UNITED TELECOMMUNICATIONS, INC. History

Address:
2330 Shawnee Mission Parkway
Westwood
Kansas
66205
United States

Telephone: (913) 624-3000
Fax: (913) 676-3281

Public Company
Incorporated: 1925 as United Telephone & Electric Company
Employees: 43,100
Sales: $8.35 billion
Stock Index: New York Midwest Pacific

Company History:

United Telecommunications, Inc., (United Telecom) provides voice, data, and videoconferencing transmission and related products for the global market. It is the only large U.S. company offering both local and long-distance services.

The company history extends back to 1892 when Cleysen Brown connected a generator to his father's grist mill, supplying electric power for Abilene, Kansas. In 1898 Brown hung telephone wire on his electric poles and quickly extended the business to other towns. The fledgling company was incorporated in Delaware on September 25, 1925, as the United Telephone & Electric Company. Diversification into other businesses was ended by the Great Depression. With utility operations remaining stable, United acquired several independent telephone companies. Upon Brown's death in 1935, United Telephone & Electric fell into receivership.

In November 1938 the company was incorporated in Kansas as United Utilities, Inc., along with seven telephone companies and Central Kansas Power. The Public Utility Holding Company Act caused the company to sell gas, light, and water properties outside of the northwest Kansas area.

During the 1940s, through integrations and mergers, United Utilities grew as a holding company for independent telephone systems. By 1953 United was ranked fifth among U.S. independents. During the mid-1950s United entered the liquid petroleum gas business through acquisitions in Illinois. By the late 1950s a trend of telephone company mergers was evident; independent telephone companies had declined in number over a ten-year period by 35%.

By 1960 United Utilities was the third-largest telephone holding company in the United States, with 467,000 telephones operating. In contrast, number-two General Telephone & Electronics (GT & E) had 1.1 million telephones.

By 1963, when United Utilities was listed on the New York Stock Exchange, it had $200 million in assets and owned 14 telephone companies, a gas and electric company, and a utility merchandising firm. With local telephone exchanges in 15 states, telephone service provided roughly 90% of company revenues. United became the first major telephone system to offer dial service--the state of the art at the time--to all its customers by year-end 1963. Another industry advance was made in a North Carolina subsidiary: United completed the United States's first private electronic branch exchange, an advance over conventional switchboard systems and a predecessor of automatic dialing, call-waiting, and caller identification systems. United set up aggressive sales programs to market such innovations.

United's growth spurt was attributed to many factors: acquisitions of telephone companies; increases in suburban populations, a United stronghold as opposed to American Telephone & Telegraph (AT & T)-controlled urban centers; successful pressure for rate increases; and the relative ease with which technical innovation could be introduced, because of United's manageable size. Another positive development for United Utilities in 1963 was the increase in long-distance calling. To transmit such calls, AT & T required the use of United's facilities, for which it agreed to pay $1.25 million for the 12-month period ending June 1, 1963.

In the 1960s United benefited from the burgeoning market for farm and home intercommunications systems, including security devices, telephone extensions, answering machines, mobile service, leased wire services, and key and dial switching equipment. Acquisitions continued at a great pace. The 1964 purchase from AT & T of a 45% interest in Inter-Mountain Telephone Company, servicing Virginia and eastern Tennessee, made United a major contender in the telephone industry.

United Transmission Inc. was a new venture developed in 1965 to design and operate community antenna television systems (CATV). Through United subsidiaries, communications systems were beginning to merge. With expertise in electronic telephone service transmission, United moved into the transmission of high-quality multi-channeled television reception. It investigated CATV service and purchase opportunities throughout the United system. The same year United added eight independent telephone companies to its roster, with service extending east from Kansas, Iowa, Indiana, Ohio, and Pennsylvania, to South Carolina; and northwest to the state of Oregon.

