

ANNUAL REPORT
of the
AMERICAN TELEPHONE
AND TELEGRAPH COMPANY
FOR 1939



STRAWBOARDS

195 BROADWAY
NEW YORK

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"The ideal and aim of the American Telephone and Telegraph Company and its Associated Companies is a telephone service for the nation, free, so far as humanly possible, from imperfections, errors or delays, and enabling anyone anywhere to pick up a telephone and talk to anyone else anywhere else, clearly, quickly and at a reasonable cost."

Walter S. Gifford

American Telephone and Telegraph Company

195 BROADWAY, NEW YORK

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Report of the Directors
of
American Telephone and Telegraph Company

NEW YORK, MARCH 5, 1940.

TO THE STOCKHOLDERS:

During 1939, the Bell System* gained 775,000 telephones compared with 430,000 in 1938 and 876,000 in 1937. At the end of the year an all time high of 16,536,000 Bell System telephones in service was reached.

Also a new high record was the number of Bell System telephone conversations in 1939 with local conversations well above, and toll and long distance conversations slightly below, the previous high. The daily average number was 73,802,000, an increase of 3,906,000 over 1938. There were 5.6 per cent more local conversations and 5.5 per cent more toll and long distance conversations than in 1938.

About 6,500 independently owned telephone companies and more than 40,000 rural lines in the United States have direct or indirect connecting arrangements with the Bell System and share with it the responsibility of furnishing nation-wide telephone service. Including the approximately 4,200,000 telephones of connecting telephone companies and rural lines, there were at the end of 1939, about 20,750,000 telephones in the United States, practically any one of which can be connected promptly not only with any other but with 93 per cent of the telephones in the world, except for those under restrictions in certain countries on account of war. While the total number of telephones in the United States at the end of 1939 was the largest that it ever has been, the number of telephones per 100 population was 15.9 which is slightly lower than the previous high of 16.4 in 1930. Thus, the increase in the number of telephones over 1930 was a little less, proportionately, than the increase in population.

*"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 31.



In 1939, the Bell System gross operating revenue was \$1,107,188,000, an increase of \$54,530,000 over 1938, and the most in the history of the System. The total net income of the System applicable to American Telephone and Telegraph Company stock was \$190,281,000, an increase of \$34,738,000 over 1938.

The American Telephone and Telegraph Company earned \$9.24 per share in 1939, as compared with \$8.16 per share in 1938. The total net income of the System applicable to American Telephone and Telegraph Company stock was \$10.18 per share, as compared with \$8.32 in 1938.

Cash assets of the System at the end of the year, including funds temporarily invested in Government obligations, were \$149,721,000, of which this Company held \$118,066,000. In addition, the Western Electric Company, Inc., over 99 per cent of whose capital stock is owned by the American Telephone and Telegraph Company, had cash assets at the end of 1939 of \$27,065,000.

During the year, gross additions to telephone plant amounted to \$314,925,000 and retirements to \$213,493,000, resulting in a net increase of \$101,432,000 or 2.3 per cent. This compares with a net increase of \$99,529,000 in 1938.

The investment in telephone plant at the end of 1939 amounted to \$4,590,510,000. The increase in plant investment during the 1930's, that is, during the ten years ending with December 31, 1939, was \$885,000,000, which is about one-third of the increase of \$2,469,000,000 during the ten years ending with December 31, 1929. The depreciation and amortization reserves at the end of 1939 amounted to \$1,304,376,000, or 28 per cent of the investment in plant.

The total capital obligations of the System, including capital stock premiums and surplus, at the end of the year were

\$3,697,122,000, of which funded debt and pension fund notes amounted to \$1,100,721,000, or only 30 per cent. The corresponding ratio of debt to total capital obligations at the end of 1919 was 45 per cent and at the end of 1929 was 34 per cent.

Taxes continued to rise and the total for 1939, including taxes charged to construction, amounted to \$158,905,000, an increase of \$11,474,000 over 1938, which year in turn showed an increase of \$9,748,000 over 1937. Taxes in 1939 were equal to about 82 cents per month per telephone.

