BREAKING THE RULES

Rome, June 28 (Bloomberg) -- Franco Bernabe, the chief executive of Telecom Italia SpA, had a pressing question for Roberto Colaninno, CEO of Olivetti SpA.

Bernabe cornered Colaninno in Rome, at a Jan. 13 conference of Confindustria, Italy's leading business association. The day before, the Telecom chief had read what seemed like an incredible report in la Repubblica. The Rome-based newspaper owned by former Olivetti CEO Carlo De Benedetti said Colaninno was readying a bid for Telecom, a company seven times its size.

``What's this about?'' asked Bernabe.

``Totally absurd,'' Colaninno shot back. ``Pure fantasy. I wouldn't worry about it.''

Colaninno was -- as Bernabe would learn soon enough – less than candid. The 55-year-old Olivetti CEO had already enlisted three U.S. banks and one Italian one to plan what would become Europe's biggest-ever takeover bid. He had also surreptitiously begun to approach senior politicians -- the Italian government owned 3.4 percent of Telecom and held veto power over changes in ownership -- entreating them to stay out of his way.

The exchange between the corporate leaders marked a start to what would become a 60.4 billion-euro ($63 billion) takeover battle -- and the defining deal of the era of the euro, Europe's new common currency. It was a transaction that would stand European financial conventions on their heads and set benchmarks for audaciousness and duplicity.

Bernabe, 50, believed Colaninno's denial. After all, how could the newspaper report have been anything but fantasy?

How Could It Be?

There was no denying Colaninno was a swashbuckler. A gruff-speaking former tax accountant turned car-parts magnate from Mantua, an agricultural city of 55,000, he was accustomed to confounding people's expectations. He had transformed Olivetti from an also-ran computer maker into Europe's No. 2 mobile-telephone service in just two years. But make a run at Telecom? How could a guppy swallow a whale?

Telecom, the former state monopoly, earned 1.98 billion euros on revenue of 23.48 billion euros in 1998. Olivetti netted just 128 million euros on revenue of 3.7 billion euros.

Ivrea-based Olivetti had only recently recovered from a brush with bankruptcy. The former manual typewriter maker lost 4.7 trillion lire ($2.5 billion) from 1991 through 1996.

At the time of the Confindustria meeting, Telecom's market value was 50 billion euros and its stock was rising. Bernabe figured Colaninno wouldn't be able to raise that kind of money -- much of which he would have to borrow.

Plus, Bernabe had good reason to think he had shareholders' confidence. His turnaround of Eni SpA, once an unprofitable and corrupt state-owned energy company, had been hailed in a Harvard Business School study. Since the government had named Bernabe as Telecom's boss in November, the stock had risen 25 percent.

New Playing Ground

But Bernabe, an aloof and urbane CEO who is fond of cycling and hiking, couldn't grasp -- even after he learned his company was really under attack -- that Europe had a new playing field, one in which raiders like Colaninno, who prefers duck hunting to hiking, write their own rules.

In Italy, takeovers had long been private affairs arranged by powerful industrial families like the Agnellis and Pirellis, with the help of the bankers who sat on their boards and the government officials with whom they socialized.

Colaninno, as a provincial upstart who had gate-crashed his way into the Italian establishment, wasn't bound by the niceties of doing business the old-fashioned way.

It was the euro, adopted by Italy and 10 other countries in January, that made Colaninno's takeover of Telecom possible. The new currency has contributed to the buildup of a huge pool of cheap capital in Europe.

Awash in Money

To be eligible to use the new currency, European governments had to cap their budget deficits at 3 percent of economic output -- a tall order for Italy, which had a deficit equivalent to 6.6 percent of gross domestic product in 1996. To get that ratio down, the Italian government sold stakes in companies like Telecom, raising 60 billion euros from 1993-98 -- one-fourth the total of all such asset sales in Europe.

Partly because European governments no longer have to borrow as much, the benchmark interest rate set by the new European Central Bank is now 2.5 percent. Italy's benchmark rate was 9 percent as recently as 1996.

