

ANNUAL REPORT
of the
AMERICAN TELEPHONE
AND TELEGRAPH COMPANY
FOR 1937



195 BROADWAY
NEW YORK

MRb
STRAWBOARDS

653.6

Am 38



Mrs. J. J. [illegible]

"This country is entitled in good times and bad to the best possible telephone service at the lowest possible cost. The success of the American Telephone and Telegraph Company and its Associated Companies must be measured by that standard and depends on giving at all times, day and night, dependable, accurate and speedy telephone service, constantly improved and extended in scope by research and invention, at a cost to the users as low as efficient operation can make it, consistent with fair treatment of employees and such return to the stockholders as will insure the financial safety of the enterprise."

Walter S. Gifford

American Telephone and Telegraph Company

195 BROADWAY, NEW YORK

•
OFFICERS

President

WALTER S. GIFFORD

Vice Presidents

BANCROFT GHERARDI A. W. PAGE
C. M. BRACELEN T. G. MILLER
F. B. JEWETT K. W. WATERSON
C. P. COOPER K. S. McHUGH
ROBERT W. CURRAN

Secretary

R. H. STRAHAN

Treasurer

JAMES F. BEHAN

Comptroller

C. A. HEISS

•
DIRECTORS

CHARLES FRANCIS ADAMS	WALTER S. GIFFORD
WINTHROP W. ALDRICH	HALE HOLDEN
JAMES F. BELL	DAVID F. HOUSTON
CHARLES P. COOPER	ARTHUR W. PAGE
DAVID A. CRAWFORD	ELIHU ROOT, JR.
JOHN W. DAVIS	PHILIP STOCKTON
EDWARD D. DUFFIELD	MYRON C. TAYLOR
W. CAMERON FORBES	SAMUEL A. WELLDON
GEORGE P. GARDNER	DANIEL WILLARD
S. CLAY WILLIAMS	

Report of the Directors
of
American Telephone and Telegraph Company

NEW YORK, MARCH 1, 1938.

TO THE STOCKHOLDERS:

The number of telephones in the Bell System* reached a new all time high in 1937. At the end of the year, there were 15,332,000 telephones in service as compared with the previous maximum number of 15,193,000 which was reached in 1930. The increase of 878,400 telephones in 1937 was 2,100 less than the increase of 880,500 in 1936.

The average daily number of telephone conversations during the year was 68,790,000. There were 6 per cent more local conversations and 8 per cent more toll and long distance conversations than in 1936.

During the latter part of 1937, there was a slowing up in the rate of increase in telephones and telephone conversations, and at the end of the year the number of daily toll and long distance conversations was about the same as at the end of 1936.

Including the telephones of about 6,500 connecting telephone companies and more than 25,000 connecting rural telephone lines, there were at the end of the year approximately 19,380,000 telephones in the United States, one for every seven persons, contrasted with one for every forty persons in Europe.

Total operating revenues of the Bell System in 1937 were \$1,051,400,000, an increase of \$56,500,000, or 5.7 per cent over the previous year. Expenses, however, increased \$69,000,000, or 8.9 per cent. Of this increase, taxes charged to operation accounted for \$19,600,000 and wage increases for \$27,000,000, or a total of \$46,600,000. Thus over two-thirds of the increase in expenses was due to increased taxes and higher wage rates. The net operating income of \$207,000,000 was \$12,500,000 less than in 1936.

* "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 I, page 14.

Other income, which includes the System's proportion of the earnings of the Western Electric Company, Inc., and its subsidiaries, was \$28,990,000, approximately the same as in 1936. As a result of refunding and retirements, interest charges and dividends on preferred stocks decreased \$9,400,000. The net income applicable to stock of the American Telephone and Telegraph Company was \$182,342,000, or \$9.76 per share as compared with \$9.89 in 1936.

Bell System taxes, as just noted, continued to increase and the total, including taxes charged to construction, amounted to \$137,600,000 in 1937, or \$20,800,000 over 1936. Taxes in 1936 were \$22,300,000 greater than in 1935. Thus in two years there has been an increase of \$43,100,000 in taxes, or 46 per cent. Taxes in 1937 were equal to \$9.21 per telephone in service, \$7.04 per share of common stock outstanding, or \$525 per employee.

The Bell System, the Western Electric Company, Inc. and the Bell Telephone Laboratories, Inc., combined, had a total of 316,600 employees at the end of 1937, which was 22,300 more than at the end of 1936. The total payroll for the year, including the payroll of construction, manufacturing and laboratory personnel, was \$560,900,000, an increase of \$86,200,000 over 1936. Of this \$86,200,000, more than one-half resulted from the effect of wage increases.

Cash assets of the System at the end of the year, including funds temporarily invested in Government obligations, but exclusive of \$12,900,000 held for retirement of bonds called for redemption, were \$153,000,000, of which amount this Company held \$114,500,000.

During the year, plant additions amounted to \$323,900,000, and plant retirements to \$193,600,000, resulting in a net increase in plant of \$130,300,000, or 3 per cent. This compares with a net increase in plant of \$71,000,000 in 1936.

Total assets of the Bell System at the end of 1937 amounted to \$5,057,800,000. Of these assets, \$4,389,500,000 was telephone plant and equipment against which there was a depreciation reserve of \$1,198,500,000, or 27 per cent.

