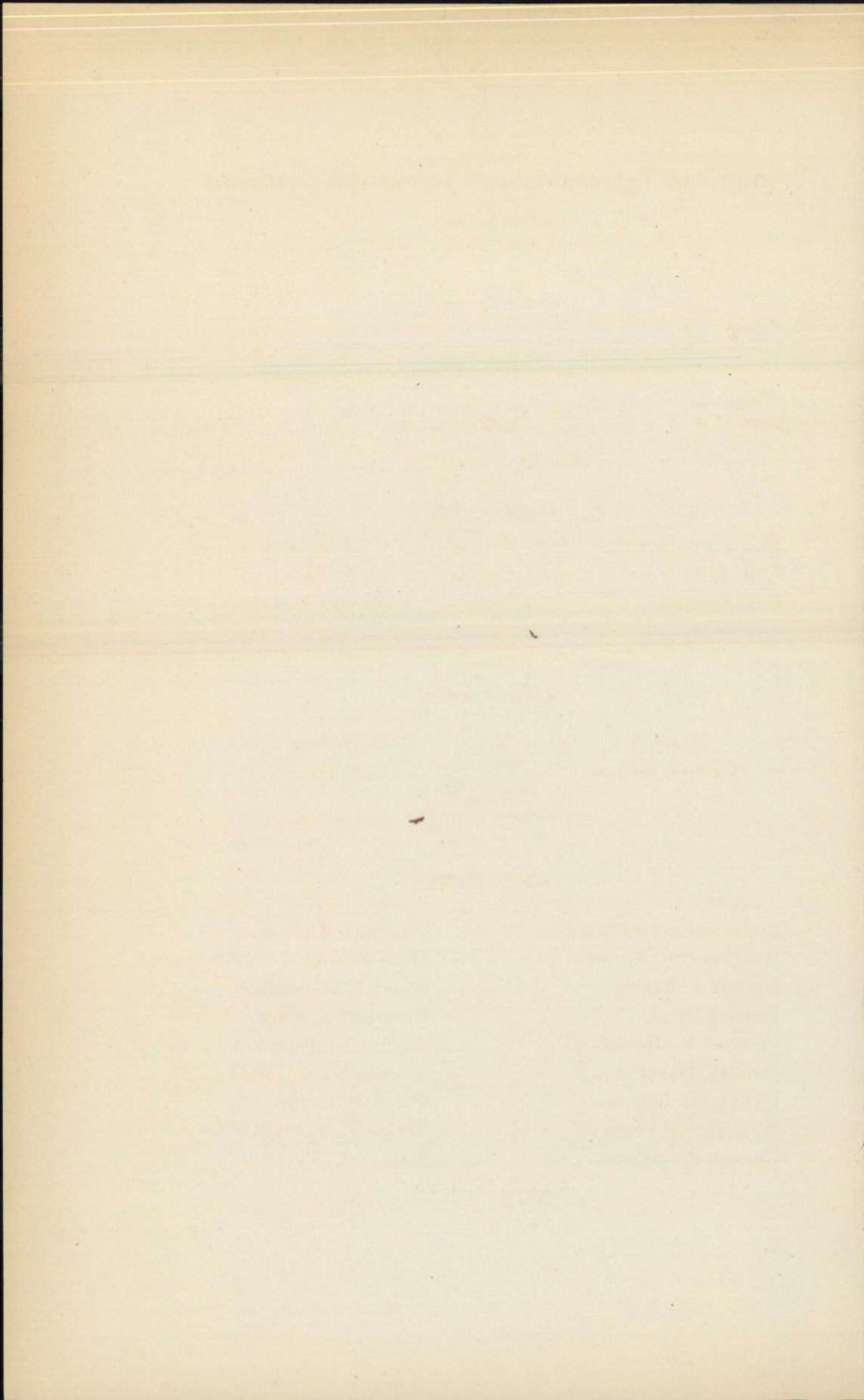


ANNUAL REPORT
of the
AMERICAN TELEPHONE
AND TELEGRAPH COMPANY
FOR 1936



195 BROADWAY
NEW YORK

MRb



American Telephone and Telegraph Company

195 Broadway
New York



OFFICERS

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WALTER S. GIFFORD

Vice Presidents

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F. B. JEWETT
E. F. CARTER

E. S. WILSON
C. P. COOPER
T. G. MILLER

C. M. BRACELEN
A. W. PAGE
ROBERT W. CURRAN

Secretary

R. H. STRAHAN

Treasurer

JAMES F. BEHAN

Comptroller

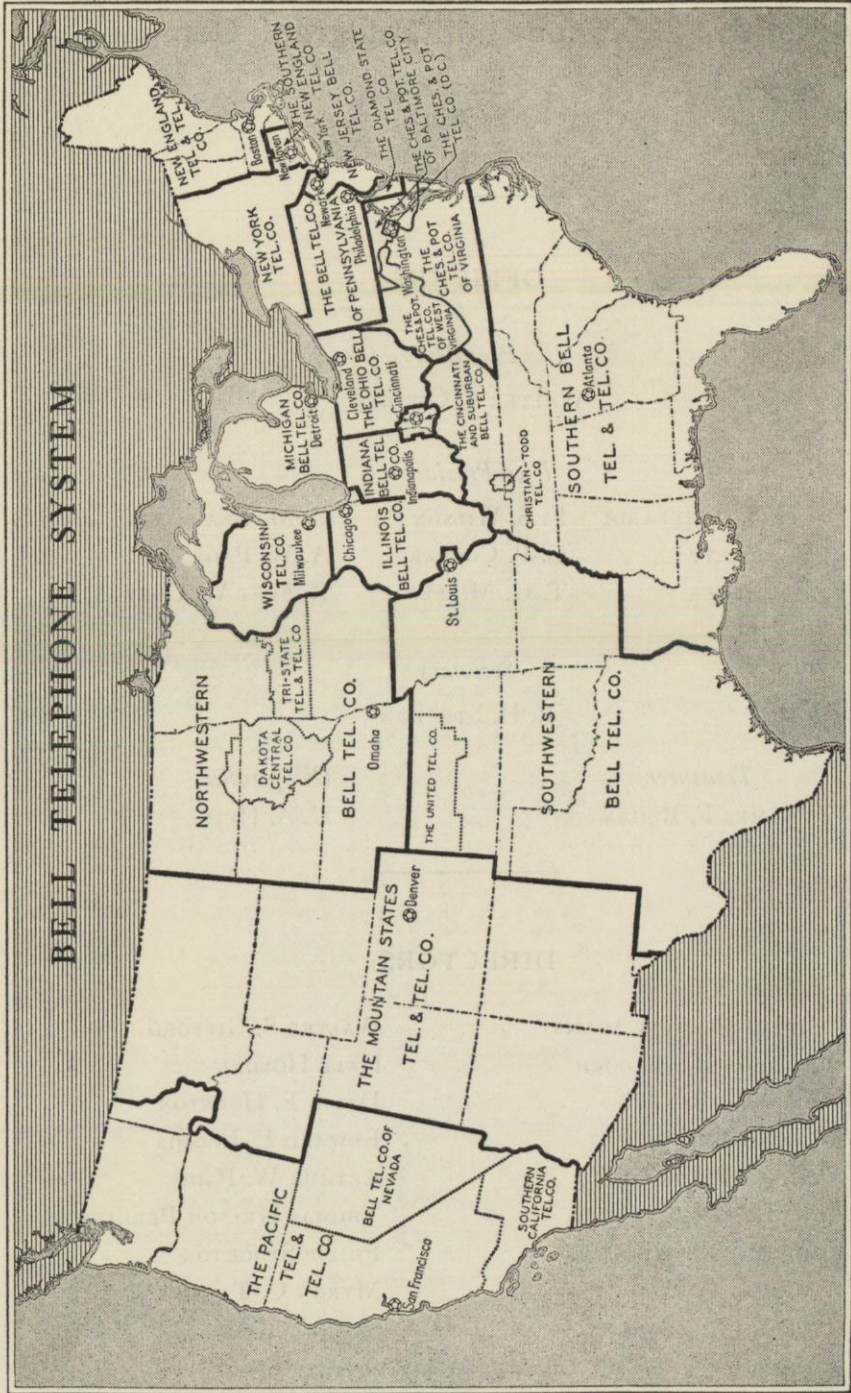
C. A. HEISS

DIRECTORS

CHARLES FRANCIS ADAMS
WINTHROP W. ALDRICH
GEORGE F. BAKER
JAMES F. BELL
CHARLES P. COOPER
JOHN W. DAVIS
EDWARD D. DUFFIELD
W. CAMERON FORBES
GEORGE P. GARDNER

WALTER S. GIFFORD
HALE HOLDEN
DAVID F. HOUSTON
EDWARD E. LOOMIS
ARTHUR W. PAGE
THOMAS NELSON PERKINS
PHILIP STOCKTON
MYRON C. TAYLOR
SAMUEL A. WELLDON

DANIEL WILLARD



The map above shows areas served generally by the principal telephone subsidiaries of the American Telephone and Telegraph Company; also areas served by The Southern New England Telephone Company and The Cincinnati and Suburban Bell Telephone Company, which companies are not controlled but have license contract arrangements with the American Company. Other telephone companies also operate in nearly all of these areas and have connecting arrangements with Bell System companies.

Report of the Directors
of
American Telephone and Telegraph Company

New York, March 1, 1937.

TO THE STOCKHOLDERS:

The year 1936 was one of progress for the Bell System,* in which the public, the employees and the stockholders all shared. The number of telephones increased 881,000. Telephone service was maintained at record high standard. Reductions in telephone rates, including a reduction effective in January, 1937, amounted to \$36,000,000 on an annual basis. Governmental bodies benefited by \$22,300,000 more taxes than in 1935. The number of employees, including those of the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., was 28,000 greater at the end of the year than at the beginning and payrolls were \$43,000,000 more than in 1935. The usual \$9 per share dividend on the stock of the American Telephone and Telegraph Company was earned by the System with a margin of \$16,600,000, or 89 cents a share.

The increase of 881,000 telephones in service in 1936 compares with an increase in 1935 of 456,000 and in 1934, 298,000. There were 14,453,000 Bell telephones in service at the end of 1936. This number was still 740,000 less than the maximum development which was reached in 1930, but was 1,725,000 more than the low point of August, 1933. The System had therefore regained about two-thirds of the telephones which it lost during the depression.

Including the telephones of about 6,600 connecting companies and more than 25,000 connecting rural lines, there were at the end of the year approximately 18,360,000 telephones in service in the United States. Further extensions were made in overseas

* "Bell System" statements and data in this report consolidate the accounts and statistics of the American Telephone and Telegraph Company and its principal telephone subsidiaries, a list of which appears as section A, page 14. This differs from past practice in that it excludes The Southern New England Telephone Company and The Cincinnati and Suburban Bell Telephone Company, which are non-controlled, and includes certain controlled telephone companies not heretofore included.

radio telephone service and at the end of the year 68 countries could be reached by telephone.

