

THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY DIVESTITURE:  
BACKGROUND, PROVISIONS, AND RESTRUCTURING

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## ABSTRACT

On January 1, 1984, The American Telephone and Telegraph Company (AT&T) divested itself of a major portion of its organizational structure and functions. Under the post-divestiture environment the once fully-integrated Bell System is now reorganized into the "new" AT&T and seven independent regional holding companies -- American Information Technologies Corp., Bell Atlantic Corp., Bell-South Corp., NYNEX Corp., Pacific Telesis Group., Southwestern Bell Corp., and U.S. West, Inc. The following analysis provides an overview of the pre- and post-divestiture organizational structure and details the evolution of the anti-trust action which resulted in this divestiture.



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THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY DIVESTITURE:  
BACKGROUND, PROVISIONS, AND RESTRUCTURING

INTRODUCTION

On November 20, 1974, the U.S. Department of Justice instituted an anti-trust action against American Telephone and Telegraph Company (AT&T), the parent organization, Western Electric Co., Inc., its wholly-owned manufacturing subsidiary, and Bell Laboratories, Inc., its jointly-owned research and development arm, charging the defendants with using their monopoly position to inhibit competitors in selected telecommunications markets. Divestiture of the existing components of AT&T was sought on the basis that such an approach would best assure that the company could not use revenues from its monopoly services to subsidize advanced communications services in the competitive marketplace, or use its monopoly control over the communications network to hinder competitive access.

Before a judicial determination of the merits of the case was issued, however, a proposed negotiated settlement was reached between the two parties on January 8, 1982. After the incorporation of court-recommended modifications, presiding District Court Judge Harold Greene approved the settlement on August 24, 1982, and, therefore, dismissed the antitrust suit. The subsequent court approval of the AT&T-filed reorganization plan, detailing the implementation of the settlement's terms, was granted after additional court modification on August 5, 1983. On January 1, 1984, AT&T, in compliance with the court-approved settlement and reorganization plan, divested itself of a major portion of its organizational structure and functions.

The following analysis details the evolution of the proceeding from its initial filing on November 20, 1974, until the divestiture on January 1, 1984. After providing a brief overview of the predivestiture Bell System corporate structure, section I focuses on the post-divestiture organizational structure of the 22 operating companies as well as the "new" AT&T. Section II contains a brief background enumerating the basis for the antitrust suit, while sections III and IV analyze the provisions contained in the January 8, 1982, proposed negotiated settlement and the subsequent modifications incorporated into the August 24, 1982, court-approved settlement. Section V discusses the provisions contained in the December 16, 1982, AT&T-filed reorganization plan and the additional modifications incorporated before its August 5, 1983, acceptance by Judge Greene.

## I. BELL SYSTEM CORPORATE REORGANIZATION

### A. Predivestiture Bell System Corporate Structure

Prior to the divestiture, AT&T and its subsidiaries combined to form the Bell System, an organization whose principal business was the furnishing of telecommunications services -- mainly telephone -- both domestically 1/ and internationally. The Bell System was a single integrated network composed of the AT&T parent organization and its various subsidiaries and affiliates, offering a complete range of telecommunications services including research and development, equipment manufacturing and sale, local and long distance transmission services, as well as access to international transmission service.

More specifically, as depicted in appendix B, the Bell System was comprised of the AT&T parent organization; 22 wholly-owned and 2 partially-controlled local operating companies 2/ which provided intrastate telecommunications services; AT&T Long Lines Division which provided interstate telecommunications service and interconnection to international telecommunications systems; Western Electric Company, Inc., which provided manufacturing and purchasing of telecommunications products and supplies; Bell Laboratories, Inc., a jointly-owned venture of AT&T and Western Electric, which provided research and development; AT&T Information Systems, Inc., a fully separate subsidiary which provided

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1/ The Bell System did not provide local transmission service in Alaska, Hawaii, Puerto Rico, or the U.S. Virgin Islands.

2/ A listing of these 22 wholly-owned operating companies can be found in appendix C. The AT&T system also has a minority ownership in two other operating companies, the Southern New England Telephone Company (SNET)(23.7 percent owned) and Cincinnati Bell, Inc. (32.6 percent owned).

unregulated services; Advanced Mobile Phone Service Inc., which provided cellular mobile radio service; 3/ and AT&T International, Inc., which marketed Bell System products and services outside the U.S.

With 1983 assets of \$150 billion, the pre-divestiture Bell System was the world's largest corporation. Prior to the divestiture, AT&T and its subsidiaries generated 1983 revenues of \$69.4 billion, employed almost one million people, and operated a network of 87 million access lines. Atypical of Bell System corporate history, 1983 net income was only \$248.7 million, despite operating income of \$5.7 billion. This low profit level is largely attributable to the incorporation of a one-time \$5.5 billion end-of-year charge resulting from a write-down of AT&T's post-divestiture assets and other accounting changes. (See appendix D for selected statistics on the predivestiture Bell System.)

Under the terms of the consent decree, however, AT&T agreed to divest itself of those portions of its 22 wholly-owned operating companies which provide exchange service and access functions and which print and distribute directory advertising ("Yellow Pages"), as well as its facilities which offer cellular mobile radio service. AT&T retained ownership of its interstate long lines; its research, development and manufacturing operations; its unregulated subsidiary; its international division; and the intrastate interexchange and embedded customer premises equipment (CPE) functions of the 22 Bell Operating Companies (BOCs). Compliance with the decree necessitated the restructuring of parts of the consolidated Bell System into separate and independent organizations, and,

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3/ Cellular mobile radio is a form of portable radio telephone service which allows mobile radio telephones to both initiate and receive calls with private line quality. A metropolitan area is divided into "cells," each served by a low power radio repeater which is linked to other repeaters by computer. As a mobile radio user moves from one cell to another, the computer shifts transmission from one repeater to another, thus making possible a greater number of higher quality mobile radio telephones.

pursuant to this objective, in accordance with the court-approved divestiture plan, the Bell System was reorganized into eight parts, seven regional holding companies and the post-divestiture, or "new," AT&T.

#### B. Divested Operating Company Structure

Under the terms of the AT&T-submitted, and court-approved, divestiture plan, the post-divestiture operating company organizational structure was reconfigured to include seven regional holding companies, which incorporated the 22 BOCs, seven regional cellular services subsidiaries, and a central research and advisory unit. <sup>4/</sup> (See appendix E for an organizational chart of the post-divestiture operating companies.)

The seven regional holding companies (RHCs) (i.e., American Information Technologies Corp. ("Ameritech"); Bell Atlantic Corp. ("Bell Atlantic"); BellSouth Corp. ("BellSouth"); NYNEX Corp. ("NYNEX"); Pacific Telesis Group ("PacTel Group"); Southwestern Bell Corp.; and U.S. West, Inc. ("U.S. WEST")) <sup>5/</sup> through

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<sup>4/</sup> In a November 1983 decision, the FCC determined that the structural separation requirements applied to AT&T in its December 1980 Computer II decision which required the formation of a separate subsidiary for the provision of "enhanced" unregulated services and customer premises equipment should also be applied to any post-divestiture BOC that chooses to offer customer premises equipment and enhanced services. To enable the BOCs to begin providing unregulated activities at the time of divestiture, the FCC permitted such operations -- subject to compliance with accounting separation and interim capitalization plans. The FCC required each of the regional Bell Operating Companies to file by January 30, 1984, interim capitalization plans which would detail the formation of separate organizations for the provision of customer premises equipment and enhanced services including a timetable to enable full compliance with Computer II rules within 6 months of the order's release date. These interim plans are only to be effective for the first year of operation and formal capitalization plans must be filed by June 30, 1984.

<sup>5/</sup> The operating company composition of the seven RHCs is as follows: Ameritech - Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell, and Wisconsin Bell; Bell Atlantic - Bell of Pennsylvania, Diamond State Telephone, the Chesapeake and Potomac Companies, and New Jersey Bell; BellSouth - South Central Bell and Southern Bell; NYNEX - New England Telephone and New York Telephone; PacTel Group - Pacific Bell and Nevada Bell; Southwestern Bell Corp. - Southwestern Bell; and U.S. WEST - Mountain Bell, Northwestern Bell and Pacific Northwest Bell.

the divested BOCs continue to provide exchange service (both local and toll) and access as well as cellular mobile radio service within the prescribed local access and transport areas (LATAs) contained in their former service areas. 6/ (See appendix F for a map depicting the geographic location and operating company composition of the seven RHCs.)