During 1939, the Southern Bell Telephone and Telegraph Company sold \$25,000,000 of 3% Debentures due in 1979. The New York Telephone Company sold \$75,000,000 of 3 $\frac{3}{8}$ % Mortgage Bonds due in 1964, and paid at maturity \$60,946,185 of 4 $\frac{1}{2}$ % Mortgage Bonds due November 1, 1939. The New England Telephone and Telegraph Company paid a real estate mortgage of \$2,000,000 due March 29, 1939. The American Telephone and Telegraph Company and its principal telephone subsidiaries retired \$12,539,000 of their 4% Notes held by the Trustee of their respective Pension Funds. These and other miscellaneous transactions during 1939 resulted for the System in a net increase of \$24,552,000 in outstanding debt obligations.

At the end of 1939, there were 636,800 stockholders of record of the American Telephone and Telegraph Company. While this is 75,400 below the high number reached in 1932, it is 167,000 more than ten years ago. The average number of shares held per stockholder at the end of 1939 was 29. Geographically, the stock was widely held. Approximately one-quarter of the Bell System employees own stock in the Company.

No stockholder holds as much as 1 per cent of the total stock. Of the total stockholders, 215,000 held from one to five shares each and 601,000 held less than 100 shares each. The 35,000 stockholders, including many large institutions, who own 100 shares or more were 5.6 per cent of the total number of stockholders and held 50 per cent of the total stock.

The sales of the Western Electric Company, which manufactures and supplies most of the telephone equipment used in the Bell System, were \$186,860,000 in 1939, an increase of \$11,697,000, or 6.7 per cent over 1938. The Western Electric Company, including its subsidiaries, had net earnings, after interest charges, of \$16,476,000 in 1939, as compared with \$5,734,000 in 1938 and \$19,514,000 in 1937. These 1939 earnings are after an initial appropriation of \$1,045,000 to an Employment Stabilization Reserve, which the company hopes will become of real help in dealing with its employment conditions which are fundamentally less stable than those of telephone operating companies.

As bearing on the possible effect of the profits of the Western Electric Company on telephone rates, it is of interest to note that the Federal Communications Commission, in its Report on its Special Telephone Investigation, shows the average return to the Western Electric Company on its net investment for the years 1920 to 1936 inclusive, to have been less than 7 per cent. These earnings of the Western Electric Company on its investment are low as compared with those made during the same period by comparable large, successful manufacturing companies, and, of course, neither the Western Electric Company nor any other company could remain in business year after year unless, in the long run, it made a profit. The profits of the Western Electric Company, which have been reasonable and proper, represent a relatively small item in the cost of telephone service, something less than 2 per cent.

Bell System rate changes in 1939 resulted in a net reduction of some \$4,000,000 annually. These changes included increases in some places where rates were inadequate.

Telephone service continues to improve in accuracy, speed, dependability and quality of transmission.

The present organization of business and social life in this country is such that the telephone is an integral and necessary part of it. This is strikingly so in emergencies. Good telephone service, therefore, involves plant facilities and organization adequate not only to take care of every day needs of the nation, but also to meet sudden and perhaps unprecedented surges of demand for telephone connections.

At the time of the war crisis in Europe, early in September, 1939, a sudden great increase in telephone use took place in the United States. Practically overnight, the number of long distance calls increased 30 per cent and passed all previous records. Because of advanced planning and close co-operation between the various units of the Bell System which made possible fast action under pressure, this emergency was met with distinction. The ability and capacity of the System to cope successfully with such sudden large increases in the demand for telephone service is evidence of the preparedness of the System to meet the needs of national defense.

In aiming to give the best possible telephone service, continued emphasis has been placed on the importance of such intangible but very real elements as courtesy, the spirit of helpfulness, the consideration of the needs of the individual subscriber and the use of initiative where regular practices are not adequate because of special circumstances.

One method widely used in 1939 to help employees to realize the importance of intangible factors in making service more pleasing, was dramatic representations presented by employees themselves to other employees, showing the difference between good and bad treatment of service situations of various types.

Continued progress was made in the betterments of plant which contribute to the further improvement of service.

Fifty-six per cent of the telephones were on a dial basis at the end of 1939. Some tens of thousands of telephones are now served by the new type of crossbar dial office mentioned in previous Reports. Further installations are being made of this crossbar type of equipment which continues to live up to the promise of the first installations.