Europe, in short, is awash in money. Much of it is in the hands of asset managers who control $6 trillion in funds, almost twice what they managed three years ago.

With all this cash looking for a home, virtually any European company can, with the right cast of characters, be put into play. Olivetti's conquest of Telecom has made the unthinkable thinkable.

``What was incredible in this affair is that the little guy wasn't in particularly good shape and the big guy wasn't that particularly sick, and still the little guy got the financing and took over the big guy,'' said Michel Bon, chief executive of France Telecom SA. ``We've never had that before in Europe. This is a major wakeup call.''

`Unfathomable' Deals

While executives tremble, bankers throughout Europe rejoice. No fewer than eight banks stand to collect a total of 328 million euros from the Olivetti-Telecom deal. And this may be only the beginning.

``For the right deal, at the right price and structure, previously unfathomable amounts of money can be raised,'' said Don McCree, head of European syndicated loans at Chase Manhattan Corp., Olivetti's lead banker. ``This opens up a whole new landscape in Europe.''

European companies announced $284 billion in mergers in the first quarter, more than double the figure from the same period last year, according to Securities Data Co. Bankers earned about $568 million in advisory fees. Small wonder that U.S. investment banks are relocating some of their star M&A advisers from New York to London.

In the excitement of the moment, though, it's easy to forget that mergers, particularly big ones financed mostly by debt, rarely meet the expectations of those who instigate them. The leveraged buyouts, or LBOs, that reshaped U.S. industry in the 1980s left a mixed legacy at best. ``I've read about them, and most of them were failures,'' said Bernabe in an interview after Olivetti gained control of Telecom.

An Idea Is Born

U.S. investment banks were key to Olivetti's bid from the start, though most of the bankers from those firms who worked with the company were Italian. Colaninno, who declined to be interviewed for this story, broached the idea last fall with Ruggero Magnoni and Vittorio Pignatti Morano of Lehman Brothers Holdings Inc., Olivetti's main investment bank for the past decade.

The CEO, who'd invested millions of euros of his own money in Olivetti, told the bankers he felt constrained. In his two years at the helm, he'd quit the computer business and bolstered Olivetti's position in telecommunications. Its Omnitel unit was now Europe's No. 2 mobile-phone network, and its Infostrada business was Italy's No. 2 fixed-line service.

Now, though, he had no place to grow. Olivetti's arrangement with major Omnitel shareholders -- Mannesmann AG of Germany and Bell Atlantic Corp. and AirTouch Communications Inc. of the U.S. -- restricted the company's ability to expand abroad. Buying Telecom was the best option, Colaninno concluded.

Sitting Duck

It was a tempting target, one with 80 percent of Italy's $28 billion market for fixed and mobile phone services. It had too many workers, generated 8 billion euros in cash annually and suffered from bad managers and restless shareholders.

Turmoil in the executive suite had reduced Telecom's share price by 44 percent in the 11 weeks to Oct. 9, making it attractive to a would-be raider. In October, the stock traded for five times cash flow per share, half the ratio of AT&T Corp. or British Telecommunications Plc. And Telecom had 7.9 billion euros in debt, just 14 percent of its total capitalization.

Colaninno and his bankers agreed that Telecom was ripe for an LBO -- a takeover in which the acquirer borrows money and uses the target company's own cash flow to repay it. They weren't the only people to see this.

In early November, James Cantwell, Donaldson, Lufkin & Jenrette Inc.'s top European telecommunications banker, called Omnitel CEO Silvio Scaglia. He asked Scaglia if Italy would permit a U.S. telephone company like SBC Communications Inc. to buy Telecom.

Alarm Bell

Scaglia said no, but he immediately alerted Colaninno. To both of them the message was clear: U.S. bankers were itching to put Telecom into play. If Olivetti didn't strike soon, someone else might.

