Western Electric

news briefs background

Monday, May 9, 1977

AT&T's Employee Stock Ownership Plan: What's In It For The Employee?

"What will it mean to me?"

That's the first question, of course, about the notice to all Western Electric people that AT&T will file May 16 for Internal Revenue Service approval of a proposed Employee Stock Ownership Plan, or "ESOP."

And the answer -- as explained in an all-employee bulletin distributed on the job with the legally-required IRS filing notification -- is that most Bell System employees will become AT&T share owners at no cost to them.

For about one out of three people in the Bell System who already are AT&T share owners, ESOP adoption would add to their equity interest in the business. But for most of the other two-thirds who would become new share owners, the plan means a more personal stake in company service and earnings performance.

The proposed plan is based on provisions of the federal tax law that allow companies to take an extra one percent of investment tax credit if an equivalent amount is applied to the issuance or purchase of securities to be held in trust for employees.

AT&T, in filing the consolidated Bell System 1976 federal income tax return next September 15, now plans to claim an additional investment tax credit of about $87 million -- and to allocate among eligible employees, according to their individual compensation in 1976, an equivalent sum in the form of AT&T common shares.

Those shares would be held in trust in individual employee accounts for seven years, unless the person's Bell System employment ends earlier. Dividends would be reinvested in added shares for each employee account during that seven-year trust period.

It is estimated that about one share would be allocated for each $10,000 of individual compensation received in the 1976

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"plan year." Allocation of shares to participants would be made once a year, in December. The first distribution to eligible employees no longer with the company would be made in February, 1978.

Employee eligibility to participate in the plan is based on three requirements. A person must have:

1. Received compensation during the plan year;

2. Worked at least 1,000 hours that year or the year before it, or in both years combined;

3. Accumulated total service of three years.

Some possible further questions you may have about the plan are answered in this edition of News Briefs/Background.

ESOP: Some Questions And Answers

Q. I was hired in 1974, and wonder how does the eligibility rule apply in my case?

A. If you started work in 1974, chances are that you are eligible. Anyone who started after that would not have the necessary three years of total service -- based on at least 1,000 hours of work per year -- unless he or she had enough prior service with the Bell System.

Q. Since I rejoined the company in 1976, after a year's leave of absence, will I be eligible? I had two years of service before I went on leave.

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Editor: Bob Dugan
For information, call Cornet 222-2765 or 212-571-2765

Ed. Asst: Kathy Smiouskas
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A. Yes, if you received compensation in the 1976 plan year and worked at least 1,000 hours in 1976 and 1975 combined. Since you had two years' service before going on leave of absence, you would meet the requirement for a total of three years of service.

Q. Does my service, from an eligibility standpoint, all have to be with this company?

A. No. Service time in any Bell System company would be counted.

Q. Are all Bell System companies participating in this plan?

A. No. Cincinnati Bell and Southern New England Telephone are not included in AT&T's consolidated tax return and thus are not included in this plan.

Q. Will the ESOP go on year after year -- or will each eligible employee eventually receive only the shares allocated for 1976?

A. We expect to continue the plan at least through 1980, the period in which current law authorizes election of the plan. What we do beyond that depends on the tax laws. If the law should change, the plan may change. But the shares allocated to eligible employees each year the additional investment tax credit is elected will accumulate in individual trust accounts, and grow through dividend reinvestment.

Q. How will any fractional shares be distributed when the time comes?

A. Only full share certificates will be distributed at the end of the seven-year trust period, or earlier if an employee retires or leaves the company. Fractional shares will be sold and the proceeds paid to the employee.

Q. Will I be able to use the shares held in trust for me as collateral on a loan, or sign ownership over to somebody else?

A. No. AT&T shares held in trust for you under the plan may not be sold, assigned or pledged prior to the time of distribution. However, employees will be able to designate beneficiaries to receive all or part of their share accounts in case of death. Such designation may be revoked or changed at any time.

