

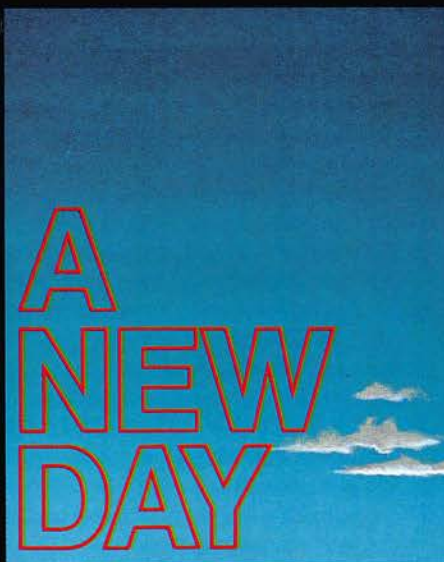
Western Electric

WE

Second Quarter 1983



entering
a
bright future



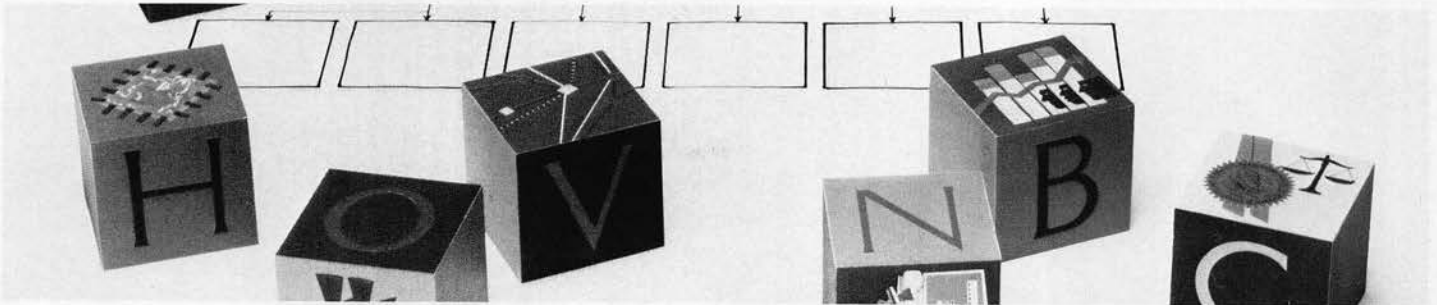
There may not be universal agreement about what the future holds for Western Electric, but nobody disputes that, whatever it turns out to be, it will be *different*. Change is the order of the day, and some of us are somewhat uncertain as to how we'll be affected.

Some changes have already taken place; some will occur in the near future; and some will proceed at a measured, evolutionary pace.

For Western Electric's top management, the past year was one of intensive planning for the future—planning that, in some ways, has been even more difficult than for the rest of the AT&T enterprise. In large measure their roles are clearly spelled out by the Modification of the Final Judgment and by the Federal Communications Commissions Computer Inquiry II.

In contrast, as AT&T's vice chairman and WE Board Chairman James Olson noted recently, Western's situation is different. "Certain aspects of Western Electric's new mission," he said, "seem difficult to get our arms around. There are more questions and more intangibles to grapple with at this point in the process."

Even so, Western's planners have laid out a fairly comprehensive road map showing the way. To get a sense of direction for the future, *WE Magazine* spoke to our 10 top executives. Most of this issue is based on their comments.



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Editor's Note

The dominant themes of this special issue are the extensive planning our top people have done to prepare us for the future and the many changes that will be a consequence of that planning. Many of those changes were already in effect by early June when we went to press. Others may have been made since press time, and additional modifications will evolve as the company prepares for its new business climate.

This issue has been staff-written. Particular credit goes to ex-Associate Editor, Lydia Whitefield.

The portraits of executives were done by Dennis Lyall.

Western Electric



“These are days for taking stock,
for capitalizing on strengths and overcoming
weaknesses, for looking ahead and for
careful planning.”

Don Procknow

President



These are challenging times for Western Electric. The decisions we make today . . . and tomorrow . . . will determine

the kind of business we will be in and the kind of success we will enjoy for many years to come. These are days for taking stock, for capitalizing on strengths and overcoming weaknesses, for looking ahead and for careful planning.

For the people of Western Electric, there is approaching a period of sharp transition. The System we've been a part of for more than a century will cease to exist in just a few months. We'll be doing business in entirely new and different ways. But, as sorely as we will be tested, I am just as sure that we have the basic strengths and resources to come out on top.

First of all, we have a business plan that will help keep us on the right track. To live up to our mission and to achieve our goals, we know what we have to do. Part of the plan is devoted to repositioning Western so that it is in the best possible shape to take advantage of the opportunities that will be open to us. We have a fine plan; our mission today is to manage by that plan. We also have the strength of our continued relationship with Bell Laboratories. The Laboratories, ATTI, and Western are working together as part of a sector headed by Jim Olson—and I'm convinced that the working relationships within this sector will become even stronger and more effective in the future.

We have a fine product line and we're adding to it every day by introducing state-of-the-art products and

services that our customers want and need. We have our well-deserved reputation for quality, reliability, and service—and these are the strengths and traditions we're going to build on.

Our greatest strength is in our people. The Western Electric employee today is highly skilled, highly motivated and very, very capable. I know that some of our people are concerned about their own future and that of Western Electric. All I can say is that we're doing everything in our power to address these concerns.

Our strengths will stand us in good stead as we meet our competition head on. After divestiture, we'll be fully separated from our traditional customers, the Bell Operating Companies. We have to do everything possible to maintain their confidence, their respect, their business. That's our goal, our number one priority.

We also want to enter new marketplaces, new businesses. To do this, we're going to have to stay on top; to make sure that we continue to have the right products in the right place at the right time. And we're going to have to make sure those products are priced right . . . right from the moment they're introduced. We have to strengthen and enhance our tradition of cost control. Every penny we can save is a penny we don't have to earn back.

And, finally, our most compelling challenge is to maintain and strengthen the fine reputation we have earned over the years. Today we are recognized as the world leader in telecommunications equipment. As we enter our new world—looking to sell to the Bell companies, the independents, to new businesses, both domestic and international—our reputation is our calling card. Our expectation is to enhance and strengthen that reputation so that the name of Western Electric will continue to be known and respected the world over.

I am confident that we in Western Electric have everything we need to meet every single one of these challenges and to come out where we've always been, on top. A winner.

The New AT&T

The new AT&T will be a smaller company than it is now, but it will no longer be constrained by outdated restrictions on the kinds of business opportunities it can pursue. In the future, AT&T will be free to apply its technology in new businesses, including unregulated businesses for data processing and other information services.

Aside from a headquarters staff, AT&T will be made up of five principal organizations:

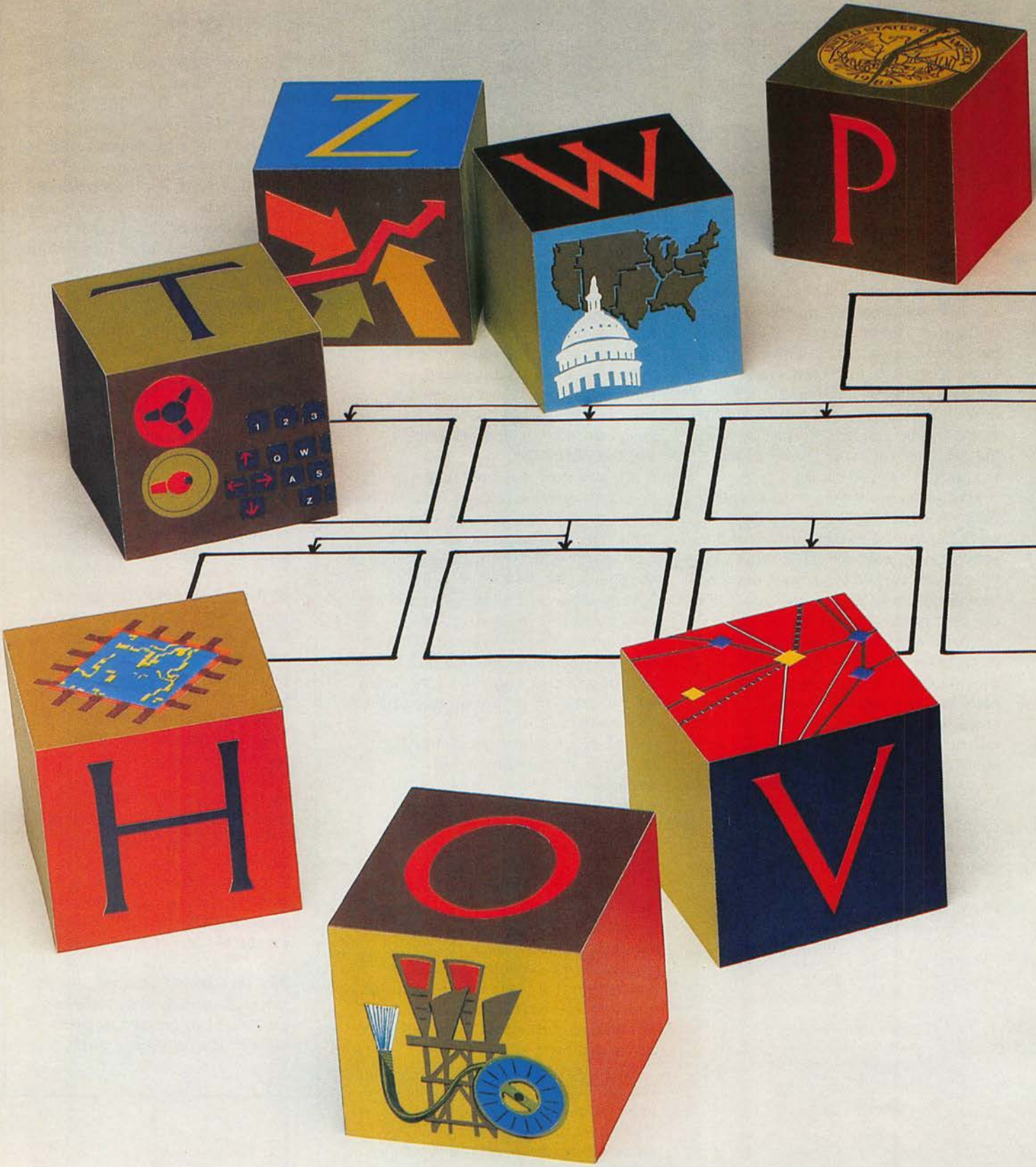
■ **Bell Telephone Laboratories**, the world's leading industrial research and development organization.

■ **Western Electric**, this country's foremost supplier of high-technology products, systems, and services.

■ **A new interexchange organization**, which will operate the nationwide long distance network while marketing and providing a range of long distance services to residence and business customers within the United States and to points around the world.