Telephones giving improved transmission and higher dependability are being installed and by the end of 1939 were on about half the telephone lines of the System. During the year, new subscribers' equipment was made available with improved and more convenient arrangements where more than one telephone line is involved or where, for other reasons, keys for switching are required at the telephone.

With the co-operation of architects and builders, further progress has been made in improved appearance and better protection for telephone wires on subscribers' premises, by increased use of conduits and outlets in home construction.

Additions were made to the toll cable network during the year. Further extensions are under way, of which an important one, 200 miles in length, from Stevens Point, Wisconsin to Minneapolis will be the first commercial installation of coaxial cable, a radically new design of cable to which reference has been made in previous Reports. During the year, broad band systems which make possible the simultaneous transmission of a large number of telephone communications over one circuit were installed extensively both on open wire toll lines and cables.

In 1939, a clock was placed in the Headquarters Building of this Company which is believed to be the most accurate clock on public display in the world, its probable variation being limited to a few hundredths of a second. Supplementing the main clock is a group of smaller ones showing the time of day in various distant cities throughout the world which can be reached by telephone. This clock is tied in with the time-of-day service provided by the telephone company in New

York City whereby accurate time can be obtained over the telephone. Time-of-day service has for years been given by the Bell System in many places.

A new service of a somewhat similar type was inaugurated during the year in New York City, northern New Jersey and Chicago, whereby, any time of day or night, the latest official weather forecast can be obtained by calling a listed number of the telephone company. Experience with this service has indicated that it fills a public need in these communities. It is planned to provide similar service in several other large cities. The Bell System continues to study the possibility of increasing its usefulness and by appropriate trials to determine the extent to which new forms of service may meet a public need.

January 25, 1940 was the twenty-fifth anniversary of the establishment of transcontinental telephone service. Transcontinental facilities, originally limited to a maximum of three circuits which could be built up with a number of intermediate switches over a single route, now consist of over 170 circuits on four separate routes. Along with a great increase in the volume of transcontinental telephone business, there have been extraordinary improvements in speed of service and quality of transmission, increased dependability of service and marked reductions in rates. In the years immediately following the opening of the service, on the average it required about half an hour to establish a connection, while today the connection is made generally without the customer hanging up the telephone. At the outset, the cost of a three minute telephone conversation between New York and San Francisco was \$20.70. Today it is \$6.50 with a night and Sunday rate of \$4.25.

The scope of overseas telephone service was further extended during 1939 by the addition of service with Newfoundland *via* Canada, with Malaya *via* the Netherlands Indies, and with Korea *via* Japan. Additional facilities were provided for

the overseas telephone service with two American territories, Puerto Rico and Hawaii. During the year, reductions were made in the rates for service with Alaska, Bahamas, Hawaii, Netherlands Indies, Philippine Islands, Puerto Rico and most of South America.

During the latter part of August, due to the war emergency, the number of transatlantic telephone messages increased to three times normal. By the end of August, however, England and France had established a censorship limiting calls to official messages. Since telephone messages to other countries in Europe were routed at that time through England, transatlantic telephone service was practically suspended. Service to Europe was restored by the establishment of direct circuits to Italy and to the Netherlands. Through these new terminals, connection is furnished to practically all countries of Europe other than England and France, and the volume of transatlantic telephone service, notwithstanding censorship restrictions imposed by England, France and Germany, developed again to about one-half its normal level just before the war.

Coastal and harbor radiotelephone service with ships increased during the year. A new radiotelephone station was opened at New Orleans, one is under construction at Galveston, and applications are pending for six additional stations which, together with existing stations, will give substantially complete coverage of the Atlantic, Gulf and Pacific Coasts. The number of boats equipped to use this service, including service through connecting companies on the Great Lakes, has rapidly increased and is now approximately 2,000.

Throughout the country, the Bell System has been extensively equipped with improved portable radiotelephone equipment for use during emergencies, for help in restoration work after such disasters as the hurricane in 1938 in the northeastern part of the country, and for temporarily providing emergency service.

Somewhat experimentally, arrangements are being made for the provision of two-way emergency radiotelephone service with the trucks of public utilities in a large metropolitan area.