Paul H. Henson was named president of United Utilities in 1964, succeeding Carl A. Scupin. Henson joined United Utilities in 1959, with a master's degree in electrical engineering, doctoral work in mathematics and physics, and experience as chief engineer for Lincoln Telephone Company. United's sales of $14 million were not quite 1% of AT & T's, and about 5% of GT & E's. United's hopes were pinned on a pending U.S. Department of Justice (DOJ) case. The DOJ was suing to dissolve the recent merger of GT & E and Western Utilities, the latter owning 635,000 telephones.

Prior to 1960, United's concerns were in internal organization, not acquisitions. As most large independent telephone companies had already been bought, Henson said of United Utilities, in *Forbes*, November 1, 1965: "We'll have to nickel-and-dime our way up." By the mid-1960s, however, United was

paying high prices for telephone company acquisitions, prices the company claimed were justified in light of the expected growth in the telephone business.
In January 1967 United combined various operating companies in Ohio into one, Telephone Service Company of Ohio. Within several months United added more regional telephone companies in Iowa and Ohio, as well as the Gulf States Telephone Company of Texas. By the end of 1967, United merged Inter-County Telephone & Telegraph with United Telephone Company of Florida. It also streamlined utility operations, acquiring the remaining stock of Central Kansas Power (8.4%), and North Electric Company (48%).

By far the most forward-looking venture United engaged in at the time was the December 1967 acquisition of Automated Data Services Company, Inc., renamed United Computing Systems, Inc. Through the subsidiary, United entered the computer time-sharing business, with Boeing as one of its early customers. United had seen early on the need to develop high-speed data transmission capabilities. Quoted in the November 1968 issue of *Finance*, President Henson predicted: "At United we are bending every effort in this direction because we are certain data volume will surpass voice volume by 1975."
Over the next two years, United stepped up acquisitions, adding three telephone companies in Kansas, two in Missouri, and one each in Iowa, Texas, and North Dakota. The company consolidated a newly acquired electrical supply company with United Telephone Company of Indiana as well as eight telephone companies under United Telephone Company of Ohio. A significant merger at this time was Carolina Telephone and Telegraph Company, completed in March 1969. The company also delved into cable television, but sold its holdings quickly due to a Federal Communications Commission (FCC) ruling banning companies from operating cable in the same areas telephone lines.

As United grew, its telephone profits fell under rate regulation, monitored by the FCC. United initiated a rate entitlement program with the FCC, designed to increase service rates to cover higher operating costs. The company was also negotiating with AT & T's Bell System over toll calls. Other growth areas in United Utilities included its manufacturing subsidiary, North Electric. By late 1968 North sold three-quarters of its services to the Bell System, other independents, industrial companies, and computer manufacturers. By mid-1969 United picked up Rixon Electronics, Inc.

Jockeying for a leading position in the communications industry, United planned to use its increased size to diversify. More opportunities for expansion in business telephone equipment manufacturing came early in 1970 when the FCC changed some of its regulations. The company requested and was granted permission to interconnect a device called the Carterfone to the existing telephone network. The FCC then ruled that all telephone companies remove restrictions on nonBell attachments from their tariff regulations. Accordingly, all telephone companies and equipment suppliers, together with the FCC, began negotiating new standards for the connection of outside equipment to the existing network. United Utilities, as well as foreign manufacturers like Nippon Electric of Japan and Siemens of Germany, stood to gain from the new rulings.

In step with the changes, United launched subsidiary United Business Communications, Inc., offering private voice and data communications systems, to compete with AT & T and GT & E. United Computing Systems bought the time-sharing services, software packages, and facilities of Academy Computing Corporation in early 1971. One-third of revenues came from United's unregulated businesses--North Electric Company, United Computing Systems, and United Business Communications.

The unregulated businesses needed more attention, however; United Business Communications was not profitable in its second year, while United Computing barely edged into profitability by 1972. In contrast, at the end of 1971 United's basic telephone operations accounted for 90% of company profits. Consistent in its independent telephone company acquisitions, United added one company to its Ohio division and expanded to Minnesota and the state of Washington.