During 1937, the Southern Bell Telephone and Telegraph Company sold \$45,000,000 of 3¼% Debentures due in 1962, and retired its \$47,070,500, 5% Mortgage Bonds due in 1941. The New York Telephone Company sold \$25,000,000, 3¼% Mortgage Bonds due in 1967 and retired its \$25,000,000, 6½% Cumulative Preferred Stock. The Northwestern Bell Telephone Company retired its \$4,800,800, 6½% Cumulative Preferred Stock. The United Telephone Company retired its \$2,570,400, 7% Cumulative Preferred Stock. The American Telephone and Telegraph Company called for redemption on January 3, 1938, at par and accrued interest, its \$12,923,000 Ten-Year Convertible 4½% Debenture Bonds due July 1, 1939.

The capital obligations of the System at the end of 1937 consisted of:

Funded Debt, including pension fund notes	\$1,011,009,000	% of Total 27.8
Preferred Stocks	65,140,000	1.8
Common Stocks, including premiums and surplus	2,562,321,000	70.4
Total	\$3,638,470,000	100.0

Interest on debt was at the average rate of 4 per cent, dividends on preferred stocks averaged 6.6 per cent and dividends on common stocks, including premiums, that is, the amounts paid in by stockholders in excess of par, and including surplus, were at the rate of 6.8 per cent. Total interest and dividends amounted to 6 per cent on total capital obligations, that is, on the capital invested in the business

by those who have loaned money to it and those who are stockholders.

At the end of 1937, there were 642,000 stockholders of record of the American Telephone and Telegraph Company. The average number of shares held per stockholder was 29. Geographically, the stock was widely held. No stockholder held as much as one per cent of the total stock. Approximately one-fourth of the Bell System employees owned stock in the Company. Including the holders of common and preferred stocks of the Company's principal telephone subsidiaries and excluding duplications, there were about 690,000 Bell System stockholders.

Telephone service continues to improve with practically every aspect showing betterment in 1937. This improvement, considering the fact that over 50,000 new employees were inducted into the operating forces to care for increased business and to replace losses, is especially gratifying.

The technical operations of telephony make necessary in almost all cases a great deal of training after the employee comes into the Bell System. In the development of a skilled telephone craftsman, a number of years of experience must be combined with vocational training. Combinations of experience and extensive training are also essential for telephone operators and those concerned with the business aspects of telephone work. Beyond specific training for the job, there is broader training and educational work concerning the service requirements of the business and its responsibilities to the public.

The work of most telephone people, moreover, whether they are operators, linemen, installers, business representatives or supervisors, calls for individual responsibility and initiative. These qualities are particularly important because of the wide range of contacts with the public, work carried on under varied

conditions, frequently without immediate supervision, and the tradition of maintaining the continuity of the service in emergencies.

The System's management forces have been drawn almost entirely from the ranks of the business. All of the two hundred officers and department heads responsible for operations started at the bottom of the business except five who came with the System early in their business careers. All but fourteen of the two hundred have been twenty years or more in the Bell System and not one has had less than fourteen years experience. The average age of the two hundred operating heads is just under fifty-three years. The youngest is thirty-six and none is more than sixty-five, for automatic retirement under the Pension Plan is required at that age.

Thus it is generally the practice of the business for the management to be selected from the ranks and made up of men of long experience, but still in their prime. This provides the creative force that is needed constantly to improve service to the public and working conditions for employees.

The relations with the public are handled by the people who furnish the service, with the aid of staff studies of the success or failure of the various activities and methods used to give the public the kind of telephone service it wants. As the public's desires and habits and the techniques of telephony change, the adaptation of one to the other is a perpetual enterprise which can succeed only by constant attention and application. The Bell System also accepts as a duty the explanation of its organization, policies and practices to the public by official statements and advertisements in order that all may know how its affairs are conducted.

While the primary requisites of satisfactory telephone service are clarity, promptness and accuracy, it has been long recognized that to obtain full public approval, service must reflect real personal interest; this is particularly so in the handling of unusual situations or in dealing with a customer

who has experienced service difficulty. An important objective during 1937 has been to develop further this personalizing of the service throughout the entire organization. This, combined with the many other operating and technical improvements, has done much to merit the good will of customers. In 1937, criticisms from the users were at an all time low.

The courageous and effective performance of telephone workers and the value of the Bell System's nation-wide organization in emergencies was again impressively demonstrated in the catastrophe of the Ohio River floods in January, 1937.

Savings to the public from rate reductions made effective in the Bell System in 1937 amounted, on an annual basis, to nearly \$22,000,000. Most of these reductions were the result of conferences and informal discussions with the regulatory bodies concerned and were made in the early months of the year, \$12,000,000 being due to the January, 1937, long distance rate reductions of this Company referred to in last year's Report.

The System in the long run looks to development and research to reduce the cost of furnishing telephone service. If, however, expenses, including wages and taxes, continue to rise, telephone rates must follow, unless the increase in expenses is so gradual and within such limits that improvements in the art can be made fast enough and productive enough to create offsetting economies.

During 1937, the new subscribers' apparatus mentioned as under development in previous Annual Reports was made available after satisfactory service trial. This apparatus includes improved forms of telephone transmitters, receivers and dials applicable to several forms of subscribers' equipment; also a simpler handset telephone with a base which includes within itself smaller designs of the bell and other