While differing significantly in terms of size of geographic service area, the seven RHCs are relatively equal with respect to other major indicators. As estimated for 1984, holding company revenue ranges from NYNEX's high of \$9.8 billion to U.S. West's low of \$7.4 billion, while net income ranges from BellSouth's \$1.2 billion to Pacific Telesis's \$827.7 million and assets from BellSouth's \$20.8 billion to U.S. West's \$15.1 billion. RHC workforce distribution is also relatively equal, ranging from a high of 99,100 employees at BellSouth to a low of 74,700 at Southwestern Bell. Subscribership, as represented by access lines, ranges from Bell Atlantic's 14.6 million to Southwestern Bell's 10.5 million. Despite this restructuring, with assets ranging from \$15 to 21 billion, the RHCs still rank among the top 10 U.S. utilities (see appendix G for a breakdown of 1984 estimated RHC revenue, net income, assets, access lines and employees).

Each of the RHCs has its own officers, employees, and board of directors, and is independent of AT&T and of each other. The seven RHCs each own a one-seventh interest in a research and advisory unit. This unit, recently named Bell Communications Research, Inc., 7/ is responsible for the furnishing of technical

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6/ Upon divestiture, AT&T transferred ownership of its seven regional cellular service companies to each of the appropriately-located RHCs to enable each to provide this service in their designated territories. Subject to certain conditions, however, the court has permitted the BOCs in designated areas to offer cellular mobile radio service across LATA boundaries. See p. 28 for a more detailed discussion of LATAs.

7/ Temporarily referred to as the Central Services Organization in the AT&T-submitted reorganization plan, this unit was officially named Bell Communications Research, Inc., on February 16, 1984.

assistance and various administrative and consulting services which are more effectively provided on a centralized basis. Its other major function consists of serving as the operating companies central contact point for national security, emergency preparedness, and national disaster coordination. Bell Communications has a 1984 budget of \$878 million and by year end is expected to employ a workforce of approximately 8,000 persons.

### C. Post-Divestiture AT&T Organizational Structure

To accommodate the divestiture (but not as a requirement of the settlement), a separate corporate decision was made to reorganize the post-divestiture AT&T into a relatively small headquarters staff -- responsible for setting general corporate policy -- and two sectors: AT&T Communications and AT&T Technologies, Inc. (See appendix H for an organizational chart of the post-divestiture AT&T organizational structure.)

AT&T Communications, which includes the former AT&T Long Lines Division and the intrastate interLATA activities formerly provided by the Bell Operating Companies, provides nationwide interexchange and international telecommunications services. AT&T Technologies, Inc., which includes Western Electric, <sup>8/</sup> Bell Labs, AT&T International, and AT&T Information Systems, provides a wide range of research and development, manufacturing, marketing, and other services. More specifically, Bell Labs continues to meet the research and development needs of both sectors of the "new" AT&T. AT&T International markets AT&T Technologies products and services outside the U.S., while AT&T Information Systems, a fully

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<sup>8/</sup> As of January 1, 1984, Western Electric Co., Inc., ceased to exist as a separate division of the "new" AT&T. Its employees and functions were redistributed among the various divisions within AT&T Technologies, Inc. The name Western Electric, however, will continue to be affixed to many of the products manufactured by AT&T Technologies.

separated subsidiary, 9/ is responsible for the marketing and servicing of new telecommunications products as well as the in-place CPE previously owned by the BOCs, but transferred to the "new" AT&T upon divestiture. 10/

While the "new" AT&T, with estimated 1984 assets of \$34.3 billion, no longer holds its predivestiture position as the world's largest corporation (based on assets), it still ranks fourth among U.S. corporations. Although it has entered into more unregulated, highly competitive markets, providing a wide array of new telecommunications equipment and services, the post-divestiture AT&T continues to retain a large regulated component in its revenue mix, with approximately 60 percent of its 1984 estimated revenues (\$56.5 billion) expected to come from regulated long distance telephone service. A net income of \$2.1 billion and a workforce of 373,000 are estimated for 1984. (See appendix I for a breakdown of post-divestiture AT&T, revenue, net income, assets, and employees as estimated for 1984.)

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9/ AT&T Information Systems, formerly known as American Bell, Inc., is the fully-separated subsidiary formulated by AT&T in June 1982 to provide "enhanced" unregulated services and customer premises equipment in compliance with the FCC's December 1980 Computer II order.

10/ This embedded CPE was deregulated and transferred from the 22 BOCs to AT&T Technologies at the time of divestiture. Customers with this equipment have, at this time, the option of either continuing to lease or of purchasing this equipment from the "new" AT&T in accordance with FCC-approved guidelines.

## II. BACKGROUND

On November 20, 1974, the Department of Justice, on behalf of the United States, instituted an action against American Telephone and Telegraph Company, the parent organization, Western Electric Company, Inc., its wholly-owned manufacturing subsidiary, and Bell Laboratories, Inc., its jointly-owned research and development arm, alleging that they had violated Section 2 of the Sherman Act (15 U.S.C. sec. 2) 11/ by conspiring to monopolize the domestic telecommunications industry. 12/ The Justice Department initially sought relief in the form of divestiture of the Bell Operating Companies (BOCs) and the divestiture and dissolution of Western Electric. Prior to the commencement of the trial, however, the Justice Department modified its relief request to seek as a first alternative the divestiture of the BOCs from the remaining AT&T network so that local exchange functions would be separated from the remaining AT&T functions.

According to the Justice Department, the defendants used their monopoly power in regulated areas to exert control and competitive advantages in the then newly-unregulated telecommunications markets. More specifically, the Justice Department claimed that the defendants violated the antitrust laws by conspiring to monopolize interstate trade and commerce in three major markets: intercity

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11/ The Sherman Act became law on July 2, 1890. Section 2 states: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor. . . ."

12/ United States v. American Telephone and Telegraph Co., Civ. no. 74-1698 (D.D.C., filed Nov. 20, 1974).

telecommunications services, customer-provided (CPE), and telecommunications equipment.

A. The Intercity Telecommunications Services Market

Since 1969, the courts and the Federal Communications Commission (FCC) have authorized the entrance of competitive activity in the intercity telecommunications services market -- that is the market which provides point-to-point long distance service between cities. Although this market is facing an increasing degree of competitive activity, prior to the divestiture these competing firms (e.g., MCI Communications Corporation) supplied about 8 percent (based on revenues) of intercity telecommunications services. Under the predivestiture environment, the Bell System, in partnership with the other established carriers, provided the remaining market needs.

Since most of these competing carriers only own intercity transmission facilities, 13/ they are dependent on the local exchange network to both complete their connection and reach their customers. According to the Justice Department, AT&T's undisputed dominance over the local telephone network (80 percent of the Nation's telephones are provided by the BOCs) enabled the defendant to hinder competitors' access to that network to the advantage of its own intercity network. This was supposedly accomplished, in some cases, by refusing to provide interconnection, and, when supplying interconnection, by doing so in a technically inferior manner, at questionable rates.

The Justice Department further claimed that AT&T also hindered competition by cross-subsidizing competitive services with the revenues from monopoly services. This cross-subsidization, they asserted, enabled AT&T to set prices for

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13/ A major exception to this occurred in June 1983, when GTE Corp., the Nation's second-largest telephone company, acquired Southern Pacific Company's long distance telephone, microwave, and satellite units. (continued)

its competitive intercity services at an unjustifiably low price, without regard for incurred costs. This alleged predatory pricing behavior enabled AT&T to undercut the fees charged by competitors, further inhibiting the development of competition in the intercity telecommunications services market.

B. The Customer Premises Equipment Market

The Justice Department also claimed that the defendant unnecessarily thwarted the entry of competition in the customer-provided (CPE) market by implementing restrictive attachment policies for AT&T system subscribers. <sup>14/</sup>

Prior to 1968, AT&T operated under a "foreign attachment" policy which forbade its subscribers to attach to their telephone lines or equipment any equipment not provided by the AT&T network. This policy was justified by AT&T on the contention that such foreign attachments might impair the quality of its service. Since the AT&T network provides 80 percent of the Nation's local telephone service, the Justice Department claimed that this "foreign attachment" policy enabled defendants to use their monopoly position to restrict CPE competitors to such a limited market as to make competitive entry economically unfeasible.

It was not until the FCC struck down this "foreign attachment" policy in its 1968 "Carterfone Decision" that meaningful competition in the CPE market developed. <sup>15/</sup> Finding the policy to be unreasonable and discriminatory, the FCC said that the telephone subscriber had the right to attach any equipment as long as such equipment did not adversely affect the telephone system.

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(continued) The long distance subsidiary's principal business is SPRINT, a long distance communications service accessed through local exchange telephone lines.

<sup>14/</sup> Customer provided (CPE) was defined as equipment independently purchased and supplied by the subscriber which is connected to telephone company facilities to terminate or adapt that facility for customer use (e.g., a word processor or a simple telephone receiver).

<sup>15/</sup> Use of the Carterfone Device, 13 FCC 2d 420, [1968].

