AT&T management report

No. 7/February 19, 1982

Operating companies grouped into seven-region planning model in preparation for the divestiture

A planning model which structures the Bell System's 22 principally-owned operating telephone companies into seven regions has been set up by the American Telephone and Telegraph Company and the operating companies. This will be used as a basis for the further planning which must be accomplished to prepare for the divestiture of its local exchanges, as required by the terms of the proposed Consent Decree signed last month.

The Bell operating companies would remain as separate corporations, as they are now. They would retain their own identities and serve the same territories as they do now. From the standpoint of stock ownership, the plan contemplates that they would be organized regionally as follows:

- New England Telephone and Telegraph Company and New York Telephone Company.
- Bell of Pennsylvania, the Diamond State Telephone Company, The Chesapeake and Potomac Telephone Companies (Virginia, West Virginia, Maryland, and the District of Columbia), and New Jersey Bell Telephone Company.
- South Central Bell Telephone Company and Southern Bell Telephone Company.
- Illinois Bell Telephone Company, Indiana Bell Telephone Company, Michigan Bell Telephone Company, Ohio Bell Telephone Company, and Wisconsin Telephone Company.
- Southwestern Bell Telephone Company.
- Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, and Pacific Northwest Bell Telephone Company.
- Pacific Telephone and Telegraph Company and The Bell Telephone Company of Nevada.

This arrangement (see illustrative map on page two) is intended to make the divestiture largely transparent to Bell System customers but would act to provide financial strength. There would be no corporate linkage as between regions; each would be a separate entity. The regions would be roughly comparable with respect to their assets.

In disclosing the seven-region planning model, AT&T Chairman Charles L. Brown described the organizational configuration as "a planning model."

"This is a reasonable template against which we can test all of the decisions which will have to be made in order to establish these companies in good shape on their own. We must proceed with our planning in terms of two basic parameters—good service sustained by good earnings—and this configuration looks promising in terms of these considerations," Brown said.

The structure model announced today was developed and recommended by a Bell operating company task force consisting of four company presidents: Wallace R. Bunn, South Central Bell; William L. Weiss, Illinois Bell; Jack A. MacAllister, Northwestern Bell; and Andrew V. Smith, Pacific Northwest Bell. They worked with William S. Cashel, Jr., AT&T vice chairman and chief financial officer, and Howard J. Trienens, AT&T vice president

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Board declares regular AT&T dividends

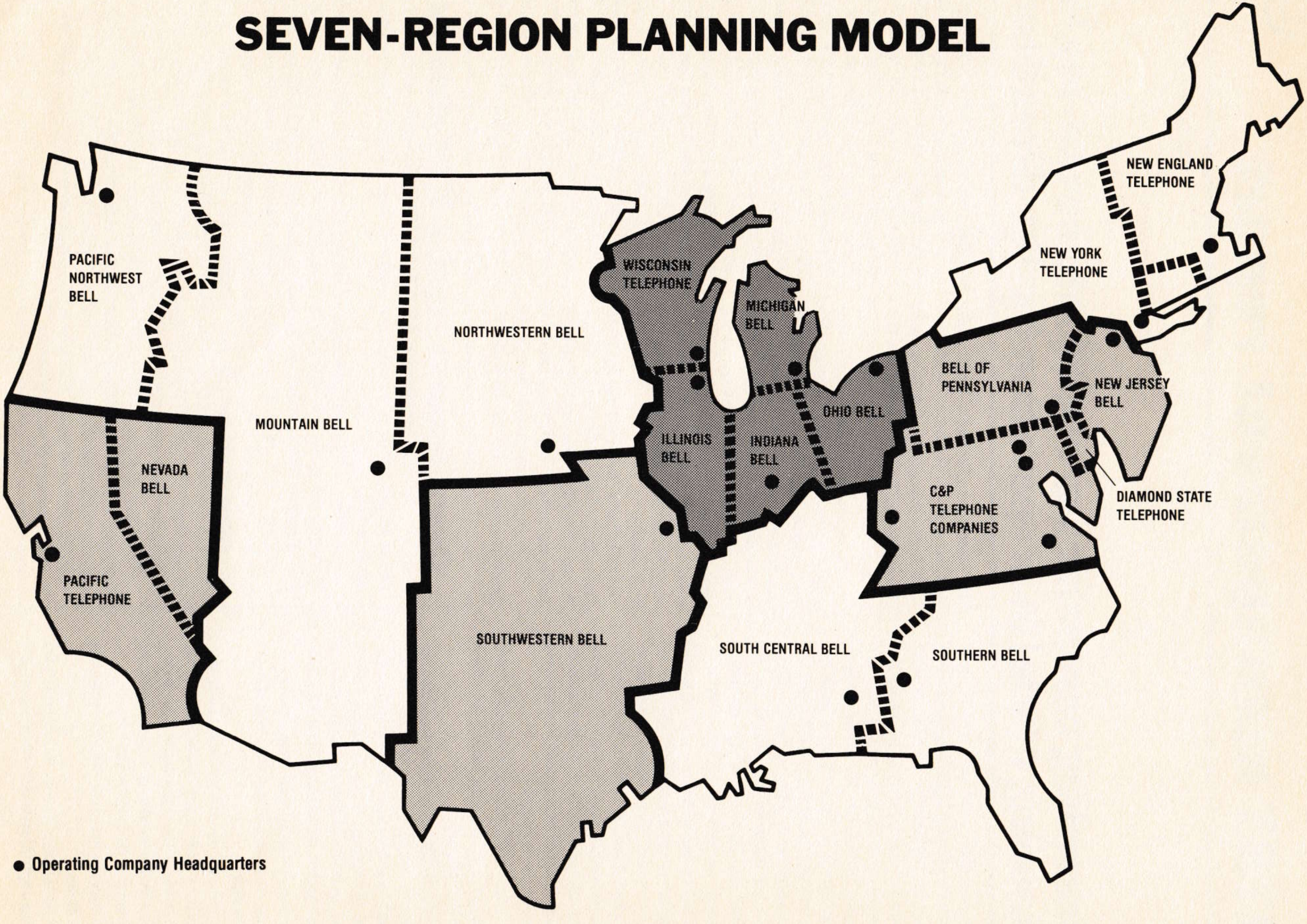
AT&T's Board of Directors on Wednesday declared regular quarterly dividends on the company's common shares and three publicly held preferred stock issues.

