



QUARTERLY REPORT

for Quarter
ended
March 31, 1985

**Earnings per share
for the Quarter:
31 cents**

**100th Annual Meet-
ing: Chairman
discusses AT&T's
competitive edge**

**AT&T introduces the
UNIX PC and other
advanced business
automation products**

**President Reagan
awards medal to
AT&T Bell
Laboratories**

Tax Decision Sought

1985 ANNUAL MEETING

About 1,960 shareowners attended the company's 100th annual meeting on April 17 at the David L. Lawrence Convention Center in Pittsburgh. The following highlights are based on remarks by AT&T Chairman Charles L. Brown at the meeting.



AT&T Chairman C.L. Brown at the annual meeting.

CHAIRMAN'S REMARKS

I see the transformation from the old AT&T to a new, faster-track enterprise taking place in three stages. The first was separation from the Bell System. Next is a transition stage. The third is what you might call a strategic focus stage. I believe we are emerging from the second stage and will be moving into the third as the year goes along.

In that context, then, our earnings re-

sults in this first quarter provide no surprises. They are about what we expected.

Long Distance Rates

Given FCC approval, we plan to reduce most of our interstate long distance prices and the prices of calls to many international points.

The reductions we seek will save our long distance customers more than \$1 billion a year. They are scheduled to start on June 1, the same day that a local subscriber line charge of \$1 a month takes effect for residential and single-line business customers.

Competitive Edge

I am confident that AT&T has what it takes to come out on top in a competitive environment—to be what we have always striven to be, which is to say, the best. My confidence is based on fundamental strengths that we possess in abundance. It is based on our leadership in research, development and manufacturing. It is based on the quality of our products and services. It is based on our position in the marketplace today and on the readiness of our marketing and sales organizations to respond to consumer needs as they evolve. Above all, it is based on the competency and resourcefulness of the men and women of AT&T.

We aren't just selling pieces of equipment, without any concern for how they fit together. Anybody can do that. Our expertise lies in putting piece-parts together into one, easy-to-use system. For too long, the technology of business automation has been looked at in terms of individual boxes: a word processor, a computer, or a modem.

EARNINGS

Net income for the three-month period ending March 31 was \$354 million or 31 cents per share on 1,044 million average shares outstanding, compared with \$227 million or 20 cents a share on 983 million average shares in the first quarter of 1984.

Revenues for the three months, after deducting access charges paid to the local telephone companies, were \$8.30 billion, compared with \$8.14 billion for the equivalent period last year.

But what the marketplace really needs is systems integration. And that's our special strength.

The Right Choice

One market we are not strangers to is long distance telecommunications. It is in this market that our new advertising theme, "The Right Choice," takes on special meaning because telephone customers around the country are now being given an opportunity to choose their primary long distance company. We fully expect that those who have not yet chosen will continue overwhelmingly to make AT&T their choice. I know I don't need to convince AT&T shareowners regarding which company ought to be your right choice. In fact, we hope you will be our best sales people in talking to your friends and neighbors.



The AT&T UNIX PC

AT&T UNIX PC LEADS BUSINESS AUTOMATION PRODUCT DEBUT

The AT&T UNIX PC—an entirely new class of personal computer for the office—was introduced in March along with 28 UNIX™ software programs. The highly capable UNIX PC can perform several jobs simultaneously and serve multiple users through inexpensive terminals. Ease of use and ability to combine voice and data communications are additional features.

Also introduced were a unique touch-screen workstation called the AT&T Personal Terminal, for customers served by AT&T's System 75 and System 85 PBXs, and a high-speed local area network, the AT&T STARLAN Network, that can link UNIX-based computers with computers that employ the MS-DOS system.

Enhancements for the AT&T PC 6300 computer were also announced, including: a Communications Manager, providing simultaneous voice and data transmission and one-button dialing; the addition of the

XENIX* operating system; a 20-megabit hard disk; and a high-speed co-processor for large-scale projects. Sales information is available by calling toll-free 1-800-247-1212.

*Trademark of the Microsoft Corporation.

AT&T MARKS 100th ANNIVERSARY

AT&T celebrated its 100th anniversary on Sunday, March 3, 1985. Ceremonies marking the occasion took place the following day at the New York Stock Exchange and other exchanges where AT&T stock is traded, as well as at the company's New York headquarters and other AT&T locations around the country.

EUROPEANS SELECT UNIX SYSTEM

Six European computer firms have announced their intention to adopt the AT&T UNIX operating system as a standard system for their future computers. The six firms are: N. V. Philips of the Netherlands, Britain's ICL, Nixdorf Computer AG and Siemens AG both from West Germany, Bull (Groupe) of France, and Ing. C. Olivetti of Italy. The agreement is seen as a major step toward industry standardization in Europe. A computer operating system is a set of instructions that governs the internal operations of a computer, such as data storage and retrieval.

5ESS WINS OVERSEAS SALES

AT&T and Philips Telecommunications has been named primary supplier of switching equipment in the Netherlands for that country's plan to digitalize its national telecommunications network. The company, a joint venture formed by AT&T and N.V. Philips,

will supply 5ESS/PRX switches and associated equipment. The company's AT&T and Philips Telecommunications UK Ltd. unit also recently won an order for nine 5ESS/PRX switchers to be used by British Telecommunications for that company's Linkline service, an offering similar to AT&T's 800 service. In addition, 5ESS/PRX machines have also been sold to government telephone agencies in India and Saudi Arabia.

AT&T AND EDS JOIN FORCES

AT&T and Electronic Data Systems, Corporation (EDS) announced a seven-year agreement to custom-design and jointly market integrated communications and data processing systems. The agreement combines AT&T's skills in communications and data products with EDS' skills in software and systems integration. EDS is a subsidiary of General Motors Corp.

