

ANNUAL REPORT
of the
AMERICAN TELEPHONE
AND TELEGRAPH COMPANY
FOR 1937



195 BROADWAY
NEW YORK

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STRAWBOARDS

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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

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OFFICERS

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WALTER S. GIFFORD

Vice Presidents

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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

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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

equipment formerly placed in a separate unit, making for simplification of installation.

A trial of the new "crossbar" switching system in a New York City central office has been completed. This system, the development of which has been referred to in previous Reports, is called the "crossbar" system because of the type of switch used as one of its elements. It fulfills expectations and is being put into commercial service. Active work on further improvements of switching systems is in progress.

A simpler form of teletypewriter, meeting the needs of a considerable part of the teletypewriter exchange customers, is being manufactured. Equipment has also been developed to aid in extending teletypewriter exchange service to customers in small communities.

Broad band carrier systems in which twelve telephone messages are carried simultaneously on a single pair of open wires, or on two pairs of wires in cable, have been referred to in previous Reports as under development. Trial installations, started in 1936, have progressed satisfactorily during the year just past and equipment for such systems is now in production.

The coaxial cable system between New York and Philadelphia was further tested, the results of the tests leaving little doubt as to the adequacy of the system to provide 240 telephone circuits. The coaxial cable itself is a simple structure in which message currents are transmitted through a metal tube a little larger than a lead pencil with a single copper wire extending along its axis. The associated repeating and terminal equipment, however, involve elaborate circuit arrangements and it is expected that these will require considerably more development work before their service reliability will be assured.

Tests to determine the adequacy of the coaxial cable system for television transmission were also made. In these experiments, images on a motion picture film in New York City were seen in Philadelphia. The experiment was successful in demonstrating that the quality of the pictures lost substantially nothing in transmission over the line. However, the frequency band was not sufficient to meet the requirements now contemplated for television. This will necessitate that the

upper limit of frequency of the coaxial system, which for the initial test was set at one million cycles, be raised to approximately three million cycles. No change will be required in the cable itself. When new amplifiers are provided to encompass the larger range of frequencies, the capacity of the coaxial system used exclusively for telephone transmission will be increased to 480, or possibly more, telephone circuits.

Continuous development is being carried forward on radio telephone systems. Construction has been started on a short wave receiving station incorporating a new and ingenious directive antenna which will improve the reliability of European service.

The Bell Telephone Laboratories received a noteworthy honor in the bestowal of a Nobel Prize on Dr. C. J. Davisson, one of its distinguished scientists. The prize was awarded for his experimental discovery of the wave nature of the electron. This work grew out of Dr. Davisson's researches on the emission of electrons from metals, a line of research work that has been very important in the perfection of vacuum tubes.

To meet the increasing volume of transcontinental telephone conversations and to give added safety and stability to the coast-to-coast service, a fourth transcontinental telephone route was completed during 1937 to Los Angeles. While initially the new line provides facilities for sixteen additional telephone circuits between the Atlantic and Pacific seaboard, it has been so constructed as to allow for the application of the recently developed broad band carrier systems which, when added to the existing facilities, will yield a total of sixteen telephone circuits for each pair of wires. Installation of terminal and repeater equipment for the first of the new systems is planned to begin in 1938. Completely equipped with wide band carrier systems, the eight wires of the new line can be made to yield sixty-four telephone circuits.

Overseas telephone conversations during 1937 increased

approximately 50 per cent over those handled in 1936, and marked a new high for any year since the service was inaugurated. The service was extended to Alaska, China, Bulgaria, Haiti and the city of Bagdad in Iraq, as well as to the steamships *Washington* and *Manhattan* of the United States Lines.

Two additional short wave radio telephone circuits were put into service during 1937, one linking New York and London, the other San Francisco and Honolulu. The circuit to Honolulu introduces the new single side-band system, through which it is anticipated that economies will be made both in the use of radio frequencies and in the amounts of power required to operate the circuits. One of the existing circuits to London was also converted to single side-band operation.

Radio telephone service to small vessels in coastal and harbor waters continued to expand during the year with the addition of about two hundred vessels to the number of those already equipped for the service. These boats include tugs, yachts and fishing vessels as well as freighters operating along the coast and on the Great Lakes. Altogether, over three hundred vessels are now included in the scope of this service and connect with eight Bell System and connecting radio stations on the Atlantic and Pacific coasts and on the Great Lakes.

Public hearings in the investigation of this Company and other Bell System companies by the Federal Communications Commission have been concluded. This investigation, begun three years ago pursuant to a joint resolution of the Congress which appropriated in all \$1,500,000 for the purpose, has been one-sided throughout. The Company was denied not only the right to cross-examine investigation witnesses and to be heard in its own behalf, but was denied the right to have included in the record written material which it had prepared and considered necessary to point out serious and important errors affecting most of the investigators' reports. The Commission has not yet* submitted its report on the investigation to the Congress.

*Up to February 16 when this report went to press.

The sales of the Western Electric Company, over 99 per cent of the capital stock of which is owned by the American Telephone and Telegraph Company and which manufactures most of the telephone equipment used in the Bell System, were \$203,467,000 in 1937, an increase of 39 per cent over 1936. Its sales were, however, less than one-half those of its 1929 peak of \$411,000,000. The Western Electric Company, including its subsidiaries, had net earnings, after interest charges, of \$19,514,000 in 1937, as compared with 1936 net earnings of \$18,698,000.

The Plan for Employees' Pensions, Disability Benefits and Death Benefits has been in successful operation for twenty-five years. It was one of the earliest plans of this type voluntarily established and is non-contributory, all the costs being paid by the companies. The Plan applies to all employees alike by establishing benefits and pension payments on a uniform basis according to wages and service for those who meet its reasonable eligibility requirements.

For the Bell System, the Western Electric Company and the Bell Telephone Laboratories combined, the following amounts were paid under the Plan in 1937:

Sickness disability benefits	\$5,362,000
Accident disability benefits	557,000
Death benefits	1,740,000
Disability pensions	386,000
Service pensions	6,210,000
Total	<u>\$14,255,000</u>

Service pensions are paid from Pension Funds aggregating \$231,400,000 at the end of 1937, which are held by an outside trustee and dedicated, together with their interest earnings, exclusively to service pension purposes. In 1937, the amount paid over to the Trustee of the Pension Funds was equivalent to 2.8 per cent of the payroll. There were 8,278 retired employees on service pension rolls at the end of the year.

At the end of 1937, about 86,000 employees of the Bell System, the Western Electric Company and the Bell Tele-

phone Laboratories 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, 75,400 employees were purchasing insurance at the end of the year. The amount of premium deductions made during the year was \$7,140,000 and the amount of insurance in effect at the end of the year was \$218,000,000. Monthly deductions from payrolls were also made for 1,700 employees, veterans of the World War, who are paying for approximately \$8,000,000 of United States Government Insurance. These payroll deductions are made by the companies without charge as a convenience to the employees.

The Theodore N. Vail Memorial Fund provides awards annually in recognition of unusual acts of service. This year, three silver medals with \$250 each, and thirty-two bronze medals, all with accompanying citations, were awarded.

SILVER MEDAL AWARDS

MICHAEL J. O'CONNOR

*Lineman, Concord, New Hampshire
New England Telephone and Telegraph Company*

For courage and prompt action and the intelligent and effective use of telephone equipment, resulting in the rescue of men from drowning.

JOHN F. STECK

*Construction Foreman, New Milford, Connecticut
The Southern New England Telephone Company*

For resourceful, courageous and effective action in rescuing a man imperiled by the swiftly moving ice and flood waters of the Housatonic River.

ROBERT HILDEBRAND

*Toll Repairman, Fulton, Missouri
Southwestern Bell Telephone Company*

For unusual competence, good judgment, and the effective use of telephone facilities in summoning assistance and rendering first aid at the scene of a serious automobile accident.

Sixteen special bronze plaques were awarded to groups of employees in recognition of their skill, courage and devotion to duty in performing acts of noteworthy public service during the floods of March, 1936, as follows:

Employees of The Bell Telephone Company of Pennsylvania at Pittsburgh; Johnstown; Williamsport; Clearfield; Milton; Sunbury; Tyrone; Wilkes-Barre, Kingston and Plymouth; Jersey Shore; Lock Haven; and Renovo, all in Pennsylvania.

