



SCHIFF'S

INSURANCE OBSERVER

Evening Telegraph Edition

June 7, 2000

Volume 12e • Number 7

The Big Squeeze

Reliance Group on the Brink Loans at 60¢ per Share

"WHEN THE WELL RUNS DRY, we know the worth of water," wrote Benjamin Franklin in *Poor Richard's Almanac*.

Saul Steinberg, chairman of Reliance Group, probably knows what Franklin was talking about. Throughout his career, Steinberg has displayed a remarkable knack for raising capital—both debt and equity—against what looked like long odds.

Steinberg, however, never stopped betting against the house, and now the house is putting the squeeze on him.

Reliance Group has always been leveraged, and based upon a 13-D filing

made Monday by Leucadia National, it appears that Saul Steinberg is, too.

Reliance Group, you will recall, is trying to sell itself to Leucadia. As part of the deal the Steinbergs have granted Leucadia an option to purchase their shares, which represent a 33% interest in Reliance Group, for \$2.50 each.

The 13-D filing revealed that 30,548,840 of the Steinbergs' 38,239,577 shares of Reliance Group have *already*

been pledged to various lenders, presumably as collateral for loans.

As the chart shows, Saul Steinberg has pledged 23,410,000 of the 29,275,053 shares he controls. The pledged shares, which have a current market value of \$45.35 million, secure \$14 million in loans.

Steinberg, for example, pledged 8,700,000 shares of Reliance Group to Provident Bank to secure a \$5 million loan. (One supposes that banks prefer to lend against collateral that is conservatively valued.)

Based on the amount of money lent against Saul Steinberg's pledged shares, it appears that Provident, Bear Stearns, and Smith Barney were willing to lend only 60¢ for each share of Reliance pledged.

That's a long way from the \$2.90 per share that stockholders are to receive (in the unlikely event) the Leucadia-Reliance deal comes off as advertised. ■

Shareholder	No. of Shares	Pledged Shares	Pledgee	Amount
Saul P. Steinberg, and on behalf of Steinberg Family Partners L.P.	29,275,053	8,700,000	Provident Bank	\$5,000,000
		8,000,000	Bear Stearns	\$5,000,000
		6,710,000	Smith Barney	\$4,072,107
Robert M. Steinberg	4,838,840	4,838,840	M&T Bank	\$7,000,000
Lynda Jurist (Steinberg's sister)	4,125,684	2,300,000	M&T Bank	\$3,000,000
	38,239,577	30,548,840		\$24,072,107

Source: Leucadia National 13D, Schedule I

Editor and Writer David Schiff
Production Manager Bill Lauck

Publisher Reid Nagle
Subscription Manager Pat LaBua

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