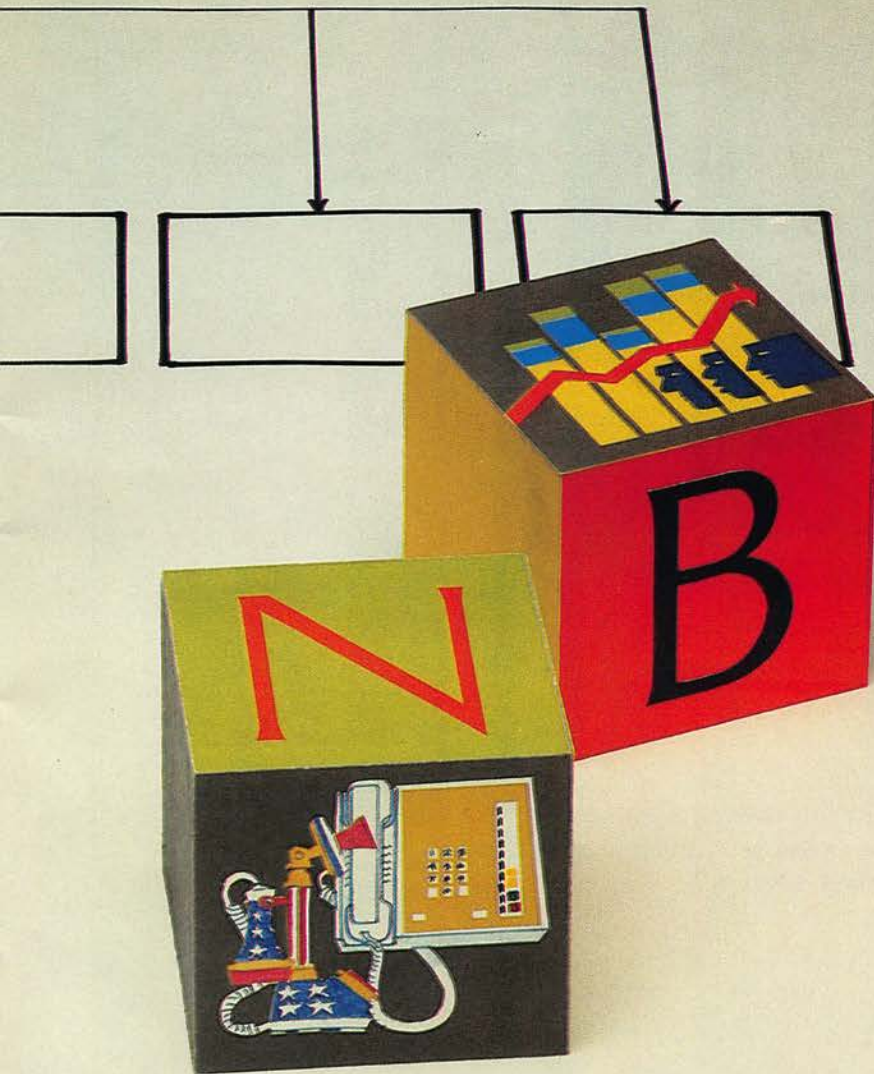
■ **American Bell**, AT&T's newest subsidiary, formed to market and service high technology products and systems for the home and office through two divisions, Advanced Information Systems (AIS) and Consumer Products.

■ **AT&T International**, which since its formation in 1980 has continued to enlarge its presence in major foreign markets.



These blocks represent
Western Electric's
senior management:

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- Z - Paul Zweier**
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- T - Thomas R. Thomsen**
President, Technology Systems Group
(page 8)
- W - E. Wayne Weeks Jr.**
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- B - John M. Brown**
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- H - Philip E. Hogin**
EVP Components and Electronic Systems
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- N - John M. Nemecek**
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- O - John T. O'Neill**
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Customer Operations
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“We must broaden our international sales base as quickly as possible... an expanded sales base is critical to our success.”

Paul Zweier

Senior Executive Vice President



"I've been in this business for 40 years," said Paul Zweier, Senior Executive Vice President, picking up on Mr. Prock-

now's optimism, "and I've always had exciting, challenging jobs. I've always been lucky, always got picked to go someplace where the action was. But never, out of all those fruitful years have I had this feeling of excitement and optimism about our Company's future.

"It's just fantastic to think after all these years of being constrained and regulated that now, for the first time in my career, we have the freedom to create and to achieve, to strive and to triumph. We are making now the judgments and the assessments of how we can best apply our strengths to capitalize on the opportunities offered. We've shown over a period of 100 years what we can do as a "captive supplier." Now it's our turn to show what we can do when freed from restraints.

"In an economic climate like we're in, however, one of the knotty problems still facing us is how to get through the recession. Last year was really a matter—from my perspective—of managing the impact of that recession. When sales are lower than forecast, we must reduce everything accordingly. All of our budgets and planning are based on forecasts, and if we don't make them, everything has to be trimmed back. Last year required a lot of tough management decisions on cutbacks and I expect we'll face many similar difficult situations this year.

"I don't know when the economy will boom again, but I do know that we have been provided a tremendous opportunity to chart our own future. We can continue on the course we've steered in the past or we can venture into uncharted new fields. What I'm saying is that the reverse face of opportunity is risk. When the world around you is changing, you need to bring things back into equilibrium

quickly and efficiently. A most important requirement is to understand the reality of the present situation, to understand our strengths, and to be sure that major values are preserved and nurtured.

"One of the big changes I see in the future is the nature of the competition we face. This doesn't mean that we haven't had competition to worry about before. It is more that the new competition will be more sharply focused and more intense. I think just about every business transaction in the new mode will be a competitive battle. There will be a premium on our being responsive, on our being sensitive to our customers' new requirements, options and choices.

"We must not lose sight of the fact that our traditional customers will be operating in a new environment too. And more than ever before we must understand their objectives and convince them that we are the right supplier to support them.

"If one of our salespeople gets a question from a customer about a product, we must be able to get back with an answer the same day, rather than have the customer wait and wait and maybe become provoked and take his business to someone else.

"I think there's another thing. We can't afford to become so specialized that we have lost sight of the real objective of the business—which is to provide good products at the right price and to take care of the customer. I know that that's the way I like to feel when I go out to spend money. I don't want to run into someone who takes me for granted. I want someone to appreciate me as a customer. And if I've got a problem or if I want to know something about the merchandise, I want to have the feeling that somebody is working on that for me right now.

"The most important thing in any business is the customer. You can have the best technology, the best machinery, the finest factory, and the best sales force, but if you don't have a customer, you are in trouble, and everybody in this company has got to understand that. It's a day of victory when you get a new one, and it's a day of tragedy when you lose one. All our lives will have to be lived that way from now on.

"Business planning continues to be critical. We're moving from functional organizations into a lines-of-business organization. The inference when you

go to a lines-of-business organization is that you put responsibility for a product line or sector of the market in the hands of a business unit, and then you let that business unit function.

"You measure the unit on bottom-line results relative to the objectives that you agree to. Now, when you go into that mode, it means that there needs to be a set of processes and some mechanisms for keeping those lines of business together; otherwise they become uncoordinated and may not be synchronized with all the other changes that are going on in the corporation.

"I foresee expansion of business planning at the corporate level, with further development of lines-of-business planning, and the establishment of a process for new venture analysis."

Zweier is currently on special assignment with AT&T International (ATTI) to coordinate Western Electric and Bell System activities in connection with the agreement in principle by ATTI and N.V. Philips of the Netherlands to form a joint venture company. Philips, a major electronics supplier, will work with ATTI to convert Western's electronic switching equipment for the European market.

"We must broaden our international sales base as quickly as possible," Zweier said. "Through this particular effort, Philips will benefit from our engineering and technical strengths and we will tap their marketing expertise in order to enhance Western's international market position.

"There is no question that serving the needs of the operating companies and the AT&T Interexchange company is our top priority," he said. "But there will be temporary disruptions in our business that are due not only to divestiture but also to the economy. Therefore, an expanded sales base is critical to our success."

LINES OF BUSINESS

To improve its competitive position and to better serve the 22 soon-to-be divested Bell operating companies and other customers, AT&T recently organized the resources of Western Electric, Bell Laboratories and AT&T International into lines of business. Each of these self-contained units will function as a well-defined, customer-oriented business entity, and each will be responsible for the development, manufacture and sales of its own product line.

The new lines of business are:

- **Network Systems** will be responsible for the sale of transmission, switching and central office products and services to Bell operating companies and to AT&T's interexchange company. It will also be responsible for sales to independent telephone companies.
- **Components and Electronic Systems** will be responsible for the sale of integrated circuits, semiconductors, high-capacity chips and electronic systems to other AT&T lines of business and to business users.
- **Processors** will be responsible for sale of information processing equipment through other AT&T lines of business to the Bell operating companies, AT&T's interexchange company and other business users.
- **Government** will be responsible for sale of network and other products and military systems to the federal government.
- **International** will be responsible for the sale of products and services to users throughout the world.
- **Business/Residence**, although not a line of business, will support the sale of telephone sets, data sets, PBXs and related equipment.



The Technology Systems group, formed in May, will focus on areas that the group's President, Tom Thomsen,

calls "new opportunities for Western Electric."

"While the focus of the Network Systems group will be on Western's established business—transmission and switching equipment, and wire and cable—our group will target the areas considered new opportunities for the company."

The group is made up of three lines of business: Components and Electronic Systems; Processors; and Government. "It is our hope that through these lines of business we can increase volume of corporate sales. That, in turn, will allow us to offer lower costs and a wider variety of products to our customer groups.

"We've been moving toward this type of an organization for some time now," Thomsen says. "In fact, the Components and Electronic Systems group organized as a line of business last year. This same group was the first to be identified by corporate planners as having a commercially viable product line."

According to Thomsen, while the Components and Electronic Systems unit will be addressing two distinct group of customers—Western's internal lines of business and commercial—the group's Government line will focus entirely on its particular customers.

"The Government line of business is one of the fastest growing and healthiest parts of the business," Thomsen says. "We've won some significant contracts, such as the one we were awarded last August for the development of the Navy's Enhanced Modular Signal Processor."

While a line of business usually focuses on its market segment, Thomsen explains, the group's third unit, Processors, is built around Western's information-processing equipment. "Our Processor line will, therefore, be more product-focused with its customers being principally other lines of business and Bell affiliates," he says. "The intent here is to

better marshal our skills and resources for this particular technology and family of products."

Confident that this can be done because of our very strong technological base, Thomsen cites our experience with processors. "For years," he says, "we've had a very strong processor technology underlying our electronic switching systems—a technology that provides high uptimes and is at least up to the state of the art. Although this technology has been aimed at the unique requirements of telecommunications, we are now using this base to evolve a complete line of processors that is fully competitive in all the areas we seek to serve. By 1985, we expect to have a full 32-bit line, and, don't forget that we already have the 3B20S, which is fully competitive price-wise and performance-wise with anything on the market."

Finally, Thomsen has responsibility for the Supplies Engineering and Marketing organization, the former Purchased Products Engineering and Inspection group. "We will be transferring people from this group to the Central Staff Organization to help build their purchased product engineering and inspection capabilities," Thomsen says. "However, that doesn't mean that we will leave ourselves without these capabilities. We are in the process of assessing functions to determine profit-center needs and will replace people where necessary."

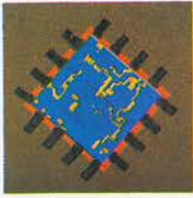
Looking to the future, Thomsen concludes, "Every job and individual contribution is important and every level needs an entrepreneurial spirit. We need new ideas and new approaches—people who will take risks, be accountable for them and be rewarded accordingly. As in the past, the rewards will go to those individuals and to those companies and suppliers that bring a differential value or something new to the marketplace. We have always taken great pride in our ability to do that better than others. As we look to the future, there will surely be more 'others' trying to do the same thing we have done so well over the years. If we all keep our eye on the right objectives, and are aggressive and innovative, we will do all right. We have great strength and a great heritage."



“We need new ideas and new approaches—
people who will take risks, be accountable for
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Tom Thomsen

President, Technology Systems



As the process of implementing the Plan of Reorganization goes forward, corporate planners are studying new

market outlets for Western's vast array of products and services. The device product line produced by the Electronic Components division was one of the earliest identified as being a viable commercial offering. After further careful study of the potential sales, Philip Hogin, executive vice president of the Components and Electronic Sales organization, announced that Western Electric was prepared to place its components on the commercial market. It was a move that prompted Fortune Magazine to refer to Western as an "awakening giant."

