
UF
ZAPATA
DILLINGHAM
TEXTRON
UNITED FRUIT
AMK

Some lessons in how to take over a company from

The Battle for United Fruit

United Fruit, $100 million in cash and no debt, was peacefully unloading its banana boats when one of its principal Wall Street boosters decided that the company was not performing up to expectations. The Wall Street firm thought a friendly takeover might help — which rapidly escalated into a brutal, unfriendly, four-way fight.

When the dust of battle drifted away, the 70-year-old company was in the control of calm, scholarly Eli Black, whose brilliant offensive strategy, said a losing competitor, "blew us right out of the tub." One Wall Street house had a fairly black eye, several others had their competitive instincts tested, and the arbitrageurs had a chance to demonstrate their virtuosity.

What does it all prove? For one thing, age, dignity, and assets are no protection against a properly-planned takeover. For another, it helps to know what arbitrage is — and where your friends are on Wall Street. And finally, there is a right way and a wrong way to take over a company, and the takeover game is no sport for amateurs. Said an executive of Zapata, which has to be counted as one of the losers, "we were just not capable of competing in that rough a battle."

by Chris Welles

"UF . . . 370,000 sh . . . 86¼ . . ."
The block of United Fruit stock went zipping across the tape at exactly 10:17 a.m., Monday, January 20, 1969. Though most people on Wall Street were unaware of the block's significance, it meant to a small number of investment bankers, arbitrageurs, and others that the monumental four-month battle for the cash-rich banana company was all but over, that in a dazzling display of power AMK, an ambitious conglomerate specializing in machinery and meat-packing, had vanquished a desperate, last-minute thrust by its chief competitor, Zapata Norness Inc. (formerly Zapata Off-Shore Co.), the Houston off-shore drilling, shipping, and construction company.

The United Fruit contest illustrates an important lesson to the proliferating hordes of eager conglomerateers who are competing feverishly for fresh piles of quiescent assets: fighting for control is no sport for amateurs, neophytes, and those with languorous vertebrae. AMK won because of its superbly organized, conceived, and executed battle plan, and its resourcefulness in responding to its opponent's moves. Zapata lacked all of these things. It allowed itself constantly to be on the defensive. It was unprepared for the vagaries of battle. It was unable to anticipate the weaknesses of its strategy until it was too late. "We were confused and uncertain," admits a disgruntled member of the Zapata team. "We were strung out all over the battlefield in little foxholes facing this great organized phalanx from the other side. It was no contest. AMK did a beautiful job."

"We were just not knowledgeable enough, tough enough, experienced enough to win," adds Robert H. Gow, Zapata's executive vice president, who recently compiled a memorandum for the company's top executives of their side's seventeen basic mistakes. "We were just not capable of competing in that rough a battle."

Brown spots on the banana

The grab for the big banana began, ironically, with a judgment that it had developed some serious brown spots. The judgment was made by Donaldson, Lufkin & Jenrette, long one of United Fruit's biggest boosters. Boosting United Fruit had, in fact, been a common Wall Street occupation over the past few years. During the 1950's the conservative, in-bred Boston company had slid steadily downward to become one of the most clumsily, inefficiently, and lugubriously run firms around. Then in 1965, a new management team composed of chairman John M. Fox, 56, former president of Minute Maid Corp., and president Herbert C. Cornuelle, 49, former president of Dole Corp. of Hawaii, began assuming control. Shortly after an impressive stock option plan had been voted, the new officers spelled out a grandiose plan of substantially improved operating results and a spirited effort to put the company's huge financial resources ($100 million in cash and negotiable securities and not a cent of long-term debt) to work in a broad acquisition program. Everyone cheered, and Fruit's stock zoomed from 17 in 1965 to over 60 by the middle of last year.

