

To Our Clients

Junk Bond, Boot-Strap, Bust-Up Takeovers
May Violate the Margin Regulations

While the court in the Revlon case rejected our argument that the typical junk bond financing for today's boot-strap bust-up takeovers violates the margin regulations, it did so on the ground that the margin regulations do not apply to public offerings of junk bonds. Since many junk bond takeover financings are privately placed, the court's decision leaves open the possibility that such financings violate the margin regulations. Further, the court said that the public offering exception may be an oversight and suggested that the Federal Reserve Board may wish to reconsider it. The court said:

"The Court believes, as a matter of public policy, there is much to commend Revlon's position. It is apparent that the Pantry Pride Group has taken advantage of a possible oversight on the part of the Board in formulating the public offering exception to the margin regulations. However, it is not the role of this Court to engage in rulemaking activities deligated by Congress to the Federal Reserve Board."

The Federal Reserve Board has not yet decided Revlon's petition seeking a determination that the financing in question violated the margin regulations.

M. Lipton