"To start, we will offer products such as electronic devices, power systems, relays, printed wiring boards and connectors to customers outside the Bell System. Some of our products will be more attractive than others of course," Hogin said. "But everything this organization makes will be a candidate for possible sale."

Included on the list of offerings will be the 256K Dynamic Random Access Memory which contains more than 256,000 bits of information on a single chip. The 256K DRAM, made at the Allentown Works, has four times the capacity of any chip ever marketed.

"We will also try to sell our custom chip design capabilities," Hogin added. "The computer aided design capability we offer is superior to anything on the

outside. I expect that we will sell this service successfully. We will also manufacture for those customers who choose our design services."

Supplying quality components for Western Electric's equipment divisions will continue to be the primary mission of Hogin's organization. "Within the Bell System alone the demand for electronic functions is growing at a rate of 50 percent annually. We can never lose sight of our internal customers," Hogin said. "The fact that we use our own components in our equipment will be a help to us when we deal with prospective purchasers.

"Even more important, we will be able to say that our components meet the stringent requirements of the Bell System. Our design objectives for electronic switching systems are more demanding than, say, those of the computer industry. The level of reliability and life expectancy is greater than almost any other electronic application requires. We will, however, design our processes to any level of functional reliability a customer needs."

A major objective of the move into the multi-million dollar worldwide component business was to spread the development and fixed costs invested in components over a larger base. "If we can recover some of these costs through component sales, we can lower the cost of components we use in our own equipment lines, further enhancing our competitiveness."

The division is not overlooking the realities of commercial sales. "As we become more and more active in commercial sales we will learn, perhaps painfully, that other manufacturers can be as good as we are in certain areas. We had better be willing to learn from those lessons if we're going to survive in a highly competitive world."

Our commercial customers have expressed some concern over our ability to meet their needs. "We need to demonstrate that we are in the business for the long pull and are not merely selling excess manufacturing capacity," Hogin said. "As we assess the extent to which we will penetrate

commercial marketplaces, we plan to dedicate capacity to support those customers."

Prior to the decision to move into commercial sales, the divisions were organized as a line of business. "At the time it was a new concept for Western Electric," Hogin explained. "For as long as we've been in business we've been organized functionally, with separate manufacturing and sales divisions. The line of business organization has all the functions required to design, manufacture and sell a product, with profit level—as contrasted with cost level—accountability as the bottom line."

Effective use of plant capacities is one way the divisions are assuring manufacturing efficiencies. Another is the work being done at the Engineering Research Center. "The ERC will become even more important to our future. Their research in manufacturing techniques such as flexible automation will help keep us on the leading edge of manufacturing technologies," Hogin said. "Western Electric's claim to excellence has been largely in its manufacturing technology. This will continue to be our strongest asset and will be even more important as we get into the commercial marketplace.

"I feel that in spite of these many changes—changes that are greater than I've ever experienced in this business—the net result will be to make this a better company," Hogin concluded. "These changes, some of which will be traumatic, will offer us greater challenges. It will give us an opportunity to prove we can stand up against the best in price, quality and service. I feel very confident and optimistic about the ability of the people in my divisions—and every division—to rise to the challenge and prove Western Electric is one of the finest organizations in our competitive world."



“We need to demonstrate that we are in the business for the long pull and are not merely selling excess manufacturing capacity.”

Phil Hogin

EVP (Components and Electronic Sales)



“To be responsive, we must delegate more authority to commit Western Electric resources at lower levels. We can’t make a federal case out of every non-standard opportunity that comes along.”

Wayne Weeks

President, Network Systems



"Providing Western Electric's traditional customers with a full line of network products and services will be the primary goal of the Network Systems group," explains Wayne Weeks, president of the new organization. "Together with Bell Labs' Network Systems group, we will concentrate on identifying and addressing the unique needs of the emerging Regional Bell Operating Companies and AT&T's Interexchange entity (ATTIX).

"Gone are the days when one system-wide solution will be offered for the network problems of the operating companies," says Weeks. "Each company is going to have special needs. For instance, the area served by the new Southern Bell Company has needs that the Metropolitan New York Company doesn't have and vice versa. We'd better solve those unique problems or our competitors will."

To strengthen their ability to quickly identify those needs in order to attract and earn the operating companies' business after divestiture, the division created seven regional vice presidential posts. "It will be the responsibility of these vice presidents to direct customer relations for the full range of network products and services," Weeks noted. "Formerly Western's seven regional general managers of Bell Sales Operations, these executives will serve as the primary point of contact with the operating companies within their territories and will have the authority to commit Western Electric and Bell Labs resources in meeting the individual needs of the operating companies."

Marketing offices will be set up near the headquarters of the seven regional Bell units. The staff of these offices will perform sales administration and sales engineering functions, and handle Network Distribution Systems,

Network Switching Services and Network Operations Systems.

Similarly, a portion of Network Systems' sales force has been reorganized to serve the needs of ATTIX. "The mission of ATTIX will be to provide high quality, innovative, widely available electronic communications," says Weeks. "The Network group has the products and services that will help them achieve that goal. We hope to earn their business by ensuring quality production and rapid delivery of the products they need."

"Responsiveness is the key to the success of this company," Weeks added. "To be responsive, we must delegate more authority to commit Western Electric resources at lower levels. We can't make a federal case out of every nonstandard opportunity that comes along. We must be prepared to respond quickly to requests for proposals. Above all, we must work in close harmony with Bell Labs to compress our product introduction cycle and keep our first costs down.

"This, in turn, means that we need a strong engineering organization which can work with the Labs on both hardware and software, bring those designs out of the Labs, and get them into whichever Western plant is going to make them. And that's precisely why we built the Network Software Center—which is actually a Network Engineering Center with heavy emphasis on software."

Looking ahead, he notes that, "In the first one to two years after divestiture the operating companies will be under great pressure to keep their debt ratio low. That will also mean that their capital budget will be under heavy pressure. Therefore, they will want the very best service to support their early financial growth. We will have excellent products and services that will help achieve that growth."

Weeks said that Western Electric must continue to excel in areas such as cost control, distribution, engineering, etc. He recognizes that there will be certain areas within his organization that will need to be strengthened. "Our Marketing Development organization will assure that this division—as well as every organization with sales and marketing functions in Western's product lines is properly trained," he said. "For skills we don't have, we'll have to go outside of Western." In addition to its training responsibilities,

the organization will coordinate sales compensation plans and work with the Public Relations division on promotional materials.

Network Systems Group is working to fill several voids that divestiture will leave. "Under the terms of the Standard Supply Contract, Western Electric was obligated to manufacture or purchase equipment or material for use by the operating companies and to provide a variety of other services. The operating companies, however, were always free to purchase equipment and services from others," Weeks explained. "We are in the process of preparing contracts that will be offered in its place. There are going to be stipulations in the new agreements on delivery date penalty clauses and provisions for quantity discounts and fixed prices. There are going to be provisions in these contracts that we've never had before. We will meet these obligations."

"We have a tremendous job ahead of us," Weeks continued, "and I'm not talking about just the Network Systems Marketing and Marketing Development groups. Manufacturing—our Network Systems Products organization—will continue to have a very, very large role to play in our success in the marketplace after divestiture."



"The Network Systems Products organization's role in our new structure will continue to be to manufacture Bell

Laboratories designs *economically, on time* and with outstanding *quality and reliability*," explains John O'Neill, Executive Vice President of the organization. "These have been our strengths throughout our long history, and they have served us well. Now, we will use them to remain the supplier of choice for Network Systems products."

O'Neill looks to the competence of our entire manufacturing force to adapt to a changing world with maximum process efficiency. "We have the finest manufacturing team there is," says O'Neill proudly, "and its strengths will keep us ahead of our competition in all disciplines. I have confidence in the dedication of our people—all of our people—and in their can-do spirit.

"One of the directions we are moving in is to recognize that the distinction between different kinds of products, such as switching and transmission gear, is rapidly disappearing. That means we'll have to have more coordination of engineering functions for uniformity of processes," says O'Neill. "But *everyone* will be involved. It is essential to accelerate the hand-off of product designs from Bell Laboratories to Western, shorten the communication and coordination channels and get new products into manufacturing in shorter intervals. Our engineers, our material management people, our suppliers, our operating people, and our administrative people will all be vital to the process."

After designs are passed from Bell Laboratories to Western, responsibility for those designs will be Western's. "Western engineers will be responsible for further developing those products so that they perform more and more functions, for analyzing their performance in the field, and, then, for making

whatever changes are necessary to improve their performance.

"By the same token," he adds, "the products we're making, or will be making, may need to be modified to satisfy a particular customer's needs—and Western Electric engineers will also take on the responsibility for that."

Some of this is already happening, says O'Neill. "Every one of our engineering organizations is taking on delegated work from Bell Laboratories, and such work includes components, hardware and software. This kind of early handoff from the Labs to Western is absolutely essential if we're to respond to customers' needs quickly. You have to keep in mind that, with divestiture, the seven regional Bell companies and ATTIX will probably have different needs. In the past, they all used the same things, and we built the network that way—but that was in the past. Now, we'll have to cater to individual needs, and we'll have to do it fast."

O'Neill cites the 1AESS* switch as an example of the kind of handoff from Bell Labs to Western he has in mind. "It's in the field and working with a generic software program. Now, being software-driven, it's adaptable, and you want to add some new features—maybe, a whole lot of them. And you want to do it with the same language and architecture the 1AESS switch already uses. Well, that's a large engineering project. And, since large engineering projects are exactly the kind of thing Western Electric is so good at doing, *we* should be doing it and not Bell Laboratories."

Along these lines, much is happening, or already has happened. "For example," says O'Neill, "we're taking over design responsibility for all analog ESS from the Labs. Similarly, at Merrimack Valley, we are developing transmission design capabilities. In fact, we are increasing our capabilities for designing or tailoring products in all of our product lines. And, in the future, Western Electric and Bell Labs will be an even more closely knit team than ever before. Even now, we have Western engineers working on product designs at the Labs."

