IN THE

United States District Court

FOR THE DISTRICT OF COLUMBIA

Civil Action No. 82-0192

UNITED STATES OF AMERICA, *Plaintiff,*

v.

WESTERN ELECTRIC COMPANY, INC. and
AMERICAN TELEPHONE AND TELEGRAPH COMPANY, *Defendants.*

PLAN OF REORGANIZATION

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The American Telephone and Telegraph Company submits herewith its Plan of Reorganization for review and approval by the Court pursuant to Section VIII(J) of the Modification of Final Judgment, dated August 24, 1982.

INTRODUCTION

Section I(A) of the Modification of Final Judgment (hereinafter the "MFJ," the "Consent Decree," or the "Decree") requires that AT&T develop a Plan of Reorganization providing for the completion of four designated "steps" within 18 months after the effective date of the Decree. Section I(A) orders AT&T to submit its plan to the Department of Justice not later than six months after the Decree is entered, and Section VIII(J) provides that the Plan shall not be implemented until it has been "approved by the Court as being consistent with the provisions and principles of the decree."

The Plan of Reorganization is divided into four parts, reflecting the four required steps in the reorganization as set forth in Sections I(A)(1), (2), (3) and (4) of the Decree. Part I of the Plan addresses Section I(A)(2), which requires an internal reorganization of the Bell Operating Companies (BOCs). This part of the Plan describes the principles and procedures by which the facilities, employees, and books of account of the existing BOCs will be separated into those relating to exchange services and printed directories (which AT&T will divest) and those relating to other functions, such as the provision of customer premises equipment and interexchange service (which AT&T will retain).

Where a facility performs multiple functions, Part I of the Plan describes the procedure for determining whether AT&T or a BOC will own the multifunction facility, and the terms by which the non-owner may share use of the facility. Part I of the Plan also sets forth the procedures for identifying personnel functions associated with the divided facilities, for selecting the employees who will staff those functions, and for separating and administering employee benefit plans.

Part II of the Plan addresses the step in the reorganization required by Section I(A)(1) of the Decree. This section recognizes the possibility that if AT&T were to divest no more than the exchange operations of the existing BOCs (as described in Part I of the Plan), the resulting entities might not be able to perform their exchange services independently of AT&T — which, with Western Electric and Bell Telephone Laboratories, has supplied the pre-divestiture BOCs with many services on a centralized basis. Part II of the Plan therefore describes the augmentation of BOC capabilities through transfers of facilities, personnel, systems, and rights to technical information now held by AT&T, Western Electric, and Bell Labs.

Some of the transfers described in Part II will be made to a BOC-owned central service organization which, as permitted by Section I(B) of the Decree, will supply the BOCs with a number of services that can most efficiently be provided on a centralized basis. Part II describes the functions to be performed by this central service organization, including arrangements for use of this organization to meet the BOCs' obligation under Section I(B) of the Decree to provide "a single point of contact for coordination of BOCs to meet the requirements of national security and emergency preparedness."

Part III of the Plan sets forth the terms of cancellation of certain contracts between AT&T and the BOCs (as well as Southern New England Telephone Company and Cincinnati Bell Inc.), which must be terminated under Section I(A)(3) of the Decree.

Part IV of the Plan describes the manner in which AT&T will accomplish the separation of ownership required in Section I(A)(4) of the Decree. Thus, after existing BOC assets and liabilities have been segregated as described in Part I, and after additional facilities, systems, and personnel have been identified in Part II for augmentation of BOC capabilities, Part IV explains the transactions that will rearrange assets and liabilities within the Bell System and then separate AT&T's ownership of the reconfigured BOCs from its ownership of all other parts of the present Bell System.

Part IV provides for the existing BOCs to be reconfigured as exchange companies and spun off from AT&T. To separate exchange and non-exchange assets, each BOC will create two wholly owned subsidiaries, one to which the BOCs' interexchange facilities will be transferred and another to which the BOCs' customer premises equipment (CPE) will be transferred. The BOCs will then distribute the stock of these subsidiaries to AT&T which, as a result, will hold its ownership of the BOCs' exchange facilities (the stock of the reconfigured BOCs) separately from its ownership of the BOCs' interexchange and CPE assets (the stock of the two subsidiaries created by each of the BOCs). AT&T will retain ownership of the interexchange and CPE facilities and will spin off the exchange operations to AT&T stockholders.

To accomplish the spin-off, AT&T will create seven new subsidiaries and transfer to these companies the stock of BOCs that serve each of seven regions of the country (hence the term "regional holding companies" for these seven corporations). The regional holding companies will also receive one-seventh ownership interests in the BOCs' central service organization. AT&T will then spin off the regional companies by distributing its stockholdings in those companies to existing AT&T stockholders.

The Plan will thus effect the basic split of the Bell System's resources between those relating to exchange telecommunications, exchange access, and printed directory advertising services and those relating to other functions performed by the Bell System. Unless otherwise provided in the Plan, the resources assigned to AT&T and the BOCs may be used for any lawful purpose.[1] The Decree now prevents the BOCs from engaging in businesses other than the provision of exchange telecommunications service, exchange access service, printed directory advertising, the marketing of customer premises equipment, and natural monopoly services actually regulated by tariff (Decree, §§ II(D), VIII(A) and (B)). The BOCs will nevertheless be free to use otherwise unrestricted resources assigned to them under this Plan, if and when they are allowed to enter other businesses by order of the Court pursuant to Section VIII(C) of the Decree.

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[1] The major exceptions to this principle are the instances in which the Plan explicitly restricts either AT&T (and its affiliates) or the divested BOCs in the transfer or disclosure of intellectual properties and the use of trade names and trademarks (*see* Part II.C, *infra*).

Arrangements for operating after divestiture will require a number of contracts between the divested BOCs and AT&T (or other remaining units of the Bell System) to become effective upon or before divestiture. The terms and conditions of many of these contracts are described in this Plan of Reorganization and thus become a part of it. However, any such contracts necessitated by divestiture but not identified in this Plan may, upon 60 days' notice by any party, be renegotiated or terminated unilaterally.

In the event of post-divestiture disagreements between AT&T and the BOCs as to the interpretation of contracts or other provisions of the Plan, the Plan provides for the submission to binding arbitration of any disputes with respect to any provision of the Plan of Reorganization or any provision of any contract necessitated by the reorganization. *See* Part III.G, *infra.*

The Decree allows up to 18 months from its effective date for AT&T to complete its divestiture of the Bell System's exchange and printed directory operations (Decree, § I(A)). Although the 18 months extend until February 24, 1984, AT&T will complete the reorganization before that period expires. The problems of financing in this time of uncertainty are already acute, and it is critical to the companies' efficient accounting, auditing and financial reporting that the divestiture not occur in the middle of a reporting period. For these reasons, the Plan of Reorganization provides for the transfer of ownership ordered in Section I(A)(4) of the Decree to be effective January 1, 1984.

PART I: THE DIVISION OF BOC FACILITIES, PERSONNEL, AND BOOKS OF ACCOUNT

Section I(A)(2) of the Decree requires:

> "The separation within the BOCs of all facilities, personnel and books of account between those relating to the exchange telecommunications or exchange access functions and those relating to other functions (including the provision of interexchange switching and transmission and the provision of customer premises equipment to the public). . . ."

Section VIII(B) provides further that BOC assets and personnel necessary for the "production, publication, and distribution of printed advertising directories" shall be segregated with the exchange service functions and spun off with the divested BOCs.

The assets and liabilities to be separated are recorded in the BOCs' books of account.[2] These books of account contain the data used for financial reporting, for regulatory reporting, for tax computations, and for various other purposes. The principles described in this Plan will be used to apportion all such data, regardless of the financial, regulatory, or other purpose for which they are used.[3]

The BOCs maintain their asset and liability accounts according to the account classifications in the FCC's Uniform System of Accounts (47 C.F.R. § 31). The asset accounts contain the investment in BOC facilities to be separated under

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[2] For purposes of assigning assets and liabilities in the BOCs' books of account, the term "BOCs" will be used in Parts I.A and I.B of the Plan to mean each and every individual BOC that maintains the account under discussion. The term "AT&T" will be used to mean AT&T and all of its majority-owned affiliates as of the effective date of divestiture.

[3] Unless otherwise noted, amounts stated in this Plan are the approximate balances as of June 30, 1982, in the BOCs' financial reports ("FR reports").

Sections I(A)(2) and VIII(B) of the Decree, and contain also the BOCs' investment in a variety of non-physical assets that must be separated in order to implement the reorganization. Accordingly, Part I.A of the Plan applies the Decree's ownership rules to the investment in each plant or other asset account maintained by the BOCs.[4]

The same approach is followed in Part I.B in order to divide all BOC accounts that have credit balances. Again, the analysis encompasses all such accounts maintained by the BOCs: current liabilities and accrued liabilities not due, deferred credits and reserves, long-term debt,[5] and capital stock. This portion of the Plan will also explain the division of the Bell System's contingent liabilities.

After principles for separating the BOCs' facilities and accounts are set forth in Parts I.A and I.B, Part I.C will explain the procedures for inventorying the BOCs' accounts and effecting the actual separation of assets and liabilities. The section

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[4] The Uniform System of Accounts ("USOA"), 47 C.F.R. § 31, provides that investment in telephone property shall be maintained in three aggregate balance sheet accounts: Account 100.1, Telephone Plant in Service (47 C.F.R. § 31.100:1); Account 100.2, Telephone Plant Under Construction (47 C.F.R. § 31.100:2); and Account 100.3, Property Held for Future Use (47 C.F.R. § 31.100:3). The investment in Account 100.1 is further divided into more detailed plant accounts. *See* 47 C.F.R. §§ 201 *et seq.* These detailed plant accounts — and, in many cases, their subaccounts — are described in the Plan because they provide a more useful breakdown for purposes of applying the Decree's ownership criteria. The investment contained in Accounts 100.2 and 100.3, "Telephone Plant Under Construction" and "Property Held For Future Use," is not included in the detailed plant account balances. All property included in these two accounts will be assigned in accordance with the same principles and procedures for the assignment of Account 100.1 investment, as if the Account 100.2 and 100.3 investment had been placed in service and classified in the appropriate plant accounts.

[5] Plans for dividing the BOCs' debt will include a description of principles and procedures for implementing Section VIII(H) of the Decree which specifies the proportion of debt to be held by the divested BOCs. *See* Part I.B.4, *infra.*

also describes the audits, surveys, and other procedures being undertaken to assure accuracy in the separation.[6]

Part I.D then applies to BOC personnel essentially the same conceptual steps as Parts I.A, I.B, and I.C have applied to BOC facilities and accounts. Beginning with the general rule that people follow function in the reorganization, Part I.D describes the steps in identifying personnel functions associated with the facilities divided between AT&T and the BOCs, and then selecting the employees that will staff those functions on behalf of AT&T or the BOCs. Employee benefit plans (such as pensions and savings plans), collective bargaining matters, and other employee protection features of the Plan of Reorganization are also described in Part I.D.

A. BOC FACILITIES, SYSTEMS, AND OTHER ASSETS

The plan for dividing BOC assets is organized around four groups of asset accounts: (1) network facilities; (2) customer premises equipment; (3) other physical assets (land, buildings, materials and supplies, furniture and office equipment, vehicles and other work equipment); and (4) non-physical assets (cash, accounts receivable, and the like).

The division of some of these assets, particularly those involving network facilities, requires the assignment of BOC investment in facilities jointly owned with AT&T. Because the Decree prohibits joint ownership, the assignment of any such facility to a BOC will mean not only that the BOC's existing investment remains on its books of account, but also that this BOC investment will be increased by AT&T's current ownership interest in the facility. To that extent, this part of the

[6] Unless otherwise noted, the principles and procedures described in Part I of the Plan for separating the BOCs' books of account will also apply to assignments of items from AT&T's books of account to the BOCs' books. These assignments include certain network-related facilities described in Part I.A, AT&T property (or Western Electric or Bell Laboratories property) described in Part II, and reserves and liabilities associated either with these assets or with personnel assigned to the BOCs.

Plan describes additions to the BOCs' asset accounts, as well as the assignment of existing investment in those accounts.[7]

1. **Network Facilities**

The rules for assigning ownership of all network facilities, which range from telephone poles to highly sophisticated electronic switching systems, are contained in the Decree. The BOCs may provide exchange telecommunications and exchange access services, but are expressly prohibited from performing "interexchange traffic routing for any interexchange carrier" (Decree, § IV(F)) and from providing "interexchange telecommunications services" (Decree, § II(D)(1)). Based on this defined functional division, ownership of network facilities used solely for exchange telecommunications or exchange access functions will be assigned to the BOCs and, conversely, ownership of network facilities used solely for interexchange functions will be assigned to AT&T.

The Decree also provides a specific rule for assigning ownership of a substantial portion of the remaining network facilities, *i.e.,* facilities used to provide both exchange and interexchange services. "Facilities and other assets which serve both AT&T and one or more BOCs shall be transferred to the separated BOCs if the use made by such BOC or BOCs predominates over that of AT&T" (Decree, § VIII(G)). In accordance with this rule, a BOC will be assigned ownership of a multifunction network facility whenever it is projected to be the predominant user of that facility as of January 1, 1984.[8] In

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[7] This part of the Plan likewise deals with the possibility that a wholly owned AT&T network facility (and related support systems and materials) will be transferred to a BOC. All other transfers to the BOCs from AT&T (or Western Electric or Bell Telephone Laboratories) are discussed in Part II of the Plan.

[8] The predominant use of network facilities as of January 1, 1984, will be determined by (i) measuring usage prior to that date; and (ii) projecting that usage to January 1, 1984, using the same techniques for projecting usage currently employed in the regular course of business for network planning. Projecting usage to January 1, 1984, is required to take into account changes in the number, type,

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addition, the BOCs will be assigned ownership of certain additional multifunction facilities — such as interexchange tandem switching systems also performing end office (Class 5) functions,[9] and cables containing subscriber circuits — even in those instances in which the exchange traffic on these facilities is not predominant.[10]

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and usage of facilities between now and the date of divestiture. For example, in some instances switching systems will be retired, and in other instances new switching systems will be installed during this period. Changes such as these are the result of long range construction plans developed and approved by AT&T and the BOCs prior to the announcement of the Decree. It is expected that any differences in the ownership of existing network facilities as a result of projecting usage to January 1, 1984, will be minor. A failure to base ownership on such projected usage, however, would lead to anomalous results, *e.g.*, AT&T or the BOCs could be assigned ownership of retired switching systems, or newly installed switching systems could be unassigned. Therefore, current usage must be updated to reflect changes that will have occurred by the date of divestiture.

[9] To avoid confusion between the terms "exchange" and "interexchange," as they are used in the Decree, and the more traditional and distinguishable use of the terms in regulatory and ratemaking contexts and in connection with the network switching hierarchy, the term "Local Access and Transport Areas" or "LATAs" has been adopted to identify the Decree-prescribed "exchange areas." Accordingly, the terms "exchange" and "interexchange" as used hereafter generally refer to existing functions in the network hierarchy or are employed as they are in regulatory and ratemaking contexts. The terms intraLATA and interLATA refer to the separation of functions between the BOCs and AT&T that is prescribed by the Decree.

[10] Independent telephone company traffic will be included in determining predominant use of multifunction facilities, generally as follows. All traffic between a BOC and an independent telephone company within regulatory-defined local calling areas and non-optional Extended Area Service (EAS) areas will be considered intraLATA traffic. Moreover, where an independent telephone company exchange would be included in a Bell LATA if it were a Bell exchange, traffic between the independent telephone company exchange and that Bell LATA will also be considered intraLATA traffic in determining predominant use. All other traffic between independent telephone company exchanges and Bell LATAs will be considered interLATA traffic in determining predominant use.

The same rules apply for assigning ownership of both single function and multifunction network facilities (including the determination of predominant use) whether the facilities are used for public switched, private line, or private network services. Thus, for example, dedicated local facilities for intraLATA private line and private network services will be assigned to the BOCs.

There are two generic categories of network facilities: (i) central office facilities; and (ii) outside plant. As of December 31, 1981, central office facilities and outside plant accounted for nearly sixty-six percent of the total Bell System net book investment.

Central office facilities consist of all equipment that is used to perform or support the functions of switching or transmitting exchange and interexchange telecommunications traffic and that is housed in buildings or structures owned or leased by the Bell System. Most of the investment of AT&T and the BOCs in such equipment is contained in Account 221.1 (Manual); Account 221.2 (Panel); Account 221.3 (Step-by-Step); Account 221.4 (Crossbar); Account 221.5 (Circuit Equipment); Account 221.6 (Radio); and Account 221.7 (Electronic). The remaining investment of AT&T and the BOCs in central office equipment (as that term is used in this Plan), including Common Channel Interoffice Signaling Equipment, Operator Call Processing Systems and Associated Operator Work Centers, Network Facilities Operations Systems, and Network Management Operations Centers and Systems, appears in various accounts, including Account 212 (Buildings); Account 261.2 (Furniture and Office Equipment); and Account 261.3 (Computer and AMA Systems).

Outside plant facilities include the cable, wire, and supporting structures used to interconnect central office locations or to connect telephone subscribers to central office equipment. Virtually all of the investment of AT&T and the BOCs in these plant facilities is contained in the following accounts: Account 241 (Pole Lines); Account 242.1 (Aerial Cable); Account

242.2 (Underground Cable); Account 242.3 (Buried Cable); Account 242.4 (Submarine Cable); Account 243 (Aerial Wire); and Account 244 (Underground Conduit). The remaining investment of AT&T and the BOCs in outside plant facilities is in self-supporting towers. That investment appears in Account 212 (Buildings).

a. Ownership of Central Office Facilities and Outside Plant

i. Central Office Facilities

The description of the assignment of specific central office facilities has been divided into eight subsections, based on the nature of the equipment being allocated and the functions which that equipment performs in the network.[11] These subsections are: (1) Switching Systems; (2) Transmission Equipment; (3) Common Central Office Equipment; (4) Common Channel Interoffice Signaling Equipment; (5) Digital Data System Equipment; (6) Operator Call Processing Systems and Associ-

[11] In some instances, the assignment of ownership of central office facilities (and outside plant) requires the identification of Points of Presence (POPs) for AT&T. A POP is a physical location where there is a point of interface between the BOC facilities providing a LATA access function and an interLATA carrier's facilities providing an interLATA function. A POP must be located within the boundary of the LATA being served, and it may contain an interLATA carrier's switching system or some other designated facility. AT&T's POPs for public and private switched services will generally be locations where there are switching systems that are used for interLATA tandem (Class 4) switching functions. Although this may include existing switching systems performing Class 4/5 switching functions, a substantial number of these switching systems have no interLATA trunking and will not be AT&T POPs. BOC switching locations that would otherwise contain no interLATA facilities (such as offices containing only Class 5 functions) also will not be AT&T POPs. An exception would be a BOC switching location performing switching for interLATA private network services in addition to end office functions. Where the LATA does not contain an interLATA tandem switching system, or where the interLATA switching systems within

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ated Operator Work Centers; (7) Computer Hardware for Network Facilities Operations Systems; and (8) Network Management Operations Centers and Systems.[12] Each of these subsections identifies the accounts or subaccounts in the USOA in which the investment in such facilities appears.

(1) Switching Systems

Switching systems are fundamental to the provision of most telecommunications services. Switching systems not only connect lines to lines, lines to trunks, or trunks to trunks, but, depending upon their place in the traditional network switching hierarchy, perform a myriad of other functions, ranging from providing dial tone to customers to providing the network intelligence required for new and innovative services.

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the LATA do not support all the required interLATA switching functions, one or more facility nodes through which interLATA connecting trunks are routed will be the AT&T POP(s). A facility node is a physical location, normally a wire center but, at minimum, a structure that provides a comparable environment (*e.g.*, air conditioning, power, and the like), where a number of interoffice transmission facility routes converge, terminate, and are cross-connectible. For non-switched private line services, the AT&T POPs may be locations containing existing Serving Test Centers (STCs) or other special services operating centers, such as Television Operating Centers (TOCs), in which the majority of the circuits are interLATA circuits, or certain other Special Services Test Centers through which large numbers of interLATA non-switched services are routed. The vast majority of AT&T POPs for non-switched private line services will be at STCs or other Special Services Test Center locations. Most frequently these centers are located in buildings with switching systems performing Class 4 or higher functions. Although the number of AT&T POPs for non-switched private line services will vary from LATA to LATA, on average it is expected that there will be approximately two such AT&T POPs per LATA.

[12] Central office facilities also include central office equipment held in central stock. Such equipment will be assigned in proportion to the assigned ownership of the same type of equipment (by technology) already in use in the territory served by the central stocking location. Alternatively, where it is more economical for AT&T and a BOC to do so, the present owner of central office equipment held in central stock at a particular central stocking location may retain that equipment, in which case the other entity now served by the central stocking location may purchase new stock.

The capital investment of AT&T and the BOCs in switching systems appears in four subaccounts[13] of Account 221: Account 221.2 (Panel); Account 221.3 (Step-by-Step); Account 221.4 (Crossbar); and Account 221.7 (Electronic).[14] Each of these subaccounts also includes investment in "associated equipment" that functions with a specific type of central office equipment, such as step-by-step, crossbar, or electronic switching systems. Illustrative items are alarm and signal apparatus, distributing frames, cable and cable racks, and batteries, rectifiers, generators, power boards, and other power plant equipment.

Two categories of current switching functions are relevant to the assignment of ownership of switching systems — exchange functions and interexchange functions. Exchange functions are provided by switching systems performing end office (Class 5) or local tandem switching functions.[15] Interexchange functions are provided by switching systems performing Class 4, 3, 2, or 1 functions (*i.e.,* the switching and routing of interexchange traffic) in the network toll hierarchy.

Most of the Bell System switching systems today provide only exchange (end office or local tandem) functions. Of the approximately 10,000 switching systems in service as of July 1, 1982, approximately 9,000 provide only end office (Class 5) functions. These end office functions include sending dial tone in response to a request for a connection, interpreting customer dialing, providing ringing or busy tones for incoming calls,

[13] A fifth subaccount, Account 221.1 (Manual), includes the cost of all manual (operator) switching equipment located in central offices and the cost of the appropriate associated equipment. The investment of AT&T and the BOCs in such equipment is discussed under Operator Call Processing Systems and Associated Operator Work Centers, Part I.A.1.a.i.(6), *infra.*

[14] Account 221.7 also includes the investment of AT&T and the BOCs in electronic Traffic Service Position Systems (TSPSs) and Automatic Intercept Systems (AISs). The ownership of these systems is discussed under Operator Call Processing Systems and Associated Operator Work Centers, Part I.A.1.a.i.(6), *infra.*

[15] A tandem switching system is any system that connects trunks to trunks.

connecting customer lines to interoffice trunks, and recording information for billing purposes.[16] Because the exchange functions performed by Class 5 switching systems will be solely intraLATA functions after divestiture, ownership of all switching systems performing only a Class 5 function will be assigned to the BOCs.

Similarly, as of July 1, 1982, about 30 switching systems were providing only the local tandem function, and approximately 170 switching systems were providing both Class 5 and local tandem functions. Local tandem switching systems provide a point of concentration for traffic within an exchange and make it possible to interconnect all of the serving end offices in an exchange without the use of direct trunks between each of these end offices. The local tandem function will be an intraLATA function after divestiture. Accordingly, ownership of all of the switching systems performing solely local tandem functions or both end office and local tandem functions will be assigned to the BOCs.

With the exception of switching systems used to provide certain private network services,[17] the remainder of the switching systems in Account 221 are multifunction switching systems that will perform both intraLATA and interLATA functions. In accordance with Section VIII(G) of the Decree, ownership of these switching systems will be assigned to a BOC whenever the

[16] The end office function as defined herein applies only to ordinary local telephone service. Certain specialized switching configurations for services such as 800 Service, WATS, and ACD (Automatic Call Distribution), and for private network services such as CCSA (Common Control Switching Arrangement) and EPSCS (Enhanced Private Switched Communications Service), are not considered end office functions. *See also* related n. 36 at p. 26, *infra.*

[17] These private network services are: (1) AUTOVON (Automatic Voice Network), which provides voice, voice-band data, and "secure" voice switched services to the Department of Defense; (2) CCSA, which is a service for large customers with extensive communications needs in many different cities that uses dedicated transmission lines in the nationwide telecommunications network and CCSA switching systems to switch the calls; and (3) EPSCS, which is a service similar to CCSA that offers improved transmission quality

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switching systems will be used predominantly for intraLATA services as of January 1, 1984.[18]

Multifunction switching systems that will be used predominantly to provide interLATA services as of January 1, 1984 will be assigned to AT&T. In two situations, however, multifunction switching systems will be assigned to the BOCs even if they are used predominantly for interLATA functions.

The first situation is when the multifunction switching system provides end office (Class 5) functions as well as interLATA functions. These switching systems comprised approximately 370 of 550 multifunction switching systems as of

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for voice and data, and also additional user control, accounting, and administrative features through stored program control technology. Where a switching system is used solely to provide EPSCS, CCSA, or AUTOVON services, the structure of these services makes it very difficult or impossible to separate any intraLATA calls that might be switched by these systems from the interLATA calls that they primarily switch. Moreover, today these switching systems are wholly used by AT&T for its tariffed EPSCS, CCSA, or AUTOVON services, except for a limited number of switching systems which in addition are used by the BOCs to provide intrastate CCSA service. Even intrastate CCSA service, however, is largely interLATA. Accordingly, all switching systems used solely to provide EPSCS, CCSA, or AUTOVON services will be assigned to AT&T. Where switching systems used to provide EPSCS, CCSA, or AUTOVON services are also used to provide end office (Class 5) functions for ordinary local telephone service, these switching systems will be assigned to the BOCs.

[18] Predominant use will be determined based on the relative minutes of total seven day usage of each switching system for interLATA and intraLATA public and private switched services. The data will be compiled from total day usage measurements regularly performed today for purposes of Jurisdictional Separations allocations and for the determination of joint ownership shares. The data will be adjusted to reflect changes that are planned to occur between now and January 1, 1984. These changes include changes in fundamental network architecture, such as toll center eliminations (*e.g.*, changing a Class 4/5 switching system to a Class 5 switching system) or the replacement of several toll switching systems by a single switching system, and rate structure changes that might affect the relative use of a switching system, such as lower long distance rates in the evening, measured local service, or Extended Area Service.

July 1, 1982. Such systems provide end office functions central to the provision of exchange services; hence, all of them will be assigned to the BOCs.

The second situation arises in twelve LATAs each of which includes a large metropolitan area and contains more than one large multifunction tandem switching system.[19] Based on specific network analyses performed jointly by the BOCs and AT&T, more large multifunction tandem switching systems will be assigned to the BOCs in these LATAs than would be assigned to them based solely on each system's predominant use.[20] The assignment to the BOCs of these additional switching systems will assist the BOCs in maintaining sufficient tandem switching capacity in metropolitan areas with high population density and heavy telecommunications traffic to meet their intraLATA and LATA access service obligations.

(2) Transmission Equipment

The second category of central office facilities is transmission equipment, which includes both circuit equipment and radio equipment. Circuit equipment is used to derive channels from transmission facilities for the transmission of communications signals or to amplify, modulate, regenerate, test, balance, or control signals transmitted over such channels. Radio equipment is used for the generation, amplification, propagation, reception, modulation, and demodulation of radio waves.

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[19] The twelve metropolitan areas are: Atlanta, Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, Newark, New York, Philadelphia, San Francisco, and Washington, D.C.

[20] In addition to the predominant use of the tandem switching systems within each LATA, these analyses considered the relative importance of each major switching system to the ability of each entity to provide for interLATA, and intraLATA and LATA access services, respectively; the position of each switching system in the network hierarchy; the necessity to provide effective surveillance, control, and continuity of service; the ultimate separation of the interLATA network from that used to provide intraLATA and LATA access services; and the economic benefits of avoiding large amounts of stranded capacity, rearrangements, and unnecessary capital expenditures.

The investment of AT&T and the BOCs in circuit equipment is contained in Account 221.5. This account includes items such as carrier system terminals (both telephone and telegraph); repeaters; incoming pulse repeaters; line signaling equipment such as SF (Single Frequency), DX (Duplex), or multiplexing equipment; outgoing trunk and line insulation test frames; program transmission audio and video amplifiers, repeaters, bridges, monitoring devices, volume indicators, and video transmitting and receiving terminals (excluding FM terminals); repeating coils; subscriber loop carrier equipment (excluding similar equipment on customer premises); and testboards, local test desks, local test cabinets, repair service desks, and patch bays.

There are three subaccounts of Account 221.5: Account 221.51 (Digital Data Systems); Account 221.52 (Subscriber Pair Gain Systems); and Account 221.59 (Other). Account 221.51 includes the investment in certain circuit equipment used for Digital Data Systems as well as the following equipment exclusively associated with Digital Data Systems: (1) alarm and signal apparatus; (2) auxiliary framing; (3) cable and cable racks; (4) relay racks and panels; and (5) tools and test sets.[21] Account 221.52 includes central office terminals, remote terminals, and intervening repeaters in subscriber pair gain systems such as Subscriber Loop Multiplex (SLM), Subscriber Loop Carrier (SLC) systems, and similar General Trade equipment.[22] Account 221.59 includes the investment in all circuit equipment and associated equipment that is not used in a specific system covered by one of the other circuit subaccounts.[23]

The investment of AT&T and the BOCs in radio equipment is contained in another subaccount, Account 221.6. Ac-

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[21] Digital Data Systems equipment in Account 221.51 is discussed in Part I.A.1.a.i.(5), *infra*. Digital Data Systems equipment located on customer premises is included in Account 234.3, and is discussed in Part I.A.2, *infra*.

[22] Bell System investment in similar equipment located on customer premises appears in Account 234.7, and is discussed in Part I.A.2, *infra*.

[23] Bell System investment in similar equipment located on customer premises appears in Account 234.8, and is discussed in Part I.A.2, *infra*.

count 221.6 includes radio transmitting and receiving equipment and associated equipment used in central offices, terminal rooms, test rooms, repeater stations, test stations, and control terminal stations, and on towers, masts, and other supports to provide transmission for public switched and private line services; radio equipment used exclusively in connection with Public Radio Services such as High Seas, Coastal Harbor and VHF Maritime, mobile,[24] point-to-point, and other radio systems,[25] emergency radiotelephone equipment used to bridge breaks in wire lines, and portable equipment used for transmitting and receiving radiotelevision signals. Account 221.6 also includes equipment that supports radio equipment, *e.g.*, Frequency Modulation (FM) terminals and Intermediate Frequency (IF) patch bays associated with microwave systems.

As with other network facilities, ownership of the investment of AT&T and the BOCs in circuit and radio equipment will be assigned according to the intraLATA or interLATA functions the equipment will serve as of January 1, 1984.[26] Circuit or radio equipment performing only intraLATA functions will be assigned to the BOCs; circuit or radio equipment performing only interLATA functions will be assigned to AT&T; and circuit and radio equipment performing both interLATA and intraLATA functions will be assigned based on predominant use.[27]

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[24] Mobile telephones are classified as customer premises equipment in Account 231, and are discussed in Part I.A.2, *infra.*

[25] Cellular radio service is discussed in Part II.A.3, *infra.*

[26] As discussed in Part II.A.3, *infra,* ownership of radio equipment assets used for the provision of Public Mobile Radio Services will be retained by the BOCs for all services except High Seas Radio Service. This service will be provided by AT&T. Where equipment used to provide Public Mobile Radio Services is connected to the domestic landline network by interLATA cables, the ownership of such cables will be assigned in accordance with the rules for assigning ownership of outside plant set forth in Part I.A.1.a.ii, *infra.*

[27] In a few instances, assignment of multifunction transmission facilities (circuit, radio, and outside plant) based solely on predominant use might result in either AT&T or a BOC owning all cable and microwave radio transmission facilities between two central offices even though each entity has requirements for facilities between these two central offices to serve its customers. In such circumstances (which are expected to be infrequent), some transmission facilities may be assigned to each entity.

For the purpose of assigning ownership, central office circuit and radio equipment will be grouped according to function into readily identifiable work areas. A work area is one or more equipment bays[28] on a given floor of a building that is or can be engineered, maintained, and administered as a single unit by a single company. Ownership of each work area will be assigned on the basis of the function or functions it will perform as of January 1, 1984.[29] For those work areas serving either intraLATA functions or interLATA functions, but not both, ownership will be assigned to the entity that will perform those functions after divestiture.

In those instances in which the same work area will be used to provide both intraLATA and interLATA functions, ownership of the circuit and radio equipment in the work area will be assigned on the basis of the predominant use of the work area. Such predominant use will be determined as follows. First, the items of circuit or radio equipment in the work area will be designated as interLATA or intraLATA based on their usage as shown in central office records projected to January 1, 1984.[30] Next, the amount of capital investment in

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[28] An equipment bay is a frame containing interconnected or related items of circuit or radio equipment. An equipment bay contains numerous slots for individual pieces of equipment.

[29] One of the central office facilities that will be so assigned is the Serving Test Center (STC). An STC performs several functions for interLATA and intraLATA special services circuits, including tracking and monitoring the progress of organizations responsible for physical installation and repair of special service circuits; performing tests to ensure the services meet design criteria; receiving trouble reports; analyzing, testing, and sectionalizing the trouble to circuit components; and verifying circuit operation after repairs. The principal asset (and, hence, most of the capital investment) in an STC is the Private Line Board, which is a collection of jacks and other test equipment used for testing special services circuits. Predominant use of each Private Line Board will be determined by counting the interLATA and intraLATA circuits that are accessed by the Board and assigning ownership to the entity expected to have the predominant number of such circuits as of January 1, 1984. It is estimated that of the approximately 700 STCs as of December, 1981, about 500 would be assigned to the BOCs and 200 to AT&T under this test.

[30] The predominant use of multifunction circuit and radio equipment will be ascertained by comparing the number of intraLATA circuits provided by the equipment with the number of interLATA circuits provided by the equipment. The designation of circuits as

(Footnote continued on following page)

each of these items of equipment will be determined. Finally, it will be determined whether the predominant portion of the total investment in the work area is used for interLATA or intraLATA functions. If fifty percent or more of the capital investment in a work area is in equipment serving intraLATA functions, the work area will be assigned to the BOC; if more than fifty percent of the capital investment is in equipment serving interLATA functions, the work area will be assigned to AT&T.[31] The non-owning entity may continue to use the

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intraLATA or interLATA will be determined from circuit assignment records. An intraLATA circuit is a circuit that has originating and terminating points that are generally in the same LATA and that is used to provide intraLATA or LATA access functions. IntraLATA functions include, for example, transmitting MTS traffic between two or more end offices within a LATA or, in connection with a private line service, transmitting signals between two or more of a customer's locations within a LATA. LATA access functions include transmitting MTS traffic or private line signals between a customer and an interLATA carrier's POP. An interLATA circuit is a circuit that has originating and terminating points that are generally in different LATAs and that is used to provide interLATA functions. InterLATA functions include, for example, transmitting MTS traffic between two or more switching systems performing Class 4 or higher functions in different LATAs and transmitting private line signals between two POPs in different LATAs. Circuit designations will be adjusted to reflect changes planned to occur between now and January 1, 1984. These include planned changes in fundamental network architecture (such as toll center eliminations or the rehoming of switching systems), rate structure changes (such as measured local service or Extended Area Service) that would affect circuit assignments, and shifts in traffic from one type of circuit technology to another that alter the overall function performed by the circuit.

[31] An example is the assignment of a portion of the first floor of an equipment building in Columbus, Georgia. This work area is comprised of sixty-one bays of circuit equipment that contain carrier system terminals, miscellaneous toll terminal equipment, and subscriber loop carrier equipment. The equipment in the work area is used to provide both intraLATA functions and interLATA functions. An examination of the equipment within the work area shows that equipment in forty-three bays is used predominantly to provide intraLATA circuits, and equipment in eighteen bays is used predominantly to provide interLATA circuits. The forty-three equipment bays predominantly providing intraLATA circuits have a book value exceeding the book value of the eighteen equipment bays predominantly providing interLATA circuits. Hence, this work area would be assigned to the BOC.

equipment in a multifunction work area by contracting with the owning entity.[32]

Some circuit and radio equipment in Account 221 is located away from the central office in manholes, cabinets, repeater stations, or on poles. An example of such equipment is repeaters, which are used to amplify a carrier signal. Such circuit and radio equipment is not readily grouped into work areas, and each such item of equipment will be assigned to the entity which will own the cable or radio system with which the equipment is connected. Where the circuit and radio equipment in a cabinet is associated with more than one cable or radio system, the cabinet and all equipment therein will be assigned based on the predominant use of the equipment.

(3) Common Central Office Equipment

Certain types of central office facilities are used in common by other equipment located at Bell System central offices. These types of equipment include (a) power equipment; (b) distributing frames; (c) testing equipment; and (d) cabling. The ownership of such common equipment will be determined by the assignment of ownership of the switching, circuit, or radio equipment that the common equipment serves or by the assignment of ownership of the building in which the common equipment is located.

(a) Power Equipment

The power equipment owned by AT&T and the BOCs includes equipment that supplies power to telephone company buildings ("building power equipment") and equipment that supplies power to switching systems and various other types of central office or other telecommunications equipment ("basic power equipment"). Investment in building power equipment is contained in Account 212 (Building Investments). Building power equipment will be assigned to the entity to which the building itself will be assigned.[33] To the extent that one entity

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[32] In a few instances, a particular item of circuit or radio equipment will not be able to be used by the entity to which the work area will be assigned; the item will be assigned to the entity which can use it.

[33] *See* Other Physical Assets, Part I.A.3, *infra*.

may lease space in a building owned by another entity, or own that space under a condominium arrangement, building power requirements will be included in the contract covering the lease of the building space or in the condominium agreement.[34]

Basic power equipment (including standby power equipment) includes batteries, rectifiers, generators, power boards, and other power plant equipment located within the central office and not part of the building power equipment. Investment in basic power equipment is included in the same subaccounts as investment in the switching systems, circuit and radio equipment, or other central office facilities that the basic power equipment principally serves.

The ownership of basic power equipment will be determined by the assignment of ownership of the systems and equipment that the basic power equipment serves. If the basic power equipment serves not only systems and equipment assigned to AT&T, but also systems and equipment assigned to a BOC, ownership of the basic power equipment will be assigned to the entity which has the larger investment served by the basic power equipment.

(b) Distributing Frames

Distributing frames are the facilities on which cross connections are provided between outside plant and intrabuilding circuits, central office switching systems, and circuit equipment. These include main distributing frames, intermediate distributing frames, and trunk distributing frames. AT&T and BOC investment in distributing frames is contained in the subaccount that contains the investment for the switching systems or other types of central office equipment that the distributing frames principally serve.

Ownership of a distributing frame will be determined by the assignment of ownership of the switching system, circuit and radio equipment, or other central office facilities served by that distributing frame. If a distributing frame serves central

[34] The use of condominium arrangements in shared buildings is discussed in Part I.A.3.a, *infra*.

office facilities some of which will be assigned to AT&T and some of which will be assigned to a BOC, the entity that will have predominant use of the total space on that frame as of January 1, 1984, will be assigned ownership of the frame.

(c) Testing Equipment

There are three types of central office testing equipment: (1) transmission test frames and equipment; (2) test frames and equipment for switching systems; and (3) portable meters, small alarm and signal apparatus, and other central office tools. The investment of AT&T and the BOCs in central office testing equipment is contained in the same subaccount as the transmission equipment or the switching system that such testing equipment principally serves.

Ownership of transmission test frames and other test sets for transmission equipment will be assigned to the entity to which ownership of the associated transmission equipment is assigned. If such transmission testing equipment is included in a work area, it will be assigned to the predominant user of the work area.

Similarly, ownership of the test frames and other test sets for a switching system will be assigned to the entity to which the ownership of the associated switching system is assigned. If such testing equipment is used by more than one switching system, the testing equipment will be divided among the switching systems, if feasible, or assigned to the predominant user of the equipment.

Ownership of portable meters, small alarm and signal apparatus, and other central office "tools" will be assigned to the entity which is assigned the work area in which, or the switching system with which, the equipment is used.

(d) Cabling

Cabling consists of cables (and cable racks) that contain circuits interconnecting equipment and distributing frames throughout a central office. One type of cabling consists of cables that run from a switching system frame to an intermediate distributing frame (IDF). AT&T and BOC investment in such cabling is included in the same central office equipment subaccount as the frames to which the cabling is attached. Another type of cabling consists of tie cables, which are cables that run between intermediate distributing frames. AT&T and BOC investment in such cabling is included in the subaccount for the switching system or circuit and radio equipment that the tie cables serve. Ownership of both types of central office cabling will be determined by the ownership of the equipment served.

(4) Common Channel Interoffice Signaling Equipment

The fourth category of central office facilities is Common Channel Interoffice Signaling (CCIS) equipment. CCIS is a form of interoffice signaling that is currently used in the interexchange portion of the Bell System network. With CCIS, all signaling information, including the supervisory and address signals necessary to control call set-up and take-down and various other functions, is exchanged over a network of high speed data links that is independent of the voice circuits used by customers.

The components of the CCIS network are Signal Transfer Points (STPs), Network Control Points (NCPs), Action Points (ACPs), and CCIS signaling terminals, terminal group frames, data sets, and data links. CCIS signaling terminals are "housed" in a terminal group frame in each switching system equipped with CCIS capability and in each STP. The CCIS terminals in each of these switching centers are connected to the STPs by data links, which are two-way transmission paths (one data channel in each direction) on interoffice transmission facilities. The CCIS signals are carried by the data links to the STPs, which are stored program control processors that relay the signals over other CCIS data links to their destinations. There are expected to be ten "Regional" STP pairs, three "Area" STP pairs, and three NCP STP pairs as of January 1, 1984.[35]

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[35] Each Regional STP is interconnected by data links with all other Regional STPs, while the Area STPs are connected only to the Regional STPs on which they home and to any other Regional STPs where high "community of interest" traffic volumes exist. The NCP STPs are interconnected with all Regional and Area STPs. The STPs are deployed as pairs for reliability purposes.

CCIS data links also interconnect ACPs, STPs, and NCPs. An ACP is a software capability in a specially equipped stored program control (SPC) switching system that enables that system to recognize special dialing sequences associated with certain Bell System services and to send a CCIS message to an NCP, via one or more STPs, to obtain information needed to process the call. The NCP, which contains logic and detailed information on how to handle such calls, determines the needed actions. It then uses the CCIS data link to instruct the ACP, via the STP, how to handle the call. There are expected to be about 350 ACPs and 40 NCPs as of January 1, 1984.

The STPs, NCPs, and ACPs are all contained in Account 221.7 (Electronic), as are the terminal group frames and signaling terminals. The facilities on which CCIS data links are provided are contained in Accounts 221.5, 221.6, 242.1, 242.2, 242.3, 242.4, or 243, depending upon the nature of the underlying interoffice transmission facility.

The ownership of the components of the CCIS network will be determined as follows. CCIS data links are derived from interoffice transmission facilities, which will be assigned according to the rules discussed in Part I.A.1.a.i.(2), *supra,* and in Part I.A.1.a.ii, *infra.* The ownership of the CCIS terminal group frames, signaling terminals, and data sets will be assigned together with the switching system or STP with which they are associated. The ACPs are software capabilities in stored program control switching systems and hence will be assigned along with such switching systems. The ownership of all of the STPs and NCPs will be assigned to AT&T because they are used predominantly for interLATA functions.[36]

[36] The CCIS data links, and the STPs and NCPs that they interconnect, make it possible for the Bell System to offer features related solely to interexchange services. After divestiture, AT&T will continue to use these facilities to furnish interLATA services, and will lease such facilities to the BOCs for their provision of intraLATA services, including BOC intraLATA WATS and 800 Service. These facilities will not be leased to the BOCs for exchange access because these facilities do not provide any exchange access functions for AT&T and are not needed by the BOCs to meet their equal access obligations under the Decree. The BOCs will be able, however, to

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(5) Digital Data System Equipment

The fifth category of central office facilities is Digital Data System equipment. The Digital Data System (DDS) is a specially configured network of digital outside plant and central office facilities that is used to provide the Bell System's point-to-point and multipoint DATAPHONE Digital Service.[37] The investment of AT&T and the BOCs in these facilities is contained in Account 221.51 (Digital Data Systems), or in the appropriate outside plant accounts. Digital transmission facilities link the customer with the DDS Hub office, in some cases through multiplexing equipment at intermediate locations. The customer's signal may be combined at the DDS Hub with the signals of other customers for transmission to other locations.

The circuits used to link customers to a DDS Hub, whether through an end office for multiplexing and routing, or directly to the DDS Hub location, perform an intraLATA distribution function for DATAPHONE Digital Service. Accordingly, these circuits will be treated as intraLATA circuits in determining the predominant use of the outside plant facilities and central office equipment within which they are contained.[38]

The DDS Hub receives customer data signals, performs a multiplexing function where necessary, and provides testing capability for each circuit served by the DDS Hub office. In addition, the DDS Hub office provides a timing distribution function to regulate the speed of data signals throughout the DDS network. The DDS Hub is a multifunction facility in that it supports both intraLATA and interLATA DATAPHONE Digital Service. Ownership of each DDS Hub will be assigned on the basis of predominant use, as measured by the amount of investment in the equipment that provides an intraLATA

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obtain from Western Electric CCIS, STP, and NCP hardware and software, including "know how" and existing applications software associated with related operations systems, for the provision of any services they are authorized to provide under the Decree.

[37] DATAPHONE is a registered trademark of AT&T.

[38] The assignment of outside plant is discussed in Part I.A.1.a.ii, *infra.*

function and the equipment that provides an interLATA function. The entity which is assigned the DDS Hub will lease capacity in that DDS Hub to the other entity under contract. The AT&T Point of Presence for interLATA DATAPHONE Digital Service will be at the DDS Hubs, or at facility nodes designated by AT&T in LATAs where no DDS Hubs are located.

DDS testing equipment (Automatic Bit Access Testing equipment) was designed primarily for testing interLATA circuits on an end-to-end basis through one central location in Chicago, Illinois, although it also is capable of being used for testing intraLATA DDS circuits. DDS testing equipment and the Chicago testing center are predominantly used to test interLATA circuits, and, accordingly, will be assigned to AT&T. The BOCs will be able to contract for testing service capability from AT&T.

(6) Operator Call Processing Systems and Associated Operator Work Centers

Another category of central office facilities is operator call processing systems and associated operator work centers. An operator call processing system typically consists of a central processing unit or an electromechanical switching system that is connected to clusters of operator positions. Each cluster of operator positions is organized around an operator work center, which consists of equipment bays, operator consoles, data base retrieval systems, and other support equipment within a work center building or at a remote location. The investment of AT&T and the BOCs in operator call processing systems and associated operator work centers is contained in Account 212 (Buildings); Account 221 (Central Office Equipment); Account 261.2 (Other Furniture and Office Equipment); and Account 261.3 (Computer and AMA Systems).

Operator call processing systems and associated operator work centers are used to provide four categories of operator services to the public. These categories are: (1) Directory Assistance service ("411" and "555-1212" service); (2) Intercept service, where the operator intercepts a call to a non-working number in order to provide the caller with information concerning the status of the called number, including a new number when available; (3) Call Completion and Assistance services, including manual switching, assistance in placing calls, and calling number identification for message accounting; and (4) "800 Service" Directory Assistance.

Directory Assistance service is "inherent in exchange telecommunications" in that by far the larger volume of directory assistance calls are for local directory service.[39] Similarly, Intercept service is predominantly provided for intraLATA calls. Because both of these services are performed predominantly for intraLATA traffic, the operator call processing systems and associated operator work centers that are used to provide these services will be assigned to the BOCs.

In contrast, Call Completion and Assistance services and "800 Service" Directory Assistance are performed predominantly for interLATA calls. Thus, the operator call processing systems and associated operator work centers used to provide Call Completion and Assistance services and the operator work centers used to provide "800 Service" Directory Assistance will be assigned to AT&T.

Certain types of operator services systems and associated work centers are multi-service facilities that support both intraLATA and interLATA services or more than one of the four categories of operator services. These multi-service systems and associated operator work centers will be assigned according to whether these facilities are used predominantly in support of intraLATA services or interLATA services as of January 1, 1984.

(a) IntraLATA Operator Services Facilities

Directory Assistance service is provided through a call processing system and a data base retrieval system. The call processing system is either a No. 5 ACD or a No. 23 ACD

[39] Department of Justice, Competitive Impact Statement, p. 29, n.24 (February 10, 1982) (hereinafter "CIS").

(Automatic Call Distributor), or some other type of call processing system.[40] The mechanized data base retrieval system is either a DAS/C or a DAS/M system (Directory Assistance System/Computer or Microfilm).[41] The operators who use these systems work at Directory Assistance operator work centers.

Intercept service is provided either through an AIS (Automatic Intercept System) or an SAIS (Semi-Automatic Intercept System),[42] or through a No. 5 ACD or a No. 23 ACD call processing system. The operators who use these systems work at Intercept Operator work centers.

Ownership of each of the call processing systems, data base retrieval systems, and associated operator work centers that are used to provide Directory Assistance or Intercept service will be assigned to the BOCs.

(b) InterLATA Operator Services Facilities

Call Completion and Assistance services include message billing services, such as calls billed to a third number or to the called number; assistance services, such as placing international calls or arranging for credit for service difficulties (*i.e.,* wrong numbers reached, poor transmission, and cutoffs); information services, such as dialing instructions and the obtaining of directory assistance in foreign countries; special call processing services, such as conference calls, marine calls, and air-to-ground calls; and operator teletypewriter services for hearing-impaired customers.

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[40] The Automatic Call Distributor is a system for automatically providing even distribution of incoming calls in the approximate order of arrival to operator positions.

[41] DAS/C and DAS/M are support systems for retrieving a telephone number from a data base that contains all of the customer telephone numbers in a geographic area.

[42] The Automatic Intercept System and the Semi-Automatic Intercept System are call processing systems that advise the calling customer of the status of the called number, and provide a new number, when available, by means of either recorded or electronically assembled announcements.

Call Completion and Assistance services are provided through various types of call processing systems, including the TSPS system (Traffic Service Position System); the RTA (Remote Trunk Arrangements) system associated with certain TSPS systems; the TSP system (an electromechanical version of the TSPS); Cord Switchboards; and CAMA (Centralized Automatic Message Accounting) Switchboards. In addition, HOBIS systems (Hotel Billing Information Systems), which are connected to TSPS call processing systems, are used to provide time and charge information to hotels and other business establishments such as consulting firms and hospitals.[43]

Call Completion and Assistance services are performed predominantly for interLATA calls. In a few instances, certain call processing systems used to provide Call Completion and Assistance services (including some TSPS systems) are used predominantly for the provision of Call Completion and Assistance services for intraLATA calls. If the call processing systems used predominantly for intraLATA Call Completion and Assistance services were assigned to the BOCs, however, the BOCs would have to provide full technical support and resource personnel for these few systems, as well as operators to furnish Call Completion and Assistance services using these systems. Moreover, the costs for development and administration of these few systems would be higher because the development and administration costs for each system increase significantly as fewer systems are included in any such effort. Because most Call Completion and Assistance services calls are interLATA calls, all call processing systems (including HOBIS) and their associated operator work centers used to provide these operator services will be assigned to AT&T. Call Completion and Assistance services will be provided by AT&T for intraLATA calls under the contracts for the sharing of multifunction facilities.

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[43] Two of the HOBIS systems are currently used to provide not only time and charge information, but also CCRS service (Centralized Credit and Refund Service). With CCRS, a caller can secure credits or refunds for toll calls that do not complete properly by calling a central number at the associated HOBIS work center.

The Call Completion and Assistance services operators are supported by Rate and Route operators. These operators work at Rate and Route operator work centers and provide rate and route information on customer calls. Each Rate and Route operator work center is equipped with a Rate and Route Information Computer (RRIC), and the operators who work at these centers use a call processing system that connects them with the Call Completion and Assistance operators.[44] The Rate and Route operator work centers will be assigned to AT&T because they support interLATA operator services.

In addition, the Rate Quote Systems (RQS) are used by Call Completion and Assistance operators to obtain rate and route information on customer calls in lieu of using a Rate and Route operator work center. The RQS systems are operated either on computers used by AT&T only for these systems, or on computers predominantly used by the BOCs to operate other systems in addition to the RQS systems. The RQS computer hardware used only by AT&T will be assigned to AT&T, and the RQS computer hardware predominantly used by the BOCs will be assigned to the BOCs. AT&T will share capacity in the RQS computer hardware assigned to the BOCs under contract.

(c) Multi-Service Operator Facilities

Multi-service operator facilities and associated operator work centers are used by the Bell System to support both intraLATA and interLATA services or more than one of the four categories of operator services. These network facilities include Data Base Administration Systems, 800 DAS/C systems, No. 1A Service Evaluation Systems, and work centers associated with these systems.

The Data Base Administration Systems (DBAS) update and maintain Intercept number files that are used by operators

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[44] The call processing system used by a Rate and Route operator is usually a No. 5 or a No. 23 ACD call processing system. If the call processing system is dedicated for use solely by the Rate and Route operators, it will be assigned to AT&T. If the call processing system is also used by Directory Assistance operators, it will be assigned to the BOCs because the Directory Assistance operators will make predominant use of the system. AT&T will share capacity in that system under the contracts for the sharing of multifunction facilities.

providing Intercept service. These DBAS systems also update and maintain Calling Card and other billing information files that are used by operators providing Call Completion and Assistance Services. The personnel who run these systems work at Data Base Administration work centers.

Sixteen of the DBAS systems are multi-service systems that are used to support the provision of both intraLATA and interLATA operator services. These multi-service DBAS systems and their associated work centers are used predominantly to support intraLATA operator services and will be assigned to the BOCs.[45] Where required, the BOCs will provide data base maintenance service through these systems to AT&T under the contracts for the sharing of multifunction facilities.

"800 Service" Directory Assistance is provided through a call processing system and a data base retrieval system. The three No. 5 ACD call processing systems used for "800 Service" Directory Assistance will be assigned to the BOCs because these systems are used predominantly for regular Directory Assistance service and for intraLATA "800 Service" Directory Assistance. AT&T will share capacity in these call processing systems under the contracts for the sharing of multifuction facilities. The data base retrieval systems used for interLATA and intraLATA "800 Service" Directory Assistance are the 800 DAS/C systems (800 Directory Assistance System/Computer). The operators who use these call processing and data base retrieval systems work at "800 Service" operator work centers. Because the data base retrieval systems and operator work centers for "800 Service" Directory Assistance are used predominantly for interLATA calls, these systems and work centers will be assigned to AT&T.

The No. 1A Service Evaluation Systems (No. 1A SES) are used to observe and assess quality control on operator-handled calls for all Bell System operator services. These systems are

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[45] The remaining nine DBAS systems and associated work centers are single function facilities. Five perform only the Intercept support function, and these will be assigned to the BOCs. Four of the DBAS systems and associated work centers perform only the Call Completion and Assistance support function; these will be assigned to AT&T.

located at No. 1A SES work centers. By January 1, 1984, the Bell System will have approximately ten of these work centers, and by that date each center will be used to observe and assess quality control for either intraLATA operator services or interLATA operator services. The BOCs will be assigned all No. 1A SES work centers that will observe and assess Directory Assistance and Intercept services, and the Call Completion and Assistance and "800 Service" Directory Assistance No. 1A SES work centers will be assigned to AT&T. This assignment will result in approximately seven No. 1A SES work centers being assigned to the BOCs (one per region), and three being assigned to AT&T.

(7) *Computer Hardware for Network Facilities Operations Systems*

Another type of central office facility that must be assigned is the computer hardware used to run network facilities operations systems.[46] Network facilities operations systems — frequently referred to as mini-computer systems — are employed for surveillance, administration, and maintenance of particular network facilities such as switching systems, carrier systems, circuit and radio equipment, and other central office equipment and outside plant. The computer hardware used to run these systems are located at mini-computer operations centers, or, in some cases, adjacent to network facilities work centers. Bell System investment in the computer hardware associated with these systems is contained in Account 261.3 (Computer and AMA Systems).[47]

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[46] The assignment of rights in all software associated with such computer hardware is described in Part II.A.1, *infra.*

[47] Account 261.3 contains investment in computer hardware used to run mini-computer systems, as well as investment in main-frame computer hardware located at BOC data processing centers. Main-frame computer hardware is used by the BOCs for a variety of purposes, including administrative and operations functions. The main-frame computer hardware will continue to be used predominantly by the BOCs after January 1, 1984, and, accordingly, this hardware and the BOC data processing centers where it is located will be assigned to the BOCs. To the extent that a BOC may run a main-frame system in support of an interLATA function, it will do so under contract with AT&T.

Computer hardware used to run network facilities operations systems that support intraLATA network functions will be assigned to the BOCs. Similarly, computer hardware used to run network facilities operations systems that support interLATA network functions will be assigned to AT&T. Examples of these systems are discussed below in subsections (a) and (b), respectively.

Computer hardware used to run network facilities operations systems that support both intraLATA and interLATA network functions will be assigned as follows. Where the computer hardware is associated with a single network facilities work center, the hardware will be assigned to the entity that is assigned ownership of the network facilities work center. If the computer hardware is not associated with a single network facilities work center, the hardware will be assigned to the entity which will make predominant use of the hardware as of January 1, 1984. The measure of usage will depend on the type of system operated on the computer hardware and the type of support it provides. Thus, the measure of usage may be based on data base characteristics, such as trunks or alarms monitored by the system, or on the amount of central processing unit time ("CPU time") it takes to run an operations system for either AT&T or the BOCs. Where it is not feasible to measure predominant use by data base characteristics or by the amount of CPU time, other measures of usage will be taken, such as the number of reports generated for each entity by the computer hardware.

The entity which has been assigned the multifunction network facilities operations system hardware will run the operations system on the hardware for the other party under contracts for the sharing of multifunction facilities. For example, if a BOC has been assigned a mini-processor associated with a multifunction switching system work center, the BOC will run the network facilities operations system on the mini-processor for AT&T pursuant to those contracts. In most cases, the sharing of the operations systems hardware will not require the disclosure of proprietary information to the other party. In those cases involving the sharing of operations systems hardware where disclosure of such information is necessary, or access to such information would be possible by the other party, the use of the proprietary information will be protected by the contractual provisions prohibiting unauthorized and unnecessary disclosure and improper use. Examples of multifunction network facilities operations systems are discussed below in subsection (c).

(a) IntraLATA Network Facilities Operations Systems

There are approximately 530 network facilities operations systems that are used in support of intraLATA network functions. These include systems used for intraLATA switching operations; systems used for intraLATA switching surveillance, administration and management operations; and systems used for local distribution planning and operations.

Illustrative of the operations systems that are used in conjunction with intraLATA switching operations are COSMOS (Computer System for Mainframe Operations), a wire center system used in subscriber loop assignment on mainframes in end offices; and SPCS-COER (Stored Program Control Systems-Central Office Reports), which processes traffic data for electronic switching systems performing an end office function. Illustrative of the switching surveillance, administration, and management operations systems used for intraLATA traffic is AMARCS (Automatic Message Accounting Reporting Center System), which collects billing data from electromechanical Class 5 offices.

An example of a local distribution planning operations system is CCUAP (Computerized Cable Upkeep Administrative Program), a system that analyzes outside plant maintenance activity. Other examples include LATIS (Loop Activity Tracking Information System), which keeps track of installation and maintenance of subscriber loops; and PACO (Pole Attachment Conduit Occupancy), which assigns duct and pole space for outside plant facilities.

(b) InterLATA Network Facilities Operations Systems

There are approximately 145 network facilities operations systems used in support of interLATA network functions. These operations systems include systems used for surveillance, administration, and management of switching operations; systems used for interLATA private line special service switching operations; systems used for the operation of transmission facilities in the interLATA network; and a system used to support PICTUREPHONE Meeting Service.[48]

Two examples of interLATA switching surveillance, administration, and management systems are ESSAS (Earth Station Surveillance Alarm System), which monitors and controls satellite facilities; and 1A-RMS (Remote Monitoring System), which monitors certain toll switching systems. Examples of interLATA private line switching operations systems are CENSS (Customer Enhanced Network Status System), which provides status reports on switching for private switched communications services; CSACCS (Customer Service Administrative Control Center System), a network surveillance system for certain private switched services; CTAS (Common Traffic Administration System), a customer trunk administration service for interLATA private networks; ENADS (Enhanced Network Administration System), a system of computer programs for surveillance and control of Enhanced Private Switched Communications Service (EPSCS) and Electronic Tandem Network Service (ETN); and ODAMAS (Operations Development And Management System), which supports the management of EPSCS.

A transmission facility operations system used only in support of interLATA network functions is RPMS (Radio Protection Monitoring System), which provides trouble reporting and performance monitoring for long-haul microwave

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[48] PICTUREPHONE is a registered trademark of AT&T.

systems. PMOSS is the system that provides administrative and operational support for PICTUREPHONE Meeting Service.

(c) Multifunction Network Facilities Operations Systems

Multifunction network facilities operations systems include approximately 340 systems that support switching and transmission systems that are themselves multifunction facilities, or support both facilities that perform only intraLATA functions and facilities that perform only interLATA functions. These multifunction network facilities operations systems are used by switching system work centers, by transmission facilities work centers, and at Network Control Points.

Two operations systems that are used at switching system work centers are MAC-OSS (Machine Administration Center-Operations Support System), which administers circuit orders for No. 4 ESS switching systems; and ODADIS (Office Data Assembler Data Integrity System), which supports the retrofitting of No. 4 ESS switching systems with new generic programs. Other examples include PBC (Peripheral Bus Computer), an operations system that provides real time surveillance and performance analysis of No. 4A Crossbar switching systems; and TFMS (Trunk and Facilities Maintenance System), an operations system that automates several phases of trunk and facility maintenance for No. 4A Crossbar switching systems.

Additional examples of switching operations systems are ATA (Automatic Trouble Analysis), which is used by switching system work centers to analyze trouble on crossbar switching systems; and SCANS (Software Change And Notification System), used to change software in electronic switching systems. Preventive maintenance to avoid outages in switching systems is assisted by COMMS-PM (Central Office Maintenance Management System-Preventive Maintenance); and the maintenance of electronic switching systems and related network terminal equipment is supported by SCCS (Switching Control Center System). Traffic data collection from switching systems is monitored by CSAR (Centralized System for Analysis and Reporting).

Surveillance and management of multifunction switching operations are assisted by NOTIS (Network Operations Trouble Information System), which assists operator work centers in reporting switching system troubles nationwide; and NSCS (Network Service Center System), which is used to prepare reports on interoffice call irregularities. Multifunction operations systems for special services switching operations include CMS-3A (Circuit Maintenance System-3A), which assists in installation and maintenance of special services circuits; SSS (Special Services System), which measures performance by special service facilities; and SARTS (Switched Access Remote Testing System), which performs circuit testing for special services.

Operations systems for transmission facility work centers include CTMS (Carrier Transmission Maintenance System), which provides automatic, in-service tests for coaxial and radio carrier systems and associated multiplex terminal equipment; LASS (Local Alarm Scanner System), which recognizes, logs, analyzes and clears alarms for the CTMS system; DTSS (Digital Transmission Surveillance System), which monitors digital data facilities; CAROT (Centralized Automatic Reporting On Trunks), which is used in trunk testing; FMAS (Facility Maintenance and Administration System), which monitors and performs a fault-location function for high capacity digital transmission systems, such as lightwave systems; and FAMAS (Facility Management System), which is an administration system used to support transmission facilities management centers. Others are CPMS (Cable Pressure Monitoring System), which monitors the air pressure in outside cables; and RMMS (Regional Maintenance Management System), which maintains and tests transmission facilities.

Three systems support the Network Control Points (discussed in Part I.A.1.a.i.(4), *supra*). These are NCPAS (Network Control Point Administration System), which supports the work centers responsible for the maintenance, administration, and short-term engineering of the Network Control Points; NCPDS (Network Control Point Data System), which collects, processes, accumulates, and distributes data pertaining to CCIS (Common Channel Interoffice Signaling) messages received at the Network Control Points; and USS (User Support System), which administers the records for DSDC (Direct Services Dialing Capability) service.

(8) Network Management Operations Centers and Systems

In addition to network facilities operations systems associated with the maintenance, administration, and engineering of the network, a discrete set of systems are designated as network management operations systems. These systems, together with the network management centers they support, are designed to enhance the ability of the network to complete calls on a minute-by-minute, day-by-day basis. They are, therefore, important to the continued provision of high quality telephone service and to meeting national security and emergency preparedness needs.[49]

AT&T and BOC investment in computer hardware used to run network management operations systems is contained in Account 261.3 (Computer and AMA Systems). AT&T and BOC investment in the network management centers that administer these systems is contained in several Accounts: Account 211 (Land); Account 212 (Buildings); Account 221 (Central Office Equipment); and Account 261 (Furniture and Office Equipment).

The primary function of the network management centers and systems is to optimize the call-carrying capacity of the

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[49] The steps that will be taken to ensure that the network will continue to meet national security and emergency preparedness needs, and the arrangements for a BOC "single point of contact" to help coordinate national security and emergency efforts, are discussed in Part II.D, *infra.*

network during contingencies such as major outages, peak calling periods, or capacity overloads in individual portions of the network. Without network management intervention during such contingencies, the ability of the network to complete calls ("network throughput") declines. The major cause of this decline is switching system component (senders/transmitters) delays — delays which are made worse by repeated attempts to complete calls both by customers and by switching systems. Network congestion, if left unchecked, not only has an undesirable effect on that portion of the network which is congested, but also can affect switching performance in connected switching systems and ultimately in a large portion of the total telecommunications network.

Today, the Bell System assumes overall responsibility for network management down to and including end offices. Network management activities are carried out in three levels of network management centers.

The first level is comprised of Network Management Centers (NMCs), which are supported by the EADAS/NM (Engineering and Administrative Data Acquisition System/Network Management) operations system. EADAS/NM provides surveillance and control capabilities for all levels of the switching hierarchy, including many end offices. These switching systems are connected to the EADAS/NM system through an intermediate traffic data collection system (typically EADAS). Those switching systems that have their own traffic data collection system, such as No. 4A Crossbar or No. 4 ESS, connect with EADAS/NM via direct data links.

By collecting and analyzing traffic data, imminent network congestion can be identified and corrective action taken in toll and local switching systems in a large geographical area, such as an entire metropolitan area or operating company. This allows such an area, called a "cluster," to be surveyed and managed as a whole by a Network Management Center. There presently are twenty-seven of these Network Management Centers in the United States. From one such EADAS/NM-supported center, network managers can monitor and control up to several hundred switching systems.

The second level of the network management hierarchy consists of Regional Operations Centers (ROCs). Each Regional Operations Center is also supported by EADAS/NM and provides surveillance and control capabilities similar to those in the Network Management Centers. In contrast to a Network Management Center, which has direct responsibility for the surveillance and control of the toll and local switching systems within its cluster, each Regional Operations Center has responsibility for coordinating activities between the two or more Network Management Centers in its region and for direct surveillance and control of regional toll switching systems (Class 1) and CCIS Signal Transfer Points. Currently, there are ten switching regions in the United States and, therefore, ten Regional Operations Centers. Two of these centers are stand-alone centers, and eight of these centers are combined with Network Management Centers.

The third level of the network management hierarchy is a single center called the Network Operations Center (NOC), located at Bedminster, New Jersey. This center, which is supported by its own unique operations system — the Network Operations Center System (NOCS) — is responsible for coordinating network management among the ten Regional Operations Centers in the United States and two network management centers in Canada. It is also responsible for international network management. Data is transmitted from the EADAS/NM systems used by the Network Management Centers and the Regional Operations Centers to the Network Operations Center System via a dedicated interEADAS data network. The hub of this network is a data switch, called the "Data Transfer Point," which furnishes the Network Operations Center System with surveillance data for all major toll and international switching systems in the United States. The Data Transfer Point is also used to switch interEADAS data between NMCs and ROCs and between the ROCs and the NOC.

Ownership of the NOC, the two stand-alone ROCs, the eight combined ROC/NMCs, the nineteen remaining NMCs, and the operations systems associated with these centers will be determined based on the projected predominant use of each center as of January 1, 1984. The predominant user of each center will be identified by calculating which entity will have the greatest number of data base entries in the EADAS/NM system in that center as of that date. Such data base entries include the number of trunk group traffic registers (peg counts on a trunk group, overflow from a trunk group, usage on trunks in the trunk group); the number of preplanned network management controls; and the number of machine measurements (dial tone speed and transmitter time-outs). Network management centers that survey and control switching systems used predominantly for interLATA traffic will be assigned to AT&T. Network management centers that survey and control switching systems used predominantly for intraLATA traffic will be assigned to the BOCs.

It is expected that under this predominant use test the major portion of the existing NMCs and ROCs and their associated operations systems will be assigned to the BOCs. The Network Operations Center (and its associated systems) is used predominatly for interLATA traffic and will be assigned to AT&T. The function of the NOC will be coordination of the activities of the Regional Operations Centers that will be owned by AT&T. Similarly, ownership of the Data Transfer Point will be assigned to AT&T because it is used predominantly for surveillance and control of interLATA traffic. The Network Management Centers assigned to the BOCs will no longer use the Data Transfer Point to switch network information to other network management locations.

After divestiture, network management activities in the AT&T interLATA network and network management activities in each of the BOC intraLATA networks will be conducted by separate entities. Because these separate networks must continue to provide integrated call completion capabilities, however, their surveillance and control activities will need to be coordinated, just as there is coordination today with the independent telephone companies. Moreover, although the NMCs assigned to the BOCs will primarily survey and control BOC switching systems that serve only intraLATA and LATA access functions, in some instances these NMCs will also survey and control switching systems that serve both an end office (Class 5) or intraLATA tandem function for the BOCs and interLATA functions for AT&T's network.[50] Similarly, the AT&T-owned ROCs will survey and control not only switching systems which serve only a tandem switching function in AT&T's interLATA network, but also interLATA tandem switching systems in which the BOCs have shared capacity. AT&T and the BOCs will conduct their mutual surveillance activities pursuant to contractual agreements. It is expected that network control actions to alleviate network congestion will be governed by industry agreements.

The BOC-assigned network management centers will coordinate with and cooperate in the network management efforts of all interLATA carriers on a nondiscriminatory basis. To ensure equal treatment of all interLATA carriers during network contingencies, development is underway to provide the NMCs that will be assigned to the BOCs with the ability to (i) block calls to a particular 10XX (carrier access code) by discrete central offices so that the effects of overloads in a single interLATA carrier's network on the BOC intraLATA networks and the interLATA networks of other interLATA carriers will be minimized; (ii) block calls to NPA-NXX (area code and central office code) combinations without regard to which interLATA carrier access code the customer used; and (iii) limit terminating calls on incoming trunk groups during periods of congestion in terminating switching systems to protect those switching systems from further congestion. In addition, development is underway to enable BOC Network Management Centers to receive surveillance data on LATA access traffic for each interLATA carrier from BOC switching systems in order to identify and control network congestion caused by a single interLATA carrier.

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[50] As noted in Part I.A.1.a.i, *supra,* the BOCs will be assigned all switching systems that perform an end office (Class 5) function.

ii. Outside Plant

This section of the Plan of Reorganization discusses the assignment of the second major category of network facilities, outside plant. Outside plant includes all of the cable, wire, associated electronics, and supporting structures, such as conduit, pole lines, and guyed towers, that are used to interconnect central office locations or to connect telephone subscribers to central office equipment. Also included in the generic term "outside plant" as used in this section are self-supporting towers. As with central office facilities, outside plant facilities will be assigned according to their function. Those facilities performing only intraLATA functions will be assigned to the BOCs, and those facilities performing only interLATA functions will be assigned to AT&T. Outside plant facilities performing both intraLATA and interLATA functions will be assigned on the basis of predominant use.

For the purpose of assigning ownership, outside plant facilities will be classified into readily transferable units such as cable sheaths, conduit runs, and pole lines. For example, conduit will be assigned according to the predominant use of the entire conduit run rather than according to the predominant use of each foot of duct in the conduit. Such classifications, like the work area groupings of circuit and radio equipment, permit separation of facilities into operationally distinct units and minimize assignments that would be physically impractical or would result in an artificial fragmentation of facilities.

The description of the allocation of outside plant facilities set forth below has been divided into four subsections: (1) Cable and Aerial Wire; (2) Conduit; (3) Pole Lines, Guyed Towers, and Self-Supporting Towers; and (4) Rights-of-Way. These subsections reflect groupings of outside plant facilities based on the functions which they perform in the network rather than on the titles of the accounts or subaccounts in which the Bell System investment in such facilities appears. Each subsection indicates the applicable USOA accounts or subaccounts.

(1) Cable and Aerial Wire

Bell System investment in cable[51] and aerial wire used in the transmission of voice and data signals in the network is recorded in Accounts 242.1 (Aerial Cable); 242.2 (Underground Cable); 242.3 (Buried Cable); 242.4 (Submarine Cable); and 243 (Aerial Wire). For the purpose of asset assignment, the same criteria will be applied to all cable and aerial wire, *i.e.,* assignment of ownership will be based on function and not upon account designation, means of deployment, or technology.[52] Thus, the discussion in this subsection applies to all cable and aerial wire (hereinafter "cable"), except where otherwise noted.

(a) Single Function Cables

Cables performing only intraLATA functions will be assigned to the BOCs. Thus, the BOCs will be assigned all cables within a LATA that contain only subscriber circuits, *i.e.,* the circuits connecting an individual subscriber's telephone to an end office. These subscriber cables usually consist of a main ("feeder") cable and multiple distribution cables ("side legs") that connect the feeder to subscriber locations.

The BOCs will also be assigned all non-subscriber cables serving only an intraLATA function. This category includes those cables containing only circuits connecting two or more end offices within a LATA and carrying intraLATA traffic, and those cables containing only circuits connecting end offices to

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[51] A cable is a medium, surrounded by a protective sheath, over which electrical or light signals are transmitted for purposes of communication. The medium may be aluminum or copper wire pairs, coaxial tubes, or lightguide fibers. A cable is defined by the function(s) its circuits perform without regard to the type of service, *e.g.,* MTS or private line, it is used to provide. Cables that link end office distributing frames to subscriber premises are referred to as subscriber cables. Cables that connect one central office with another central office are known as trunk (interoffice) cables.

[52] The transferable unit for Bell System investment in Accounts 242.1, 242.2, 242.3, and 242.4 will be a cable sheath, including all conductors and associated electronics, such as repeaters and apparatus cases.

local tandem switching systems and carrying intraLATA traffic. The BOCs will also be assigned all cables containing only circuits that are used to provide intraLATA services such as intraLATA private line service.

Another type of cable that performs a solely intraLATA function is non-central office riser cable (included in Account 242.1). These cables are used in multi-story customer buildings to connect the outside plant facilities at a building entrance point (*e.g.*, cable vault or frame) to the network distribution points on each floor of the building. Except for riser cables in central offices, riser cables serve the intraLATA function of connecting the customer's telephone to the end office. All non-central office riser cables (including any intrasystem wiring contained in the cable sheath) will therefore be assigned to the BOCs.

The BOCs will be assigned ownership of all cables that connect two or more buildings of a single customer where the customer's premises are within a LATA or immediately on either side of a LATA boundary. Such cables (sometimes known as interbuilding tie cables) occur most often in campus-like or industrial park situations and serve the network distribution function by extending the network to each of the customer's buildings.

Cables that perform only intraLATA functions include cables containing only circuits that are used for existing Local Calling and non-optional Extended Area Service (EAS) arrangements. These arrangements provide regulatory-approved non-toll calling areas larger than ordinary exchange areas in recognition of particular local communities of interest. Such cables will be assigned to the BOCs.

AT&T will generally be assigned ownership of all cables providing a solely interLATA function. This includes cables containing only circuits connecting two switching systems performing solely interLATA functions. Similarly, cables containing only circuits connecting two points of presence for interLATA private line services will be assigned to AT&T.

In one limited instance, certain cables performing a solely interLATA function will be assigned to the BOCs. This situation occurs in cables containing only circuits which connect a Class 5 switching system in one LATA with a Class 5 switching system in another LATA. Presently, a call is routed between end offices based on the digits dialed by the customer. The end office switching system routes the call over a number of possible cable paths according to traffic volume. With respect to certain of these cables, the BOCs must be permitted the flexibility to route their traffic in accordance with volume demands until the BOCs can rearrange their facilities to route all interLATA calls to an interexchange carrier's POP within the LATA.[53]

(b) Multifunction Cables

As with other multifunction facilities, the principle guiding the assignment of cables containing circuits that perform both intraLATA and interLATA functions is predominant use.[54] Thus, a high capacity trunk route (backbone route) traversing the LATA will be assigned to AT&T. Such high capacity routes

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[53] Such rearrangements will be completed within five years except in those limited instances in which the rearrangements would require construction of new facilities that could not otherwise be economically justified. In these instances, the rearrangements will be completed as soon after the five year period as is economically feasible.

[54] The predominant use of a multifunction cable will be ascertained by comparing the number of intraLATA circuits contained in the cable with the number of interLATA circuits. The designation of circuits as intraLATA or interLATA will be determined from circuit assignment records, and adjusted to reflect the types of changes planned to occur between now and January 1, 1984, that are listed in n.30 at p. 20, *supra*. An intraLATA circuit is a circuit that has originating and terminating points that are generally in the same LATA and that is used to provide intraLATA or LATA access functions. IntraLATA functions include, for example, transmitting MTS traffic between two end offices within a LATA or, in connection with a private line service, transmitting signals between a customer's locations within a LATA. LATA access functions include transmitting MTS or private line traffic between a customer and an interLATA carrier's POP. An interLATA circuit is a circuit that has originating and terminating points that are generally in different LATAs and that is used to provide interLATA functions. InterLATA functions include, for example, transmitting MTS traffic between two switching systems performing Class 4 or higher functions in different LATAs and transmitting private line traffic between two POPs in different LATAs.

are derived by analog or digital carrier systems and provide up to several thousand voice-grade circuits on a single cable, which may be used for private line or other services in addition to MTS.[55] Such a route connecting metropolitan areas in different LATAs predominantly serves an interLATA function even though it may include multiple intraLATA segments. For example, a high capacity cable transmission system from New York City to Washington, D.C., primarily contains circuits that perform an interLATA function, although along segments ("mid-links") of the cable route it may also contain some circuits that perform intraLATA functions. InterLATA backbone routes, including mid-links, will be assigned to AT&T, and the BOCs will be able to contract for capacity on them.

Similarly, where a high capacity trunk route predominantly performs intraLATA functions, the route may form an intraLATA backbone. For example, a high capacity lightguide cable system from Cedar Knolls, New Jersey, to Freehold, New Jersey, may primarily contain circuits which perform intraLATA functions, although it may also contain circuits which perform some interLATA functions. IntraLATA backbone routes, including mid-links, will be assigned to the BOCs, and AT&T will be able to contract for capacity on them.

Unless it is a mid-link in an interLATA backbone route,[56] any cable that transmits traffic from a switching system performing the end office (Class 5) function to a switching system in the same LATA performing the Class 4 function will be assigned to the BOCs. Similarly, a cable connecting an end

[55] A backbone is a cohesive transmission system designed on an end-to-end basis. Consequently, fragmentation of the backbone into segments would destroy its technical and economic viability. Backbone routes are multiplexed in increments of master groups, *i.e.,* 600 voice-grade analog or 672 digital circuits, and are cross-connected above the voice-band level. In many instances, backbone routes also include maintenance, alarm, and test facilities monitored on a 24-hour basis from centralized locations which control all or major portions of the backbone.

[56] A cable that is a backbone route or a mid-link in a backbone route will always be assigned as specified above rather than under any of the other assignment rules set forth in this Part of the Plan. Likewise, circuit or radio equipment that is an interLATA backbone route or a part of an interLATA backbone route will always be designated as interLATA in determining the predominant use of a central office work area, and circuit and radio equipment that is an intraLATA backbone route or a part of an intraLATA backbone route will always be designated as intraLATA.

office with any other AT&T Point of Presence (such as a Serving Test Center) within the same LATA will be assigned to the BOCs.

A cable connecting a switching system performing an end office function with a switching system performing the Class 4 function located in another LATA will be assigned as follows. The BOCs will be assigned ownership of the cable from the end office to a demarcation point within the LATA.[57] AT&T will be assigned ownership of the cable from the demarcation point to the switching system performing the Class 4 function. The same rule will apply to cable facilities connecting a switching system performing an end office function with any other AT&T POP serving another LATA.

A cable connecting a switching system performing an end office function with a local tandem switching system located in another LATA may be a multifunction cable. If the cable is predominantly used for intraLATA functions, it will be assigned to the BOCs. If the cable is predominantly used for interLATA functions, the BOCs will be assigned ownership of the cable from the end office to a demarcation point within the LATA; AT&T will be assigned ownership of the cable from the demarcation point to the local tandem switching system.

Multifunction cables may also include cables containing circuits connecting two or more toll offices or AT&T Points of Presence. These cables, like other multifunction cables, will be assigned to the predominant user.

Another category of multifunction cables is wire line entrance links (WLEL) cables. WLEL cables connect a microwave radio transmitter and associated multiplexing equipment with a nearby central office. Multifunction WLEL cables will be assigned to the predominant user of the radio equipment.[58]

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[57] The demarcation point may be a manhole, cable splice, or other identifiable point similar to the existing demarcation points between the facilities of the BOCs and the facilities of independent telephone companies.

[58] In some instances, WLEL cables contain circuits that perform a single function. A single function WLEL cable will be assigned according to the intraLATA or interLATA function the cable's circuits perform.

Multifunction cables also include cables containing both subscriber and interoffice circuits. These cables will be assigned to the BOCs even if the cables cross LATA boundaries and even if the use of the cables is predominantly for interLATA traffic.[59] This is because the construction, assignment, and maintenance of subscriber circuits is central to the provision of exchange telecommunications as explained below.

After divestiture, the BOCs will have the responsibility of assigning subscriber circuits to particular customers, keeping records of the circuits which connect to each customer's telephone, and maintaining customer service. The assignment and reassignment of subscriber circuits in a cable to meet changing customer growth patterns makes administration of the subscriber circuits more dynamic than that of interoffice circuits. Moreover, if an interoffice circuit fails, the circuit can be taken out of service temporarily and traffic routed over other circuits without a noticeable effect on customer service. In contrast, if a subscriber circuit fails, the customer loses service. Maintenance personnel are required manually to disconnect the customer from the damaged circuit and reconnect to another subscriber circuit. Thus, subscriber circuits require substantially more hands-on maintenance than interoffice circuits.

These BOC maintenance and administrative responsibilities and related record-keeping requirements associated with subscriber cable make it undesirable to require the BOCs to lease subscriber circuits in cables owned by AT&T. Accordingly, such cables containing subscriber circuits will be assigned to the BOCs.[60]

[59] If a significant portion of such a cable contains only interoffice circuits, that portion without subscriber circuits (between identifiable demarcation points) will be assigned according to the other assignment rules set forth in this Part of the Plan.

[60] When only a small fraction (*e.g.*, five percent) of the circuits in a cable are subscriber circuits, the BOC will transfer these subscriber circuits to another cable if such transfer is economically feasible, and if such transfer would result in the cable being assigned to AT&T under one of the other rules set forth in this Part of the Plan. If the transfer is economically feasible but the BOC is unable to effectuate the transfer of the subscriber circuits prior to divestiture, the BOC may lease the subscriber circuits from AT&T until the transfer is completed.

(2) Conduit

Conduit is used to carry network transmission cables from one central office building to another and from central office buildings to customer premises. The Bell System investment in conduit is contained in Account 244 (Underground Conduit).

Conduit, like other outside plant facilities, will be assigned according to its function.[61] Conduit predominantly serves local telecommunications traffic in metropolitan areas. In such areas, where above-ground facilities are often infeasible and where telecommunications traffic is heavy, conduit is an efficient means of supporting cable transmission systems. Because of the expense and difficulty of construction, conduit is not often used to carry traffic over long distances and outside of metropolitan areas. Buried or aerial cables or microwave radio facilities are more often used for long distance and non-urban traffic.

The vast majority of conduit presently existing in the Bell System is administered and maintained by the BOCs. The BOCs' analysis of present and future system needs determines the size and placement of conduit. Only a limited amount of such conduit also incidentally serves interLATA traffic.

Because the construction, administration, maintenance, and use of most existing conduit make it clear that such structures predominantly serve intraLATA functions, it will not be necessary to undertake a detailed study of the usage of all duct feet in each conduit run. The few conduit runs that will be used exclusively by AT&T will be owned by AT&T. All other conduit runs will be assigned to the BOCs. The non-owning entity will contract with the owning entity for conduit capacity.

(3) Pole Lines, Guyed Towers, and Self-Supporting Towers

Also included among outside plant facilities are pole lines, guyed towers, and self-supporting towers. These facilities are used in the network to support aerial cables, microwave radio

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[61] For purposes of asset assignment, conduit will be divided into identifiable units composed of an entire conduit run between two central office buildings or between a central office building and some other termination point. Such units will be readily assignable and can be efficiently administered and maintained.

equipment, and other transmission equipment. Bell System investment in pole lines and guyed towers is contained in Account 241 (Pole Lines). Bell System investment in self-supporting towers is contained in Account 212 (Buildings).

Pole lines are the poles, cross-arms, and related equipment used to carry aerial wire or cable along a given route, *e.g.*, between a customer's premises and a central office building or between central office buildings.[62] Pole lines are used most often outside metropolitan areas in places where the volume of communications traffic does not demand conduit or a radio transmission facility or where laying conduit or buried cable would be physically impractical.

Pole lines are predominantly used for short-haul traffic in these outlying areas. Because pole lines carry aerial cable which is exposed to the elements, and therefore require continuing maintenance, the number and type of cables they can support is limited. Given these characteristics, pole lines are seldom used for long distance toll traffic. Moreover, where BOC and AT&T functions are combined on pole lines, the BOC use is nearly always predominant. Accordingly, only those pole lines that will be used solely for interLATA traffic will be assigned to AT&T. All other pole lines will be assigned to the BOCs.

Guyed towers (Account 241) are steel frame structures, secured by guy wires, that are used to support network transmission equipment, *e.g.*, microwave antennas or mobile-radio antennas. Self-supporting towers are similar to guyed towers, but generally are larger, support more equipment, and stand without guy wires.[63]

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[62] For purposes of asset assignment, poles will be assigned as a line rather than pole by pole. Each branch pole line will be assigned as a separate line.

[63] Self-supporting towers may be free-standing along a transmission route or may be attached to or a part of a Bell System building. The discussion here governs assignment only of those self-supporting towers that stand apart from a building. Self-supporting towers attached to or a part of a building will be assigned to the entity which will own that building. The criteria for assignment of buildings are discussed in Part I.A.3, *infra.*

Ownership of guyed towers and self-supporting towers will be assigned according to the function performed by the equipment that the towers carry or support. A microwave tower, for example, that carries microwave radio antennas and that is associated with repeaters and other transmission equipment at the base of the tower will be assigned according to the intraLATA or interLATA nature of the traffic served by the antennas and equipment. Towers supporting equipment performing solely intraLATA functions will be assigned to the BOCs; those supporting equipment performing solely interLATA functions will be assigned to AT&T. Towers that support multifunction transmission equipment will be assigned to the entity that is the predominant user of that equipment.

(4) Rights-of-Way

Each of the outside plant accounts discussed above includes the original investment in all leaseholds, easements, rights-of-way, and similar interests in land having a term of more than one year that were acquired in connection with the outside plant facilities in that account. Such interests in land will be assigned to the entity that will own the associated outside plant facility. The procedures for assignment of these interests will be governed by the lease, contract, or other document creating the interest. AT&T and the BOCs will execute the necessary real estate documents to effect the assignment of the land interests.[64] Additional leasing, subleasing or joint-use agreements between the assignee of the land interest (AT&T or BOC) and the other entity (AT&T or BOC) will also be executed as required.

The principal outside plant facilities for which assignments of rights-of-way (and other interests in land) will be required are buried cable (Account 242.3), underground conduit (Account 244), and pole lines (Account 241). A right-of-way supporting multiple cables, conduit, or pole lines will be assigned to the predominant user of the right-of-way.

[64] In a few instances (principally where the grantor is a railroad or federal agency), rights-of-way associated with outside plant facilities may be "non-assignable." A new agreement between the entity which will own the facility (the assignee designated by this Plan) and the grantor of the right-of-way will be sought in such circumstances.

b. Contracts for Sharing of Multifunction Network Facilities

The ownership of multifunction network facilities used for both interLATA and intraLATA traffic will be assigned to either AT&T or the BOCs as described above. As a matter of practical necessity, however, AT&T and the BOCs will continue to share the use of most of these facilities after divestiture in accordance with that part of the Decree that expressly permits the "sharing, through leasing or otherwise, of multifunction facilities so long as the separated portion of each BOC is ensured control over the exchange telecommunications and exchange access functions" (Decree, § I(A)(2)). This subsection of the Plan of Reorganization discusses the contracts that will govern such joint use of multifunction network facilities.

AT&T and each BOC will enter into a contract for the sharing of multifunction network facilities. Each contract will contain provisions of general applicability for all facilities covered by the contract. Within the framework of these general provisions, the multifunction facilities to be covered by the contracts will be grouped into six categories: (a) switching facilities and equipment power; (b) cable transmission facilities and structures; (c) central office circuit equipment and radio transmission equipment; (d) operator services work centers, systems and services; (e) land and buildings; and (f) operations centers and support systems. Specific provisions will be included in the contracts for each category of multifunction facilities and there will be specific terms for certain types of equipment within each category. Each contract will also include schedules identifying each multifunction facility covered by the contract by location and description.

Certain basic principles and goals will govern these contracts. First, the contract terms will be the same whether AT&T or the BOC is the owner of the multifunction facility covered by the contract.

Second, the contracts will assure that a BOC has sufficient control over the intraLATA telecommunications and exchange access functions of any AT&T-owned multifunction facility that the BOC shares with AT&T to enable the BOC to meet its regulatory, common carrier and Decree obligations. BOC control of these functions in an AT&T-owned multifunction facility will be reflected in contractual provisions regarding the establishment of performance standards for each type of shared facility, changes in or modifications to a shared facility, and guarantees of specified amounts of capacity in shared facilities. These provisions are described in subsections ii, iii, and v, *infra.*

Third, although the Decree does not limit the time period for sharing of multifunction facilities, AT&T and the BOCs intend to cease sharing network facilities as promptly as is reasonably feasible. Accordingly, the contracts will include terms intended to facilitate the changeover of multifunction facilities to exclusively interLATA or intraLATA facilities as soon as practicable while recognizing resource limitations, the need to avoid service difficulties and the need to prevent inordinate additional costs.

Thus, the contracts for shared multifunction facilities will not be for an indefinite period of time, and instead will be for a specified duration with special provisions for earlier termination. On the other hand, the party which does not own the facility will have a right of renewal for a specified term. When there is early termination, the contract will provide for special termination payments to protect the owner against possible economic loss. Moreover, contract terms will permit the specification of a declining amount of capacity to be provided over the life of the contract so that the non-owner may gradually "phase out" of the facility.

Fourth, the multifunction facilities generally will be operated and maintained by the party owning the facility in accordance with its own standard procedures.

Fifth, the contracts will contain restrictions on the use and dissemination of proprietary information and trade secrets owned by either party.