In the Reports for the past four years reference has been made to research and development on broad band carrier systems of transmission for both open wire and cable circuits, by which a large number of telephone channels can be provided over a single circuit; to coaxial cable and its complicated adjunct equipment; to several new things in radio; and to the crossbar switching system. Because these are all essentially new fields, the success of the initial development work has opened up a large number of new applications, and further development work and improvements in all of them have been carried on actively during the year.

The development of vacuum tube amplifiers and filter circuits led, about fifteen years ago, to the utilization of regular telephone circuits for multi-channel telegraphy. During the past few years there have been noteworthy advances in this field, and during 1939 installation of a much improved voice frequency carrier telegraph system was begun. With it, in many cases, eighteen telegraph channels can be provided over each telephone circuit—an increase of six over the previous standard.

Reliability is essential to satisfactory telephone service. Large automatic switchboards are necessarily complex, and potential troubles must be detected and corrected if service interruptions are to be avoided. Intricate testing equipment has been devised which automatically tests the various parts of the mechanisms. If any part is found to deviate from the limits of reliable operation, the test equipment stops at the danger point and notifies the maintenance man.

Possible serious reactions on raw material supplies as a result of war have necessitated an intensive scrutiny of alternatives and substitutes. As a result of this work, and of the research and development work done previously, it now seems certain that designs of apparatus can be changed, if necessary, to offset shortages or soaring prices of raw materials which can be obtained only from other countries.

During the 1920's, increased activities in research and development necessitated enlargement of laboratory facilities,

which was accomplished temporarily by leasing the most suitable quarters available for this type of work. A program was developed which contemplated the transfer of some of the activities to a laboratory to be constructed in the country, especially designed to accommodate the kinds of research and development work which could be carried on more efficiently in a country location than in the city. The onset of the depression and the uncertainties which it presented resulted in a postponement of the project. During 1939, it was decided to proceed with the construction of a laboratory at Murray Hill, New Jersey, at an estimated building cost of about \$3,000,000, which is expected to be ready for occupancy in the summer of 1941.

Generally speaking, the activities to be transferred to the new laboratory will comprise basic research work in physics, chemistry and acoustics, together with certain parts of outside plant and apparatus development.

On June 14, 1939, the Federal Communications Commission transmitted to Congress its Report on the Special Telephone Investigation on which it had been engaged for four and a half years and for which Congress had appropriated \$1,500,000. As pointed out before, the investigation was *ex parte* and was conducted throughout in a one-sided manner. The Report recommended certain amendments to the Communications Act of 1934 adding to the authority of the Commission. The Company believes that, as a whole, the amendments recommended would tend neither to improve telephone service nor to reduce costs to the user.

The Bell Telephone exhibit in its building at the New York World's Fair had about 8,000,000 visitors during the summer of 1939. More than 5,000,000 people visited the telephone exhibit at the Golden Gate International Exposition. Some two and one-half million visitors at one Fair or the other listened in

on long distance telephone demonstrations in which almost 60,000 persons placed calls to telephones in all parts of the country, those operated by independently owned connecting telephone companies as well as those of the Bell System. Always well attended, these exhibits were highly popular. The hearing tests which were part of the exhibits in both Fairs were taken by about two million persons. Photographic records of about one-quarter of the tests, now under study, are producing useful data as to the hearing ability of the population in the United States. Both Fairs also had the "Voder", the mechanical device which created synthetic speech under the control of an operator playing its keys and pedals. Its ability was thoroughly tested by audiences totaling more than ten million persons for whom it pronounced, upon request, such words as Mississippi, Oshkosh, Popocatepetl and Saskatchewan.

The total employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, numbered 297,100 at the end of 1939, which was 4,800 more than at the end of 1938. Total payroll for 1939 including operating, construction, manufacturing and laboratory personnel was \$570,151,000, an increase of \$6,014,000 over 1938.

As we enter the 1940's, following a period during which the telephone business, as well as industry in general, encountered extraordinary difficulties, it may be of interest to compare certain employment conditions in the 1930's with those in the ten year period, 1920 to 1929 inclusive.

The decade beginning with 1920 was a period of substantial and sustained growth. Facilities had to be constructed and personnel recruited and trained in advance to meet the rapidly rising demand for more and more service and to offset a high rate of employment turnover which was experienced by business generally. During this decade, the number of Bell System telephones increased from 7,575,000 to 15,035,000 and the

number of employees of the American Telephone and Telegraph Company and its principal telephone subsidiaries from 208,000 to 358,000.