Earnings did improve startlingly: from 26 cents in 1964 to $4.00 in 1967. Close observers of the company felt, however, that much of the improvement was due to a switch from the disease-plagued Gros Michele banana to the much hardier and more profitable Valery (bananas from Central America comprise about 80 percent of United Fruit's earnings). The switch had actually been initiated in 1962 by the former management in reaction to development of a disease-resistant banana by Standard Fruit, a subsidiary of Castle & Cook Inc., and United Fruit's only significant competitor who consistently has led the larger company in innovations. As the changeover to the Valery neared completion last year, there was feeling that the earnings skyrocket was running out of fuel.(Earnings did in fact decline in 1968 to $3.80.) And a 1958 Justice Department consent decree was forcing Fruit to give up 17 per cent of its banana business by 1970.

Furthermore, the ballyhooed acquisition program never seemed to get off the ground at all. Many acquisition talks were aborted (Del Monte, Swiss Chalet, and Winchell Donuts, among others) and many of the acquisitions that were completed turned out to be costly problems: the A & W Root Beer drive-in chain acquired in 1966 was wracked with trouble, and putting it back into shape has required considerable time and money. "I believe in a certain amount of debt and leverage," answers John Fox when asked about his company's huge cash position, "but you have to remember that it's a real task to find ways of putting this cash to work."

As United Fruit stock began sinking toward 50 at the end of last summer, Donaldson, Lufkin, many of whose clients were heavily in Fruit, became increasingly worried. "We had tried meeting with management to get them to do something," says William Donaldson, "but not much ever happened. The fundamentals were beginning to deteriorate, and disillusionment was setting in. The stock in our opinion became very vulnerable. We discussed with management the idea that there might be more progress if additional capability was brought in from outside."

Waiter in the wings

The kind of capability Fruit needed, Donaldson decided after some thought, was Eli M. Black, 48-year-old chairman of AMK, the country's fastest growing major conglomerate. On the surface at least, Black impresses as a far different breed than such flashy, exuberant conglomerateers as Charles Bluhdorn and James Ling. A former Rabbinical student-turned investment banker-turned corporate entrepreneur, Black is self-effacing and unobtrusive almost to the point of disappearance. He wears steel-rimmed glasses and dark suits, and he speaks in a whispery tone which one has the feeling would be barely discomposed by the eruption of a sudden fire in his office. When he stands he stoops forward slightly, his hands clasped in front of him, patient and reserved, as if he were a French waiter abiding while a table of guests picked their way through a verbose menu.

Black is nobody's waiter, of course. "He has enormous ambition and drive in his quiet, little way," says a close friend. "James Ling is his great idol, and he would often tell me, 'if Ling can do it, I can do it, too.' " His retiring mein, in fact, is typical of men with great self-confidence and internal organization who do not require a facade.

When Black took it over in 1954, AMK was the stock exchange symbol for American Seal-Kap Corp., a $5 million company which made paper lids for glass milk bottles, a product that did not appear to be among the century's more dynamic growth prospects. Years of slow, deliberate building, including abandonment of the paper lids, culminated in 1967 with the dramatic merger with John Morrell & Co., the country's fourth largest meat-packer, whose $800 million sales were twenty times greater than AMK's. Morrell was selling at half its book value, had a tiny long-term debt, and Black was convinced he could raise earnings sharply with improved operating techniques. He effected the merger with an exchange of common and convertible preferred. Use of equity enabled the combined company to have assets of $142 million, shareholders equity of $64 million and a long-term debt of only $21 million.

Last year, finally with enough marbles to play in the big games, Black (who owns 10 per cent of AMK) had begun to move in earnest. He held talks with such companies as Libby, McNeill & Libby and Johns-Manville Corp., then dropped these ideas to make a bid for the cash-heavy Great American Holding Corp., an insurance company which he ultimately lost to National General Corp.