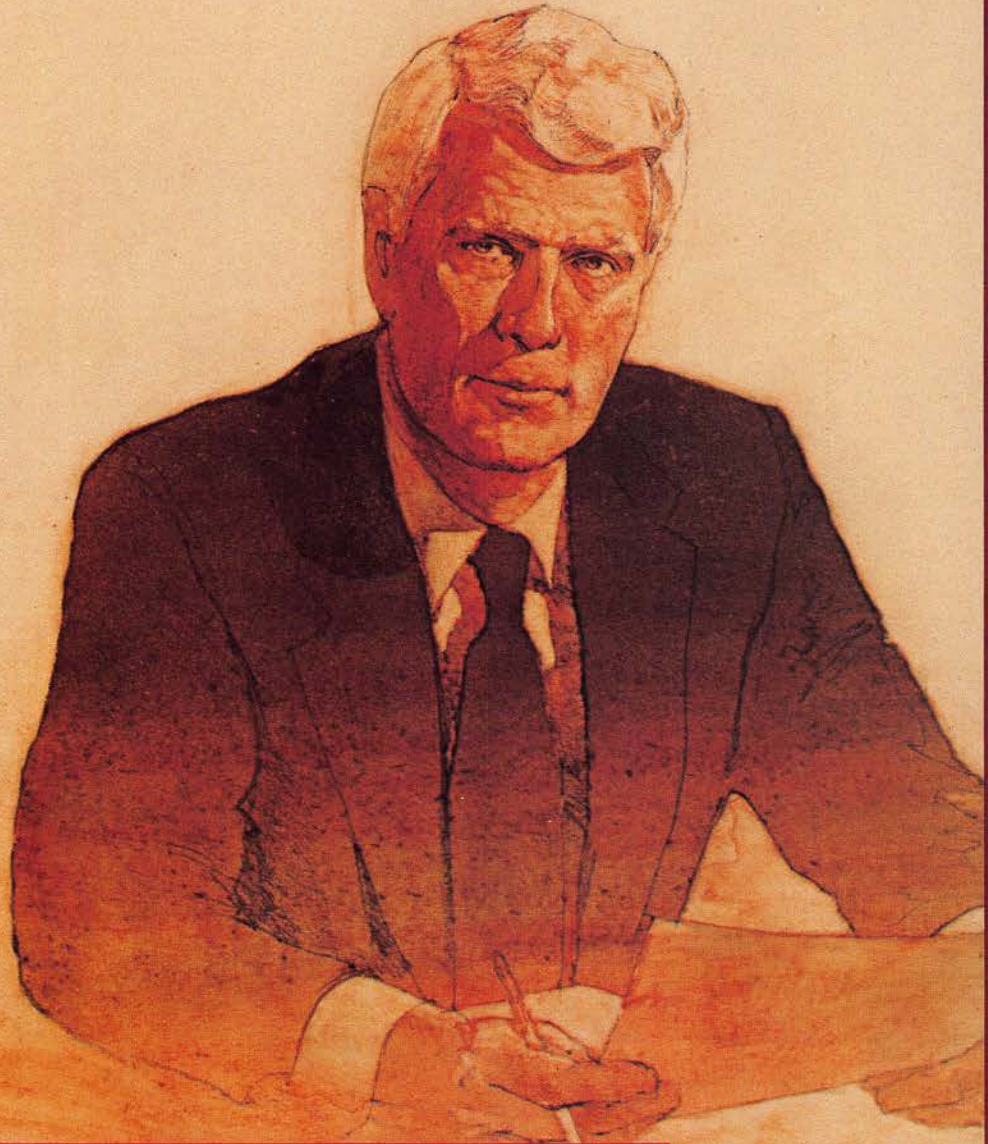
As O'Neill points out, micro-electronics technology, particularly as exemplified by high-density integrated circuits, is also changing the way we

do business. "If you are going to manufacture five million lines of switching equipment, and that equipment is crossbar, you might need five crossbar plants to do it. But, if those five million lines of switching are going to be provided by ESS switches, you might need only one or two factories."

O'Neill sees Western's historical trends as indicative of the dynamics we are facing today in our Network business. "If you look back, the manufacturing life cycle of our products was very long. Step-by-step was introduced in 1926 and was continuously manufactured until 1972. Crossbar came in 1937 and we stopped manufacturing complete systems in 1975, 38 years later. 1ESS started in 1963 and yielded to 1AESS in 1975. Now, in 1983, we are rapidly accelerating the production of 5ESS switches which, as part of our software-driven family, is adaptable to rapid changes as developments occur at Bell Laboratories. This all leads us to our future, which will never again give us the manufacturing stability we enjoyed with some of these older products. Swift progress by Western and Bell Labs with integrated circuits has led to, and will continue to lead to, a constant stream of important design modifications. The life cycles of our emerging products will require us to develop new and quicker means of reacting to change and, most of all, will mean that we must manage change in our historic reference of low costs and high quality.

"More than ever, this will require teamwork and renewed dedication to Western Electric's philosophy of management. In the future, we will make this an even greater company than it is today—and that's an exciting prospect, because we're already one of the best."

*Trademark of Western Electric



“We have the finest manufacturing team there is, and its strengths will keep us ahead of our competition. . . I have confidence in the dedication of our people. . . .”

John O'Neill

EVP (Network Systems Products)



“To meet the new competitive environment, we need to change both the way we sell to customers and the way we translate customer needs into future products. . . .”

Paul Villiere

EVP (Network Systems—Marketing and Customer Operations)



"Until I moved across the street last fall," says Paul Villiere, executive vice president, Network Systems and Customer

Operations, "my entire career had been in the operating companies and at AT&T. While I did get to know the company quite well on paper during several years in AT&T planning, the main reason I've been brought on board has been to lend an operating-company perspective to Western Electric's marketing effort.

"In the future, as in the past, we'll still be trying to serve the operating telephone companies and AT&T's interexchange company, ATTIX, better than anybody else. We'll continue to do everything we can to enhance their ability to enlarge their revenue streams, and we'll do our utmost to develop exciting new products for them to bring to the marketplace. We'll also be actively seeking to sell our products to the independent telephone companies.

"In the regulated environment of the past, our sales efforts were technically oriented and aimed primarily at operating people in the telephone companies—the engineering staff in large part. Now, in addition, we'll be trying to reach a much broader range of decision makers—marketing people, for example, and computer people, systems analysts, people on the financial side of the house.

"This means that many of Western Electric's traditional ways of doing business are going to have to change—in a very fundamental way. We handled sales and marketing very well in a regulated market. Now we are going to have to do it as well or even better in an unregulated one. To meet the new competitive environment, we need to change both the way we sell to customers and the way we translate customer needs into future products, which is what marketing is all about.

"I see my responsibilities as having three aspects," Villiere says. "The first is sales, which encompass all functions performed traditionally by the account managers. We have been redeploying our forces, so to speak, setting up branch offices to position our sales people close to the customers they

serve. Selling is, of course, a fundamental part of any business operation. No matter how great our products are, they do not sell themselves. Someone has to go out and meet the customer, explain features and advantages, discuss prices and options, delivery schedules, installation.

"The other two aspects of the sales and marketing effort are more in the area of staff support of sales people on the firing line and in marketing development.

"Sales support involves training for our people—not just in the features of the product, but in how to close a sale. We're also developing attractive sales programs for their use.

"Western Electric used to be very good at this sort of selling in its early years, but we've not been as media oriented as many of our competitors for a long time. Getting back into that posture is going to require some adjustments. Fortunately, we have an excellent team of highly capable people in place to help us get there.

"Right now we're concentrating on modifying our systems support—how you process an order, how you bill the customer, how you provide engineering support to configure the right system for the customer's needs. We'll be doing much more custom tailoring to individual needs and, for that, we will have to be located close by the customers. In addition there are the front-office concerns—how do you measure the productivity of salespersons and how do you determine that sales teams are dispersed correctly.

"In the third area, marketing development, we are working on predictive models for forecasting sales, for example, and for estimating the potential of new service features and new products. We're developing financial analysis tools for evaluating elasticity of demand and financial consequences.

"Our top product as we enter this new competitive era," Villiere says, "is the 5ESS*switch. To develop an effective sales strategy and the appropriate sales message for the 5, we brought together a team known as the Sales Program Development Team. The team included representatives from Product Line Planning and Management, Service Line Planning and Management account team, Public Relations, Legal, Market Operations, Market Planning and Bell Labs. These people, with their diverse back-

grounds, worked together to analyze the selling situation for the switch, set program goals and objectives and developed sales strategies as well as planned the message we wished to communicate to our customers.

"Another area that I am particularly concerned about, since it was in my bailiwick at AT&T just before I transferred in, has to do with software developed by the Labs and Western Electric to enable the operating companies and ATTIX to operate the business efficiently.

"This is an increasingly vital part of operations, both for our customers and for us. A great deal of thought and effort has gone into dividing these resources in hardware and software equitably between AT&T and the RBOCs. What we had the difficult time dividing was the operational systems, not the systems that are part of the call-processing network.

"Centrally developed systems include network operations systems, procurement related systems, business information systems, and some other administrative systems. Also included are EPLANS and other computer systems developed by Western Electric and used by the operating companies to solve technical or management problems."

In dividing the systems, Villiere's people worked with information specialists from Bell Labs and the operating companies. "All of this will be to the ultimate advantage of the RBOCs," says Villiere. "As part of our total product line, we expect to fully support and enhance EPLANS and other computer systems. Like all of our products, the end goal will be to make things easier and more profitable for our customers."

Villiere also sees changes coming soon in Western Electric's engineering relationship with Bell Laboratories. "The resource we have in Bell Laboratories is so important to us," he says, "that we must make sure it is directed toward the development of new technology and the use of that technology in new products. We can't allow that precious resource to be diverted from those primary tasks."



Like every other major business, Western Electric does plan ahead. We must think ahead on how to

manage swings in the economy, changes in technology and how to cope with the thrusts of the competition.

"Each division has a planning group," explained John Brown, executive vice president, Corporate Resources and Planning. "My organization supplies each of these units with information that will permit them to create plans they will submit to us. We supply them with guidelines on anticipated inflation rates and housing starts and we forecast changes in access lines, long distance messages, etc. This data, along with a statement on the mission and goals of the company and a view of the sales by customer and product, helps create a standard format for each of the units to work with.

"Planning for the next year's Business Plan," Brown said, "traditionally begins in the spring of the previous year. In 1982, however, we began looking at Western's strengths and weaknesses almost immediately after the Jan. 8, 1982 announcement of the MFJ. With a better understanding of our capabilities we hoped to identify future opportunities for the company.

"On top of this, the division had the additional immediate obligation of working with the Bell Operating Companies to identify linkages that existed with Western Electric. In accordance with the terms of the MFJ, these associations would undergo substantial changes on January 1, 1984, the date set for divestiture.

"An example of the associations we are talking about is each operating company's need to strengthen its purchasing organization," Brown said. "For generations, much of their purchasing and purchased-product inspection has been done by Western Electric."

There were 25 other interface areas, such as billing, systems equipment engineering and warehousing, that have been worked on to assure that the operating companies will be in a strong position to serve their customers come divestiture and be in a

position to deal with all their suppliers on a fair and equitable basis. In many cases, these modifications require that we transfer both employees and assets to the new Regional Bell Operating Companies.

"To give you an idea of the types of transfer we are talking about, approximately 165 people in the Purchased Products group in Springfield, N.J. and other locations around the country will be transferred to the new Central Staff to help build its purchased product engineering and inspection capabilities. Our purchasing organization will transfer between 400 to 425 employees to help develop the Central Staff Organization's skills in areas such as buying, contracting, expediting and forecasting," Brown explained.

"Last year we began reshaping the organizational structure of the company so that we can more effectively meet the mission and objectives of the Plan," Brown said. "As a result, we recently established several customer oriented lines of business to better address the market segments we now serve or seek to serve.

"The plan itself takes a look, for example, at technology, economic conditions, and the public's changing tastes for telecommunications equipment. It looks at them in terms of risks and opportunities presented to the company. We try to figure out how much risk and how much opportunity there is and how to be prepared to act on that basis."

In support of the traditional Business Plan, the organization prepared, in cooperation with the other divisions, a Repositioning Implementation Plan. "This is the plan we started to put together after the initial announcement," Brown said. "After looking at the kind of company we are and the kind of company we want to become, we came up with a number of key corporate programs that are indispensable to Western Electric's future.

"The details of all these programs would be of great interest to all of our competitors, and those that would like to have us disadvantaged for one reason or another. Therefore, it is appropriate that we keep the specifics and particularly their timing under close wraps. The increased tempo of competitor-interest in what we are doing or have underway has never been greater and was one of the reasons behind the decision to have all

Western Electric and Bell Labs employees wear their employee identifications at all our locations."

In addition to Planning, Brown has responsibility for resources that are utilized by all lines of business. "The Corporate Engineering, Human Resources and Labor Relations, Computer Systems and Administrative Support, and Purchasing and Transportation groups provide services for all our lines of business. All of these areas will be critical to the success of Western in its new environment," Brown said. "For example, the work that is done at the Engineering Research Center will be even more important in the future. Their research in manufacturing techniques such as flexible automation will help keep us on the leading edge of manufacturing technologies. Western Electric's claim to excellence has been largely in its manufacturing technology. This will continue to be our strongest asset and will be even more important as we get into competitive markets.

