

NETWORK!

AN ELECTRONIC NEWSLETTER FOR THE PEOPLE OF AT&T NETWORK SYSTEMS

NSG employees speak out

At two o'clock EDT, Network Systems' employees gathered at their work locations to hear AT&T CEO Bob Allen announce that AT&T was reinventing itself once again.

"As one AT&T, we helped change the world of communications. There's bound to be a sense of loss as we take this next step into the future ... we must carry a sense of pride in who we are and what we have accomplished into our new businesses," Allen said. "The name AT&T is worth a lot. The AT&T spirit is worth much more."

Employees react

Here are some morning-after reactions from U.S. employees. We'll share reactions from outside the U.S. in the next issue of *Network!*

Columbus Works

"What is surprising to me is that AT&T will be broken up into three distinct entities that at some point in time will have no relationship to each other," says Warren Johnson, GPN manufacturing manager. Even so, Shirley Hartley, a quality plan architecture resource associate, is "confident and optimistic that this new direction will benefit us all."

For Karen Susenna, a Network Wireless Systems process engineer, "The biggest emotion involves losing the AT&T name and all the history behind it," she says. But there's another side, too. Now that we are a smaller company, I feel more like an entrepreneur. We

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AT&T's bold stroke targets future revenues

In what Chairman Bob Allen describes as an extremely bold move, AT&T announced Wednesday that it will separate into three publicly traded, global companies. The details are covered in Allen's letter to AT&T employees, but here's the bottom line:

The new communications services company will keep the AT&T name. It will be built around: *Communications Services Group, AT&T Wireless Services (formerly McCaw Communications, AT&T Universal Card Services and AT&T Solutions*. In 1994 the combined revenues of these services was more than \$49 billion.

The new communications systems and technology company, will consist of: *Network Systems Group, AT&T Microelectronics, Global Business Communications Systems, Consumer Products and AT&T Bell*

Laboratories.

Together, these units had sales of more than \$20 billion in 1994, putting them comfortably within the top 40 of the Fortune 500.

Most of these businesses are either number one or number two in their market. Linked with the power and reputation of Bell Laboratories, this new company will be a formidable global competitor.

ALLEN BROADCAST ON SEPTEMBER 28

On Thursday, September 28, 2:30-3:30 EDT, Bob Allen and other MEC leaders and transition leaders will hold an all-employee video and audio broadcast.

Local viewing and dial-in information will be available soon.

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Future offers NSG opportunity

Before the end of 1996, the businesses of Network Systems Group and Multimedia Products Group and Bell Labs will come together in a new communications systems and technology company.

NSG CEO Rich McGinn shared these observations with his senior leadership team and with several hundred employees in the Southgate cafeteria in a Q&A session following the news conference on Wednesday.

"Despite the fact that the new company doesn't have a name yet, it

does have an identity. In many ways, all of the equipment businesses -- Microelectronics, Global Business Communications Systems, Consumer Products and Network Systems -- come from the same heritage where quality, reliability and innovative technology from Bell Labs is at the heart of our offers," McGinn said.

"In many of the markets in which we sell, the Bell Laboratories name has more prestige and recognition that AT&T does. We'll build on that very strong foundation," he said.

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Future offers NSG opportunity Continued from Page 1

"For Network Systems, the first eight months of 1995 have been a struggle. But in the last two years, years in which we turned in record performance, we've redefined our value proposition to our customers. We're going to build on that going forward."

"We'll be entering the market as part of a \$20 billion start-up. The trick will be to capture the energy and enthusiasm of a start-up with the size and position of a market leader," McGinn said. "This is not a bad hand to be dealt."

What it means for our business

"Those of you on the front lines with our customers know that while CSG was attacking them in Congress or in the intra-LATA market, it was getting tougher to convince customers that we were the right strategic partner for them," McGinn said.

"We've already been in contact with many of our key customers, and it's already clear that we'll have opportunities we haven't had before. Some 'buy' decisions that were going against us are being reconsidered as we speak," McGinn said.

