

NETWORK!

FOR PEOPLE IN THE NETWORK SYSTEMS BUSINESS OF LUCENT TECHNOLOGIES

NETWORK SYSTEMS ALL EMPLOYEE QUARTERLY BROADCAST

Hosted by NS President Dan Stanzione and the NS Operations Council

Live from Merrimack Valley

Tuesday, August 6, 1996
10 a.m. U.S. EDT

NS President Dan Stanzione and NS Operations Council members will discuss Lucent and NS financials, provide an NS business update, and hold a question-and-answer session. Check with your local site coordinators or Public Relations representatives to find out where you can watch the broadcast.

As usual, you can send questions in advance by faxing them to 908-559-1257.

Remember the four Network Systems priorities:

- Focusing on customers and flawless execution;
- Investing in people (training);
- Demonstrating innovation and product vision;
- Overhauling our internal processes.

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Jack Bucter retires after more than 30 years of service

After a career that has seen an industry move from voice-only analog to multi-media digital, from sound waves to light waves, and from virtual monopoly to anything-goes competition, Jack Bucter, president of Network Cable Systems (NCS), retires today.

Bucter started his career in New York City as a pricing specialist at Western Electric in 1964. Since that time he has held assignments in Finance, Manufacturing, Engineering, Corporate Planning and Product Management, which led to his appointment as president of Business

Communications Systems in 1989. He became part of the Network Systems team in 1991 as president of NCS.

"On my first day in that New York City office, I remember being surprised by one of the first bits of business advice that I received," Bucter recalls. "My boss said, 'You probably ought to wear a hat.' Things have changed a bit since then."

"My boss said, 'You probably ought to wear a hat.' Things have changed a bit since then."

— Jack Bucter, president of Network Cable Systems

Lots of change

Indeed, they have, and Bucter is one of the people who helped change them, as he brought more

Continued on page 3

NS nabs multi-million-dollar WinStar deal

The race to provide bundled local and long distance services is heating up.

This week, Network Systems (NS) announced a multi-million-dollar contract with WinStar Communications for the sale of up to 20 5ESS(R) Switches over the next three years. WinStar intends to use the switches for local and long-distance switching as it rolls out its competitive local exchange carrier (CLEC) services business.

WinStar is one of only a handful of companies with licensed territories that span the U.S., which means it can offer local services across the 41 territories in which it holds licenses.

The 5ESS Switch allows the seamless deployment of broadband, advanced multimedia communications services, and handles toll, gateway, and private networking

services efficiently. The switch also will do double duty as a local and long-distance switch. The first installation is scheduled for October in New York City.

"We are delighted to become a supplier to WinStar as it enters the newly competitive local communications market," says Nina Averzano, Global Commercial Markets (GCM) president. "We look forward to supporting WinStar as it rolls out its CLEC business, bringing new and innovative services to its customers."

WinStar Communications, Inc., which has been a competitive access provider for long distance services, now will provide local voice, data, and multimedia services. The company's holdings include WinStar Wireless and WinStar New Media. □

1996 incentive compensation plan

The Lucent Technologies 1996 Incentive Compensation Plan, which applies to U.S.-paid employees on the Management Pay Plan (Bands A-D) and the Technical Personnel Plan, has set financial measures and targets to be the basis of the Lucent Performance Award (LPA) and the Unit Performance Award (UPA).

The 1996 program is an interim plan. We are redesigning Lucent's compensation programs to drive behaviors that will help make the company successful.

The design teams are working to create compensation programs that reinforce a feeling of ownership of the business; focus on the drivers that affect shareholder value; reward exceptional individual and small-team performance; and are simple, understandable and credible. The

1996 plan consists of three components: the LPA, the UPA and a Merit Award (MA), to recognize the performance of individuals and/or small teams.

To emphasize the operational components that drive shareholder value, enhance employee focus and measure profitability at both the Lucent and the operating unit levels, the LPA and UPA will be based on:

1) Operating Income (OI), which is defined as earnings or profits before deductions for interest on debt and taxes. Seventy-five percent of the funding for both the LPA and the UPA will be based on OI.

2) Return on Assets (ROA), which is defined as a measure of profitability relative to the investment in assets. At the Lucent total company level, it means net income divided by total average assets. At the operating unit level, operating income is substituted for net income. Twenty-five percent of the funding for both the LPA and the UPA will be based on ROA.

