

November 19, 1986

To Our Clients:

The Poison Pill on the First Anniversary of Household

In the year since the Supreme Court of Delaware upheld the legality of the Poison Pill in the Household case over 300 companies have adopted Pills. The attached list of companies which have adopted Pills through November 14, 1986 includes 145 (or 29%) of the Fortune 500 companies, 72 (or 36%) of the Fortune 200 companies, 127 (or 31.8%) of the companies included in the S&P 400 Industrials Price Index and 145 (or 29%) of the companies included on the S&P 500.

As might be expected, with a major innovation adopted by a large number of companies, particularly one that counterbalances coercive takeover tactics, the Household case was the beginning of the litigation attacks on the Pill, not the end. As also might be expected, there has been a mixed bag of decisions with a few lower courts, applying the laws of states other than Delaware, accepting arguments that were rejected by the Supreme Court of Delaware. On balance, it appears that most courts will follow Household and today there is relatively little doubt as to legality, even with respect to the flip-in provision that has caused the most difficulty in the courts.

Within the past few weeks two important Pill decisions have been handed down. In a second opinion in the CTS case, the Seventh Circuit, applying Indiana law, held that Indiana would follow Delaware and sustain the Pill even against the discrimination argument that the NL case found to invalidate the Pill under New Jersey law. The decision is particularly significant in that it was written by Judge Posner, a leading proponent of the law and economics concepts originated at the University of Chicago when he was a professor. The Pill is an anathema to the Chicago School.

In the Gelco case, decided last week, the Federal District Court for Minnesota sustained a Pill with both a flip-over and a flip-in. The Court held,

(1) the adoption of a Pill is a legitimate exercise of business judgment by a board of directors -- particularly when adopted in advance of a takeover bid;

(2) in deciding whether or not to redeem a Pill the board of directors is subject to regular fiduciary duties.

(3) if the board of directors, following appropriate procedures, determines that a tender offer at a premium over market is inadequate, there is no requirement that the board redeem the Pill;

(4) the refusal of the board to redeem a Pill is a reasonable response to a hostile bid that the board, on the advice of its investment banker, determines to be inadequate even though the bid is cash for all the shares;

(5) in determining that a takeover bid is inadequate the board may properly conclude "that current market values are not reflective of the company's intrinsic worth especially in view of anticipated benefits of [a] restructuring program";

(6) reasonableness of a board's "decision involving defensive tactics may properly involve numerous concerns, including: 'nature and timing of the offer, questions of illegality, the impact on constituencies other than shareholders (i.e., creditors, customers, employees, and perhaps even the community generally), the risk of nonconsummation and the quality of securities being offered in the exchange.'"

We believe that the Gelco decision is a correct statement of the law and reflects what the vast majority of courts will hold in cases where the target's board has a majority of independent directors, acts on the advice of an untainted investment banker, and determines to seek to remain an independent company.

Having been unsuccessful in court, the opponents of the Pill are seeking to destroy its effectiveness by sponsoring restrictive SEC rules and presenting proxy statement proposals to subject the Pill to a form of shareholder referendum. The outcome of these efforts remains to be seen. However, the opponents have failed to make a persuasive legal, economic or practical case and it may reasonably be expected that so long as the Pill is the only effective counterbalance to coercive takeover tactics, it will survive and thrive.