What it means for our people

"I don't want to pretend that there isn't a certain sense of loss in not being part of AT&T, although the foundation of the business was Western Electric, which itself was

acquired by AT&T," says Rich McGinn.

"Employees want to know how all of this will affect pensions and benefits, if they will be able to transfer between the new companies, and what this business will look like a year from now," McGinn said. "In some ways, there are more questions than answers. But I want you to know that we're absolutely committed to make this a great competitive business"

"Communications will have increased importance as we work through the details," McGinn said.

"The only way to keep rumors to a minimum is to communicate honestly, openly and quickly. I pledge to do my part to try to get answers for any questions our people have. We don't want anxiety about the future to distract people from the task of bringing in 1995."

What it means for our customers

"This restructuring reduces the amount of time we spend talking to our customers about issues with CSG and focuses us instead on what we can do for them.

"Because the new structure takes Network Systems out of the center of the conflict, we'll be free to focus exclusively on responding to our customers needs and developing solutions that help them be more competitive in their own markets," McGinn said. □

Bold stroke Continued from Page 1

There will be an Initial Public Offering for about 15 percent of the new company's equity sometime in the first half of 1996. This restructuring is expected to be completed by the end of 1996.

Dramatic changes for GIS

AT&T Global Information Systems (GIS), formerly NCR, will be launched as an independent company. GIS is currently undergoing a major cost-cutting initiative.

Capital Corporation

AT&T will sell its remaining interest in Capital Corporation. □

What's in a name

In today's hypercompetitive telecommunications systems and technology market, customers have more choices than ever. An important element in the way customers perceive value is reputation. Brand identity -- the intangible image that transcends individual products -- greatly influences a supplier's reputation.

"This is the second time in ten years that this business will be changing names. Western Electric is still a powerful name, with a proud heritage, but we most likely won't call ourselves Western Electric," McGinn said. "We want to build on the strengths that made Western Electric and create a new future for ourselves. I am delighted that Bell Labs is part of our company.

"We will be establishing an identity for ourselves that builds on our reputation for reliability, innovation, integrity, and the quality of our people that has been a part of both Western Electric and Bell Labs."

A cross-unit team has begun to work on naming our new business. The team will be looking at what each of our businesses' stands for and what image we'd like to establish for the new enterprise. They'll be seeking input from the heads of the individual businesses and from outside experts. And they'll be talking with you, to get your input as we create our future. □

What's on your mind?

The decision to breakup AT&T is bound to raise numerous questions and concerns among employees. Tell us what's on your mind. Fax your questions to 201-606-3309 or email us at !nsnews.

Name: _____

Phone: _____

Question: _____

NSG employees speak out Continued from Page 1

can turn on a dime and make decisions more quickly. And people at lower levels can make more business-impacting decisions."

GTE Global Business Unit

"It's kind of exciting," says Pat Pereyda, GTE GBU associate. "AT&T is always venturing forth. I trust what they do will be the right thing for employees."

"I first felt a little uncomfortable," says Jose Guevara, GTE GBU sales manager. "But after 24 hours, there are a lot of positive things with NS and its relationship with GTE. I agree that there are incremental opportunities for business with our customers."

Leadership Conference

In a stroke of perfect timing, the first conference for NSG's Leadership Continuity Program and Global Leadership Development Program began Wednesday. After a morning session in which they heard Rich McGinn and other senior leaders, here were some of their reactions:

"After hearing Bob Allen's conference and listening to Rich McGinn, I was very excited about all the possibilities and opportunities available to me," says Denise Lewinski, Human Resources Global Platforms. "We could have a whole new compensation and benefits program. Our profits can soar now that we are not tied to the services side."

"I'm surprised but not shocked," says Kenneth Solomon, ACBU Program Management. "There have been occasional rumors about divesting NSG. Now it appears that we have taken the necessary bold move. This is clear demonstration of the leadership. I look forward to the adventure and the opportunities."

"Despite rumors that have been coming and going regularly about a spin-off, the news was totally unexpected," says Petra Hoskovec, North America Global Business Planning. "The leaders of the ex-AT&T have surprised me with their decisiveness, flexibility and adaptability to the market environment."