The Justice Department also alleged that, despite the "Carterfone Decision," AT&T continued to attempt to inhibit competitive entry into the CPE market by filing with the FCC a requirement that the interconnection of any customer-provided equipment not supplied by the BOC be accompanied by a "protective connecting arrangement" furnished, installed, and maintained by the local BOC. Although this requirement was also overturned by the FCC, and an FCC-maintained registration program for all CPE was established, the Justice Department claimed that the defendant's action was an additional display of anticompetitive behavior, further inhibiting the purchase of competitors' CPE.

According to the Justice Department, both of these restrictive policies -- the "foreign attachment" policy and the "protective connecting arrangement" policy -- erected barriers to competitors, thereby unnecessarily hindering market place competition and enhancing the position of AT&T's manufacturing arm, Western Electric, in the CPE market. 16/

### C. The Telecommunications Equipment Market

The Justice Department also alleged that AT&T used its position to inhibit competition in the telecommunications equipment market -- that is, the market which supplies the network switching and transmission equipment purchased by the industry. According to the Justice Department, AT&T, as the parent corporation, used its position to enhance the procurement relationship between the BOCs and its vertically-integrated equipment manufacturer, Western Electric, to the detriment of other competing network telecommunications equipment suppliers.

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16/ The CPE market, particularly the market for new CPE, has experienced increasingly competitive market conditions. According to FCC statistics obtained from its registration program, there are thousands of firms manufacturing various CPE products. Different submarkets appear to be experiencing different levels of competition, however, and a lack of sufficient data makes it difficult to fully assess the competitiveness of the market structure.

More specifically, Western Electric's market position was enhanced through the centralization and standardization of the BOCs procurement needs as well as through its obtaining early access to information regarding the Bell System's future needs. The suit also alleged that both AT&T and Western Electric not only withheld vital technical information which prevented telecommunications equipment competitors from offering comparable equipment to the BOCs, but, in some cases, used their authority to directly prevent the purchase of competitive equipment. Since the Bell System has been the major purchaser of industry equipment, the Justice Department claimed that these actions which inhibited Bell System purchase of competitive equipment had a serious detrimental effect on the growth of competition in the telecommunications equipment market.

Presentation of detailed trial evidence supporting and refuting all these allegations was scheduled to be completed in January 1982, and the presiding judge was expected to rule on the case by mid-summer. On January 8, 1982, however, AT&T and the Justice Department reached a proposed negotiated settlement. Although the settlement expressly stated that it did not constitute an admission of AT&T's liability, AT&T agreed to divest itself of its BOC's local exchange network and observe additional Justice Department competitive requirements. This was in exchange for the vacating of the suit and the removal of the restrictions of a previously negotiated consent decree which, among other provisions, precluded AT&T's entrance into any other than regulated communications markets. A more detailed analysis of the provisions contained in the January 1982 settlement follows in section III.



III. PROVISIONS CONTAINED IN THE U.S. DEPARTMENT OF JUSTICE/AMERICAN TELEPHONE AND TELEGRAPH COMPANY PROPOSED SETTLEMENT OF JANUARY 8, 1982

The seven-year antitrust suit initiated in 1974 by the Justice Department against AT&T was vacated as a result of court approval, after modification, of a negotiated settlement achieved between the parties. Under the proposed settlement, AT&T agreed to the divestiture of the local exchange operations of its 22 wholly-owned operating companies, as well as additional injunctive requirements to assure the removal of any possible BOC incentives to discriminate against AT&T's competitors in the provision of exchange access and equipment procurement. <sup>17/</sup> In exchange, the Justice Department agreed to vacate the suit, stating that there was no finding or admission of AT&T's liability, and to modify the terms of a 1956 consent decree so that AT&T would no longer be restricted to only engaging in the furnishing of regulated communications services. <sup>18/</sup> The abrogation of restrictions in this decree enabled AT&T to enter into unregulated activities such as the computer equipment and data processing markets.

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<sup>17/</sup> While divestiture of its interest in its two partially-owned companies was not required in the settlement, AT&T announced that it would sell its shares in SNET during 1984 through public offerings and that it had reached agreement with Cincinnati Bell for the repurchase of the Cincinnati Bell shares over a 5-year period. As of January 1, 1984, AT&T put its shares in both companies in a voting trust until their sale.

<sup>18/</sup> The 1956 consent decree was agreed to by AT&T as a condition of settlement of a 1949 antitrust case brought by the Justice Department against AT&T and its manufacturing affiliate. The Justice Department, at that time, was seeking the divestiture of AT&T's manufacturing arm, Western Electric Company, Inc., on the basis that the defendants had monopolized and conspired to restrain trade and commerce in the telephone equipment and telephone supplies market. (continued)

Terms of the Justice Department/AT&T negotiated settlement permitted AT&T to keep its long lines and international divisions, Western Electric (its manufacturing arm), Bell Laboratories (its research and development arm), and gain control of the BOC's intrastate long distance network as well as BOC-provided CPE. The BOCs were largely restricted to providing exchange access and exchange telecommunications services (both local and toll) encompassing natural monopoly services regulated by tariff. This framework followed the Justice Department's basic precept which was the separation of regulated from unregulated services with the BOCs largely keeping the the former, and AT&T the latter. An exception to this guideline occurred with the assignment of Bell System interstate and intrastate long distance, or interexchange, service to AT&T, based on its increasingly competitive nature and future outlook for possible deregulation.

Although later modified to some degree as a condition of judicial approval, the following structural, and injunctive requirements, designed to ensure a non-discriminatory competitive environment in telecommunications markets were contained in the proposed January 8, 1982, settlement.

A. Structural Reorganization Requirements

The major structural requirement imposed by the settlement mandated the reorganization of AT&T so that both exchange service and access provided by its 22 BOCs were separated through divestiture from the remaining AT&T network. This

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(continued) In addition to AT&T's restriction to regulated communications services other provisions in the decree required AT&T to grant to applicants non-exclusive licenses for all existing and future patents as well as furnish specific technical information regarding such patent licenses. AT&T, however, was permitted to collect reasonable royalties from these licenses, and applicants, in turn, were required to grant similar privileges to AT&T on request with regard to their common carrier communications equipment. Permission for AT&T to acquire any firm engaged in the manufacture, distribution, or sale of equipment was prohibited, without prior court approval. These provisions were deleted and a new set of both structural and injunctive provisions was developed.

structural separation of the local exchange function from AT&T's other functions is accomplished by:

- transferring to the BOCs enough facilities, staff, technological information, systems and rights to operate exchange telecommunications and exchange access functions independently from the remaining AT&T network.
- separating and transferring to AT&T all the BOCs functions and facilities except for those needed for the performance of interchange switching and transmission capacity, CPE, and yellow pages operations. 19/
- prohibiting the joint ownership of facilities between AT&T and the BOCs. The sharing of multifunction facilities, that is, facilities used jointly to provide both exchange and interchange functions, is permitted as long as the BOCs retain control over all exchange telecommunications and exchange access functions.
- terminating all license contracts and standard supply contracts between AT&T, the BOCs and other subsidiaries. 20/  
 These contracts were arrangements agreed to by the BOCs and AT&T (including its subsidiaries, Western Electric Co. and Bell Labs) for the provision of services, research and development, and equipment. Termination of these contracts largely eliminated the economic integration between the AT&T system and the BOCs.
- transferring ownership from AT&T of the portions of the BOCs providing exchange access and exchange telecommunications services through the spin-off of stock of the separated BOCs, or other disposition to the present AT&T shareholders.
- prohibiting the purchase of any stock or assets of the divested BOCs by the AT&T system after reorganization. 21/
- permitting the BOCs to jointly support and share the costs for a centralized organization for the provision of engineering, administrative, and other services which can be most efficiently provided in such a manner.

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19/ The publication and distribution of directory advertising (i.e., Yellow Pages) was later transferred to the BOCs, as was the ability to offer new CPE (see p. 24).

20/ Other subsidiaries are defined to mean Cincinnati Bell, Inc., and the Southern New England Telephone Co.

21/ This does not preclude the sale of multifunctional facilities by a BOC to AT&T if the BOC no longer wishes to use such a facility.

- requiring the BOCs to establish through a central organization a single contact point to meet national security and emergency preparedness requirements.
- granting to the BOCs the right to consolidate into any number of entities as desired as the result of reorganization.