William Donaldson was especially impressed by the way Black had gone about picking up Morrell, like Fruit, a conservative commodity firm aware of its vulnerability to raids and wary of outsiders. Black's basic philosophy is that the best way to win such a company is to win its management (though he had gained Great American's management and still lost). He knew that asset-rich companies are somewhat like beautiful well-proportioned girls: suspicious and unfriendly with men who chase them only for their statistics. Black feels it is necessary to put oneself into the role of the plain boy with glasses next door, who gradually, patiently, diligently strikes up a friendship with the girl and ingratiates himself, not pushing, not plotting, just trying to be friends. He praises the girl's intelligence, her sense of humor, her wide interests, as if her physical dimensions were of only tangential concern. The girl will probably have a few flings with more glamorous men, but the plain boy, with a smile, will stoically endure. Finally, as the violins rise into the upper octaves, the girl will come to realize who it is who really, truly loves her. It is a role for which Black, who spent a year and a half courting Morrell, is physically and psychologically ideally suited.

Late last September, Donaldson approached Black with the idea of picking up a large block of Fruit stock from some of the institutional holders as a possible first step towards a consolidation. Black considered the idea for three days, then agreed.

"Whatever our eventual intentions, we felt the move had to make sense as an investment," Black says. "The stock was selling at thirteen times earnings, with a balance sheet that made us feel very comfortable, and there was reasonable possibility for profit. If something did work out, there was several million dollars there to be put to work. Who wouldn't lend United Fruit $200 million? If you consider AMK's historical 12 or 13 per cent return on capital after taxes, we could get maybe 9 or 10 per cent on that $200 million plus the $100 million in cash that's already there. That's $27 million of additional income" — equal to the combined companies' pro forma income for 1968.

Getting the 9½ per cent

After the close of the market on September 23, DLJ approached the Fruit holders and rounded up 733,200 shares, the traditional 9½ per cent that just avoids SEC registration. But in order to convince the institutions, mostly mutual funds, to relinquish their stock when a possible tender offer was forthcoming, DLJ made this agreement: If Black should make an offer for United Fruit, he would rescind these shares to their former holders so they might tender them at what would undoubtedly be a much higher price. Black meanwhile visited his bank, Morgan Guaranty, which arranged a $35 million short-term loan to buy the shares on the condition that Black's possible bid for Fruit be completely friendly.

The trade, at the time, third largest in the stock exchange's history, was executed the next day at 56, 5½ points over the previous close, and was worth over $41 million. Black simultaneously picked up, on the open market, another 7,100 shares which were in the specialist's books at that price. (This has raised a number of questions in the minds of some Wall Street observers. One is disclosure. The institutional sellers would appear to have had material inside knowledge of Black's possible intentions not possessed by the open market sellers. Gustave Levy, senior partner at Goldman, Sachs & Co., AMK's chief investment banker and chairman of the NYSE, admits that there "possibly" could have been a disclosure problem and that "it would have been better to trade that block off the floor" — a somewhat novel suggestion for an NYSE official. A further question was that, contrary to NYSE rules, one group of investors was being given a preferential deal over another. An NYSE official who refuses to have his name used says, "we are looking into" the difference in deals. "Our rule is that everyone should be treated alike, and we don't quite understand this arrangement," he adds.)

"The Zapata forces soon realized that not courting the arbitrageurs was an extremely costly mistake."

Black's first act after acquiring the block was to call John Fox, announce what he had done, and suggest they might sit down and talk things over. Fox greeted this move the way the Navy welcomed the appearance of Japanese planes over Pearl Harbor, but reluctantly agreed. That night in Boston the two men met for dinner. "Certainly, he wasn't very happy," says Black. "After all, we had fired the first shot. I told him that though I hoped the situation might develop into something further, we didn't intend to take any more steps without the complete approval of United Fruit. We wouldn't buy a single additional share of stock. There would be no end runs, no raids, no fights." Black was rapturous in praise of Fruit's management and their heroic efforts in turning their company around. "I said we respected their ability, their autonomy, and their integrity," Black adds.

The AMK approach contrasted significantly with that of Zapata. Zapata had talked with United Fruit a year earlier about the possibility of Fruit acquiring Zapata, whose annual sales are $93 million. (Robert Gow's father is Ralph F. Gow, until recently a member of the Fruit board.) Fruit had broken the talks off. "We couldn't afford them," says Fox. "Their stock was moving up very fast." According to some accounts, Zapata had made it clear to several Fruit executives that their company was not forging ahead as swiftly as it might, and that a reshuffling of top management might be helpful.

