

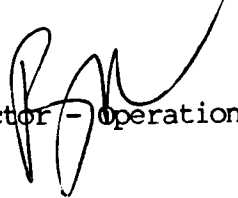
M E M O R A N D U M

April 11, 1985

To : Branch Chiefs  
Division of Corporation Finance

FROM : William C. Wood, Senior Associate Director - Operations  
Division of Corporation Finance

RE : Poison Pill Rights Plans



As a result of the Division's attempt to quantify the number of companies that have adopted poison pill securities, a number of questions have been raised as to what exactly constitutes a "poison pill" security. Although there is no exact definition of the term, the following is a brief description of the general characteristics of these types of securities.

A poison pill is a special type of stock, warrant or right to purchase stock which a company distributes to its shareholders usually in the form of a dividend. Poison pills are designed to increase significantly the difficulty and expense required for a hostile acquirer to consummate a second step business combination following the acquisition of a control block. The poison pill warrants, rights or stock usually have little value until the occurrence of a "triggering event" and generally are not transferable until that time. Although the "triggering events" vary depending upon the specific security they generally are defined in terms

of an acquisition of a specified percentage of securities (usually 10 to 30%) or the commencement of either a tender offer or proxy contest. The actual effect of such an event depends on the specific terms of each security but may include each of the following:

- the security becomes redeemable at the option of the holder at a cash price equal to the highest price paid by the raider for common stock during the previous twelve months
- the security may be tendered to the company along with one share of common stock for a predetermined cash price which constitutes a substantial premium over market price; and
- in the event the company is acquired in a merger or business combination transaction by the substantial shareholder, each right entitles its holder to purchase at the current exercise price of the right, that number of shares of common stock of the acquiring company that would have a market value equal to two times (or higher) the exercise price of the right. This feature is called a "flip-over" provision of the security and is by far the most controversial feature of the "poison pill" security

Poison pill stock, warrants and rights are usually redeemable by the issuer at a nominal price at any time prior to the occurrence of a triggering event.

Poison pill plans have been challenged in courts in Delaware, New York and Nevada. To date, no court has held a poison pill plan invalid or violative of the law.

As you search your branch files for these securities, please keep in mind that "poison pill" plans are rarely submitted to shareholders for approval. Thus, disclosure of such plans in proxy statements usually will be limited to a description of the plan in the context of proposals for the adoption of additional anti-takeover measures. The

Branch Chiefs  
Page 3

documents filed with the Commission which are most likely to contain disclosure of poison pill plans are Form 8-K's which report their adoption and registration statements on Form 8-A filed for the purpose of registering the poison pill stock, warrants or rights under the Exchange Act.

Finally, in addition to providing the information requested in the April 8, 1985 memo, copies of each poison pill plan and A-B recapitalization proposal identified or received by the branch should be forwarded to Edythe Macchiavello.