure, even if the issuer is not registered under the Exchange Act. If an issuer no longer satisfies the requirements under which it was able to cease reporting under Section 15(d), then the suspension ends and the reporting obligation returns without any further action of the issuer. "

Since they are now well over the \$100M mark for filing a 13F form, the suspension in reporting under Section 13(f) no longer applies. They no longer satisfy the requirements to cease reporting and should no longer be exempt. That's my opinion and they obviously feel differently, so what can be done about it?

02 Jul 2018, 12:43 PM

Jim Rivest

Office of the Whistleblower - SEC
100 F Street, NE, Mail Stop 5971
Washington, DC 20549

June 13, 2018

Re: Vulcan (VULC) - Company has failed to file 13F Forms

Dear Sir or Madam:

My wife and I have owned shares of Vulcan (VULC) for many years and it's quite a large holding for us. They deregistered 13 years ago and have made it very difficult for shareholders to receive any information about the company. A very restrictive non-disclosure agreement (NDA) is required to be signed each and every year before the company will send you the Annual Report.

This year's version was extreme and I could not in good faith sign it because I knew I would be contacting the SEC and, believe it or not, that would be a violation of its terms. Here is some of the relevant language. When signing you agree to "not divulge, share, publish, transmit, disseminate, summarize, describe, characterize, make available in whole or in part or otherwise disclose the Confidential Material to any person or entity that is not the Company or one of the Advisors." Vulcan shareholders cannot discuss anything company related with anybody, which is not actually a new feature, but it has taken on an entirely new dimension.

It specifically and most importantly prohibits speaking to "any attorney in any lawsuit, the press, any Company shareholder, and any regulatory and governmental body". So while I own stock in a public company – a company that took money from the public – I am prohibited from speaking to anyone about it, including "any regulatory and governmental body". So, as you can see, I was left with a difficult decision – do I exercise my rights and contact you, the SEC, to present my concerns or do I obtain the Annual Report? I have decided at

this point that the former course of action was preferable.

Until recently I had always felt there was zero chance of fraud here, but I am no longer 100% certain of that. Shareholders are silenced and siloed because we cannot discuss our investment with other Vulcan shareholders and we can't share our concerns with any governmental regulatory body without running afoul of the NDA. We also can't shine any light on the company by talking to the press or commenting on social media or blogs.

To take a step back for a second, if I may, here's a little history on the company. In the 1970's Vulcan was consolidating the shoe space and had profitable manufacturing facilities all over the country. By 1981, however, cheaper foreign competition forced them to close down almost all their factories (except one rubber-foam plant in Clarksville, Tennessee) and they invested most of their remaining funds in a stock portfolio. By 1989, most of the company's net income was from dividends, not operations. They closed down everything shoe-related other than the Clarksville plant and have been trying to make a profit there ever since, but nothing has worked. Operationally, it's been losses as far as the eye can see. So for the better part of 3 decades, all of the company's net income has come from their stock portfolio.

Vulcan is likely an unregistered "investment company". However, since the company doesn't highlight or promote its stock portfolio's value in any way, and in fact hides it, they have managed to skirt registration even though they easily meet the criteria of an investment company based on assets and income. The vast majority of their assets are in passive stock investments and ALL of their net income is produced by this stock portfolio. In fact, the operating companies, which are small in relation to the stock portfolio, have produced only losses for more than 2 decades. A logical question would be, why have they kept a continual money losing division open for such a long time?

Apart from the unregistered investment company issue, which presents various criteria which must be weighed, is another issue which is not subject to debate. Vulcan should be filing a 13F Form every quarter. While they have never spelled out exactly what is in the stock portfolio, they have stated they own 2 large regional banks which exceed \$100M in value in the aggregate. The 2 banks are believed to be PNC and USB, but the company has never officially acknowledged or stated that publicly.

The company's position is since they deregistered and are not considered an investment company, they are exempt from any SEC filing. While that may have been true when their stock portfolio was under \$100M, that has not been true since at least 2014.

Incredibly, minority shareholders, outside of the controlling Gettler family, have never seen what's actually in the stock portfolio. I've been asked if one were going to perpetuate a fraud, could I think of a better way to do it and I could not. Vulcan shareholders take it on faith that the portfolio has largely remained unchanged for decades. The Vulcan auditors state that it's a judgment call on their part, so do they do the forensic work on the

portfolio annually or just take the brokerage statement at face value? We know Madoff's scheme went on for decades as he sent bogus brokerage statement to all his investors.

As shareholders, we are just asking for what is legally required. Vulcan is a corporation with a stock portfolio that well exceeds \$100M, so they should be filling out and filing a 13F Form quarterly. I know this is likely a low priority for the SEC, but these rules were put in place for the protection of shareholders. It would be a tremendous relief to know for a certainty the portfolio exists and we see what we actually own!

Thank you in advance for your time and consideration. I truly hope that you can help in this matter. If I can be of any assistance please feel free to contact me.

02 Jul 2018, 01:07 PM

Omer Altay, Contributor

Long vulc as well and am patient. Thanks to everyone posting their experiences with this one.

02 Jul 2018, 05:01 PM

OlafD

I live in this space. I just don't believe VULC will ever budge short of an SEC letter and probable court fight and even then, if they flip enough securities to TBills they can be exempt again as Treasuries not in the calculations of the 13F 100M. I think the word here is "hope"

I own two large chunks of quasi public telephone companies, they trade in the want ads, talk about "OTC." One has traded at 20-25% of book for two decades, and has a 5% ownership cap, which I'm at, the other one was at 3% which the by-law had a loophole (family constructive ownership) and they tried to close it and I ended up this year fighting a proxy war with them and won, got the whole cap thrown out....now I can keep buying but they have never had such a steep discount to book. I've been scratching my head if I want to go to the mattresses again and if it is worth it. Can I get 51%? Do I want 51%? What if I just get 48 and then I end up on the wrong side of a war. DO NOT underestimate local people to turn on an outsider. In the end....Life is too short, especially since the shares are so distributed.

