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Business

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Posted on Fri, Jan. 28, 2005

SBC's reach would expand with AT&T

By Bobby White and Jim Fuquay
 Star-Telegram Staff Writers

SBC Communications' bid to acquire the venerable AT&T Corp., if successful, would mark the end of an era and the creation of a new telecom behemoth.

The discussions between the two companies were first reported Thursday in *The Wall Street Journal*, which characterized the talks as intermittent and having occurred over the past few weeks. The newspaper reported the deal could cost \$15 billion.

Since its 1984 breakup by federal regulators into six regional companies, AT&T has shrunk considerably. Last year, the company announced that it would no longer sell new long-distance service, effectively pulling out of the consumer market.

Although the 120-year-old business is a shell of its former self, Ma Bell still firmly holds a dominant market share among business customers.

"AT&T's communication capabilities are unparalleled," said Glen Macdonald, vice president of Adventis, a telecom research firm based in Boston. "It serves virtually all of the Fortune 500 companies whether in a primary, secondary or tertiary capacity."

Macdonald said the nation's largest industrial companies rely on a redundancy of carriers to ensure they have service. Communication is

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SBC's merger talks with AT&T reportedly have taken place intermittently over the past few weeks. Although AT&T is a shell of its former self, it holds a dominant market share among business clients.

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vital, and the slightest problem could mean a major loss of dollars, he said.

When the AT&T system was broken up, creating the Baby Bells, which have since merged into SBC, Verizon, Qwest and Bell South, AT&T maintained its long-distance network nationally and globally. AT&T's domain includes a vast long-distance infrastructure and cable across the Atlantic and Pacific oceans. The company remains the largest long-distance provider at nearly 30 million lines.

Having such a reach would be a valuable asset to SBC. The San Antonio-based company is a regional one, with a strong presence in California, Texas and Illinois. By acquiring AT&T, its footprint expands considerably, said John Malone, president of Eastern Management Group, a telecom research firm based in New Jersey.

"SBC cannot satisfy the breadth of communications requirements many of the large enterprise companies have," Malone said. "But with AT&T in the fold, it's a whole new ballgame."

For example, two weeks ago, Fireman's Fund Insurance signed a \$42 million, five-year contract with AT&T for a high-speed network to link the insurer's 60 offices, including a Dallas facility with more than 200 workers.

"Many of our offices have different providers of telecommunications," said John Kozero, a Fireman's Fund spokesman. "There's no coherent connections. I can't send a voice mail to any other office but my own."

Not only that, he said, but "if there's a problem, we have to run down a couple of dozen service providers" to find out who needs to fix what. "With a single provider, you have one throat to choke," he said.

With AT&T's network, Kozero said, about 4,400 employees and 3,600 independent agents will be connected with fiber-optics that will boost quality and speed of voice and information transmission.

"We traded a couple of dozen vendors for one coherent provider that maintains the whole network," he said of AT&T. "That's their business."

If the two companies agree to a deal, regulators are sure to scrutinize it, said Larry Spiwack, who overlooks the Phoenix Center, a telecom policy group in Washington, D.C.

"A Baby Bell acquiring AT&T, it's a watershed event," Spiwack said. "And let us not forget if SBC is successful, it will remove the largest non-Bell telephone company in the country."

Insiders have speculated for months that a deal was in the making. 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 that was unfavorable to AT&T. Soon afterward, the company announced that it would pull out of the long-distance business.

Word of the new round of talks comes on the heels of Cingular's \$41 billion purchase of AT&T Wireless last year. SBC owns 60 percent of Cingular and added nearly \$10 billion in debt to help fund its share of the deal.

Still, despite that and the \$15 billion to \$16 billion price tag for AT&T, analysts said SBC should have no trouble financing the purchase as long as it makes the benefits clear to investors and doesn't overpay.

"They did just spend a lot of money," said Jim Veneau, senior analyst at Moody's Investors Services. But "I think most of the focus will be on the benefits and the price. The evaluation is, does SBC need this network and the customer relationships?"

If SBC and AT&T reach an agreement, SBC could take on more debt or use its stock to finance part of the purchase, Veneau and other financial analysts said. As of Dec. 31, the company had \$21.2 billion in long-term debt and \$5.7 billion in debt due in 2005, according to its most recent filing with the Securities and Exchange Commission.

SBC also generates plenty of cash to help pay down debt. Last year, its operations provided \$10.7 billion in cash, while its interest expense was \$1.6 billion.

AT&T generated \$3.7 billion in free cash flow that could also be used to retire debt. It had \$8.9 billion in long-term debt as of Sept. 30, according to its most recent SEC disclosure.

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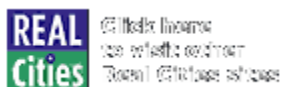
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