



Interco

On August 8, 1988, Interco's board of directors met to discuss, among other matters, a merger proposal from City Capital Associates Limited Partnership. City Capital had offered \$64 per common share of Interco on July 28, 1988, and had raised that offer to \$70 per share on the morning of August 8. At this board meeting Interco's financial advisors, Wasserstein, Perella & Co., established a valuation range of \$68-\$80 per common share of Interco and presented their evaluation of the offer. Given their valuation, Wasserstein Perella advised the Interco board (see **Exhibit 1**) that the \$70 per share offer was inadequate and not in the best interests of the company and its shareholders. The board of directors voted to reject the City Capital offer.

The Company

Founded in December 1911, the International Shoe Company was established as a footwear manufacturing concern and remained so until the early 1960s. In 1966, the company was renamed Interco to reflect the changing character of its business. It had grown, into a major manufacturer and retailer of a wide variety of consumer products and services. Among the most well-known of the brands Interco made were Converse and Florsheim shoes, Ethan Allen furniture, and London Fog rain gear.

Interco's various operations were substantially autonomous and were supported by a corporate management staff in St. Louis, Missouri. The company's philosophy had historically been to acquire companies in related fields and to provide their existing management teams with the incentives to expand their businesses while relieving them of such routine support functions as financial and legal requirements. Nearly half of Interco's growth had come through acquisition. The company continually sought entities that would complement the existing Interco companies. Additional criteria used in screening and selecting acquisition candidates included the presence of highly skilled managers and products that had established leadership positions in their respective markets.

Equity analysts viewed Interco as a conservative company that was financially "overcapitalized." With a current ratio of 3.6 to 1 and a debt-to-capitalization ratio, including capitalized leases, of 19.3% on February 29, 1988, Interco had ample financial flexibility. This flexibility had allowed the company to repurchase its common shares and make acquisitions as opportunities arose.

Research Associate Susan L. Roth prepared this case under the supervision of Professor Scott P. Mason as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Operating Divisions

Interco was organized in four major operating divisions:

- Apparel Manufacturing
- General Retail Merchandising
- Footwear Manufacturing and Retailing
- Furniture and Home Furnishings

Within these four operating divisions were numerous independent companies as listed in Exhibit 2.

Apparel Manufacturing This group consisted of 11 apparel companies that designed, manufactured, and distributed a full range of branded and private-label sportswear, casual apparel, outer garments, and headwear for men and women. Apparel brands included Le Tigre, Sergio Valente, and Abe Schrader. Distribution was national in scope to department stores, specialty shops, and other retail units, including discount chains.

General Retail Merchandising This group operated 201 retail locations in 15 states. General retailing included large do-it-yourself home improvement centers, general merchandise discount stores, men's specialty apparel shops, and specialty department stores. Over the prior few years, general retail had been greatly scaled back and was now dominated largely by Central Hardware, a do-it-yourself home improvement chain that emphasized customer service and a broad selection of products.

Footwear Manufacturing and Retailing This division designed, manufactured, and distributed men's and women's footwear principally in the United States, Australia, Canada, and Mexico. The group operated 778 retail shoe stores and leased shoe departments in 42 states and in Australia. Interco's two major footwear operations, Converse Inc. and the Florsheim Shoe Co., commanded leading positions in their respective markets: athletic shoes and men's traditional footwear.

Furniture and Home Furnishings This group manufactured, distributed, and retailed quality wood and upholstered furniture and home furnishings. Furniture brands included Broyhill, Lane, Ethan Allen, and Hickory Chair. In recent years, furniture had expanded through acquisitions and increasing profitability to dominate Interco's net income. At the end of fiscal year 1988, Interco was the largest furniture manufacturer in the world.

Strategic Repositioning Program

Interco's goals included long-term sales and earnings growth, increased return on corporate assets, and most important, improved return on shareholders' equity. To achieve these goals, Interco took a four-pronged approach that included improving the profitability of existing operations and divesting underperforming assets, making acquisitions that had the potential for better than average returns and growth, and employing opportunistic financial strategies such as share repurchases and the prudent use of borrowing capacity.

With these goals established, Interco, in 1984, began a strategic repositioning program aimed at improving overall corporate performance. As part of this initiative, Interco accelerated its efforts to divest underperforming assets and reposition itself in markets offering superior growth opportunities and profitability. The program resulted in a substantial change in Interco's mix of sales as shown in Table A below. In fiscal 1988 the furniture and footwear groups together accounted for 60% of corporate sales, with apparel and general retail accounting for the rest. This was a reversal of the sales distribution in fiscal 1984.

Table A Percent of Sales by Operating Group: 1988 and 1984

	1988	1984
Apparel	24%	33%
General retail	16	26
Footwear	27	21
Furniture	33	20

Source: Annual report, 2/29/88

Recent Financial Performance

Overall corporate performance for fiscal year 1988 was positive, with sales and net income increasing 13.4% and 15.4%, respectively, over 1987 levels. This performance was attributable largely to the contributions of the furniture and home furnishings and footwear groups as well as a decrease in Interco's effective tax rate. Due to the Tax Reform Act of 1986, the company's effective tax rate in 1988 was 42.8% versus 47.1% in fiscal 1987. Growth in earnings moved Interco further toward its goal of a 14-15% return on equity: 1988's ROE of 11.7% was up from 9.7% in fiscal 1987.