"These discussions piqued our interest," says Michael M. Thomas, a partner at Lehman Brothers, Zapata's chief investment banker, and a Zapata director who devised much of Zapata's strategy. "We began taking a harder look at the company." Besides all the cash, Zapata liked the way Fruit's shipping interests might blend in with its own. The look eventually developed into plans for the company's first attempt at a public tender offer and a request to meet with Fruit, which had been scheduled four days after Black had purchased his Fruit stock. DLJ denies knowledge of the impending Zapata move, but Fox says that Black's decision to act "was expedited, almost forced, by the fact that Black found out Zapata was about to make a tender." (Black's intelligence of the opposition, as will be seen, was consistently excellent.) Zapata rescheduled the meeting with Fruit for the following day.

Sullen but not mutinous

"The situation there was somewhat catatonic," recalls Thomas. "We showed them our deal, and though we said we wanted Fox and his associates to remain as United's management, we left no doubt we intended to control the board of the surviving company. And we weren't exactly inferential that if they didn't like our offer we would go at them anyway. Their attitude was, as they say, sullen but not mutinous." Zapata quickly put together a package which it announced a few days later: $50 in eighteen-month notes and 3/7 of a Zapata share worth about $80 for each United share. Fruit first announced it was "considering the matter," later said it would "vigorously" oppose the offer.

Fruit, meanwhile, was being deluged by phone calls from actual and aspiring conglomerates who, sensing the animal had developed a limp, were moving in for the kill. The company angrily turned these calls away. "We didn't want to become part of some uncontrollable mishmash," snaps Fox. Fruit sent a testy letter to its shareholders. "Your company is not on the auction block," it said. It implied that everyone was interested in Fruit's cash but added "a substantial part of this cash is not available to outsiders . . . large sums of cash are required for United Fruit's business."

The Fruit executives quickly came to understand how vulnerable they were, however. "We became educated to the fact that a real intensive drive to our shareholders could bring in a lot of shares," remarks Fox, in a somewhat incredulous tone, as if he still can not get used to the idea. What had happened to stockholder loyalty? Fruit began looking for friends. One was Dillingham Corp., a Honolulu-based real estate, construction, and mining firm. President Cornuelle knew many of the Dillingham executives from his Dole days, and Fruit and Dillingham had been having sporadic consolidation talks for some time. With Fruit's advice and consent, Dillingham announced on Sept. 30 a $702 million package of convertible preferred and common stock which was raised to $771 million ten days later. Large Dillingham stockholders swiftly let it be known that they were quite used to the company's customary p/e of 40 and were not wild about the introduction of bananas. Dillingham dropped out Oct. 23, citing "legal and tax reasons."

Textron, the diversified manufacturing concern that is the granddaddy of all conglomerates, had meanwhile been observing the action with interest some 40 miles away in Providence. G. William Miller, Textron's president, called Fox on Oct. 25. Three days later, Miller and Textron chairman Rupert C. Thompson, Jr. met in Boston with Fox, Cornuelle and board member George P. Gardner, Jr., former United Fruit chairman and a general partner of Paine, Webber, Jackson & Curtis. "We talked philosophy and we all agreed that our companies would mesh very well," says Miller. To Fruit, a rescue by safe, solid New England Textron was a godsend.

During five days of rapid negotiations, a simple deal was cooked up whereby the two companies would merge and two shares of Textron (selling around 43) would be exchanged for one share of Fruit (which had risen to 68). Although he admits Fruit stock was "fully priced" at that level, Miller felt the 2-for-1 ratio was necessary to meet the Zapata offer. Despite the high price, he felt, the deal made financial sense. Besides broadening Textron's base, he figured he could put $400 million to work from Fruit which, considering a 25 per cent pre-tax return, yielded $100 million pre-tax less debt interest. Miller envisioned an aggressive acquisition program. "This is no criticism of their management," says Miller, "but it is difficult for people who haven't had experience with the diversification route to get going."

