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BY E-FILING

The Honorable William B. Chandler, III
Chancellor
Court of Chancery of the State of Delaware
34 The Circle
Georgetown, DE 19947

RE: *Steel Partners II, L.P. v. Point Blank Solutions, Inc.*
C.A. No. 3695-CC

Dear Chancellor Chandler:

We write on behalf of Point Blank Solutions, Inc. ("Point Blank" or "Company") in response to the opposition ("Opposition" or "Opp.") of plaintiff Steel Partners II, L.P. ("Steel") to the Company's Motion to Postpone Annual Meeting of Stockholders from August 19 to November 19, 2008 ("Motion").

While Steel's Opposition conveys its disappointment at not being able to force a stockholder vote quickly, nowhere in Steel's colorful language does it truly address Point Blank's concerns regarding its former CEO, David H. Brooks, or Steel's interest in potentially taking Point Blank private at the lowest possible price from a Board controlled by Steel's nominees. Notably, Steel does not dispute that it and Brooks each has interests that are adverse to those of other stockholders, that together they stand to heavily influence the vote, and that they will be in a position to cut off the exploration of strategic alternatives, to the detriment of those stockholders.

Faced with this prospect and the potential harm to other stockholders, and consistent with the Board's fiduciary duty to all stockholders, Point Blank has been working diligently to canvass the market and make sure that any potential going private transaction with Steel is not simply "a done deal." It seeks only a 90-day postponement in order to complete a process which could create an effective check against a Steel-Brooks alliance taking control of the Company for its own purposes on its own terms.

In its effort to press the advantage it perceives for itself in maintaining an August 19 meeting date, Steel advances a series of arguments that are directed against "straw men," based either on alleged "facts" that are not facts or on positions Steel attributes to the Company that are not actually taken by the Company.

Point Blank Is Adhering To, Not Walking Away From, The Stipulation And Order

Steel begins its argument by stating that "one of the issues presented by Point Blank's motion is whether Point Blank should be permitted to walk away from a settlement it negotiated with Steel Partners." Opp. at p. 10. Steel's statement, however, ignores the plain language of the Stipulation and Order entered by this Court on May 23, 2008. *See* Stipulation and Order (the "Order"), attached hereto as Ex. A. The Order provides that "Unless otherwise approved by this Court, for *good cause shown* and on notice to plaintiff, defendant Point Blank Solutions, Inc. ("Point Blank") shall hold its annual meeting of stockholders no later than August 19, 2008." *Id.* at ¶ 1 (emphasis added).

Thus, the Order's plain language provides a mechanism by which Point Blank can seek relief. The Company's use of that mechanism, by seeking to demonstrate it has met the requisite showing of "good cause," means it is acting consistently with the agreement, not walking away from it.

Rule 60(b) Is Inapplicable

Similarly misplaced is Steel's invocation of Rule 60(b) for the relevant standard. Opp. at p. 13. That rule applies when a party seeks "relief from a final judgment." Here, however, the Order is not a final judgment. More important, Point Blank does not seek relief from the Order, it simply seeks a judicial determination, as expressly contemplated by the Order, that it has demonstrated the criteria set forth by the Order for holding the annual meeting after August 19, 2008. Rule 60(b) is inapplicable.

Steel, a sophisticated party advised by counsel, entered into the Order voluntarily. If it had wanted to rule out any postponement, or apply an "extraordinary circumstances" test to any request for postponement, it could easily have included such language. Instead, it agreed to a different standard, "good cause," to govern such requests. Its attempt to impose a different standard after the fact is insupportable.

The Company Seeks A 90-Day Postponement, Not An "Indefinite" Postponement

Another straw man attacked by Steel is the notion that the Company seeks an "indefinite postponement." Opp. at pp. 2, 17-18. Steel places great emphasis on its argument that an indefinite postponement would be contrary to stockholder democracy. However, the Company does not seek an indefinite postponement, it seeks a 90-day postponement, and the lengthy argument (as well as the inventive but misplaced "Groundhog Day" metaphor) based on the harm created by an indefinite postponement is entirely irrelevant.

In its legal argument, Steel seeks to distinguish the present facts from those in certain of the cases cited by Point Blank. But the Company has never argued that the factual situations are identical. Rather, these cases, *MAI Basic Four, Inc. v. Prime Computer, Inc.*, and *Huffington v. Enstar Corp.*, reflect the discretion Delaware courts have in ruling on timing of annual meetings and the courts' understanding that, despite concerns regarding the shareholder franchise, there are times when it is in the best interest of a corporation and all of its stockholders to delay a vote for a modest period of time until all the stockholders are in a position to adequately make a decision. Nothing in Steel's Opposition undermines these points or this Court's power to exercise its equitable discretion to protect the rights of all stockholders.