The furniture and home furnishings group had an outstanding year in 1988, earning an operating profit of \$149.1 million versus \$123.8 million in fiscal 1987 and achieving sales of \$1.11 billion compared to \$967.4 million in 1987. Favorable demographic trends in family formations made the outlook for this group positive despite its exposure to cyclical fluctuations in housing starts and interest rates.

Showing the largest percentage gains for fiscal year 1988, sales for the footwear group increased 34.2% and operating profits soared nearly 77%. These earnings were supported by the performance of Converse, acquired in September 1986, which had a record year in sales and earnings in 1988.

Despite multiple restructuring efforts including divestiture of underperforming assets, the apparel manufacturing and general retail divisions remained ongoing problems, due largely to a change in the nature of these businesses. In calendar year 1987, a variety of problems continued to plague the U.S. apparel manufacturing industry. Consumer spending was lower than anticipated, imports from countries with lower labor costs continued to flow into the U.S., and department stores increasingly emphasized private-label goods at the expense of manufacturers of branded apparel. In response to an intensely competitive retailing industry and a drop-off in consumer spending, retailers implemented heavy promotion and deep discounting programs in 1987 and into 1988. As a result, sales had been advancing at a moderate pace, with earnings declining at a more rapid rate. Industry experts were forecasting moderate industry growth in the absence of any significant economic downturn.

Interco's general retail merchandising and apparel manufacturing groups turned in less than stellar performances in fiscal 1988. The former group's operating profits fell 3.7% on a modest increase in sales over the comparable 1987 period. The latter group earned operating profits of \$20.2 million after an \$11.6 million restructuring charge, compared to \$47.3 million in 1987, on sales that slipped only slightly from 1987 levels.

The Takeover Bid

Interco management and Wall Street analysts believed that the apparel group's performance would continue to weaken Interco's overall operations and cause the equity markets to undervalue its common stock. **Exhibits 3 and 4** give the history of Interco's common stock price. After the stock market crash of October 1987, Interco had accelerated its share repurchase program with the board of directors' authorization to buy back up to five million shares. By the end of fiscal year 1988, more than four million shares of common stock had been repurchased at a total cost of \$152.3 million.

Given that Interco was widely viewed in the investment community as a potential takeover target, Harvey Saligman, Interco's chairman and CEO, contacted Wasserstein, Perella & Co., to discuss potential defensive measures aimed at maintaining Interco's independence. To deter any unwanted third-party acquisition, the board voted on July 11, 1988, to amend Interco's shareholder rights plan, making any hostile takeover of the company prohibitively expensive. **Exhibit 5** describes Interco's shareholder rights plan in more detail.

Determined to improve the return on shareholders' investment and to further deter a third-party acquisition, on July 15, 1988, Interco announced plans to restructure. The apparel group's performance for the quarter ended May 31, 1988, continued to be poor, with a 13.4% decline in sales from the comparable 1987 quarter. The proposed restructuring would involve the sale of the apparel segment, a special dividend, and/or a stock repurchase. Interco retained two investment banking firms, Goldman, Sachs & Co. and Wasserstein, Perella & Co., to explore strategic alternatives and to sell the apparel manufacturing division and possibly other assets. Saligman's proposal of such a restructuring was aimed at "narrow[ing] the focus of Interco's businesses and improv[ing] the price of its shares."¹

But a takeover attempt could not be avoided. City Capital had already accumulated 8.7% of Interco's common stock, and on July 27, 1988, it proposed a merger with Interco. Pursuant to this proposal, City Capital offered to buy all of Interco's common shares it did not already own at a price of \$64 per share. City Capital also advised the board of their willingness to negotiate the terms of the proposal, including price. In response, the Interco board expanded Wasserstein Perella's mandate as financial advisor. Their advisory services would now include delivering an opinion on the fairness of City Capital's offer and valuing and recommending other alternatives.² How much Interco was worth was a question its board of directors would have to consider in evaluating alternatives to a merger with City Capital.

City Capital Associates Limited Partnership

City Capital Associates Limited Partnership was led by two Washington, D.C., businessmen, Steven M. Rales and his brother Mitchell. The Rales brothers had been involved in multiple acquisitions either through Danaher Corporation, a publicly owned company they controlled, or one of a variety of their other partnerships. These acquisitions had included Western Pacific Industries Inc., Chicago Pneumatic Tool Co., Mohawk Rubber Co., and Master Shield Inc. The brothers' acquisition focus had been on undervalued targets with strong market niches. With the completion of eight medium-sized acquisitions, Danaher had grown since 1981 from a small real estate trust into a

¹ Francine Schwadel, "Interco Receives Bid from Rales Group for Takeover Value at \$2.26 Billion," *The Wall Street Journal*, July 29, 1988, p. 4.

² Interco had retained Wasserstein Perella pursuant to a unique compensation contract that offered a substantial contingency fee of \$3.7 million payable to Wasserstein Perella once City Capital rescinded their offer and only if a recapitalization was completed. Wasserstein Perella would receive \$1.8 million for its services with or without this contingency fee. See George Anders and Francine Schwadel, "Wall Streeters Helped Interco Defeat Raiders But at a Heavy Price," *The Wall Street Journal*, July 7, 1990, p. A1.

diversified conglomerate of manufacturing companies. Due in part to the acquisitions and the use of tax loss carryforwards, Danaher Corp.'s earnings had increased sixfold, from \$2.9 million in 1984 to \$19 million in 1987.