BellSouth Customer Team

"People are concerned about leaving AT&T -- the mother ship. Will they have the option of ever going back?" asks Robert Duncan, AT&T Bell Laboratories. "You have a whole romantic notion about working for AT&T. I always thought I would work there my whole career. I wonder if we will be a viable, profitable company on the open market. Clear the financial to a degree that we're not going to be part of a losing proposition."

"People say we're going back to the way we were to become the old Western Electric, the Ma Bell business many of us knew," says Janice Golston, engineering. "Some of us don't know where we're going to be. People have mixed opinions on the change. Old timers see it negatively, but the younger people see it as more positive. To some this would be an opportunity."

Atlanta Works

For many the announcements caused concerns about pay, benefits and pension. "It doesn't bother me as long as my benefits, retirement, pension and pay doesn't change," says Dennis Hallub, production specialist, Color Code.

"My concern is benefits, salary and retirement and will I still have a job," says Judy Mooney, Global Commercial Markets. "I'm just waiting to see what will happen in the next 15 months."

"Right now I'm trying to figure out how my benefits will be affected," says Dave Widergren, Wireless Customer Service. "Will we be under the AT&T umbrella or a separate company?"

Oklahoma City Works

Kathy Woodell, a production technician in the circuit pack production area will have 18 years of service in December. "It will be a big change," she says. "It will be like going out and putting in an application for a new job."

Jeff Kudra, production technician - Continuous In-line Manufacturing VI circuit pack line says, "I originally thought we would be under the AT&T umbrella, and then I realized we were not. My first thought was job security. My son is a junior and his first question was, 'What about the scholarship?' He had planned to apply for the AT&T scholarship program."

"I had some meetings scheduled with my people Wednesday," says Suzanne Crenshaw, manufacturing manager for Subscriber Loop Carrier with 30 years of service. "The second shift people were the only ones who had heard the news when we met and their reaction was: 'But we'll still be AT&T, won't we?' When they found out we weren't, they were just quiet. It took a while for it to finally soak in. We're seeing a tremendous growth, but I wonder how long that's going to last."

A Corporate Center perspective

"Suddenly I felt like a little kid on Christmas Eve," says Gracie Coleman, Human Resources vice president-strategic planning. "This whole thing has implications for our people that are both overwhelming and energizing. I am feeling really pumped up about this. It is a great opportunity to reinvent ourselves."

Dee Dee Nye, Human Resources vice president -- change management and HR planning, is involved with many of the initiatives focused on changing the culture at Network Systems. "The announcement is a tremendous catalyst for change," she says. "We now have a chance to create the kind of culture we want for our future. This forces all paradigms to be broken and gives our current efforts on achieving PVA breakthrough a real focus." □

August results

Revenue

Total revenue was under plan for both August and year-to-date. External revenue was below plan for the month and year-to-date, due mostly to lower-than-planned RBOC and international sales. Sales to affiliates remained above plan. Software sales were below plan for August and continued under plan year-to-date.

Period Expenses

August's period expenses were slightly under plan. This was the first time this year period expenses have been under plan for the month. However expenses remained over plan year to date, with overruns in all expense categories.

MOI

MOI was below plan for the month and remained below plan year-to-date. This was primarily attributable to lower margins, low software sales and the overrun in period expenses.

