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The winners and losers in the AT&T Wireless deal

DAN RICHMAN SEATTLE POST-INTELLIGENCER REPORTER,
 10.26.04, 10:39 AM ET

SEATTLE POST-INTELLIGENCER REPORTER

The \$41 billion cash purchase of Redmond-based AT&T [Wireless](#) by Cingular, likely to close this week, means long-term good news for customers, a decidedly mixed picture for shareholders and employees and big payout to top AT&T Wireless executives.

The deal was approved yesterday by the Justice Department. It will win approval from the Federal Communications Commission today and likely will close this week. Cingular has six months to use the AT&T Wireless brand before it reverts to its owner, AT&T Corp.

Here's the impact of the deal:

Customers

Customers of both companies won't experience big changes right away, but in the longer term, they may get better network connections -- along with possible muddles in [customer service](#) and billing and a possible price increase.

Regardless of which company a customer is signed up with, it won't be necessary to buy a new phone to use the merged company's service, said Cingular spokeswoman Lauren Garner. That's true whether customers are using either company's older TDMA service (Time Division Multiple Access) or its newer GSM (Global System for Mobile Communications) offering.

Cingular offers only GSM service in Washington state. AT&T Wireless offers both TDMA and GSM.

And customers won't be paying more immediately, as rate plans for customers of both companies will remain unchanged after the merger.

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Within two years after the deal's close -- the time Cingular says it will take to completely integrate the companies' networks -- customers of both companies will notice service improvements, she said.

For example, current callers using Cingular's service from moving vehicles experience dropped calls as a matter of design when leaving an area served by Cingular, Garner said. That's true even if the area entered is served by AT&T Wireless. Once the integration is completed, the call won't be dropped but will be handed off to AT&T Wireless' network, under technology called "seamless handoff," Garner said.

Another improvement to be made within the two-year period, dubbed "home-on-home roaming," will automatically put customers of either company onto whichever network from either company offers the strongest signal, she said.

Integrating the companies' networks means callers will suffer fewer fast-busy signals, which indicate the network is overloaded. And Cingular customers will be able to get high-speed Internet access, instant messaging and other data-intensive services through the latest GSM-based technology, called UMTS (Universal Mobile Telecommunications System). Right now no Cingular customers can get UMTS, because not enough spectrum, or radio frequencies, has been available, she said.

This rosy view is contradicted by several organizations that predict prices for both wireless and wireline services -- not just for Cingular and AT&T Wireless subscribers but for all customers -- will rise because of the takeover.

Consumers will pay about 8 percent higher prices for their wireless service, regardless of carrier, within one to two years after the purchase is completed, said The Phoenix Center for Advanced Legal and Public Policy Studies, a Washington, D.C., think tank.

That price increase could be apparent in prices that fail to fall as quickly as they have been falling, noted Phoenix President Larry Spiwak.

"If there's one less firm, there won't need to be as vigorous price competition any more, so the remaining firms will raise their prices, or not cut them so much or so quickly," Spiwak said.

And before the situation improves for consumers, it will likely get worse, several analysts said.

Integrating the two companies' four networks, each with both a TDMA and a GSM network, will be "the most complex of the tasks ahead of Cingular," wrote Citigroup analyst Michael Rollins in a recent report.

Integrating the all-important billing and customer-service departments will also be a challenge.

"If they're smart, they'll take their time integrating the two companies," said Philip Redman, a Gartner Group wireless analyst. "Don't rush it and alienate customers."

Redman noted that four years after merging a handful of companies to become Verizon Wireless, the carrier is still only about 90 percent of the way through combining billing and other systems serving 41 million customers.

Employees and shareholders

AT&T Wireless shareholders who bought into the company after 2001 stand to gain from the deal, but many employees -- in addition to facing

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layoffs -- won't be cashing in. In fact, they'll be checking out, as widespread layoffs kick in early next year.

Shareholders who bought before the price dropped below \$15 and remained there, in late 2001, will get a premium on their shares, which Cingular is buying for \$15 in cash. The company currently has 2.73 billion shares outstanding, distributed among some 2.8 million individual and institutional shareholders, said spokesman David Caouette. Of shareholders who have registered with the company, about 17,000 live or are headquartered in the Washington state, Caouette said.

But many AT&T Wireless employees won't be benefiting from the deal, because their options are underwater or they bought their shares for more than \$15.

The deal specifies that all options on AT&T Wireless shares will vest immediately before the sale closes. Options are the right to [buy shares](#) at a given price. Options are said to vest when they become usable.

The immediate vesting is a boon to employees, many of whom won't be around long enough for the options to vest otherwise. But nearly three-fourths of the options held by employees are worthless.

AT&T Wireless shares have tumbled from an all-time high of \$35 -- near the time of the company's \$10.6 billion initial public stock offering, on April 27, 2000 -- to under \$5 in 2002, rebounding early this year into the teens. "Substantially all" AT&T Corp. employees got options at the IPO, said AT&T Corp. spokesman Andy Backover, and many AT&T Wireless employees got more options over the years as incentives or bonuses.

But 77 percent of the 215.2 million options outstanding as of Dec. 31, 2002 -- the latest figures available -- cost \$16.43 or more. That means they're valueless, because the employees would have to pay more to buy each share than the \$15 Cingular has offered for the company.

Nor will most employees benefit by selling shares they bought at the company's IPO. Of the 360 million shares offered that day, 10 percent were earmarked for AT&T Corp. employees. Roughly 65,000 employees bought shares at up to \$32 per share. None of them will make money on Cingular's purchase.

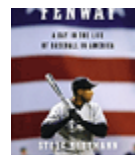
Neither company will say how many AT&T Wireless employees will be laid off, though analysts have predicted the cuts will be substantial. Of AT&T Wireless's 31,000 employees nationwide, about 5,700 of them are employed in Washington state. Cingular has promised no layoffs will occur until the new year.

Executives

Among the deal's biggest winners are the top five officers at AT&T Wireless. They'll get \$85.7 million in cash under the deal, according to federal documents filed in the spring.

Chief Executive John Zeglis stands to benefit the most, gleaning \$21.7 million if he's immediately terminated, according to the preliminary proxy statement filed March 5 with the Securities and Exchange Commission. Zeglis' take also includes \$7.4 million in severance pay, an amount set by AT&T Wireless' board Feb. 11, less than a week before the deal with Cingular was announced.

AT&T Wireless's other four top officers -- Presidents Andre Dahan and Michael Keith, and Executive Vice Presidents Joseph McCabe Jr. and Lewis Chakrin -- collectively will get \$24 million in severance pay and money for their shares and options.



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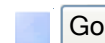


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Officers below the top five will share \$33.2 million in cash received for severance pay, options and restricted shares, which are shares granted as a form of compensation. The company's directors will get a total of \$678,000 for their options and restricted shares.

"These amounts are typical of the times we're in, when senior teams are certainly getting a golden handshake," said Yankee Group analyst Roger Entner in an earlier interview. "The price AT&T Wireless was able to achieve is still less than half of what it was worth when it went public. I think that statement speaks for itself."

Shares of AT&T Wireless closed up 12 cents at \$14.92, climbing another 2 cents in after-hours trading. Shares of SBC Communications Inc., which owns 60 percent of Cingular Wireless, closed down 25 cents at \$24.99, trading unchanged after hours. Shares of BellSouth Corp., which owns the remainder of Cingular, closed down 13 cents at \$26.42, gaining 1 cent after hours.

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