The average daily number of telephone conversations for the System during the year was 65,000,000. There were 7.6 per cent more local conversations and 12 per cent more toll and long distance conversations than in 1935.

Total operating revenues of the System were \$994,800,000 and operating expenses, except taxes, were \$659,000,000. Operating taxes were \$116,300,000. Net operating income was \$219,500,000 and other income, which includes the System's proportion of the earnings of the Western Electric Company and its subsidiaries, was \$28,800,000. The total income available for interest and dividends was \$248,300,000.

The net income of the System applicable to stock of the American Telephone and Telegraph Company was \$184,700,000, or \$9.89 per share, compared with \$7.12 per share in 1935.

For the 18,685,093 shares outstanding at the end of the year the Company received an average of \$114.44 per share, or \$270,000,000 in excess of par. The dividend paid, \$9 per share, was 6.8 per cent, and the net income of \$9.89 per share was 7.5 per cent on the amount paid in by stockholders, including the stockholders' equity in the surplus of the System.

At the end of the year there were 641,000 stockholders of record of the American Telephone and Telegraph Company. The average number of shares held per stockholder was 29. Geographically, the stock is widely held. No stockholder of record holds as much as 1 per cent of the total stock. Approximately one-third of Bell System employees own stock in the Company. Including the holders of common and preferred stocks of the Company's principal telephone subsidiaries and excluding duplications, there are about 715,000 Bell System stockholders.

At the end of 1936, the total assets of the Bell System were \$5,149,000,000, of which \$4,259,000,000 was invested in telephone plant. During the year plant additions amounted to \$244,000,000, and plant retirements to \$173,000,000, resulting in a net increase in plant of \$71,000,000.

Cash assets of the System at the end of the year, including funds temporarily invested in Government obligations, but exclusive of \$179,286,000 held for retirement of bonds maturing or called for redemption, were \$219,500,000, of which amount the Ameri-

can Telephone and Telegraph Company held \$180,200,000.

Bell System taxes continued to increase. The 1936 total of \$116,800,000 was \$22,300,000 greater than in 1935. Taxes were equal to \$8.36 per telephone in service, \$5.98 per share of common stock outstanding, and \$470 per employee.

During 1936, the Company called the following bond and debenture issues:

- \$64,865,200 of Thirty Year 5% Collateral Trust Bonds due in 1946 for redemption on December 1, 1936.
- \$117,984,700 of Thirty-Five Year Sinking Fund 5% Debentures due in 1960 for redemption on January 1, 1937.
- \$150,000,000 of Thirty-Five Year 5% Debentures due in 1965 for redemption on February 1, 1937.

To finance these retirements the Company sold in October to a group of underwriters and to the Trustee of Pension Funds established by the Company and its subsidiaries, \$175,000,000 of Twenty-Five Year $3\frac{1}{4}\%$ Debentures due October 1, 1961, at 99 per cent, and in December \$160,000,000 of Thirty-Year $3\frac{1}{4}\%$ Debentures due December 1, 1966, at 100 per cent. The balance of the funds required for these retirements, approximately \$30,500,000, was taken from treasury cash. The redemption premium on the called bonds and debentures amounted to about \$30,000,000, which was charged to surplus. The annual interest payments on funded debt of the Company will be reduced \$5,750,000 as a result of the lower interest rate, but taking into account income taxes and amortizing the redemption premium on the called issues and discount on the new debentures, the annual saving, at existing tax levels, realized from this refunding will amount to approximately \$3,500,000.

The Pacific Telephone and Telegraph Company during the year sold two issues of $3\frac{1}{4}\%$ Refunding Mortgage Bonds due in 1966, totaling \$55,000,000. The proceeds were used for the retirement in advance of maturity of \$29,901,000 and for the payment at maturity of \$24,242,000 of 5 per cent bonds of that company and its subsidiaries.

Taking into account the full effect of these refunding operations and including other changes in debt, which were not entirely completed in 1936, there was a reduction of about \$33,000,000 in the total interest bearing debt of the Bell System.

In addition to the above, preferred stocks of four System companies totalling \$14,543,400 were called during the year for redemption in 1936 or early in 1937.

Although telephone service must be given 24 hours a day and 7 days a week, the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, maintains a 5-day work week with a maximum of 40 hours except in minor instances where service requirements or local conditions make it either impracticable or unsuitable. This compares with a 5½ or 6-day work week prior to the depression. A total of 66,000 people was hired in 1936 to replace losses from the force and to handle the increase in business. Of the number hired, more than 30,000 were employed as telephone operators. As the majority of these operators were inexperienced the problem of giving satisfactory telephone service was made more difficult, but aided by improved training methods it was possible to maintain service of record high quality. During 1937, it is probable that the number of inexperienced operators to be hired and trained will be substantially larger than in 1936. This condition together with increasing use of facilities will present further problems, but it is confidently expected that they will be successfully met.

There is full realization in the Bell System that the approval of the public is essential to its success and that such approval is fundamentally dependent on the most and best possible telephone service at the lowest possible cost.

The System has continued to maintain its telephone plant in a state of high efficiency and it is in good condition to handle the substantial growth now being experienced, although additions to plant will be necessary in increasing amounts as growth continues.

In the spring of 1936, disaster from floods of unprecedented severity struck from Maine to the Ohio River and Virginia and telephone facilities and service in many parts of this area experienced the severest difficulties in history. In Pennsylvania alone about a quarter of a million telephones were put out of service. The value of standardized equipment and the integrated operations and methods of the Bell System was emphasized by the promptness with which repair materials were secured from the Western Electric Company and by the way men and trucks from New York, New Jersey, Ohio, Michigan and Illinois were rushed into flooded regions equipped with knowledge and tools to help the forces there effectively. Although the floods receded slowly, most of the telephones were back in service within ten days. The value of the Bell System's nation wide organization again was demonstrated when telephone instrumentalities were called upon to meet another major emergency in January, 1937, when the Ohio River reached a record flood stage. The telephone workers met these emergencies with the courage and effectiveness characteristic of their performances in the past.

Ten years ago, on January 7, 1927, transatlantic radio telephone service was inaugurated between New York and London. Since then Bell System overseas telephone service has been extended until it is now possible to telephone to 68 countries. In 1936, the number of overseas conversations was 80 per cent greater and the number of ship-to-shore conversations was 84 per cent greater than in 1935, the previous high year. During 1936, existing rates were reduced and special Sunday rates introduced for many overseas services. The \$9 zone for ship-to-shore conversations was extended from 500 to 1,500 nautical miles from port. Rates have been repeatedly reduced since the overseas service was started ten years ago. The original charge for a three minute New York to London call, for instance, was \$75. It is now \$21 and at night and all day Sundays \$15. Additional points to which service was extended in 1936 included Kenya, Africa; El Salvador; and the islands of Tasmania, Bali, Jamaica and Puerto Rico. The scope of the service was further extended in a number of countries already connected, among them Brazil,

Irish Free State, India, Australia, the Union of South Africa, Honduras and Colombia. A direct radio telephone channel between France and the United States was opened for service in December. Previously calls to and from France were all routed over the New York-London channels.

Bell System telephone service with small vessels in coastal and harbor waters was extended with the opening for service during the year of radiotelephone stations in New York, Los Angeles and San Francisco. These three stations, together with those already in service at Boston and Seattle, now connect with a number of yachts, barges, tugboats and trawlers. This coastal service is also available to suitably equipped vessels when they are within range of the Bell System overseas radiotelephone station at Miami.

With improvements in the telephone art, economies in operation, and the increase in long-distance telephone traffic resulting from better business conditions, it was found practicable in 1936 to make two reductions in the long distance rates of the American Telephone and Telegraph Company and most of its principal telephone subsidiaries. These were effective on January 15, 1936 and September 1, 1936, respectively, and resulted in estimated annual savings to the public of about \$10,800,000. Another reduction amounting to \$12,000,000 and applying to the long-distance telephone business of the Company, the eighth reduction in about ten years, became effective after the close of the year, on January 15, 1937.

The following table of long distance rates is illustrative of the reductions which have been made in approximately 10 years:

Between New York and:	Cost of 3 Minute Call, Station-to-Station Day Rates		
	Then	Now*	Amount of Reduction
Hartford	\$.70	\$.55	\$.15
Washington	1.35	.85	.50
Detroit	3.15	1.55	1.60
Chicago	4.65	2.20	2.45
Kansas City	7.05	3.25	3.80
Denver	10.40	4.50	5.90
San Francisco	16.50	6.50	10.00
London	75.00	21.00	54.00

* Night and all-day Sunday rates are still lower, for example, the New York-San Francisco station-to-station night and Sunday rate is \$4.25.

Bell System charges for handset telephones were reduced during the year in 33 states, in line with the established policy of reducing these charges as rapidly as conditions in the various states permit until they are entirely eliminated.

Total reductions in Bell System telephone rates in 1936, together with the reduction in long distance telephone rates effective January 15, 1937, amounted, on an annual basis, to about \$36,000,000, although the revenue loss, particularly in the case of long distance rate reductions, will be less, due to additional business stimulated by the lower rates. Some of these rate reductions were ordered by regulatory bodies, some were initiated voluntarily by the companies, and others were the result of conferences and informal discussions with the regulatory bodies concerned. The companies have been glad to participate in such conferences, feeling that discussions, conducted in a spirit of fairness and with opportunity to develop and consider all pertinent facts, are a more satisfactory basis for regulation than are the highly technical, prolonged and controversial formal hearings that have so often developed around rate questions.

A change of emphasis in research and development work during the depression resulted from the lessened demand for new plant and equipment. Research and development problems cover the entire range from those which must be solved immediately, because of urgently needed new plant and equipment or because of specific difficulties which arise in the current operation of the service, to problems of a fundamental character which lie at the roots of continued improvement in communication service.

During the past few years, emphasis has been on fundamental research and development, and viewed from the standpoint of a more extended, better and more economical communication service, it seems from what has been accomplished that these years may have been prospectively more productive than any corresponding period since the inception of the business.

During 1936, research and development work has gone forward on many new things which are potentially important to the business in the future. Also substantial progress has been made towards completion for commercial use of new subscribers'

equipment, new forms of central office switching machinery, new applications of multi-channel high frequency methods of transmission over circuits of the conventional type, a radically new form of transmission circuit—the coaxial cable—and certain aspects of radio telephony.

The service trials of the new subscribers' apparatus have been substantially completed and work is under way to make these instruments generally available.

Further research and development work on the improved switching mechanism has been pushed vigorously during 1936, not only in the direction of completing a large central office service trial installation but likewise in the direction of applying the new mechanism elsewhere where switching problems exist. A new private branch exchange employing this apparatus has been under trial for several months and it is expected that manufacture for general use will be started during 1937. Likewise, work has been undertaken in the direction of application in the field of toll line switching.