Employees of the Plant Department of the New England Telephone and Telegraph Company at Saco, Maine, and at Orange and at Lawrence, Massachusetts; and of the Plant and Traffic Departments at Rumford, Maine.

Employees of The Southern New England Telephone Company in the Connecticut River Valley.

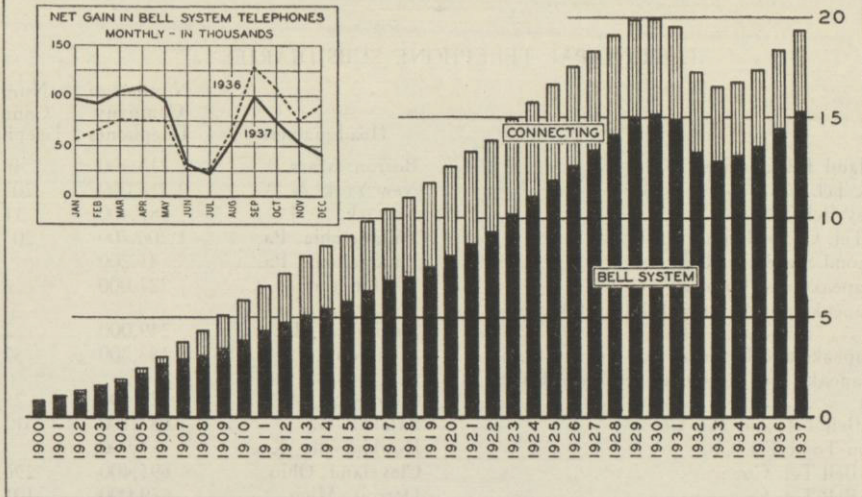
The quality of Bell System service is judged not only by its accuracy, promptness and reliability, but also by the courteous, pleasing and helpful manner in which it is provided. Many millions of times every day, the public tests the quality of service. A service which can meet the test is possible only when there is sympathetic understanding and mutual respect between employees and management. It is a tribute to both employees and management that Bell System service was never better than during the past year.

For the Directors,

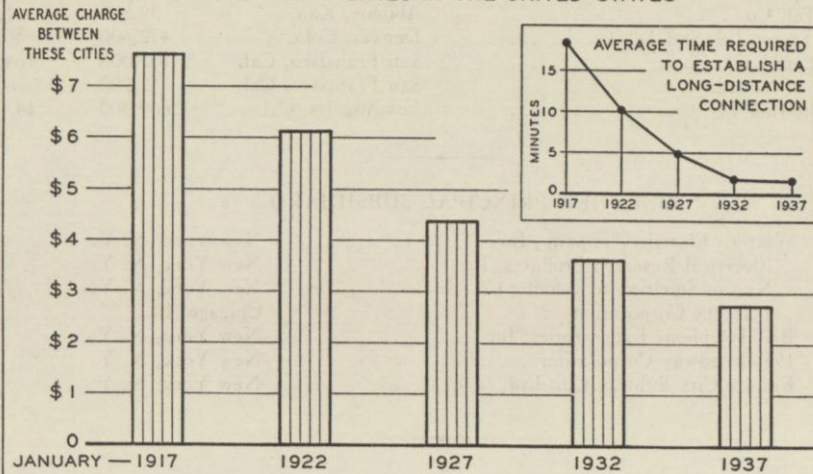
WALTER S. GIFFORD,

President

TELEPHONES - BELL SYSTEM AND CONNECTING IN MILLIONS



BELL SYSTEM LONG-DISTANCE TELEPHONE SERVICE* 20 YEARS OF PROGRESS IN REDUCING CHARGES AND IMPROVING SERVICE 20 LARGEST CITIES IN THE UNITED STATES



*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. The insert shows the average number of minutes required to establish a long-distance connection in these 20 cities.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

December 31, 1937

I. PRINCIPAL TELEPHONE SUBSIDIARIES (a)

	Headquarters	Number of Company Telephones	Number of Connecting Telephones (b)
New England Tel. and Tel. Co.	Boston, Mass.	1,214,400	46,300
New York Tel. Co.	New York, N. Y.	2,514,000	207,500
New Jersey Bell Tel. Co.	Newark, N. J.	687,400	11,900
The Bell Tel. Co. of Pennsylvania	Philadelphia, Pa.	1,206,700	207,400
The Diamond State Tel. Co.	Philadelphia, Pa.	41,200	200
The Chesapeake and Potomac Tel. Co.	Washington, D. C.	227,000	200
The Chesapeake and Potomac Tel. Co. of Baltimore City	Baltimore, Md.	249,000	2,800
The Chesapeake and Potomac Tel. Co. of Virginia	Richmond, Va.	183,300	52,500
The Chesapeake and Potomac Tel. Co. of West Virginia	Charleston, W. Va.	125,400	25,000
Southern Bell Tel. and Tel. Co.	Atlanta, Ga.	1,082,100	312,400
Christian-Todd Tel. Co.	Hopkinsville, Ky.	4,900	700
The Ohio Bell Tel. Co.	Cleveland, Ohio	695,400	296,800
Michigan Bell Tel. Co.	Detroit, Mich.	659,000	101,900
Indiana Bell Tel. Co.	Indianapolis, Ind.	214,700	247,800
Wisconsin Tel. Co.	Milwaukee, Wis.	357,200	170,200
Illinois Bell Tel. Co.	Chicago, Ill.	1,373,900	290,700
Northwestern Bell Tel. Co.	Omaha, Nebr.	642,900	516,300
The Tri-State Tel. and Tel. Co.	St. Paul, Minn.	127,300	82,100
Dakota Central Tel. Co.	Aberdeen, S. D.	30,800	20,600
Southwestern Bell Tel. Co.	St. Louis, Mo.	1,399,700	534,000
The United Tel. Co.	Abilene, Kan.	39,800	41,800
The Mountain States Tel. and Tel. Co.	Denver, Colo.	472,600	40,400
The Pacific Tel. and Tel. Co.	San Francisco, Cal.	1,101,000	164,900
Bell Tel. Co. of Nevada	San Francisco, Cal.	12,900	4,900
Southern California Tel. Co.	Los Angeles, Cal.	669,300	143,300

II. OTHER PRINCIPAL SUBSIDIARIES (a)

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 6,500 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 337,500 and 178,200 telephones and 2,300 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 I, page 14. The subsidiaries so consolidated comprise all of the operating telephone companies which have total assets in excess of \$1,000,000 each, in which the American Telephone and Telegraph Company owns, directly or indirectly, securities representing more than 50% of the voting power.

For the past 25 years (or since organization in the case of certain companies) the companies have maintained their accounts in accordance with Uniform Systems of Accounts prescribed for telephone companies by Federal authorities—originally by the Interstate Commerce Commission and since July, 1934, by the Federal Communications Commission. A new System of Accounts prescribed by the Federal Communications Commission, effective January 1, 1937, has had only minor effect upon the comparability of 1936 and 1937 figures. 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.

Telephone Plant is shown in these Financial Statements in the aggregate of the amounts at which it is carried in the accounts of the companies consolidated. 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, are excluded. In the elimination of intercompany security holdings 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, Inc., a subsidiary of American Telephone and Telegraph Company, under contracts providing that the prices paid shall be as low as 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 these consolidated Financial Statements at such cost without eliminating therefrom the return which may have accrued to the Western Electric Company from these sales. The proportionate interest of American Telephone and Telegraph Company in the current earnings of Western Electric Company is included in the Consolidated Income Statement under "Other Income."

