New Shareholders to Weigh Take-Two Bid
Matt Richtel

Electronic Arts, which on Thursday began a direct tender offer to shareholders of Take-Two Interactive, finds itself negotiating with a group of shareholders much different from what it would have faced a month ago, when it first proposed a takeover.

Since then there has been a considerable turnover in ownership of Take-Two. Gone are many long-term shareholders, who have given way to a group of investors willing to risk that the buyout will provide quick profit.

This turnabout has laid the groundwork for a narrative that will play out over the next 20 days involving two of the biggest companies in the video game industry.

Electronic Arts announced last month that it would pay $2 billion for Take-Two, an offer the company's management rejected. The offer amounts to $26 a share, a 50 percent premium over the stock's closing price of $17.13 on Feb. 22.

Many Take-Two shareholders have sold shares to investors looking to profit in a buyout. But that does not mean the short-term investors will be satisfied with Electronic Arts' current offer. Some say these investors are gambling that they can force Electronic Arts to raise its bid a few more dollars per share.

John Riccitiello, the chief executive of Electronic Arts, said he thought some of these investors could become nervous if they thought Electronic Arts would walk away if pressed too hard.

"Some might hold out for $1 or $2," he said in an interview on Thursday. But they "might be more scared of losing $7 or $8 if our offer goes away."

That perspective differs from what some of the short-term investors, commonly called arbitrage investors, are saying. One such investor, who declined to be identified citing his company's policy against commenting publicly, said that he believed that institutions with small short-term stakes could band together to push Electronic Arts to raise its offer at least a few dollars.

The short-term investor said that he believed a representative from Electronic Arts has told Wall Street investors that the company is loath to walk away from the deal, giving the arbitrageurs hope the company could be pressured to raise its price.

Take-Two's management has said it will not negotiate any deal until after April 29, the day it releases Grand Theft Auto IV, the next iteration of its hit video game franchise.

Take-Two declined to comment on the hostile takeover effort. In a news release, the company said its directors would take 10 days to consider the proposal.

The tender offer lasts 20 business days, ending on April 11. At that point, Electronic Arts could extend the offer.

For his part, Mr. Riccitiello said that his company cannot afford to wait to negotiate until the release of Grand Theft Auto IV. He said Electronic Arts must subsume Take-Two in time to get the full benefit of its assets by the all-important year-end holiday sales season.

Since Electronic Arts first made public its interest in acquiring Take-Two there has been unusually high trading volume in the company's shares. Among the heavy traders, funds at Oppenheimer have sold 8.8 million shares, about half what they owned previously. Some Fidelity funds have sold 8.2 million shares, leaving it with a relatively paltry 2 million shares.

Fidelity declined to comment, citing a policy against commenting on individual securities. Oppenheimer did not respond to a request for comment.

Evan Wilson, an analyst with Pacific Crest Securities, said that Electronic Arts' decision to go hostile could cause it some problems with Take-Two's creative teams. He said that game development studios, like Rockstar Games, which makes Grand Theft Auto, may not stick around to work for Electronic Arts.

Mr. Riccitiello said he had not spoken to the Rockstar team about the takeover effort, but he said he could make a strong case to them that Electronic Arts offers them a stable company that can deliver their games to a broader audience.

"We, in many ways, represent a white knight." he said.

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