In the field of broad band carrier systems, the research and development work has now reached the point where trial installations of commercial forms of such systems for use on cable and open wire circuits are being made. In the case of cable circuits, the system is planned to yield twelve telephone circuits from two pairs of wires. While not all of the pairs in existing cables can be equipped simultaneously with this multiplex system, its introduction will permit increasing the message-carrying capacity of the existing longer cable routes several fold, the carrier system being applied to the longer circuits and existing voice frequency methods to the shorter circuits. In the case of open wire circuits, the new systems when applied will yield a total of sixteen telephone circuits for each pair of wires.

The initial trial installation of coaxial cable between New York and Philadelphia was completed in the fall of 1936 and extensive experiments are under way. Thus far the results have confirmed anticipation and, while there is still a large amount of research and development work to be done, there is every reason to believe that this radically new and very simple form of communication circuit will in the future have wide application, particularly over the longer high traffic density routes.

All of these accomplishments in the application of high fre-

quency broad band technique are the result of years of development work extending uninterruptedly through the whole period of the depression.

During 1936, plans were initiated for materially increasing the effectiveness of the transatlantic short wave radio circuits. As a result of research work in the Bell Telephone Laboratories, single sideband operation, highly directive receiving antennas and new transmitting antennas have been developed, and it is expected that during the current year they will be applied gradually. They will materially better the performance of transatlantic telephone circuits and reduce the out-of-service time due to adverse atmospheric conditions.

A large further trial installation of buried wire underground distribution for rural service was made in 1936. Several hundred miles of the new wire have been installed by means of a special plow which buries the wires along highways and into premises with comparatively little disturbance of the ground surface. Unless something now unforeseen occurs, this new system bids fair to have large and advantageous use.

A revised uniform system of accounts for telephone companies has been prescribed by the Federal Communications Commission, effective January 1, 1937. The principal changes resulting from the new system pertain to the classification of investment in plant purchased; modifications in accounting for depreciation expense for certain items of property; and the inclusion in the plant investment accounts of a portion of relief and pension costs, all such costs having heretofore been treated as current expense.

The investigation of the American Telephone and Telegraph Company and other Bell System Companies by the Federal Communications Commission, undertaken pursuant to a joint resolution of Congress adopted two years ago, is still in progress. In addition to an original appropriation of \$750,000 for the purpose of the investigation, Congress made a further appropriation of \$400,000 in 1936 and another appropriation of \$350,000 in

1937 to be available up to June 30, 1938. So far* the investigation has been one-sided. In spite of repeated protests, the Company has not been permitted to present its witnesses or to cross-examine the witnesses of the Commission.

The sales of the Western Electric Company for 1936 were \$146,400,000 as compared with \$105,400,000 in 1935, an increase of 38.9 per cent. Its sales were, however, only about one-third of those of its 1929 peak of \$411,000,000. The Company, including its subsidiaries, had net earnings, after interest charges, in 1936 of \$18,698,000, compared with \$2,620,279 in 1935.

The Bell System, including the Western Electric Company and the Bell Telephone Laboratories, had 294,000 employees at the end of 1936, a net increase of 28,000 during the year. The total payroll for the year was \$475,000,000, an increase of \$43,000,000 over 1935.

Under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, established twenty-four years ago, service pensions paid from the Pension Trust Funds in 1936 to retired employees of the Bell System Companies, including the Western Electric Company and the Bell Telephone Laboratories, amounted to \$5,635,000. At the end of the year there were 7,765 retired employees on these pension rolls. The amounts charged to expenses by these companies in 1936 and turned over to the Trustee of the Pension Funds were approximately 2.75 per cent of the payrolls. In addition these companies charged to expenses payments under the Plan amounting to \$4,969,000 for sickness disability benefits, \$468,000 for accident disability benefits, \$1,657,000 for death benefits and \$359,000 for disability pensions.

The Bell System in 1936 provided for taxes on account of unemployment compensation under the Federal Social Security Act at the rate of 1 per cent of total payroll. Under this Act, in 1937 the companies are taxed for unemployment benefits at the rate of 2 per cent of total payroll and for Government pensions both employees and companies are taxed at the rate of 1 per cent of each employee's pay up to and including \$3,000 per year.

* Up to February 17th when this report went to press.

The Bell System Plan for Employees' Pensions, Disability Benefits and Death Benefits, has, from its inception in 1913, provided that pensions payable by any governmental agency shall be deducted from pensions otherwise payable under the Plan. If the Federal Social Security Act of 1935 remains in effect unchanged until 1942, when payment of pensions begins under the Act, the Bell System Plan will be changed at that time to provide for the deduction of only one-half of the amount of the Government pension, which half in effect represents that portion of the Government pension provided out of taxes paid by the companies.

At the end of the year about 56,000 employees were using Savings Plans, under which employees may arrange for regular deductions from pay in amounts specified by them for deposit to their accounts in savings institutions.

Under the Payroll Deduction Plans for Life Insurance, by which monthly premium payments are made through deductions from pay which are forwarded to insurance companies, 65,500 employees were purchasing insurance at the end of the year. The amount of monthly premium deductions was \$530,000 and the amount of insurance in effect \$189,900,000. In addition, monthly deductions from payroll were made aggregating \$16,800 for 1,723 employees, veterans of the World War, who are paying for approximately \$8,000,000 of United States Government Insurance.

An interesting event of the year was the celebration, on November 19, of the 25th anniversary of the Telephone Pioneers of America. This Association was organized in 1911, for "the promotion, renewal and continuance of friendships and fellowships made during the progress of the telephone industry." Any one who has been employed in the industry for 21 years is eligible for membership, and there are 34,000 members in the United States and Canada. The celebration took the form of simultaneous meetings in 234 communities, to which a program of anniversary significance was transmitted over a network of 25,000 miles of telephone wire. As a demonstration of the use of telephone facilities to interconnect gatherings scattered all over the

country, and as evidence of the strong ties that unite those who have helped to create and perfect telephone service, the event was unique in telephone history.

The Theodore N. Vail Memorial Fund provides awards annually in recognition of unusual acts of service by Bell System employees. Two silver medals with \$250 each, and thirty-six bronze medals, all with accompanying citations, were awarded this year. There was also a group award of a special plaque.

SILVER MEDAL AWARDS

RUBY C. BAHR

Operator, Fairchild, Wisconsin

Community Telephone Company of Wisconsin

For alertness, initiative and prompt and intelligent action which led to the apprehension of a dangerous criminal.

MAMIE INEZ PITTS

Operator, Pontotoc, Mississippi

Southern Bell Telephone and Telegraph Company

For courage, resourcefulness and loyalty to public service, despite grave personal danger, during a tornado.

SPECIAL PLAQUE AWARD

To the Employees of The Mountain States Telephone and Telegraph Company at Helena, Montana

In recognition of their skill, courage and devotion to duty in performing acts of noteworthy public service during the earthquakes of October, 1935.

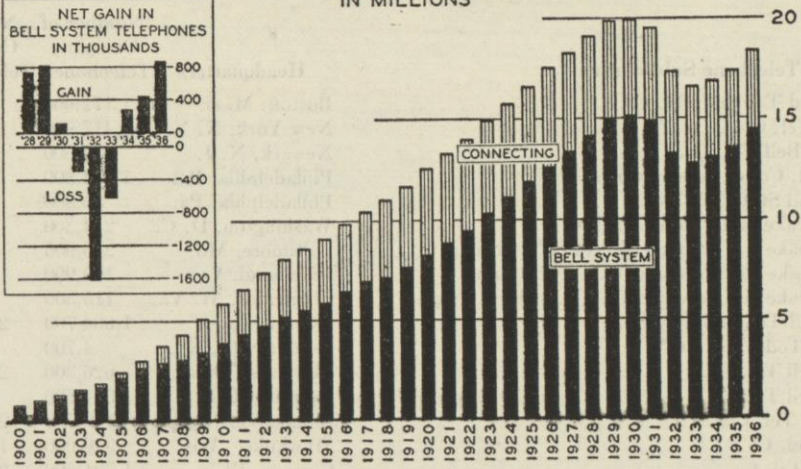
During 1936, there was work for more employees, more money in the pay envelope, wider use of a telephone service generally recognized as the best in the world, lower cost of telephone service to the public through reductions in many telephone rates, and the usual dividend on the Company's stock was earned with a small margin. Based on the record of the System in the depression, whatever may be the problems which the future may add to those already faced, the men and women of the Bell System can be counted on to press forward to greater accomplishments with the skill, enthusiasm and courage which they have shown in the past.

For the Directors,

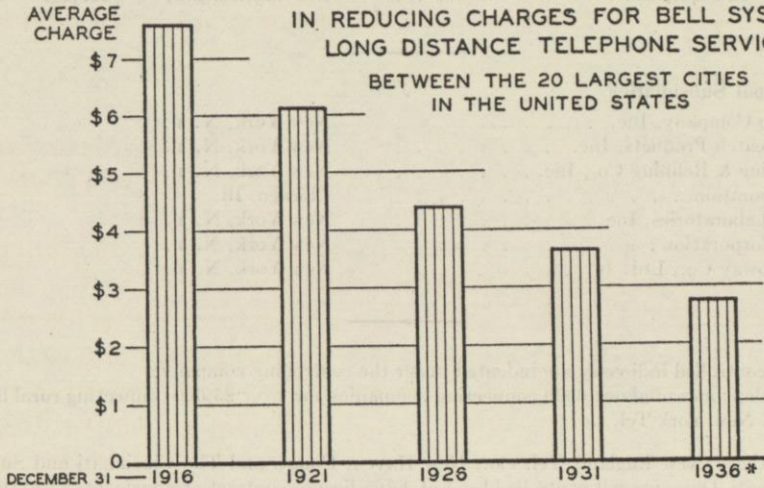
WALTER S. GIFFORD,

President

TELEPHONES BELL SYSTEM AND CONNECTING IN MILLIONS



TWENTY YEARS OF PROGRESS IN REDUCING CHARGES FOR BELL SYSTEM LONG DISTANCE TELEPHONE SERVICE BETWEEN THE 20 LARGEST CITIES IN THE UNITED STATES



* INCLUDES REDUCTION EFFECTIVE JANUARY 15, 1937

This chart shows at intervals over a 20-year period the *average* charge, at day rates, for three-minute long distance "station to station" calls between the 20 largest cities in the United States. The average air line distance between these cities is 970 miles.