The Rales brothers had formed City Capital with the sole purpose of acquiring Interco. As disclosed in a Securities and Exchange Commission filing, it was their intention, after completing the acquisition, to sell Interco's apparel businesses and to consider selling parts of the footwear and general retailing businesses. In this same filing, the Rales brothers indicated that they would consider paying more than \$64 per common share for Interco.

On the morning of August 8, 1988, City Capital raised its offer for Interco to \$70 per share and stated its willingness to increase the price per share further should a review of more detailed company information so warrant. Under the assumption of 37.5 million fully diluted shares outstanding the offer had an indicated value of over \$2.6 billion. The offer was conditional upon, among other things, the board's redemption of the newly amended rights plan or the invalidation of those rights pursuant to the proposed merger. Before raising the value of its offer for Interco, City Capital had arranged the required \$2.5 billion in financing. Drexel Burnham Lambert Inc., City Capital's financial advisor, had stated that it was "highly confident" it could raise up to \$1.375 billion of debt and/or equity for the \$70 per share proposal. Additional bank financing, including a \$1.1 billion credit facility arranged by Chase Manhattan Corp., would provide the remainder of the necessary funding.

Evaluation of the Takeover Bid

The original agenda for Interco's board meeting on August 8, 1988 largely focused on a previously announced restructuring plan that included selling the company's faltering apparel group, paying a special dividend, and/or repurchasing shares of common stock. However, with City Capital already owning a sizable portion of Interco's stock, Saligman and the board of directors recognized the urgency of responding to the Rales brothers' offer. To arrive at a conclusion, the board members would spend much of the August 8 board meeting discussing Wasserstein Perella's evaluation of the \$64 per share City Capital offer and other proposed alternatives. The two key alternatives consisted of a friendly merger and a restructuring of the company. Under both scenarios, it was assumed that key managers, including Saligman, would remain with the company. Before any decision could be made on City Capital's offer or any of the strategic alternatives, however, it was important for the board to assess Interco's value as determined by Wasserstein Perella. Historical financial statements are provided in **Exhibits 6** and **7**. Business segment information is given in **Exhibit 8**.

As the financial advisor to Interco, Wasserstein Perella prepared a number of analyses that resulted in a valuation range for the company of \$68-\$80 per share. Specifically, discounted cash flow analysis, comparable transaction analysis, and premiums paid analysis were used to determine that City Capital's offer of \$70 per share was inadequate and not in the best interests of Interco and its shareholders. **Exhibits 9-13** provide significant assumptions that Wasserstein Perella relied on in determining its expert opinion on Interco's value. **Exhibit 14** gives then-current market interest rates.

At Interco's board meeting on August 8, 1988, Wasserstein Perella informed the board of its analysis of City Capital's offer. Interco's board of directors voted to reject the \$70 per share bid the same day.

Exhibit 1 Board of Directors as of May 16, 1988

Harvey Saligman	Chairman of the Board and CEO of Interco
Harry M. Krogh	President and COO of Interco
Ronald L. Aylward	Vice Chairman of the Board of Interco
R. Stuart Moore	Vice President of Interco; President of The Lane Company, Inc., a subsidiary of Interco
Mark H. Lieberman	Vice President of Interco; President of Londontown, a division of Interco
Richard B. Loynd	Vice President of Interco; Chairman of the Board of Converse, Inc., a subsidiary of Interco
Charles J. Rothschild, Jr.	Vice President of Interco; Chairman of the Board of Megastar Apparel Group, a division of Interco
Zane E. Barnes	Chairman of the Board, President, CEO and director of Southwestern Bell Corporation, engaged in the general telecommunications business
Donald E. Lasater	Chairman of the Board, CEO and director of Mercantile Bancorporation, Inc., a bank holding company, and Chairman of the Board and director of Mercantile Bank National Association
Lee M. Liberman	Chairman of the Board, President, CEO and director of Laclede Gas Company, a gas public utility
Robert H. Quenon	President, CEO and director of Peabody Holding Company, Inc., which is engaged in coal mining and sales
William E. Cornelius	President, CEO and director of Union Electric Company, an electric public utility
Marilyn S. Lewis	Civic leader and volunteer
Thomas H. O'Leary	Vice Chairman of the Board and director of Burlington Northern Inc., a holding company with transportation, energy and natural resources concerns

As of April 15, 1988 all directors, nominees and officers of Interco, as a group (24 persons) beneficially owned 1.14% of the outstanding shares of Interco's common stock.

Source: Notice and Proxy Statement dated May 16, 1988

Exhibit 2 Subsidiaries

Abe Schrader Corp.
Big Yank Corp.
Bowen Shoe Co., Inc.
Broyhill Furniture Industries, Inc.
Campco Holdings, S.A.
Campus Pacific Ltd.
Central Hardware Co.
Clayton Operations, S.A.
College-Town, Inc.
Converse Inc.
Delmar Sportswear, Inc.
Ethan Allen Inc.
Factory Outlet Co.
Fine's Men's Shops, Inc.
Florsheim Inc.
Florsheim Shoe Store Co. of Hawaii
Florsheim Shoe Store Co.—Midwest
Florsheim Shoe Store Co. —Northwest
Florsheim Shoe Store Co. —South
Florsheim Shoe Store Co. —West
Golde's Department Stores, Inc.
Grand Entry Hat Corp.
Highland House, Inc.
Highland Transport, Inc.
Hy-Test, Inc.
Interco Subsidiary, Inc.
Keith O'Brien Investment Co.
Lane Co., Inc.
Lease Management, Inc.
Julius Marlow Holdings, Ltd.
L. J. O'Neill Shoe Co.
ORC Financial Ag
Patriot Investment Co.
Queen Casuals, Inc.
Senack Shoes, Inc.
Sky City Stores, Inc.
Stuffed Shirt Inc.
United Shirt Distributors, Inc.
Walton Road Management Co.