Later that week, after a finance seminar at Claridge's Hotel in London, Colaninno sounded out Chase bankers Federico Imbert and James B. Lee. Over drinks at the hotel bar, he asked them if they thought he could raise enough money to buy Telecom. They said it was possible.

Encouraged, Colaninno asked Cantwell of DLJ and Magnoni and Pignatti of Lehman to devise a plan. Lehman dubbed the secret project ``Superstar.'' DLJ called it ``Riccio,'' Italian for ``urchin.''

Speed was essential. Telecom was a moving target -- and it was moving in the wrong direction. Investors, anticipating Bernabe's arrival as CEO, were pushing up its stock price.

The higher the stock went, the more cash Colaninno had to raise. He'd need to float a loan of as much as $25 billion – far larger than anything ever done in Europe. The Continent's biggest syndicated loan at that point was the $8 billion Zurich Insurance Co. had raised to buy B.A.T Industries Plc's financial units in 1997.

Season's Greetings

For a loan of this magnitude, Colaninno would need Chase, the world leader in syndication. On Dec. 22, as it happened, Chase's Imbert telephoned Colaninno to wish him a merry Christmas.

``I was just about to call you,'' Colaninno told the banker. ``I want to do it.''

On Christmas Eve, Lee, the Chase vice chairman Colaninno had met at Claridge's, called the Olivetti CEO from his home in Darien, Connecticut. Chase would consider arranging the jumbo loan only if the New York bank alone would be the lead manager. Colaninno agreed.

DLJ, Chase and Lehman bankers gathered in London on Jan. 8 and hatched a plan. Its highlight would be a hybrid security the likes of which Italians had never seen. To avoid having to borrow so much money, they would offer Telecom investors interest-bearing notes that would have to be exchanged after about one year for shares in Telecom Italia Mobile SpA, a cellular company 60 percent-owned by Telecom Italia.

Opportunity Knocks

Four days later, la Repubblica printed details of the takeover plan. Had Bernabe believed that report -- instead of Colaninno's denial -- he might have been able to prevent a bid.

Gerardo Braggiotti, a senior Lazard Group banker, offered Bernabe a defense. At a Jan. 15 meeting with the Telecom CEO he dusted off an old idea to convert Telecom's 2 million non-voting savings shares to ordinary stock -- a move that would have increased the amount of voting equity by 12 billion euros and probably made Telecom too big for Olivetti to acquire.

But Bernabe, who had been at Telecom for just two months, was distracted. He hadn't yet hired his top management team. He lacked an investor relations chief, personnel director and international strategist, and didn't get along with his chief financial officer. Without the staff to study a financial restructuring, he took no action.

Colaninno, by contrast, was hyperactive. In late January, he dropped a bomb. Meeting with his advisers in Chase's cherry-paneled offices in Geneva, he told them he'd asked Mediobanca SpA, the well-connected Italian investment bank, to help with the offer.

A Banker's Fury

Milan-based Mediobanca, still run by its founder, 91-year-old Enrico Cuccia, occupies a special place in Italy. Since 1946, it has orchestrated interlocking shareholdings among Italy's largest companies, giving it power to initiate -- or block -- mergers.

Lehman's Magnoni was furious. Mediobanca, he argued, would try to control the bid and the company. It would irritate major Telecom shareholders like the Agnellis, with whom the bank had clashed. Any chance the Telecom board would accept Olivetti's offer without resistance would die when it saw Mediobanca was on the team, he said.

Colaninno wouldn't budge. ``No one understands Italian finance like Mediobanca,'' he told the bankers.

Mediobanca's head of investment banking, Matteo Arpe, 34, wasted no time in trying to shape the deal. He scoffed at the exchangeable securities the U.S. banks planned to issue, calling them too new and too complicated. Massimo Capuano, chief executive of Borsa Italiana SpA, also told Olivetti the exchangeables couldn't be listed on the Italian Exchange.

Colaninno sent his bankers back to the drawing board.