**PRINCIPAL SUBSIDIARIES OF THE
AMERICAN TELEPHONE AND TELEGRAPH COMPANY (a)**

December 31, 1936

A. Principal Telephone Subsidiaries	Headquarters	Number of Company Telephones	Number of Connecting Telephones (b)
New England Tel. and Tel. Co.	Boston, Mass.	1,172,600	45,700
New York Tel. Co.	New York, N. Y.	2,417,900	200,300
New Jersey Bell Tel. Co.	Newark, N. J.	654,300	11,500
The Bell Tel. Co. of Pennsylvania	Philadelphia, Pa.	1,134,800	197,100
The Diamond State Tel. Co.	Philadelphia, Pa.	36,800	200
The Chesapeake and Potomac Tel. Co.	Washington, D. C.	214,300	200
The Chesapeake and Potomac Tel. Co. of Baltimore City	Baltimore, Md.	230,900	2,800
The Chesapeake and Potomac Tel. Co. of Virginia	Richmond, Va.	169,900	50,400
The Chesapeake and Potomac Tel. Co. of West Virginia	Charleston, W. Va.	115,500	24,300
Southern Bell Tel. and Tel. Co.	Atlanta, Ga.	1,004,700	297,200
Christian-Todd Tel. Co.	Hopkinsville, Ky.	4,700	700
The Ohio Bell Tel. Co.	Cleveland, Ohio	626,300	283,100
Michigan Bell Tel. Co.	Detroit, Mich.	594,500	97,700
Indiana Bell Tel. Co.	Indianapolis, Ind.	198,700	238,700
Wisconsin Tel. Co.	Milwaukee, Wis.	340,000	166,000
Illinois Bell Tel. Co.	Chicago, Ill.	1,301,500	282,100
Northwestern Bell Tel. Co.	Omaha, Nebr.	617,600	512,200
The Tri-State Tel. and Tel. Co.	St. Paul, Minn.	120,800	79,900
Dakota Central Tel. Co.	Aberdeen, S. D.	30,400	22,400
Southwestern Bell Tel. Co.	St. Louis, Mo.	1,322,500	525,500
The United Tel. Co.	Abilene, Kan.	39,300	42,200
The Mountain States Tel. and Tel. Co.	Denver, Colo.	442,500	39,500
The Pacific Tel. and Tel. Co.	San Francisco, Cal.	1,033,600	159,200
Bell Tel. Co. of Nevada	San Francisco, Cal.	12,200	4,100
Southern California Tel. Co.	Los Angeles, Cal.	617,200	128,000

B. Other Principal Subsidiaries

Western Electric Company, Inc.	New York, N. Y.
Electrical Research Products, Inc.	New York, N. Y.
Nassau Smelting & Refining Co., Inc.	New York, N. Y.
Teletype Corporation	Chicago, Ill.
Bell Telephone Laboratories, Inc.	New York, N. Y.
195 Broadway Corporation	New York, N. Y.
Empire City Subway Co., Ltd. (c)	New York, N. Y.

(a) Subsidiaries controlled indirectly are indented under the controlling company.

(b) Comprises telephones of about 6600 connecting companies and over 25,000 connecting rural lines.

(c) Subsidiary of New York Tel. Co.

NOTE: The Southern New England Tel. Co., New Haven, Conn., and The Cincinnati and Suburban Bell Tel. Co., Cincinnati, Ohio, are not controlled by, but have license contract arrangements with, the American Tel. and Tel. Co. These companies have respectively 319,500 and 167,100 telephones and 2,200 and 9,200 connecting telephones.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Financial Statements which follow on pages 16 to 20, inclusive, consolidate the accounts of the American Telephone and Telegraph Company and its principal telephone subsidiaries as listed in section A, page 14.

The subsidiaries so consolidated comprise all telephone companies having total assets in excess of \$1,000,000 in which the American Telephone and Telegraph Company owns, directly or indirectly, securities representing more than 50% of the voting power.

These companies have maintained their accounts in accordance with the Uniform System of Accounts for Telephone Companies prescribed by the Interstate Commerce Commission effective January 1, 1913, amended from time to time, revised January 1, 1933, and continued in effect by the Federal Communications Commission until January 1, 1937. This prescribed accounting established specific rules in respect of the items to be included in the various accounts and has required that telephone plant, with certain specified exceptions, be carried in the accounts at actual cost to the accounting company.

The Consolidated Statements exclude, for the companies in the consolidated group, all intercompany security holdings, intercompany receivables and payables, and intercompany items of income and expense, except minor items which cannot readily be identified. In the elimination of intercompany security holdings (principally holdings of American Telephone and Telegraph Company) the difference between the aggregate cost of such securities to the companies owning them and the aggregate par or stated value of such securities has been applied to reduce the combined surplus accounts of the companies consolidated.

Most of the telephone equipment, apparatus and materials used by the companies consolidated has been manufactured or procured for them by Western Electric Company, a subsidiary of American Telephone and Telegraph Company, under contracts providing that the prices paid shall be as low as the Western Electric Company's prices to its most favored customers for like materials and services under comparable conditions. These items have been entered in the accounts of the telephone companies at cost to them, as required by the prescribed accounting, and are included in the Consolidated Financial Statements at such cost. It is considered that the cost of equipment and materials so purchased from Western Electric Company, Incorporated, may properly be included in the consolidated accounts without eliminating therefrom the return which may have accrued to that company from these sales. The proportionate interest of American Telephone and Telegraph Company in the current earnings of Western Electric Company, Incorporated, is included in the Consolidated Income Statement under "Other Income."

There have been over the years, in the course of rearranging operating territories or properties, sales of plant between companies whose accounts are consolidated herein. Plant so transferred was included in the accounts of the purchasing companies at the time of purchase at cost to them, and such portion thereof as has not been retired or written off is so included in the Consolidated Balance Sheet. Certain of these sales (relatively small in amount as compared with total plant) resulted at the time of sale in direct credits to the Surplus accounts of the selling companies, but only such portions of these credits as pertain to plant not yet retired or as have not otherwise been extinguished remain in Consolidated Surplus.

BELL SYSTEM FINANCIAL STATEMENTS

(Consolidating the accounts of the American Telephone and Telegraph
Company and its Principal Telephone Subsidiaries)

Consolidated Balance Sheet (a)

	December 31, 1936	December 31, 1935
ASSETS		
PLANT AND OTHER INVESTMENTS:		
Telephone Plant (b)	\$4,259,262,617	\$4,187,789,570
Plant and equipment for furnishing service; comprising land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, construction work in progress, etc. Includes also on December 31, 1936 Organization and Franchise costs—\$1,933,141, and Undistributed Cost of Property—\$8,210,791.		
Investments in Controlled Companies (not consolidated) (c)	216,466,916	220,928,122
Includes at December 31, 1936, \$16,131,120 comprising equities in subsidiaries not consolidated in excess of investment therein, as computed from the accounts of such companies.		
Other Investments (c)	100,586,743	106,515,703
Principally investments in non-controlled telephone companies and in miscellaneous physical property.		
Sinking Funds	2,471,150	4,934,955
Total Plant and Other Investments	\$4,578,787,426	\$4,520,168,350
CURRENT ASSETS:		
Cash required to retire funded debt called for redemption or presently maturing, including premiums	\$ 179,285,890	\$ 51,278,430
Other Cash and Deposits	44,361,205	46,681,986
Temporary Cash Investments	175,187,279	208,424,451
Principally United States Government obligations. Market value, December 31, 1936, \$175,141,800.		
Current Receivables	98,026,482	90,421,607
Amounts due for service (less reserves for uncollectible accounts), working advances, interest and dividends receivable, etc.		
Material and Supplies	50,297,409	48,210,400
Total Current Assets	\$ 547,158,265	\$ 445,016,874
DEFERRED DEBITS:		
Unamortized Discount on Funded Debt	\$ 8,141,331	\$ 10,941,790
Prepayments of Rents, Taxes, Directory Expenses, etc.	9,908,040	9,266,397
Other Deferred Debits	5,314,185	5,264,872
Debit items, the final disposition of which had not been determined at close of year.		
Total Deferred Debits	\$ 23,363,556	\$ 25,473,059
Total Assets	\$5,149,309,247	\$4,990,658,283

See page 20 for explanatory notes (a) to (e) inclusive.

BELL SYSTEM FINANCIAL STATEMENTS
(Consolidating the accounts of the American Telephone and Telegraph
Company and its Principal Telephone Subsidiaries)
Consolidated Balance Sheet, Continued

	December 31, 1936	December 31, 1935
CAPITAL STOCK:		
American Telephone and Telegraph Company:		
Capital Stock	\$1,868,509,300	\$1,866,227,500
Premiums on Capital Stock	269,889,978	268,749,078
Amount received in excess of par value.		
Capital Stock Installments	250,602	4,330,337
Amount received under Employees' Stock Plan on stock subscriptions not yet completed or cancelled. (This Plan was discontinued as to new subscriptions in 1933.)		
Subsidiaries Consolidated (See page 22):		
Common Stocks held by public	86,250,903	86,710,253
Preferred Stocks held by public	97,579,975	107,360,930
Total Capital Stock	<u>\$2,322,480,758</u>	<u>\$2,333,378,098</u>
FUNDED DEBT (See page 22):		
American Telephone and Telegraph Company	\$ 443,093,700	\$ 443,532,600
Subsidiaries Consolidated	418,945,900	458,959,225
Total Funded Debt (d)	<u>\$ 862,039,600</u>	<u>\$ 902,491,825</u>
NOTES SOLD TO TRUSTEE OF PENSION FUNDS:		
Held by Trustee as an investment of pension funds not presently required to meet pension payments. (See pages 21 and 22)		
American Telephone and Telegraph Company	\$ 11,022,113	\$ 11,022,113
Subsidiaries Consolidated	118,765,703	111,606,180
Total Notes	<u>\$ 129,787,816</u>	<u>\$ 122,628,293</u>
CURRENT AND ACCRUED LIABILITIES:		
Funded debt called for redemption or presently maturing, including premiums	\$ 179,285,890	\$ 51,278,430
Accounts payable	43,410,168	36,658,457
Advance billing for service and customers' deposits	19,591,878	17,598,133
Dividends payable	43,856,474	43,921,639
Other current liabilities	9,014,716	7,680,979
Taxes accrued (e)	66,814,648	55,262,351
Interest accrued	9,076,710	14,952,883
Total Current and Accrued Liabilities	<u>\$ 371,050,484</u>	<u>\$ 227,352,872</u>
DEFERRED CREDITS AND MISCELLANEOUS RESERVES		
Credit items, the final disposition of which had not been determined at end of year, and amounts reserved for sundry purposes.	\$ 5,293,330	\$ 5,018,832
RESERVES FOR DEPRECIATION OF PLANT AND EQUIPMENT		
Provision to meet loss of investment in depreciable plant upon its ultimate retirement from service.	\$1,124,808,818	\$1,042,011,113
SURPLUS OF SUBSIDIARIES CONSOLIDATED APPLICABLE TO CAPITAL STOCKS OF SUCH SUBSIDIARIES HELD BY PUBLIC		
	\$ 3,807,646	\$ 4,168,855
CONSOLIDATED SURPLUS APPLICABLE TO CAPITAL STOCK OF AMERICAN TELEPHONE AND TELEGRAPH CO:		
Surplus Reserved	\$ 83,952,571	\$ 86,043,049
Comprised at December 31, 1936, of \$64,664,444 reserved against general contingencies (by American Telephone and Telegraph Company); \$17,146,123 against contingency of refunds of revenues collected; and \$2,142,004 miscellaneous reservations.		
Unappropriated Surplus (See page 19)	\$ 246,088,224	\$ 267,565,346
Total Liabilities	<u>\$5,149,309,247</u>	<u>\$4,990,658,283</u>

C. A. HEISS, Comptroller.

Statement as to certain contingent liabilities appears in note (f) on page 20.