Source: Lotus One Source

Exhibit 3 Common Stock Price History (Monthly)

Month End Prices (adjusted for stock splits)		
1986	31-Jan-86	\$35.125
	28-Feb-86	39.000
	31-Mar-86	39.250
	30-Apr-86	39.625
	30-May-86	43.500
	30-Jun-86	47.188
	31-Jul-86	41.375
	29-Aug-86	43.750
	30-Sep-86	40.000
	31-Oct-86	43.750
	28-Nov-86	44.125
	31-Dec-86	36.875
1987	30-Jan-87	39.750
	27-Feb-87	42.625
	31-Mar-87	44.125
	30-Apr-87	39.625
	29-May-87	40.125
	30-Jun-87	45.375
	31-Jul-87	51.250
	31-Aug-87	53.250
	30-Sep-87	47.500
	30-Oct-87	36.000
	30-Nov-87	30.000
	31-Dec-87	32.250
1988	29-Jan-88	37.125
	29-Feb-88	42.000
	31-Mar-88	42.000
	29-Apr-88	41.125
	31-May-88	43.875
	30-Jun-88	44.750
	29-Jul-88	68.500

Source: Interactive Data Corporation

Exhibit 4 Common Stock Price History (Daily)**Daily Closing Prices**

02-May-88	\$40.250	01-Jul-88	44.625
03-May-88	41.500	04-Jul-88	N.A.
04-May-88	41.000	05-Jul-88	45.375
05-May-88	41.625	06-Jul-88	44.500
06-May-88	40.625	07-Jul-88	44.625
09-May-88	40.875	08-Jul-88	45.000
10-May-88	41.750	11-Jul-88	45.250
11-May-88	41.625	12-Jul-88	45.375
12-May-88	42.000	13-Jul-88	46.375
13-May-88	42.125	14-Jul-88	49.000
16-May-88	42.250	15-Jul-88	54.375
17-May-88	42.000	18-Jul-88	54.500
18-May-88	41.500	19-Jul-88	58.375
19-May-88	40.625	20-Jul-88	58.125
20-May-88	40.625	21-Jul-88	57.875
23-May-88	40.375	22-Jul-88	57.250
24-May-88	41.500	25-Jul-88	58.000
25-May-88	42.500	26-Jul-88	58.875
26-May-88	42.625	27-Jul-88	59.375
27-May-88	41.250	28-Jul-88	67.750
30-May-88	N.A.	29-Jul-88	68.500
31-May-88	43.875	01-Aug-88	68.875
01-Jun-88	43.500	02-Aug-88	67.625
02-Jun-88	42.875	03-Aug-88	67.000
03-Jun-88	44.125	04-Aug-88	67.375
06-Jun-88	43.250	05-Aug-88	68.250
07-Jun-88	42.000	08-Aug-88	72.500
08-Jun-88	43.875		
09-Jun-88	43.375		
10-Jun-88	43.375		
13-Jun-88	43.500		
14-Jun-88	43.625		
15-Jun-88	42.500		
16-Jun-88	42.875		
17-Jun-88	43.625		
20-Jun-88	43.250		
21-Jun-88	43.125		
22-Jun-88	43.750		
23-Jun-88	43.625		
24-Jun-88	43.500		
27-Jun-88	43.625		
28-Jun-88	44.000		
29-Jun-88	44.000		
30-Jun-88	44.750		

Source: Interactive Data Corporation

Exhibit 5 Shareholder Rights Plan

On September, 23, 1985, Interco's board of directors adopted a shareholder rights plan designed to deter unsolicited takeover bids by creating the threat of substantial dilution for any person or group attempting an unfriendly merger with Interco.

The original plan was amended on July 11, 1988, by the board of directors. At that time, the directors were aware that Interco's common stock was under accumulation and were suspicious of a third-party acquisition offer for the company.³ Changes in the purchase price per share and certain triggering provisions, otherwise known as poison pill shareholder rights, made the takeover defense more onerous. Specifically, the amended rights plan declared that it would issue a dividend of one share purchase right per share of common stock. The amended rights plan also gave the board sole discretion to lower certain triggering percentages such that the massive dilutive effects of the plan would come into play when a person or group acquired as little as 15% of the shares of Interco's stock.

At Interco's board meeting on August 8, 1988, the board approved "golden parachute" severance agreements for Interco's senior executives, to be triggered upon an acquisition by a third party, including City Capital. According to an SEC filing, the golden parachute severance agreements were valued at \$16.3 million and covered 17 top executives at Interco. Lump sum payments, including \$2.2 million to Harvey Saligman, would be made under certain conditions if the company was taken over.

³As claimed in Civil Action No. 10111, the Second Amended and Consolidated Class Action Complaint as filed in the Court of Chancery of the State of Delaware in and for New Castle County, p. 16.

