

Reprinted from

The New York Times

Business

July 14, 2002

New Divide: Those Who Sold and Everyone Else

By LESLIE KAUFMAN and JOHN SCHWARTZ

At the height of the market boom in May 2000, Robert L. Barron oversaw the sale of Chromatis Networks, an optical communications company where he was chief executive, to in a stock deal initially valued at \$4.75 billion.

But Lucent, which shut down Chromatis's entire operations a year later, was even then losing investor confidence: its share price tanked soon after the Chromatis sale. A dazed Mr. Barron continued to hold on to his stock, whose value was said to be \$150 million at that time. He described the bumpy downhill ride: "I said, 'No way would it go below 40,' and then I said, 'No way would it go below 30,' and then I said, 'No way would it go below 20,' and then I said, 'No way it'll go below 10.'" Now, he added with a rueful chuckle, "it's \$1.70." It closed on Friday at \$2.56.

Yet Mr. Barron is neither bitter nor destitute. He is already running another high-tech start-up and says, philosophically: "Other companies did not even do an I.P.O. I am thankful."

Many of the companies whose shares are now plunging fastest, whether from accounting scandals or the bursting of the Internet and technology bubbles, were until recently voracious acquirers of other companies. , and , among others, were all in there buying.

Investors everywhere are pondering their losses as the stock market continues its slide, with the Standard & Poor's 500 index last week hitting its lowest level since 1997. But perhaps none are doing so as intensely as big shareholders in busi-

nesses that were acquired with stock.

Those who held on to the bitter end, whether because they were legally required to do so or through denial, were badly burned. And they have included some of the wealthiest names in business. The Bronfman family, which swapped Universal shares for Vivendi shares in a friendly takeover, expressed outrage privately as it lost \$2 billion on its stake. The shares, only part of the family's wealth, are still worth about \$1 billion. Ted Turner has watched in dismay as his stake in has plunged 75 percent from last August, when it was worth about \$7 billion.

Yet despite the attention given to these celebrity losers, most entrepreneurs and executives seem to have found a middle ground: not as wealthy as they had hoped, but still cushioned by the fact that they sold their businesses not far from the top of the market.

True, some former stakeholders, particularly those who held significant positions in the merged entities, were forced by regulations to hold stock through the downturn. But many others were free to follow the standard advice of financial advisers and traded at least some of their new shares for cash or protected themselves by placing "collars" on their shares — investment tools that limit both the upside potential and the downside risk.

Frank Dzubeck, president of Communications Network Architects, an analysis and consulting firm, said he has heard some sob stories, but "I don't know of many people who are eating dog food."

This overview from former owners is not comprehensive. Thousands of compa-

nies were snapped up in the last five years. Tyco gobbled up 137 companies from 1997 to 2001 and Vivendi Universal bought 59 in 2001, according to Thomson Financial. Many of the acquired companies were foreign-owned, as the corporations rushed to extend their global reach. Other deals were done in cash with no stock trading hands.

But among those interviewed, the planning provided enough protection that many said their biggest frustration was watching businesses that had been carefully cultivated, sometimes over generations, dismantled or misused by new owners. Many also expressed sympathy with former employees and colleagues who have been dismissed or were unable to cash in their stock soon enough.

Those who are happiest now, of course, are those who had the luck or foresight to sell all their stock early. There are not many to be found, but those who could be tracked down were more than willing to talk — and sometimes to crow. In April 1999, at the height of the Internet bubble, Mark Cuban sold Broadcast.com, a high-speed Internet communications start-up he founded, to for a spectacular \$5.7 billion in stock, with \$1.2 billion going to Mr. Cuban himself. In the years since, Yahoo shares spiked to \$250 but then tumbled down. They trade today at less than \$14 a share, having lost more than 80 percent of their value since the purchase. But that hardly bothers Mr. Cuban, now the owner of the Dallas Mavericks.

"I hedged 100 percent of my stock the day I could," he wrote cheerfully by e-mail, "and since then have shorted more

and have made a bunch of money."