Fresh Approach

In early February, the bankers proposed to offer cash, debt and stock in a ratio that would eventually work out to 6 euros a share in cash, 2.6 euros in floating-rate notes and 1.4 euros in shares of Tecnost SpA, an Olivetti lottery equipment-making unit with sales of just 83 million euros in 1998.

Officially, it would be Tecnost, not Olivetti, that would make the bid. Using Tecnost would let Colaninno offer stock to Telecom shareholders without diluting his control of Olivetti.

As winter wore on, Colaninno's bankers were still squabbling. The DLJ and Lehman advisers were so peeved at Chase's insistence that it -- and it alone -- manage the jumbo loan, that they banned representatives of the New York bank from their meetings. The investment bankers approached Barclays Plc to discuss the possibility of replacing Chase.

When Chase bankers arrived at Lehman's Milan office on Feb. 11, they were sequestered in the reception area while Lehman, DLJ and Mediobanca representatives composed a letter expressing confidence they could raise enough money to buy Telecom.

Colaninno needed the letter to convince the government he was credible.

Dissension in the Banks

Hours elapsed as the Chase men waited. Bankers shuffled by, suggesting they take their coats off. ``I won't take my coat off until I feel welcome," snapped one, Guido Pescione. The Chase group was finally invited in at 10 p.m., but didn't convince the others they should lead the loan.

As he left Lehman's office after midnight, Pescione called Chase's Rome representative, Francesco Rossi Ferrini, and ordered him to write a separate letter guaranteeing that Chase alone could round up the cash Olivetti needed. Colaninno got the two letters at the Hotel Eden in Rome at 7 a.m., shortly before he was to meet Prime Minister Massimo D'Alema.

The next day, Colaninno told his advisers that the government ``won't be an obstruction." He didn't elaborate, but the bankers doped out the reason themselves. D'Alema, a former Communist who had been prime minister only since November, didn't want to be seen interfering in a free-market battle -- plus he knew the alternative to an Olivetti takeover of Telecom might be a purchase by a foreign company, something that wouldn't sit well with the electorate.

Having gotten the government in line, Colaninno concentrated on doing the same with his bankers. He ordered them to split the fees and glory equally.

Peace Talks

On Feb. 15, Pignatti of Lehman, Arpe of Mediobanca, Cantwell of DLJ and McCree of Chase worked out a peace treaty. Mediobanca would raise cash from Italian banks and underwrite a 3 billion-euro share sale. Chase agreed to accept Lehman and DLJ as co-lead managers for the 22.5 billion-euro loan. All four would run an 18 billion-euro bond issue.

Bernabe, meanwhile, finally heeded his colleagues' pleas and began assembling his own team of bankers. The prime minister himself had warned him that he should take rumors of a bid seriously. On Feb. 18, Bernabe hired CSFB, the investment banking unit of Credit Suisse Group, and San Paolo-IMI, Italy's biggest bank. Both were major Telecom shareholders.

By now, Italian newspapers were saying a bid was imminent. Consob, the agency that regulates securities trading, asked Olivetti to address the rumors. The company issued press releases saying its board would meet on Sunday, Feb. 21, to discuss a ``strategic operation" involving Telecom.

Bernabe called an emergency Telecom board meeting for Saturday. Olivetti then brought its meeting forward to Saturday as well -- to prevent Telecom from taking defensive moves.

Dueling Boardrooms

It would be the first time Colaninno would tell most of his board that he intended to buy Telecom.

``Signori, we are now facing a very important choice," he told the directors gathered at the Milan law office of Sergio Erede, Olivetti's lawyer. ``This transaction is difficult but can create great value."

If the bid succeeded, he told the directors, Olivetti would sell its own telephone businesses to Mannesmann for 7.9 billion euros. Olivetti would offer Telecom shareholders an 11 percent premium, he said. After Magnoni and Pignatti briefly explained the financing, Colaninno told the board to vote.

No one questioned the need for urgency. Everyone knew Telecom's board was meeting at the same moment 300 miles away in Rome. The Olivetti board unanimously endorsed the bid.

