WACHTELL, LIPTON, ROSEN & KATZ

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To Our Clients:

Takeovers

The current disarray of the debt and equity markets indicates the possibility of the return of low-premium hostile tender offers.

There is a little doubt that in today's depressed stock market more than 50% of the stock of most companies would be tendered in response to a tender offer at a small premium over market. This is so even in the face of a major effort by the target to convince its shareholders that the stock has a greater value than the tender offer price. Absent a White Knight bid at a higher price, the stock will be tendered to the low premium bidder.

Today's high interest rates substantially decrease the potential for White Knight competition at a higher price. Therefore the possibility of success for a low premium hostile tender offer is much greater than at anytime during the past six years.

In addition, election years have traditionally been considered "window periods" in which large companies could attempt acquisitions that in other years might draw political opposition.

The economics of the low premium tender offer is illustrated by the following hypothetical which assumes a company with net income of $10,000,000 ($20,000,000 pretax) and a P/E of 10 and acquisition at a time when long term interest rates are 10% in one case and 15% in the other case.

Interest Rate 10%		Interest Rate 15%	
Purchase price at 18 P/E (premium over market of $80,000,000 or 80%)	$180,000,000	Purchase price at 12 P/E (premium over market of $20,000,000 or 20%)	$120,000,000
Pre-tax net income assuming $2,000,000 reduction in pre-tax income of $20,000,000 from good-will and increased depreciation	18,000,000	Pre-tax net income assuming $1,000,000 reduction in pre-tax income of $20,000,000 from good-will and increased depreciation	19,000,000
Cost of $180,000,000 purchase price at 10%	18,000,000	Cost of $120,000,000 purchase price at 15%	18,000,000

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Thus the acquisition at a 12 P/E with 15% cost of money has the same effect (actually slightly better because of less goodwill or less step up in depreciable assets) on the raider as the acquisition at a 18 P/E with a 10% cost of money.

The ability of investment bankers to find White Knights within whatever time was available combined with the success of the scortched earth defense resulted in the virtual abandonment of the hostile tender offer as an acquisition technique in favor of bearhug offers and open market accumulations. It appears that conditions are now ripe for the return of the hostile tender offer. Those companies that have in recent months ignored the possibility would be well advised to review their situation.

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