Consistent with these general principles, each contract entered into between AT&T and the BOCs for sharing multifunction facilities will include the following principal terms: (a) a description of the multifunction facilities to which the contract applies; (b) a definition of the units of capacity or service and the amount of capacity or service to be provided for each facility; (c) specifications and responsibilities for performance levels and standards; (d) responsibilities for planning, construction, maintenance, and engineering; (e) changes in multifunction facilities, including changes in features and functions; (f) costs to be shared by the parties; (g) monthly billing charges; (h) restoral of service in the event of outages; (i) liability for outages and other indemnity provisions; (j) compliance monitoring, including audits; (k) protection of proprietary information and trade secrets; (l) limitations on use of multifunction facilities; (m) resolution of disputes; and (n) contract duration. A description of each of these principal terms and the process for implementation of the contracts is given below. Additional provisions for particular facilities will be incorporated, as required, in the basic contracts.

i. Description of the Multifunction Facilities

Each contract will have a schedule identifying by location or appropriate inventory code the multifunction facilities and associated systems, work centers, and other support facilities that the contract covers. The contracts also will cover and identify multifunction facilities under construction or planned for construction at the time of divestiture that will be shared by the parties. In this fashion, the parties and the regulatory authorities will be able to identify all the elements of jointly-used facilities.

ii. Amount of Capacity Covered by the Contract

For each multifunction facility covered by the contracts, a specified amount of capacity in, or service from, each multifunction facility which will be available for the use of the non-owning party for the initial term of the contract will be set forth. This specified amount will be agreed to prior to the date of divestiture. A varying amount of capacity during the term of the contract may be specified. For example, the lessee may forecast a declining need for leased capacity as arrangements for separate facilities are made. On the other hand, it may be necessary to project increasing capacity.

Any limitation on the amount of capacity to be specified in the contract as available for the non-owner will be based on the ultimate capacity of the facility or system.[65] This means that, in the event the aggregate of the non-owner's and the owner's forecasted requirements for the facility during the initial contract term exceeds the planned capacity of the facility, and the planned capacity is less than the ultimate capacity, the owner will increase the capacity up to the ultimate capacity of the facility to meet the contracted requirements of the non-owner as well as its own requirements. If the aggregate of the non-owner's and the owner's forecasted requirements exceeds the ultimate capacity of the facility, the capacity available to the non-owner will be that part of the ultimate capacity remaining after satisfying the owner's forecasted requirements.

The forecasts will be made by the parties to the contract prior to the date of divestiture. However, upon mutual

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[65] The ultimate capacity of facilities such as switching machines and many support systems, is the design limit of each facility, as existing or as planned to be modified in the owner's construction plans at the date of the contract, which cannot be exceeded due to the engineering architecture of the physical equipment. For example, the ultimate capacity of a No. 4A crossbar switch may be dictated by one, or a combination, of the following parameters: trunk terminations, call attempts per hour, and usage measured in Hundred Call Seconds (CCS). The ultimate capacity of a particular facility or system may vary with design and location. The ultimate capacity of facilities such as land, buildings, cable transmission facilities (up to the maximum realizable fill of the cable using technology in existence or planned for introduction at the date of divestiture) and structures is limited to the actual facilities existing, under construction or in the owner's construction plans at the date of the contract. In the case of buildings designed to accommodate additions, ultimate capacity includes such additions to the extent permitted by local law. The ultimate capacity of other facilities such as central office circuit equipment, radio transmission equipment, operations centers, and some support systems is limited by practical operational limits such as economy of size, administrative constraints, and other non-technical limits. In addition, AT&T will agree to install adequate TSPS and RTA capacity so that it may meet the Call Completion and Assistance Service requirements of the BOCs.

agreement, the parties may make new forecasts after one year, and the amounts of capacity available to the non-owner may be recomputed, and the amounts of capacity to be specified by the non-owner in the contract may be redetermined. All forecasts will be prepared by the parties using standard engineering and forecasting practices consistent in all material respects with the practices employed for the preparation of each party's construction program.

After the amount of capacity available to the non-owner is set forth in the contract, including any change upon recomputation after one year as discussed above, the non-owner will be entitled to only that amount of capacity. In addition, while the non-owning party will be guaranteed that specified amount of capacity, it will also incur the obligation to pay for that amount, whether or not it uses such capacity, except to the extent that the owner actually uses capacity contracted for by the non-owner. The parties can, however, at any time during the term of the contract negotiate other changes in the amount of capacity specified.

The contracts will require the non-owner to pay, for three years after sharing terminates, the investment costs for additional capacity added to meet the non-owner's forecasted capacity needs, if the owner does not use the additional capacity. This requirement will be set forth in substantially the following terms:

> If (1) this Agreement specifies an increase in available capacity in any facility or system for the non-owner during the initial contract period or a renewal period pursuant to this Agreement, over the amount specified for initial use of the non-owner, and (2) an increase in the capacity of the facility or system requiring an additional investment by the owner is effected during the period of sharing under this Agreement (including any renewal period), the termination payments set forth below shall apply.
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> The non-owner shall be required to pay, for the three years following termination of sharing of any multifunction

facility or system under this Agreement (whether upon termination of the initial contract period or a renewal period), the investment costs (determined as indicated in this Agreement) in the facility or system for an amount of capacity equal to the additional capacity. This amount will be computed as if this Agreement were in effect, provided that the amounts to be paid by the non-owner shall be reduced in proportion to the amount of the additional capacity actually used by the owner, if any, during the three-year period. In the event of early termination, payment of these amounts will not begin until the originally scheduled termination of the initial contract period or renewal period, whichever is applicable.

Additional capacity with respect to any facility or system is the lesser of the following two amounts:

i. the difference between the amount of capacity specified in this Agreement for initial use of the non-owner and the maximum amount specified for use of the non-owner at any time during the initial contract period or any renewal period pursuant to this Agreement, and

ii. the total amount by which the capacity of the facility was increased during the period of sharing under this Agreement and any renewal period pursuant to this Agreement where the increase in capacity required additional investment.

The amount of capacity to be provided to the non-owner under the contract for each multifunction facility will be specified in a Schedule to the contract. For example, the non-owner will contract for the number of units of switching capacity specified in the Schedule measured in units that relate to numbers of attempts, terminations, and/or usage measured in busy hour CCS, depending on the type of switching facility. The following are examples of the types of units of switching capacity to be included in the contracts.

Schedule of Contracted Switching Capacity[66]

Name of Switch	State	Central Office Location	Name of Owner	Name of Non-Owner

Contracted Capacity	1984	1985	1986	1987	1988
A. Peak Number Of Terminations	____	____	____	____	____
B. Peak Number Of Attempts	____	____	____	____	____
C. CCS Usage	____	____	____	____	____

Thus, each party's use of the capacity in a multifunction facility will be restricted contractually. Moreover, neither party will be permitted to subcontract any part of its capacity in a multifunction facility owned by the other party to a third party[67], except in the form of services provided under tariff, and except for nonequipment building space, provided that any such subcontract does not interfere with the owner's use and security of any portion of the building.

iii. Performance Levels and Standards

The contracts will specify the performance standards which must be met by the party owning a multifunction facility. These performance specifications initially will be based on current Bell System standards and practices, and will include engineering criteria such as incidence of blocking, loss standards, and noise levels. The parties to the contract, upon review of such standards and practices, may agree on modifications.

The contracts also will provide that the BOC may specify changes in performance standards for transmission quality on

[66] The amount of contracted capacity specified in this Schedule is to be the amount forecasted by the non-owner for its needs in each switching facility during the term of the contract, subject to the capacity requirements forecasted by the owner.

[67] The restriction on subcontracting is also intended to encourage the parties to end the sharing of multifunction facilities as expeditiously as reasonably possible. Moreover, this restriction avoids the possibility that subcontractors may obtain access to proprietary information of either party.

shared carrier and switching systems necessary for the BOC to meet the Decree requirements for exchange and exchange access services, whether or not the BOC owns the facilities, provided that the BOC will bear all increased initial and continuing costs of meeting such standards. The specification of performance standards is designed to insure that BOCs have the necessary control over shared facilities required to provide exchange and exchange access functions.

iv. Planning, Construction, Maintenance, and Engineering

The contracts will provide that the owner of the multifunction facility is responsible for the planning, engineering, construction, assignment, administration, maintenance, and management necessary for the operation of the facility in accordance with the owner's own standard procedures unless otherwise agreed. For example, where a BOC shares capacity in an AT&T-owned multifunction facility, AT&T will be obliged to construct and maintain the facility according to its standard procedures. To the extent that specific construction and maintenance procedures relate to engineering standards for transmission quality of facilities required for the BOC to meet the Decree requirements for exchange and exchange access services, the BOC may specify those construction and maintenance procedures, provided that the BOC will bear all increased initial and continuing costs of meeting such standards. Moreover, to enable the owning party to meet the needs of the non-owning party, the contract will provide, where necessary, for the exchange of certain types of forecasting data and planning information pertaining to the multifunction facility. Such data and information will be treated as proprietary information under the contract.

In a limited number of instances, where administrative, economic or maintenance considerations require, the contract may have AT&T provide a support service, such as maintenance, with respect to a BOC-owned facility (multi or single function); the maintenance procedures to be followed will be in accordance with AT&T standard procedures, unless otherwise agreed. Similarly, in a limited number of instances, the contract may have a BOC provide AT&T with a support service for an AT&T-owned facility (multi or single function) in accordance with the BOC's standard procedures, unless otherwise agreed.

v. Changes in a Multifunction Facility

The contracts will specify that changes may be made in a multifunction facility by the owning party so long as they do not impair the rights of use of that facility provided under contract to the non-owning party. Such changes may include expansion or reduction of the facility's overall capacity, upgrading or downgrading of the facility consistent with performance standards determined in accordance with the contract, modifying or relocating the facility when practical, and, in the case of electronic switching systems, computer hardware or other stored program and control systems, retrofitting the systems or hardware with new programs. Costs of these changes will be allocated in the same manner as described in Part I.A.l.b.vi, *infra,* for other costs, unless the non-owner does not receive any benefit of the change.

The non-owning party will have the right to require changes in multifunction facilities (other than increases in capacity) which will not impair the use of that facility by the owning party, provided that the costs of any such changes will be borne by the non-owner, unless the parties otherwise agree, and provided further, that the BOCs shall have the right to require changes to be made in existing No. 4 ESS generics (discussed in Part II.A.1.a, *infra*) where such changes are necessary to meet their equal access obligations under the Decree.

vi. Costs

All of the costs associated with a shared multifunction facility and its related support systems and work centers will be allocated between the parties. The associated costs include (1) investment related costs (depreciation, taxes, owner's cost of capital); (2) primary costs (direct labor, departmental line supervision, departmental expenses, staff support, operating rents, and other vendor contract costs); (3) overhead costs (social security, relief and pensions, general expenses, insurance, accidents and damages, general services and licenses, other operating expenses); and (4) a float charge.[68] The contracts will allocate these costs by a costing methodology which, to the extent practicable, will utilize jurisdictional separations principles and accounting procedures. With this methodology, the total costs associated with all shared facilities under a contract will first be determined and allocated, and then will be billed to the non-owning entity on a monthly basis.

The investment related costs will be based on the owner's total investment supporting a multifunction facility, and will be allocated between the owner and the non-owner based on the capacity of the facility specified in the contract for the non-owner ("contracted capacity") relative to the total capacity of the facility. Total investment will include (1) the direct investment in the multifunction facility (*e.g.*, a multifunction switching system), (2) the owner's investment in any supplemental plant or support systems serving only the multifunction facility (*e.g.*, a power unit serving only the switching system), and (3) an allocable portion[69] of the owner's investment in any plant and support systems which jointly serve the multifunction facility under contract and other facilities (*e.g.*, a switching control center serving the multifunction switch and a single function switch).

The cost of capital for purposes of computing return on investment will be based on adjusted net book value, and will be determined as follows. For embedded multifunction plant (investment in service as of January 1, 1984), the cost of capital will be developed as a function of investment as of that date and the then-authorized rate of return for plant used in

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[68] For an explanation of "Float Charge," *see* Part I.A.1.b.vii, *infra*.

[69] The allocation of an investment serving more than one facility will be based upon the relative direct investment in each facility served, except for building space and equipment power which may be allocated by relative use of each facility served.

interstate service. Starting with the third year of each contract, such cost of capital will be at the owner's then-authorized rate of return.

For plant under construction at the time of divestiture, or for plant additions after divestiture, the cost of capital will be the owner's then applicable cost of incremental capital. The incremental capital rate will be the owner's authorized equity return weighted with the cost of new, long-term utility bonds of the same quality rating as the owner's S&P bond rating, as estimated in the Salomon Brothers Incorporated "Bond Market Roundup."

The cost of capital will be determined annually, subject to change from time to time to reflect new rates authorized by regulators during the contract period. Where facilities are subject to regulation by more than one regulator, a weighted rate will be used if different rates are authorized by the regulators.

The investment costs will include income taxes on the equity portion of the return on investment described above and gross receipts taxes, if any. The computation of income taxes will include a gross-up factor. Property taxes will be based on relative total investment subject to tax, and depreciation will be based on relative investment by class of plant, using depreciation rates prescribed by the appropriate regulatory commission.

Primary costs include maintenance and repair, house service, network administration, engineering, operating rents, right to use fees ("RTU fees") and other incidental costs that are directly associated with the multifunction facility and with the buildings, equipment, systems and other assets supporting the multifunction facility. In addition, contract charges[70] for support facilities provided to the owner of the multifunction facility by the non-owner also will be included as primary costs. Primary costs associated with a multifunction facility will be allocated between the owner and the non-owner based on the specified relative contracted capacity of the facility. Because primary costs (other than RTU fees) generally are not recorded

[70] Contract charges for such support facilities will be computed based on the same principles described herein for the principal categories of multifunction facilities.

by location below the state level, this allocation of costs will require an identification of that portion of each expense account or subaccount (except those covering RTU fees) attributable to the multifunction facility. This apportionment will be based upon the contracted direct investment in the facility or system[71] for which the expense is incurred in relation to total statewide investment in all facilities or systems associated with such expense account or subaccount. For example, central office maintenance for a multifunction switching system will be allocated to the non-owner based upon the ratio of the contracted direct central office equipment account investment in the switching system to the total, statewide investment in the facilities supported by central office maintenance forces.[72] RTU fees for each multifunction facility will be allocated between the owner and non-owner based on the specified relative contracted capacity of the facility, except that the fees for any rights benefiting only one party will be paid by that party.

Overhead costs are wage related and include social security; relief and pensions; general expenses; insurance; accidents and damages; general services and licenses; and other operating expenses. All overhead costs are applied against wages on the basis of the standard overhead cost allocation ratios developed by each company. In this case, because wages are not directly identified, the wage component of these primary cost accounts will be determined in accordance with standard accounting procedures currently used in the separations process. The overhead costs will then be loaded on the wages attributed to the non-owner and included in the contract charges.

Contract charges will include costs for any capacity used by the non-owner in excess of that specified in the contract. The contracts may provide a premium charge for capacity used in excess of the contracted amount.

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[71] Except in the case of directly contracted Operations Centers and Systems, which may use labor hours as the basis for apportionment.

[72] In the case of Operator Services IntraLATA Toll and Assistance Services, the operators' wages portion of primary costs will be allocated between the owner and non-owner on the basis of the monthly handled call volumes.

Annually, each owner will compute on a jurisdiction-wide basis the average percentage of spare capacity of all of the owner's multifunction facilities of the same type that are provided under sharing contracts. All investment costs allocated to the non-owner for each multifunction facility will be multiplied by the factor $\left(\frac{1}{1-\text{spare}}\right)$, where spare is the average percentage of spare capacity expressed as a decimal. Finally, a float component will be calculated in accordance with Part I.A.1.b.vii, *infra,* and included in the total contract charges.

Gross receipts taxes, where applicable, will be included in the contract charges.

The details of the costing principles will be set forth in a Standard Costing Manual, incorporated by reference in the contracts. The Manual also will provide the accounting and recordkeeping procedures to be used for determining costs.

vii. Monthly Bills and Float Charge

The contracts will specify that bills be rendered monthly. A float charge will be calculated and applied for the period between the time when costs are incurred and contract payments are due to be received (the "net lag period"). The float charge will be calculated based upon the owner's cost-of-incremental-capital rate, computed in accordance with Part I.A.l.b.vi, *supra,* applied to the total charges (including primary, overhead, and investment-related costs) for the net lag period. It will include a tax gross-up component based on the equity component of the owner's cost of incremental capital and the composite income tax rate.

The Float Charge will be computed in accordance with the following equation:

$$\text{Float} = C \times \frac{L}{12} \times \left(I_t + I_e \times \frac{T}{1-T}\right)$$

Where:
- C = Total primary, overhead, and Investment-related costs
- L = Net Lag period in months
- I_t = Owner's cost of incremental capital
- I_e = Equity component of owner's cost of incremental capital
- T = Owner's composite Federal, state and local income tax rate

viii. Restoration of Service in the Event of Outages

The contract will have provisions governing restoration of service resulting from service outages due to equipment failures, human error, fire, natural disaster, acts of God, or similar occurrences. The provisions for restoration of service will reflect two principles. First, restoration priority will be afforded to those network elements and services affecting National Security or Emergency Preparedness capabilities and those affecting public safety, health and welfare as those elements and services are identified by the appropriate government agencies. Second, all service will be restored as expeditiously as practicable and in a non-discriminatory manner.

ix. Liability for Outages and Other Indemnity Provisions

The contracts will provide that the owning party's liability for disruptions, errors and omissions in the provision of service will be limited to a credit for outage time based on a pro-rata reduction of the contract payments for the facility involved during the period of outage, unless the outage is the result of intentional or willful misconduct of the owning party. This provision is consistent with the limitation of liability provisions contained in most tariffs filed by Bell System entities.

The contracts will provide for indemnity between the parties in substantially the following terms:

> To the extent not prohibited by law, each company shall indemnify the other and hold it harmless against any loss, cost, claim, injury, or liability relating to or arising out of negligence or willful misconduct in the indemnifying party's performance under this Agreement; provided, however, that any indemnity for any loss, cost, claim, injury or liability arising out of or relating to errors or omissions in the provision of communication facilities or services under this Agreement shall be limited to a credit allowance as otherwise specified in this Agreement. The indemnifying party under this section agrees to defend any suit brought against the other party for any such loss, cost, claim, injury

> or liability. The indemnified party agrees to notify the other party promptly, in writing, of any written claims, lawsuits, or demands for which the other party is responsible under this Section and to cooperate in every reasonable way to facilitate defense or settlement of claims. The indemnifying party will not be liable under this Section for settlement by the indemnified party of any claim, lawsuit, or demand if the indemnifying party has not approved the settlement in advance unless the indemnifying party has had the defense of the claim, lawsuit or demand tendered to it in writing, and has failed to assume such defense.

An example of an occurrence to be covered by the above provision would be a personal injury, caused by the negligence of one party, to the employee of the other during performance of the contract.

x. Compliance Monitoring

The contracts will establish conditions under which designated employees of the non-owning party may perform audits, visit the shared facility and require tests to ensure that the terms of the contracts are being met. The applicable provisions of the contracts will be in substantially the following form:

> The non-owner of any multifunction facility shared pursuant to this Agreement shall have the right to visit any such facility upon reasonable notice to insure that the terms of this Agreement are being met. Visitation rights will include the right to inspect the facility, and, upon thirty (30) days written notice, to perform audits, to review worksheets, to review performance or service plan data, and to review documents used in the preparation of bills.
>
> The non-owner shall also have the right to specify performance or service tests to be performed on the facility by the owner, in addition to those otherwise required under this Agreement, upon seven (7) days' written notice by the non-owner to the owner unless otherwise provided in this Agreement for specific catagories or types of

facilities. The costs of such tests will be paid by the non-owner. Upon request, the owner will furnish a copy of the test results within thirty (30) days, unless the parties agree to a shorter period.

xi. Protection of Proprietary Information and Trade Secrets

The contracts will specify that certain data exchanged or made available by the parties under the agreement will be considered proprietary information and will provide for its protection in substantially the following language:

> Unless otherwise provided in existing agreements (including the Plan of Reorganization), any specifications, drawings, sketches, models, samples, data, computer programs and other software or documentation ("information") of one party, which is furnished or available or otherwise disclosed to the other party pursuant to this Agreement, or by reason of the shared use of a multifunction facility, shall be deemed the property of the disclosing Company, and when in tangible form, shall be returned upon request. Unless any such information was previously known to the receiving Company free of any obligation to keep it confidential (other than information known prior to the date of this Agreement that was considered proprietary by either party), or has been or is subsequently made public by an act not attributable to the receiving Company or its subsidiary or parent, or is explicitly agreed to in writing by the disclosing Company or as otherwise provided in existing agreements or elsewhere in this Agreement not to be regarded as confidential, it (1) shall be held in confidence by the receiving Company and its employees, contractors or agents, (2) shall be disclosed to only those of the receiving Company's employees, contractors or agents who have a need for it in connection with the sharing of the contracted items hereunder by the two Companies and shall be used only for such purposes, and (3) may be used for other purposes only upon such terms and conditions as may be mutually agreed upon by the

parties in writing. Neither Company will disseminate or release material furnished by the other containing such information to others than their employees, contractors or agents having a need for it in connection with such sharing of contracted items hereunder, unless otherwise agreed upon in writing.

However, each party agrees to give notice to the other party of any demands to disclose or provide information under lawful process prior to disclosing or furnishing such information, and agrees to cooperate in seeking reasonable protective arrangements requested by the other party. In addition, any party may disclose or provide information of the other party requested by a government agency having jurisdiction over the party; provided that the party obtains protective arrangements satisfactory to the party owning the information; and provided further that the party owning the information may not unreasonably withhold approval of the protective arrangements.

Interconnection standards that the BOCs have a legal obligation independent of the contracts to provide to third parties will be excluded from the definition of proprietary information within the contract terms covering the relevant categories of equipment.

Where practical, the contracts will include an agreement to segregate protected information by procedural or mechanized means. The costs of such segregation will be allocated on the same basis as the investment costs in the underlying facility. In addition, certain information, such as software and documentation for switching systems and operation support systems and new product descriptions and specifications, will be specifically designated as trade secret information. The disclosing company will have the right to demand, upon unauthorized disclosure of any trade secret to a third party, or upon termination of the contract, the return of all documentation of all trade secrets exchanged with the other party, in addition to any other remedies it may have.

xii. Limitations on Use of the Multifunction Facilities

The BOCs will be permitted to use a multifunction facility owned by AT&T only for intraLATA and exchange access services. As noted in Part I.A.l.a.i.(4), *supra,* if the BOCs lease capacity in CCIS equipment, or an NCP or STP facility owned by AT&T, the BOCs will be permitted to use the equipment or facility only for intraLATA service.

xiii. Resolution of Disputes

The contracts will establish provisions for the expeditious settlement of disputes. Because many of the disagreements under the provisions of the contracts will be minor in nature but will require immediate resolution, the contracts will provide a procedure whereby either party may immediately refer a dispute to a standing committee or have the dispute decided by arbitration. The procedures will be contained in a provision reading substantially as follows:

a. INTERCOMPANY REVIEW BOARD

Upon demand by either party, any dispute regarding any right, obligation, duty or liability, arising out of the provisions of this Agreement, or any dispute regarding interpretation of any of its provisions, or any other dispute which any provision of this Agreement specifies is subject to the provisions of this section, will be referred within two working days to the Intercompany Review Board.

The Intercompany Review Board will be a standing committee composed of four members — two each from AT&T and the BOC who will be of at least Assistant Vice Presidential Level, or equivalent in their respective companies. Upon resignation or retirement of any member from the Board, the company which placed the member on the Board will immediately notify the other company of the name, title, and address of that member's replacement.

Upon referral of any dispute to the Board, the members of the Board may meet either in person or by telephone, or confer by any other means to resolve the dispute. Such resolution may be informal in nature; however, any resolution which is subsequently memorialized in written form, indicates that it is a Formal Resolution, signed by all four members, will be incorporated by reference into this Agreement, and will have the same force and effect as the other terms of this Agreement. Formal Resolutions will be numbered sequentially and dated, and will be distributed to and retained by each party.

b. MEDIATION

Upon consent of all members of the Intercompany Review Board, the parties may retain a mediator to aid the Board in its deliberations by informally providing advice to the Board after discussion of the dispute. Any opinion expressed by the mediator will be strictly advisory and will not be binding on the parties, nor will any opinion expressed by the mediator be admissible in any arbitration. The mediator may either be chosen from a previously selected list, or by other agreement of the Board. Costs of mediation will be borne equally by the parties. Mediation is not required prior to a demand for arbitration under this Section.

c. ARBITRATION

If any dispute referred to the Intercompany Review Board has not been resolved within ten working days, either party may demand in writing that the dispute be resolved by binding arbitration. However, any issues of interpretation of the terms of the Consent Decree and any issues regarding validity of the terms of this Agreement or the validity of any provision of the Plan of Reorganization as approved by the Court are expressly excluded from the provisions of this Subsection c. Upon such demand, the dispute shall be decided by arbitrators in accordance with the rules set forth in this Section. This Agreement to arbitrate shall be enforceable under prevailing arbitration law. The award rendered by the arbitrators shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof. Nothing in the terms of this Agreement is intended to limit the right of either party to challenge an arbitration award in the Decree Court on the ground that it is contrary to the provisions of the Consent Decree or any order of the Court relating thereto.

Notice of the demand for arbitration shall be filed in writing with the other party to this Agreement. The demand for arbitration shall be made within a reasonable time after the claim, dispute or other matter in question has arisen, but in no event later than one year after the termination of this Agreement — or any renewal hereof — or in the case of a dispute arising out of a specific multifunction facility, within one year after the termination of sharing of that facility under this Agreement.

Unless otherwise agreed to in writing by the parties, upon receipt of a demand, each party will designate an arbitrator within five (5) working days. The two designated arbitrators will then select a third arbitrator to complete the full arbitration panel within ten (10) working days, or as otherwise agreed.

The arbitration panel will commence hearings within 60 days of the selection of the panel, unless the parties or the arbitration panel agree upon a delayed schedule of hearings. Either party may send out requests to compel document production from the other. Disputes concerning the scope of document production and enforcement of the document requests will be subject to ruling by the panel of arbitrators. Other discovery will be subject to agreement by the parties, or may be ordered by the arbitrators to the extent economical and reasonable. All discovery requests will be subject to the proprietary rights of the parties and the arbitrators shall adopt procedures to protect such rights. Except where contrary to the provisions set forth in this Agreement, the rules of the American Arbitration Association ("AAA") will be applied to all matters of procedure, including discovery, provided, however, that the arbitration need not be conducted under the auspices of the AAA, in which event the fee schedule of the AAA should not apply. The arbitrators may obtain independent legal counsel to aid in their resolution of legal questions presented in the course of arbitration to the extent they consider that such counsel is absolutely necessary to the fair resolution of the dispute, and to the extent that it is economical to do so considering the financial consequences of the dispute.

If the arbitrators selected by each party cannot agree upon a third arbitrator within the time limits set by this Agreement for hearings, either party may apply to any court having jurisdiction over this Agreement to select the neutral arbitrator. If either party fails to appoint an arbitrator within the time period set forth, the other party may apply to any court having jurisdiction over this Agreement to compel arbitration, and that court shall be empowered to select the failing party's arbitrator.

If any party subject to the terms of this arbitration provision fails or refuses to appear at and participate in an arbitration hearing after due notice, the arbitration panel may hear and determine the controversy upon evidence produced by the appearing party.

The arbitration costs shall be borne equally by each party.

d. Continuity of Service During Dispute

Unless otherwise agreed in writing, parties shall continue to provide service, honor all other commitments under this Agreement, and continue to make payments in accordance with this Agreement during the course of dispute resolution pursuant to the provisions of this Section.

xiv. Contract Duration

The duration of the shared multifunction facility contracts will be established separately for each category of shared multifunction facilities. The contract terms will specify a maximum duration of five years for shared switching facilities; central office circuit equipment and radio transmission equipment; operator work centers, systems and services; and cable transmission facilities. The maximum contract duration for shared land, buildings, equipment power, distribution frames and structures (including conduit, pole lines, and guyed towers) will be ten years. Operations centers and systems will have a maximum duration not in excess of the maximum duration applicable to sharing of the associated supported facilities.

The initial contract period for the sharing of each multifunction facility will be specified by the non-owner. Within each category, shorter periods may be specified for individual multifunction facilities as appropriate. The owning party will not retire the facility prior to termination without consent of the sharing party.

The contracts will specify a right of renewal for the non-owning party limited to a maximum of three years, except that shared land; buildings; equipment power; distribution frames; operator work centers, systems and services; and structures will have a right of renewal limited to two terms of up to five years each. The renewals will be upon the same terms and conditions; new forecasts of capacity will be required. The amounts of capacity available to, and specified by, the non-owner, will be computed in generally the same manner as described in Part I.A.l.b.ii, *supra.*

If the non-owning party seeks to end sharing in a particular facility prior to the end of the initial sharing period specified in the contract or prior to the end of the renewal period, the party will assume its share of the investment costs in the facility, as specified in the Standard Costing Manual, substantially according to the following provision:

> If the non-owner seeks to end sharing in a particular facility prior to the end of the initial sharing period specified in this Agreement or prior to the end of a renewal period in accordance with this Agreement, the non-owner will assume its share of the investment costs in the facility as if it continued to share the facility until the end of the

sharing period specified in this Agreement or until the end of the renewal period in accordance with this Agreement; provided that the amount of costs to be paid by the non-owner after early termination shall be reduced in proportion to the amount of the contracted capacity of the non-owner actually used by the owner, if any, during the remainder of the sharing period specified in this Agreement or the renewal period, as the case may be.

For each multifunction facility, the contract will specify a time prior to the termination date of the contract by which any rights to renewal of the contract must be exercised. If a right to renewal is not exercised by the required date, the contract will terminate on the termination date, except that an interim agreement may be entered into for disposition of the traffic handled by the shared facility.

In the event the non-owner, at the end of a renewal period, believes it needs to continue sharing the facility, the non-owner will have to negotiate agreements with the owner on mutually satisfactory terms for any subsequent time periods.

xv. Implementation

The process of implementing and administering the multifunction facility contracts will be coordinated by an Intercompany Contract Administration Center (ICAC) to be formed in each BOC or regional holding company and by AT&T during the first quarter of 1983.

The process of inventory and assignment of assets is discussed in Part I.C.2 of this Plan. When assignment of multifunction facilities has been established, any specific terms, conditions or arrangements needed for each shared facility will be determined and specified in the contracts on a location by location basis. Cost data for each facility will be developed using the practices set forth in the Standard Costing Manual.

In the months prior to divestiture, sample bills will be exchanged in trial offices using procedures and cost data developed by the ICAC. This trial period will be accompanied by a "true-up" process designated to correct any costing or procedural errors prior to issuance of the first bills under contract after divestiture.

2. Customer Premises Equipment

This portion of the Plan addresses the manner in which customer premises equipment and related support facilities and systems will be allocated between AT&T and the BOCs. In addition to the customer premises equipment itself, this section addresses the allocation of BOC facilities used in the supply, marketing, installation, maintenance and repair of customer premises equipment, including equipment inventories, land and buildings, furniture and office equipment, materials and supplies, vehicles and other work equipment. Finally, this section addresses the sharing by the BOCs under contract of certain multifunction facilities and support systems that will be required by AT&T to provide, service, and bill for embedded customer premises equipment during the period immediately following divestiture.

a. Assignment of Customer Premises Equipment

The Modification of Final Judgment requires the separation within the BOCs and retention by AT&T of "all facilities, personnel and books of account . . . relating to . . . the provision of customer premises equipment to the public." (Decree, §§ I(A)(2), I(A)(4).) The Decree defines "customer premises equipment" as "equipment employed on the premises of a person (other than a carrier) to originate, route, or terminate telecommunications," but not including "equipment used to multiplex, maintain, or terminate access lines." (Decree, § IV(E).)

In its *Second Computer Inquiry,*[73] the FCC required that all new customer premises equipment provided by the Bell System after January 1, 1983, must be provided on a detariffed basis by a fully separated subsidiary not engaged in common carriage. Under the FCC's decision, the BOCs will cease providing new

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[73] *Amendment of Section 64.702 of the Commission's Rules and Regulations (Second Computer Inquiry)*, 77 F.C.C.2d 384 (1980), *as modified on reconsideration,* Memorandum Opinion and Order, 84 F.C.C.2d 50 (1980), Memorandum Opinion and Order on Further Reconsideration, 88 F.C.C.2d 512 (1981), *aff'd, Computer & Communications Industry Ass'n v. FCC,* D.C. Cir. No. 80-1471, *Slip Op.,* November 12, 1982.

customer premises equipment after December 31, 1982, and all new customer premises equipment provided by the Bell System after that date will be provided by a fully separated subsidiary of AT&T known as American Bell Inc. (ABI).[74] This new subsidiary will maintain its own separate books of account and have its own facilities and personnel for the marketing, sales, system design engineering, installation, maintenance, service order processing and billing for new customer premises equipment.[75] Initial staffing and facilities for the performance of these functions will be obtained principally from existing Bell System employees and facilities.

Thus, approximately one year prior to divestiture, the BOCs will transfer to AT&T certain marketing, engineering and service personnel presently involved in the provision of new customer premises equipment, together with a number of PhoneCenter Stores located in leased (as opposed to BOC-owned) space,[76] some leased office space, and some office furniture and related materials. Therefore, in the absence of any change in the FCC's decisions in *Computer II,* the additional transfers that will be required at the time of divestiture will involve "embedded" customer premises equipment owned by the BOCs and support personnel and facilities for such embedded equipment.[77]

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[74] AT&T has petitioned the FCC for a waiver of the FCC's *Computer II* rules to permit the BOCs to continue to offer new customer premises equipment during 1983 to meet the special needs of disabled persons. (AT&T's Petition for Waiver of Section 64.702 of the Commission's Rules, filed October 22, 1982.)

[75] The BOCs are authorized by the FCC to provide installation and maintenance support for new business systems customer premises equipment provided by American Bell through June 30, 1984. Under the Modification of Final Judgment, however, such installation and maintenance support operations of the BOCs are required to be assigned to AT&T at the time of divestiture.

[76] Under *Computer II,* the fully separated subsidiary is prohibited from leasing space in BOC buildings.

[77] As the Court pointed out in its August 11, 1982 Opinion, "[u]nder the proposed decree, AT&T will retain both the embedded customer premises equipment and the existing network of retail outlets" (p. 111), and this allocation was not changed by the

(Footnote continued on following page)

BOC investments in customer premises equipment are maintained principally in two accounts: Account 231, Station Apparatus, and Account 234, Large Private Branch Exchanges (PBXs). In addition, some inventories of customer premises equipment are included in Account 122, Material and Supplies, and Account 124, Merchandise and Material Held for Sale. As discussed in more detail below, all of the customer premises equipment and associated investments contained in these accounts will be assigned to AT&T except equipment used by the BOCs to provide for their own communications requirements (hereinafter "official service" equipment), public and semi-public coin telephones, network channel terminating equipment, and certain other network-type equipment.

i. Station Apparatus

Account 231 includes the original cost[78] of all station apparatus installed for the use of either the BOCs' customers or the BOCs themselves, except large PBXs and related items in Account 234. For example, Account 231 contains all BOC investments in main station telephones, extension telephones, station sets used with PBXs, key telephone systems, data sets, teletypewriters, mobile telephones, coin and other public telephones, automatic answering devices and other ancillary equipment, and certain small PBXs. This account also includes the cost of materials held in stock by the BOCs which are normally used as station apparatus or additions thereto. All equipment in this account will be assigned to AT&T except those specific categories of equipment identified in Part I.A.2.a.iv, *infra*.

(Footnote continued from previous page)
modification authorizing the BOCs to provide such equipment after divestiture (p. 111 n. 248). Space presently used for a PhoneCenter Store that is located within a building that is being assigned to a BOC, however, will be assigned to the BOC.

AT&T has petitioned the FCC to permit the detariffing of embedded customer premises equipment prior to January 1, 1984. (Supplemental Comments of AT&T, CC Docket No. 81-893, filed October 28, 1982.) If the FCC approves AT&T's petition, embedded customer premises equipment and related support personnel and facilities may be transferred from the BOCs to AT&T prior to divestiture.

[78] Depreciation for all depreciable assets is carried in a separate depreciation reserve account. *See* Part I.B.1, *infra*.

ii. Large PBXs

Account 234 includes the original cost, including the cost of installation, of PBXs and other large installations of station equipment which require special design or customized treatment due to their complexity or distinctive characteristics. This account includes large PBX switchboards, together with associated switching equipment, signaling devices, operators' chairs and headsets, distributing frames, and cables or wires connecting the switchboard to the house or outside cable or wires. This account also includes some central office-type equipment installed at the customer's premises such as network channel terminating equipment. All equipment in this account will be assigned to AT&T except those specific categories of equipment identified in Part I.A.2.a.iv, *infra.*

iii. Other Customer Premises Equipment Accounts

Account 122, Materials and Supplies, contains inventories of customer premises equipment in three subaccounts. Subaccount 122-04 contains new and reusable central office and large PBX equipment held by the BOCs for future use. The large PBX equipment in this subaccount will be assigned to AT&T, except that the BOCs will retain network channel terminating equipment and appropriate items for the maintenance of "official service" equipment. See Part I.A.3.c.iv, *infra.*

Subaccount 122-07 contains new materials and supplies held by Western Electric for the BOCs under the Class W stocking agreement, and Subaccount 122-08 contains new and reusable materials held by Western Electric for the BOCs under the Class C stocking agreement. All customer premises equipment and related materials in these two subaccounts will be assigned to AT&T, except that the BOCs will retain appropriate equipment and maintenance materials from these inventories to maintain their own "official service" and network channel terminating equipment. See Part I.A.3.c.vii-viii, *infra.*

Account 124 includes the cost of all station equipment purchased by the BOCs for resale (as opposed to provision under monthly lease), including applicable transportation charges, sale and use taxes, cash and other purchase discounts. For example, this account contains BOC investments in decorative telephone sets sold through PhoneCenter Stores. It is expected that the balance in this account at the time of divestiture will be minimal because, under the FCC's *Computer II* decisions, no new material may be purchased into this account by the BOCs after December 31, 1982. All investment in Account 124 will be assigned to AT&T.

iv. Equipment Retained by BOCs

The Modification of Final Judgment permits the BOCs to retain certain categories of equipment presently included in Accounts 231 and 234. The equipment in these accounts being retained by the BOCs consists of "official service" equipment, public telephones, network channel terminating equipment, and certain network-type equipment discussed below.[79]

(1) Official Service Equipment

The BOCs will retain all station apparatus and large PBXs in Accounts 231 and 234 being used for "official service," except "official service" equipment located in buildings or work areas that are being assigned to AT&T.[80] "Official service" equipment is generally located on the premises of the carrier itself and hence is not provided by the BOCs to their customers. Consequently, "official service" equipment is not customer premises equipment within the terms of the Decree. BOC ownership of such equipment is equivalent to BOC ownership of other office equipment such as typewriters or word processors. Appropriate inventories and parts for the maintenance of such "official service" equipment will also be assigned to the BOCs.

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[79] The BOC's use of software to operate this equipment is covered generally in Part II.A.1, *infra.*

[80] The FCC has proposed to reclassify "official service" or "company used" equipment from Accounts 231 and 234 to Accounts 221, Central Office Equipment, or 261, Furniture and Office Equipment, depending on the function of the equipment. (Notice of Proposed Rulemaking, CC Docket No. 82-681, paras. 18-21, released October 4, 1982.)

(2) Public Telephones

Public and semi-public coin telephones[81] and extensions to such telephones will be assigned to the BOCs because they are generally used predominantly for intraLATA communications. Non-coin "Charge-a-Call" public telephones will be assigned to AT&T because they are generally used predominantly for interLATA communications.

(3) Network Equipment and Wiring

As a part of their exchange telecommunications and exchange access functions, the BOCs will continue to provide the network interface or registration jack to which the customer connects his customer premises equipment. This network interface, whose technical characteristics are prescribed in Part 68 of the FCC's Rules and Regulations, constitutes the demarcation point between the telephone network and the terminal equipment located on the customer's premises. All equipment, cable and wiring in Account 234 that is located on the network side of this interface is part of the exchange and exchange access service of the BOCs and will be assigned to the BOCs.

(4) Network Channel Terminating Equipment

Network channel terminating equipment is equipment located on customers' premises for the purpose of providing certain transmission and/or signaling enhancements and network maintenance capabilities. Representative examples of this category of equipment include terminating sets, multiplexing equipment, subscriber pair gain equipment, repeaters, facility conditioning T carrier terminals, Dial Long Lines units, responders, and associated cabinets, mountings, wall backboards and relay racks. Such equipment is physically and functionally

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[81] The FCC has proposed that public telephone equipment installed after January 1, 1983 be assigned to a new Account 235, Public Telephone Equipment, and that repairs of public telephone equipment after that date be recorded in a new expense Account 607, Repairs of Public Telephone Equipment. (Notice of Proposed Rulemaking, CC Docket No. 82-681, paras. 8-17, released October 4, 1982.)

a part of the network side of the network interface, and the Decree expressly excludes such equipment from the definition of customer premises equipment (Decree, § IV(E)). Except for certain special situations where the network channel terminating equipment is at the end of an interLATA channel, all network channel terminating equipment in Accounts 231 and 234 will be assigned to the BOCs.[82]

Efforts have been underway within the Bell System since September 1980 to separate network channel terminating equipment in Account 234 from customer premises equipment both physically and within the books of account. New installations have been arranged to separate channel terminating equipment and customer premises equipment since that time. In many prior installations, however, channel terminating equipment and customer premises equipment share the same relay racks or auxiliary cabinets. In these situations, the shared relay rack or auxiliary cabinet will be assigned on the basis of predominant use.

(5) Other Network Equipment

Most of the other miscellaneous equipment in Accounts 231 and 234 will be assigned to AT&T. However, certain of this equipment is an integral part of the exchange and exchange access service of the BOCs, or is equipment used for "official service" which the BOCs will retain. Such equipment will be assigned to the BOCs.

The miscellaneous equipment in Account 234 associated with "official service" that will be assigned to the BOCs includes video and microwave equipment and 1A, 2A, and 3A data stations. The other miscellaneous equipment that will be assigned to the BOCs consists of certain equipment associated with Centrex-CO service, some Centrex-CU service, 911 service, ESS-ACD service, secretarial concentrator-identifier systems, and EPSCS service.

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[82] The FCC has proposed that all network channel terminating equipment and subscriber pair gain equipment be reclassified to Account 221, Central Office Equipment. (Notice of Proposed Rulemaking, CC Docket No. 82-679, para. 17, released October 4, 1982.)

Centrex attendant positions, including Centrex consoles and console cabinets, are an integral part of the Centrex-CO service provided by the BOCs. Centrex-CO serves over 5 million lines and provides annual revenues of $1.2 billion, exclusive of station equipment, to the BOCs. There are about 5,000 Centrex consoles in service. In order to protect the interest of the BOCs and their ratepayers in the provision of Centrex-CO service, all Centrex attendant positions will be assigned to the BOCs.

Similarly, 101 ESS switch units used by the BOCs in providing some Centrex-CU services to existing Centrex-CU customers[83] will be assigned to the BOCs. Although the 101 ESS switch unit is located on the customer's premises in the provision of Centrex-CU service, its operation is controlled by a control unit located in the central office of the BOC. The switch unit is not severable from the central office control unit and can only function with a compatible control unit. The 101 ESS switch unit is thus an integral component of some Centrex-CU services provided by the BOCs. Attendant positions associated with 101 ESS Centrex-CU will also be assigned to the BOCs for the reasons stated above with respect to Centrex-CO service.

In order to ensure the continuity of the 911 emergency service provided by the BOCs to facilitate control of and prompt response to police, fire, medical and other emergency calls from the general public, equipment located at Public Service Answering Points used in conjunction with 911 service, including ANI control cabinets, ALI mini-computers and associated consoles and display units, will be assigned to the BOCs.

Similarly, 60-type console control cabinets and mini-computers such as the AEMIS and BEMIS management reporting systems associated with the ESS-ACD service provided by the BOCs will be assigned to the BOCs. Such equipment used with Dimension 2000 ACD installations, however, will be assigned to AT&T.

Although the identifier component of the concentrator-identifier systems used by telephone answering services is

[83] Centrex-CU is an active offering only in Colorado. In other jurisdictions it is provided only to existing customers.

physically located on the customer's premises, it must interact with the concentrator component located in the BOCs' central office so as to operate as a single system. Such identifier equipment is thus an integral part of the concentrator-identifier service provided by the BOCs as a part of their exchange and exchange access functions. These systems are equivalent to the multiplexing-demultiplexing equipment that is excluded from the definition of customer premises equipment and consequently, they will continue to be provided by the BOCs.[84] Secretarial switchboards used by telephone answering services, on the other hand, are customer premises equipment that will be assigned to AT&T.

v. Station Connections

Account 232, Station Connections, consisting of inside wiring for station apparatus and PBXs, connecting blocks, station protectors, other material and labor costs incurred in the installation of station apparatus and inside wiring, does not contain customer premises equipment and, therefore, will remain with the BOCs. The Consent Decree divides the network at the point where interexchange switching is performed and assigns to the BOCs all assets on the exchange side of that point excepting only customer premises equipment, a term that the Decree adopted from the FCC's decisions in *Computer II*,[85] where the FCC excludes Account 232 investment from the definition of customer premises equipment.[86]

BOC expenditures for the installation of station apparatus, inside wiring and related activities on the customer's side of an on-premises network demarcation point (usually the protector block) were capitalized in Account 232 for many years by regulatory order. In 1981, the FCC ordered that future expenditures for these activities be expensed rather than capitalized (with a four year phase-in period) and that existing BOC investment of this type (which is recorded in a subclass of Account 232 for "Station Connections—Inside Wiring") be

[84] Response of the United States to Public Comments, May 20, 1982, pp. 47-48.

[85] *See* Competitive Impact Statement, pp. 46-47 and n.31.

[86] *Second Computer Inquiry,* 84 F.C.C.2d at 61 n.10; 88 F.C.C.2d at 513 n.1.

recovered over a ten year period in accordance with a prescribed amortization schedule.[87] By the date of divestiture, approximately thirty percent of this portion of the BOCs' Account 232 investment will have been amortized. BOC investment in the other subclass of Account 232, "Station Connection—Other," consists of drop and block wire and associated protectors which are an essential part of the BOCs' outside plant distribution facilities.

b. Assignment of Support Facilities and Equipment

BOC facilities and equipment that support the provision of customer premises equipment, including facilities for the supply, marketing, installation, maintenance and repair of such equipment, will also be assigned to AT&T.

i. Land and Buildings

Land and buildings in which space is used or reserved for future use by the BOCs solely or predominantly to support the offering, supplying, marketing, installation, maintenance or repair of customer premises equipment will be assigned to AT&T. As previously indicated, pursuant to the FCC's *Computer II* decision, a number of PhoneCenter Stores and certain leased office space will be transferred by the BOCs to a fully separated subsidiary of AT&T on January 1, 1983. The additional land and buildings that will be transferred to AT&T at the time of divestiture will consist principally of storerooms, field services work centers or garages and associated administrative office space currently being used to support the installation and maintenance of customer premises equipment, customer service centers, and some additional office space. The manner in which the land and buildings being transferred to AT&T will be selected is described in more detail in Part I.A.3.a, *infra*, dealing with land and buildings.

Under the Modification of Final Judgment (Decree, § VIII(G)), where multifunction land and buildings are assigned to the BOCs on the basis of predominant use, portions

[87] *Amendment of Uniform System of Accounts*, 85 F.C.C.2d 818, 823-28 (1981), (47 C.F.R. § 31.232).

that have been used for the supply, marketing, installation, maintenance, repair, or otherwise for the provision of customer premises equipment may be leased by AT&T. Similarly, the BOCs may lease portions of multifunction facilities assigned to AT&T on the basis of predominant use. The contract terms for the leasing of such multifunction facilities are described in more detail in Part I.A.3.a, *infra*, covering land and buildings.

Leased space and leasehold improvements will also be assigned on the basis of predominant use, except that where the lease contains a non-assignment clause and renegotiation of the lease could not be accomplished on reasonable terms, such leases will not be assigned from the existing lessee to the other entity.

ii. Furniture and Office Equipment

Furniture and office equipment will normally be assigned to the entity whose personnel are using the items at the time of divestiture, as described in more detail in Part I.A.3.b.i, *infra*. Consequently, furniture and office equipment used by BOC personnel who are involved in the provision of customer premises equipment and who are being transferred to AT&T, will be assigned to AT&T.

iii. Motor Vehicles, Tools, and Other Work Equipment

BOC motor vehicles are associated with BOC user force groups and will follow their users (*see* Part I.A.3.b.ii, *infra*). Consequently, motor vehicles associated with the user force groups involved in the provision of customer premises equipment which are being assigned to AT&T, will also be assigned to AT&T. Likewise, tools and other work equipment used by personnel involved in the provision of customer premises equipment will be assigned to AT&T. These allocations are described in greater detail in Part I.A.3.b.ii, *infra*, relating to general equipment.

c. Multifunction Support Facilities for Embedded Customer Premises Equipment to be Shared by AT&T and the BOCs on an Interim Basis

Certain BOC administrative operations and computerized systems that are used for, and necessary to, the business of providing, servicing and billing for embedded customer premises equipment (CPE) are also used for, and necessary to, the provision of exchange or exchange access services. In certain cases it is not practical to create separate operations and systems within the period permitted for divestiture. In order to enable AT&T to account, service and bill for embedded customer premises equipment being transferred to AT&T by the BOCs, it will be necessary for the BOCs to share certain of these multifunction support systems for a transition period until AT&T is able to develop and establish its own systems. The manner and extent of such sharing is described herein.[88]

Beginning on January 1, 1983, all new customer premises equipment provided by the Bell System will be provided by a new fully separated subsidiary of AT&T rather than by the BOCs. This new subsidiary — American Bell Inc. — will have its own customer record information system, its own service order processing and account inquiry centers and systems, and its own billing and collection centers and systems. Although ABI will be able to contract with the BOCs prior to divestiture for installation and maintenance services relating to new business customer premises equipment, any BOC involvement in customer premises equipment installed by AT&T after January 1, 1983, will be phased out by the date of divestiture.

Customer service order and billing systems and procedures can be developed to process the anticipated volume of new

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[88] In contrast to the limited sharing of billing facilities described herein, a full range of billing functions for interLATA services will be offered by the BOCs to all interLATA carriers, including AT&T, under the exchange access tariffs. Such billing services will include negotiation, credit intake, order processing, and account inquiry and collections. Pursuant to Appendix B of the Decree, the offering of billing to all interLATA carriers will permit the BOCs to discontinue local exchange service to any customer because of nonpayment of interLATA charges.

equipment installations relatively quickly and at a reasonable cost. In contrast, the difficulty faced by AT&T in dealing with embedded customer premises equipment is enormously more complex. The BOCs serve approximately 70 million customers generating $8.5 billion in annual revenue from embedded customer premises equipment. Moreover, their customer record information systems (CRIS), which support ordering, billing and accounting for the full range of BOC services, including CPE, have been locally developed to meet the unique requirements of each BOC, each state, and each local taxing jurisdiction.

The large volume and complexity of the BOCs' records relating to embedded customer premises equipment render it operationally impossible for AT&T to attempt to duplicate all the BOCs' customer records for embedded equipment and associated facilities and computer systems prior to divestiture. Consequently, AT&T and the BOCs will share certain systems and related services for the embedded equipment for a transition period until the AT&T systems can be made operational and the records can be transferred.

This section will first describe the means currently used by the BOCs to provide, service and bill for customer premises equipment and the major computer systems employed in these functions. It will then identify the types of services and systems that will be required by AT&T to provide, service and bill for embedded customer premises equipment independently of the BOCs. The manner in which the current BOC systems will be shared with AT&T during the interim period will also be explained. Finally, the major contractual provisions which will govern the BOCs' provision of these interim services will be described.

i. Current CPE Billing Services and Systems

This part of the Plan will briefly describe the major operations performed today by the BOCs in negotiating orders, issuing service orders, billing for service and collecting payments due with respect to customer premises equipment.[89]

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[89] The precise manner or sequence in which such operations are performed, the types of records employed, and the degree of mechanization may vary among individual BOCs. Only major differences have been expressly noted.

(1) Order Negotiation

Today, orders for customer premises equipment or changes in equipment are generally negotiated along with any facility access arrangements that may be required. Such orders may originate as a result of telephone negotiations with service representatives in a Residence Service Center (RSC) or Business Service Center (BSC), face to face negotiation with a service representative in a PhoneCenter Store, or a premises visit by the sales forces.

At the time the order is negotiated with the customer, the service representative may also negotiate directory listings, establish or change the responsible billing party or name, establish or change the account address, establish or change the telephone number, change the grade of service, negotiate prewiring, arrange for a special payment plan or billing arrangement, negotiate an appointment for a premises visit, determine deposit requirements, arrange for a Bell System Calling Card, or perform any of numerous other functions unrelated to the provision of customer premises equipment. Nearly all of these activities, when required, are accomplished by means of the single service order issued for all equipment and services.

(2) Service Order Processing

The service representatives prepare a single service order in an appropriate format for all services and equipment ordered and forward the order to the Service Order Entry Center (SOEC) for input into a computerized service order processor. Orders from the field sales force are written by the SOEC on the basis of telephone or written contacts from the sales force. When the service order is entered into the service order processor, the order is edited by the processor and mechanically distributed to the appropriate work groups.

The computerized service order processing systems have been locally developed and are tailored to the individual operating company's requirements. Thus, the service order processing systems perform similar functions within BOCs but are not technically compatible among companies. There are more than 20 different service order processing systems currently in use in the Bell System. Each service order processing system has its own logic, language, and rate elements and is run on locally selected computer hardware. Approximately 70 million orders, of varying complexity, are processed annually. Other operating departments are linked to these systems through approximately 30,000 terminals. The operating departments which interact with the service order processor vary by type of order and by BOC, but may include directory, installation, central office, plant assignment, engineering, comptrollers, maintenance and service center personnel.

When all work required by the service order has been accomplished, completion is reported by telephone to the SOEC or a separate installation dispatch office. The SOEC or installation dispatch office notes additional details (such as any changes in the type of equipment, telephone number assigned, or address), corrects the service order, and enters the completed service order information into the processor. The service order processor then inputs the completed service order information into the computerized Customer Records Information System (CRIS) and other computerized systems which support maintenance, directory and emergency operations (E911) systems.

(3) Bill Preparation and Rendering

The CRIS data base and processing systems have been designed locally and tailored to meet local BOC needs. Thus, like the service order processing systems, they perform similar functions within the BOCs but are not compatible among companies. Each system has its own logic and language and is run on locally selected hardware. The rate elements, rates, tax factors and other information contained in the data bases necessarily vary by jurisdiction.

The CRIS system and associated billing systems consume over one third of the Bell System's computing resources, accounting for nearly one billion dollars in corporate expenditures in 1982. The CRIS data bases contain the source data for all billing activity, bill inquiry activity and numerous other computer systems associated with maintenance and testing of customer lines and equipment. The records for approximately 70 million customer accounts are maintained in the BOC CRIS data bases. There is no separate billing data base of customer premises equipment.

When the completed order is entered from the service order processor into the CRIS system, CRIS performs a function known as rating. Each component of premises equipment and service, identified by specific codes called Uniform Service Order Codes (USOCs), is associated with the appropriate rate in effect in the applicable jurisdiction. The CRIS system must generate different recurring and/or non-recurring rates for the same USOCs depending upon differences in the class of service or additional information in the service order indicating customer selection of a particular pricing arrangement. To accommodate rate changes approved by appropriate regulatory bodies, the CRIS system must be able to apply one recurring rate for an item of service for a period of time and then automatically change the recurring charge to a different rate. The rating function is largely mechanized in most BOCs.

CRIS then posts charges and complete service and equipment records to the customer account. The accounts must be maintained in sufficient detail to permit generation of detail on service and equipment listings, directory advertising, installment billing and other data necessary for processing. The records must permit determination of account information such as total local service, directory advertising and amounts subject to various taxes and permit reconciliation of in and out activity to account and central office totals.

Three general types of information are stored for use in determining each customer's monthly bill: service and equipment, customer account information and message detail. The data is updated as appropriate.

As a major function of bill preparation, CRIS applies taxes to all taxable items, which will eventually appear as a separate line on the customer bill. The technical methodology differs among BOCs and must meet the requirements of the involved taxing jurisdiction. There may be as many as five levels of taxation — federal, state, county, local and "other."[90] The taxing function is also largely mechanized in most BOCs.

The customer's billing date is usually determined by central office prefix. For each billing cycle, CRIS processes the bills to be forwarded for printing and mailing for a predetermined set of accounts. The set of accounts is devised to balance the processing and workload on a day-to-day basis. Given specified circumstances, the CRIS systems can generate expedited customer bills.

The scheduling of load modules (sets of closely related programs) which comprise the actual billing run is a complex process which includes consideration of commitments to issue bills, volume of input, run times per module, processing capacity, availability of disk and/or tape drives and condition of the computer hardware.

There are two basic formats for billing customers: regular monthly bill and final bill. All bill formats can be computer generated on the same form using a free-flow concept which individually structures each statement, printing only that information which is required. All billing detail records are prepared on sequential pages of the same stock. Two types of initial and final bills can be produced, depending upon when, prior to the billing date, service was initiated or discontinued. The determination of the appropriate bill format is a mechanized function. Printing machines produce the bills page by page.

Bill insertion is largely a mechanized function. Inserting equipment separates bills by recognizing a small mark on the first page of the bill and inserts each bill into an envelope.

Approximately 95 percent of customer bills are sorted by zip code to take advantage of postal discounts. Sorting is also a

[90] Mountain Bell, for example, must contend with more than 500 taxing jurisdictions in computing the taxes associated with private line terminal equipment.

mechanized process, done either prior to bill printing or during bill insertion.

(4) Payment Processing

The processing of payments is initially determined by the type of payment, *e.g.*, regular cash payment (current or advance), deposits (current or account to be established), miscellaneous, dishonored check or adjustment voucher. Specific procedures apply to each type. Payments are batched, balanced, reported and deposited. Any errors or out-of-balances must be corrected. Dishonored checks are recharged to the customer's account. The degree and type of mechanization differs among BOCs.

Recording of customer payments is comprised of two main activities: preprocessing and application. Preprocessing involves editing, formatting and control to ensure that all data entered into CRIS is accurate and meets all form and content requirements necessary to effect the appropriate change to the customer account. Application refers to the actual processing wherein each payment transaction is applied to the customer account in accordance with criteria established for the particular type of transaction involved. Payments on a customer live account reduce the "total balance due" on the customer master record. Posting of advance payments to a new customer's record results in creation of an advance payment record which is carried with the customer record until the next customer billing date.

Details of customer deposits are carried as part of the customer record. The posting of dishonored checks on regular and final accounts increases the "total amount due" on the customer record and is indicated in the dishonored check field in the customer record as a tool for analysis of credit risk. Unapplied transactions are transferred to an error hold file with a notice specifying the reason payment was not applied.

As part of the application process, CRIS also performs daily reconciliations of cash received with cash deposited in the bank, daily reconciliation of cash processed in the system, and monthly reconciliation of payments entered in the system with the amount applied to customer accounts.

CRIS also provides for mechanized treatment (notices to the customer and/or business office) of overdue accounts. Residence, business and final accounts (residence or business) are separately categorized. Whether a particular customer is subject to credit treatment depends upon a combination of that customer's payment history, the amount due and the category in which the customer falls. A reminder notification is mechanically generated to the customer and/or business office when payment has not been received by a specified number of days after the due date. The guidelines for late payment treatment differ among BOCs and may be affected by regulatory directives.

CRIS systems also perform journalization of revenues to provide corporate accounting information. Double entry accounting is employed to distinguish revenues from receivables, which may be broken into subaccounts. The Uniform System of Accounts (USOA) determines breakdown classifications which delineate revenue and receivable components. This is largely a mechanized function.

(5) Account Inquiry/Collection

Customer inquiries concerning billing and company-initiated collection activities are handled by service representatives in the Account Inquiry Center, a separate functional unit of the business office.[91] These service representatives process all

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[91] Many BOCs are still in the process of "functionalizing" business offices—*i.e.*, separating service representatives performing account inquiry services from those performing order negotiation or service order typing services described above. Generally, functionalization is more pervasive in Business Service Centers than in Residence Service Centers. Where functionalization has not occurred, the same service representatives perform both order negotiation and account inquiry services.

billing inquiries and adjustments of charges for toll, exchange and miscellaneous products and services. These centers also perform direct company-initiated customer contact work relating to collection of overdue accounts and are responsible for suspension or termination of delinquent accounts (including issuance of service orders to disconnect service) and management of uncollectible accounts, including referral to the legal department for collection.

Service representatives of the Account Inquiry Center also assist customers with requests for information not related to order negotiation or billing and toll inquiries. Examples are directory requests, annoyance calls, requests for duplicate bills and repair service requests.

The Account Inquiry Center is the principal customer contact for customer complaint resolution and assumes responsibility for personal resolution to the customer's satisfaction or referral to the group or higher level of management capable of satisfying the customer.

As part of its responsibility for managing uncollectibles and collection activities, the Account Inquiry Center establishes or adjusts guidelines for security requirements for deposits and advance payments for implementation by all service center personnel and the sales forces.

Access to the locally developed CRIS data base is essential to Account Inquiry Center operations. Account Inquiry Center service representatives require access to billing records, equipment records, directory listing records, directory advertising contracts, directory assistance records and access to service orders. Billing records, equipment records and directory listing records are contained in the locally developed CRIS data base and can be produced on microfiche records or accessed by a specialized computer system. Many companies have locally developed versions of such systems, commonly termed Business Office Support Systems (BOSS) or some variation thereof. The lack of uniformity of such systems is attributable in part to the diversity of CRIS programs, logic and hardware and to the differences in the organization of local BOC business offices.

Even where BOSS or BOSS-like systems are in use, many companies are still in the process of phased conversion, which may take several years. Thus, even within BOCs, the type of records supporting account inquiry functions may be a mix of microfiche, paper or mechanized records.

ii. Services and Systems Required to Support Independent Provision of Embedded Equipment

This section will describe AT&T's current plans for serving customers with embedded customer premises equipment following divestiture. The huge embedded CPE base with which AT&T must contend can only be managed through the use of computer systems. The functions to be performed by AT&T to serve embedded CPE customers will govern the type of computer systems that must be in place to support those functions. Essentially, the functions required are a subset of those described above for current operations. The major categories of order negotiation, order entry, billing, payment processing and account inquiry and collections will all be required. However, the need for certain operations, and the complexity of those operations, are substantially different for business and residence accounts. Because of these differences, AT&T's embedded CPE business and residence operations will be separately organized and are described separately below.

(1) Business

After divestiture, AT&T embedded CPE business orders will primarily originate through telephone contact with a business office which services multi-line business customer accounts exclusively.[92] There will also be a sales/service force which will visit customer premises as the requirements of the business dictate. Orders will be negotiated for embedded equipment (in inventory or refurbished) and, if the customer requests AT&T to act as its agent to procure other commu-

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[92] One and two line, non-key business customers will be served by the Residence Service Center.

nications services, customer requirements for exchange access and interexchange services will be determined. AT&T representatives will also process move, change, and disconnect orders. The representative taking the order will require access to current customer equipment records and the ability to generate new customer records or modify existing records. The representative will need to determine from the customer the basic account information (name and address, for example), equipment desired, credit information, installation dates and, if AT&T is to act as the customer's agent, access and interexchange requirements. The representative will then need access to a service order system which will distribute orders to the installation forces and, ultimately, to the AT&T business billing system.

If the customer has requested AT&T to act as its agent, the representatives may negotiate exchange access and interexchange services on the customer's behalf, from the BOC and appropriate interexchange carriers respectively, in the same manner as other equipment vendors. To the extent such activities are performed, AT&T business representatives will also require a means of storing data on the services negotiated on the customer's behalf in the AT&T customer record system.

The AT&T service order processing requirements for embedded business CPE are a subset of the current BOC requirements in that orders need not contain directory information and will not require distribution to directory, facilities assignment, operator services or central office personnel. Nonetheless, the processing requirements remain extensive in view of the complex business equipment provided, the need to transmit information to the installation forces and the need to store basic access and interexchange service data when acting as the customer's agent. The service order system must also interact with the billing system and the maintenance system.

AT&T will also require a system to perform CRIS-like functions for billing and recordkeeping. This system will perform functions similar to the current BOC system but would contain only the equipment portion of the current service and equipment file and no message/usage file. The billing functions performed would be very similar. However, data center capacity requirements will be a fraction of the current BOC systems and are expected to decline over time. AT&T will initially manage about 2.2 million embedded CPE multi-line business accounts.

AT&T business account inquiry personnel will require access to billing information for treatment and collection functions for embedded CPE. This could take the form of a BOSS-type computer system or microfiche records. Account inquiry requirements should be substantially smaller than those of the BOCs, however, because only a relatively small portion of the current account inquiry workload of the BOCs relates to customer premises equipment.[93]

*(2) **Residence***[94]

Currently, there are approximately 63 million residence accounts in the Bell System. Although substantial transitional problems are presented by the sheer volume of the records for these accounts, residence accounts are much less complex than business accounts. Most residential accounts involve only one access line of a common type and two or three telephone instruments. Very few residence accounts involve more than three access lines and half a dozen instruments. This contrasts sharply with account records for large business customers which may involve hundreds of pages of equipment elements and specialized access line requirements. As a result, AT&T processing requirements for embedded residence CPE are actually more similar to those of other utilities with relatively few service offerings than to the requirements for serving embedded CPE business customers.

AT&T plans to establish regional Residence Service Centers accessible to customers via a toll free 800 telephone

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[93] The vast majority of account inquiries involve directory advertising, toll or exchange services.

[94] This section also applies to one and two line, non-key business accounts, which will be served by the Residence organization.

number. These centers will handle all customer contact work for embedded CPE residence customers by telephone, including order negotiation, order inquiries, billing inquiries and maintenance negotiations. Orders will be taken primarily by telephone. AT&T does not currently plan to seek or accept agency status for negotiation of exchange access or interexchange services in behalf of residence customers with embedded CPE.

AT&T will maximize residence customer participation on orders for new service (equipment in inventory), changes in equipment, additions or disconnections of leased equipment, delivery or recovery of instruments. Customers will be offered the options of mail, pick up or return at customer service centers or, if requested, a premises visit. Equipment may also be offered for sale in place or from inventory.

Upon receiving a request for maintenance, customer contact employees will determine the responsible party for repair, determine if a mailout of equipment with a modular cord is appropriate and, if necessary, refer the customer to a customer service center or arrange a direct shipment or a premises visit. Customers who receive a replacement set via direct shipment will be billed for the defective set if it is not returned within a reasonable period of time.

Service order processing and customer record and billing systems requirements to serve residence customers will be substantially different from the current BOC systems. No directory or access services will be negotiated. Generally, customer records need be updated only for leased equipment. Premises visits will be offered only if specifically requested by the customer. In view of the relatively small account balances for leased residence equipment, billing may be conducted quarterly instead of monthly.

The Residence Service Center serving embedded CPE customers will require complete records of all embedded residence equipment. These records must be accessible to the clerks negotiating orders. Customer identification information, equipment orders and the delivery option selected must be processed and distributed to the appropriate delivery group. Order completion information will be required for billing.

The billing/records system must be capable of rating, taxing and charging recurring and one time charges, although the number of rate elements will be far fewer than those required for business accounts. Payment processing and treatment functions will be required. Access to billing records will be necessary for account inquiry functions.

iii. Requirements for Joint Use of Multifunction Facilities During Transition

This section will describe the transition arrangements required as AT&T moves from the current integrated methods of business operations described in subsection (i) above and establishes its own independent systems to perform the functions described in subsection (ii). AT&T operations during the period of transition required for conversion to its own billing and service order processing systems will be fully separate from the BOCs with the exception of joint use of BOC service order processing, CRIS, billing information systems and BOC provided collection functions provided pursuant to contract. Personnel required by AT&T to perform its separate embedded CPE business operations will be assigned to AT&T at divestiture. There will be no additional personnel transfers, other than general "true-up"[95] transfers as AT&T systems are established and joint use of facilities is terminated.

Where shared use of multifunction facilities by the BOCs and AT&T is planned, such joint use has been limited to those situations where there is no reasonable alternative and the duration of joint use has been kept to a minimum, consistent with the physical or economic limitations encountered. All AT&T use of BOC facilities will be eliminated at the earliest feasible time, including termination of sharing arrangements on a phased basis by region and BOC where possible. As is more fully described below, in no instance will the same personnel

[95] *See* Part I.D.3, *infra.*

perform work for both a BOC and AT&T with respect to embedded CPE.

(1) Operations During Transition — Business

At the time of divestiture, all order negotiation functions for multi-line embedded CPE business accounts will be moved to separate AT&T business offices. In order to negotiate orders for embedded business customer premises equipment, AT&T personnel will require access to customer equipment records. Access will be provided to the local BOC CRIS system containing customer records in whatever form they are currently available in that BOC: computer terminal, microfiche, or paper records. The BOC will own the data base, software, and computer system and provide access to AT&T under contract at fully compensatory rates, including a return on investment. Data pertaining to embedded customer premises equipment will be owned by AT&T.

After equipment orders are negotiated, AT&T personnel will prepare a service order for equipment only and transmit the order via an AT&T service order network to AT&T installation and maintenance forces. The installation forces will provide service order completion information back to the AT&T service order personnel for entry into the BOC service order processor and subsequent input from the service order processor into the BOC CRIS system for billing and recordkeeping. The BOC service order processor will be owned by the BOC, which will provide access to AT&T under contract at fully compensatory rates. AT&T personnel will not be permitted to order or change access lines or access line data in the BOC CRIS or service order processor. If, pursuant to a specific customer request, AT&T acts as the customer's agent to obtain access services from the BOC, AT&T will do so by separately contacting the same personnel in the BOC who deal with all equipment vendors and on the same terms and conditions as the BOC offers to all vendors.

Until conversion, AT&T billing and recordkeeping for embedded CPE business accounts will be performed by the

BOC CRIS system. One customer bill with one total amount due will be rendered during this transition period, but charges will be separately stated for AT&T embedded customer premises equipment. AT&T charges will be accompanied by a statement comparable to that required for AT&T interexchange billing (*see* Decree, § VIII(E)), and customers will be directed to call the AT&T business office at a telephone number printed on the bill for any questions relating specifically to embedded CPE charges. The BOC will own the CRIS system and will be fully compensated for all billing services rendered to AT&T.

The AT&T business office will handle all inquiries involving disputes over AT&T embedded customer premises equipment charges on joint customer bills. Calls to BOC account inquiry centers concerning disputed AT&T charges or requiring adjustment will be referred to the AT&T business office. To enable AT&T personnel to resolve billing inquiries relating to AT&T embedded equipment, the AT&T business office will be provided access to customer bills in whatever form they are available from the local BOC.

Treatment notices will continue to be generated by the BOC CRIS system based on the total amount due. The BOC account inquiry center will conduct normal collection activities on all overdue accounts unless or until a customer indicates that the failure to pay is due to a dispute over AT&T equipment charges. If this occurs, the BOC will credit the customer's account for the amount of AT&T equipment charges in dispute and refer the charges to AT&T for collection or adjustment. AT&T will compensate the BOC for these services.

(2) Operations During Transition — Residence

Upon divestiture, AT&T will establish regional Residence Service Centers which will handle all service negotiations for residence and one and two line, non-key business customers via a toll free 800 telephone number. Access to customer records required for negotiation of service orders will be obtained through the BOC CRIS data base. Such access will be provided by the BOC under contract at fully compensatory rates. AT&T employees will negotiate delivery, return or repair of instruments with customers, distributing orders to AT&T product distribution channels by means of the BOC service order administrative network. AT&T employees will type service order information directly into the local BOC service order processor for distribution to the CRIS billing system. Access to the BOC service order processor by means of a terminal located at the AT&T Residence Service Center will be provided under contract by the BOC.

Until conversion to AT&T systems, billing and record-keeping for embedded CPE residence and one and two line, non-key business customers will be performed by the BOC CRIS system. During this transition period, one customer bill with one total amount due will be rendered, but charges will be separately stated for embedded customer premises equipment. AT&T embedded CPE charges will be accompanied by a statement similar to that required for interexchange billing, (*see* Decree, § VIII(E)), and customers will be directed to call the AT&T Residence Service Center at the toll free 800 telephone number printed on the bill for any inquiries relating specifically to AT&T embedded CPE charges. The BOCs will be fully compensated for all billing services shared with AT&T during the transition period.

The AT&T Residence Service Center will handle all inquiries specifically concerning AT&T residence CPE charges on joint customer bills. Calls to BOC Residence Service Centers concerning AT&T customer premises equipment charges will be referred to the toll free AT&T Residence Service Center number. The AT&T Residence Service Center will be provided access to BOC billing records in order to respond to such inquiries.

Treatment notices will continue to be generated by the BOC CRIS system based on the total amount due. The BOC account inquiry center will conduct normal collection activities on all overdue accounts unless or until a customer indicates that the failure to pay is due to a dispute over AT&T equipment charges. If this occurs, the BOC will credit the customer's account for the amount of equipment charges in dispute and refer the charges to the AT&T Residence Service Center for collection or adjustment. AT&T will compensate the BOCs for these services.

iv. Testing and Maintenance Support Systems

In addition to service order and billing systems, other BOC computer systems are used to support maintenance and testing activities associated with embedded equipment. For example, most BOCs have a mechanized system known as the Loop Maintenance Operations System (LMOS), which supports the receipt, tracking, routing, and analysis of customer initiated trouble reports. AT&T will require a similar system for handling customer premises equipment trouble reports. This replacement system, the Business Maintenance Information System (BMIS) is scheduled to begin operation by January 1, 1984. The implementation of this system will require the transfer of customer premises equipment related data from the LMOS system to the BMIS system, and in some cases the transfer of manual records. This system conversion involves the transfer of over fifty million station records.

In view of the enormous demands reorganization will place on BOC and AT&T computer systems and data systems personnel, there is a probability that the BMIS system may not be available in all locations by the date of divestiture. Should this occur, joint use of LMOS will be required for a brief transition period to avoid disruption of service and inconvenience to customers. In such situations, the BOCs will be fully compensated by AT&T.

v. Contractual Provisions Governing Shared Use of BOC Service Order and Billing Systems by AT&T During Transition

The terms and conditions governing shared use of BOC service order and billing systems during the period of transition to AT&T systems will be governed by contracts between AT&T and the BOCs. The major terms and conditions of these contracts are described below.

(1) Cost Methodologies for Joint Use

The BOCs shall be fully compensated for all AT&T use of BOC service order and billing systems and for all CPE payment processing and collection activities performed on AT&T's behalf. The contracts will set forth costing methodologies and procedures, in accordance with the principles embodied in existing Jurisdictional Separations and accounting procedures, to provide for full distribution of all appropriate costs. Such costs will include: (a) investment related costs (depreciation, taxes, lessor's cost of capital); (b) primary costs (direct labor, departmental line supervision, departmental expenses, staff support, operating rents); (c) general overhead costs (social security, relief and pensions, general expenses, insurance, accidents and damages, general services and licenses, other operating expenses); and (d) a float charge. These costs will be identified for each shared system. Total costs for each system will then be allocated among the entities using the system on the basis of relative use or other bases appropriate to the system, such as investment or revenues.

(2) Conversion Costs

Post-divestiture costs associated with removal of AT&T embedded equipment data from BOC data bases, translation of data to the AT&T system format and loading of the separate AT&T data base will be borne by AT&T. These costs will be determined and allocated to AT&T in accordance with the accounting procedures described above.

(3) BOC Collection of AT&T Accounts Receivable

The design of the BOC billing systems does not permit association of amounts paid by customers with specific charges comprising the total balance due. Payments can be applied only against the total balance due. When partial payments are tendered, the BOCs will therefore be unable to determine what portion of the payment is due each entity whose charges are included in the total balance due. The billing systems cannot be modified to permit such accounting by the date of divestiture.

In order to permit proper accounting of payments received, the contract will provide for BOC purchase of the AT&T embedded CPE accounts receivable "with recourse" during the period the BOC performs billing for AT&T. The accounts will be purchased at a discount which reflects the costs incurred by the BOC for uncollectibles attributable to AT&T charges and the time value of funds paid in advance of actual collection. Under the "with recourse" provision, when a customer disputes AT&T embedded CPE charges, such AT&T charges will be removed from the customer's bill and referred to AT&T for resolution. Because the BOC will already have paid AT&T for these charges removed from the customer's bill, such amounts will be credited against the amount due for the AT&T accounts purchased in the following month. The discount rate will be determined and adjusted based on experience.

(4) Protection of Proprietary Information

The contracts will specify that access line information and customer premises equipment data contained in the shared data bases will be deemed proprietary and the property of the BOC and AT&T, respectively. Wherever practical, information in the data bases belonging to one party will be masked or rendered mechanically inaccessible to the other party. In situations where this is not practical, the contract will require that such proprietary information of the other party be held in confidence, be disclosed only to those of the other party's employees, contractors or agents who have a need for information in the data base in connection with the sharing of facilities under the contract, and be used only for fulfilling the obligations imposed by the contract. All AT&T customer premises equipment information will be removed from the BOC data bases when records conversion is completed. Proprietary information that is (1) made public by an act not attributable to the receiving company or its subsidiary or parent or (2) explicitly agreed in writing by the owning company not to be confidential will not be subject to contractual restrictions on dissemination and use of proprietary information.

(5) Duration

The contracts between AT&T and each BOC for sharing of service order processing, billing and account inquiry systems for embedded CPE will provide for termination of all sharing no later than December 31, 1987. AT&T will have the option to terminate the contract with any BOC at any earlier time upon six months' written notice.

Such provision for early termination upon reasonable notice will allow earlier separation of the AT&T and BOC billing systems in the event regulatory or technological developments permit AT&T to process equipment records and render bills for embedded CPE with the same systems it will use for new, detariffed CPE. The use of common systems to process records and bill for both new and embedded CPE would substantially reduce the period for which AT&T would need to share BOC systems.

It is unlikely, moreover, that conversion of BOC records for embedded CPE to AT&T systems would be conducted simultaneously in all BOCs in any event. As conversion is completed in a given BOC, the contract with that BOC will be terminated.

3. Other Physical Assets

In addition to network facilities and terminal equipment, the physical assets of the Bell System that must be allocated between the BOCs and AT&T include land and buildings (Accounts 211 and 212). A number of other physical assets must also be allocated, including general equipment items (Accounts 261 and 264), and materials and supplies (Account 122).

a. Land and Buildings (Accounts 211 and 212)

Account 211 includes Bell System investments in land and in land improvements.[96] Account 212 includes the costs associated with the purchase of buildings, improvements in leased buildings, the construction of new buildings and building additions, and the renovation of buildings.[97]

Virtually all land in service in the Bell System is associated with buildings. The assignment of buildings in Account 212 will also include the land on which the buildings are situated.[98]

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[96] Account 211 includes "the original cost of all land held in fee, and of leaseholds, easements, and similar rights in land having a term of more than one year used for purposes other than the location of outside plant . . . or externally mounted central office equipment . . . [and any] special assessment upon land for the construction of public improvements." Thus, land investments include items such as commissions and fees to brokers and agents; awards in condemnation proceedings; the costs of clearing, examining, registering, or defending title to property; and assessments for sidewalks on public streets abutting company property.

[97] Account 212 includes "the original cost of buildings, and the cost of all permanent fixtures, machinery, appurtenances, and appliances installed as a part thereof . . . [and any] costs incident to the construction or purchase of a building and to securing possession and title." Thus, building investments include general and central office buildings, garages and shops, elevators, escalators, central air conditioning systems, fences and hedges, and large self-supporting towers. As discussed in Part I.A.l.a.ii.(3), *supra,* guyed towers and free-standing, self-supporting towers will be assigned together with the outside plant facilities which they support. Those self-supporting towers that are attached to or are a part of the building structure, however, will be assigned to the entity which will own the building, pursuant to the criteria set forth in this Section of the Plan.

[98] Some Bell System investment in land is contained in Account 103, which includes the investment in physical property not included in other accounts such as telephone property retired and held for sale, property not incident to telephone operations, *e.g.,* lighting, water, power, or manufacturing plants, and miscellaneous assessments against property for public improvements. The land and other

(Footnote continued on following page)

The ownership of buildings will be assigned either to AT&T or the BOCs based on the functions that the buildings perform. Buildings — whether owned or leased — that are used solely for intraLATA functions will be assigned to the BOCs; buildings that are used solely for interLATA functions will be assigned to AT&T; and buildings that are used for both functions will be assigned to AT&T or the BOCs, based on predominant use. Predominant use in multifunction buildings will be measured by the number of square feet of floor space used or reserved for use by each entity as of January 1, 1984.

Building locations and space in the Bell System fall into two generic categories: (1) equipment buildings and space; and (2) non-equipment buildings and space. Equipment buildings include the following general types of equipment, facilities or uses: switching, transmission, and power equipment; cable vaults; operator rooms (*e.g.*, TSPS, Directory Assistance); assignment bureaus; test centers; data centers; and other similar types of equipment, facilities, or uses. A building that contains equipment space is generally considered an equipment building even if a portion of the building is devoted to non-equipment or administrative uses. Examples of equipment buildings include repeater huts, radio buildings, central office buildings, wire center buildings, switching center buildings, data processing buildings, and any exchange or other buildings housing the above-listed types of equipment, facilities, or uses. There are approximately 22,000 equipment buildings comprising over 200 million square feet of floor space in the Bell System.

Non-equipment buildings are buildings that include the following general types of uses: customer service areas; office space; employment offices; training areas; meeting rooms; auditoriums; lounges; cafeterias; medical offices; supply rooms; mailrooms; storerooms; archives; or motor vehicle parking and motor vehicle service areas. Examples of non-equipment buildings are administrative buildings, headquarters, garages, customer service centers, and similar buildings or spaces. There

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(Footnote continued from previous page)

property in this account will be assigned to the pre-retirement predominant user, the owner of the facilities served by the lighting, water, power or manufacturing plant, or the owner of the assessed property, respectively.

are over 11,000 non-equipment buildings comprising approximately 130 million square feet of floor space in the Bell System.

Equipment buildings will be assigned to either AT&T or a BOC based on which entity will use the largest number of square feet of equipment space as of January 1, 1984. Non-equipment buildings will be assigned to either AT&T or a BOC based on which entity will use the largest number of square feet of non-equipment space as of January 1, 1984.[99]

Where either AT&T or a BOC is the minority user of several non-equipment buildings, it may be economically and administratively more efficient for the minority user to consolidate the space it occupies in each of these buildings into a single building location prior to divestiture. In such cases, that entity would be assigned the single building of which it is the predominant user after such consolidation, and the remaining buildings will be assigned to the other entity. Alternatively, where one entity is occupying only a small amount of space in a non-equipment building that is owned by the other entity, the non-owning entity may seek rental space from a third party.

In a few instances, where one entity presently leases a non-equipment building from a third party and the lease contains a non-assignment clause, assigning the building to the other entity under the predominant use test might require a renegotiation of the lease. If delays and significant economic penalties would accompany such lease negotiations, the building will be assigned to the existing lessee and the other entity will be able to share building space through a subleasing arrangement.

Although sharing of building space will be eliminated where feasible, some sharing of equipment building space is likely to continue because of the time and expense required physically to separate equipment systems. Some non-equipment building space will also be shared. Where such sharing of building space is necessary, AT&T and the BOCs may lease that space under the contracts for sharing of

[99] In a few instances, a building principally serves administrative or other non-equipment purposes and only a minor portion of the building space serves equipment purposes. Such buildings will be assigned to the entity that is the predominant user of the total equipment and non-equipment building floor space.

multifunction facilities. Rentals will be based on the amount of square feet used at each location and the operating and other expenses associated with each location.

In some instances, a readily identifiable space in a multifunction building — a floor or a major portion of a floor, for example — is used solely by AT&T or a BOC. Ownership of such space may be assigned to the user of the space under a condominium or similar arrangement with the other entity.

b. General Equipment

The category of investment known as general equipment includes furniture and office equipment (Account 261) and vehicles and other work equipment (Account 264). Leased items of general equipment are included in this category and treated in the same manner as owned items. Assignment of ownership of the general equipment items will be made in accordance with the principles and procedures discussed below.[100]

i. Office Equipment and Furniture (Account 261)

Account 261 includes "the original cost . . . of furniture and equipment in offices, storerooms, shops, and other quarters." Thus, Account 261 contains Bell System investment in both office equipment items and furniture items.[101]

Office equipment items will be assigned to the entity that uses the equipment. Where office equipment items will be

[100] Although computer equipment items valued in excess of $200 fall into the general equipment category of investment (Account 261-03), they are discussed in other sections of this Plan. For example, the assignment of computer hardware for network facilities operations systems is discussed in Part I.A.1.a.i.(7), *supra.*

[101] Included within the definition of furniture are items such as bookcases, cabinets and filing cases, chairs, rugs, desks, bins, counters and shelves, portable lockers and wardrobes, magazine racks, and tables. Included within the definition of office equipment are items such as addressing machines, billing machines, blueprinting machines, computing machines, duplicating machines, mailing equipment, photostat and recording machines, cash registers, check writers, postage meter machines, typewriters, and projection equipment.

located in a building shared by a BOC and AT&T, they will bear property tags to indicate ownership of the items.

Similarly, furniture items meeting a specific user's or department's unique functional requirements (such as components of special work stations for service representatives, word processing operators, and data entry operators) will be assigned to the user organization. This assignment principle, in which the furniture follows the people, gives the user organization responsibility and accountability for the investment and control of the items. Moreover, this assignment principle insures that furniture that is useful only to particular user organizations will not become useless surplus by reason of its assignment. In buildings shared by a BOC and AT&T, these special purpose furniture items will have property tags to indicate their ownership.

The remaining furniture items — those purchased for use in a particular building (generally large administrative buildings, such as headquarters or data center facilities) and capable of serving multi-tenant needs — will remain in the building and will be assigned to the owner of the building. In general, these items will be furniture components that are physically integrated with the building's electrical, mechanical, and lighting systems.

In some instances in which large administrative buildings or data center facilities will be shared by a BOC and AT&T, it may be necessary for the building owner to lease furniture to the lessee of the building. Generally, however, there will be no sharing of functionally discrete furniture and office equipment items.

ii. Vehicles and Related Equipment (Account 264)

Account 264 includes "the original cost of vehicles, tools, garage and shop machinery and equipment, and miscellaneous work equipment. . . ." This account is comprised of several subaccounts discussed below.

(1) Motor Vehicles (Account 264-01)

Account 264-01 contains motor vehicles such as passenger and material-carrying automobiles, trucks, truck-type tractors, and self-propelled vans. Also included in this subaccount are associated power-operated equipment items that are considered an integral part of a particular motor vehicle and which enhance the capability and operation of the vehicle (such as air compressors, duct rodders, ladders, lifts and other aerial devices on vehicles such as trucks or concrete mixers). These items will be assigned based on predominant use. Where such items are to be located in a building shared by a BOC and AT&T, they will bear property tags to indicate ownership of the items.

(2) Garage and Motor Vehicle Shop Equipment (Account 264-02)

Account 264-02 includes Bell System investment in capital tools and work equipment used in garages and motor vehicle shops. Examples of items contained in this subaccount include engine analyzers and other diagnostic equipment, exhaust emission testers, garage air compressors, garage jacks, hand and power tools, power machine tools, tanks and pumps, vehicle hoists and lifts, and wheel alignment and tire change equipment. Fixed equipment (fuel pumps and tanks, lifts, compressors, and so forth) will be assigned to the owner of the building; portable equipment (such as diagnostic devices and tire changers) will be assigned to the predominant user.

(3) Special Tools and Work Equipment (Account 264-03)

Account 264-03 includes Bell System investment in major power-operated or specialized tools and work equipment. Examples of items in this subaccount include back-filling and tamping machines, boats and barges, aircraft, cable-laying and rooter plowers, pole treating apparatus, special purpose trailers, and trenching machines. These items generally will be assigned to the predominant user. Where such items are to be located in a building shared by a BOC and AT&T, they will bear property tags to indicate ownership of the items. Items that are attached to a motor vehicle will be assigned to the entity that will own the motor vehicle.

(4) Other Shop Equipment (Account 264-04)

Account 264-04 includes the cost of capital tools and work equipment in cable forming, station equipment repair, and other shops, except garages and motor vehicle shops. Examples of items contained in this subaccount include drop hammers, electric generators, engines, lathes, power saws, test sets, paint spraying equipment, and work benches. These items will be assigned to the entity that is assigned ownership of the buildings in which the items are located.

(5) Other Tools and Work Equipment (Account 264-05)

Account 264-05 includes Bell System investment in portable, discrete work equipment and tools that are used in or with vehicles, and capital tools such as hydraulic pole pullers, portable derricks, portable fire extinguishers, portable ladders, power reels, snowmobiles, tarpaulins, test sets, and walkie talkies generally used by craft forces outside of central offices. These items generally will be assigned to the predominant user. Where such items are to be located in a building shared by a BOC and AT&T, they will bear property tags to indicate ownership of the items. Items that are attached to a motor vehicle will be assigned to the entity that will own the motor vehicle.

(6) Storeroom Work Equipment (Account 264-06)

Account 264-06 includes Bell System investment in capital tools and other work equipment assigned for use in storerooms and storage yards for material and supplies. Examples of items contained in this subaccount include carts, hand trucks, hoists, platform scales, vises, and wheel barrows. These equipment items will be assigned to the entity that is assigned ownership of the buildings in which the equipment is located.

c. MATERIALS AND SUPPLIES (Account 122)

Bell System investment in materials and supplies is contained in Account 122. Account 122 includes "the cost of unapplied material and supplies held in stock . . . including plant supplies, motor vehicle supplies, tools, fuel, and other supplies; . . . material and articles of the company in process of manufacture for supply stock; . . . [and] material recovered in connection with construction, maintenance, or retirement of property."[102] The process of assigning ownership of these items will be made in accordance with the principles and procedures discussed below for the several subaccounts of Account 122.

i. Plant Supplies — Nonexempt (Account 122-01)

Account 122-01 includes the investment of the Bell System in major items designated for the construction and maintenance of outside plant. These items will be assigned to the entity that is assigned the underlying outside plant facilities, in accordance with the procedures described in Part I.A.1.a.ii, *supra.*

ii. Plant Supplies — Exempt (Account 122-02)

Account 122-02 includes the investment of the Bell System in minor items of plant supplies. Included in this subaccount are pole line supplies, cable supplies (optical fiber materials and copper and other cable materials), aerial wire supplies, underground conduit supplies, and station connections materials. These items of materials and supplies will be assigned to the entity that is assigned ownership of the building in which the items are located.

