

HeraldStar

The Herald Star (Steubenville, Ohio) **Esmark takeover finally complete**

By PAUL GIANNAMORE, business editor

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Paul Giannamore

NEW ESMARK, NEW STOCK – James P. Bouchard looks at one of the new share certificates in the new Esmark Inc., which became the holding company owning Wheeling-Pittsburgh Steel Corp. following the tally of shareholder votes Tuesday morning in Pittsburgh. The certificate features a background picture of the blast furnace at the Wheeling-Pitt Mingo Junction plant.

PITTSBURGH — After more than two years of work and a year of management control, Esmark's merger with Wheeling-Pittsburgh Steel Corp. was completed in a nine-minute meeting in a conference room at the Hyatt Regency Hotel at the Pittsburgh International Airport.

Shareholders voted overwhelmingly in favor of the merger, with 93 percent of shares that voted choosing to merge Wheeling-Pitt and Esmark. With the close of business Tuesday, Wheeling-Pitt became a wholly owned subsidiary of Esmark Inc., which also owns Esmark's steel services business as another wholly owned subsidiary. The new Esmark

Inc. began trading this morning on the Nasdaq market under the symbol "ESMK." Esmark opened the day at \$19.25. W-P closed Tuesday at \$19.40.

Enough Wheeling-Pitt shareholders chose to sell shares back to the company at \$20 per share as part of the merger to require pro-rating of the shares. The put of stock back to the company was capped at \$150 million, subject to pro-rating above that amount.

But, there were 575,654 additional shares bought under a purchase rights offering at \$19 per share.

Wheeling-Pitt had 15,360,810 shares of outstanding common stock as of the Oct. 3 record date for voting on the merger.

About 11.5 million shares voted in the stockholder elections.

The merger marks the first time in decades that Wheeling-Pitt has more equity than debt, and \$167 million in working capital.

Esmark Chairman and Chief Executive officer James P. Bouchard told shareholders the merger was the first of its kind in the United States, a "reverse hostile takeover." Wheeling-Pitt shareholders elected an Esmark-nominated slate as the board of directors on Nov. 17, 2006, and Esmark, the smaller, private-owned firm, then reached agreement on the merger with Wheeling-Pitt in March. The process began with meetings in mid-2005 between Esmark and Wheeling-Pitt's prior management team as the local steelmaker searched for a strategic partner.

Bouchard praised the support of the United Steelworkers union in bringing the merger about, and praised the board of directors.

"They stood tall in the saddle," he said. "They did not waver."

Bouchard expressed optimism that the new Esmark has the ability to prosper instead of just weathering bad times.

Wheeling-Pitt started the day Tuesday with 70 percent debt and 30 percent equity, Bouchard said. After the merger's approval, Esmark now has 60 percent equity and 40 percent debt. He said the company had \$11 million in working capital when he took the reins in early December but now has \$167 million.

"We have the flexibility to make changes," he said. "I am very optimistic."

He said despite predictions of a lower Gross Domestic Product and an overall down market for steel and the credit crunch, "This company is more positive."

"We will work with the Steelworkers and we will do something special with this company," he told the shareholders meeting.

Bouchard's strategy remains to combine the strengths of his steel services center firm with the ability to make steel to fill the orders those service centers receive.

"This company will succeed. We will make this company work. If we do not make a profit, I will not be here next year. I am putting my job on the line," Bouchard said.

He said the company has a new profit center in Esmark's steel services business, and Esmark's directors had confidence in the merged company to the point where they relinquished their seats to allow Wheeling-Pitt's board to be the new Esmark Inc. board.

In a prepared statement, he said, "Today marks a long-awaited milestone for stockholders, the employees of Wheeling-Pittsburgh Steel and Esmark, our partners at the United Steelworkers and the hard-working people of the Ohio Valley. It's been a challenging year for all involved in combining our two companies, and I want to personally thank each and every individual who contributed to making this new company a reality. With this task now accomplished, we must combine the advantages of this new organizational structure with the cost initiatives recently enacted at Wheeling-Pittsburgh to generate strong, recurring profits. Equipped with a much improved balance sheet and enhanced liquidity position resulting from this merger, we are poised to do just that. It is a pleasure to lead our new company with a stronger balance sheet and without a going concern qualification."

Wheeling-Pitt had received an auditor's statement questioning if Wheeling-Pitt would be able to continue as a going concern, included in the third-quarter results report.

With the merger, the projected opening balance sheet of the new Esmark is expected to show shareholder equity of more than \$726 million. Shareholder equity in the third quarter balance sheet for Wheeling-Pitt stood at \$137.47 million.

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Esmark's name has link to a big-time past

By PAUL GIANNAMORE, business editor

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PITTSBURGH — As Esmark Inc. shares began trading today on the Nasdaq market, it marked a return of a once big name to the public stock exchanges.