In the course of rearranging operating territories or properties, there have been over the years, sales of plant between companies whose accounts are consolidated herein. 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

ASSETS

	December 31, 1937	December 31, 1936
PLANT AND OTHER INVESTMENTS		
TELEPHONE PLANT (a)	\$4,389,548,887	\$4,259,262,617
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, etc. At December 31, 1937, this property was classified in the accounts of the companies as follows:</i>		
Telephone Plant in Service	\$4,326,490,415	
Telephone Plant under Construction	34,649,798	
Property Held for Future Telephone Use	13,362,825	
Telephone Plant Acquisition Adjustment	15,045,849*	
MISCELLANEOUS PHYSICAL PROPERTY	25,074,810	27,148,797
INVESTMENTS IN SUBSIDIARIES NOT CONSOLIDATED (b)	219,190,150	216,466,916
<i>Includes at December 31, 1937, \$16,198,181 comprising equities in subsidiaries not consolidated in excess of investment therein, as computed from the accounts of such companies.</i>		
OTHER INVESTMENTS (b)	74,713,509	73,437,946
<i>Principally investments in non-controlled telephone companies.</i>		
SINKING FUNDS	2,076,693	2,471,150
TOTAL PLANT AND OTHER INVESTMENTS	<u>\$4,710,604,049</u>	<u>\$4,578,787,426</u>
CURRENT ASSETS		
CASH REQUIRED TO RETIRE BONDS PRESENTLY PAYABLE	\$ 12,923,000	\$ 179,285,890
OTHER CASH AND DEPOSITS	49,766,998	44,361,205
TEMPORARY CASH INVESTMENTS	103,218,109	175,187,279
<i>Principally United States Government obligations. Market value, December 31, 1937, \$103,728,292.</i>		
CURRENT RECEIVABLES	99,939,516	98,026,482
<i>Amounts due for service (less reserves for uncollectible accounts), working advances, interest and dividends receivable, etc.</i>		
MATERIAL AND SUPPLIES	51,660,701	50,297,409
TOTAL CURRENT ASSETS	<u>\$ 317,508,324</u>	<u>\$ 547,158,265</u>
DEFERRED DEBITS		
UNAMORTIZED DISCOUNT ON FUNDED DEBT	\$ 10,508,947	\$ 8,141,331
PREPAYMENTS OF RENTS, TAXES, DIRECTORY EXPENSES, ETC.	10,816,942	9,908,040
OTHER DEFERRED DEBITS	8,370,800	5,314,185
TOTAL DEFERRED DEBITS	<u>\$ 29,696,689</u>	<u>\$ 23,363,556</u>
TOTAL ASSETS	<u>\$5,057,809,062</u>	<u>\$5,149,309,247</u>

See page 20 for explanatory notes (a) to (d) inclusive, to this Balance sheet.

*Includes approximately \$8,200,000 heretofore classified and shown in the accounts as "Undistributed Cost of Property."

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Balance Sheet—Continued

LIABILITIES

	December 31, 1937	December 31, 1936
CAPITAL STOCK		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY:		
Capital Stock	\$1,868,679,400	\$1,868,509,300
Premiums on Capital Stock	269,975,028	269,889,978
<i>Amount received in excess of par value.</i>		
Capital Stock Installments		250,602
SUBSIDIARIES CONSOLIDATED (See page 22):		
Common Stocks held by public	85,798,853	86,250,903
Preferred Stocks held by public	65,140,450	97,579,975
TOTAL CAPITAL STOCK	<u>\$2,289,593,731</u>	<u>\$2,322,480,758</u>
FUNDED DEBT (See page 22):		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY	\$ 430,170,700	\$ 443,093,700
SUBSIDIARIES CONSOLIDATED	441,338,480	418,945,900
TOTAL FUNDED DEBT (c)	<u>\$ 871,509,180</u>	<u>\$ 862,039,600</u>
NOTES SOLD TO TRUSTEE OF PENSION FUNDS		
<i>Held by Trustee as an investment of pension funds not presently required to meet pension payments (See pages 21 and 22):</i>		
American Telephone and Telegraph Company	\$ 10,889,266	\$ 11,022,113
Subsidiaries Consolidated	128,610,191	118,765,703
TOTAL NOTES	<u>\$ 139,499,457</u>	<u>\$ 129,787,816</u>
CURRENT AND ACCRUED LIABILITIES		
BONDS PRESENTLY PAYABLE	\$ 12,923,000	\$ 179,285,890
ACCOUNTS PAYABLE	52,520,159	43,410,168
ADVANCE BILLING FOR SERVICE AND CUSTOMERS' DEPOSITS	21,746,118	19,591,878
DIVIDENDS PAYABLE	43,372,039	43,856,474
OTHER CURRENT LIABILITIES	6,501,524	9,014,716
TAXES ACCRUED (d)	72,354,284	66,814,648
INTEREST ACCRUED	7,407,418	9,076,710
TOTAL CURRENT AND ACCRUED LIABILITIES	<u>\$ 216,824,542</u>	<u>\$ 371,050,484</u>
DEFERRED CREDITS AND MISCELLANEOUS RESERVES		
RESERVES	\$ 3,998,263	\$ 4,690,166
DEPRECIATION AND AMORTIZATION RESERVES		
RESERVES	\$1,198,516,028	\$1,125,411,982
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
SURPLUS OF SUBSIDIARIES CONSOLIDATED APPLICABLE TO THEIR CAPITAL STOCKS HELD BY PUBLIC		
HELD BY PUBLIC	\$ 3,317,751	\$ 3,807,646
CONSOLIDATED SURPLUS APPLICABLE TO CAPITAL STOCK OF AMERICAN TELEPHONE AND TELEGRAPH CO.:		
SURPLUS RESERVED	\$ 85,303,237	\$ 83,952,571
<i>Comprised, at December 31, 1937, of \$64,664,444 reserved against general contingencies by American Telephone and Telegraph Company and \$20,638,793 reserved by subsidiaries consolidated, principally against contingency of refunds of revenues collected.</i>		
UNAPPROPRIATED SURPLUS (See page 19)	\$ 249,246,873	\$ 246,088,224
TOTAL LIABILITIES	<u>\$5,057,809,062</u>	<u>\$5,149,309,247</u>

For statement as to certain contingent liabilities see note (e) on page 20.

C. A. HEISS, Comptroller

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement

OPERATING REVENUES	Year 1937	Year 1936
LOCAL SERVICE REVENUES <i>Revenues from local exchange service.</i>	\$ 703,443,830	\$665,152,512
TOLL SERVICE REVENUES <i>Revenues from long distance and local toll service.</i>	321,502,556	306,238,511
MISCELLANEOUS REVENUES <i>Revenues derived from directory advertising, rents and miscellaneous sources.</i>	30,387,239	26,657,445
LESS: UNCOLLECTIBLE OPERATING REVENUES <i>Provision made during year for revenues which may be uncollectible.</i>	3,954,282	3,196,336
TOTAL OPERATING REVENUES (f)	\$1,051,379,343	\$994,852,132
OPERATING EXPENSES		
CURRENT MAINTENANCE <i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>	\$ 203,528,183	\$182,063,578
DEPRECIATION EXPENSE <i>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 4.06% of average investment in depreciable plant in service during 1937 and 4.12% during 1936.</i>	161,601,522	160,963,777
TRAFFIC EXPENSES <i>Costs incurred in the handling of messages, principally operators' wages.</i>	158,813,527	139,483,912
COMMERCIAL EXPENSES <i>Costs incurred in business relations with customers; pay station commissions; also the cost of directories, sales activities, advertising, etc.</i>	84,194,049	78,276,690
OPERATING RENTS <i>Rents paid for the use of buildings, poles, conduits and other facilities.</i>	13,481,511	13,452,768
GENERAL AND MISCELLANEOUS EXPENSES:		
General Administration, including cost of Development and Research	23,538,281	23,168,875
Accounting and Treasury Departments	37,510,194	34,575,687
Provision for Employees' Service Pensions (g)	12,441,686	11,131,889
Employees' Sickness, Accident, Death and Other Benefits	7,538,269	7,028,183
Other General Expenses	11,799,704	11,481,631
Less: Expenses Charged Construction (h)	5,967,476	2,601,841
TOTAL OPERATING EXPENSES	\$ 708,479,450	\$659,025,149
NET OPERATING REVENUES (Carried Forward)	\$ 342,899,893	\$335,826,983

See page 20 for explanatory notes (f), (g) and (h) to this Income Statement.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement—Continued