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[102] In general, the majority of the materials in Account 122 are new or reusable plant material or equipment held in stock for current use in construction and maintenance activities. Other materials in Account 122 include certain supplies and materials relating to the provision of operating plant facilities, surplus equipment held for sale, items held pending disposition for reuse or sale and, in some BOCs, miscellaneous supplies used in non-plant operations.

iii. Motor Vehicle Supplies (Account 122-03)

Account 122-03 includes the cost of oil, gasoline, diesel fuel, tires, and repair parts carried in supply stocks for subsequent distribution to the appropriate accounts on the basis of usage. These items will be assigned to the entity that is assigned ownership of the building in which the supplies are located.

iv. Central Office and Large Private Branch Exchanges (Account 122-04)

Account 122-04 includes the investment of the Bell System in new and reusable central office equipment held for future use (Account 122-14) and new and reusable large PBXs held for future use (Account 122-24). Ownership of central office equipment in this category will be assigned on the same basis as ownership of central office equipment contained in Account 221. *See* Part I.A.1.a.i, *supra.* Most of the large PBX equipment subaccount comprises PBX equipment that will be assigned to AT&T. *See* Part I.A.2.a.ii, *supra.* The network channel terminating equipment that would be provided for network interface purposes, however, will be assigned to the BOCs. The BOCs will retain the portion of this subaccount that they require to supply official service.

v. Motor Vehicles, Tools, and Other Work Equipment (Account 122-05)

Account 122-05 includes the original investment of the Bell System in motor vehicles that have been removed from service and placed in storage for six months or longer (Account 122-15); tools and other work equipment that have been removed from service and stored apart from tools available for current use; and non-tariffed mobile and maintenance radio spare units held in stock for subsequent usage (Account 122-25). Items in this account will be assigned to the entity that is assigned ownership of the building in which the items are located.

vi. Furniture and Office Equipment (Account 122-06)

Account 122-06 includes Bell System investment in any general stock of furniture and other office equipment held available for filling requisitions from any department. These materials will be assigned to the entity that is assigned ownership of the building in which the general stock is located.

vii. New Material — Class "W" (Account 122-07)

Account 122-07 includes new materials and supplies owned by the BOCs and AT&T that are held in the custody of Western Electric for use by the BOCs and AT&T under a warehousing arrangement known as the Class "W" stocking arrangement. Prior to divestiture, this arrangement will be phased out and Class "W" materials will be listed in other appropriate subaccounts of Account 122. Such materials will then be assigned according to the rules for assigning the assets in those subaccounts.

viii. New and Reusable Material — Class "C" (Account 122-08)

Account 122-08 includes new and reusable materials (other than those contained in Class "W") that are owned by the BOCs and AT&T and that are held in the custody of Western Electric for use by the BOCs and AT&T under a warehousing arrangement known as the Class "C" stocking arrangement. This Class "C" subaccount is further subdivided into various Accounting Identification Codes (AICs), the 70, 80, and 90 series.

The bulk of the AICs in Class "C" will be assigned to the BOCs, including exempt tools (AIC 80); non-exempt tools (AIC 81); non-exempt cable and reels (AIC 83); non-exempt other than cable and reels (AIC 82); exempt cable material (AIC 84); outside station connections (AIC 85); inside station connections (AIC 86); and central office equipment (AIC 87). The BOCs will retain that portion of the materials from the remaining AICs that they require to supply official service.

These include minor telephone and miscellaneous repair (AIC 72); minor teletypewriter (AIC 75); and manual PBX circuit packs (AIC 89). That which is not retained by the BOCs for official service will be assigned to AT&T. The materials in the AIC covering minor radiotelephone repair (AIC 73) will be assigned to AT&T. Finally, the materials in the remaining AIC — Chief Engineers Stock (AIC 99) — will be assigned proportionally in accordance with the procedures for assigning the material contained in Account 122-14 (new and reusable central office equipment).

ix. Other Materials and Supplies (Account 122-09)

Account 122-09 includes equipment retired in place (Account 122-19); equipment held for sale outside the Bell System (Account 122-29); equipment held for sale within the Bell System (Account 122-49); and other materials and supplies not included in the other subaccounts of Account 122 (Account 122-99). Most of the investment in this subaccount is equipment retired in place (Account 122-19). This investment will be assigned based on the predominant use of the equipment when last in service. Where equipment assigned to one entity is located in a building assigned to the other entity, arrangements may be made either to remove the equipment or lease the occupied space.

Equipment held for sale (Accounts 122-29 and 122-49) consists primarily of central office equipment and will be allocated in a manner similar to the material in Account 122-14 (new and reusable central office equipment). The remainder of the equipment held for sale will be assigned to the BOCs. The other materials and supplies in Account 122-99 will also be assigned to the BOCs.

x. Reserve for Supplies — Credit (Account 122-10)

Account 122-10 includes the balance in the reserve provided for shortages and overages of material and supplies. Amounts recorded in this account will be assigned to the BOCs.

4. Non-Physical Assets

The assignment of non-physical assets between AT&T and the BOCs reflects the following principles. Amounts that can be associated with specific physical assets or personnel will be assigned to the entity to which those assets or personnel are assigned. Where amounts are not directly associated with particular physical assets or personnel, they will be assigned to the BOCs.[103]

In the remainder of this section each account will be identified, the description of the account as defined by the Uniform System of Accounts will be provided, and its assignment between the BOCs and AT&T will be explained. Where the amount contained in any specific account or subaccount is identified, that amount reflects the current combined total for all BOCs as of June 30, 1982.

a. Telephone Plant Acquisition Adjustment (Account 100.4)

Account 100.4 includes amounts (47 C.F.R. § 31.100:4):

> "representing the difference between (1) the amount of money actually paid (or the current money value of any consideration other than money exchanged) for telephone plant acquired, plus preliminary expenses incurred in connection with the acquisition; and (2) the original cost of such plant, governmental franchises and similar rights acquired, less the amounts of reserve requirements for depreciation and amortization of the property acquired. If the actual original cost is not known, the entries in this account shall be based upon an estimate of such cost."

This account reflects any differences between the acquisition cost of in-place telephone plant and the original cost of the facilities. For example, if a BOC purchased facilities having a book value of $75 from an independent telephone company for $100, a debit entry of $25 would be made to Account 100.4.

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[103] Most of the latter amounts represent current assets that constitute the BOCs' working capital.

Account 100.4 is a relatively small account, approximately $5 million for all BOCs combined. Because the amounts relate to specific physical assets, they will be assigned between the BOCs and AT&T on the basis of the allocation of the underlying plant. If the amount is associated with facilities assigned to AT&T, that amount will be assigned to AT&T. All remaining amounts will be assigned to the BOCs.

b. Telephone Plant Adjustment (Account 100.7)

Account 100.7 includes (47 C.F.R. § 31.100:7):

> "the difference between the original cost, estimated if not known, and the book cost of telephone plant to the extent that such difference is not properly includible in account 100:4, 'Telephone plant acquisition adjustment,' and for which disposition has not previously been made."

Account 100.7 thus includes differences between acquisition and original costs of telephone plant not otherwise includible in Account 100.4. Because this account is not used by the BOCs or AT&T, there will be no balance to assign at the time of divestiture.

c. Investments in Affiliated Companies (Account 101.1)

Account 101.1 includes (47 C.F.R. § 31.101:1):

> "the book cost . . . of the company's investment in securities issued or assumed by affiliated companies other than securities held in special funds . . . or as temporary cash investments."

This account contains the book cost of the operating companies' investment in securities such as common stock, preferred stock, and long-term debt issued or assumed by affiliated companies. "Book cost" is the "amount at which property is recorded . . . without deduction of related reserves," and an "affiliated company" is a company that "directly or indirectly . . . control[s] or [is] controlled by, or [is] under common control with the accounting company" (47 C.F.R. § 31.01-3(g),(e)).[104]

Several of the BOCs have subsidiaries, and Account 101.1 reflects their investments in these subsidiaries.[105] The aggregate total of this account is approximately $71 million, of which approximately $68 million is the book cost investment of New York Telephone in its subsidiary, Empire City Subway Company.[106]

The assignment of the assets, functions, and liabilities of these subsidiaries will follow the guidelines applicable to the assets and liabilities held directly by the BOCs: they will be assigned between AT&T and the BOCs on the basis of whether they relate to exchange and exchange access services (which will be assigned to the BOC), or to other functions (which will be assigned to AT&T).[107] If any assets are assigned to AT&T, Account 101.1 of the relevant BOC will be reduced by the adjusted net book value of those assets.[108] The remainder of Account 101.1 will be assigned to the BOCs and will reflect BOC investments in subsidiaries performing exchange and exchange access functions.

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[104] A BOC is currently an affiliate of all other BOCs, AT&T, Western Electric, Bell Labs, and all subsidiaries of these companies because all such companies are under the common control of AT&T. BOC investments in companies that are not affiliated are contained in Account 102. *See* Part I.A.4.e, *infra.*

[105] Empire City Subway Company is a subsidiary of the New York Telephone Company; the Malheur Company and Mubeta Development Company are subsidiaries of Mountain States Telephone and Telegraph Company; and Southwestern Bell Telephone Company (Oklahoma), Southwestern Bell Telephone Company of Arkansas, Arkansas Bell Telephone Company, Kansas Bell Telephone Company, Missouri Bell Telephone Company, Oklahoma Bell Telephone Company, Texas Bell Telephone Company, Texas Bell Communications, and Southwestern Redevelopment Corporation are subsidiaries of the Southwestern Bell Telephone Company.

[106] Although Nevada Bell is a subsidiary of Pacific Telephone, Pacific's investment in Nevada Bell is not reflected in this amount because the books of account of the two companies are consolidated before the aggregate BOC balance in Account 101.1 is calculated.

[107] It is expected that all of the assets of Empire City Subway relate to exchange and exchange access service and will be assigned, in their entirety, to New York Telephone. However, a portion of Empire's assets may be assigned to AT&T if they relate to interLATA service and otherwise satisfy the requirements of this Plan for ownership by AT&T. *See* Part I.A.1.a.ii, *supra.*

[108] *See* Part IV.A.2, *infra.*

d. Advances to Affiliated Companies (Account 101.2)

Account 101.2 includes "the amount of the investment advances to affiliated companies" (47 C.F.R. § 31.101:2). The account balance is approximately $1.8 million and is divided between Subaccounts 101.2-01 (Investment advances) and 101.2-09 (Other).

Subaccount 101.2-01 (Investment advances) totals approximately $1 million and contains the amount of investment advances by the BOCs to their subsidiaries. These amounts will be assigned to the BOCs.

Subaccount 101.2-09 (Other) contains the balance of the account (approximately $800,000) and includes amounts originally booked in Account 117.1 (Notes receivable from affiliated companies) or Account 120.1 (Accounts receivable from affiliated companies) when such amounts have not been paid and are outstanding after twelve months.[109] The subaccount thus includes overdue notes or receivables from a BOC subsidiary, or from AT&T, Western Electric or another BOC. These amounts will be investigated and, if possible, resolved prior to divestiture — either by being paid off by the debtor affiliate company or written off by the BOC. Otherwise, the amount will be assigned to the BOC.

e. Other Investments (Account 102)

Account 102 includes (47 C.F.R. § 31.102):

> "the book cost . . . of the company's investment in securities issued or assumed by nonaffiliated companies and individuals . . . also its investment advances to such parties and special deposits of cash for more than 1 year from date of deposit."[110]

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[109] *See* Part I.A.4.l and I.A.4.o, *infra*, for a description and discussion of Accounts 117.1 and 120.1.

[110] Securities of non-affiliates held in special funds or as temporary cash investments are not included within Account 102. Such amounts are contained in Account 104, 116, 136, or 137 as appropriate. *See* 47 C.F.R. § 31.102, Note C. For a definition of "book cost" and "nonaffiliated company," see Part I.A.4.c, *supra*. *See also* 47 C.F.R. § 31.01-3(e),(g).

The balance in this account is approximately $13 million.[111] The BOCs' investments or advances to all non-affiliated companies or individuals will be assigned to the BOCs.

Special deposits of cash maintained in Account 102 include deposits made to municipalities in connection with street openings for installing or repairing underground cable (if such special deposit has a term more than one year from the date of deposit). Such amounts will also be assigned to the BOCs, except for any special cash deposits associated with assets or functions assigned to AT&T (*e.g.*, deposits for street openings involving cable that will be assigned to AT&T).

f. Sinking Funds (Account 104)

Account 104 includes (47 C.F.R. § 31.104):

> "the amount of cash, the book cost of securities issued by other companies, and the book or face amount of nominally issued and nominally outstanding securities issued or assumed by the company, and other assets which are held by trustees or by the company's treasurer in a distinct fund, for the purpose of redeeming outstanding obligations."

This account has a current balance of zero and is expected to have no balance at the time of divestiture. However, to the extent that any balance exists in Account 104 upon divestiture, it will be assigned to the BOCs.[112]

g. Company Securities Owned (Account 105)

Account 105 includes (47 C.F.R. § 31.105):

> "the book or face amount of nominally issued and nominally outstanding securities issued or assumed by the

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[111] This amount includes Ohio Bell's non-controlling investment in the Champaign Telephone Company and the Chillicothe Telephone Company.

[112] For example, Pacific Telephone uses this account for periodic redemption of its non-voting preferred stock. Any balance that may exist at the time of divestiture will be assigned to Pacific.

company, other than such securities held in sinking or other special funds."

Account 105 is not being used by the BOCs and will have no balance to assign at the time of divestiture.

h. Cash (Account 113)

Account 113 includes (47 C.F.R. § 31.113):

"the amount of current funds available for use on demand in the hands of financial officers and agents, or deposited in banks or with trust companies, also funds in transit for which agents have received credit."

Account 113 totals approximately $242 million and includes all cash on hand. The entire amount in Account 113 will be assigned to the BOCs.

i. Special Cash Deposits (Account 114)

Account 114 includes (47 C.F.R. § 31.114):

"the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due 1 year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within 1 year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished."

The total amount in Account 114 is approximately $18 million. It will be assigned to the BOCs except for cash held to ensure performance of contracts assigned to AT&T after divestiture.

j. Working Funds (Account 115)

Account 115 includes (47 C.F.R. § 31.115):

> "amounts advanced to officers, employees, and others as working funds from which expenditures are to be made and accounted for."

The current balance of Account 115 is approximately $37 million. All advances to personnel to be transferred to AT&T will be repaid and removed prior to divestiture, and the remaining balance of Account 115 will be assigned to the BOCs. To the extent that advances to personnel assigned to AT&T cannot practicably be repaid prior to divestiture, the unexpended amounts will be assigned to the BOC for collection, together with the related accounting for the expenditures made prior to divestiture.

k. Temporary Cash Investments (Account 116)

Account 116 includes (47 C.F.R. § 31.116):

> "the book cost . . . of securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character. Securities of affiliated companies included in this account shall be recorded in a subaccount hereunder."

The amount in Account 116 totals approximately $187 million and will be assigned in its entirety to the BOCs.[113]

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[113] Account 116 is divided into two subaccounts as required by the USOA. Any temporary cash investments in securities of affiliates would be included in Subaccount 116.01; however, the subaccount has a balance of zero. The entire balance of the account involves temporary cash investments in non-affiliated companies and is contained in Subaccount 116.02. For a definition of "book cost," see Part I.A.4.c, *supra.*

l. Notes Receivable from Affiliated Companies (Account 117.1)

Account 117.1 includes (47 C.F.R. § 31.117:1):

"the book cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable from affiliated companies on demand or within a time not exceeding 1 year from date of issue.[114]

The total amount of Account 117.1 is approximately $7.3 million. It will be assigned in its entirety to the BOCs.[115]

m. Other Notes Receivable (Account 117.2)

Account 117.2 includes (47 C.F.R. § 31.117:2):

"the book cost not includible elsewhere, of all collectible obligations from nonaffiliated companies and individuals in the form of notes receivable and other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding 1 year from date of issue."

Account 117.2 thus contains all collectible obligations from nonaffiliated companies and individuals that are due within one year of issue.

The amounts in the account total approximately $150,000 and will be assigned to the BOCs with one exception. A portion of the balance in the account represents loans and relocation advances to employees who will be transferred to AT&T. To

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[114] Obligations of affiliated companies that mature more than 1 year from date of issue and notes evidencing investment advances are included in Accounts 101.1, 101.2, 104, 116, 136, or 137 as appropriate. *See* 47 C.F.R. § 31.117:1.

[115] Except for notes receivable from other BOCs which will remain within the same regional holding company (whereby those BOCs remain affiliated), all amounts in Account 117.1 (Notes receivable from affiliated companies) will be transferred by crediting Account 117.1 and debiting Account 117.2 (Other notes receivable) following divestiture and the elimination of affiliated status.

the extent these amounts are not repaid and removed by the time of divestiture, this portion of Account 117.2 will be assigned to AT&T.

n. Due from Customers and Agents (Account 118)

Account 118 includes (47 C.F.R. § 31.118):

"amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers."

Account 118 totals approximately $7.2 billion (net of the reserve for uncollectibles).

As required by the FCC, Account 118 is divided into a series of subaccounts, including a reserve for uncollectibles.[116] Subaccount 118-01 (Customers — live accounts) includes all amounts due from customers who are receiving telephone service; it totals approximately $5.1 billion. Subaccount 118-02 (Customers — final and suspended accounts) includes amounts due from customers whose accounts have been terminated or suspended; it totals approximately $157 million. Subaccounts 118-03 (Collection agencies) and 118-04 (Collectors and agents) include amounts due from third parties acting as agents for the collection of amounts due from customers.[117] These two subaccounts total approximately $199 million.

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[116] The USOA requires the account to be maintained so that amounts due from "customers who are still receiving telephone service" are differentiated from those due from "customers whose telephone service has been discontinued and whose accounts are in the process of collection" (47 C.F.R. § 31.118(a)). The USOA also requires the maintenance of a reserve for uncollectibles as a contra account to the total amount due from customers and agents.

[117] Subaccount 118-03 (Collection agencies) includes amounts due from customers whose telephone service has been discontinued and whose accounts are in the process of collection by internal Bell System or outside collection agencies. Subaccount 118-04 (Collectors and agents) includes amounts collected but not yet remitted from collecting agents such as banks or stores.

Subaccount 118-05 (Unbilled service) includes the estimated amount of earned revenues accruing from the end of the period for which the customer was last billed to the end of the current calendar month, amounts of unbilled installment charges for services rendered, and amounts of gift certificates and products or services sold in the current month but which will not be billed until the subsequent month. Subaccount 118-05 totals approximately $1.9 billion.

Subaccount 118-07 is the reserve for intrastate uncollectibles and represents the estimated portion of the total amount due from customers and agents that will not be collectible. The current reserve is approximately $133 million.[118] After divestiture, but no later than the final Division of Revenues settlement (expected to occur by March 31, 1984), each BOC's Subaccount 118-07 reserve will be augmented by a portion of the Bell System reserve for interstate uncollectibles maintained on AT&T Long Lines' books in Account 165 (Other current liabilities). This reserve is maintained for all parties to the Bell System Division of Revenues contract and has a current balance of approximately $129 million. This balance will be assigned among the BOCs and AT&T on the basis of the relative historical realized uncollectible experience of each company.

The entire balance of Account 118 — including the reserve for uncollectibles (Subaccount 118-07) as augmented by the assignment of the appropriate portion of the reserve for interstate uncollectibles maintained on Long Lines' books — will be assigned to the BOCs.

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[118] As prescribed by the USOA, the reserve is credited (increased) with amounts that are charged to Account 530 (Uncollectible operating revenues) on the income statement. The account is debited (decreased) whenever a specific uncollectible is written off through a credit to Account 118 (Due from customers and agents). Where an amount that has been so written off is subsequently collected, the reserve is credited (increased). *See* 47 C.F.R. § 31.118(b).

o. Accounts Receivable from Affiliated Companies (Account 120.1)

Account 120.1 includes (47 C.F.R. § 31.120:1):

"amounts due from affiliated companies on all transactions that are subject to current settlement, except for sales of telephone service at regular rates. There shall be included herein accounts receivable arising from division of revenues."

Account 120.1 has a balance of approximately $100 million and is divided into several subaccounts. Among the principal subaccounts, approximately $3 million is receivable from Western Electric (Subaccount 120.1-05); approximately $75 million is receivable from AT&T and its principal telephone subsidiaries (Subaccount 120.1-06); approximately $11 million is receivable from other affiliates (Subaccount 120.1-09); and approximately $11 million represents receivables for unbilled custom work (Subaccount 120.1-10). The entire balance of Account 120.1 will be assigned to the BOCs.[119]

p. Other Accounts Receivable (Account 120.2)

Account 120.2 includes (47 C.F.R. § 31.120:2):

"all amounts currently due, other than those from affiliated companies, and not provided for in other accounts, such as those for traffic settlements, material and supplies, repairs to telephone plant, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts."

Account 120.2 thus includes all accounts receivable other than "those from affiliated companies, and not provided for in other accounts." The balance of the account is approximately $244 million and will be assigned to the BOCs with two exceptions.

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[119] Upon divestiture and the elimination of affiliation of the BOC to other Bell System companies, any amounts remaining in Account 120.1 (and not receivable from other BOCs which will remain affiliated as part of the same regional company) will be transferred to Account 120.2 (Other accounts receivable).

The first exception involves portions of the balance of Subaccount 120.2-08 representing loans to employees secured by wages. Loans to employees who will be transferred to AT&T will be identified, repaid, and removed from the subaccount by the time of divestiture; however, any amounts which remain unpaid will be assigned to AT&T.

The second exception involves Subaccount 120.2-99 (Other accounts receivable — miscellaneous). This subaccount contains all miscellaneous accounts receivable from non-affiliates or individuals not otherwise provided for in other accounts or subaccounts. For example, it contains amounts owed by other common carriers for facilities provided for their use in furnishing services (such as local facilities under the ENFIA tariff) and amounts due from independent telephone companies under the separations and settlements procedures. The bulk of this subaccount will be assigned to the BOCs. However, any portion of Subaccount 120.2-99 that relates to facilities, functions or personnel involving services that AT&T will perform after divestiture will be assigned to AT&T.

q. Interest and Dividends Receivable (Account 121)

Account 121 includes (47 C.F.R. § 31.121):

> "the amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned."

The account thus contains the amount of interest and dividends accrued but not yet matured or payable on the notes, bonds, loans, and stock held by the BOCs. The balance in Account 121 is approximately $3.7 million; it will be assigned to the BOCs.

r. Other Current Assets (Account 123)

Account 123 includes (47 C.F.R. § 31.123):

"the amount of all current assets which are not includible in accounts 113 to 122, inclusive, such as unmatured rents receivable."[120]

The account thus contains all miscellaneous current assets not included in other accounts. The total amount in the account is approximately $8.5 million; it will be assigned to the BOCs.

s. Subscriptions to Capital Stock (Account 126)

Account 126 includes "the balance owing from subscribers upon legally enforceable subscriptions to capital stock" (47 C.F.R. § 31.126). The purchase price of the stock is debited to this account when the subscription is received and Account 153.1 (Capital stock subscribed) is simultaneously credited with the book amount of the stock subscribed. The difference between these amounts is debited or credited, as appropriate, to Account 134.1 (Discount on capital stock) or Account 152 (Premium on capital stock). As payments are received from subscribers to the stock, they are credited to Account 126. Account 126 has a zero balance, and will have no balance to assign at the time of divestiture.

t. Subscriptions to Funded Debt (Account 127)

Account 127 includes "the balance owing from subscribers upon legally enforceable subscriptions to funded debt" (47 C.F.R. § 31.127). The purchase price of the debt is debited to the account at the time the subscription is received and the face amount of the debt is simultaneously credited to Account 154.2 (Funded debt subscribed). The difference between these amounts is debited or credited, as appropriate, to Account 135 (Discount on long-term debt) or Account 168 (Premium on long-term debt). As payments are received from subscribers to

[120] Unmatured rents receivable are rents that have accrued but are not yet due or payable.

the debt, they are credited to Account 127. Account 127 has a zero balance and is expected to have no balance to assign at the time of divestiture. To the extent any balance does exist, it will be assigned to the BOCs. *See* I.B.4.c, *infra.*

u. Prepaid Rents (Account 129)

Account 129 includes (47 C.F.R. § 31.129):

> "the amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telephone plant under construction and minor amounts which may be charged direct to the final accounts."

The account thus includes rents (for buildings or equipment) paid by the BOCs in advance of the period in which they are chargeable to income.[121]

The balance of Account 129 is approximately $55 million. This balance will be assigned on the basis of the assignment of the rented facilities at divestiture. Prepaid rents for quarters or equipment assigned to the BOC will be assigned to the BOC; prepaid rents for quarters or equipment assigned to AT&T will be assigned to AT&T.

v. Prepaid Taxes (Account 130)

Account 130 includes (47 C.F.R. § 31.130):

> "the amounts of taxes paid in advance of the period in which they are chargeable to income, except amounts chargeable to telephone plant under construction and minor amounts which may be charged direct to the final accounts."[122]

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[121] As the term expires for which such prepayments are made (at monthly intervals) Account 129 is credited (decreased) and the appropriate operating expense account is charged. *See* 47 C.F.R. § 31.129.

[122] As the term expires for which the prepaid taxes are made (at monthly intervals) Account 130 is credited (decreased) and the appropriate operating expense account is charged. *See* 47 C.F.R. § 31.130.

Account 130 totals approximately $181 million. The amount of prepaid taxes for periods after divestiture that pertains to specific facilities or functions (such as real estate, personal property, or gross receipts taxes) will be assigned on the basis of the assignment of the underlying facilities or functions. If a facility is assigned to the BOC, any prepaid taxes associated with that facility will be assigned to the BOC. Similarly, the amount of prepaid taxes associated with facilities or functions assigned to AT&T will be assigned to AT&T. Any prepaid taxes not associated with facilities, functions or personnel will be assigned to the BOCs.

w. PREPAID INSURANCE (ACCOUNT 131)

Account 131 includes (47 C.F.R. § 31.131):

> "the amount of insurance premiums paid in advance of the period in which they are chargeable to income, except premiums chargeable to telephone plant under construction and minor amounts which may be charged direct to the final accounts."[123]

Account 131 currently has an aggregate negative balance of approximately $1 million, but positive balances in all but one of the individual BOCs.[124] Prepaid insurance which relates to local exchange facilities and operations (for example, prepaid property insurance for buildings assigned to the BOCs) will be assigned to the BOCs. Prepaid insurance which relates to post-divestiture AT&T functions or facilities will be assigned to AT&T if the policy is transferable to AT&T. If not transferable, the amounts will be assigned to the BOCs and the policy will be renegotiated or canceled.

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[123] As the term expires for which the premiums are paid, Account 131 is credited (decreased) at monthly intervals and the appropriate operating expense account is charged. *See* 47 C.F.R. § 31.131.

[124] The negative balance in this account results from a unique accounting treatment by one of the operating companies which was recently changed. When the aggregate account balance is adjusted to reflect this change, it will be approximately $1 million.

x. Prepaid Directory Expenses (Account 132)

Account 132 includes (47 C.F.R. § 31.132):

"the cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged direct to account 649, 'Directory expenses.' "[125]

Account 132 totals approximately $884 million. The entire amount in Account 132 will be assigned to the BOCs.

y. Other Prepayments (Account 133)

Account 133 includes (47 C.F.R. § 31.133):

"prepayments other than those includible in accounts 129 to 132, inclusive, except minor amounts which may be charged direct to the final accounts."

The account thus includes all prepayments not otherwise contained in other accounts. For example, the amount of discounted interest expense on commercial paper and program notes is contained in this account.

The balance of Account 133 is approximately $53 million and will be assigned between the BOCs and AT&T as follows. The prepayments of expenses for periods after divestiture that relate to post-divestiture BOC operations or facilities will be assigned to the BOCs.[126] Prepayments related to facilities, functions or personnel assigned to AT&T and involving post-divestiture AT&T operations will be assigned to AT&T.

z. Discount on Capital Stock (Account 134.1)

Account 134.1 includes (47 C.F.R. § 31.134:1):

"the total of debit balances in the discount and premium accounts, for all classes of capital stock having debit balances in these accounts."

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[125] Amounts contained in Account 132 are cleared to Account 649 by monthly charges of the portion of the expense that is applicable to the respective months. *See* 47 C.F.R. § 31.132.

[126] The discounted interest expense contained in Subaccount 133-07 will be assigned in its entirety to the BOCs.

Account 134.1 is not used by the BOCs and will have no balance to assign at the time of divestiture.

aa. Capital Stock Expense (Account 134.2)

Account 134.2 includes (47 C.F.R. § 31.134:2):

"[A]ll commissions and expenses incurred in connection with the issuance or sale of capital stock, including additional capital stock of a certain class or series as well as first issues."

Account 134.2 is not being used by the BOCs, and will have no balance to assign at the time of divestiture.

bb. Discount on Long-Term Debt (Account 135)

Account 135 includes (47 C.F.R. § 31.135):

"the total of debit balances in the discount, premium, and debt expense accounts, for all classes of long-term debt having debit balances in these accounts."

Account 135 has a balance of approximately $448 million. It represents the discounts suffered, premium realized, and expenses incurred in connection with the sale of each class and series of long-term debt issued or assumed by the BOCs. This account will be assigned between the BOCs and AT&T on the basis of which entity receives the underlying debt, as determined pursuant to the debt assignment procedures discussed in Part I.B.4, *infra.*

cc. Provident Funds (Account 136)

Account 136 includes (47 C.F.R. § 31.136):

"the amount of cash, the book cost of securities of other companies, and the book or face amount of nominally issued and nominally outstanding securities issued or assumed by the company, and other assets held by trustees or managers of employees' pension funds, savings funds, relief, hospital, and other association funds (whether contributed by the company, by employees, or by others), when such trustees or managers are acting for the company in the administration of such funds."

Account 136 has not been used by Bell System companies in recent years and has a zero balance. Accordingly, there will be no balance to assign at the time of divestiture.

dd. Insurance and Other Funds (Account 137)

Account 137 includes (47 C.F.R. § 31.137):

"the amount of cash, the book cost of securities of other companies, and the book or face amount of nominally issued and nominally outstanding securities issued or assumed by the company, and other assets held by trustees or managers (including workmen's compensation commissions) of insurance and other funds which have been specifically set aside or invested for specific purposes not provided for elsewhere."

Account 137 has a balance of approximately $900,000 and represents, in part, funds deposited with workmen's compensation commissions to ensure BOC financial responsibility. The entire account will be assigned to the BOCs.

ee. Extraordinary Maintenance and Retirements (Account 138)

Account 138 includes (47 C.F.R. § 31.138):

"the unprovided-for loss in service value of telephone plant retired . . . . [and] the cost of extensive replacements of station apparatus, inside wires, and drop and block wires . . . ."

Account 138 currently has a zero balance. To the extent that any balance exists at the time of divestiture, it will be assigned between the BOCs and AT&T on the basis of the assignment of the underlying plant to which the extraordinary maintenance or retirement relates.

ff. Other Deferred Charges (Account 139)

Account 139 includes (47 C.F.R. § 31.139):

"deferred charges not provided for elsewhere, such as unaudited amounts and other debit balances in suspense that cannot be cleared and disposed of until additional information is received; debit balances in clearing accounts; the amount, pending determination of loss, of funds on deposit with banks which have failed; assets of current character but of doubtful value . . . ; revenue, expense, and income items held in suspense . . . ; amounts paid for options pending final disposition; the cost of preliminary surveys, plans, investigations, etc., made for determining the feasibility of construction projects under contemplation . . . [and] the cost of valuations, inventories, and appraisals taken in connection with the contemplated acquisition or sale of property."

The balance of Account 139 is approximately $630 million.[127] The account is divided into two subaccounts, 139-03 (Engineering projects) and 139-09 (Miscellaneous). Subaccount 139-03 contains the amount of preliminary costs in connection with construction projects (such as engineering

[127] The Financial Accounting Standards Board ("FASB") is expected to issue a new standard which will be applicable to certain regulated enterprises, including AT&T and the BOCs. This standard will require liabilities to be recorded for all expenses that are presently accounted for on a cash basis as a result of the ratemaking process. In particular, liabilities for vacation pay and other compensated absences will be recorded for amounts earned in one year but payable in the following year. The standard will also require that the liability for leases that would be classified as capital leases under FASB Statement No. 13, "Accounting for Leases," as amended, be recorded. The offsetting debit will be recorded to Account 139, representing a "regulator's promise" to include the expenses for these items in the ratemaking process on an as-paid basis. These changes will increase the amount recorded in Account 139.

costs) prior to their formal approval.[128] Subaccount 139-09 (Miscellaneous) contains all other deferred charges included in the account.

Amounts contained in both subaccounts will be assigned to the BOCs unless they relate to facilities, functions or personnel assigned to AT&T and involving post-divestiture AT&T operations. For example, amounts included in Subaccount 139-03 representing costs of construction projects prior to approval will be assigned to AT&T if the construction project involves facilities that will be assigned to AT&T. Similarly, amounts associated with preliminary costs prior to property acquisition will be assigned to AT&T if that property (or the option to purchase) will be assigned to AT&T.[129]

gg. Organization (Account 201)

Account 201 includes "the cost of organizing and incorporating the company" (47 C.F.R. § 31.201). This account has a zero balance and will have no balance to assign between AT&T and the BOCs at the time of divestiture.

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[128] Amounts contained in Subaccount 139-03 are cleared from the account as follows. If the contemplated project is carried out, the preliminary costs are included in the cost of the plant constructed. If the contemplated project is abandoned, the preliminary costs are charged to Account 323 (Miscellaneous income charges). Account 139 also contains costs incurred in connection with the contemplated acquisition or sale of property. If the property is subsequently acquired, the preliminary costs are accounted for as part of the cost of acquisition, or if it is sold, such costs are deducted from the sales price in accounting for the property sold. If contemplated purchases or sales are abandoned, the preliminary costs (including options paid) included in Account 139 are charged to Account 370 (Extraordinary income charges). *See* 47 C.F.R. § 31.139.

[129] Subaccount 139-09 contains the amounts of debit balances in clearing accounts and other debit balances that cannot be cleared until additional information is received. *See* 47 C.F.R. § 31.139. Efforts will be made to resolve all such amounts to ensure that debit clearing account balances contained in the account are minimal at the time of divestiture. The remaining clearing account balances will be assigned to the BOCs. Any other residual amounts will be assigned to the BOCs unless they relate to facilities, functions, or personnel assigned to AT&T and involving post-divestiture AT&T operations.

hh. Franchises (Account 202)

Account 202 includes (47 C.F.R. § 31.202):

"the original cost of governmental franchises and similar rights running for more than 1 year which are necessary in the conduct of the company's telephone operations[;] . . . amounts paid in cash and the cost of the plant, material, supplies, and equipment given as the initial consideration for such franchises; [the] cost of advertising, governmental election costs assumed by the company, and similar expenses incurred in procuring such franchises; also the original cost of franchises acquired by assignment[;] . . . [and] amounts, other than those includible in account 201 'Organization,' paid to municipalities or other governmental agencies as a condition precedent to engaging in business, whether or not the right to occupy city property, streets, and highways is obtained in connection therewith."

This account includes the original cost of governmental franchises and similar rights running for more than one year that are necessary for conducting telephone operations. The balance of Account 202 is approximately $1.5 million, and will be assigned to the BOCs.

ii. Patent Rights (Account 203)

Account 203 includes (47 C.F.R. § 31.203):

"the original cost of patent rights having a life of more than 1 year from date of acquisition for use in connection with the company's telephone operations."

This account has a balance of approximately $75,000; it will be assigned to the BOCs.

jj. Telephone Plant Acquired (Account 276)

Account 276 includes (47 C.F.R. § 31.276):

"the cost of acquisition (i.e., amount of money actually paid or the current money value of any consideration other than money exchanged for telephone plant, together with the preliminary expenses incurred in connection with the acquisition) of telephone plant pending distribution to the primary telephone plant accounts and to other accounts."

This account has a balance of approximately $100,000. The account is charged with the cost of acquisition of telephone plant until the costs are distributed to other accounts (47 C.F.R. §§ 31.02-82, 31.2-21). Account 276 will be assigned between the BOCs and AT&T on the basis of the assignment of the underlying telephone plant.

kk. TELEPHONE PLANT SOLD (ACCOUNT 277)

Account 277 includes (47 C.F.R. § 31.277):

"the original cost at the time of retirement of telephone plant sold pending determination of the amounts to be credited to the primary telephone plant accounts."

When telephone plant is sold, this account is credited until the appropriate primary telephone accounts are identified and reduced. Account 277 currently has no balance and will have no balance to assign at the time of divestiture.

B. BOC LIABILITIES, RESERVES, AND EQUITY

This part of the Plan contains the principles for separating all BOC accounts that have credit balances. The separation of depreciation reserves (section 1) will allow the transfer of assets at net book amounts, and the separation of tax reserves (section 2) will allow normalized tax accounting to continue with respect to depreciation and tax credits attributable to transferred assets. In addition to requiring a separation of tax reserves, the divestiture will trigger certain tax consequences that require adjustments to those accounts and to corresponding asset accounts; all such adjustments are described in section 2.

The separation of accounts for other BOC reserves and deferred credits, as well as for the BOCs' current liabilities, is described in section 3. Although not represented by a balance sheet account, the Bell System's contingent liabilities are also described in section 3, where procedures are established for the allocation of any such liabilities after divestiture.

The concluding sections of this part of the Plan describe the allocation of the BOCs' long-term debt (section 4) and equity accounts (section 5). Section 4 sets forth procedures for assuring that the debt ratios of the divested BOCs comply with Section VIII(H) of the Decree. The separation of BOC equity accounts thereafter involves a reduction of those accounts to a level reflecting the difference between a BOC's total post-divestiture assets, on the one hand, and its liabilities and reserves, on the other. Those calculations — and the equity accounts in which the adjustments will be made — are described in section 5.

1. Book Depreciation Reserves

The Uniform System of Accounts provides that the depreciation reserve is the result of periodic accruals to Account 171 (47 C.F.R. § 31.171(a)):

> "[The] account shall be credited with amounts concurrently charged to account 608, 'Depreciation,' and to clearing accounts for currently accruing depreciation of telephone plant."

Account 171 thus contains the "book depreciation reserve" for all depreciable assets. As of August 31, 1982, the BOCs had a credit balance in Account 171 of approximately $26 billion, divided among various subaccounts.

Depreciation accruals to Account 171 (and its subaccounts) are not made for specific assets, or even for groups of assets that necessarily match the division of assets required under the Decree. The assignment of the BOCs' book depreciation reserves, therefore, will usually involve a series of steps to identify the portion of a depreciation reserve subaccount that is attributable to the investment in assets being assigned to AT&T.[130]

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[130] Because AT&T will assign certain depreciable assets to the BOCs, it will also be necessary to apportion a part of AT&T's book depreciation reserve to the BOCs. Although the remaining discussion focuses upon the assignment of BOC assets and their associated depreciation reserves, the same apportionment principles will be followed to account for assets assigned from AT&T to the BOCs.

The procedures for assigning depreciation reserves are based on the BOCs' current depreciation practices and will utilize data that underlie their current depreciation rates.[131] With this data, the book depreciation reserve for a reserve subaccount will be apportioned among vintages of assets (the years in which assets were placed in service), and a reserve-to-investment ratio for each vintage will be determined.[132] Then, the vintage reserve-to-investment ratio will be multiplied by the amount of investment being assigned to AT&T from that vintage to yield the amount of depreciation reserve to be assigned to AT&T.

A detailed description of the steps in this process is contained in the remaining sections of this part of the Plan. The first section describes current depreciation practices and the types of data and records maintained under these practices. The subsequent sections describe the method by which the assignment of depreciation reserves between AT&T and the BOCs will be accomplished.

a. Current Depreciation Practices

Book depreciation reserves are accumulations of past depreciation accruals that have been made for depreciable plant in service. These accruals are the result of FCC-prescribed depreciation rates applied to the surviving investment,[133] and represent the means by which investment cost in plant (less net salvage) is allocated over its service life in order that the investor-supplied capital devoted to the business can be fully recovered. The accruals are ordinarily treated as an expense for the period, and credited (added) to the

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[131] Although the principles for assigning depreciation reserves discussed in this section are illustrated by reference to FCC-prescribed practices, the same principles will be used to assign depreciation reserves maintained for other financial or regulatory purposes.

[132] All else being equal, equipment of an older vintage will be assigned larger reserves.

[133] The "surviving investment" is the original book cost of plant still in service.

appropriate depreciation reserve.[134] Upon the retirement of depreciable plant, the appropriate book depreciation reserve is debited (decreased) by the property's original investment less any net salvage amount (gross salvage less cost of removal).[135] The balance contained in the book depreciation reserve (Account 171 or any of its subaccounts) at any point in time thus constitutes the amount of recovered investment for telephone plant still in service.[136]

The BOCs do not maintain reserves for individual assets; rather, the accruals are calculated, and actual book depreciation reserves are maintained in reserve subaccounts, for various *classes* of plant owned by the BOCs.[137] As required by the Uniform System of Accounts, separate depreciation reserves are maintained for the following classes of depreciable plant: buildings, central office equipment, station apparatus, station connections, large private branch exchange, pole lines, aerial cable, underground cable, buried cable, submarine cable, aerial wire, underground conduit, furniture and office equipment, and vehicles and other work equipment.[138]

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[134] In some circumstances, the depreciation accruals, rather than being debited to depreciation expense, are instead debited to clearing accounts from which they are distributed to particular accounts. For example, if a truck is used in the construction of a pole line, the depreciation accruals for the truck are considered as part of the cost of constructing the pole line. The accruals are therefore accumulated in a clearing account and then debited to the account for investment in pole lines.

[135] Because of retirements, some accounts may have negative balances. In addition, net salvage may be a negative amount. In such instances, consideration of net salvage will *increase* the debit to depreciation reserve.

[136] A small portion of Account 171, however, represents a depreciation accrual for property held for future use.

[137] The Bell System owns several hundred million units of depreciable plant. Even with the use of computers, it is not practical to record depreciation on a unit basis for all of these individual items. Therefore, statistical estimates of average life and salvage factors are determined for groups of assets, and reserves are maintained for each group.

[138] *See* 47 C.F.R. §§ 31.02-82, 31.171(c). *See also* Exhibit 1, *infra*. The depreciation reserve assignment procedures described in this section do not directly apply to depreciation reserve amounts in Subaccount 171.9 (Investment not in service) or in Subaccount 174.01

(Footnote continued on following page)

For purposes of recording depreciation accruals, these fourteen primary plant accounts are generally further subdivided into "subclasses" or "subaccounts." Within the primary plant account of central office equipment, for example, there are seven subclasses of plant for which separate depreciation reserves are maintained: manual, step-by-step, crossbar, circuit-DDS, circuit-other, radio, and electronic.[139] There are separate depreciation rates and reserves for each subaccount of assets.[140] A group of assets that is subject to the same prescribed depreciation rate is referred to as a "rate category."[141] A list of the primary plant accounts and the representative rate categories associated with these accounts is presented in Exhibit 1. Hereinafter, the terms "depreciation rate category" and "depreciation reserve subaccount" will be used interchangeably.

(Footnote continued from previous page)
(Miscellaneous physical property). These two reserve subaccounts have a balance of approximately $100 million. The reserve amounts contained in Subaccounts 171.9 and 174.01 are associated with investment amounts in Account 100.3 (Property held for future use) and Account 103 (Miscellaneous physical property). For any investment in Accounts 100.3 or 103 assigned to AT&T, the associated accumulated depreciation amounts that were initially transferred to Account 171.9 will be reversed, and any related accumulated depreciation in Account 174.01 will be credited to the appropriate 171 subaccount. Then, the depreciation reserve amounts to be assigned for any such Account 103 or 100.3 investment amounts (by vintage) will be determined using the procedures described in this section.

[139] Although all investment in panel equipment has been retired, in several instances a reserve is maintained for panel equipment to account for the future cost of removal.

[140] The monthly depreciation accruals credited to the various subaccount reserves are the result of depreciation rates prescribed by the FCC. *See* 47 U.S.C. § 220(b). For example, as of December 31, 1981, the average annual Bell System depreciation rate for the crossbar subaccount of central office equipment was approximately 8.9 percent of the combined investment for items in the subaccount; in contrast, the average annual Bell System depreciation rate for the electronic subaccount was approximately 3.4 percent. These rates for crossbar and electronic equipment are weighted averages of the varying prescribed rates for all jurisdictions.

[141] With respect to four of the primary plant accounts (buildings, pole lines, aerial wire, and underground conduit), one rate is developed for each entire account.

Exhibit 1

Bell System Plant Accounts and Representative Depreciation Rate Categories (Account 171)

Plant Accounts	Representative Depreciation Rate Categories[142]
1. Buildings	Entire Account
2. Central Office Equipment	Manual; Step-by-Step; Crossbar; Circuit-DDS; Circuit-Other; Radio; Electronic
3. Station Apparatus	Teletypewriter; Telephone & Miscellaneous; Radio
4. Station Connections	Secondary Distribution Wire
5. Large Private Branch Exchange	Electronic; DDS; Other
6. Pole Lines	Entire Account
7. Aerial Cable	Exchange; Toll[143]
8. Underground Cable	Exchange; Toll
9. Buried Cable	Exchange; Toll
10. Submarine Cable	Exchange; Toll
11. Aerial Wire	Entire Account
12. Underground Conduit	Entire Account
13. Furniture & Office Equipment	Furniture & Office Equipment; Computer & Automatic Message Accounting; Artworks
14. Vehicles & Other Work Equipment	Motor Vehicles; Other Work Equipment

[142] As required by state commissions, some companies employ rate categories that are more detailed than those listed.

[143] In some companies, the exchange and toll rate categories with respect to aerial cable, underground cable, buried cable, and submarine cable are described respectively as "subscriber" and "trunk."

The depreciation rate developed for each rate category is a function of the life and salvage characteristics of assets within the category. For instance, given the same salvage factors, depreciation rates are lower (annual depreciation accruals are less) for those groups with longer average useful lives. Under the straight-line remaining life (SLRL) method of depreciation currently applied to a substantial portion of Bell System plant placed in service before 1982, the prescribed depreciation rate is determined as follows.[144] First, one determines the ratio of depreciation reserve to surviving investment for the rate category. Then, estimates are made of the average remaining life and the future net salvage ratio for the surviving investment in the rate category.[145] Finally, the annual depreciation rate is calculated by subtracting from 1.0 the sum of the reserve-to-investment ratio and the future net salvage ratio, and then dividing this difference by the average remaining life.[146]

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[144] The FCC first authorized the use of SLRL depreciation in 1980. 83 F.C.C.2d 267 (1980). The Bell System has been phasing the method in over a three-year period, beginning in 1981, to replace the previously authorized straight-line vintage group (SLVG) method. By the end of 1983, most plant placed in service before 1982 will be subject to the SLRL method. At the same time the FCC authorized the use of SLRL depreciation, it also allowed the Bell System to record depreciation on new additions of plant under the straight-line equal life group (SLELG) method. In 1982, the Bell System began the phased-in introduction of this method for new plant additions.

[145] The "future net salvage ratio" is the amount of net salvage expected to be realized upon retirement of existing assets in the future, expressed as a proportion of surviving investment. In contrast, the "average net salvage ratio" is the combined amount of salvage, relating to both past and future retirement amounts, expressed as a proportion of the sum of past retirements and surviving investment.

[146] Consider, for example, a group of assets for which the ratio of depreciation reserve to surviving investment is .4, the average remaining life is five years, and the future net salvage ratio is zero. The annual depreciation rate (under the SLRL method) would be 12 percent $((1 - (.4 + 0)) \div 5)$.

Prior to the use of SLRL depreciation, the Bell System recorded depreciation under the straight-line vintage group (SLVG) method. Under the SLVG method, the annual depreciation rate is determined by subtracting from 1.0 the average net salvage ratio, and dividing this difference by the expected average service life of the assets. Consider, for example, a group of assets with an average net salvage ratio of zero, and an average service life of 10 years. The annual depreciation rate under the SLVG method would be 10 percent $((1 - 0) \div 10)$. *See also* 83 F.C.C.2d 267, 289 (1980) (Docket No. 20188).

Separate reserves are not maintained on the books of account on a more detailed level than rate categories (reserve subaccounts). Even at this level, the aggregated number of assets is substantial. The crossbar equipment rate category within the primary plant account of central office equipment, for example, is likely to contain thousands of depreciable assets of differing technical design, age, and remaining life. All these factors influence the amount of depreciation reserve attributable to the various assets of the rate category.

For purposes of determining life and salvage characteristics for rate categories, therefore, some of the rate categories are further subdivided into "depreciation study categories" of assets. Depreciation study categories are subgroups of relatively homogeneous assets within a rate category where the rate category includes distinct groups of assets having different life and salvage characteristics. For example, all jurisdictions subdivide the buildings rate category into several study categories. Among the study categories for buildings are the following: large central office dial switching, small central office dial switching, large headquarters, administration, microwave radio stations, and garages. Finally, study categories (and rate categories where, as is ordinarily the case, the rate category is not subdivided into study categories) are in turn subdivided into "vintage groups," each of which is composed of items of plant placed in service in the same calendar year.[147]

The life and salvage characteristics used in developing a depreciation rate for a rate category are composite characteristics of the vintage groups (and study categories where the rate

[147] Under the SLELG method of depreciation recently authorized by the FCC, vintage groups are further subdivided into equal life groups. An equal life group contains assets that have the same expected life. The number of dollars or units in each group is determined statistically. The SLELG method yields a separate depreciation rate and book depreciation reserve for each vintage group at the rate category level. The depreciation rates are developed from the current estimates of the life characteristics of the equal life groups making up the vintage group.

category is composed of two or more study categories). Using these data, the FCC prescribes depreciation rates for the depreciation rate categories for each jurisdiction, generally every three years. Depreciation rates are applied to the surviving investment in assets that make up the depreciation rate categories, producing depreciation accruals which, in turn, are accumulated in the reserve for each rate category.[148]

b. THE METHODOLOGY FOR APPORTIONING AGGREGATED DEPRECIATION RESERVES AMONG ASSETS

Upon the assignment of assets to AT&T at divestiture, the amount of depreciation reserve attributable to the assigned plant will be assigned to AT&T. This will ordinarily require a division of the rate category reserve between AT&T and the BOCs. To accomplish this division, there will be an apportionment of the reserve among the assets of the rate category.[149]

The apportionment will be made by first disaggregating the rate category reserve among vintage groups, and then dividing the disaggregated vintage reserves between AT&T and the BOC in the same proportion as the division of surviving investment.[150] To the extent the BOCs are assigned older

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[148] Except for SLELG vintages, the book depreciation reserves maintained for depreciation rate categories constitute the lowest (or least aggregated) level of book reserves. The prescribed rate for each rate category (for each jurisdiction) is applied to the entire surviving investment within the rate category without regard to the distribution of surviving investment by vintage.

[149] Where all of the assets within a rate category are assigned either to a BOC or to AT&T, however, the associated reserve can be assigned to that entity and no division is necessary.

[150] Where equipment of the same vintage group is divided between AT&T and a BOC, the reserve apportioned to that vintage will be assigned as follows: the reserve for a particular asset (or collection of assets) within a vintage group will bear the same proportion to the total reserve for the vintage group as the asset's investment bears to the total surviving investment for all assets within the vintage group.

(newer) equipment, they will be assigned proportionately more (less) of the depreciation reserve for the category. And where the rate category consists of two or more study categories, the reserve allocation will also reflect the differences among study categories.

The disaggregation of actual book reserves for the depreciation rate categories among the vintage groups, and the division of such vintage reserves between AT&T and the BOCs, will involve the determination of a "book reserve ratio" for each vintage group.[151] The book reserve ratio for a vintage group is calculated by dividing the depreciation reserve apportioned to the vintage group by the amount of surviving investment for the vintage group.[152] Vintage book reserves, in turn, are derived by apportioning the total book reserve for the rate category among its vintage groups.

The apportionment of the rate category reserve among its vintage groups will be accomplished through the use of "reserve requirement" procedures.[153] In the absence of any actual book depreciation reserves for vintage groups or study categories, these procedures provide an equitable means of disaggregating the rate category's depreciation book reserve among its study categories and vintage groups.[154] A reserve requirement for a vintage group is the amount of accumulated depreciation that would exist for the vintage group if, up to that time, the vintage assets had been depreciated using deprecia-

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[151] Where a rate category is composed of two or more study categories, the book depreciation reserve will be apportioned among the vintage groups in each study category.

[152] The New York Telephone Company maintains records for the buildings and central office switching equipment rate categories on the basis of the specific location of that plant. New York Telephone will therefore develop location-specific vintage reserve ratios for these rate categories.

[153] These procedures are also referred to as "theoretical reserve" procedures. *See* Nat'l Ass'n of Regulatory Utility Comm'rs, *Public Utility Depreciation Practices* (1968), p. 196.

[154] An apportionment based on the cumulation of historical debit and credit activity is not feasible on a vintage basis.

tion rates based on current estimates of the life and salvage factors for the assets.[155]

The initial step in determining vintage book reserve ratios is to calculate the reserve requirement ratio for each vintage group. The ratio is calculated by dividing the average remaining life for the surviving investment by the average service life, and subtracting this quotient from 1. The ratio will usually fall between 0 and 1, and will be larger for older vintage groups, all else being equal.

Consider, for example, a vintage group that has an estimated average life of 12 years. If the estimated average remaining life of the surviving investment is six years, the reserve requirement ratio, ignoring the effects of salvage, would be .50 ($1-6/12$).[156] If the remaining life were shorter, as would be the case for an older vintage group, the reserve requirement ratio would be larger. For example, the reserve requirement ratio in the hypothetical situation would be .75 ($1-3/12$) if the remaining life were three years instead of six.[157]

The final step in determining vintage book reserve ratios is to multiply each vintage reserve requirement ratio by a scaling factor.[158] The scaling factor is the ratio of the actual book

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[155] That is, the reserve requirement is the amount that would ideally be in a vintage reserve if accruals and reserves had been maintained by vintage, and depreciation rates based upon the current life and net salvage factors had been in effect since the time of the original placement.

[156] The actual calculation of book reserve ratios will account for net salvage. Because net salvage ratios for the Bell System are relatively small, however, the introduction of salvage and cost of removal effects will have only a minor impact upon the reserve requirement ratios.

[157] The reserve requirement ratio calculations rely entirely on the data and general procedures used in the prescription of depreciation rates. The estimated average remaining lives, average service lives, and net salvage factors that will be used are those used in calculating such rates.

[158] *See* Nat'l Ass'n of Regulatory Utility Comm'rs, *Public Utility Depreciation Practices* (1968), p. 197.

depreciation reserve for the rate category to the total reserve requirement for the rate category.[159] Use of a scaling factor in this manner ensures that the sum of book depreciation amounts apportioned to the vintage groups within a rate category equals the actual book depreciation reserve for the rate category.[160]

The application of reserve requirement procedures will neither enlarge nor diminish any actual book depreciation reserve. Rather, the use of reserve requirement procedures is a means of disaggregating — or apportioning — the known, actual rate category book reserve among vintage groups. Indeed, the use of reserve requirement procedures is a standard depreciation practice that is widely accepted.[161] In numerous instances the FCC and state commissions have approved the use of reserve requirement procedures for assigning reserves to assets within a rate category.[162]

Following the determination of book reserve ratios for vintage groups, the amount of depreciation reserve attributable to plant assigned to AT&T can be calculated. The depreciation reserve associated with assigned assets is equal to the amount of assigned investment in assets in the vintage group multiplied by

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[159] The total reserve requirement for the rate category is determined by multiplying the surviving investment for each vintage group by the vintage reserve requirement ratio, and summing over all vintage groups.

[160] The amount of book depreciation reserve assigned to a vintage group equals the book reserve ratio for the vintage group multiplied by the surviving investment for the vintage group.

[161] *See* Nat'l Ass'n of Regulatory Utility Comm'rs, *Public Utility Depreciation Practices* (1968), pp. 196-97, 218.

[162] Previous reorganizations and transfers among Bell System companies have required the use of reserve requirement calculations. For example, these general procedures were used to apportion depreciation reserves between the Pacific Telephone & Telegraph Company and the Pacific Northwest Bell Telephone Company when the Pacific Company was reorganized. Additionally, the FCC has approved the use of reserve requirement studies in apportioning book reserves for purposes of jurisdictional separations. *See* Section 51.2 of the Commission's *Separations Manual* (incorporated by reference into 47 C.F.R. § 67.1).

the appropriate vintage book reserve ratio.[163] The investment and vintage information for the relevant assets is derived from existing records.[164] *See* Part I.C, *infra.*

The following is a mathematical illustration of the process by which a known book depreciation reserve for a hypothetical rate category would be divided between AT&T and a BOC. The hypothetical rate category is composed of three vintage groups (1965, 1971, and 1976), and the book depreciation reserve for the rate category is $8,000,000. Additionally, it is assumed that the surviving investment for each vintage group, and the assignment of such investment between AT&T and the BOC, are as follows:

Vintage Group	Total Surviving Investment	Surviving Investment Assigned to AT&T	Surviving Investment Assigned to BOC
1965	$4,000,000	$2,000,000	$2,000,000
1971	8,000,000	4,000,000	4,000,000
1976	12,000,000	3,000,000	9,000,000
Rate Category Total	$24,000,000	$9,000,000	$15,000,000

[163] Where rate categories are subdivided into study categories for purposes of determining depreciation life characteristics and rate category depreciation rates, the rate category reserve will be apportioned among the vintage groups of each study category. The apportionment will be accomplished in the same manner as the apportionment among vintages described herein: a reserve requirement ratio (subsequently scaled so that the sum of the scaled reserve requirement amounts exactly equals the book reserve for the rate category) will be determined for each vintage group of each study category.

[164] Vintage data are not ordinarily kept for some depreciation rate categories — station apparatus, secondary distribution wire, aerial wire, underground conduit, and other work equipment — because of the relatively small investment costs associated with individual units of this equipment, the large volume of units in service, and the enormous record-keeping difficulties that would result. A modification in the methodology for assigning reserves will be required for these "computed mortality" categories. *See* Part I.B.1.c.ii, *infra.*

The first step in the assignment of depreciation reserves between AT&T and the BOC is to calculate the reserve requirement ratios for the vintage groups. These ratios are calculated as shown in the following table, with the hypothetical average lives shown in columns "a" and "b" having been developed in accordance with the procedures and life characteristics underlying the currently prescribed depreciation rate for the rate category:[165]

Vintage Group	Average Remaining Life	Average Service Life	Reserve Requirement Ratio	Total Surviving Investment	Reserve Requirement Amount
	a	b	c = (1 − a/b)	d	e = (c × d)
1965	5	20	.75	$4,000,000	$3,000,000
1971	9	18	.50	8,000,000	4,000,000
1976	12	16	.25	12,000,000	3,000,000
Rate Category Total				$24,000,000	$10,000,000

The scaling factor, by which each of the vintage reserve requirements must be multiplied, is determined next. The scaling factor is computed by dividing the total book depreciation reserve for the rate category ($8,000,000) by the total reserve requirement for the rate category ($10,000,000). The resulting scaling factor is .8 ($8,000,000 ÷ $10,000,000).

Vintage book reserve ratios are then calculated by multiplying the reserve requirement ratio for each vintage group by the scaling factor. These calculations are performed as follows:

Vintage Group	Reserve Requirement Ratio	Scaling Factor	Book Reserve Ratio
	a	b	c = (a × b)
1965..........................	.75	.8	.60
1971..........................	.50	.8	.40
1976..........................	.25	.8	.20

[165] For purposes of this example, the effects of salvage are ignored.

The amount of book depreciation reserve to be assigned to AT&T and to the BOC, by vintage group, can now be determined by multiplying the vintage book reserve ratio by the amount of vintage surviving investment assigned to each. This calculation yields the following amounts:

Vintage Group	Book Reserve Ratio	Surviving Investment Assigned to AT&T	AT&T Reserve Amount	Surviving Investment Assigned to BOC	BOC Reserve Amount
	a	b	c = (a × b)	d	e = (a × d)
1965	.60	$2,000,000	$1,200,000	$2,000,000	$1,200,000
1971	.40	4,000,000	1,600,000	4,000,000	1,600,000
1976	.20	3,000,000	600,000	9,000,000	1,800,000
Rate Category Total		$9,000,000	$3,400,000	$15,000,000	$4,600,000

Thus, of the total book depreciation reserve of $8,000,000 for the rate category, $3,400,000 would be assigned to AT&T. The remainder, $4,600,000, would be assigned to the BOC.

c. Implementation of the Apportionment Methodology

Except as to assets depreciated under the recently authorized SLELG (straight-line equal life group) method, the general apportionment procedures will be utilized with respect to all assets contained in the following rate categories (which are listed in the right-hand column, with their associated plant accounts listed in the left-hand column):[166]

[166] These rate categories are referred to as "full mortality" categories. The treatment of the remaining rate categories, referred to as "computed mortality" categories, is discussed in Part I.B.1.c.ii, *infra*.

Plant Accounts	Rate Categories
Buildings	Entire Account
Central Office Equipment	Manual; Step-by-Step; Cross-bar; Circuit–DDS; Circuit–Other; Radio; Electronic
Large Private Branch Exchange	Electronic; DDS; Other
Pole Lines	Entire Account
Aerial Cable	Exchange; Toll
Underground Cable	Exchange; Toll
Buried Cable	Exchange; Toll
Submarine Cable	Exchange; Toll
Furniture & Office Equipment.	Furniture & Office Equipment; Computer & Automatic Message Accounting; Art-works
Vehicles & Other Work Equipment	Motor Vehicles

In some jurisdictions, all investment associated with the aerial wire plant account and the manual and step-by-step rate categories of the central office equipment plant account will be assigned in their entirety to the BOC. In these cases, the total rate category book depreciation reserves will be assigned to the BOCs.

The general procedures for apportioning reserves must be modified in two situations: (i) with respect to assets for which recently authorized SLELG depreciation treatment has been applied; and (ii) with respect to certain categories of assets for which vintage record information is unavailable, known as the "computed mortality" categories.

i. Methodology for SLELG Reserves

The first modification of the general methodology allows for the assignment of reserves that have been accrued under the SLELG method.[167] The general methodology will be simplified

[167] The amount of assets subject to the SLELG method will be approximately 12 percent of total depreciable assets at the time of divestiture. It is expected that the total amount of depreciation

(Footnote continued on following page)

because, under the SLELG method, depreciation accruals are determined, and distinct reserves are maintained, for each SLELG vintage. Where the rate category consists of only one study category, the vintage book reserve ratio will be determined by dividing the SLELG vintage reserve amount by the vintage's investment amount, both of which are available directly from accounting records.

Where there are two or more study categories in the rate category, it will be necessary to apportion the rate category vintage reserve among the study categories. This will be accomplished by using an apportionment approach similar to that employed in apportioning non-SLELG reserves — namely, the calculation of reserve requirement ratios that, when scaled, distribute fully the rate category vintage reserve among the constituent study category vintages.[168]

ii. Methodology for Computed Mortality Categories

The second modification of the general methodology relates to the computed mortality categories of assets. These computed mortality rate categories (listed in the right-hand column) and their associated plant accounts (listed in the left-hand column) are as follows:

Plant Accounts	Computed Mortality Rate Categories
Station Apparatus	Teletypewriter; Telephone & Miscellaneous; Radio
Aerial Wire	Entire Account
Underground Conduit	Entire Account
Vehicles & Other Work Equipment	Other Work Equipment

(Footnote continued from previous page)
accruals to be made under the SLELG method before January 1, 1984, will be approximately \$900 million — approximately \$100 million for 1982 and approximately \$800 million for 1983. These amounts represent, respectively, approximately one percent and seven percent of the total estimated accruals of \$9 billion and \$11 billion for these years.

168 The reserve requirement ratio for SLELG vintages will be calculated by dividing the age of the assets by the estimated average life of surviving investment units.

Total Bell System investment in these computed mortality categories at the time of divestiture is expected to be approximately 17 percent of total investment in depreciable assets, with station apparatus rate categories constituting the major portion.[169]

With respect to computed mortality rate categories, the property records do not identify the surviving investment by vintage for the assets contained in the rate category.[170] The division of book reserves on a vintage basis, however, requires the identification of the amount of total surviving investment for each vintage group and the amount of vintage surviving investment being assigned to AT&T (or to the BOC).[171] Accordingly, additional procedures will be followed to determine the assignment of such reserves for computed mortality categories.

To calculate the amount of total surviving investment for each vintage group within a computed mortality category, the total investment for the category will be apportioned among the constituent vintage groups by determining the distribution of surviving investment by age for the category. Investment age distributions, maintained for depreciation rate study purposes, are derived through the use of "survivor curves," information regarding annual gross additions of investment, and the current

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[169] Secondary distribution wire is also a computed mortality category. Because all such plant will be assigned to the BOCs, however, the associated book depreciation reserve will be assigned to the BOCs and no apportionment of the rate category reserve is necessary.

[170] For example, accounting and property records do not contain the vintage of all individual items of tools and other work equipment because the large numbers and relatively low individual values of such equipment render the maintenance of such information economically infeasible. *See* Part I.C, *infra*.

[171] The amount of total surviving investment for a vintage group provides the "denominator" in the vintage reserve ratio (the vintage book depreciation reserve provides the "numerator"). This ratio is thereafter applied to the amount of assigned vintage surviving investment to identify the amount of book depreciation reserve associated with the assigned assets.

balance of surviving investment.[172] Following the apportionment of the total investment among vintage groups on the basis of this distribution, the vintage reserve ratios are calculated in the same manner as they are under the general methodology.

Following the computation of the vintage reserve ratios, the amount of surviving investment, by vintage, assigned to AT&T (or to the BOC) will be determined. This will be accomplished by using the investment age distribution described above to distribute to vintages the assigned investment amount (which is equal to the quantity of assigned items multiplied by the associated unit cost).[173] *See* Part I.C, *infra.* The amount of surviving investment assigned from each vintage will then be multiplied by the vintage reserve ratio. This product equals (as in the general methodology) the amount of book depreciation reserve to be assigned.[174]

d. Booking of the Depreciation Reserve Assignments

A preliminary booking of the depreciation reserves associated with assigned assets will be made at the time of divestiture. The booking will be "preliminary" because actual

[172] The survivor curve indicates, for each specific vintage, the estimated proportion of the initial gross addition of investment still surviving. The appropriate survivor curve is determined by varying the life characteristics of the rate category until the computed surviving investment, summed over all vintages, matches the actual book investment for the category.

[173] With respect to the aerial wire, underground conduit, and other work equipment categories, it may be possible in some jurisdictions to determine the specific vintage of the assigned assets (through engineering records, for example). Where such vintage identification is possible, the amount of assigned investment by vintage will be determined on the basis of the actual vintage information.

[174] For station apparatus rate categories, vintage-related investment information, derived in conjunction with the calculation of the unit Average Original Cost (AOC) for each equipment type (*see* Part I.C, *infra*) will be used to calculate the unit depreciation reserve for each equipment type. The unit depreciation reserve will be determined by using vintage-related investment information and vintage book reserve ratios. The depreciation reserve to be assigned is the sum, over all equipment types, of the unit depreciation reserve amount multiplied by the number of equipment items assigned.

surviving investment data and actual reserve amounts as of year-end 1983 will not be available and must be estimated to derive vintage book reserve ratios. Actual investment and reserve data for year-end 1983 will be available during the second and third quarters of 1984, at which time a final determination of depreciation reserve ratios will be made, using the same procedures previously described.[175] The final booking, reflecting these reserve ratios and the assigned investment amounts, will be made during the fourth quarter of 1984.

2. Tax Reserves and Deferred Credits

The BOCs' books of account include Unamortized Investment Credits (Account 174-08), Accumulated Deferred Income Tax — Accelerated Tax Depreciation (Account 176.1), and Accumulated Deferred Income Tax — Other (Account 176.2). These accounts represent the accumulated tax effect of timing differences between income tax treatment of certain expenditures and the treatment of those same expenditures for financial reporting and ratemaking purposes.

The balances in other accounts reflect deferred taxes on gain from intercompany sales within the Bell System. The deferred taxes on the gain from intercompany sales result from (i) deferred taxes on intercompany sales by Western Electric and (ii) deferred taxes on other intercompany sales.[176] Deferred taxes on Western Electric sales are not separately identified in tax-related accounts; instead, they are reflected on the books of account as reductions in asset accounts.

The BOCs' deferred tax reserve and unamortized investment credit accounts will be assigned, in part, to AT&T as a

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[175] The parties will execute contracts regarding the performance of these procedures.

[176] The portion of the deferred taxes on other intercompany sales that arises from causes other than depreciation is not reflected in the BOCs' accounts. *See* Part I.B.2.e, *infra*.

consequence of divestiture.[177] This section of the Plan of Reorganization describes the methods and procedures for assigning the balances in these accounts.[178]

a. Unamortized Investment Credit (Account 174-08)

Account 174 includes (47 C.F.R. § 31.174):

"the amount of all deferred credits not includible in accounts 168 to 173, inclusive, such as credit balances in clearing accounts; *unamortized investment credit;* estimated uninsured casualty liabilities charged to account 669; 'Accidents and Damages'; amounts awaiting adjustments be-

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[177] The determination of the amount of reserves and credits that will be transferred to AT&T cannot take place until the related investment and depreciation reserves for the assigned assets are determined. As explained in the discussion of depreciation reserves, Part I.B.1, *supra,* these data will be available only on an estimated basis at the time of the divestiture. Accordingly, estimated entries to the tax reserve and deferred credit accounts as of December 31, 1983 will be made if the divestiture occurs on January 1, 1984. The final tax reserve and credit amounts, however, will not be available until the consolidated Federal income tax return is filed for 1983. The return should be filed in September 1984, at which time a final booking (true-up) will be made.

[178] Incident to the assignment of assets, tax attributes contained in the BOCs' tax records that relate to the assigned assets will also be assigned. The data in the tax records are necessary for appropriate tax treatment of the post-divestiture use, sale or retirement of the assigned plant. Chief among the tax attributes which relate to the assigned assets is the assets' tax basis. Tax basis is the amount of capitalized investment that income tax laws permit a BOC to depreciate for tax purposes. The tax basis of a plant item often differs from the book investment because certain expenditures are treated differently for tax purposes than they are on the books of account. For example, certain social security taxes are capitalized on the books of account, but are expensed for tax purposes. In addition to assigning the appropriate tax basis amounts between the BOCs and AT&T, unamortized state tax deductions relating to combined reports will be assigned to members of the 1983 combined report group in accordance with state law. Moreover, items from the records indicating the sources of the differential between book investment and tax basis, and other tax attributes related to facilities will be assigned between AT&T and the BOCs.

tween accounts; amounts accrued for depreciation of miscellaneous physical property; and revenue, expense and income items in suspense." (Emphasis added.)

Account 174 has a subaccount — Account 174-08 — which contains the BOCs' Unamortized Investment Credit.[179] Investment credits are tax credits that reduce a BOC's current year's taxes by a specified percentage of the qualified capital expenditures made by the BOC during that year. The BOCs currently have a balance of approximately $6.9 billion in Account 174-08.

Although the amount of investment credit realized each year reduces that year's tax liability, the reduction is deferred for financial reporting and ratemaking purposes by crediting the tax savings to Account 174-08 rather than showing a reduction in tax expense and an increase in income for that year. The balance in Account 174-08 is then amortized to income over the book lives of the related assets that gave rise to the credit.[180] This means that the savings which occurred in the year the investment credit was received are reflected in reductions in tax expense (*i.e.*, additions to income) over the lives of the assets placed in service that year.

The amounts in Account 174-08 are related to the assets which generated the credits. Accordingly, the amounts in Account 174-08 that relate to such assets will be assigned to the post-divestiture owner of the assets.[181]

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[179] The other items included in Account 174 are discussed in Part I.B.4 of this Plan.

[180] The amortization is accomplished by debiting (decreasing) Account 174-08 by an amount each period, while a tax expense account receives an off-setting credit entry (decrease in expense).

[181] The investment tax credits recorded on AT&T's books of account that are associated with assets assigned to the BOCs accordingly will be assigned to the BOCs. A portion of AT&T's investment credit, however, may be subject to "recapture" by the IRS. Recapture is a full or partial repayment of the credit, which is required when an entity sells or transfers the assets outside of the consolidated tax return group which received the credit. BOC assignments to AT&T are not subject to recapture because those assets remain within the AT&T consolidated tax return group. Conversely, assets assigned by AT&T to the BOCs will no longer be in the tax return group. The amount of AT&T investment credit assigned to the BOCs will be the proportional amount of unamortized investment tax credit associated with the assigned assets, less the amount of recapture.

Amounts in Account 174-08 are not accrued and maintained by individual assets but by the same rate categories and vintages of plant as for depreciation reserves.[182] *See* Part I.B.1, *supra.* Where all the assets within a vintage rate category will be assigned to a BOC or AT&T, the investment credit balance for that vintage rate category will be assigned entirely to that entity and no apportionment is necessary. Where, however, the assets within a vintage rate category will be divided between a BOC and AT&T, it will be necessary to apportion the related investment credit balance for the vintage rate category between the BOC and AT&T.

Because investment credits are amortized over the book depreciation lives of assets, the unamortized investment credits assigned to AT&T will bear the same proportional relationship to the total unamortized investment credit balance for each vintage rate category as the net book value (original cost less accrued depreciation) of the assets assigned to AT&T in that category bears to the total net book value of those assets. Accordingly, the apportionment of unamortized credits for a vintage rate category between the BOCs and AT&T will be based on net book value. For example, if from a particular vintage rate category AT&T is assigned assets with a net book value constituting 10 percent of the net book value of all assets within that vintage rate category, AT&T also will be assigned 10 percent of the unamortized investment credit balance for that vintage category of plant.

b. Accumulated Deferred Income Taxes — Accelerated Tax Depreciation (Account 176.1)

Account 176.1 includes (47 C.F.R. § 31.176:1):

"the balance of income tax expense that has been deferred to later periods as a result of the use of the normalized method of accounting for tax differentials arising from the use of accelerated depreciation for income tax purposes."

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182 The investment tax credit data for pre-1971 vintages are not broken down into the rate accounts utilized for depreciation reserves; however, an existing procedure allocates this unamortized investment tax credit to rate accounts.

The deferred tax reserves in Account 176.1 are maintained primarily to reflect the cumulative amounts of federal, state or local taxes that are deferred by the use, for tax purposes, of accelerated depreciation methods and shorter asset lives as compared to the depreciation lives and methods permitted for the purpose of calculating depreciation in computing operating results on the regulated or financial books of account.[183] In addition, Account 176.1 contains the differential between the tax and financial reporting treatment of the salvage and cost of removal of the assets.[184] The BOCs' current balance in Account 176.1 is approximately $15.5 billion.

To the extent that the deduction permitted for tax purposes exceeds the amounts expensed on the books of account (on a tax basis), the accumulated deferred income tax reserve is credited with (increased by) the amounts of income tax differentials applicable to the current period, while an offsetting debit entry (increase) is made to a deferred tax expense account.[185] When book depreciation exceeds the amount per-

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[183] The tax laws often permit shorter asset lives and recovery periods and more rapid depreciation recovery methods — declining balance and sum-of-the-years digits — than accounting for financial reporting or regulatory purposes permits. The taxes deferred by these larger tax depreciation deductions are reflected on the books of account in Account 176.1.

[184] Account 176.1 is divided into three subaccounts: (1) Account 176.1-01 contains the deferred federal income taxes applicable to telephone plant in service; (2) Account 176.1-02 contains deferred state and local income taxes applicable to telephone plant in service; and (3) Account 176.1-03 contains deferred federal, state, and local income taxes applicable to non-operating plant. Subaccounts 176.1-01 and 176.1-02 are each further subdivided into subaccounts for the "primary effect" and for the "secondary effect" differentials. The primary effect subaccounts contain amounts determined by multiplying the applicable statutory income tax rate by the difference between the book and the tax deductions. The secondary effect subaccounts contain amounts determined by calculating the difference between the statutory income tax rate and the effective tax rate — *i.e.*, the statutory federal rate adjusted to reflect the deductibility of state and local taxes, or *vice versa* — and multiplying it by the difference between the book and the tax deductions.

[185] For the purpose of calculating the entry to the deferred tax reserve account, book depreciation is calculated on a "tax basis." That is, book depreciation is calculated as if the original book investment and tax basis amounts were equal. The corresponding entries of

(Footnote continued on following page)

mitted by the tax laws — usually later in the lives of the assets — Account 176.1 is debited (decreased) by the amount of income tax differential due to that excess.[186] This use of Account 176.1 in effect smooths the impact on net income that would otherwise be caused by the tax effect of the accelerated tax depreciation deductions. In the absence of this neutralization, the BOCs' income would be "too high" in the early years of an asset's life and "too low" in later years.

Because the assigned assets will have a carryover tax basis,[187] a portion of the deferred tax reserves in Account 176.1, which reflect the different tax and financial or regulatory reporting treatment given to those assets, will be assigned to AT&T. The tax reserves in Account 176.1 are, however, not maintained for individual assets. As was the case for accruals of depreciation reserves (*see* Part I.B.1, *supra*), the accruals to the deferred tax reserve account are calculated, and the amounts in the account are maintained, for classes of plant owned by the BOCs. The plant accounts are further subdivided into rate category subaccounts and vintages for the purpose of accruing and maintaining deferred tax reserves.[188] These rate categories and vintages are described in Part I.B.1, *supra*.

(Footnote continued from previous page)
deferrals of income taxes are made to tax expense Accounts 307-02-22, 308.1, 326-02 or 327-02-22, depending upon which subaccount of Account 176.1 is involved.

[186] The corresponding entries of debits to Account 176.1 are made to Accounts 307-02-32, 309-01, 326-03 or 327-02-32.

[187] A carryover tax basis means that the transferee's tax basis is equal to that of the transferor at the time of transfer.

[188] For most assets the deferred tax reserves are broken down into the same rate categories and vintages as the depreciation reserves. The exceptions to this general rule are assets in certain rate categories which are grouped into guideline classes for the purpose of accruing and maintaining the deferred tax reserve data. These exceptions are the guideline classes for COE, station and outside plant for 1970 and previous vintages, and for the 1976 to 1980 vintages, for tax years 1976 and forward. Guideline classes are categories of depreciable investment specified by the Internal Revenue Service and generally consist of broad classes of plant encompassing several book accounts. The guideline data for these items of property will be disaggregated to the rate category level by giving effect to the net book value of the assets for each plant account within the guideline classes.

The amounts within each category that are attributable to items of plant assigned to AT&T will be determined and assigned to AT&T.[189] Where all assets within a vintage rate category will be retained by a BOC or assigned to AT&T, the entire deferred tax reserve relating to those assets will similarly be retained or assigned without apportionment. Where, however, some of the assets within the vintage rate category will be assigned to a BOC and others will be assigned to AT&T, the deferred tax reserves generated by and related to those assets will be disaggregated and apportioned between the BOC and AT&T. This will be accomplished by assigning the deferred tax reserves to AT&T in the same proportion that the net book value of the assigned plant bears to the total net book value of plant within that vintage rate category for each BOC.

This apportionment method thus disaggregates the deferred tax reserve on the basis of the same factors that created the reserve. These factors are the lives, methods of depreciation, and treatment of salvage and cost of removal used for tax and book purposes. The reserve reflects the tax effect of the timing differences caused by each of these factors. Accordingly, because the net book value of the assets assigned to AT&T also reflects these factors, net book value will be the basis for assigning the deferred tax reserves.[190]

c. Accumulated Deferred Income Taxes — Other (Account 176.2)

Account 176.2 includes (47 C.F.R. § 31.176:2):

"the balance of income tax expense that has been deferred to later periods as a result of the use of the normalized

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[189] Similarly, the appropriate deferred tax reserves from AT&T's books of account will be calculated and assigned when AT&T assets are assigned to the BOCs.

[190] This proportional allocation of deferred tax reserves can be illustrated by an example. Assume that a BOC has Electronic COE of a particular vintage with a net book value of $10,000,000. If facilities from the BOC's Electronic COE category of that vintage with a net book value of $1,000,000 are assigned to AT&T in the divestiture, then 10 percent of the Account 176.1 tax reserves for that vintage Electronic COE similarly will be transferred to AT&T.

> method of accounting for tax differentials arising from the use of the asset guideline class repair allowance feature of the Revenue Act of 1971. It shall also include . . . any balances that have been deferred to later periods as a result of the use of the normalized method of accounting for any other tax differentials not provided for elsewhere."

As was the case for Account 176.1, the amounts contained in Account 176.2 operate to smooth the impact on net income of certain tax timing differences. Account 176.2 reflects deferred income taxes that result from causes other than the use of accelerated depreciation and shorter asset lives for tax purposes. The BOCs' balance in this account is approximately $204 million.

Account 176.2 contains a number of subaccounts which will be allocated between the BOCs and AT&T as follows. Subaccount 176.2-01 (Asset Percentage Repair Allowance) is not used by Bell System companies and is expected to contain no balance to allocate upon divestiture. Subaccount 176.2-02 (vacation accruals) will be divided between the BOCs and AT&T based on the assignment of vacation expense earned in 1983, but not to be expensed on the books of the BOC or AT&T until 1984.[191] Subaccount 176.2-03 contains deferred taxes on debt refinancing. The balance in this Subaccount will be assigned between AT&T and the BOCs on the basis of which entity receives the underlying debt, as determined pursuant to the debt assignment procedures (*see* Part I.B.4, *infra*). Subaccount 176.2-04 (Lien Date Property Taxes) will be divided on the basis of the assignment of the underlying property between AT&T and the BOCs. Subaccounts 176.2-08 and 176.2-09 include amounts which reflect tax timing differences not provided for elsewhere. The amounts in Subaccounts 176.2-08 and 176.2-09 will be allocated to AT&T if they relate

[191] These vacation expenses will be assigned between AT&T and the BOCs on the basis of the assignment of personnel; *i.e.*, vacation expenses associated with personnel transferred to AT&T will be assigned to AT&T. The portion of the balance in Account 176.2-02 that reflects a debit suspense amount which arose in 1974 will remain with the taxpayer that booked that amount.

to assets, liabilities, functions, or personnel which will be owned, operated or employed by AT&T after divestiture.

d. Unrestored Western Electric Deferred Tax

The BOCs' books of account reflect deferred federal tax liability on intercompany profits realized by Western Electric when the BOCs purchased assets from Western. These deferred taxes are reflected in the BOCs' books in the form of lower asset balances because of a Closing Agreement entered into between the Bell System and the Internal Revenue Service in 1967. In the absence of this 1967 Closing Agreement the benefit of the tax deferral would have inured to Western Electric rather than to the BOCs.

Treasury Reg. § 1.1502-13 provides for the deferral of taxes on gain or loss on certain intercompany transactions between members of a consolidated tax return group. Under the regulations, the tax liability on the deferred gain is paid by the selling member of the group at the same rate that the purchasing member depreciates the asset which gave rise to the gain.

The regulations further provide that the IRS may enter into a closing agreement with regulated public utilities which alters the method (but not the time) for payment of the deferred tax liability (Reg. § 1.1502-13(j)). Pursuant to this regulation, the Bell System entered into Closing Agreements in 1967[192] which enable the benefit of the tax deferral to be shifted from the selling member, *i.e.*, Western Electric, to the purchasing BOC on the sale of assets capitalized on the books of the BOCs. The tax consequences of intercompany sales other than those covered by the Closing Agreement are determined under the provisions of the Treasury Regulations. *See* Part I.B.2.e, *infra*.

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[192] South Central Bell and New England Telephone entered into similar closing agreements subsequent to 1967. South Central entered into a closing agreement when it was formed, and New England Telephone entered into a closing agreement when AT&T's stock ownership in New England Telephone reached a sufficiently high percentage of outstanding stock.

Pursuant to the 1967 Closing Agreements, the deferral is accomplished by eliminating the gain on a sale from income in the consolidated federal tax return; the subsequent payment of the tax is accomplished by reducing the BOC's tax basis in plant purchased from Western Electric by the same amount. This reduction in basis produces an identical reduction in the BOC's tax depreciation deductions over the life of the asset. Because the BOC's tax deductions are decreased by the amount of the Western Electric gain over the tax life of the asset, the BOC's tax payments are increased by the amount of the tax on the restored gain over that same period. In order to reimburse the BOC for its increased future tax liability caused by the loss of depreciation, Western Electric remits to AT&T an amount equal to Western Electric's tax liability generated by the sale, and AT&T then pays that amount to the BOC. In essence, AT&T thereby gives the BOC and its ratepayers cost-free use of the deferred tax for the period of the deferral. In the absence of the 1967 Closing Agreements, Western Electric would have retained both the liability and the use of the money to pay the liability under the general provisions of the Treasury Regulations.

The BOCs credit (decrease) their plant accounts by the amount of deferred tax applicable to the purchased plant. Thus, this deferred tax liability is reflected in the books of account by a reduction in the plant accounts rather than by a separate balance in a deferred tax account. The net effect of these entries is the same result that would ensue if the BOCs left the plant account at its full amount, credited (added) the amount of the deferred liability to a deferred tax account and amortized that amount over the life of the plant.

An example will illustrate how the Western Electric tax is deferred and subsequently paid. Assume that a BOC purchased Station Equipment from Western Electric for $10,000,000 and Western realized a gain on that sale of $1,000,000. The BOC would record the purchase in its books in the account for Station Equipment plant at $10,000,000. The gain would be eliminated in the consolidated federal tax return, but Western

Electric would pay the amount of the tax on the eliminated gain (46% of $1,000,000 = $460,000) to AT&T which would then remit the amount of the tax on the gain to the BOC. The BOC would record the payment by debiting (increasing) a cash account and by crediting (decreasing) the plant account by the amount of the tax; *i.e.,* by $460,000. Thus the plant account would show a debit balance of $9,540,000 instead of $10,000,000. The tax basis recorded by the BOC for that plant would be $9,000,000, which is the purchase price of $10,000,000 less the Western Electric gain of $1,000,000. The BOC would then pay the deferred tax liability through reduced tax depreciation deductions as illustrated in the following chart:

Year	Accelerated Tax Depreciation Rate[193]	Depreciation Deductions –$10 million basis	Tax Return Depreciation Deductions –$9 million basis	Forfeited Depreciation	Tax Rate	Increased Tax Liability
	(A)	(B)	(C)	(D=B-C)	(E)	(F=DxE)
1	.125	$1,250,000	$1,125,000	$125,000	46%	$ 57,500
2	.219	2,190,000	1,971,000	219,000	46%	100,740
3	.164	1,640,000	1,476,000	164,000	46%	75,440
4	.123	1,230,000	1,107,000	123,000	46%	56,580
5	.092	920,000	828,000	92,000	46%	42,320
6-9	.277	2,770,000	2,493,000	277,000	46%	127,420
				Total		$460,000

Some items of plant on the BOCs' books that generated the deferred Western Electric tax will be assigned to AT&T. The unrestored portion of the tax liability will automatically be transferred with those assets because the liability is already reflected in the reduced plant, depreciation reserve, tax reserve and tax basis accounts which relate to those assets. AT&T will continue to restore the deferred taxes related to those assets pursuant to the terms of the existing Closing Agreements because those assets remain in the same consolidated tax return group as Western Electric.

[193] The example reflects Class Life Asset Depreciation Range (CLADR) property with an IRS-prescribed life of 8 years, and a half year convention in the year the asset is placed in service. Under the CLADR Regulations, tax depreciation of the asset is not complete until the application of a second half year convention in the tax year subsequent to the number of tax years prescribed for the asset (*i.e.,* the 9th tax year).

As to assets retained by the BOCs, the 1967 Closing Agreements, consistent with Treasury Regulations, authorize the BOCs to defer payment of the taxes only while the owner of the asset remains a member of the consolidated tax return group that includes the seller, Western Electric. Upon divestiture, the BOCs will no longer be affiliated with the consolidated tax return group and the deferred taxes associated with assets retained by the BOCs will become due and payable to the IRS.[194] The deferred liability involved is approximately $1 billion.[195]

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[194] Some of the assets assigned by AT&T to the BOCs will also reflect an unrestored portion of the Western Electric deferred tax in their balances. These accounts will be treated in the same manner as those assets that are now owned by the BOCs and will be retained by the BOCs.

[195] In order to compute the amount of this liability and to make appropriate adjustments to the financial reporting books of account, three steps are necessary: (1) compute the amount of the original Western Electric gain; (2) compute the amount of the unrestored gain on a tax (accelerated) basis; and (3) compute the amount of the unrestored gain on a book (straight line) basis. The first two steps will be used to calculate the liability to the IRS, and the first and third steps will be used to adjust the books of account. These three steps are as follows:

(1) Because the restoral of the Western Electric gain currently is accomplished and recorded in the BOCs' tax records on an aggregate basis, the determination of the unrestored gain associated with the retained assets requires the following disaggregating calculation. The amount of Western Electric gain associated with the plant to be retained by the BOCs can be determined by applying to the plant investment a vintage Western Electric gain ratio for the appropriate plant account-subaccount. The Western Electric gain ratio for the above Station Equipment example would be .10482 ($1,000,000 gain divided by $9,540,000 plant investment). If $954,000 of the Station Equipment plant investment is retained by a BOC, the original Western Electric gain would be $100,000 ($954,000 plant investment multiplied by .10482 vintage Western Electric gain ratio for this plant account). The deferred Western Electric tax would be determined by applying the Federal income tax rate applicable to the year of sale to the gain determined above; *i.e.*, $100,000 gain multiplied by 46% tax rate = $46,000. This method of calculating the original Western Electric gain associated with retained assets is the same method presently used when assets are sold between BOCs.

(Footnote continued on following page)

The Treasury Regulations contain a special provision which permits the IRS to authorize a continued deferral of the tax where the deferral is lost because of a court-ordered divestiture (Reg. § 1.1502-13(f)(3)). The regulation states:

> "If, pursuant to a final judgment or a final order of a court or an agency of the Federal or a State government, any member or members are required to divest themselves of control of any other member and, as a result, any member ceases to be a member, the Commissioner may enter into a closing agreement . . . [which] may provide that any deferred gain or loss which would otherwise be taken into account under subparagraph (1)(iii) of this paragraph shall instead be taken into account over an appropriate period of time related to the period of time within which the deferred income would have been taken into account had the divestiture not taken place, but not in excess of 10 years."

Pursuant to this regulation, which is incorporated by reference into the Bell System's 1967 Closing Agreements with the IRS, a new closing agreement will be sought providing for the continued deferral of the unrestored Western Electric gain. Because the regulation expresses a clear public policy of minimizing the impact of the loss of the tax deferral that would otherwise result from a divestiture, it is anticipated that AT&T

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(2) The unrestored gain amount on a tax (accelerated) basis will be determined from the tax depreciation reserves of the vintage tax record retained by the BOCs. If the tax depreciation reserve related to the $954,000 of plant investment ($900,000 on a tax basis) is $540,000, the unrestored Western Electric gain on a tax basis will be (1-540,000/900,000) or 40%.

(3) The unrestored gain amount on a book basis is determined by multiplying the gain by the ratio (1-R/B) where R is the book depreciation reserve assigned to the plant transferred and B is the book investment. The original $100,000 of Western Electric gain in the example would be restored on a book basis in relation to the book depreciation reserve assigned to the plant. If the $954,000 of plant had a book depreciation reserve of $286,200 assigned to it, 30% of the original Western Electric gain was restored. The unrestored portion of the gain would be 1-R/B or 1-286,200/954,000 = 70%.

and the IRS will enter into a mutually acceptable closing agreement providing for the continued deferral.

In that event, payment of the deferred tax will have no significant impact on the BOCs. AT&T anticipates that the tax restorals will continue at current payment rates until the tenth year of the negotiated deferral, at which time the BOCs will pay any remaining deferred liability. Because restorals currently track accelerated tax depreciation lives and methods, most of the deferred liability will be paid during the ten years of payments if such payments are made at the current rates.[196] In such a case, the residual liability to be paid in the tenth year would be approximately $120 million for all of the BOCs combined. Payment of the residual amount would affect the BOCs' cash requirements in the tenth year, but the impact of that timing difference will be offset by higher tax depreciation deductions for the BOCs after the deferred tax has been paid. In no event will the BOCs' net income ever be affected by the payment of these deferred taxes.

In addition to this tax treatment of these deferred taxes pursuant to a new closing agreement, the BOCs' financial books of account will be adjusted in order to reflect the deferred liability in the deferred tax reserve account rather than as a reduction in the plant account balance. At divestiture, the original Western Electric tax will be debited (added) to the plant account, the portion restored on a book basis will be credited (added) to the depreciation reserve and the amount of the unrestored portion of the Western Electric tax will be credited (added) to the deferred tax reserve account. As a consequence, this deferred tax will be represented on the balance sheet as a deferred credit rather than as lower asset balances. These adjustments will not affect the stockholders' equity in the BOCs.

