

Another White Knight Opportunity: 1985

... But there were some potential negative ramifications for Lay to consider. The combined InterNorth/HNG entity would have a daunting \$4.3 billion debt to manage and an anticipated \$357 million greenmail payment for the stock Jacobs already owned. This would deplete the firm of badly needed cash.¹ Also, it would be a merger of unequal partners because InterNorth's revenue of \$7.5 billion was three times larger than the revenue of HNG. Such a size disparity typically resulted in the smaller firm being taken over by the larger one. Bureaucratic redundancies would have to be eliminated to reduce costs, which would probably mean InterNorth executives gaining control of HNG's assets. Only one CEO would be needed, not two, and corporate control would transfer from Houston to Omaha.

DECISION CHOICE. *If you were Ken Lay would you:*

(1) reject InterNorth's proposal in order to protect your job, to protect the job of your managers, and to keep Houston Natural Gas headquartered in Houston; or

(2) merge with the much larger InterNorth, risk many executives losing their jobs due to redundancies, cash out your stock options, and begin looking for another CEO position? Why?

¹ Bryce, *Pipe Dreams*, 33.