After the vote, board member Peter Cohen, a former Shearson Lehman CEO and veteran of the 1989 RJR Nabisco LBO battle, took Magnoni aside. ``This is your RJR," he said, holding a Churchill cigar. ``Not in the sense that it will fail, but in size and importance. This will change everything in Europe."

TV Plays a Role

For Olivetti, the next few hours were critical. Once a bid was delivered, Italian takeover law would limit Telecom's ability to take defensive moves like paying massive dividends or issuing new shares.

Olivetti chartered a plane to fly the documents to Telecom's office in Rome, but a receptionist told the banker carrying the document that the mailroom was closed and he would have to return Monday. Panicked, he called Erede.

``Call up the TV and read it on television,'' the lawyer said. When a crew from the RAI television network arrived a few minutes later, a Telecom clerk accepted the letter.

There had been no need to rush. Because Telecom's board had been summoned at the last minute, the law required all 13 members be present for any binding votes. Gianfranco Gutty, CEO of Assicurazioni Generali SpA, an insurance company whose biggest shareholder is Mediobanca, didn't attend. He sent a letter saying any move made in his absence would be void.

Fight or Freeze?

The directors who did attend split over what to do. Bernabe wanted to fight, as did two others: Jeffrey Livingston, a lawyer representing U.S. mutual funds such as Tiger Management LLC and Fidelity Investments and the only American on the board, and Luca Paveri-Fontana, an engineer who represented the Agnelli family.

Telecom Chairman Berardino Libonati, a lawyer, scanned the bid and declared it so vague as to be legally invalid. Two other lawyers on the board, Pier Gaetano Marchetti, who had represented Mediobanca, and Gustavo Visentini argued that Telecom should nonetheless consider itself subject to rules limiting defenses -- since those restraints would be applied retroactively if regulators cleared the bid.

After four hours of discussion, the board recommended that Bernabe hire advisers who weren't shareholders. He tried Morgan Stanley Dean Witter & Co., with which he had worked in the past, but the government had already retained it for advice on how to vote its 179 million Telecom shares.

That weekend, Bernabe signed up Lazard and J.P. Morgan & Co. These firms eventually would earn 12 million euros each.

Block That Defense

As David Mulford, CSFB's international chairman and a former assistant secretary of the U.S. Treasury, and the other advisers rattled off defensive options, Bernabe rejected them one by one.
Forget about borrowing money to bid for TIM, the mobile-phone company, or Olivetti. Forget a share buyback. Bernabe knew that a buyback would soak up cash the raiders were counting on to repay their debts, but he wouldn't mortgage Telecom. He hated debt.
He'd inherited 28.4 trillion lire of it at Eni and recalled how it had hobbled him as a manager until he halved it.

``I don't want to do anything that I wouldn't do in the normal course of business,'' he repeatedly told his bankers.

The bankers pleaded: Telephone companies, with huge cash flows from monthly subscriber fees, could handle debt.

Bernabe wouldn't relent. Telecom was just ending its first full year of competition, he said. A price war or regulatory change could close the cash spigot. More than three dozen rivals had already nicked 10 percent of Telecom's business in fixed-line phones. Olivetti's Omnitel had snatched 44 percent of Italy's cellular business and a third competitor would join TIM and Omnitel on March 1.

Bernabe also wanted cash on hand for acquisitions abroad. He had his eye on cell-phone companies in the U.S. and the U.K.

A Window Closes

While the CEO and his advisers debated, opportunity slipped away. Consob had, as Libonati expected, rejected Olivetti's offer as too conditional and vague. Olivetti's lawyers rewrote it to conform to the law, but that took three days. In that time, Telecom was free to adopt whatever defense it desired. It did nothing.

Telecom hired private investigators to probe Bell SA, Colaninno's Luxembourg-based holding company. They wanted to see if the Olivetti boss had any secrets. They came up dry, but they did alarm Colaninno enough to have him issue British mobile phones to his executives, bankers and lawyers. He figured the foreign numbers on the phones would make it harder for Telecom to eavesdrop.