Esmark once was a major holding company of a number of widely recognized national brands of consumer products including Playtex and Butterball turkeys and Avis car rentals.

Its founder, Donald F. Kelly, is a longtime friend of James P. and Craig T. Bouchard, the founders of Esmark and the chairman and president of the new Esmark Inc.

“The name is back as a publicly traded company,” said James Bouchard to Wheeling-Pittsburgh Steel Corp. shareholders Tuesday.

Shareholders voted overwhelmingly in favor of the merger of Wheeling-Pittsburgh with the Bouchard's steel service center firm, creating a new holding company, Esmark Inc., with Wheeling-Pitt as one subsidiary and Esmark Steel Service Group as another.

When the Bouchard brothers founded their steel company in 2003, they did so after asking Kelly for permission to use the Esmark name.

“Don Kelly called and said the old Esmark family is proud of the new Esmark and wished us well,” James Bouchard said.

Kelly sold the original Esmark to Beatrice Foods in 1984. Kelly and other former Esmark managers later bought back Beatrice in a leveraged buyout in 1985 and put up parts of the company for sale to repay lenders.

The Bouchards have adopted Kelly's style of running a corporation, letting management of the various subsidiaries have fairly autonomous control over their part of the company.

Jim and Craig Bouchard bought the original Esmark name from Playtex, then asked Kelly for permission to use it. In a press story on the Esmark steel Web site, Craig Bouchard says the Bouchard brothers grew up with Kelly's sons. He said they wanted the Esmark name because they admired the “lean, low-overhead holding company Don built at the original Esmark.”

Kelly eventually went on to found a second holding company in commercial products, E-II, which he sold to American Brands. E-II consisted of 20 former Beatrice companies.

A 1988 New York Times story details Kelly as becoming a dealmaker when he became president of Esmark in 1973. Kelly built the company from its original meat processing origins with 60 acquisitions and divestitures, including a 1983 purchase of the Norton Simon conglomerate in 1983, gaining brands including Hunt-Wesson, Max Factor and Avis.

Jim and Craig Bouchard will ring the bell to start the trading day on the Nasdaq exchange on the morning of Dec. 31.

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Sparrows Point deal next step for Esmark

By PAUL GIANNAMORE, business editor

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STEUBENVILLE — A deal valued at more than \$350 million has resulted in a more strongly capitalized Wheeling-Pittsburgh Steel Corp., but the Bouchard brothers say work must continue toward making the company a success for years to come.

James P. and Craig T. Bouchard founded their Esmark steel services firm in 2003 and have acquired 10 steel service centers and distributors since then. With the merger with Wheeling-Pittsburgh Steel Corp. being wrapped up Tuesday, they have taken a major step toward making what they hope will be the fourth largest steel company in the United States.

To reach that level will require them to wrap up a purchase of the huge Sparrows Point, Md., steel mill near Baltimore from Mittal Steel and combine that asset with the new Esmark and its subsidiaries Wheeling-Pittsburgh Steel and the Esmark service centers.

Craig Bouchard is the financial side of the brother team, bringing Wall Street experience to add to his brother's steel executive experience. He said the company is in better shape than it's been in decades as a result of the merger.

Craig Bouchard said there is one major hurdle standing between now and completion of that deal. He said the United Steelworkers and Mittal are in discussions about handling the impact on retirees that pulling Sparrows Point out of Mittal could have.

Bouchard, president of Wheeling-Pitt, who will become president of Sparrows when the deal is completed, said he is hopeful the purchase can be finalized in a few weeks.

“Just like Wheeling-Pitt, Sparrows has a VEBA. There is an ISG master VEBA that is fed by the profitability of Mittal Steel USA. Taking Sparrows out of that has left a small hole in the payment stream to that VEBA, and the Steelworkers and Mittal are having discussions about how to solve that issue,” Bouchard said. “It's not our issue. We're an observer in the process.”

VEBAs, or Voluntary Employee Beneficiary Associations, are funded with stock from companies to cover hospitalization and retirement costs for employees. Wheeling-Pitt's VEBA was the largest shareholder in the steelmaker, for instance. ISG was the International Steel Group, which bought Bethlehem Steel's assets, including Sparrows,

out of bankruptcy. ISG sold its holdings, including Weirton Steel to Mittal.

Bouchard said negotiations already have begun between the new Esmark board of directors (which is the same membership as the former Wheeling-Pittsburgh board) on eventual merger of E2 into Esmark.

He explained the process will involve first E2, which is a wholly owned venture of Esmark to buy Sparrows, completing the purchase of Sparrows. After that, a full agreement would have to be reached between Esmark and E2, followed by votes by both boards and then a shareholder vote by Esmark. Bouchard estimated the process would take about six months from the completion of the Sparrows Point mill purchase.