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[196] Even if the deferral is paid at a different payment rate over the 10 year period, the only impact on the BOCs is a timing difference.

e. Unrestored Deferred Tax on Other Intercompany Sales

The BOCs' books of account also reflect deferred tax liability generated by intercompany sales within the Bell System other than those sales governed by the 1967 Closing Agreement. Because this second type of deferred tax liability is retained by the seller of the assets, and not the purchaser, the liability will not be apportioned between AT&T and the BOCs at the time of divestiture. Nevertheless, in the absence of a closing agreement, tax regulations would require immediate payment of the unpaid portion of this deferred liability upon divestiture.

The tax liability on these intercompany sales was generated in the following manner. Sales between Bell System companies other than Western Electric are generally made at net book value. However, the net book value of the assets often exceeds the selling company's tax basis in those assets. This differential is due to accelerated tax depreciation and other differences in treatment of expenditures between tax treatment and the treatment reflected on the books of account. Thus, even though the seller's books of account do not show a gain on the intercompany sales, the seller realizes a gain for tax purposes.

The tax treatment accorded these gains differs from that given to the gains arising from the Western Electric sales. The consolidated return tax regulations permit the seller to defer the tax liability, but the deferred liability is not assumed by the purchaser of the assets. Instead, the seller retains and pays the liability while the purchaser records the assets at a tax basis equal to the actual purchase price. As the purchaser depreciates the asset, the seller reports an equivalent portion of the deferred gain in its tax return. The seller normalizes on its books the portion of the tax attributable to accelerated depreciation, because that amount has already been reflected in its deferred tax reserve. The balance of the tax on the deferred gain — *i.e.,* that portion due to non-depreciation differences between tax and book treatment of expenditures — is treated as a tax expense over the tax life of the asset.

The unrestored deferred gain on intercompany sales must be restored to taxable income by the selling member of the consolidated tax return group if either the selling member or the member which owns the plant ceases to be a member of the group. *See* Reg. § 1.1502-13(f)(1)(iii). Thus, this deferred liability will be due and owing to the IRS at the time of divestiture.[197] As in the case of the deferred Western Electric tax, however, the regulations permit the taxpayer to negotiate a continued tax deferral of up to ten years. *See* Reg. § 1.1502-13(f)(3).

The current amount owed by the BOCs for deferred taxes on intercompany sales not governed by the Closing Agreement is approximately $180 million. Most of the $180 million will be paid at current payment rates during the negotiated ten year deferral period. Any residual that must be paid in the tenth year will be relatively insignificant, and would, in any event, have been paid in the absence of divestiture, although over a longer period of time.

3. Current Liabilities, Other Deferred Credits, and Reserves

The principles underlying the division of these accounts are conceptually identical to those by which non-physical assets are assigned. *See* Part I.A.4, *supra.* Amounts which relate directly to physical assets, functions or personnel assigned to AT&T for post-divestiture operations will be assigned to AT&T. All other amounts will remain with the BOCs because they do not encumber any particular asset or operation, and thus represent an undifferentiated source of funding support for the current assets and other investment remaining with the BOCs.

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[197] Sales of assets by AT&T to the BOCs have also generated deferred gain. The deferred tax on these intercompany sales is now being paid by AT&T, and will similarly be due and owing to the IRS at the time of divestiture and will be incorporated into the closing agreement.

In the remainder of this section each account will be identified, the description of the account as defined by the Uniform System of Accounts will be provided, and its assignment between the BOCs and AT&T will be explained. Where the amount contained in any specific account or subaccount is identified, that amount reflects the current combined total for all BOCs as of June 30, 1982.

a. NOTES PAYABLE TO AFFILIATED COMPANIES (ACCOUNT 158.1)

Account 158.1 contains (47 C.F.R. § 31.158:1):

"the face amount of notes, drafts, and other evidences of indebtedness to affiliated companies issued or assumed by the company (except interest coupons) which are payable on demand or not more than 1 year from date of issue."[198]

The current balance of Account 158.1 is zero. To the extent that any balance exists at the time of divestiture, it will be assigned to the BOCs.[199]

b. OTHER NOTES PAYABLE (ACCOUNT 158.2)

Account 158.2 contains (47 C.F.R. § 31.158:2):

"the face amount of notes, drafts, and other evidences of indebtedness to nonaffiliated companies and individuals issued or assumed by the company (except interest coupons) which are payable on demand or not more than 1 year from date of issue."[200]

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[198] An affiliated company is a company that "directly or indirectly . . . control[s] or [is] controlled by, or [is] under common control with the accounting company" (47 C.F.R. § 31.01-3(e)). Thus, all Bell System companies — all the BOCs, Western Electric, AT&T, Bell Labs, and all of their subsidiaries — are affiliates of one another because they are under the common control of AT&T.

[199] If any balance does exist upon divestiture, and except for notes payable to other BOCs which will be part of the same regional company, that balance will be transferred to Account 158.2 (Other notes payable) because of the elimination of affiliated status among current Bell System companies. *See* Part I.A.4.l, *supra.*

[200] Nonaffiliates are all companies other than affiliated companies. For a definition of affiliated company, see Part I.B.3.a, *supra.*

Account 158.2 totals approximately $4.0 billion and is divided into three subaccounts. Subaccount 158.2-07 includes short-term notes having maturities up to 270 days that have been issued to institutions; its balance is approximately $3.2 billion.[201] Subaccount 158.2-08 includes short-term notes issued to banks and has a balance of approximately $573 million. Subaccount 158.2-09 includes all other short-term notes to non-affiliates not contained in other subaccounts and totals approximately $167 million. All of Account 158.2 will be assigned to the BOCs.[202]

c. ACCOUNTS PAYABLE TO AFFILIATED COMPANIES (ACCOUNT 159.1)

Account 159.1 includes (47 C.F.R. § 31.159:1):

> "amounts owed by the company to affiliated companies on all transactions subject to current settlement. There shall be included herein accounts payable arising from divisions of revenues."[203]

The total amount of this account is approximately $1.9 billion, including accounts payable to Western Electric of approximately $1.4 billion (Subaccount 159.1-05), and accounts payable to AT&T and other operating companies of $467 million (Subaccount 159.1-06).

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[201] Subaccount 158.2-07 is further subdivided into Subaccounts 158.2-17 (Commercial paper, $2.18 billion) and 158.2-27 (Program notes, $1.06 billion).

[202] The balance in Account 158.2 represents short-term debt of the BOCs and will be included in the calculation of their debt ratios required by Section VIII(H) of the Decree. *See* Part I.B.4, *infra.* The relative proportions of a BOC's short-term and long-term debt upon divestiture will be determined for each individual company, taking into account its particular financial needs and policies, and in coordination with overall Bell System financing prior to divestiture. To the extent a BOC holds a smaller portion of short-term debt in its capital structure, it will hold a larger portion of long-term debt at the time of divestiture, and *vice versa.* *See* Part I.B.4, *infra.*

[203] Affiliated companies include all of the Bell System companies. *See* Part I.B.3.a, *supra.*

Account 159.1 will be assigned to the BOCs. Upon divestiture, however, and except for accounts payable to other BOCs that will be part of the same regional company, the account balance must be debited (decreased) to Account 159.1 and credited (increased) to Account 159.2 (Other accounts payable). This shift will be necessary because of the elimination of affiliation upon divestiture.[204]

d. Other Accounts Payable (Account 159.2)

Account 159.2 includes (47 C.F.R. § 31.159:2):

> "amounts currently due to nonaffiliated companies and individuals, and not provided for in other accounts, such as those for wages, traffic settlements, material and supplies, repairs to telephone plant, matured rents, and interest payable under monthly settlements on short-term loans, advances, and open accounts. It shall also include amounts of taxes payable that have been withheld from employees' salaries."[205]

The balance of Account 159.2 is approximately $2.1 billion. The account is divided into several subaccounts. Subaccounts 159.2-09 and 159.2-38 contain "miscellaneous" accounts payable such as outstanding drafts, and amounts collected from customers for federal tax on telephone facilities. These "miscellaneous" subaccounts total approximately $1.6 billion. Subaccounts 159.2-18 and 159.2-28 contain payroll accounts payable and total approximately $568 million. Subaccount 159.2-99 contains amounts for various incentive award plans for employees, *e.g.*, the Management Team Incentive Compensation Plan, the Bell System Merit Award Plan, the Bell System Short Term Incentive Plan for Senior Man-

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[204] Amounts payable to other BOCs that will be part of the same regional company are exceptions. Those amounts remain in Account 159.1 because the BOCs within the same regional company will maintain their status as affiliates.

[205] "Nonaffiliated" companies are all companies other than affiliated ones. *See* Part I.B.3.a, *supra*.

agers, and various marketing incentive plans. With the exception of certain amounts for incentive awards to employees assigned to AT&T (which will be assigned to AT&T), the entire amount in Account 159.2 will be assigned to the BOCs.[206]

e. Customers' Deposits (Account 160)

Account 160 includes (47 C.F.R. § 31.160):

> "the amount of cash deposited with the company by customers as security for the payment for telephone service."

Account 160 reflects the BOCs' obligation to customers for the amount of cash deposits received.[207] The balance of Account 160 is approximately $423 million.

All amounts in Account 160 will be assigned to the BOCs. This assignment reflects the fact that after divestiture it will remain the BOCs' responsibility either to refund the deposits received or to apply such amounts to unpaid charges.[208] Having made their deposits to the BOCs, subscribers will look to the same company for refunds (or applications to unpaid charges).

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[206] Amounts contained in Subaccount 159.2-99 for the payment to employees assigned to AT&T of the Bell System Short Term Incentive Plan for Senior Managers will be assigned to AT&T. Amounts associated with the liability to pay other incentive plans to employees transferred to AT&T will be assigned to the BOCs, but these amounts will be paid to AT&T or its subsidiaries who will thereafter act as the BOCs' disbursing agent for the payment of awards to transferred employees.

[207] Customer deposits are not segregated on the asset side of the balance sheet unless they are held in specific escrow or special accounts.

[208] Deposits may be applied to any unpaid bill for services rendered prior to divestiture. Following divestiture, deposits will be applied to unpaid charges for BOC services, *e.g.*, exchange and exchange access services or sales or rental of new customer premises equipment.

f. Matured Interest and Dividends (Account 162)

Account 162 includes (47 C.F.R. § 31.162):

"the amount of matured and unpaid interest on indebtedness of the company, and receivers' certificates, and the amount of dividends due and payable on capital stock but unpaid, uncalled for, or unclaimed at the date of the balance sheet."

The balance of the account is approximately $1.8 million. It will be assigned to the BOCs.

g. Matured Long-Term Debt (Account 163)

Account 163 includes (47 C.F.R. § 31.163):

"the amount (including any obligations for premiums) of long-term debt and receivers' certificates matured and unpaid without any specific agreement for extension of maturity, including unpresented bonds drawn for redemption through the operation of sinking and redemption fund agreements."

Account 163 contains a balance of approximately $96,000. It will be assigned to the BOCs.

h. Advance Billing and Payments (Account 164)

Account 164 includes (47 C.F.R. § 31.164):

"the amount of advance billing creditable to revenue accounts in future months; also advance payments made by prospective customers prior to the establishment of service."[209]

Account 164 represents the BOCs' liability for advance billings and advance payments for service to be rendered. Its balance is approximately $1.1 billion.

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[209] Amounts included in this account are either credited to the appropriate revenue accounts in the months in which service is rendered, or are cleared from this account as refunds are made. *See* 47 C.F.R. § 31.164.

The amounts in the account will be assigned on the basis of which entity will provide the service associated with the advance billing or advance payment. Amounts associated with service to be provided by the BOCs will be assigned to the BOCs. Amounts associated with service to be provided by AT&T after divestiture will be assigned to AT&T.

i. Other Current Liabilities (Account 165)

Account 165 includes (47 C.F.R. § 31.165):

"all liabilities of a current character which are not includible in accounts 158:1 to 164, inclusive."

Account 165 is a residual account and therefore contains numerous miscellaneous current liabilities. Its balance is approximately $148 million. All portions of the account relating to facilities, functions, or personnel assigned to AT&T for operations after divestiture will be assigned to AT&T. The remaining amounts will be assigned to the BOCs.

j. Taxes Accrued (Account 166)

Account 166 includes "the amount of unpaid taxes accrued" (47 C.F.R. § 31.166). The balance of the account is approximately $2.2 billion.

At the time of divestiture, the balance of Account 166 will represent the total amount of income, property, and other taxes that have accrued as of that date, but which are not yet payable.[210] With the exception of a portion of the Account 166

[210] When the accrued taxes become payable or the company receives a tax bill, that amount is debited (reduced) to Account 166 and credited (added) to Account 159.2 (Other accounts payable). In some States, a state or local tax for periods extending after the divestiture date will become the liability of the assignor of property by virtue of ownership (on a tax status or assessment date) prior to the date of divestiture. To the extent that such liabilities include post-divestiture periods, the assignee will reimburse the assignor the prorated portion of the tax relating to the post-divestiture period.

balance of the Pacific Telephone and Telegraph Company, Account 166 will be assigned to the BOCs.[211]

k. UNMATURED INTEREST, DIVIDENDS, AND RENTS ACCRUED (ACCOUNT 167)

Account 167 includes (47 C.F.R. § 31.167):

"the amount of interest on indebtedness of the company and receivers' certificates, dividends on capital stock, and rents accrued to the date for which the balance-sheet is made, but not payable until after that date."

Account 167 contains the amount of accrued but unmatured interest, dividends, and rents. The current balance of the account is approximately $1.8 billion. With the exception of a portion of the Account 167 balance of the Pacific Telephone and Telegraph Company, the entire balance will be assigned to the BOCs.[212]

l. PREMIUM ON LONG-TERM DEBT (ACCOUNT 168)

Account 168 includes (47 C.F.R. § 31.168):

"the total of credit balances in the discount, premium, and debt expense accounts, for all classes of long-term debt having credit balances in these accounts."

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[211] As a consequence of regulatory actions, Pacific Telephone includes in this account certain amounts that would, in the absence of such actions, be contained in Account 176.1 (Accumulated deferred income taxes — accelerated tax depreciation) or Account 174-08 (Unamortized investment credits). A portion of this amount of Pacific's Account 166 balance will be assigned to AT&T. The amount will be determined in accordance with the procedures described in Part I.B.2, *supra,* for the assignment of deferred tax reserves and unamortized investment credits relating to the assets that gave rise to the liability. In the event of any refund of payments made with respect to this liability, such refund will be assigned between Pacific Telephone and AT&T in proportion to the assignment of the liability at divestiture.

[212] The exception involves that portion of unmatured interest maintained in this account by Pacific Telephone relating to tax liabilities that will be assigned to AT&T. *See* Part I.B.3.j, *supra.* In

(Footnote continued on following page)

Account 168 has a balance of approximately $14 million. The account will be divided between the BOCs and AT&T on the basis of which entity is assigned the underlying debt, as determined pursuant to debt assignment procedures described in Part I.B.4, *infra*.

m. **Insurance Reserve (Account 169)**

Account 169 includes (47 C.F.R. § 31.169):

> "appropriations of retained earnings specifically made to cover self-carried risks for losses through accident, fire, flood, or other causes."

Account 169 has not been used by the BOCs and will contain no balance to assign upon divestiture.

n. **Provident Reserve (Account 170)**

Account 170 includes (47 C.F.R. § 31.170):

> "specific appropriations of retained earnings and the amounts contributed by employees or others (whether carried in special trust funds or in the general funds of the company) for pensions, accident and death benefits, savings, relief, hospital and other provident purposes, when administered by trustees or managers acting for the company."

The balance of the account is approximately $66 million. At the time of divestiture, the company costs for such employee benefits will have been recorded as reductions of income (through charges to Account 672, "Relief and pensions") and will remain in Account 170 pending payment to trustees or to the actual beneficiaries. Account 170 will also contain employee contributions to savings plans made prior to divestiture which will be cleared upon payment to the trustees. Amounts contained in Account 170 at the time of divestiture will be assigned to the BOCs.

(Footnote continued from previous page)
the event of any refund of payments made with respect to these amounts, such refund will be assigned between Pacific Telephone and AT&T in proportion to the assignment of the unmatured interest at divestiture.

o. Amortization Reserve (Account 172)

Account 172 includes (47 C.F.R. § 31.172):

"amounts concurrently charged to account 613, 'Amortization of intangible property,' for the amortization of leaseholds, franchises, and patent rights."

The balance of Account 172 is approximately $600,000 and represents a reserve for the amortization of intangible property and any telephone plant acquisition adjustment.[213] The reserves maintained in Account 172 are a direct counterpart to the depreciation reserves for physical property maintained in Account 171. *See* Part I.B.1, *supra.*

Amounts in Account 172 relating to intangible property — all of which will be assigned to the BOCs, *see* Parts I.A.4.gg, hh, and ii, *supra* — will be assigned to the BOCs. To the extent that physical property associated with a telephone plant acquisition adjustment balance is assigned to AT&T, the related amortization reserve contained in Account 172 will also be assigned to AT&T. The remaining amounts will be assigned to the BOCs.

p. Employment Stabilization Reserve (Account 173)

Account 173 includes (47 C.F.R. § 31.173):

"amounts concurrently charged to Account 611, 'Employment stabilization' . . . [and] amounts concurrently charged to Account 672, 'Relief and pensions,' under provisions of paragraph (f) of that account to provide a reserve for termination allowances or similar benefits to employees of the company when such employees are laid off because of lack of work, also to provide necessary and warranted relief to former employees."

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[213] The associated intangible property is reflected in Accounts 201, 202 or 203. *See* Parts I.A.4.gg, hh, and ii, *supra.* The associated telephone plant acquisition adjustment is maintained in Account 100.4. *See* Part I.A.4.a, *supra.*

Account 173 has not been used by the BOCs and will contain no balance to assign upon divestiture.

q. Other Deferred Credits (Account 174)

Account 174 includes (47 C.F.R. § 31.174):

> "the amount of all deferred credits not includible in accounts 168 to 173, inclusive, such as credit balances in clearing accounts; unamortized investment credits; estimated uninsured casualty liabilities charged to account 669, 'Accidents and damages'; amounts awaiting adjustments between accounts; amounts accrued for depreciation of miscellaneous physical property; and revenue, expense, and income items in suspense."

The total balance of Account 174 is approximately $7.0 billion. Most of this amount represents unamortized investment tax credits (approximately $6.6 billion, Subaccount 174-08), that will be assigned in accordance with procedures described in Part I.B.2, *supra.* Exclusive of unamortized investment tax credits, the balance of Account 174 is approximately $430 million. It is divided among three subaccounts: 174-01 (Depreciation reserves for miscellaneous physical property); 174-07 (Accrued ESOP credit); and 174-09 (Other).

Approximately one-half of this $430 million balance — $212 million — represents accrued ESOP (employee stock ownership plan) credits contained in Subaccount 174-07. The balance in this subaccount at the time of divestiture will be assigned to the BOCs.

The amounts contained in the two remaining subaccounts — 174-01 (Depreciation reserves for miscellaneous physical property) and 174-09 (Other) — total approximately $218 million. Amounts contained in Subaccount 174-01 will be assigned on the basis of the assignment of the underlying plant between AT&T and the BOCs. *See* Part I.B.1, *supra.* The amounts in Subaccount 174-09 will be reviewed and classified to the appropriate final accounts prior to divestiture.

Any remaining amounts will be assigned to AT&T in the event they involve facilities, functions, or personnel related to AT&T's post-divestiture operations. All other amounts will be assigned to the BOCs.

r. Contingent Liabilities

Provision must be made for the recognition and payment of liabilities that are attributable to pre-divestiture events (including transactions to implement the divestiture) but that do not become certain, and hence are not booked, until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the Bell System's rates, taxes, contracts, and torts (including business torts, such as alleged violations of the antitrust laws).[214]

With respect to such liabilities, AT&T and the BOCs will share the costs of any judgment or other determination of liability entered by a court or administrative agency, the costs of defending the claim (including attorneys' fees and court costs), and the cost of interest or penalties with respect to any such judgment or determination.[215] Except to the extent that affected parties may otherwise agree, responsibility for such contingent liabilities will be divided among AT&T and all the BOCs on the

[214] The contingent liabilities allocated under this section of the Plan are those of AT&T and the affiliates in which AT&T directly or indirectly owned majority interests prior to divestiture.

[215] To simplify the administration of relatively small proceedings (other than claims relating to Federal income taxes or to tax timing and investment tax credit adjustments attributable to state and local income taxes), the responsibility is shared only for amounts exceeding $1 million for each judgment or determination of liability. The responsibility for judgments or determinations of $1 million or less, and the first $1 million of other judgments or determinations, shall remain with the entity that is party to the proceeding. The $1 million will apply only once to proceedings in which several independent bases for liability are combined or to proceedings where there are multiple defendants; where several tax years are included in one deficiency assessment, the $1 million will apply to each year, except where the same claim is repeated from year to year, in which case the $1 million will apply only once to the deficiency. For purposes of these computations, the costs of defending the litigation will be added to the amount of the judgment or other determination of liability.

basis of their relative net investment[216] as of the effective date of divestiture.[217] This general rule of allocation will be modified as described below for any situation in which (i) the liability relates exclusively to pre-divestiture interstate operations, (ii) the liability relates exclusively to pre-divestiture intrastate operations, or (iii) the liability relates to pre-divestiture Federal income taxes or to a pre-divestiture tax timing or investment tax credit adjustment attributable to state and local income taxes.

Where all or part of a liability relates exclusively to pre-divestiture interstate operations, responsibility will be allocated among AT&T and all the BOCs in proportion to their relative investment devoted to interstate services as of the effective date of divestiture (as calculated in accordance with the FCC-prescribed Separations Manual in effect on the date of divestiture), adjusted to reflect the assignments of assets under this Plan of Reorganization (CPE and interLATA assets to AT&T, and intraLATA assets to the BOCs).

Where all or part of a liability relates exclusively to pre-divestiture intrastate operations, responsibility will be allocated between AT&T and the BOC that conducted the operations in that State. The allocation will be in proportion to the companies' relative investment devoted to intrastate services as of

[216] Net investment is defined as total assets less reserves for depreciation. AT&T's net investment will include the assets (minus reserves) of AT&T and all of its majority-owned affiliates, as of the effective date of divestiture. The BOCs' net investment will include the assets (minus reserves) of the individual BOCs, their respective regional holding companies, their central staff organization, and any affiliate in which any of these companies directly or indirectly owns majority interests.

[217] A firm's liabilities must ultimately be satisfied by its net assets. Accordingly, the Bell System's consolidated debt ratio (upon which the BOC debt ratio specified in Section VIII(H) of the Decree was based) reflects a level of debt and equity that takes into account the existence of contingent liabilities, as well as all other risks of the business. If each post-divestiture entity did not share the risks of contingent liabilities in proportion to the amount of total investment it retains for its lines of business, the debt ratios provided in this Plan of Reorganization would have to be adjusted accordingly.

the effective date of divestiture (also as calculated in accordance with the FCC-prescribed Separations Manual in effect on the date of divestiture), adjusted to reflect the assignments of CPE and interLATA assets to AT&T and intraLATA assets to the BOC.

Where a liability relates to Federal income tax deficiencies (or overpayments) for the Bell System's pre-divestiture consolidated tax return years, the amount initially will be divided between AT&T and the individual BOCs in accordance with existing tax allocation agreements.[218] To the extent that any portion of an amount thus allocated relates to tax-timing adjustments, that portion of the liability will be further allocated to the entity that will receive the benefit or detriment of such tax-timing adjustment. To the extent that any portion of an amount relates to investment tax credits, that portion of the liability will be assigned between AT&T and the BOC on the basis of this Plan's assignment of the assets that gave rise to the investment tax credits.[219] All other amounts allocated to a BOC under the tax allocation agreements will be assigned between AT&T and the BOC on the basis of the relative net investment held, as of the effective date of divestiture, by the BOC and by the AT&T-owned subsidiaries created to receive the BOC's interLATA facilities and CPE.[220]

The agreements to be executed by AT&T and the BOCs at divestiture (*see* Part IV.C.6, *infra*) will contain a schedule of all then-pending litigation or proceedings in which a judgment for the amount demanded (or expected to be demanded) would result in a liability to be allocated under this Plan. The Agreement will identify whether each contingent liability re-

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[218] These agreements allocate the Bell System's consolidated tax liability among AT&T and the BOCs principally upon the basis of each entity's relative contribution to consolidated taxable income.

[219] The same rules will apply to allocate tax timing and investment tax credit adjustments attributable to state and local income taxes. In States that require the filing of a combined or consolidated state corporate income tax return, allocation of deficiencies and overpayments among the members of the combined return group will be determined pursuant to statutory provision.

[220] Penalties and interest accrued on any income tax deficiencies or overpayments will be allocated in the same proportions as the underlying deficiencies are allocated under this Plan.

lates exclusively to intrastate or interstate operations, whether the liability is to be divided in accordance with the rules for allocating Federal income tax deficiencies and state or local tax-timing and investment tax credit adjustments, or whether the liability is to be divided in accordance with the general rule for allocating contingent liabilities.[221] Within one month of the institution of any other action or proceeding against AT&T or a BOC based on pre-divestiture events, AT&T or the BOC shall give notice of the action to each other entity (other than a named party in the same action) that may be responsible for payments under this Plan.[222]

Subject to the foregoing principles and procedures, all the BOCs and AT&T will be responsible for the payment of judgments and determinations of liability, whether or not an entity was a party to the proceeding and regardless of whether an entity was dismissed from the proceeding by virtue of settlement or otherwise. The settlement of all or any part of an action or other claim will not be shared among AT&T and the BOCs, except to the extent that any such entities may agree to share the costs of settlement.[223]

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[221] Of the contingent liabilities listed in the notes to financial statements in AT&T's 1981 Annual Report, for example, liability for the 1981 judgment in Litton Industries' antitrust suit against the Bell System (note U) would be allocated in accordance with the general rule; liability for the 1980 judgment in MCI's antitrust suit against the Bell System (note U) and for Illinois Bell's interstate revenues tax (note I) would be allocated in accordance with the "exclusively interstate" rule; liability for the refund of intrastate revenues by Pacific Telephone and other BOCs (note H) would be allocated in accordance with the "exclusively intrastate" rule; and Pacific's contingent liability for unbooked Federal tax deficiencies (note H) would be allocated in accordance with the rules for Federal income tax deficiencies.

[222] With respect to such actions, AT&T and the BOCs may agree upon procedures for identifying which set of rules described in this part of the Plan shall be applied to allocate the costs of any judgments resulting from the actions. To the extent that affected parties cannot reach agreement on this or any other matter concerning the application of this Plan to contingent liabilities, they may submit their disputes to arbitration in accordance with the provisions of Part III.G, *infra.*

[223] All rights and duties with respect to existing agreements in settlement of litigation shall remain with the named parties to such agreements, and none of the payments with respect to those agreements will be allocated under this Plan.

4. Long-Term Debt

The BOCs carry most of their debt in a series of accounts described in the Uniform System of Accounts as "Long-Term Debt." This consists of accounts for Funded Debt (47 C.F.R. § 31.154:1), Funded Debt Subscribed (47 C.F.R. § 31.154:2), Receivers' Certificates (47 C.F.R. § 31.155), Advances from Affililated Companies (47 C.F.R. § 31.156), and Other Long-Term Debt (47 C.F.R. § 31.157).

These accounts reflect a substantial portion of the funding for the BOCs' overall investment — about $37.8 billion in the five accounts combined. The allocation of debt represented in these accounts will not follow the assignment of particular assets. Instead, the allocation will be controlled by Section VIII(H) of the Decree which specifies the proportion of debt to be left in the BOCs' capital structures upon divestiture.

Section VIII(H) of the Decree requires that the BOCs be divested with debt ratios "of approximately forty-five percent (except for the Pacific Telephone and Telegraph Company which shall have a debt ratio of approximately fifty percent)" (Decree, § VIII(H)). The debt ratios will be computed as the proportion of the divested BOCs' total short-term and long-term debt to the BOCs' total debt and equity capital, as of the time of divestiture.[224]

The principal reason that an allocation of BOC debt may be necessary is the impact of the removal of the BOCs' interexchange facilities and customer premises equipment from their overall net investment. Absent other adjustments, this would cause increases in debt ratios computed on the basis of then-existing BOC debt — the same numerator (the debt) would be held over a lower denominator (pre-divestiture debt

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[224] The BOCs' short-term debt is contained in Account 158.2 (Other notes payable). The assignment of the BOCs' short-term debt is described in Part I.B.3.b, *supra.* The BOCs' long-term debt that will be included in the debt ratio calculation is defined on a net proceeds basis (net of any unamortized discount or premium) and will exclude any capitalized leases that may be recorded upon implementation of the new FASB standard (*see* Part I.A.4.ff, *supra*).

plus equity, reduced by the net investment in assets assigned to AT&T). *See* Part I.B.5, *infra.*

The precise amount of debt (if any) to be removed from a BOC's debt accounts depends upon the amount of BOC investment to be retained by AT&T and the level of BOC debt immediately prior to divestiture. The level of BOC debt and equity will depend, in turn, upon how the operations of particular BOCs are financed until divestiture. One method of BOC financing may be the resumption of borrowing in traditional debt markets, which would increase debt.[225] Certain other methods of financing will ultimately reduce the proportion of debt in the BOCs' capital structures.

One such additional method would be for AT&T to invest equity in the BOCs. Another method will be the continuation of advances from AT&T. These advances are borrowings by the BOCs from AT&T and are accounted for as debt. *See* Part I.B.4.a, *infra.* Prior to divestiture, the subsidiaries created to segregate the BOCs' interexchange facilities and customer premises equipment will assume some or all such advances, allowing the BOCs to remove this amount of debt from their corporate (unconsolidated) books. Then, when the BOCs dividend these subsidiaries to AT&T, the BOCs will reduce equity by only the difference between their subsidiaries' total assets and total liabilities. AT&T's removal of advances will have left the BOCs with smaller proportions of debt in their remaining capital structures than if the subsidiaries had not assumed the advances from AT&T.

For a number of companies, the removal of AT&T advances in this manner is expected to result in appropriate debt ratios under the Decree. To the extent additional debt must be removed from the BOCs, AT&T (or its subsidiaries) will assume the necessary additional amount. AT&T will enter into contracts with the BOCs whereby AT&T assumes either discrete BOC debt issues or a proportion of each BOC debt issue, and promises to pay to the trustees of the BOC debt the interest and principal as due. This obligation will then be booked as a debt of AT&T (or one of its subsidiaries) and will not be included as

[225] Short-term and long-term borrowing in such markets may be required of some BOCs to finance operations during 1983 in amounts consistent with the BOCs' appropriate post-divestiture debt structures.

BOC debt in computing the debt ratios specified in Section VIII(H) of the Decree.[226]

In addition to the obligations imposed by the Decree, the Bell System has developed a plan by which each BOC will have an opportunity to achieve less than the Decree-specified debt ratio. Based upon a BOC's anticipated level of earnings and financing through December 31, 1983, AT&T will commit itself to removing a specific amount of debt which would result in the BOC being divested at a debt ratio of approximately 45 percent (approximately 50 percent for Pacific Telephone) on January 1, 1984. AT&T will remove this fixed level of debt, even if the result is a lower BOC debt ratio than anticipated. Thus, to the extent a BOC improves upon its efficiency and reduces its debt, the BOC will retain the benefit of the improvement and will be divested at a debt ratio below that required by the Decree. On the other hand, if a BOC is less efficient than anticipated or is otherwise required to increase planned debt financing, it will not achieve a lower debt ratio. AT&T will, in all events, assure that the BOC debt ratios comply with Section VIII(H) of the Decree.

In the months immediately following divestiture, debt ratios could be distorted by an uneven impact on working capital caused not by normal operations but due solely to the effects of divestiture.[227] The Bell System will design tariffs and intercompany contracts required by the Decree or by this Plan of Reorganization to minimize such potential distortion. In addition, separate contracts will be executed in order to offset any remaining disproportionate changes in net cash flows and in the liquidity of any post-divestiture entity.

The debt remaining with the BOCs upon divestiture will be representative of the average terms and conditions of debt

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[226] The BOC financial statements will state that the debt assumed by AT&T (or one of its subsidiaries) is a contingent liability of the BOC, should AT&T or its subsidiary default on the commitment to pay. In the event of a default, however, the BOC would have an action on its contract with AT&T (or AT&T's subsidiary).

[227] Distortions could arise from such events as the assignment of accounts receivable and accounts payable, the substitution of access charges for Division of Revenue contracts, and changes in the timing of receipts from billed services and leases.

throughout the Bell System. With the exception of the New York Telephone Company and Illinois Bell, which have several issues of outstanding mortgage bonds, all Bell System funded debt has substantially identical terms and conditions.[228] All of this debt is unsecured, has similar no-call provisions, and contains call premiums calculated in a similar manner. Thus, there will be no significant difference in the terms and conditions of debt held by AT&T and the BOCs after divestiture.

The cost of short and long-term debt remaining with each divested BOC will not exceed the average cost of each such class of debt immediately prior to the divestiture transactions described in Part IV.C.6, *infra.*[229] On a regional company consolidated basis, this is expected to produce approximately the same average cost for all companies except Pacific Telephone. Based on debt costs as of December 31, 1981, the consolidated cost of funded debt for each region was:

Region	Embedded Cost of Funded Debt
N.Y./New England	8.5%
N.J./Penn./C&P	8.7%
Southern/So. Central	8.9%
Ill./Mich./Ohio/Wisc./Ind.	8.6%
PNB/Mtn./NWB	8.5%
Southwestern	9.1%
Pacific	9.9%

To the extent these costs vary among regions and individual BOCs, the differences reflect factors unique to the com-

[228] New York Telephone and Illinois Bell continued to issue mortgage bonds through the early 1970s, several years after other BOCs had switched to the issuance of debentures. Since that time, Illinois Bell and New York Telephone have issued debentures with terms and conditions similar to those of other BOCs. Even as to the prior period (and except for the mortgage feature), the terms and conditions of Illinois Bell and New York Telephone bonds were substantially the same as those of the other BOCs.

[229] Similarly, and for essentially the same reasons, the average maturity of funded debt remaining with each BOC will be approximately the same as the average maturity for all of its funded debt prior to divestiture.

panies and serving areas. Areas of high growth, for example, require large current capital expenditures. Companies serving these areas have issued debt more recently and more frequently than BOCs serving slower growth areas. Such borrowing at recent high interest rates has caused the embedded debt costs of these "Sun Belt" companies to rise above the costs of BOCs serving the Nation's slower growing areas where construction programs and recent borrowings have been relatively smaller.[230]

These differences are reflected in the plan to divest the BOCs with their average costs of short-term and long-term debt. Any attempt to equalize the costs among regions and companies would introduce a number of subsidies between and among the divested BOCs — such as low growth areas subsidizing faster growing areas.

The foregoing principles will be implemented by removing, where necessary, appropriate types and amounts of debt from the BOCs' "long-term debt" accounts, after the assignment of short-term debt is made in accordance with Part I.B.3.b, *supra.* The five long-term debt accounts are set forth below, and the appropriate assignment of each account described.

a. Advances from Affiliated Companies

Account 156 includes (47 C.F.R. § 31.156):

> "the amount of investment advances from affiliated companies."

The BOCs account for all investment advances from AT&T and any other Bell System company in Account 156. The account also includes amounts transferred from Account 158.1 (Notes payable to affiliated companies) and Account 159.1 (Accounts payable to affiliated companies) when such amounts are not paid within twelve months.

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[230] This difference has been exacerbated for Pacific Telephone which not only serves high growth areas, but has experienced slippage in credit ratings because of poor earnings and perceived adverse regulatory factors beyond its control.

Upon divestiture, the BOC subsidiaries that are created to receive a BOC's interexchange facilities and customer premises equipment will assume all or a portion of AT&T's investment advances in Account 156, as may be necessary to leave the BOC with its Decree-specified debt ratio. The BOC will then remove that amount from Account 156. Investment advances from affiliates other than AT&T, and overdue notes and accounts payable to affiliates (including AT&T) will either be repaid and removed from the account prior to divestiture or will be assigned to the BOCs.[231]

b. FUNDED DEBT

Account 154.1 includes (47 C.F.R. § 31.154:1):

"the total face amount of unmatured debt, maturing more than one year from date of issue, issued by the company and not retired, and the total face amount of similar unmatured debt of other companies, the payment of which has been assumed by the company, including funded debt the maturity of which has been extended by specific agreement."

Account 154.1 is divided so as to show the face amount of nominally issued funded debt, actually outstanding funded debt, and nominally outstanding funded debt. The amounts in the account are further divided to show the amounts of each class of funded debt. The current balance in Account 154.1 for all BOCs is approximately $37.5 billion.

The balance in Account 154.1 will not be changed as a consequence of divestiture except to the extent necessary to adjust the debt ratios of the BOCs,[232] as described above. AT&T (or its subsidiaries) will assume whatever BOC funded debt may be necessary to leave each BOC with its required debt

[231] Upon divestiture and the elimination of affiliated status among Bell System companies — and except for advances from, and notes or accounts payable to companies that will remain as part of the same regional company — the amounts remaining in Account 156 will be transferred to Account 157 (Other long-term debt).

[232] Account 154.1 will not otherwise be affected because the amounts therein are not related to specific assets or personnel that will be assigned to AT&T.

ratio after the IXC and CPE subsidiaries have assumed AT&T investment advances, as described in Part I.B.4.a, *supra.*

c. **Funded Debt Subscribed**

Account 154.2 includes (47 C.F.R. § 31.154:2):

"the face amount of funded debt for which legally enforceable subscriptions have been received but for which, at the date of the balance-sheet, evidences of indebtedness have not been issued."

The BOCs currently have no Account 154.2 liability for subscriptions to funded debt. If a BOC does incur any such liability prior to divestiture, it will be in connection with a BOC's borrowing to arrive at an appropriate debt ratio. Any balance in this account will therefore be assigned to the BOCs.

d. **Receivers' Certificates**

Account 155 includes (47 C.F.R. § 31.155):

"When any receiver acting under the orders of a court is in possession of the property of the company and under the orders of such court issues evidences of indebtedness chargeable upon such property, the face amount of such evidences of indebtedness shall be credited to this account."

The BOCs have no Account 155 liability for receivers' certificates and will have no balance to assign between AT&T and the BOCs at the time of divestiture.

e. **Other Long-Term Debt**

Account 157 includes (47 C.F.R. § 31.157):

"investment advances from nonaffiliated companies and individuals, and other long-term debt not provided for elsewhere."

The BOCs currently have an aggregate balance of approximately $20 million of other long-term debt. At the time of divestiture, the account will include the amount of long-term capitalized leases. *See* Part I.A.4. ff, *supra*. That portion of the account representing capitalized leases associated with assets assigned to AT&T will be assigned to AT&T; the remaining balance of Account 157 will be assigned to the BOCs.

5. Retained Earnings and Stock

The BOCs' equity appears in seven "Retained Earnings" and "Stock" accounts prescribed by the Uniform System of Accounts. The combined total of a BOC's equity accounts equals the difference between total assets and total liabilities for that BOC. Adjustments to the BOCs' equity accounts will thus reflect the net effect of the divestiture transactions on the excess of their assets over liabilities. The following discussion identifies each BOC equity account and describes how the account may be affected by the divestiture transactions.[233]

a. Retained Earnings Reserved (Account 180)

Account 180 includes (47 C.F.R. § 31.180):

"the amount of retained earnings reserved or otherwise set aside for any purpose not provided for elsewhere."

The BOCs have a balance of approximately $1.6 million in Account 180. The divestiture will not affect the balance in Account 180.

b. Unappropriated Retained Earnings (Account 181)

Account 181 includes (47 C.F.R. § 31.181):

"the undistributed balance of retained earnings derived from the operations of the company and from all other transactions not includible in the other accounts appropriate for inclusion of stockholders equity."

The BOCs have a balance of approximately $12.4 billion in Account 181. Account 181 will be reduced, as appropriate, by

[233] The accounting steps for each transaction in the divestiture are set forth in Part IV.A, *infra*.

amounts that, together with the reduction in Account 152 (Premium on capital stock), *see* Part I.B.5.e, *infra,* equal the difference between the amount of investment removed from the BOCs' asset accounts and the amount of liabilities and reserves removed from the BOCs' other accounts. *See* Part IV.A.3, *infra.*

c. Capital Stock (Account 150)

Account 150 includes (47 C.F.R. § 31.150):

"the book amount of certificates which represent permanent interests in the company or interests which if terminable are so only at the option of the company."

Account 150 is divided into separate subaccounts for common and preferred stock. Account 150-01 (common stock) has a balance of approximately $40.55 billion; Account 150-02 (preferred stock) has a balance of approximately $553 million. In some instances, a BOC's common stock may be restated, resulting in a reduction in the balance of Subaccount 150-01, and an equal increase in Account 152 (Premium on capital stock). *See* Part IV.A.3, *infra.* Otherwise, the divestiture will not affect the balance in either of these BOC capital accounts.

d. Stock Liability for Conversion (Account 151)

Account 151 includes (47 C.F.R. § 31.151):

"the company's liability under agreements to exchange its capital stock for the outstanding securities of other companies which have not been surrendered for exchange."

The BOCs' books of account contain no balance in Account 151, and the divestiture will not affect this account.

e. Premium on Capital Stock (Account 152)

Account 152 includes (47 C.F.R. § 31.152):

"the total of credit balances in the discount and premium accounts, for all classes of capital stock having credit balances in these accounts."

The BOCs have a balance of approximately $316 million in Account 152 (which is sometimes referred to as the capital stock surplus account). Account 152 will be reduced, as appropriate, by amounts that, together with the reduction in Account 181, *see* Part I.B.5.b, *supra,* equal the difference between the amount of investment removed from the BOCs' asset accounts and the amount of liabilities and reserves removed from the BOCs' other accounts. *See* Part IV.A.3, *infra.*

f. Capital Stock Subscribed (Account 153.1)

Account 153.1 includes (47 C.F.R. § 31.153:1):

"the book amount of capital stock for which legally enforceable subscriptions have been received but for which, at the date of the balance-sheet, stock certificates have not been issued."

The BOCs' books of account have no balance in Account 153.1, and the divestiture will not affect this account.

g. Installments Paid on Capital Stock (Account 153.2)

Account 153.2 includes (47 C.F.R. § 31.153:2):

"the amount of installments paid on capital stock on a partial or installment payment plan by subscribers against whom there is no legally enforceable subscription contract, and who are entitled to be reimbursed for the principal amount of their payments, with or without interest, in the event they fail to complete payments for the stock and receive certificates therefor."

The BOCs' books of account have no balance in Account 153.2, and the divestiture will not affect this account.

C. INVENTORY, ASSIGNMENT, AND AUDIT PROCEDURES

Principles for the separation of the BOCs' facilities and books of account have been described in Parts I.A and I.B of this Plan. This section sets forth the plans for implementing these principles in order to achieve the actual separation of assets and liabilities required by the Modification of Final Judgment.[234]

1. Role of the BOCs

The separation of the BOCs' facilities and books of account will be accomplished by BOC personnel. Each BOC has established an organization (hereinafter referred to as the "asset assignment task force") that will be responsible for implementing this requirement of the Decree. These organizations are headed by comptrollers and are divided into "subtask" groups composed of personnel that possess expertise with respect to distinct categories of assets or liabilities. The subtask groups, under the coordination of the BOC comptrollers, will be responsible for applying the principles described in previous sections of the Plan to each of the categories of accounts and making the specified assignment of assets and liabilities between AT&T and the BOCs.[235]

2. The Process of Inventory and Assignment

To accomplish the separation of the BOCs' facilities and books of account the BOCs must identify the assets for ultimate assignment to the newly-created interexchange and CPE subsidiaries, the stock in which will be held by AT&T upon divestiture. For convenience, the steps in this process — identifying, counting, and assigning BOC facilities — will be referred to as an "inventory" of the assets affected by the

[234] The procedures described refer to the separation of the BOCs' facilities and books of account. Equivalent procedures will be followed to separate AT&T's facilities and books of account for items assigned to the BOCs.

[235] There are ten categories of accounts: (1) central office facilities; (2) outside plant; (3) station apparatus; (4) Large PBX; (5) land and buildings; (6) general equipment (tools, vehicles, office equipment, and furniture); (7) materials and supplies (inventories); (8) non-physical assets and liabilities; (9) taxes; and (10) depreciation reserves.

divestiture. In addition, the book cost of these assets will be determined and summed in order to record the adjusted net book values of assigned assets.[236]

The inventory of BOC assets will be based primarily on a record inventory.[237] Each asset assignment task force will assign the facilities and accounts by reviewing the records maintained by the BOC for all of its assets and liabilities. Every BOC asset and liability account will then be reviewed in detail to determine which specific items (whether physical assets or non-physical record entries) are to be assigned to AT&T or the BOCs under the Decree and this Plan of Reorganization.

The appropriate book cost associated with assigned facilities will be determined directly from the books of account. For most accounts, the records indicate the original investment cost of the facilities that will be assigned. In a few instances (station apparatus, outside plant and certain categories of materials and supplies), records of book cost are not maintained on a unit-by-unit basis but are kept as averages for all such items, generally by regulatory jurisdiction. In these situations, the cost of assigned assets will be determined from the average book cost of all units. For example, the cost of station apparatus will be determined by multiplying the quantity of the assets assigned to the BOCs by the average original cost of that type of equipment. Similarly, the cost of outside plant assets assigned to AT&T will be determined by multiplying the number of

[236] The BOC comptrollers will determine the book cost of the assets assigned to AT&T. Separate calculations will be made of the associated depreciation and tax reserves, and various journal entries will be made to the appropriate accounts upon divestiture. *See* Parts I.B.1 and I.B.2, *supra,* and Part IV.A, *infra.*

[237] Under existing verification procedures, some of the categories of assets — particularly the portable items which demonstrate volatility because of losses or relatively difficult record-keeping, *e.g.,* materials and supplies — will be physically inventoried prior to divestiture. In those cases where record conditions dictate, selective physical inventories will also be conducted to assure a reliable record of the assets assigned.

assigned assets by the average vintage unit cost of that type of equipment.[238]

Only the anticipated smaller portion of each category of assets (except non-physical assets and liabilities) will be inventoried and its investment cost determined (a process hereinafter referred to as "costing out"). Thus, the required division of assets will produce two separate groups of assets (one assigned to the BOCs and one assigned to AT&T), but only the smaller portion will be inventoried and its book cost determined. Upon divestiture, the smaller portion of assets and its associated book cost will be assigned to AT&T or the BOCs as required by the Decree. The book cost for the smaller portion will be subtracted from the recorded book costs of the entire category, and the remainder will be assigned to the other entity. This process is unaffected by which entity is assigned the larger portion of the asset category.

The assignment process also recognizes that the assignment and divestiture of assets will not occur at an instant in time in which the BOCs' business is at a standstill. The process of assignment will take several months to complete and must be concluded substantially prior to divestiture so that other tasks — tasks which depend on the results of asset assignment (*e.g.*, the calculation of book depreciation and the calculation of tax reserves (*see* Parts I.B.1 and I.B.2)), and the preparation of *pro forma* financial statements (*see* Part IV.C) — can be completed in time. During this interval, the BOCs and Long Lines must continue to provide telephone service and to add facilities for anticipated growth. Consequently, after a category of assets is assigned and its book cost determined in preparation for divestiture, there will be additions of new equipment and facilities, as well as retirements. It will be impossible either to make all assignments and then freeze the asset pool pending

[238] In most cases, the cost data for outside plant are maintained on a year-by-year, or vintage, basis and an average original unit cost can be obtained for each item of outside plant for each vintage year. Where such vintage data are not available for outside plant, the cumulative average original unit cost will be used.

divestiture, or to make all assignments after the close of business on the eve of divestiture.

To account for these dynamics, the assigned assets will be tracked by using existing or newly-assigned location or other "accounting codes" (*e.g.*, for station apparatus and central office facilities), by creating separate subaccounts (*e.g.*, for outside plant and Large PBX), by compiling a separate list of items designated for assignment (*e.g.*, for land and buildings), or by physically tagging or segregating the assigned items (*e.g.*, for furniture and materials and supplies).[239] The comptrollers will continue their normal business practice of updating all records after inventory and assignment (but prior to divestiture), noting any changes, additions or retirements. The records of all assets will remain current, and investment costs for assigned items will be determined at the time of divestiture. The assignment process will thus accommodate the fact that the initial inventory of some accounts will be separated from divestiture by several months.

The procedures for inventory and assignment vary among the major categories of asset and liability accounts as a result of differences among records. The following sections describe the mechanics of the inventory and costing out process for the seven major categories of physical assets and for the non-physical asset and liability accounts.

a. Physical Assets

The seven categories of physical assets that will be divided by each BOC asset assignment task force fall into three major groupings for inventory purposes: network facilities (central office facilities and outside plant); terminal equipment (station apparatus and Large PBX); and other physical assets (land and buildings, general equipment, and materials and supplies). Succeeding subsections identify the specific BOC subtask

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[239] If an entire building and all its contents are assigned to AT&T, the furniture items may not be tagged. Absent such total assignment, the assigned items will be tagged.

groups that will perform the assignment of each category of assets, describe the nature of the records that will be used to identify and assign the assets in each category, and explain how the book cost of the assigned assets will be determined.

i. Network Facilities

There are two generic categories of network facilities — central office facilities and outside plant.[240] Central office facilities include all equipment that is used to perform or support the functions of switching or transmitting exchange and interexchange traffic and that is housed in facilities or structures owned or leased by the Bell System. *See* Part I.A.1, *supra.* Outside plant includes all cables, poles, and other equipment used to connect subscribers to the central office and to connect central offices to one another.[241] *Id.*

Each subtask group responsible for the assignment of network facilities includes engineers and other personnel who are familiar with the facilities, as well as personnel who maintain the network facility records for normal business purposes. The records these groups will use are the actual location records maintained by the BOC engineering and comptrollers' departments, or records derived from these sources.[242]

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[240] The investment of AT&T and the BOCs in central office facilities is contained in Accounts 221.1, 221.2, 221.3, 221.4, 221.5, 221.6, 221.7, and 261.3. (Account 261.3, Computer and AMA systems, contains the investment in computer hardware for network facilities operations systems.) The investment of AT&T and the BOCs in outside plant equipment is contained in Accounts 241, 242.1, 242.2, 242.3, 242.4, 243, 244, and 212. (Account 212, Buildings, contains the investment in self-supporting towers.) *See* Part I.A.1, *supra.*

[241] The demarcation between transmission facilities included in the central office circuit and radio equipment accounts and the cables included in the outside plant cable and wire accounts is described in Part I.A.1, *supra.*

[242] The FCC requires the maintenance of "continuing property records," which are the primary records that will be used for inventory and assignment of all plant categories. *See* 47 C.F.R. § 31.2-26.

(1) Central Office Facilities

To assign central office facilities between AT&T and the BOCs and to determine the book cost of facilities assigned, each BOC central office facilities subtask group will utilize engineering and traffic records and the mechanized PICS/DCPR (Plug-in Inventory Control System/Detailed Continuing Property Records) data base which lists the description, vintage, and actual original cost for all central office facilities on an item-by-item basis.[243] This information is maintained for each specific central office location, and each location is identified by a unique account location code.[244] These mechanized Continuing Property Records (CPR), which summarize the investment cost and vintage of all components of each central office location, will be used to determine the book cost of assigned assets.

The subtask groups will first analyze each central office location to determine which locations will be subject to assignment. All switching systems having a Class 5 function, including Class 3/5 and 4/5 systems, will be assigned to the BOCs. *See* Part I.A.1, *supra.* Of the remaining switching systems, central office floor plans and traffic facility and circuit diagrams will be used to determine which switching systems perform solely interLATA or intraLATA functions, and will thus be assigned to AT&T or a BOC, respectively.[245] As to the remaining switching systems, each central office facilities subtask group will identify the predominant user of the switching

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[243] This system is currently in use at Long Lines and most of the BOCs. The PICS/DCPR will be available at all locations as of January 1, 1983. In most BOCs the mechanized PICS/DCPR does not contain complete information by facilities for assets placed prior to the implementation of the PICS/DCPR. Manual procedures will be used to inventory and assign those facilities.

[244] Account location codes are used to identify precisely all Bell System locations. These codes are similar to zip codes, referring to the company, district, and building in which facilities are located.

[245] Switching systems used solely to provide EPSCS, CCSA, or AUTOVON services will be assigned to AT&T. *See* Part I.A.1, *supra.*

system based on relative interLATA and intraLATA traffic for switched and special services handled by that system. *Id.* Using the results of these studies and following the principles described in Part I.A.1, *supra,* the central office facilities subtask groups will assign each switching system to the appropriate owner. The PICS/DCPR data base will be used to identify the items of equipment associated with each switching system.

The subtask groups will then assign central office facilities other than switching systems. At all central office locations the subtask groups will define "identifiable work areas" housing circuit and radio equipment. *See* Part I.A.1, *supra.* If AT&T is the predominant user of the central office facilities in an identifiable work area, those facilities will be assigned to AT&T. If no separate identifiable work areas exist, the entire location and associated facilities will be assigned to the predominant user identified by the traffic studies. Ownership of the remaining central office facilities (power equipment, distributing frames, testing equipment, and cable) will be determined by predominant use or by the switching, circuit or radio equipment they serve.

The assignment of central office facilities will be recorded using the account location codes contained in PICS/DCPR. If a central office building and all of its components are assigned to a single entity, the current account location code for those facilities will be maintained. If separate identifiable work areas are established and the facilities in one or more of these work areas are assigned to the non-owner of the building, a new account location code will be created for those facilities. As new account location codes are created, the comptrollers departments will be notified and the corresponding investment will be transferred to the new account location. All documents (material requisitions and work reports, for example) that relate to the addition or removal of this equipment and that are either pending, or prepared prior to the divestiture, will contain the newly assigned codes.

Exhibit 2 is a sample page of a detailed property record from PICS/DCPR for the Chesapeake & Potomac Telephone

Company. It is a representative sample of the central office records that will be used by the subtask groups and is annotated to illustrate the inventory and assignment process for central office facilities described above.[246] As demonstrated in Exhibit 2, "A" is the account location code; Column "B" contains the description of each central office facility at that location; Column "C" shows the actual original cost of each facility; and Column "D" indicates the vintage of the facility. From this data, a complete list of all central office facilities by account location code can be obtained.

The book cost of central office facilities assigned to AT&T will be determined as part of the assignment process. The central office facilities subtask groups will compile a list by account location codes of all central office facilities assigned to AT&T. Using these codes, the comptrollers will obtain a summarized printout from the central office Continuing Property Records listing the total investment for each account location.[247]

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[246] Exhibit 2 and similar Chesapeake & Potomac exhibits referenced in this section are representative of the records maintained by the Bell System. Individual company records, however, will vary, and may contain additional information or display the data in a different format.

[247] If central office facilities are currently jointly owned by a BOC and AT&T (Long Lines), the BOC's records carry only the cost associated with the BOC's proportional ownership. For example, if a switching system assigned to AT&T is 40 percent owned by the BOC and 60 percent owned by AT&T, the BOC's records carry 40 percent of the cost. At divestiture the BOC's investment (40 percent of the total) will be assigned to AT&T, and AT&T's records will then reflect the total ownership of the assigned assets. Equivalent results occur with the assignment of an AT&T part-interest to a BOC.

A

AC-LOC 83647

FRAME-ID	CPR	B CPR-DESCRIPTION	C YR-IN-PLC-COST	YR-MAT-COST	YR-QTY	ACCT	J-DRAWING	D YR
00 ANTNNA	065007	HORN REFLECTOR ANTENNA	22,170.24	11,825.00	1	67C	ED-97728-30	80
00 ANTNNA	068069	5.925-6.425GHZ DL ANT	44,340.49	23,650.00	2	67C	ANTENNA C	80
00 ANTNNA	167133	ULTRA HORN REFL	22,170.24	11,825.00	1	67C	ANTENNA	80
01 2002	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 2003	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 2005	080154	GEN MW TD	344.28	1,387.00	1	67C	J68330G-1	79
01 2006	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 2006	080154	GEN MW TD	344.28	1,387.00	1	67C	J68330G-1	79
01 2013	083392	GEN MWV	295.63	1,191.00	1	67C	GENERATOR	79
01 2014	080154	GEN MW TD	344.28	1,387.00	1	67C	J68330G-1	79
01 2014	083392	GEN MWV	295.63	1,191.00	1	67C	GENERATOR	79
01 2110	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 2112	080154	GEN MW TD	344.28	1,387.00	1	67C	J68330G-1	79
01 2114	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 2114	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 2210	083392	GEN MWV	156.59	1,147.00	1	67C	GENERATOR	79
01 2210	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 2211	083392	GEN MWV	156.59	1,147.00	1	67C	GENERATOR	79
01 2214	080154	GEN MW TD	182.25	1,335.00	1	67C	J68330G-1	79
01 2214	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 2215	080154	GEN MW TD	182.25	1,335.00	1	67C	J68330G-1	79
01 RR 20 1	065939	DEHYDRATOR	5,330.23	2,843.00	1	67C	KS-21403	80
01 RR 21 7	169405	MDR-MWV DIGL RAD SYS	89,312.80	47,637.00	1	67C	SYSTEM	80
01 RR 22 7	169405	MDR-MWV DIGL RAD SYS	95,368.62	50,867.00	1	67C	SYSTEM	80
01 21A02	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 21A02	080154	GEN MW TD	331.37	1,335.00	1	67C	J68330G-1	79
01 21A02	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 21A04	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 21A04	080154	GEN MW TD	331.37	1,335.00	1	67C	J68330G-1	79
01 21A04	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 21A05	080154	GEN MW TD	258.21	1,387.00	1	67C	J68330G-1	79
01 21A05	080154	GEN MW TD	331.37	1,335.00	1	67C	J68330G-1	79
01 21A05	083392	GEN MWV	295.63	1,191.00	1	67C	GENERATOR	79
01 21A06	080154	GEN MW TD	516.39	2,774.00	2	67C	J68330G-1	79
01 21A06	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 21A12	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 21A12	083392	GEN MWV	284.71	1,147.00	1	67C	GENERATOR	79
01 21A13	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 21A13	083392	GEN MWV	284.71	1,147.00	1	67C	GENERATOR	79
01 21A14	083392	GEN MWV	221.72	1,191.00	1	67C	GENERATOR	79
01 21A14	083392	GEN MWV	295.63	1,191.00	1	67C	GENERATOR	79

EXHIBIT 2
CENTRAL OFFICE FACILITIES PICS/DCPR

(2) Outside Plant

Records of outside plant facilities are maintained as diagrams on facility maps and are kept at district or area offices.[248] These records show the location of all outside plant facilities and contain information as to their characteristics (*e.g.*, the type of cable, the gauge, the number of pairs in the cable, the drop-off of each pair in the cable), the vintage of the facilities (with the exception of aerial wire, and certain load coil cases and terminals), and the length of the cable in feet or miles.

The identification and assignment of outside plant will be conducted by BOC personnel at each district or area office. As a first step LATA boundaries will be superimposed onto interoffice facility maps. This process will show which facilities are interLATA (to be assigned to AT&T), which facilities are only used for intraLATA services (to be assigned to the BOC), and which facilities are used to provide both interLATA and intraLATA services, thus requiring further asset assignment analysis. To the extent any facilities contain both interLATA and intraLATA traffic or circuits — and are thus multifunction facilities — the engineers will examine the engineering records for those locations. These engineering records will form the basis for the predominant use study for determining ownership, pursuant to the principles set forth in Part I.A.1, *supra*.

The district personnel will note their assignment of all outside plant facilities on the engineering records and in workpapers, and will compile data of the vintage, length, and type of outside plant that will be assigned to AT&T.[249] Exhibit 3 is an example of an engineering record. It shows the location, type of facility, and vintage of all outside plant in that particular area. On Exhibit 3, "A" is a code which identifies the particular cable (such as a 200 pair cable) and its makeup (*e.g.*, trunk or access lines); "B" is the length of the cable; and "C" is the vintage.

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[248] There is no standard size for a "district." The size of a district varies from a few square blocks in Manhattan to hundreds of square miles in rural areas.

[249] Information as to the particular type of outside plant will be indicated by the appropriate Bell System "Material Item Code" which identifies each distinct type of plant.

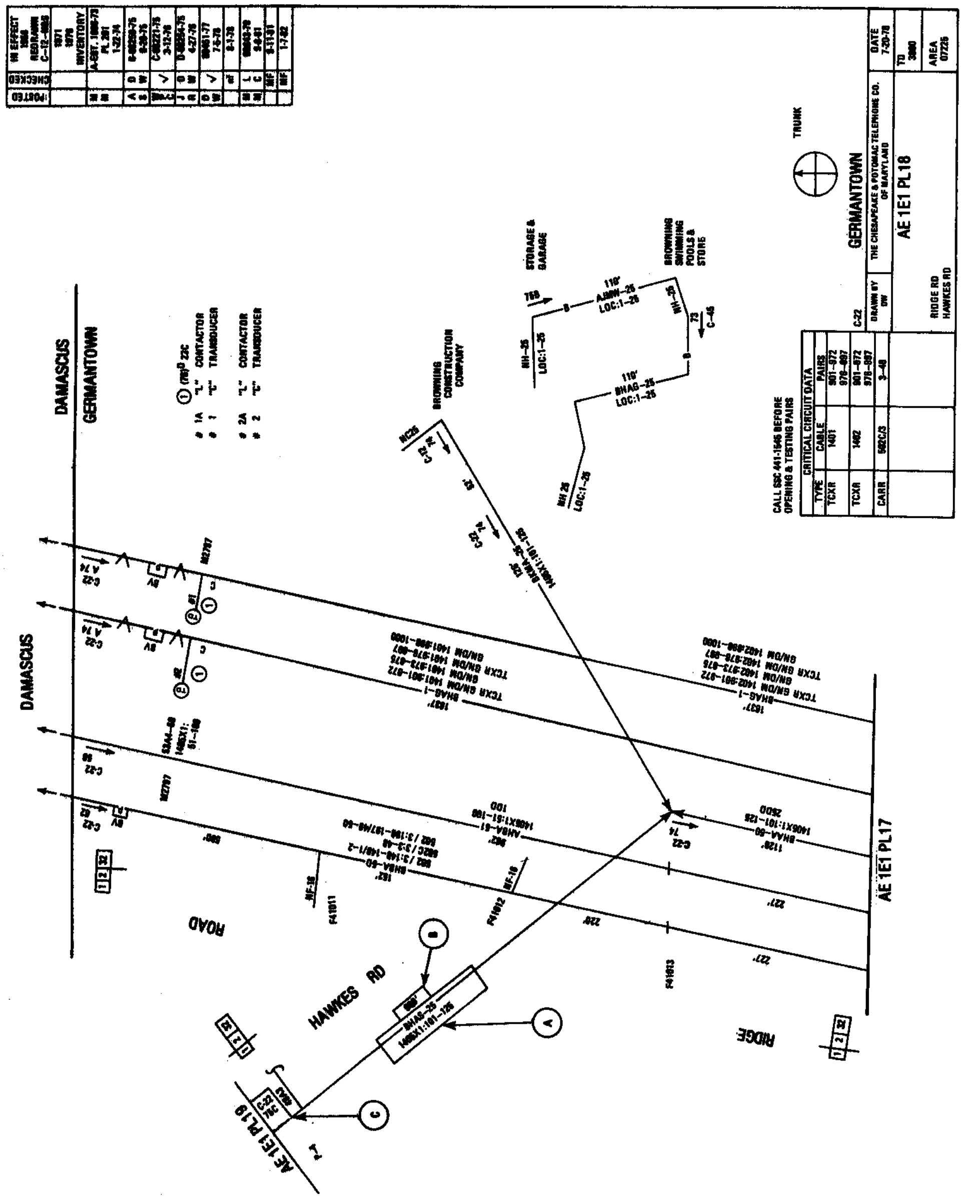

EXHIBIT 3
OUTSIDE PLANT ENGINEERING RECORD

This information will be provided to the comptrollers who will determine the book cost of the facilities assigned to AT&T. This step is necessary because the engineering records and maps for outside plant contain the units of plant but not the associated costs. Cost records for outside plant are generally maintained on a regulatory jurisdiction average basis and show the total units of outside plant installed and the total installation cost, from which the average cost per unit of outside plant is derived.[250]

In most cases, the comptrollers will determine the investment cost of the units of each type of outside plant assigned to AT&T by multiplying the number of units of outside plant assigned (each amount representing a separate vintage) by the average cost per unit of outside plant for the appropriate vintage. The investment cost per unit of outside plant will vary among vintages, reflecting differences in the installed cost over time.[251] The comptrollers will obtain the vintage unit cost information from year-by-year records which provide the average cost per unit of outside plant for each year.

Exhibit 4 is a sample worksheet which illustrates the development of average unit costs by vintage — in this case, for the year 1978. Column "A" of Exhibit 4 is the description of the item of outside plant; Column "B" represents the specific Material Item Code; Column "C" shows the preliminary unit cost for each type of equipment; "D" is the gross construction ratio (a factor which ensures that construction charges estimated by types of plant sum to the actual total construction charges); and Column "E" sets forth the cumulative average unit cost. The 1978 vintage unit cost data for outside plant assigned to AT&T will be determined by multiplying the figure shown in Column "C" by the ratio in "D." By multiplying the resulting cost figure by the quantity of items assigned, the total investment in assets assigned to AT&T from that vintage group will be established.

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[250] These cost records may be maintained on a regional basis.

[251] The associated depreciation reserves to be assigned to AT&T will also account for the vintage of the plant. *See e.g.*, Part I.B.1, *supra.*

FORM S.N. 916

AREA ______

EFFECTIVE JANUARY 1st 1980 — PLANT AS OF DECEMBER 31st 1978

CONTINUING PROPERTY RECORDS - DEVELOPMENT OF AVERAGE UNIT COSTS

SHEET 1 OF 1 — ACCOUNT CODE C-1

SUPERSEDES COSTS EFFECTIVE JANUARY 1st 1979 — ACCOUNT POLES C1

		METHOD 1																METHOD 1A	
			CURRENT PERIOD GROSS CONSTRUCTION QUANTITIES AND CHARGES							ESTIMATED INVESTMENT IN OLD PLANT REMAINING				DEVELOPMENT OF CUMULATIVE AVERAGE UNIT COSTS					
				QUANTITIES "UNDER CONSTRUCTION"															
Ⓐ DESCRIPTION OF CONTINUING PROPERTY RECORD ITEMS	Ⓑ MATERIAL CODE	C.P.R. QUANTITIES AS OF END OF CURRENT PERIOD	TOTAL QUANTITIES PLACED	BEGINNING OF PERIOD	END OF PERIOD	ADJUSTED QUANTITIES	Ⓒ PRELIMINARY UNIT COSTS	#PRELIMINARY EST. OF GROSS CONSTR. CHARGES	#ALLOCATION OF ACTUAL GROSS CONSTR. CHARGES	QUANTITIES TO WHICH CUMULATIVE AVERAGE UNIT COSTS APPLY	CUMULATIVE AVERAGE UNIT COSTS	#ESTIMATED INVESTMENT IN OLD PLANT REMAINING	#ADJUSTMENTS TO INVESTMENT IN OLD PLANT REMAINING	#TOTAL ESTIMATED INVESTMENT	#ALLOCATION OF ADJUSTED LEDGER BALANCE	QUANTITIES "IN SERVICE"	Ⓔ REVISED CUMULATIVE AVERAGE UNIT COSTS	MODIFICATION FACTOR	MODIFIED RETIREMENT UNIT COSTS
A	B	C	D	E	F	G=D+E-F	H	I=G X H	J=I X 3	K=C-(D + E)	L	M = K X L	N=WORK SHEET	O=J+M+N	P = O X 10	Q = G + K	R = P + Q	S	T = S X R
Poles													METHOD						
													USED						
22 ft. & under	11022	13								13	54.09	703.17		703.17	707.02	13	54.39		
25 ft.	11025	1,205					201.55			1,205	57.61	69,420.05		69,420.05	69,800.08	1,205	57.93		
30 ft.	11030	5,605	178	45	36	187	221.21	41,366.27	41,331.16	5,382	99.55	535,778.10		577,109.26	580,268.58	5,569	104.20		
35 ft.	11035	9,832	113	10	9	114	246.43	28,093.02	28,069.18	9,709	107.35	1,042,261.15		1,070,330.33	1,076,189.76	9,823	109.56		
40 ft.	11040	670	9			9	287.26	2,585.34	2,583.15	661	134.07	88,620.27		91,203.42	91,702.71	670	136.87		
45 ft.	11045	111	7			7	350.21	2,451.47	2,449.39	104	210.39	21,880.56		24,329.95	24,463.14	111	220.39		
TOTAL		17,436	307	55	45	317		74,496.10	74,432.88	17,074						17,391			
								74,496.10	74,432.88			1,758,663.30		1,833,096.18	1,843,131.29				

POSTED BY ______

CHECKED BY ______

COMPUTED BY ______

1. PRELIMINARY ESTIMATE OF GROSS CONSTRUCTION CHARGES (TOTAL OF COLUMN 1) . . . . . $ 74,496.10
2. TOTAL ADJUSTED GROSS CONTRUCTION CHARGES . . "G" . . . . . $ 74,432.88
3. GROSS CONSTRUCTION RATIO (2 ÷ 1) . . . . . Ⓓ → . . . $ .999151365
4. TOTAL ESTIMATED INVESTMENT (TOTAL OF COLUMN O) . . . . . $ 1,833,096.18

5. LEDGER BALANCE AS OF 12-31-78 . . . . . $ 1,843,131.29
6. ACTUAL COST PLANT . . . . . $ ______
7. OTHER ADJUSTMENTS - ADDITIONS . . . . . $ ______
8. OTHER ADJUSTMENTS - DEDUCTIONS . . . . . $ ______
9. REVISED LEDGER BALANCE (5 - 6 + 7 - 8) . . . . . $ 1,843,131.29
10. ACCOUNT RATIO (9 ÷ 4) . . . . . $ 1.005474416

SHOW NEAREST DOLLAR

NOTE: ALL QUANTITIES SHOWN ARE EQUIVALENT WHOLE UNITS

EXHIBIT 4
OUTSIDE PLANT COST WORKSHEET

For a very small number of facilities, vintage unit cost information is not available. Either plant vintage information has not been maintained (as in the case of aerial wire)[252] or the facilities were installed over 40 years ago and the year-by-year installation cost records have not been retained.[253] The associated investment unit cost in these instances will be determined from the facilities' "cumulative average unit cost" maintained in the BOC records. The cumulative average unit cost is the average unit cost of a particular type of outside plant, with vintage unit cost differences, (if any) also averaged. For example, the cumulative average unit cost of a distinct type of aerial wire is the ratio of the total original cost of all aerial wire in place as of that date (regardless of when it was installed), to the total number of units (in miles or feet) installed as of that date.

When the cumulative average unit cost method is used, the process will be the same as when average vintage unit costs are used. To the extent that aerial wire is assigned to AT&T, the BOC comptrollers will multiply the quantity of units of such assigned plant by the cumulative average unit cost of aerial wire to determine the investment cost associated with those facilities. The cumulative average unit cost for each item of plant is listed in Column "E" of Exhibit 4.[254] In the case of outside plant installed before 1942, where the year-by-year regulatory jurisdiction average cost unit data has not been retained, the comptrollers will use the oldest available cumulative average unit cost — which will reflect the combined vintage costs of that older plant.[255]

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[252] Some accounts (Account 231—station apparatus, and Account 243—aerial wire) are "computed mortality accounts" where the installation date (vintage) of the facilities has not been kept. *See* Part I.B.1.c.ii, *supra.* It is expected, however, that the vast bulk, if not all, of aerial wire facilities will be assigned to the BOCs.

[253] Bell System companies generally do not retain records or documents more than 40 years old.

[254] For this determination the BOCs will use the most recent available cost data.

[255] For example, the 1942 cost records of a BOC will show the average unit cost of each category of outside plant installed in that

(Footnote continued on following page)

ii. Terminal Equipment

There are two major categories of terminal equipment: station apparatus (Account 231) and Large PBX (Account 234). Because of the complexity and the different procedures used to assign these categories of terminal equipment, the assignment procedures for each category are discussed separately.[256]

(1) Station Apparatus

To divide station apparatus assets in Account 231 between the BOCs and AT&T, each station apparatus subtask group will use a combination of existing records and physical inventories. All station apparatus will be assigned to AT&T except for certain equipment described in Part I.A.2, *supra,* that will be assigned to the BOCs (*e.g.* equipment used solely for "official service" of the BOCs (see Part I.A.2.a.iv.(1)) and the "coin" equipment detailed in Part I.A.2.a.iv.(2)). The official and coin equipment constitute only a small percentage of the total station apparatus account. Accordingly, the inventory and assignment procedures for the Account 231 assets will focus upon the equipment that will be assigned to the BOCs.

Each subtask group will use the mechanized Customer Record Information System (CRIS) billing records or other mechanized records to identify the in-service coin and official station apparatus to be assigned to the BOCs. The CRIS data base contains the billing records on a customer by customer basis, thus tracking all in-service station apparatus. These records contain the "Universal Service Order Code" (USOC) applicable to each installation, a code which identifies the service and equipment installation (*e.g.,* rotary or pushbutton,

(Footnote continued from previous page)
year as well as the cumulative average unit cost of all facilities installed up to that time. Thus, even though the annual unit cost data is not available for years prior to 1942, the 1942 cumulative average unit cost (which will be used to cost out vintages prior to 1942) reflects the average annual unit costs of those earlier combined vintages.

[256] Account 232 contains the investment in station connections. The entire investment in this account will be assigned to the BOCs and no further assignment activities are required. *See* Part I.A.2.a.v, *supra.*

number of lines, and model series such as Trimline or Princess).[257] The CRIS records also indicate whether the equipment generates revenue or is used for official business, as well as whether the equipment falls into one of the categories of coin equipment. By "calling up" the records of all coin and official station apparatus by code from the CRIS data base, that portion of the station apparatus assigned to the BOCs will be identified in print-out form.

Some categories of equipment contained within Account 231 are not maintained in the CRIS records and will be identified and assigned by a different process. For example, the CRIS data base does not track equipment that is not currently in-service (*e.g.*, display models loaned to department stores, equipment left in the field but not in-service). Another set of records — those for "left-in station" — will be used to identify and assign this equipment. Inventories of equipment (particularly terminal equipment field stock, Class C stock and Class W stock) are also not listed in the CRIS data base. Field stock will be physically inventoried for assignment. Separate Class C and Class W records will be used for the assignment of that material. In addition, Network Channel Terminating Equipment will be identified and retained by the BOCs.

After the identification of all station apparatus assigned to the BOCs, the associated investment cost will be determined. The calculations for identifying and costing out station apparatus can be illustrated in conjunction with Exhibits 5, 6, and 7, which are examples of records containing official station apparatus.[258] Exhibit 5 is a customer billing record organized by USOC. Column "A" shows the USOC. Column "B" shows the quantity of equipment used for official service. Each USOC is associated with a Material Item Code (MIC).[259] The USOC is

[257] Trimline and Princess are registered trademarks of the Bell System.

[258] Because of the large volume and volatile activity associated with Account 231 equipment, property cost records for these assets are not maintained on an item-by-item basis.

[259] The Material Item Code is a code for every distinct item of plant. There is not a precise one-to-one relationship of USOCs with MICs. Some MICs may be associated with many USOCs; similarly, one USOC may be associated with several MICs.

converted to a MIC through the use of mechanized translation tables. (*See* Exhibit 6; Column "A" contains the USOC, and Column "B" the associated MIC.) The cumulative average original cost for each MIC is determined by consulting a separate index (*see* Exhibit 7; Column "A" is the MIC, and Column "B" is the cumulative average original cost). By associating the USOC to the appropriate MIC and multiplying the assigned quantities of a particular USOC by the cost as shown on Exhibit 7, the investment for station apparatus assigned to the BOCs will be determined.

Upon divestiture, the BOCs will be assigned ownership of the station apparatus assets that have been so identified, and the BOCs will maintain the related cost on their books. The balance of station apparatus and the title and records associated with these assets will be assigned to AT&T. AT&T's book investment for these assets will be the difference between the total for the entire category of station apparatus and the smaller portion assigned to the BOCs.[260]

For the vast majority of those Account 231 assets to be assigned to the BOCs (in-service coin apparatus and equipment used for official service, for example), the calculations will be performed by computer. The investment for most physically inventoried stock and not-in-service station apparatus will be calculated manually.

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[260] Assume, for example, that Illinois Bell currently possesses 100 pieces of terminal equipment with an original cost of $10,000 as shown on its books of account. The station apparatus subtask group will use the customer billing records to identify the items of coin and official that will be assigned to Illinois Bell, say 10 pieces of equipment. The station apparatus subtask group will then determine the book cost of this equipment, for example, $900. Upon divestiture, Illinois Bell will be assigned ownership of the 10 items of coin and official, and the remaining 90 items of terminal equipment will be assigned to the CPE subsidiary (the stock in which will be retained by AT&T). Illinois Bell will credit (decrease) its appropriate plant accounts by $9,100 ($10,000 minus the $900 that remains on the books) leaving a balance of $900. Conversely, AT&T will reflect the assignment of the balance of the station apparatus by debiting (increasing) its appropriate plant accounts by $9,100. The associated depreciation and tax reserves, discussed in Parts I.B.1 and I.B.2, *supra,* will be separately calculated by other Illinois Bell personnel and appropriately entered on the books of Illinois Bell and AT&T.

EXHIBIT 5
CRIS BILLING RECORD

********************USOC SUMMARY********************

PAGE 765

(A) VIRGINIA USOC	UNIT RATE	09/30/81 REVCL	EQC/S	NO OF REC	BTOGB	CSN 10	CSN 50	FCC	(B) OFFICIAL	GOV	RES	BUS	GRAND TOT
TELYW	0.95	10101	NF2	2								2	2
TELYW	0.95	10101	P16	3								3	3
TELYW	0.95	10101	RMWS	362			1				361		362
TELYW	0.95	10101	RUA	223							223		223
TELYW	0.95	10101	RUE	148							148		148
TELYW	0.95	10101	R1M	33							33		33
TELYW	0.95	10101	1FB	562						1		561	562
TELYW	0.95	10101	1FR	41,763		51	222				41,496		41,769
TELYN	0.95	10101	1MB	148					4			145	149
TELYW	0.95	10101	1MR	4,839		2	14				4,823		4,839
TELYW	0.95	10101	1SP	1								1	1
TELYW	0.95	10101	2FB	7								7	7
TELYW	0.95	10101	2FR	1,282			3				1,279		1,282
TELYW	0.95	10101	2MR	24							24		24
TELYW	0.95	10101	2RX	24			1				23		24
TELYW	0.95	10101	25J	1								1	1
TELYW	0.95	10101	26K	7								7	7
TELYW	0.95	10101	26V	8								8	8
TELYW	0.95	10101	4FR	26							26		26
TELYW	0.95	10101	4JO	19							19		19
TELYW	0.95	10101	4ZB	6								6	6
TELYW	0.95	10101	4ZR	565			1				564		565
TELYW	0.95	10101	8MQ	12							12		12
TELYW	0.95	10101	RMT3L	1								1	1
TELY2	0.00	10101	1FR		13								
TELY2	0.00	10101	2FR		1								
TELY2	1.75	10101	BUA	27								27	27
TELY2	1.75	10101	B1M	5								5	5
TELY2	1.75	10101	COV	1						2			2
TELY2	1.75	10101	CSI	1						1			1
TELY2	1.75	10101	CUV	1						1			1
TELY2	1.75	10101	C5B	17								17	17
TELY2	1.75	10101	FFB	59					2	2		55	59
TELY2	1.75	10101	FMB	21					5			20	25
TELY2	1.75	10101	FN1	5					1			4	5
TELY2	1.75	10101	F3F	1								1	1
TELY2	1.75	10101	GFF	1								1	1
TELY2	1.75	10101	GFM	3								3	3
TELY2	1.75	10101	JOF	1					1				1
TELY2	1.75	10101	LMR	33							33		33
TELY2	1.75	10101	POK	2								2	2
TELY2	1.75	10101	PQP	4								4	4
TELY2	1.75	10101	PUB	10								10	10
TELY2	1.75	10101	P16	3						2		1	3
TELY2	1.75	10101	RMN	119							119		119
TELY2	1.75	10101	RUA	514		8	12				494		514
TELY2	1.75	10101	RUE	237		1	7				229		237
TELY2	1.75	10101	R1M	35							35		35
TELY2	1.75	10101	1FB	880					2			878	880
TELY2	1.75	10101	1FR	85,186		677	1,042				83,480		85,199

RX70D000 9/15/82 BIENNIAL STATION APPARATUS INVENTORY
5658 USOC MASTER FILE LISTING

Ⓐ USOC	CATEGORY	Ⓑ MIC	
TELX	011	10003	
TELXT	021	10300	
TELXW	011	82102	
TELY	011	10169	
TELY+	011	10169	
TELYC	011	10309	O BUTTON-DESK ROTARY PERMANENT
TELYH	011	82500	HAND HANGER ROTARY PERMANENT
TELYN	011	10309	O BUTTON-DESK NON-DIAL PERMANENT
TELYP	011	10309	O BUTTON-DESK ROTARY PORTABLE
TELYR	011	82500	HAND HANGER
TELYS	011	82102	O BUTTON-WALL NON-DIAL PERMANENT
TELYT	021	10300	ACD CALL DIR CONSOLES O-BUT DSK TOUCH TONE PERM
TELYU	011	10309	O BUTTON-DESK NON-DIAL PORTABLE
TELYW	011	82102	O BUTTON-WALL ROTARY PERMANENT
TELY2	021	10304	O BUTTON-WALL TOUCH-TONE PERMANENT
TELY5	021	10300	O BUTTON-DESK TOUCH-TONE PORTABLE
TEL8T	021	10300	O BUTTON DESK TT
TEL8W	011	82102	
TEL82	021	10304	
TEP	796		BASIC CONFERENCE BRIDGING EQUIP - CAPACITY OF 5 CIRCUITS, EQUIPPED WITH 1 CIRCUIT
TEW04	796		FIRE RETD INSIDE WRG
TFA C	091	82992	TEL INTGRTD 20MIN REC 18SEC ANS-SINGL LINE-ROT
TFA T	101	83992	TEL INTGRTD 20MIN REC 18SEC ANS-SINGL LINE-TT

EXHIBIT 6
MATERIAL INFORMATION CODE TABLE

RX46MCPR 03/01/82

BIENNIAL STATION APPARATUS INVENTORY
FOUR COMPANY MIC-AOC LISTING

Page 9

Ⓐ MIC	DESCRIPTION	WASH AOC	MD AOC	Ⓑ VA AOC	W VA AOC
82066	UNIT TEL COUNTRY JUNCTION RTY	0.00000	0.00000	33.43000	33.26000
82070	UNIT TEL ELITE RTY	0.00000	0.00000	20.66000	20.37000
82072	UNIT TEL EMPRESS RTY	39.24000	39.80000	39.09000	39.11000
82074	UNIT TEL EXETER RTY	20.87000	20.81000	20.97000	20.85000
82075		N-P	N-P	20.67000	N-P
82076	UNIT TEL MICKEY MOUSE RTY	21.59000	21.74000	21.87000	21.86000
82078	UNIT TEL NOTEWORTHY RTY	24.59000	24.90000	24.94000	25.00000
82080	UNIT TEL SCULPTURA RTY	23.12000	20.29000	20.36000	20.25000
82082	UNIT TEL SNOOPY-WOODSTOCK RTY	20.78000	20.66000	20.66000	20.39000
82084	UNIT TEL STOWAWAY RTY	31.21000	28.21000	28.16000	27.96000
82088	UNIT TEL TELSTAR RTY	32.28000	32.21000	32.27000	32.05000
82101	SET TEL 0-1 R&M W S 300	11.96000	0.00000	10.20000	82.62000
82102	SET TEL 0-1 R&M W S 500	17.08000	13.08000	12.65000	12.19000
82103	SET TEL 0-1 R&M REG 3 4 53 54	17.08000	10.92000	10.51000	10.83000
82104	SET TEL 0-1 R&M REG 500	17.08000	15.18000	13.69000	13.64000
82203	SET TEL 4-6 R&M 40C	23.71570	22.79000	24.33000	22.56000
82204	SET TEL 4-6 R&M 50C	26.01000	23.66000	25.26000	28.86000
82241	SET TEL 4-6 WS 800 RTY	39.88000	39.38000	39.11000	38.93000
82245	SET TEL 10B WS 8C2 RTY	62.65000	62.96000	62.48000	64.90000
82261	SET TEL 10B 800 RTY	56.01000	78.42000	54.40000	58.90000
82262	SET TEL COMKEY 7A RTY	105.82000	95.87000	93.02000	101.08000
82263	SET TEL COMKEY 416 PRIMARY RTY	254.57000	0.00000	254.75000	254.36000
82266	SET TEL 20 BUTTON 831 RTY	94.53000	114.18000	89.61000	95.49000
82267	SET TEL COMKEY 14A RTY	133.76000	81.13000	128.27000	134.73000
82269	SET TEL COMKEY 416 SATELLITE R	244.83000	0.0000	141.01000	129.58000
82301	SET TEL OTHER R&M	99.93000	104.56000	71.93000	137.48000
82302	BASE SET TEL OTHER R&M	24.98270	0.00000	29.84000	27.46700
82410	SET C C PNL SINGLE SLOT	307.08000	304.37000	295.30000	320.79000
82420	SET C C PNL MULTI SLOT	204.76000	221.05000	204.80000	224.85000
82430	SET C C OTHER SINGLE SLOT	206.59000	208.20000	194.46000	198.98000
82440	SET C C OTHER MULTI SLOT	98.63000	97.14000	92.13000	89.58000
82450	SET C C PNL STA STL BUMN	155.71000	N-P	166.25000	111.39000
82500	SET TEL HAND R&M	17.52000	18.35000	18.40000	18.77000
82510	SET TEL HAND TELTICKTNG	31.36000	31.41000	33.80000	34.50000
82550	SET TEL ANTIQUE RTY	16.16000	16.32000	16.78000	17.15000
82610	SET CALL DIR 18B RTY	96.73000	100.55000	107.28000	107.82000
82620	SET CALL DIR 30B RTY	154.70000	153.24000	157.21000	161.25000
82630	SET CALL DIR SPEC F 56575 RTY	1739.00000	N-P	0.00000	0.00000
82650	SET TEL CO DIALER 0-1 RTY	119.75000	112.73000	109.68000	114.58000
82651	SET TEL CO DIALER 4-6 RTY	161.61000	169.33000	145.55000	139.01000
82655	SET TEL CO DIAL NJ01500B1L1 RTY	N-P	0.00000	N-P	0.00000
82701	SET TEL PRINCESS 701 RTY	22.16000	12.02000	11.40000	10.55000
82702	SET TEL PRINCESS OTH RTY	22.16000	22.22000	20.75000	22.63000

EXHIBIT 7
STATION APPARATUS COST RECORD

(2) Large PBX

Account 234 contains Large PBX systems installed for customer or telephone company use and large installations of customized or special design equipment (*e.g.*, video, microwave). With certain exceptions (*see* Part I.A.2.a.iv, *supra*), all Account 234 assets will be assigned to AT&T. Detailed engineering records will be used to assign all Account 234 assets.

The actual book investment for Account 234 assets is recorded in the Large PBX Continuing Property Records by account location and account.[261] AT&T and BOC assigned assets and their associated book cost will be segregated into separate subaccounts. At divestiture the comptrollers will obtain a summarized printout listing the total investment for large PBX assets assigned to the BOCs and AT&T by using codes associated with these subaccounts.

iii. Other Physical Assets

The assets in the general equipment and materials and supplies accounts will generally remain in the building in which they are currently located. Therefore, the assignment of land and buildings will be described first, followed by a description of the inventory and assignment process for general equipment and materials and supplies.

(1) Land and Buildings

The assignment of assets contained in the land and buildings accounts is determined, in most instances, by the assignment of other facilities. After the network organization has assigned network facilities, network and real estate management personnel will inventory and assign the land and buildings contained in Accounts 211 and 212.[262] Land and buildings

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[261] These records are similar to the building CPR. *See* Exhibit 8.

[262] For purposes of identification and assignment, leased locations will be treated the same as owned locations. Leaseholds will not be costed out because they are not contained on the books of account. Improvements to leased buildings are maintained on the books of account and where necessary, the investment amount for these improvements will be determined.

which house equipment or operations that are utilized in conjunction with the performance of a single function will follow the assignment of that equipment or those operations.[263]

The remaining land and buildings will involve properties that are jointly occupied, multifunction facilities. To assign ownership of these buildings in accordance with the criteria set forth in Part I.A.3, *supra,* each location will be classified as an equipment or non-equipment building and predominant use studies will be undertaken. These studies will use the floor space assignment records for the inventory and asset assignment process.[264] All floor space records will be organized and separately compiled according to the user of the floor space. Each BOC planning organization will identify and mark on separate floor space assignment lists all AT&T occupancies and the lists will be reassembled by building. Although most of the assignments will be made by reviewing the floor space assignment records, the BOC real estate managers will physically measure square footage where necessary to assign partial occupancies properly. Each building and associated land will be assigned to either AT&T or a BOC based on predominant use of square footage as indicated by the floor space assignments.[265]

After the assignment process is completed, the comptrollers will identify the investment in land and buildings assigned to AT&T by consulting the Continuing Property Records

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263 The assignment of owned buildings will include the land on which the buildings are situated.

264 The floor space assignment information exists as part of a mechanized or manual property cost system. These records, whether manual or mechanized, contain the location, square footage and occupancies of each building and are maintained to allocate expenses (*e.g.,* utilities, janitorial services) among various occupancies. Floor space assignment records, along with deeds, blueprints, surveyor maps, tax bills, and assessments, are generally located in BOC headquarters.

265 This process will also be used in connection with lease or condominium-type arrangements and charges for the minority users of a multifunction facility. *See* Part I.A.3, *supra.*

(current to the date of assignment) associated with each assigned property. An example of a CPR maintained for buildings is attached as Exhibit 8. Each building is identified on the CPR by account ("A"), by account location code (the last five digits of "B"), and by description ("C"). The investment is segregated by vintage ("D") and summed to show the total location investment ("E").

(2) *General Equipment*

Following the assignment of land and buildings, general equipment will be assigned pursuant to the principles set forth in Part I.A.3, *supra.*[266] The comptrollers will prepare lists of the current CPR for general equipment organized by the responsible user and account location. These lists will be annotated to delineate all items assigned to AT&T.[267] Using the CPR, BOC personnel will physically locate and tag all items assigned to AT&T. If, however, a building and all its contents are assigned to AT&T, the assigned items may not be tagged.

The marked CPR lists will be returned to the BOC comptrollers who have the option of marking AT&T assigned equipment on the actual CPR, or establishing separate records listing the location, responsible party or identification number of each item.[268] The CPR, current to the date of assignment, will be used to identify the book investment of the general equipment assigned to AT&T. An example of a CPR used to

[266] The general equipment category includes Accounts 261 (furniture and office and computer equipment) and 264 (vehicles and other work equipment). For assignment purposes, leased and non-leased items will be treated the same.

[267] Physical inventories may also be used to locate and assign general equipment. For example, capital tools in Accounts 264.4, 264.5, and 264.6 will be physically inventoried. These items will be costed out by using Continuing Property Records which show the cumulative average cost by type of capital tools.

[268] The comptrollers are given this option so that assigned assets can be segregated consistent with each company's particular record-keeping system.