Exhibit 6 Historical Balance Sheets

INTERCO
Consolidated Balance Sheet
(\$000s except per share data)

February 28,	1986	1987	1988 ^a	May 31,	
				1987	1988
Current Assets:					
Cash	\$ 16,856	\$ 16,631	\$ 20,849	\$ 29,700	\$ 19,622
Marketable securities	127,341	63,747	11,033	57,789	16,366
Receivable, net	402,225	446,755	486,657	431,743	460,759
Inventories	647,116	733,907	805,095	786,792	872,135
Prepaid expenses and other current assets	<u>22,547</u>	<u>25,614</u>	<u>35,665</u>	<u>25,622</u>	<u>44,959</u>
Total current assets	\$1,215,815	\$1,286,654	\$1,359,299	\$1,331,646	\$1,413,840
Property, Plant and Equipment:					
Land	26,770	32,266	32,525	-	-
Buildings and improvements	437,812	465,811	471,787	-	-
Machinery and equipment	<u>320,256</u>	<u>364,499</u>	<u>380,402</u>	<u>-</u>	<u>-</u>
	784,838	862,576	884,714	868,670	890,887
Less accumulated depreciation	<u>343,018</u>	<u>377,226</u>	<u>405,215</u>	<u>386,762</u>	<u>412,332</u>
Net Property, Plant and Equipment	441,820	485,350	479,499	481,908	478,555
Other Assets	<u>99,238</u>	<u>153,383</u>	<u>146,788</u>	<u>149,170</u>	<u>146,878</u>
Total Assets	<u>\$1,756,893</u>	<u>\$1,925,387</u>	<u>\$1,985,586</u>	<u>\$1,962,724</u>	<u>\$2,039,273</u>
Current Liabilities:					
Notes payable	\$ --	\$ 68,840	\$ 70,517	\$ 97,297	\$ 146,016
Current maturities of long-term debt and capital lease obligations	9,647	11,915	8,172	9,288	8,900
Accounts payable and accrued expenses	184,032	216,365	239,513	278,847	292,051
Income taxes	<u>12,699</u>	<u>17,327</u>	<u>4,402</u>	<u>15,294</u>	<u>5,463</u>
Total Current Liabilities	\$ 249,587	\$ 358,226	\$ 373,343	\$ 400,726	\$ 452,430
Long-term debt, less current maturities	127,409	135,019	257,327	133,403	255,279
Obligations under capital leases, less current maturities	56,495	50,546	41,813	49,270	40,032
Other long-term liabilities	43,249	55,381	61,766	56,410	63,484
Shareholders' Equity:					
Preferred stock, no par value	66,027	61,795	57,113	61,285	36,721
Common stock, \$3.75 stated value	163,765	163,643	155,088	155,088	155,088
Capital surplus (41,356,847 shares issued)	104,205	98,246	44,539	49,149	32,117
Retained earnings	<u>1,027,895</u>	<u>1,099,006</u>	<u>1,179,964</u>	<u>1,111,527</u>	<u>1,194,884</u>
	1,361,892	1,422,690	1,436,704	1,377,049	1,418,810
Less 5,173,811 treasury shares	<u>81,739</u>	<u>96,475</u>	<u>185,367</u>	<u>54,134</u>	<u>190,762</u>
Total Shareholders' Equity	<u>1,280,153</u>	<u>1,326,215</u>	<u>1,251,337</u>	<u>1,322,915</u>	<u>1,228,048</u>
Total Liabilities and Net Worth	\$1,756,893	\$1,925,387	\$1,985,586	\$1,962,724	\$2,039,273

Source: Annual report, 10Q's

^aFebruary 29, 1988

Exhibit 7 Historical Income Statements

INTERCO
Consolidated Statement of Earnings
(\$000s)

Year Ended February 28,	1986	1987	1988 ^a	First Quarter Ended May 31,	
				1987	1988
Income:					
Net sales	\$2,832,384	\$2,946,902	\$3,341,423	\$781,421	\$778,107
Other income	<u>36,140</u>	<u>32,175</u>	<u>29,237</u>	<u>6,293</u>	<u>6,864</u>
	2,868,524	2,979,077	3,370,660	787,714	784,971
Costs and Expenses:					
Cost of sales	1,932,258	2,000,423	2,284,640	522,759	522,942
Selling, general and administrative expenses	681,886	712,861	799,025	199,145	201,129
Interest expense	<u>25,523</u>	<u>28,082</u>	<u>33,535</u>	<u>7,351</u>	<u>9,179</u>
	2,639,667	2,741,366	3,117,200	735,438	733,067
Earnings before income taxes	228,857	237,711	253,460	52,276	51,904
Income taxes	<u>109,008</u>	<u>111,937</u>	<u>108,457</u>	<u>25,276</u>	<u>25,762</u>
Net earnings	<u>\$ 119,849</u>	<u>\$ 125,774</u>	<u>\$ 145,003</u>	<u>\$ 26,514</u>	<u>\$ 30,689</u>
Operating income ^b	218,240	233,618	257,758	53,334	54,219
Operating cash flow ^c	267,756	287,133	319,275	-	-

Source: Annual report and 10Q

^aFor the year ended February 29, 1988^bOperating income equal to the sum of earning before income taxes and interest expense less other income^cOperating cash flow equal to the sum of operating income and depreciation expense