In June of 1972 United Utilities, Inc., became United Telecommunications Inc. (United Telecom). United Telecom anticipated getting into "everything in the transmission of intelligence by electronic means." Accordingly, United Telecom's Rixon Electronics subsidiary, a computer modem and terminal equipment supplier, entered a joint venture with Sangamo Electric.

While earlier FCC rulings helped United Telecom in the business of supplying telecommunications equipment, later FCC rulings threatened to limit United's capacities. An antitrust suit against United's independent competitor, GT & E, appeared likely to compel GT & E to divest itself of some equipment manufacturing companies as well as telephone companies. CEO Henson, however, saw the situations positively, reasoning that United would not be susceptible to the same rulings, as it was a small company and pursued a different acquisition and purchasing policy. United was safe from that jeopardy at the time, but the case foreshadowed the imposition of more and more FCC regulations upon the telecommunications industry.

Toll calling boomed in the early 1970s. United again benefited from revenues gained from Bell System companies required to pay independents an increasing share of toll charges. At this time United decided to finance an anticipated construction program through the sale of bonds and common stock. Total company revenues doubled over the years 1966 to 1971, and net income rose 48%.

Overall, the 1970s were an unpredictable time for United Telecom. In 1974 United picked up more independent telephone companies in Michigan, Pennsylvania, and Florida. Competition in the unregulated areas, however, caused the company to sell 100% of United Business Communications to a subsidiary of General Dynamics Corporation. After letting go of United Business Communications, United set out to expand the business of United Computing Systems. The computing systems subsidiary stepped up acquisitions; in 1975 it added International Timesharing & Foresight Systems, Inc.; and in late 1976, it acquired Infonational, Inc., a California-based software company, and Standard Computer Corporation. By 1977 United Computing acquired London University Computing Services, Ltd.

The same year United Telecom, through a tax-free exchange of stock, acquired Norfolk Carolina Telephone Company, adding 53,324 telephones to its holdings. The company sold the manufacturing divisions of North Electric Company. United retained supply operations, renaming the remaining operations North Supply Company. In a further move to position itself as a major competitor in telecommunications, United sold Central Kansas Power for an undisclosed amount in November 1977. This sale marked the end of an era; United had made its start in the business of generating electricity 40 years earlier.

Juggling assets a bit more, the following year United added Calma Company of California, a supplier of computer-aided systems for mechanical and integrated circuit design. In November 1979 the company acquired Pittsburgh-based On-Line Systems, a $29.2 million company offering database management for defense, manufacturing, and energy-related applications. The company continued small telephone company acquisitions.

United Telecom entered the 1980s with a reorganization plan designed to aid future diversification. Effective February 15, 1980, the company was divided into three operating groups: United Communications Systems, Inc., responsible for telecommunications services and the operations of North Supply Company; United Information Systems, Inc., to tackle all facets of computing and time-sharing businesses; and United Telephone System, Inc., to oversee regulated telephone activities and corporate operations. Many executive positions were rearranged, the most significant being the election of William T. Esrey to executive vice president of corporate planning.

The 1980s were the most challenging time for the independent telephone companies yet. The debate over separations and settlements, that is, toll charge reimbursements; nationwide average pricing, the true determiner of telephone rates; and local access tariffs kept all telephone companies, independent or otherwise, at attention.

United's strength in unregulated businesses was its information systems division. Sales rose from $96 million in 1979 to $115 million in 1980. In March 1980 the company launched Uninet Inc., the third-largest packet network to compete with similar services of GT & E's Telenet. United Telecom's computer-aided design equipment business, helped by the Calma acquisition of 1978, was to be in 1980 the fastest growing part of the industry.

Later, in 1981, United Telecom sold Calma to General Electric Company. In August the company acquired Megatek Corporation of San Diego, another producer of computer-aided design and manufacturing equipment, and Insurance Systems of America, a computer software company. Because of recent acquisitions and increased competition from new players in computer-aided design, including IBM, United Information Systems lost $1.4 million in 1981.