	Year 1937	Year 1936
NET OPERATING REVENUES (<i>brought forward</i>)	\$342,899,893	\$335,826,983
TAXES		
FEDERAL INCOME (<i>Includes \$57,534 in 1937 and \$86,106 in 1936 provision for surtax on undistributed earnings</i>)	\$ 30,756,999	\$ 28,113,057
SOCIAL SECURITY (<i>Excludes \$1,747,709 in 1937 and \$460,007 in 1936 charged Construction</i>)	12,064,067	3,714,729
OTHER—PRINCIPALLY STATE AND LOCAL	93,096,125	84,511,651
TOTAL OPERATING TAXES	<u>\$135,917,191</u>	<u>\$116,339,437</u>
NET OPERATING INCOME	\$206,982,702	\$219,487,546
OTHER INCOME		
DIVIDENDS FROM SUBSIDIARIES NOT CONSOLIDATED	\$ 19,924,625	\$ 18,399,364
PROPORTIONATE INTEREST IN EARNINGS OR DEFICITS (AFTER DIVIDENDS) OF SUBSIDIARIES NOT CONSOLIDATED	1,461,891	2,166,270
DIVIDENDS FROM NON-CONTROLLED COMPANIES	4,303,074	3,842,994
INTEREST, AND MISCELLANEOUS ITEMS—NET	3,303,879	4,456,213
TOTAL INCOME (<i>before fixed charges</i>)	<u>\$235,976,171</u>	<u>\$248,352,387</u>
INTEREST DEDUCTIONS	\$ 41,939,686	\$ 49,796,463
AMORTIZATION OF DISCOUNT ON FUNDED DEBT AND OTHER FIXED CHARGES	646,206	718,245
TOTAL NET INCOME	<u>\$193,390,279</u>	<u>\$197,837,679</u>
NET INCOME APPLICABLE TO STOCKS OF SUBSIDIARIES CONSOLIDATED HELD BY PUBLIC		
PREFERRED STOCKS	\$ 5,340,293	\$ 6,853,650
COMMON STOCKS	<u>5,707,120</u>	<u>6,239,565</u>
NET INCOME APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK*		
DIVIDENDS ON AMERICAN TEL. AND TEL. CO. STOCK	\$182,342,866	\$184,744,464
BALANCE FOR CONSOLIDATED SURPLUS APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK	<u>168,180,906</u>	<u>168,081,179</u>
	\$ 14,161,960	\$ 16,663,285

* Equivalent to \$9.76 per share in 1937 and \$9.89 per share in 1936 on average number of shares outstanding.

Changes During 1937 in Consolidated Unappropriated Surplus Applicable to American Telephone and Telegraph Company Stock

BALANCE—DECEMBER 31, 1936	\$246,088,224
ADDITIONS:	
Net Income applicable to American Tel. and Tel. Co. stock (after dividends)	\$ 14,161,960
Transfers from Surplus Reserved	354,832
Miscellaneous additions	95,050
TOTAL	<u>\$ 14,611,842</u>
DEDUCTIONS:	
Transfers to Surplus Reserved—Principally provision against contingency of refunds in pending rate cases	\$ 1,705,498
Premiums and unamortized discount on securities retired	5,571,322
Miscellaneous deductions	4,176,373
TOTAL	<u>\$ 11,453,193</u>
BALANCE—DECEMBER 31, 1937	<u>\$249,246,873</u>

C. A. HEISS, Comptroller

BELL SYSTEM FINANCIAL STATEMENTS
Explanatory Notes Relating to
Consolidated Balance Sheet and Income Statement

- (a) The Uniform System of Accounts prescribed by the Federal Communications Commission, effective January 1, 1937, requires, with certain exceptions, that the accounts "Telephone Plant in Service," "Telephone Plant Under Construction" and "Property Held for Future Telephone Use" show the original cost of property at the time of its first dedication to the public use, whether by the accounting company or by a predecessor owner. Practically all past acquisitions of substantially complete telephone systems, exchanges, or toll lines, at a cost of \$25,000 or over, have been reviewed to ascertain the "original cost," as above defined (estimated if not known), of the property now surviving and, in so far as this review has been completed, the amounts shown under these accounts reflect such "original cost" of the companies' telephone plant. While some further adjustments of these accounts may be required, it is not expected that there will be any material change in the amounts now shown. The amount shown as "Telephone Plant Acquisition Adjustment" represents substantially the difference between the amount at which the properties have been carried in the companies' accounts, in accordance with prescribed accounting in effect prior to 1937, and their "original cost" as above defined. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.
- (b) At December 31, 1937, securities included in "Investments in Subsidiaries" at \$31,369,598 and in "Other Investments" at \$6,774,896, are hypothecated or pledged under certain bond indentures.
- (c) Bonds presently to be retired in the amount of \$12,923,000 at December 31, 1937 and \$179,285,890 (including premiums) at December 31, 1936 are shown under Current Liabilities.
- (d) Federal income tax returns of American Telephone and Telegraph Company and most of its subsidiaries consolidated have not been closed for years subsequent to 1931.
- (e) At December 31, 1937, five of the subsidiaries consolidated had contingent liabilities in respect of certain revenues collected during all or part of the period 1925 to 1937, inclusive, which may be subject to refund upon the final disposition of pending rate cases. The total amounts involved, including interest, are estimated not to exceed \$25,000,000, and against the contingency of such refunds, if any, Surplus has been reserved by these subsidiaries in the amount of \$18,858,617.

The Consolidated Financial Statements contain no specific provision in respect of the following:

1. A guarantee covering payment of notes in the amount of \$3,159,488, 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.
- (f) Revenues shown include relatively minor amounts subject to possible refund in the event of adverse decisions in pending rate cases.
- (g) Includes for 1937 \$1,952,904 due to an increase in the current accrual rates by certain of the subsidiaries consolidated, the accounting for which was under consideration by the Federal Communications Commission at the end of the year.
- (h) Includes for 1937 \$2,744,890 of relief and pension costs charged to Construction in accordance with the Uniform System of Accounts effective January 1, 1937. Theretofore all such costs were treated as current expense.

CERTIFICATE OF AUDIT

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

New York, N. Y., February 14, 1938

We have made an examination of the balance sheet of American Telephone and Telegraph Company as at December 31, 1937, and of its income statement for the year 1937, 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, 1937, and of their consolidated statements of income and surplus for the year 1937. 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, 1937, and of the statements of income and surplus for the year 1937 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 1937. The consolidated balance sheet of Western Electric Company and its 100% directly-owned subsidiaries as at December 31, 1937, and the consolidated statements of income and surplus of these companies for the year 1937, 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, 1937, and the results of operations for the year 1937 of American Telephone and Telegraph Company and the consolidated position at December 31, 1937, and the consolidated results of operations for the year 1937 of that company and its principal telephone subsidiaries.

LYBRAND, ROSS BROS. & MONTGOMERY

Consolidated Statement of Pension Trust Funds Established by AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS PRINCIPAL TELEPHONE SUBSIDIARIES

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

BALANCE IN FUNDS—DECEMBER 31, 1936	\$163,343,242.99
ADDITIONS TO FUNDS DURING 1937—	
Amount paid in by Companies to provide for pension liability accruing in respect of employees in their service	\$12,441,686.47
Interest revenue from investments after amortization of premium or discount included in purchase price, less net loss (\$6,923.20) on investments	6,407,537.64
TOTAL ADDITIONS	\$18,849,224.11
DISBURSEMENTS FOR PENSIONS DURING 1937 TO RETIRED EMPLOYEES	5,225,137.85
NET INCREASE IN FUNDS	\$ 13,624,086.26
BALANCE IN FUNDS—DECEMBER 31, 1937	<u>\$176,967,329.25</u>
COMPRISED OF—	
4% Notes of Bell System Companies purchased at face value:	
Demand Notes	\$135,831,511.62
One-Year Notes	3,667,945.52
	\$139,499,457.14
Bonds of Bell System Companies	36,032,263.42
Securities of Other Companies	18,919.90
Cash awaiting investment and accrued interest not due	1,416,688.79
TOTAL	<u>\$176,967,329.25</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 securities in the Pension Trust Fund of a subsidiary at the time of its acquisition are included in "Securities of Other Companies" at market value of \$5,932.50.

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—January 21, 1938.