BELL SYSTEM FINANCIAL STATEMENTS

Consolidating the accounts of the American Telephone and Telegraph
Company and its Principal Telephone Subsidiaries)

Consolidated Income Statement (a)

OPERATING REVENUES	Year 1936	Year 1935
Local Service Revenues	\$665,152,512	\$628,104,519
Revenues from local exchange service.		
Toll Service Revenues	306,238,511	271,158,136
Revenues from long distance and local toll service.		
Miscellaneous Revenues	26,657,445	23,693,084
Revenues derived from directory advertising, rents and miscellaneous sources.		
Less: Uncollectible Operating Revenues	3,196,336	3,839,516
Provision made during year for revenues which may be uncollectible.		
Total Operating Revenues (g)	\$994,852,132	\$919,116,223
 OPERATING EXPENSES		
Current Maintenance	\$182,063,578	\$172,636,899
Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.		
Depreciation Expense	160,963,777	168,714,063
Provision to meet loss of investment when depreciable property is retired from service, based on rates of depreciation designed to spread this loss of investment uniformly over the service life of the property. Depreciation expense represented 4.12% of a average investment in depreciable plant in service during 1936 and 4.32% during 1935.		
Traffic Expenses	139,483,912	129,420,362
Costs incurred in the handling of messages, principally operators' wages.		
Commercial Expenses	78,276,690	73,530,114
Costs incurred in business relations with customers; pay station commissions; also the cost of directories, sales activities, advertising, etc.		
Operating Rents	13,452,768	13,544,622
Rents paid for the use of buildings, poles, conduits and other facilities.		
General and Miscellaneous Expenses:		
General Administration, including cost of Development and Research	23,168,875	21,749,143
Accounting and Treasury Departments	34,575,687	33,467,780
Provision for Employees' Service Pensions	11,131,889	11,139,738
Employees' Sickness, Accident, Death and other Benefits	7,023,183	6,683,082
Other General Expenses	11,481,631	12,689,923
Less: Expenses Charged Construction	2,601,841	2,127,115
Total Operating Expenses	\$659,025,149	\$641,448,611
Net Operating Revenues (carried forward)	\$335,826,983	\$277,667,612

See page 20 for explanatory notes (a) and (g)

BELL SYSTEM FINANCIAL STATEMENTS

(Consolidating the accounts of the American Telephone and Telegraph
Company and its Principal Telephone Subsidiaries)

Consolidated Income Statement, Continued

	Year 1936	Year 1935
Net Operating Revenues (brought forward)	<u>\$335,826,983</u>	<u>\$277,667,612</u>
Taxes:		
Federal Income (Includes \$86,106 provision for surtax on undistributed earnings in 1936)	28,113,057	20,156,232
Social Security (Excludes \$460,007 charged Construction)	3,714,729	.....
Other—Primarily state and local	84,511,651	74,350,633
Total Operating Taxes	<u>\$116,339,437</u>	<u>\$ 94,506,865</u>
Net Operating Income	<u>\$219,487,546</u>	<u>\$183,160,747</u>
Other Income:		
Dividends from controlled companies, not consolidated	\$ 18,399,364	\$ 2,446,500
Proportionate interest in earnings or deficits (after divi- dends) of controlled companies, not consolidated	2,166,270	2,276,480
Dividends from non-controlled companies	3,842,994	3,634,071
Interest, and miscellaneous items—Net	4,456,213	5,989,877
Total Income (before fixed charges)	<u>\$248,352,387</u>	<u>\$197,507,675</u>
Interest Deductions	\$ 49,796,463	\$ 51,168,840
Amortization of discount on funded debt and other fixed charges	<u>\$ 718,245</u>	<u>\$ 1,074,481</u>
Total Net Income	<u>\$197,837,679</u>	<u>\$145,264,354</u>
Net Income applicable to stocks of Subsidiaries Consolidated held by public:		
Preferred Stocks	\$ 6,853,650	\$ 7,016,186
Common Stocks	6,239,565	5,329,675
Net Income applicable to American Tel. and Tel. Co. stock*	<u>\$ 184,744,464</u>	<u>\$132,918,493</u>
Dividends on American Tel. and Tel. Co. Stock	<u>168,081,179</u>	<u>167,960,475</u>
Balance for Consolidated Surplus applicable to American Tel. and Tel. Co. stock	\$ 16,663,285	† \$ 35,041,982

*Equivalent to \$9.89 per share in 1936 and \$7.12 per share in 1935 on average number of shares out-
standing.

†Negative amount.

Changes During 1936 in Consolidated Unappropriated Surplus Applicable to American Telephone and Telegraph Company Stock

Balance—December 31, 1935		\$267,565,346
Additions:		
Net Income applicable to American Tel. and Tel. Co. stock (after dividends) . .	\$ 16,663,285	
Transfers from Surplus Reserved	4,216,091	
Miscellaneous additions	165,375	
Total	<u>\$ 21,044,751</u>	
Deductions:		
Transfers to Surplus Reserved—Provision against contingency of refunds in pending rate cases, and other contingencies	\$ 2,125,613	
Premiums on bonds called for redemption and on preferred stocks retired . . .	33,629,967	
Unamortized discount extinguished upon redemption of bonds	4,403,443	
Miscellaneous deductions	2,362,850	
Total	<u>\$ 42,521,873</u>	
Balance—December 31, 1936		<u>\$246,088,224</u>

C. A. HEISS, Comptroller

BELL SYSTEM FINANCIAL STATEMENTS

Explanatory Notes Relating to

Consolidated Balance Sheet and Income Statement

- (a) The Annual Reports of this Company have in the past contained consolidated "Bell System" financial statements and other data covering the American Telephone and Telegraph Company and its Associated Telephone Companies. This group included The Southern New England Telephone Company and The Cincinnati and Suburban Bell Telephone Company, in each of which this Company has a substantial, but less than a controlling, interest. Consistent with the requirements for Federal registration of new issues of securities, the Company is excluding from its consolidated financial statements these non-controlled companies, and is including therein certain telephone subsidiaries not heretofore consolidated. A list of the subsidiaries consolidated appears as section "A" page 14.
- (b) Telephone Plant is shown in the aggregate of the amounts at which it is carried in the accounts of the respective companies consolidated. Property constructed or otherwise acquired by these companies is taken up in their accounts at cost to the respective companies, with certain minor exceptions not considered to have resulted in any material deviation from cost. In certain cases of acquisitions of plant from affiliated companies, the cost has been taken into the accounts of the purchasing companies through entries charging to telephone plant accounts and crediting to depreciation reserve accounts the respective amounts which the selling companies carried in their corresponding accounts. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.
- (c) At December 31, 1936, securities included herein at \$39,445,634 are hypothecated or pledged under certain bond indentures.
- (d) Bonds called for redemption or presently maturing, in the amount of \$166,788,600 at December 31, 1936 and \$48,836,600 at December 31, 1935 are shown under Current Liabilities.
- (e) Federal income tax returns of American Telephone and Telegraph Company and most of its subsidiaries consolidated have not been closed for years subsequent to 1930.
- (f) At December 31, 1936, certain of the subsidiaries consolidated had contingent liabilities to make refunds, including interest thereon, in the event of adverse decisions in court cases involving charges for telephone service which have been collected during part or all of the period 1924 to 1936, inclusive, and taken up in the accounts pending final adjudication. The amounts involved at December 31, 1936, including interest thereon, are estimated not to exceed \$23,000,000, and against such contingencies there has been set aside in Surplus Reserved, \$17,279,147. One of the pending cases, that of The Ohio Bell Telephone Company, is now under appeal by that company to the Supreme Court of the United States. This case involves possible refunds, including interest to December 31, 1936, of \$17,722,000, against which the Company has reserved surplus in the amount of \$12,500,000. As of December 31, 1936, The Ohio Bell Telephone Company was obligated on certain bonds in the amount of \$18,166,769 to cover any refunds that might finally be required and on an appeal bond in the amount of \$20,000,000 to also cover its possible liability for such refunds. The American Telephone and Telegraph Company is surety on the first-mentioned bonds to the extent of \$17,112,669 and is also surety on said appeal bond.
- The Consolidated Financial Statements contain no specific provision in respect of the following:
1. A guarantee covering payment of notes in the amount of \$3,100,692, secured by collateral, undertaken by the New Jersey Bell Telephone Company.
 2. Certain claims made by municipalities for taxes under local laws as to which the companies concerned deny liability. While in the aggregate these claims are for substantial amounts, the companies involved do not consider that ultimate liability thereunder, if any, would be materially important in relation to their assets or earnings.
 3. Suits involving patent license agreements and alleged patent infringements in which substantial claims for damages are made. It is the opinion of counsel for the telephone companies that it is improbable that the claims thereunder can be sustained.
- (g) Revenues shown include relatively minor amounts subject to possible refund in the event of adverse decisions in pending rate cases.

CERTIFICATE OF AUDIT

American Telephone and Telegraph Company,
195 Broadway, New York, N. Y.

New York, N. Y., February 15, 1937

We have made an examination of the balance sheet of American Telephone and Telegraph Company as at December 31, 1936, and of its income statement for the year 1936, and we have also made an examination of the consolidated balance sheet of American Telephone and Telegraph Company and its principal telephone subsidiaries as at December 31, 1936, and of their consolidated statements of income and surplus for the year 1936. In connection therewith, we examined or tested accounting records of the company and of its subsidiaries consolidated and other supporting evidence and obtained information and explanations from officers and employees of these companies; we also made a general review of the accounting methods and of the operating and income accounts for the period but we did not make a detailed audit of the transactions.

Examinations of similar scope have been made by us of the balance sheets as at December 31, 1936, and of the statements of income and surplus for the year 1936 of the principal nonconsolidated subsidiaries of American Telephone and Telegraph Company, except Western Electric Company, Incorporated, and its subsidiaries, and we have reviewed accounting reports rendered to American Telephone and Telegraph Company by all other nonconsolidated subsidiaries for the year 1936. The consolidated balance sheet of Western Electric Company and its 100% directly-owned subsidiaries as at December 31, 1936, and the consolidated statements of income and surplus of these companies for the year 1936, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, based upon such examination, the financial statements of American Telephone and Telegraph Company (pages 24 to 26) and the consolidated financial statements of American Telephone and Telegraph Company and its principal telephone subsidiaries (pages 15 to 20) fairly present respectively, in accordance with accepted principles of accounting consistently maintained by the companies for the period under review, the position at December 31, 1936, and the results of operations for the year 1936 of American Telephone and Telegraph Company and the consolidated position at December 31, 1936, and the consolidated results of operations for the year 1936 of that company and its principal telephone subsidiaries.