E2 is a venture of Esmark with previously announced partnerships with Brazilian ore giant CVRD and Ukrainian steelmaker the Industrial Union of Donbass. CVRD and IUD have said they would supply up to \$270 million each to the purchase. The Sparrows deal has been valued in some reports at more than \$1.3 billion.

As for the future at Wheeling-Pittsburgh, Bouchard said there are not only a series of modernization projects that require capital, including a previously announced new cold mill at Steubenville, but also an initiative to develop natural resources, including coal and natural gas, on Wheeling-Pitt property.

“Wheeling-Pittsburgh owns roughly 4,000 acres in three states, across Ohio, West Virginia and Pennsylvania, and we’ve been told by three energy companies working on the property, who are potential partners for us, that there is the potential for reserves,” he said.

Wheeling-Pitt spends about \$9 million a month on natural gas and petroleum, so developing the reserves “is a fantastic opportunity for the company” to save money, Bouchard said.

Bouchard declared the 93 percent approval among shares that voted to be “a landslide.”

“I’ve never seen an election, except in the old Soviet Union, where the winner got 90-plus percent,” he said.

The merger was structured to bring in between \$50 million and \$200 million in the shareholder votes alone. However, because of the number of shares that were sold back to the company by choice of the shareholders, who were offered \$20 a share up to a cap of \$150 million total, the shareholders votes brought in \$50 million.

“The first reaction is because of the history of the company, the more liquidity, the better, but when you look at the final numbers, there is \$167 million in liquidity for the company, and that’s more than it has had in two decades. There are other good things on the horizon that are going to happen to us on this front. We have a very strong, supportive global bank group behind this company. It hasn’t been like that before, either,” Bouchard

said. "I'm not too disappointed about it. The flip side is, because of the puts (share sales back to the company), there are fewer shares, so for the existing shareholders, they own a bigger piece of the company.

"I'm a little disappointed, but not too much disappointed," he said.

Bouchard takes a more positive view because of the change in the debt-to-equity ratio of Wheeling-Pitt. Where the independent Wheeling-Pitt had 70 percent debt and 30 percent equity, the new Esmark Inc. has a balance sheet with 60 percent equity and 40 percent debt.

"That flip-flop to mostly equity from not very much equity is a gigantic improvement for this company. Having more debt than equity in this industry is a death wish," he said. "When we came in on Dec. 4 of last year, the first thing Jim said was to fix the balance sheet of this company. He has delivered on that promise that was made to the company, to the shareholders and to the community that depends on this company."

He also cited the 2,000 customers Esmark brings to Wheeling-Pitt, modernization that has taken place under Esmark's management despite the tough year Wheeling-Pitt had as well as a 50 percent improvement in the company's safety record. Wheeling-Pitt spent \$10 million on modifications to the Mingo Junction electric arc furnace and \$3 million on the hot strip mill.

"We have our fans and our critics, but we wish to be judged on what we say and what we do," Craig Bouchard said. "What we said on the first day and now one year later, without the benefit of the merger, all that has been accomplished. Now the company is positioned to execute its plan. It will not be easy. The economy is not great and steel consumption is not up yet. We think steel prices are going to go up, but in the face of a soft economy, we are positioned not only to survive but to succeed and grow. This is the best day in a long time at Wheeling-Pittsburgh Steel."

One man who has known the darker days at Wheeling-Pitt is board member Jim Bowen, a USW designee on the board. Bowen was a Steelworkers executive during the first bankruptcy of Wheeling-Pitt in the mid-1980s and has been on the board since the company emerged from its second bankruptcy in 2003.

"Today means we have a fresh start," he said. "Are we ready to celebrate and say we are the best steel company in America? No. We do have the ability to get better and we will, with the partnership between the United Steelworkers and the company and management, we're all on the same team.

"We're going to make it happen, and that should be an assurance to those in the valley that there are going to be jobs at Wheeling-Pittsburgh Steel because, over the years, on several occasions, it could have been shut down just by turning the switch off and shutting the door," Bowen said.

Of the Bouchards, he said, “They’re like the Energizer Bunny. They have the ability, if you watch all the little things that have occurred over the last nine or 10 months, to raise funds and make things happen and they’re willing to do so.”

He said the Steelworkers have a true partnership with Esmark.

“Sometimes it’s by contractual obligation and other times it’s because we want to, and as far as I’m concerned, we want to,” Bowen said.

Craig Bouchard said it’s important to move forward with the Sparrows acquisition and eventual merger.

“Seventy percent of the steel in the United States is made by three companies: Nucor, Mittal and U.S. Steel. That’s a huge consolidation that has occurred in less than 10 years,” Bouchard said. “With consolidation, it’s tough to survive if you do not become a big guy. We can become the fourth largest steel company and continue growing.”