On Nov. 4, with a euphemistic press release that rhapsodized over their entrance into bold new "phases" and "eras" in their long-term growth plans, the two companies announced their intention to merge.

But Textron's stockholders were no happier than Dillingham's. They felt Textron was overpaying, that its growth rate would be slowed, and that whatever long-term benefits were realized, the fact remained that the proposed exchange rate actually diluted Textron's current earnings slightly, a situation which was not especially attractive to a stock that had barely moved in the past two years. Many doubted whether Textron's renowned manufacturing competence would be applicable to the produce field, which the company had often promised to avoid. Miller and other Textron officials traveled widely to quell the revolt.

Who is William Miller?

Meanwhile, yet another firm with somewhat less of a national reputation entered the contest. Calling itself International Harwood, it not only bid $415 million worth of its debentures for United Fruit but also, just for good measure, offered another $850 million worth for Textron. The company's offices, as well as the residence of its founder and president, Warwick W. Harwood, were located in an apartment house in Elmhurst, N.Y. His firm had no current sales and a bank account "in the low four figures," but it did claim $2 million assets, mostly unpublished manuscripts written by Harwood. Harwood turned out to have the broad experience required of a good writer: a BS in psychology and a brief stint in prison, from which he was paroled in 1964. When reporters asked his reaction to a statement by William Miller that his offer was "ridiculous," he replied, good-naturedly, "Who is William Miller?"

What was Eli Black doing while all this was going on?

Waiting patiently next door for all these romances to run their course, he says. "We kept meeting with United Fruit, talking with them every day. I'd fly up to Boston and I'd invite them to drop in to see us in New York when they were in town. We didn't press, or try to rush anything. We kept emphasizing that we wouldn't do anything unfriendly. All we wanted to do was create an atmosphere of harmony and rapport. You have to realize this sort of thing takes a great deal of tact and patience."

Is that *all* Eli Black was doing?

Not according to the Zapata side. Some members claim he was trying to hock his block of Fruit to them at a big profit. "The only trouble was that his price kept going up," says one of these members. "Towards the end it was $125 a share. We didn't take it because we thought we might have to offer the same deal to all the Fruit stockholders."

"Asset-rich companies are somewhat like beautiful, well-proportioned girls: suspicious and unfriendly with men who chase them only for their statistics."

Nonsense, replies Black, who maintains that in reality everyone was trying to buy his block, which he steadfastly refused to sell. In fact, he says he has a letter from representatives of Zapata offering $125 a share. In any event, the Zapata forces admit they made a bad mistake in not buying a block themselves. It might have impressed the Fruit management and might have given their offer additional credibility, an element which later on was judged by some to be sadly lacking. Zapata points out such a move would have precluded a tax-free deal, and that it was unable to obtain bank financing for an unfriendly bid (the company admits, however, it did have $55 million in cash). "Buying our block was like starting a race nine lengths ahead," says Black. "It gave us the aura of a winner right from the start."

Other Zapata allies accuse AMK of "warehousing" Fruit stock in friendly institutional hands during this period by hinting that a tender for Fruit, which had reached the 70's, might be made in the 90's. "You and I should be so lucky to have that knowledge," says one. Another man who believes AMK was somewhat more than in a state of hibernation is William Miller of Textron. "We had understood Black would not do anything without the permission of United Fruit management," says Miller. "We had thought he would just take his profits and go away. But we began receiving very good information that AMK, or friends of AMK, were buying, lining up support. We figured he had lined up about 20 per cent of the stock, which probably would have been enough to stop a two-thirds merger vote. We could have made a tender, I suppose, but we just do not like Textron to get into messy public bidding contests. This sort of escalation can prove very dangerous."