The focus on operating income and return on assets is not intended to de-emphasize Lucent's commitment to

LPA. However, CSF employees who are dedicated to an operating unit will have their UPA based on that unit's UPA program. For example, a Chief Financial Officer employee who exclusively supports Business Communications Systems (BCS) will receive a UPA payout based on BCS unit results.

The following chart shows the ranges and performance levels at which the minimum through maximum awards are earned.

To be eligible, employees must have had three full months (88 days) active on payroll during the performance year (service at AT&T counts toward eligibility) and must meet minimum performance criteria. Funding of annual awards will be calculated to the nearest .01 percent based on actual performance. For individuals on sales incentive plans, all

references to base salary mean Full Salary Equivalent. Lucent Technologies reserves the right to adjust payment levels upward or downward to offset the effects of significant unusual events such as the purchase or sale of a unit or division, etc. Lucent's 1996 incentive plan does not apply to occupational associates, employees on venture plans or other special compensation plans, AT&T Paradyne (except MPP and TPP employees, who are eligible for LPA), employees in the new AT&T, and engineering associates represented by unions. □

Percent of Target (OI = 75%; ROA = 25%)	Award (LPA & UPA funding = 5% each at 100% of target) (Percent of earned base salary)
Below 75%	0%
75%	2.50%
80%	3.00%
90%	4.00%
100%	5.00%
110%	6.25%
120% +	7.50%

value creation. In fact, Economic Value Added will continue to be an important financial measure.

For both the LPA and UPA, the target awards will remain the same as in 1995 — 5 percent each of earned base salary at 100 percent performance. Lucent's OI and ROA components will determine the LPA, while operating units' OI and ROA will fund their respective UPAs.

However, each operating unit or division can specify additional criteria for its UPA payout. UPA funding for Bell Labs and the Common Support Functions (CSF) will be the same as funding for the

references to base salary mean Full Salary Equivalent. Lucent Technologies reserves the right to adjust payment levels upward or downward to offset the effects of significant unusual events such as the purchase or sale of a unit or division, etc. Lucent's 1996 incentive plan does not apply to occupational associates, employees on venture plans or other special compensation plans, AT&T Paradyne (except MPP and TPP employees, who are eligible for LPA), employees in the new AT&T, and engineering associates represented by unions. □

Second-quarter LPA status announced

The 1996 LPA and UPA will not be affected as a result of the upcoming change in the fiscal year. The payout of 1996 compensation, including the LPA, UPA and MA for U.S.-paid employees on the Management Pay Plan (Bands A

through D) and the Technical Personnel Plan, will be based on results of the full calendar year 1996 and paid out in March 1997. Sales incentive programs for 1996 also will be based on the full calendar year. Based on the 1996 second

quarter financial results, the LPA is projected to be 5.19 percent of earned base salary. Stay tuned for information about the Network Systems UPA. □

Jack Bucter Continued from page 1

focus on customers and competitors to every position held. In his view, one of the most fundamental business changes that has taken place is the growing importance and sophistication of the marketing and product management organizations.

"When I first joined Western Electric, we didn't have a marketing organization," he said. "We had a few people who did product brochures but critical marketing decisions — like what products we should make — were basically decided in the halls of Bell Labs and General Departments. Now with the evolution of product management and marketing we have a much better understanding of what our customers actually need and therefore do a much better job of meeting their needs."

The BCS years

As the leader of Business Communications Systems (BCS), Bucter implemented broad fundamental changes to the business across all operations to give it more focus on customers and competitors and enable it to take full advantage of the talents and experiences of its people.

"It was Jack's initial planning, leadership and focus on business excellence that enabled our team to turn a business that was losing hundreds of millions of dollars a year into a healthy, aggressive, profitable competitor," said Pat Russo, president of BCS. "We thank him as we continue to build on his work."

In his assignment as NCS president, Bucter greatly expanded Network Systems worldwide markets for fiber optic and copper cable. In the last four years, NCS achieved record growth and profitability. Under Bucter's leadership and direction, that team dramatically expanded its global market by establishing factories outside of the U.S. and developing a network of profitable joint ventures. Today, NCS stands among the most profitable cable businesses in the world.

Time and again, Bucter's leadership, comprehensive understanding

of business and concern for customers enabled AT&T and Lucent Technologies to create and take advantage of new opportunities in extremely competitive marketplaces.

On to Network Systems

When Network Systems moved to restructure its business around Customer Architecture, Bucter was asked to lead the effort. When the transition work to Lucent Technologies began, the business once again looked to Bucter. Indeed, he has left his mark on almost every part of Lucent Technologies, since earlier in his career, he was involved in the first re-engineering of Consumer Products.