BELL SYSTEM

Stocks, Bonds and Notes Outstanding December 31, 1937

(Inter-Company Holdings Excluded)

	Par Value	Increase (a) During Year
COMMON STOCK (American Telephone and Telegraph Company)	\$1,868,679,400	\$ 170,100
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	12,862,200	\$ 200,000
Pacific Telephone and Telegraph Company	25,629,100	.....
Other Principal Telephone Subsidiaries	15,553	252,050
TOTAL COMMON STOCK, PRINCIPAL TELEPHONE SUBSIDIARIES	\$ 85,798,853	\$ 452,050
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	.....
Wisconsin Telephone Company 7%	4,947,000	.....
Northwestern Bell Telephone Company 6½% . . . . .	.....	4,800,800
Southwestern Bell Telephone Company 7%	21,785,500	.....
Pacific Telephone and Telegraph Company 6%	17,904,300	.....
Other Principal Telephone Subsidiaries	3,650	2,638,725
TOTAL PREFERRED STOCK, PRINCIPAL TELEPHONE SUBSIDIARIES	\$ 65,140,450	\$32,439,525
BONDS AND NOTES (American Telephone and Telegraph Company)	Face Value	
Twenty-Year Sinking Fund Debenture 5½s, 1943	\$ 95,170,700	.....
Twenty-Five Year Debenture 3¼s, 1961	175,000,000	.....
Thirty-Year Debenture 3¼s, 1966	160,000,000	.....
Ten-Year Convertible 4½s, 1939	(b)	\$12,923,000
4% Demand Notes Sold to Trustee of Pension Fund	10,889,266	132,847
TOTAL BONDS AND NOTES, AMERICAN TEL. AND TEL. CO.	\$ 441,059,966	\$13,055,847
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	60,865,380	\$ 3,780
Refunding Mortgage 3¼s, 1967, Series B	25,000,000	25,000,000
Bell Telephone Company of Pennsylvania:		
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	3,855,700	45,000
Southern Bell Telephone and Telegraph Company:		
First Mortgage 5s, 1941 . . . . .	.....	47,070,500
Twenty-Five Year Debentures 3¼s, 1962	45,000,000	45,000,000
Illinois Bell Telephone Company:		
First and Refunding Mortgage 3½s, 1970, Series B	45,000,000	.....
Southwestern Bell Telephone Company:		
First and Refunding Mortgage 3½s, 1964, Series B	45,000,000	.....
Pacific Telephone and Telegraph Company:		
Refunding Mortgage 3¼s, 1966, Series B	29,666,000	334,000
Refunding Mortgage 3¼s, 1966, Series C	24,928,000	72,000
4% Notes Sold to Trustee of Pension Funds (Principally Demand)	128,610,191	9,844,488
Miscellaneous Bonds, Mortgages and Notes	2,023,400	89,700
TOTAL BONDS AND NOTES, PRINCIPAL TELEPHONE SUBSIDIARIES	\$ 569,948,671	\$32,237,068

(a) Decreases in italics. (b) Called for redemption on January 3, 1938. Amount outstanding treated as a current liability.

BELL SYSTEM STATISTICS

	Dec. 31, 1920	Dec. 31, 1925	Dec. 31, 1930	Dec. 31, 1935	Dec. 31, 1937	Increase* During 1937
NUMBER OF TELEPHONES†	8,133,759	11,909,578	15,187,296	13,573,025	15,331,983	878,431
NUMBER OF CENTRAL OFFICES	5,767	6,147	6,639	6,896	6,945	24
MILES OF POLE LINES	362,481	394,529	428,212	407,454	403,120	1,041
MILES OF WIRE:						
In Underground Cable	14,207,000	27,769,000	45,116,000	47,639,000	49,527,000	1,332,000
In Aerial Cable	6,945,000	12,835,000	23,777,000	26,425,000	27,470,000	831,000
Open Wire	3,711,000	4,339,000	5,231,000	4,562,000	4,586,000	47,000
Total	24,863,000	44,943,000	74,124,000	78,626,000	81,583,000	2,210,000
PER CENT TOTAL WIRE MILEAGE IN CABLE . .	85.1	90.3	92.9	94.2	94.4	. . . .
AVERAGE DAILY TELEPHONE CONVERSATIONS:‡						
Exchange	31,818,000	48,051,000	61,150,000	58,066,000	66,210,000	3,675,000
Toll and Long Distance	1,307,000	2,090,000	2,884,000	2,224,000	2,580,000	195,000
Total	33,125,000	50,141,000	64,034,000	60,290,000	68,790,000	3,870,000
TOTAL PLANT	\$1,373,802,000	\$2,566,809,000	\$4,028,836,000	\$4,187,790,000	\$4,389,549,000	\$130,286,000
NUMBER OF EMPLOYEES††	228,943	292,902	318,119	241,169	268,482	12,660
NUMBER OF A. T. AND T. Co. STOCKHOLDERS.	139,448	362,179	567,694	657,465	641,686	695

* Decreases shown in italics.

† Excludes private line telephones numbering 82,183 on December 31, 1937. Including telephones of about 6,500 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 19,380,000.

‡ For year ending December 31.

†† The employees of the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., numbering 48,171 on December 31, 1937, are not included.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet

ASSETS

	December 31, 1937	December 31, 1936
PLANT AND OTHER INVESTMENTS		
TELEPHONE PLANT (a)	\$ 438,503,758	\$ 432,114,258
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, office furniture, vehicles, tools, etc. At December 31, 1937 this property was classified in the accounts of the Company as follows:</i>		
Telephone Plant in Service	\$ 433,851,608	
Telephone Plant under Construction	2,991,474	
Property Held for Future Telephone Use	340,749	
Telephone Plant Acquisition Adjustment	1,319,927	
INVESTMENTS IN SUBSIDIARIES (at cost) (b)	2,367,510,620	2,296,742,377
Stocks	\$2,184,459,751	
Notes and advances	183,050,869	
OTHER INVESTMENTS (at cost) (b)	44,037,709	42,418,124
Stocks	\$ 41,699,064	
Notes	2,100,000	
Miscellaneous Physical Property	238,645	
SINKING FUNDS	500,000	500,000
TOTAL PLANT AND OTHER INVESTMENTS	<u>\$2,850,552,087</u>	<u>\$2,771,774,759</u>
CURRENT ASSETS		
CASH REQUIRED TO RETIRE BONDS PRESENTLY PAYABLE	\$ 12,923,000	\$ 138,960,090
OTHER CASH AND DEPOSITS	17,147,915	9,622,308
TEMPORARY CASH INVESTMENTS	97,323,678	170,633,835
<i>United States Government obligations. Market value December 31, 1937, \$97,793,500.</i>		
CURRENT RECEIVABLES	13,649,472	13,942,404
<i>Amounts due for service (less reserve for uncollectible accounts), interest and dividends receivable, working advances, etc.</i>		
MATERIAL AND SUPPLIES	5,633,496	8,661,481
TOTAL CURRENT ASSETS	<u>\$ 146,677,561</u>	<u>\$ 341,820,118</u>
DEFERRED DEBITS		
UNAMORTIZED DISCOUNT ON FUNDED DEBT	\$ 2,489,603	\$ 2,577,679
OTHER DEFERRED DEBITS	2,955,314	1,517,021
<i>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.</i>		
TOTAL DEFERRED DEBITS	<u>\$ 5,444,917</u>	<u>\$ 4,094,700</u>
TOTAL ASSETS	<u>\$3,002,674,565</u>	<u>\$3,117,689,577</u>

(a) For note (a) see page 20.

