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To Our Clients

Convertibles and Takeovers

The increasing use of convertibles and warrants raises several takeover issues.

The usual boilerplate does not protect a convertible or a warrant against a takeover -- the holder gets what a common stockholder gets and loses the premium value of the call. This need not be so. The boilerplate can be rewritten so that the call becomes a call on the common stock of the acquiror. This "flipover" provision is discussed in our Warrant Dividend Plan Memorandum of September 15, 1982. If the convertible or warrant issue is relatively large, the flipover provision could be a substantial deterrent to a takeover.

The usual boilerplate also does not deal with the problems of two-step and front-end loaded tender offers. Here again, it is possible to protect the call value and make front-end loaded tender offers less attractive by giving the holder of the call the front-end rather than the back-end or the blended average takeover price.

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