Network Systems President Dan Stanzone said, "Jack is a leader who made a difference in every job he held. He leaves for us a legacy of extraordinary accomplishments and ongoing, strong relationships and friendships. I will miss his wit and intelligence, his leadership, his teamwork and his commitment."

People mean the most

It would be fair to say that what Bucter will miss the most are the people he has worked with.

"I look back with most pride on the results of the work I have done with the people of this company," he said. "I provided some guidance and insights and helped make some decisions at BCS and NCS. But it was the hard work, the commitment and the loyalty of so many people across the company who brought in the results. They will never get the credit they deserve, and maybe they never can because they did so much.

"They taught me that the big challenge for a manager is learning how to provide guidance and checks and balances while at the same time freeing people to do what they can do, including taking some risks. It's important to give good, fact-based advice, but in the end, you have to trust people to take that advice and make the right decision. And that's what I always tried to do."

And just for the record, Bucter provided a great example of making the right decision from the very start. He passed on the hat. □

Lucent ads strike gold

The Lucent Technologies/Olympic Games ads debuted recently, with Lucent striking gold. After "125 years of training," the advertising shows that Lucent is a true winner.

As the builders of the "largest-ever communications network," the ads show that we can help customers "outrun the competition." All in all, Lucent's infrastructure and equipment help make the Centennial Olympic Games in Atlanta the most technologically advanced Games ever.

Lucent will run a TV commercial in 17 markets several times during the Olympic Games. The corporate print ad will appear in national magazines, such as Time and Newsweek, and The Wall Street Journal. Watch for them! □

Another technological breakthrough for NS

Network Systems recently announced the industry's first SONET Ring-based optical interface on a wide-band digital cross-connect system. Called the DACS IV-2000 Release 5 Optics, the release streamlines network-planning operations and gives service providers the added reliability of SONET-based services.

Manufactured at the Merrimack Valley Works, a Malcolm Baldrige Award-winning facility, the release simplifies network planning and increases reliability by automating complicated tasks once done manually. By using our pre-engineered solution, service providers spend less time setting up and can get SONET-based services deployed faster.

"Our SONET ring-based solution makes network planning much simpler for our customers, allowing them to turn up services much faster. The new level of physical integration creates higher reliability and a lower cost alternative," says Toomas Kilm, Market Development director at Lucent Technologies. □

Industry watch

Northern Telecom posts earnings increase, stock price decline

Nortel posted a 35-percent increase in second-quarter earnings, aided by big revenue gains from all its businesses, but the results came in a penny a share below analysts' estimates, triggering a 7.1 percent decline in the company's stock price.

Nortel said sales of wireless gear increased "substantially" in most international markets as did revenue from equipment used in corporate voice and data networks. There were also sizable gains from the sale of switches and high-capacity "broadband" transmission gear.

(The Wall Street Journal, July 24, 1996)

Qualcomm's earnings decline

Qualcomm's net income fell 79 percent to \$1.5 million, or two cents a share, in the fiscal third quarter ended June 30. Results were below analysts' estimates of a per-share profit of three cents. In the year-earlier period, Qualcomm earned \$7.3 million, or 13 cents a share.

The earnings decline was attributed to heavy investment in new products and market development. Qualcomm's sales more than doubled to \$235 million from \$99.5 million in the year-earlier quarter.

(The Wall Street Journal, July 23, 1996)

Nynex reports earnings growth, slight revenue decline

Nynex posted earnings of \$358 million, or 82 cents a share, for the second quarter. Those results were in line with expectations, against a loss of \$2.68 billion, or \$6.28 a share, in the same quarter last year, when the Baby Bell took a one-time charge of \$2.9 billion to cover the costs of writing down aging telephone equipment.

Revenue declined 1.4 percent to \$3.45 billion from \$3.5 billion, reflecting the absence of cellular revenue, which is recorded separately as a result of last year's cellular merger with Bell Atlantic.

Continued on page 6

COGS reduction: A key to business success

[Editor's Note: In the final portion of our look at COGS reduction, we'll take a look at how the Cheetah Product Simplification effort helps support achieving our cost-reduction goals. In addition, we'll describe an increased emphasis in using competitive data to drive our cost-reduction activities.]