Exhibit 8 Business Segment Information

				First Quarter Ended May 31,	
Year Ended February 28,	1986	1987	1988	1987	1988
Net Sales to Unaffiliated Customers:					
Apparel	\$ 907,833	\$ 817,660	\$ 813,198	\$160,339	\$138,836
General retail	461,785	498,324	532,251	148,138	149,209
Footwear	558,286	663,521	890,411	209,535	226,672
Furniture	<u>904,480</u>	<u>967,397</u>	<u>1,105,563</u>	<u>263,409</u>	<u>263,390</u>
Total	\$2,832,384	\$2,946,902	\$3,341,423	\$781,421	\$778,107
Operating Earnings:					
Apparel	\$ 66,716	\$ 47,269	\$ 20,240	(\$670)	(\$247)
General retail	32,085	40,610	39,101	14,136	12,498
Footwear	48,475	52,136	92,204	15,777	19,700
Furniture	<u>105,111</u>	<u>123,766</u>	<u>149,090</u>	<u>38,319</u>	<u>32,196</u>
Total	\$ 252,387	\$ 263,781	\$ 300,635	\$ 67,562	\$ 64,147
Other income	\$ 36,140	\$ 32,175	\$ 29,237	\$ 6,293	\$ 6,864
Corporate expense	<u>(34,147)</u>	<u>(30,163)</u>	<u>(42,877)</u>	<u>(14,228)</u>	<u>(9,928)</u>
Earnings before interest and taxes	254,380	265,793	286,995	59,627	61,083
Interest expense	<u>(25,523)</u>	<u>(28,082)</u>	<u>(33,535)</u>	<u>(7,351)</u>	<u>(9,179)</u>
Earnings before income taxes	\$ 228,857	\$ 237,711	\$ 253,460	\$ 52,276	\$ 51,904
Identifiable Assets at Year End:					
Apparel	\$ 456,972	\$ 465,601	\$ 425,350		
General retail	234,004	248,639	252,195		
Footwear	291,292	497,706	595,861		
Furniture	<u>618,980</u>	<u>640,106</u>	<u>688,853</u>		
	\$1,601,248	\$1,852,052	\$1,962,259		
Corporate Assets	<u>155,645</u>	<u>73,335</u>	<u>23,327</u>		
Total	\$1,756,893	\$1,925,387	\$1,985,586		
Depreciation Expense:					
Apparel	\$ 11,965	\$ 12,123	\$ 12,521		
General retail	8,294	9,079	9,681		
Footwear	8,286	10,638	13,107		
Furniture	<u>20,971</u>	<u>21,675</u>	<u>26,208</u>		
Capital Expenditures:					
Apparel	\$ 13,433	\$ 8,869	\$ 9,220		
General retail	6,169	8,167	10,735		
Footwear	8,114	7,486	9,236		
Furniture	<u>27,278</u>	<u>24,720</u>	<u>36,188</u>		

Source: 1988 Annual reports and 10Q

Exhibit 9 Summary of the Takeover Offer**City Capital Associates, L.P. Offer**

Date:	August 8, 1988
Price per share:	\$70.00
Premium to stock one-day prior ^a	17.9%
Premium to stock one-month prior:	59.1%
Premium to 52-week low:	137.3%
Premium to 52-week high:	17.2%
Value of equity	\$2,622.8MM
Net debt	<u>318.5MM</u>
Value of firm	\$2,941.3MM

	Value of Firm as a Multiple of:			Value of Equity as a Multiple of:	
	Sales	Operating Cash Flow	Operating Income	Net Income	Book Value
Year ending 2/29/88	0.9x	9.2x	11.4x	18.1x	2.2x
Estimate of year ending 2/28/89	0.9	8.8	10.7	17.0	2.2

Source: Adapted with minor modifications in terminology from Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 10111, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aPremiums based on stock prices as of July 27, 1988

Exhibit 10 Premiums Paid Analysis

	# Deals ^a	Average Premium Paid over Stock Price			
		<u>One Day</u>	<u>4 Weeks</u>	<u>52-Week Low</u>	<u>52-Week High</u>
1Q 1988	19	62.3%	95.5%	159.5%	16.7%
2Q 1988	9	68.6%	91.3%	182.8%	31.5%
3Q 1988 ^b	12	36.5%	49.9%	181.3%	2.6%
1988	40	56.0%	80.9%	171.3%	15.8%
Rales		17.9%	59.1%	137.3%	17.2%

Source: Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 10111, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aWasserstein, Perella & Co., Inc. selected tender offers

^bSelected tender offers from the months of July and August

Exhibit 11 Comparable Transaction Analysis

a. Purchase Price Multiples by Business Segment

Furniture Manufacturing Companies

Announcement Date	Acquiror/Target	Aggregate Price (\$MM) ^a	Purchase Price Multiples ^a				
			Net Income	Book Value ^b	Sales	Operating Income	Operating Cash Flow
12/14/87	La-Z-Boy/Kincaid	\$63.5	22.0x	2.1x	0.8x	11.7x	8.1x
11/17/86	INTERCO/Lane	523.7	19.3	2.8	1.6	11.1	9.6
08/12/86	Chicago Pacific/ General Mills Furniture	89.3	14.1	1.8	1.0	12.0	9.9
06/03/86	Masco/Henredon	260.9	31.6	2.6	2.1	20.3	15.8
08/08/88	Rales Proposal	\$2,941.3	18.1x	2.2x	0.9x	11.4x	9.2x

Source: Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 10111, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aSales, operating income, and operating cash flow multiples adjusted for the value of net debt outstanding