"Another example is the work that is being done at the Corporate Education Center. So that we can meet the mission objectives of the Business Plan, the division's Corporate Education Center is working to update the management skill of our most precious resource, our people. Starting immediately and over the next few years, it is intended that all supervisors attend a training program on the environment facing them."

Brown is enthusiastic about Western's future. "Of course, our number one job is to be sure we continue to serve the operating telephone companies better than anyone else. We need to know and meet their demands." In a simultaneous look at both past and future, he says, "Bell System technology has been responsible for more businesses in this country than any other force. Now, that technology will open lots of business opportunities for us that we couldn't get into in the past. Now, we can follow our technology into appropriate marketplaces, based only on our abilities and priority utilization of our resources. I think it's exciting."



“Bell System technology has been responsible for more businesses in this country than any other force. Now, that technology will open lots of business opportunities for us. . . .”

John Brown

EVP (Corporate Resources and Planning)



“New product introductions will increase at a rate of up to four to five times the rate of recent years.”

John Nemecek

EVP (Business and Residence Products and Services)



While the impact of divestiture will cross all divisional lines, the changes dictated by the Federal Communications

Commission's Order, known as Computer Inquiry II (CI II), have had their biggest impact on the way the Business and Residence Products division conducts its business. The net effect is to make this division's relationship with its customers much more complex. For example, to comply with CI II, AT&T formed American Bell, Inc. (ABI) to market and sell the division's newly manufactured products. ABI is responsible for developing the System's strategy for customer premises products. Also as a result of CI II, it is expected that Western's traditional distributors, the Bell Operating Companies, will be out of the new equipment business for a year. Should the divested telephone companies decide to re-enter the terminal markets on 1/1/84, as they surely will to varying degrees, we want to sell them our products again. "We want them to take advantage of our customer premises equipment (CPE) capabilities," says John Nemecek, executive vice president of the division. "We must take advantage of every sales opportunity."

In addition to eliminating the tariff regulation on all new customer premises equipment and requiring the formation of a separate subsidiary to handle its sale, CI II also requires all applications programs software for new equipment be developed by that subsidiary. To comply with that portion of the Order, the division and Bell Labs transferred approximately 4,000 employees responsible for engineering, design and development of hardware and software for CPE to ABI on 1/1/83.

The four Western Electric plants most affected by CI II are those essentially devoted to products for the business-residence market—Indianapolis, Montgomery, Denver and Shreveport.

"As a consequence of CI II, for example, American Bell and Western are conducting business on a contractual basis," Nemecek explains. "That is, ABI will commit to quantities

and schedules and we will commit to delivery dates and prices."

Another stipulation of the Order is that the division's Teletype Corporation must discontinue its sales to end-users. Unlike Western Electric, Teletype, Western's wholly-owned subsidiary responsible for the manufacture of data terminals, has always sold to end-users.

"Teletype is strong," Nemecek said, "a real bright spot in our division. Sales in 1982 were \$378 million and will grow dramatically in 1983 and 1984. This year we plan on introducing a new line of products that will have broad commercial applications. As the worldwide data terminal business grows—and it will—Teletype will be well positioned to increase its share in that market place."

More important than the many procedural changes that have occurred since January 1, 1983 is the evolving view of the division's future. That future, like that of every other division, will be shaped by the variables of rapidly changing technology; intensifying competition; and the health of this nation's economy.

"Our organization will continue to introduce products that offer new features and functions that the market demands," said Nemecek. "New product introductions will increase at a rate of up to four to five times the rate of recent years. Among the newest is the Genesis™ Telesystem. The Genesis system uses cartridges very much like those used in video games. Each cartridge provides services such as Call Forwarding, automatic redialing of a busy number and customer control of the use of the phone. There is no other phone system like this on the market today. Another product, our new private branch exchange, the Dimension® System 85, offers the customer a combination of analog and digital systems, handles voice, data, facsimile and video communications. It also controls and monitors building security, fire alarm and energy usage systems. These are just two of the almost 100 products we're going to

introduce this year. What this means to residence products is that we are moving from the days when we made millions of single line telephones, like Trimline® telephones, to the time of multiplicities of new product designs and rapid model turnover. Incidentally, our future manufacturing capability will be designed for this rapid model turnover."

An area under intensive study is the future of the repair capability for Western's products. "As the technology rolls over and more and more of the public opt to purchase their phones, I expect the demand for repair of single line residence phones will diminish," Nemecek said. "In the future, simple single line residence phones will be like any other household appliance—if it breaks, it may be thrown away. Don't misinterpret that to mean that Western Electric is going to start making inferior phones. Western Electric is known for the quality that it builds into its products and we intend to maintain that reputation. We will have a new line of phones that will be attractively priced for quality and functionality. We expect that customers will want to update their phones to keep up with the features and functions that we will build into our equipment."

Nemecek made it clear that Western Electric will continue to use its distribution and repair capabilities to make its product offerings attractive.

As to their future, he added that "A great deal of planning has been done and continues to be done on the future of our MMCs and service centers. Our extensive repair and distribution system is probably unique and has always done a superb job of responding to the needs of the operating companies. I have no doubt they will continue to do a superb job, although in a modified form.

"I say 'modified,' because, with the advent of divestiture, the operating companies—who have always had their own distribution systems—will need more such facilities in order to be self-sufficient. We are, in fact, negotiating right now to determine which elements of our distribution system will go to them. We expect the people to follow their work.

"In addition, the repair capability in our service centers will need to be repositioned. We expect telephone repair work to fall off over time. This is

due partly to the public buying its own telephones, but also to the changing nature of telecommunications technology.

"As a result of all these factors, some of our repair and warehousing capacity may become surplus. However, it is still far too early to state precisely how much, when and where, because we are working diligently to identify new distribution and repair opportunities. What I *can* say now—and I can't emphasize it too much—is that we will have to operate in this area as cost effectively and economically as in all other operations of the company if we are to prosper in the highly competitive future we are entering."

Of that future, Nemecek reminds us that now, more than ever, the success of this company is tied to how well each employee does his or her job. "Our competitors in the business and residence products area are clever and hard working and will be drawing on similar technology. Although our jobs will have some similarity to theirs, we must do ours better."

On technological advances, he said, "Future opportunity is unbounded. Interesting work is being done by the Labs in the area of displays. Microprocessors and memory will become routine elements of our terminal products. Imagine personal data cards with microprocessors and memory. We plan to be in the AMPS terminal market with an attractive new design. This will lead us into the promising new world of portable terminals. Another area is terminals for the emerging home information services market like the new instant visual information service being trialed in Florida and New Jersey—and the list goes on. We are on the leading edge of a host of new technologies. There is an exciting world ahead of us. Let's go for it!"



Western Electric has one of the oldest corporate law departments in the country. Over the years in our century-old association with the Bell System, Western's lawyers have been involved in the full spectrum of corporate legal problems and issues. In the post-divestiture world, our legal division will continue to deal with a wide range of problems, but, in many areas, those problems will be quite different.

"Take contracts, for example," says George Cook, Vice President and General Counsel. "In the past, Western Electric did the bulk of its business with the telephone companies under a single, standard supply contract that was the same for all companies. Those companies will remain our principal customers in the future, but we'll be dealing with them on an arms-length basis under new contractual arrangements. Separate bids or proposals on individual transactions will be much more frequent. Legally, we're going to be in a very different world from the one in which we did business with a standard contract backed up by 100 years of tradition."

As for the independent telephone companies, Cook sees some changes there, too—at least, of a quantitative nature. "We've always done a small amount of business with independent telephone companies, but now we're actively working to expand this business, and that's certain to involve us with new legal problems and issues."

As to proprietary information, which we've always tried to protect, Cook stresses that greater efforts will now be necessary. "We're going to continue furnishing substantial amounts of proprietary information to the telephone companies so that they can keep operating efficiently; but, since they'll no longer be part of the family, we'll have to improve our methods of protection by things like contractual provisions and better identification of proprietary papers. In this Information Age, a manufacturer's

trade secrets can be even more important than its physical assets. The need to safeguard ours is vital."

Antitrust laws have, of course, long been a matter of great concern to Western Electric lawyers and management. They still will be, but with an important change. In the past, our involvement with antitrust laws was largely shaped by our position as an integrated manufacturer for the largely regulated Bell System. This made us unique. In the future, however, our antitrust concerns will be more like those of any other large manufacturer. Says Cook, "The antitrust issues raised by integration will no longer predominate. From now on we will view antitrust from the same perspective as other business enterprises."

Touching on the closely related subject of regulation, Cook is quick to make it clear this will still be with us. "You may have read a lot about *de-regulation* in the telecommunications industry," he says, "but the day when AT&T will be completely free of regulation is not here yet, and we don't see it looming close. The end of *indirect* regulation of Western Electric isn't around the corner either."

Since Western's biggest customer in the near term will be AT&T's regulated interexchange operations, our prices and profits will, to some extent, be subject to regulatory scrutiny as in the past. Moreover, Cook predicts that Computer Inquiry II will generate a new and different regulatory life-style all its own.

One thing that won't change for the legal organization is its desire to serve the legal good of the community. "This will always be important to us," says Cook emphatically. "We'll continue to be as active in this area as ever."



“Legally, we’re going to be in a very different world from the one in which we did business with a standard contract backed up by 100 years of tradition.”

George Cook

Vice President and General Counsel

The Road to Deregulation

(A Chronology)

July 1, 1934. The Communications Act of 1934 created the Federal Communications Commission and placed the interstate telephone business under its regulatory purview.

January 14, 1949. The United States Attorney General filed suit in Federal District Court in New Jersey against AT&T and Western Electric, alleging violation of the Sherman Antitrust Act and asking that Western Electric be separated from the Bell System.

January 24, 1956. A final judgment, limiting the Bell System to common carrier communications and government projects, but preserving the vertical relationship between the manufacturing, research and service activities of the System, was entered in District Court in New Jersey. It brought to a close the seven-year government anti-trust suit, which had sought to separate Western Electric from the Bell System.

November 8, 1956. Court of Appeals in the District of Columbia set aside an FCC decision in the so called Hush-a-Phone case. In effect, this allowed telephone users to attach harmless devices to their telephone sets. The Hush-a-Phone was a cup used to muffle telephone conversations by shielding the mouthpiece. This was the first time a non-Bell attachment was allowed to be used with a Bell telephone set. The FCC issued confirming rules on February 6, 1957.

July 29, 1959. The FCC made a portion of the microwave spectrum above 890 megahertz available for private microwave communications systems. Until then, microwave service had been available only from AT&T.

August 31, 1962. The Communications Satellite Corporation (COMSAT) was authorized by Act of Congress. Initially proposed by President Kennedy, the corporation would own and operate a commercial communications satellite system. Under the law, half the stock would be owned by the public and half by communications companies.

June 26, 1968. In its Carterfone decision, the FCC struck down existing interstate telephone tariffs prohibiting attachment or connection to the public telephone system of any equipment or device that was not supplied by the telephone companies. The suit, brought by Carter Electronics of Dallas, concerned interconnection of a private mobile radio system to the switched network.

November 1, 1968. Liberalized tariff regulations became effective which allowed direct connection of a variety of customer-owned equipment to the Bell System's switched network. Included under the tariffs were such devices as business machines, data modulating and demodulating sets and voice transmitting and receiving equipment. In all cases, the connection to the message network would entail a protective coupling device furnished by the telephone company.