Black does say that "we have a lot of friends and Goldman, Sachs has a lot of friends, and we all had the hope and expectation that something further would develop," but denies putting away a lot of stock. The important thing, though, is that Fox believes Black acted honorably. "Black never went back or changed a single thing he had promised us," says Fox. "He never acted without consulting us. He lived up to his word." What about the alleged Black activities? "I've never been able to pin that down," he says, shrugging his shoulders.

Chickening out

The situation became somewhat sticky when Black told Fox at the beginning of December that Zapata was preparing another offer and that Fox might be well-advised to choose now between AMK and Zapata if Textron pulled out. Both men knew the Textron deal was becoming tenuous due to the stockholder reaction. "They were under a great deal of pressure," says Fox, "and I didn't know how well they could withstand it. I told Black it was all right with me for him to file an offer so he wouldn't be left behind in the matter of timing." On December 4, Black announced a package of 6¾ per cent subordinated debentures, common, and warrants worth about $800 million, or close to $90 for each United Fruit share. Miller knew he was beaten, and Textron withdrew on December 9, ironically, the day that Lippincott & Margulies was to have begun a survey to select a name for the new combined company. "Textron got chicken," sniffs a United Fruit executive.

(Miller today is a little bitter about the kind of ball game he had briefly entered. Textron's acquisition policy over the years has always avoided what he calls "arithmetic" combinations. It was not until 1966 that the company first used stock; before that cash had always been the instrument. Miller feels use of convertible debentures and other such securities is "pyramiding the creation of excess debt. A company ends up having to buy itself with its own assets. Who is going to be at the end of the chain letter? We don't want our company to be a party to the creation of a big bubble, or the loading up of a company with a lot of securities based on theoretical value. We're trying to build a solid company for the long pull, and at some point somebody isn't going to be able to get dollar bills for all of this paper that's going around.")

With all of its beaus having developed feet of clay, United Fruit thus had turned, finally to faithful old Eli Black. The more Fruit, with Black's assistance, had looked at Zapata, the less they had liked what they saw. The problem was partially Zapata's blunt, aggressive tactics but, more than that, Zapata as a company is structured antithetically to everything the traditional old banana firm believed in. While Zapata has for several years been the darling of several go-go funds, while it has many young analysts deeply enthused over its 50 per cent compound growth rate and its earnings jump from 82 cents in 1965 to $1.80 last year, the company is highly leveraged — to the point of having an 80/20 debt-to-equity ratio — and there is $168 million in long-term debt. Its capitalization is awash with a bewildering array of securities and bonds: seven different issues of subordinated debentures and notes, two types of warrants, and all kinds of other paper. Potential dilution of the common is 55 per cent, and no cash dividends have been paid for over a decade, and are in fact prohibited by agreement with creditors at least until 1973. In 1967, it reportedly experienced such a cash bind that Lehman Brothers had to bail the company out with a private debt offering.

While Zapata's off-shore drilling business appeared be in good shape, Fruit executives (who admittedly are not the world's best judges in this regard) were dismayed by Zapata's recent acquisitions, principally Paramount Pacific Ltd., a rickety West Coast heavy construction firm which has been plagued with losses and "cost overruns," and Anglo Norness Shipping Co. Ltd., a shaky shipping firm whose management, according to some Street brokers, had been trying to unload for years and which had lost $12 million in 1966 before a brief respite due to the closing of the Suez Canal. The opinion exists that some of the subsidiaries' nonrecurring gains have been fed into recent earnings with some lack of absolute clarity.

(Another factor which may have been relevant was the brief association of D. Doyle Mize, Zapata's chairman, with Ernest M. Hall, Jr., former president of the ill-fated Westec Corp. Before joining Zapata, Mize investigated acquisitions for Hall during 1965-6, and in 1966 Zapata sold Westec one of its subsidiaries. It later reacquired the firm from the Westec trustee.)