#### B. Bell Operating Company Equal Access and Procurement Requirements

In addition to the settlement's reorganization requirements which proposed to eliminate the economic and structural ties between the BOC's local exchange network and the remaining AT&T network, the BOCs were also subject to injunctive provisions containing additional requirements to further complement these goals. These injunctive requirements contained additional behavioral responsibilities for the BOCs to assure equal access and procurement policies to all interexchange carriers and equipment suppliers. According to the Justice Department, these additional requirements were designed to ensure that the BOCs would not abuse their monopoly power over the local exchange network to the detriment of AT&T's competitors in the intercity services, information services, and the CPE and telecommunications equipment markets. More specifically, as detailed in the initially-negotiated settlement, these provisions:

- limit the BOCs to providing only exchange access and exchange telecommunications services encompassing only natural monopoly services regulated by tariff. The BOCs or their affiliates may not supply interexchange or information services nor manufacture or provide telecommunications products or CPE. These restrictions are placed on the BOCs to assure that anticompetitive incentives similar to those which existed in the pre-divested AT&T system do not re-emerge. 22/
- prohibit BOC discrimination with respect to product and service procurement and the dissemination of technical information, procurement, and interconnection standards.
- require each BOC to provide to all interexchange carriers and information service providers exchange access, information

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22/ Some of these restrictions were later modified as a condition of judicial approval of the negotiated settlement (see p. 24).

access, and exchange service that is equal in type, quality, and price to that provided to the AT&T system. Requirements for the provision of equal exchange access call for a phased-in timetable. Each BOC must begin to offer equal exchange access by Sept. 1, 1984. By Sept. 1, 1985, equal exchange access must be offered by at least one-third of the BOC's exchange access lines and by all of its lines by Sept. 1, 1986. 23/

- require each BOC to file nondiscriminatory tariffs for the provision of exchange access to all interexchange carriers. Such tariffs, called exchange access charges, will be filed for each type of service and shall be cost justified; each tariff will be filed on an unbundled basis and no tariff shall require any interexchange carrier to pay for a service it does not utilize. This access charge system will replace the current division of revenues process, the mechanism currently used to divide interstate revenues between AT&T and the BOCs. 24/
- prohibit BOCs which provide billing services for interexchange carriers from discontinuing exchange service to a customer for interexchange non-payment unless the BOC offers to provide billing service for all interexchange carriers. If any interexchange billing service is provided by a BOC, any costs must be included in its tariffed access charge billed to that interexchange carrier.
- require interexchange costs incurred by multifunctional equipment (equipment used in the provision of both exchange and interexchange service) be excluded from the determination of exchange costs in establishing exchange charges.
- stipulate that BOCs must provide interexchange carrier access to all subscribers through a uniform number of dialed digits once the national area code is revised.

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23/ An exception to this timetable is granted to BOCs who use the less flexible electromechanical switches, or are small exchanges with fewer than 10,000 access lines. This exception is only granted, however, if the BOC can prove that the provision of such services would only be feasible at costs so high as to outweigh potential benefits to users. Any such exception will only be granted for the minimum divergence of access and for the minimum time necessary to achieve feasibility.

24/ The FCC in December 1982 adopted an access charge policy which not only levies a fee on interexchange carriers as directed in the antitrust settlement, but also places an end-user access charge on business and residential subscribers. The imposition of end-user access charges, particularly on residential customers, has caused significant controversy. After a number of reconsiderations and postponements, the scheduled effective date for the implementation of interexchange carrier and multi-line business end-user access charges(continued)

Within six months after the divestiture, each BOC is required to submit to the Justice Department a detailed plan of procedures for complying with these requirements. AT&T, Western Electric, and Bell Labs are also required to provide the BOCs with research, development, manufacturing, or other support services on a priority basis until Sept. 1, 1987, to enable the BOCs to fulfill these injunctive requirements.

### C. Other Provisions

The remaining provisions in the settlement concern compliance and enforcement. Included among these were provisions which:

- require AT&T, the BOCs, and affiliated entities to inform relevant personnel of the terms of the settlement, their required compliance, and the penalties for noncompliance.
- grant the Justice Department visiting rights and access to necessary records of BOCs to assure compliance with the settlement.
- stipulate that the U.S. District Court retains jurisdiction over, enforcement of compliance, and punishment of violation, of the settlement.

Parties in the settlement agreed to follow procedures set forth in the 1974 Tunney Act (P.L. 93-528) which requires the publishing of a competitive impact statement, a public comment period, and a judicial determination that the settlement is in the public interest. In accordance with these procedures, the Justice Department published its competitive impact statement on February 17, 1982. 25/ The public comment period, which was extended to include both written and oral

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(continued) is June 13, 1984; payment of residential and single-line business end-user charges is scheduled to be implemented by June 1985. For further information on this issue, see U.S. Library of Congress. Congressional Research Service. Telephone Industry: Restructuring and Federal Activity. Issue Brief No. IB81150, by Angele A. Gilroy. (Continually updated.) Washington, 1984.

25/ Federal Register. February 17, 1982, v. 47, no. 32. p. 7169-7184.

presentations, terminated at the end of June 1982. After evaluation of the information provided during the public comment period, Judge Greene announced that he would refuse to approve the settlement unless a number of modifications were incorporated. A detailed analysis of Judge Greene's suggested modifications follows in section IV.



IV. MODIFICATIONS INCORPORATED INTO THE PROPOSED JANUARY 8, 1982, SETTLEMENT

Although both parties were satisfied to drop the antitrust action based on compliance with the terms they negotiated in their January 8, 1982, settlement, in accordance with Tunney Act procedures, termination of the antitrust suit was dependent on the holding of public hearings and a public interest evaluation of the settlements's terms by U.S. District Court Judge Harold Greene. While Judge Greene technically did not have the power to modify the terms of the settlement, but was required either to accept or reject it based on its provisions, his power of rejection provided an incentive for the parties to comply with his suggested modifications. After an examination of the testimony presented during lengthy oral and written comment periods, Judge Greene stated in an August 11, 1982, opinion that he would only approve the settlement if the parties were willing to modify its contents to incorporate selected concerns. <sup>26/</sup> Although Judge Greene approved of the proposed settlement's basic framework -- that is, the divestiture of the local operating companies and the entrance of AT&T into unregulated markets -- he required the incorporation of 10 modifications before he would approve the settlement. These modifications, which Judge Greene felt would resolve public interest deficiencies contained in the initial settlement, largely enabled the divested local operating companies to provide CPE, produce "Yellow Pages," and petition the court to provide long distance service and manufacture equipment if they can prove that it will not impede competition. The modifications also

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<sup>26/</sup> See United States v. American Telephone and Telegraph Co., 552 F Supp. 131 (D.D.C. 1982), Affirmed, 103 S. Ct. 1240 (1983).

prohibited AT&T from engaging in "electronic publishing" over its own transmission facilities for a minimum of seven years; required a relatively equal distribution of debt between AT&T and the divested companies; required or clarified specific behavioral requirements for the divested local operating companies; and granted the court jurisdiction over the implementation and enforcement of the settlement. More specifically, these modifications:

- Permitted the divested local operating companies to provide, but not to manufacture, customer premises equipment.
- Granted the divested local operating companies the right to produce, publish, and distribute "Yellow Pages" directories and transferred to the operating companies all necessary facilities, information, and personnel to provide this service.
- Expressed a willingness to remove present restrictions on the divested local operating companies regarding the provision of interexchange service and equipment manufacturing if the operating company can prove to the court that "there is no substantial possibility" that its local monopoly power could be used to impede competition in the market it wishes to enter.
- Prohibited AT&T from offering "electronic publishing" services over its own transmission facilities for a minimum of seven years. 27/ AT&T, however, is permitted to provide electronic directory information as well as time and weather in areas in which, as of January 8, 1982, it was already engaged in the provision of such services. 28/
- Required any local operating company which is providing billing services for AT&T's interexchange (long distance) services to notify customers on their interexchange bill that

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27/ As defined in Part VIII of Judge Greene's August 11, 1982 opinion, "electronic publishing" means "the provision of any information which AT&T or its affiliates has, or has caused to be, originated, authored, compiled, collected, or edited, or in which it has a direct or indirect financial or proprietary interest, and which is disseminated to an unaffiliated person through some electronic means."

28/ In a December 1983 opinion, Judge Greene made clear that while the terms of the settlement prohibit the local operating companies from offering information services, it does not prohibit them from also offering time and weather announcements.

such a service is not connected to their exchange (local) service and may be provided by other companies.

- Required any divested local operating company to charge tariffs for exchange access which reflect the quality of the service provided. That is, if access that is less than equal in type and quality to that given to AT&T is provided to other interexchange carriers, the price charged for such access should be proportionately discounted.
- Transferred from AT&T to the divested local operating company any joint facilities or other assets which were predominantly used by that operating company. (The court, upon petition, may grant an exception to this requirement.)
- Required that at the time of divestiture, the local companies have debt ratios of approximately 45 percent <sup>29/</sup> and that the quality of the debt be representative of AT&T's debt. (The court, upon petition, may grant exception to this requirement.)
- Granted the court the power to issue orders for the implementation, enforcement of compliance, and punishment of violations of the decree.
- Prohibited the implementation of the reorganization plan for divestiture until court approval is granted.

Despite Judge Greene's rejection of the Justice Department's request to limit the divested local operating companies solely to the provision of "residential and single-line business customer premises equipment," <sup>30/</sup> both parties agreed to the court's modifications. Once these modifications were incorporated into a newly filed settlement, Judge Greene's approval quickly followed, and on

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<sup>29/</sup> Pacific Telephone and Telegraph Co., one of the 22 local operating companies facing divestiture, was given a debt ratio requirement of 50 percent, due to its less favorable economic condition. It should be noted, however, the Pacific Telephone Company's holding company was divested with a debt/equity ratio of 46.5.