^bBook value adjusted for intangibles

Footwear Manufacturing Companies

Announcement Date	Acquiror/Target	Aggregate Price (\$MM) ^a	Purchase Price Multiples ^a				
			Net Income	Book Value ^b	Sales	Operating Income	Operating Cash Flow
04/25/88	NIKE/Cole Haan	\$95.0	36.2x	N.M.	1.5x	14.1	12.2
06/03/87	Moacq/Morse Shoe	312.5	2.5	1.8	0.5	13.0	9.2
03/10/87	Reebok/AVIA	191.0	40.6	6.7	2.1	24.6	23.3
09/18/86	Reebok/Rockport	146.1	30.7	N.M.	1.7	26.0	23.9
07/31/86	INTERCO/Converse	202.7	37.1	1.8	0.9	24.7	18.2
08/08/88	Rales Proposal	\$2,941.3	18.1x	2.2x	0.9x	11.4x	9.2x

Source: Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 10111, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aSales, operating income, and operating cash flow multiples adjusted for the value of net debt outstanding

^bBook value adjusted for intangibles

Exhibit 11 (continued) Comparable Transaction Analysis

Apparel Companies

Announcement Date	Acquiror/Target	Aggregate Price (\$MM) ^a	Purchase Price Multiples ^a				
			Net Income	Book Value ^b	Sales	Operating Income	Operating Cash Flow
04/28/88	Wesray/William Carter	\$157.4	N.M.	1.6x	0.8x	24.0x	13.7x
02/02/88	Salant/Manhattan Indus.	129.7	N.M.	1.4	0.4	N.M.	N.M.
03/17/86	W Acquisition/Warnco	504.7	21.0	2.5	0.9	10.6	9.2
11/04/85	West Point Pepperall/ Cluett, Peabody	551.9	19.6	1.5	0.6	10.6	9.2
08/08/88	Rales Proposal	\$2,941.3	18.1x	2.2x	0.9x	11.4x	9.2x

Source: Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 10111, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aSales, operating income, and operating cash flow multiples adjusted for the value of net debt outstanding

^bBook value adjusted for intangibles

Central Hardware Division

Announcement Date	Acquiror/Target	Aggregate Price (\$MM) ^a	Purchase Price Multiples ^a				
			Net Income	Book Value ^b	Sales	Operating Income	Operating Cash Flow
06/24/88	Management Group/ Payless Cashways	\$1,189.4	22.0x	2.3x	0.6x	13.1x	9.2x
08/08/88	Rales Proposal	\$2,941.3	18.1x	2.2x	0.9x	11.4x	9.2x

Source: Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 10111, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aSales, operating income, and operating cash flow multiples adjusted for the value of net debt outstanding

^bBook value adjusted for intangibles

Exhibit 11 (continued) Comparable Transaction Analysis

b. Value Ranges by Business Segment

Business Segment	1988 Sales	Multiple Range			Value Range		Median Value
Apparel	\$ 813.2	.4	-	.9	\$ 325.3	- \$ 731.9	\$ 569.2
General retail	532.3	.6	-	.6	319.4	- 319.4	319.4
Footwear	890.4	.5	-	2.1	445.2	- 1,869.8	1,335.6
Furniture	1,105.6	.8	-	2.1	<u>884.5</u>	- <u>2,321.8</u>	<u>1,437.3</u>
					\$1,974.4	- \$5,242.9	3,661.5

Business Segment	1988 Operating Income	Multiple Range			Value Range		Median Value
Apparel	\$ 20.2	10.6	-	24.0	\$ 214.1	- \$ 484.8	\$ 214.1
General retail	39.1	13.1	-	13.1	512.2	- 512.2	512.2
Footwear	92.2	13.0	-	26.0	1,198.6	- 2,397.2	2,268.1
Furniture	149.1	11.1	-	20.3	<u>\$1,655.0</u>	- <u>\$3,026.7</u>	<u>1,766.8</u>
					\$3,579.9	- \$6,420.9	\$4,761.2

Business Segment	1988 Operating Cash Flow	Multiple Range			Value Range		Median Value
Apparel	\$ 32.7	9.2	-	13.7	\$ 300.8	- \$ 448.0	\$ 300.8
General retail	48.8	9.2	-	9.2	448.9	- 448.9	448.9
Footwear	105.3	9.2	-	23.9	968.8	- 2,516.7	970.7
Furniture	175.3	8.1	-	15.8	<u>\$1,419.9</u>	- <u>\$2,769.7</u>	<u>1,709.2</u>
					\$3,138.4	- \$6,183.3	\$3,429.6

Exhibit 12 Discounted Cash Flow Analysis

Assumptions	Furniture Group	Footwear Group	Apparel Group	Retail Group	Total
Sales growth ^a	7.7%	6.3%	7.1%	7.6%	7.2%
Operating margin range ^b	13.1%-14.1%	9.1%-10.4%	6.4%-7.0%	6.5%-7.5%	9.2%-10.1%
Capital expenditures ^c	1x	1x	1x	1x	1x
Increase in working investment ^d	12.5%	12.5%	12.5%	7.5%	11.6%
Tax rate					41.0%

	Multiple of Cash Flow in Year 10		
	14.0x	15.0x	16.0x
Terminal value (\$ millions)	4,746.0	5,085.0	5,424.0
Implied stock price			
Discount rate			
10.0%	\$80.00	\$84.00	\$88.00
11.0%	74.00	77.00	81.00
12.0%	68.00	72.00	75.00
13.0%	63.00	66.00	69.00

Source: Adapted with minor modifications in terminology from Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 1011, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aTen-year annual compound growth rate

^bProjected operating margin in 1989 and in 1998

^cAs a multiple of depreciation

^dAs a percent of the change in sales in 1994 forward

Exhibit 13 Reference Range; Retain Core Companies Case (\$ millions Except Per Share)

Segment	Range		
Furniture Group	\$1,525	-	\$1,750
Footwear Group	<u>775</u>	-	<u>900</u>
Total	\$2,300	-	\$2,650
After-tax Divestiture Proceeds	\$ 588	-	\$ 639
Net Corporate Adjustments ^a	<u>(335)</u>	-	<u>(273)</u>
Range	\$2,553	-	\$3,016
Per Share Range ^b	<u>\$68.00</u>	-	<u>\$80.00+</u>

Source: Wasserstein, Perella & Co., Inc. presentation to the Interco Board of Directors, August 8, 1988. Civil Action No. 1011, filed in the Court of Chancery of the State of Delaware in and for New Castle County, Exhibit 23.