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

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet—Continued

LIABILITIES		
	December 31, 1937	December 31, 1936
CAPITAL STOCK		
STOCK ISSUED AND OUTSTANDING (<i>Authorized \$2,500,000,000</i>)	\$1,868,679,400	\$1,868,509,300
<i>Par Value, \$100 per share, of common stock outstanding.</i>		
PREMIUMS ON CAPITAL STOCK	269,975,028	269,889,978
<i>Amount received in excess of par value.</i>		
CAPITAL STOCK INSTALLMENTS . . . . .	.....	250,602
TOTAL CAPITAL STOCK	<u>\$2,138,654,428</u>	<u>\$2,138,649,880</u>
FUNDED DEBT (<i>See page 22</i>) (c)	\$ 430,170,700	\$ 443,093,700
NOTES SOLD TO TRUSTEE OF PENSION FUND	10,889,266	11,022,113
<i>Demand notes held by Trustee as an investment of pension funds not presently required to meet pension payments—(See pages 22 and 27).</i>		
CURRENT AND ACCRUED LIABILITIES		
BONDS PRESENTLY PAYABLE (d)	\$ 12,923,000	\$ 138,960,090
DIVIDEND PAYABLE JANUARY 15TH	42,045,287	42,041,459
ACCOUNTS PAYABLE	5,616,886	6,802,723
INTEREST AND TAXES ACCRUED	10,143,780	7,782,816
TOTAL CURRENT AND ACCRUED LIABILITIES	<u>\$ 70,728,953</u>	<u>\$ 195,587,088</u>
DEFERRED CREDITS	\$ 1,331,343	\$ 1,455,165
<i>Items, the final disposition of which had not been determined at close of year.</i>		
DEPRECIATION AND AMORTIZATION RESERVES	114,969,519	102,649,072
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
SURPLUS		
SURPLUS RESERVED	64,664,444	64,664,444
<i>Amount reserved against general contingencies.</i>		
UNAPPROPRIATED SURPLUS	171,265,912	160,568,115
Analysis of increase during 1937:		
Income balance transferred to Surplus (after dividends)	\$11,653,909	
Miscellaneous Additions	24,321	
Total Additions	<u>\$11,678,230</u>	
Miscellaneous Deductions	980,433	
Net Increase	<u>\$10,697,797</u>	
TOTAL LIABILITIES	<u>\$3,002,674,565</u>	<u>\$3,117,689,577</u>

(c) Excludes bonds presently payable, which are shown as Current Liabilities.

(d) Includes at December 31, 1936 premiums in the amount of \$12,399,490.

NOTES:

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, 1937, the Company was surety on bond for \$13,112,669, executed by The Ohio Bell Telephone Company (a subsidiary) as principal, to secure possible refunds to telephone users.

Federal income tax returns of the Company have not been closed for the years subsequent to 1931.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement

	Year 1937	Year 1936
OPERATING REVENUES		
TOLL SERVICE REVENUES	\$ 89,185,326	\$ 89,636,121
<i>Message tolls and private line service revenues.</i>		
LICENSE CONTRACT REVENUES	14,375,057	13,450,531
<i>Payments received for services furnished telephone companies under license contracts.</i>		
MISCELLANEOUS REVENUES	4,364,975	4,199,119
LESS: UNCOLLECTIBLE OPERATING REVENUES	585,827	364,987
TOTAL OPERATING REVENUES	<u>\$107,339,531</u>	<u>\$106,920,784</u>
OPERATING EXPENSES (a)		
CURRENT MAINTENANCE	\$ 18,579,198	\$ 16,143,285
DEPRECIATION EXPENSE	17,379,956	17,376,311
TRAFFIC EXPENSES	7,173,421	6,129,897
COMMERCIAL EXPENSES	2,966,535	2,590,614
OPERATING RENTS	11,407,236	11,255,777
GENERAL ADMINISTRATION (b)	15,587,874	15,638,501
ACCOUNTING AND TREASURY DEPARTMENT EXPENSES	3,533,378	3,284,487
PROVISION FOR EMPLOYEES' SERVICE PENSIONS	854,057	914,521
EMPLOYEES' SICKNESS, ACCIDENT, DEATH AND OTHER BENEFITS	471,849	450,960
OTHER GENERAL EXPENSES	1,263,688	1,163,791
LESS: EXPENSES CHARGED CONSTRUCTION	265,323	100,210
TOTAL OPERATING EXPENSES	<u>\$ 78,951,869</u>	<u>\$ 74,847,934</u>
NET OPERATING REVENUES	<u>\$ 28,387,662</u>	<u>\$ 32,072,850</u>
OPERATING TAXES		
FEDERAL INCOME	\$ 2,921,612	\$ 852,434
SOCIAL SECURITY (<i>Excludes \$66,499 in 1937 and \$17,170 in 1936 charged Construction</i>)	877,408	302,725
OTHER—PRINCIPALLY STATE AND LOCAL	6,304,577	5,607,834
TOTAL OPERATING TAXES	<u>\$ 10,103,597</u>	<u>\$ 6,762,993</u>
NET OPERATING INCOME	<u>\$ 18,284,065</u>	<u>\$ 25,309,857</u>
DIVIDEND INCOME	171,855,965	166,071,313
INTEREST INCOME	6,996,285	7,048,640
OTHER INCOME—NET	673,880	839,682
TOTAL INCOME	<u>\$197,810,195</u>	<u>\$199,269,492</u>
INTEREST DEDUCTIONS	17,975,380	24,443,078
NET INCOME (c)	<u>\$179,834,815</u>	<u>\$174,826,414</u>
DIVIDENDS DECLARED	168,180,906	168,081,179
<i>At \$9.00 per share of capital stock.</i>		
BALANCE TRANSFERRED TO SURPLUS	<u>\$ 11,653,909</u>	<u>\$ 6,745,235</u>

(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 \$9,234,706 for 1937 and \$9,596,878 for 1936 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 1937 and 1936, is less by \$2,508,051 and \$9,918,050, respectively, than the Company's proportion of the consolidated Net Income of the Bell System for these years as shown on page 19.

NOTE: The Company does not consider that any liability exists in respect of Federal surtax on undistributed earnings for 1937 or 1936.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Investments in Subsidiary and Other Companies at December 31, 1937

	CAPITAL STOCKS (a)			NOTES AND ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	Face Value
SUBSIDIARY COMPANIES				
New England Tel. & Tel. Co.	\$ 87,094,200	65.31	\$ 92,045,721	\$ 17,800,000
New York Tel. Co.	421,300,000	100.00	444,280,335	5,400,000
New Jersey Bell Tel. Co.	140,000,000	100.00	153,667,184	5,625,000
Bell Tel. Co. of Pennsylvania	110,000,000	100.00	116,316,050	9,612,500
Diamond State Tel. Co.	5,000,000	100.00	5,700,000	1,630,000
Chesapeake & Potomac Tel. Co.	20,000,000	100.00	21,000,000	6,000,000
Chesapeake & Potomac Tel. Co. of Balt. City	30,000,000	100.00	31,467,862	6,650,000
Chesapeake & Potomac Tel. Co. of Va.	20,000,000	100.00	20,000,000	4,275,000
Chesapeake & Potomac Tel. Co. of West Va.	16,200,000	100.00	16,200,000	2,650,000
Southern Bell Tel. & Tel. Co.	124,998,700	99.99	126,815,773	25,599,025
Ohio Bell Tel. Co.	129,999,600	99.99	130,041,898	3,500,000
Michigan Bell Tel. Co.	124,989,607	99.99	125,402,210	9,475,000
Indiana Bell Tel. Co.	32,999,100	99.99	33,585,586	6,224,344
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	18,940,000
Southwestern Bell Tel. Co.	172,999,000	99.99	176,252,078	3,500,000
Mountain States Tel. & Tel. Co.	35,187,500	73.23	36,592,463	19,950,000
Pacific Tel. & Tel. Co.—Common	154,870,900	85.80	150,529,084	14,000,000
Pacific Tel. & Tel. Co.—Preferred	64,095,700	78.17	55,999,180	. . . . .
Bell Telephone Laboratories, Inc.	50,000	(b)50.00	50,000	2,025,000
Western Electric Co., Inc. (no par value)	(c)5,966,062	99.43	144,220,603	3,400,000
195 Broadway Corporation	5,500,000	100.00	5,515,000	(d)15,310,000
Eastern Tel. & Tel. Co. (Canada)	75,000	100.00	75,000	1,485,000
TOTAL BOOK VALUE (COST)			\$2,184,459,751	\$183,050,869
OTHER COMPANIES				
Southern New England Tel. Co.	\$ 13,337,400	33.34	\$ 13,649,213	\$ 2,100,000
Cincinnati & Suburban Bell Tel. Co.	8,169,150	29.72	8,732,568	. . . . .
Bell Telephone Company of Canada	18,749,800	23.70	18,854,783	. . . . .
Cuban American Tel. & Tel. Co.—Common	432,500	50.00	162,500	. . . . .
Cuban American Tel. & Tel. Co.—Preferred	300,000	50.00	300,000	. . . . .
TOTAL BOOK VALUE (COST)			\$ 41,699,064	\$ 2,100,000

(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

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

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

BALANCE IN FUND—DECEMBER 31, 1936	\$19,177,423.05
ADDITIONS TO FUND DURING 1937—	
Amount paid in by Company to provide for pension liability accruing in respect of employees in its service	\$ 854,057.00
Interest revenue from investments after amortization of premium or discount included in purchase price	716,051.67
TOTAL ADDITIONS	\$1,570,108.67
DISBURSEMENTS FOR PENSIONS DURING 1937 TO RETIRED EMPLOYEES	\$ 474,730.06
NET INCREASE IN FUND	\$ 1,095,378.61
BALANCE IN FUND—DECEMBER 31, 1937	\$20,272,801.66
COMPRISED OF—	
4% Demand Notes of American Telephone and Telegraph Company purchased at face value	\$10,889,265.88
Bonds of Bell System Companies	8,839,334.85
Cash awaiting investment and accrued interest not due	544,200.93
TOTAL	\$20,272,801.66

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.