M. Lipton
E.S. Robinson

COMPANIES ADOPTING RIGHTS PLANS

<u>Company</u>	<u>Announcement Date</u>
A.H. Belo	03/10/86
ADC Telecommunications	09/23/86
AMCORE Financial	02/14/86
AMF	05/09/85
AMR Corp.	02/13/86
Adams-Russell	06/18/86
Alcoa	03/07/86
Allegheny International	03/06/86
Allied Stores	10/10/86
Allied-Signal	05/30/86
America West Air	07/28/86
American Brands	06/10/86
American Can	10/28/86
American Cyanimid	03/10/86
American Stores	08/12/86
American-President	03/26/86
Ames Dept. Stores	10/16/86
Amfac	07/11/86
Amsted Industries	05/30/85
Anadarko Petroleum	09/10/86
Anchor Hocking	07/31/86
Anderson, Greenwood	03/13/86
Anheuser-Busch	12/18/85
Anthony Industries	02/28/86
Apache Corp.	01/10/86
Arco	05/27/86
Armco	06/27/86
Armstrong World Industries	03/11/86
Arvin	05/30/86
Asarco	04/07/85
Ashland Oil	05/15/86
Associated Dry Goods	07/01/86
Avery International	01/29/86
Baker International	05/29/86
Ball Corp.	07/22/86
Bank Building & Equipment	11/06/86
Bank of New York	12/10/85
Barnes Group	07/16/86
Barry Wright Corp.	03/27/86
Becton Dickinson	04/11/86
Berkey	11/03/86
Black & Decker	04/17/86

CompanyAnnouncement Date

Boise Cascade	01/06/86
Borden	01/29/86
Borg-Warner	02/25/86
Bowater	04/22/86
Bradley Real Estate Trust	04/11/86
Brown Group, Inc.	03/06/86
Brunswick	03/17/86
Burlington Industries	10/21/86
Burlington Northern	07/10/86
Burndy Corp.	01/13/86
Burroughs	03/07/86
C.P. Rehab	06/10/86
C.R. Bard	10/09/85
CBI Industries	03/04/86
CSX Corp.	04/29/86
CTS (back end plan)	04/23/86
CTS Corp.	03/24/86
Cabot	11/14/86
Callahan Mining	06/20/86
Carpenter Technology	06/12/86
Carson Pirie Scott	03/31/86
Caterpillar	11/12/86
Centex	09/18/86
Champion International	03/20/86
Cincinnati Bell	10/20/86
Citadel Holding	04/15/86
Cluett, Peabody	08/15/85
Colgate-Palmolive	10/11/84
ConAgra	07/10/86
Conna Corp.	05/01/86
Conna Corp.	03/18/86
Consolidated Freightways	10/27/86
Control Data	09/26/86
Cordis	09/12/86
Corning Glass Works	07/02/86
Crane Co.	05/19/86
Crown Zellerbach	07/19/84
Crystal Brands	05/22/86
Cummins Engine	09/10/86
Cyprus Minerals	05/09/86
DSC Communications	05/12/86
Dana Corp.	07/14/86
Dart & Kraft	09/05/85
Data General	10/06/86
Dayco	05/29/86
Dayton Hudson	09/11/86
Delta Airlines	10/23/86
Dennison	04/23/86
Dexter	10/24/86

<u>Company</u>	<u>Announcement Date</u>
Diamond Shamrock	10/30/86
Dicomed Corp.	05/15/86
Donaldson Co.	02/21/86
Dorsey	05/23/86
Dravo	04/04/86
Dresser Industries	04/17/86
Duriron	08/01/86
Dynamics Corp. of America	01/30/86
Eagle-Picher	11/05/86
Eastern Air Lines	01/31/86
Eastern Co.	08/13/86
Eaton	09/27/85
Economics Laboratory	02/14/86
Educational Computer	07/25/86
Emery Air Freight	06/11/86
Emhart Corp.	02/28/86
Enserch	04/15/86
Ex-Cell-O Corp.	05/22/86
FMC	02/24/86
FPL Group	06/16/86
Fairfield Communities	08/06/86
Famous Restaurants	09/03/86
Federal Mogul	07/30/86
Federated Department Stores	01/23/86
Ferro Corp.	03/21/86
Firestone Tire & Rubber	10/21/86
First Mississippi	05/13/86
Fleming	06/24/86
Flow General	11/25/85
Foote, Cone & Belding	02/27/86
Freedom Federal Savings	10/02/86
GATX	05/15/86
Galaxy Carpet	08/14/86
Gelco	05/06/86
General Host	02/21/85
General Mills	02/24/86
General Signal	03/07/86
George Banta Company	07/29/86
Gerber Products	03/19/86
Gillette	12/30/85
Goodyear	07/02/86
Great Lakes International	05/23/85
Great Northern Nekoosa	03/05/86
Great Western Financial	06/24/86
Green Tree Acceptance	10/09/85
Greyhound	04/01/86
Grolier, Inc.	08/08/86
Guardman Chemicals	08/08/86
H.B. Fuller	07/17/86
HBO & Co.	07/14/86