In a further shuffle, in January 1983 United moved into the business of industrial and marine distribution with the purchase of Aeroflow Dynamics and its subsidiary Argo International. United sold some assets of Argo International the following year. A more notable divestment was United's sale of United Information Services, Inc., in December 1983. United entered the computing business when it was clear that consolidation of data was necessary. Once mini- and micro-computing became available, businesses began to do their own computing, resulting in United's decision to exit the processing arena.

With the landmark breakup of AT & T in January 1984 and the consequent regulatory changes in the telephone industry, United Telecom decided to enter the intercity carrier business. The June 1984 purchase of Dallas-based U.S. Telephone Communications, Inc., also paved the way for United Telecom to offer broad-based service to business customers as well as long distance services. Although the Department of Justice and MCI Corporation voiced objections to United's U.S. Telephone acquisition, the FCC approved the move, requiring only that United provide equal access to its network as did other common carriers. Because of the plethora of former Bell operating companies in the telecommunications marketplace following AT & T's divestment, United Telecom's move was seen as a risk, albeit a timely and positive one.

As the national marketplace became more competitive, United Telecom negotiated with more and more companies. With Continental Telecommunications, Inc. (Contel), United agreed to exchange properties in the mid-Atlantic states, merging 7,000 customers into its United Telephone-Eastern Group, based in Carlisle, Pennsylvania.

In August 1984 United Telecom teamed up with Consolidated Rail Corporation (Conrail) to install a fiber-optic network. Fiber optics, the transmitting of digital codes via pulses of light that are converted into voice at the end of the line, became the new technological standard for accuracy and efficiency. With Conrail granting the right of way, United Telecom sketched routes across Massachusetts and New York, over the mid-Atlantic states, to Indiana and Illinois. United engineering and construction crews were laying fiber for the largest planned network yet built.

William T. Esrey, named to the presidency of United Telecom in 1984, with Henson becoming chairman, addressed Congress in September of that year. Along with other industry executives, Esrey contended the concept of equal access was still just that--a concept, not a practice or law. The former Bell operating companies had not hurried to install access points allowing long-distance carriers to reach customers; as a result, AT & T had widespread access to choice interconnections, thereby dominating the long-distance market.

United Telecom's $2 billion investment in its fiber-optic network was part of its plan to become a major competitor in long-distance service. A big opportunity came on July 1, 1986, when United Telecom and GTE Corporation, formerly GT & E, United's competitor for 50 years, entered into a joint venture. GTE contributed Sprint and Telenet to United Telecom's fiber-optic network and data communications arm. The new long-distance company, named US Sprint, doubled its market, adding three million customers within the first nine months.

For two years the partnership of United Telecom and GTE poured money into US Sprint, spending--like competitor MCI--more than $2 billion on the endeavor. With AT & T investing $2.5 billion in long-distance services, these companies reached an all-time high in spending. While United Telecom hoped to convince customers they needed its all-digital network, more had to be done. By March 1987 US Sprint's losses forced GTE into a corner; Canada's Belzberg family bought much of GTE Sprint stock, hoping to make GTE sell its shares. United Telecom saw profits in the future for its long-distance arm, especially with sales of voice and electronic mail growing.

Within a year, a change was imminent. By June 1988 United Telecom calculated it had spent $1.5 billion on US Sprint. On July 18 United Telecom bought 30.1% of US Sprint from GTE. The corporation decided to unload some of its assets to further fund Sprint. In October 1988 United Telecom sold Telespectrum to Contel for $772 million. A partner of its stable telephone business, Telespectrum had been providing cellular radio and paging for more than three years, and was definitely part of a growth industry. United Telecom was determined to stick with Sprint, and the costs were high.

US Sprint President Robert Snedaker, although credited with installing a new billing system and lowering costs by 15%, nevertheless lost some marketing chiefs in the process. Snedaker opted for early retirement while United Telecom president and CEO Esrey stepped in as CEO of Sprint as well.

Sprint's situation was improving by early 1989 for several reasons. United Telecom officially took over as Sprint's parent company, effective January 3, 1989, and completed the first nationwide fiber-optic network for coast-to-coast transmission. The company also became the first long-distance company to use Signaling System 7, the most efficient call-routing system.