Mr. Cuban's willingness to sell everything so quickly and then, in essence, bet against something he had created is quite unusual, financial advisers to wealthy families say. Depending on how the deal is put together, major owners can be legally obligated to hold on to the stock for an extended period. Owners can also show the same lack of judgment as other investors: they hold on too long because a stock has paid off before, or because they cannot bear to sell something that they have poured their hearts into.

"When you're part of it, and you believe in it, you've got your life into it, and your time, you just don't want to believe that the bottom is going to fall out," Mr. Barron explained.

In addition, the tax incentives to hang on are strong. "As long as you hold stock, you defer the capital gains tax," said Tom Zanicchia, a tax specialist who is president of Wealth Management Consultants. "It allows people to spread the tax hit over time as they sell shares."

Yet even among entrepreneurs who did not sell their stocks swiftly, many retained a substantial financial cushion because the prices they received for their companies were so inflated. John E. Meservey, president of the National Family Business Council, in Lake Forest, Ill., who advises wealthy families, said that before 2002, clients were acknowledging that they received "double and triple the value of their companies over a few years earlier."

For many, selling a company provided the cash to start new businesses. Dr. Amaresh Mahapatra sold his optical components company, the Ramar Corporation, to JDS Uniphase for an undisclosed amount in stock and cash in October 1999. JDS was trading above \$25 at the time, later spiked to \$153 and now hovers around \$3.

"The timing was just right," said Dr. Mahapatra, whose financial adviser helped him protect against a slide in the stock. "It produced liquidity for me at just the right time and has allowed me to do other things." He has started a new venture to build next-generation technology to convert data into a light stream.

But even former owners who retained their sudden fortunes have often been unable to protect their former companies or their co-workers. Some 60 percent of

Ramar's work force has been laid off by JDS in the last six months, Dr. Mahapatra said.

Watching helplessly as former colleagues take a financial beating after a deal is common. Selina Lo was a vice president at Alteon Websystems, which was bought by in July 2000 for \$7.3 billion in stock. Because she had already been at the company for several years, she garnered a considerable chunk of stock — and, she said, sold about half of it before the market plunge, creating a nice financial cushion. (The other half, she said, is "significantly underwater." Nortel stock which traded at about \$80 at the time of the sale, is now less than \$2.)

Other employees who had not been with the company long enough for their shares to be vested were left with options that plummeted in value. "Some people didn't really get their stock converted in time to take advantage of the good market," she said. "That's the biggest regret I have — that not everybody could take advantage of the market when we sold the company."

Sad reflection turns to rage, however, when the acquirer's stock is suffering because of something more than bad luck. Even in 1999, when Tyco International was growing swiftly, many in the Hixon family were not pleased when that conglomerate bought AMP Inc., an electronics manufacturing company, based in Harrisburg, Pa., that had been in the family for 50 years. As the co-founders and second-largest shareholders, they had hoped for an open auction.

Instead, the board agreed to sell AMP in a stock swap valued at \$11.3 billion, which left the Hixon family with a reported stake of \$320 million. That is not a pauper's sum, and even today, with Tyco stock down more than 75 percent from its high last December, the Hixons are not exactly staking out a stoop on skid row. And Pascal Levensohn, whose financial management firm represents the family, said the Hixons have "taken prudent steps to protect their investment."

Still, they are plenty furious about what remains of their Tyco stake. "They are angry and disappointed," Mr. Levensohn said. "The board of Tyco has significantly diminished the value of the company while purporting to pursue a value maximization strategy. Every long-term shareholder has reason to feel betrayed."

As for Mr. Barron, the former chief executive of Chromatis, the experience of riding the boom and the bust has left him "full of mixed feelings."

"The human tendency is to look at people who got more and feel jealous," he said. "The correct perspective is to look at the people who got less" and feel grateful.

There was much disappointment, he said, among his former co-workers — not just financial, but also "the idea of having worked hard on a particular product and seeing that product not get deployed." Many of them, he has heard, "are less likely to go to a start-up company again."

But, he said, he and former colleagues are comforted by the fact that their story is not unique. Moreover, half the company's employees are in Israel, he said, and "I can't believe they would be worried or discouraged about the Lucent stock price — they're probably worried about whether their children are at the wrong bus stop."