The decade beginning with 1930 was one of unprecedented fluctuations in the volume of telephone business, being marked by severe losses in the early part of the period and irregular but substantial gains in the latter part. The decline in volume of telephone business resulted in subnormal construction activities, while personnel recruiting and training requirements and employment turnover reached extremely low levels. By 1933, there had been a loss of about 2,500,000 telephones, and it was late in 1937 before this loss was made up and, even now, construction work is about half that of 1929. At the end of 1939, the number of employees of the American Telephone and Telegraph Company and its principal telephone subsidiaries was 259,900.

A most significant item in these comparisons is the number of employees of less than one year of service in various stages of training. At the end of the boom period in 1929, the number was 90,000, and at the end of 1939, 18,000.

The much more experienced and efficient personnel which this difference in the relative proportion of learners reflects, together with the continuing improvement in methods and apparatus, and substantially reduced construction activities, are the major causes of the differences in telephone employment in 1939 in comparison with 1929.

Every effort was made to avoid laying off employees during the depression. Employees were reassigned to other work, construction work was brought forward, preventive maintenance work was advanced and there was considerable spreading of work. As a result, the number of layoffs in the 1930's was about one-half as many as in the 1920's. Necessary force adjustments were made largely by not adding employees to fill the vacancies created by voluntary resignations, retirements and deaths.

The Plan for Employees' Pensions, Disability Benefits and Death Benefits has now been in operation for twenty-seven

years. The Plan is non-contributory, all the costs being paid by the Companies. Payments thereunder, except for service pensions, are made directly on a "pay-as-you-go" basis, while service pensions are provided for in advance on an actuarial basis with payments made periodically into Pension Trust Funds from which the Trustee pays the service pensions. At the end of 1939, for the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, there was an aggregate of \$268,627,668 in these Trust Funds, which are irrevocably dedicated to service pension purposes.

The Bell System Plan has from its inception provided that pensions payable by any governmental agency shall be deducted from pensions otherwise payable under the Plan. Following the enactment of the Federal Social Security Act of 1935, all employees were advised that no change was contemplated in the Plan on account of the Act, except that, if it remained in effect unchanged until 1942 when pensions became payable under the Act, it was expected that the provision for deducting all of the Government pension from a pension otherwise payable under the Plan would be changed to provide that only one-half of the pension paid under the Social Security Act would be deducted. This proposed change gave recognition to the fact that one-half of the direct tax contributions under the Social Security Act for old age benefits is paid by the employee.

The 1935 Social Security Act was amended in 1939 and monthly Federal old-age benefits became payable beginning January 1, 1940, instead of 1942, to eligible persons 65 years of age or older. The Bell System Plan has therefore been amended, effective January 1, 1940, to carry out the intent of the above mentioned announcement to employees made in 1936. The amended Plan provides that the service pension payable to a retired employee after he has attained the age of 65 will be reduced by one-half of the "primary insurance benefit" to which he is entitled under the Social Security Act Amendments of 1939. The "primary insurance benefit" computed for the purpose of this adjustment will be based solely on Bell System wages and employment.

The sickness disability benefit schedule in the Plan, which in the past has provided for maximum benefits of 13 weeks' full pay and 39 weeks' half pay to employees having 10 or more years of service, was also changed, effective January 1, 1940, by increasing the full pay benefit periods for employees having 15 or more years of service. Under the new schedule, there will be 26 weeks' full pay and 26 weeks' half pay for employees of 15 to 20 years of service, 39 weeks' full pay and 13 weeks' half pay for 20 to 25 years of service, and 52 weeks' full pay for 25 or more years of service. The provisions covering accident disability benefits have been correspondingly modified so that for cases originating on and after January 1, 1940, the full pay periods for employees of 15 or more years of service are the same as in the new schedule for sickness benefits.

For the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, there were 8,930 retired employees on the service pension rolls at the end of the year. The total amount of service pensions paid from the Pension Trust Funds in 1939 was \$7,645,000. During the same time pension accruals, actuarially determined, amounting to \$17,589,000, or 3.1 per cent of the payroll, were paid into the Pension Trust Funds.