August 14, 1969. The FCC granted MCI (Microwave Communications Inc.) permission to construct and operate a microwave communications service between St. Louis and Chicago. The newly-formed company would provide private-line service in competition with AT&T.

March 18, 1971. Under the FCC's order in the First Computer Inquiry (CI-I), telecommunications companies were allowed to provide unregulated computer services through separate subsidiaries. AT&T, however, was still excluded from the computer marketplace under terms of the 1956 final judgment that limited it to regulated telecommunications.

May 25, 1971. The FCC extended the MCI decision and authorized other so-called Specialized Common Carriers to operate nationwide. The Bell System was directed to provide local links between the independent carriers' facilities and their customers.

June 16, 1972. To encourage competition in satellite communications, the FCC invited non-Bell applicants to seek the right to provide telecommunications services through satellites. By treating satellites like "microwave transmitters in the sky," the decision in effect expanded the Specialized Common Carrier decision.

March 7, 1974. MCI filed an antitrust suit against AT&T and the associated Bell companies in the U.S. District Court in Chicago. The complaint, seeking triple damages, alleged that the Bell companies violated the Sherman Act by monopolizing or attempting to monopolize the business and data communications market.

April 23, 1974. Independent carriers were authorized by the FCC to connect their private lines into local exchange networks.

November 20, 1974. The Justice Department filed an antitrust suit against AT&T, charging monopolization and conspiracy to monopolize the supply of telecommunications service and equipment and asking the separation of Western Electric from the Bell System. The suit also asked separation of some or all of the Long Lines Department and perhaps other parts of the Bell System.

November 5, 1975. The FCC eliminated the need for protective interconnection devices available only from AT&T by establishing a registration program for single-line phones designed to connect to the Bell network. Suppliers were required to meet FCC standards to insure that their equipment would not harm the network.

March 4, 1976. The Consumer Communications Reform Act of 1976 (CCRA), the first of a number of bills designed to modernize the regulation of telecommunications, was introduced in the House of Representatives by Rep. Tino Roncalio (D-Wyo.)

March 18, 1976. The registration program of 1975 was extended to include multi-line terminal equipment, including PBX and key telephone systems.

June 7, 1976. Two subsidiaries of Litton Industries filed a suit in Federal District Court in New York seeking \$111 million in damages from AT&T, Bell Labs, Western Electric and seven operating companies, alleging violation of the antitrust laws. Litton charged Bell with monopolizing the manufacture, distribution, sale, rental and leasing of PBX and key telephone equipment.

August 2, 1976. Administrative Law Judge David Kraushaar issued his initial decision in Phase II of the Interstate Rate Case (FCC 19129). The judge stated "There's no justification on the present record for government policy makers to attempt to restructure this *healthy* industry at this time."

July 28, 1977. In the so-called Execunet decision, the court reversed an FCC order and allowed MCI and other independent carriers to provide regular long-distance service through their own microwave networks.

April 7, 1980. Under the decision in its Second Computer Inquiry (CI-II), the FCC ordered the deregulation of terminal equipment and enhanced transmission service, effective January 1, 1983. Under the ruling, AT&T would be allowed to provide unregulated services and equipment through a Fully Separated Subsidiary.

June 13, 1980. The jury in the MCI trial in Chicago awarded \$600-million in damages to MCI, on the basis that AT&T had willfully maintained its monopoly in the business and data communications market. Under anti-trust law, damages were automatically tripled to \$1.8 billion.

June 29, 1981. After eight days of deliberations, the jury in the Litton Industries antitrust case found AT&T guilty of two of four specific allegations. If the verdict is upheld, the damages awarded to Litton would be automatically trebled to \$276 million.

January 8, 1982. AT&T and the Department of Justice announced that they had agreed to a settlement in the antitrust suit brought in 1974. The so-called Modified Final Judgment called for divestiture of the "local exchange telecommunications and exchange access functions" of the Bell operating companies. Western Electric and Bell Labs would remain with AT&T, as would Long Lines and certain intra-state interexchange functions.

July 20, 1982. Rep Timothy Wirth (D-Col.) withdrew HR5158, the latest proposed legislation which would have replaced the Communications Act of 1934. He stated that he was doing so because of the opposition generated by AT&T shareowners and employees through letter-writing and visitation campaigns.

August 11, 1982. Judge Harold Greene issued a 178-page opinion on the Modified Final Judgment, characterizing the proposed divestiture of the operating companies as "plainly in the public interest" but asking for modifications in 10 areas. In separate actions, AT&T and the DOJ accepted Judge Greene's modifications on August 19.

December 16, 1982. AT&T filed a comprehensive 471-page plan for reorganization of the Bell System, detailing how it proposed to divest the operating companies, including property, personnel and operations.

January 1, 1983. American Bell Inc., AT&T's fully-separated subsidiary authorized by Computer Inquiry II for handling the sale of non-regulated services and equipment, began operations.

Test Your Reorganization Know How

The events of the past few years have brought a lot of new words and concepts into use . . . some of which appear here. How many do you know?

Q
&
A

- Q. What is a LATA?
- A. LATA is short for local access and transport area. It is a geographic entity, usually a major city, with its suburbs and surrounding towns in which the local Bell operating company will be responsible for telephone and other communications services. On April 20, 1983, Judge Greene approved 157 LATAs, while six are pending approval.
- Q. Isn't ATTIX merely a new name for Long Lines?
- A. No. It includes other things as well. The acronym stands for AT&T Inter-exchange Entity and refers to the company that will come into being on January 1, 1984 to assume responsibility not only for Long Lines operations, including international, but also for all inter-LATA services as well.
- Q. Why is the divestiture proposal called a "Modified" Final Judgment?
- A. On January 8, 1982, AT&T and the Department of Justice agreed to settle the antitrust suit that had been underway for nearly eight years. The settlement is known as a consent decree or Final Judgment. An earlier Department of Justice antitrust suit had been settled in 1956. The January 1982 agreement was written as a modification of the 1956 Final Judgment. Hence, *Modified Final Judgment*.
- Q. What's this CPE that everyone is talking about?
- A. CPE is not a new acronym although it became a fashionable buzzword following the FCC Second Computer Inquiry order. It stands for customer premises equipment, that is, telecommunications terminal equipment located on the subscriber's premises which is connected to the network. The term encompasses virtually everything from plain black desk sets to the most advanced data terminals and PBXs. Presently excluded are coin-operated telephones and inside wiring.
- Q. What is cream skimming?
- A. A situation in which market suppliers can selectively choose to service only the more profitable areas (or the "cream") of the communications services. The term came into prominence when certain companies offered private-line service along high-volume, lower-cost routes, while ignoring areas in which costs were high. Common carriers, however, are required by law to provide service on all

routes, even for those routes where costs are high.

- **Q.** How are services enhanced?
- **A.** As defined by the FCC in the Second Computer Inquiry, enhanced services involve computer-processing that acts on the format, content, code, protocol or similar aspects of the subscriber's information; provide the subscriber additional, different or re-structured information; or involve subscriber interaction with stored information. Enhanced services may be provided without filing a tariff. AT&T, however, was required to, and did, form a fully separated subsidiary, American Bell, Incorporated, to provide any enhanced services.
- **Q.** If people are going to be buying their own phones in department stores and specialty shops, from now on, who is going to install the jacks and wiring for them?
- **A.** The divested operating companies will provide installation and maintenance of all inside wire — under tariff. Customers will, however, have the option of installing their own inside wire or using other vendors.
- **Q.** What's the difference between ABII, ATTI and Western Electric International? Don't they all sell internationally?
- **A.** ATTI (AT&T International) is the current subsidiary established in 1981 to take over the work of ABII (American Bell International) and Western Electric International. It may engage in joint ventures with manufacturers, and it may also own and operate telecommunications systems outside the United States.
- **Q.** What ever happened to Baby Bell?
- **A.** Baby Bell was a sobriquet that the press came up with for a fully separated subsidiary that AT&T would form to handle the sale of customer premises equipment as required by the FCC in its Computer Inquiry II order. The new company was formally named American Bell, Inc., and began operation on January 1, 1983.
- **Q.** How does vertical integration differ from horizontal integration?
- **A.** Both pertain to corporate structure. Vertical integration brings together a number of enterprises at different functional levels, as in the Bell System, where research and development, manufacturing and service were amalgamated in a single system.

Horizontal integration refers to the structure of a corporation which brings together enterprises with the same function, as in the case of AT&T, which owns a number of telephone companies, all of which provide similar services.

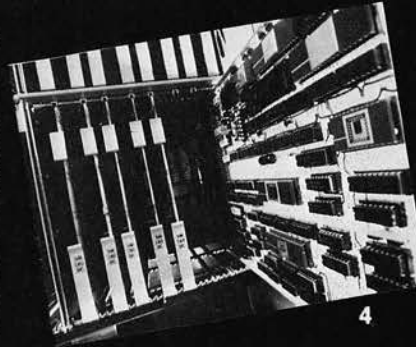
- **Q.** What is an access charge?
- **A.** It's a charge by the local telephone company for use of that company's exchange facilities and/or interconnection with the telecommunications network.
- **Q.** What happens to public pay phones under the divestiture plan?
- **A.** Coin and non-coin public and semi-public telephones will remain the responsibility of the operating companies.
- **Q.** What is meant by embedded base?
- **A.** Under the FCC's Second Computer Order (CI II), telecommunications terminal equipment on a subscriber's premises or in the telephone company's inventories before December 31, 1982 is considered "embedded" and will remain regulated under tariff for a period of time. New CPE (customer premises equipment), however, is considered detariffed as of January 1, 1983, and can be offered by AT&T only through a fully separated subsidiary, such as American Bell. AT&T has requested that the FCC deregulate embedded base equipment by January 1, 1984.
- **Q.** What is MTS (Message Telecommunications Service)?
- **A.** Non-private line intrastate and interstate long distance telephone service. Interstate prices for MTS are uniform nationwide regardless of whether subscribers are located on a high-cost route.
- **Q.** What is packet switching?
- **A.** A data communications switching and transmission system whereby an input data stream is broken into uniform data "packets" to which is appended addressing information, sequence counts and error controls. Each packet is transmitted independently through the network so as to maximize the utilization of transmission facilities. At the receiving end, the packets are checked for errors, resequenced as necessary and combined into an output data stream.
- **Q.** What is the rate base?
- **A.** The rate base for a Bell operating company or other regulated utility is determined by the state regulatory

commission and is the total amount of investment (such as plant and equipment) on which the allowed rate of return is calculated.

- **Q.** What are OCCs?
- **A.** The acronym stands for other common carriers and includes specialized common carriers (such as MCI), domestic and international record carriers (such as RCA) and domestic satellite carriers (such as SBS) — all of which are authorized by the FCC to provide communications services in competition with the established telephone common carriers.
- **Q.** What makes a carrier common?
- **A.** In a word, regulation. A supplier that undertakes to "carry" goods, services or people from one point to another for the public in general or for specified classes of the public is known as a common carrier. In telecommunications, such "carriage" relates to provision of transmission capability over the telecommunications network. A common carrier company that offers communications services to the public is subject to regulation by federal and state regulatory commissions.
- **Q.** What are P.O.T.S.?
- **A.** Plan old telephone service — as basic as you can get in this business.
- **Q.** What is AMPS?
- **A.** Advanced Mobile Phone Service. Formerly known as High Capacity Mobile Telecommunications Service, AMPS is a mobile telephone service. It employs low-power radio transmitters in cells and a special telephone switching office. As the vehicle moves from one cell to another, its messages are automatically switched from one frequency to another.
- **Q.** What is interconnection?
- **A.** A term generally used to describe the connection, with or without a protective connecting arrangement, of customer-provided equipment or communications systems to facilities of the Bell System or those of the Independent telephone companies.
- **Q.** What is an L.O.B.?
- **A.** The acronym which appears frequently in marketing plans stands for Line of Business. Western Electric is moving from a functional organization into a line of business organization. In a line of business, resources and accountability are concentrated, with one bottom line.