Q. How will I know the exact amount in my account?

A. Each participating employee will receive an annual report for the plan and an annual statement of his or her account.

Q. Will the number of shares allocated to me go up if my compensation increases?

A. Each year the additional investment tax credit is elected, allocation of shares will be based on the individual compensation of participants during that year.

Q. Will I have any tax liability on the shares allocated to me?

A. Employees will not have any tax liability on shares or dividends until distribution takes place, normally after seven years.

Q. What tax liability will I have on my shares at the time of distribution?

A. The fair market value of the shares on the date they are distributed, plus cash payment that may be received for fractional shares, is considered income for your tax purposes in the year distribution is made.

Q. Who will administer the ESOP trust?

A. AT&T will be the administrator through its ESOP Committee. However, an independent trustee will be selected.

Q. Why didn't AT&T take the ESOP credit for the 1975 tax year?

A. The original Tax Reduction Act of 1975 had some unintended technical obstacles that prevented some corporate taxpayers, including AT&T, from adopting an ESOP. These obstacles were essentially removed by Congress in the Tax Reform Act of 1976. However, that Act was not signed into law in time for the company's 1975 tax filing.

No. 4 ESS Offspring Bares Features Unique In Electronic Switching

A second generation of electronic switching systems -- No. 4 ESS II -- is being installed in Rego Park, N.Y. and is scheduled to go into service this August.

To date the most advanced switching system in the world for long-distance communications, the system will be the seventh in the family of No. 4 ESS facilities to be installed since 1976.

The New York Telephone/Long Lines office will handle up to 550,000 long-distance calls an hour and will be the first in use in the northeastern region. Nationwide long-distance calling is expected to reach 40 billion a year by the end of the century.

Several plants are major contributors to the project. The switching gear was made at Northern Illinois Works, transmission equipment at Merrimack Valley and North Carolina Works, while major power units were manufactured at Kearny and by outside suppliers. Systems equipment engineering and installation are being handled by the Northeastern Region.

Several advanced features make this No. 4 ESS the most advanced long-distance switching system yet installed. For example, the Rego Park facility has the first Bell Labs developed unit called an Echo Suppressor Terminal (EST), which subdues echoes on long-distance calls (for more detailed information, see page 4). Also a Circuit Maintenance System (CMS-1B) will handle maintenance for the office and will have the capability of centralized maintenance for two other No. 4 ESS offices scheduled for installation in Manhattan and Garden City, N.Y.

The system is among the first designed along a modular concept, so that its primary units, such as the 1A Processor and network frames, can be assembled and system-tested at the factory before shipment to the installation site.

Some 21 No. 4 ESS offices are expected to be completed by 1978. The 4E's have been designed to help the Bell System gear up to meet the anticipated upturn in long-distance calling volume and to hold the line on long-distance costs.

BTL Develops Echo Suppressor For Use In No. 4 ESS Units

A team of Bell Labs engineers has developed a low-cost, compact system for suppressing echoes on long-distance calls in No. 4 ESS. The first of the new units has been installed at the Long Lines facility at Rego Park, N.Y. The unit was manufactured at the Merrimack Valley Works and at least 17 more will be shipped this year.

The new digital Echo Suppressor Terminal (EST) can handle up to 1,680 trunks simultaneously, with only about one-twenty-fifth of the floor space and at a fraction of the cost of analog units. Automatic diagnostic and fault-recovery features have been designed into the unit and are expected to reduce maintenance costs and improve customer service.

Echo suppressors are needed on calls over 1850 miles and on all satellite calls to eliminate the hollow "rain barrel" sound that results from reflections along the way.

The EST uses the signal on each talking path to estimate intensified echoes. It compares the echo estimates with signals on the talking path and decides what action to take (such as opening the echo path) to maintain nearly echo-free transmission.

Although only about five percent of the trunks in a typical toll office carry this type of long-distance call, the cost, space savings and maintenance improvements can really add up substantially since the savings are so significant. It is expected that future increases in satellite trunks could lead to even greater savings.

The echo suppressor terminal's high performance and low cost result from the use of improved algorithmic procedures, advanced solid-state circuitry and high-speed digital time-sharing techniques.