Other payments made in 1939 under the Plan were:

Sickness Disability Benefits	\$6,006,000
Accident Disability Benefits	539,000
Death Benefits	2,041,000
Disability Pensions	<u>444,000</u>
Total	\$9,030,000

During 1939, employees continued to make extensive use of the payroll allotment plans maintained by the Companies to assist them in accumulating savings in the form of life insurance, deposits in savings institutions and United States Savings Bonds. These plans are entirely voluntary and the administrative costs are paid by the Companies.

Through the Insurance Plans, employees can pay monthly premiums on life insurance or annuities by payroll allotments forwarded to insurance companies. Under these Plans, 78,900 employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, were carrying at the end of 1939 standard life insurance amounting to \$244,000,000. Premiums paid on this insurance during the year amounted to \$7,842,000. Employees also carried some 6,300 annuity contracts, the premiums on which amounted to approximately \$750,000 during 1939.

Premiums amounting to \$205,000 were also paid on United States Government Insurance totaling \$8,000,000 carried by 1,690 employees who are World War veterans.

At the end of 1939, 21,250 employees were using the plans established in 1938 to invest in United States Savings Bonds. Payroll allotments made during 1939 towards the purchase of bonds totaled \$2,660,000.

The plans for deposits in savings institutions of employees' selection were being used by 105,700 employees at the end of 1939.

The Theodore N. Vail Memorial Fund provides for annual awards in recognition of unusual acts of service. This year a special plaque, two silver medals with \$250 each, and twenty bronze medals, all with accompanying citations, were awarded.

SILVER MEDAL AWARDS

JERRY FRANK KINCANNON

*Exchange Repairman, Miami, Oklahoma
Southwestern Bell Telephone Company*

For courage, initiative and good judgment in effecting a rescue and for unusual competence in the use of first aid under trying and hazardous conditions.

GEORGE F. WILSON

*Installer-Repairman, Grass Valley, California
The Pacific Telephone and Telegraph Company*

For conspicuous courage, persistence and fortitude in an extreme effort to save the life of a fellow-employee under very hazardous conditions during a blizzard, while engaged in the restoration of telephone service.

SPECIAL PLAQUE AWARD
TO EMPLOYEES OF THE BELL SYSTEM

For their individual efforts and effective teamwork, during and following the hurricane of September, 1938, in the operation and restoration of telephone facilities over a wide-spread area—a distinguished achievement reflecting the traditional spirit of service.

The year 1939 was, apart from disturbing world developments, one of increasing interest and encouragement to the personnel of the Bell System. As the year ended, telephones in service were continuing to increase, construction activities were expanding and the System's net earnings were sufficient to provide for the usual dividends with a small surplus. The decade just past has had many new and unusual problems for a business that previously had never failed to register growth every year since it began, some sixty years ago. It is a tribute to the spirit, enthusiasm and judgment of the entire personnel that the System weathered the difficulties of the 1930's so well.

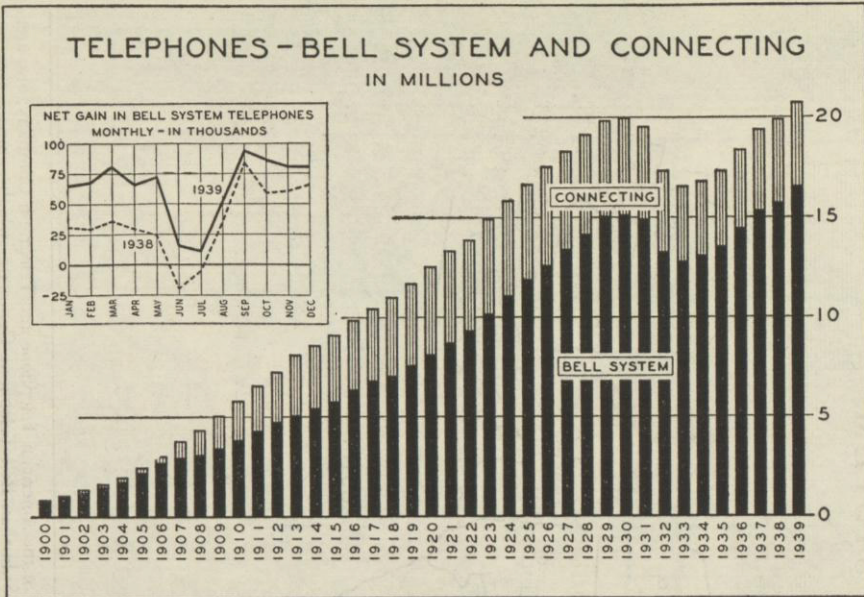
We shall continue our efforts further to improve telephone service and make it more economical for the user. We shall continue to try to keep the Bell System an attractive institution for people to work in and safe for investors. Above all, we shall continue to strive to merit the goodwill and the esteem of our fellow citizens and keep the Bell System an institution of which the American people can be proud.