EXHIBIT 8
BUILDING CONTINUING PROPERTY RECORD

A ACCT.	B LOCATION	YR. PL	BEGINNING BALANCE	ADDITIONS	ADJUSTMENTS	W.E. DEF. TAX CR.	PURCHASES & SALES	RETIREMENTS (F = FINAL)	ENDING BALANCE
0010C	1-WA-11-359		C TRAFFIC SERVICE POSITIONS 930 H ST. NW						
		70	$5,162.40						$5,162.40
	LOC. TOTAL		$5,162.40						$5,162.40
0010C	1-WA-11-378		1708 H ST NW PICTUREPHONE				TAX DISTRICT 1000		
		66	$826.42						$826.42
		68	$329.97						$329.97
		73	$1,096.53						$1,096.53 D
		77	$40,566.31						$40,566.31
		78	$393.97						$393.97
		81	$887.64						$887.64
	LOC. TOTAL		$44,100.84						$44,100.84 E
0010C	1-WA-11-381		C&P TELEPHONE CO COMM CTR 1ST FLOOR 1700 H ST NW				TAX DISTRICT 1000		
		67	$49,344.00						$49,344.00
		68	$2,696.35						$2,696.35
		76	$13,972.31						$13,972.31
		77	$4,636.47						$4,636.47
		79	$818.05						$818.05
		80	$107,348.26						$107,348.26
	LOC. TOTAL		$178,815.44						$178,815.44
0010C	1-WA-11-410		1825 K ST NW CREW CENTER				TAX DISTRICT 1000		
		73	$2,138.17						$2,138.17
		78	$8,096.76						$8,096.76
	LOC. TOTAL		$10,234.93						$10,234.93
0010C	1-WA-11-453		2000 L ST NW				TAX DISTRICT 1000		
		69	$9,494.62						$9,494.62
		70	$1,511.93						$1,511.93
		72	$6,453.39						$6,453.39
		73	$1,793.36						$1,793.36
		76	$388.76						$388.76
		77	$107.68						$107.68
	LOC. TOTAL		$19,749.74						$19,749.74

track general equipment assets is included as Exhibit 9. For each item of general equipment this record lists the identification number in Column "A," the account location code in Column "B," the responsibility code in Column "C," the description in Column "D," and the investment in Column "E". By adding the investment for all items assigned to AT&T, the total investment for AT&T assigned assets will be determined.

The Motor Vehicle Information Management System ("MOVIMS") or similar detailed property records will be used to perform a record inventory and to assign motor vehicles pursuant to the guidelines discussed in Part I.A.3, *supra.* MOVIMS is a centrally-located mechanized system that tracks motor vehicle "running" expenses and other administrative data. An example of a record generated from the MOVIMS data base is attached as Exhibit 10. Each motor vehicle is listed in the data base by identification number (Column "A"), by description (Column "B"), and by a responsibility code (Column "C") which identifies the organization using the vehicle. Vehicles assigned to AT&T will be tracked by marking the associated MOVIMS (or detailed property record) entry with a unique code to indicate assignment to AT&T.

After the assignment process is completed, the comptrollers will determine the book cost for each motor vehicle. The investment for each motor vehicle is contained in the Motor Vehicle CPR maintained by the BOCs. The corresponding entries to the MOVIMS vehicle identification numbers for the vehicles assigned to AT&T will be located on the CPR and the investment identified. An example of a motor vehicle CPR is attached as Exhibit 11; Columns "A" and "B" contain the identifying codes; and Column "C" contains the original cost for each vehicle.

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(A) TAG NUMBER	ACCOUNT	(B) GEOGRAPHIC CODE	(C) RESPON CODE	ARTICLE CODE	YR PL	VENDOR NUMBER	REFERENCE NUMBER	LAST USED SRCE	ORIG SRCE	(D) DESCRIPTION	(E) AMOUNT
A2670	26102000	1WA11112	EH4130000	1002	64		MANUAL	91	91	ELECTRIC	$519.40
A2675	26102000	1WA11112	ET1030000	1002	64					ELECTRIC	$519.40
A2680	26102000	1WA11112	ET1030000	6046	64					DESK	$398.25
A2703	26102000	1WA11112	EPA000000	6046	61					DESK	$320.00
A2721	26102000	1WA11112	ET0130000	6046	64					DESK	$245.00
A2731	26102000	1WA17125	E82210000	6016	64					CABINET	$365.25
A2738	26102000	1WA12265	EN3310000	6046	68		MANUAL	00	00	DESK	$233.57
A2742	26102000	1WA11112	EL5000000	3047	66					DICTATING	$516.87
A2747	26102000	1WA11112	ET0100000	6116	64					SOFA	$229.00
A2772	26102000	1WA14203	ET2160000	1002	64					ELECTRIC	$487.60
A2796	26102000	1WA10130	EP3310000	3121	64					MOTION PICTURE PROJECT	$426.00
A2802	26102000	1WA19690	E51490000	7160	64		46256	77		NUMBERING MACHINE	$354.00
A2820	26102000	1WA11248	E13130000	6016	64					CABINET	$232.00
A2821	26102000	1WA11320	EX3000000	6011	64		55643	77		BOOK CASE	$230.00
A2822	26102000	1WA11320	EF1100000	6046	64		011750	77		DESK	$325.00
A2827	26102000	1WA11320	EC1000000	6016	64		011694	77		CABINET	$250.00
A2838	26102000	1WA11542	EN2220000	6016	64		38878	77		CABINET	$324.00
A2866	26102000	1WA10111	EC1210000	2011	64					CALCULATING	$291.50
A2882	26102000	1WA10111	EC9130000	6046	65					DESK	$216.11
A2921	26102000	1WA10111	ET1030000	1002	64					ELECTRIC	$467.29
A2924	26102000	1WA10111	EC9110000	1002	65					ELECTRIC	$530.00
A2929	26102000	1WA10111	EC1210000	2011	65					CALCULATING	$231.30
A2935	26102000	1WA10111	EC1210000	2011	65					CALCULATING	$252.24
A2936	26102000	1WA12265	EC7240000	2011	65					CALCULATING	$252.24
A2939	26102000	1WA10111	EC1220000	6016	65					CABINET	$210.13
A2941	26102000	1WA10111	EC1210000	6016	65					CABINET	$210.13
A2942	26102000	1WA10111	EC1210000	6016	65					CABINET	$210.13
A2945	26102000	1WA10111	EC1210000	6016	65					CABINET	$210.14
A2946	26102000	1WA10138	EC7240000	6016	65					CABINET	$210.14
A2970	26102000	1WA10111	ET0130000	3223	65					HOLE PUNCHER	$295.00
A2974	26102000	1WA10138	ET0130000	2001	65					ADDING	$303.96
A2985	26102000	1WA12230	ET2130000	3186	75					TIME STAMPING	$247.20
A3042	26102000	1WA11487	E55120000	6016	64					CABINET	$240.68
A3050	26102000	1WA11487	E13220000	6016	64					CABINET	$203.62
A3051	26102000	1WA11487	E13220000	6016	64					CABINET	$203.63
A3097	26102000	1WA11112	E51230000	6046	64					DESK	$222.60
A3156	26102000	1WA11382	EN1220000	2011	63		MANUAL	00	00	CALCULATING	$291.50
A3268	26102000	1WA11120	EP4120000	1002	64		011544	77		ELECTRIC	$519.40
A3312	26102000	1WA12265	EN3310000	6046	68		MANUAL	00	00	DESK	$233.57
A3337	26102000	1WA11120	EL1000000	6046	64					DESK	$320.00
A3338	26102000	1WA11120	EL1000000	6016	64					CABINET	$220.00
A3340	26102000	1WA11120	EL1000000	6016	64					CABINET	$285.00
A3345	26102000	1WA11120	EL1000000	6026	64					CHAIR	$290.00
A3346	26102000	1WA11120	EL1000000	6026	64					CHAIR	$265.00
A3602	26102000	1WA11320	E13240000	6046	64		55771	77		DESK	$320.00
A3603	26102000	1WA11320	E13240000	6026	64		55771	77		CHAIR	$210.00
A3608	26102000	1WA11320	E13240000	6011	64		55771	77		BOOK CASE	$215.00
A3611	26102000	1WA11320	EM2310000	1002	64		064257	77		ELECTRIC	$487.60

EXHIBIT 9

GENERAL EQUIPMENT CONTINUING PROPERTY RECORD

EXHIBIT 10
MOVIMS

(A) VEHICLE NUMBER	(B) MAKE	YR	SERIAL OR VIN NUMBER	GROSS WT	UNLAD WT	PER	SERVICE DATE	PARKING LOCATION	REPAIR LOCATION	264 INVEST	(C) RESP CODE
1111359	CHEV	79	CGD16971719 74	0	0	0	MAY/01/79		19609	5242	EN3300000
1311156	CHEV	78	CLN1488202957	0	0	0	FEB/01/78	12234	12234	4783	EN3414010
1311157	FORD	78	SGTBTG67274	0	0	0	FEB/01/78	12243	12243	4340	E17224040
2010268	FORD	69	P35BLE27018	0	0	0	APR/01/69	12214	12651	6549	E53131020
2010536	FORD	71	P35BUL57061	0	0	0	JUL/01/71	12243	12243	4785	EN3514020
2010845	FORD	73	P40BVR15135	0	0	0	JUN/01/73	12243	12243	9849	ET2111030
2010846	FORD	73	P40BVR15136	0	0	0	JUN/01/73	12243	12243	6977	ET2111020
2010847	FORD	73	P40BVR15137	0	0	0	JUN/01/73	12243	12243	6977	ET2111040
2010848	FORD	73	P40BVR15138	0	0	0	JUN/01/73	12243	12243	5127	ET2143050
2010849	FORD	73	F37YRC45617	0	0	0	JUN/01/73	12243	12243	4678	ET2111010
2010926	FORD	74	P40BVU08778	0	0	0	OCT/01/74	12243	12243	7011	ET2143020
2011038	CHEV	75	CPY2553100065	0	0	0	MAY/01/75	12214	12651	7218	E53130000
2011039	CHEV	75	CPY2553100067	0	0	0	MAY/01/75	12214	12651	7362	E53131010
2011040	CHEV	75	CPY2553100051	0	0	0	MAY/01/75	12214	12651	7417	E53131020
2011041	CHEV	75	CPY2553100063	0	0	0	JUN/01/75	12214	12651	7360	E53131030
2011042	CHEV	75	CGY3454128272	0	0	0	NOV/01/75	12243	12243	9143	ET2111020
2011043	CHEV	75	CGY3454128341	0	0	0	DEC/01/75	12243	12243	7806	E12153040
2011044	CHEV	75	CGY3454128585	0	0	0	DEC/01/75	12243	12243	7917	ET2111050
2011045	CHEV	75	CGY3454128593	0	0	0	DEC/01/75	12243	12243	7817	ET2143010
2011046	CHEV	75	CGY3454128588	0	0	0	DEC/01/75	12243	12243	7283	ET2143010
2011047	CHEV	75	CGY3454128591	0	0	0	DEC/01/75	12243	12243	7244	ET2111030
2011048	CHEV	75	CGY3454128596	0	0	0	DEC/01/75	12243	12243	7359	ET2111030
2011049	CHEV	75	CGY3454128599	0	0	0	DEC/01/75	11607	11607	7364	ET2114010
2011050	CHEV	75	CGY3454128580	0	0	0	DEC/01/75	11607	11607	7256	ET2114010
2011051	CHEV	75	CGY3454128582	0	0	0	DEC/01/75	12243	12243	7586	ET2111050
2011052	CHEV	76	CPL2263313358	0	0	0	AUG/01/76	12214	12651	8964	E53131020
2011053	CHEV	76	CPL2263314142	0	0	0	AUG/01/76	12214	12651	8997	E53131030
2011054	CHEV	76	CPL2263314086	0	0	0	AUG/01/76	12214	12651	8906	E53131030
2011056	CHEV	76	CPL2263314437	0	0	0	AUG/01/76	12214	12651	9078	E53131030
2011057	CHEV	76	CPL2263314461	0	0	0	AUG/01/76	12214	12651	9005	E53131020

MOTOR VEHICLE RECORDS 4/16/82

(A) TAG-NO.	DESCRIPTION		(B) LOCATION	ACCT	(C) AMOUNT	DATE
00845	1973 FORD	2	20000	001	9,848.64	0173
00846	1973 FORD	2	20000	001	6,976.64	0173
00847	1973 FORD	2	20000	001	6,976.65	0173
00848	FORD 1973		20000	001	5,126.94	0173
00849	FORD C&C 1973		20000	001	4,677.58	0173
00926	FORD C&C MODEL P400		20000	001	7,010.76	0474
01038	CHEV VAN		20000	001	7,218.19	0575
01039	CHEV VAN		20000	001	7,362.22	0575
01040	CHEV VAN		20000	001	7,416.90	0575
01041	CHEV VAN		20000	001	7,359.78	0575
01042	VAN/COMPARTMENT		20000	001	9,142.60	0875
01043	VAN/COMPARTMENT		20000	001	7,805.60	0875
01044	VAN/COMPARTMENT		20000	001	7,917.14	0875
01045	VAN/COMPARTMENT		20000	001	7,817.39	0875
01046	VAN/COMPARTMENT		20000	001	7,282.78	0875
01047	VAN/COMPARTMENT		20000	001	7,244.34	0875
01048	VAN/COMPARTMENT		20000	001	7,359.46	0875
01049	VAN/COMPARTMENT		20000	001	7,364.12	0875
01050	VAN/COMPARTMENT		20000	001	7,255.52	0875
01051	VAN/COMPARTMENT		20000	001	7,585.88	0875
01052	COIN TRUCK		20000	001	8,964.00	0476
01053	COIN TRUCK		20000	001	8,997.07	0476
01054	COIN TRUCK		20000	001	8,905.93	0476
01056	COIN TRUCK		20000	001	9,078.03	0476
01057	COIN TRUCK		20000	001	9,004.89	0476
01058	COIN TRUCK		20000	001	8,995.76	0476
01059	COIN TRUCK		20000	001	8,485.20	0476
01135	ROTATING LIGHTS		20000	001	64.73	0579
01143	CHEV VAN		20000	001	8,577.37	0677
01144	CHEV VAN		20000	001	8,872.91	0677
01145	CHEV VAN		20000	001	8,489.88	0677
01146	CHEV VAN		20000	001	9,229.76	0379
01147	CHEV VAN		20000	001	8,550.79	0677
01148	CHEV VAN		20000	001	8,415.54	0677
01149	CHEV VAN		20000	001	8,308.59	0677
01150	CHEV VAN		20000	001	8,777.81	1077
01151	CHEV VAN		20000	001	8,708.55	1077
01152	CHEV VAN		20000	001	8,685.48	0677
01153	FORD TRUCK		20000	001	5,402.05	0377
01161	COMPARTMENT		20000	001	9,381.93	0278
01162	GEN CABLE SPL VAN		20000	001	9,356.72	0379
01163	GEN CABLE SPL VAN		20000	001	9,520.56	0179
01164	GEN CABLE SPL VAN		20000	001	9,476.08	0379
01165	GEN CABLE SPL VAN		20000	001	9,430.61	0379
01166	COMPARTMENT		20000	001	9,206.22	0278
01167	COMPARTMENT		20000	001	9,381.62	0279
01168	GENERATOR CBLE SPL VAN		20000	001	9,481.73	0379
01169	COMPARTMENT		20000	001	10,029.40	0278
01170	GEN AIR COM CBL SP VAN		20000	001	9,460.36	0379
01171	GEN AIR COM CBL SP VAN		20000	001	9,227.11	0379
01172	GEN AIR COM CBL SP VAN		20000	001	9,923.74	0379
01173	COMPARTMENT		20000	001	9,410.29	0279

EXHIBIT 11

MOTOR VEHICLE CONTINUING PROPERTY RECORD

(3) *Materials and Supplies*

The majority of the items contained in Accounts 122 (Materials and supplies) and 124 (Merchandise and Materials held for sale) will undergo a physical inventory prior to divestiture. Account 122 includes material and equipment supplies for construction and maintenance of operating plant facilities, motor vehicle equipment, and supplies and retired equipment. (*See* Part I.A.3, *supra*). Account 124 includes terminal equipment and associated supplies; the entire investment in this account will be assigned to AT&T (*see* Part I.A.2, *supra*).[269]

The physical inventory will be conducted by the materials management task forces[270] using Perpetual Inventory Records which are maintained for all materials and supplies subaccounts except for "Exempt plant supplies."[271] Material will be assigned to AT&T or a BOC pursuant to the guidelines specified in Parts I.A.2 and I.A.3, *supra,* and physically segregated or tagged. Separate recordkeeping systems will be established to track AT&T and BOC supplies and equipment. Ongoing inspections will be made until divestiture to verify compliance with asset assignment guidelines.

Supplies in Subaccount 122-01 (Plant supplies — non-exempt) will be assigned without conducting a physical inventory. This subaccount includes major material items relating to outside plant which are purchased for specific construction projects. Engineering and construction personnel will review "Engineering work orders" (EWO) in various stages of

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[269] Because the entire investment in Account 124 is assigned to AT&T, further assignment analysis of this account is not required. The regular periodic inventory of these assets will, however, be completed prior to divestiture.

[270] Each materials management task force will be composed of representatives of Outside Plant Construction, Outside Plant Engineering, Automotive Operation, Central Office Engineering, Comptrollers, and the BOC organization responsible for official service.

[271] This subaccount includes minor items of plant supplies, which are generally of small value and non-reusable. Records are not generally maintained for exempt plant supplies because of the rapid turnover rate of these items. These supplies will be assigned to the entity that is assigned ownership of the building in which the supplies are located.

completion and allocate the major material items pursuant to the guidelines described in Part I.A.3, *supra*. The EWO will be marked to identify the items to be assigned to AT&T or a BOC. After the work orders are marked, BOC personnel will assign material by associating disbursements on the material reports with the marked prints.

The comptrollers will cost out the materials and supplies assigned to AT&T by consulting the Perpetual Inventory Records, which contain the investment for materials and supplies. Some Perpetual Inventory Records — those for large PBX replacement parts, outside plant and motor vehicle materials and supplies, for example — list the average disbursed price for each item. The Perpetual Inventory Records for other materials and supplies subaccounts contain the actual original cost on an item-by-item basis. The total investment of each category of assigned materials and supplies, whether the Perpetual Inventory Records list actual or average cost, will be determined by multiplying the quantity of items assigned by the appropriate book cost.

b. Non-Physical Assets and Liabilities

An inventory and assignment process will also be followed in separating the BOCs' non-physical assets and liabilities pursuant to the account-by-account guidelines set forth in Parts I.A.4 and I.B, *supra*. The guidelines for the separation of these accounts will be furnished to the comptrollers assigned to the asset assignment task forces. The comptrollers will then review each account (and, where necessary, each subaccount or amount contained in a subaccount) to assign amounts between the BOCs and AT&T.

The majority of the non-physical asset or liability accounts will be assigned in their entirety to one entity or the other. *See* Parts I.A.4 and I.B, *supra*. For these accounts, the comptrollers will make the requisite assignment and note the dollar amount for appropriate journal entries in the post-divestiture books of account. Other accounts or subaccounts will be divided between AT&T and the BOCs on the basis of the allocation of related plant, personnel, or functions.[272] These amounts will then be totaled for journal entries on the post-divestiture books of account.

An example of an account which will be assigned on the basis of the assignment of underlying facilities, personnel, or functions is asset Account 129 (Prepaid Rent). The division of amounts in this account between the BOCs and AT&T will follow the assignment of the associated quarters or equipment. *See* Part I.A.4.u, *supra.* All amounts contained in the account will be reviewed and matched with the equipment or quarters. The comptrollers will then determine the assignment of these quarters or equipment by reviewing the results of the network and general equipment subtask groups and will assign the amounts in Account 129 accordingly.

3. Audits of Assignment Procedures and Data

The inventory and assignment process described herein will be based principally upon existing records, which are subject to continuous organizational reviews to verify and correct the data they contain. In addition, internal and external audits of the assignment procedures will be conducted.

Internal record verification procedures have consistently been used to test the accuracy of Bell System records and to correct any discovered errors. These internal record verification procedures were expanded and codified following the enactment of the Foreign Corrupt Practices Act in 1977 which required the presence of internal accounting controls so that the "recorded accountability for assets [can be] compared with the existing assets at reasonable intervals" and so that "appropriate action [can be] taken with respect to any differences."[273]

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[272] Complete records and worksheets of this effort will be maintained as part of the assignment process and will be available for outside auditors and others having a right to review them.

[273] 15 U.S.C. § 78m(b)(2)(B)(iv) (1981).

The Bell System procedures for compliance with these requirements are detailed in Comptrollers Letter M-334 ("Outline of Procedures for Periodic Verification of Plant Assets"). The M-334 procedures require complete verification of records on periodic cycles. The periodic cycles — during which the records are completely reviewed, reconciled, and cured of any discovered errors — vary among categories of assets: a seven year cycle for outside plant; a five year cycle for land and buildings and central office facilities; a two year review of most station apparatus; a one year cycle for materials and supplies; and a quarterly cycle for station apparatus in field stock.

In connection with the M-334 verification procedures, some categories of physical assets are physically inventoried and the results reconciled with the records. Physical inventories are required for accounts showing high volatility, or where the records do not possess a sufficient degree of accuracy. Generally such accounts involve items of relatively small value which are not permanently affixed, such as field stocks and Class C stocks of station apparatus, materials and supplies, certain items of general equipment such as furniture, vehicles and capital tools, and the plug-in equipment categories of central office facilities.

To the extent that physical inventories are conducted in the normal course of M-334 procedures prior to divestiture, they will be utilized for inventory and assignment purposes. Necessary adjustments as a result of physical inventories conducted after completion of the assignment process (but before divestiture) will be entered into the records just as any addition or retirement is entered.

Both internal and external auditors will review the results of the inventory and assignment process. The auditors will follow generally accepted auditing procedures to review and evaluate the accuracy and reliability of the results. Because of the technical complexity of network facilities, independent BOC engineering review groups will be established to review the process and the results of the network subtask groups.

The balance sheets of all post-divestiture entities will be reviewed by the companies' outside auditors, who will express opinions as to their accuracy. To provide the basis for these opinions, the outside auditors will review and audit the significant steps in the divestiture process. This will include appropriate audits of the records upon which assignments are based, the assignment and investment cost determinations, and compliance with the requirements of the asset and liability assignment guidelines.

4. Maintenance of Assignment Records and Documents

Each step in the asset assignment process will be fully documented. Personnel making the assignments will prepare worksheets for the engineering and comptrollers departments so that all steps necessary to accomplish divestiture can be completed. Moreover, to obtain necessary opinions from outside auditors with respect to the companies' resulting balance sheets, the auditors must have all such materials available for their review.

The divestiture-specific documents will be retained after internal and external audit review. The internal and external audit workpapers will be maintained under generally accepted audit procedures. Similarly, all business records used in the assignment process will remain in use so that day-to-day operations can continue. These records, worksheets, printouts, and other documents associated with the process of divestiture will be available to any person with a right of access to such information, including the Department of Justice under the visitation rights provided in Section VI of the Decree.

5. Post-Divestiture True-Up Procedures

Following divestiture, there will be "true-up" adjustments of the books and records of the BOCs and AT&T. These adjustments fall into three categories. First, the separation of certain of the BOCs' accounts will be based upon estimates of totals or balances on the day of divestiture. After the actual data is available a true-up will be necessary to replace the estimates.[274] These adjustments will occur within one year following divestiture, and any assignment of the affected accounts will be adjusted accordingly.

The second type of inaccuracy requiring post-divestiture adjustments is a previously undiscovered error in the records reflecting the amount of assigned assets and liabilities. The third type of inaccuracy is an error in the assignment of assets and liabilities, resulting in the assignment to one entity of an asset or liability that should have been assigned to another.[275] The discovery of record errors and of mistaken assignments of facilities within one year will be corrected through adjustment of the records of both entities.[276]

Ownership of facilities improperly assigned but not discovered until after the one year true-up will vest in the company to which they were originally assigned. That company can elect to retain those assets, or — if enjoined by the Decree from operating the facilities improperly retained — to transfer ownership by a sale or other disposition.

The one year time limit represents a reasonable period for the discovery of errors, and yet avoids the uncertainty of indefinite obligations between AT&T and the BOCs with respect to the separation of facilities and books of account.

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[274] This will be the case with respect to depreciation reserves, for example, where a final booking is not possible until actual retirement and investment data for the year preceding divestiture is available. *See* Part I.B.1, *supra*. Similarly, the accounting entries that reflect the assignment of station apparatus (Account 231) will be adjusted by offsetting entries on the BOCs' and AT&T's books following the availability of the December 31, 1983 inventory results. A further example is 1983 tax liability estimated as of December 31, 1983, and trued-up in 1984 to reflect liability on the returns as filed.

[275] InterLATA facilities that should have been assigned to AT&T may have been mistakenly assigned to a BOC; conversely, AT&T may be assigned intraLATA facilities that should have been assigned to a BOC. Such mistakes will be discovered after divestiture in a number of ways, including discovery through ongoing M-334 verification procedures, or discovery by construction or engineering personnel from either the BOC or AT&T.

[276] Prior to divestiture, AT&T and the BOCs will enter into contracts that establish this obligation and specify the exact procedures for appropriate transfer and account adjustments.

D. ASSIGNMENT OF PERSONNEL

In addition to the division of BOC facilities and books of account,[277] the Decree requires the separation of BOC personnel between those functions that AT&T[278] will perform after divestiture and those functions that the BOCs will retain (Decree, § I(A)(2)).[279] This requires a series of steps to determine the personnel functions associated with the divided facilities and operations and the number of employees assigned to perform those functions (Part I.D.1, *infra*); to identify the individuals who will perform their job functions as employees of AT&T or the BOCs (Part I.D.2, *infra*); and to make provision for post-divestiture true-up adjustments and for the protection of employees who might otherwise be disadvantaged in the post-divestiture transition of certain functions between AT&T and the BOCs (Part I.D.3, *infra*).

This section of the Plan also describes procedures for separating assets and obligations with respect to employee savings plans, voluntary contribution plans, stock ownership plans, other employee benefit plans, and pension plans for both existing and retired Bell System employees (Part I.D.4, *infra*). Part I.D.4 describes the obligations of AT&T and the divested BOCs to their respective employees (active and retired), the separation of the funds, and arrangements for their continued management.

The fundamental principle guiding the assignment of personnel is that people follow their work. Implementation of that principle requires a determination of which post-divestiture

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[277] In Part I.D of this Plan, references to BOCs include all BOCs, the regional holding companies that will own the stock of the BOCs, and the BOCs' Central Staff Organization, unless the context clearly indicates otherwise.

[278] The term "AT&T," as used in Part I.D of this Plan, includes AT&T and all of its affiliates other than the Bell Operating Companies (as BOCs are defined in Section IV(C) of the Decree).

[279] Part I.D.1-3 describes the assignments of BOC personnel, as well as AT&T Long Lines operations personnel who perform work with respect to facilities that will be assigned to a BOC. The augmentation of the BOCs with other AT&T personnel is described in Part II of the Plan.

entity will perform the job function that an employee currently performs. That determination in turn depends upon an examination of the Decree-ordered functional split of BOC facilities and other assets between intraLATA and directory services, on the one hand, and customer premises equipment and interLATA services, on the other hand.[280]

Existing Bell System employees will be used to staff the various organizations whenever possible. To the extent work groups are divided, employee preferences will be accommodated where business needs permit, and affirmative action profiles will be maintained to the extent feasible. Where work groups are split between the BOCs and AT&T, human resources will be shared equitably by assignment of employees with appropriate qualifications and experience to each entity. In addition, each post-divestiture entity will be structured to ensure senior management continuity.

The initial determination of the proportion of each work group to be assigned to each entity will be completed prior to March 31, 1983. The ratios thus determined will be applied to the number of people in each work group based on Bell System employment data for March 31, 1983. These assignments of employee positions will be made as if the job functions of a work group will be performed by the post-divestiture entities in the same manner, in the same geographical area, and by the same level of employee as performed on that date. After the

[280] With respect to multifunction facilities, employees will generally be assigned to the entity that will own the facility, rather than to the non-owning entity that will lease a portion of the facility. For example, where a BOC will own a transmission system and lease a portion of its capacity to AT&T for the provision of interLATA services, the personnel who test and repair the system will generally be employed by the BOC. Where, however, the non-owning entity will perform maintenance or support functions under contract, it will employ the people who perform that work. Any work required of the lessor to provide service to the lessee will be counted as a personnel requirement of the lessor for purposes of assigning personnel under the criteria set forth in this part of the Plan, subject to the post-divestiture reassignment procedures specified in Part I.D.3.b, *infra*. The same rule will apply to the determination of force requirements for any other sharing agreement between AT&T and the BOCs.

assignment of employee positions to each entity is completed, the assignment of individual employees to fill those positions will be made in accordance with the principles and procedures set forth in Part I.D.2, *infra.* Approximately 90 to 120 days prior to divestiture, each work group will be analyzed in terms of BOC and AT&T assignments. To the extent intervening events have caused a change in the number of employees in the work group, adjustments will be made in the work group assignments to conform with the previously determined ratios.[281]

1. Identification and Assignment of Personnel Functions

This section describes procedures for determining the assignment of job functions and employee positions to the BOCs or AT&T. In general, employee position assignments will be made as follows:[282] Where a work function, as of January 1, 1984, will be performed only by a BOC or AT&T, and the personnel who perform that function are organized in a discrete work group, that work group will be assigned *in toto* to the entity with the assigned responsibility. For example, a BOC operator services work group handling local directory assistance functions (a BOC function both before and after divestiture) would be retained *in toto* by the BOC. Where a work function, as of January 1, 1984, will be performed only by a BOC or AT&T, and no separate work group currently exists that performs only such functions, work groups generally will be restructured — according to the principles of personnel assignment described herein—so that a work group can be assigned

[281] For example, if the initial assignment of employee positions in a work group was 75 percent to AT&T and 25 percent to a BOC, the final assignment of actual work force to that BOC would be 25 percent notwithstanding a change in the number of employees in that work group who had previously been designated for assignment to the BOC.

[282] The identification of the individual employee assignments is discussed in Part I.D.2, *infra.* In Part I.D.1, references to employee assignments relate to employee positions, not to the specific person who will fill a particular position.

in toto to the entity that will perform the function after divestiture.

Where a work group performs multiple job functions some of which, after January 1, 1984, will be performed only by the BOCs and the others only by AT&T, assignment of the work group will be based upon the portion of the work group's time spent on work functions to be performed in each entity. Therefore, the number of employees performing directory or intraLATA functions, which will remain with the BOCs, and the number performing CPE or interLATA functions, which will be assigned to AT&T, must be determined. The determination of the number of employee positions to be assigned to each entity will be made by job function codes (JFCs), work/time reports,[283] location codes,[284] time allocation studies, on-site inspection, and the other methodologies discussed below.

The vast majority of Bell System employees are assigned at least one JFC. JFCs are designed to identify the work functions an employee performs. JFCs are generally used in the compilation of force level data, and the preparation of accounting, budgeting, and management reports. Employees are assigned a single or "dominant" code if they usually perform only one function or if they report time spent on "non-dominant" functions on work/time reports. For example, plant craftspersons who perform multiple job functions are assigned a dominant JFC. These employees also submit work/time reports that show the extent to which they perform job functions other than those described by the dominant JFC.

Other employees who perform more than one job function on a regular basis are assigned multiple JFCs. A BOC

[283] Work/time reports, which are records of time spent on particular functions, are maintained for classification of time within specific accounts, so that costs can be capitalized or expensed as appropriate.

[284] Location codes refer to the Bell System Common Language Identifier codes, which identify the location of each Bell System building.

employee with multiple JFCs is assigned a JFC for each job function on which he spends at least 10 percent of his time. Such an employee may have several job function codes assigned to his work. A percentage is then associated with each JFC based on the overall time the employee spends on that job function.

Where it can be determined from BOC employees' JFCs, location codes, and work/time reports that their job functions will be performed only by AT&T after divestiture, employee positions so identified will be assigned to AT&T; where it can be determined from employees' JFCs, location codes, and work/time reports that their job functions will be performed only by the BOCs after divestiture, those employee positions will be assigned to a BOC. Where a review of employees' JFCs, location codes, and work/time reports reveals that employees perform multiple job functions that relate to more than one post-divestiture entity, or perform a job function that relates to facilities some of which will be assigned to AT&T and some of which will be assigned to a BOC, the time spent on different job functions and facilities will be aggregated to determine equivalent force levels.

The term "equivalent force level" means the size of the work group that will be required to perform functions assigned to an entity after divestiture. Assume that 10 employees in a work group all spend 80 percent of their time on job functions that will be performed by AT&T after divestiture, and 20 percent of their time on job functions that will be performed by a BOC. Rather then assigning all 10 employees to AT&T based on the predominance of their work for AT&T, the 20 percent of each employee's time spent on BOC job functions will be aggregated, creating an "equivalent force" level of 20 percent, or a total of two employee positions that will be assigned to the BOC. Where this occurs, each job function will be analyzed to determine whether (under the facts set forth in this example) two employees working full time can adequately replace 10 employees each working 20 percent of their time on a particular function.[285] If not, additional employee positions will be assigned to perform that function.

When employees' JFCs, location codes, and work/time reports do not reveal whether the employee positions should be assigned to a BOC or AT&T, work group and time allocation studies will be examined to the extent they are available. If the assignments still cannot be determined, the corporate force records and, if necessary, on-site inspection of the specific work groups will be made to ascertain the appropriate force assignments.

Certain work groups perform job functions that are currently provided only by the BOCs and after divestiture will have to be provided by both the BOCs and AT&T. Work groups for which there is a potential force shortage because of this replication will be assigned on the basis of projections by each entity of its post-divestiture force requirements. Such personnel needs will be based on the number of people required to perform a replication of a function after divestiture and will not include personnel required as a result of a decision to enter a new line of business after divestiture.

To the extent management,[286] staff, and clerical personnel are functionally associated with line operations work groups, they will be assigned on the same basis as those work groups. The assignment of management, staff, and clerical personnel who provide support for diverse line work groups is discussed in Part I.D.1.d, *infra*, "General Support Functions."

Bell System force imbalances are currently being corrected through the use of traditional methods such as retraining,

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[285] Fractional force requirements by job function will be accumulated by geographic area to permit the assignment to each entity of the appropriate total number of employee positions. All equivalent force determinations will be done by job function, as opposed to job title, so that the appropriate personnel capabilities and number of personnel are determined.

[286] As used in Part I.D.1-3 of this Plan, a management employee is a person who satisfies the definition of "employee" in the Bell System Management Pension Plan.

moving people to available work, contractual force adjustment procedures, attrition, overtime, and hiring temporary employees. Resolution of force imbalances will be completed before divestiture, wherever feasible. To the extent force imbalances continue to exist at divestiture, they will be assigned with the job functions. Where job functions are split between the BOCs and AT&T, force imbalances will be shared proportionately.[287]

In the following sections the specific procedures for determining the number of employee positions to be assigned are discussed for each major function within the BOCs. First, the job functions associated with the basic Decree-ordered functional split between CPE functions (section a), IntraLATA and InterLATA functions (section b), and printed directory functions (section c) are examined. In addition, the assignment of personnel who provide general support functions for two or more of the BOCs' major functions is described (section d).

a. CPE Functions

Pursuant to the Decree, virtually all equipment and facilities associated with the provision of CPE will be assigned to AT&T (Decree, § II(D)(2)). Therefore, the vast majority of job functions associated only with CPE will also be assigned to AT&T. The BOCs, however, will be assigned employees with experience in the provision of CPE to facilitate the BOCs'

[287] Proportionate sharing of force imbalances will be accomplished as follows. First, the division of the existing force performing each BOC job function will be determined pursuant to the procedures described in Part I.D.1 of this Plan; then each entity will share the force imbalance on the basis of its proportion of the total force assigned to it. For example, assume that for an existing 100 person force performing a particular job function, a BOC will be assigned 60 employees and AT&T 40. If there is a shortage of 10 employee positions, the positions will be assigned so that the BOC will be short 6 positions and AT&T will be short 4 positions. In this example, if a surplus exists, 60 percent of the surplus employees would be assigned to the BOC and 40 percent to AT&T.

participation in that business, if they choose to enter it after divestiture (Decree, § VIII(A)). The BOCs also will retain all BOC personnel who provide and maintain public coin service and Centrex and other equipment assigned to the BOCs (*see* Part I.A.2, *supra*).[288] Finally, the BOCs will retain a sufficient number of employees to provide and maintain apparatus that will be used for post-divestiture "official service" of the BOCs.[289] All force assignments described below are subject to these exceptions.

The assignment of BOC personnel performing CPE services will be aided by a realignment process now under way in the BOCs, whereby JFCs are being adjusted to isolate functions performed only for CPE.[290] Pursuant to this process, various jobs will be realigned so that individual employees will be assigned functions related only to CPE. Personnel with job function codes relating only to CPE will be assigned to AT&T. Where employees perform both CPE and non-CPE functions, a determination of the equivalent number of employees related to CPE will be based on analyses of the functions performed, as described below.

i. Sales and Service Functions

As related to CPE, sales and service functions include the marketing of such equipment and services and the processing of

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[288] BOC employees associated with public phones (coin and non-coin terminals) are identifiable by JFC. AT&T will be assigned a small number of employees associated with interLATA sales and service functions of non-coin public phones. All other BOC personnel associated with public phones (coin and non-coin terminals) will be assigned to the BOCs. BOC personnel performing job functions on BOC Centrex equipment located in central offices are identifiable by JFC. The equivalent force of BOC personnel performing job functions on other BOC Centrex equipment will be determined by the time spent on such equipment for each particular job function.

[289] The BOCs will undertake a process to identify personnel who perform job functions associated with official service. Employee assignments to the BOCs will be determined on the basis of hours spent on BOC official service.

[290] This process, which began as a result of the FCC's decision in its *Second Computer Inquiry*, will be completed prior to divestiture.

customer-initiated contacts for both business and residence customers. These functions have traditionally been performed by the same personnel for a customer's entire telecommunications service. The division of employee positions for CPE sales and service functions is described in the next three subsections.

(1) *Marketing Functions*

Marketing functions include the offering of products and services to the public through line sales personnel and the management of such personnel. As presently structured, the BOC marketing organizations include personnel that perform functions associated with CPE, intraLATA, and interLATA services.[291] Within the BOC marketing organizations the personnel associated with embedded CPE are market administrators,[292] communications systems representatives, and marketing staff.

Market Administrators. These BOC personnel have responsibility for customer satisfaction with installed network services, coordinating the implementation of network services, and responding to customer demand for embedded CPE. Currently, the market administrator position is essentially a support function to the account executive position (*see* Part I.D.1.b.i.(1), *infra*), but beginning in 1983, market administrators will have primary responsibility for embedded CPE-related activity. Market administrators will be assigned on the basis of the amount of time spent on embedded CPE and network services. The proportion of the market administrators'

[291] The allocation of employee positions for personnel performing the marketing of network services is described in Part I. D.1.b.i.(1), *infra,* "IntraLATA and InterLATA Functions."

[292] Force assignments in all cases will be made on the basis of job functions notwithstanding any different job title attached to the functions. For example, in some BOCs the market administrator job title is not used. In those exceptional cases, account executives (*see* Part I.D.1.b.i.(1), *infra*) will be responsible for the sale of embedded CPE in 1983, and the equivalent force of such account executives will be assigned to AT&T.

time spent on embedded CPE will determine the equivalent force of market administrators to be assigned to AT&T for embedded CPE functions.

Communications Systems Representatives. These BOC personnel are responsible for providing technical expertise to the sales force, analyzing and designing complex business systems, switching systems and communications networks, assisting in resolution of complex system administration problems, and finalizing design and cost/benefit data. Communications Systems Representatives (CSRs) essentially perform support functions for the sales personnel. Currently, an individual CSR supports sales of CPE, interLATA, and intraLATA services. At divestiture these support functions will be performed separately for CPE, interLATA, and intraLATA services, resulting in a shortage of CSRs.

To ensure the proportionate sharing of this shortage, the projected needs of AT&T for personnel to perform CPE and interLATA functions, and the needs of the BOCs for personnel to perform intraLATA functions, will be determined by each entity. The number of CSRs needed to perform CPE functions will be based on an analysis, by geographical area, of the complexity and quantity of embedded CPE in inventory, as well as the existing ratio of CSRs to sales personnel. The number of CSRs needed to provide interLATA and intraLATA functions will be determined as described in Part I.D.1.b.i.(1), *infra.* The ratio of each entity's "required" CSR employee positions to total "required" CSR employee positions will determine the proportion of CSRs assigned to that entity.

Marketing Staff. Marketing staff personnel perform one of four job functions: market management, marketing information, marketing operations, or product management. Employees who perform market management job functions are responsible for managing market segment revenue through the development of applications that match the product and service line. Such employees support the line sales force by producing market action plans, which include industry and general business information and analysis and response to market information. Personnel performing market management functions will be assigned in the same proportion as the line sales force whom they support.

Employees who perform marketing information job functions are responsible for the maintenance of information and data systems to facilitate the management and operation of all marketing organizations. Personnel performing marketing information functions will be assigned to the entity that will own the support system to which the employees' work relates.

Employees who perform marketing operations job functions are responsible for technical and direct sales support, research, creation of marketing training and methods for sales development, creation of general operating methods and procedures, force development, personnel administration, and results analysis. Marketing operations personnel who perform results analysis functions will be assigned based on the time spent on BOC and AT&T services. The equivalent force of such personnel performing CPE and interLATA functions will be assigned to AT&T, and the equivalent force performing intraLATA functions will be assigned to the BOCs.

Marketing operations personnel who perform research functions will be assigned on the basis of revenues. The ratio of BOC billed CPE and interLATA revenues to total BOC billed revenues will determine the proportion of such employees assigned to AT&T, and the ratio of BOC billed intraLATA revenues to total BOC billed revenues will determine the proportion of such employees assigned to the BOCs. All other marketing operations personnel will be assigned to each entity in the same proportion as the proportion of the other marketing sales personnel assigned to that entity.

Employees who perform product management job functions are responsible for life cycle management, selection of service pricing plans, forecasting service needs, and recommendation of product line improvements. Where product management personnel perform functions that relate to a service that will be provided only by one entity after divestiture, those employees will be assigned to that entity. For example, Centrex CO will be provided only by the BOCs and therefore personnel performing product management functions for Centrex CO will be assigned to the BOCs. Product management personnel associated with more than one service, or with a service that will be offered by both AT&T and the BOCs, will be assigned to the BOCs in the same proportion as BOC billed intraLATA revenue bears to total BOC billed revenue, and assigned to AT&T in the same proportion as BOC billed CPE and interLATA revenue bears to total BOC billed revenue.

(2) Service Center Functions — Business

Business Service Center (BSC) personnel are responsible for customer initiated contacts to establish, change, or remove telecommunications service, and to administer customer accounts. The CPE-related job functions of Business Service Center employees primarily are order negotiation and billing functions, which include account inquiry, order writing, order typing, credit intake, and collection. BSC employees currently perform their functions for a customer's entire telecommunications service. Upon divestiture, AT&T will be assigned the equivalent employee positions that perform these functions as they relate to CPE (*see* Part I.A.2.c.iii, *supra*).[293]

Through work sampling studies, the frequency of BSC work activities has been analyzed and the specific work activities have been classified as relating to CPE, interLATA, or intraLATA products or services. BSC employees responsible for negotiating orders in connection with customer initiated contacts will be assigned according to the quantity and complexity of their work activities.[294] Employees performing order

[293] The assignment of service center (business) personnel performing these functions as they relate to intraLATA and interLATA services is described in Part I.D.1.b.i.(2), *infra*.

[294] The complexity, measured by the time required to perform all of the service center (business) functions, will be determined by a systematic estimation technique applied to work activities that comprise a particular function, the time required to complete those activities, and the frequency of those activities.

writing and order typing functions will be assigned according to the quantity and complexity of service orders written and typed. Employees performing other billing functions, including account inquiry, credit intake, and collections, will be assigned on the basis of the frequency and complexity of work activities related to those functions, as well as clerical work volumes, associated with BOC and AT&T functions.

Staff support for a single function (*e.g.*, order negotiation) will be assigned in the same proportion as the personnel the staff supports. Staff support personnel not directly related to a single function, such as those performing training and planning functions for all services, will be assigned to an entity in the same proportion as the proportion of the total number of BSC employees whom they support are assigned to that entity.

(3) Service Center Functions — Residence

Service center personnel serving residence customers perform job functions comparable to BSC job functions.[295] Such personnel also maintain payment centers in some locations for customers to pay their bills in person. Employees performing order writing functions will be assigned according to the quantity and complexity of service orders typed. Service center (residence) personnel who perform other billing functions described above under "Service Center Functions — Business" will be assigned based on the same criteria used for assigning service center (business) personnel. The assignment of personnel responsible for negotiating orders on customer initiated contacts will be based on the quantity and complexity of their work activities, including the quantity of uniform service order codes per contact.

In addition, residence employees performing payment receipt functions will be assigned based on the relative amount of revenues collected by such employees for CPE and network

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[295] The assignment of service center (residence) personnel performing these functions as they relate to intraLATA and interLATA services is described in Part I.D.1.b.i.(3), *infra*.

services. Those personnel will be assigned to AT&T in the same proportion as CPE revenue collected by those employees bears to total revenue collected by those employees, and will be assigned to the BOCs in the same proportion as network services revenue collected by those employees bears to total revenue collected by those employees. Employees performing functions that relate to the distribution, return, and exchange of telephone sets at service centers will be assigned to AT&T. Personnel performing Direct Mail/Direct Response functions will be assigned based on the proportion of total time spent on promotional activity for BOC and AT&T services. Such time will be measured over a representative business cycle.

Staff support for a single function (*e.g.*, order negotiation) will be assigned in the same proportion as the personnel the staff supports. Staff support personnel not directly related to a single function, such as those performing training and planning functions for all services, will be assigned to an entity in the same proportion as the proportion of the total number of employees whom they support are assigned to that entity.

ii. Centralized Repair Service Answering Bureau Functions

Customer repair requests for both access-related problems and CPE-related problems have traditionally been made through centralized repair answering bureaus. Upon divestiture, customers will be instructed to call the divested BOC repair answering bureaus for access problems, and they will be requested to call AT&T for AT&T CPE problems.

To assign repair bureau forces, the equivalent force to handle CPE trouble reports and misdirected access-related trouble reports, and the equivalent force to handle access-related trouble reports and misdirected CPE trouble reports must be identified. The division of these employees between AT&T and the BOCs will be determined on the basis of the number of trouble reports cleared to CPE or access-related disposition and the call volumes from customers making misdirected trouble reports. At divestiture, the BOCs will be assigned equivalent repair bureau forces to handle access-related trouble reports and misdirected CPE trouble reports; AT&T will be assigned equivalent forces to handle AT&T CPE trouble reports and misdirected access-related trouble reports.

iii. Installation and Maintenance Functions

The installation and maintenance of a customer's telecommunications service, including the service drop, protector, network interface, inside wire, and terminal equipment, have traditionally been provided by the same technician. Pursuant to the realignment of CPE personnel currently in progress within the BOCs, separate installation and maintenance work groups will be responsible for certain business embedded CPE, such as key, private line data, and PBX systems. All BOC employees in the work groups performing installation and maintenance functions only on such CPE will be assigned to AT&T.

Installation and maintenance employees in other work groups will be responsible for all other embedded CPE (*i.e.,* one and two line non-key and Centrex-CO), and exchange access-related facilities from the customers' premises up to and including the connection to the network (*i.e.,* service drop, protector, network interface, and inside wire). The employees in such work groups therefore must be divided between the BOCs and AT&T. The equivalent force attributable to CPE-related work and the equivalent force attributable to exchange access-related work will be determined by the relative amount of time spent on each type of premises visit and trouble report, taking into consideration customer participation levels for CPE installation and repair. The equivalent force attributable to such CPE-related work will be assigned to AT&T. The equivalent force performing installation and maintenance for the service drop, protector, network interface, and inside wire up to the connecting block (or its equivalent) will be assigned to the BOCs.

The BOCs will also be entitled to retain sufficient personnel to install and maintain BOC-owned simple inside wire and complex inside wire (such as that behind a PBX) after the network interface or demarcation point (*see* Part I.A.2, *supra*). To the extent a BOC elects not to continue the maintenance of this plant, and to the extent BOC maintenance personnel are not otherwise required by the BOCs, such employees will be assigned to AT&T.[296]

iv. CPE and Customer Networking Engineering Functions

Pursuant to the general realignment process (*see* Part I.D.1.a, *supra*), separate engineering centers will perform only embedded CPE and CPE-related customer networking engineering functions.[297] The personnel in those centers will all be assigned to AT&T.

b. IntraLATA and InterLATA Functions

The Decree requires the separation of personnel associated with the provision of intraLATA functions from personnel associated with the provision of interLATA functions (Decree, § I(A)(2)). Accordingly, the equivalent force of BOC employees who perform interLATA job functions will be assigned to AT&T and the equivalent force of BOC employees who perform intraLATA functions will be assigned to the BOCs.

Employees in certain work groups can be assigned on the basis of the facilities on which their job functions are performed. However, identification of employees' job functions does not necessarily identify the employees as performing work that relates only to intraLATA or only to interLATA facilities. One job function code may describe a kind of work performed by an employee on both single function interLATA facilities and single function intraLATA facilities. A BOC employee may, for example, repair radio transmission equipment. If all

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[296] The division of such employees between interLATA and intraLATA functions is discussed in Part I.D.1.b.ii.(3)(b), (d), *infra*.

[297] Customer access engineering functions will be performed in separate centers (*see* note 303, *infra*).

the equipment repaired and maintained by that employee will be assigned to AT&T, that employee position will likewise be assigned to AT&T. The employee may, however, maintain several pieces of radio transmission equipment, some of which are assigned to AT&T and some of which remain with the BOC.

Employee positions related to job functions of this type will be divided in accordance with principles set forth in this section. The assignment of personnel who perform interLATA or intraLATA functions that are not directly related to particular facilities is also discussed in this section.

i. Sales and Service Functions

Sales and service functions have traditionally been performed by the same personnel for a customer's entire telecommunications service. The division of employee positions between CPE and non-CPE functions is discussed in Part I.D.1.a.i, *supra.* In this subsection, the additional procedures for the division of these employee positions between intraLATA and interLATA functions are described.

(1) Marketing Functions

Marketing personnel that perform line sales functions for interLATA and intraLATA services are account executives, market administrators, communications systems representatives, and marketing staff.

Account Executives.[298] Account executives have responsibility for the generation of network revenue through the sale of network service applications and the assurance of customer satisfaction with current service. The number of account executive positions within a particular geographic area traditionally has been based on the amount of revenue, geographic

[298] As of January 1, 1983, account executives and other sales personnel responsible for the sale of new CPE will not be a part of the BOCs as a result of the FCC's decision in its *Second Computer Inquiry.* The sale of embedded CPE generally will be conducted by market administrators (*see* Part I.D.1.a.i.(1), *supra*).

territory, and complexity of accounts for which each account executive is responsible.

The identification of the "requirements" of each entity for account executives will be based on relative interLATA and intraLATA revenue with consideration given to the number and complexity of accounts handled, the complexity of the customers' decision-making processes, and geographic territory covered. First, interLATA and intraLATA revenue will be determined through an analysis of existing management revenue reports. Then, the amount of revenue for which each account executive will be held accountable by the BOC and AT&T will be set. The interLATA and intraLATA revenue will then be divided by the AT&T and BOC revenue per account executive position to determine the number of account executives responsible for the revenue being assigned to each entity. Adjustments will be made in the number of employee positions "required" by each entity to reflect that where an account executive handles a large number of small accounts, is working on very complex accounts, is working with customers whose decision-making processes are particularly lengthy, or is responsible for a large geographical area, the revenue for which the account executive can be responsible is correspondingly less. These procedures will provide the "required" employee positions for both AT&T and the BOC. The ratio of the positions "required" for intraLATA functions to the total "required" positions will be applied to the actual number of current account executives to determine the equivalent force to be assigned to the BOC.

Market Administrators. Market administrators essentially support the account executive functions (*see* Part I.D.1.a.i.(1), *supra*). For intraLATA and interLATA services, a BOC and AT&T each will determine its projected ratio of post-divestiture market administrators to account executives based on the number of accounts, the number and complexity of orders, the size of the geographic area for which the market administrators are responsible, and the existing ratio of market administrators to account executives. Application of the ratios to the number of account executives assigned above will provide the "required" employee positions for both AT&T and the BOC. The ratio of the positions "required" for intraLATA functions to total "required" positions will be applied to the actual number of current market administrators to determine the equivalent force to be assigned to the BOC.

Communications Systems Representatives. The Communications Systems Representatives' network job functions are essentially support functions to account executives. It is anticipated that there will be a shortage of CSRs to perform embedded CPE, interLATA, and intraLATA functions. This shortage will be shared proportionately between AT&T and the BOCs as described in Part I.D.1.a.i.(1), *supra.* The number of CSRs necessary to perform interLATA and intraLATA functions will be determined by AT&T and the BOCs, respectively, based on the interLATA revenues being transferred to AT&T, with consideration being given to the complexity and geographical dispersion of the services which produce those revenues, as well as the existing ratio of CSRs to account executives.

Marketing Staff Functions. Marketing staff personnel perform one of four job functions relating to network services: market management, marketing information, marketing operations, or product management. Marketing staff personnel performing those functions will be assigned pursuant to the procedures described in Part I.D.1.a.i.(1), *supra.*

(2) *Service Center Functions — Business*

Business Service Center (BSC) personnel are responsible for customer initiated contacts to establish, change, or remove telecommunications service, and to administer customer accounts (*see* Part I.D.1.a.i.(2), *supra*).[299] The equivalent force that performs work related to order writing, order typing, and order provisioning functions for interLATA services other than

[299] BOC personnel who perform similar job functions associated with the provision of intraLATA facilities to non-Bell interexchange carriers and CPE vendors will be assigned to the BOCs to provide exchange access to all interexchange carriers and CPE vendors.

MTS will be assigned to AT&T based on the work time necessary to perform those functions. The BOCs may, however, provide for AT&T (under sharing contracts) interLATA order writing, order typing, and order provisioning functions, except for MTS. Any BOC employees performing these contract services will be initially assigned to the BOCs, subject to the post-divestiture reassignment procedures for shared services described in Part I.D.3.b, *infra.*

InterLATA billing services, which include account inquiry, credit intake, collection, and MTS order writing, order typing, and order provisioning, will be offered by the BOCs to all interexchange carriers under tariff. Thus, employees performing such functions for both intraLATA and interLATA services will be assigned to the BOCs and will not be subject to the post-divestiture reassignment procedures for shared services specified in Part I.D.3.b, *infra.* Assignment of staff support for these BSC functions is described in Part I.D.1.a.i.(2), *supra.*

(3) *Service Center Functions — Residence*

Service center personnel serving residence customers perform job functions comparable to those performed in the BSCs. The assignment of the residence personnel who perform intraLATA and interLATA functions will generally be determined as described above for intraLATA and interLATA BSC functions. In addition, residence employees performing functions relating to the Customer Name and Address bureaus will be assigned to the BOCs. Assignment of staff support for these service center (residence) functions is described in Part I.D.1.a.i.(3), *supra.*

ii. Call Processing Functions

The majority of employees associated with interLATA and intraLATA services perform job functions in connection with the actual processing of such services. The assignment of such personnel, who perform central office operations functions, operator services functions, and distribution services functions, is described in the next three subsections.

(1) Central Office Operations Functions

Central office operations include functions pertaining to switching systems and circuit equipment installation and maintenance; interoffice and intraoffice special services, trunk, and facility testing; network administration; circuit design and assignment; and mini-computer maintenance and operations. The BOC personnel performing each of these central office operations functions will be divided between AT&T and the BOCs.

To the extent that central office operations work groups work on only interLATA or intraLATA facilities, the employees will be assigned to AT&T or a BOC, respectively. Where a central office operations work group performs work on some facilities that will be owned by AT&T and on some facilities that will be owned by the BOCs, the existing central office operations personnel will be assigned to either the BOC or AT&T based on different criteria for each type of work group. These criteria are described below for several different functions.

(a) *Switching Systems and Circuit Equipment Installation and Maintenance Functions; and Special Services, Trunk, and Facility Testing Functions*

These job functions consist of the installation, maintenance and testing of both intraLATA and interLATA central office switching systems, circuit equipment, and interoffice circuits and facilities. As part of the asset assignment process, each switching system will be assigned to either a BOC or AT&T (*see* Part I.A.l.a.i.(1), *supra*). Where an existing work group maintains switching systems or work areas that will be assigned to a single entity, the entire work group will be assigned to that entity. Such work groups can be identified by an examination of JFCs and location codes.

Where an existing work group maintains two or more switching systems or work centers that will be divided after divestiture, the assignment of craft employees will be based on the ratio of work units associated with the equipment assigned to that company. Work units for these functions are measures used in the Bell System to quantify the amount of work necessary to construct, repair, rearrange, test, and remove central office switching and circuit equipment. The ratio used to assign employees will be determined on the basis of existing work units, as described in the Network Costs Results Plan.[300] For work groups where the equivalent force cannot be determined by work units, time allocation studies will be used.

In those work groups where it is not practical to separate the functions supporting BOC and AT&T facilities at divestiture, one company will provide installation, maintenance, and testing functions for the other under a sharing contract (*see* Part I.A.1.b, *supra*). Because these contract services generally will be phased out as the facilities are needed by the owning company, employees performing these contract services will not be covered by the shared services post-divestiture reassignment provisions in Part I.D.3.b, *infra.* This is not the case with special services installation and maintenance employees performing contract services, and they will therefore be subject to the reassignment provisions of Part I.D.3.b, *infra.*

(b) Network Administration Functions

Job functions in network administration include telephone number and line equipment assignment as well as collection and analysis of central office usage measurement studies for engineering and administration purposes. These functions are performed for switching systems that are used for intraLATA services as well as those used for interLATA services.

Network administration work groups that currently perform these functions for types of switching systems and services that will be owned or provided by both AT&T and the BOCs after divestiture will be assigned based on the amount of

[300] For example, if 25 percent of the total work units in a given geographical area transfer from a BOC to AT&T, 25 percent of the existing work force will also be assigned to AT&T.

equivalent force currently performing these functions for the central office equipment and services assigned to each entity.[301]

(c) Circuit Design and Assignment Functions

Personnel in Circuit Provision Centers design circuits between central offices or between central offices and customer premises, make circuit component assignments, and issue circuit work documents to installation work groups. All existing BOC Circuit Provision Center forces will be assigned initially to the BOCs, except for a few such employees who will be assigned to AT&T to train personnel and plan for AT&T's separate provision of interLATA circuit provisioning functions. The BOCs will perform, under sharing contracts, some circuit provisioning functions for AT&T interLATA circuits. The equivalent number of BOC employees providing interLATA circuit provisioning functions will be subject to the post-divestiture reassignment procedures for shared services specified in Part I.D.3.b, *infra.*

(d) Mini-Computer Maintenance and Operations Functions

BOC Mini-Computer Maintenance Operations Centers have responsibility for the operation and maintenance of minicomputer systems in their geographic boundaries. BOC minicomputer maintenance and operations work groups will be assigned to either the BOC or AT&T based on the assignment of the systems that they operate and maintain.

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[301] These assignments will be determined using available data for a given geographical area, such as the Network Administration Force Management Productivity Plan (NAFMAP). NAFMAP is a procedure for the daily time reporting of work associated with network administration functions. Nonmanagement hours are recorded on daily time sheets and summarized monthly. Historical trends can be used to derive the proportion of hours required for the switching system facilities assigned to each entity. Where this Plan is not available, time allocation studies will be conducted to determine what proportion of the work group's total hours are required to administer the facilities or services assigned to the BOC and AT&T, respectively.

(2) *Operator Services Functions*

Operator services personnel provide four service categories: Directory Assistance service, "800 Service" Directory Assistance, Intercept service and Call Completion and Assistance services. After divestiture, the BOCs will be responsible for Directory Assistance and Intercept services, while AT&T will be responsible for "800 Service" Directory Assistance and Call Completion and Assistance services (*see* Part I.A.1.a.i.(6), *supra*). The functions associated with each of these services are operator, clerical, supervision, force administration, facilities administration, data base administration, planning and engineering, and staff support. These functions are generally separate for each service category, and personnel performing these functions are separately identified by JFC.

All Directory Assistance and Intercept personnel will be assigned to the BOCs. All Call Completion and Assistance and "800 Service" Directory Assistance personnel will be assigned to AT&T. These assignments are based on the assignment of the facilities with respect to which the particular operator services are performed (*see* Part I.A.1.a.i.(6), *supra*).[302]

IntraLATA Call Completion and Assistance services will be performed by AT&T for the BOCs under sharing contracts. The equivalent force of AT&T employees providing intraLATA Call Completion and Assistance service, based on intraLATA work volume, will be subject to the post-divestiture reassignment procedures for shared services specified in Part I.D.3.b, *infra.*

The remaining operator services personnel, representing less than two percent of the total BOC operator services force, perform certain staff support, planning, and engineering func-

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[302] Rate and route and "800 Service" Directory Assistance personnel will be assigned to AT&T even where they perform their work on a multifunction call processing system that will be assigned to the BOCs (for example, a system which processes both intercept and rate and route calls).

tions that do not relate to only one service category. Personnel who perform such general support work (force forecasting or budgeting, for example) will be assigned to AT&T based on the proportion of total Call Completion and Assistance and "800 Service" Directory Assistance personnel to the total operator services force.

(3) Distribution Services Functions

Distribution services personnel perform engineering, outside plant construction, loop assignment, and maintenance of subscriber cables and interoffice facilities functions. The criteria governing the assignment of personnel performing each of these functions are discussed below.

(a) Distribution Services Engineering Functions

The BOC distribution services engineering force provides for the planning, layout, capacity determination, design, rearrangement, and replacement of local distribution facilities.[303] This force also prepares work prints that direct the BOC outside plant construction personnel to place, remove, or rearrange outside plant cables, repeaters, and structures (conduit, manholes, and pole lines) used for both local distribution and interoffice facilities.

The distribution services engineering force required to support interLATA cables and structures is principally a function of future plans for additions to and rearrangements of those facilities, rather than a function of the quantity of existing interLATA facilities transferred to AT&T in the asset assignment process. Therefore, to determine the assignment of force

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[303] As described in Part I.D.1.a.iv, *supra,* separate engineering centers will be established for CPE and CPE-related customer networking engineering functions, as well as for customer access engineering functions. Those employees who perform customer access engineering functions, such as building industry consulting service functions (identification of network access entrance and termination locations, for example), network channel terminating equipment functions (design and recordkeeping for BOC items), and central office service design functions (Centrex, for example) will be assigned to the BOCs.

from the BOCs to AT&T, the 1984 Construction Program, its supporting planning documents, and interoffice trunk facilities planning documents will be reviewed to identify individual interLATA cable and structure additions, removals, and rearrangements projected for 1984. Where available, information on the 1985 (and beyond) work program will also be considered in determining the assignments.

The work content of the various projects will be evaluated based on traditional measurements (such as sheath miles to be placed, cable pairs to be spliced, and cables assigned to each entity) to determine the equivalent force that performs functions for interLATA facilities and the equivalent force that performs functions for intraLATA facilities. BOC distribution services engineering employee positions will be assigned to AT&T in proportion to the percentage of the total work program represented by the interLATA work content as thus determined.

(b) Outside Plant Construction Functions

BOC outside plant construction personnel are responsible for placing, removing, and rearranging interoffice facilities and local distribution facilities from a Class 5 switching system up to and including the cable terminal, which connects individual subscribers to the network.[304] Force levels are based on the amount of work required to perform such functions as directed by work prints generated by the distribution services engineering personnel. After the work attributable to interLATA and intraLATA facilities is quantified, as described in the preceding subsection, efficiency ratios (*e.g.*, hours per cable sheath foot placed) will be applied to determine required craft hours attributable to the changes planned for the facilities assigned to

[304] Outside plant construction personnel in some instances also install the service drop. To the extent that outside plant construction personnel perform this function, which normally is performed by installation and maintenance personnel, the equivalent force of outside plant construction personnel performing this function will be assigned to the BOCs (*see* Part I.D.1.a.iii, *supra*).

each entity. These craft hours will, in turn, be aggregated to calculate nonmanagement equivalent force levels to be assigned to each entity.

(c) Loop Assignment Functions

Distribution services loop assignment personnel maintain inventory records on local distribution facilities and issue orders instructing the installation forces to make specific connections (or disconnections) in response to customer service requests. Because only intraLATA functions are involved, no force assignments to AT&T will be made.

(d) Distribution Services Maintenance Functions

Distribution services maintenance personnel maintain subscriber cables and interoffice facilities consisting of interoffice cables and fiber optic transmission systems as well as certain pole line and conduit routes.[305] Because the BOCs will continue to own the vast majority of subscriber and interoffice cable facilities, little reassignment of the BOC force maintaining these facilities is expected.

Force assignment will involve identification of the number of hours that each work group spends on interLATA facilities which are assigned to AT&T. Such work time will also include the number of hours spent maintaining ancillary equipment (repeaters and cable air pressure systems, for example). The proportion of employee hours attributable to interLATA facility maintenance will be determined using local BOC failure rates applied to the actual facilities involved. Local averages of time

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[305] The assignment of personnel who install interoffice facilities and local distribution facilities from a Class 5 switching system up to and including the cable terminal is described in Part I.D.1.b.ii.(3)(b), *supra*. The assignment of personnel who perform installation and maintenance functions for embedded CPE and exchange access facilities upon the customers' premises and from the customers' premises up to and including the service drop is described in Part I.D.1.a.iii, *supra*.

spent on cable rearrangements, routine preventive maintenance, cable cuts, weather damage, and accidents will be used to derive the equivalent force assignment necessary to maintain existing service levels for interLATA facilities assigned to AT&T and intraLATA facilities assigned to the BOCs. The equivalent force so determined for interLATA work will be assigned to AT&T.

In those areas where it is not practical at divestiture to separate the maintenance functions supporting BOC and AT&T facilities, one company will provide the maintenance for the other under sharing contracts. In those cases, the maintenance employees will be assigned to the company that will perform the work (*see* note 280, *supra*). Because of the limited number of such skilled employees, it is expected that the employing company will have a continuing requirement for those employees at the termination of the contracts. Those employees will not, therefore, be subject to the post-divestiture reassignment procedures specified in Part I.D.3.b, *infra*.

iii. Network Planning and Engineering Functions

Planning and engineering personnel perform the following functions: network planning and central office engineering, which includes planning capacity, design, layout, procurement, and installation of central office equipment; transmission engineering, which develops and oversees all transmission standards for network quality and performance, and prepares design recommendations for various transmission systems; and network engineering forecasting, which establishes requirements, analyzes and projects usage data, and forecasts trunk facility requirements for planning purposes.

The number of planning and engineering employees required to support switching and other facilities depends principally upon future plans for additions to and rearrangements of facilities, rather than upon the existing quantity of facilities. Force requirements for each of the planning and engineering functions will be determined on the basis of network center functions and anticipated future growth associated with assets assigned to each entity. The analysis of functions will consider existing plans for wire centers, interoffice facilities, and the traffic network configuration, as well as modernization plans, growth forecasts, and the 1984 construction program projections. Where available, information on the 1985 (and beyond) work program will also be considered. This analysis will also take into consideration the switching and circuit complexity, and size of the planned changes as well as the types of skills required. The force requirements for both AT&T and the BOCs will be determined by region for each function. BOC personnel who currently perform a particular function will be assigned to a BOC or AT&T according to each entity's relative proportion of the total requirements for that function.

In some situations skill and knowledge shortages are expected to occur in both the BOCs and AT&T. For instance, the asset assignment process will result in the assignment of some No. 4 ESS switching systems to BOCs, which have few employees with prior engineering experience in such systems. Similarly, some No. 1A ESS switching systems will be assigned to AT&T, which has limited personnel with experience in such systems. In the circuit and radio equipment areas, similar dislocations between talent and planned facilities may occur. In order to reduce these skill and knowledge mismatches prior to divestiture, some BOC and AT&T personnel with sufficient job experience will provide training to the other entity, on a temporary basis.

c. Directory

As provided in Section VIII(B) of the Decree, all of the BOC assets and personnel associated with the BOCs' current provision of directory services will be assigned to the BOCs. *See also* Part II.B, *infra*. Employees who perform directory functions can be identified by the use of JFCs.

d. General Support Functions

Some job functions either provide undifferentiated support for two or more of the BOCs' major functions, or provide differentiated support for two or more major functions, but do so within a single work group. The assignment of such personnel is described in this section.

i. Support Services Functions

Support services functions are centralized administrative services, real estate management, automotive operations, and materials management.

Centralized administrative services are those which are performed in support of user departments. The major categories of service are: mail distribution, office supplies, purchasing and procurement, reprographics, records systems, secretarial, word processing, food and lounge services, conference, travel, audiovisual, photo, furniture and office interior arrangements, and company communications. Usage of centralized administrative services is routinely tracked by category of service in order to allocate costs to specific user work groups.

As other existing forces are divided between the BOCs and AT&T, use of each category of centralized administrative services will be calculated for the specific post-divestiture work groups. Centralized administrative services force levels will be assigned by category in proportion to each entity's proportion of pre-divestiture usage of each centralized administrative service category.

Real estate management personnel plan for and provide land, buildings, and furniture, and operate and maintain buildings. All land, buildings, and furniture will be assigned at divestiture. Real estate management personnel will be assigned in accordance with the amount and type of land, building or furniture so assigned. Force associated with planning will be assigned on the basis of the floor space assigned with consideration given to the types of buildings assigned. For example, a greater amount of planning time is required for improvements or building additions to an administrative building than to an equipment building.

Engineering design and construction administration force will be assigned on the basis of the engineering time required for the construction projects associated with the buildings assigned to each entity. Employees associated with lease, purchase, and sale activities will be assigned based on the engineering time required to administer existing leases and carry out projected lease, purchase, or sale projects.

Building maintenance forces assigned to a single building will be assigned to the entity to which the building is assigned. BOC personnel currently responsible for the operation of multiple buildings will be assigned to either the BOC or AT&T in proportion to the gross square footage of buildings served, taking into consideration variations in the existing force levels — based on variations in service requirements — for different buildings. For example, additional maintenance time is required in older buildings, buildings with a high concentration of employees, or buildings open twenty-four hours a day.

Automotive operations personnel provide for all motor vehicle equipment and associated maintenance. The existing BOC forces will be divided between the BOCs and AT&T in proportion to the number and types of vehicles (owned and leased[306]) assigned to each entity. Because the procurement and maintenance of each class of vehicle (tractor trailer or sedan, for example) requires a different ratio of personnel per vehicle, these ratios will be applied to the number of vehicles by class to determine the number of automotive operations employee positions assigned to each entity.

Materials management personnel provide for the acquisition, stock maintenance, warehousing, distribution, repair, and disposition of all types of supplies and movable telecommunications equipment. The percentage of time the mater-

[306] Where a BOC does not provide maintenance for leased vehicles, no maintenance employees will be assigned to AT&T in connection with the assignment of the lease.

ials management work force spends performing materials management functions for individual classes of items, such as CPE, supply items, network (central office) apparatus, and outside plant apparatus, will be identified. Based on the work hours associated with material handled for each activity, the relative time spent on BOC and AT&T functions will be developed. Where the end use of material may be either intraLATA or interLATA, an additional examination will be required to determine separately the end use of the material and the hours of work spent handling those materials. The relative proportions thus derived will be used to assign the personnel performing materials management functions to each entity.

ii. Rate and Tariff and Cost Functions

Job functions performed by rate and tariff and cost personnel include development of rate structures and levels for filing with regulatory commissions; preparation of tariffs specifying services and conditions of the offering, including rate levels and payment options; development of cost and other analytical studies to assess the financial impact of service offerings; and presentation and defense of rate structures and levels before regulatory commissions.

After divestiture the BOCs will continue to provide these and related functions for intraLATA services, while AT&T will begin to perform the same functions for interLATA services and embedded CPE offerings. The assignment of these functions to AT&T will require a reassignment of some BOC personnel. The first step in the employee assignment process is to identify all personnel who perform functions related to services to be provided only by one entity and to assign those employees to that entity. For example, rate and tariff and cost personnel who perform functions related to CPE will all be assigned to AT&T, except where a BOC elects to retain CPE employees identified as surplus in order to retrain them to perform similar functions for intraLATA service offerings after divestiture.

The next step is for the BOCs to determine their projected post-divestiture force requirements for MTS, WATS, "800 Service," and private line intraLATA functions and for AT&T to determine its projected post-divestiture requirements for MTS, WATS, "800 Service," and private line interLATA functions. Personnel who currently perform rate and tariff and cost functions for MTS, WATS, "800 Service," and private line services and those who perform general administrative or supervisory functions will then be assigned to the BOCs or AT&T in proportion to the needs identified by each entity. Force imbalances will thus be shared proportionately among the entities. Such force imbalances, however, will be minimal at the time of divestiture because of a BOC retraining program, which will be conducted throughout 1983.

iii. State Regulatory Functions

The job functions performed by state regulatory personnel are regulatory relations, rate case activity, jurisdictional separations, independent company compensation arrangements, independent company operating matters, and business relations with non-Bell interexchange carriers and industry associations. AT&T has provided staff support for these functions but will need to establish a work force to perform the line functions. The BOCs will continue to have essentially the same force requirements for these functions after divestiture. It is therefore expected that there will be a shortage of qualified personnel to perform these functions. To minimize that shortage, additions will be made to the existing force during 1983. To the extent that the projected shortage remains, existing BOC employee positions will be assigned based on each entity's proportion of total post-divestiture needs for each function.

There will be a need for replication within AT&T of a force to perform the existing business relations functions with interexchange carriers. It is expected, however, that the BOCs' needs for personnel to perform such functions will be significantly increased after divestiture. AT&T will meet its personnel needs for these functions internally, and all BOC employees who currently perform these functions will be assigned to the BOCs.

iv. Information Systems Functions

Information systems personnel perform functions associated with the provision of information systems, using general purpose data processing equipment from which data processing services are provided to any segment of the business that requests such services. The BOCs' needs for such personnel are not expected to decrease after divestiture, AT&T will meet its needs for personnel to perform these functions internally, and all existing BOC personnel performing these functions will be assigned to the BOCs.

v. Service Order Processing Design and Support Functions

Service order processing personnel (Centralized Service Order Staff) design and support the computer systems which are responsible for order generation, order control and coordination, and order completion. The BOCs' needs for such personnel are not expected to decrease after divestiture, AT&T will meet its needs for personnel to perform these functions internally, and all existing BOC personnel performing these functions will be assigned to the BOCs.

vi. Functional Accounting System Operations and Administration Functions

Functional Accounting System operations and administration personnel operate and administer the Functional Accounting System, a computer based system which provides various levels of financial, budget, and tracking information as well as information regarding product and service revenues and movement. Divestiture will have a negligible effect on the number of employees needed to perform these functions within the BOCs. AT&T will meet its needs for employees performing these functions internally, and all BOC employees who currently perform such functions will be assigned to the BOCs.

vii. Accounting Operations, General Accounting, and Security Functions

Accounting operations functions include customer accounting operations and corporate accounting operations. Customer accounting operations personnel perform job functions relating to toll message operations, local message operations, service and equipment operations, remittance operations, accounts operations, and customer output operations, which are the functions associated with the customer record data base and processing systems in the BOCs. Corporate accounting personnel perform job functions relating to payroll operations, investment and cost operations, accounts payable operations, and corporate reports operations.

General accounting personnel perform job functions relating to accounting classifications; analyzing corporate reports; forecasting, analyzing, and budgeting revenues and expenses; federal, state, and local taxes; accounting regulatory support; internal auditing;[307] and business research. Security personnel perform job functions relating to the development, direction, and coordination of Bell System security programs for the protection of assets, revenues, and employees.

The assignment of BOC personnel performing these functions will proceed as follows. First, the BOCs and AT&T will each determine their projected force requirements at divestiture for each function. BOC personnel who currently perform those functions will then be assigned to a BOC or AT&T in proportion to the needs identified by each entity. Force imbalances will thus be shared proportionately among the entities.

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[307] Personnel performing internal auditing functions will be assigned to AT&T in the same proportion as the total number of BOC employees assigned to AT&T bears to the total number of pre-divestiture BOC employees.

viii. Treasury Functions

Treasury functions within the BOCs consist primarily of cash management activities such as cash forecasting, processing receipts and disbursements, commercial banking, reconciliation, and financing in the long and short term debt markets; activity related to SEC filings; cashier services; and in some cases, state rate case activities such as establishing and supporting earnings requirements. Divestiture will not reduce the number of BOC personnel required to perform these functions, AT&T will meet its needs for such personnel internally, and all BOC employees currently performing these functions will be assigned to the BOCs.

ix. General Corporate Staff Functions

This section provides for the assignment of BOC corporate staff work groups not otherwise covered by a more specific methodology. The job functions included in this section are personnel, labor relations, public relations, legal, corporate planning, public affairs, and Pioneer support.[308]

Employees performing labor relations, public relations, public affairs, and personnel (except as noted below) functions will be assigned to AT&T on the basis of the ratio of transferred work volume to total pre-divestiture BOC work volume. Work volume is a function of the number of total employees, except for labor relations, where work volume is a function of the number of nonmanagement employees, and except for benefit administration (personnel), where work volume is a function of the number of both active and retired employees. Generic training (personnel), corporate planning, legal, and Pioneer support work groups will have the same force requirements after divestiture as before divestiture. AT&T will meet its personnel needs for these functions internally and the BOCs will be assigned all employees in these work groups.

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[308] The Pioneers is an association of present and retired telephone employees with at least 18 years telephone industry experience. It is dedicated to performing community services. BOC personnel provide support functions for the chapters of this association.

Technical training employees (personnel) generally will be assigned in the same manner as the employees they train, whether the training is conducted on a centralized basis or not. Training administration and support personnel in consolidated training organizations not associated with any one specific work function will be assigned based on the ratio of other training staff personnel assigned to the BOCs to the total pre-divestiture BOC training staff for such other training functions.

2. Identification of Individual Assignments

Application of the procedures set forth in Part I.D.1, *supra*, will identify the job functions associated with facilities and operations divided between AT&T and the BOCs. The procedures will also identify for each job function the number of employee positions to be assigned to AT&T and the BOCs. The next step in the assignment of personnel is to determine on an individual basis which employees will actually perform these functions, and thus be employed by either AT&T or the BOCs after divestiture.[309]

The basic rule is that existing employees will continue to perform their present work and will be assigned to the company that will own the facilities and perform the functions to which the employees' work relates. Implementation of this rule will proceed in accordance with principles that assure that the initial staffing of new organizations will be with pre-divestiture Bell System employees wherever possible, and that affirmative action profiles will be maintained to the extent feasible. In addition, commitments to employees working outside their home company will be honored where business needs permit, and relocation of employees will be minimized to the extent possible. Finally, continuity of senior management in each entity will be provided.

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[309] The same procedures will apply to the assignment of individual AT&T employees to the BOCs to fill job functions identified in Part II, *infra*.

The overwhelming majority of employees will remain with their current employer. Where, however, the work performed by an entire BOC work group is assigned to AT&T, all individuals in that group will also be assigned to AT&T.[310] Where a work group will be split as a result of divestiture, there will be additional steps in the procedures to assign specific individuals.

In the case of work group splits, employee preferences will be solicited and will be honored when the needs of the business permit, with consideration being given to such business needs as continuity, experience, training, and minimal relocation. If the number of nonmanagement employees who express a preference for assignment to an entity exceeds the number of nonmanagement employees to be assigned to that entity, employees will be selected in seniority order, provided that this selection process results in an equitable division of qualified and experienced employees. If the number of nonmanagement employees who express a preference for assignment to an entity is insufficient, after honoring preferences as described above, the remaining nonmanagement assignments to that entity will be filled by selecting employees in order of inverse seniority, provided that this selection process results in an equitable division of qualified and experienced employees to fill the job requirements in each entity. Failure or refusal by a nonmanagement employee to accept an assignment in either a work group move or split will constitute a voluntary termination of employment, unless such a nonmanagement assignment requires a home relocation or an assignment to a lower rated job title or classification.

Force imbalances may occur in situations where the numbers, skill and experience of people allocated to either the BOCs

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[310] Where an entire work group will be assigned to AT&T or a BOC, a survey of employee preferences generally will not be necessary. However, where the work group will not be split, but there is a change in the geographic area where the work is performed, employee preferences will be considered in view of the needs of the business.

or AT&T do not match organizational needs in the post-divestiture environment. In a situation where the only job available is significantly different from the current job an employee holds, the employee will be assigned to available work. In addition, either a BOC or AT&T, with the agreement of the sending entity, may elect to take more or fewer people than the number assigned, depending on the needs of the business and the availablity of employees. In cases where entire job functions move, force imbalances remaining at the time of divestiture will be assigned with the job function to the entity to which the work is assigned. Where job functions are split between the BOCs and AT&T, force imbalances will be shared proportionately.

Approximately 688,000 of the Bell System's approximately 728,000 nonmanagement employees are represented by unions. On a national basis, three unions represent 98 percent of these employees: the Communications Workers of America (CWA) represents 75 percent; the International Brotherhood of Electrical Workers (IBEW) represents 15 percent; and the Telecommunications International Union (TIU) represents 8 percent.[311] The remaining two percent of the union-represented employees are represented by a number of other unions. All of the unions together represent 126 separate bargaining units in the present Bell System. Of these units, 53 are in the BOCs.

The present Bell System collective bargaining agreements with the three large nationwide unions contain a termination date of August 6, 1983. It is anticipated that the manner and structure of collective bargaining in the Bell System in 1983 will closely parallel that mutually agreed upon and followed in the last three contract negotiations. The post-divestiture collective bargaining structure and relationships will be determined by

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[311] The three major national unions that represent Bell System employees have agreed upon the principles and procedures to identify and select, on an individual basis, those employees to be reassigned among AT&T and the BOCs as a result of the reassignment of job functions associated with the division of facilities and operations required by the Modification of Final Judgment.

the companies and the unions representing their employees. Accordingly, upon termination of the collective bargaining agreements executed in 1983, the divested BOCs and the unions that represent their employees will be responsible for the manner in which they will bargain, and the remaining AT&T entities and the unions representing their employees will be responsible for the manner in which they will bargain.

AT&T — on behalf of itself and the BOCs — and each of the three major unions negotiated a Memorandum of Agreement (New Entities Agreement) in August 1980. These agreements afford certain treatment and assurances to covered employees who are selected for assignment to a new subsidiary or affiliate entity of the Bell System.

In March and April of 1982, the same parties negotiated Amended New Entities Agreements to recognize the prospective divestiture and to broaden, as well as lengthen, the assurances for covered employees who are assigned to different post-divestiture entities. These Amended New Entities Agreements apply to regular employees covered by the various collective bargaining agreements who are reassigned as a part of their work group or organization to a job with the same or substantially similar work in a different entity as defined in the agreement. The Amended New Entities Agreements apply to reassignments made in connection with any corporate reorganization of the Bell System including, but not limited to, the creation and establishment of new subsidiaries or affiliated entities of AT&T; and the creation and establishment of any new separate entities by divestiture, sale, transfer, assignment or lease, which continue to perform, or assume the obligation to perform, any portion of the operations of any present Bell System company.

Basic employee assurances are set forth in detail in these agreements. They can be summarized as follows:

(1) No covered employee shall be deprived of his employment, salary or wages, or net credited service or term of employment during the seven year period follow-

ing the date of reassignment except as otherwise provided in the agreement.

(2) Employees who are relocated as a result of any assignment covered by the agreement will be reimbursed for reasonable travel and moving expenses if they relocate their home and the distance between their new work location and their former home exceeds the distance between their former work location and home by 35 miles or more.[312]

(3) Reassigned employees shall be entitled to no less than the same level of pension, health and other benefits in their new company as they had in their former company at the time of reassignment, except as otherwise provided in the agreement.

(4) If reassigned employees are laid off within seven years after being reassigned, they will have preferential rehire rights for a two year period. Such rehire rights apply both to the company that laid them off and to the company from which they were last reassigned.

(5) If reassigned employees accept a downgrade as an alternative to a layoff, for a two-year period following the downgrade such employees have a preferential right to return to the job from which downgraded (or an equivalent job), if equipped by training, experience, and physical ability.

(6) No employee shall have his wages reduced or lose his employment through layoff or otherwise during the six months preceding divestiture if the reduction of wages, layoff or termination of employment is related to divestiture, unless the employee consents to such action.

(7) Each of the unions is to be notified at least thirty days in advance of the reassignment of its covered employ-

[312] The entity to which the employee is reassigned will bear the travel and moving expenses.

ees. Such notice will identify the work group involved, the number of employees affected and their job classifications, and the effective date of such assignments.

(8) Each presently wholly-owned BOC has agreed that the terms and conditions of the collective bargaining agreement will be fully binding on any successor organization to which the employees covered are assigned by agreeing to secure the assent of any successor organization that the agreement shall continue in effect and bind the successor organization.

In addition to these specific provisions, the Amended New Entities Agreements provide that the covered employees carry the provisions of their then-existing collective bargaining agreements and their then-existing union representation with them to their new employer to the extent that an applicable bargaining unit, labor contract, and duly recognized union representative do not already exist in such organization.[313]

In order to implement the foregoing principles for assigning personnel, schedules will be established that provide for the assignment, notification, selection, and move announcements in time to assure that the receiving organization obtains the employee records necessary to place reassigned employees on its payroll. Responsibility for implementation of this schedule — in accordance with the principles of the Decree and this Plan (and union agreements, where applicable) — will lie with the BOC and AT&T officers who are accountable for business performance in their functional areas and for the appropriate staffing of their organizations. These managers, with the advice and counsel of human resources, labor relations, and the legal organizations in their respective entities, will oversee implementation of the steps necessary for the allocation and assignment of force in compliance with the Decree.

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[313] The determination of appropriate bargaining units and union representation in the restructured entities is governed by the provisions of the Labor Management Relations Act, as amended, 29 U.S.C. §§ 141, *et seq.* In the event of unresolved disputes in this regard, that Act will apply.

3. Post-Divestiture Force Adjustments

Parts I.D.1 and I.D.2, *supra,* describe the procedures by which job functions and force levels will be identified and how individual employee assignments will be determined for the divided Bell System entities. This section addresses post-divestiture true-up adjustments and provisions for the protection of employees who might otherwise be disadvantaged in the post-divestiture transfer of certain functions between AT&T and the BOCs.

Employee reassignments on January 1, 1984, will not result in the loss of benefits, seniority, or employment rights of the reassigned employees. The same protection will also be afforded to employees who undergo certain reassignments after divestiture. Post-divestiture reassignment benefit protection will be provided in interchange of benefits agreements between AT&T and the BOCs (including the regions and the centralized staff). These agreements will provide that employee benefit obligations of one company will be recognized by another company for covered employees (*see* Part I.D.4, *infra*). Such employee benefit protection will apply to employee moves during the period of post-divestiture true-ups and to employees in work group moves associated with the phasing out of post-divestiture shared services.[314]

a. True-Up

In a force reassignment of the magnitude required by the Decree, mistaken assignments will occur and force imbalances will be inadvertently created. Therefore, up to one year after divestiture, force adjustments will be made to rectify errors in

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[314] The interchange agreements will apply to any change in employment (or reemployment) by an employee, whether or not a formal reassignment, within the one year true-up period. Likewise, where an employee is covered under parts (1)-(4) of section 3.b, *infra,* a change in employment of the employee, within the applicable time period designated in parts (1)-(4), will be covered by the interchange agreements. The interchange agreements do not cover senior management employees. *See* Part I.D.4, *infra.*

the application of the assignment procedures. Similarly, during this period employee assignments that would result in serious hardship to an employee will be reconsidered and individual problems will be accommodated to the extent business needs permit. Employees on rotational assignments not assigned prior to divestiture will be reassigned pursuant to the commitments made regarding rotational assignments and in conformity with the foregoing principles guiding employee reassignments necessitated by the divestiture.

Force imbalances that would result in the loss of employment in one entity while another entity has a need for such an employee, will also be minimized by adjustments during this period. If within one year after divestiture additional employees become available for reassignment, or an entity does not need all the forces assigned to it, the additional employees will be identified. Any other entity that has a requirement for more employees than the assignment procedures provide may then elect to receive more than its assigned share of employees.

This procedure will permit an entity that has personnel requirements greater than its force assignment under the Plan of Reorganization to fill those requirements within one year following divestiture with pre-divestiture Bell System employees, thus minimizing layoffs and other hardships that may otherwise accompany the restructuring. Allowing these adjustments until the end of the true-up period will help prevent the anomaly of one entity laying off or downgrading employees, while another entity is hiring "off the street." The interchange of benefits agreements will protect these employees' seniority and related covered benefits which would otherwise be lost or diminished in a layoff by one company and hiring by another (formerly affiliated) company.

b. Shared Services

In addition to true-ups, it may be necessary for employees to move between AT&T and the BOCs after divestiture because certain functions that begin with one entity will be transferred to the other entity during a transition period (as when transitory arrangements for sharing multifunction facilities are phased out). Therefore, although employees are correctly assigned to AT&T or the BOCs upon the date of divestiture, their job functions may disappear—or new employment opportunities arise—as the opposite entity begins to perform certain functions that were provided under sharing contracts in the period immediately after divestiture. Accordingly, employees will be transferred from one entity to another in order to continue performing the job functions for which they have been trained. To afford these employees protection against the loss or diminution of seniority, service credit and other such advantages of uninterrupted employment, the Plan of Reorganization includes employee protection features to cover these situations.

Within the periods specified below, employees that move from the BOCs to AT&T (or AT&T to the BOCs), in order to perform the same function that they performed in the transferring entity, will retain their net credited service and related covered benefits as provided in the interchange of benefits agreements.[315] Assignment of individual employees performing these services will be accomplished in the same manner as if the assignment had been made at the time of divestiture.[316]

The post-divestiture shared services arrangements to which these employee benefit protections apply, and the periods for which the protections apply, are:

(1) *Order Writing, Order Typing, and Order Provisioning* (*see* Part I.D.1.b.i.(2), (3), *supra*). Where BOC

[315] The employees performing these shared services under contract can be identified by JFCs.

[316] Where an employee is reassigned pursuant to the shared services portion of this Plan, that employee will be entitled to the net credited service and other covered benefits he would have enjoyed if he had been employed continuously by the receiving entity.

service center personnel provide interLATA order writing, order typing, and order provisioning functions for AT&T under a sharing contract after divestiture, employees performing these contract services will be reassigned to AT&T within six months following termination of a contract under which the BOC performs these services, but no later than five years and six months after divestiture.

(2) *Operator Services (see* Part I.A.1.a.i.(6), *supra).* AT&T personnel will provide certain operator services to the BOCs under sharing contracts. Where a BOC implements a call processing system for intraLATA Call Completion and Assistance services, operator services employees assigned to AT&T that are performing such work for the BOCs will be assigned to the BOCs on a phased transition basis. Reassignment of employees performing such contract services will occur up to six months following termination of a contract under which AT&T performs these services for the BOC, but no later than ten years and six months after divestiture.

(3) *Circuit Design and Assignment* (*see* Part I.A.1.a.i, *supra*). BOC personnel will provide some circuit provisioning functions for AT&T under sharing contracts. As AT&T assumes the responsibility of providing those services for itself, employees performing the contracted services will be reassigned to AT&T on a phased transition basis, for up to six months after termination of a contract under which the BOC performs these services for AT&T, but no later than five years and six months after divestiture.

(4) *Special Services Installation and Maintenance* (*see* Part I.D.1.b.ii.(3)(d), *supra*). Special services installation and maintenance services will be provided under sharing contracts both by AT&T for the BOCs and by the BOCs for AT&T. As the company obtaining contract services provides its own special services installation and maintenance, employees performing contract services will be reassigned for up to six months after termination of a contract under which the services are performed, but no later than five years and six months after divestiture.