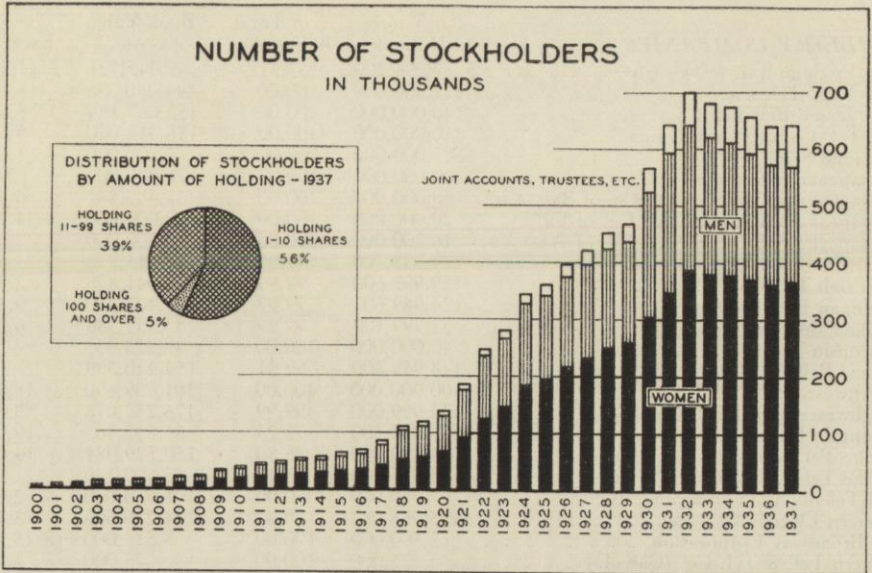
BANKERS TRUST COMPANY, TRUSTEE

By (Signed) W. C. MEYERS,

Assistant Secretary.

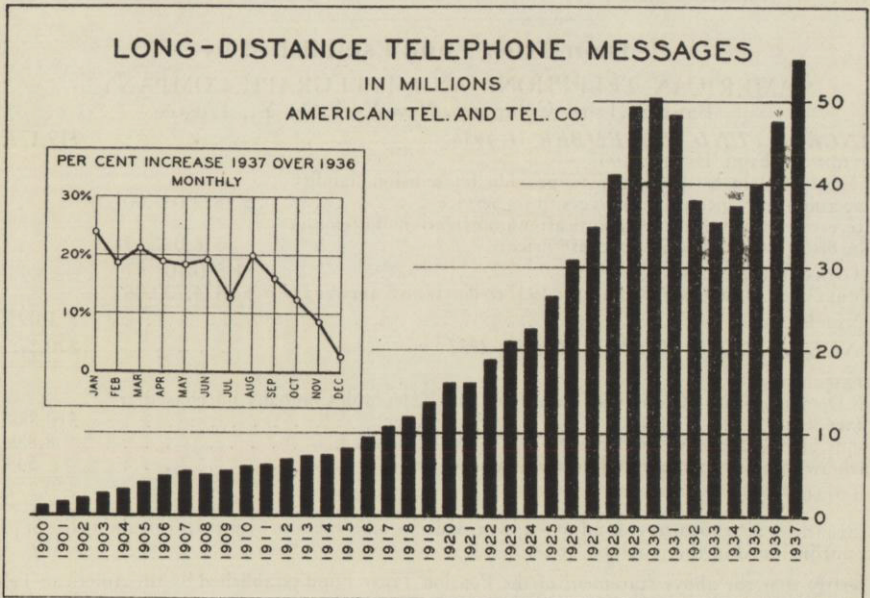
Dated January 14, 1938.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

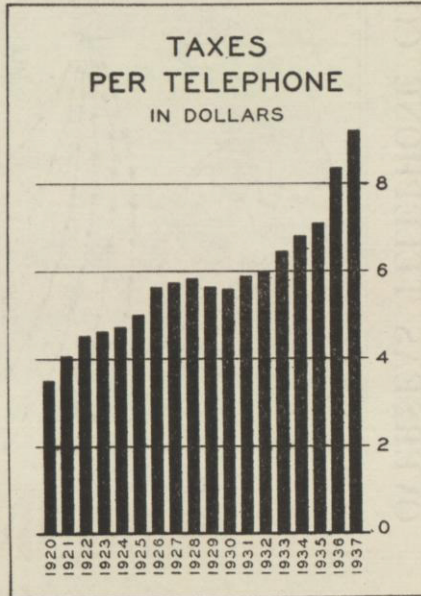
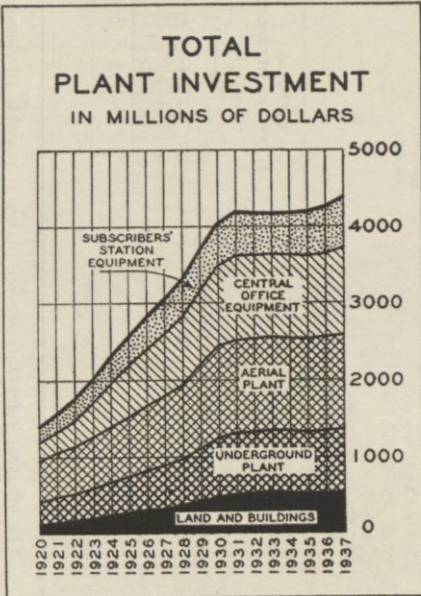
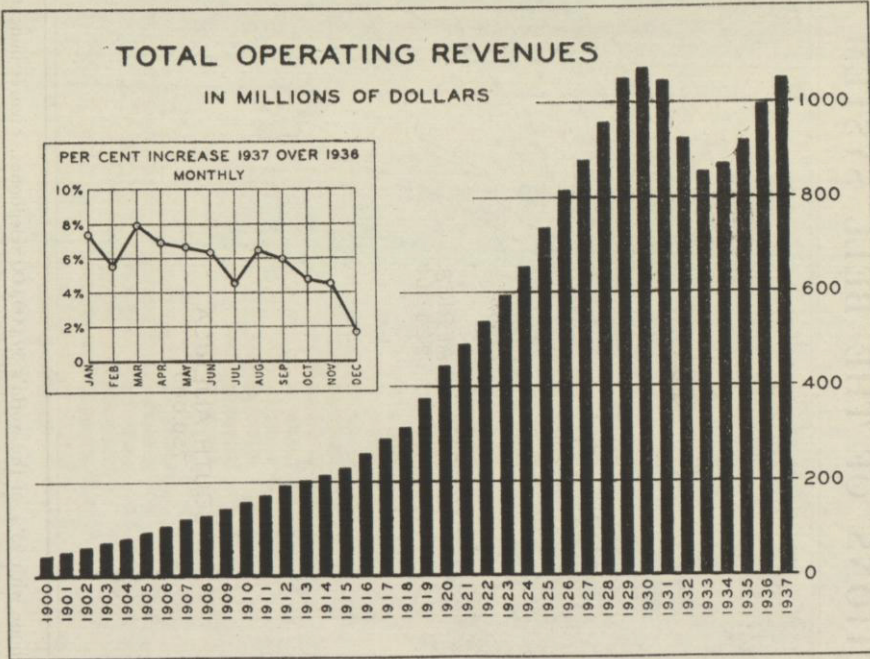


The number of stockholders of record of the Company on December 31, 1937 was 641,686, as compared with 640,991 at the end of 1936. The average number of shares held per stockholder at the end of the year was 29. About 41 per cent of the shares are held by women; 32 per cent by men; 4 per cent in joint accounts; 20 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.