1



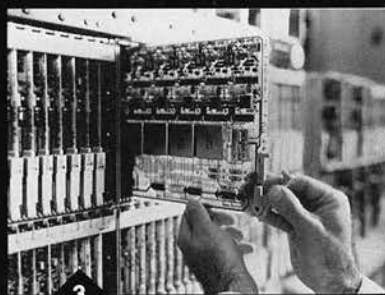
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3

NEW PRODUCTS

These products, all of which have been introduced in the past year or so, demonstrate the new look at Western Electric. They are items growing out of the confluence of technologies which has been changing our company: lightwave, digital transmission, software systems and others. How many do you recognize?



6

EXCITING NEW PRODUCTS

1. 5ESS* Electronic Switch.

A local digital switch developed by Bell Laboratories and manufactured by Western Electric. The 5ESS switch combines microelectronics with digital and fiber optics technology to provide advanced capabilities and versatility. It is being designed to cover the entire spectrum of switching needs from small rural offices to large, metropolitan offices. The first 5ESS switch went into service in Illinois in March, 1982. The first multi-module 5ESS switch is scheduled for cutover at Sugar Grove, Illinois this summer. Subsequent systems will be manufactured at Oklahoma City.

2. The 3B 20S Processor.

This is the simplex version of the 3B20 processor used in the 5ESS switch. Using UNIX** software, it handles a wide variety of jobs in factories and offices, such as computer-aided design, business data processing, and operations support systems. It is an Oklahoma City product.

3. 10A RSS (Remote Switching Systems).

Brings electronic switching service features to very small communities with as few as 150 customer lines. Previously, only the 1A ESS switch could be used as a host. A new generic program, the

2BE3, allows the 2B ESS switch to host RSS. This new generic, which is available now, also increases the system's capacity for providing Customer Calling features. The equipment is made at Columbus.

4. DACS (Digital Access and Cross Connect System).

A digital switch for special services circuits for central offices. It allows faster implementation of customer orders by using remote terminals to make direct connections between channels of incoming and outgoing digital lines and to provide access to any channel for remote digital testing. First installed at Cedar Knolls, N.J. in June 1981, it is made at Merrimack Valley Works.

5. International Telephones.

Shreveport is making a new line of electronic telephones suitable for the international marketplace. The first were shipped to Australia in 1982. They employ circuitry that enables them to comply with local electrical standards in the using country.

6. Fiber SLC* Carrier System.

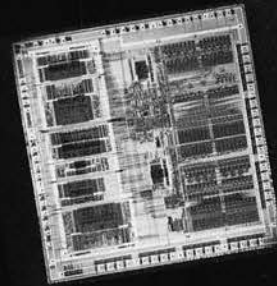
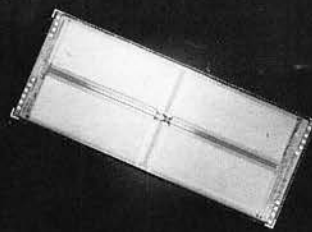
An optional feature of the SLC-96 system. It is a long wavelength (1.3 micron) light-emitting diode (LED) system. Initially, Fiber SLC carrier system will operate at the 6 megabit-per-second (Mb/s) rate, which will provide 96 channels over a pair of lightguide fibers. First installation was in Chester Heights, Pa. late last fall. The lightguide comes from Atlanta. SLC carrier system is manufactured at North Carolina Works.

7. Dimension® AIS***/System 85.

Our eagerly anticipated digital PBX using digital technology was introduced early this year. Made at Denver, it is a top-of-the-line



new



offering aimed at *Fortune* 500 companies with sophisticated communications needs. It offers a variety of services in five major areas: sophisticated office applications, building management, voice and data integration, and networking capabilities. Terminals are made at Teletype in Skokie. Special electronic phones come from Shreveport.

8. High-speed Teleprinters.

Two new terminals from Teletype Corporation provide higher function and modularity. The Model 42 ASR and BSR teleprinters, with 4-kilobit memory, add value and convenience to data communications offerings. Both are dual-voltage units, requiring no extra interconnect equipment. They are made at Skokie.

9. Genesis* telesystem.**

A new electronic telephone system produced at Indianapolis that can be programmed using plug-in cartridges not unlike those used in video games. One cartridge for example, can be programmed for your schedule, to alert you of special dates and appointments.

10. UNIX Operating System.

UNIX System V, which provides improved performance, screen editing, text processing, file system maintenance and networking capabilities, was released last year. AT&T also announced it would provide licensees with consultations, technical seminars and other support. Tapes are generated at the Warrenville Data Center.

11. Frame Creation Terminals.

Used for consumer information services, these are made at Montgomery for use by providers of shop-at-home Videotex services. The suppliers create graphics on these terminals. It is these graphics that appear on the customer's home screen to furnish information about the product or service desired.

12. 256K RAM (Random Access Memory).

This new memory chip went into pilot production at Allentown last year. It contains about 600,000 components and stores 262,144 bits of information and is already scheduled for use in several Bell Labs designed systems, including 5ESS switching equipment.

13. Bellmac* 32A microprocessor.

This "computer on a chip" went into production at Allentown in 1982. Capable of processing 32 bits of information simultaneously, it will provide intelligence for the 3B5 processor. The 3B5 is an Oklahoma City product.

14. Solid-State Laser.

One of the tiniest, fastest solid state lasers ever made is produced at Reading Works. This laser can generate a beam of light which can be turned on and off at a rate of 90 million times a second. It powers new lightwave transmitters for new systems such as those along the Northeast Corridor.

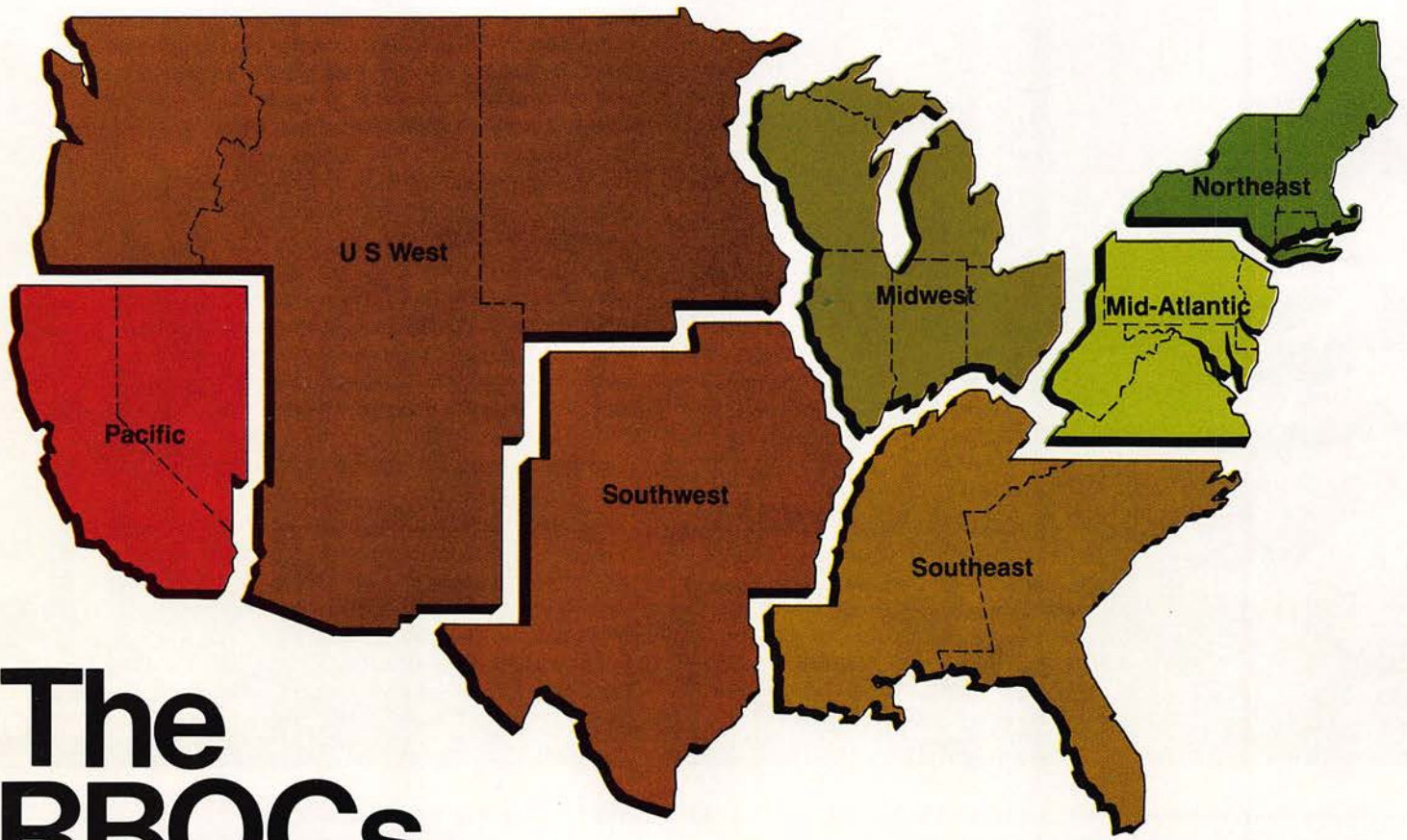
15. Quorum® teleconferencing equipment.

Facilitates the setting up of meeting rooms from which busy executives can communicate by picture and voice over long distances. One new item is a hands-free microphone and loud-speaker that provides excellent voice reproduction while muting background noises. Much of the equipment is made at Indianapolis.

16. EMSP (Enhanced Modular Signal Processor).

Bidding against some of the toughest competition in the country, we won a major contract last year to develop and build the Navy's next generation of computers for use in submarines, surface ships, aircraft and land-based systems. Bell Labs is designing hardware which we will build at Burlington.

*Trademark of Western Electric
**Trademark of Bell Labs
***Trademark of AT&T



The RBOCs

On January 1, 1984, the local Bell operating companies will assume a new basic organizational structure composed of seven regional companies, and a Central Organization.

All the local operating companies, except Southern New England Telephone and Cincinnati Bell (in which AT&T holds minority interests and which will not be divested) will be grouped into seven regional holding companies, each roughly the same size in terms of assets.*

To preserve the efficiencies inherent in centralization, a Central Organization owned by the regions will be established. The Central Organization will also serve as a single point of contact for the coordination of operating company operations to meet government requirements for national security and emergency preparedness. As permitted by the Modified Final

*In the regional summary, all figures are as of December 21, 1981.

** Except for U S West, the RBOCs have not yet been given their official names.

Judgment, AT&T will transfer resources directly to the new entity. The regional companies will then share the ownership and cost of this new organization.

Northeast**

- Will provide service in Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, and a small portion of Connecticut.
- Service territory of companies—about 25 million people or 92 percent of total population of its states.
- Total assets—\$17.8 billion.
- Network access lines—12.5 million.
- Employees—121,600.

Mid-Atlantic

- Will hold stock of New Jersey Bell, Bell of Pennsylvania, Diamond State Telephone, the Chesapeake & Potomac Telephone Companies of Washington, D.C., Maryland, Virginia, and West Virginia and the District of Columbia.
- Service territory of companies—

about 27 million people or about 84 percent of total population of its states.

- Total assets—\$17.3 billion.
- Exchange access lines—13.7 million.
- Employees 108,103.