^aAccounts for net debt, overfunded pension and miscellaneous other assets that include real estate which could be understated

^bBased on 37.5 million fully-diluted shares outstanding

Exhibit 14 Indexes of Monthly Adjusted Closing Prices 1980-1988, Actual Daily Closing Prices, July-August 1988 and Market Interest Rates, August 1988

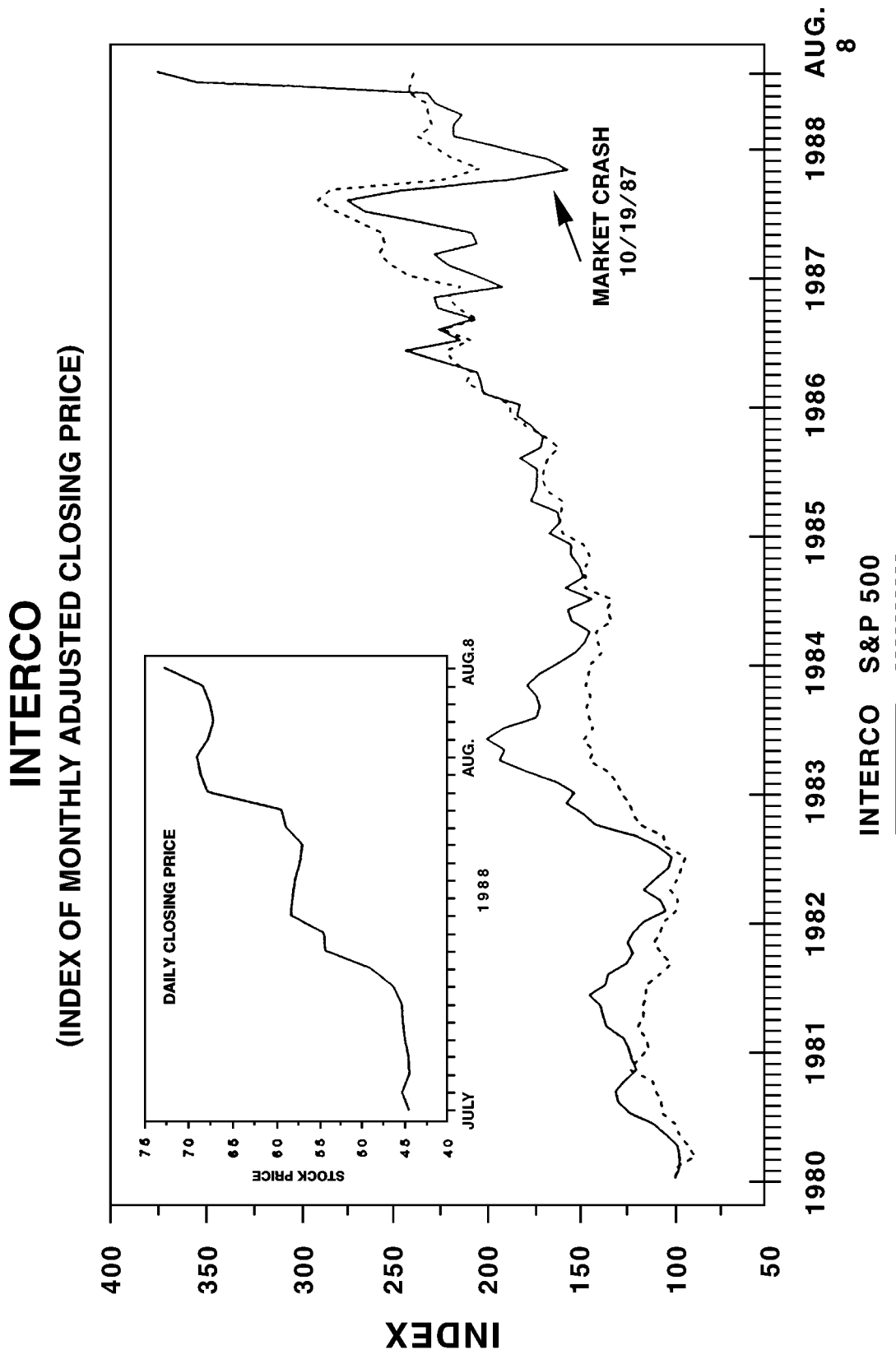


Exhibit 14 (continued) Market Interest Rates

Yield Curve at August 4, 1988:

1-year Treasury bills	7.83%
7-year Treasury bonds	8.87
10-year Treasury bonds	9.01
30-year Treasury bonds	9.10

**Corporate Bond Rates at August 5, 1988:
(industrial companies)**

10-year AAA	9.50%
10-year AA	9.65
10-year A	9.80
10-year BBB	10.10

Source: Salomon Brothers, Inc.