A dividend of $1.35 on the company's common shares will be paid April 1 to share owners of record February 26. This dividend will be the 399th consecutive quarterly dividend and will be paid to more than 3 million share owners.

Chairman C.L. Brown stressed that the prospect of divestiture was not a factor in the Board's decision to continue the current dividend rate. "We expect 1982 to be a reasonable year," Brown said, "but there is enough uncertainty in the economy that it seems inappropriate to change the dividend rate at this time." He added that the company will continue to review its dividend policy four times a year in light of current business conditions.

The three preferred dividends announced were a $1.00 dividend on the company's $4.00 convertible preferred issue, a dividend of 93½¢ on the $3.74 non-convertible preferred issue, and a dividend of 91¢ on the $3.64 non-convertible preferred issue. All three preferred dividends will be payable May 1 to share owners of record March 31.

SEVEN-REGION PLANNING MODEL



Western Electric will manufacture new 256-K chips

Later this year Western Electric will begin volume production of a new silicon memory chip that can store over 250,000 bits of information and that represents a significant advance in the manufacture of memory devices.

Designed by Bell Laboratories, the 256-K DRAM (dynamic random access memory) devices will be used initially to provide memory for the No. 5 ESS, but will find application ultimately in a variety of computerized Information Age telecommunications equipment. Manufacturing of the chips is expected to increase rapidly through 1984 to a level where the majority of Western's memory needs will be met with the 256-K DRAM.

Among the new memory chip's most innovative design characteristics is the microscopic dimension of the chip's individual features.

Another key innovation of the new device is the speed with which information can be retrieved from it. Individual bits of information can be accessed in about 105 billionths of a second.

The new chip's high component density and fast access speed are also matched by a high degree of reliability. Tests show that the 256-K DRAM is as dependable as the 64-K DRAM it is designed to replace.

Production at Western Electric's Allentown Works in Pennsylvania will employ a number of leading-edge manufacturing technologies. An example of a new technique is the use of a novel metal silicide compound enabling the chip's fast information retrieval time.

Long Lines seeks rate restructure that would affect almost all overseas services

Long Lines proposed this Tuesday to restructure and simplify rates for almost all overseas telephone service and offer some lower-cost options to international callers through a peak/off-peak schedule, effective May 17. The plan, filed with the Federal Communications Commission, would also restructure charges for calls to Mexico.

The proposal, which responds to FCC concerns about improving network utilization, is not expected to affect Bell System earnings. The plan would reduce the average cost of a customer-dialed overseas call by about 4.5%.

Average rates decrease

As a result of the restructuring, average rates for customer-dialed calls to continental Europe, Africa, the Near East, most of South America, and the Pacific would decrease, principally because of the proposed discount periods. Although overseas callers today can dial their calls direct to 103 countries and areas, there are no time-of-day discounts to 40 of those locations. On calls to other countries, only one discount is offered.

Rates for some calls—particularly those to the Caribbean and Mexico from nearby U.S. points—would increase by some 37%. On some longer-range calls to these regions, however, rates will decrease.