Accounts receivable

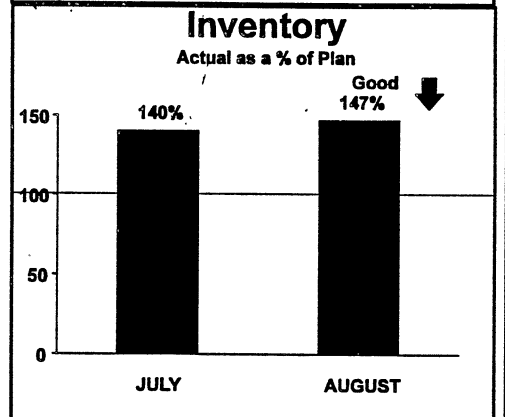
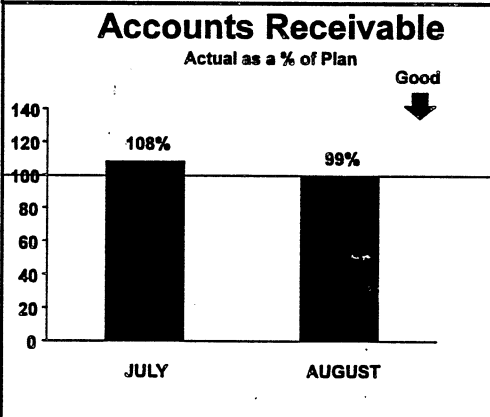
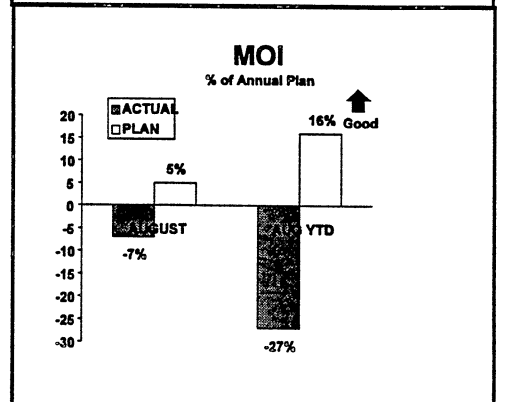
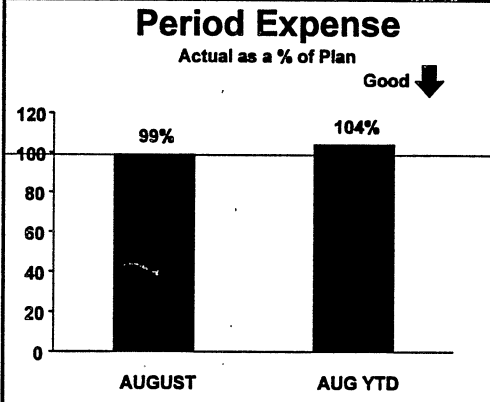
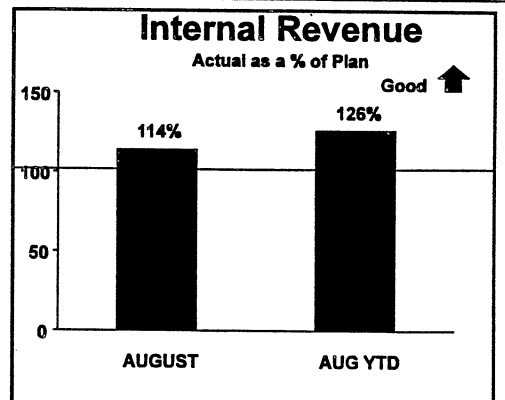
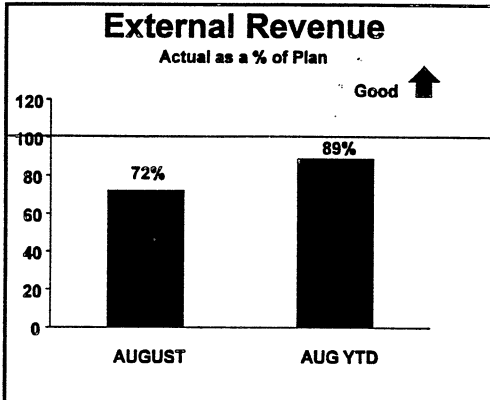
Accounts receivable were better than plan for August, and were less than the prior month due to good cash collections and lower than anticipated sales.

Inventory

Inventory was greater than planned primarily attributable to shipped-not-invoiced inventory and increases at the factories.

