

October 27, 1987

To Our Clients:

Financial Institutions: Takeovers

Until recently, unsolicited takeovers in the financial services industry were the exception rather than the rule. Most raiders were deterred by either the regulatory process or the perception that the principal assets of financial institutions are people, or both. The collapse of the stock market, with many bank and brokerage firm stocks now selling below book value, combined with deregulation, has changed the dynamics.

The attempt by Ronald Perelman's Revlon Group to acquire a major position in Salomon Inc and Bank of New York's hostile bid for Irving Bank Corporation demonstrate clearly that whatever reluctance may in the past have been felt by acquirors of financial institutions to mounting a hostile bid has now dissipated. Hostile takeovers will no longer be the exception.

The prospect of continuing structural change and consolidation within the various industry groups, the further breakdown of traditional inter-industry lines and, last but not least, volatile conditions in the global debt and equity markets will likely generate a high level of takeover activity in the financial services industry over the next several years. Banks, thrifts, investment banks and brokerage firms alike can be takeover targets.

In view of this, we recommend that financial institutions generally take the opportunity now to review comprehensively their preparedness for a takeover bid or a proxy fight. Defensive charter and by-law provisions, stock option and pension plans, employment contracts and other employee arrangements should all be scrutinized. Possible structural defenses should also be reviewed. In many cases, a structural defense will be possible only if there has been careful advance planning. One of the most effective takeover defenses continues to be the poison pill, in particular the Second Generation Rights Plan described in our Memorandum dated July 27, 1987. We recommend that all financial institutions give serious consideration to adopting the Plan.

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