The EST's design permits the No. 4 central control unit to monitor its performance automatically. For instance, when a faulty suppressor unit is discovered, the call is switched to a spare, with no effect on a telephone customer's conversation. The No. 4 ESS control unit then diagnoses the problem and prints a list of repair recommendations to aid Long Lines maintenance personnel. The result should be a significant drop in customer complaints about echo problems.

Bell Labs is now studying ways to modify parts of the EST to provide similar performance advantages in non-ESS offices, possibly including those in foreign countries.

U.S. Court of Appeals Stays FCC Decision to Effect Registration

The U.S. Court of Appeals for the Fourth Circuit -- which recently affirmed the FCC's terminal equipment registration program -- has stayed the commission from implementing the bulk of that program.

Practical effects of the court's ruling, issued April 28, are:

- To give those parties who requested a stay of the court's affirming order 30 days in which to ask the U.S. Supreme Court to review the FCC program. The parties include the Bell System and the U.S. Independent Telephone Association (USITA).

- To continue the Fourth Circuit Court's existing stay of the bulk of the registration program until the Supreme Court acts on the requests for review. Inasmuch as the Supreme Court adjourns for the summer in June, it is reasonable to expect that the court will not act on any requests for review until it reconvenes in October.

The Fourth Circuit Court affirmed the registration program on March 22. The court's order affirming the program was expected to have gone into effect April 12.

On April 8, the Bell System filed a motion for a partial stay of the affirming order -- a stay that would have affected only the part of the program requiring telephone companies to obtain FCC approval before connecting their own equipment to the telephone network.

Other parties -- including USITA -- who also filed motions with the Fourth Circuit Court on April 8 asked for a continuation of the existing stay.

The FCC filed an opposition to the motions for the stay on April 11.

Before acting on March 22, the Fourth Circuit Court had the FCC's registration program under review at the request of several petitioners, including the Bell System, for almost a year. During that time, the bulk of the program was stayed by order of the Fourth Circuit Court.
That stay, which or course, remains in effect, affects the portion of the FCC program which would permit manufacturers and suppliers to register main and extension telephones, PBX and key systems with the FCC, and permit customers who buy or lease that equipment to connect it to the telephone network without a protective connecting device. That is the part of the program which also would require telephone companies to register their own equipment before connecting it.
On part of the program, the part permitting direct connection of customer-provided data sets and ancillary equipment, has been in effect since June 1976.
"The Bell System plans to file its request for Supreme Court review of the entire registration program within the allotted 30-day period," said James E. Olson, AT&T executive vice president. "We are as eager as other parties involved in this matter to have the issues resolved. We believe the Fourth Circuit Court's action is a step in that direction.

WE PRAISED FOR WORK DONE IN FLOOD DAMAGED AREA IN WEST VIRGINIA

Editor's note: The following is a letter sent to WE President Don Procknow from S.E. Bonsack, president of C&P Telephone.

Dear Don:

In early April, C&P experienced some serious service problems due to heavy rains and some severe flooding conditions.

In addition to the usual overall fine efforts of the Bell System in restoring service as soon as feasible, there was one specific restoration in Matewan, West Virginia, that was truly remarkable and for which we owe Western Electric our thanks.

The existing step-by-step equipment at Matewan was completely submerged in flood waters and a supporting mobile switcher was washed away. It was decided to expedite the scheduled No. 3 ESS replacement for the Matewan switchers rather than to attempt to salvage them.

Mr. Stanley Grubin and his people at the Oklahoma City Works pulled the No. 3 ESS from its test stage and expedited its preparation for shipment. Mr. Lee McClary's transportation people arranged to get the wide-load truck shipment to Matewan in less than half the usual time. Mr. Edgar Hertenstein's regional people, working with Bell Labs, had the system on line and serving the first Matewan telephone customers within two days after it went in the building.

This was a truly remarkable performance on the part of Western Electric and another dramatic example that our one Bell System does work.
Please accept my thanks for the outstanding Western Electric response to our crisis.