<sup>30/</sup> For a copy of the Justice Department's memorandum in response to Judge Greene's opinion of August 11, 1982, see: Daily Report for Executives (BNA), No. 161, August 19, 1982. p. B1.

August 24, 1982, Judge Greene filed a Modification of Final Judgement, 31/ and dismissed the antitrust suit. Following Judge Greene's approval, as required by the settlement, AT&T had six months (until February 24, 1983) in which to file a plan detailing the implementation of the settlement's terms, and, then, a year (until February 24, 1984) in which to carry it out.

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31/ This settlement became commonly known as the "modified final judgement" or MFJ, since it technically is a modification of the previously discussed 1956 consent decree (see p. 15).

See United States v. American Telephone and Telegraph Co., 552 F. Supp. 131 (D.D.C. 1982), affirmed, 103 S. Ct. 1240 (1983).

V. THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY REORGANIZATION PLAN

On December 16, 1982, AT&T filed its divestiture plan with the court. This plan required both Justice Department and judicial approval to ensure that the implementation of the settlement's terms conformed to the provisions and principles outlined in the decree.

A. Provisions Contained in the Reorganization Plan

In general terms, the plan called for the 22 divested operating companies to be grouped into 7 regional holding companies. A three-level structure was proposed wherein existing service areas would remain intact keeping their current names, holding companies would oversee the regional groups, and a Central Services Organization -- owned jointly by the seven regional holding companies -- would provide technical assistance and serve as a central coordination point for national defense and national disaster organization.

Approximately 77 percent, or \$115.5 billion of the Bell System's total assets of \$149.5 billion were assigned to the divested operating companies, as were 60 to 70 percent of its almost one million employees; consolidated pension plans were reapportioned among the regional holding companies and the remaining AT&T. Holders of pre-divestiture AT&T stock as of December 30, 1983, retain their present shares, which have been adjusted in value to reflect the divestiture, and have received one share in each regional company for every 10 AT&T shares they owned. Holders of fewer than 10 shares of stock continue to own the corresponding shares of post-divestiture AT&T stock, but have received a cash settlement

for their fractional interests in the regional holding companies. 32/ (See p. 5 for a more detailed explanation of the terms of the approved reorganization plan.)

To facilitate the delineation of the post-divestiture service areas between the BOCs and AT&T, the Bell System territory has been divided into 161 geographic areas called "Local Access and Transport Areas" or LATAs. These LATAs designate the boundaries within which the BOCs provide telecommunications service. 33/ The BOCs are permitted to provide two basic types of telecommunications service: 1) exchange telecommunications service (both local and toll), and, 2) exchange access service, within its designated LATA or LATAs. 34/ Since the terms of the settlement preclude the BOCs from offering service between LATAs, AT&T provides service in the Bell System territory located between LATAs. 35/

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32/ For a more detailed analysis of the distribution, listing and trading, and dividend return of post-divestiture AT&T and regional holding company stock, see: U.S. Library of Congress. Congressional Research Service. The Divestiture of The American Telephone and Telegraph Company: The Impact on Shareholders. Report no. 83-221 E, by Angele A. Gilroy. Washington, 1983. 29 p.

33/ In an April 20, 1983 decision, Judge Greene approved, with minor modifications, the AT&T-submitted LATA boundaries. See United States v. Western Electric Co., 569 F. Supp. 990 (D.D.C. 1983), affirmed, 52 USLW 3450 (December 12, 1983).

34/ A BOC's service area may consist of a single, consolidated LATA, or a number of LATAs, depending on LATA configuration. In his April 20, 1983 opinion, Judge Greene noted that, except where State regulation specifically prohibits, the local operating companies must permit interexchange carriers to compete with them for toll calls within their LATAs.

35/ Depending on individual State regulations, AT&T may or may not be subject to competition from other interexchange carriers (e.g., MCI, GTE/Sprint.) in the provision of intrastate interLATA services. In a December 1983 opinion, however, Judge Greene ruled that local telephone carriers may route interexchange calls to AT&T for any customer who has not designated an interexchange carrier. Local telephone carriers are required to develop intensive advertising campaigns to inform customers of AT&T's and its competitors' services 90 days prior to the availability of competitive alternatives.

Local operating companies are not required to route undesignated calls to AT&T, however, and, while it appears likely that most may take (continued)

B. Modifications Incorporated into the Reorganization Plan

After gaining additional input, through the filing of final written briefs and a June 2 public hearing, Judge Greene ruled on July 8, 1983, 36/ that he would accept the divestiture reorganization plan as filed, if the parties would agree to six major modifications. According to Judge Greene, one of the court's principal public interest concerns has been "to ensure that the divestiture would not bring about or contribute to local telephone rate increases." With this concern in mind, he required the following major changes to the reorganization plan to ". . . assist in moderating the pressure for local rate increases, whatever their source."

- AT&T was required to reimburse the divested operating companies for any of the actual costs incurred by the provision of interexchange equal access which remain outstanding as of January 1, 1994. 37/
- As of the date of divestiture, AT&T and its subsidiaries and affiliates were required to give up the rights to the word "Bell" and the Bell System trademark and logo; all such rights will remain with the divested operating companies. 38/

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(continued) this option, one of the regional holding companies, Pacific Tele-  
sis, has recently announced that as its exchanges switch to "equal access," it  
will not automatically switch undesignated calls to AT&T. Instead, it will re-  
quire customers to designate an interexchange carrier before such calls will be  
completed. Northwestern Bell, one of the local operating companies in the U.S.  
West regional holding company, is expected to use an allocation quota method to  
assign undesignated interexchange calls.

36/ See United States v. Western Electric Co., 569 F. Supp. 1057 (D.D.C.  
1983), affirmed, 52 USLW 3450 (December 12, 1983).

37/ The settlement requires the local Bell operating companies (BOCs) to  
provide to all interexchange carriers the same quality of access as AT&T. New  
equipment costs to accomplish this are expected to total approximately \$2.5 bil-  
lion and are supposed to be recovered through operating company charged access  
payments paid by the interexchange carriers.

38/ Exceptions to this include the use of "Bell" in Bell Laboratories and  
AT&T's foreign subsidiaries and affiliates as well as its use on equipment manu-  
factured or purchased by AT&T prior to the divestiture.

- The divested operating companies are given non-exclusive and personal royalty free rights to all existing patents owned or controlled by AT&T, and any patents issued up to 5 years after the divestiture. The right to sublicense these patents to other manufacturers is granted solely when used to provide operating companies with goods and services they plan to sell. (The divestiture plan permits operating companies to sell and lease new telecommunications equipment.)
- The operating companies are prohibited from providing inter-LATA order writing or related activities solely for AT&T. They may provide this service to AT&T, however, if they offer the same service to all other interexchange carriers (e.g., MCI).
- When examining the predominance of operating company/AT&T use for the purpose of asset division "the capacity of a facility or asset devoted to operating company official service functions is to be included as part of the operating company's use."
- While AT&T and the operating companies are not relieved from "bargaining in good faith with any labor union," they may not deviate from the divestiture plan's treatment of the Bell System pension fund with regard to its division into 9 parts, its actuarial methodology or its elimination after one year of unlimited portability of service credit between plans. 39/

After clarification of the circumstances surrounding AT&T's obligation to cover operating company equal access costs 40/ (see first modification above)

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39/ Various measures have been introduced in the 98th Congress to modify the reorganization plan by extending indefinitely the portability of pension and other accrued benefits for predivestiture Bell System employees who transfer among the various post-divestiture firms.

See U.S. Library of Congress. Congressional Research Service. Telephone Industry: Restructuring and Federal Activity. Issue, Brief no. IB81150, by Angele A. Gilroy, (continually updated). Washington, 1984.

40/ While Judge Greene refused to excuse AT&T from the obligation to guarantee the reimbursement of January 1994 outstanding BOC equal access and network reconfiguration costs, he did agree to incorporate into the settlement the following proviso which he felt would ". . . protect AT&T from manipulation by the [Bell] operating companies or the regulators;" "with respect to any operating company, AT&T's obligation shall be discharged to the extent that: (a) the operating company fails annually to file carrier access tariffs designed to recoup any then-unrecovered equal access and network reconfiguration costs by January 1, 1994; or (b) any regulatory commission refuses to permit (continued)

both AT&T and the Justice Department accepted the court's modifications and on August 5, 1983, Judge Greene filed an order approving the amended reorganization plan; 41/ whereupon, AT&T had until February 24, 1984, to implement the approved plan.

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(continued) such tariffs to take effect; or, (c) regulatory requirements for the depreciation or amortization of equal access and network configuration investment cause any portion of the investment not to be recognized as a cost of rate-making in periods prior to January 1, 1994."