On March 10, almost two weeks after Olivetti had refiled its bid, Bernabe settled on a defense meant to make Telecom too big to buy. His bankers dubbed it Project XYZ -- a nondescript moniker that would later be changed to Valentine because the bankers were hired shortly after Valentine's Day.

Telecom proposed to convert Telecom's savings shares to common, buy back 10 percent of its stock for up to 15 euros a share and offer to acquire the rest of TIM, the mobile phone company, for more than 20 billion euros.

But Bernabe was again foiled by his aversion to debt. He insisted on paying for TIM with Telecom stock. His shareholders, who would have to approve the plan, didn't like using Telecom, which they said was undervalued, to buy TIM stock, which they considered overpriced.

The Loan Arrangers

The Olivetti team was desperately trying to win over its own skeptics. Knowing that European bankers had never participated in a $25 billion syndicated loan or anything close, Chase offered participants twice their normal fee -- just over one half of 1 percent of whatever amount they pledged. The loan fees ultimately amounted to 124 million euros. Half was promised as a kill fee if the deal never happened.

Even with terms this generous, Chase couldn't enlist the big banks at the top of its list. UBS AG, Credit Suisse Group, J.P. Morgan, Citicorp Inc. and others declined because they already were working for Telecom or because Telecom threatened to blackball them if they helped Olivetti. Others said their policies forbade lending to highly leveraged hostile bids.

Olivetti's own banks had pledged 10 billion euros and Mediobanca had signed up Banca di Roma SpA and Monte dei Paschi di Siena SpA, but that wasn't enough. On March 8, McCree, Chase's director of acquisition finance, flew to Milan to warn Colaninno that the loan was in trouble.

On the Road

He told the Olivetti CEO that banking executives didn't know him or what he'd achieved at Olivetti. Until recently, Olivetti had been in no shape financially to even apply for a loan.

Three days later, Colaninno boarded a chartered jet for a weeklong blitz of 30 banks in London, Amsterdam, Paris, Brussels, Frankfurt and Madrid; 25 signed on. By March 26, the loan deadline, Olivetti had pledges of 33 billion euros, a third more than it had thought it could get -- and five times what it would ultimately need.

While Colaninno celebrated the success of his loan, Bernabe was trying to recover from a disastrous meeting with London fund managers, who had shot down his idea of buying TIM with stock. Belatedly heeding his bankers' advice, he announced a 22 billion euro all-cash offer for TIM.

Olivetti's advisers were worried. They thought the all-cash offer for TIM would succeed in putting Telecom out of reach. They urged Colaninno to increase his bid immediately. Emboldened by the success of the loan, he raised the offer to 11.5 euros a share.

Stupidity or Duplicity?

As Olivetti's board was approving the higher bid March 29, its bankers committed an almost fatal error. They sold 24 million Telecom shares owned by Olivetti, more than half of the smaller company's stash.

Consob, the stock market regulator, noted that volume in Telecom shares was almost twice its recent average. When they saw DLJ was a seller, they knew Olivetti was involved. Consob President Luigi Spaventa summoned Colaninno and warned him that manipulating shares was grounds for suspending an offer.

Colaninno admitted that Olivetti had sold 0.46 percent of Telecom, though it had previously said it held no Telecom shares. He said the sale was a mistake that grew out of an effort to raise cash. He told Consob he had rejected a suggestion to sell the Telecom shares but that somehow the order had gone through anyhow.

Bernabe complained that the sale was intended to depress Telecom's stock and make Olivetti's newly enhanced offer look more attractive to investors.

Consob officials decided that suspending the bid would be too harsh a sanction for a transgression they accepted was a stupid error. Instead, the agency recommended the Treasury fine Colaninno as much as 200 million lire ($107,000) -- a step it has yet to actually take.

`You're Going to Lose'

Bernabe, meanwhile, was trying to placate 70 restive shareholders at the New York Palace Hotel. Hedge fund manager Richard Perry and veteran mutual fund investor Mario Gabelli said they wanted Bernabe to run Telecom, but urged him to be more aggressive in defense. Bernabe declined to take any new measures.