Southeast

- Will hold stock of Southern Bell and South Central Bell.
- Will provide service in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee.
- Service territory—about 30 million people or 70 percent of the total population of its states.
- Total assets—\$21.8 billion.
- Exchange access lines—13 million.
- Employees—137,500.

Midwest

- Will hold stock of Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell, and Wisconsin Telephone.

What's Going to Happen to My Stock?



Virginia A. Dwyer

- Will provide service in Illinois, Indiana, Michigan, Ohio, and Wisconsin.
- Service territory—about 30 million people or 74 percent of total population of its states.
- Total assets—\$17 billion.
- Exchange access lines—14 million.
- Employees—112,978.

Southwest

- Will hold stock of Southwestern Bell.
- Will provide service in Arkansas, Kansas, Missouri, Oklahoma, and Texas.
- Service territory—21 million people or 76 percent of total population of its states.
- Total assets—\$16 billion.
- Exchange access lines—9.8 million.
- Employees—97,600.

U S West

- Will hold stock of Mountain States Telephone, Northwestern Bell, and Pacific Northwest Bell.
- Will provide service in Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.
- Service territory—22 million people or 78 percent of total population of its states.
- Total assets—\$16.1 billion.
- Exchange access lines—10.4 million.
- Employees—104,900.

Pacific

- Will hold stock of Pacific Telephone, which in turn will hold all the stock of Nevada Bell.
- Will provide service in California and Nevada.
- Service territory—20 million people or about 78 percent of total population of its states.
- Total assets—\$16.6 billion.
- Exchange access lines—10.4 million.
- Employees—114,700.

More than 90 percent of Western Electric employees own stock in AT&T, acquired largely through ESOP, the Bell System Savings Plan and earlier employee stock purchase plans. After the foremost question of "What's going to happen to me?" the next most frequently asked question about divestiture is "What's going to happen to my stock?" AT&T has tried to answer that question in its quarterly letters and various other publications. What we say here may be repetitious. For every 10 shares of AT&T that you hold, you will receive an additional seven shares—one for each of the regional Bell operating companies to be formed upon divestiture. The people at AT&T are doing everything they can to ensure that all seven of these new shares will be as sound as possible.

According to the AT&T plan of reorganization filed on December 16, stockholders will receive one share in each regional holding company for each 10 shares of AT&T common stock they own as of a record date in December, 1983.

Following incorporation, the regional companies will begin to compile and organize a vast quantity of data required by the Securities and Exchange Commission for financial documents dealing with stockholder prospectuses and information documents.

During October or November of 1983, the regional companies will file applications to list these stocks on the New York Stock Exchange (NYSE) and other major exchanges they choose. About that same time, the Boards of Directors of the regions will announce their quarterly dividends for the first quarter of 1984, and AT&T's Board will also announce its dividend.

These announcements are expected to set the stage for trading of the regional company stocks on a "when-issued" basis, beginning in November or December on the NYSE and continuing into February, 1984, when the first certificates will be distributed. Normal trading then will commence.

The distribution ratio of one for 10

means that, for each 10 shares of AT&T stock owned, the AT&T investor will receive one share in each of the seven newly created regional companies. To ease burdens on the shareowners with fewer than 500 shares and on the regional companies, arrangements will be made to facilitate the initial distribution and trading of regional company shares and to reduce associated costs.

Shareowners who own stockholder accounts containing at least 10 but less than 500 shares and who are, therefore, entitled to receive at least one but less than 50 shares in each regional company, will be sent a statement indicating the number of shares which are being held for them in computerized stockholder accounts. These shareowners will at the same time be offered three options:

- They can request certificates for their whole shares in any regional companies, and receive cash for any fractional shares.
- They may deposit any regional company shares in the appropriate regional company Dividend Reinvestment and Stock Purchase Plans.
- They can sell the stock of one or more regions and invest the proceeds in the stock of one or more other regions, with the regional certificates either remitted to the shareowner or enrolled in the stockholder's account in the selected regional company or companies.

At present, shareowners with less than 500 shares represent about 77 percent of all accounts and about 30 percent of the outstanding shares. The three options will be offered to them for approximately four to six months following divestiture. After this period, those share owners who have not expressed a preference among the options will automatically receive certificates for the whole shares to which they are entitled in the seven regional holding companies and cash for their fractional holdings. As shareowners with less than 10 shares of AT&T stock will be entitled to less than one full share in each regional holding company, they will not participate in the

Benefits

options. They will, instead, receive cash for their fractional shares. This group represents about 17 percent of the accounts and about one quarter of one percent of all outstanding shares.

Large share owners, those with accounts containing 500 or more shares of AT&T stock, will receive certificates for the regional shares to which they are entitled and cash for fractional shares.

For accounts with less than 500 shares, orders will be accumulated to reduce trading costs. Transactions will be recorded in share owner accounts and appropriate fees will be charged for sales and purchases to consolidate holdings.

Virginia A. Dwyer, AT&T Vice President and Treasurer, explained that the one for 10 distribution ratio was selected so that regional company shares would be traded in a price range appropriate to their eventual listing on major stock exchanges. Dwyer added that a primary motive for offering the options was to assist shareowners with less than 500 shares in rearranging their holdings, if they choose, at reduced cost. Also, she said, these arrangements will help reduce the enormous shareowner populations and the attendant costs of providing shareowner services for the divested companies. At divestiture, each regional company will have an estimated 2.7 million shareowners. This will be the second largest body of shareowners of any domestic corporation, exceeded only by AT&T which will have about 3.2 million. Next in size to the regions will be General Motors with 1.1 million.

It is estimated that more than 100-million shareowners transactions will be processed for the regional companies and AT&T during 1984, the first year of divestiture. Because of the unprecedented, combined burden of more than 22 million shareowner accounts which will exist at divestiture, AT&T will establish and operate a wholly-owned subsidiary, made up of the company's existing Stock and Bond Division operations in Piscataway, New Jersey and New York City, and a new facility in Jacksonville, Florida. The new subsidiary will provide a full range of record keeping and other shareowner services for AT&T and, on a fee basis, for regional companies.

Pensions

Pension programs are viewed by most employees as an indispensable part of any company compensation program.

But today, many pension programs face virtually the same problems as Social Security—changed life expectancies, a shrinking base of young participants, inflation, early retirement and a lack of adequate funding.

For the Bell System, however, wise investment by professional fund managers and the foresight to begin funding years ago have kept pension programs in the black for both management and non-management.

On October 1, 1980, the pension programs previously operated by the individual Bell System companies, including Western Electric, were consolidated in AT&T. With divestiture, funds assets are going to be redistributed among AT&T and seven Regional Bell Operating Companies, although it may take a few years to work out all the details. Virginia A. Dwyer, Vice President and Treasurer at AT&T, was asked about this in a recent interview and had this to say:

"Let me first say that everyone who is entitled to get pension benefits will continue to receive payments with no break in continuity. The process of pension fund transfers will not affect individual benefits. I think it is important to give that reassurance.

"Back to your question. One of the reasons we are adopting a slow and measured pace with regard to pension funds transfers is that we need to determine precisely how much should be transferred. The first step is to take an employee census which is the basis for our pension transfer calculations. AT&T and the regional companies will begin this census after divestiture.

"It's not just a matter of counting heads. Each pension is based on the employee's age, length of service, earnings, and other factors. An actuarial study taking all factors into account for each employee in each company will take some time.

"There will be no real problems created by this cautious approach. Funds that we will hold, which will eventually be turned over to the regional companies will be prudently managed and the earnings they accrue between divestiture and the time they

are transferred will also be remitted to the regional companies and the Central Organization.

"Incidentally, some of the regional companies won't be ready to accept any of these funds at divestiture. AT&T will offer what we've labeled a 'full-service' option, under which we would continue to administer these assets until a regional company establishes its own pension operations. This 'full-service' option will be available until 1987, at which time the funds must be transferred to the regional companies.

Medical, Dental and Vision Care Plans

At divestiture, employees will continue to be provided medical and dental plans.

Health Maintenance Organization (HMO) coverage options will continue after divestiture.

A vision care plan to be offered by each company beginning January 1, 1983, will be continued after divestiture.

Group Life Insurance Plans

At divestiture, employees will continue to be provided basic, supplementary, and dependent group life insurance plans.

Disability Benefit Plans and Leaves of Absence

At divestiture, employees will continue to be provided various disability benefit plans and leaves of absence.

Generally, employees who are receiving disability benefits at the time of divestiture will be reassigned if their work groups are reassigned, and their benefits will be continued by the post-divestiture employer in accordance with plan terms.

Leaves of absence to begin after divestiture and any reemployment commitments made by a pre-divestiture employer will be honored by the post-divestiture employer.

Employees Retired Prior to Divestiture

Employees retired prior to divestiture will continue to receive the same pension and other benefits as before divestiture from the company from which they retired or such company's parent organization.

Comments
by Jim Olson,
Western's
new Chairman.



"To succeed in a competitive arena is going to take an outfit that is expert in the arts of cost reduction and quality control, and Western Electric wrote those books. To succeed in the new competitive arena is going to take strength, not just in people, but in technology, in manufacturing and distribution techniques, and most importantly, in overall management. No one, regulated or unregulated, can top the Bell companies in all of those areas.

"And success in the new competitive arena is going to require self-confidence, the kind that can come only from years of performance, years of trial by fire in good times and bad, like 1982, and years of seasoning and improving. This company, in my judgment, has that self-confidence. You've acquired it the only way it can be acquired: You've earned it. So those are a few of the reasons that I feel awfully good, awfully confident myself, about the prospects for Western.

"The second point I want to make, and this might be considered the other side of the coin, is that no matter how encouraging the prospects are for Western Electric in the new world, they aren't just going to evolve. You have to make them happen. And if you were to let it unfold by itself, the future of this company in the new age would be zilch. Others would usurp your responsibilities. Others would appropriate your markets, your technology and your craftsmanship. They would, that is, if you let them, and of course you won't. I know that. We're going to think on our feet and think and act correctly and quickly in order to keep the edge we have today in this organization. We're going to guard against complacency, against the temptation to stand on our history and our legacy. Histories and legacies don't buy you much, at least not for long in this tough competitive environment. It is, what have you done for us today.

"I know you know that, but I also

want you to know how strongly I feel. This company is rich in all the right resources. But those resources—your reputation, for example—would erode rather rapidly if we were to make the mistake of riding them, and little else, into the competitive future. Those attributes give us a big leg-up, but we've got to go on from here, using our historic strengths as bricks on which to build new strengths.

"The third and final point I want to make is from the July-August 1982 issue of the Harvard Business Review. It's titled 'Deregulation: Surviving the Transition,' and the authors discuss what they call the regulation mentality, and the difficulties in shifting mental gears when an industry such as ours is dismantled. I recommend the piece if you haven't seen it. Meanwhile, here's what the authors say in their closing, under the heading, 'Business Not as Usual,' and let me quote:

"For companies fresh off the regulatory treadmill, success will come from abandonment of the regulation mentality and adoption of a competitive frame of mind, adjustment to the new corporate climate with its stress on performance, expediency, risk taking, functional specialties and cross-fertilization from other industries will be difficult for most managers. The reward structure will have to be revised to encourage risk taking rather than smooth system maintenance. Skills in strategic planning will be at a premium. To meet changing market needs in competitive situations, deregulated companies will require more flexible organizational structures. Indeed, senior management must recognize that the very essence of the business might change. In industries such as financial services, transportation and telecommunications, companies face options undreamt of until now. Business as usual for many companies may be a road to obsolescence and irrelevance. End of the author's quote."



Reorganization—see page 5.

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