41/ See United States v. Western Electric Co., 569 F. Supp. 1057 (D.D.C. 1983), affirmed, 52 USLW 3450 (December 12, 1983).



VI. CONCLUSION

On February 28, 1983, the U.S. Supreme Court affirmed the issuance of the consent decree by the D.C. District Court, 42/ and on December 12, 1983, it upheld the reorganization plan. 43/ These actions removed any further legal obstacles to the implementation of the settlement, and, pursuant to the court-approved decree and plan, on January 1, 1984, AT&T divested itself of a major portion of its organizational structure and functions.

The once-integrated Bell System is now reorganized into seven independent regional holding companies (RHCs) -- which incorporate the 22 Bell Operating Companies (BOCs) -- and the "new" AT&T. As a result of the divestiture, 77 percent of the assets and one-third of the Bell System's revenues were assigned to the operating companies, ranking the seven RHCs among the top 10 U.S. utilities (based on assets).

In compliance with the settlement's terms, the divested operating companies retain most rights to the word "Bell" as well as the Bell System trademark and logo, continue to provide exchange service (both local and toll) and access in their designated local access and transport areas (LATAs), are able to sell and lease (but not manufacture) new telecommunications equipment, and, through regional companies, will print and distribute local telephone directories, publish

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42/ See United States v. American Telephone & Telegraph Co., 552 F. Supp. 131 (D.D.C. 1982), affirmed, 103 S. Ct. 1240 (1983).

43/ See United States v. Western Electric Co., 569 F. Supp. 990 and 1057 (D.D.C. 1983), affirmed, 52 USLW 3450 (Dec. 12, 1983).

Yellow Pages directories, and offer cellular mobile radio service. At the same time, however, the BOCs are subject to various behavioral and injunctive requirements concerning the breaking of structural and economic ties with the post-divestiture AT&T; the requirements are designed to ensure equal access to all interexchange carriers and equal equipment procurement. While largely restricted to the offering of regulated telephone service, upon petition and approval of the D.C. District Court, the operating companies may enter businesses other than regulated telephone service providing they can prove that their monopoly position in the provision of local telephone service would not impede competition in that proposed business. 44/

Although divested of a significant portion of its former organizational structure and functions, the "new" AT&T still ranks fourth (based on assets) among U.S. corporations. The post-divestiture AT&T continues to keep its long lines interstate network, its manufacturing, and research and development facilities, its unregulated subsidiary, and its international facilities. The "new" AT&T also controls both the intrastate interexchange network and the installed customer premises equipment (CPE) previously provided by the divested local operating companies.

Terms of the settlement also modified a 1956 consent decree (see p. 15) which had largely restricted AT&T to the provision of regulated communications services. This modification freed the post-divestiture AT&T from the restrictions, enabling it to enter (with the exception of its "electronic publishing" limitation [see p. 24]) into unregulated fields such as the data transmission and

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44/ A number of the RHCs have already filed petitions with the court requesting line of business waivers to enable them to enter into a number of markets. The significant number of such filings appears to be an early indicator of the desire of the RHCs to expand their range of business opportunities beyond the settlement's terms.

computer industries. Although the "new" AT&T continues to derive over half its revenues from regulated telecommunications services (i.e., regulated long distance service), it is expected to expand into more unregulated, highly competitive markets at an increasing pace. <sup>45/</sup> To more fully accommodate this shift, the post-divestiture AT&T has reorganized its corporate structure around a line-of-business format with two sectors, AT&T Communications and AT&T Technologies, responsible for overall resource management.

How successful the divestiture and subsequent injunctive requirements will be in achieving the goal of assuring the opportunity for full competition in both the telecommunications transmission and equipment markets remains to be determined. What is clear is that the implementation of the settlement has significantly altered the environment under which such products and services are being provided, and the ramifications of this action will be felt by both telecommunications suppliers and consumers for years to come.

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<sup>45/</sup> On March 27, 1984, AT&T announced its entry into the computer field by introducing a computer product line of six machines ranging in price from \$9,950 to \$340,000 and two networking products; the company's AT&T Technologies, Inc., sector will be responsible for their production.



APPENDIX AChronology of Events

- 11/20/74 -- The U.S. Department of Justice instituted an antitrust action against the American Telephone and Telegraph Company, Inc. (AT&T), the Western Electric Company, Inc., and Bell Laboratories, Inc., alleging that the companies had violated Section 2 of the Sherman Act by conspiring to monopolize three major markets in the domestic telecommunications industry.
- 01/08/82 -- The U.S. Department of Justice and AT&T reached a negotiated settlement of their pending antitrust suit. Major terms required the divestiture of the exchange access and service functions of the 22 Bell Operating Companies (BOCs) in return for the vacating of a 1956 consent decree which had prevented AT&T from entering into unregulated markets.
- 01/25/82 -- Senate Commerce, Science and Transportation Committee, Subcommittee on Telecommunications, and the Senate Judiciary Committee held hearings on the ramifications of the AT&T/Justice Department settlement.
- 01/28/82 -- House Committee on Energy and Commerce, Subcommittee on Telecommunications, Consumer Protection and Finance, and Committee on the Judiciary, Subcommittee on Monopolies and Commercial Law, completed two days of joint hearings on the ramifications of the AT&T/Justice Department settlement.
- 02/10/82 -- The Justice Department filed its competitive impact statement regarding the AT&T settlement with the United States District Court.
- 02/17/82 -- The Justice Department's competitive impact statement appeared in the Federal Register, commencing a 60-day public comment period.
- 02/19/82 -- AT&T released its "planning model" for divestiture which grouped the local operating companies into seven independent, regional holding companies.
- 03/25/82 -- House Committee on Energy and Commerce, Subcommittee on Telecommunications, Consumer Protection and Finance passed, after further revision, H.R. 5158, a measure which altered the proposed antitrust settlement by attempting to strengthen the local operating companies.
- 05/19/82 -- AT&T announced the appointment of the chief executive officers of the seven tentative regional holding companies.

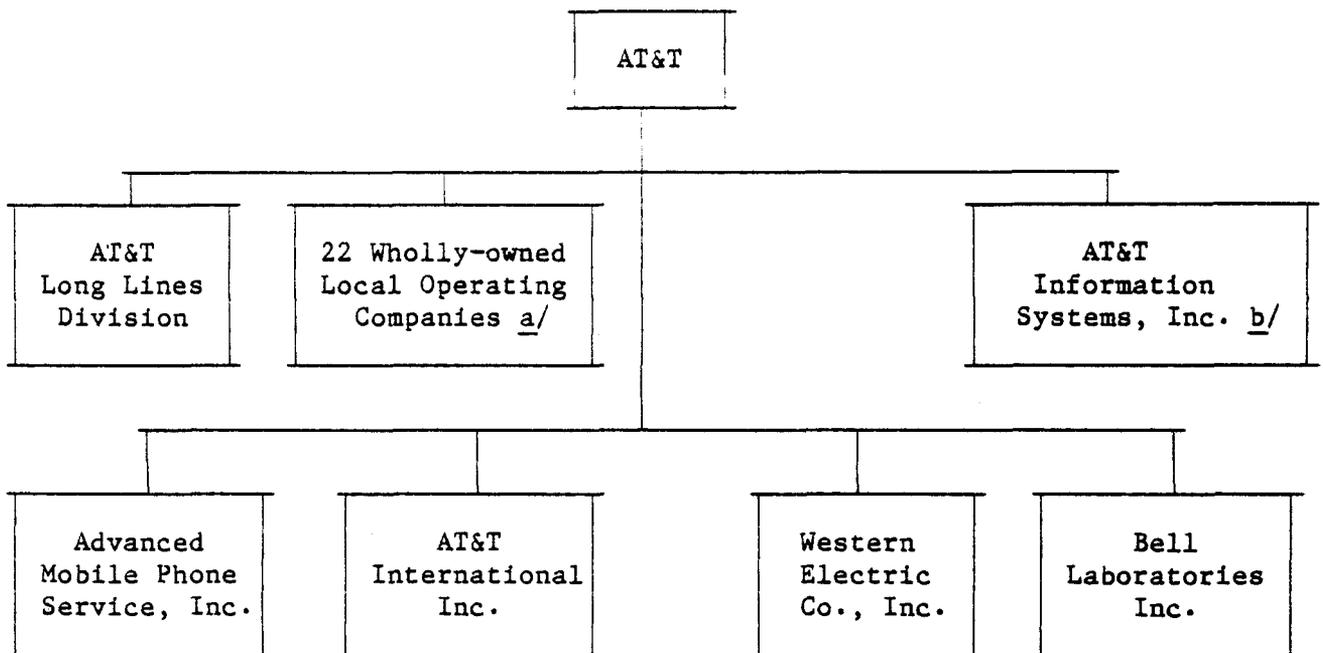
- 07/20/82 -- House Committee on Energy and Commerce terminated the markup of H.R. 5158 before completion.
- 08/11/82 -- Judge Harold Greene announced that he would approve the terms of the AT&T/Justice Department proposed antitrust settlement only if the two parties agreed to his list of proposed modifications.
- 08/19/82 -- Although opposed to certain aspects of Judge Greene's modifications, AT&T and the Justice Department announced that they would modify the proposed settlement to incorporate Judge Greene's changes.
- 08/24/82 -- Judge Greene approved the newly-filed settlement which incorporated his 10 modifications and dismissed the antitrust case. AT&T is required to file its reorganization plan by February 24, 1983, and implement the plan within a year (February 24, 1984).
- 10/25/82 -- Various groups filed appeals challenging the AT&T/Justice Department antitrust settlement.
- 11/04/82 -- AT&T filed in U.S. District Court its plan of proposed geographic boundaries to define future exchange areas (local access and transport areas [LATAs]) designating the service areas of the divested 22 local operating companies.
- 12/16/82 -- AT&T filed its reorganization plan with the court. A 110-day public comment period followed.
- 01/13/83 -- The Federal Communications Commission (FCC) petitioned AT&T to submit details of its reorganization plan. A reply was requested by March 1.
- 02/28/83 -- The Supreme Court affirmed the D.C. District Court's acceptance of the consent decree.
- 04/20/83 -- Judge Greene approved, with minor modifications, the 161 proposed local access and transport areas contained in the proposed AT&T reorganization plan.
- 05/10/83 -- Judge Greene requested written briefs and scheduled a public hearing for June 2, to consider unresolved issues regarding AT&T's proposed reorganization plan.
- 07/08/83 -- Judge Greene issued his ruling on the AT&T reorganization plan, seeking six major modifications before granting approval.
- 07/15/83 -- AT&T filed a partial response to Judge Greene's modifications to the reorganization plan, requesting the removal or modification of the provision guaranteeing AT&T's coverage of operating company interexchange access costs remaining after Jan. 1, 1994.
- 08/03/83 -- AT&T and the Justice Department announced that they would accept Judge Greene's suggested modifications to the reorganization plan after the incorporation of an interexchange cost proviso.