CompanyAnnouncement Date

Halliburton	05/21/86
Hartmarx Corporation	01/16/86
Hayes-Albion	03/24/86
Health Care USA	07/08/85
Hecla Mining	05/09/86
Helmerich & Payne, Inc.	01/10/86
Hexcel	08/14/86
Holiday Corp.	09/12/86
Home Group Inc.	01/30/86
Hon Industries	08/05/86
Honeywell	02/18/86
Hospital Corp. of America	02/14/86
Household International	08/14/84
Huffy	10/24/86
Hughes Tool	01/23/86
IPCO Corporation	01/30/86
IU International	09/11/86
Indiana Energy	08/07/86
Indiana Gas & Electric	09/18/86
Insilco	01/16/86
Instrument Systems	04/02/86
Interco	09/24/85
Interlake	06/26/86
International Minerals & Chemical	03/19/86
International Multifoods	09/08/86
International Paper	12/19/85
Invacare	08/05/86
J.C. Penney	01/28/86
J.L. Clark	04/14/86
J.P. Stevens	07/22/86
Jamesway	07/14/86
Jerrico	10/06/86
Jerrico	10/18/84
Johnson Controls	11/19/84
Joy Manufacturing	05/20/86
Kansas City Southern	04/16/86
Kellwood Co.	05/29/86
Kenner Parker Toys	04/22/86
Kerr-McGee	07/08/86
Knight-Ridder	06/27/86
Koppers Company	02/24/86
Kroger Co.	02/28/86
Kysor Industrial	04/28/86
LaClede Gas	03/27/86
Lamaur, Inc.	02/20/86
Landmark Savings	10/15/86
Lear Siegler	04/09/86
Lee Data	09/19/86
Libbey-Owens-Ford	04/29/86
Longs Drugstores	08/19/86

CompanyAnnouncement Date

Louisiana Land & Exploration	05/27/86
Lucky Stores	08/25/86
M-A-Com	07/29/86
Manitowoc	09/08/86
Mapco	06/12/86
Mark Controls	05/01/86
Marsh Supermarkets	07/10/86
Martin Marietta	07/24/86
Material Sciences	06/17/86
Mattel	11/06/86
May Department Stores	02/21/86
Mayflower Group	05/23/86
Maytag	08/21/86
McDermott International	12/18/85
McDonald's	09/15/85
McGraw-Hill	01/29/86
McKesson	05/08/86
McNeil Corp.	06/27/86
Mead	11/03/86
MedTronic	04/23/86
Meritor Financial	07/17/86
Michigan National Bank	07/10/85
Midwest Financial Group	06/18/86
Mobil	04/25/86
Modine Mfg.	10/15/86
Mohasco	02/19/86
Monsanto	01/24/86
Moore McCormack	05/12/86
Morrison Knudsen	06/12/86
Morse Shoe	09/05/86
Morton Thiokol	03/29/85
Mosinee Paper	06/26/86
Murray Ohio Mfg.	10/17/86
NCR	07/16/86
NL Industries	04/23/86
Nalco Chemical	07/24/86
Nash-Finch Co.	03/25/86
Nashua	08/22/86
National Convenience Stores	06/05/86
National Distillers	02/27/86
National Education	10/29/86
National Intergroup	03/03/86
Network Systems	07/17/86
Nicolet Instrument	04/28/86
Nortek	03/31/86
Norton	06/26/86
Occidental Petroleum	10/21/86
Olin Corp.	02/27/86
Outboard Marine	06/13/86
Owens-Corning Fiberglass	06/19/86