EVA

Through August, EVA continued below plan due



Understanding the Charts

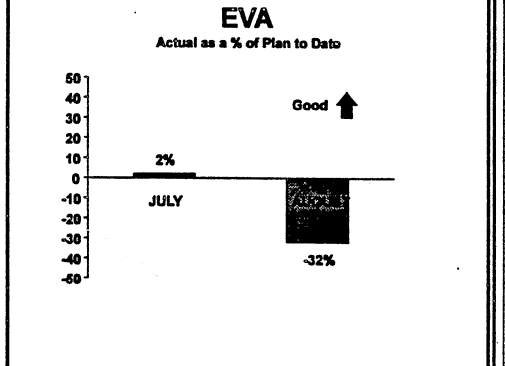
Charts show the percentage of plan met in each category against monthly plans.

Revenue - Billings to customers for products and services already received. (High is good)

Period Expense - Price tag for doing business. Includes items such as R&D, marketing and sales, general and administrative expenses. (Low is good)

Measured Operating Income - MOI is derived by subtracting the cost of producing products, the cost of providing service and period expenses and other miscellaneous costs from revenue. (High is good)

Accounts Receivable - Money owed by customers for products and services already received. (Low is good)



Inventory - Product stock available at the factories and for sale to customers. (Low is good)

Economic Value Added - EVA measures the value added or subtracted from shareholder value in a period of business activity. (High is good)

NSG's future credibility hinges on '95 performance

While news of the impending breakup of AT&T into three publicly held companies has ignited a firestorm of positive reactions on Wall Street, it also has fueled - or soon will -- incredible interest and attention on the financial performance of AT&T Network Systems.

With a possible Initial Public Offering for about 15% of the shares of the new communications systems and technology company slated for the April-May timeframe of 1996, AT&T Network Systems financial performance for 1995 becomes more critical than ever.

"The importance of achieving our 1995 objectives cannot be understated," says Rich McGinn, CEO of NSG. "The AT&T shareholders and future prospective shareholders expect us to perform."

Based on financial results for August and year-to-date, the task ahead for Network Systems people everywhere is immense, according to Steve Carson, vice president and CFO. "Going forward, our financial performance -- how we run and finance this business -- is going to be on primetime on Wall Street."

August results dismal

"By the choices we've made, the dollars we've spent and our failure to execute, we've made our traditional fourth quarter ramp much steeper," says McGinn. "In light of Wednesday's announcement, we simply cannot afford to miss any opportunity to meet our targets."

Total revenue was under plan for August and year-to-date. MOI slipped again. Inventory increased over July. Shipped Not Invoiced Products and Services (SNIPS) climbed. EVA dropped.

"Our actions over the next 100 days will determine whether or not we can recover and deliver on our commitment to the corporation and our people," says McGinn. "The issues are dramatic and so is our credibility as a team. We don't have 15 months to get our business in shape. We're looking at an Initial Public Offering in our new company early next year. Our performance is in our control. It's up to us."

McGinn also emphasized that now the time for intense focus -- a point reiterated by several other NSG senior officers.

Restructuring call-in number for employees

Beginning Sept. 25, AT&T people may contact a special call-in center established to give employees an opportunity to raise questions about the restructuring and identify the topics on which they'd like more information. The input will give AT&T Chairman Bob Allen and other senior leaders insight into employees' thoughts about the announcement, and the information they most want and need.

Through Friday, Sept. 29, the call-in center will be

Opportunity knocks

"We need to stay focused and seize every opportunity," says Carly Fiorina, North American president. "We must pull out all the stops and produce the results we're capable of -- on the top line and the bottom line. We need to get in front of our customers and close deals now and collect cash."

Wednesday's decision to split AT&T into three distinct units already is generating positive reactions among NSG's traditional customers in the United States, says Fiorina.

"The customers I've talked with so far are elated. I think we're already starting to see a more receptive business environment emerge for us as a result of AT&T's decision."

A critical component to achieving success over the next 100 days, according to Bill O'Shea, vice president - International Regions and Professional Services, "will be to convert our existing inventory into receivables. We need to speed up the entire process from orders to inventory to delivery to cash."