- 08/05/83 -- Judge Greene issued an order putting into effect the amended reorganization plan.
- 10/19/83 -- AT&T announced the incorporation of a \$5.2 billion (later revised to \$5.5 billion) one-time, end-of-year charge against 1983 earnings caused by a write-down of AT&T's post-divestiture assets and other accounting changes.
- 11/16/83 -- AT&T filed financial data with the Securities and Exchange Commission to enable it to start the trading of the stocks of the "new" AT&T and of the seven regional holding companies.
- 11/21/83 -- The stocks of the "new" AT&T and the seven regional holding companies began trading on a "when issued" basis.
- 12/01/83 -- The FCC approved the transfer of various assets and radio licenses among AT&T and the Bell Operating Companies as required by the reorganization plan.
- 12/12/83 -- The Supreme Court upheld the AT&T reorganization plan, removing any further legal obstacles to the settlement.
- 01/01/84 -- Pursuant to the terms of the settlement and the reorganization plan, AT&T divested itself of its 22 wholly-owned local operating companies.
- 02/15/84 -- The final day of trading of the pre-divestiture AT&T stock and the termination of "when issued" trading of the stocks of the "new" AT&T and the seven regional holding companies.



APPENDIX B

The Predivestiture Bell System Organization Structure  
(Major Subsidiaries, end of year 1983)



a/ AT&T also has a minority ownership in two other operating companies, the Southern New England Telephone Company and Cincinnati Bell, Inc. (see p. 3).

b/ To comply with modifications incorporated into the reorganization plan regarding the use of the word "Bell" (see p. 29), effective August 23, 1983, AT&T changed the name of its unregulated subsidiary from American Bell, Inc., to AT&T Information Systems, Inc.



APPENDIX C

The Twenty-two Wholly-owned Bell Operating Companies (BOCs)  
(Prior to January 1, 1984)

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



APPENDIX D

Selected Statistics on the Predivestiture Bell System  
(end of year 1983)

Revenue (\$ billion)	\$69.4
Net Income (\$ million)	\$248.7 <u>a/</u>
Assets (\$ billion)	\$149.5
Access Lines	87,000,000
Employees (end of third quarter 1983)	972,000 <u>b/</u>

a/ Includes a one-time \$5.5 billion charge against 1983 net income (see p. 4).

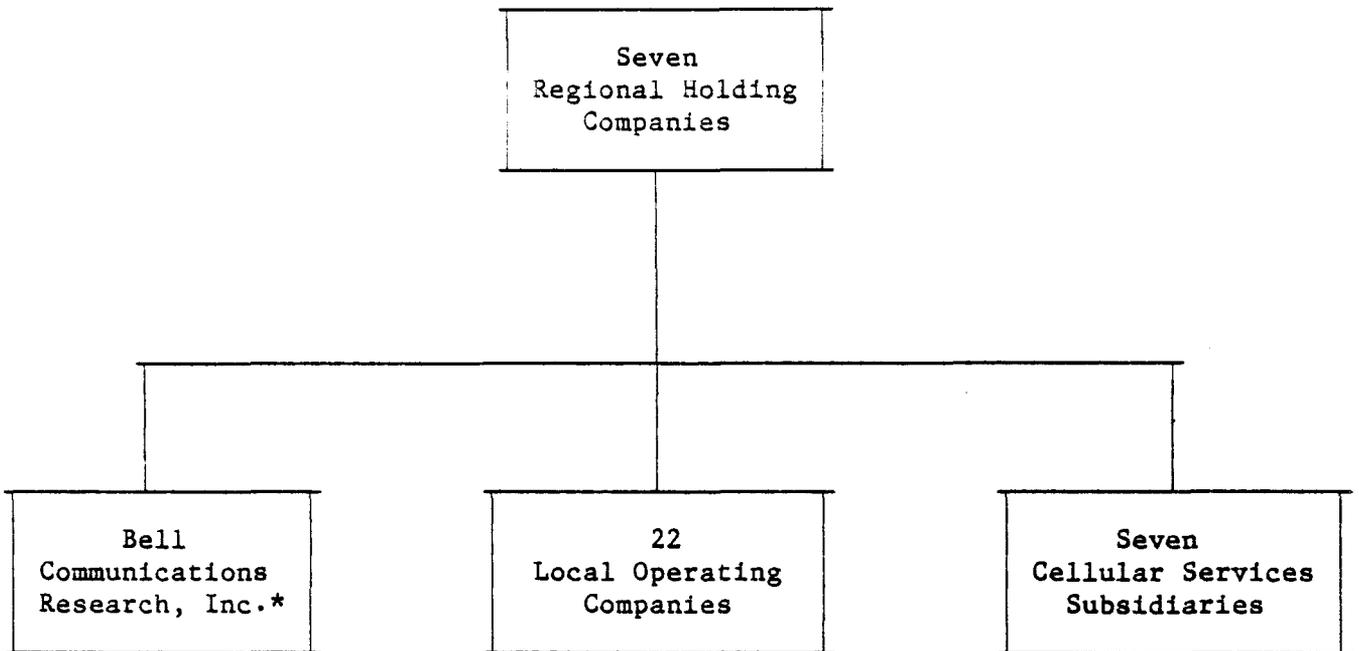
b/ As estimated by E.F. Hutton & Co., Inc., New York.

Source: 1983 Annual Report, American Telephone and Telegraph Company.