For the Directors,

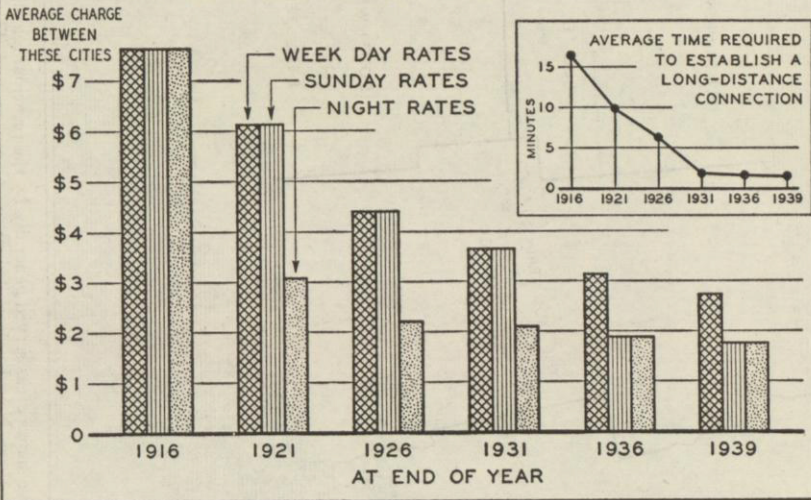
WALTER S. GIFFORD,

President

BELL SYSTEM



BELL SYSTEM LONG-DISTANCE TELEPHONE SERVICE* 23 YEARS OF PROGRESS IN REDUCING CHARGES AND IMPROVING SERVICE 20 LARGEST CITIES IN THE UNITED STATES



*This chart shows at intervals over a 23-year period the *average* charge, on week days and Sundays and at night, for three-minute long-distance "station-to-station" calls between each one and each other one of the 20 largest cities in the United States. The night rates are those which were in effect at 8:30 P.M. throughout the period. The average air line distance involved is 970 miles. 1916 was the first year in which all of the 20 cities were interconnected by telephone. The insert shows the *average* number of minutes required to establish a long-distance connection in these 20 cities.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Financial Statements which follow on pages 20 to 24, inclusive, consolidate the accounts of the American Telephone and Telegraph Company and its principal telephone subsidiaries listed on page 31, Section I. The subsidiaries so consolidated comprise all operating telephone companies having 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. The proportionate interest of the companies consolidated in subsidiaries not consolidated, including Western Electric Company, Inc., is included in the Consolidated Balance Sheet in the aggregate of the equities applicable thereto as computed from the accounts of these subsidiaries, and the proportionate interest in their earnings for the year is included in "Other Income" in the Consolidated Income Statement.

The companies consolidated have for many years maintained their accounts in accordance with Uniform Systems of Accounts prescribed for telephone companies by Federal authorities. The System of Accounts now in use was prescribed by the Federal Communications Commission, effective January 1, 1937.

Telephone Plant is shown in the Consolidated Balance Sheet in the aggregate of the amounts at which it is carried in the accounts of the individual companies consolidated. For the companies in the consolidated group, 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., 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 and are included in these consolidated Financial Statements at such cost. This cost includes the return realized by Western Electric Company on its investment devoted to this business.