Product simplification — making products simpler to build & order

Led by Ernie Rodriguez, vice president of Switching and Platforms, as part of the NS Cheetah Program, the product simplification initiative focuses on minimizing the number of unique items we sell by simplifying products and combining products and/or services into standard configurations.

Using fewer parts and making use of platforms will make building our products simpler, and therefore, less costly. That translates into improved product forecasting, more efficient manufacturing and installation, faster cycle times, and improved asset management — the basis for the Cheetah Program.

The Cheetah Program is expected to transform the Network Systems business. From implementing whole order delivery, to increasing our use of platforms, the whole idea is to get products to customers faster than ever before. "Simplifying our product offers is at the core of the Cheetah Program," says James Cocito, project leader of the product simplification initiative. Product simplification includes three key actions:

— Transition from complex detailed individual solutions to simplified standard products. These products could then be configured for specific applications.

— Design and develop a set of configurator tools on a common platform to support the sale and manufacture of simplified products and applications.

— Significantly reduce NS product offerings and products-per-order through product-line pruning, and product consolidation. The goal is to streamline our product offerings from 400,000 items to 30,000 by 1998.

There's also a move to purchase components and build products in the countries in which we plan to sell them (localization), thus cutting down on our manufacturing and distribution costs.

How good are we? — Competitive COGS benchmarking

COGS reduction, one of the Policy Deployment initiatives, is a crucial business strategy for NS. And, as with any business strategy, we must be able to measure the effectiveness of our efforts.

NS President Dan Stanzone has challenged BLG leaders to understand how we measure up to competitors in this area. As such, the

COGS-reduction team is charged with benchmarking our cost structure against that of our competitors.

"The cost-reduction savings generated by the team to date, have been a significant achievement, but our true success needs to be measured against our competitors," says Rodriguez. "Our costs are lower, but are they lower than that of our competitors?"

The success of the 1996 cost-reduction initiatives will result in products that take advantage of common functions, utilize the most cost-effective components, and are easier to forecast and manufacture. Rodriguez believes customer satisfaction will remain a key indicator of our success.

"Creating a 'win-win' situation with our customers always has to be a priority," Rodriguez adds. "In this case, NS will reduce its costs, and customers will benefit from a simpler ordering process and faster product delivery." □

The logo consists of the letters "COGS" in a bold, white, sans-serif font, centered within a solid black rectangular background.

Wiring the Centennial Olympic Games — the Lucent way

The AT&T Customer Business Unit (ACBU) played a big role in AT&T's Olympic success. It was the ACBU's behind-the-scenes work that let everyone watch the opening ceremonies on July 19.

Lucent supplied AT&T with more than \$100 million in equipment and services to provision 68 lightwave spans across the U.S., and upgrade more than 65 4ESS and 5ESS switches and related central office equipment. AT&T needed this work done to accommodate the video feeds required by NBC and the international media as well as the anticipated additional calling volume to and from Atlanta.

NBC required the single largest broadband video network ever supplied by AT&T, comprising 116 digital video services. For U.S. coverage, NBC is using Lucent-built fiber optic circuits to create the first-ever "virtual broadcast center," which links NBC's production facilities in Atlanta and New York. Though separated by a 900-mile "hallway" the network enables NBC's New York facilities and a small Atlanta facility to function as a single broadcast center, signifi-

cantly reducing the number of people and amount of equipment NBC had to transport to Atlanta.

To make all this happen, the ACBU team began meeting weekly



with keymembers of the AT&T team. They wisely went into "crisis" mode, since the size and complexity of the job meant there were

going to be lots of changes, lots of last-minute orders. Overtime became the norm for engineer and installers, and the Merrimack Valley factory was working three shifts a day to meet the demand. The Oklahoma City, Reading and Dallas factories also made significant contributions to this massive project by providing specialized filter and power equipment.

"As we got closer and closer to the Olympics, I was so proud of the way our people handled the challenges of getting the work done," said ACBU Sales Director Mickey Mayfield, who headed the Customer Team on the project. "They looked at innovative ways to accomplish what they had to do, such as forming cable in the field, getting equipment from other offices and prioritizing the links they set up to make sure the most critical were installed first."