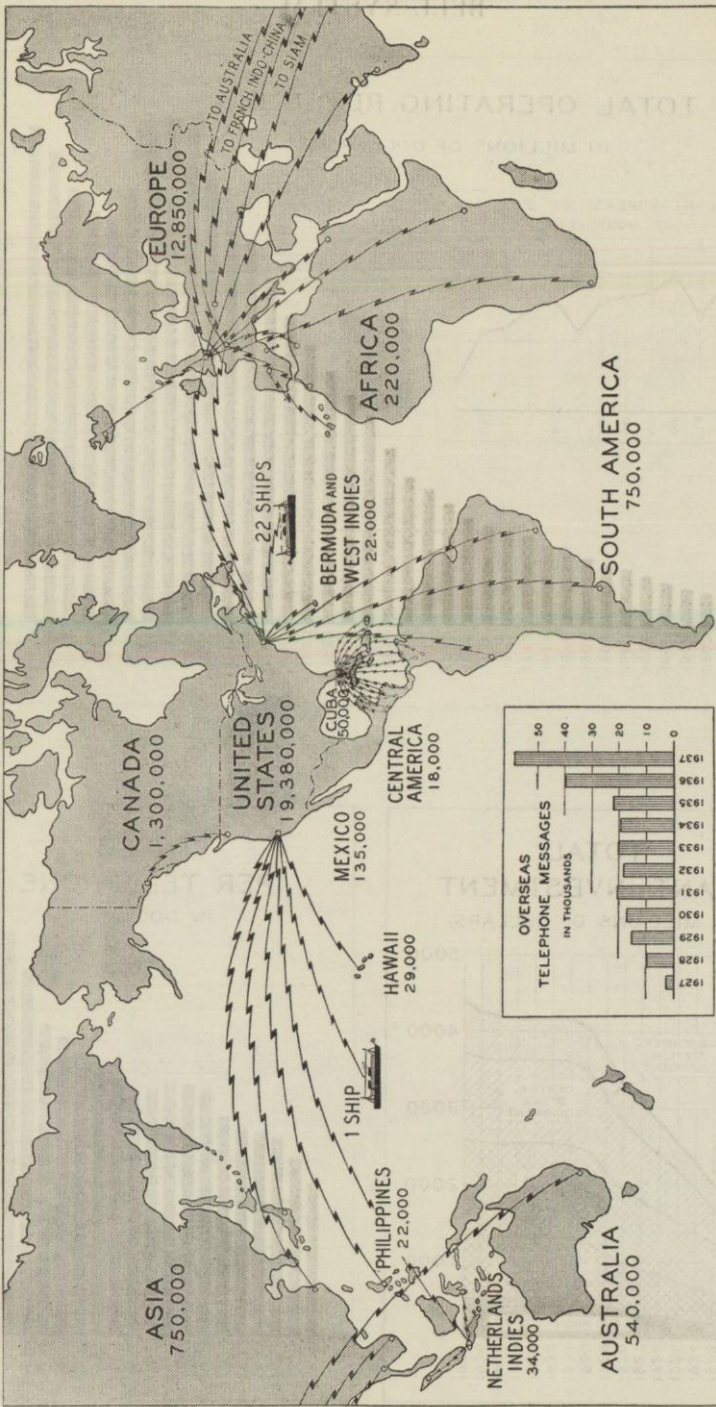
There were also at the end of 1937 about 23,000 holders of common stock and 52,000 holders of preferred stock of the Company's principal telephone subsidiaries. Allowing for duplications in these totals, there are now about 690,000 owners of stock of the Company and its principal telephone subsidiaries.



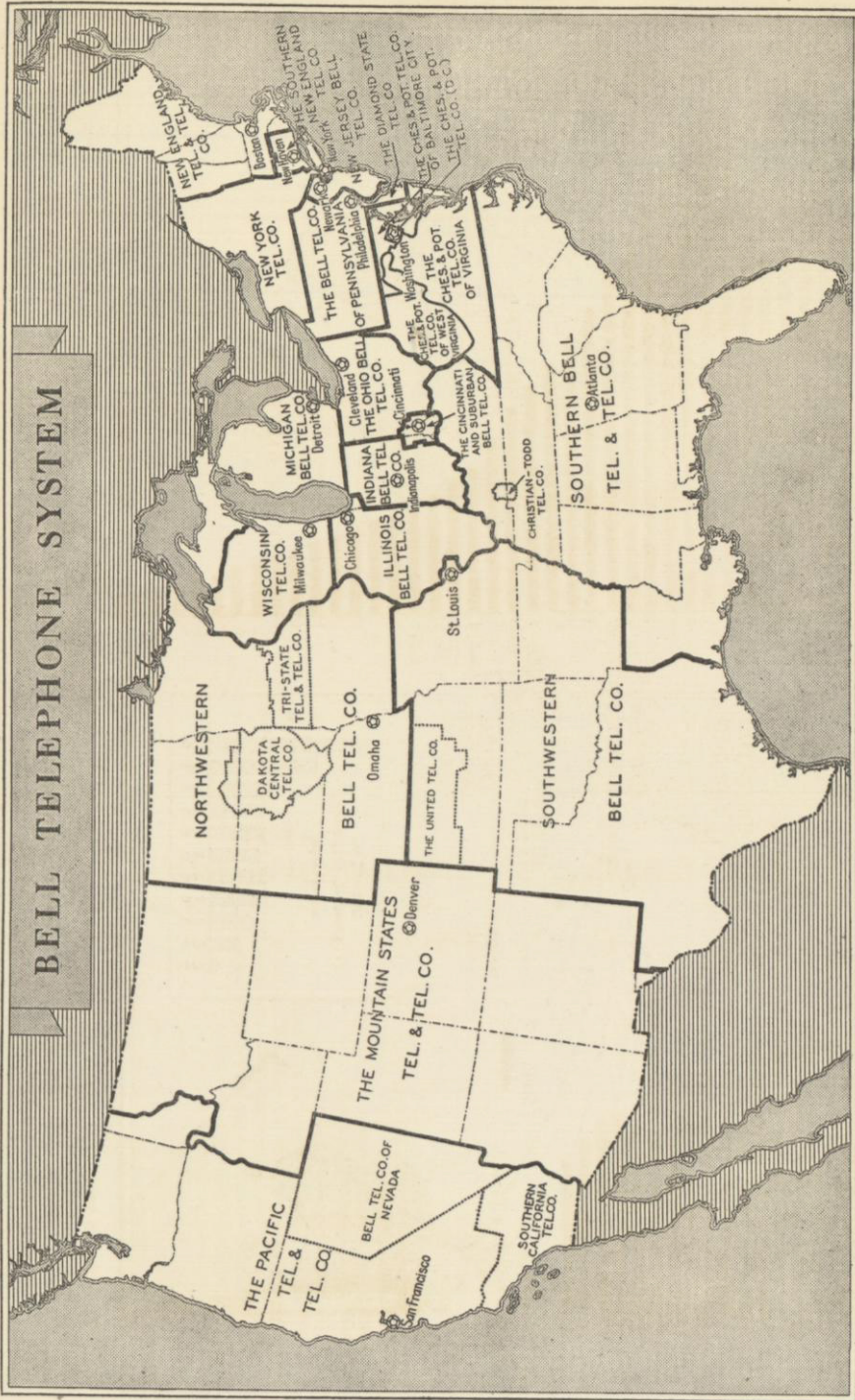
BELL SYSTEM



OVERSEAS TELEPHONE CONNECTIONS OF THE BELL SYSTEM



The overseas telephone service makes it possible to connect by telephone with 93% of the world's 39,000,000 telephones. Figures indicate the approximate number of telephones which may be connected with Bell System telephones. About one-half of the world's telephones are in the United States. Overseas telephone messages during 1937 were distributed as follows: Transatlantic 60%, Transpacific 10%, with Central and South American points 19%, with ships at sea 11%.



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.

