



*American Metal Market*

## **Tontine's backing of Esmark might push CSN out of race**

By Scott Robertson

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PITTSBURGH – Esmark Inc., Chicago, might have received the backing that will provide the punch to knock Brazil's Cia. Siderurgica Nacional (CSN) out of the ring in bidding for Wheeling-Pittsburgh Steel Corp.

After reviewing both proposals, Tontine Management LLC, Greenwich, Conn., said in a letter dated Oct. 27 to Wheeling-Pittsburgh's management team that it was throwing its support behind Esmark.

Jeffrey L. Gendell, managing member of Tontine, said that his group still believes the most attractive option for shareholders is for the Wheeling, W.Va., steelmaker to remain independent. However, as one of the company's major shareholders, it has concluded following extensive talks that remaining independent might not be a viable strategy.

Thus, "Tontine believes that the Esmark proposal provides the most attractive long-term economic value and ongoing participation opportunity to the current shareholders of Wheeling-Pitt. Accordingly, absent any changes in the facts or dynamics of the process or the current proposals, Tontine has concluded that it will support the Esmark slate of directors at the company's 2006 annual meeting," Gendell wrote.

That meeting is set for Nov. 17 in Wheeling. At that time, shareholders will choose between a slate of directors offered by Esmark and one offered by Wheeling-Pittsburgh's management.

Current Wheeling-Pittsburgh management has thrown its support behind a proposal by Rio de Janeiro-based CSN. The two sides said Oct. 25 that they had finalized terms of their strategic partnership for the company (AMM, Oct. 26).

The next day, Esmark announced a slab supply agreement with Duferco International Trading Holding Ltd. and Industrial Union of Donbass, sweetening the package with a \$200-million rights offering to current Wheeling-Pittsburgh shareholders (AMM, Oct. 27).

Tontine, dissatisfied with the original proposals of both current management and Esmark, had itself emerged as an alternative buyer for the steelmaker, proposing a \$100-million rights offering (AMM, Oct. 17).

Tontine's support would appear to cement Esmark as the favorite in the battle for control of Wheeling-Pittsburgh. The sentiment among many shareholders appears to be that the CSN deal with current management doesn't do enough to meet their needs and that Esmark's plan, which has the backing of the United Steelworkers union, is a more acceptable option.

Gendell's letter said that after reviewing the latest proposals—the final agreement of CSN-Wheeling-Pittsburgh and Esmark's sweetened offer with Duferco and the \$200-million rights offering—it was going with Esmark.

James Bouchard, Esmark's chairman and chief executive officer, estimated that adding Tontine's shares to others who have voiced support for Esmark would give it the backing of 60 to 70 percent of shareholders. Tontine controls about 9.7 percent of the steelmaker's shares.

"We're very happy to have gotten Tontine's support," Bouchard said. "Anyone would be happy with that kind of backing. I think it shows that people are starting to realize that we have a pretty good plan for this company."

Calls to Wheeling-Pittsburgh seeking comment were not returned Friday.

"CSN has chosen to leave the original terms of its proposal substantially unchanged. We continue to believe that the CSN proposal, as currently structured, is very unattractive to the existing shareholders of (Wheeling-Pittsburgh) despite certain long-term strategic benefits that it may offer Wheeling-Pittsburgh," Gendell wrote.

"In terms of the (Wheeling-Pittsburgh) board's decision, as announced on Oct. 25, 2006, to enter into a definitive agreement with CSN in connection with such proposal, we do not support the board's actions and will vote against the proposal if it comes before the company's shareholders."

Gendell said Esmark, on the other hand, "has meaningfully enhanced" its prior proposal and Tontine has a more favorable view of the plan as a result. Esmark envisions linking Wheeling-Pittsburgh's steelmaking capabilities together with its network of steel service centers to form a distribution chain similar to what is found in Europe.

"We believe Esmark has been very responsive to our stated concerns regarding existing shareholder dilution and equitable, ongoing participation by current shareholders in the pro-forma enterprise. In particular, Esmark's proposed rights offering provides current Wheeling-Pittsburgh shareholders the opportunity to (1) more fully participate in the future potential of the company and (2) effect such participation on the same basis that new equity capital is being purchased by Esmark investors," he added.

"We also have a much better appreciation for the totality of Esmark's strategic vision for Wheeling-Pittsburgh, its proposed management organization and the potential economic benefits which could accrue to the company as a result of cost structure and productivity enhancements derived from, among other things, Esmark's (1) proposed strategic asset

contributions; (2) proposed (and tentatively agreed to) revised terms to the USW collective bargaining agreement; and (3) proposed slab supply arrangement.”