



AT&T management report

No. 7/February 27, 1981

The 1980 Annual Report

Brown tells share owners: The Bell System has crossed the threshold of a new era in its history

"I believe that 1980 was in a number of significant ways Year One of the Bell System's future."

With these words, Chairman C.L. Brown established the theme of the 1980 Annual Report which is being mailed, beginning today, to AT&T's more than three million share owners.

The report highlights the achievements of 1980 and emphasizes the actions the Bell System has taken to equip it to compete in the markets of the "Information Age" with services combining both communications and computer technology.

Nineteen-eighty was a year "in which we redefined the scope of our business and raised our marketing horizons," Brown said. "No longer do we perceive that our business will be limited to telephony or, for that matter, telecommunications. Ours is the business of information handling, the knowledge business. And the market we seek to serve is global.

"The technology of the Information Age is ours," Brown stressed. "Indeed it was Bell System technology that very largely brought it into being. And it is Bell System technology that positions us to fulfill its opportunities."

Standard of excellence

Our business will be changing "on a scale unmatched in any industry I know of," Brown said, but "what further changes the future will bring is beyond knowing. Indeed, how the Bell System will be configured ten years from now I can't predict. But I can say what standard we mean to apply to the decisions we'll be called upon to make on the way to that unknowable destination. It is the standard of excellence. Our purpose is to seek—at every point of decision—the highest and best use

of the organizations and resources we call the Bell System."

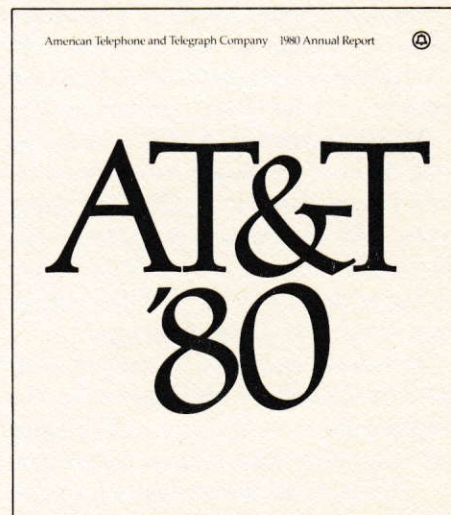
Highlights of the Bell System's 1980 performance achievements and use of its resources—as described in the Annual Report—include the following:

- We continued to invest significant amounts of capital to improve, expand, and sustain customer service. To help finance construction costs of \$17.3 billion in 1980, we raised a record \$7 billion in new money.

- We also invested \$1.4 billion in Bell Labs and Western Electric research and development work.

- More than 300 local and 18 long distance electronic switching centers

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Sleek, modern graphics on the Annual Report's cover suggests a new age.

AT&T asks FCC to reject judge's 10.87% interstate service rate of return finding

AT&T asked the Federal Communications Commission Wednesday to reject an Administrative Law Judge's 10.87% rate of return finding on interstate services. AT&T called the judge's rate of return recommendation "grossly inadequate to reflect the level of earnings necessary under today's economic and financial conditions."

In the exceptions submitted, AT&T stated its case for a 13% rate of return, an increase over the current interim rate set at 10.5%.

The company simultaneously petitioned for an oral argument on the issues before the end of March and an expedited decision.

Citing the need for an immediate and urgent improvement in earnings, AT&T filed well in advance of the 30 days allowed after the judge's initial recommendation released February 5.

James R. Billingsley, Vice President-Federal Regulatory Matters, asserted in a letter to the FCC that a 13% overall rate of return is essential to meet service obligations and avoid inadequate 1981 earnings in a period of continued high inflation.

Noting that there was no improvement in 1980 earnings, as compared to 1979 earnings, he added, "The outlook for 1981 is even more bleak."

"It is now projected, absent relief, that the Bell System will earn only 9.7% in 1981 on its interstate and foreign operations," the filing stated.

AT&T expressed the need for higher earnings so that its stock offerings would be competitive with other profitable investments available to investors, such as six-month savings certificates or money market funds yielding as much as an 18% return. □

AMPS guidelines to be subject of FCC session

At its March 4 meeting, the Federal Communications Commission is scheduled to decide on its long-awaited guidelines for commercial offerings of cellular mobile telephone service.

Since December 1978, a trial of the Bell System's cellular Advanced Mobile Phone Service (AMPS), involving some 2,000 customers in Chicago, has proved its high quality and its ability to boost productivity, with savings in time, fuel, and other expenses.

Financial analysts who have sampled the Chicago AMPS operation are enthusiastic about its potential. Here are some examples of their comments.

"I think AT&T is just beginning to be appreciated for what it has long been: a high technology company. AMPS will—as soon as the FCC acts—give the public a brand new way to save gasoline and at the same time, help improve AT&T's earnings." *Bill LeFevre, vice president, Purcell Graham & Co.*

"First of all, AMPS is a revolutionary service that will substantially enhance the nationwide telephone net-

work. Since AT&T developed AMPS, it ought to provide it. The regulatory delays on AMPS have deprived the public of real benefits—especially the obvious energy savings that consumers would enjoy." *Brad Peery, vice president, Paine Webber Mitchell Hutchins.*

"From the user's standpoint, AMPS was very convenient and easy to use. And I think the price should appeal to a lot of people. Bell System technology is so advanced that I am no longer amazed at AMPS' superb quality of transmission; it's the kind of product we've come to expect from the Bell System." *Glen Pafumi, vice president, Merrill Lynch.*

"AMPS is an impressive accomplishment. My number one concern is really the disposition of the marketplace by the FCC." *Bill Haugan, vice president, E.F. Hutton.*

Conceived and developed by Bell Labs, the cellular system is the solution to the current bottleneck in mobile service—the limited number of channels available. The cellular "solution," embodied in AMPS, provides no-wait, landline-quality transmission.

In 1975, the FCC set aside a spec-

trum of 40 megahertz for development of cellular service and restricted allocation of this bandwidth to one carrier per service area. This approach would entail FCC "comparative hearings" in any area where more than one company applied to provide service—a piecemeal process that could delay the introduction of cellular service for years.

To avoid lengthy regulatory proceedings, and still permit competition, the Bell System proposed an alternative plan. Since, as a practical reality in terms of spectrum availability and economic efficiency, no more than two underlying carriers can serve one geographic area, the Bell System proposed allocating 20 megahertz to a radio common carrier, and 20 megahertz to a wireline carrier, with an additional 10 megahertz for each carrier to be held in reserve to meet growth in demand. Each carrier would be allowed to offer capacity to others for competitive resale to end-users.

The Bell System has committed itself to providing cellular service in 35 major metropolitan areas within five years of a satisfactory decision and granting of construction permits by the FCC.

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were installed. These computerized centers expand the capability of the network to provide specialized services.

- In the field of home communications, the Bell System began one trial and announced two others for 1981 aimed at determining the needs of the home communications market for information, education, entertainment, and for control of energy consumption.

- Among the new business services introduced in 1980 was a communications system to monitor and control energy use in hospitals. And our private line Dataphone Digital Service system was extended to an additional 18 cities.

Management salary rates approved

New salary rates have been approved, effective April 1, 1981, 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 1981 Common Merit Date, using the new rates, is currently underway.

Information regarding the changes in the salary structure has been 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.