

Your colleagues at Big Telecom Inc. (a local telephone company) have informed you that they are interesting in buying some publicly traded companies to bolster its market position. They have asked you to take a look at some acquisitions/mergers and break-ups of other telecommunication companies to gain some insight into the type of companies that Big Telecom Inc. should be looking to buy.

You decide to look at market data to see how Wall Street values companies before and after the acquisition/merger or break-up. To do this analysis, you will have to use the Web (quote.yahoo.com is one good site for current stock information and www.financialweb.com/stocktools/ is a good site for historical stock information). **For these questions, you can assume a discount rate of zero (i.e. all past dollars are equivalent to current dollars).**

1998 Merger of MCI and Worldcom

Worldcom (ticker: WCOM) purchased MCI (ticker: MCIC) in 1998. In September 1998, MCI was no longer traded on the stock exchange and the combined company, known as MCI Worldcom was traded under the ticker symbol WCOM.

1. On September 30, 1997, MCI had 696,490,435 outstanding shares. What was their market capitalization on that date?
2. On November 5, 1997, Worldcom had 903,380,987 outstanding shares of stock. What was their market capitalization on that date?
3. How does the current market capitalization of MCI Worldcom compare with the sum of the market capitalizations you calculated in questions 5 and 6?
4. What lessons may be learned from the 1999 acquisition of MCI by Worldcom with respect to Big Telecom Inc.'s interest in acquiring a company?

1996 Break-Up of AT&T

AT&T broke up into three companies in 1996: AT&T (ticker symbol: T), NCR (ticker symbol: NCR) on December 11, 1996, and Lucent (ticker symbol: LU) on April 4, 1996. On January 2, 1996, AT&T was valued at \$44.917 per share (price adjusted for stock splits since then). Using this information and the Web, please answer the following questions:

5. Using the number of AT&T outstanding shares today, what was the market capitalization of AT&T on January 2, 1996?
6. What were the stock prices of Lucent, AT&T, and NCR companies on January 2, 1997? January 2, 1998? January 4, 1999? Today?
7. Using the number of Lucent, AT&T, and NCR outstanding shares today, what was the market capitalization of the combined Lucent, AT&T, and NCR companies on January 2, 1997? January 2, 1998? January 4, 1999? Today?
8. What lessons may be learned from the 1996 break-up of AT&T with respect to Big Telecom Inc.'s interest in acquiring a company?