According to O'Shea, the EMEA Region is close to commitment and may exceed plan. A few key opportunities also are emerging in Latin America. However, NSG's results in Asia/Pacific and China are wavering. "We need to bring in new business that's available to us and deliver on the existing business we have," says O'Shea.

While AT&T's bold announcement has generated much excitement, "we cannot step back from our 1995 financial commitments," says Rudy Frank, vice president applications software and professional services. "We need to close out '95 with a roar."

A few bright spots

For the first time this year, period expenses for R&D, marketing and sales, and administration on a monthly basis were slightly under plan in August, according to Carson. That was good news. However, August's expense improvement wasn't enough to make a significant dent in year-to-date expenses that remain high after months of results over plan. □

staffed from 8 am to midnight Eastern time, making call attendants available for at least a portion of the business day in every part of the world. Voice mail messages, faxes and electronic-mail messages can, of course, be left 24 hours a day. The center can be reached as follows:

- 1-800-336-6939 (for U.S. calls)
- 908-204-2145 (for calls from outside the U.S.)
- 908-204-4816 (fax)
- 1-800-648-0340 (TDD)
- attmail!cerc (electronic mail).

Reactions from the media ...

The announcement to divide AT&T into three separate companies garnered media attention not seen since divestiture in 1984. Here's some of what they said:

Stunning announcement

"AT&T Corp. yesterday stunned the business world with a plan to divide itself into three independent, publicly traded companies, in effect jettisoning an ailing computer unit and a potent equipment business to focus tightly on its communications mainstay." -- *The Wall Street Journal*.

Competition driving the decision

"The plan comes as the world's largest telecommunications empire faces a new cascade of competition - both in the long-distance market it dominates and in the local business it hopes to enter - as Washington pushes to open all telephone markets," -- *The Wall Street Journal*.

"This is clearly the most significant announcement in the telephone industry since the 1984 divestiture," said Kenneth M. Leon, a telecommunications analyst at Lehman Brothers." -- *The New York Times*.

Getting the stock up

"The seeds of this second AT&T breakup lay in Chairman Robert E. Allen's frustration over the stock price and in rising conflicts among its businesses as the company pushes cellular, local and other new markets." -- *The Wall Street Journal*.

"Once the breakup is complete analysts expect AT&T to benefit in at least four ways. The equipment company won't lose business with Baby Bells because of its association with the telephone-service company. The service company will be free to compete without worrying about offending equipment buyers. The computer company will fly or die, but its cash needs won't drain money from the others. And management now will focus tightly on specific markets.

'People tend to feel that the parts are worth more than the whole,' Stein Roe's Ms. Barsketis notes." -- *The Wall Street Journal*.

Free to compete

"Mr. Allen said one reason for the breakup was the increased reluctance of US local telephone companies to buy AT&T equipment.

"Local companies will be competing directly with AT&T in long-distance and local telephony as a result of legislation now passing through Congress. 'There's no question they've been less and less interested in buying AT&T equipment. That's reached a point where it could damage AT&T shareholder value,' he said." -- *Financial Times*.

'The complexity of trying to manage these different businesses began to overwhelm the advantages of our integration,' Mr. Allen said in an interview yesterday. 'The world has changed. Markets have changed. Conflicts have arisen, and each of our businesses has to react more quickly.'

But in shedding a strong business - Network Systems - and a weak one - computers - AT&T will be left primarily with its communications business, which faces ever more daunting challenges." -- *The Wall Street Journal*.

What about Bell Labs?

"Most of the 26,000 employees of (Bell Labs) will become part of the new communications equipment and technology business, one of three separate companies created by the breakup. This part of the research organization will retain the Bell Laboratories name.

... Only 4,000 of the laboratory employees will be part of the third company, the communications services concern that will keep the AT&T name. This new laboratory unit will be called AT&T Laboratories." -- *The New York Times*. □

Coming soon...

In future issues of Network! we'll take a look at the strategies of the other AT&T Business Units in the new company and look into the Bell Labs connection.

We're working on a process for answering the questions we know you have about the new business and the transition. Until the process is in place, you can send your questions to atmail!nsnews or fax them to 201-606-3309.

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