Perry pounded the table and looked at him. ``You are going to lose,'' he said.

By the end of the next week, Perry was proven right. Telecom failed to attract a quorum of investors -- representing at least 30 percent of common shares -- to an extraordinary meeting April 10 called to vote on converting the savings shares.

Now, advisers began to pitch even more elaborate defenses to Bernabe, such as the ``me-too'' option, in which Telecom would create a shell company through which the former monopoly could bid for itself.

Bernabe, though, was nursing a secret, last-ditch defense: a $96 billion merger with Deutsche Telekom AG, Europe's biggest phone company. He had been talking with Telekom CEO Ron Sommer for months about an alliance, but the men started talking merger once it was clear to Bernabe the Olivetti bid wouldn't go away.

Another Flop

He and Sommer announced the proposal in London on April 22, less than a month before Olivetti's tender offer closed. It was another all-stock transaction, involving a company that was still 72 percent owned by the German government. Shareholders scoffed.

``It would be a very bizarre combination, merging with a company that is even less efficient than Telecom Italia and letting the German state run it,'' Corrado Berlenda, who manages 5.7 million euros in Telecom shares at Euroconsult SIM, said at the time.

The Italian government tipped the balance May 20, the night before the tender closed, by informally prodding reluctant major shareholders to sell. D'Alema wanted to avoid a court battle if Olivetti didn't get clear control.

By 9 p.m. the next day, Colaninno knew he'd won. Investors, including the so-called core shareholders that controlled Telecom's board, tendered 52 percent of the company. Even San Paolo-IMI, Telecom's defense adviser, sold out. CSFB did not.

Champagne Flows

``That's enough. We've won. Let's celebrate,'' Colaninno told the executives, bankers and lawyers gathered in Arpe's office at Mediobanca's Milan headquarters.

They popped a champagne bottle, firing the cork through the window onto journalists camped on Via Filodrammatici below. The winning team decamped to Santini's restaurant to feast until 3 a.m. on asparagus, roast beef and Brunello di Montalcino wine.

Whether Olivetti's shareholders have cause to celebrate remains to be seen. Colaninno must run Telecom without Omnitel's respected CEO, Scaglia. Mannesmann insisted on keeping Omnitel's management team when it bought out Olivetti.

And Colaninno has other debts besides the 15 billion euros he ultimately borrowed to buy his prey.

The government may have eased the takeover, but has warned him not to cut too many of Telecom's 127,000 jobs. Mediobanca has brought Olivetti into its orbit by placing allies on the new board. And some of Colaninno's fellow investors in Bell, such as the insurance company Unipol SpA, are likely to expect business.

Bernabe says he stuck to his principles and has no regrets. ``I wasn't going to harm the long-term interest of the company,'' he said. ``If someone else wants to do it, let it be their responsibility.''

Investors, analysts, and newspapers in Italy and elsewhere criticized Bernabe's defense, but his reputation already appears to be on the mend. Fiat SpA has invited him onto its board.

Down, Not Out

``He made mistakes and his image is not what it was a year ago,'' said Fabrizio Panzeri, an executive recruiter at Eric Salmon & Partners in Milan. ``But that doesn't mean the excellent reputation he developed at Eni is canceled out. He'll pop up soon as head of some major Italian company.''

A European manager like Bernabe would have once expected to go through life without even thinking about contested takeovers. But with so much capital now sloshing around Europe, and so much in fees waiting to be earned, investment bankers are searching for the next Colaninno -- and the next Telecom Italia.

``What we saw here was unthinkable in Europe just a few years ago,'' said Antonio Maccanico, minister for institutional reforms and former communications minister.

If and when Bernabe shows up at the head of a new company, it's a lesson he's likely to take to heart.

Yaroslav Trofimov, Gregory Viscusi and Robert B. Cox in Rome,
Milan and London