CARRIERS APPROVE PACIFIC CABLE

Twenty two international carriers, including AT&T, have approved the construction of the first laser-powered, digital lightwave cable to carry telecommunications across the Pacific Ocean. Pending favorable action by the FCC, construction of the \$593 million cable can begin in late 1988. U.S. international carriers would own about 63 percent of the cable.

AT&T JOINS FORTUNE 500

AT&T, considered a utility company in years past, has been reclassified as an industrial company and ranked eighth in sales and twelfth in net income in the latest iteration of the Fortune 500 industrial list, compiled by *Fortune Magazine*.

AT&T AND SUBSIDIARIES CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS (Unaudited)

A dividend of \$.30 a common share is being paid May 1, 1985 to shareholders of record on March 29, 1985. On our preferred stock, dividends of \$.935 and \$.91 are being paid May 1, 1985 on the \$.3.74 and \$.3.64 preferred shares, respectively, to shareholders of record on March 29, 1985.

STATEMENTS OF EARNINGS (Preliminary)

(Dollars in millions except per share amounts)

Revenues:

	Three Months Ended March 31, 1985	Three Months Ended March 31, 1984
Sales of services ^(a)	\$3,873	\$3,933
Sales of products	2,871	2,234
Rental revenues	1,558	1,972
Total operating revenues	<u>8,302</u>	<u>8,139</u>

Costs and expenses:

Cost of services, products and rentals	4,534	4,460
Selling, general and administrative expenses	2,508	2,676
Research and development expenses	551	563
Total costs and expenses	<u>7,593</u>	<u>7,699</u>

Other income—net

Interest expense	76	131
Income before income taxes	195	211
Provision for income taxes	<u>590</u>	<u>360</u>
	236	133

Net income

	<u>\$ 354^(b)</u>	<u>\$ 227</u>
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Earnings per common share^(c)

Average common shares (millions)	\$.31 ^(b)	\$.20
	<u>1,044</u>	<u>983</u>

BALANCE SHEETS (Preliminary)

(Dollars in millions)

Assets

Current assets:

Cash and temporary cash investments	\$ 1,744	\$ 2,140
Accounts receivable	9,861	9,371
Inventories	5,066	4,789
Other current assets	863	1,033
Total current assets	<u>17,534</u>	<u>17,333</u>
Property, plant and equipment—net	20,967	21,015
Other assets	1,308	1,479
Total assets	<u>\$39,809</u>	<u>\$39,827</u>

Liabilities and shareholders' equity

Current liabilities:

Accounts payable and accruals	\$7,090	\$7,203
Debt maturing within one year	591	850
Taxes and other current liabilities	3,326	3,190
Total current liabilities	<u>11,007</u>	<u>11,243</u>
Deferred income taxes and investment tax credits	3,805	3,726
Long-term debt	8,733	8,718
Other liabilities and deferred credits	786	883
Preferred shares subject to mandatory redemption	1,481	1,494
Common shareholders' equity:		
Common shares and additional paid-in capital	9,109	8,881
Retained earnings	4,888	4,882
Total common shareholders' equity	<u>13,997</u>	<u>13,763</u>
Total liabilities and shareholders' equity	<u>\$39,809</u>	<u>\$39,827</u>

(a) Net of access charges of \$5.496 and \$4.943, respectively.

(b) Reflects revised depreciation rates effective January 1, 1985 which reduced net income by \$47 (\$.05 per share) as compared to rates in effect during the three month period ended March 31, 1984.

(c) Calculated after deducting preferred dividend requirements of \$28 at March 31, 1985 and 1984.

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April 17, 1985



President Ronald Reagan presents the National Medal of Technology to Ian M. Ross, president of AT&T Bell Laboratories

MEDAL AWARDED TO AT&T BELL LABORATORIES

President Ronald Reagan awarded a National Medal of Technology to AT&T Bell Laboratories in a recent ceremony at the White House. Bell Labs was the only institution so honored. Medals were also presented to 12 individuals. The medal gives Presidential recognition to those who have "advanced U.S. competitiveness in world markets, created new jobs, and made technological contributions to industries and people everywhere."

AT&T GUARANTEES SUBSIDIARY DEBT

In order to avoid confusion in financial reporting, AT&T recently announced it will guarantee the payment of principal and interest on \$144 million in long term debt of its subsidiary, AT&T Technologies, Inc. (formerly the Western Electric Company). In connection with this action, financial data for AT&T Technologies, Inc. will be summarized and included in AT&T's quarterly reports filed with the Securities and Exchange Commission beginning with the first quarter of 1985 and in the 1985 AT&T Annual Report.

TAX DECISION SOUGHT

Although AT&T cannot directly challenge in court the IRS position on the tax treatment of the Pacific Telesis Group (PacTel Group) stock distributed at divestiture, the company is actively supporting an AT&T shareowner's court challenge, and AT&T will pay the cost of this litigation. The IRS has ruled that a portion of the PacTel stock was taxable as a dividend to the extent of 39 cents for each share of AT&T held at divestiture. In contrast, AT&T's tax counsel believes that, while the matter is not free from doubt, no portion of the distribution of the PacTel Group stock should be taxable.

While it is hoped that the challenge will be handled on an expedited basis, the case nevertheless may take some time to be decided. Consequently, shareowners who filed their income tax returns in accordance with the IRS position may wish to consult their tax advisors regarding the appropriateness of filing a refund claim. Generally, a claim must be filed within three years of the filing date or within two years after the tax was paid, whichever comes later.