CompanyAnnouncement Date

Owens-Illinois	09/10/84
PHH Group	03/17/86
PPG Industries, Inc.	12/19/85
PSA Inc	07/01/86
Pancho's Mexican Buffet	03/07/86
Panhandle Eastern	03/11/86
Phillips Petroleum	02/06/85
Phillips-Van Heusen	06/10/86
Pillsbury	01/09/86
Pitney Bowes	02/10/86
Planning Research	04/04/86
Polaroid	09/09/86
Ponderosa	10/30/86
Preway	08/14/86
Princeville Development	08/15/86
Production Operators	04/09/86
Purolator Courier	01/30/86
Quaker Oats	07/09/86
Quanex	09/02/86
Questar	03/14/86
R.R. Donnelly & Sons	07/24/86
RCA	09/09/85
RTE Corp.	06/24/86
Ralston Purina	01/17/86
Raymond Engineering	01/13/86
Raytheon	06/25/86
Republic Gypsum	05/06/86
Research-Cottrell	04/14/86
Revlon	08/20/85
Rexham	03/26/86
Rexnord	05/01/86
Rohr Industries	08/15/86
Roper	10/01/86
Rorer Group	02/07/85
Rospatch Corp.	04/29/86
Rubbermaid	06/24/86
Ryan Homes	07/01/86
Ryder System	02/28/86
Safety-Kleen	08/14/86
Safeway Stores	02/12/86
Santa Fe-Southern Pacific	01/28/86
Schering-Plough	11/11/85
Scott Paper	07/16/86
Sea-Land	12/11/85
Sealed Power	06/25/86
Sonat	01/23/86
Southland	10/24/86
Southwest Airlines	07/14/86
Southwest Forest Industries	10/23/84
Square D Co.	01/07/86

CompanyAnnouncement Date

Squibb	10/29/86
Staley Continental	04/08/86
Stanley Works	02/26/86
Stop & Shop	09/30/86
Sun Electric	03/12/86
Sundstrand	04/18/86
Supermarkets General	02/25/86
Sysco	05/15/86
TRE Corp.	05/23/86
TRW	12/11/85
Talley Industries	04/30/86
Tambrands	12/18/85
Tandem Computers	05/20/85
Tandy	08/18/86
Telecredit	06/26/86
Tesoro Petroleum	11/27/85
Texaco	12/10/85
Texas Eastern	02/28/86
Texas Industries	07/18/86
Textron	03/10/86
Time Inc.	04/29/86
Toro	04/08/86
Trans World	04/23/86
Transamerica	07/17/86
Transco	01/08/86
Travelers	07/11/86
Tribune Co.	02/18/86
Trus Joist	05/08/86
U.S. Home	06/27/86
U.S. Shoe	03/27/86
UGI Corp.	04/29/86
UNC Resources	10/25/85
US Air	01/15/86
US Life	06/24/86
USG Corp.	03/20/86
Union Camp	02/26/86
United Technologies	12/16/85
United Telecommunications	08/12/86
Upjohn	06/17/86
Valero Energy	11/15/85
Varian Associates	08/22/86
Viacom	01/23/86
Victory Markets	06/04/86
Wainoco Oil	02/21/85
Walgreen	07/09/86
Watkins-Johnson	10/08/86
Westchester Financial Services	02/14/86
Willamette Industries	08/14/86
Williams Cos.	01/27/86
Wm. E. Wright	09/22/85

Company

Announcement Date

Woodhead Industries
Wrather Corp.
Yellow Freightways
Zayre
Zenith
Zurn Industries

05/19/86
08/08/86
10/28/86
11/13/86
10/03/86
05/20/86