With VULC, we're never going to get a meaningful position to win a proxy war. Some things are just never meant to play with. I think VULC is one of these....just got a bad feel to it. I get 6-20% divvies on my two value traps but VULC is just a lousy point. It could be a long wait....

I think KCLI seems to be a better place to play for something still at a discount to book and some of these land companies like GCCO or BWEL seem more interesting but these are all crap shoots. I got a few banks I like, that no one else does. So IDK. I had a long stake in Ash Grove but now with that bought out...I think CDs are the future with those funds...jmo

Today, I just sold out a 20 year old position in Brierley Investments --GuocuLeisure....now GL Limited. Still at a 40% discount to NAV, profitable and a very large company but based in Singapore and with stuff all over the place, I'd buy their Ranch in Hawaii if they sold it for what it is on the books but still, I don't see the NAV

discount ever being narrowed, I suspect the funds will just be fritted away on stuff like conferences and corporate jets.....best to go

Good luck on VULC....

Olaf

02 Jul 2018, 07:45 PM

Jim Rivest

"With VULC, we're never going to get a meaningful position to win a proxy war. Some things are just never meant to play with. I think VULC is one of these.....just got a bad feel to it. I get 6-20% divvies on my two value traps but VULC is just a lousy point. It could be a long wait....I think KCLI seems to be a better place to play for something still at a discount to book."

Olaf, with closely-held family-controlled businesses, I don't expect to win a "proxy war". I like buying net assets well below what they are worth, but I also like them appreciating in value during my holding period.

I owned KCLI as a special situation when they went dark, and I likely own at least one of your high yielding telco 'value traps', but as a long term hold, I believe KCLI should trade at a discount to book as it produces low single digit ROE's annually.

With Vulcan, you are buying assets cheaply and they are appreciating at a nice clip. Their 14K acres of Michigan timberland grow every year and lumber has had a very nice run this year. Their Clarksville plant hasn't made any money in years, but they don't lose all that much, and those 32 acres in the center of this fast growing city acres are also increasing in value.

There are a number of ways to look at an investment in Vulcan. First, while management could certainly be better on the operational and disclosure front, I don't really believe the Gettler's are bad people. Yes, they are secretive bordering on paranoid, but they have managed to assemble a group of valuable assets over the years and have not taken advantage of minority shareholders. Historically, they have significantly reduced the share count and have not handed out stock and options like candy. Just the one prescient or lucky move of putting \$6M in a group of stocks and essentially leaving them alone has resulted in more than 25x appreciation, so not bad.

The accounting terms don't mean much here when DTL's are really DTA's and asset values are based on historical cost vs. present market value.

I equate this investment to a low-cost, deeply-discounted "closed end fund". GAAP earnings here are meaningless, comprehensive earnings are better but stock price dependent, so look-thru earnings work

best for me. If a CEF had Vulcan's valuation metrics, investors would be all over it, so my main focus has always been on their stock portfolio (my quasi equity CEF).

Portfolio look-thru earnings are the growth driver to this investment, producing a 9%-10% earnings yield. The discount to NAV is ~45%, as Jan made the case the stock is worth \$200+, which provides an additional margin-of-safety. I don't know of any CEF's that have total operating cost <1% of net assets at this valuation. In Vulcan's case, \$1M-\$1.5M cash goes out the door on a \$160M equity portfolio, lowering the value of assets by that amount annually, but "other assets" outside the stock portfolio are an added bonus that other equity CEF's don't have (both in what they are worth and what they produce). The profits they threw off in the 'other assets' that make money helped to reduce the 'CEF management fee" down to \$1-\$1.5M, and the unrealized appreciation of the \$30M-\$40M 'other assets' in reality actually bring the "CEF fees" even lower.

The ideal set up would be if 'other assets' actually produced a positive return after ALL expenses. I believe that will require the closing of the rubber/foam division to stop the losses (or if a miracle happens, they actually make money). I think closing it or turning it around would result in a 'no-fee-CEF' trading at close to half price, growing nicely with no frictional costs.

03 Jul 2018, 09:06 AM

Hurthino

I am a long-time holder and Vulcan is one of my largest positions. At times it is difficult to understand management such as their having the annual meeting before year-end financial statements are completed and more so the mentioned difficulty with shareholders being able to even obtain the financials. I take comfort in their adding last year a senior partner of a regional CPA firm to their board. Change is slow but there is a lot of value here. If Vulcan does disclose more this large price gap to the underlying intrinsic value will undoubtedly narrow.

02 Jul 2018, 08:46 PM

8thwonder

Very interesting discussion. Thanks for the comments. Will continue watching this one to see if anything changes.

03 Jul 2018, 11:04 AM

billinga

Thanks to the author and Jim Rivest for the article and history lesson on this one.

03 Jul 2018, 07:51 PM

l8rdudez

FYI - On the Section 220 demand letter, it does have to be notarized and the NDA that you sign also has to be

notarized.

In terms of voting your shares, there are no proxies. It appears that the only way to vote is to attend the annual meeting. If your shares are held in street name at a brokerage, there is a high probability that you will not receive the annual meeting notice. If you mention that you do not receive the annual meeting notice, the company will tell you that it is properly submitting the notices and the problem is with the brokerages.

03 Jul 2018, 10:11 PM

Grafter9

Just wanted to give a big thank you to the author and Jim Rivest for shining a bit of light on this one.

07 Jul 2018, 05:21 AM