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A.T.&T. Buying Computer Maker In Stock Deal Worth \$7.4 Billion

By EBEN SHAPIRO

After more than five months of stubborn resistance, NCR agreed yesterday to be acquired by A.T.& T. for \$7.4 billion worth of A.T.& T. stock.

The acquisition signals the American Telephone and Telegraph Company's determination to expand beyond telecommunications to compete in computers with giants like NEC and Fujitsu of Japan, Siemens of Germany and I.B.M.

In starting its quest to buy the NCR Corporation, A.T.& T. was seeking a permanent solution to the problem of its money-losing computer business and hoping to find a way to expand into new markets, ones that increasingly rely on linking computers and communications. Analysts say A.T.& T.'s computer business has lost more than \$2 billion in six years.

NCR, based in Dayton, Ohio, grew from the National Cash Register Company (it still makes some cash registers) to become the fifth-largest computer maker in the country.

When A.T.& T. began its pursuit of NCR in December, many industry observers were surprised that kindly Ma Bell had put on the grim visage of a corporate raider. The hostile bid was another milestone in the transformation of the heavily regulated bureaucratic monopoly that existed before the 1984 court-ordered breakup of the Bell System.

In recent years, as a more aggressive corporation, A.T.& T. has cut costs and more closely tied executive pay to profit levels.

Robert E. Allen, the chairman of A.T.& T., said yesterday that with NCR the company would work toward providing "global computer networks as easy to use and accessible as the telephone network is today."

Jack B. Grubman, an analyst with Paine Webber Inc., said: "A.T.& T. would like to be a \$100 billion company by the end of the decade. They would love to be able to go to the chief executive officer of Nestle and say, 'We will provide you soup to nuts, your entire information network.' "

Given that assumption, Mr. Grubman and others say more large deals are likely to follow. "Over the next decade they will do several more deals of this size or bigger," Mr. Grubman said.

Under the definitive merger agreement, A.T.& T. will exchange \$110 worth of its own stock for each NCR share, but on the New York Stock Exchange yesterday,

NCR's shares closed at just \$104, up 50 cents. The difference reflects the fact that investors are expected to have to wait four months for the deal to close. But that price is still more than double the \$48 that NCR was trading for a month before A.T. T. made its first offer in December. A.T. & T.'s shares slipped 37.5 cents yesterday, to \$36.75.

A.T. & T. dwarfs NCR in size, with 1990 revenues of \$37.3 billion, compared with \$6.2 billion for NCR. Still, the computer maker will provide A.T. & T. important entries into financial and retail industries. NCR is in the process of introducing a line of "open system" computers that are capable of being linked with computers and software made by different manufacturers.

The merger agreement signed yesterday is subject to the approval of NCR shareholders. The First Bid

It all started in December, when A.T. & T. offered \$90 a share, or \$6.1 billion, for NCR. By keeping A.T. & T. at bay during the winter, Charles E. Exley Jr., NCR's chairman, was able to cajole A.T. & T. into paying an additional \$1.3 billion.

"He has done a lot for shareholders," said Don Geogorian, head of research of Dreyfus Management Inc., an institutional stockholder of NCR.

Martin D. Sass of M. D. Sass Investors Services said, "Mr. Exley played his cards pretty strongly to get A.T. & T. up to \$110."

In the end, the booming stock market made a hero out of Mr. Exley.

A.T. & T.'s stock was trading around \$30 in December. At the time, A.T. & T. said it was willing to pay for NCR with stock or cash. A stock offer at that time would have involved three A.T. & T. shares for each NCR share.

But in April, with the shares of A.T. & T. above \$37, A.T. & T. could agree to meet NCR's asking price of \$110, at minimal additional cost.

A.T. & T. plans to issue new stock to acquire NCR. Analysts estimated that the new stock would dilute A.T. & T.'s per-share earnings by 10 to 15 cents a year. Staying in Dayton

A.T. & T. said NCR would retain its headquarters in Dayton, and its corporate name. Mr. Allen, the A.T. & T. chairman, said NCR would continue to support civic and philanthropic organizations in Dayton.

