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Gendell Backs Esmark Offer for Wheeling-Pittsburgh (Update3)

By Dale Crofts

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Oct. 27 (Bloomberg) -- Hedge fund manager Jeffrey Gendell said he will support an improved bid by Esmark Inc. to merge with steelmaker Wheeling-Pittsburgh Corp., challenging a rival offer from Brazil's Cia. Siderurgica Nacional SA.

Esmark, a Chicago-based steel distributor, yesterday amended its plan for a reverse takeover by Wheeling-Pittsburgh, which said it will review the offer. Esmark's new plan would raise as much as \$200 million by selling shares of Wheeling-Pittsburgh to existing shareholders, including Tontine Management LLC, a hedge fund run by Gendell.

“The Esmark proposal provides the most attractive long- term economic value and ongoing participation opportunity to the current shareholders,” Gendell said today in a regulatory filing. CSN's offer is “very unattractive,” he said.

Wheeling-Pittsburgh, which posted a net loss of \$33.8 million last year, is seeking a cash infusion to help cut \$398 million of debt that the company has failed to reduce since emerging from bankruptcy in 2003. Steel producers are merging to reduce operating costs and increase bargaining power with buyers at a time of rising demand and prices.

Gendell, who holds about 9.5 percent of Wheeling-Pittsburgh shares, said in a letter to the company's board two weeks ago the steelmaker should remain independent “absent dramatic enhancements” to competing offers from Esmark and Cia. Siderurgica Nacional. He also urged the board to begin searching for a new management team “immediately.”

Tontine declined to comment. Wheeling-Pittsburgh didn't immediately return phone calls seeking comment.

Wheeling Shares

Shares of Wheeling-Pittsburgh fell 13 cents, or 0.7 percent, to \$19.92 in Nasdaq Stock Market trading. The stock has gained 61 percent in the last year. Rio De Janeiro-based CSN fell 0.75 reais, or 1.1 percent, to 66.9 reais in Sao Paulo. CSN has gained about 61 percent in the past year.

Under the new proposal, Esmark changed the way in which Wheeling-Pittsburgh would receive its cash infusion.

Originally, Esmark and its largest shareholder, Franklin Mutual Advisers, proposed investing up to \$200 million in new Wheeling-Pittsburgh shares. Now, new stock would be offered for sale to existing shareholders and Franklin would act as a standby purchaser for any that goes unsold.

Market 'Opportunities'

The stock offering will allow existing shareholders such as Tontine to buy more shares in the company, after the fund indicated in its Oct. 13 letter the “significant opportunities emerging in the global” steel market.

Tontine is the biggest shareholder of AK Steel Corp., the third-largest U.S. steelmaker by 2005 revenue, with a 10 percent stake as of June 30, according to data compiled by Bloomberg. Gendell has about 6.3 percent of U.S. Steel Corp. and a 4.8 percent stake in steel distributor Ryerson Inc.

Wheeling-Pittsburgh said Oct. 25 it signed a final deal to hold 50.5 percent in a new company to be formed with Cia. Siderurgica Nacional. Under the agreement, CSN would invest \$225 million and add its steel processing facility in Terre Haute, Indiana, to the new business.

Esmark wants to be bought by Wheeling-Pitt for about \$273 million and then merge the two companies. It also has a loan agreement for \$350 million from banks led by J.P. Morgan Chase.

The Wheeling, West-Virginia-based steel producer said yesterday it would review the new Esmark proposal.

Esmark also proposed electing an alternative slate of directors at Wheeling-Pittsburgh's annual shareholder meeting on Nov. 17 and aims to strike down the proposed combination with CSN in favor of its own offer to merge.

--Editor: Stroth (dje).