4. Pension, Savings, and Other Employee Benefit Plans

Bell System companies currently provide their personnel with pension, savings, and a variety of other employee benefit plans. This section of the Plan of Reorganization describes procedures for the division of these plans and any associated trust funds,[317] and for the operation and funding of such plans after divestiture.[318]

a. The Bell System Management Pension Plan and the Bell System Pension Plan

The Bell System Management Pension Plan ("BSMPP") and the Bell System Pension Plan ("BSPP") provide pension and death benefits to eligible employees, retired employees, and their qualified beneficiaries. BSMPP covers eligible management or salaried employees of AT&T and its subsidiary companies that are participating in the plan, except for a small group of salaried employees who are covered under BSPP. BSPP covers eligible employees of AT&T and its subsidiary companies that are participating in the plan, if the employees are in a bargaining unit represented by a union that has agreed to the plan, or if they are nonrepresented employees in similar job titles or classifications, including the small group of salaried employees not covered under BSMPP. Currently, AT&T and all the BOCs, as well as Western Electric, Bell Laboratories, American Telephone and Telegraph International, Advanced Mobile Phone Service, American Bell, Inc. and most of these companies' subsidiaries participate in BSMPP and BSPP.

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[317] The provisions of this section are based on the Bell System's plans and trusts as they currently exist. These plans and trusts may be modified during 1983 or thereafter as a result of collective bargaining or other requirements.

[318] It is the intent of this Plan that all employees, regardless of the company to which they are assigned at divestiture, will be provided immediately after divestiture comparable employee benefits to those provided immediately preceding divestiture except for the Bell System Employee Stock Ownership Plan for those organizations for which there are no publicly traded employer shares.

Each of the two plans has an associated trust which participates, on a commingled basis, in the Bell System Trust (*see* Part I.D.4.a.v, *infra*). There are approximately 920,000 active employees participating in the pension provisions of the two plans and approximately 1,050,000 active employees, including the 920,000 employees participating in the pension provisions, who are participating in the death benefit provisions. There are approximately 250,000 retired employees, annuitants, and employees with deferred vested pension benefits participating in or eligible to receive future benefits from the two plans. BSPP has been collectively bargained on a national basis for all participating companies and their respective collective bargaining units with the Communications Workers of America, the International Brotherhood of Electrical Workers, and the Telecommunications International Union.

i. Split of Plans

Upon divestiture, BSMPP and BSPP will be split among AT&T and each of the regional holding companies and the regional holding companies' Central Staff Organization.[319] AT&T will continue to maintain such plans for itself and its remaining group of companies, and each regional holding company will establish plans which, at divestiture, will be similar in all material respects to BSMPP and BSPP for the employees of each regional holding company and its direct or indirect subsidiaries (the BOCs, for example).

The AT&T plans will continue to cover post-divestiture active employees and retirees (both pre-divestiture and post-divestiture) of AT&T and its remaining group of companies. The regional holding company plans will cover (1) post-divestiture active employees of each regional holding company and its subsidiaries, and (2) retirees, both pre-divestiture and post-divestiture, of each regional holding company and its subsidiaries. All employees and retirees of any pre-divestiture

[319] References to the regional holding companies in Part I.D.4 of this Plan include the Central Staff Organization unless specifically stated to the contrary.

Bell System entity will have the same pension benefit entitlements immediately after divestiture as they had immediately prior to divestiture under the existing BSMPP or BSPP.

ii. Allocation of Unfunded Expenses

Currently, all retirees within the Bell System are covered by either BSMPP or BSPP. As a result of the allocation to the regional holding company plans of the pension obligations for all pre-divestiture BOC retirees and the concurrent transfer of portions of the BOC business operations and employee force to AT&T, the BOCs would, if no further action were taken, bear an increased pro rata cost for the expenses of unfunded post-retirement benefits, such as medical, dental and disability pension benefits, (*see* Parts I.D.4.g-i, *infra*) as well as future contingent "ad hoc" pension increases to pre-divestiture retirees.[320] AT&T will therefore assume, at divestiture, proportionate responsiblity for the funding of these costs. Contractual agreements will be executed, effective at divestiture, relating to the identification of such costs and providing for the costs to be shared on a proportionate basis related to pre-divestiture and post-divestiture employee numbers and payroll.[321] The alloca-

[320] Life insurance protection for all pre-divestiture Bell System retirees has been fully funded through retired life reserves under each company's basic group life insurance plan. *See* Part I.D.4.e, *infra.*

[321] No special arrangement is necessary for ad hoc increases granted prior to divestiture because the present value of accrued benefits, determined for purposes of asset allocation, reflects the full amount of all previous plan improvements, including such ad hoc increases. AT&T's allocable portion of each future ad hoc increase granted by a regional company after divestiture will be a constant percentage of the present value of each ad hoc increase granted to surviving pre-divestiture retirees of that regional company. AT&T's portion of such expense will be amortized over a period to be determined by contract. The constant percentage for a regional company is determined by computing for that regional company the complement of the ratio of the present value of future salaries of active employees immediately after divestiture to the present value of future salaries immediately before divestiture. The present value of each ad hoc increase granted by a regional company to its pre-divestiture retirees will be based upon actuarial assumptions used in

(Footnote continued on following page)

tion of these costs will also reflect the federal income tax effect upon the BOCs and AT&T of sharing the costs.

iii. Recognition of Bell System Service Credit

The split of the current Bell System pension plans and the establishment of new plans by each of the regional holding companies requires provision for treatment of service credit for (i) employees who are reassigned or otherwise move their employment between or among AT&T and the divested companies on or after the date of divestiture, and (ii) former Bell System employees who return to employment with AT&T or a divested company after divestiture. Current recognition of all Bell System service credit, on a common basis as if such service

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(Footnote continued from previous page)
the actuarial valuation of the regional company's pension plan. However, such present value shall not exceed the amount based upon actuarial assumptions used in valuing AT&T's pension plan. The amount of each ad hoc increase will be limited, for the purposes of determining AT&T's allocable portion, by a formula set forth by contract. For example, such a formula might state that the amount of ad hoc increase used in computing AT&T's share will be such that the cumulative percentage increase (compounded) granted by a regional company from the date of divestiture will not exceed such cumulative percentage that AT&T grants to its retirees. AT&T's allocable portion of disability pensions in effect on the date of divestiture and paid by a regional company will be a percentage of the present value of such disability pensions. Such a percentage will be determined by computing for that regional company the complement of the ratio of the present value of salaries of active employees immediately after divestiture to the present value of salaries immediately before divestiture. This amount will be amortized over a period determined by contract. The allocation of the expenses of unfunded post-retirement benefits associated with the pre-divestiture retirees of each regional holding company (*i.e.,* of its subsidiary BOCs) and determined as between AT&T and each regional holding company at divestiture will be redetermined at any subsequent time if there are post-divestiture employee reassignments that have a material impact, in the aggregate, on the factor used to allocate such costs at divestiture. A material impact, for such purposes, means a change of one percentage point or more in the factor used to determine AT&T's share of such costs (the factor equals the complement of one minus the ratio of the present value of future salaries immediately after divestiture to the present value of future salaries immediately before divestiture within each region).

were rendered to only a single company, affects eligibility for and computation of pension benefits (*e.g.*, eligibility for a service pension, and for the early retirement benefit and joint and survivor annuity protection accorded by such pension); eligibility for post-retirement unfunded benefits such as medical insurance, dental insurance, certain death benefits and life insurance; and eligibility for future contingent post-retirement pension increases.

The current BSMPP and BSPP plans provide for the full recognition and interchange of service credit and benefit obligations between and among all participating Bell System companies.[322] These provisions are formally known as "interchange" agreements. After divestiture, the current interchange agreements will no longer be applicable because of the division of the current pension plans and the cancellation of contracts in accordance with the Decree. In the absence of a new interchange agreement, therefore, some employees who are reassigned or otherwise move their employment (or some former employees who are reemployed) would no longer receive the same treatment that employees (or former employees) receive now for reassignments and movement between or among (or reemployment by) the various Bell System companies. The affected employees would be those who are reassigned or move between the AT&T group of companies and regional holding companies, or between regional holding companies, and those former Bell System employees who become employed by a company other than (i) the last one by which they were previously employed, (ii) a subsidiary of the regional holding company of which the last employing company is a subsidiary, or (iii) the parent regional holding company of the last employing company.

[322] Provision for full reciprocal recognition of service credit is included in the formal terms of the BSPP and BSMPP for all participating companies. Formal interchange agreements exist for full reciprocity between and among Southern New England Telephone, Cincinnati Bell, and the companies participating in BSPP and BSMPP.

Currently, all Bell System employment is, for most purposes and under most circumstances, used for determining the eligibility for, and computation of, pension benefits and the eligibility for unfunded post-retirement benefits. After divestiture, all employees will carry with them all pre-divestiture Bell System service regardless of the organizational unit or corporation by which they are employed immediately after divestiture.[323]

New interchange agreements, for a transitional period as specified below, will provide continued mutual recognition of post-divestiture service credit under the plans of the AT&T group of companies and the various regional holding companies, as well as the continued recognition of pre-divestiture Bell System service, for all plan-related purposes, between and among the plans that will be maintained by AT&T and the regional holding companies after divestiture. Such interchange agreements are consistent with the need to provide a true-up period, and with company obligations under the "new entity" agreements (*see* Part I.D.2, *supra*). The interchange agreements will provide that all outstanding benefit obligations of one company to a covered employee or employees will be assumed if that person is employed by another company that is a party to the interchange agreements.[324] The agreements will apply in the manner, for the period, and to the employees as specified below.

1. The agreements will apply for a period of one year immediately following divestiture for all employees or

[323] All such service that is recognized, or due to be recognized under applicable ERISA and plan bridging rules, under BSMPP and BSPP immediately prior to divestiture will therefore continue to be accorded the same treatment under the AT&T or the new regional company plans for each employee covered by each such plan immediately after divestiture.

[324] Any reference to such a party company or companies includes any successor in interest to any such company or companies and any company that is not a signatory to such agreements that is covered by, and in accordance with, the terms of the interchange agreements (*e.g.*, non-signatory subsidiaries of AT&T or regional holding companies).

former employees, whether or not on the payroll as of the date of divestiture, who become employed by any signatory company and who were previously employed by any other signatory company.[325] Accordingly, any employee who changes employment, for any reason, from one signatory company to another signatory company within the one-year period immediately following the date of divestiture or any former Bell System employee (*i.e.,* not employed on the date of divestiture), who is reemployed by any signatory company within the one-year period immediately following the date of divestiture, will be covered by an interchange agreement, regardless of whether there is any intervening period between the termination of service from one signatory company and the employment by another signatory company.

2. Additionally, any employee who, on the date of divestiture or thereafter, is employed in one of the following work groups and is assigned one or more of the specified job function codes ("JFC"), or an equivalent identifying code, at one signatory company and becomes employed in another signatory company in the same work group (a) within 30 days from terminating service with the first company, and (b) within the period set forth below, will be covered by the interchange agreements:

   (i) Order writing, order typing, and order provisioning (JFC 283x) — 5½ years from date of divestiture;

   (ii) Operator Services (JFC 21xx or 29xx) — 10½ years from date of divestiture;

   (iii) Circuit Design and Assignment (JFC 470x or 471x) — 5½ years from date of divestiture; and

[325] The new interchange agreements will not apply to Senior Managers as defined on the date of divestiture in the companies' short term incentive plans. *See* Part I.D.4.l.i, *infra.*

(iv) Special Services Installation and Maintenance (JFC 433x, 473x, 474x or 475x) — 5½ years from date of divestiture.

3. Any reassigned employee covered by a new entities agreement who is subsequently laid off will be covered by the interchange agreements under the following circumstances. The employee must have been reassigned from one signatory company to another prior to January 1, 1985, including reassignments associated with the creation and establishment of new subsidiaries or affiliated entities of AT&T prior to such time. Alternatively, the employee must be one who is within one of the four designated groups (i) through (iv) above who is reassigned from one signatory company to another prior to the earlier of the last date designated for covering such employees by interchange agreements or five years from the date the new entity agreement covering such employee was executed. Any such employee will be covered by the interchange agreements if he is reemployed by a signatory company in accordance with its obligations under a new entities agreement within two years from the date of any such layoff if the layoff occurs within seven years of the employee's reassignment. These provisions of the interchange agreements will also apply to non-management, non-represented employees who are in the same or similar job titles or occupations as those covered by a new entities agreement, and to management employees who are reassigned as part of a covered work group reassignment.

4. The interchange agreements shall provide for the full and mutual recognition of service credit for all purposes, including seniority provisions under applicable collective bargaining agreements, for covered employees for the applicable period, subject to the applicable Employee Retirement Income Security Act ("ERISA") and plan rules on the bridging of prior service.

An administrative and actuarial mechanism will be established for the interchange of benefits and reciprocal service credit between the AT&T group of companies and the regional holding companies, and among the regional holding companies, in connection with any service recognized by the new interchange agreements. These arrangements will require and result in the transfer of assets and liabilities between and among the pension plans participating therein.[326] Such transfers of assets and liabilities will be in accordance with applicable legal requirements and actuarial principles as set forth in this Plan of Reorganization. Finally, the additional costs of both funded and unfunded post-retirement benefits resulting from any reciprocal service crediting arrangement will be borne by the employing company from which an individual retires, and its plans.

Accordingly, all interchange agreements will provide for the full transfer of all outstanding benefit rights and obligations from one signatory company to another upon covered changes of employment. This includes coverage under all benefit plans, including pension plans, savings plans, voluntary contribution plans, unfunded welfare benefit plans, such as medical and life insurance, and ESOP or PAYSOP plans (except with respect to the Central Staff Organization which will not have such a plan). Provision will be made for translation of savings plan employer shares for any employees who move and are covered by the interchange agreements, for ESOP/PAYSOP benefits and for any other noncomparable benefits or specific investment options.

In addition to the above-described interchange agreements, interchange agreements between each regional holding company and the Central Staff Organization will be executed. These agreements will provide for the reciprocal recognition of service credit, for all purposes, for employees who move between a regional holding company and the Central Staff

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[326] The transferor trust will provide the transferee trust with assets to fund outstanding pension obligations to employees reassigned pursuant to the interchange agreements.

Organization on rotation or other similar assignment, or who are permanently reassigned to the Central Staff Organization or a regional holding company.[327]

Employees who change their employment and are not covered by the new interchange agreements (*e.g.*, after such agreements expire) will not be entitled to reciprocal service credit recognition under the plans maintained by companies that are unrelated after divestiture.

Applicable provisions of ERISA and the Internal Revenue Code (the "Code") govern the treatment and recognition of pre-divestiture Bell System service under the pension plans that will be maintained by AT&T and each of the regional holding companies after divestiture. ERISA and the Code contain rules for the recognition of employment service for two essential purposes related to pension plans: accrual of benefits and vesting of such benefits. The accrual rules focus on the computation of an employee's pension benefits and the vesting rules on the nonforfeitability of such benefits.

Pre-divestiture Bell System service for accrual purposes will be recognized in accordance with the following rules. All pre-divestiture service for accrual purposes will be assigned to a single plan at divestiture and will remain at that plan unless transferred in accordance with an interchange agreement. For active employees at the time of divestiture, whether or not vested at such time, pre-divestiture service will be recognized for accrual purposes by the plan maintained by the company (*i.e.*, the regional parent company or AT&T) to which they are assigned at divestiture. For former employees at the time of divestiture, whether or not vested at such time, pre-divestiture service will be recognized for accrual purposes by the plan maintained by the company (*i.e.*, the regional parent company or AT&T) by which the former employee was last employed. Employees who change their employment after divestiture and are not covered by a new interchange agreement will accrue

[327] The duration of these interchange agreements will be determined by the regional holding companies and the Central Staff Organization.

separate pensions under the plan or plans maintained by each such employer by which they are employed.

To determine whether an employee's pre-divestiture or post-divestiture accrued benefit under any of the plans is vested, the following rules will apply. ERISA and the Code require that all pre-divestiture Bell System service be recognized, subject to applicable ERISA rules regarding the bridging of prior service, for purposes of the vesting of accrued benefits under any and all of the plans which devolve from the current BSMPP and BSPP plans and are maintained, after divestiture, by either the remaining AT&T group of companies or any of the regional companies. Accordingly, all pre-divestiture service, for purposes of vesting of accrued benefits, will continue to be recognized by each of the post-divestiture pension plans to the same extent such service was recognized, at the time of divestiture, under BSMPP and BSPP. Additionally, any pre-divestiture service of an employee or former employee that is not recognized under BSMPP or BSPP at divestiture will be recognized if the employee subsequently satisfies the ERISA or plan bridging rules, as applicable, under one of the plans after divestiture.

For active or former employees who do not have vested pension rights at the time of divestiture, the pre-divestiture Bell System accrued pension benefit will become vested only if the combination of their pre-divestiture Bell System vesting service and their post-divestiture vesting service at AT&T (and its remaining group of companies) or any single regional holding company (and its subsidiaries) equals or exceeds the amount necessary to vest under the pension plans (*i.e.,* 10 years) and satisfies applicable ERISA rules regarding the bridging of prior service. If, for employees who are not vested at the time of divestiture, the pre-divestiture accrued benefit does subsequently become vested, in accordance with the preceding rules, the plan to which the liability for such benefit is initially assigned at divestiture (or at the end of the interchange period, if applicable) will be obligated to satisfy that liability, even if the employee's vesting service is completed elsewhere.

The accrued benefit that becomes vested under the preceding rules will be determined in accordance with applicable plan provisions in effect at the earlier of divestiture or the date when the employee previously terminated service with a Bell System company (prior to divestiture) unless (i) the individual was an active employee at divestiture and his pre-divestiture accrued benefit vested at the company to which he was assigned at divestiture (or at the end of the interchange period, if applicable) or another company which is part of the same control group with such company (after divestiture), or (ii) the individual was a former employee at the time of divestiture, returned to employment after divestiture and vested with the same company by which he was last employed prior to divestiture or another member of that company's control group (after divestiture). In these latter cases, the accrued benefit will be determined in accordance with applicable plan provisions in effect when the employee subsequently retires or terminates service, as applicable.

iv. Employee-Authorization Forms

Unless otherwise required by the terms of or circumstances applicable to each of the plans after divestiture, all pre-divestiture employee enrollment, authorization, election and other forms related to pension and other benefit plans will remain in effect at divestiture regardless of the corporation or organizational unit to which an employee is assigned, until such time as they may, after divestiture, be superseded by new forms.[328]

v. Pension Trusts

BSMPP and BSPP each have an associated trust to hold and invest the assets related to the two plans. Additionally, a group trust — the Bell System Trust — is maintained for the investment, on a commingled basis, of the assets of the two

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[328] This principle applies to all pension and employee benefit plans.

underlying trusts associated with BSMPP and BSPP. The market value of the assets of the BSMPP trust as of December 31, 1981, was $18,464,079,000 and the market value of the assets of the BSPP trust as of the same date was $17,321,179,000. As of December 31, 1981, substantially all assets of both the BSMPP trust and the BSPP trust were held by the Bell System Trust. AT&T is the overall administrator and fiduciary with respect to both the underlying trusts and the Bell System Trust. In that capacity, it is responsible for the selection, monitoring and retention of trustees and investment managers, specific investment decisions to the extent that it has retained such authority, the establishment of general and specific investment policies and objectives, trustee and investment manager relations, recordkeeping and reporting, and special research and other special services.

(1) Structural Reorganization of Pension Trusts

At divestiture, each regional holding company will establish one or more trusts for the investment and maintenance of the funds associated with its pension plans. The assets of the current BSMPP and BSPP trusts, as maintained under the Bell System Trust, will be divided and allocated among the plans and trusts of AT&T and the regional companies based upon the assignment of employees and retirees and their associated pension benefits under the current BSMPP and BSPP plans.[329]

Separation of the trusts' assets requires identification of the current and retired employees to whom the post-divestiture

[329] Because of the complexity and size of the asset transfers, alternative phased approaches will be adopted, as outlined below (Part I.D.a.4.v.(2)). For those regional holding companies electing the earliest asset transfer, the process will commence during the first quarter of 1984 and conclude as soon as possible following completion of actuarial studies regarding the identification of liabilities and the amount of assets to be transferred to each plan. An additional one to two years of interim administration will be provided by AT&T for those companies that request additional time in order to prepare for the efficient administration of the trusts. *See* Part I.D.4.a.v.(2), *infra*.

entities will owe pension obligations.[330] Based upon these employees' benefits and profiles, assets will be allocated to the plans and trusts of the various companies in accordance with actuarial calculations. Most of the retired employees will be known and the liability for their benefits can be identified at the time of divestiture, but the precise allocation of active employees will not be fully ascertainable (for these actuarial purposes) for some period after divestiture. Post-divestiture employee reassignments and other employee moves will also have an impact upon these calculations. As a result, the exact amount of the trust assets properly allocable to the plans of AT&T and each regional holding company cannot be determined on the date of divestiture. Consequently, the trust assets and liabilities will be allocated and distributed to the regional holding companies during a transition period following divestiture in order to ensure an accurate allocation and an orderly transition in compliance with AT&T's obligations under ERISA and the Code. *See* Part I.D.4.a.v.(2), *infra.* Estimated calculations will be made, and a portion of the full amount ultimately allocable to each regional holding company's trust will be available for transfer soon after divestiture; the remaining portion will be available upon the completion of actuarial computations relating to profiles of the employee forces actually assigned to the post-divestiture companies.

This allocation of the trust assets among the various plans after divestiture is governed in substantial part by applicable provisions of ERISA and the Code. These provisions require that, in the case of any division of a pension plan which requires the transfer of assets or liabilities of the plan to any other trust or plan, each participant in the plan would, if the plan then terminated, receive a benefit immediately after the division and transfer of assets and liabilities which is equal to or greater than

[330] As indicated at Part I.D.4.a.i, *supra,* the pension rights of employees who have retired before divestiture will be the obligation of the plan in which the company from which the employee retired participates. Pension rights relating to active employees will be the obligation of the plan in which the company to which the employee is assigned upon divestiture participates, subject to post-divestiture changes in employment as described in Part I.D.3, *supra,* and coverage under an applicable interchange agreement.

the benefit he or she would have received immediately prior to the division and transfer, if the plan had then terminated. In the case of the division or spin-off of a defined benefit plan, such as BSMPP or BSPP, the requirements of the applicable Code and ERISA provisions are deemed satisfied if, in accordance with Internal Revenue Service regulations under Code Section 414(1): (a) all of the accrued benefits of each participant are allocated to only one of the spun-off plans; and (b) the value of the assets allocated to each of the spun-off plans is not less than the sum of the present value of the benefits, on a termination basis, under the "divesting" plan before the spin-off for all participants in that spun-off plan.

In satisfaction of these requirements, the ERISA enrolled actuary for BSMPP and BSPP will: (i) determine the present value of the benefits for all participants under BSMPP and BSPP; (ii) coordinate with the AT&T Treasury Department regarding the ascertainment of the fair market value of the pension fund assets as of the date of the spin-off (*i.e.*, date of divestiture); (iii) determine that the value of the assets equals or exceeds the present value of all of the accrued benefits (*i.e.*, the liabilities), on a termination basis (as if the plan terminated on the applicable date),[331] or that the present value of all accrued benefits, on a termination basis, exceeds the present value of the assets; and (iv) divide and allocate the assets and liabilities among the plans in a manner related to active and retired employees assigned to each plan.[332]

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[331] The plans are funded on a level cost basis (*e.g.*, pension costs are determined on a basis which takes into account all present and future accrued benefits as a level percentage of payroll or, under BSPP, a level flat dollar cost on a "going concern" basis) and the ERISA and Code requirements regarding spin-offs of pension plans are predicated on a termination basis (as if the plans were terminated on the date of spin-off) rather than on a "going concern" basis.

[332] If the present value of the benefits exceeds the fair market value of the plan assets as of the applicable date, ERISA and the Code impose substantially more rigorous and somewhat different requirements than are imposed if the assets exceed the present value of the accrued benefits. Currently, the fair market value of the assets of the BSMPP and BSPP Trusts exceeds the present value of accrued benefits under the plan associated with each such trust, respectively, on a termination basis, by a sufficient amount to conclude that the ERISA and Code requirements will be satisfied without application of such additional requirements.

After the minimum requirements of Code Section 414(1) (regarding the satisfaction of all accrued benefits) are satisfied, the excess, if any, of pension fund assets over accrued benefits, determined on a termination basis, will be divided and allocated among the plans of the various companies, as if the plans were not terminated, so that accrual rates at AT&T and each of the regional holding companies will be approximately the same as the accrual rates in effect under BSMPP and BSPP immediately preceding divestiture. This will allocate a greater proportion of the assets to the plans covering employees with greater service credit.

The regional holding companies may jointly select an enrolled actuary to represent the regions as a group to perform independently an actuarial review of the allocation of pension plan assets by the AT&T enrolled actuary, pursuant to this Plan of Reorganization.

(2) Pension Trust Transition Period

There are two basic phased approaches for accomplishing the management and administration of the pension funds during the transition period. These alternative approaches reflect the differing requirements of the regional holding companies with respect to assuming the management of the pension funds.

The regional holding companies vary in the depth of pension management experience and other factors that affect their readiness to assume immediately full pension administrative responsibilities. As a result, some regional holding companies have requested a more complete service, extending over a greater period of time, than has been requested by the other regional holding companies. Therefore, it is necessary to provide two options; one called the "full service" option, and the other called the "flash cut" option.[333]

[333] Under either option, services relating to the administration and management of assets not transferred as of the divestiture date will be required until the transfer of assets is complete.

Under the flash cut option, the Bell System Trust will transfer to the trust of each electing regional holding company a portion of the assets allocable to that region as soon as practicable after divestiture, with the balance of the assets to be transferred as soon as actuarial and administrative determinations permit. Under the full service option, the trust of each electing regional holding company will receive no assets upon divestiture; rather, the allocable assets will continue to be administered by AT&T for a longer transition period during which the regional holding company will establish its own staff and coordinate with the AT&T pension organization in developing the methods and procedures necessary to administer the assets efficiently. The choice between the two options is entirely at the election of each regional holding company.[334]

Under the full service option, AT&T will provide interim asset administration and management of each regional holding company's share of pre-divestiture Bell System Trust assets, as well as designated start-up services to place the regional holding companies in a position to manage their own pension funds after the transition period. The services offered will also apply to the contributions of a regional holding company to its plans after divestiture, if requested by such regional holding company. It is anticipated that under this option the pension assets will be transferred to the regional holding company plans during a period running from 1986 through no later than 1987. For companies electing the full service option, asset mix ratios and assignment of trustees and professional managers will be negotiated after divestiture.

The interim asset administration services provided under the full service option will include asset mix management, investment advisor and trustee relations, accounting and report-

[334] The assets allocable to the plans and trusts of the Central Staff Organization will be distributed in accordance with the instructions of the regional holding companies and the Central Staff Organization.

ing, and provision of general auditing services.[335] The start-up services will include the development and provision of a post-transition investment plan, development of a customized asset and investment manager mix plan, tailored custodial arrangements, overall methods and systems, and the training of regional holding company personnel.

Under the flash cut option all assets cannot be transferred immediately because the transfer of assets and liabilities from the BSMPP and BSPP plans and trusts and the Bell System Trust to the regional holding company plans and trusts depends upon specified actuarial determinations (as discussed above), in accordance with Section 414(1) of the Code and Internal Revenue Service regulations. Such requirements necessitate that an actuarial retention (*i.e.*, a "cushion") of non-transferred assets remain immediately after divestiture in order to avoid transferring excessive assets and thereby violating such rules.

It is estimated that the amount available for distribution soon after divestiture under the flash cut option to each regional holding company will be at least 55-65 percent of the aggregate amount ultimately allocable and distributable to each of the companies. One portion of the assets immediately available for transfer to the regional holding companies will be determined on the basis of the liability for accrued benefits to pre-divestiture retirees, because that will be a known liability as of the date of divestiture. The other portion of the assets that will be available for immediate transfer will be based upon estimates of the number of employees (and their profiles) to be assigned to the regional companies and their BOCs. This portion of the assets will be transferred shortly after divestiture.

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[335] Specific services will include: (1) the preparation of short and long term investment plans, including occasional research into new investment vehicles and techniques; (2) the performance of administrative and analytical tasks related to pension and savings plan investments, including, in particular, the hiring and termination of investment advisors and trustees; (3) the performance of administrative and operational activities related to the custody, accounting and reporting for the plan's assets; and (4) reporting periodically to the regional holding companies to enable them to fulfill their fiduciary responsibilities.

The remainder will be transferred in approximately 12 to 18 months after the initial transfer, following completion of final actuarial calculations based upon precise information as to the companies' employees and their profiles and following completion of all the actuarial and AT&T Treasury Department responsibilities associated with the division and allocation of the pension funds.

Under the flash cut option, the assets of the Bell System Trust will be allocated in such a manner as to insure that each regional company's trust will have a substantially similar asset mix as the Bell System Trust has immediately prior to divestiture. Professional asset managers and all or part of the accounts they manage for the Bell System Trust will be assigned based, to the extent possible, upon business relationships existing prior to pension fund consolidation in October 1980.[336] Adjustments will be made to reflect consolidated asset mix ratios not reflected in the aggregated professional asset manager account assignments. Adjustments will also be made for the final asset transfers to reflect interim performance and investment decisions between the dates of divestiture and such final asset transfer. Trustees will be assigned based upon the assignment of asset manager accounts associated with each trustee, subject to change by the regional holding companies after the division and allocation of the assets.[337]

Until the assets allocable to each plan and trust are transferred, AT&T will continue to perform interim asset administration and management services. No start-up services

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[336] These assignments do not preclude retention of such professional asset managers by AT&T.

[337] The assets transferred on an immediate basis under the flash cut option will be comprised of portions of (i) accounts maintained by investment managers employed by the BOCs prior to the pension plan and fund consolidation in 1980 who will be reassigned to the regional holding companies of which such BOCs will be subsidiaries after divestiture, (ii) passive (*i.e.*, buy and hold) stock and bond assets, and (iii) units in a commingled real estate fund or funds (*see* Part I.D.4.a.v.(3), *infra* (discussion of real estate investments)). The remaining assets will be comprised of the same types of assets as previously transferred.

will be provided with respect to assets allocated under the flash cut option.

To the extent that it has responsibility for assets allocable to a regional holding company plan, AT&T will be a fiduciary with respect to that plan. As such, AT&T will be subject to the various provisions and requirements of Part 4 of Title I of ERISA. AT&T's transfers to the new trusts must therefore proceed on the phased basis described above in order to ensure that AT&T fulfills its fiduciary obligations regarding orderly transfers to the new trusts and plans.[338]

(3) Real Estate Investments

The Bell System Trust currently has approximately $3.1 billion invested in real estate.[339] Because of the unique nature of real estate investments, their relative illiquidity and the need, pursuant to the terms of the investment agreements, to provide funds to these investments after divestiture, this Plan provides for a different manner of distribution of these investments.

AT&T will establish one or more commingled or group real estate funds to hold and manage all of the existing real

338 Part 4 of Title I of ERISA is administered by the Department of Labor. Accordingly, AT&T will apply for review by the Department of Labor of the proposed plan of divestiture and the transition procedures for the management and investment of the pension fund assets.

339 Real estate investments, for purposes hereof, are defined as direct or indirect equity investments in real estate, including participating or convertible mortgages or other debt instruments convertible into interests in real estate by the terms thereof (but not merely by foreclosure upon default), options to purchase real estate, leasebacks, investments in bank and insurance company managed commingled real estate funds, and investments in unregistered securities issued by privately held Real Estate Investment Trusts ("REITs"). Also included within the definition of real estate investments are commitments to enter into real estate investments made by the Bell System Trust on or before December 31, 1983, but which are not scheduled to close until January 1, 1984, or thereafter, as well as obligations under real estate investments entered into on or before December 31, 1983 (including commitments to enter into such real estate investments) to provide additional funds to such real estate investments.

estate investments as of the time of divestiture. AT&T and each of the regional holding companies will have an allocable share in such commingled or group funds based on the ultimate split of pension assets. This fund will be trusteed with one or more institutional bank trustees, and AT&T will appoint one or more investment advisors to manage such real estate investments. AT&T may direct and manage by itself or through professional consultants, some of the real estate investments itself without appointment of professional investment advisors.

AT&T will perform overall monitoring and evaluation services for this real estate fund. The regional holding companies may elect to withdraw from the fund and liquidate their interests therein, but such withdrawal and liquidation will be subject to the availability of funds and may only be effected at a time and in a manner so as not to penalize the other participants in the group fund, including AT&T. In the alternative, the AT&T trust, at its option, may purchase a participating company's interest in the fund if the company desires to withdraw therefrom. As individual investments are sold or liquidated, the funds received will either be distributed to the participating trusts, used to purchase interests of participating companies who have indicated a desire to withdraw from the fund, or retained and held for purposes of administering the fund and providing cash for future anticipated capital calls. The terms and conditions regulating the commingled real estate fund and the investment and management of the assets therein are described in Part I.D.4.r.i, *infra.*

b. Bell System Savings Plan for Salaried Employees and Bell System Savings and Security Plan

i. BSSP and BSSSP Plans

AT&T, on behalf of itself and all participating Bell System companies, currently maintains the Bell System Savings Plan for Salaried Employees ("BSSP") and Bell System Savings and Security Plan ("BSSSP"). BSSP essentially covers salaried employees and BSSSP essentially covers non-salaried employees of the various participating companies. A separate account is maintained for each participant under each plan. Each participant's account reflects the current value of the participant's accumulated allotments and associated company contributions, and earnings thereon, for the respective investments of the participant.

Upon divestiture, BSSP and BSSSP will be split among AT&T and each of the regional holding companies. AT&T will continue to maintain such plans for itself and its remaining group of companies, and each regional holding company will establish plans which, at divestiture, are similar to BSSP and BSSSP for the employees of each regional holding company and its subsidiaries.[340] The plans established by each regional

[340] As with the pension trust funds, the AT&T Investment Management Division will offer to the regional holding companies full or limited transitional investment management services after divestiture (*see* Part I.D.4.r, *infra*). Under the full service option, AT&T will provide, for a period to be negotiated with each regional holding company, but not to extend beyond December 31, 1987, interim asset administration and management of each regional holding company's share of the pre-divestiture assets as well as designated start-up services to place the regional holding companies in a position to manage their own assets after the transition period. The interim services will include investment manager and trustee relations, accounting and reporting, and provision of general auditing services. Specifically, these include: (1) preparation of long and short term investment plans, including research into new investment vehicles; (2) the performance of administrative and analytical tasks related to plan assets, in particular the hiring and termination of investment managers and trustees; (3) the performance of administrative and operational activities related to the custody, accounting and reporting for the plans' assets; and (4) reporting, on a regular basis, to the regional holding companies. The start-up services will include the training of regional holding company personnel and assisting the regional holding companies in developing overall methods, procedures and systems. The flash cut option will be provided to those companies electing the immediate (*i.e.,* as soon as feasible after divestiture) return of the assets allocable to the regional holding companies. The AT&T Investment Management Division will provide the regional holding companies services such that the regional holding companies will be in a position to manage their own assets subsequent to divestiture. These services will include the training of regional holding company personnel in plan asset administration and assisting the regional holding companies in developing overall methods, procedures and systems.

holding company will offer the same investment options as are presently offered under the Bell System plans, except AT&T shares will not be offered and regional holding company shares will be substituted as an investment option. The plans established by the Central Staff Organization will not have a sponsoring employer shares option, but instead will have an option comprised of shares of the seven regional holding companies.

ii. BSSP and BSSSP Trusts

Because of the existence of individual accounts, the various investment options, and the dependence of account values on the market value of particular assets underlying the savings plans, division of the BSSP and BSSSP trusts will be accomplished in a manner that assures specific investment stability and retention of account integrity to participants during and after the divestiture process. The assets of each investment option under the savings plans will require somewhat different action in the "split" process. However, all accounts of participants who are employed by a regional holding company or its subsidiaries at divestiture, or who transfer from one company to another during the interchange period and in accordance with an interchange agreement, will be automatically "rolled over" to the plan of the receiving company.

Currently, BSSP and BSSSP, in the aggregate, offer the following investment options: AT&T shares, guaranteed interest fund, diversified equity portfolio, and government obligations fund. The treatment of each is described below.

(1) AT&T Shares Option

Each employee who has elected to invest in AT&T shares through December 31, 1983, will, after divestiture, have units in an option that holds shares of AT&T and the seven regional holding companies ("Diversified Telephone Portfolio" or "DTP"). An employee will be permitted to transfer the value of units from the DTP fund to other investment options (in accordance with applicable plan terms), including shares of the employing company, but not vice versa. Furthermore, no new money will be invested in the DTP. Thus, among other alternatives, an employee will have the option of transferring the value of his units in the DTP for units in the fund holding shares of his employer by directing a change in his investment options.

The trustees of each trust will exercise the voting rights of shares of the employer company held in the trust in the same proportion that the employee holders of DTP units in that trust indicate their voting preference. Each trust will contain a "neutrality" provision pursuant to which the trustees will exercise the trust's voting rights of all DTP shares of companies other than the employer company in the same proportions that all other shareholders of those companies vote their shares.

Distributions on an ongoing basis from the DTP associated with each plan will be made in whole AT&T and regional company shares and cash for any fractional AT&T or regional company shares. Recipients of distributions from the BSSP or the BSSSP in the beginning of 1984 as a result of action taken by them in 1983 (either the election of a periodic partial distribution, the exercise of another withdrawal option or the termination of service) will receive cash for their units in all but the AT&T investment option. With respect to units in the AT&T investment option, which will become the DTP option as of the date of divestiture, the following will occur: (i) a distributee will receive his shares of AT&T and a check for the fractional share; and (ii) with respect to the shares of the seven regional holding companies to which a participant is entitled, such shares will be treated similarly to those of all other AT&T shareholders. *See* Part IV.A.7, *infra.* Participants in the savings plans who are entitled to an AT&T shares distribution in 1984 as a result of action taken in 1983 will thus receive the same options regarding regional company shares as all other AT&T shareholders.

(2) Guaranteed Interest Fund Option

The guaranteed interest fund is administered through a portfolio of contracts with insurance carriers under which such insurance carriers undertake to guarantee a specified rate of return for a designated period. Upon divestiture, each of the new regional company plans will be assigned an allocable interest in the pre-existing guaranteed interest fund under the pre-divestiture insurance contracts. The amount will be based upon the value of the accounts of that regional holding company's participants that are invested in the guaranteed interest fund at the time of divestiture. The assigned interest will be on an undivided, non-segregated basis, meaning there will be no segregation or allocation of specific assets, but rather an allocation and assignment of proportionate interests in each guaranteed contract. After divestiture, each regional holding company's new plan will make its own contractual arrangements for an ongoing guaranteed fund option, either with the current insurers or other insurers of the regional company's choice.[341]

(3) Diversified Equity and Government Obligations Portfolio Options

Unlike the other funds, each participant invested in the diversified equity or government obligations funds has an undivided, equitable interest in each of the underlying assets of those funds. To assure the continued integrity of each participant's account, the split of these two funds must be on a definitive pro rata basis. Accordingly, the assets of the equity and government obligations funds will be divided among the AT&T and regional company plans at divestiture on an asset by asset basis in proportion to the value of participant account interests in such funds associated with each of the plans. Each of the new regional plans will establish its own funds for these assets. To the extent it is not actually possible to split all of the specific assets of each fund, some liquidation of specified assets

[341] AT&T will negotiate with the insurance carriers during 1983 to provide for guaranteed rates for amounts contributed during the 1984 plan year. The salaried and non-salaried plans will each have a uniform guaranteed rate, not necessarily identical to one another, for amounts contributed in 1984 as well as for the embedded pre-divestiture assets in the guaranteed interest fund associated with each plan.

will be required in order to accomplish an equitable split. Any such liquidation will be accomplished in a manner consistent with ERISA fiduciary standards.

(4) Interchange Transition Period Treatment

An employee will be treated as a participant in the plan and trust maintained by his employer as of January 1, 1984. In the case of an employee transfer after divestiture between the regional holding companies and an AT&T entity, or between the regional holding companies themselves, but whose benefits are continued under a new interchange agreement (*see* Part I.D.4.a.iii, *supra*), the employee will be permitted to participate in the plan of his employer after transfer and all the employee's units in the plans of his prior Bell System employers will be rolled over, within specified time limits, into the plan of his new employer. For example, if a participant is employed by a BOC as of January 1, 1984, he would participate in the BOC's plan. If he is subsequently assigned to AT&T and is covered under an interchange agreement, he would begin participating in AT&T's plan and his account in the BOC's plan will be rolled over into the AT&T plan.

c. Bell System Voluntary Contribution Plan

i. The Plan

Effective September 1, 1982, AT&T established the Bell System Voluntary Contribution Plan which offers to employees a supplemental retirement program similar to individual retirement accounts. As with BSSP and BSSSP, a separate account is maintained for each participant under the Voluntary Contribution Plan. Each participant's account reflects the current value of the participant's accumulated contributions and earnings thereon in the investment option selected by the participant. The plan is a national plan administered by AT&T, in which most Bell System companies participate.

Upon divestiture, the Voluntary Contribution Plan will be split among AT&T and each of the regional holding companies.

AT&T will continue to maintain such plan for itself and its remaining group of companies, and each regional holding company will establish a plan for the employees of each of the regional holding companies and its subsidiaries, which, at divestiture, will be similar to the current Voluntary Contribution Plan.[342] The plans established by the regional holding companies will offer the same investment options as are presently offered under the current plan, except AT&T shares will not be offered and shares of the sponsoring regional company will be substituted as an investment option. The plan established by the Central Staff Organization will not have a sponsoring employer shares option, but instead will have an option comprised of shares of the seven regional holding companies.

ii. Voluntary Contribution Trust

The Voluntary Contribution Plan trust will be split into nine trusts, one each for the AT&T and the regional holding company and centralized staff organization plans. The current investment options under the plan are AT&T shares, a guaranteed interest fund, a mutual fund equity portfolio, and a money market mutual fund. These various investment accounts or funds under the Plan will be split and treated in a manner similar to that applicable to the savings plans, to the extent the accounts or funds are similarly constituted and maintained. In all cases, the accounts of participants who are employed by a regional company or its subsidiaries at divestiture (or who transfer from one company to another and are covered by a new interchange agreement) will be automatically "rolled over" to the plan of the receiving company.

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[342] The regional holding companies will be offered full or limited transitional investment management services after divestiture. The transitional services described in the discussion of the savings plans will also be offered for the Voluntary Contribution Plan. *See* Part I.D.4.b.i, *supra*. *See also* Part I.D.4.r, *infra*.

(1) AT&T Shares Option

The general treatment, division, and allocation of AT&T shares and the regional holding company shares received by the AT&T shares fund and allocated to participant accounts as a part of divestiture will be similar to that under the savings plans. Because the Plan is an individual account plan, it must be divided in such a manner as to insure the continuity and integrity of each account similarly to the savings plans. As of January 1, 1984, each employee who had elected to invest in AT&T through December 31, 1983, will have units in an option that holds AT&T and the seven regional holding companies ("Diversified Telephone Portfolio" or "DTP").[343] An employee will be permitted to transfer the value of units from the DTP option to other investment options (in accordance with applicable plan terms), including shares of the sponsoring company, but not vice versa. No new money can be invested in the DTP. Distributions from the DTP fund of each plan will be made in whole AT&T and regional company shares and cash for fractional shares in a manner similar to that under the savings plans.

(2) Guaranteed Interest Fund Option

The guaranteed interest fund under the Voluntary Contribution Plan is administered through a contract with one or more insurance carriers under which the carrier undertakes to guarantee a specified rate of return for a designated period. Upon divestiture, each of the new plans maintained by sponsoring regional holding companies will be assigned an allocable interest in the pre-existing guaranteed fund under the current

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[343] Each Voluntary Contribution Trust will contain a "neutrality" provision to ensure that each trust exercises its voting rights in DTP shares of companies other than the employer company in the same proportions that all other shareholders of those companies vote their shares. *See* Part I.D.4.b, *supra* (savings plan trusts will contain a similar provision).

Bell System insurance contract. The amount of the assignment will be based upon the value of the accounts of that regional holding company's participants invested in the guaranteed fund under the current Voluntary Contribution Plan as of the time of divestiture. The assigned interest will be on an undivided, non-segregated basis, meaning there will be no segregation or allocation of specific assets, but rather the allocation and assignment of portions of the guaranteed contracts. After divestiture, each regional holding company will make its own contractual arrangements for a guaranteed interest fund option with the current insurer or other insurers of its choice.[344]

(3) Mutual Fund and Money Market Portfolio

Unlike the diversified equity and government obligations funds maintained under the savings plans, which are administered by AT&T rather than by a formal mutual fund, the equity and money market funds under the Voluntary Contribution Plan are specifically administered by one or more registered investment companies ("mutual funds"). The division and allocation of such funds will be accomplished by assigning interests or shares in the mutual funds to each of the new regional holding company plans based on the value of the accounts of that regional holding company's participants in such funds as of the time of divestiture.

(4) Interchange Transition Period Treatment

An employee will be treated as a participant in the plan and trust maintained by his employer as of January 1, 1984. In the case of an employee transferring between the BOCs and an AT&T company, or between regional holding companies, after divestiture, who is covered by the new interchange agreements,

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[344] AT&T will negotiate with the insurance carriers during 1983 to provide a guaranteed rate for amounts contributed during the 1984 plan year. Accordingly, each Voluntary Contribution Plan will have a uniform guaranteed rate for all pre-divestiture embedded assets and amounts contributed in 1984 under the guaranteed contract option.

all amounts in his account under the plan of his prior employer will be "rolled over" to the plan of the receiving company, in a manner similar to that provided for the savings plans.

d. Bell System Employee Stock Ownership Plan

i. ESOP Plan and Trust

Since taxable year 1976, AT&T and its affiliated group of corporations that file a consolidated federal income tax return (Pacific Telephone Company joined the plan in 1979) have jointly sponsored a single tax credit employee stock ownership plan which is funded by an amount equal to one percent of the Bell System's qualified investment as determined in accordance with the Code. The Bell System Employee Stock Ownership Plan ("BSESOP") is qualified under Section 401(a) of the Code as a stock bonus plan and under the predecessor to Section 409A as a tax credit ESOP. In order to qualify as a tax credit ESOP: (1) the plan must invest primarily in "employer securities" (which are defined as common stock issued by the employer or corporation that is a member of the same controlled group); and (2) the plan's trustee must hold the employer securities allocated to each participant for at least 84 months after the shares are allocated, except in the case of the death, disability or termination of service of the participant. A transfer of a participant from one employer to another as part of a reorganization of a business does not result in a termination of service.

(1) Establishment of New Plans; Transfers of Non-Employer Securities

As of January 1, 1984, the BSESOP trust, as a shareholder of AT&T, will receive shares in all the regional holding companies. Because these companies will no longer be a part of AT&T's "controlled group," the BSESOP trust will be holding shares of stock which are no longer "employer securities" with respect to all the plan sponsors. Accordingly, a single Bell

System plan can no longer serve as a tax credit ESOP for AT&T and the regional holding companies.

The following actions will therefore be taken, subject (where necessary) to rulings of the IRS and the Department of Labor:

(a) Each of the regional holding companies will establish an employee stock ownership plan that meets the requirements of Section 409A of the Code. The plans will incorporate the changes necessary to convert the plans and tax credit ESOPs to compensation-based ESOPs (*i.e.*, PAYSOPs) beginning with plan year 1983.

(b) The current BSESOP trust will be split into eight trusts.[345] One trust will contain the accounts of participants who remain employees of the AT&T group, and each of the other trusts will contain the accounts of employees of that trust's sponsoring regional holding company. The regional company trusts, and all the employee accounts therein, will be transferred as soon as feasible to the trustees of the appropriate regional holding company plan after divestiture.

(c) The trustee of the AT&T plan will be directed to dispose of all the regional holding company shares it holds and reinvest the proceeds in AT&T shares. Similarly, the trustee of each of the regional holding company plans will be directed to dispose of all shares it holds other than the shares of the sponsoring regional holding company and reinvest the proceeds in such sponsor's stock. The timing for the disposition of shares from each trust will be determined in a manner that insures compliance with applicable provisions of the Code and ERISA, including the ERISA fiduciary responsibility provisions. The trustees will be authorized to trade non-sponsoring employer stock

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[345] The Central Staff Organization will not establish a new ESOP plan because there will be no available employer securities. The employees of the Central Staff Organization will remain participants in the BSESOP with respect to plan years through 1983.

with other trustees of the various regional company and AT&T plans in order to minimize trading costs and market impact. As long as each trust holds stock in non-sponsoring companies, each trustee will exercise the voting rights of such stock held in trust in the same proportions that all other shareholders of such companies vote on any matter.

(2) Status of Reassigned Employees

All accounts will be transferred in accordance with the foregoing procedures with respect to reassigned employees as of January 1, 1984. However, to the extent that employees may be reassigned after divestiture and be covered by an interchange agreement, arrangements will be made to provide for the transfer of the accounts of these employees to the appropriate trust. The accounts of employees who are reassigned and are covered by an interchange agreement after divestiture will be automatically "rolled over" to the plan of the receiving company. The trustee of the receiving company's plan will dispose of the non-sponsoring employer shares that it receives with respect to transferees and reinvest the proceeds in shares of the sponsoring employer.

(3) Status of Pre-Divestiture Terminated Employees

An employee who terminates service prior to January 1, 1984, will receive a distribution in February 1984, of the balance of AT&T shares in his account as of December 31, 1983, including cash for any fractional AT&T share. With respect to the shares of the regional holding companies to which he is or may become entitled, the employee will be treated in the same manner as other AT&T stockholders and will be offered the same options (*see* Part IV.A.7, *infra*).

A former employee who terminated service during 1983 will also receive a distribution in February 1985 which is attributable to 1983 compensation. Such former employees will receive shares from the trust sponsored by the company or companies which claimed the tax credit with respect to his compensation. (*See* Part I.D.4.d.ii, *infra.*) In cases where the recipient was an employee of a BOC during 1983, the BOC will elect the tax credit with respect to the employee's compensation and purchase appropriate regional holding company stock on his behalf. In February 1985, the trustee of the sponsoring regional holding company's plan will distribute the employee's shares in the regional holding company to him.

ii. PAYSOP Plan and Trust

Pursuant to 1981 amendments to the Code, contributions to ESOP plans for 1983 and following years will be determined on the basis of employee compensation, rather than on the basis of the employer's investment tax credit. ESOP plans thus will become PAYSOP plans.

In accordance with these Code amendments, AT&T and the members of its affiliated group of corporations (all participating pre-divestiture Bell System companies) as of December 31, 1983, will elect, for the taxable year 1983, a tax credit equal to one-half of one percent of the compensation paid to their employees during 1983. This election will be made on or before September 17, 1984 (the latest date for filing AT&T's 1983 tax return). On that date, in accordance with Code Section 44G, each electing company will also make a contribution, in an amount equal to the tax credit elected, to a tax credit PAYSOP that meets the requirements of Code Section 409A. However, on September 17, 1984, AT&T stock will not be "employer securities" within the meaning of Section 409A with respect to plans of the regional holding companies or of any company owned by a regional holding company. In order to meet the requirement that an employer contribute either employer securities or cash used to purchase employer securities to a tax-credit ESOP (or PAYSOP), before the employer is eligible to claim the PAYSOP credit, and to comply with the normalization requirements of Section 44G(b)(3), the following actions will be taken:

(1) AT&T and the remaining members of its affiliated group will contribute cash to its BSESOP and the

trustee will purchase AT&T stock. Each of the regional companies will contribute an appropriate amount of cash to the plan sponsored by it and the trustee will purchase stock of such regional holding company.

(2) Each trustee will then transfer the accounts of employees who have been reassigned as part of the reorganization to the trust sponsored by the new employer. The trustee of each of the plans will be directed to dispose of the non-sponsoring employer stock in the accounts of these transferred employees and reinvest the proceeds in the stock of the sponsoring employer.

e. Basic and Supplementary Group Life Insurance Plans

Each Bell System company currently maintains basic and supplementary group life insurance plans. The basic group life insurance plan provides insurance equal to (i) an employee's annual basic rate of pay adjusted to the next higher thousand dollars; and (ii) a retired employee's annual basic rate of pay adjusted to the next higher thousand dollars, as of retirement, reduced by 10 percent per year for each of the first five years after age 65. The supplementary group life insurance plan offers employees additional group insurance, at their own election and expense, of one, one and one-half, or two times the amount of basic group coverage. Each company pays the full premium cost for the basic group life insurance coverage of its employees. Such costs are annually determined and reflect three elements: the single year term insurance for active employees, accidental death and dismemberment coverage, and funding a retired life reserve. The purpose of the retired life reserve is to accumulate a fund to be used to pay all or a portion of the costs for continuing insurance protection for retired employees.

At divestiture, each of the AT&T group of companies will continue to provide basic and supplemental group insurance through existing plans. Each of the regional holding companies' subsidiary BOCs will continue to provide such coverage through existing plans. At the election of each regional holding company, the plans may be consolidated at the regional level. Additionally, provision will be made to cover the employees at each regional holding company immediately after divestiture. This will be accomplished through establishment of new plans covering just those employees at the regional holding company, through allocation of those employees to one of the subsidiary companies within the region and coverage of them by that subsidiary's plans, or through consolidation of the plans maintained by each company within the region with provisions for coverage of all the employees within the region. Each regional company will make its own selection from these options.[346]

A retired life reserve fund associated with the basic group life insurance plan has been established at each Bell System company to provide for post-retirement group life insurance benefits. This reserve has been accumulated as a result of employer contributions in advance of employee retirements. Because of the transfer of employees between and among AT&T and the BOCs at the time of divestiture, the retired life reserve fund associated with each company's basic group life plan will be split and allocated among the plans of the various companies. This allocation will be determined on an actuarial basis and will take into account the number of employees reassigned between the divested companies and the AT&T group of companies, the number of retirees and remaining active employees of each company, and the actuarial value of the insurance protection of the participants. The assets of the reserves are currently at least equal to the present value of post-retirement group life insurance benefits for already retired participants. Accordingly, no allocation of the future liability for pre-divestiture retirees will be necessary. After the allocation of the reserve fund assets, the remaining liability for the

[346] The regional holding companies will similarly elect one of these options for the medical and dental expense plans (Part I.D.4.g, *infra*), Vision Care Plan (Part I.D.4.h, *infra*), and income replacement and related plans (Part I.D.4.j, *infra*).

future costs of coverage for active employees, as of divestiture, will be the obligation of the company employing such individuals after divestiture.

Moreover, amounts funded by employees for supplementary group insurance during the period prior to divestiture, will, to the extent such amounts exceed premium (or benefit) costs, be divided and allocated among the AT&T group of companies and the regional holding companies proportionately to the amount of coverage of supplementary group participants reassigned to the AT&T group of companies, or vice versa, and the amount of their premiums for the period prior to divestiture. This assignment of pre-divestiture excess premiums will result in an allocation of premium waivers in a manner reflecting aggregate employee expenses and funding for each company.

All post-divestiture premiums (including those paid by employees rather than the company) for basic and supplementary insurance will be based on the rates determined for each employing company. Because of the possibility of re-rating by insurance companies, the premiums may not be identical to those rates applicable to reassigned employees prior to divestiture or reassignment or even to non-reassigned employees. All reassigned employees will, accordingly, pay the premium rate applicable to the "receiving" company.

f. DEPENDENT GROUP LIFE INSURANCE AND SPECIAL ACCIDENTAL DEATH POLICY

The Bell System currently maintains a Dependent Group Life Insurance Plan and a Special Accidental Death Insurance policy. Each of these plans is administered for all participating Bell System companies under single national insurance policies. The Dependent Group Life Insurance Plan offers employees the election of covering designated dependents for specified amounts of insurance coverage. The Special Accidental Death policy is administered in conjunction with the accidental death benefit provided under BSPP and BSMPP. This policy supplements, in designated cases, the amounts provided under the accidental death benefit provisions of the national pension plans.

After divestiture, each regional holding company will establish its own dependent and special accidental death plans and negotiate its own contracts with an insurer of its choice. In the alternative, the applicable provisions of each current national insurance policy will be assigned to each of the regional holding companies if a regional company so elects. The AT&T group of companies will continue to administer their dependent group life and special accidental death plans under the current national policies in force.

g. Medical and Dental Expense Plans

Bell System companies currently maintain a Medical Expense Plan and a Dental Expense Plan which provide, respectively, specified medical and dental expense reimbursement coverage for participating employees. Except for certain part-time employees, employees with less than six months' service, and certain employees on leaves of absence, the premiums associated with these plans are paid entirely by the sponsoring employer. Each Bell System company maintains its own Medical Expense Plan and Dental Expense Plan which are the same in all material respects from company to company.

After divestiture, each company will continue to maintain its own medical and dental plans similar to those currently maintained. The regional holding companies may elect to consolidate those plans at the regional level. Additionally, provision will be made to cover the employees of each regional holding company (in contrast to employees of the regional company's BOC subsidiaries) immediately after divestiture.[347]

[347] The options available for covering such employees are the same as those described in the discussion of the Basic and Supplementary Group Life Insurance Plans. *See* Part I.D.4.e, *supra.*

It is also possible that the insurance carriers for each of the plans will re-rate the plans in order to determine appropriate premium rates to reflect the post-divestiture employee base for coverage under each of the plans. This may result in either a higher or lower premium. The premiums payable by either the company or employees will be determined between each company and the insurance carrier. All premium rates within a company, or a region if the plans are regionalized, may be standardized for all employees within such company or region. Each reassigned employee will pay the premium applicable to the company to which the employee is assigned.

As with the basic group life insurance plans, provisions will be made for allocation of the premium costs for retiree coverage. However, unlike the basic group life insurance plans, there is no contingency reserve to pre-fund the premium payments for benefits related to retired employees. The allocation of these costs will be determined based upon the division of employees as of divestiture. The determination of the present value of the future costs and the allocation of the liabilities will be determined on an actuarial basis. AT&T will assume a portion of each divested company's liability for future medical and dental premiums for former employees who retire prior to divestiture. The portion of the funding of future expenses allocable to AT&T (based on the assignment of BOC employees to it at divestiture) will be established by contract between AT&T and each of the regional holding companies. The portion to be funded by AT&T, in accordance with such contracts, will be based on maintaining the same ratio as before divestiture, at each company, of the present value of such benefits, determined on an actuarial basis, to the present value of future salaries of all employees (immediately preceding divestiture). Any amount so determined will be amortized over a specified period. Any liability for incurred but unreported expenses as of divestiture will remain the obligation of the original company.

Federal and state law, as well as governing collective bargaining agreements, currently require Bell System companies to offer Health Maintenance Organizations ("HMOs") as alternatives to each company's Medical Expense Plan. In accordance with such requirements, various Bell System companies have contracts with one or more HMOs which are offered to eligible employees as an alternative to the Medical Expense Plan. Eligibility generally is based on the location of an employee's residence. After divestiture, both the divested companies and the remaining AT&T group of companies will contract with any HMO not previously governed by applicable agreements if AT&T or the divested companies have any employees within the HMO's region or if any employees reassigned to a company were previously covered by the HMO and remain in the covered geographic area. Each reassigned employee will pay the additional costs attributable to the higher cost of the alternate medical coverage, if any, which is applicable to the company to which the employee is reassigned.

h. Vision Care Plan

Each Bell System company will establish and implement a Vision Care Plan, in accordance with applicable collective bargaining agreements, effective January 1, 1983. These plans will offer specified vision care benefits to participating employees. Except for certain part-time employees, employees with less than six months' service, and certain employees on leaves of absence, the premiums associated with these plans will be paid by the sponsoring employer. Retired employees will not be eligible for coverage. Each company's plan will be separately administered by an insurance company, an outside benefit administrator, or the company.

After divestiture, each company will continue to maintain its own plan. The regional holding companies may consolidate the plans of their subsidiary companies. Additionally, provision will be made to cover the employees at each regional holding company immediately after divestiture.[348]

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[348] The options available for covering such employees are the same as those described in the discussion of the Basic and Supplementary Group Life Insurance Plans. *See* Part I.D.4.e, *supra*.

i. Disability Benefit Plans and Leaves of Absence

Each Bell System company currently maintains, on a separate basis, the following disability plans: Sickness and Accident Disability Benefit Plan, Anticipated Disability Program, Long Term Disability Plan for Salaried Employees, and Long Term Disability Plan for Non-Salaried Employees. These plans provide various wage replacement payments for specified periods for employees disabled through accident, certified anticipated disabilities, or sickness. Each company also applies generally uniform policies for leaves of absence relating to unpaid sickness time, education, military obligations, and other specified circumstances.

After divestiture, each of the AT&T group of companies and each of the divested companies will continue to maintain its own disability benefit plan. The regional holding companies may elect to consolidate the plans maintained by their various subsidiary companies after divestiture and, in any case, will make provision for coverage of employees at the regional holding company.[349] Existing leave of absence policies will be continued by each company.

The following principles will apply to the post-divestiture administration of the plans and the assignment of any liabilities or other obligations thereunder: (1) employees entitled to receive disability benefits at the time of divestiture will be reassigned from the employing company to another company if the employee's work group is reassigned to the latter company; (2) such employees who are in a work group that is split will be assigned in the same proportion and manner as active employees in the work group; (3) the company to which the employee's work group is reassigned will have the obligation to return the individual to active service if he recovers from the disability and is entitled and desires to return to work; (4) the company

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[349] The options available for covering such employees are the same as those described in the discussion of the Basic and Supplementary Group Life Insurance Plans. *See* Part I.D.4.e, *supra*.

to which the employee's work group is reassigned will have the obligation to pay an eligible individual long-term disability benefits if he does not return to work after expiration of benefits, which may last up to 52 weeks, under the Sickness and Accident Disability Benefit Plan; (5) the company to which the employee is reassigned as part of a work group will be obligated to honor projected anticipated disability or other leaves which have been granted by the prior employing company to commence at a time after divestiture and will honor any reemployment commitments for employees on leave at the time of divestiture whose work group has been reassigned; and (6) provisions which limit eligibility for full and half pay periods for relapse absences when the employee's initial absence occurred at one company and the relapse occurs at another company after divestiture will be applied as if there were no reassignment or divestiture.

Costs of future long term disability benefit payments to those employees who terminated service prior to divestiture with entitlement to such benefits will be allocated between AT&T and each of the BOCs. The allocation of these costs will be based upon the division of employees at divestiture. The determination of the present value of the future costs and the allocation of the liabilities will be determined on an actuarial basis. The portion of the funding of future expenses attributable to AT&T (based on the assignment of BOC employees to it at divestiture) will be established by contract between AT&T and each of the regional holding companies. The portion to be funded by AT&T, in accordance with such contract, will be based on maintaining the same ratio as before divestiture, at each company, of the present value of such future benefit payments, determined on an actuarial basis, to the present value of future salaries of all employees of each BOC (immediately preceding divestiture). Any amount so determined will be amortized over a specified period.

j. Income Replacement and Related Plans[350]

Most Bell System companies currently maintain, on a separate basis, the following income replacement and related plans: the Management Income Protection Plan ("MIPP"), the Supplemental Income Protection Plan ("SIPP"), Severance Pay Allowance Programs, and Lay-Off Allowance Programs. Such programs, when applicable, provide wage replacement payments for designated periods and in specified amounts.

After divestiture, any continuing income replacement and related plans or programs will be maintained at the BOC level, but may subsequently be consolidated at the regional level by each regional holding company. Additionally, provision will be made to cover the employees at each regional headquarters company immediately after divestiture.[351]

There will be an allocation of any remaining liability for payments to employees who are terminated prior to divestiture under the MIPP or SIPP programs and who are associated with a clearly identified work group which is transferred from the BOCs to AT&T or from AT&T to the BOCs at divestiture. The company receiving such work group will pay the full remaining amount of any benefits under MIPP or SIPP to employees terminated under such programs prior to divestiture. Because payments under such programs are generally limited to a period of one to four years and may not exceed the annual salary payment as of termination, the liability transferred will be limited.

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[350] For state unemployment tax purposes, each Bell System entity maintains an employment history in those States in which it does business. In States that utilize the "reserve ratio" method of determining an employer's experience with unemployment, each of the entities has also accumulated a reserve held by the State which is available for payment of benefits to the entity's employees. Each entity's reserves and experience rating will be assigned in proportion to the personnel assigned to each entity, except where a State requires other disposition.

[351] The options available for covering such employees are the same as those described in the discussion of the Basic and Supplementary Group Life Insurance Plans. *See* Part I.D.4.e, *supra.*

k. Mid-Career Pension and Benefits Plan

Currently, AT&T administers the Mid-Career Pension Plan which is an unfunded pension program providing supplemental pension payments to employees hired at fourth level or above (or equivalent) at age thirty-five or older and who retire at fifth level or above. Each company also maintains supplemental provisions to its current group life insurance plans and certain supplemental disability benefit provisions that provide designated benefits to the Mid-Career eligible group. Finally, certain cash payments may be made at the time of initial employment by an employing company to a Mid-Career Benefit Plan participant.

After divestiture, each regional holding company will establish its own unfunded Mid-Career Pension Plan. This will not involve any split or allocation of a trusteed fund. There will not be any division and allocation of liabilities for the unfunded benefits for those who are already retired and who are receiving or are eligible for benefits at the time of divestiture; any amounts involved are *de minimis.* Each divested company will continue to provide for any additional provisions of the Mid-Career Hire Program, such as supplemental life insurance, disability benefit eligibility and the above-referenced cash payments. Provisions for such benefits or payments may be consolidated by the regional holding companies after divestiture.

1. Incentive Plans

i. Company Short Term Incentive Plans

Each Bell System Company has its own Short Term Incentive Plan for Senior Managers. These plans are essentially identical, with the exception of some variation in provisions dealing with award criteria. Under the Short Term Incentive Plans, annual cash awards may be made to eligible participants during the first quarter of each year based on individual and corporate performance during the preceding year. Each Company is responsible for payment of awards to its Senior Managers. In case of transfers between Bell System Companies, the employing company on the last day of the performance period (December 31, for example) is responsible for the entire year's award.

At the time of divestiture, AT&T and the operating telephone companies will prorate awards to the nearest month, using existing criteria and results. In accordance with existing practices, the employing company as of the final day of the year will be responsible for paying the entire year's or partial year's award. These payments are typically made two to three months after the end of the year. Accordingly, the awards for 1983 performance periods will be determined and paid during 1984 because the companies need an opportunity to receive and evaluate the performance data. For the small percentage of Senior Managers who, at divestiture, are reassigned between BOCs and AT&T, the reassigning company will pay the award for pre-reassignment service. After divestiture, the AT&T group of companies will continue a Short Term Incentive Plan for its Senior Managers. Each regional holding company will establish its own plan for its Senior Managers with appropriate regional holding company criteria.

ii. The Bell System Long Term Incentive Plan

Under the Long Term Incentive Plan, eligible Senior Managers have been granted awards in the form of units which entitle the participant to quarterly payments equivalent to the amount of AT&T common stock dividends. Retention of the units and ultimate distribution of units in the form of stock or cash to the Senior Managers is predicated on the Bell System's achievement of predetermined financial and service criteria averaged over a five year performance period. At the end of the performance period, the units earned by the participant are converted to AT&T common stock, or a combination of stock and cash, as determined by each participating company's board of directors.

Each participating company is responsible for making cash and share distributions to its Senior Managers under the national Bell System Long Term Incentive Plan. In cases of intercompany reassignments, the employing company on the last day of the performance period is responsible for paying the entire award. Distributions are made out of operating income.

After divestiture, the AT&T group of companies will continue a long term incentive plan for its Senior Managers. Each regional holding company will establish its own plan with appropriate regional holding company criteria and other provisions for regional holding company participation. Grants of units to regional holding company participants will be made in units related exclusively to shares of the applicable regional holding company.

For AT&T participants who become regional holding company employees after divestiture, entitlement to undistributed units will be transferred to the applicable regional holding company plan. The undistributed units held by active and retired participants immediately after divestiture under the remaining AT&T plan or under regional holding company plans will be restated to represent the conversion of AT&T shares into shares of AT&T and the regional holding companies. This approach would parallel the treatment given to AT&T shareholders. Post-divestiture dividend equivalents on the units so restated will be based on the sum of the dividends payable on the converted units.

After divestiture, distribution of units to participants will be made at the end of each five-year performance period by the company then employing the participant based on performance results as follows: (1) Bell System results for pre-divestiture years (or portions thereof) in the performance period; and (2) AT&T results for post-divestiture years (or portions thereof) in performance period for AT&T participants, or regional holding company results for post-divestiture years (or portions thereof) in the performance period for regional holding company participants. Any units distributed in shares will be in the form of AT&T shares for AT&T participants and regional holding company shares for regional holding company participants. The value of the distribution will be based upon the value of the AT&T and regional holding company units resulting from the conversion of units at divestiture.

With respect to participants reassigned, either before or at divestiture, among AT&T and the regional holding companies, the employing company as of the last day of the performance period will assume responsibility for payment of distributable units with respect to the entire five year performance period. For retired Senior Managers, the employing company as of the date of retirement will retain responsibility for payment of all undistributed units.

iii. Senior Management Incentive Award Deferral Plan

This Plan, which became effective in September 1981, enables Senior Managers to elect to defer receipt of all or part of their cash awards granted under their company's Short Term Incentive Plan and all or part of their cash and shares granted under the Bell System Long Term Incentive Plan.

AT&T will continue its Plan, and each regional holding company will establish its own deferral plan. Obligations for the deferred amounts plus earnings accrued at divestiture will become the obligation of the post-divestiture employing company.

m. Bell System Senior Management Non-Qualified Pension Plan

In addition to the pension provided under BSMPP, the Bell System Senior Management Non-qualified Pension Plan ("BSSMNQPP") provides Senior Managers with pension and death benefits based on Short Term Incentive Awards. AT&T currently administers this unfunded plan, but payments are made by each participating company for its retired Senior Managers. The amount of benefits payable under this plan is determined in a manner which, to an appreciable extent, parallels the BSMPP. The plan became effective October 1, 1980, for Senior Managers as of August 10, 1980. Retired Senior Benefit payments are made out of operating income of each retired Senior Manager's last employing company because the plan is unfunded.

After divestiture, the AT&T group of companies will continue its BSSMNQPP and each regional holding company will establish its own plan. The employing company at the time of the Senior Manager's retirement or death will continue to be responsible for benefit payments to such retired Senior Managers or their spouses. No transfer of liabilities or post-divestiture cost-sharing will occur.

n. Senior Management Transfer Program

The Senior Management Transfer Program ("SMTP") supplements benefits available to eligible Senior Managers under a company's existing relocation practices and is in lieu of the mortgage interest differential in the Relocation Plan. It consists of two basic features: a Residence Relocation differential and a High Cost Location differential for specified locations. Payments are made out of operating income and each participating company is responsible for the payments to its Senior Managers.

After divestiture, the AT&T group of companies will continue their SMTP Plans and each regional holding company will establish its own plan. No other action at divestiture is required because the program calls for cancellation of benefits at retirement or termination. For Senior Managers reassigned between divested and non-divested entities, benefits will be cancelled at the sending company and negotiated at the receiving company. Effective January 1, 1983, a new Senior Management differential practice will be introduced to provide a permanent high compensation structure to Bell System Senior Managers working in specified high cost locations. Temporary high cost differentials payable under the SMPP will be reduced to reflect payments under the permanent high cost structure.

o. The Bell System Senior Management Life Insurance Program

The Bell System Senior Management Life Insurance Program ("BSSMLIP") provides eligible Senior Managers with various supplemental life insurance benefits. After divestiture, AT&T will continue its BSSMLIP and each regional holding company will establish its own program. The BSSMLIP is supported by monthly premium payments with no prefunding. Accordingly, any surplus or deficit at divestiture will not be substantial and will be prorated among the participating companies based on their pre-divestiture coverage.

p. Senior Management Long Term Disability and Survivor Protection Plan

Each Bell System company currently maintains its own Senior Management Long Term Disability and Survivor Protection Plan and is responsible for paying benefits to its eligible participants. The plan is a comprehensive program that provides a Senior Manager who becomes disabled with full salary for up to one year and a percentage of his final salary thereafter, up to age 65. The disabled Senior Manager may be given credit for the period of disability in computing service for pension purposes under the plan under certain circumstances. A Senior Manager or surviving spouse also may be entitled to an unfunded minimum pension. These payments are offset by amounts payable under BSMPP and other Company-provided pensions. All benefits are paid out of operating income of the last employing company.

After divestiture, the AT&T group of companies will continue its plans. Each regional holding company (or its subsidiary companies) will establish its own plan after divestiture. The employing company at the time of the Senior Manager's pre-divestiture retirement or death will continue to be responsible, after divestiture, for benefit payments to retired Senior Managers or their spouses. There will be no allocation or transfer of liabilities for such future payments.

q. Vail Trust

In 1920, AT&T established a revocable trust fund in appreciation of service rendered by Theodore N. Vail, former President of AT&T. In 1937, a second and separate non-revocable Vail trust fund was established. The primary purpose of both trusts (the "Trust" or "Vail Trust") is to provide special awards for the benefit of Bell System employees and retirees who perform heroic acts or other special meritorious service to the company or the community at large. Currently, the 1920 and 1937 funds are valued at approximately $2.4 and $.6 million, respectively, invested primarily in AT&T common stock, and are administered by the AT&T Employee Benefit Committee acting as trustees. Financial awards vary from $2,000 to $10,000, as determined by the Benefit Committee (acting as Vail trustees).

In order to ensure that the Trust continues to benefit Bell System employees and retirees, the current Vail Trust will be split, at divestiture, among AT&T and the regional holding companies, either individually or through the Central Staff Organization (as determined by the regional companies).[352] After divestiture, the current AT&T Vail Trust will continue for the benefit of post-divestiture active employees of the remaining AT&T group of companies and pre- and post-divestiture retirees of the AT&T group of companies. Based on the determination of the regional holding companies (i) a trust will be established by each regional company, for the benefit of the post-divestiture active employees of such region and the pre- and post-divestiture retirees of each regional company and its subsidiaries,[353] or (ii) a single trust will be established by the

[352] Any modification or division of the Vail Trust may require the approval of a court of appropriate jurisdiction or the consent of a governmental agency. Such judicial or governmental approvals will be sought if necessary. Additionally, IRS rulings may be necessary regarding the tax effect of any modification or division.

[353] If each regional company establishes its own Vail Trust, the Central Staff Organization will also establish a Vail program and trust to benefit its employees and post-divestiture retirees. Such trust will be funded by an allocation of regional company shares or other assets held in the existing Trust on a basis proportionate to the relationship between the number of employees assigned to the Central Staff Organization and the total number of pre-divestiture Bell System employees and retirees.

Central Staff Organization for the post-divestiture active employees of all the regions and the Central Staff Organization, the pre- and post-divestiture retirees of all the regions and their subsidiaries, and the post-divestiture retirees of the Central Staff Organization. Because the current Trust funds are invested primarily in AT&T common stock, the current Trust will be the recipient of shares of stock in each of the regional holding companies as of divestiture. The split of the existing funds will be accomplished by transferring to each regional holding company's new Vail Trust the shares of that sponsoring company received by the existing Trust at divestiture if each region establishes a Vail Trust, or by transferring all the regional holding company shares to the trust established by the Central Staff Organization if it establishes a trust for itself and the regional companies. Such shares, and the dividends thereon, will be used to pay awards to qualified employees and retirees of each such region. Either each regional company will establish an appropriate regional Vail Committee to serve as trustee and, directly or through appointed delegates, administer each region's Vail program and trust, or the Central Staff Organization will do so if it establishes a single Vail Trust on behalf of itself and the regions.

r. Shared Services After Divestiture

i. Pension Asset Administration and Real Estate Investment Services

The division of assets in the Bell System Management Pension Plan (BSMPP) and the Bell System Pension Plan (BSPP) trusts will take place over an approximately four year period (except with respect to real estate assets). *See* Part I.D.4.a.v.(2), *supra*. The transition period is necessary in order to compile data regarding accrued employee pension benefits, evaluate the data and perform the necessary actuarial evaluations, coordinate the division and allocation of the substantial pension funds (valued in excess of $35 billion), and accomplish the actual transfer of assets and liabilities.

During this transition period, certain services currently performed by the Investment Management Division of the AT&T Treasury Department will continue to be provided on a shared basis for the assets allocable to but not yet distributed to each regional company's plans and trusts. Such services relate to the maintenance and investment of the assets of the pension funds.[354]

At the election of each regional holding company, AT&T will continue to invest and manage for a transition period the assets allocable to the plans and trusts established by the regional holding companies under either the flash cut option or the full service option. *See* Part I.D.4.a.v.(2), *supra*. The interest in the Bell System Trust allocable and ultimately distributable to each regional company's plans and trusts will remain administered and invested under the Bell System Trust and continue to share in the commingled investment performance until actually distributed to regional company plans and trusts.

The costs associated with asset administration and start-up services for pensions, savings and voluntary contribution plans will be basically of five types: (1) advisory fees paid to banks, insurance companies, and independent investment advisors for asset management activities for the pension funds; (2) trustee fees for the safeguarding, accounting, and reporting activities for the assets of the pension funds; (3) Investment Management Division expenses, including salaries, related administrative costs, and investment surveillance and operational activities; (4) expenses associated with start-up activities; and (5) extraordinary expenses specifically attributable to actions taken or requested by a regional holding company with regard to one or more plan assets, such as the expenses associated with a withdrawal and physical transfer of assets to a regional holding company trust at or after divestiture.

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[354] AT&T will make available to the regional companies and the BOCs, at their option, for a transition period of two to four years, similar services with respect to the equity and bond portfolios and the guaranteed interest fund options of the trusts forming part of the BSSP, BSSSP, and Voluntary Contribution Plan funds.

Separate project accounts will be established for the pension trusts, start-up activities, and operating support systems. Administrative salaries and expenses will be regularly charged against the appropriate account. Trustee, advisor, consultant and vendor invoices also will be charged to the appropriate project account as received. Costs associated with the maintenance and administration of the various plan funds will be allocated based on the market value of participating fund assets in the common or commingled trust. Costs associated with start-up activities and extraordinary expenses will be billed directly to the regional holding company that generated the expense. Costs will be billed on a specified periodic basis.

Contracts specifying these services and cost methodology will be executed by AT&T and each of the regional holding companies.[355] Similarly, contracts will be executed covering optional services for the savings and other plans described at Parts I.D.4.b-c, *supra*. The contracts will become effective on the date of divestiture and will continue in effect for each regional holding company until (1) the relationship with AT&T is terminated by the transfer to the regional holding company of all pre-divestiture assets, or (2) termination by the regional company of any non-asset related services. For those companies selecting the full service option, the contract period is expected to be about three to four years; for companies selecting the flash cut option, the duration will be shorter, about two years.

AT&T will continue after divestiture to manage one or more commingled funds for real estate investments for both the AT&T pension funds and the regional holding company funds. The AT&T and regional holding company plans will have an allocable share in each such commingled or group fund, based

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[355] AT&T is also developing on a phased basis an Investment Management Analytical and Reporting System ("IMARKS") which is used in asset administration. As of the date of divestiture, it is estimated that IMARKS will be completed through phase 1. Participation in subsequent phases of development will be on a voluntary basis. Costs will be allocated among participating companies based on the total value of pension fund assets of the participating plans.

on the ultimate split of all pension assets. The funds will be held in trust with one or more institutional bank trustees, and AT&T will appoint one or more investment managers to manage the real estate investments. AT&T will perform overall monitoring and evaluation services for each real estate fund, and may direct or manage, directly or through professional consultants, certain investments without appointment of professional investment managers. A regional holding company may elect to withdraw from any commingled fund for real estate investment in which it participates and liquidate its interest therein, but such withdrawal and liquidation will be subject to the availability of funds and may only be effectuated at a time and in a manner so as not to penalize the other participants in the group fund. *See* Part I.D.4.a.v.(3), *supra.*

The duties and responsibilities of the parties with respect to the funding and administration of the commingled real estate fund will be provided under agreement. The agreement will be for an initial term of ten years, subject to extension upon the election of any regional holding company to continue in the fund. In addition to the conditional right to withdraw discussed above, any regional holding company may withdraw after ten years upon one year's prior notification to AT&T. The regional holding companies will be billed for the costs associated with the administration of the fund. These costs will include: (1) advisory fees received from banks, insurance companies, and investment advisors for the fund; (2) trustee fees for the safeguarding, accounting, and reporting activities for the fund; and (3) Investment Management Division expenses, including salaries and related loadings and other administrative costs, such as consultant and legal fees, related to the fund.

A separate project account will be established to which the costs relating to the commingled real estate investment fund will be charged.[356] The costs associated with the fund will be allocated based on each participating plan's interest in the fund

[356] To the extent permitted by ERISA, all costs will be charged to the fund and allocated against participating plans' interests therein.

as determined on a quarterly basis. Billings will be on a specified periodic basis.

ii. Actuarial Services

The Chief Actuary of the AT&T Actuarial Section is the ERISA enrolled actuary for BSMPP and BSPP. The AT&T Actuarial Section's responsibility is to maintain the financial integrity of the plans for the benefit of all plan participants. The distribution of employees between the various post-divestiture entities, including the BOCs, will directly affect the actuarial allocation of the pension plans' assets. The actuarial allocation of employees will not be finalized as of January 1, 1984, and certain movements of employees (*see* Part I.D.4.a.iii, *supra*) will occur after divestiture. These movements will require additional actuarial allocations.

The AT&T enrolled actuary will act as the ERISA enrolled actuary for each regional holding company for the transition period required to complete the distribution of pension trust assets under the flash cut or full service option, as selected by each regional company. Accordingly in addition to the determination of existing pension fund assets allocable to the plans of each regional company, the AT&T actuary will provide all other services required as the enrolled actuary for each of the regional holding company plans.

The contract for AT&T's services to the regional companies during the transition period will include a description of the cost methodology that will be used in billing the regional holding companies for the services rendered. The methodology will provide for allocating the costs directly related to the services provided plus appropriate overhead loadings.

The costs will be allocated on a two-fold basis, and will be billed on a specified periodic basis. The portion of the costs for services that relate equally to each of the entities will be divided equally among the entities. This will include, for example, the cost of the development of software for actuarial valuation. The balance of the costs will be allocated either in proportion to the number of participants in each plan or on the basis of asset values, as applicable.

PART II: AUGMENTATION OF THE BOCs TO ENABLE THEIR PROVISION OF SERVICES INDEPENDENTLY OF AT&T

Part I of the Plan of Reorganization describes how the resources of the existing BOCs, and the Bell System's network facilities generally, will be split between those that relate to the provision of exchange telecommunications, exchange access[357] and printed directory advertising services and those that relate to other functions provided by the Bell System. A separate step in the structural and functional split of the Bell System is to transfer to the BOCs additional Bell System resources that are necessary to enable them to provide their exchange and printed directory advertising services independently of AT&T and its affiliates (Decree, § I(A)(1)).

Each BOC has some resources that relate to most of the functions that must be performed to provide exchange services and printed directory advertising services. However, AT&T, Western Electric, Bell Telephone Laboratories and other AT&T affiliates (sometimes referred to in Part II collectively as "AT&T and its affiliates") currently provide a number of technical, engineering, procurement, administrative, operational support and other functions and services for the BOCs that assist them in the provision of exchange services and printed directory advertising. The Decree requires the identification of those resources of AT&T and its affiliates that provide these services and the transfer to the BOCs of sufficient resources to enable them to provide exchange and printed directory services independently of AT&T. Specifically, the Decree requires the transfer to the BOCs "of sufficient facilities, personnel, systems, and rights to technical information to permit the BOCs to perform, independently of AT&T, exchange telecommunications and exchange access functions, including the procurement for, and engineering, marketing, and management of, those functions" (Decree, § I(A)(1)). Fur-

[357] For convenience, exchange telecommunications services and exchange access services will sometimes be referred to collectively as "exchange services."

ther, the resources transferred must be "sufficient to enable the BOCs to meet the exchange access requirements of Appendix B" (*id*). Finally, AT&T and its affiliates must transfer to the BOCs "all facilities, personnel, systems, and rights to technical information . . . necessary for the production, publication, and distribution of printed advertising directories" (Decree, § VIII(B)).

AT&T and its affiliates have provided certain functions and services for the BOCs because it is more efficient to do so on a centralized basis. Although the Decree necessarily eliminates the BOCs' dependency on AT&T and its affiliates for these administrative, technical, operational, engineering, procurement and support services, the Decree allows these efficiencies to be preserved in another form. It provides that the BOCs may support and share the cost of a central organization for "the provision of engineering, administrative and other services which can most efficiently be provided on a centralized basis" (Decree, § I(B)).[358] The Decree further requires that the BOCs "shall provide through a centralized organization, a single point of contact for coordination of BOCs to meet the requirements of national security and emergency preparedness" (*id*). Thus, the Decree permits AT&T to transfer resources directly to "a new entity subsequently to be separated from AT&T and to be owned by the BOCs" (Decree, § I(A)(1)).

The implementation of these provisions of the Decree requires a number of discrete steps. First, each BOC's current capabilities must be assessed and a determination must be made as to where they should be augmented. Second, a determination must be made, in each area, as to whether the BOC entity to be augmented should be the regional companies[359] and their affiliates, or the Central Staff Organization.

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[358] For convenience, this organization will be referred to as the "BOCs' Central Staff Organization" or "Central Staff Organization", although the name eventually adopted for that organization may differ.

[359] The terms "regional companies" or "regions" in this Part of the Plan are not intended to refer to holding companies that may be

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Finally, AT&T and its affiliates' resources must be examined and a determination made as to the particular resources that can be transferred to assure that the BOCs have sufficient resources to provide their exchange and printed directory advertising services independently of AT&T, and as to the extent to which resources to be transferred should be assigned to the Central Staff Organization or to the regional companies.

The transfer of sufficient resources to the BOCs to enable them to provide exchange and printed directory services independently will not — and could not — entail transfers from AT&T and its affiliates to the BOCs of all the additional human and other resources that the BOCs will require after divestiture. In those areas in which the BOCs will require additional human resources to perform a function, there are often insufficient personnel now employed by AT&T and its affiliates who perform the function to satisfy both the needs of the BOCs and AT&T after divestiture. In many instances (*e.g.*, procurement related functions), the available personnel are insufficient even to satisfy the BOCs needs. The number of personnel to be transferred to the BOCs will therefore generally be determined by splitting the available personnel able to perform the functions in accordance with the respective needs of the BOCs and AT&T and its affiliates after divestiture.

Following the transfers to the BOCs, they and AT&T and its affiliates will each have qualified human resources to support the provision of necessary functions and to train such additional personnel as may be hired or obtained from other sources. In

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formed or to any specific corporate entity. Rather, it refers to the entire family of affiliated corporations that will assume control of the Bell System's exchange and printed directory advertising resources in the seven regions. How each regional company allocates resources among corporate entities is left to each company's discretion. Similarly, the use of the term "BOCs" in this Part of the Plan refers to the BOCs collectively, without making any distinction among existing entities, the regional companies or the BOCs' Central Staff Organization.

some instances, however, there are such a limited number of personnel and such an important need to keep a work group intact that dividing the qualified personnel is not feasible. In those cases, arrangements will be made for the entity that is not assigned the human resources to have personnel trained to assume the function, thereby assuring, through a different mechanism, the sufficiency of human resources.[360]

The planning for implementation of Sections I(A)(1), I(B) and VIII(B) of the Decree — including both transfers to the BOCs and for establishment of the BOCs' Central Staff Organization — has been provided by a task force of BOC Presidents, appointed on January 28, 1982. A committee of operating company employees and an advisory staff group of AT&T employees worked with the Task Force from the outset. When acting regional chief executive officers were selected for the seven regional companies in May, 1982, they appointed a group of regional designates who ultimately directed the planning.

The Task Force determined that some functions now performed centrally in the Bell System will be so integral to the operations of the seven fully separated regional companies that continued centralization after divestiture would be inappropriate.[361] However, the task force also determined that, because of the highly technical nature of the tele-

[360] In determining specific personnel to be transferred from AT&T and its affiliates to the BOCs, selection methods identified in Part I (Part I.D.2, *supra*) and Part I's provisions to protect employee rights (Part I.D.3 and 4, *supra*) both apply. There will also be the same provision for a "true-up" within the first year after divestiture (Part I.D.3, *supra*). But in no event will the BOCs or any regional company be transferred more personnel than are needed. Similarly, Part I's rules apply to the accounting for transfers of assets in Part II and the assignment of associated liabilities and reserves (Part I.A and I.B, *supra*).

[361] Similarly, there is often no uniform need among the BOCs for particular support services, or significant regional variations exist in the way in which such services are performed. In those cases, resources will be transferred to the regional companies to the extent that each requires augmentation.

communications network and the inefficiency and extreme difficulty of duplicating certain support groups in each regional company, the Central Staff Organization should be constituted to provide a number of specified technical and nontechnical functions for the BOCs as well as to serve as a single point of contact for national security and emergency preparedness.[362]

Based on the Task Force's decisions, it is anticipated that the Central Staff Organization will be comprised of approximately 8800 personnel as well as related facilities, systems and rights to technical information. The personnel include approximately 6600 technical personnel, representing roughly 2200 network planning personnel, 2000 software development and computer personnel,[363] 700 procurement support personnel and 1700 support personnel for technical functions. The personnel also include approximately 2200 nontechnical personnel, representing roughly 600 general administrative personnel, 400 training personnel, 600 software development and computer personnel and 600 general support personnel for nontechnical functions.

It is anticipated that more than three quarters of the personnel will be transferred from AT&T and its affiliates and that the rest will be obtained from the regional companies or from outside hiring. AT&T will also transfer to the Central Staff Organization sufficient office space and office equipment. The regional companies recognize a continuing need for a Central Staff Organization, particularly in the technical area.

This Part of the Plan of Reorganization will describe the categories of resources that will be transferred to the regional companies or to the Central Staff Organization and the other arrangements required to comply with Sections I(A)(1), I(B)

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[362] The regional companies will own the Central Staff Organization and will control its activities after divestiture. With the exception of the single point of contact for national security and emergency preparedness, the seven regional companies may make whatever arrangements they choose for the provision of service by the Central Staff Organization to the BOCs.

[363] Software development and computer personnel and general support personnel can, to some extent, support both technical and nontechnical functions, so the allocation of these personnel between those functions is somewhat imprecise.

and VIII(B) of the Decree. Part II.A will set forth the augmentation necessary to assure that the BOCs can provide exchange telecommunications and exchange access functions independently of AT&T and its affiliates. Part II.B sets forth the transfers needed to give the BOCs the resources to provide printed directory advertising services independently. Part II.C will describe the rights to technical information that will be granted the BOCs and arrangements for use of Bell System trademarks and trade names. Finally, Part II.D addresses the establishment of the BOC single point of contact for national security and emergency preparedness.[364]

A. EXCHANGE ACCESS AND EXCHANGE TELECOMMUNICATIONS SERVICES

The Decree requires that the BOCs, as divested, own and operate the Bell System's facilities that provide exchange telecommunications services within each LATA, as well as the trunks that transmit AT&T's traffic between end offices and switching systems performing interexchange switching. The BOCs already own most of the aforementioned facilities and Part I.A.1 of this Plan describes additional ownership interests in network facilities that will be transferred to the BOCs in connection with the basic split of the network. The implementation of Part II of the Plan, therefore, is primarily a matter of transferring to the divested BOCs the resources of AT&T, Western Electric, Bell Telephone Laboratories and other AT&T affiliates that will enable the BOCs to operate, manage, market, engineer, modernize and procure for these facilities; comply with the equal access requirements of Appendix B of the Decree; and administer and manage the complex corporate enterprises required to run their businesses.

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[364] Part II of the Plan only identifies the instances in which resources will be transferred to the BOCs. In all instances, however, in which the BOCs do not receive resources relating to a function necessary to provide exchange or printed directory advertising services, they will, at their option, have the right to have AT&T and its affiliates train personnel who will assume the function after divestiture.