Specifically, the proposal would:

• Reduce from three to one minute the initial period on customer-dialed overseas calls and eliminate discounts, where they exist, on the initial period for operator-handled overseas calls. Customers who dial their own overseas calls and talk for less than two minutes are expected to save money under the proposed one-minute initial period. The three-minute minimum billing period would remain for operator-handled overseas calls.

• Establish nine overseas rate regions. This would enable AT&T to reduce to 24 the number of rate schedules for overseas calls. There are currently 49 separate rate schedules in the rate structure.

• Establish a uniform dial rate structure consisting of Standard, Discount, and Economy periods for all customer-dialed overseas calls and for additional minutes on most operator-assisted calls.

• Establish a 25% discount for overseas direct dial calls placed during the off-peak traffic hours of the Discount period and a 40% discount for such calls placed during the least busy hours of the Economy period. Discounts would apply seven days a week, but hours would vary by rate region.

• Establish uniform rate periods, standard time-of-day discounts, and consolidated mileage bands for the United States portion of calls between the U.S. and Mexico.

Collect calls affected

Also under the proposed revisions, all overseas collect calls charged to U.S. phones would be billed at the person-to-person rate.

Rates for calls to Canada and Cuba would not be affected by the plan. Rates for calls to Puerto Rico and the U.S. Virgin Islands, which are classified as U.S. offshore points and are included in the domestic rate schedule, would also not be affected. □

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For eighth consecutive year, Bell System sustains its Zero Energy Growth record

For the eighth consecutive year the Bell System in 1981 surpassed its energy management goal of Zero Energy Growth and used over one percent less energy than it did in 1980, according to a study released this week by AT&T.

In announcing the 1981 results, Sid Collis, Assistant Vice President-Support Services, emphasized that last year's conservation efforts were especially significant in the face of other factors that could have pushed up usage. He noted that in 1981 the System required 12% less energy than in 1973, while volume of business had increased 86% and all energy demand indicators had risen.

For example, over the last eight years, the number of customer lines served by the operating companies has grown by 36%. "To meet the demands of this growth," Collis said, "our building floor space was increased by 28%, or 88 million square feet, and our motor vehicle fleet was enlarged by 37,000 vehicles—an increase of 23%." Collis also noted that the motor vehicle fleet logged an additional 275 million miles —17% more than in 1973.

"The implications of our energy savings are enormous," said Collis. "Cumulatively, the Bell System has avoided using energy equivalent to 37 million barrels of oil—enough to provide all the energy needs for 740,000 families for a year."

Despite the significant reduction in energy usage, however, Collis pointed out that energy expenses continue to rise with the cost of energy and have outpaced conservation efforts. "In 1973 energy cost the System $276 million," said Collis. "Last year, even though we purchased 12% less energy, it cost us almost $1 billion. However, had energy usage continued growing at the pre-1973 rate," Collis added, "by the end of 1981 the Bell System would have spent $1.7 billion more for energy than we actually did.

"The success of the Bell System's energy management program is the result of teamwork—good energy management and the continued support given by all employees," Collis concluded. □

. . . planning model

(continued from page one)

and general counsel. Bell operating company presidents and AT&T officers agreed unanimously Thursday, February 18, on the structure proposed by the task force.

There are five other Bell operating company presidential task forces working in parallel.

One group will identify those functions which can best be done on a centralized basis for the prospective exchange companies and the structural arrangements for the provision of those functions. A personnel task force will identify and analyze human resources and labor relations considerations. Another group will deal with "exchange area" boundaries for the prospective exchange companies, as specified in the Decree.

An asset assignment study group will be responsible for the overall development and implementation of plans for assigning telephone plant as between AT&T and the companies to be divested, as is called for by the Decree. A group on access charges will identify and analyze financial, operational, regulatory, and other issues with respect to access charge tariffs and their implementation.

The full plan for divestiture of the 22 Bell companies and their local exchange and exchange access facilities does not need to be filed with the Department of Justice until six months after the Decree becomes effective. The Decree itself is subject to approval by Federal Judge Harold H. Greene and no decision on his part is anticipated until he has concluded further procedures, including a period for public comment and reply which is expected to continue into early May. □

Managers' Salary Rates Approved

New salary rates have been approved, effective April 1, for second- through fifth-level General Departments and 195 Broadway Corporation management employees.

In accordance with the Middle Management Salary Plan, no separate economic adjustments will be given. Rather, employees in these levels will continue to be considered for merit increases which would reflect the changes in the salary structures. Salary planning for the April 1982 Common Merit Date, using the new rates, is currently under way.

Information regarding the changes in the salary structure will be provided to the supervisors of second- through fifth-level employees. Any questions about these changes should be directed to the individual supervisor. Individual notifications of new salary rates will be available at the end of March.