APPENDIX E

The Post-Divestiture Operating Company Organizational Structure a/  
(as of January 1, 1984)



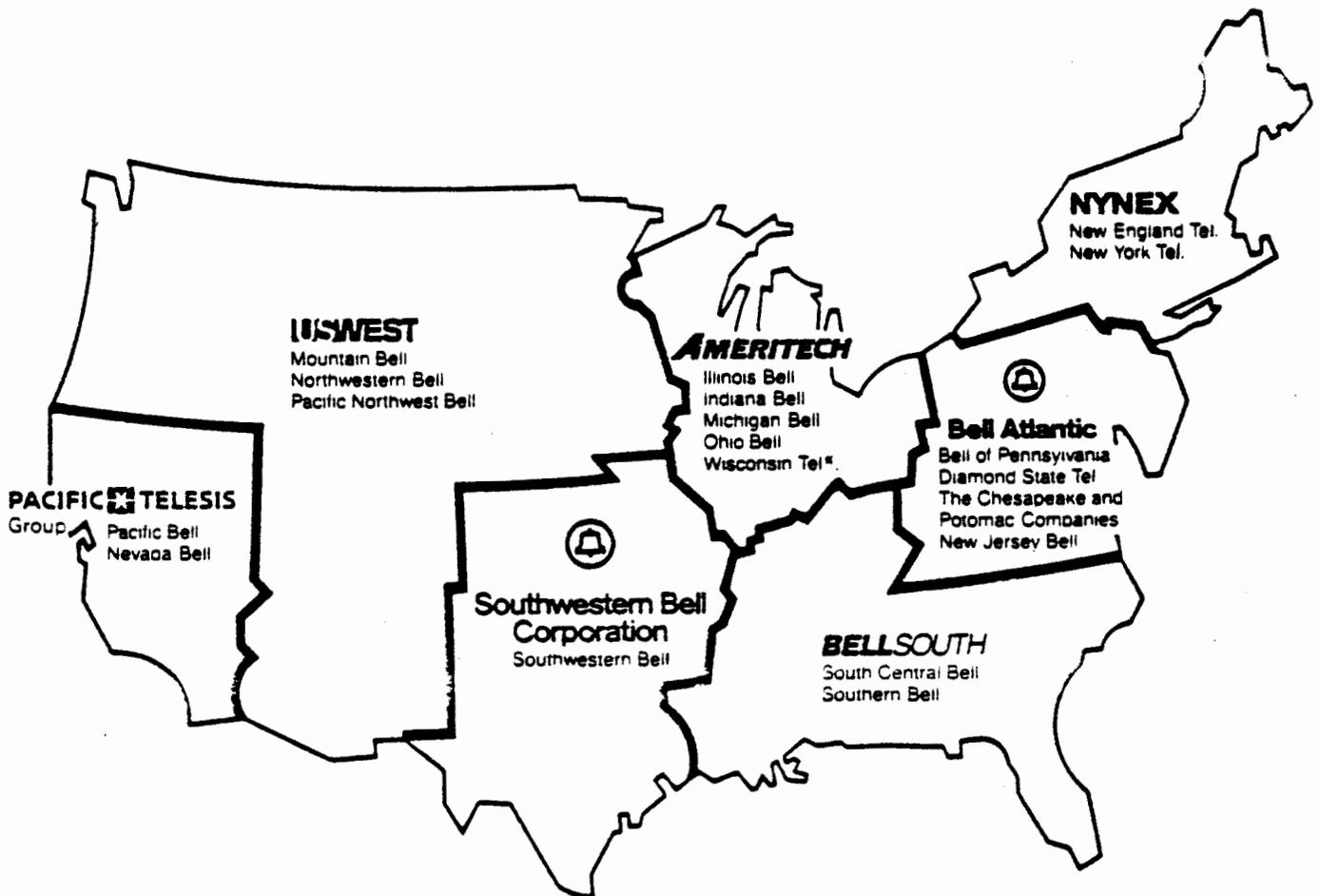
\* This unit was temporarily referred to as the Central Services Organization until February 16, 1984 (see p. 6).

a/ The above organizational chart only depicts the major components of the post-divestiture operating company organizational structure. For example, the various subsidiaries formed by the individual regional holding companies and future operating company Computer II structural separation requirements (see p. 5) are not included.



APPENDIX F

The Geographic Location and Operating Company Composition of  
the Seven Regional Holding Companies



\* Effective January 1, 1984, Wisconsin Telephone Company changed its name to Wisconsin Bell, Inc.

Source: Information Statement and Prospectus issued November 8, 1983, by the American Telephone and Telegraph Company. p. 14.



APPENDIX G

Selected Statistics on the Seven Regional Holding Companies  
(estimated for end of year 1984)

Holding Company	Revenue (\$ billion)	Net Income (\$ million)	Assets* (\$ billion)	Access Lines (millions)	Employees (as of 1/84)
Ameritech	\$8.34	\$923.7	\$16.26	14.2	79,000
Bell Atlantic	8.32	952.2	16.26	14.6	80,000
BellSouth	9.80	1,200.0	20.81	14.1	99,100
NYNEX	9.83	937.6	17.39	13.1	98,200
Pacific Telesis	8.10	827.7	16.19	11.3	82,000
Southwestern Bell	7.76	869.6	15.51	10.5	74,700
U.S. West	7.44	877.8	15.05	10.9	75,000

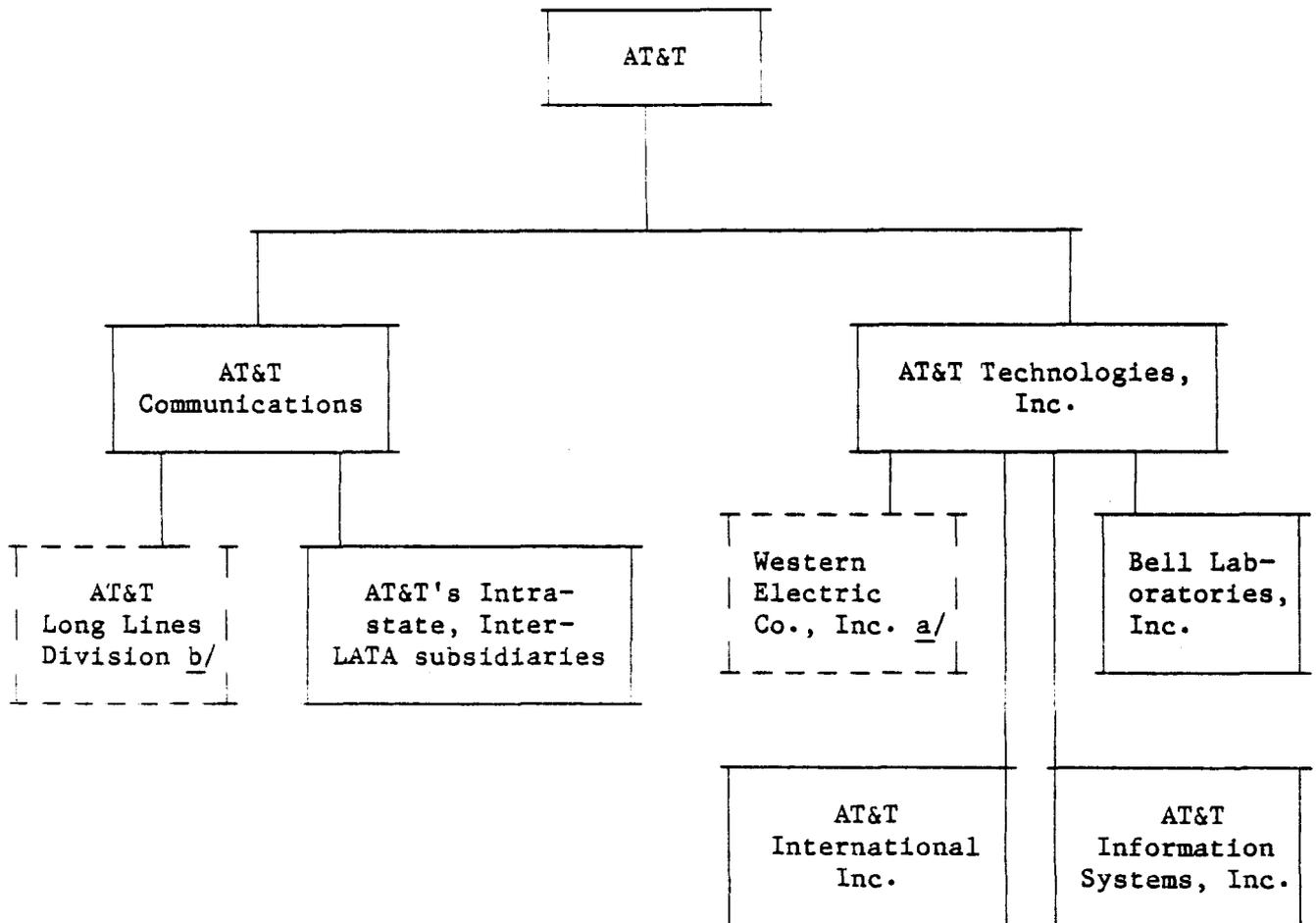
\* Pro forma basis as of June 30, 1983.

Source: Information Statement and Prospectus issued November 8, 1983, by American Telephone and Telegraph Company.



APPENDIX H

The Post-Divestiture AT&T Organizational Structure  
(major subsidiaries as of January 1, 1984)



a/ As of January 1, 1984, Western Electric Co., Inc., ceased to exist as a separate division and its employees and functions were redistributed among the various divisions of AT&T Technologies' (see p. 7).

b/ As of January 1, 1984, AT&T Long Lines ceased to exist as a separate division, and its employees and functions were redistributed within AT&T Communications.



APPENDIX ISelected Statistics on the Post-Divestiture AT&T  
(estimated for end of year 1984)

Revenue (\$ billion)	\$56.54
Net Income (\$ billion)	\$2.11
Assets (\$ billion)	\$34.28*
Employees (as of 1/1/84)	373,000

\* Pro forma basis as of June 30, 1983.

Source: 1983 Annual Report, The American Telephone and Telegraph Company.