LYBRAND, ROSS BROS. & MONTGOMERY

CONSOLIDATED STATEMENT OF PENSION TRUST FUNDS

established by the

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS
PRINCIPAL TELEPHONE SUBSIDIARIES

Bankers Trust Company, New York, N. Y., Trustee

Balance in Funds—December 31, 1935	\$149,871,421.06
Additions to Funds during 1936—	
Amount paid in by Companies to provide for pension liability accruing in respect of employees in their service	\$11,131,888.65
Interest revenue from investments after amortization of pre- mium or discount included in purchase price	6,179,031.34
Other additions	857,399.49
Total additions	<u>\$ 18,168,319.48</u>
Disbursements for pensions during 1936 to retired employees.	4,696,497.55
Net increase in Funds	<u>\$ 13,471,821.93</u>
Balance in Funds—December 31, 1936	<u>\$163,343,242.99</u>
Comprised of—	
4% Notes of Bell System Companies purchased at face value:	
Demand Notes	\$126,305,900.40
One-Year Notes	3,481,915.75
	<u>\$129,787,816.15</u>
Bonds of Bell System Companies	33,077,940.93
Bonds of Other Companies	28,242.50
Cash awaiting investment and accrued interest not due	449,243.41
Total	<u>\$163,343,242.99</u>

NOTE: Securities are shown at cost adjusted to provide for amortization over their remaining life of premium or discount included in the purchase price, except that certain bonds in the pension trust fund of a subsidiary at the time of its acquisition, are included in "Bonds of Other Companies" at market value (\$13,272.50), which amount is less than their amortized cost.

We certify that the above statement of the Pension Trust Funds established by the American Telephone and Telegraph Company and its principal telephone subsidiaries is correct.

Bankers Trust Company, Trustee

By (Signed) W. C. MEYERS,

Assistant Secretary.

Dated—February 1, 1937.

BELL SYSTEM

Stocks, Bonds and Notes Outstanding December 31, 1936

(Inter-Company Holdings Excluded)

	Par Value	Increase (a) During Year
Common Stock (American Telephone and Telegraph Company) . . .	<u>\$1,868,509,300</u>	<u>\$ 2,281,800</u>
Common Stock (Principal Telephone Subsidiaries)		
New England Telephone and Telegraph Company	\$ 46,251,600	.....
Illinois Bell Telephone Company	1,040,400	.....
Mountain States Telephone and Telegraph Company	13,062,200	.....
Pacific Telephone and Telegraph Company	25,629,100	.....
Other Principal Telephone Subsidiaries	267,603	\$ 459,350
Total Common Stock, Principal Telephone Subsidiaries	<u>\$ 86,250,903</u>	<u>\$ 459,350</u>
Preferred Stock (Principal Telephone Subsidiaries)		
New York Telephone Company 6½%	\$ 25,000,000	.....
Bell Telephone Company of Pennsylvania 6½%	20,000,000	.....
Diamond State Telephone Company 6½%	500,000	.....
Chesapeake and Potomac Tel. Co. of Baltimore City 7% . . . . .	.....	\$ 3,000,000
Wisconsin Telephone Company 7%	4,947,000	.....
Northwestern Bell Telephone Company 6½% (b)	4,800,800	.....
Tri-State Telephone and Telegraph Company 6% . . . . .	.....	6,346,780
Southwestern Bell Telephone Company 7%	21,785,500	.....
Pacific Telephone and Telegraph Company 6%	17,904,300	.....
Other Principal Telephone Subsidiaries	2,642,375	434,175
Total Preferred Stock, Principal Telephone Subsidiaries . . .	<u>\$ 97,579,975</u>	<u>\$ 9,780,955</u>
Bonds and Notes (American Telephone and Telegraph Company)	Face Value	
Thirty-Year Collateral Trust 5s, 1946	(c)	\$64,865,200
Thirty-Five Year Sinking Fund Debenture 5s, 1960	(c)	117,984,700
Thirty-Five Year Debenture 5s, 1965	(c)	150,000,000
Twenty-Year Sinking Fund Debenture 5½s, 1943	\$ 95,170,700	.....
Twenty-Five Year Debenture 3¼s, 1961	175,000,000	175,000,000
Thirty-Year Debenture 3¼s, 1966	160,000,000	160,000,000
Thirty-Year 4s, 1936 . . . . .	.....	2,589,000
Ten-Year Convertible 4½s, 1939	12,923,000	.....
4% Demand Notes sold to Trustee of Pension Fund	11,022,113	.....
Total Bonds and Notes, American Tel. and Tel. Co.	<u>\$454,115,813</u>	<u>\$ 438,900</u>
Bonds and Notes (Principal Telephone Subsidiaries)		
New England Telephone and Telegraph Company:		
First Mortgage Series A 5s, 1952	\$ 35,000,000	.....
First Mortgage Series B 4½s, 1961	40,000,000	.....
New York Telephone Company:		
First and General Mortgage 4½s, 1939	60,861,600	\$ 4,275
Bell Telephone Company of Pennsylvania:		
First Mortgage 5s, 1943 (Central District Telephone Company) . . . . .	.....	8,555,500
First and Refunding Mortgage 5s, 1948, Series B	35,000,000	.....
First and Refunding Mortgage 5s, 1960, Series C	50,000,000	.....
Chesapeake and Potomac Telephone Company of Virginia:		
First Mortgage 5s, 1943	3,900,700	185,000
Southern Bell Telephone and Telegraph Company:		
First and Gen. Mtge. 5s, 1937 (Cumberland Tel. and Tel. Co.)	(c)	14,250,000
First Mortgage 5s, 1941	47,070,500	.....
Illinois Bell Telephone Company:		
First and Refunding Mortgage 3½s, 1970, Series B	45,000,000	.....
Tri-State Telephone and Telegraph Company:		
First and Refunding Mortgage 5½s, 1942, Series A . . . . .	.....	5,000,000
First Mortgage 5s, 1942, Series B . . . . .	.....	3,500,000
Southwestern Bell Telephone Company:		
First and Refunding Mortgage 3½s, 1964, Series B	45,000,000	1,000,000
Pacific Telephone and Telegraph Company:		
Refunding Mortgage 3¼s, 1966, Series B	30,000,000	30,000,000
Refunding Mortgage 3¼s, 1966, Series C	25,000,000	25,000,000
First Mortgage and Collateral Trust 5s, 1937	(c)	24,943,000
First and Ref. Mtge. 5s, 1947 (Southern California Tel. Co.) . . . . .	.....	6,011,000
Refunding Mortgage 5s, 1952 . . . . .	.....	23,890,000
First Mortgage 5s, 1936 (Home Tel. and Tel. Co. of Spokane) . . . . .	.....	2,999,900
4% Notes sold to Trustee of Pension Funds (principally demand)	118,765,703	7,159,523
Miscellaneous Bonds, Mortgages and Notes	2,113,100	6,678,200
Total Bonds and Notes, Principal Telephone Subsidiaries . . .	<u>\$537,711,603</u>	<u>\$32,853,802</u>

(a) Decreases in italics. (b) Called for redemption April 15, 1937. (c) Amount of this issue outstanding on December 31, 1936 treated as a current liability.

BELL SYSTEM STATISTICS

	Dec. 31, 1920	Dec. 31, 1925	Dec. 31, 1930	Dec. 31, 1935	Dec. 31, 1936	Increase* During 1936
Number of Telephones†.....	8,133,759	11,909,578	15,187,296	13,573,025	14,453,552	880,527
Number of Central Offices.....	5,767	6,147	6,639	6,896	6,921	25
Miles of Pole Lines.....	362,481	394,529	428,212	407,454	404,161	3,293
Miles of Wire:						
In Underground Cable.....	14,207,000	27,769,000	45,116,000	47,639,000	48,195,000	556,000
In Aerial Cable.....	6,945,000	12,835,000	23,777,000	26,425,000	26,639,000	214,000
Open Wire.....	3,711,000	4,339,000	5,231,000	4,562,000	4,539,000	23,000
Total.....	24,863,000	44,943,000	74,124,000	78,626,000	79,373,000	747,000
Per Cent Total Wire Mileage in Cable.....	85.1	90.3	92.9	94.2	94.3	.....
Average Daily Telephone Conversations:‡						
Exchange.....	31,818,000	48,051,000	61,150,000	58,066,000	62,485,000	4,419,000
Toll and Long Distance.....	1,307,000	2,090,000	2,884,000	2,224,000	2,490,000	266,000
Total.....	33,125,000	50,141,000	64,034,000	60,290,000	64,975,000	4,685,000
Total Plant.....	\$1,373,802,000	\$2,566,809,000	\$4,028,836,000	\$4,187,790,000	\$4,259,263,000	\$71,473,000
Number of Employees††.....	228,943	292,902	318,119	241,169	255,814	14,645
Number of A. T. and T. Co. Stockholders.....	139,448	362,179	567,694	657,465	640,991	16,474

* Decreases shown in italics.

† Excludes private line telephones numbering 81,087 on December 31, 1936. Including telephones of about 6,600 connecting companies and more than 25,000 connecting rural lines, the total number of telephones in the United States which can be interconnected is approximately 18,360,000.

‡ For year ending December 31.

†† The employees of the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., numbering 38,548 on December 31, 1936, are not included.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet

ASSETS		December 31, 1936	December 31, 1935
Plant and Other Investments:			
Telephone Plant		\$ 432,114,258	\$ 436,331,742
Plant and equipment mainly for providing interconnection between and through territories of operating telephone subsidiaries and other telephone companies.			
Investments in Subsidiaries (at cost) (a)		2,296,742,377	2,274,761,609
Stocks (b)	\$2,182,225,246		
Notes and advances	114,517,131		
Other Investments (at cost) (a)		42,418,124	47,806,946
Stocks	\$ 41,725,605		
Notes	453,591		
Miscellaneous Physical Property	238,928		
Sinking Funds		500,000	1,202,573
Total Plant and Other Investments		<u>\$2,771,774,759</u>	<u>\$2,760,102,870</u>
Current Assets:			
Cash required to retire funded debt called for redemption, including premiums		\$ 138,960,090	\$
Other Cash and Deposits		9,622,308	18,236,185
Temporary Cash Investments		170,633,835	194,339,659
United States Government obligations. Market value December 31, 1936, \$170,559,900.			
Current Receivables		13,942,404	13,010,978
Amounts due for service (less reserve for uncollectible accounts), interest and dividends receivable, working advances, etc.			
Material and Supplies		8,661,481	8,381,309
Total Current Assets		<u>\$ 341,820,118</u>	<u>\$ 233,968,131</u>
Deferred Debits:			
Unamortized Discount on Funded Debt		\$ 2,577,679	\$
Other Deferred Debits		1,517,021	1,680,878
Prepayments of rents, taxes, insurance, etc.; deposits with workmen's compensation commissions; and miscellaneous items the final disposition of which had not been determined at close of year.			
Total Deferred Debits		<u>\$ 4,094,700</u>	<u>\$ 1,680,878</u>
Total Assets		<u>\$3,117,689,577</u>	<u>\$2,995,751,879</u>

(a) For detailed list of investments in securities see page 27.

