

KAC



L. A. Iacocca
Chairman of the Board
Chief Executive Officer

May 22, 1987

The Honorable
Donald W. Riegle, Jr.
United States Senate
Washington, DC 20510

Dear Don:

For the past few years I have become increasingly concerned about hostile corporate takeover. Enclosed is a piece I wrote for the L. A. Times that I thought might be of interest to you. Federal law in this area was originally intended to create a level playing field for corporate takeovers. Today, that field is seriously out of balance. Powerful market forces and an array of sophisticated takeover techniques have given corporate raiders a huge advantage in takeover contests and produced a frenzied pace of takeover attempts.

The recent Supreme Court decision, CTS v. Dynamics, upholding the rights of states to legislate in the takeover area, is a major victory in the battle to prevent manipulative, destructive, and nonproductive takeover attempts. The first priority of the business community is to protect the ability of states to continue their historical role as the appropriate place to legislate corporate governance.

Being considered, in the House, is a different bill. As it is currently written, it undermines the states' role and could be interpreted as reversing the Supreme Court decision. It allows the SEC, which is notoriously pro-hostile takeover, to define any management action as a "defensive tactic" and to prohibit such actions, while it does little to prevent the manipulative and destructive tactics of raiders. On balance, it would encourage more hostile takeovers, resulting in higher corporate debt, more plant closings, fewer jobs, etc.

The legislative proposals supported by the corporate business community, labor, and others (many of which are being incorporated in a bill by Senator Proxmire) are a reasonable approach to the problem -- they will prevent manipulative takeovers which are attempted solely for personal financial gain and are not intended to increase productivity or efficiency.

I urge you to support legislation such as that being suggested by Senator Proxmire. Bob Perkins in our Washington office will be glad to sit down with you and discuss this important issue.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lee".

As Sent to L. A. Times
Column #12

Takeover Column

If nothing else, Ivan Boesky has fired up the debate over the value of corporate raiders and their camp followers, the arbitrageurs. Are these guys really Robin Hood and his Merry Men, as they claim to be? Or are they Genghis Kahn and the Mongol Hordes?

All I know is what I see, and what I don't.

I see billions of dollars tied up in new corporate debt to keep the raiders at bay while research and development goes begging. I see billions going for greenmail that ought to be building new, high-tech factories. I see confidence in Wall Street's integrity lower than at any time since the big crash.

I also see a huge share of America's best management talent wasted on takeover games when it should be devoted to strengthening the industrial base of the country.

But I don't see the raiders creating jobs. I don't see them increasing productivity. And worst of all, I don't see them doing a thing to help America compete in the world.

I hear their holier-than-thou pitch about making companies more efficient, liquefying capital, and defending the helpless stockholder. But a funny thing happens to these dedicated missionaries once you cross their palms with a little dough -- they go away!

Make no mistake about it, greenmail is nothing but blackmail in a pin striped suit.

If these people are really interested in saving American business from its incompetent management, where were they back in 1980 when Chrysler was flat on its back? One thing I never had to worry about in those days was a raider coming around because Chrysler wasn't worth looting.

The typical takeover target isn't a company in trouble. It's a company with a solid asset base, low debt, consistent profits, and a few bucks in the bank to diversify or get through the next business downturn.

When I went to school, we called that "good management." Today it makes you fair game. Choosing to modernize your factory instead of increasing your dividend might make good business sense, but it's also like putting fresh blood in the water: It draws the sharks.

American businessmen are always criticized for not seeing beyond the quarterly earnings statement. We're short-term in our outlook because most of our stock belongs to big institutional investors who'll lose interest in it the minute that earnings statement turns sour.

That's tough enough for a manager to deal with, but when the raiders and the arbs get involved -- people who buy huge chunks of stock to hold for a couple of weeks or a couple of days looking for an overnight windfall -- you've got even bigger problems. You're forced to do things that make no business sense at all just to stay alive.

My interest in all this started getting too close to home this fall when two of Chrysler's biggest suppliers, USX and Goodyear, found themselves "in play."

It's hard to exaggerate the importance of suppliers in my business -- especially the ones providing the steel and rubber. They're really "partners." One supplier who doesn't make his commitment can shut all our factories down in just a few days.

So naturally I got worried. I didn't know what the raiders had in mind for my partners. Were they just going to grab the assets and run? Were they going to pocket the R & D budget? Did they give the slightest damn about servicing me? Did they even know one single thing about my business, and how important these suppliers are to me?

Maybe the biggest question of all: Would they force me to go overseas for materials I'd rather see produced by American workers?

I still don't know the answers.

Goodyear managed to survive the raid. It only cost them \$2.6 billion. They'll just have to sell off a few subsidiaries, close some plants, put some people on the street, and load their balance sheet with new debt. No big problem. (I don't know if they'll ship me better tires. They were doing a good job to begin with.)

Meanwhile, Sir James Goldsmith, the guy playing Robin Hood, said "I'm walking out of this with my head held high" after aborting his raid. Maybe the cool \$90 million or so he got in greenmail helped keep his head high.

No doubt about it, the raiders have pushed up stock values and made some people (mostly themselves) a lot of money. But if quick paper profits replace long-term competitiveness as the prime reason to invest in American industry, then I don't want to think where we're heading as a nation.

The people getting rich in a hurry in America today are not the ones putting more efficiency into our factories or modernizing our steel mills; they are these paper pushers on Wall Street.

American entrepreneurship, which used to be based on building better mousetraps, seems to be giving way to leveraged buy-outs and junk bonds. It's becoming a great big monopoly game with real money.

If this keeps up, Wall Street is going to foul its own nest, and we'll all be losers. The American securities market lubricates our whole economy. We can't afford to smother it with too many regulations, but we also can't afford to let it be manipulated by people out for a quick and dirty buck.

Mr. Boesky has guaranteed that Congress will take a close look at Wall Street this session. It's time to at least slow down the action. One good idea I hear is to put a waiting period on stock before it can be voted. Make somebody wait six months after they buy stock before they can vote it. Most raiders won't tie up their money that long. They're not risk takers at heart. They only bet on sure things.

And a waiting period is fair. We make people register to vote a month or two in advance because we don't even want our

dog catcher to be elected by somebody who happens to be passing through town on a bus. I don't want American business controlled by people who ride through in the middle of the night with a fistful of stock certificates that they intend to sell first thing in the morning. And that's the way the corporate raiders work.

They talk piously enough about making American business more efficient, but what they have in mind is rape. And that often makes businessmen too nervous to think about the legitimate and sensible acquisitions and mergers that can actually help companies become more productive and competitive.

I know because we've been trying to diversify Chrysler for the past couple of years. We've made four friendly acquisitions and we're looking for more.

But we're not going to kidnap anybody into the family. When I paid off the federally guaranteed loans three years ago, I said "Chrysler borrows money the old-fashioned way: We pay it back." Well, when it comes to courting we like to do it the old-fashioned way, too -- we like to knock on the front door with candy and flowers.

These days, though, with all these raiders running loose, everybody is scared to answer the door. Even a simple phone call can send a company to battle stations. And if you say you'd like to stop by and talk, they fill the moat and pull the drawbridge.

Companies are paranoid today, and you can't blame them. CEOs are trying to plan ahead while they're looking over their

shoulders. Some of them are spending more of their time fighting off the raiders who are trying to take over their companies than they are fighting off the Japanese and Germans who are taking over their markets.

That's no way to run a business, and that's sure as hell no way for America to compete.

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