Effective July 1, 1989, the company traded properties with Contel Corporation, exchanging its access lines in Iowa, Missouri, and Arkansas for 52,000 lines in Kansas. In the early 1990s United was also filing its own common carrier line tariffs with the FCC, ending its membership in the National Exchange Carrier Association. For United Telecom, being responsible for its own tariff policies would give the company more pricing flexibility.

In August 1989 US Sprint acquired full ownership of Private Transatlantic Telecommunications Systems, Inc. (PTAT), including a 50% interest in the PTAT fiber-optic cable system. The 100% fiber system, according to *Telephone Engineer & Management*, December 15, 1989, could transport "as much traffic as all previous transatlantic cables combined." With the United Kingdom's Cable and Wireless as its partner, United Telecom anticipated European business opportunities. To initiate possible entrance into the trans-Pacific market, the company followed up the purchase with a Hawaii-based firm, Long Distance/USA, in October 1989. The acquisition gave United Telecom nearly one-half of Hawaii's outgoing traffic as well as the opportunity to increase its one-fifth share of the U.S.--Japan long-distance market.
All the effort began to pay off; Sprint's fourth-quarter revenues in 1989 showed a 28% increase over the previous year. The recent streamlining of Sprint operations was paralleled in United Telecom's telephone business as well. Fiber-optic systems, in the United Telecom view, were intended for local networks as well as long-distance. In December 1989, US Sprint landed 40% of the Federal Telecommunications System ten-year contract, the largest civilian contract ever awarded.

In 1989 United Telecom consolidated operations between the parent company and US Sprint. Telenet was merged into US Sprint, and the company formed Sprint International to oversee business in electronic messaging, corporate data networks, and international voice and private line services. At this time Sprint reached twelve nations: Australia, Belgium, Canada, Chile, Finland, Hong Kong, Italy, Japan, Malaysia, Sweden, Taiwan, and the United Kingdom.

In 1990 United Telecom, together with North Supply, its equipment distribution company, initiated a standardization plan for all products to reduce construction and supply inventories. DirectoriesAmerica, formed in May 1986, remained the tenth-largest publisher of telephone directories after four years of operation, with a circulation of ten million. Local telephone service, reaching four million customers in 17 states, accounted for a solid 27% of revenues.

The firm considered changing its name to US Sprint Corporation should it choose to exercise its option to purchase the remaining 19.9% interest in Sprint from GTE. That option was delayed until Sprint's performance stabilizes. Engaging in joint ventures with the governments of the former Soviet Union, Mexico, and South Korea, Sprint International in the early 1990s was researching the eastern European markets for telecommunications infrastructure construction contracts. Paul Henson, after 31 years with United Telecom, announced his retirement as chairman in April of 1990. William Esrey succeeded Henson.

Principal Subsidiaries: Carolina Telephone & Telegraph Co.; Florida Telephone Corp.; United Inter-Mountain Telephone Co.; United Telephone Co. of Arkansas; United Telephone Co. of the Carolinas; United Telephone Co. of Florida (95%); United Telephone Co. of Indiana, Inc.; United Telephone Co. of Iowa; United Telephone Co. of Kansas; United Telephone Co. of Minnesota; United Telephone Co. of Missouri; United Telephone Co. of New Jersey; United Telephone Co. of the Northwest; United Telephone Co. of Ohio; The United Telephone Co. of Pennsylvania; United Telephone Co. of Texas, Inc.; United Telephone Co. of the West; Information Systems of America, Inc.; Megatek Corp.; North Supply Co.; Sprint/ United Management Co.; UCOM, Inc.; United Business Information, Inc.; United TeleDirect Group, Inc.; United Telephone System, Inc.; US Telecom, Inc.

Further Reading:

- "United Utilities, Sprawling, Diversified, But Always United," *Finance*, November 1968.
- "Dial UT for Growth," *Investor's Reader*, November 15, 1972.

Source: *International Directory of Company Histories*, Vol. 5. St. James Press, 1992.