Section 1 of this Part of the Plan discusses the transfers of resources relating to computer systems and computer software. Section 2 describes the transfers that will assure that the BOCs will have sufficient other technical resources to provide exchange services other than public radio services, including meeting the equal access requirements of the Decree. Section 3 sets forth the transfers that will assure that the BOCs have the technical resources to provide public radio services. Section 4 describes the transfers that will assure that the BOCs have the nontechnical resources to administer and manage the provision of exchange and other services.

All of the arrangements discussed herein relate to exchange telecommunications and exchange access functions and do not include transfers relating to printed directory services (addressed in Part II.B),[365] to CPE, to interexchange functions or to any manufacturing functions. The BOCs, however, will have the right to use the resources transferred in any lawful business except where the Plan of Reorganization states otherwise.

1. Transfers of Rights for Computer Software and Resources Relating To Centrally Developed Administrative, Operations and Business Information Systems

AT&T and its affiliates have centrally developed a number of computer systems for use by the BOCs. Some centrally developed systems are currently deployed with the BOCs and operated by them on their hardware; others are operated by AT&T for the BOCs on its hardware on a remote batch or time-shared basis. The centrally developed systems include network operations systems, procurement related systems, business information systems and other administrative systems.[366] They

[365] The transfers of nontechnical functions (Part II.A.4, *supra*) will, of course, assist the BOCs in managing their entire businesses; the specific transfers relating to providing printed directories are contained in Part II.B.

[366] The assignment of the computer hardware used in BOC-operated systems and in AT&T-operated network operations and related systems is discussed in Part I.

also include EPLANS, which are computer systems developed by Western Electric and used by the BOCs to solve technical or engineering management problems, including central office engineering and maintenance, facility engineering, fundamental network planning and distribution services planning. In addition, AT&T now owns — either directly or through its ownership of Western Electric, Bell Telephone Laboratories, other AT&T affiliates or the existing BOCs — the computer software used in connection with other functions now performed by the Bell System.[367] This Section discusses the rights that will be granted to the BOCs and AT&T and its affiliates in software owned by the Bell System relating to exchange services and the transfers to the BOCs of resources in connection with the centrally developed systems that relate to the provision of exchange services.[368]

a. Stored Program Control and Related Software

The first basic category of software is stored program control software used in association with switching equipment, transmission equipment, and similar signal path equipment, including the generic software in any CPE retained by the BOCs at divestiture. This category thus applies to software that is integrally related to and used in connection with any such equipment that was supplied to the BOCs by an AT&T affiliate.[369] It specifically includes the generic software for

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[367] Although software is technical information within the meaning of the Decree, the question of the rights to the different categories of software is integrally bound up with the assignment of personnel who support it. Therefore, rights to software will be treated here, rather than in Part II.C, *infra.*

[368] The rights in printed directory systems and associated software are discussed in Part II.B, *infra.* The BOCs will be granted no rights in systems and software that are used solely to support the provision of CPE.

[369] In the case of such equipment purchased by the BOCs from other manufacturers, each BOC will have whatever rights in the associated software that the purchase agreement provides.

Electronic Switching Systems (ESS) supplied by Western Electric.[370]

Upon divestiture, the BOCs will be entitled to use such software, and related documentation in their possession at divestiture, in connection with the hardware for which it was initially furnished and in connection with any lawful business (unless otherwise stated in this Plan). Except as the existing license agreements provide, the BOCs will not — consistent with industry practice — have the right to make copies of the software, transfer, license or disclose it to third parties. Where disclosures are authorized, the BOCs will do so on terms that safeguard its confidential and proprietary features.

License agreements will be executed between AT&T and the BOCs to implement these provisions of the Plan. ESS software will be subject to license agreements between Western Electric and the BOCs that will apply to all existing ESS software and to ESS software now under development and scheduled for initial deployment through 1985 (*e.g.*, through No. 4 ESS generic 4E9). These agreements will contain the following right to use provisions:

> "I. Title to the Licensed Software remains in Western Electric and Licensee is granted only the right to use the Licensed Software subject to the conditions set forth herein.
>
> "II. Western Electric grants to Licensee, for itself and its subsidiaries, a personal, nontransferable and nonexclusive right to use the Licensed Software, solely for its own or its subsidiaries' business purposes and solely on a designated switching system, to provide exchange telecommunications and exchange access service as these

[370] Those enhancements of ESS software required to enable the BOCs to satisfy the equal access requirements of the Decree are subject to Section I(C) of the Decree, which requires that AT&T perform these support services for the BOCs on a priority basis. Continued Western Electric support for this software is also addressed in Part III.B.1, *infra*.

terms are used in the Modification of Final Judgment (the "Decree") in *United States v. Western Electric Co.,* Civil Action No. 82-0192.

"III. No right is granted for the use of the Licensed Software to provide, either directly or indirectly, any interexchange routing or any interexchange telecommunications services or information services, as these terms are used in the Decree, to, with or for any interexchange telecommunications carrier or information services provider.

"IV. Licensee agrees that it and its subsidiaries will not use the Licensed Software except as authorized herein . . . .

"V. As specifically set forth in Sections II, III, and IV hereinabove, the right to use the Licensed Software granted herein is limited to Licensee's authorized services under the Decree. If there is a change in Licensee's legal authority to provide service as a result of modification or termination of the Decree by judicial action, the scope of the right to use the Licensed Software granted herein shall automatically be expanded or contracted to conform to such change.

"VI. Nothing in this License Agreement shall be construed to prevent AT&T and a BOC from sharing a multifunction switching system, including use of the software contained therein, pursuant to contract, in accordance with and as expressly permitted by the Decree."

These provisions grant the BOCs the right to use the software covered by the ESS license agreements for the provision of intraLATA and exchange access services. Consistent with the Decree's requirements, the provisions do not permit the BOCs to use the ESS software for interLATA or information services or for offering interLATA routing to any interexchange carrier. For example, under these provisions the BOCs will not be able to use the International Gateway software feature in

ESS switching systems because this feature is designed for the provision and routing of international service — a service which the BOCs are precluded from offering under the Decree. The provisions in the license agreements expressly provide, however, that the BOCs' right to use the identified ESS software will automatically be expanded or contracted to conform to any change in the Decree with respect to the nature of the services the BOCs are permitted to offer.

The right to use the ESS software will be nonexclusive and nontransferable and limited to designated electronic switching systems. Western Electric will continue to own the software programs. The license agreements also will include provisions regarding the protection of Western Electric's proprietary information, including trade secrets and other interests in the ESS software, with restrictions on access to, and dissemination of, the software programs and related technical information.

As to EPLANS, certain of these systems are used in conjunction with specific network equipment or systems furnished by an AT&T affiliate. Because of the high level of integration of switching and transmission equipment furnished by AT&T or its affiliates and because of the benefits of maintaining this integration, the software in these systems will be treated similarly to software in switching and signal path equipment.[371] As to these systems, the BOCs will be granted a right to use the software existing at divestiture and may, at their option, purchase enhancements and maintenance of the software from AT&T and its affiliates after divestiture. Personnel will be transfered to the BOC Central Staff Organization to enable it to specify in sufficient detail the requirements and features to be provided in future enhancements and to evaluate proposals for those enhancements.[372] The BOCs will be subject to similar restrictions on copying, licensing, transferring, and

[371] Other EPLANS that are less closely related to or coordinated with specific hardware are discussed at Part II.A.1.b.ii, *infra*.

[372] The BOCs will also be granted the right to operate these systems on BOC or vendor-provided computer facilities.

disclosing the software to others that apply to stored program control software. These EPLANS are:

— ***Automatic Message Accounting Recording System-X***

This system analyzes error messages reported by the Western Electric Nos. 1, 1A, 2 and 2B automatic message accounting recording centers.

— ***Central Office Equipment Engineering System***

This system assists in planning, sizing, pricing and ordering Western Electric's Nos. 1, 1A, 2 and 2B central office switching equipment.

— ***Centralized Automatic Trouble Locating and Analysis System***

This system is a maintenance aid for certain Western Electric supplied switches used in exchange central offices, including the No. 1 ESS switching system.

— ***Central Office Maintenance Management System — Preventive Maintenance***

This system provides mechanized administration of preventive maintenance work required for Western Electric switching equipment.

— ***5E Digital Ordering and Planning System***

This system assists in planning, sizing, pricing and ordering Western Electric No. 5 ESS central office switching equipment.

— *Software Change Administration and Notification System*

This system supports distribution and administration of broadcast warning messages which alert the users of Western Electric ESS switching equipment of maintenance changes needed for proper operation of the software.

b. Centrally Developed Software Other Than Stored Program Control and Related Software

As to nearly all other centrally developed software that relates to the provision of exchange services, the BOCs will, at divestiture, be granted both rights in the software beyond a right to use and other resources or rights relating to the modification, maintenance or enhancement of the software after divestiture. The BOCs' Task Force has analyzed the BOCs needs for each centrally developed system after divestiture, taking into account the relative needs of the BOCs and AT&T and its affiliates for the system after divestiture; the likelihood of continued BOC interest in a common, centrally developed system; the relationship of each system to specific vendor's hardware and the need to maintain that relationship; the availability of systems analysis and programming talent to maintain and enhance the system; the feasibility of physically transferring the system at divestiture; the extent of the need to maintain intact the personnel and laboratory resources that support the system; and the benefits to the shareholders of particular dispositions of licensing rights. The assignment of specific rights in each system and the extent to which related resources will be transferred either to the BOCs' Central Staff Organization or to the regional companies has been determined by the BOCs' assessment of these factors, in consultation with AT&T and its affiliates. There are four basic groups of such systems.

i. Operations Support Systems that are Closely Related to Hardware Supplied by AT&T or its Affiliates

There are a number of software systems that — although not furnished explicitly in connection with specific hardware or highly integrated with it, as is the case with stored program control and similar software — have been offered in the past by AT&T and its affiliates as a line of business and are used in conjunction with or require close coordination with hardware furnished by AT&T and its affiliates. Because of that close association, AT&T and its affiliates will, after divestiture, continue to offer the software as a line of business and will retain the personnel to enhance and maintain it. AT&T and its affiliates will grant the BOCs a right to use the software and will commit itself to continue, at the BOCs' option, to provide enhancements and maintenance of the software to the BOCs on a fee basis. The BOCs will not have the right to copy, transfer, license or disclose this software to third parties without AT&T or its affiliates' express written permission. After divestiture, the BOCs will have the right either to purchase enhancements or maintenance of the software from AT&T and its affiliates or to contract with other vendors or the Central Staff Organization for the development, maintenance and enhancement of similar systems. Personnel will be transferred to the BOCs' Central Staff Organization to enable it to specify in sufficient detail the requirements and features to be provided in future enhancements and to evaluate proposals from vendors.

If AT&T and its affiliates decide to terminate development of these systems, it will give the BOCs at least two years advance notice of its intention to do so. Following such notice, AT&T and its affiliates will furnish the Central Staff Organization, at its request, the source codes and associated documentation related to the particular system to enable the BOCs to maintain and enhance the systems. AT&T and its affiliates also will provide, subject to appropriate protective conditions, the development support systems used to maintain and enhance these systems.

In addition, the BOCs will have the right, for five years following divestiture, to assume the maintenance and enhancement of any or all of these systems. The BOCs will assume this software development effort only on a finding by the Central Staff Organization that AT&T and its affiliates have not responded satisfactorily to BOC requests. If the Central Staff Organization reaches such a finding, it will give AT&T and its affiliates a reasonable time to negotiate satisfactory arrangements in response to the BOCs' concerns.

If AT&T and its affiliates do not negotiate satisfactory arrangements with the BOCs within a reasonable time, the Central Staff Organization will so notify AT&T. Within one year after receiving such notice, AT&T and its affiliates will do the following. AT&T and its affiliates will furnish to the BOCs the then existing source codes and related documentation to enable the BOCs to maintain and enhance the systems. AT&T and its affiliates also will provide, subject to appropriate protective conditions, the development support systems used to maintain and enhance these systems. In addition, AT&T and its affiliates will contribute up to half the costs toward training Central Staff Organization personnel (excluding the Central Staff personnel salaries and related expenses) that will maintain and enhance these systems, providing that AT&T and its affiliates' contribution does not exceed one half of their costs of maintaining and enhancing these systems in the prior year. The BOCs and the Central Staff Organization will not license or disclose the source codes or associated documentation furnished by AT&T and its affiliates to any other party (except where necessary for the BOCs to arrange for maintenance or enhancement of the systems with a third party for the BOCs' own use) for four years following the furnishing of the information.

The post-divestiture service arrangements will also, in certain circumstances, provide for reimbursement of the costs of the post-divestiture enhancements and maintenance of the software that are incurred by AT&T and its affiliates or the BOCs. When the BOCs pay such development costs in separate, specifically identified payments, the contracts will provide that these costs will be rebated, according to a formula to be determined by the parties, to the BOCs if an AT&T affiliate thereafter sells the enhancements to other vendees. The total rebates are not to exceed the amount of the development costs paid by the BOCs. Similarly, when AT&T or its affiliates have paid post-divestiture development costs for BOC requested enhancements, the contracts will provide that the BOCs' termination right is subject to its reimbursing the appropriate AT&T affiliate for its net unrecovered cost from such development. The contract will further provide that after termination, all or part of this payment will be rebated to the BOCs if AT&T is able to license the enhancements to other vendees for a fee.

The systems that will be subject to these provisions are as follows:

— ***Automatic Message Accounting Reporting Center***

This System provides for the consolidation of billing information from Nos. 1 and 1A ESS systems.

— ***Cable Pressure Monitoring System***

This system provides centralized automated surveillance of alarm and status indicators for pressurized cable.

— ***Carrier Transmission Maintenance System***

This system provides for automatic, in-service testing for coaxial and radio carrier systems and associated multiplex terminal equipment.

— *Centralized Automatic Reporting on Trunks*

This system provides for automatic transmission and end-to-end operational trunk measurements.

— *Circuit Maintenance System 3A*

This system supports the Special Service Center by providing the craft, clerical and management personnel in this center with an interface with the Trunks Integrated Records Keeping System and Special Service System.

— *Engineering and Administrative Data Acquisition Center*

This system provides automatic collection of traffic data from electromechanical and ESS systems.

— *Engineering and Administrative Data Acquisition/Network Management System*

This system provides centralized real-time surveillance and control of all levels of the switching hierarchy.

— *Job Management Operations System*

This system mechanizes the outside plant job order administration and control processes including payroll, labor hour distribution and material disbursement which is reported to accounting.

— ***Loop Cable Administration and Maintenance Operation System/Cable Repair Administrative System***

These systems provide improved cable maintenance and customer service by mechanizing many of the operations associated with cable upkeep. They also manage the data base containing closed trouble tickets and the description of the work performed on those tickets.

— ***Loop Maintenance Operations System***

This system mechanizes the Maintenance Center customer line card records and produces management reports. This includes trouble report processing, control of automated testing and analysis of past trouble reports.

— ***Mechanized Loop Testing System***

This system provides for access to a customer's loop on which a trouble has been reported. The system verifies the condition of the loop and characterizes the trouble.

— ***Network Service Center System***

This system performs network trouble analysis and service monitoring function for BOC Network Service Centers.

— ***Remote Memory Administration System***

This system supports the operations of the Remote Change Memory Administration Center by mechanizing clerical information functions. It also mechanizes input to ESS switching systems and connection to service order processors.

— ***Service Evaluation System I and II***

These systems consolidate the service evaluation functions within a geographical area by automating dial line and incoming trunk service.

— ***Switched Access Remote Test System***

This system provides for testing of special services circuits by one person using remote access.

— ***Switching Control Center System***

This system supports the operation of the Switching Control Center by providing remote centralized maintenance of the stored program control equipment.

— ***T-Carrier Administration System***

This system mechanizes the Facility Maintenance and Administration Center to achieve centralized administration and control of digital network facilities.

— ***Telecommunications Alarm Surveillance and Control System***

This system provides for the mechanization of centralized alarm reporting, status surveillance and remote control of telecommunications equipment.

ii. EPLANS and Other Systems that are not Closely Coordinated with Specific AT&T Hardware

There are a number of EPLANS and other systems that are less closely related to or coordinated with specific hardware than are the systems discussed above. The BOCs and AT&T and its affiliates will be given separate, but equal, ownership in the software for these EPLANS and other systems at divestiture. The BOCs' Central Staff Organization and AT&T and its affiliates will each have copies of the source codes and related documentation, the right to modify or enhance the software and the right to license, transfer or disclose the software to third parties. As to all such systems that have been analyzed, with one exception (i.e., the COSMOS system discussed *infra*), the personnel who presently enhance and maintain the software will be split between the BOCs' Central Staff Organization and AT&T and its affiliates in accordance with each entities' respective needs, as determined on a system-by-system basis. In addition, operational and administrative personnel for the systems to be operated by the BOCs, and personnel to provide technical advice and user support for these systems, will be transferred to the regional companies or to the Central Staff Organization as appropriate.

The systems in this category include:

— ***Air Pressure Analysis System***

This system is used in the analysis and design of outside plant pressurization systems.

— ***CCIS Local Alternatives Studies Systems***

This system provides an economic evaluation of offering common channel interoffice signaling facilities in the exchange environment.

— ***Computerized Administrative Route Layouts System***

This system provides administrative route layouts for use in monitoring the outside plant network.

— ***Digital Carrier Operations and Engineering System***

This system is used to plan growth of digital facilities and to calculate the power requirements for certain types of repeaters.

— ***Digital Line Engineering System***

This system plans the spacing of repeaters for subscriber loop systems that use digital line transmission.

— ***Economic Alternative Selection for Outside Plant***

This system is used for outside plant engineering. It computes the present worth of expenditures.

— ***Economic Feeder Administration and Relief System***

This system plans the administration and relief of feeder cable facilities.

— ***Exchange Feeder Route Analysis Plan System***

This system develops fundamental plans for cable and supporting conduit structure for feeder cable networks.

— ***Frame Monitoring and Planning System***

This system provides information on wire centers. It facilitates the distribution of frame planning and monitoring.

— ***Interoffice Circuit Forecast Processor System***

This system is used for economic facility planning. It allows for standardized use of forecast data.

— ***Intercity Facility Relief Planning System***

This system assists in planning for the future construction of intercity transmission facilities.

— ***Local Switching Replacement Planning System***

This system formulates area-wide modernization schedules for the replacement of local switching systems.

— ***Long Route Analysis Program***

This system evaluates outside plant facilities relief alternatives for non-urban areas.

— ***Loop Activity Tracking Information System***

This system summarizes operations relating to outside plant service interruptions or problems and inadequate facilities. It identifies parts of the network that need repair or refurbishment.

— ***Loop Cable Record Inventory System***

This system provides exchange cable data to assist in the planning and scheduling of plant additions.

— ***Loop Feeder Administration System***

This system prepares load balance worksheets and similar administrative tasks.

— ***Loop Plant Improvement Evaluator Systems 1A and 2***

These systems perform economic analyses of possible distribution plant improvements.

— ***Mechanized Scheduling System***

This system plans, schedules and controls outside plant work from initial engineering to final completion.

— ***Mechanized Standard Time Increment System***

This system mechanizes portions of the construction force management system in order to assist in outside plant placing and splicing construction work.

— ***Mechanized Wire Center/Cross Section System***

This system is used in selecting optimum wire center locations and in determining the associated costs of the wire centers.

— ***Metropolitan Area Transmission Facility System***

This system assists in developing relief plans for metropolitan interoffice transmission networks.

— ***Operator Services Traffic Network Planning System***

This system is used in the planning of operator services network growth and evolution.

— ***Outstate Facility Network Planning System***

This system assists in creating and evaluating facility relief plans for non-metropolitan areas.

— *Plant Work Center System*

This system analyzes the location and number of installation, repair and construction truck garages in an administrative area. It allows for the evaluation of traveling costs associated with work activities.

— *Simplified Modular Frame Assignment System*

This system provides preferential assignment of modular frames consistent with traffic load balance objectives.

— *Software Information Service System*

This system provides a data base applicable to all stored program control systems.

— *Tandem Cross Section Program System*

This system assists in planning for growth of alternative metropolitan network traffic configurations.

— *Telephone Office Planning and Engineering System*

This system is an interactive graphics system utilized in the planning and layout of central offices, transmission stations and administrative space.

— *Universal Cable Circuit Analysis System*

This system calculates transmission characteristics of loop, trunk and special service circuits at specified frequencies.

* * *

One system in this category that must be treated separately is the Computer System for Mainframe Operations (COSMOS). There are a limited number of human and laboratory resources available for the support of COSMOS and any division of them would preclude its efficient and orderly enhancement and maintenance. Personnel will, therefore, be transferred to the BOCs' Central Staff Organization to enhance and maintain the software for this system and, for a transitional period of up to five years, AT&T and its affiliates will pay the Central Staff Organization their proportionate share of the costs of post-divestiture enhancements and maintenance of the software that are of value to AT&T and its affiliates in their use of the system. AT&T and its affiliates and the BOCs will each have the right to license, transfer or disclose to third parties the software and enhancements that they fund. Consistent with the general rebate arrangements (Part II.A.1.b.i, *supra*), the contract between the parties will provide that in the event an affiliate of AT&T is able to license the COSMOS software developed for the BOCs by the BOCs' Central Staff Organization for a fee to a third party, it will remit a proportionate amount of its licensing revenues to the Central Staff. The total amount remitted may not exceed the amount of the Central Staff's post-divestiture development or maintenance costs.

iii. Business and Management Systems

In addition, there are a number of centrally developed general business and management systems. As to each of these systems that relates to exchange services, it is anticipated that AT&T and its affiliates and the BOCs will each have some continuing needs for these systems. It is expected, however, that the requirements and characteristics of the respective AT&T and BOC systems will diverge after divestiture and that eventually the BOC and AT&T affiliate systems will be fundamentally different. The assignment of rights and resources relating to these systems reflects the need for transitional arrangements during the period after divestiture. This assignment also recognizes that, in some instances, transfer and commencement of support of these systems by the regional companies would be impractical at divestiture.

First, there are a number of systems that the BOCs have determined should continue to be centralized following divestiture. As to such systems, the BOCs' Central Staff Organization will be assigned the personnel and other resources required to enhance and maintain them, but AT&T and its affiliates will retain copies of the source codes[373] and a right to enhance and maintain the systems. As to these systems, the BOCs' Central Staff Organization will, for five years after divestiture, have the right to license, transfer or disclose the software to third parties; AT&T and its affiliates may do so only with the Central Staff Organization's express written permission during that period. After the five year period, each will have the right to license, transfer or disclose their software to third parties.

Because of the impossibility of dividing the human resources so that AT&T and its affiliates and the BOCs will both have enhancement capabilities during the transitional period after divestiture, these systems will be treated essentially like COSMOS with respect to post-divestiture enhancements and maintenance. For a period of up to five years, AT&T will have the right to pay a proportionate share of the cost of enhancements by the Central Staff Organization and to obtain the use of all enhancements it helps fund; both AT&T and the BOCs will have the rights to recover some or all of their post-divestiture development costs in the event of sales of enhancements to third parties. *See* Part II.A.1.b.i, *supra*.

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[373] AT&T will also retain a small number of personnel to "seed" future development of the systems; these personnel, however, will not be adequate to perform enhancements and maintenance during the transition period following divestiture. It is anticipated that, while AT&T will be responsible for the salaries and expenses of the "seed" personnel it retains, these people may work with the personnel at the Central Staff Organization to be trained in providing enhancements, modifications, maintenance and other support for these systems.

The systems subject to this treatment include:

— *Business Office Cost Analysis Plan*

This is a cost control system that performs force planning and budgeting. It displays work volumes, measures business office efficiency and forecasts and monitors the allocation of resources on all levels of a business office organization.

— *Coin Operation and Information Network System*

This system provides information on coin telephone collections, accounting, internal safeguarding, marketing, installation and maintenance, booth cleaning, directory delivery and public service center activities.

— *Data Base Administrative System*

This system integrates the service order procedures of a telephone company with data bases used for automatic intercept systems and billing validation applications.

— *DDD-Incoming Trunk Service Observing System*

This system summarizes service observing data taken from incoming trunks to tandem switching machines. Data is summarized and weighed for results reporting. In addition, results are grouped according to the end offices and intermediate switches to which calls are directed.

— *Division of Revenues Monthly Allocation Process*

This system provides a summary of central office investments by accounting location and division of revenue category. It also provides detailed reports supporting the summary.

— *Division of Revenues Process System*

This system performs certain division of revenue studies. Although the division of revenue contracts between the BOCs and AT&T will be cancelled, these systems will continue to be required to perform functions relating to BOC settlements with independent telephone companies.

— *Facilities Assignment and Control System*

This system maintains inventories and provides assignment of outside plant and central office facilities. It provides improved flexibility and control in recording and assigning all loop facilities from the customer's premises to the main distributing frame in the central office and in sending and receiving service orders for these assignments.

— *Integrated Force Administration Mechanization System*

This system contains daily and monthly force management reports regarding volumes and efficiency of employees and the monthly administrative reports for all operator services organization levels.

— *Plug-In Inventory Control Systems*

The system reduces the manual burden associated with interdepartmental recordkeeping requirements. It provides the methods and procedures for monitoring and controlling the acquisition, movement and retirement of plug-in equipment, test sets and other tools. It also provides a detailed continuing accounting for all central office records.

— ***Premises Information System***

This system, which is a component of the Facility Assignment and Control System, provides support to residence service centers and loop assignment centers. It supports service representatives by providing such information as address verification, commitment dates, service order preparation and telephone numbers for assignments.

— ***Service Evaluation Reporting System***

This system evaluates operator and network switching service.

— ***Small Office Network Data System***

This system is designed to serve the data collection, processing and reporting needs of step-by-step offices serving fewer than 5,000 stations. A variety of reports on network maintenance, administration and engineering are prepared and distributed by the system.

— ***Special Services Forecasting System***

This system provides forecasts of interoffice special services circuit demand for the current year and for each of the next five years.

— ***Total Network Data System/Trunking/Equipment System***

This system processes and manages traffic data for the telephone network. It provides network data measurements through an integrated configuration of subsystems.

— ***Transmission Evaluation System***

This system collects network interoffice transmission and central office performance information and produces reports for various organization levels.

— ***Trunks Integrated Records Keeping System***

This system supports the total network provisioning process, both planning and operations. It provides circuit order control, equipment order control, circuit design, inventory record maintenance, circuit record maintenance, selection and assignment of components from inventory, network maintenance support and the preparation and distribution of work orders. It also handles message trunks, special service circuits and carrier systems.

— ***Trunk Transmission Maintenance Index System***

This system provides information on the number of measurements and deviations exceeding index limits on trunk transmission loss, noise and balance requirements. The system stores the information for quarterly reports and compiles the indices for the different levels of organization.

* * *

Second, there are business and management systems which the BOCs have determined should eventually be taken over by the regional companies. The BOCs have concluded, however, that the software development should continue, in many instances, to be centralized for a transitional period after divestiture due to the impracticality of transferring of these functions to regional companies at divestiture. As to these systems, AT&T and its affiliates will then retain the personnel to enhance and maintain them and will, under contract, provide enhancement and maintenance for any regional companies that elect to purchase such services after divestiture.

These contracts will obligate AT&T and its affiliates for a minimum period of five years; after five years, they will be terminable by AT&T and its affiliates on two years' notice. Each regional company will receive the source codes and related documentation for all enhancements and maintenance that it funds after divestiture. Each BOC will have the right to elect not to support centralized development at divestiture and to begin providing support of the system and enhancements itself immediately after divestiture. Each BOC also will have the right to terminate its participation in centralized development after divestiture on one year's notice. These contracts will make the same provisions for the treatment of costs of post-divestiture development that apply to the operations systems. *See* Part II. A.1.b.i, *supra.*

The regional companies and AT&T and its affiliates will each obtain or retain copies of all appropriate source codes and related documentation for this software. Each will further have the right to license, transfer or disclose the software to third parties.

The systems subject to this treatment include:

— ***Bell Administrative Network Communications System***

This system provides a message switching network for BOC business communications. It handles computer to computer, interactive terminal to computer and store-and-forward distribution traffic.

— ***Billing and Order Support System***

This system provides customer account information. It reduces operating expenses by reducing customer contact time through simple, fast user access to the customer account information.

— ***Construction Management Information System***

This system is a data base of construction activities. The system performs job scheduling and pricing, mechanized estimates of future expenditures and a comparison of actual charges. The system provides for records of dollars, materials, and schedules.

— ***Investment and Cost Information System***

This system provides cost data required for pricing decisions, promotional activities and the daily operations of the telephone company business.

— ***Centralized Inventory Management Systems — High Volume/Low Volume***

These systems are used for inventory and materials management of telephone company products.

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The procurement related and other systems discussed in "Procurement" (*see* Part II.A.2.e, *infra*) and in Central Office Engineering, Records and Installation (*see* Part II.A.2.f, *infra*) are included in this category of software systems, except that the regional companies will not have the right to license, transfer or disclose these systems without the consent of AT&T and its affiliates. In the event one or more regional companies decide as of divestiture to maintain, enhance or operate one of these systems independently of AT&T and its affiliates, "seed" personnel to perform these functions will be transferred, where practical and appropriate, to the regional company, or if so directed by the regional company, to the Central Staff Organization.

iv. Other Centrally Developed Systems

The Interstate Settlement Information System (ISIS) performs interstate jurisdictional separations and monthly division of revenues computations which will continue to be essential to the operations of both the BOCs and AT&T and its affiliates after divestiture.[374] AT&T and its affiliates have already begun development of a BOC ISIS system to be owned and operated after divestiture by the BOCs' Central Staff Organization, and of a separate AT&T ISIS system to be owned and operated by AT&T and its affiliates.[375] Both the Central Staff Organization and AT&T and its affiliates will have the source codes and the right to license, transfer or disclose their respective systems to third parties. Neither will have any rights in the other's system. AT&T and its affiliates will provide resources to complete development of the BOC ISIS system.

The UNIX[376] system is a software operating system used in a computer to instruct it in the execution of application programs. The UNIX system is used widely in AT&T computer systems for time-sharing and other functions. UNIX is also licensed by AT&T and its affiliates to academic institutions and commercial firms for data processing purposes. The BOCs and the Central Staff Organization will be provided, subject to appropriate protective conditions, all releases of UNIX software up to Release 6 at divestiture, and will be provided, subject to appropriate protective conditions, Release 6, when Release 6 becomes available. The version of Release 6 that will be furnished to the BOCs and their Central Staff Organization will be that version applicable to hardware configurations associated with Release 5.0.

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374 After divestiture, both the BOCs and AT&T and its affiliates will be engaged in the provision of services subject to regulation by state and federal authorities. The requirement for jurisdictionally separating the costs applicable to such services will mean that each will continue to have a need for a system such as ISIS. Moreover, to the extent that BOCs after divestiture continue to provide services jointly with independent companies, the need exists to have a process to divide costs and revenues for that purpose as well.

375 Parallel treatment will be accorded to the Centralized Message Data System which collects data on message toll telephone calls.

376 UNIX is a trademark of Bell Telephone Laboratories.

The BOCs' and the Central Staff Organization's use of UNIX software will be limited to their own use and they may not license, transfer or disclose it to third parties. The BOCs and the Central Staff Organization may enhance and maintain UNIX software for their own use, or they may contract with AT&T for the maintenance and enhancement of it. The BOCs and the Central Staff Organization may also request a third party to provide maintenance and enhancements of UNIX software (up to and including Release 6) for the use by BOCs and the Central Staff Organization, subject to appropriate protective conditions. Ownership of UNIX software will remain with AT&T and its affiliates.

* * *

The foregoing sections specifically identify all the major and many of the minor centrally developed systems. The Bell System will, prior to divestiture, continue to analyze the hundreds of other centrally developed systems. All of these systems will be treated at divestiture in accordance with the principles underlying the foregoing categories.

c. Software Developed Locally by the BOCs

The BOCs have locally developed software relating to the provision of exchange and printed directory advertising services. As to all such locally developed software, the BOCs will be assigned ownership at divestiture. AT&T and its affiliates will be granted a right to use it, will obtain copies of the source codes and related documentation, and may enhance or modify it.[377] AT&T and its affiliates, however, may not, for five years following divestiture, license, transfer or disclose it to third parties without the express written permission of the BOC that developed the system.

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[377] The BOCs will not be assigned any interests in any locally developed software that relates solely to the provision of CPE, interLATA service or any BOC service prohibited by the Decree.

d. Shared Systems and Computer Training Facilities

Finally, there are a number of instances in which shared use of systems will be required by the BOCs and AT&T and its affiliates because their respective work centers are multi-function facilities. The BOCs currently provide for the operation and associated maintenance and enhancement of systems which support both the interLATA and the intraLATA business. Conversely, AT&T and its affiliates currently provide for the operation and associated maintenance and enhancement of systems used in common with the BOCs. The contracts that will govern such arrangements are discussed in Part I.A.1.b, *supra.*

AT&T and its affiliates will continue to make available to the BOCs, for a four year transition period, the computer training facilities of its Data Systems Education Centers located in Piscataway, New Jersey, and Denver, Colorado. It is anticipated that by the end of this period the BOCs will have developed their own training capability. The tuition and fees at those centers will be set to recoup the costs that are required to provide the training.

2. Transfers of Other Technical Resources Relating to Exchange Services

The BOCs currently own most of the transmission and switching facilities of the Bell System needed to provide exchange telecommunications within each LATA — and will have, after the assignments discussed in Part I and Part II.A.1, all the network facilities and computer related resources required to provide exchange services. There are, however, a number of other functions and services relating to the operation, engineering, modernization and procurement for the foregoing network facilities that have been performed centrally for the BOCs by AT&T, Western Electric or Bell Telephone Laboratories. Various facilities, personnel, systems and rights to technical information will be transferred from these entities to either the BOCs' Central Staff Organization or to the regional companies to enable them to provide exchange telecommunications and exchange access functions independently of AT&T and its affiliates.

The technical functions of the BOCs, which will be augmented by transfers from AT&T General Departments, Bell Telephone Laboratories and Western Electric to the BOCs, fall into seven different areas: (a) providing methods and computer aids to support the planning, engineering and operation of network facilities, (b) providing methods and computer aids to support the design of network configurations, (c) specifying performance standards and generic equipment standards, (d) research in communications technology, (e) procurement and procurement support functions, (f) performing central office engineering, records maintenance and installations, and (g) preparing translation and parameter guides.

a. Methods and Computer Aids to Support the Planning, Engineering and Operation of Network Facilities

AT&T General Departments and Bell Telephone Laboratories each have staffs that currently provide the BOCs with methods and computer aids for the planning, engineering and operation of network facilities. The activities of these organizations relate, in many cases, to switching, transmission and distribution facilities that will be retained by the BOCs upon divestiture.

With respect to switching facilities, Bell Telephone Laboratories and AT&T General Departments are responsible for the systems engineering of new switching machines in the Bell System. Bell Telephone Laboratories provides generic design specifications and technical evaluation of design alternatives. AT&T General Departments determines the overall needs for the BOCs and the priorities for system development. Development of technical criteria for evaluating these systems is also done centrally by the General Departments and Bell Telephone Laboratories. This support includes developing methods and tools to support the engineering, maintenance, administration and operation of new and existing systems.

The Central Staff Organization will have the capability to perform these functions as to intraLATA switching system facilities. It will also have the capability to perform various other tasks such as providing generic requirements for end office switching systems. It will also develop similar requirements for directory assistance, intercept operator services and other services. Resources and personnel with expertise in these areas will be transferred from AT&T General Departments and Bell Telephone Laboratories to the Central Staff Organization.

As to transmission facilities, AT&T General Departments and Bell Telephone Laboratories provide the BOCs with a number of services related to generic requirements and technical capabilities of new equipment. The General Departments and Bell Telephone Laboratories also provide expertise in the area of circuit design and the deployment of new transmission systems. In addition, the General Departments provide field support to the BOCs for the engineering, installation and operation of these systems. Personnel with transmission engineering expertise will be transferred from AT&T General Departments and Bell Telephone Laboratories to the Central Staff Organization to provide advice and assistance on these matters.

Bell Telephone Laboratories also engages in research, systems engineering and development for local distribution facilities. In this regard, it and AT&T General Departments provide support to the BOCs relating to the engineering, construction, installation and maintenance of those facilities. These activities include local loop plant planning, performance evaluation and development of cost models. They also involve development of computer based systems for circuit engineering design of local loops and for work force planning and evaluation. The Central Staff Organization will receive resources and personnel to perform these services.

b. Methods and Computer Aids to Support the Design of Network Configuration

Network planning functions now performed by Bell Telephone Laboratories and AT&T General Departments for the BOCs include service planning, network architecture planning and operation planning. Service planning involves the analysis and economic and technical evaluation of potential new services. Network architecture planning involves the development of methods for maintaining or expanding the network to meet present and future service demands in the most economical manner. Operations planning is the preparation and support of specific operations, engineering and planning tools used by field personnel. Resources and employees will be transferred to the Central Staff Organization from AT&T General Departments and Bell Telephone Laboratories to perform these functions.

c. Specifying Performance Standards and Generic Equipment Standards

Bell Telephone Laboratories and AT&T General Departments develop service performance standards and generic equipment standards for the BOCs. They provide technical specifications for interfaces between the BOCs and interexchange carriers, as well as between BOC and customer-owned equipment. In this regard, AT&T General Departments and Bell Telephone Laboratories formulate network compatibility descriptions for existing interfaces, evaluate characteristics for new interfaces and establish performance standards. They also represent the interests of the Bell System in international and domestic forums that develop standards for telecommunications. Further, these groups provide technical leadership for formulating numbering plans, dialing procedures for new and existing services and administering the North American Numbering Plan, and also act as a liaison concerning national and international radio regulations which will affect BOC radio system engineering and operation.

The Central Staff Organization, along with its network planning and facilities planning activities, will perform the foregoing activities for the BOCs. Resources, including the technical information relating to establishing interface specifications, and personnel with expertise in these areas will be transferred from AT&T General Departments and Bell Telephone Laboratories to the Central Staff Organization.

As to equipment interconnection, AT&T has established in each BOC one or more Centralized Operations Groups (COGs) as a point of contact to assist non-Bell System vendors of Key and PBX systems in interconnecting their equipment. The BOCs will retain these COGs after divestiture. In addition to the COGs established in the BOCs, employees of AT&T have coordinated the BOCs' COG activities. The assets and personnel associated with this coordinating function will be transferred to the Central Staff Organization.

d. Research in Communications Technology

Bell Telephone Laboratories performs technological research for the BOCs relating to local exchange services in the area of new services, switching, transmission, distribution, customer premises interfaces and computer technology. It also evaluates computer processors and hardware for suitability of BOC use and evaluates and demonstrates new computer hardware and software. A communications laboratory will be established in the Central Staff Organization with sufficient equipment and personnel to perform these kinds of functions for the BOCs, along with any similar activities that may be needed in the future. This will include, among other things, research in the areas of switching, transmission, distribution, computer technology and communications techniques.

e. Procurement

The Decree requires that the BOCs be transferred "sufficient facilities, personnel, systems and rights to technical information" to permit "procurement for" exchange telecommunications and exchange access functions "independently of AT&T" (Decree, § I(A)(1)). This Section of the Plan of Reorganization discusses those transfers.

Certain functions relating to procurement currently are centralized in the Bell System. The Bell System Purchased Products Division in the AT&T General Departments, for example, issues product evaluation reports and generally serves as a clearinghouse for information on general trade suppliers and their products. It also negotiates national purchase contracts with general trade suppliers on behalf of the BOCs and reviews BOC procurement practices to assist in assuring that they purchase the most suitable products at the lowest costs.

Other procurement functions are provided by various other Bell System organizations and entities, including those in the BOCs. Those diversified functions encompass product selection, purchasing and materials management, along with support functions such as purchased products engineering, quality assurance, training and technical information resource management. Employees performing those functions, and the equipment and other assets needed to support them, will be transferred to the regional companies, or to the Central Staff Organization in those cases where the functions are technical in nature and economic benefits result from centralization. There will, however, be no centralized purchasing for the BOCs by the Central Staff Organization, nor will it make recommendations as to particular products.

Because the BOCs already have procurement capabilities, the procurement related transfers to them will often be in the nature of enhancements to existing BOC organizations. Also, because it is important that BOC procurement personnel reflect a broad spectrum of talent, the transfers will not be drawn solely from one Bell System entity; they may come from numerous possible sources.

i. The Procurement Process

Currently, the BOCs make their own procurement decisions; that will not change upon divestiture. Their resources to perform procurement independently will, however, be augmented. Employees who have the requisite skills will be transferred from AT&T and its affiliates as required by the regional companies. Computer systems, along with copies of related technical information, also will be furnished.

In particular, personnel from the Western Electric purchasing organization will be transferred to each region to augment BOC employees engaged in purchasing functions, including administration, contracting and order processing. Prior to divestiture, the purchasing employee needs of the regions will be assessed. The regions and Western Electric will split the Western purchasing employees in proportion to their respective needs. Copies of relevant purchasing policies, practices and procedures will be made available to the regional companies, along with needed purchasing related computer systems.

Copies of relevant purchasing training material will also be made available to the regional companies,[378] along with pertinent data maintained by AT&T and its affiliates concerning suppliers, historical demand, usage patterns and current forecasts for material previously purchased or scheduled to be purchased for the BOCs. Forecasting information to be made available will include models used to convert general forecasts to detailed product requirements. AT&T and its affiliates will also identify suppliers with whom it has contracts to purchase items and services which it resells to the BOCs. The information in those contracts needed for BOC purchasing activities will be made available to the regional companies provided that the outside supplier does not object to the disclosure on the grounds that the information is proprietary.

The role of the Central Staff Organization in the product selection and purchasing process will be limited to providing

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[378] *See* Part II.C, *infra,* for a discussion of the rights that the regional companies and the BOCs' Central Staff Organization will have in this and other procurement related technical information.

the regional companies with advice and assistance in the form of technical evaluations of products or services as directed by the regions. Personnel with requisite expertise will be transferred from AT&T and its affiliates to perform this function. Also transferred or made available will be certain laboratory equipment and copies of associated technical information, methods and procedures; KS, AT, AT&T and related procurement specifications; vendor libraries; and computer systems required to insure effectiveness of the organization.

Resources of the BOCs will be augmented for materials management procurement functions such as transportation and distribution; stock maintenance and warehousing; repair and reuse; and disposition of surplus material. The aggregate of these elements involves the logistical planning and implementation activities associated with the movement of material into, during, and removal from use or service.

In order for the regional companies to administer transportation from suppliers, AT&T and its affiliates will split transportation employees between Western Electric and the regional companies in proportion to their respective needs. Copies of transportation related information such as rate and routing data, carrier selection and freight classifications will also be provided. In addition, the Logistics Planning Model, the Vehicle Scheduling Optimization System and other needed systems will be made available to the regional companies.

Each regional company will also need warehouse space, along with storage and associated material handling equipment. Each regional company's specific requirements will be determined prior to divestiture and transfers of Western Electric warehouse space and associated equipment will be made between the regional companies and AT&T and its affiliates. The allocation of adequate warehouse space to the BOCs will take into consideration factors such as present and future BOC needs, the age and condition of the warehouse, its proximity to public transportation and to BOC operating locations.

The regional companies will also need trained personnel to operate the warehouses and to perform the stock maintenance function. Each region's specific requirements will be determined prior to divestiture. Employees with requisite skills will be transferred to perform these functions and operate the warehouses and facilities transferred. To support the warehousing function, copies of existing practices and procedures relative to warehousing operations will be provided, along with related training courses, specifications and technical criteria for establishing, sizing and outfitting warehouse locations.

Warehouse operational and administrative functions, as well as repair processes, inventory control and stock maintenance functions, are integrated and controlled by a computer system called the Regional Material Distribution System /Distributive Material Distribution System (RMDS/DMDS), which includes the Management Inventory Information System. RMDS/DMDS provides for critical ordering control features; controls the repair operation; enables effective inventory control; enhances warehouse productivity; and provides detailed accounting and billing/crediting data in a cost effective manner. This system will be made available for use by the regional companies, as well as other systems needed to perform the stock maintenance function.[379] These arrangements will include contractual provisions to protect BOC proprietary information. To enhance the regional companies' ability to use these systems, the regional companies will be provided with copies of background information relative to stock maintenance and inventory control systems; all training material, corporate instructions and practices relative to stock maintenance, inventory control and systems operations; historical material usage data; and other relevant technical information.

Two limited materials management procurement functions will be provided on a centralized basis. First, systems planning and design experts will be transferred from AT&T to the Central Staff Organization to recommend future requirements

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[379] *See* Part II.A.1.b.iii, *supra,* for a discussion of the rights that the regional companies and the BOCs' Central Staff Organization will have in these and other procurement related systems.

for computer systems used for purchasing and inventory control. Second, employees will be transferred to the Central Staff Organization to provide the regional companies with expert advice on distribution of products and services. For both of these functions, copies of related practices and procedures, training programs, and computer systems will be provided.

As to repair functions, which include selection of repair standards, testing, training and inspecting as well as administration, the regional companies will either perform these functions or contract with others to perform them. Currently, it is anticipated that the regional companies will contract for most repair functions. The only repair function that is appropriate to be centralized, because of the efficiencies which will result, is maintenance of a library and reference source for repair specifications. This function will be performed in the Central Staff Organization by employees who will be transferred from AT&T and its affiliates.

AT&T and its affiliates will provide the library with copies of the Bell System Repair Specifications that relate to equipment or products used by the BOCs. The library will also receive any needed additional information contained in Western Electric Repair Specifications provided that such information relates to the appearance and performance of a BOC-used product after repair. Prior to divestiture, such Western Electric Specifications will be jointly reviewed by representatives of the BOCs and Western so as to insure that the Central Staff library is provided with the repair appearance and performance information contained in these specifications.

In addition, AT&T and its affiliates will make available those computer systems necessary to manage the repair function for BOC equipment; a list of repair vendors; information required to support mechanized and manual systems relating to the management of repair; historical data on material usage, returns, repair and junking; and training courses relating to the repair and reuse of BOC owned material.

ii. Procurement Support Functions

Procurement support functions include purchased products engineering, quality assurance, advice on disposition of surplus, technical information resource management and training. These functions involve a high level of professional expertise and substantial efficiencies are achieved by performing them on a centralized basis. They are, however, support functions; they do not encompass product selection or purchasing.

A purchased products engineering group in the Central Staff Organization will provide the regional companies with technical support in connection with the maintenance of procurement specifications transferred under this Plan. The group will also analyze facilities and tools needed for products covered by such specifications. It will also provide packaging and repair engineering support for these specifications. The employees for the purchased products engineering group will be transferred from the Bell System organizations that currently provide this function on behalf of the BOCs. The number of employees in those organizations who work on specifications to be used by the BOCs will be the basis for determining the number of employees to be transferred. Certain laboratory equipment will also be transferred.

In order that the group has sufficient technical information to perform its functions, the Central Staff Organization will be provided with copies of information contained in existing Western Electric KS, AT, AT&T and related procurement specifications except information related solely to manufacturing processes and information supplied to Western Electric from outside vendors under non-disclosure agreements. In addition, associated computer systems and copies of relevant historical information, vendor information and other needed technical information will be made available.

Quality assurance services will also be offered by the Central Staff Organization. Such services are used by the purchaser to assure the conformity of the product to the purchaser's specifications. The process requires the establishment of quality standards, inspection procedures, source inspections, quality audits and field tracking studies on an ongoing basis. Employees will be transferred from the quality assurance and purchased products inspection organizations of AT&T and its affiliates to perform that function. The number transferred from quality assurance organizations will be sufficient to support the level of quality assurance services established as of divestiture by the Central Staff Organization. The number transferred from the purchased products inspection organization will be based on the number of employees in that organization who work on specifications to be used by the BOCs, or who perform inspection work as a contract service for the BOCs. In addition, computer systems such as the Quality Assurance Management System and the Reports Inspection Purchased Products System will be made available to Central Staff, along with copies of associated practices and procedures, training programs, measurement plans and inspection documentation such as purchasing inspection instructions.

AT&T management employees experienced in the disposition of surplus and hazardous materials will also be transferred to the Central Staff Organization to provide the regional companies with expertise in these areas. Also to be made available will be copies of training manuals, corporate instructions and technical data related to compliance with local, state and federal regulations regarding handling and disposition of hazardous materials and waste; training manuals, corporate instructions and technical data associated with evaluation, dismantling, removal, segregation, and sale of central office and outside plant scrap material and equipment.

There is a need to coordinate the maintenance, reproduction and distribution of the technical information required for BOC exchange and exchange access operations. The Central Staff will perform this function, including maintenance of product information supplied by outside vendors and preparation of recommended BOC technical practices and procedures. The reproduction and distribution center needed to perform this work, along with associated operating employees and computer support systems, will be transferred or made available by AT&T and its affiliates. Certain employees will also be transferred to perform technical writing and aspects of technical information resource management and to coordinate the training of BOC technicians in the operation of equipment provided by manufacturers or other suppliers.

f. CENTRAL OFFICE ENGINEERING, RECORDS AND INSTALLATION

The BOCs' engineering capabilities will be expanded and enhanced to accommodate post-divestiture needs for central office interface and detailed engineering. Engineering personnel will be transferred from AT&T and its affiliates to the regional companies for this function. These employees will engineer the system-to-system interfaces between elements of central office equipment. Although detailed engineering such as preparation of installation specifications will ordinarily be provided by the equipment supplier, the regional companies may elect to perform some or all of these functions.

Employees will also be transferred from AT&T and its affiliates to enhance the BOCs' capability to administer their control of central office records. Although almost all such employees will be transferred to the regional companies, an employee responsible for overall coordination will be transferred to the Central Staff Organization. At divestiture, the BOCs will also have current and complete versions of all existing central office records.

Upon divestiture, the BOCs will contract with equipment manufacturers to install central office equipment. The BOCs may, however, perform their own installation. To provide technical advice and support for this function, employees will be transferred from AT&T and its affiliates to each regional company and to the Central Staff Organization.

Copies of existing Bell System generic technical information related to central office engineering, record maintenance and installation will be provided to the regional companies. In addition, relevant computer systems will be made available, or sufficient system descriptive information and other documentation will be furnished, to the BOCs so that they can develop their own capability.[380]

g. Translation and Parameter Guides

Translation Guides are technical documents used in central office administration to convert information into computer language. The guides are prepared by the manufacturer of switching systems and used by the BOCs to prepare the translation forms that itemize the service requirements for switching equipment. These forms are then used by the manufacturer in preparing software for installation. The Central Staff Organization will serve as the interface between manufacturers and the BOCs in connection with the preparation of translation guides. Currently, the translation guide interface function is performed by an AT&T employee who will be transferred to the Central Staff Organization to continue this function for the divested BOCs. Similarly, the data drawn from parameter guides are used by both the BOCs and the manufacturer in engineering the system. These guides indicate the memory capacity that a system has for traffic sensitive aspects of the network. As in the case of translation guides, the AT&T employee who currently works with manufacturers on parameter guides will be transferred to the Central Staff Organization.

3. Transfers Relating to Public Radio Services

The Bell System presently provides a number of public radio services that allow communications between mobile units or between a mobile unit and a land-based telephone and that are exchange telecommunications services under the Decree. These radio services are two-way land mobile radio telephone service, rural radio service, one-way paging service, air-ground radio service, mobile radio service, VHF and coastal harbor

[380] *See* Part II.A.1.b.iii, *supra,* for a discussion of the rights that the regional companies will have in these systems.

maritime mobile service, high speed train service and cellular mobile radio telecommunications service.[381] The resources required to provide these services independently of AT&T will be retained by or transferred to the BOCs — with the exception of the equipment located in subscribers' vehicles because that is customer premises equipment to be retained by AT&T.[382]

Although different technologies are used in the different types of public radio systems, each system requires the use of radio facilities, switching equipment and landline telephone facilities. The function of the landline telephone facilities is both to provide the necessary trunking within each radio system and to interconnect the systems to the public switched telephone network. For example, a land mobile system includes one or more high-powered radio transmitters, receivers located at various points throughout the service area and landline telephone facilities that both connect the transmitters and remote receivers with the central control and billing facilities and interconnect the systems with the public switched network.

In cellular radio systems under current technologies, low-powered transmitters and stored program controllers are located at certain points ("cell-sites") throughout the cellular service area. The cell-sites are connected by telephone facilities to a centralized switching center called a Mobile Telecommunications Switching Office ("MTSO"). In conjunction

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[381] The Bell System has provided cellular radio service in a developmental system in Chicago since 1978. As explained below, however, it will not be offered as a regular commercial service until late 1983 at the earliest.

[382] The Bell System's application for approval of its proposed LATAs (Application of the American Telephone and Telegraph Company and the Bell System Operating Companies for Approval of Exchange Areas or Local Access and Transport Areas (LATAs) Established Pursuant to the Modification of Final Judgment) (October 4, 1982) sought a ruling that the BOCs may provide public radio services in whatever service areas are authorized by regulatory authorities, irrespective of whether they are larger than LATAs established under the Decree (*Id.* at pp. 27-28). In the event the Court does not adopt the Bell System's position on this point, it may be required to amend this Plan of Reorganization or seek other relief.

with the stored program controllers at the cell-sites, the MTSO — in addition to other system control functions — provides two critical functions relating to the operation of each system. First, it supervises the setting-up of each call and establishes the connections that route the call over the trunk that leads to the low-powered transmitter nearest the mobile unit. Second, the MTSO further reroutes or "hands-off" the call to a second low-powered transmitter when the mobile unit leaves the area served by the transmitter that initially conducted the radio transmission. Landline telephone facilities interconnect the MTSO to the public switched network.

To provide any public radio service, a carrier must obtain from the Federal Communications Commission (FCC) both a permit to construct the requisite facilities and a license to operate a system in defined service areas using the designated radio frequencies. In many jurisdictions, the carrier must also obtain a certificate of public convenience and necessity from the appropriate state regulatory commission and comply with a variety of other state regulatory requirements. Beyond these regulatory requirements, the carrier must construct and operate the necessary facilities, establish marketing operations, make arrangements for the institution of service to customers and the billing of them and have the necessary support personnel and systems to accomplish these tasks.

a. Mobile Radio Services Other Than Cellular Radio

With the exception of cellular radio service, the Decree will not require any additional transfers of resources from AT&T or its affiliates beyond those relating to network functions that are described above. For land mobile, rural radio, paging, air-ground, VHF and coastal maritime and high speed train services, the BOCs have obtained, in their own respective rights, all the necessary regulatory authorizations. The BOCs also own the radio transmission and radio system switching facilities and have the dedicated landline telephone facilities necessary to provide trunking within the systems and interconnections with the public switched network.

The BOCs have sufficient personnel and have rights to the systems and technical information necessary to provide, market and bill these services. The BOCs receive some planning, support and procurement related assistance from AT&T, Western Electric and Bell Telephone Laboratories, but the transfers described in Part II.A.2, *supra,* will assure that the divested BOCs will have the capabilities to perform these aspects of the provision of these public radio services independently of AT&T and its affiliates.

b. Cellular Radio Service

The provision of cellular radio service by the BOCs will require additional transfers. The reason is that cellular radio is a new form of two-way mobile telephone service that will not be generally offered commercially in any part of the country until late 1983, at the earliest. The Bell System's centralized development of cellular service and the regulatory requirements relating to its provision will necessitate that a number of resources be transferred from AT&T and its affiliates to the BOCs in order to assure that the BOCs will be able to provide cellular service independently after divestiture. However, because of the steps that AT&T and its affiliates have already taken or will take to comply with FCC regulatory requirements, the transfers required to implement this part of the Decree will be primarily a matter of transferring separate AT&T cellular service subsidiaries to the seven BOC regional companies.

i. Regulatory Background

The FCC issued its final authorization for the licensing and general commercial operation of cellular radio systems in March 1982[383] — after fourteen years of deliberations. Its rules

[383] *An Inquiry Into The Use Of The Bands 825-845 MHz and 870-890 MHz for Cellular Communications Systems; and Amendment of Parts 2 and 22 of the Commission's Rules Relative to Cellular Communications Systems* (CC Docket No. 79-318), 86 F.C.C.2d 469 (1981), as modified on reconsideration, 89 F.C.C.2d 58 (1982), on further reconsideration, 90 F.C.C.2d 571 (1982). This decision is being reviewed in the District of Columbia Circuit in *Millicom* v. *FCC,* (D. C. Cir. Nos. 81-1404, 81-1555, 82-1521, & 82-1526).

currently provide that prospective cellular licensees must have filed applications for the thirty largest FCC-defined service areas by June 7, 1982; that applications for the second thirty largest service areas must have been filed on November 8, 1982; that applications for the next thirty largest service areas be filed on March 8, 1983; and that applications for all other service areas be filed commencing June 7, 1983.

The FCC's regulatory scheme for cellular radio requires AT&T and its affiliates to provide cellular service through a separate cellular subsidiary or subsidiaries. Each cellular subsidiary must have separate officers, operating, marketing, installation and maintenance personnel, as well as separate computer, radio transmission, switching and control facilities (47 C.F.R. § 22.901(c)(2)). The cellular subsidiary must obtain any research or development on a compensatory basis (*id*). Also, the cellular subsidiary may not own any facilities for the provision of landline telephone service and must lease any necessary landline facilities on the same basis as those facilities are made available to other entities (*id.*, § 22.901(c)(1)). The plan for the capitalization of such subsidiary or subsidiaries must be approved by the FCC.

In 1980, AT&T anticipated that the FCC would impose a separate subsidiary requirement for cellular service providers affiliated with a wireline carrier. It established a wholly-owned subsidiary, Advanced Mobile Phone Service, Inc. ("AMPS"), in which it centralized all its activities relating to planning, business development and eventual provision of operating cellular radio systems and service. The existing AMPS corporate entity may not itself provide cellular service under the FCC's rules. This is because AMPS now owns cellular assets and the FCC rules provide that a cellular service subsidiary may not own any such resources unless and until its capitalization plan has been approved by the FCC. However, the capitalization plan for AT&T's cellular subsidiary — which was filed with the FCC on May 25, 1982, but has not yet been approved — provides that after the capitalization plan of the cellular subsidiary is approved, AMPS will be merged into it.

AMPS resources include engineering, marketing, operating and management personnel and rights to use systems needed for the planning and initial establishment and provision of cellular systems and service.[384] AMPS determines the service areas in which the Bell System will apply for, or consider applying for, cellular authorizations. In connection with these efforts, AMPS has acquired, or caused to be acquired, real estate or options to acquire the real estate needed for the MTSO and the cell-sites in each potential system. It also performs the other planning relating to the establishment of those systems.

Prior to June 7, 1982, AMPS — on behalf of the cellular subsidiary or subsidiaries to be formed upon approval of the capitalization plan — filed applications to provide cellular service in twenty-nine of the thirty largest cellular service areas in the country. In eleven of these areas, no mutually exclusive applications were filed. On June 7, 1982, AT&T and other firms that had submitted mutually exclusive competing applications in the areas in which AMPS's applications were opposed announced that they had agreed to form joint ventures to provide cellular service in these areas. Under the agreements, Bell System companies would be the general partner — and have responsibility to operate and manage the cellular system — in thirteen of these eighteen areas. These agreements will not be effective, however, unless approved by the FCC as in the public interest (*see* 47 C.F.R. § 22.29). On November 8, 1982, AMPS filed applications in twenty-six of the second largest thirty service areas in the country. AMPS has not yet finally determined how many applications it will file with respect to other potential service areas in the country.

In view of the initial projected needs and associated cost, AMPS will establish a single center (AMPS Control Center ("ACC")) to provide for overall surveillance, trouble analysis, testing, repair and recovery control of hardware and software involving the MTSOs and cell-sites in the cellular systems that

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[384] Neither AMPS nor any cellular subsidiary will manufacture any telecommunications equipment.

will be operated in the largest 30 service areas. The single ACC to be initially established will be staffed with sufficient system technicians, and clerical and management personnel.

ii. Transfer of Resources from AMPS to the BOCs

At divestiture, all the resources now owned by AMPS will be transferred to the BOCs.[385] These transfers will be greatly simplified by the fact that, prior to divestiture, a number of corporate transactions will occur in response to FCC regulatory requirements that will place AMPS's resources in seven separate corporations that will be owned by the respective seven regional companies.[386]

As set forth in the capitalization plan filed with the FCC, AT&T will form a new subsidiary (referred to as "ATT Cellular Co.") after the plan is approved, and AMPS will be merged into ATT Cellular Co. Seven regional cellular service companies will then be formed as subsidiaries of ATT Cellular Co. Concurrently with the formation of the seven regional cellular service companies, a "Cellular Central Staff" will be incorporated, which will be jointly owned by the regional cellular service companies. The Cellular Central Staff is intended to provide functions relating to the provision of cellular service that have been centrally performed by AMPS and that can most efficiently be performed centrally.[387]

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385 Software systems owned by AMPS — which are all administrative and operations systems — will be treated as software locally developed by the BOCs for purposes of assignments of rights upon divestiture (*see* Part II.A.1.c, *supra*).

386 In some instances, cellular systems are planned to be owned by joint ventures of regional companies. In that event, regional cellular companies will have ownership interests in the systems that do not correspond to the regions.

387 Thus, the Cellular Central Staff will manage and operate the ACC that will initially monitor all cellular systems. The BOCs' Central Staff Organization, furthermore, will provide a technology oversight capability to ensure that the regional cellular service companies remain on the leading edge of cellular technology. Technology oversight would include such activities as consulting on system design

(Footnote continued on following page)

After these eight corporate entities are established, ATT Cellular Co. will transfer the appropriate resources of AMPS to each. The foregoing pre-divestiture transactions will greatly simplify the implementation of the Decree. At divestiture, the augmentation of the BOCs' resources related to the provision of cellular radio service will be accomplished simply by transferring to each of the seven regional companies ownership of the appropriate regional cellular service company. By transferring these regional cellular service companies, AT&T will also be transferring ownership of their jointly owned Cellular Central Staff.

Although the transfer of these resources of AMPS to the BOCs should alone be adequate to enable the BOCs to provide cellular radio service and to meet the requirements of Section I(A)(1) of the Decree, additional resources will be transferred. Cellular radio represents a new service in which there have been rapid technological developments over the past decade, and these developments may continue, at least until the time that operating systems are in existence in most major cities in this country. AMPS has concentrated exclusively on implementing the existing technology and does not currently perform several aspects of the technology planning and oversight function in relation to cellular service. Instead, AMPS relies on Bell Telephone Laboratories to provide this function. To assure that the BOCs' resources are in all respects adequate, experienced and qualified Bell Telephone Laboratories personnel — along with the necessary facilities, equipment, computer hardware and software — will be assigned to the BOCs' Central Staff Organization at divestiture to perform this technology planning and oversight function.

(Footnote continued from previous page)

and growth, new products/services requirements, technical support for procurement, field support, operating support, cellular technology planning and maintenance. Upon divestiture, the BOCs may, if they choose and there is no regulatory impediment, cause the Cellular Central Staff to be merged with the BOCs' Central Staff Organization.

4. Transfers Relating to Nontechnical Management Functions

Although the capability to perform essential technical functions is central to the provision of exchange telecommunications and exchange access services, the BOCs must also be capable of performing certain nontechnical management functions to provide these services. The BOCs, for example, will need to augment the management of their financial affairs, relations with regulatory bodies and personnel matters, as well as provide administrative support for all of these functions if they are to remain viable businesses. Aspects of these and other essential functions are now performed for the BOCs by AT&T General Departments. Personnel and resources to provide these functions in connection with the provision of intraLATA, exchange access and printed directory advertising services will be transferred from the AT&T General Departments to either the regional companies or the Central Staff Organization.[388]

The nontechnical management functions to be transferred to the BOCs from AT&T and its affiliates fall into nine categories: (a) legal, (b) regulatory matters, (c) financial, (d) public relations and public affairs, (e) marketing, (f) human resources development, (g) training, (h) staff services, and (i) support.

a. Legal

The BOCs' legal departments currently provide advice and assistance on such matters as general litigation, state taxes, state rate cases and labor issues. The AT&T General Departments legal staff provides the BOCs with advice and assistance in four

[388] This Section sets forth a general description of the resources to be transferred to the Central Staff Organization and to the regional companies for nontechnical management functions. The role of the Central Staff Organization will be periodically reviewed by the regional companies.

areas: federal and state regulatory matters, patent matters, federal antitrust matters and general business and human resources matters. Upon divestiture, the BOCs' legal staffs will continue to perform their existing functions. In addition, resources will be transferred to the Central Staff Organization to enable it to provide legal advice, assistance and guidance to the individual departments of the Central Staff Organization, to the executives of the Central Staff Organization and to the legal staffs of the regional companies in the four areas mentioned above. Outside law firms, when required, will be selected and retained under funding authorized by the Central Staff Organization's board of directors.

b. Regulatory Matters

The BOCs also have separate organizations responsible for such matters as rate and tariff filings, day-to-day monitoring of regulatory events and research on regulatory questions. The BOCs have responded to these types of matters on the state level, although the AT&T General Departments does provide some centralized support for such state matters. In addition, the AT&T General Departments have generally performed all such functions relating to federal regulatory matters which affect more than one company. The Central Staff Organization will perform BOC state and federal regulatory activities at the request of the regional companies — and resources to enable it to provide these functions will be transferred to the Central Staff Organization as required.

c. Financial

The AT&T's comptrollers organization performs a wide variety of financial services for the BOCs. It provides advice, assistance and manual and mechanized methods federal income tax reporting, and acts as a clearinghouse on state and local tax matters. It also prepares consolidated federal income tax returns and combined reports required for state and local tax filings. Resources will be transferred to the Central Staff Organization to enable it to develop federal tax reporting methods, including support systems.

The AT&T comptrollers organization is also responsible for assigning and administering the Functional Accounting System Code (FASC) and for providing advice and assistance to the BOCs on accounting classification and methods. These activities are designed to achieve standardization in BOC accounting processes. The AT&T comptrollers organization also provides ongoing methods, specifications and coordination support to the BOC corporate, payroll, property and cost organizations. This enables the BOCs to ensure consistent reporting in interdepartmental legal and regulatory matters. Resources will be transferred to the Central Staff Organization upon divestiture so that these functions can be performed centrally for the BOCs, to the extent that the regional companies determine that these functions are to be centralized. Personnel will also be transferred to the Central Staff Organization to provide support for the Uniform System of Accounts (USOA) rewrite program and assistance to the BOCs on interpretation of the USOA.

The accounting operations support functions to be assumed by the Central Staff Organization will include a number of activities related to changes in accounting procedures which will become necessary after divestiture. Resources will be transferred to the Central Staff Organization to enable it to represent the BOCs in the industrywide development and coordination of automatic message accounting systems and recording standards, uniform message exchange standards, message processing and rating and government billing. The Central Staff Organization will also support initial methods and procedures and coordinate changes relating to billing, exchange access charges, shared billing of embedded CPE and intraLATA private line billing, as well as planning for an orderly transition to such billing after reorganization.

In addition to the foregoing, the AT&T comptrollers organization performs functions with respect to corporate insurance matters for the BOCs, including furnishing advice and assistance on insurance and risk management. It also performs certain security matters, such as national issues and relations with federal agencies. Personnel to perform these functions will be transferred to the Central Staff Organization. Also, AT&T's depreciation and economic analysis organization performs functions for the BOCs in the areas of engineering economics, depreciation studies and plant indices and valution studies. Resources will be transferred to the Central Staff Organization to enable the Central Staff to perform these functions for the BOCs.

d. Public Relations and Public Affairs

The BOCs now have departments that are responsible for the companies' relationships with the public. The AT&T Public Relations and Public Affairs Departments have also performed functions for the BOCs in areas of interest to more than one company, such as national media or employee relations information. Resources will be furnished to the Central Staff Organization to provide such functions to the extent that the regional companies desire that these functions be centralized.

e. Marketing

The marketing function is a consolidation of marketing, services management and tariffs, rates and cost activities now performed by the BOCs and AT&T General Departments. The marketing function, which involves market research, development of new service offerings and promotion of new and existing services to different groups of customers, has been performed primarily by the AT&T marketing organization, although the BOCs have engaged in the implementation of marketing and customer selling activities. The AT&T marketing organization now has certain marketing responsibilities for intraexchange service, including market research. It also monitors existing services in terms of continued demand and the need for enhancement. Upon divestiture, functions relating to intraLATA services, along with the personnel and other resources to perform them, will be transferred to the Central Staff Organization as the regional companies direct. The Central Staff Organization will not, however, determine marketing strategy for the BOCs.

The AT&T marketing organization is also responsible for giving planning support for sales operations directed at residence, business and federal government customers, including development of methods, practices, training and measurements for the premises sale force, the Business Service Center and the Residence Service Center. Bell Public Communications, which provides advice and assistance on the marketing and operations of public telephones, is also the responsibility of this organization. It also provides integrated planning and development for the access and transport lines of business. The parts of these functions which are related to intraLATA services will be transferred to the Central Staff Organization. The Central Staff Organization will perform information collection, analysis and distribution activities. The regional companies, not the Central Staff Organization, will, of course, make final decisions as to new services or products.

In addition, AT&T marketing also performs a service order process management function for the BOCs. It provides and maintains an industry standard interface for receipt of service orders from large customers, and it develops standards for Bell System common language codes that are used for network facilities, equipment, and location identification. It also provides standards support for computer systems used by the BOCs in the service order process. Resources to perform these functions will be transferred to the Central Staff Organization.

The tariff, rates and cost function of developing of rate structures and supporting service cost, demand and revenue studies and tracking information to satisfy regulatory requirements for tariff filings has been performed by both the BOCs and the AT&T rates, tariffs and costs organization. The BOCs have been concerned primarily with filing tariffs and developing support for intrastate services, while AT&T's efforts have been directed to supporting both intrastate and interstate rate filings. At the time of divestiture, personnel and resources needed to provide the intraLATA tariff, rates and costs functions that AT&T has performed for the BOCs will be transferred to the Central Staff Organization.

f. Human Resources Development

The BOCs now perform many human resources development and labor relations functions, including negotiating and administering collective bargaining agreements, conducting employee training courses, hiring, promoting and transferring employees, managing employee benefit plans and ensuring compliance with EEO requirements. The AT&T Human Resources Development and Labor Relations Departments also have responsibilities in these areas.

AT&T's labor relations organization has responsibility for performing a number of labor relations matters, analyzes labor settlements, completes appropriate economic and contractual studies, provides advice to the BOCs on these matters, maintains a centralized file analyzing collective bargaining agreements and serves as a coordinator among the BOCs on bargaining and labor relations policy matters. Personnel will be transferred to the Central Staff Organization to perform these labor relations functions. The Central Staff Organization will deal directly with the unions and government agencies only on technical matters at the direction of the regional companies. The regional companies will continue to deal with the unions on a day-to-day basis.

The AT&T human resources organization undertakes the development and oversight of management assessment and provides research in the areas of management selection, development and movement. Personnel will be transferred to the Central Staff Organization to provide such management assessment and research functions as directed by the regional companies. Resources for implementing EEO regulations and guidelines and monitoring performance results of the BOCs will be assigned to the Central Staff Organization. In addition, personnel will be transferred to the regional companies as required for developing and implementing specific plans of action and to deal with federal, state and local agencies on compliance matters.

Personnel will also be transferred, if needed, to the Central Staff Organization which will share certain human resource functions with the regional companies. The Central Staff Organization will assist the regional companies with employee plans such as regional pension and savings plans and employee insurance plans, while the regional companies will administer these plans. The Central Staff Organization will also advise the regional companies on compliance with ERISA and the Internal Revenue Code, while the regional companies will prepare ERISA and Internal Revenue Code filings. The Central Staff will also provide occupational job evaluation services, employment research functions, work relationship surveys, data administration functions and development and administration of senior management plans.

g. Training

Training of Bell System employees is now performed both by the BOCs and AT&T General Departments. The BOCs provide for a large part of their own training needs today. AT&T provides human resources development training support and specific discipline training support for BOC employees. Personnel to perform the human resources development training support function for the BOCs will be transferred to the Central Staff Organization. Personnel involved in specific discipline training support will be allocated between AT&T and its affiliates and the Central Staff Organization according to how the specific discipline is allocated. Some BOC personnel will attend AT&T training courses, and some AT&T personnel will attend BOC training courses, during the eighteen months after divestiture.

AT&T General Departments also administer a number of schools that provide technical and nontechnical training to BOC employees. These schools include the Bell System Center for Technical Education in Lisle, Illinois, the Comptrollers Training Center in Denver, Colorado and the Bell System Center for Administrative Training in Atlanta, Georgia. All or part of the Lisle facility and all of the Comptrollers Training Center and the Center for Administrative Training — their land, buildings, and equipment — will be transferred to the Central Staff Organization by means of transfers of ownership, assignment of leases or other appropriate transfers of rights and interests. Personnel also may be transferred. Copies of training courses required by the BOCs to perform their responsibilities after divestiture that are currently offered at training schools which will remain with AT&T or its affiliates will be made available to BOC-owned schools or to a Central Staff Organization School. Copies of training courses related to particular computer systems, work operations or methods will be transferred to the entity or entities which will assume responsibility for those functions except where otherwise provided.

h. Staff Services

Staff services provided to the BOCs by AT&T General Departments include ongoing developmental support in measurement plans and systems. These activities include providing major service and cost publications, reporting performance data, developing and administering programs to ensure that measurement programs are uniform throughout each region and developing and maintaining standards to ensure the uniformity and cost-effective design and implementation of measurement plans. AT&T General Departments is also responsible for the Telephone Service Attitude Measurement (TELSAM) program that measures customer satisfaction with telephone service. Resources to perform these functions will be transferred to the Central Staff Organization to the extent that the regional companies desire that those functions be centralized.

Centralized energy and environment mechanized management assistance is also provided to the BOCs. The General

Departments maintain a system for tracking energy consumption and costs for each building, provide comprehensive energy management direction, coordinate energy research and contingency plans, perform results analysis to identify energy savings opportunities and deal with government agencies on energy-related matters. Resources to provide these functions will be transferred to the Central Staff Organization.

AT&T General Departments also provides advice to the BOCs regarding building operations and functions. Mechanized projects and processes are developed to centralize and reduce the cost of maintaining real estate and property, to provide a mechanization system for automating the recordkeeping and reporting functions of the Building Operations Control Center and to assist the BOCs in developing centralized purchasing and procurement functions. AT&T General Departments real estate functions also include the provision of ongoing support in the area of building planning and design, including advice on such matters as real estate management and master planning, development of standards for long-range and current building planning, advice on architectural and interior design planning and advice on electrical and mechanical systems. Resources to perform building operations and functions will be transferred to the Central Staff Organization as needed by the regions.

AT&T General Departments also support the BOCs automotive operations. This function includes development of a mechanized motor vehicle plan to direct the maintenance and administration and to control the cost of the fleet of vehicles owned by each BOC. This function also includes training for service mechanics, managing the vehicle consignment pool, dealing with the automotive industry, establishing vehicle specifications and standards including fleet size standards, fuel economy and parts management. AT&T General Departments also assist the BOCs with cost control in their automotive operations. Resources to perform these functions will be transferred to the Central Staff Organization to the extent centralization is needed, while other resources will be transferred to the regional companies. AT&T General Departments also has an Aviation Staff which deals with corporate aviation planning matters. Resources to perform this function will be transferred to the Central Staff Organization.

Finally, advice on methods and procedures for support services is provided to the BOCs in a number of areas, including: advanced office systems, secretarial support and word processing, reproduction and graphics, mail distribution, records and information management, form management, micrographics and internal telecommunications needs. Technical expertise is also provided to the BOCs in the presentation of technical information to company personnel responsible for the installation, operation and maintenance of telecommunications equipment. Resources will be transferred to the regional companies to perform these functions as needed.

i. Support

A staff to support the technical and nontechnical functions of the Central Staff Organization will also be required. Many of these people will be transferred from AT&T General Departments, Bell Telephone Laboratories and Western Electric. Support will consist of a number of functions, including administration (executive level management, clerks and secretaries and departmental functions such as telephones and moving); administrative services (mail service, conference planning, travel, mailing expenses, reproduction, word processing and graphics); corporate personnel (wage and salary administration of Central Staff Organization personnel, relocation administration, personnel services, employee activities and management development); corporate accounting (payroll and cashier operations and services for Central Staff Organization personnel, voucher, disbursement and general ledger operations, including budget, billing and tracking and tax operations); and Central Staff Organization employee pensions and benefits; technical documentation; purchasing; and medical.

B. DIRECTORY OPERATIONS AND RELATED SUPPORT SYSTEMS AND PERSONNEL

The Decree provides that the separated BOCs shall be permitted to produce, publish and distribute printed directories which contain advertisements or names and addresses of subscribers (Decree, § II(D)(3) and § VIII(B)).[389] The Decree further requires that the separated BOCs receive all the facilities, personnel, systems and rights to technical information owned by AT&T and its affiliates which are necessary for them to provide both printed advertising directories and subscriber listings, independently of AT&T and its affiliates (Decree, §§ I(A)(1), VIII(B)).

The Bell System currently publishes directories that contain listings of subscribers. It also publishes, normally in association with the subscriber listings, printed directories that contain advertisements. The business of publishing these directories involves a number of discrete activities.

First, the information to be published in the directories has to be compiled. For subscriber directories, this is primarily a matter of compiling listings of subscriber names, addresses, and telephone numbers, and placing them in the correct format. For advertising directories, the process is more complicated. Potential advertisers have to be identified; salespeople have to contact the advertisers and make arrangements for specific advertisements; and the classified listings and advertising copy have to be formatted for printing. Second, arrangements have to be made for the printing of the directories. This requires that printers with sufficient capacity to produce the directories be retained and that adequate supplies of satisfactory paperstock be obtained. Third, the directories must be distributed. Finally, billings must be made for advertising and special listings.

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[389] The provision of such listings is inherent in offering exchange telecommunications and exchange access services. This Section of the Plan discusses only resources relating to printed subscriber listings; no augmentation is required for the provision of other forms of subscriber listings.

These various aspects of the directory production processes are principally performed by the BOCs with their assets and resources (or by contracting with third parties to perform some or all of the work). However, a number of support, standardization, system development, management and procurement related functions are performed centrally by AT&T because of the greater efficiency inherent in doing so. The implementation of Sections I(A)(1) and Sections VIII(B) of the Decree is a matter of transferring resources and rights to technical information from AT&T to either the regional companies or the BOCs' Central Staff Organization.

1. Compilation of the Information to be Published in Directories, Systems Management, Marketing and Billing

a. Subscriber Directories

The BOCs currently perform, or contract with unaffiliated vendors to perform, all the functions relating to the compilation of listings of the names, addresses and telephone numbers of subscribers. Each BOC has contracted for all the facilities, technical resources and personnel necessary to perform these functions independently of AT&T.

Placing the basic subscriber listings in the BOC data bases, organizing them and placing the data in the format required for the printing of subscriber directories are functions performed by various software systems. The DIR/ECT system, developed jointly by AT&T's Directory Organization ("AT&T Directory") and Bell Telephone Laboratories, is employed for this purpose by a majority of the BOCs.[390] The other BOCs use

[390] The Plan identifies all the centrally developed directory systems that are complete and that constitute working systems. There are other incomplete systems now under development, and the BOCs will receive these systems in whatever state of development they are in

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locally developed software or software provided by unaffiliated vendors. Because of the fact that this system may be needed by both AT&T and its affiliates and the BOCs after divestiture and the need to maintain the support group for it intact, it will be treated similarly to the COSMOS system (Part II.A.1.b.ii, *supra*). The personnel who maintain and enhance DIR/ECT and the other resources required to provide enhancement and maintenance will be transferred to the Central Staff Organization; the BOCs and AT&T and its affiliates will each have the right to license, transfer or disclose it to third parties or to enhance and modify. AT&T and its affiliates will also have the right to elect to fund and to obtain post-divestiture maintenance and enhancements made by the BOCs and the Central Staff Organization for five years after divestiture, and any licensing of such post-divestiture enhancements will be subject to the general rebate arrangements, discussed at Part II.A.1.b.i, *supra*.

b. Advertising Directories

Similarly, the BOCs either currently perform all the functions relating directly to the compilation of the contents of advertising directories or have contracts with unaffiliated vendors who perform those functions on their behalf.

i. Solicitation and Sales

Every BOC, except one, either employs salespeople or itself contracts with independent contractors to solicit and sell advertising and collect the material to appear in each advertisement. The sole exception is in Illinois, where Reuben H. Donnelley Corporation ("R.H. Donnelley") has a contract

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at divestiture. The BOCs will also receive an index of the AT&T Directory's systems and of all its other resources. The assignment of rights to software in systems is based on the same process and analyses that governed systems relating to exchange services. *See* Part II.A.1, *supra*. As to all directory related software not specifically discussed, these principles will govern the assignment of post-divestiture rights.

with Illinois Bell under which R. H. Donnelley is the publisher of the directories; R. H. Donnelley thus employs all the salespeople. The BOCs' human and other resources, available within their own organizations or under contract with unaffiliated vendors, are sufficient to allow each of them to continue to perform these basic customer contact, solicitation and sales functions independently of AT&T.[391]

AT&T provides assistance in developing and validating tests to evaluate potential salespeople.[392] This effort is primarily the responsibility of AT&T employees, and is a function which can be performed most effectively and efficiently on a centralized basis. Therefore, one or more employees experienced in this activity and the related assessment training materials will be transferred to the BOCs' Central Staff Organization.

Similarly, AT&T has provided some centralized assistance in formulating pricing and management strategies. It centrally developed and maintains the Directory Management Information Systems (DMIS), a software system which is designed to

[391] In connection with the BOCs' sales and sales management activities, AT&T has centrally provided materials for those BOCs who need or want the services. AT&T has developed, or is developing, training or instructional materials relating to different aspects of the solicitation and sales efforts. These include materials such as: Map Anchor Program, Telephone Sales Training, Gold Pages Sales Training, Gold Pages Assessment Training, Objective-Setting Training, Managing Your Market, Sales Management Training, Color Red Sales Training, NETCOMS-Strategic Sales Planning Training and Customer Complaint Handling. Copies of these materials have been, or will be, provided to those BOCs which participated in funding the project.

[392] In addition, AT&T has developed and operates the Directory Service Compensation Plan (DSCP), a data base which contains the directory sales compensation records for the eleven BOCs which have their own sales forces. Upon divestiture, each of these eleven BOCs, individually or in conjunction with others, will be offered the option of installing the DSCP software and data base on its own or another vendor's (including the Central Staff Organization's) facilities. Additionally, AT&T will make this system available on its facilities on a time-sharing basis and at compensatory charges, to any BOC which so elects, for a period of at least five years.

assimilate demographic and product data relevant to directory marketing activities. DMIS has been structured so that each region can obtain data related only to that region. Upon divestiture, each BOC will have the option, individually or in conjunction with other BOCs, of moving the software and data base related to its printed directory services operations to its own or another vendor's facilities. For a period of at least five years, AT&T will make DMIS available on its facilities, on a time-sharing basis and at compensatory charges, to any BOCs which elect that option.

AT&T Directory will not retain a copy of the BOC data base contained in DMIS. Files concerning AT&T Directory activities relating to any aspect of the provision of directory pages will be made available to each BOC (or, in the case of material specifically applicable to one BOC, to the BOC involved) for review and copying to the extent desired by that BOC. If such material is related to work to be performed by the BOCs' Central Staff Organization, copies will be provided to it.

AT&T Directory has further conducted or arranged for various marketing studies, including studies of Yellow Pages usage, usage of other advertising directories, customer and advertiser reaction to New Neighbor Guides, customer usage and reaction to coupons, awareness and usage of color pages, and potential for certain specialty directories. Copies of all material resulting from these studies will be transferred to the BOCs.

AT&T Directory has also developed and presented the Pricing Theory Workshop; the BOCs have already been transferred copies of these materials.

ii. Production of Advertising Directories

After the advertising orders have been placed and the basic information to be contained in each advertisement has been compiled, the information must be formatted and organized in a form which can be furnished to the printer. The

BOCs or their unaffiliated vendors[393] perform the composition work by either manual, photographic or electronic processes. The BOCs currently have sufficient resources to perform these functions.

All the BOCs now may use a centrally developed software system ("Bell-Grafx") which can be used to perform these functions, among others. After divestiture, the regional companies will receive the source codes, object codes and documentation relating to it that now exists and will have the right to enhance and modify Bell-Grafx software.[394] No regional company may license, transfer or disclose the software in this system to others for five years after divestiture without AT&T's express written permission. AT&T Directory is developing operational documentation relating to Bell-Grafx. Copies of this material will be transferred to each of the BOCs.[395]

Another function presently performed by AT&T Directory is the recommendation of certain uniform standards relating to the organization, format and layout of directories. Each BOC

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[393] To the extent that unaffiliated vendors provide these services, Western Electric has — with the exception of Ohio Bell, Bell of Pennsylvania and New York Telephone Company — acted as agent for the BOCs. It negotiates and administers the contracts and receives a fee for its services. Western Electric or another AT&T affiliate expects to offer this service to BOCs who desire it after divestiture.

[394] The current Bell-Grafx will, upon completion of current developmental projects, constitute an adequate and workable system. Prior to divestiture, AT&T may, however, consider making further enhancements to this software. Each BOC will be offered the opportunity to participate on a cost-sharing basis, and the result of AT&T's efforts will be transferred to the participating BOCs. Arrangements will be made, through training or otherwise, so that the BOCs will have trained personnel available.

[395] In the near future and prior to divestiture, some BOCs may enter into contractual relationships with AT&T under which the AT&T Directory Organization would provide these BOCs with certain printing production services. If any such contracts are executed, they will give each BOC the right to terminate the contract following divestiture on thirty days notice, provided that the BOC pays AT&T, as a termination charge, the unamortized cost of the investment AT&T made to provide the services to the BOC over the life of that contract.

currently may elect to adopt these recommendations. The objective in encouraging uniformity, where appropriate in light of local conditions, is to facilitate use of the directories by individuals and to permit national companies to standardize their advertising. Thus, the matters dealt with in the recommended standards cover headings, alphabetizing, page layout, size and form of listing, acceptability of advertising copy and formats of orders for listings to be published in directories of different BOCs. The formulation and evaluation of these standards involves AT&T Directory employees. The function of evaluating and recommending these standards can be performed most efficiently and effectively on a centralized basis. Accordingly, AT&T Directory will transfer personnel who provide this service to the BOCs' Central Staff Organization.

The registered trademarks relating to directory operations will be assigned either to the Central Staff Organization or, where the trademark is registered locally, to the relevant BOC. *See also* Part II.C, *infra.*

iii. Billing and Management Information Systems

Individuals or businesses who place advertisements are billed at a contracted price based on the nature of the listing and the size of any display advertisement. Billing is normally done on a monthly basis over the entire life of the directory. The BOCs currently perform all the basic functions relating to the billing of advertisers.

In addition to the AT&T developed and operated software systems of potential value to some or all BOCs which have been previously discussed, there are three other systems that relate to directory management operation which some or all BOCs may desire to use. These systems are:

— ***Directory Scope Analysis Program***

This system is designed to determine the economic consequences of directory rescoping. When changes in content or distribution of directories are under consideration, this system permits the BOC to compare the utility and cost of various alternative changes in scope.

— *Classified Headings/Master Index File (YPGS)*

This is a data base designed to facilitate national or regional sales of directory advertising by providing information concerning the headings, cross-references and guides available in any advertising directory.

— *Marketing Data Interface System*

This is a software system designed to collect and organize BOC data for insertion into the Directory Management Information System (DMIS) and the Classified Headings/Index Master File (YPGS). Each BOC or regional directory organization would use the system for its own information, and there would be no sharing of data between regions.

Any BOC that desires to operate these systems on its facilities or those of another vendor (including the Central Staff Organization) may so elect. As in the case of other systems, AT&T will retain these systems on its facilities, and, for a period of at least five years, will offer any BOC the option of using any or all of these systems on a time-share basis at compensatory charges. As to the software in these systems and the DMIS and DSCP system, AT&T and its affiliates and the BOCs will have separate but equal ownership of it at divestiture. Each may enhance or modify it; each will obtain source codes and all related documentation; each will have the right to license, transfer or disclose it to third parties.

2. Printing of Directories

Currently, all Bell System directories are printed and bound by commercial printers. Each individual BOC has entered into one or more contracts with printers for the printing of its directories.[396]

[396] Western Electric has acted as agent for the BOCs in negotiating and administering directory printing and binding contracts, and has received fees for such services. There are at present 135 printing and composition agreements negotiated and administered by Western

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There are relatively few printers in the country who have the capability to print Bell System directories. The contracts therefore customarily have extended terms. These contracts assure the BOCs of the necessary printing capacity.

Large quantities of specially formulated paper are required for the printing of directories. To ensure an adequate paper supply for all BOCs, Western Electric has historically entered into contracts with several suppliers under which it purchases, on its own account, sufficient paper for the Bell System directories. There are presently eleven suppliers under contract with Western Electric, the majority of which have agreements covering the provision of paper through December, 1987.

Western Electric resells to the printers (or, in the case of Michigan Bell and Southwestern Bell directories, to the BOCs) the paper necessary to print Bell System directories. In addition to the negotiation and management of the paper purchase and paper sales contracts, Western Electric provides certain services and assurances for the BOCs. These include: (1) the maintenance of a buffer stock of paper which would be available in the event of a disruption of supply due to labor disputes, mechanical breakdowns or other unforeseen occurrences; (2) the inspection and oversight of mill operations to insure maintenance of adequate quality standards and (3) the guaranteed repurchase from the printer of unused paper stock. As compensation for its services in connection with the procurement of paper for the benefit of the BOCs, Western Electric bills each BOC a fee based on the paper component of the printer's charges (the printer invoices the BOC for paper at the price paid by the printer to Western Electric, with no markup).

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Electric. Administration involves, among other functions, the renegotiation of price, contract changes, quality assurance and resolution of claims. To the extent desired by any BOC, this assistance will be continued prior to divestiture and is a service which Western Electric or another AT&T affiliate expects to offer after divestiture. Arrangements will be made, through training or otherwise, so that the BOCs will have trained personnel available.

The Western Electric paper purchase contracts provide for the purchase over the life of the contracts of a specified minimum annual quantity of paper, with an option to purchase up to a specified maximum annual amount at a specified price, which is subject to periodic renegotiation. In the event of failure to agree upon a new price upon renegotiation, the contracts are terminable by either party upon six to twelve months notice, with purchases prior to such termination being made at, in effect, the average of the last specified price and the price proposed by the terminating party.

Upon divestiture, the regional companies will, however, be provided with two options relating to the purchase and furnishing of directory paper. First, any BOC may elect to accept an assignment of existing Western Electric paper purchase contracts covering its proportionate share of the contracted supply. It would thereafter assume all Western Electric's obligations under the contracts, and would be responsible for price renegotiation, maintenance of buffer stock, quality assurance and all other functions now performed by Western Electric. If the BOC chooses this option, it will require that the paper furnishing arrangements with the printers be revised. Second, Western Electric, or another AT&T affiliate, will offer to contract with each BOC for the provision of paper and supporting services for the remaining term of the existing Western Electric paper purchase contracts.