Interconnect Firm To Get Hearing On Complaint Against AT&T, GT&E

After 13 years -- and in a possible precedent for claims by interconnect distributors -- the complaint of Western States Telephone Company against AT&T, General Telephone & Electronics (GTE) and several Bell System and GT&E companies has been set for hearing by the FCC.

The issue: liability for damages alleged to have been suffered as a result of telephone company interconnection tariffs.

A date for hearing will not be set, however, until the Commission acts on a motion by the Bell System defendants asking that the FCC clarify the language of its order designating the complaint for hearing.

The motion filed with the FCC by the Bell System defendants -- which in addition to AT&T, are Pacific Telephone, Southwestern Bell, New York Telephone and Bell of Nevada -- said the language of the order is "sufficiently ambiguous" to require clarification, and urged that the FCC state explicity that the "substantive issues" in the case -- whether Western States has a legal claim to damages <u>and also</u> whether the company was, in fact, damaged -- are included within the order.

While the tariffs in question were filed with the FCC by the Bell System, General Telephone and its companies in California and Florida are co-defendants and "concur" in the tariffs.

Western States was organized in Los Angeles in 1962 to sell imported and antique extension telephones; it has been out of business since 1966. The company still exists as a corporate entity and claims it sustained damages amounting to $5.8 million by the enforcement of telephone company tariffs which prohibited customers who bought Western States' telephone instruments from directly connecting the inner electrical components of those telephones to the telecommunications network.

(Other tariffs permitted customers to use the outer decorative enclosures of the Western States phones, so long as the inner electrical components were provided and maintained by a common carrier.)

Possible precedent

The case could be a possible precedent to the extent that equipment manufacturers and suppliers are not barred in their action by time limitations set forth in the Communications Act.

The case began in 1964 as an antitrust suit brought against the defendants by Western States in the U.S. District Court for Central California. The court dismissed the complaint, ruling that the issues involved were within the primary jurisdiction of regulatory commissions.

Western States filed a complaint with the California Public Utilities Commission (CPUC), which in 1964 consolidated the case with a hearing on a tariff proposed by Pacific Telephone permitting the use of customer-provided antique and decorator telephone housing with the inner electrical components of terminal equipment maintained and provided by the Bell System company.

The hearing began in 1965, then was temporarily adjourned. Meanwhile, Pacific Telephone revised the proposed tariff to meet CPUC objections. In 1966, the CPUC dismissed Western States' complaint and approved the Pacific Telephone tariff.

The same year, Western States went to the FCC -- which decided to hold the company's complaint "in abeyance pending completion of certain related proceedings."

Those proceedings included the Carterfone case, which in 1968 resulted in the landmark decision to allow the connection of customer-provided terminal equipment to the telephone network so long as connection was made via protective connecting arrangements and network control signaling units provided by the telephone company, and the Interstate and Foreign Message Toll Telephone Tariff Inquiry of 1972, which resulted in the establishment of the

FCC's registration program and in the FCC declaring as unreasonable and discriminatory those tariffs requiring the protective connecting devices.

Complaint refiled

In 1975 Western States refiled its anti-trust complaint with the federal court in central California. The defendants moved to dismiss the complaint, citing res judicata (or, the case already has been decided). That motion still is pending.

Last December, Western States filed with the U.S. Circuit Court for the District of Columbia a request for mandamus -- in effect, asking the court to order the FCC to act on the company's complaint.

Hearings deferred

In February of this year, the FCC designated the complaint for hearing and set a May date. But at a pre-hearing conference held in Washington earlier this month, the administrative law judge -- Lenore G. Ehrig -- deferred further hearings until after the Commission acts on the Bell System defendants' motion for clarification. Both Western States and the chief of the FCC's Common Carrier Bureau (who also was made party to the proceeding) have filed oppositions to the Bell System motion, and the Bell System defendants have filed a reply to those oppositions.