Completion Of The Strategic Process Would Allow For A More Effective Choice

Steel blasts as "specious" the argument that the postponement is needed to improve the quality of information being given to shareholders, asserting that the Company can get out the information to stockholders now. Of course that is true: the Board can communicate with its stockholders and is doing so. The Company's point, however, is not that it lacks access to the U.S. mails and other communications media, but rather that the overall flow of information to the stockholders would be improved if the election were held after the completion of the strategic alternatives process, and the incumbents could tell the complete story of that process rather than provide a mid-stream update. This would lead to a fuller record upon which stockholders could make a decision.[1]

Interestingly, Steel advances another argument that acknowledges that the Board could have more information on the strategic process to present in 90 days, but then suggests that such information would not matter in the stockholder vote because Brooks' "motivations" would be unchanged (an observation that only underscores the Board's concern about the Brooks-Steel alliance). *See* Opp. at p. 28. Yet, on the very same page, Steel notes that Brooks and Steel, at approximately 40 percent of the vote combined, do not control a majority and would depend on "securing votes from other stockholders of Point Blank." Opp. at p. 28. Thus, there would be a stockholder audience to whom the enhanced information based on completion of the strategic process could matter.

The Company Acted Based On Events In April, May, And June

Yet another illustration of Steel's failure to address the actual record is the contention that the key facts the Company relies on in seeking a postponement were known to it when on April 8 it initially postponed the April 22 annual meeting to August 19. This is simply incorrect, ignoring for example the detailed discussion in the Motion of the delays in the strategic alternatives process created by unanticipated and repeated delays in the awarding of U.S. government body armor contracts. *See* Motion at pp. 11-13; Hopgood Decl. ¶ 25. All of the

[1] Similarly, confidentiality agreements with potential buyers or investors do not prevent all disclosure, but they do significantly limit what the Company can say.

critical events involving these contract delays occurred from late April through June 2008. Steel, however, chooses to ignore these facts.

The Board Seeks To Pursue Its Duty To All Stockholders

More fundamentally, Steel's Opposition ignores that a board of directors has the obligation under Delaware law to protect all stockholders collectively as the corporation. Here, Steel represents a true threat to the remaining 60 percent of Point Blank's shareholders by virtue of the fact that it may attempt to take the company private after taking control of the Board. This concern is reflected in the letter sent to this Court on August 6, 2008, by Dolphin Limited Partnership III, L.P. and affiliates ("Dolphin") who hold approximately 3.5 percent of Point Blank's shares. *See* Ex. B, attached hereto. Dolphin notes that the Board is making a good-faith effort to seek strategic alternatives and, as shown by Point Blank in the Motion, that "exigent circumstances (including delays in military body armor orders) have delayed this prospect." *Id.* at p. 1. Dolphin thus "believes that a delay in holding the annual shareholder meeting until this material order is resolved is not only warranted, but is the best way to generate the highest acquisition price." *Id.* at p. 2.

Steel repeatedly notes that the Company has not held an annual meeting in more than three years. Point Blank does not dispute this, and indeed noted this fact itself in the Motion. It has also amply set forth why a stockholder vote in an annual meeting has not been held for over three years, relating the Company's decline during the Brooks regime and the 2006 crisis, the ouster of Brooks and appointment of a new Board and management, the Brooks indictment, and the positive governance and operational results under the new Board and management including the issuance of audited financial statements during the final quarter of 2007. *See* Motion at pp. 5-6. Having achieved this dramatic progress, the Board now seeks to place the company in the best possible position to pursue strategic alternatives. What Point Blank seeks from this Court is not to block a stockholder vote but to delay that vote to allow a Board to comply with its obligations to seek the best possible value for the stockholders of the company as a whole.

We remain at the disposal of the Court should the Court have any questions for us. Further, in light of the imminence of the currently scheduled date for the annual meeting, we request an opportunity to be heard early next week at the Court's convenience.

Respectfully submitted,

T.A. Kittila

Theodore A. Kittila (#3963)

cc: Register in Chancery (by e-filing)
Christian Douglas Wright, Esquire (by e-filing)
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Attachments