Mayfield said that thanks to the tireless work of the installers and engineers, network integrity never faltered, even with the additional volume generated by the tragic bombing on July 28. □

World holidays



August

- 5 Independence Day
Scotland Bank Holiday
Shop & Office Workers Holiday
- 7 Battle of Boyaca
- 9 Independence Day
National Women's Day
- 15 Assumption Day

- Independence Day
Liberation Day
- 16 Assumption Day
- 17 Independence Day
- 19 Assumption Day
- 20 Constitution Day

- Jamaica
- United Kingdom
- Iceland
- Colombia
- Singapore
- South Africa
- Austria, Belgium,
Greece, Italy, Germany, Chile,
France, Venezuela, Poland
- India
- South Korea
- Italy (Milan only)
- Indonesia
- Colombia
- Hungary

Sources: DHL Worldwide Express Guide and Chase's 1996 Calendar of Events

FYI

Web Week call for papers

The steering committee for Web Week '96, an annual World Wide Web (WWW) conference held for Lucent Technologies and AT&T employees, is seeking papers, proposals for panel discussions, tutorials, presentations, etc. about applications of WWW business technology. The conference will be held November 17 through 22 in New Brunswick, N.J.

November 17, 18 and 19 are dedicated to Lucent-only attendance; Nov. 21 and 22 are for AT&T-only attendance, and Nov. 20 is designated for both Lucent and AT&T participation.

The deadline for submitting a proposal is Aug. 16. E-mail your abstracts to drosenberg@lucent.com. An on-line template for the proposal can be found at www.tbu.att.com/webweek96, or at <http://cloud.pr.att.com:8001/ww96-cfp.html>. For other information, contact Ronnye Schreiber by fax at 908-580-4991, or e-mail at atmail!rpschreiber. You also may contact Barry Dubin by fax at 410-584-4962, or e-mail at barrydubin@lucent.com. □

Industry watch

Continued from page 4

(*The Wall Street Journal*, July 24, 1996 and *The New York Times*, July 24, 1996)

Bell Atlantic shows earnings growth

Bell Atlantic Corp. earned \$494.3 million, or \$1.12 per share in the quarter. It earned \$447.1 million, or \$1.02 per share, a year ago, in the second quarter. Revenue was \$3.26 billion, down from \$3.56 billion a year ago when its cellular operations, now part of a joint-venture company with Nynex Corp. were included. Revenue was up seven percent when a proportionate share of Bell Atlantic Nynex Mobile revenue is included.

(*Dallas Morning News*, July 19, 1996) □

Letters to the editor



NETWORK! will publish signed letters as space permits — reserving the right to edit for clarity.

Please include your name, work location, and a contact number where we can reach you. Opinions expressed in the Letters section do not necessarily reflect the views of Network Systems management. See our contact information below.

The July 18 edition of **NETWORK!** covered in great detail the involvement of Lucent Technologies with the Olympic Games here in Atlanta. However, there was little — if any — mention of the Lucent BellSouth Customer Team, which played a very large role in the sale of this equipment to BellSouth and the Olympic Games.

Likewise, the Lucent BellSouth Services organization, which spent countless hours installing the equipment, did not receive the kudos it deserves. Both these organizations

are part of Gerry Butters' North America Region team.

A. Ford Chance Atlanta

Editor's Note: Thanks for mentioning the contributions of the BellSouth teams. We are pleased to recognize the hard work of all NS people involved with the Olympic Games sponsorship.

And while we're on the subject of recognizing hard work, you might like to know that the July 22 issue of Telephony magazine contains a supplement sponsored by BellSouth and Lucent Technologies entitled "Meeting the Olympic Challenge."

The **NETWORK!** staff has a limited supply available, and will be happy to honor requests for copies. Send us an e-mail or fax message including the number of copies you would like and your mailing address. See our contact information below. □

ISSC outsourcing agreement finalized

Lucent Technologies has finalized an outsourcing agreement for the management of its information technology infrastructure and production applications with Integrated Systems Solutions Corporation (ISSC), a wholly-owned subsidiary of IBM.

Under the agreement, ISSC will manage Lucent's basic, day-to-day information technology (IT) systems, including mainframe data

centers, much of its systems applications maintenance, and its global desktop support. Lucent Technologies will continue to control the most strategic parts of its IT operation, such as strategic planning, solutions integration and networking.

ISSC is in the process now of offering positions to most of the 3,000 Lucent employees whose work will be outsourced. □

NETWORK!

NETWORK! is published weekly for people in the Network Systems business of Lucent Technologies. It is available as hard copy or through AT&T Mail shared folder lnsnews:network, at <http://linus.att.com/pubs/network>, and in NetNews under the lucent.pub.network group.

NETWORK! is not intended for distribution outside Lucent Technologies.

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VOL. 5/ISSUE 31
August 1, 1996

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