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Business

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Posted on Tue, Feb. 01, 2005

Catching a big one

Once a Baby Bell spinoff, SBC is now poised to land its former parent, AT&T

By Bobby White
 Star-Telegram Staff Writer

SBC Communications announced Monday that it will buy AT&T Corp. for about \$16 billion, creating the nation's largest telecommunications company and ending the era of an industry icon.

The deal, expected to receive close scrutiny from federal regulators, is set to close by the first half of 2006. It's a deal that Reed Hundt, the former Federal Communications Commission chairman, once called "unthinkable." The reason: SBC, a progeny of AT&T after the historic 1984 monopoly divestiture, has grown to gobble up its parent.

"It is the exclamation point on the evolution of communications in America," said Ed Whitacre, SBC's chief executive, during a conference call with reporters and analysts.

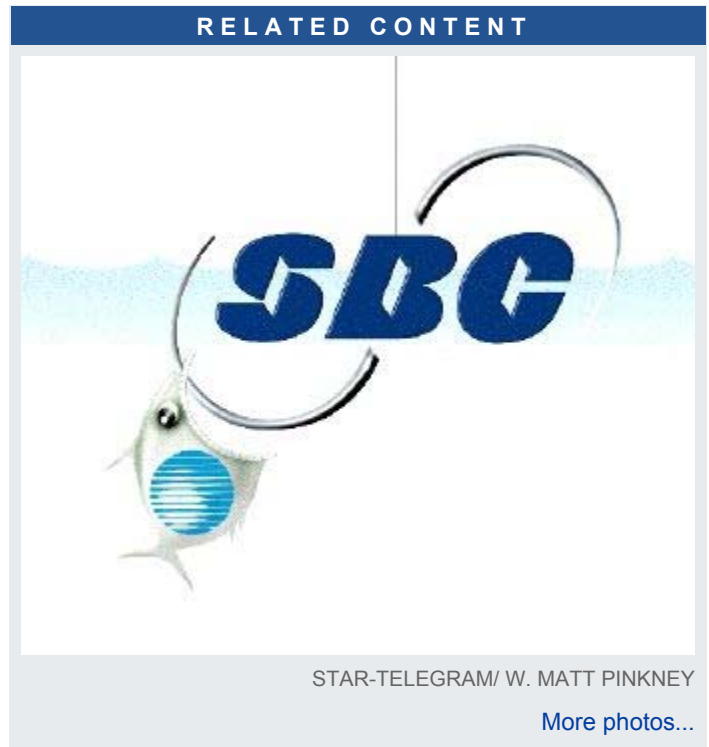
"The company that emerges from this will break the mold of what it means to be a communications company."

The San Antonio-based telecom began as the smallest of the seven regional phone companies spun off in the AT&T breakup. In stark contrast to SBC's chief rival Verizon, which maintains that it wants to grow internally instead of through acquisitions, SBC under Whitacre has recently brokered major deals to reach the industry's pinnacle.

Just months ago, the company won regulatory approval for its \$41 billion Cingular-AT&T Wireless deal. The merger catapulted Cingular, which SBC owns with BellSouth, into position as the No. 1 wireless company with 49.1 million subscribers.

Whitacre said the two companies complement each other. SBC is strong in local and regional markets and among small businesses. AT&T has a large corps of business customers and national and international markets.

Whitacre said the AT&T brand remains a "great" one and will stay in some form.



STAR-TELEGRAM/ W. MATT PINKNEY

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"We will have to figure it out, but it's a great name and is not going away," he said.

David Dorman, chief executive of AT&T, told reporters that the two companies fit like "hand and glove."

Dorman said competition, dramatic technology advances and the shifting regulatory environment for telecoms contributed to SBC's decision to buy AT&T.

"Why now?" he said. "The fact is both AT&T and SBC are at a point when we are fundamentally redefining ourselves."

SBC has 13,000 employees in the Fort Worth/Dallas area. AT&T would not say how many of its employees work in the area.

Whitacre said the merger will not push SBC to alter its plans to cut about 7,000 jobs. Dorman said it's not clear whether the merger will result in layoffs; that will be examined once the deal is complete, he said.

Under terms of the agreement, SBC will issue 0.78 of a share of SBC stock for each AT&T share, valuing AT&T at \$18.41 a share. AT&T will also pay its shareholders a special cash dividend of \$1.30 per share. The combined deal will value AT&T at \$19.71 a share.

AT&T's stock closed Monday at \$19.19, down 52 cents. SBC's stock closed at \$23.76, up 14 cents.

Dorman took over two years ago and faced a company that racked up \$65 billion in debt after spending \$100 billion on acquisitions. He arrived on the scene just after AT&T had thrown in the towel on its wireless and cable service; both businesses turned out to be strong growth engines.

