CHAPTER 1

THE FORMATION YEARS

Corporate Raiders: Early 1980s

In the early 1980s, a corporate raider would quietly purchase large amounts of a company's undervalued stock. He (the raider tended to be male) then publicly announced his intent to buy a controlling interest in the company, creating a demand for the company's stock where none previously existed. The corporate raider railed against what he considered to be a group of incompetent managers and proposed hiring more capable executives for the good of shareholders.

The entrenched managers didn't think themselves incompetent. Wanting to protect their own jobs and careers, they countered with a doomsday takeover scenario in hopes that shareholders would remain loyal to them. Based on rather solid historical evidence, management predicted that the corporate raider would drastically cut costs, selfishly pocket excess cash, transfer the most profitable units to another firm in the raider's stock portfolio, sell other units to the highest bidder, liquidate the remains, and, in the process, disrupt the lives of dedicated employees and community members. Many raiders pursued such strategies because the company's individual parts were worth more than the whole of the organization. Didn't the laws of capitalism dictate maximizing shareholder value, the raiders argued?

Stockholders enjoyed a financial windfall while the corporate raider and managers battled for their hearts, minds, and wallets. The price of the company's previously stagnant stock increased dramatically as more people wanted the premium price the raider would have to pay to obtain a controlling interest in the company. Although the higher stock price made the company a more expensive takeover target, the corporate raider, who already owned a substantial amount of stock, saw the value of his stock portfolio shoot upward.

After management's appeal to shareholders not to sell stock to the raider fell on deaf ears—as was often the case—managers sought a "white knight" willing to buy substantial shares of stock under more friendly conditions. This typically included the continued employment of the current management team. Or, managers could make the company financially unattractive to the corporate raider by either selling off the most highly prized assets or taking on massive debt.

At this point in the poker game, the corporate raider cashed in his chips. The white knight or winning management team would pay the raider a premium stock price, referred to as "greenmail," just to get rid of him. In the end, the raider increased his wealth, which is what it was all really about in the first place. The management team's jobs were once again secure. Unfortunately, the remaining organization was in a financial mess.

This scenario played itself out in the nation's energy industry during the 1980s, which barely survived the 1970s oil crisis and a worldwide recession. Houston, the center of the oil industry, was a mere shell of its previously booming self. Many of its publicly held companies were ready for the pickings by savvy corporate raiders. Houston Natural Gas (HNG), with profits of $123 million on $2 billion in revenue and $3.7 billion in assets, appeared to be the cream of the crop.[1] Oscar Wyatt, an oil and gas baron, set his sights on purchasing HNG to complement another oil company he owned. He declared a willingness to purchase $1.3 billion of HNG stock in 1984. Adding insult to injury, he planned to finance the hostile takeover by borrowing money against HNG's strong credit rating.[2] The battle for control of a good corporate citizen had begun.

> *DECISION CHOICE: If you were a Houston Natural Gas executive and stockholders ignored your pleas, would you:*
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> *(1) idly watch the corporate raider continue to purchase stock;*
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> *(2) make the company less financially attractive by selling profitable units or taking on unnecessary debts;*
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> *(3) seek a "white knight" to purchase the company on friendlier terms;*
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> *(4) pay the belligerent raider substantial sums of money not to purchase any more company stock; or*
>
> *(5) pursue some other strategy?*
>
> *Why?*