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Wheeling-Pitt reaches tentative deal with Brazil's CSN

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MORGANTOWN, W.Va. - Just weeks after a Chicago-based steel supplier launched a hostile takeover attempt, Wheeling-Pittsburgh Corp. announced it has a tentative agreement to merge with Brazilian steelmaker Companhia Siderurgica Nacional.

Wheeling-Pitt, which employs about 3,100 people at plants in West Virginia, Ohio and Pennsylvania, said Thursday a deal with CSN would create a more flexible cost structure, a guaranteed stream of slab steel and much-needed cash for capital improvements.

Wheeling-Pitt shares jumped nearly 5 percent in afternoon trading on the Nasdaq Stock Exchange, closing at \$22.28, while CSN shares fell a fraction of 1 percent to close at \$32.34 on the New York Stock Exchange.

A deal with Wheeling-Pitt's other suitor, Esmark Inc., would have to be approved by shareholders, federal regulators and the United Steelworkers. But Esmark President Craig Bouchard said the CSN deal appears to deliberately bypass the union.

Under a successorship clause in its contract, the union has the right to reject any deal that changes controlling interest. But under terms of the proposed merger, CSN would take 49.5 percent ownership of the new company, while Wheeling-Pitt shareholders would control the other 50.5 percent.

Dave McCall, director of USW District 1 in Columbus, Ohio, said he was "not particularly happy about that."

"It disturbs me mostly because I know that at the end of the day, that's not what their intention will be," he said. "At the end of the day, their intention is to take majority control."

About \$150 million of CSN's \$225 million investment would be used to upgrade and expand Wheeling-Pitt's hot strip mill capacity to 4 million tons, and to add a second galvanizing line at CSN's processing plant in Terre Haute, Ind., Wheeling-Pitt CEO James G. Bradley said.

That should ensure steelworkers that Wheeling-Pitt "is not only planning to be successful tomorrow, or next year, but has a vision to build a company that will be successful for the next generation of Wheeling-Pittsburgh steelworkers," he said.

Ken Aspenlieter, president of USW Local 1190 in Steubenville, Ohio, said that while some of the five local union presidents have met with Esmark, none has met with CSN.

"This will be the first time we saw any details from CSN, to be honest with you," he said.

McCall said he is impressed with Esmark's business plan and its stated commitment to employees and retirees.

"All of it sounds much better than our current state of affairs with Wheeling-Pitt," he said.

Esmark acknowledged talks with the union are "part strategy." However, Bouchard said history shows companies and unions with collaborative relationships historically perform better than those in conflict.

"There's only one way to make Wheeling-Pitt successful," he said, "and that's with those 2,800 union employees working hard every day."

Esmark plans to run its own slate of candidates for Wheeling-Pitt's board of directors, then force a merger. The showdown will be Nov. 17 at the annual shareholder meeting in Pittsburgh.

Wheeling-Pitt and CSN will put forth their own new slate, including Bradley, two USW members, five independents and three members chosen by CSN.

Bouchard has repeatedly criticized Wheeling-Pitt, saying it has too much debt and too little profit. Wheeling-Pitt had \$277.3 million in long-term debt on its balance sheet at the end of the first quarter, when it lost \$2.1 million.

Wheeling-Pitt has survived two Chapter 11 bankruptcies and the nation's longest strike against a major steelmaker. It is the only U.S. steelmaker to successfully restructure through Chapter 11 since a steel-import crisis began in 1998.

CSN is one of the largest South American steelmakers, with annual capacity of 5.8 million tons and 8,000 employees. It's had a presence in the United States since 2001, when it bought the former Heartland Steel plant in Indiana.