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THE ENQUIRER

## Buyout report changes outlook

### Union postpones Friday negotiations

BY MIKE BOYER | ENQUIRER STAFF WRITER

**MIDDLETOWN** - Rival U.S. Steel Corp. is reportedly interested in acquiring AK Steel, a move that could complicate efforts to resolve the four-day lockout of 2,700 hourly employees at the Middletown Works.

Neither company would comment on a Pittsburgh Post-Gazette report Friday that U.S. Steel directors were told on Tuesday - the same day AK locked out members of Armco Employees Independent Federation - that a preliminary purchase price had been given to AK officials. The amount of the cash and stock offer wasn't disclosed.

The news triggered a 23 percent jump in AK Steel's stock Friday. The stock, which has risen about 80 percent since June in the wake of widespread industry takeover speculation, closed Friday at \$13.99, up \$2.65. U.S. Steel's shares closed at \$57.98, up 38 cents.

The news also triggered the postponement of the first negotiations, scheduled for Friday afternoon, between AK and the AEIF since the company locked out employees shortly before the old contract expired Tuesday at midnight.

AEIF officials weren't available for comment.

"We have requested AK Steel to provide us with further information so that we may assess our current bargaining position," the union said in a statement, emphasizing it was not breaking off talks.

But AK spokesman Alan McCoy said the company was disappointed with the union's decision not to meet Friday.

Along the picket lines outside the Crawford Street entrance to the mill Friday, AEIF members were taking a wait-and-see attitude to the news.

"I don't know if it's a good or a bad thing. I'd have to know more," said Rick Chasteen, a 10-year AK employee who lives in Carlisle.

Given AK's financial struggles, some AEIF members, including union president Brian Daley, have said in the past an acquisition by a larger steelmaker could be a benefit for employees in the long run.

"I think it could be a good thing.

U.S. Steel's got to have better managers than we have now," said Ed Deaton, a 32-year mill employee from Middletown.

In a recent interview, James Wainscott, AK Steel's chairman and CEO, said the company wasn't looking for a buyer.

McCoy, in an interview last week, acknowledged the takeover speculation swirling around the company but noted: "We can't control whether shareholders sell their stock. The only thing we can control is our costs."

The company says it needs greater health-care cost sharing with employees, changes in pension plans and more flexibility in operating the Middletown Works to achieve sustained profitability.

Analysts believe AK has about a \$50 a ton cost disadvantage to its competitors because of its \$3.2 billion in legacy costs for pensions and health care. AK Steel's 6.5 million tons of steel produced last year represented less than 10 percent of the more than 70 million tons produced in the U.S.

"In my opinion, AK Steel will be partnered with somebody in the industry in the not-too-distant future," said Michael Locker, president of Locker & Associates, a New York City steel consultant that has worked for the AEIF in the past.

## POSSIBLE EFFECT

U.S. Steel is three times as large as AK but a combination of the two century-old companies - the last two U.S.-based integrated steelmakers - would solidify U.S. Steel's position as an automotive supplier, AK's specialty, say analysts.

"Strategically it makes sense," said Chris Olin, steel analyst at Longbow Research in Cleveland.

But he and other analysts questioned whether a merger would pass antitrust muster with the federal government and what buying AK Steel would cost.

Chuck Bradford, an independent steel analyst in New York City, estimated U.S. Steel would have to pay about \$18 a share, or about \$36 billion, to acquire AK Steel based on its current 110 million shares outstanding.

But Bradford, who said he was aware of the source of the newspaper's information, was puzzled why it was leaked now.

"My understanding is this was presented to the (U.S. Steel) board now to make them aware they'd have to issue 20 percent more stock and seek shareholder approval," he said.

Bradford said his understanding was that U.S. Steel was preparing to make an offer for AK Steel in April, presumably after the contract with the AEIF, the company's largest union, was resolved.

The disclosure now, he said, has probably hurt the deal and possibly the negotiations.

Bradford said he's talked to U.S. Steel president and CEO John Surma about acquiring AK Steel in the past.

"He told me they weren't interested in AK until it was able to cap its legacy costs," Bradford said.

But he and other analysts said U.S. Steel's interest in AK could also be defensive. U.S. Steel has been widely considered a target in the wave of takeovers sweeping the industry. Paris-based Arcelor, itself being pursued by industry giant Mittal Steel N.V., is believed to be interested in acquiring U.S. Steel.

The theory is that by taking on AK's legacy costs, U.S. Steel would make itself unattractive as a takeover target.

Bradford said U.S. Steel might also be interested in AK Steel to pre-empt German-based ThyssenKrupp, which has said it wants to acquire a supplier to the U.S. auto industry. Forty-five percent of AK's 2005 sales were to the auto industry, according to the company's annual report released Thursday.

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