Corporate Finance 15.434

Assignment Questions for Tuesday, February 20th:

A. Skim the AT&T case and answer the following questions:

1. Review AT&T's past financial policies and financing choices. Were these appropriate for the nature of its business? In what fundamental ways will its business change in the near future? What are the implications for financial policy?

2. What is the range of AT&T's financial needs for the next five years?

3. In view of AT&T's changing strategic and economic environment, what debt policy would you recommend? What other financial policies are appropriate for the new AT&T?

4. What specific financing action, if any, should AT&T take now? What are likely to be the consequences?

B. Read the MCI case and consider the following questions:

5. What are MCI's likely financing needs over the next several years? By how much could they reasonably be expected to vary?

6. Critique MCI's past financial strategy, giving attention to the types of securities on which it has relied. Why did MCI finance itself in the manner it did?

7. Based upon your analysis of the outlook for MCI and the competitive and regulatory evolution of the industry, recommend a capital structure policy for MCI.

8. What type of financing should MCI do next?

9. Assume that Mr. English, the MCI CFO, has the following financing alternatives available to him as of April 1983:

   a. $400 million of 12 1/2, 20-year subordinated debentures.

   b. $300 million of common stock

   c. $600 million 7%, 20-year convertible subordinated debentures with conversion price $53 per share. The debentures would be callable anytime after five years.

   d. $1 billion of a unit package consisting of $1000 of 6 3/4%, 20-year subordinated debentures and 18.18 warrants, each entitling the holder to purchase one share of MCI common stock for $55. The warrants would be callable after 3 years and exercisable until 1988. The exercise price of the warrants would be payable either in cash or by surrender of the debentures valued at their principal amount.