3. Distribution and Delivery of Directories

a. Local Directories

Each BOC currently makes provisions[397] for the distribution and delivery of directories published for subscribers

[397] One BOC (New York Telephone Company) uses Western Electric as its agent in making these arrangements.

listed in them. These functions are either performed by BOC employees or by third parties under contracts with the BOC. The BOCs currently have the resources needed to perform this aspect of the provision of printed directories.

b. Foreign Non-Local Directories

The BOCs also purchase directories that are published by other BOCs or unaffiliated telephone companies for resale. To facilitate such sales, the BOCs and independent telephone companies provide the price at which they will sell their directories to AT&T's Long Lines Department, which arranges for the production of a price list containing this information.[398] AT&T Long Lines Department has a contract with R. H. Donnelley under which Donnelley receives this information and produces a publication entitled "Intercompany Telephone Directory Price Catalog." The BOCs now sell their directories to other telephone companies at the prices in this catalogue plus shipping. When a subscriber of one BOC requests a directory of another telephone company, the BOC will furnish it directly if the BOC has it in its warehouse. If not, the BOC will procure the directory and resell it to the subscriber. Each BOC determines the prices it will charge its subscribers for foreign directories. Each BOC presently has a catalogue, entitled "International Telephone Directory Price List," which is also produced by Donnelley and which contains the BOC's prices.

Following divestiture, each BOC will be free to establish any arrangement it elects for the pricing of its directories for sale to others outside the areas the directories cover. The BOCs currently have the resources needed to continue to engage in this aspect of the business.

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[398] The cost of producing and distributing these price lists (along with the BOC catalogues described below) is divided by the total number of price lists and catalogues ordered by all BOCs and each BOC is billed at that amount for the number of publications it orders. AT&T Long Lines is involved in promoting this activity because the availability of foreign directories reduces the number of interstate information calls and thus produces cost savings in the provision of interexchange telecommunications services.

C. RIGHTS TO TECHNICAL INFORMATION

To enable them to provide exchange and printed directory advertising services independently of AT&T, the BOCs will be granted, royalty free, rights to patents and other technical information, that is now owned by AT&T, either directly or through AT&T's ownership of Western Electric, Bell Telephone Laboratories, another AT&T affiliate or the BOCs. The BOCs may use this information in any lawful business, except where the Plan of Reorganization otherwise provides. The divestiture of the BOCs also requires arrangements relating to the use of Bell System trademarks and names.

1. Patents

Under the present license contracts, the BOCs have the right to use telecommunications equipment covered by Bell System patents. Upon divestiture, AT&T will transfer to the BOCs these and other patent rights to enable them to provide exchange and printed directory advertising services independently of AT&T.[399] These rights go beyond those currently possessed by the BOCs.

First, AT&T will grant to each BOC nonexclusive and personal royalty-free licenses to use telecommunications equipment and operational methods covered by existing United States patents owned or controlled by AT&T and all other United States patents issued to AT&T on or before the date five years after the date of divestiture ("AT&T Patents"). The licenses granted will be nontransferable. They will continue for the entire terms of the relevant patents or the period for which AT&T has the right to grant such licenses.

Second, AT&T will grant to each BOC the right — which no BOC currently has — to require the effective sublicensing of

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[399] The BOCs will not be granted any licenses relating to patents or any other technical information that relate solely to provision of CPE, interLATA service or any BOC services now prohibited by the Decree.

AT&T patents to competing manufacturers for use in providing the BOCs with goods or services embodying the inventions of the patents. Upon divestiture, when a BOC desires to procure equipment or services covered by an AT&T patent from another manufacturer, the BOC will have the right to direct AT&T to license the patent to that manufacturer. AT&T will thereupon grant the manufacturer an appropriate license under the patent to furnish the goods and services to the BOC for its own use. The license will contain reasonable terms and will provide for payment of a reasonable royalty to AT&T, but AT&T will be required to remit the royalty payments (less AT&T's administrative expense) to the BOCs' Central Staff Organization. AT&T will remit net royalty payments to the BOCs' Central Staff Organization annually.

2. Other Technical Information

In addition to the foregoing patent rights, the BOCs will be granted rights to other technical information owned by AT&T.

As part of the Bell System, the BOCs have technical information relating to virtually all aspects of their exchange and printed directory advertising businesses. This includes network engineering information, information relating to Western Electric equipment, and information relating to commercial, accounting, financial, personnel, and other practices. In addition, the foregoing Sections of the Plan identify the areas in which resources will be made available or transferred to the BOCs to enable them to provide specified functions relating to the provision of exchange and printed directory advertising services; in each instance, the resources transferred or made available include the relevant technical information or copies of it. This will include, by way of illustration and without limitation, information relating to the compatibility of other manufacturers' equipment with network facilities; training materials; information contained in numerous Technical References; information relevant to establishing technical standards for interconnection, including, if necessary, source codes for operations support systems; and detailed compatibility information which has been provided to the USITA Manufacturers' Subcommittee for use by manufacturers in designing their equipment for interconnection. It will further include, as described above, rights in computer software. *See* Part II. A.1, *supra.*

In addition, the BOCs' Central Staff Organization will be transferred any technical information developed by AT&T or its affiliates within one year after divestiture, that is of a kind previously funded under the License Contracts, and that is useful in the provision of exchange and printed directory services.

As to all the technical information that has been transferred or will be made available to the BOCs, the BOCs will — except where the Plan otherwise provides — be granted a personal, nonexclusive, and nontransferable right entitling the BOCs to use it for any lawful purpose. The technical information which relates to products manufactured or supplied by Western Electric may, for example, be used by the BOCs or their Central Staff Organization to operate, maintain, or order Western Electric products, to evaluate internally for their own procurement, telecommunications equipment of another manufacturer's design, and to meet Decree obligations with respect to the establishment and disclosure of network interface and other standards. Use of stored program control software will be limited to the particular equipment for which it was initially ordered (*see* Part II.A.1.a, *supra*). Similarly, installation information that has been previously provided may be used only for the installation of the equipment for which it was initially ordered.

In addition, the BOCs will be granted the right to provide other manufacturers with existing technical information that is required to design telecommunications equipment that will meet network interface standards and that will otherwise be compatible with equipment that the BOCs purchased or ordered from Western Electric prior to divestiture. This information may only be used to design equipment for the BOCs' own use, and equipment made using this information may be sold solely to the BOC that furnishes it. The manufacturer may not be given information to copy or otherwise replicate Western Electric products or parts of Western Electric products. The information that the BOCs may furnish a manufacturer will be limited to that which will allow the manufacturer to design features in its equipment that will assure its functional interconnectibility with the Western Electric equipment or system.[400]

Some technical information that will be made available to the BOCs will contain trade secrets and other proprietary information of Western Electric. The BOCs will be required to protect the confidentiality of such information, except as this Plan otherwise provides (*e.g.*, with respect to certain software). Where the BOC is granted the right to disclose proprietary Western Electric information to other manufacturers, the BOC and the manufacturer will be obligated to maintain its proprietary character and observe the restrictions on its use.

3. Copyrights

Some of the information that AT&T has provided or will transfer the BOCs under the Decree bears a copyright notice or

[400] In some instances, a special arrangement will be required to assure that the BOCs may procure compatible equipment for exchange and printed directory advertising services. Much of the technical information necessary to assure the compatibility of newly designed equipment does not exist now in a form that could be made available to the BOC at divestiture. The reason is that Western Electric equipment has, in the past, generally been designed for use in an integrated network and has not been manufactured on a "plug-compatibility" basis. There has been no occasion to develop compatibility or interface specifications. Relevant technical information is often scattered in numerous documents and intermingled with other proprietary information. Further, it is often impossible to draw an appropriate compatibility specification or assemble the relevant information without knowledge of the specific types of equipment to be designed. In these instances, a BOC that wishes to procure equipment from a manufacturer unaffiliated with AT&T will have the right to direct AT&T to gather and supply that manufacturer with the technical information required to assure that newly manufactured equipment is compatible with Western Electric equipment that is already installed. AT&T will undertake to assemble this information for a period of ten years after divestiture and will charge a gathering fee for this work. The gathering fee will not exceed the cost of assembling the information and placing it in a form that can be made available.

is otherwise protected by a copyright. On the date of divestiture, the BOCs will be granted rights under copyrights owned by AT&T.

The BOCs will be granted the right to make copies of materials bearing copyright notices for their own use, provided that each copy also bears a copyright notice. The BOCs will have no right to publish any such materials or to disclose them to third parties, except where explicitly allowed by the Plan to assure compatibility of equipment. As to materials not bearing a copyright notice and protected by copyright laws, the BOCs will be granted the right to copy them and use them, subject to the restrictions on trade secrets and proprietary information and the other provisions of the Plan. However, as previously explained above (Part II.A.l.a, *supra*), the BOCs may use stored program control and similar software only on the equipment with which it was furnished and may generally not copy it.

4. Trademarks and Trade Names

The rights to all Bell System trademarks, trade names, and service marks (including the familiar Bell logo or seal, the blue and ochre stripes and other graphics) are owned by AT&T. As owned and controlled companies, the BOCs have had the right to use the AT&T trademarks and trade names in the United States.

Unlike patents and other "technical information," as defined in the Decree (§ IV(L)), the BOCs do not require any trademarks or trade names "to permit them to perform, independently of AT&T, exchange telecommunications and exchange access functions" (§ I(A)) or to provide printed advertising directories (§ VIII(B)). Because protection of a trademark or service mark requires that its owner control the quality of the product or service associated with it, continued use by the BOCs of an AT&T-owned trademark or service mark could be considered inconsistent with the Decree requirement that the BOCs perform their functions independently of AT&T.

Although not required by the Decree, AT&T plans — subject to the alternative discussed below — to convey and assign its title to the Bell logo and certain other trademarks and service marks to the BOCs' Central Staff Organization for use within the United States in connection with exchange services and printed directories and with any other lawful BOC activity, except that they cannot be identified with equipment not supplied by AT&T and its affiliates. The Central Staff Organization will license the use of these trademarks and service marks to the BOCs. After divestiture, AT&T will cease all future use of them within the United States (including use in connection with CPE).

AT&T and the BOCs will not use any common corporate name but each may use "Bell" in corporate names. For example, BOCs and their regional holding companies could use such existing names as Southwestern Bell, Southern Bell, and Illinois Bell as well as such new names as Northeastern Bell, Southeastern Bell or Midwestern Bell.[401] And AT&T and its affiliates could use such existing names as Bell System,[402] Bell Telephone Laboratories and American Bell as well as such new names as Bell Intercity, American Bell Interexchange or American Bell Manufacturing. AT&T will develop its own separate trademarks (logo and graphics) for use by AT&T affiliates. AT&T will market its products and services with its own distinctive trademarks under the name American Bell, for example, referring to them as "genuine Bell products or services."[403]

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[401] The BOCs may not use the name "Bell" in the names of any foreign subsidiaries.

[402] As the Court stated in its opinion of August 11, 1982, the overall effect of the decree is to "remove from the Bell System the function of supplying local telephone service by requiring AT&T to divest itself of the portions of its twenty-two Operating Companies which perform that function" (p. 13). The Court approved that divestiture and the result that the decree preserves that feature of "the present structure of the Bell System" which will "leave Bell Laboratories associated with a manufacturer and two service organizations [referring to AT&T's interexchange operation and AT&T's CPE and information services organization]" (*id.*, at p. 62).

[403] Prior to and following divestiture, AT&T plans an intensive advertising and public relations campaign to acquaint the public with the names and trademarks associated with AT&T's products and services in order to distinguish them from the names and trademarks which will be used by the BOCs.

During the proceedings prior to the Court's entry of the Modification of Final Judgment, one commentor (Tandy Corporation) argued that "Bell" could be used in a name by AT&T and its affiliates, or by the BOCs, but not by both (Tr. 25175-76). The Department of Justice took no position on this argument at that time. Counsel for AT&T argued that because breaking up the present Bell System produced separate entities, each having a Bell heritage, they should each be allowed to use "Bell" in their names so long as common corporate names were not used (Tr. 25214). The Court's opinion of August 11, 1982, did not address this subject.

After entry of the Decree, in correspondence with counsel for the Tandy Corporation, the Department of Justice expressed the view that the Bell name could be used in the corporate names of both the BOCs and AT&T affiliates but that, if the BOCs owned the Bell trademarks and used a Bell name, the Decree somehow restricted the use of the Bell name in marketing AT&T products. More specifically, although the Department agreed that Bell Telephone Laboratories would not have to change its name and that AT&T could properly use the name American Bell for its subsidiary formed to market CPE, the Department stated that it would object to AT&T using the Bell name in marketing its products or services (as in "Bell Dimension[404] PBX") or in describing its products as "genuine Bell," whereas "at first blush, 'the Dimension PBX from American Bell' would not pose significant concerns" (DOJ letter dated September 23, 1982). The distinctions suggested by the Department are too metaphysical to provide a basis for doing business.

In the event this Court were to disapprove the planned uses of the Bell name as described above, AT&T will adopt the alternative to which neither the Department nor the only commentor on the subject objected. Namely, AT&T will retain all uses of the Bell name, including all Bell trademarks, service marks, the Bell logo or seal, the blue and ochre stripes, and other graphics and all uses of "Bell" in corporate names.

[404] Dimension is a registered trademark of AT&T.

D. BOC SINGLE POINT OF CONTACT FOR NATIONAL SECURITY AND EMERGENCY PREPAREDNESS

The Decree requires a BOC single point of contact for national security and emergency preparedness (NSEP) (Decree, § I(B)). In response to this directive, the BOCs will establish a specialized government communications group within the Central Staff Organization. The group will coordinate the development and implementation of uniform technical standards and nationwide emergency plans and procedures for the BOCs. It will serve as a single point of contact for alerting BOCs in the event of a crisis or emergency. It will expedite installation, testing and restoration of BOC services used by the federal government for its NSEP needs. The group will also, as called for in the Decree, coordinate the activities of BOCs when more than one of those companies is involved in responding to these needs.

Coordination of BOCs by the government communications group in the Central Staff Organization will not extend beyond the needs of national security and emergency preparedness. After divestiture, AT&T and its affiliates will not participate in the administration or operation of the group. The group will, however, cooperate with AT&T and its affiliates and other carriers to effectuate NSEP communications requirements and, in this regard, AT&T and its affiliates will continue their commitment to fulfilling NSEP needs.

1. Uniform Technical Standards and NSEP Planning

There are a series of BOC national security and emergency preparedness communications functions which will be coordinated by the centralized group because of the federal government's need for nationwide uniformity and nationwide planning. These functions relate primarily to the technical standards for equipment used, and the procedures to be followed, in national security and emergency preparedness situations. It is essential, for example, that equipment used be compatible with the public switched network and capable of being interconnected nationwide. Similarly, a uniform set of procedures to be followed in an emergency is needed because, in most cases, the BOC will be required to work with another BOC, or other carriers, in responding. In such instances, a common set of procedures avoids confusion and expedites fulfillment of the government's communications requirements.

Specifically, the group will coordinate work done by various other technical groups in the Central Staff Organization to provide technical advice and assistance to the BOCs on engineering standards and systems planning for NSEP services. It will also coordinate the development of procedures for expedited installation, testing and restoration of BOC services used for NSEP, including those associated with the Restoration Priority System as set forth in the Rules and Regulations of the Federal Communications Commission. Further, it will provide advice to the BOCs on government procurement regulations associated with NSEP services, including assistance in resolving any recurrent billing disputes or similar problems that may occur.

In addition, the group will coordinate the preparation of nationwide BOC plans for use in national security or emergency preparedness situations. Those plans will include network planning and operational guidelines for NSEP situations, nuclear defense planning and plans to protect or relocate vital BOC personnel in the event of a crisis or emergency. Also included will be procedures for the physical protection of essential government services, procedures for locating equipment and personnel available for use in NSEP situations and internal security, including obtaining required security clearances for BOC personnel.

Uniform technical standards and nationwide emergency plans and procedures already exist in each of the foregoing areas and will continue to be followed by the BOCs. Thus, initially, the primary function of the government communication group will be to coordinate advice and assistance to the BOCs as to implementation of existing national security and emergency preparedness requirements. In the future, however, the government may need to change these requirements, or to develop entirely new ones. The centralized group will respond to such needs should they occur. It would also participate, as a representative of the BOCs, in appropriate industrywide bodies sponsored by the government to coordinate NSEP communications activities or nationwide network planning.

2. Emergency Services and Alerting

BOC services provided to the federal government will consist of exchange telecommunications and exchange access services, including access lines, intraexchange private line and intraexchange message services and, in some instances, terminal equipment. When there is a national security or emergency preparedness need for expedited installation, testing or restoration of such services, the centralized group will serve, if the government desires, as the point of contact, and will expedite fulfillment of the government's needs through the appropriate BOC organizations.

These types of emergency situations would include those that directly or indirectly involve multiple BOCs. Where multiple BOCs are directly involved, as for example the Cuban refugee relocation crisis, there is a need for a central organization to coordinate their activities. Where only one BOC is directly involved, such as for example an unexpected change in the itinerary of the President, a central organization is needed in the event that shortages of manpower or equipment require support and assistance from other BOCs, and in order to provide the high level of expertise required to handle such an emergency delivery of services.

The centralized group will also arrange for a continuously operated nationwide system for alerting BOCs in the event of an emergency or crisis. Current plans call for a national alert center, with established relocation sites, connected through appropriate telecommunications facilities to designated centers and personnel in each BOC.[405] The national alert center will function on a continuous basis, as would the designated BOC centers. The system will have the capability to determine, at any time, the status of essential NSEP services, coordinate and expedite orders for initiation or restoration of those services and marshal the BOC personnel and material resources needed to respond to a crisis or emergency.

3. Coordination with Interexchange Carriers and Terminal Equipment Vendors

Federal government communications requirements, including those related to national security and emergency preparedness, almost always involve participation by one or more interexchange carriers and a need for terminal equipment in fulfilling those requirements. Neither the BOCs nor the government communications group in the Central Staff Organization will select interexchange carriers or terminal equipment vendors for the government. Responsibility for that selection will in all cases rest with the government. After such a selection has been made, however, the BOCs and the centralized government communication group will cooperate fully with the interexchange carriers and equipment vendors involved to provide efficient service. Specifically, the centralized group will, if the government desires, serve as a point of contact for other carriers and vendors to arrange for the installation, joint testing, maintenance, restoration, repair and all other operational aspects of BOC-provided NSEP services that are interconnected with services provided by other carriers.

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[405] Each BOC and regional company will have a designated NSEP coordinator who will interface with the group in the Central Staff Organization and the national alert center. To the extent needed, a BOC coordinator responsible for NSEP matters will also be designated in each LATA.

4. Staffing and Training of the BOC Single Point of Contact

The government communications group in the Central Staff Organization will consist of two sub-groups of employees supervised by a department head. One sub-group will coordinate NSEP technical standards and nationwide planning. The other sub-group will provide a contact point for the BOCs, interexchange carriers, terminal equipment vendors and appropriate federal agencies. The employees performing technical functions will call on other technical groups in the Central Staff Organization to assist in developing uniform NSEP engineering standards, technical engineering procedures and nationwide plans.

Office space in Washington, D.C., will be provided for use by the Central Staff government communications group, along with established relocation sites for use in a crisis or emergency. This office space will not, however, be co-located with that of AT&T's government communications group. The employees for the Central Staff group will be selected from BOC personnel who have the expertise and ability to work on national security and emergency preparedness communications requirements. The group will be selected in the first quarter of 1983 and, prior to divestiture, participate in an extensive program designed to cover existing Bell System technical standards and emergency plans and procedures for national security and emergency preparedness. Federal government procurement practices, communications service requirements and the structuring of government purchasing agencies will also be covered, along with an internship program handling government accounts and delivery of government services. The program will result in a functioning government communications group in place as of divestiture with sufficient expertise to fulfill its role in meeting national security and emergency preparedness communications needs.

5. Funding and Operational Authority

National security and emergency preparedness is a function that benefits the entire nation. Even in those limited instances where the centralized government communications group will be working on a NSEP communications need that involves only one BOC, the fundamental purpose of the work will be national in scope and the benefits will inure to everyone.

In light of this nationwide purpose and benefit, the annual budget of the group will be funded as agreed by the board of directors of the Central Staff Organization. The contract between the regional companies and the Central Staff Organization will specify that the regional companies cannot withdraw from funding of the group. The contract will also specify that the funding will not be at a level less than that certified by the chief executive officer of the Central Staff Organization to be needed for the group to perform its functions effectively.

In addition, the contractual arrangements between the Central Staff and regional companies will authorize the centralized group to respond fully on behalf of the BOCs to a crisis or emergency. Specifically, it will have the authority to allocate BOC personnel and resources in NSEP situations, activate emergency initiation and restoration of BOC NSEP services and direct such BOC network routing and other arrangements as are needed to respond to the crisis or emergency. Appropriate arrangements will be made by the BOCs or their Central Staff Organization to recover from government agencies the costs incurred for NSEP activities.

6. The Post-Divestiture Role of AT&T in NSEP Situations

After divestiture, AT&T will retain in its regulated entity its existing government communications organization which will continue to perform all of its current NSEP functions other than those transferred to the Central Staff Organization under this Plan of Reorganization. This AT&T organization has over 25 years of experience with government methods of operation, ordering procedures, procurement practices, intra-government relationships and governmental personnel. Its employees have appropriate security clearances and the needed technical expertise to respond fully to NSEP communications requirements. It will continue to provide a single point of contact for the government with AT&T affiliates for both emergency NSEP situations and those long term research, manufacturing or equipment needs that require the resources of Western Electric, Bell Telephone Laboratories or other AT&T affiliates. If the government desires, the AT&T organization will also serve as a point of contact for the government to coordinate NSEP communications requests that require interconnection between an AT&T affiliates' service and a service provided by a BOC or another exchange carrier.

PART III: CANCELLATION OF CONTRACTS

There are many contracts, agreements and informal business arrangements that have been used in the Bell System to permit the various Bell System Companies to furnish to each other or to undertake jointly the furnishing of goods and services. The Decree requires the termination of the License Contracts between AT&T and the BOCs and other AT&T subsidiaries and the termination of the Standard Supply Contracts between Western Electric and the BOCs and other AT&T subsidiaries (Decree, § I(A)(3)).[406] The Decree also explicitly contemplates that the division of revenues process among the BOCs and AT&T be terminated and replaced by exchange access tariffs (Decree, App. B, § B(1)). In addition, the Department of Justice has stated that all other contracts that "establish an ongoing economic integration between AT&T and the divested BOCs" should be terminated (CIS, p. 20).

Accordingly, the following contracts and arrangements will be terminated as part of this Plan of Reorganization: the License Contracts, the Standard Supply Contracts, the 1974 Cost Sharing Agreement, the Business Information Systems (BIS) Agreement, other operational contracts and arrangements between the BOCs and AT&T or its subsidiaries, and the Division of Revenues contracts. This part of the Plan discusses the terms and conditions of cancellation of each of these agreements. In addition, general provisions are discussed which will apply to any provision of any contract necessitated by the reorganization as well as to disputes arising under any other provisions of the Plan.

A. LICENSE CONTRACTS

The License Contracts are agreements between AT&T and each of the BOCs, under which AT&T agrees to provide a wide range of services and rights to the BOCs in exchange for

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[406] Southern New England Telephone Company (SNET) and Cincinnati Bell Inc. (CBI) are parties to many of these contracts and arrangements. *See* Part III.A, *infra*.

License Contract fees. Under the existing License Contracts, AT&T licenses the BOCs to use equipment and operational methods covered by patents owned or controlled by AT&T and undertakes to hold the BOCs harmless from actions or suits charging infringement of patents with respect to equipment or operational methods recommended by AT&T. AT&T also provides to the BOCs advice and assistance relating to engineering, operational, commercial, accounting, financial, patent, legal, administrative, and other matters and, through Bell Telephone Laboratories, conducts research in the art and science of telephony, the results of which are made available to the BOCs. Each BOC pays AT&T its allocated share of the total cost of providing License Contract services, payments which, pursuant to the terms of the contract, may not exceed 2½ percent of the licensee company's exchange, toll and equipment revenues, less uncollectibles.

The License Contracts will be terminated as of the date of divestiture by means of termination agreements between the BOCs and AT&T. Under these termination agreements, the obligations of the parties under the License Contracts will cease, and AT&T will grant the BOCs certain rights with respect to patents and technical information, including data system software (*see* Part II.A.1 and II.C, *supra*).

Although the Decree does not require the divestiture of SNET and CBI — companies in which AT&T owns only minority interests — it does require the termination of their License Contracts and Standard Supply Contracts. SNET and CBI are also parties to the BIS, Cost Sharing, Division of Revenues, and other Bell System agreements. All of these contractual arrangements will be terminated.

After the Decree was submitted to the Court, AT&T entered into Memoranda of Understanding with SNET and CBI. These set forth principles to guide the development of replacement agreements which will afford SNET and CBI services and value equivalent to that which they are now entitled to receive under the License Contract and other Bell System agreements.

Under the terms of these memoranda, AT&T agrees to provide SNET and CBI certain services and to use its best efforts to enable SNET and CBI to obtain from the BOCs and their Central Staff Organization other services formerly provided to them by AT&T. For example, AT&T will offer SNET and CBI advice and assistance on interexchange network planning as long as SNET and CBI continue to provide interstate services on a joint basis with AT&T. In addition, they may enter into cost sharing arrangements related to interexchange service. With respect to division of revenues, SNET and CBI will be treated no less favorably than any independent telephone company.

Until September 1, 1987, AT&T will make available to SNET and CBI, on the same priority basis as to the BOCs, basic research and network systems engineering from Bell Telephone Laboratories. AT&T will also provide engineering, product support, technical assistance, and training to support AT&T products and services. The Memoranda also provide that SNET and CBI will be afforded rights with respect to AT&T owned or controlled patents, trademarks, copyrights, and technical information in the same manner and for the same period of time as provided to the BOCs. AT&T also agrees to use its best efforts to enable SNET and CBI to obtain on an equitable basis advice and assistance on general corporate functions such as human resources, labor relations, public relations, comptrollers, tariffs and costs, corporate planning, treasury, operations staff, information systems, and corporate secretary.

Further, SNET and CBI may utilize centrally developed and maintained BIS and other systems and processes which they helped fund prior to divestiture. AT&T will also provide SNET and CBI rights to use software and information including source codes and documentation for such systems which are no longer supported by AT&T. AT&T will provide training and additional support as may be required during a transition period.

B. STANDARD SUPPLY CONTRACTS

The Standard Supply Contracts between Western Electric and the BOCs do not obligate the BOCs to buy from Western Electric. Rather, those contracts are in fulfillment of AT&T's obligation under the License Contract to provide and maintain for the BOCs adequate arrangements to purchase equipment and apparatus needed in their businesses. These contracts obligate Western Electric to manufacture or purchase equipment and material and to provide services for the BOCs as may be reasonably needed in the pursuit of their businesses. They also provide that Western Electric will transport, store, and insure the BOCs' stock; prepare specifications; inspect, install, and repair equipment; and perform other services for the BOCs.

In accordance with the Decree, the Standard Supply Contracts will be terminated, effective at the time of divestiture, by agreements among the affected parties or by other means of cancellation provided in the Standard Supply Contracts.

1. Prior Transactions

Except as otherwise provided in this Plan, the rights and obligations of the parties under the Standard Supply Contracts will remain in effect with respect to transactions initiated during the life of the contracts. Unfilled BOC orders received by Western Electric prior to divestiture will remain with the BOCs or will be assigned to AT&T consistent with the asset allocation procedures set forth in Part I of this Plan.

Any unfilled orders remaining with the BOCs which were received by Western Electric prior to termination of the Standard Supply Contract will be processed under the terms and conditions of the Standard Supply Contracts in effect when the orders were received. These terms and conditions, which cover prices, billing, taxes, delivery, transfer of title, insurance, warranties, and other matters, are set forth in the Standard Supply Contract and in the Prefaces to the Western Electric Price List.

Western Electric will continue to support its products (including software), furnished to or ordered by the BOCs prior to divestiture. It will continue to provide technical support and maintenance and repair services for such products. In the case of software, Western Electric will also negotiate agreements at the request of a BOC or group of BOCs to develop new features, new generics or major enhancements which the BOCs may need to meet their special needs.[407] In the case of hardware products, Western Electric will also continue to manufacture or make available spare parts, repair or replacement parts, and additions, in accordance with sound business practices. These services will be made available to the BOCs on an arms-length, commercial basis.

If Western Electric decides to terminate development of software for a stored program control switching system furnished to or ordered by the BOCs prior to divestiture, it will give the BOCs at least two years' advance notice of its intention to do so. Following such notice, or upon a substantial reduction of the software development effort by Western Electric for a stored program control switching system furnished to or ordered by the BOCs prior to divestiture, Western Electric will do the following. Western Electric will furnish the BOCs at their request, subject to appropriate protective conditions, development support systems, documentation and other information which they would need to provide such software support for themselves or to procure such support from other sources, including the provision of technical support, where necessary. In addition, Western Electric will provide the BOCs additional technical support, if necessary, after Western Electric has furnished such information to the BOCs, and after the BOCs have undertaken their own software development effort.

As described in Part II.A.2, the transfers of resources to the Central Staff Organization will include sufficient technical personnel, documentation and other information to enable the BOCs to understand, monitor and evaluate the support provided by Western Electric for the No. 1 or No. 1A ESS switching systems as required by Section I(C) of the Decree

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[407] *See* Part II.A.1.b, *supra,* as to centrally developed software other than stored program control and related software.

(requiring AT&T to provide priority service for the BOCs to meet their equal access obligations). In the event that the Central Staff Organization elects, AT&T will transfer to the Central Staff Organization, for use by the BOCs in a manner consistent with the Decree, information, technical support and personnel for the No. 1 or No. 1A ESS switching systems as if Western Electric had given notice to the BOCs of its intent to terminate support of the software for those switching systems as discussed in the preceding paragraph.

2. Class C, Class W, and Special Stock

Under the Standard Supply Contracts, Western Electric stores and insures for the BOCs usable stock owned by the BOCs (Class C and Class W stock). Many kinds of BOC equipment and apparatus are carried in Class C and Class W stock, including units of central office switching and transmission equipment of the type that will be assigned to the BOCs in the asset assignment process.

For a period of 90 days after termination of the Standard Supply Contracts, Western Electric will continue to store and insure Class C and W stock that was in its possession prior to divestiture and that has been assigned to the BOCs. Unless otherwise agreed by the BOCs and Western Electric in a replacement agreement, any such stock left in Western Electric's possession at the end of this period will be disposed of by Western Electric and the net proceeds, if any, will be paid to the BOCs.

Western Electric also maintains special stock for the BOCs. This is equipment and material stocked by Western Electric pursuant to authorizations from BOCs to meet special needs over and above that which would otherwise be stocked by Western Electric. Under the Standard Supply Contracts, a monthly charge is applied for the maintenance of such special stock. Unless, within 90 days after termination of the Standard Supply Contracts, the BOCs request that Western Electric continue to maintain special stock for them and agree to enter into replacement agreements, Western Electric will discontinue such special stocking.

C. COST SHARING AGREEMENT

The Cost Sharing Agreement was entered into by the BOCs, AT&T, and Bell Telephone Laboratories in 1974, as a means of facilitating the funding and conduct of operational projects that could be performed more efficiently and economically on a centralized basis. Cost sharing project work may be performed by AT&T, Bell Telephone Laboratories, outside contractors, or by one or more BOCs. Not every BOC undertakes to participate in every cost sharing project. Rather, each company may decide whether or not to participate in any particular project. The participating companies appoint one or more companies to manage or supervise the project, determine its costs, and distribute the costs among the participants in accordance with the method of allocation provided in the Agreement.

Under the Cost Sharing Agreement, a general offering of AT&T-managed projects is made once each year. The general offering of cost sharing projects to be undertaken during 1983 has already been presented to the BOCs, and they have selected the projects in which they will participate. Cost sharing projects are funded on a calendar-year basis. Although the project work may require more than a year to complete, each project must be funded or refunded annually. No cost sharing projects will be funded for 1984 or thereafter.

The Cost Sharing Agreement will be terminated at the time of divestiture by means of a termination agreement.[408] Upon termination, the BOCs will be allocated resources from AT&T to continue types of work formerly covered by the Cost Sharing Agreement so as to enable the BOCs to perform their exchange telecommunications, exchange access and printed directory

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[408] AT&T, the BOCs, or Bell Telephone Laboratories, as managers of cost sharing projects, will bill project costs in a timely manner in order to minimize the amounts that will remain unbilled at the time of divestiture. All such unbilled amounts will be billed within ninety days of divestiture.

functions, independent of AT&T (*see* Part II, *supra*). The BOCs may retain and use for such functions any information which they have received in connection with cost sharing projects.

There may be cost sharing projects started prior to divestiture and continued after divestiture by AT&T and its affiliates or by the BOCs. Within three years after divestiture, the results of such projects will be made available upon request to any of the entities that participated in those projects prior to divestiture. A fee may be charged to recover a reasonable portion of the costs incurred in performing the additional work involved.

D. BIS AGREEMENT

The Business Information Systems (BIS) Agreement was entered into by Bell Telephone Laboratories and the BOCs and AT&T Long Lines Department in 1967. Under this Agreement, Bell Telephone Laboratories undertakes to develop or have developed data processing and business information systems and programs for use by all of the BOCs and AT&T, and to evaluate and improve existing BOC systems and programs. Each BOC and AT&T reimburses Bell Telephone Laboratories for its portion of BIS expenses in accordance with an agreed upon formula designed to spread the costs fairly among the parties.

The BIS Agreement will be terminated on the date of divestiture pursuant to a termination agreement. The BIS Systems and their related resources will be made available to the BOCs, as described in Part II of this Plan.

E. OTHER OPERATIONAL AGREEMENTS

In addition to the contracts discussed above, there are a number of other operational agreements and contracts between AT&T and the BOCs. A blanket termination will be used to terminate all categories of these contracts or agreements that even arguably serve to establish an economic integration between AT&T and any BOC.

The contracts and agreements that will be terminated under the Blanket Termination Agreement as of the date of divestiture divide into several categories which are listed below, together with the parties involved:

TYPE OF CONTRACT	PARTIES
1. Outside Plant Agreements	AT&T, BOCs
2. Agreements for Joint Ownership of Land, Buildings, Cable, Conduit, Antennae and Other Facilities	AT&T, BOCs
3. Circuit Equipment Interface Agreements	AT&T, BOCs
4. Reciprocal Purchase and Sale Agreements	AT&T, BOCs
5. Maintenance and Installation Agreements	AT&T, BOCs
6. Powers of Attorney	AT&T, BOCs
7. Personnel Interchange Agreements	AT&T, BTL, WE, BOCs
8. Intercompany Services Agreements	AT&T, BOCs
9. Intercompany Billing Agreements	AT&T, BOCs
10. Miscellaneous Equipment Ownership Agreements	AT&T, BOCs
11. Toll Termination Agreements	AT&T, BOCs
12. Agreements for Provision of Facilities for Intercompany Services	AT&T, BOCs
13. Agreements with respect to BOCs' Participation in Bell System Savings and Stock Ownership Plans	AT&T, BOCs

The Blanket Termination Agreement for these categories of contracts and agreements will include terms and conditions similar to those contained in the License Contract Termination Agreement.

There remain a few categories of contracts and agreements between the BOCs and AT&T which will not be terminated under the Blanket Termination Agreement. These agreements are not significant in scope or financial impact and do not create an economic integration inconsistent with the Decree. Examples of these contracts are leases, subleases, rights-of-way, easements, and agreements for telephone services provided under tariff. These agreements will, however, be reviewed on a case-by-case basis to determine whether they should be terminated or modified in light of other elements of the reorganization provided in this Plan.

F. DIVISION OF REVENUES CONTRACTS

The Division of Revenues Contracts provide the means by which revenues are divided among the Bell System Companies to compensate them for costs incurred in providing interstate services. The method used to determine the interstate portion of the costs of AT&T Long Lines, the BOCs and other subsidiaries which provide both interstate and intrastate services is governed by the Separations Manual incorporated in Part 67 of the Federal Communications Commission's Rules and Regulations.

Under the Division of Revenues Contracts, each company, including Long Lines, receives on a monthly basis, dollar-for-dollar compensation for the interstate costs it incurs plus a return on its interstate net plant investment which is equal to the rate of return received by each other company. The actual revenue settlement is the difference between the interstate revenues collected from customers by each company and the portion of the interstate revenue pool to which each company is entitled.

The Division of Revenues Contracts will be terminated pursuant to termination agreements to be entered into by each of the BOCs and AT&T. Any rights and obligations of the parties arising under the Division of Revenues Contracts prior to divestiture which have not been satisfied at the date of divestiture will be subject to a limited release, set forth in the termination agreements. The termination agreements will also set forth the procedures for satisfying those rights and obligations of the parties which are not released.

The existence of unsatisfied rights and obligations at divestiture arises because of the manner in which division of revenues is administered. The BOCs and AT&T Long Lines receive their compensation through monthly revenue settlements which are generally made on the fifth working day of each month. These settlements consist of three elements: (1) a preliminary settlement for the prior month; (2) a final settlement adjustment for the third preceding month and; (3) any retroactive adjustments required for months preceding the third prior month.[409]

The preliminary settlement is made, using estimated data, prior to the closing of the books for the previous month so that each company's records can reflect as accurately as possible the company's interstate revenues within the month in which they are earned. The final settlement adjustment, which is based on actual data, permits a true-up of the preliminary settlement. Retroactive adjustments may be required for such matters as accounting adjustments (for example, where the Federal Communications Commission authorizes retroactive booking of represcribed depreciation rates) or errors or omissions discovered in the calculations of the settlement amounts. The retroactive adjustments are made in accordance with uniform guidelines applicable to all the parties to Division of Revenue Contracts.

Because of the delay in revenue settlements, the parties to the Division of Revenues Contracts will be entitled to compensation, or will be required to make adjustments to compensation previously received, after termination of the contracts. Specifically, upon termination of the contracts on January 1, 1984, revenue settlements will still have to be made for the December 1983 preliminary settlement; the final settlement adjustments for October, November, and December 1983;

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[409] The one exception occurs in January of each year in which the revenue settlement is postponed until the preliminary settlement for the preceding December and the final settlement adjustments for October and November can be calculated and included in the revenue settlement.

and any subsequent retroactive adjustments relating to accounting periods through December 31, 1983.

The arrangements for handling these post-divestiture revenue settlements are designed to terminate the existing division of revenues process as soon as possible. The replacement procedures will be administered by AT&T Long Lines, which will be responsible for the maintenance of the computer system and necessary data bases to calculate the transfer of funds between the post-divestiture entities and which will continue to generate the required bills and vouchers needed to initiate the transfer of those funds. The post-divestiture BOCs will be responsible for generating the data related to events occurring in pre-divestiture accounting periods applicable to the states in which they operate.

The Division of Revenues Termination Agreements will provide that the parties will not relinquish their rights to the preliminary settlement and final settlement adjustments attributable to the three months preceding divestiture. In making these settlements and settlement adjustments, the usual year-end division of revenue procedures will be followed. There will be audits of the pre-divestiture data and the procedures used in the post-divestiture revenue settlements process. The procedure to be followed is that, assuming divestiture on January 1, 1984, prior to the closing of the books for December, 1983, the December preliminary settlement and the final settlement adjustments for October, November and December and any known retroactive adjustments relating to periods prior to January 1, 1984, will be calculated and booked to the pre-divestiture BOC accounts. For these purposes, the books may have to remain open for 90 days after divestiture.

In the Division of Revenues Termination Agreements, the parties will release each other from the obligation and right to make any retroactive adjustments which are not identified in time to be included in the final division of revenues settlement with the pre-divestiture BOCs. Accommodation will, however, be made for situations discovered after the final division of revenues settlement which would have resulted in significant adjustments under the Division of Revenue Contracts. The types of situations qualifying for accommodation will be specified in the Termination Agreements and will include Independent Company interstate settlement adjustments, adjustments to previously reported interstate revenues, and the costs incurred by AT&T in administering the adjustment process.[410]

Any such accommodations will be handled outside the current Division of Revenues process. After the closing of the books of the pre-divestiture BOCs, the division of revenues data base for the year preceding the divestiture date will be analyzed to determine the amount of interstate plant that would have been attributable to each of the post-divestiture entities during the year preceding divestiture had divestiture already taken place. Adjustments for pre-divestiture events will then be made on the basis of the companies' interstate investment as thus restated.

G. GENERAL PROVISIONS AND OVERALL DISPUTE RESOLUTION

All of the agreements described in this Plan will provide for (1) the protection of proprietary information; and (2) mutual releases and the use of arbitration to resolve disputes arising under the terminated contracts or arising under the agreements terminating these contracts. In addition, any other disputes arising with respect to any provision of any contract necessitated by the reorganization or with respect to any other provision of this Plan will be submitted to arbitration.

1. Protection of Proprietary Information

As part of the Bell System, the BOCs have obtained a vast amount of technical and business information. In connection with divestiture, the BOCs will be provided a large quantity of additional information for use in their businesses. Much of this

[410] Costs arising from the payment of contingent liabilities, as discussed in Part I.B.3.r, *supra,* are not included in the division of revenue adjustment procedures described in Part III.F of the Plan.

information contains trade secrets and other valuable business and financial information of the kind which businesses ordinarily protect from disclosure and which, if disclosed, would benefit competitors and operate to the disadvantage of the owner. This information relates to such matters as Western Electric designs and manufacturing processes, software relating to equipment and software and other AT&T information used for activities such as inventory management and capital asset management, and personnel management (*see* Part II, *supra*). This information has been and will be furnished to the BOCs subject to the BOCs' obligation to safeguard such proprietary information from unauthorized disclosure and to use the information solely for the purposes provided.

Except as otherwise provided in this Plan, all such technical information and other materials obtained by the BOCs prior to or in connection with divestiture, will remain the property of AT&T. Unless made public by an act not attributable to the BOCs, or unless AT&T explicitly agrees in writing that such information or material is not confidential, such information and material is to be held in confidence by the BOCs and their employees. Such information, to the extent that the BOCs have a right to disclose it to others, may be disclosed by the BOCs only on terms which adequately safeguard its proprietary nature.

2. Releases and Arbitration

All agreements will include mutual releases from claims or actions arising out of transactions that took place prior to divestiture, except as otherwise provided in this Plan.[411] Such releases will not extend to any rights that AT&T or the BOCs may have with respect to indemnification or contribution for claims brought against AT&T or the BOCs by third parties.

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[411] As to prior transactions, all rights and obligations under the Standard Supply Contract will, however, be continued. For example, the warranty obligations of Western Electric and the BOCs' confidentiality obligation under the Standard Supply Contract will not be released.

AT&T and the BOCs will establish arrangements to facilitate mutually satisfactory resolution of any disputes or controversies which may arise concerning the implementation of termination agreements or any other provision of this Plan. It is expected that most such controversies will be resolved on this informal basis.

Any claim or controversy that cannot be resolved informally will be submitted to binding arbitration. No arbitration, however, may include any challenge to the validity of any provision of the Termination Agreements or the validity of any provision of the Plan of Reorganization; nor may any arbitration involve a disputed interpretation of the terms of the Decree. Thus, the arbitration process will be limited to questions relating to the interpretation and implementation of contracts necessitated by the reorganization and questions relating to the application and implementation of other provisions of this Plan.

Arbitration will be held before a panel of three arbitrators. AT&T and the BOCs in question will each choose one arbitrator, and the two arbitrators so selected will then choose the third. The arbitration will be held in accordance with the then-applicable commercial rules of the American Arbitration Association.[412] Judgments upon any awards rendered may be entered in any court having jurisdiction.

Nothing in the terms of the arbitration agreements or this Plan is intended to limit the right of the BOCs or AT&T to challenge an arbitration award in the Decree Court on the ground that it is contrary to the provisions of the Decree or any order of the Court relating thereto.

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[412] To the extent the parties agree in advance of arbitration on general substantive principles and procedures for resolving any disputes, that agreement will be submitted as part of the record for the arbitration proceeding. Further, nothing herein precludes the parties from establishing administrative tribunals and procedures which are separate from and which operate independently of the American Arbitration Association.

PART IV: AT&T'S DIVESTITURE OF THE BELL SYSTEM'S EXCHANGE OPERATIONS

Section I(A)(4) of the Decree requires that AT&T divest its "ownership of the separated portions of the BOCs providing local exchange and exchange access services." AT&T may accomplish this transfer of ownership "by means of a spin-off of stock of the separated BOCs to the shareholders of AT&T, or by other disposition . . ." (Decree, § I(A)(4)).

Parts I and II of this Plan of Reorganization have described the principles and procedures for identifying which Bell System assets and liabilities will be assigned to the separated portions of the BOCs to be spun off in accordance with the Decree. This Part of the Plan explains the means by which the assets and liabilities thus identified will be lodged in appropriately reconfigured BOCs and the subsequent transactions that will effect AT&T's divestiture of these entities.

Part IV.A will describe these procedures, as well as plans for minimizing the burden of divestiture on small stockholders. Part IV.B will describe arrangements for enabling each of the regional companies to service its roughly 2.7 million stockholder accounts. Part IV.C will set forth the schedule for completing the reorganization following the Court's approval of the Plan.

A. TRANSACTIONS TO EFFECT THE DIVESTITURE

The transfer of ownership ordered in Section I(A)(4) of the Decree will be effective January 1, 1984. The steps required to implement the divestiture are set forth below. Because these procedures are necessary to implement the Court's Decree, they will not be subject to contrary provisions of state law or regulations of state administrative agencies.[413] Opinion, August 11, 1982, pp. 36-49.

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[413] The procedures will not, therefore, require the approval of state administrative agencies, nor will the continued operation of the entities created by the divestiture require additional operating authority from such agencies.

Information filings will be made with each state public utilities commission that will have regulatory jurisdiction over the entities resulting from the divestiture. These filings will identify the relevant changes in ownership and service responsibility caused by the Decree. Applications to the FCC will be filed to the extent required by Section 214, Section 310, or other provisions of the Communications Act in order to transfer certain interstate assets and licenses as required by the Decree and by the Plan of Reorganization as approved by the Court.

Prior to divestiture, rulings from the Internal Revenue Service will be requested with respect to all significant tax consequences of the various corporate transactions and property transfers that are necessary to carry out the reorganization. In particular, a ruling will be sought that the distribution of full shares of the regional holding companies' common stock will be "tax free" to AT&T's shareholders.

1. Creation of IXC and CPE Subsidiaries

The first step in segregating the exchange functions of the existing BOCs will be the creation of two wholly owned subsidiaries for each BOC. One will receive the interLATA facilities of the BOC (the "interexchange" or "IXC" subsidiary); the other will receive the BOC's customer premises equipment and related facilities (the "CPE" subsidiary).

This procedure will allow the existing BOCs to continue as providers of local exchange service operating under the franchises now in the BOCs' names. To the extent franchise authority is required for the continued operation of the IXC and CPE subsidiaries, those companies will operate as successors in interest to the franchises and licenses of the BOCs.

Unless tax or other legal factors dictate otherwise, the subsidiaries of each BOC will be incorporated in the State in which the BOC itself is incorporated. The directors and officers of each of these new BOC subsidiaries will be employees of AT&T, which will continue to own these subsidiaries after divestiture.

2. Transfer of BOC Assets and Liabilities to IXC and CPE Subsidiaries

Each BOC will transfer its interexchange and CPE assets to its IXC and CPE subsidiaries, respectively. These transactions will be tax free in that the BOCs will not recognize any gain or loss for federal income tax purposes on the transfer of facilities to their IXC and CPE subsidiaries, and these subsidiaries will not recognize gain or loss on the receipt of the properties.

In order to help achieve a BOC's post-divestiture debt ratio as required by Section VIII(H) of the Decree, the subsidiaries will assume the balance of any AT&T advances to the BOC. A portion of the BOC's other outstanding debt may also be assumed by the subsidiaries. All such calculations will be made pursuant to principles for computing the BOC's debt ratio, as set forth in Part I.B.4, *supra*. No gain or loss for federal tax purposes will be recognized by the BOCs on account of the assumption of this debt if, as planned, the amount of the debt assumed does not exceed the tax basis of the property transferred.

On a BOC's books, the transfer of assets to the new subsidiaries will be recorded by crediting (decreasing) the appropriate asset accounts — in the case of telephone plant assets, "telephone plant in service" (100.1), "telephone plant under construction" (100.2), and "property held for future use" (100.3), and in the case of all other assets, the accounts specified in Parts I.A.3 and I.A.4, *supra*. The depreciation reserve and tax reserve accounts will be debited (decreased) by the amounts attributable to the transferred assets. The accounts to be debited are: "depreciation reserve" (171), "accumulated deferred income taxes" (176.1 and 176.2), and "other deferred credits" (174). The transfer of liabilities from the BOC to the new subsidiaries will be reflected on the BOC's books by debits (decreases) to the various liability accounts specified in Parts I.B.3 and I.B.4, *supra*. Finally, to reflect the BOC's contribution of capital to the new subsidiaries, Account 101.1 "Investments in affiliated companies" will be debited (increased) by the excess of the credits to asset accounts over the debits to liability, depreciation reserve, and tax reserve accounts. The journal entries to be made on the books of the BOC are as follows:

BOC DEBITS	BOC CREDITS
Investments in affiliated companies — IXC and CPE subsidiaries (101.1)	Telephone plant in service (100.1)
Depreciation reserve (171)	Telephone plant under construction (100.2)
Accumulated deferred income taxes (176.1 and 176.2)	Property held for future use (100.3)
Other deferred credits (174)	Other asset accounts specified in Parts I.A.3 and I.A.4, *supra*
Liability accounts specified in Parts I.B.3 and I.B.4, *supra*	

The BOC's IXC and CPE subsidiaries will record their receipt of assets and assumption of liabilities from the BOC by a series of debits and credits that are essentially the reverse of the debits and credits made on the books of the BOC. To account for the receipt of plant, the new subsidiaries will debit (increase) "telephone plant in service" (100.1), "telephone plant under construction" (100.2), and "property held for future use" (100.3); the amount of the debits will be the historical book values that existed on the books of the BOC for the transferred assets. Credits (increases) will be made to "depreciation reserve" (171), "accumulated deferred income taxes" (176.1 and 176.2), and "other deferred credits" (174), for the same amounts that were removed from those accounts on the books of the BOC; that is, the credit to these accounts will be for the amounts associated with the transferred assets.

Other asset accounts specified in Parts I.A.3 and I.A.4, *supra,* will be debited (increased) to the extent such assets are transferred to the IXC and CPE subsidiaries. The assumption of BOC liabilities by their subsidiaries will be recognized on the subsidiaries' books by credits (increases) to the liability accounts specified in Parts I.B.3 and I.B.4, *supra*. Finally, each subsidiary will credit "capital stock" (150) or other equity accounts for the amount by which the foregoing debits exceed credits,[414] this will be the same amount debited by the BOC to "investments in affiliated companies — IXC and CPE subsidiaries" (101.1). The journal entries to be made on the books of the IXC and CPE subsidiaries are:

SUBSIDIARIES' DEBITS	SUBSIDIARIES' CREDITS
Telephone plant in service (100.1)	Depreciation reserve (171)
Telephone plant under construction (100.2)	Accumulated deferred income taxes — accelerated tax depreciation (176.1 and 176.2)
Property held for future use (100.3)	Other deferred credits (174)
Other asset accounts specified in Parts I.A.3 and I.A.4, *supra*	Liability accounts specified in Parts I.B.3 and I.B.4, *supra*
	Capital stock (150) or other equity accounts (*see* Part I.B.5, *supra*)

The IXC and CPE subsidiaries' federal tax basis for the assets transferred will be the same as the BOCs' basis. The BOCs will not be required to "recapture" any investment tax credit or depreciation previously claimed with respect to the transferred assets.

3. Dividend of IXC and CPE Subsidiaries' Stock to AT&T

Following the creation of the IXC and CPE subsidiaries, each BOC will transfer to AT&T, by means of a dividend, the stock it holds in the newly created subsidiaries. The BOCs will

[414] Some portion of this amount may be designated as stated capital and the remainder as premium on capital stock.

thereafter own no interexchange or CPE operations, and AT&T will have separated its holdings in BOC exchange operations from its interexchange and CPE holdings.

The exact amount of the BOCs' dividends of the stock of the IXC and CPE subsidiaries will not be known until it is determined precisely which assets are to be transferred to these subsidiaries and how much debt they will assume. Most BOCs will have sufficient retained earnings and capital surplus to absorb the dividend. To the extent a particular BOC does not have sufficient retained earnings and surplus, additional capital surplus will be created by reducing the stated capital of that particular BOC. This will be done by BOC board of director's action, with AT&T's approval as sole shareholder.

AT&T will not recognize any gain or loss for federal tax purposes upon the receipt of the stock of the IXC and CPE subsidiaries. In addition, the earnings and profits of each BOC will be allocated among the BOC and the new subsidiaries. This will determine whether future distributions by these corporate entities will be dividends out of earnings and profits or a return of capital for tax purposes.

To account for its dividend to AT&T, the BOC will debit (decrease) one or both of the following equity accounts by amounts which together equal the net amount invested in its IXC and CPE subsidiaries: Account 181 (unappropriated retained earnings) and Account 152 (premium on capital stock).[415] This is the same amount previously debited to "investments in affiliated companies — IXC and CPE subsidiaries" (101.1), and represents the net investment in assets transferred to the subsidiaries less BOC liabilities assumed by the subsidiaries. A credit (decrease) to "investments in

[415] Prior to these entries, the capital stock account may be restated (after appropriate corporate action) to create additional capital surplus in Account 152. Pennsylvania and California state laws provide that a dividend may only be paid out of retained earnings. Both the Bell Telephone Company of Pennsylvania and The Pacific Telephone and Telegraph Company should have sufficient retained earnings to absorb the dividend.

affiliated companies — IXC and CPE subsidiaries" (101.1) will be made for the total amount of these debits. These entries are as follows:

BOC DEBITS	BOC CREDIT
Unappropriated retained earnings (181)	Investments in affiliated companies — IXC and CPE subsidiaries (101.1)
Premium on capital stock (152)	

In order to reflect on its books the receipt of stock in the IXC and CPE subsidiaries, AT&T will debit (increase) "investments in affiliated companies — IXC and CPE subsidiaries" (101.1) for the amount at which the investment was carried on the books of the BOC.[416] Because the dividend distribution by the BOC will reduce AT&T's investment in the BOC, a credit (decrease), for an amount equal to the debit must be made to "investments in affiliated companies — BOCs" (101.1). The entries are:

AT&T DEBIT	AT&T CREDIT
Investments in affiliated companies — IXC and CPE subsidiaries (101.1)	Investments in affiliated companies — BOCs (101.1)

4. AT&T Transfers to the BOCs

AT&T (and Western Electric and Bell Laboratories) will assign certain assets to the BOCs (or their regional holding

[416] Because AT&T's acquisition of the minority stock interests in Pacific, Illinois, Mountain States, Pacific Northwest, and New England cost either more or less than the respective book values of the stock acquired, a goodwill amount (either positive or negative) is reflected in the AT&T consolidated accounts. Accordingly, the AT&T debit to "investments in affiliated companies—IXC and CPE subsidiaries" (101.1) will not precisely equal the amount that the investment was carried on the books of those BOCs. The debit (and corresponding credit to "investments in affiliated companies—BOCs" (101.1)) will be equal to (1) the percentage determined by dividing the BOC debit to the equity accounts by the total BOC equity immediately prior to the debit entry, multiplied by (2) the amount of AT&T's balance in the appropriate "investments in affiliated companies—BOCs" (101.1) subaccount.

companies).[417] Assignments of network-related facilities will be in accordance with the principles and procedures set forth in Part I of this Plan; all other assets will be assigned in accordance with Part II of this Plan.

On AT&T's books, the assignment of assets to the BOCs will be recorded by crediting (decreasing) the appropriate asset accounts — "telephone plant in service" (100.1), "telephone plant under construction" (100.2), "property held for future use" (100.3), and other asset accounts reflecting transfers of non-telephone plant, as described in Parts I.A and II, *supra*. The depreciation and tax reserve accounts will be debited (decreased) by the amounts attributable to the assigned assets. The accounts to be debited are: "depreciation reserve" (171), "accumulated deferred income taxes" (176.1 and 176.2), and "other deferred credits" (174). Finally, to reflect AT&T's contribution of capital to the BOCs, Account 101.1 "investments in affiliated companies" will be debited (increased) by the excess of the credits to asset accounts over the debits to the reserve and deferred credit accounts. The journal entries to be made on the books of AT&T are:

AT&T DEBITS	AT&T CREDITS
Investments in affiliated companies — BOCs (101.1)	Telephone plant in service (100.1)
Depreciation reserve (171)	Telephone plant under construction (100.2)
Accumulated deferred income taxes (176.1 and 176.2)	Property held for future use (100.3)
Other deferred credits (174)	Other asset accounts reflecting transfers specified in Parts I.A.3 and II, *supra*

The BOCs will record their receipt of assets and depreciation and tax reserves by a series of debits and credits that are essentially the reverse of the debits and credits made on the

[417] For purposes of Part IV.A.4 of this Plan, references to AT&T transfers include transfers to be made to the BOCs by Western Electric and Bell Laboratories.

books of AT&T. To account for the receipt of assets, the BOCs will debit (increase) "telephone plant in service" (100.1), "telephone plant under construction" (100.2), "property held for future use" (100.3), and other asset accounts for any non-telephone plant received; the amount of the debits will be the historical book values that existed on the books of AT&T for the assigned assets. Credits will be made to "depreciation reserve" (171), "accumulated deferred income taxes" (176.1 and 176.2), and "other deferred credits" (174), for the same amounts that were removed from those accounts on the books of AT&T; that is, the credit to these accounts will be for the amounts associated with the assigned assets. Finally, each BOC will credit "capital stock" (150) or other equity accounts for the amount by which the foregoing debits exceed credits,[418] this will be the same amount debited by AT&T to "investments in affiliated companies — BOCs" (101.1). The journal entries to be made on the books of the BOCs are:

BOC DEBITS	BOC CREDITS
Telephone plant in service (100.1)	Depreciation reserve (171)
Telephone plant under construction (100.2)	Accumulated deferred income taxes (176.1 and 176.2)
Property held for future use (100.3)	Other deferred credits (174)
Other asset accounts reflecting transfers specified in Parts I.A.3 and II, *supra*	Capital stock (150) or other equity accounts (*see* Part I.B.5, *supra*)

5. Creation of the BOCs' Central Staff Organization

AT&T will organize a corporation to conduct the business of the BOCs' Central Staff Organization. AT&T (and Western Electric and Bell Labs) will transfer to the Central Staff Organization the facilities and other assets described in Part II.A, *supra,* in exchange for seven shares of voting common

[418] Some portion of this amount may be designated as stated capital and the remainder as premium on Capital Stock.

stock (which will be held eventually by the seven regional companies; *see* Part IV.A.6.a, *infra*). The liabilities and reserves related to these assets will also be transferred to the Central Staff Organization. On the books of AT&T, these transactions will be reflected as follows:

AT&T DEBITS	AT&T CREDITS
Investments in affiliated companies — Central Staff Organization (101.1)	Assets (cash, facilities, and other items to be transferred, *see* Part II.A, *supra*)
Liability and reserve accounts associated with transferred assets and personnel (*see* Parts I.B.1-3, *supra*)	

On the books of the Central Staff Organization, the account entries will be essentially the reverse of those on AT&T's books:

CENTRAL STAFF DEBITS	CENTRAL STAFF CREDITS
Assets (cash, facilities, and other items transferred, *see* Part II.A, *supra*)	Liability and reserve accounts associated with transferred assets and personnel (*see* Parts I.B.1-3, *supra*)
	Capital stock (150) or other equity accounts (*see* Part I.B.5, *supra*)

Control of the Central Staff Organization will be vested in its board of directors. A shareholder agreement will provide that each regional company may designate one director. After divestiture additional directors may be elected by the seven regional companies if they so desire. The Central Staff Organization management will be under the direction of a Chief Executive Officer selected by the Organization's board of directors. All officers or other managers will report directly, or indirectly through others, to the Chief Executive Officer.[419]

6. Creation of Regional Holding Companies

AT&T will divest its ownership interest in the Bell System's exchange operations by contributing its stock in the reconfigured BOCs to seven newly created regional holding companies, and then spinning off these seven companies to existing AT&T shareholders. This section explains the holding company structure and describes the configuration of the 22 BOCs into seven regional holding companies.

a. The Holding Company Structure

Each regional holding company will hold the stock of one or more BOCs, but no regional company will share ownership of a BOC with another regional company.[420] Upon divestiture, no officer, director, or employee of one regional company will serve in any of those capacities for another regional company, for a BOC in another region, or for AT&T or any of its subsidiaries.[421]

Ownership in the BOCs will be grouped in this manner to secure several financial and operational advantages. By combining the ownership of more than one BOC in a regional company, many of the BOCs will realize substantial economies

[419] Precisely what functions the Central Staff Organization will perform after divestiture will be determined by the Central Staff Organization's board of directors. The Central Staff Organization will be free to provide new functions and services or to discontinue existing ones, subject to the Decree.

[420] In addition, each regional holding company will hold all the common stock of a separated regional cellular radio company and one-seventh of the shares of the Central Staff Organization. The regional cellular company will own one-seventh of the shares of the the cellular Central Service Corporation.

[421] Jointly owned cellular service corporations may be formed in certain areas (*see* Part II.A.3, *supra*), and in such a case the corporation may have officers and directors who are employees of more than one regional holding company.

of centralized management and support services.[422] In addition, the holding company structure will cushion the impact of earnings volatility within each region, thereby enhancing the regional company's attractiveness to investors and its ability to raise capital.[423]

The holding company structure also preserves for the BOCs the flexibility to raise capital quickly and by the most advantageous means.[424] This structure will cause no change in the extent of state regulation of the BOCs because each BOC will be held by a single stockholder after divestiture (a regional holding company) as it was held by a single stockholder (AT&T) before divestiture.

The advantages of a holding company structure can be realized, moreover, without changing the identity of the entity (the current BOC) that presently provides Bell System customers with local services. The same company will continue providing the same local service after divestiture as it did before. This will minimize customer confusion.[425]

The regional holding companies will be created prior to divestiture as wholly owned subsidiaries of AT&T. They will be capitalized with sufficient shares of common stock for AT&T to effect the divestiture at the ratio described below (Part

[422] It would be impractical and unnecessarily expensive to merge all BOCs within a region into a single telephone company.

[423] AT&T's divestiture of the Bell System's operations by distributing the shares of seven holding companies rather than the shares of 22 BOCs will also mean less fractionalization of the distributed shares and less burden to AT&T's current shareholders. *See* Part IV.A.7, *infra.*

[424] These include private placements, the implementation of a dividend reinvestment plan, and employee options to invest in employer shares under savings plans. As is the case with AT&T, the regional companies will also be able to take advantage of the Securities and Exchange Commission's new "shelf" rules which enable a company to preregister equity shares and then sell these shares on very short notice when the market is favorable.

[425] The holding company structure also will permit the BOCs to carry on such other businesses as the Court may allow (in the event of a future modification of the Decree pursuant to Section VIII(C)).

IV.A.7). In return for the stock of the holding companies, AT&T[426] will transfer to the holding companies four kinds of property: (i) all of the common stock in the BOCs to be held by the regional companies; (ii) all of the stock in AT&T's regional cellular companies (which will each own one-seventh of the stock of the cellular central service company); (iii) all of the shares of common stock of the Central Staff Organization (so that each regional company holds one of the seven shares in the Central Staff Organization); and (iv) all other assets — such as warehouses and related transportation facilities — identified in Part II of this Plan as necessary to augment the BOCs' capabilities in accordance with Section I(A)(1) of the Decree and which have not been transferred directly to the BOCs.

The transfer of these properties will not result in any recognition of gain or loss for federal tax purposes by the regional holding companies or BOCs receiving such properties, or by AT&T.[427] However, AT&T may be required to recapture some investment tax credits previously claimed with respect to certain of the properties transferred. The amount of the credits recaptured is not expected to be significant and will be added to AT&T's tax liability in the year the transaction is effective.

The accounting to reflect these transactions will require AT&T to debit (increase) "investments in affiliated companies — regional holding companies" (101.1), and credit (reduce) "investments in affiliated companies — BOCs" (101.1), "investments in affiliated companies — Central Staff Organization" (101.1), "investments in affiliated companies — regional

[426] For the purpose of Part IV.A.6 of this Plan, references to AT&T transfers include transfers to be made to the regional holding companies by Western Electric and Bell Laboratories.

[427] Any gain which might be recognized will be deferred and restored to income under a closing agreement with the IRS as described in Parts I.B.2.d and e, *supra.*

cellular companies" (101.1),[428] and the various asset accounts containing AT&T's investment in facilities to be transferred to the regional companies. The entries on the books of AT&T are summarized as follows:

AT&T DEBITS	AT&T CREDITS
Investments in affiliated companies — regional holding companies (101.1)	Investments in affiliated companies — BOCs (101.1)
Liability and reserve accounts associated with transferred assets and personnel	Investments in affiliated companies — Central Staff Organization (101.1)
	Investments in affiliated companies — regional cellular companies (101.1)
	Other asset accounts (*e.g.*, warehouses, transportation facilities; *see* Part II, *supra*)

The regional holding companies will recognize AT&T's transfer by debiting asset accounts for "investments in affiliated companies — BOCs" (101.1), "investments in affiliated companies — Central Staff Organization" (101.1), "investments in affiliated companies — regional cellular companies" (101.1), and other asset accounts reflecting facilities received from AT&T (and Western Electric and Bell Labs) pursuant to Part II of this Plan. The regional companies will credit "capital stock" (150) or other equity accounts by an amount equal to

[428] The amounts to be credited to these three AT&T accounts for investments in affiliated companies will be the amounts necessary to eliminate entirely AT&T's existing balance in these accounts.

the difference between the debits to their asset accounts and the credits to their liability accounts.[429] The entries are as follows:

REGIONAL COMPANY DEBITS	REGIONAL COMPANY CREDITS
Investments in affiliated companies — BOCs (101.1)	Capital stock (150) or other equity accounts (*see* Part I.B.5, *supra*)
Investments in affiliated companies — Central Staff Organization (101.1)	Liability and reserve accounts associated with transferred assets and personnel
Investments in affiliated companies — regional cellular companies (101.1)	
Other asset accounts for facilities transferred (*e.g.*, warehouses, transportation facilities; *see* Part II, *supra*)	

b. The Configuration of the Seven Regional Companies

The reconfigured BOCs will be grouped into seven regional holding companies, as depicted in the map on the following page. Each regional company will be roughly the same size in terms of assets and, in any event, large enough to possess the financial strength to generate broad interest in the investment community. Each will hold BOCs that serve in the same general region of the country; thus, the operations of each regional company (and its subsidiaries) will reflect demographic similarities. The seven regional companies are described in the next seven subsections of this part of the Plan.

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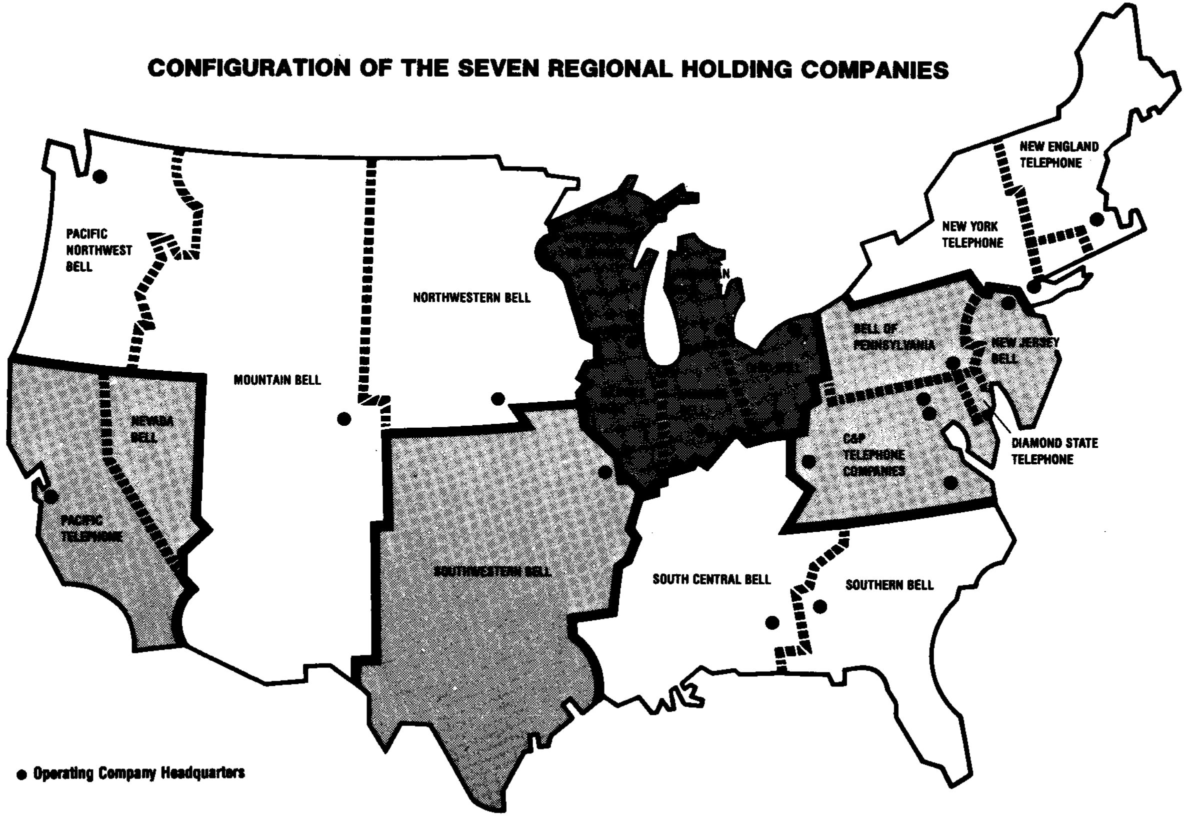
[429] Some portion of this amount may be designated as stated capital, and the remainder as premium on capital stock.

CONFIGURATION OF THE SEVEN REGIONAL HOLDING COMPANIES



i. The Northeast

The regional holding company for this part of the Nation will hold the stock of New York Telephone Company and New England Telephone and Telegraph Company. These BOCs will provide service in the States of Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, and a small portion of Connecticut.

The service territory of these BOCs comprises about 25 million people — or about 92 percent of the total population in the States in which the companies do business. As of January 1, 1982, these BOCs operated the following number of revenue-producing network access lines:

BOC	NETWORK ACCESS LINES
New York Telephone	8,210,000
New England Tel. & Tel.	4,266,000

Prior to their reconfiguration in accordance with the Decree, the BOCs in this region had (as of December 31, 1981) 121,600 employees and total assets of $17,779 million.[430]

ii. The Mid-Atlantic

The regional holding company for this part of the Nation will hold the stock of The New Jersey Bell Telephone Company, The Bell Telephone Company of Pennsylvania, The Diamond State Telephone Company, The Chesapeake & Potomac Telephone Company (Washington, D.C.), The Chesapeake & Potomac Telephone Company of Maryland, The Chesapeake & Potomac Telephone Company of Virginia, and The Chesapeake & Potomac Telephone Company of West Virginia. These BOCs will provide service in the States of

[430] The separation of IXC and CPE operations from the parent BOCs will reduce their employees and assets by something in the range of 10-20 percent, depending upon LATA boundaries and the application of the principles of this Plan for dividing the BOCs' assets and personnel (Part I) and augmenting their capabilities with existing AT&T resources (Part II).

Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia, and the District of Columbia.

The service territory of these BOCs comprises about 27 million people — or about 84 percent of the total population in the States in which the companies do business. As of January 1, 1982, these BOCs operated the following number of revenue-producing network access lines:

BOC	NETWORK ACCESS LINES
New Jersey Bell	3,758,000
Bell of Penn.	4,445,000
Diamond State	297,000
C & P of Md.	2,070,000
C & P of Va.	1,815,000
C & P of W. Va.	621,000
C & P (Wash. D.C.)	716,000

Prior to their reconfiguration in accordance with the Decree, the BOCs in this region had (as of December 31, 1981) 108,103 employees and total assets of $17,267 million.

iii. The Southeast

The regional holding company for this part of the Nation will hold the stock of Southern Bell Telephone and Telegraph Company and South Central Bell Telephone Company. These BOCs will provide service in the States of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee.

The service territory of these BOCs comprises about 30 million people — or about 70 percent of the total population in the states in which the companies do business. As of January 1, 1982, these BOCs operated the following number of revenue-producing network access lines:

BOC	NETWORK ACCESS LINES
Southern Bell	6,971,000
South Central Bell	6,008,000

Prior to their reconfiguration in accordance with the Decree, the BOCs in this region had (as of December 31, 1981) 137,500 employees and total assets of $21,800 million.

iv. The Midwest

The regional holding company for this part of the Nation will hold the stock of Illinois Bell Telephone Company, Indiana Bell Telephone Company, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Telephone Company. These BOCs will provide service in the states of Illinois, Indiana, Michigan, Ohio, and Wisconsin.

The service territory of these BOCs comprises about 30 million people — or about 74 percent of the total population in the States in which the companies do business. As of January 1, 1982, these BOCs operated the following number of revenue-producing network access lines:

BOC	NETWORK ACCESS LINES
Ohio Bell	2,883,000
Michigan Bell	3,607,000
Indiana Bell	1,378,000
Illinois Bell	4,624,000
Wisconsin Tel.	1,479,000

Prior to their reconfiguration in accordance with the Decree, the BOCs in this region had (as of December 31, 1981) 112,978 employees and total assets of $17,038 million.

v. The Southwest

The regional holding company for this part of the Nation will hold the stock of Southwestern Bell Telephone Company. Southwestern Bell will serve the States of Arkansas, Kansas, Missouri, Oklahoma, and Texas.

The service territory of Southwestern Bell comprises about 21 million people — or about 76 percent of the total population in the States in which the company does business. As of January 1, 1982, Southwestern Bell operated 9,781,000 revenue-producing network access lines. Prior to reconfiguration in accordance with the Decree, Southwestern Bell had (as of December 31, 1981) 97,100 employees and total assets of $15,979 million.

vi. The Mountains and Great Plains

The regional holding company for this part of the Nation will hold the stock of The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, and Pacific Northwest Bell Telephone Company. These BOCs will provide service in the States of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

The service territory of these BOCs comprises about 22 million people — or about 78 percent of the total population in the States in which the companies do business. As of January 1, 1982, these BOCs operated the following number of revenue-producing network access lines:

BOC	NETWORK ACCESS LINES
Mountain Bell	4,718,000
Northwestern Bell	3,270,000
Pacific Northwest Bell	2,450,000

Prior to their reconfiguration in accordance with the Decree, the BOCs in this region had (as of December 31, 1981) 104,900 employees and total assets of $16,109 million.

vii. The Far West

The regional company for this part of the Nation will hold the stock of The Pacific Telephone and Telegraph Company, which in turn holds all of the stock of Nevada Bell. These companies will provide service in the States of California and Nevada.

The service territory of Pacific Telephone and Nevada Bell comprises about 20 million people — or about 78 percent of the total population in the States in which the companies do business. As of January 1, 1982, these BOCs operated the following number of revenue-producing network access lines:

BOC	NETWORK ACCESS LINES
Pacific Tel.	10,275,000
Nevada Bell	154,000

Prior to their reconfiguration in accordance with the Decree, the BOCs in this region had (as of December 31, 1981) 114,700 employees and total assets of $16,573 million.

* * *

The following table summarizes the foregoing, based upon December 31, 1981, data for existing BOCs.

Regional Holding Companies

(as of December 31, 1981, prior to BOC reconfiguration in accordance with the Decree)

BOCs BY REGION	TOTAL ASSETS (MILLIONS)	NETWORK ACCESS LINES (000)	EMPLOYEES
Northeast	$17,778.6	12,476	121,600
Mid-Atlantic	17,267.3	13,722	108,103
Southeast	21,800.4	12,979	137,500
Midwest	17,038.4	13,971	112,978
Southwest	15,949.3	9,781	97,600
Mountains and Great Plains	16,109.1	10,438	104,900
Far West	16,573.4	10,429	114,700

7. AT&T's Divestiture of the Regional Holding Companies

AT&T will divest its ownership of the Bell System's exchange operations by distributing the common stock of the regional holding companies to existing AT&T stockholders. Every AT&T stockholder will thereafter own stock in eight corporations — AT&T and the seven regional holding companies — which collectively represent the Bell System's pre-divestiture operations.

AT&T stockholders will not recognize gain or loss upon the receipt of the shares of common stock of the regional companies.[431] However, stockholders who receive cash in lieu of fractional shares, as described below, will recognize gain or loss on the fractional amount. AT&T stockholders will allocate their tax basis in AT&T stock between AT&T and the regional companies on the basis of the relative values of the stocks.

The stock distribution will be recorded on the books of AT&T by debits to "unappropriated retained earnings" (181) and to "premium on capital stock" (152), and a credit to "investments in affiliated companies — regional holding companies" (101.1). The credit, as well as the sum of the debits, will be for an amount sufficient to eliminate entirely the existing balance in "investments in affiliated companies — regional holding companies" (101.1). The journal entry to be made on the books of AT&T is as follows:

AT&T DEBITS	AT&T CREDIT
Unappropriated retained earnings (181)	Investments in affiliated companies — regional holding companies (101.1)
Premium on capital stock (152)	

[431] In order for the distribution of the Far West regional company's stock to be "tax free," prior to the consummation of the transactions described above, The Pacific Telephone and Telegraph Company will amend its articles of incorporation to provide voting rights to its various outstanding, non-voting preferred shares (cumulative, par value $25 per share) and to convert its one outstanding share of common stock into 224,504,982 shares, which was the number of common shares outstanding on May 11, 1982 (the date prior to acquisition of the publicly held outstanding common stock by AT&T).

(Footnote continued on following page)

The distribution ratio will be 1 for 10, meaning that for every 10 shares of AT&T common stock held, AT&T stockholders will receive one share of each of the seven newly created regional companies. AT&T stockholders will be notified prior to divestiture of their prospective share ownership in the regional companies, and arrangements will be made for the physical distribution of regional company stock certificates. Prior to divestiture, regional company shares will be traded on a "when-issued" basis, which will provide active markets in the new companies' stock. Following distribution of certificates for these shares, normal trading will commence.

AT&T stockholder accounts with 500 or more AT&T shares will receive 50 or more shares in each regional company. These larger accounts comprise about 6 percent of current accounts, but represent about 70 percent of outstanding shares. These accounts will be issued certificates in each of the regional companies and will receive cash in lieu of any fractional shares.

AT&T stockholder accounts with less than 500 AT&T shares will, by necessary operation of the distribution ratio, have less than 50 shares in each of the seven regional companies.[432] Based upon AT&T's current stockholder distribution, the group with at least one whole share but less than 50 shares in each regional company comprises about 77 percent of all stockholder accounts, but only about 30 percent of outstanding shares. For the seven regional companies combined, this smaller stockholder account group represents a total of over 17 million accounts.[433]

(Footnote continued from previous page)
Under the Internal Revenue Code, the Far West regional company must own "80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of the shares of all other classes of stock." By enfranchising the non-voting preferred stock which is publicly held, and reconstituting the common stock, the Far West regional company will meet the test.

[432] At the 1:10 distribution ratio, for example, the holder of 499 shares of AT&T stock will hold 49.9 shares in each regional company, and so forth for smaller amounts of AT&T stock held.

[433] Based upon AT&T's current total of about 3.2 million accounts, this group would represent about 2.5 million accounts for each regional company.

The preparation and distribution of stock certificates in such amounts to all of these stockholders would be costly and virtually impossible to complete in time to allow normal trading following divestiture. Further, for stockholders who wish to consolidate holdings of less than 50 shares, trading would be burdensome and expensive because of brokerage commissions and certificate transfer procedures associated with small share sales.[434]

To ease these burdens on the owners of the regional companies' smaller accounts, and on the regional companies themselves, arrangements will be made for reducing the costs associated with distribution and consolidation of these accounts. Each stockholder account with at least 1 but less than 50 shares in each regional company will be sent a computer-generated statement of account, showing the precise number of regional company shares held in the account. At the same time, each such account will receive a return mail card requesting instructions for the disposition of the regional company shares.

These smaller accounts will be offered the following choices:

(1) A stockholder may receive certificates for whole shares in any or all of the seven regional companies, and receive cash in lieu of any fractional shares in such companies.

(2) For each regional company, a stockholder may deposit all shares in that regional company's Dividend Reinvestment and Stock Purchase Plan ("DRISPP").[435]

(3) A stockholder may sell stock in one or more regional companies and invest the proceeds in the stock of one or more other regional companies. At the stockholder's option, the newly purchased stock will be sent to the stockholder in certificate form, or enrolled in the stockholder's DRISPP account in the selected company.

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[434] For example, many brokers charge a minimum fee of $30 to trade one share of stock.

[435] Of AT&T's existing stockholders owning less than 500 shares, approximately 25 percent are participants in DRISPP.

All options will be offered for approximately four to six months following divestiture, unless financing considerations for the regional companies require that the period be shortened. At the termination of this period, those stockholders who have not otherwise withdrawn their holdings from the computerized accounts will receive certificates for whole shares and a check for the cash proceeds from the sale of any fractional shares.

AT&T stockholder accounts holding less than 10 AT&T shares will, at the 1 for 10 distribution ratio, have less than one full share in each regional company. Based upon AT&T's current share owner distribution, about 17 percent of all accounts, but only about one quarter of one percent of outstanding shares fall into this category. Accounts with less than one share per regional company (fractional accounts) will not participate in the arrangements described above. Fractional accounts will receive cash in lieu of their fractional shares.

These arrangements to assist smaller accounts are required to make the distribution of stock ownership practical. Approximately nineteen million stockholder accounts (approximately 2.7 million for each regional holding company)[436] cannot be feasibly administered using paper certificates at the time of divestiture. The expense would unduly burden the regional companies, and their stockholders would be able to rearrange small holdings in the seven regional companies only at disproportionate cost to them. Under the arrangements, the smaller account stockholders retain full rights to receive the certificates representing the shares issued to them upon divestiture.[437] But if they so choose, they can rearrange their ownership interests by converting their investment in any regional company to investment in another regional company at less expense than if their shares were traded at full commission

[436] Due to the treatment of fractional accounts, the size of each regional company's initial stockholder population will be reduced from over 3 million to about 2.7 million.

[437] The smaller accounts will be able to receive their certificates in all seven regional companies at the same time the larger accounts are issued their certificates.

rates. Finally, these rearrangements are expected to reduce the enormous stockholder populations of the divested companies and reduce their costs of providing stockholder services. *See* Part IV.B, *infra.*

B. ARRANGEMENTS TO FACILITATE SERVICING OF REGIONAL COMPANY STOCK

In addition to making it easier and more economical for stockholders with smaller accounts to consolidate their holdings, the regional companies will be afforded assistance in serving their stockholder accounts.

The problem arises from the size of the initial stockholder populations. Upon the date of divestiture, each regional company will be owned by approximately 2.7 million stockholders. Except for AT&T, no larger stockholder population exists anywhere in the world for a single corporation.[438]

The normal servicing of such a large number of stockholders — printing annual reports, mailing proxy statements, quarterly reports and dividends, registering shares, and the like — is a significant expense. Even higher than usual expenses are expected, however, because the market activity following divestiture is expected to cause significant changes in the regional company stockholder populations. It is anticipated that over 100 million stockholder transactions will be processed for the seven companies and AT&T in the first year alone.

During the transition period there will be a high degree of coincidence of ownership among the eight stockholder populations. With common ownership, economies of scale can be

[438] The second largest stockholder group in the United States — and the only other group in excess of one million accounts — is that of General Motors (1.1 million). Of the public companies with total assets in the range of $16 to 22 billion (the projected size of the regional holding companies), General Electric has the largest number of shareowners (502,000). Other companies in that asset range are GTE (475,000), Gulf Oil (302,000), and Tenneco (238,000).

realized through a common stockholder services organization because multiple interactions with stockholders are reduced. Changes to account records (name, address) or to account status (divorce, death, litigation) can be uniformly applied, and requests for transfer requirements for one or more of the eight companies can be handled with one response. Computer and mailing equipment can also be more fully utilized.

No organization presently exists with the capability to serve the more than 22 million stockholder accounts that will exist upon divestiture. AT&T will therefore plan, develop, and manage a combined stockholder services organization to serve the seven regional companies and AT&T. The organization, which will be a registered transfer agent subject to regulation by the Securities and Exchange Commission, will be a wholly owned subsidiary of AT&T. The organization will be comprised of AT&T's existing Stock and Bond Division which will operate in Piscataway, New Jersey, New York City, and a new facility in Jacksonville, Florida.

This organization will manage the processing of accounts at divestiture and will provide most of the necessary stockholder services to the regional companies.[439] It also will provide stockholder services to AT&T. Each company will own its stockholder records and will have access to those AT&T records that are necessary for the regional company to maintain its records and to serve its stockholders.

Annual service charges to the regional companies will be based on cost, including the cost of capital employed. In order to allow recovery of the initial investment required to establish the Florida facility, services will be provided to the regional companies and AT&T under individual five-year contracts. Each company will have the right to cancel the contract at the

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[439] These services will include: (i) stockholder service and recordkeeping (such as processing inquiries from stockholders and brokers, and maintaining records); (ii) security transfer services; (iii) recordkeeping and other assistance with respect to dividend reinvestment and stock purchase plans; (iv) dividend payment processing; (v) mailing; (vi) proxy tallies; and (vii) management of employee stock ownership plans.

end of two, three, and four years, upon payment of a cancellation fee. The fee would compensate the subsidiary for that portion of initial capital not recovered through annual charges and any employee or other costs of termination. Any dispute arising under the contracts will be resolved by arbitration.

Upon termination of the contracts, it is expected that the regional companies' stockholder population will be reduced to a level that can be managed more conveniently and with less expense. At that time each regional company may undertake to service its own stockholders; it may contract with another outside organization to perform the services; or it may negotiate a contract to have AT&T's stockholder services subsidiary continue some or all of its services for the regional company.

C. SCHEDULE OF REORGANIZATION

Upon this Court's approval of the Plan of Reorganization, the divestiture will be implemented in accordance with the schedule set forth in this section. The schedule assumes a decision from the Court in April of 1983.

1. Creation of New Corporations

Wholly owned IXC and CPE subsidiaries will be created to receive relevant assets from the BOCs. The IXC subsidiaries will be the entities to which the FCC will be requested to grant interexchange operating authority and broadcast licenses. The BOCs and their subsidiaries will also notify state regulatory commissions of changes in ownership and service responsibility that will result from the reorganization.

AT&T will also incorporate the seven regional holding companies and the Central Staff Organization. The bulk of the assets to be held by these entities will not be transferred until late 1983 (*see* Part IV.C.6, *infra*). The companies' early incorporation, however, will allow the BOCs to establish headquarters staffs in order that management and support systems can be in place and functioning prior to the companies' receipt of other assets and personnel.

All new companies to be created under the Plan will thus be incorporated by April or May of 1983.

2. IRS and Related Rulings

Several elements of this Plan call for rulings from the Internal Revenue Service with respect to the tax consequences of certain aspects of the transactions, including determinations relating to employee benefit plans. Where appropriate or necessary, AT&T will also seek approvals or clearances from the Department of Labor with respect to the compliance of employee benefit plans with applicable law. The Court's approval of the Plan will permit AT&T to make any necessary adjustments to pending requests for rulings by these agencies, and to seek any additional rulings for which application could not be made until the Court issued its decision.

3. Assignment of Assets, Liabilities, and Personnel

The identification of assets and liabilities to be allocated to AT&T or the BOCs cannot be completed until the Plan is approved. Preliminary work on the basis of the Plan as submitted to the Court will allow completion of this process in the months between May and September 1983 with sufficient precision to prepare pro forma statements and other financial documents to be filed and circulated in the fourth quarter of 1983 (*see* Part IV.C.5, *infra*).

Personnel assignments will also be generally complete by September 1983. This will allow the System to conduct business during the last quarter of 1983 in a "divested mode," meaning that the System will operate its network in a management reporting structure that simulates operation by independent companies. Such a period is essential for assuring uninterrupted service when AT&T in fact divests the BOCs on January 1, 1984.

4. BOC and Regional Company Stockholder and Board of Directors Meetings

During October of 1983, the BOCs and regional holding companies will conduct stockholder meetings and board of directors meetings as required for AT&T, as the sole stockholder of each BOC, to authorize, ratify, and otherwise approve the transactions called for by the Plan of Reorganization. AT&T will arrange for the election of individuals selected by the designated Chief Executive Officers of the respective regions to serve after divestiture on the boards of directors of the regional holding companies and the BOCs. Prior to divestiture, any BOC or regional company director who is also a director, officer, or employee of AT&T (or its other affiliates) will resign from the BOC or regional company board.

In October or November of 1983, the regional companies' boards of directors will announce their quarterly dividends for the first quarter of 1984. These dividends must be announced at this time in order for the information to be communicated to stockholders and the investing public in advance of the first "when-issued" trading of the regional holding companies' common stock on the New York Stock Exchange. At about the same time, AT&T's Board of Directors will announce its dividend for the first quarter of 1984, in order that "ex-distribution" trading of its common stock may proceed on an orderly basis.

5. Securities Filings and Trading

In October or November of 1983, AT&T and the regional holding companies will file with the Securities and Exchange Commission the disclosure documents necessary for the distribution and trading of the regional holding company stock. These will include the prospectus or information statements to be mailed to stockholders, as well as documents explaining to the regional holding company stockholders the provisions of the regional company dividend reinvestment programs.

At about the same time, the regional holding companies will file applications to list their common stock on the New York Stock Exchange and any of the regional stock exchanges they may elect for listing. Trading of regional company stock on the New York Stock Exchange on a "when-issued" basis is expected to begin in November or December 1983. Trading on this basis will continue until the initial distribution of stock certificates is completed, probably some time in mid-February. At that time, trading will begin on a normal basis.

6. Transfer of Assets, Liabilities and Personnel, and the Execution of Contracts

Except as otherwise provided in this Plan, the actual transfers of asset ownership, dividending of stock, assumptions of liabilities, and assignment of personnel to their post-divestiture employing companies will occur at the end of December 1983. Because of the number of documents and entities involved in these transactions, many of the appropriate papers will be executed prior to December 31, 1983, to become effective on January 1, 1984.

During December 1983, the regional holding companies, the BOCs and AT&T will enter into agreements providing for the various transfers, assignments, deeds, leases, sharing agreements, termination agreements, mutual releases, and other matters required to implement the reorganization. The agreements will provide for mutual releases, and will set forth the legal rights and obligations of the parties as separate companies in the post-divestiture period. The provisions of these agreements will require the parties to make available to each other all business information and data necessary for each party to carry out its obligations under this Plan and to comply with the Decree and any other legal requirements applicable to their respective operations.[440]

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[440] Arrangements will be made for AT&T and the BOCs to cooperate to the extent necessary in preparing federal, state and local tax returns (or claims for refund) for pre-divestiture taxable periods. AT&T and the BOCs will coordinate efforts with respect to post-divestiture audits of pre-divestiture taxable periods and will furnish each other the necessary workpapers or records to respond to audit inquiries. The parties will agree to keep each other fully informed of all claims or controversies relating to pre-divestiture tax matters, will promptly provide each other with copies of all related correspondence and communications, and will not compromise, settle or waive claims relating to the taxes paid or to be paid under the Bell System pre-divestiture consolidated tax return, or any state and local tax return, except in accordance with the direction of the affected parties.

7. The Divestiture

AT&T will distribute the stock of the seven regional holding companies to persons who held AT&T shares as of a specified record date in December. The distribution will be effective January 1, 1984 (even though the mailing of certificates will not take place until mid-February). As of January 1, 1984, therefore, AT&T will have divested itself of all ownership interests in the Bell System's exchange, exchange access, and directory operations.

CONCLUSION

The foregoing constitutes AT&T's Plan of Reorganization pursuant to Section I(A) of the Decree. AT&T requests that the Court approve this Plan as consistent with the Decree.

Respectfully submitted,

Charles L. Brown
Chairman of the Board

American Telephone and
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December 16, 1982