AMK, on the other hand, had a comfortable 53/47 debt-to-equity ratio (including the $35 million loan to buy the Fruit block), a much simpler capitalization structure, a potential dilution of 25 per cent and a record of continuous cash dividends since 1934. The company is, in fact, "John Morrell in disguise," as some analysts call it since the meat-packer contributes 95 per cent of AMK's sales though only 65 per cent of its pre-tax income. All but 2 per cent of the remaining earnings derives from the very profitable NRM machinery manufacturing subsidiary acquired in 1967.

(Eli Black is not above a little financial manipulation, however. In 1968, he altered the method of valuing John Morrell's inventory, switched from accelerated to straight-line depreciation, and increased the rate assumption on the pension funds, all of which boosted net earnings by 99 cents a share. Thus, instead of a decline from $1.51 to $1.26, earnings jumped handsomely to $2.25. Further, while the exchange of AMK stock for Morrell stock was accounted for as a pooling of interest, the 33 per cent of Morrell which AMK had first bought for cash, was recorded as a purchase, and the excess of equity over the purchase cost is being conveniently added into net income. In the case of United Fruit, where cost currently exceeds equity by $200 million and which will be booked as a purchase, there will be no concomitant damage to the bottom line. The prospectus states that "in the opinion of AMK management . . . the benefits to be derived from the investment in United will be of indefinite duration" and there will thus be no write-off against earnings.)

"It was a simple decision," says a senior United Fruit executive. "On one side you had a strong, financially healthy, growing, expansion-minded company whose management had demonstrated ability. On the other you had a company with dubious performance, with a young, inexperienced management, in shaky financial condition, which was straining by accounting methods to create earnings. They were much more interested in the stock market than running a business. They just wanted our money and our borrowing capacity."

Cementing the position

In formulating his strategy for the next phase of the battle, Black drew upon lessons he had learned during the recent Great American Holding episode. The chief lesson was that rushing toward a merger at the outset is not wise. Black had won Great American's support, then proposed a merger, but was beaten when National General rounded up 75 per cent of the stock and voted the proposal down. With United Fruit, he decided to use an exchange offer and other tactics to obtain solid control of the stock before pursuing anything further.

Goldman, Sachs and Hornblower & Weeks-Hemphill, Noyes (represented on the AMK board by general partner Ben Regan) met with Paine, Webber and Lazard Freres & Co. (represented on the United Fruit board by general partner Stanley de J. Osborne) to work over the package. Everyone agreed on a now fairly effective mix of debentures, common, and warrants. While he had employed equity in the Morrell exchange "so we could use leverage and have a maximum impact on earnings," says Black,

"We were just not knowledgeable enough, tough enough, experienced enough to compete . . . in that rough a battle."

"United Fruit was so strong financially with its large cash position that we could afford to have a little debt in the package." Though this would make the offer taxable to United Fruit shareholders, the tax-deductibility of the interest on the debentures (which will initially total $17.4 million, $10.2 million more than AMK's 1968 net income before extraordinary items) gave them a clear advantage over convertible preferred. Use of the warrants, moreover, would cut down on earnings dilution and eventually provide additional capital.

The principal demand of the United Fruit side was that the straight debentures originally proposed by Black be made convertible enabling Fruit stockholders to get, says Black, "a continuing play in equity." Black figured the change would cost him 30 cents a share in 1969 because of the dilution, "but this didn't seem unreasonable," since he would be able to cut the coupon. His end goal was to have about 40 per cent debt — "and it is very comfortable debt, too: 25-year and completely subordinate to future borrowings." Fully-diluted pro forma consolidated net earnings before extraordinary items for 1968 would be boosted about 70 per cent.

The final package, for which the four investment banking firms would serve as dealer managers, was announced on December 5. It offered, for each United common share:

- $30 principal amount of a new 5½ per cent, 25-year convertible subordinated debentures
- .55 Share of AMK common stock
- A ten-year warrant to purchase 1.5 shares of AMK common
- The debentures would be convertible into AMK common any time at 115 per cent of the average AMK closing price on the ten business days preceeding the registration statement's effective date, and the warrants at 90 per cent of the common price over the same period.

United Fruit publicly announced its support

continued page 84