(b) At December 31, 1936, stocks of subsidiaries carried at \$112,460,166 were pledged under a trust indenture securing the Company's Thirty Year Collateral Trust 5s, called for redemption on December 1, 1936. It is expected that the collateral pledged will be released during 1937.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet, Continued

LIABILITIES

	December 31, 1936	December 31, 1935
Capital Stock:		
Stock issued and outstanding (Authorized \$2,500,000,000)	\$1,868,509,300	\$1,866,227,500
Par value, \$100 per share, of common stock outstanding.		
Premiums on Capital Stock	269,889,978	268,749,078
Amount received in excess of par value.		
Capital Stock Installments	250,602	4,330,337
Amount received under Employees' Stock Plan on stock subscriptions not yet completed or cancelled. (This Plan was discontinued as to new subscriptions in 1933.)		
Total Capital Stock	<u>\$2,138,649,880</u>	<u>\$2,139,306,915</u>
Funded Debt (See page 22)	(c) \$ 443,093,700	\$ 443,532,600
Notes sold to Trustee of Pension Fund	11,022,113	11,022,113
Demand notes held by Trustee as an investment of pension funds not presently required to meet pension payments— (See pages 22 and 27)		
Current and Accrued Liabilities:		
Funded Debt called for redemption but not presented for payment, including premiums	\$ 138,960,090	\$
Dividend Payable January 15th	42,041,459	41,990,119
Accounts Payable	6,802,723	3,416,837
Interest and Taxes Accrued	7,782,816	11,263,579
Total Current and Accrued Liabilities	<u>\$ 195,587,088</u>	<u>\$ 56,670,535</u>
Deferred Credits	\$ 1,455,165	\$ 1,775,453
Items, the final disposition of which had not been determined at close of year.		
Depreciation Reserve	102,649,072	95,040,547
Provision to meet loss of investment in depreciable plant upon its ultimate retirement from service.		
Surplus:		
Surplus Reserved	64,664,444	64,664,444
Amount reserved against general contingencies.		
Unappropriated Surplus	160,568,115	183,739,272
Additions during 1936:		
Net income after dividends	\$ 6,745,235	
Miscellaneous additions	1,012,985	
Total additions	<u>\$ 7,758,220</u>	
Deductions during 1936:		
Premiums on funded debt called	\$30,041,730	
Miscellaneous deductions	887,647	
Total deductions	<u>\$30,929,377</u>	
Net decrease	\$23,171,157	
Total Liabilities	<u>\$3,117,689,577</u>	<u>\$2,995,751,879</u>

(c) At December 31, 1936, \$126,560,600 face amount of funded debt called for redemption had not been presented for payment. This liability, together with premiums of \$12,399,490, is shown under Current and Accrued Liabilities.

NOTE: No specific provision has been made in the accounts in respect of a contingent liability to the City of New York for taxes imposed under Local Law No. 19 of 1933, and subsequent similar laws, since the Company denies liability for such taxes; nor has specific provision been made for contingent liabilities in connection with certain suits involving patent licensing agreements and alleged patent infringements since it is the opinion of counsel for the Company that it is improbable that the claims thereunder can be sustained.

On December 31, 1936, the Company was surety on bonds for \$17,112,669, executed by The Ohio Bell Telephone Company (a subsidiary) as principal, to secure possible refunds to telephone users. In this connection, the Company was also surety on a bond for \$20,000,000 filed in connection with the appeal from a judgment of the Supreme Court of Ohio to the Supreme Court of the United States contesting the obligation of The Ohio Bell Telephone Company to make these refunds.

Federal income tax returns of the Company have not been closed for the years subsequent to 1930.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement

	Year 1936	Year 1935
Operating Revenues		
Toll Service Revenues	\$ 89,636,121	\$ 78,092,813
Message tolls and private line service revenues.		
License Contract Revenues	13,450,531	12,635,359
Payments received for services furnished telephone companies under license contracts.		
Miscellaneous Revenues	4,199,119	4,044,862
Less: Uncollectible Operating Revenues	364,987	523,590
Total Operating Revenues	\$106,920,784	\$ 94,249,444
Operating Expenses (a)		
Current Maintenance	\$ 16,143,285	\$ 15,284,240
Depreciation Expense	17,376,311	17,492,018
Traffic Expenses	6,129,897	5,403,313
Commercial Expenses	2,590,614	2,288,150
Operating Rents	11,255,777	11,826,107
General Administration (b)	15,638,501	14,442,196
Accounting and Treasury Department Expenses	3,284,487	3,254,075
Provision for Employees' Service Pensions	914,521	905,348
Employees' Sickness, Accident, Death and Other Benefits.	450,960	456,733
Other General Expenses	1,163,791	1,236,620
Less: Expenses Charged Construction	100,210	81,514
Total Operating Expenses	\$ 74,847,934	\$ 72,507,286
Net Operating Revenues	\$ 32,072,850	\$ 21,742,158
Operating Taxes		
Federal Income	\$ 852,434	\$ 753,234
Social Security (Excludes \$17,170 charged Construction)	302,725	.....
Other—Principally state and local.	5,607,834	5,126,438
Total Operating Taxes	\$ 6,762,993	\$ 5,879,722
Net Operating Income	\$ 25,309,857	\$ 15,862,436
Dividend Income	166,071,313	121,244,200
Interest Income	7,048,640	11,289,498
Other Income—Net	839,682	840,392
Total Income	\$199,269,492	\$149,236,526
Interest Deductions	24,443,078	23,430,021
Net Income (c)	\$174,826,414	\$125,806,505
Dividends Declared	168,081,179	167,960,475
At \$9.00 per share of capital stock.		
Balance transferred to Surplus	\$ 6,745,235	(d) \$ 42,153,970

(a) The greater part of Operating Expenses are incurred in connection with the Company's long distance communication services, but such expenses also include substantial amounts incurred by the Company in the performance of its License Contract services furnished telephone companies.

(b) Includes \$9,596,878 for 1936 and \$8,714,227 for 1935 for cost of development and research work carried on in behalf of the Company by Bell Telephone Laboratories.

(c) Net Income of the Company by itself, for 1936 and 1935, is less by \$9,918,050 and \$7,111,988, respectively, than the Company's proportion of the consolidated Net Income of the Bell System for these years as shown on page 19.

(d) Negative amount.

NOTE: The Company does not consider that any liability exists in respect of Federal surtax on undistributed earnings in 1936.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Investments in Subsidiary and Other Companies at December 31, 1936

Subsidiary Companies	Capital Stocks (a)			Notes and Advances
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	Face Value
New England Tel. & Tel. Co.	\$ 87,094,200	65.31	\$ 92,045,721	\$ 17,100,000
New York Tel. Co.	421,300,000	100.00	444,280,335	.....
New Jersey Bell Tel. Co.	140,000,000	100.00	153,667,184	6,500,000
Bell Tel. Co. of Pennsylvania	110,000,000	100.00	116,316,050	5,607,769
Diamond State Tel. Co.	5,000,000	100.00	5,700,000	730,000
Chesapeake & Potomac Tel. Co.	20,000,000	100.00	21,000,000	2,895,000
Chesapeake & Potomac Tel. Co. of Balt. City	30,000,000	100.00	31,467,862	4,225,000
Chesapeake & Potomac Tel. Co. of Va.	18,000,000	100.00	18,000,000	4,675,000
Chesapeake & Potomac Tel. Co. of West. Va.	16,200,000	100.00	16,200,000	1,900,000
Southern Bell Tel. & Tel. Co.	124,998,700	99.99	126,815,773	8,000,000
Ohio Bell Tel. Co.	129,999,600	99.99	130,041,898	.....
Michigan Bell Tel. Co.	124,989,607	99.99	125,402,210	6,150,000
Indiana Bell Tel. Co.	32,999,100	99.99	33,585,586	5,414,362
Wisconsin Tel. Co.	40,000,000	100.00	43,223,835	.....
Illinois Bell Tel. Co.	148,959,600	99.31	154,440,399	.....
Northwestern Bell Tel. Co.	100,000,000	100.00	101,039,490	11,240,000
Southwestern Bell Tel. Co.	172,999,000	99.99	176,252,078	.....
Mountain States Tel. & Tel. Co.	34,987,500	72.82	36,362,463	16,200,000
Pacific Tel. & Tel. Co.—Common	154,870,900	85.80	150,529,084	4,400,000
Pacific Tel. & Tel. Co.—Preferred	64,095,700	78.17	55,999,180	.....
Bell Telephone Laboratories, Inc.	50,000	(b)50.00	50,000	2,475,000
Western Electric Co., Inc. (no par value)	(c)5,965,975	99.43	144,216,098	.....
195 Broadway Corporation	5,500,000	100.00	5,515,000	(d)15,520,000
Eastern Tel. & Tel. Co. (Canada)	75,000	100.00	75,000	1,485,000
Total Book Value (Cost)			\$2,182,225,246	\$114,517,131
Other Companies				
Southern New England Tel. Co.	\$ 13,337,400	33.34	\$13,649,213	\$450,000
Cincinnati & Suburban Bell Tel. Co.	8,169,150	29.72	8,732,568	.....
Bell Telephone Company of Canada	18,749,800	23.86	18,854,783	.....
Cuban American Tel. & Tel. Co.—Common	432,500	50.00	162,500	.....
Cuban American Tel. & Tel. Co.—Preferred	325,000	50.00	325,000	.....
Sundry	1,230	.....	1,541	3,591
Total Book Value (Cost)			\$41,725,605	\$453,591

(a) Common stocks except as otherwise indicated. (b) Remaining 50% owned by Western Electric Company, Inc. (c) Number of shares. (d) Includes real estate mortgages of \$13,100,000.

Pension Trust Fund

established by the

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Bankers Trust Company, New York, N. Y., Trustee

Balance in Fund—December 31, 1935		\$17,749,799.96
Additions to Fund during 1936—		
Amount paid in by Company to provide for pension liability accruing in respect of employees in its service	\$ 914,521.00	
Interest revenue from investments after amortization of premium or discount included in purchase price	751,708.20	
Other additions	239,218.77	
Total additions	\$1,905,447.97	
Disbursements for pensions during 1936 to retired employees	\$ 477,824.88	
Net increase in Fund		\$ 1,427,623.09
Balance in Fund—December 31, 1936		\$19,177,423.05
Comprised of—		
4% Demand Notes of American Telephone and Telegraph Company purchased at face value		\$11,022,112.57
Bonds of Bell System Companies		8,034,680.00
Cash awaiting investment and accrued interest not due		120,630.48
Total		\$19,177,423.05

NOTE: Securities are shown at cost adjusted to provide for amortization over their remaining life of premium or discount included in the purchase price.

We certify that the above statement of the Pension Trust Fund established by the American Telephone and Telegraph Company is correct.