The company sold its broadband unit to Comcast in 2001, boosting the once-regional cable company to national prominence. AT&T spun off AT&T Wireless in the same year. The company remains the nation's largest long-distance provider, with more than 30 million customers.

Dorman will stay on board as president of SBC.

"This is a big deal, but it is a direct consequence of how the industry has been changing," said Larry Spiwak, who oversees the Phoenix Center, a telecom policy group in Washington, D.C.

Spiwak said he expects multiple regulators to weigh in on the deal, given that AT&T's reach sprawls across multiple jurisdictions. The FCC, Justice Department, and state regulators are expected to examine it.

Spiwak said outgoing FCC Chairman Michael Powell, who pressed to deregulate the industry, set the stage for the SBC-AT&T deal.

Powell has said he believes the addition of Internet telephone service, combined with the proliferation of wireless carriers and phone service via cable, provides enough competition to warrant change in the industry.

Under the 1996 Telecommunications Act, Congress created laws that it hoped would spur competition. AT&T led the fight to keep those laws intact. Powell ventured to change them, saying he felt that they had become outdated. Powell sought to scrap laws that opened up large phone company networks to competition, reasoning that wireless was in its infancy and Internet telephone didn't exist when Congress passed the telecom act.

Insiders have speculated for months about an SBC-AT&T deal.

In 2003, BellSouth and AT&T held merger discussions, but the deal fell through in the late stages of talks. Acquisition rumors re-emerged after a June decision by Solicitor General Ted Olson not to appeal a D.C. Circuit Court of Appeals decision in a major rate-regulation case unfavorable to AT&T. Soon after, AT&T announced that it would pull out of the long-distance business.

Robert Rosenburg, telecom analyst with New Jersey-based Insight Research, said he believes approval of the merger is certain given the current regulatory climate.

But Rosenberg said he is unsure whether bigger in telecom is truly better.

"The pendulum usually swings back and forth," he said.

If AT&T would have remained, Rosenberg said, the company could have emerged as a data-services powerhouse. There is a short list of companies that can offer solid communication services to companies like American Express or Bank of America, he said.

The SBC merger has spurred great speculation as to what will happen next. MCI could become a target, given its stature as a significant competitor in the market for large business customers. Most of the speculation involves Verizon, which will be supplanted as the nation's largest telecom company by the combined SBC-AT&T.

During a conference call last week with analysts, Verizon's chief executive, Ivan Seidenberg, voiced discomfort with his company's direction. But he left the door open.

"The issue for us is to keep an eye on it," Seidenberg said.

IN THE KNOW

Questions and answers

SBC Communications has agreed to acquire AT&T Corp. for about \$16 billion. Here are some questions and answers about the merger.

Q. I'm an AT&T long-distance customer. Will I have to switch to SBC?

A. AT&T provides long-distance services to about 24 million U.S. residential customers. SBC said AT&T customers will remain AT&T customers. However, SBC also said it will continue AT&T's policy, announced last summer, of not signing up new residential customers.

Q. I own AT&T stock. What happens now?

A. Shareholders of both companies must approve the merger, which also must pass muster with regulators. If the deal goes through, the current agreement calls for AT&T stockholders to receive 0.78 share of SBC, plus a special \$1.30 cash dividend, for every AT&T share they own.

Q. But do I want to own SBC stock? Isn't it riskier than "Ma Bell"?

A. "AT&T is no longer what it was," said Fort Worth financial planner Dave Diesslin. It's been a long time since AT&T was a blue-chip stock for "widows and orphans," so the real question, he said is whether you want to be in telecommunications.

AT&T's shares haven't appreciated very much since the 1984 breakup and are down sharply from their high in 2000. So, given a 15 percent tax rate on capital gains, the tax bite won't be too bad if you sell, Diesslin said.

Q. But I like AT&T's dividend for income. Shouldn't I hang on to it?

A. AT&T pays an annual dividend of 95 cents a share, a yield of about 4.8 percent at the current stock price. SBC is paying a \$1.29 annual dividend, yielding 5.5 percent. Diesslin noted there are plenty of good dividend-paying stocks available.

Q. What about AT&T's bonds?

A. They've been rated just below investment grade because of the company's recent losses. Merging with SBC should strengthen the bonds' rating, making them worth more, said Mike Fields, chief fixed-income investments officer at AMR Investments in Fort Worth. On Monday, Fitch Ratings put AT&T's senior long-term debt on watch for possible upgrade, but it put SBC's senior long-term debt on watch for possible downgrade.

-- Jim Fuquay

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