The companies have been on the verge of an agreement for three weeks. Part of the final haggling was over how much protection NCR shareholders would have if A.T. & T.'s stock price fell while the acquisition was being completed.

In a compromise, A.T. & T. agreed to insure that NCR shareholders would receive \$110 worth of stock as long as A.T. & T. shares traded between \$34.125 and \$40.625.

The exact number of A.T.& T. shares to be exchanged for each NCR share will be determined by A.T.& T.'s average closing price during the 20 trading days before NCR shareholders meet to vote on the merger. A date for the meeting has not been set, but it is expected to take place in four to five months.

The maximum number of A.T.& T. shares exchanged for each NCR share would be 3.223, if A.T.& T. stock fell to \$34.125 or below. The minimum number would be 2.708, if A.T.& T. stock was \$40.625 or above.

Analysts said it was unlikely that A.T.& T. stock would fall below \$34.125 without a significant overall market drop. Several analysts have predicted that A.T.& T.'s stock would rise to about \$50 in the next 12 months.

As an all-stock deal, the merger would be tax-free to NCR stockholders. Some
Special Accounting

The all-stock deal also makes it possible for A.T.& T. to use an accounting treatment known as a pooling of interests, which would be favorable to its reported earnings.

A.T.& T. and NCR plan to talk to the Securities and Exchange Commission to determine if the pooling method can be used. If not, A.T.& T. plans to offer 40 percent cash and 60 percent stock.

Mr. Exley led the resistance to A.T.& T.'s offer, initially saying NCR was worth at least \$125 a share. Before NCR's March 28 annual meeting, he said he would accept \$110.

Mr. Exley, who has more than 30 years of experience in the computer business, played an unusually active role in fending off A.T.& T., as he and his management team kept the company's Wall Street advisers on a tight leash.

"Let's just say that they are very actively involved in deciding their own approach to things," said a person working with NCR.

During the takeover fight, NCR contended that A.T.& T. was taking advantage of a temporary drop in NCR's stock price. But beyond stalling for time, Mr. Exley had few options after A.T.& T. made its initial bid.

And as time went on, his options were reduced. Ruling by a Judge

In March, a Federal judge in Dayton threw out NCR's main line of defense, an employee stock ownership plan, saying that it had been adopted simply to protect the incumbent management and that it made a mockery of shareholder rights. At NCR's annual meeting in March, NCR shareholders voted Mr. Exley off the board, as A.T.& T. won four seats.

The deal will add considerably to the wealth of Mr. Exley and other NCR executives. Through stock options and direct holdings, Mr. Exley owns more than 306,359 shares of NCR, worth nearly \$34 million under terms of the deal. Gilbert P. Williamson,

NCR's new chief executive, has stock options and holdings worth about \$11 million at the purchase price.

Mr. Exley plans to retire after the merger is complete.

A.T.& T.'s unsuccessful ventures in computers began in 1983, with the company's investment in Ing. C. Olivetti & Company of Italy. Olivetti made a line of personal computers for A.T.& T. that proved to be unpopular, and A.T.& T. swapped its stake in the Italian company in 1989.

Now the fate of A.T.& T.'s own computer business is uncertain. By publicly stating that it will turn its computer operation over to NCR's management, A.T.& T. has hurt morale among the 9,000 employees in its computer division.

In preparation for the acquisition, the company has trimmed 1,000 jobs in the division since fall.

Mr. Allen would not speculate on the fate of A.T.& T.'s computer employees yesterday.

Several months ago, A.T.& T. said it would pay bonuses to workers who remained at their jobs for six months to discourage worried workers from looking for jobs outside the company.

Mr. Grubman, the analyst, said many of A.T.& T.'s computer employees would be dismissed. "I don't think that NCR needs more people," he said. He added that the deal made immediate financial sense for A.T.& T. because it would allow the company to replace its unprofitable computer operation with a profitable one.

A.T.& T. said yesterday that the acquisition would result in "one-time material charges to A.T.& T.'s earnings."