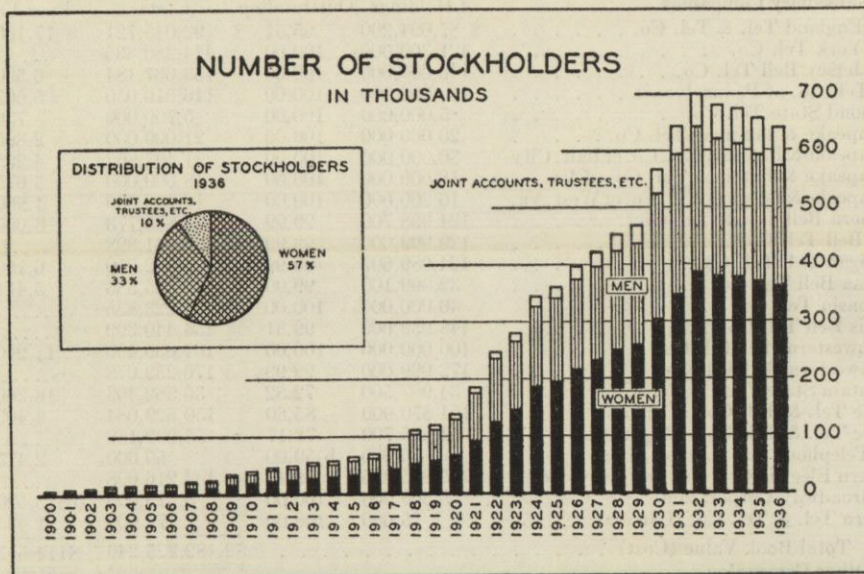
Bankers Trust Company, Trustee

By (Signed) W. C. MEYERS,

Assistant Secretary.

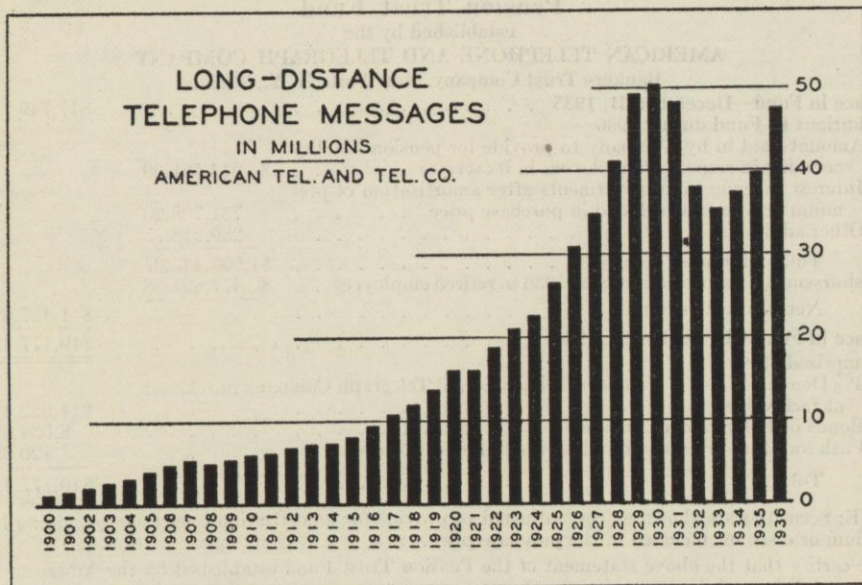
Dated January 14, 1937.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

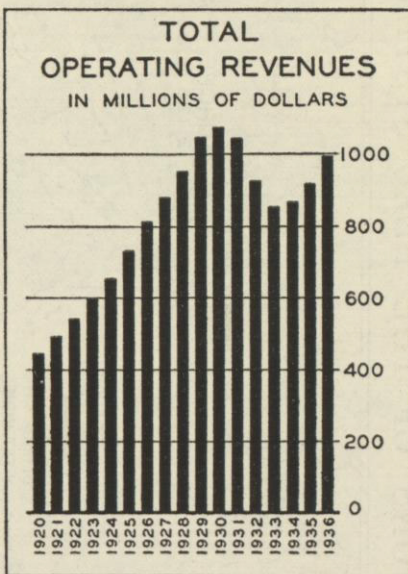
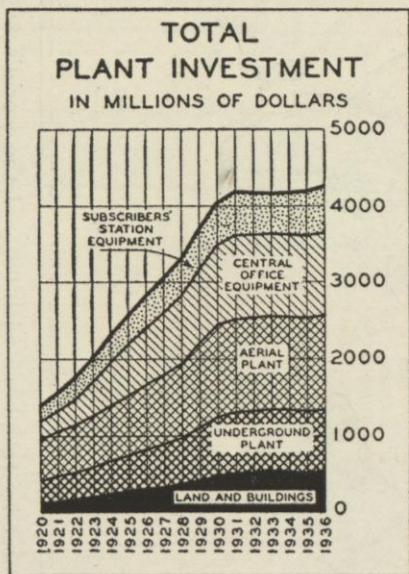


The number of stockholders of record of the Company on December 31, 1936 was 640,991, as compared with 657,465 at the end of 1935. The average number of shares held per stockholder at the end of the year was 29. About 41 per cent of the shares are held by women; 33 per cent by men; 4 per cent in joint accounts; 19 per cent by trustees, insurance companies, corporations, private firms, etc., and 3 per cent are in the names of brokers. No stockholder of record holds as much as one per cent of the total stock outstanding.

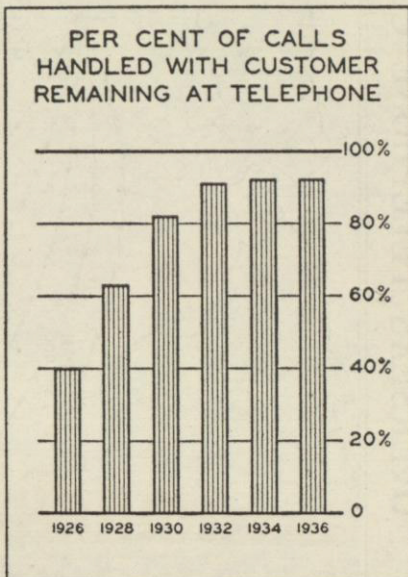
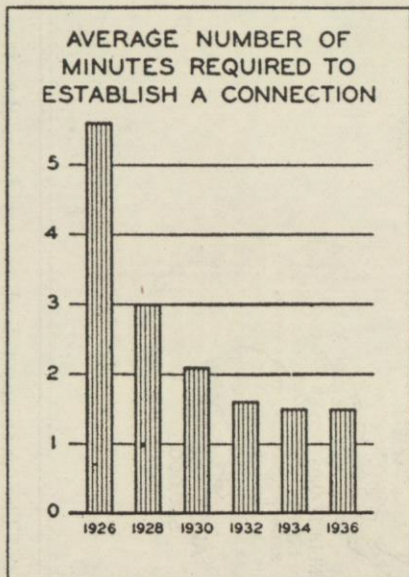
There were also at the end of 1936 about 23,000 holders of common stock and 94,000 holders of preferred stock of the Company's principal telephone subsidiaries. Allowing for duplications in these totals, there are now about 715,000 owners of stock of the Company and its principal telephone subsidiaries.



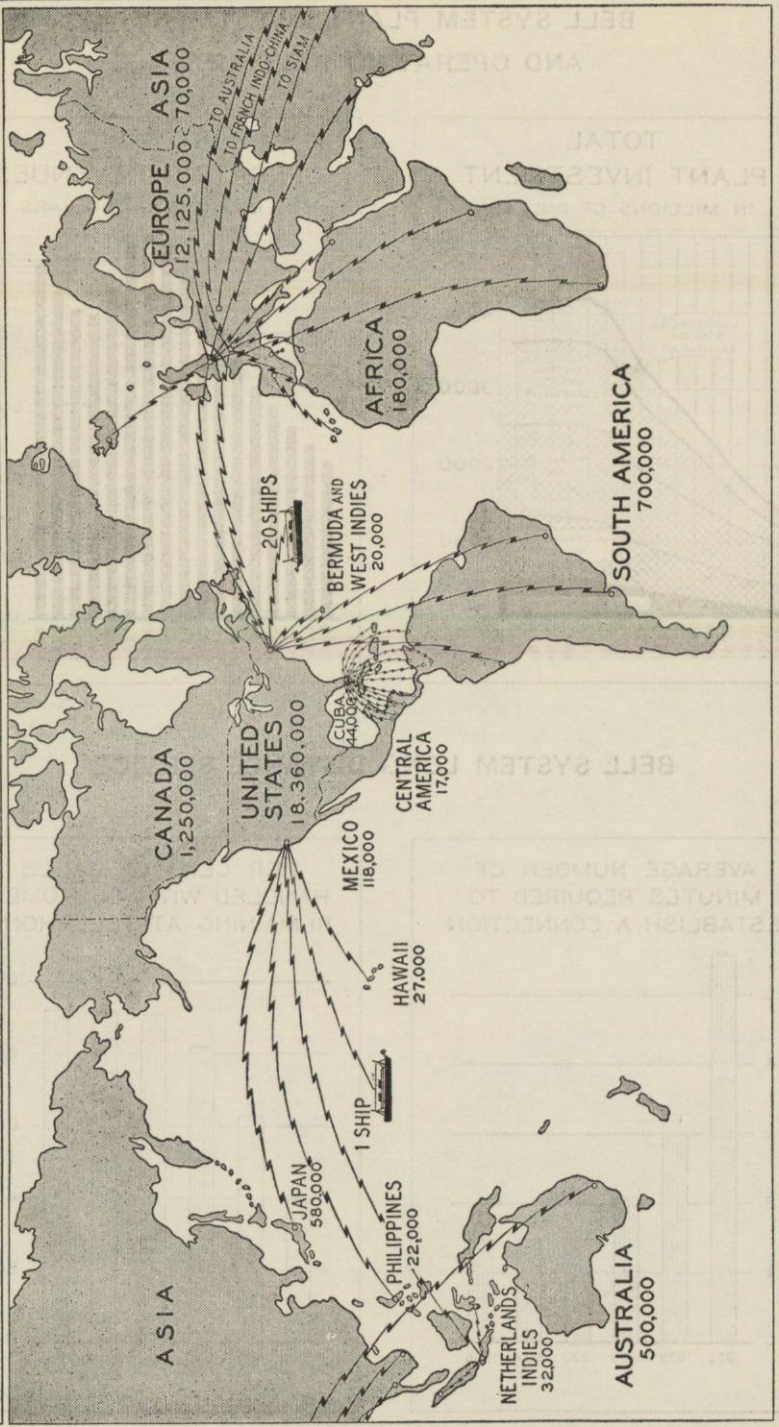
BELL SYSTEM PLANT INVESTMENT AND OPERATING REVENUES



BELL SYSTEM LONG DISTANCE SERVICE



OVERSEAS TELEPHONE CONNECTIONS OF THE BELL SYSTEM



The overseas telephone service makes it possible to connect by telephone with 93% of the world's 36,800,000 telephones. Figures indicate the approximate number of telephones which may be connected with Bell System telephones. One-half of the world's telephones are in the United States.