WE People

Title Change--May 1: J. E. CROSS, Director of Government Communications Systems and International Operations, became Director of International Operations (title change). L. A. BAIN, Director of Military Projects, became Director of Government Systems (title change). In addition to his present responsibilities, Bain will assume temporarily the responsibility for Government Communications Systems and Commercial Sales. Cross and Bain will continue to report to J.J. Merchep, General Manager, Government and International Systems.

Moving--May 1: E. F. JEFFORDS, Manager Account Management, became Director of Operations (South Central Bell and AT&T Long Lines), succeeding R. F. Lipscomb. Jeffords reports to G. B. Bardi, General Manager, Southern Region, and is located at First Alabama Bank Building, 417 North 20th Street, P.O. Box 11566, Birmingham, Alabama 35202. The organization reporting to Jeffords reports temporarily to J.W. Bancker, Director of Operations (Southern Bell).

Reorganization--April 15: D. P. KELLEY, Division Patent Attorney (Engineering Research Center), assumed the responsibility for patent matters of the Manufacturing Division, Cable and Wire Products, and Bell Sales Division - East (except Northeastern Region).

BELL SYSTEM SAVINGS PLAN FOR SALARIED EMPLOYEES

March Unit Values

Date	Value per unit	Units credited per dollar
AT&T STOCK		
1/31/77	$1.8788	0.5322
2/28/77	1.9168	0.5216
3/31/77	1.8917	0.5285
GOVERNMENT OBLIGATIONS		
1/31/77	1.6694	0.5990
2/28/77	1.6817	0.5946
3/31/77	1.6933	0.5905
EQUITY PORTFOLIO		
1/31/77	1.1605	0.8616
2/28/77	1.1369	0.8795
3/31/77	1.1215	0.8916

Note: If you have any questions regarding the Bell System Savings Plan, please direct them to your local Benefit Office.

BSSP: How AT&T Shares Fund Works

A participant's interest in the AT&T Shares Fund is maintained in units as it is for the Government Obligations and the Diversified Equity Portfolio Funds. Each month the Trustee values the total AT&T Shares held on the last day of the month based on the closing price of AT&T on the New York Stock Exchange on the last business day of the month. This market value of all shares held, combined with cash and temporary investments plus any dividends payable (to stockholders of record) but not received, equals the total market value of the Fund. This figure, divided by the total number of units held in the Fund as of the end of the month, equals the month end unit value.

Although participant accounts are maintained in units, it is simple to convert units to equivalent shares as of the end of any month. To do this, the units you hold at the end of any month can be multiplied by the unit value for the end of the month to determine the market value of your units.

This market value, divided by the closing price for AT&T Shares on the New York Stock Exchange for that month, will give the equivalent shares held. Since dividends are periodically included in the calculations of the unit value, the unit value for certain months reflects both dividends and shares held in the Fund. This results in a slight overstatement of the equivalent number of shares held in a participant's account.

The accompanying chart shows how your account would have grown if you invested $100 each month in the AT&T Fund in the year 1976 and recorded this progress on a worksheet.

For those employees who requested a Periodic Partial Distribution in February, the dividends that were paid on January 3, were reflected in the November 1976 unit values since they were posted on the "record" date. However, the dividends paid on April 1, were paid directly to the participants because the stock was issued in their name prior to the February record date.

	Unit Values	Accumulated No. of Units	Market Value of Units	Closing Price AT&T	Equivalent Shares Held
January	1.5312	65.3	$ 100	$55.125	1.8
February*	1.5884	128.5	204	56.250	3.6
March	1.5951	190.9	305	56.500	5.4
April	1.6316	252.2	412	57.750	7.1
May*	1.5822	315.4	499	55.000	9.1
June	1.6278	376.9	613	56.625	10.8
July	1.6539	437.3	723	57.500	12.6
August*	1.7302	495.1	857	59.250	14.5
September	1.7619	551.9	972	60.375	16.1
October	1.7924	607.6	1089	61.375	17.7
November*	1.8343	662.2	1215	61.875	19.6
December	1.8804	715.3	1345	63.500	21.2

*Dividends to stockholders of record