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) were made at prices which 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 from the accounts 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

	December 31, 1939	December 31, 1938
ASSETS		
PLANT AND OTHER INVESTMENTS		
TELEPHONE PLANT (a)	\$4,590,509,972	\$4,489,077,687
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, etc. At December 31, 1939 this property was classified in the accounts of the companies as follows:</i>		
Telephone Plant in Service.....	\$4,522,862,002	
Telephone Plant under Construction.....	41,175,211	
Property Held for Future Telephone Use	11,701,838	
Telephone Plant Acquisition Adjustment	14,770,921	
MISCELLANEOUS PHYSICAL PROPERTY.....	21,749,080	23,780,033
INVESTMENTS IN SUBSIDIARIES NOT CONSOLIDATED (b) ...	198,299,274	197,977,709
EQUITIES IN SUBSIDIARIES NOT CONSOLIDATED IN EXCESS OF INVESTMENTS THEREIN (c)	18,457,545	17,788,256
OTHER INVESTMENTS (d)	64,462,339	73,863,877
<i>Principally investments in non-controlled telephone companies.</i>		
SINKING FUNDS	1,325,000	2,075,000
TOTAL PLANT AND OTHER INVESTMENTS.....	<u>\$4,894,803,210</u>	<u>\$4,804,562,562</u>
CURRENT ASSETS		
CASH AND DEPOSITS.....	\$ 71,771,606	\$ 94,725,991
TEMPORARY CASH INVESTMENTS	77,949,279	41,239,500
<i>Principally United States Government obligations. Market value, December 31, 1939, \$77,978,000.</i>		
CURRENT RECEIVABLES (e).....	109,189,382	102,970,588
<i>Amounts due for service (less reserves for uncollectible accounts amounting to \$1,859,509 at December 31, 1939), working advances, interest and dividends receivable, etc.</i>		
MATERIAL AND SUPPLIES.....	45,764,507	47,169,154
<i>Principally for construction and maintenance purposes.</i>		
TOTAL CURRENT ASSETS.....	<u>\$ 304,674,774</u>	<u>\$ 286,105,233</u>
DEFERRED DEBITS		
UNAMORTIZED DEBT DISCOUNT AND EXPENSE.....	\$ 9,973,236	\$ 10,958,245
PREPAYMENTS OF RENTS, TAXES, DIRECTORY EXPENSES, ETC.	11,105,796	10,798,901
OTHER DEFERRED DEBITS.....	6,804,834	6,637,974
TOTAL DEFERRED DEBITS.....	<u>\$ 27,883,866</u>	<u>\$ 28,395,120</u>
TOTAL ASSETS	<u>\$5,227,361,850</u>	<u>\$5,119,062,915</u>

For explanatory notes (a) to (h), inclusive, see page 24.

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, 1939	December 31, 1938
CAPITAL STOCK (See page 32)		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY:		
Capital Stock (Common).....	\$1,868,679,400	\$1,868,679,400
Premiums on Capital Stock.....	269,975,028	269,975,028
<i>Amount received in excess of par value.</i>		
SUBSIDIARIES CONSOLIDATED:		
Common Stocks held by public.....	85,798,621	85,798,561
Preferred Stocks held by public.....	42,854,950	42,854,950
TOTAL CAPITAL STOCK.....	<u>\$2,267,307,999</u>	<u>\$2,267,307,939</u>
FUNDED DEBT (See page 32)		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY.....	\$ 430,155,700	\$ 430,170,700
SUBSIDIARIES CONSOLIDATED (f)	561,568,000	524,462,035
TOTAL FUNDED DEBT.....	<u>\$ 991,723,700</u>	<u>\$ 954,632,735</u>
NOTES SOLD TO TRUSTEE OF PENSION FUNDS (g)		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY	\$ 7,383,199	\$ 7,922,580
SUBSIDIARIES CONSOLIDATED	101,614,222	113,613,944
TOTAL NOTES	<u>\$ 108,997,421</u>	<u>\$ 121,536,524</u>
CURRENT AND ACCRUED LIABILITIES		
ACCOUNTS PAYABLE (e)	\$ 52,917,689	\$ 49,635,024
ADVANCE BILLING FOR SERVICE AND CUSTOMERS' DEPOSITS..	23,971,368	22,472,097
DIVIDENDS PAYABLE	42,950,512	42,950,512
OTHER CURRENT LIABILITIES.....	4,188,555	4,894,383
TAXES ACCRUED (h)	88,565,461	77,079,947
INTEREST ACCRUED	8,497,022	8,111,633
TOTAL CURRENT AND ACCRUED LIABILITIES.....	<u>\$ 221,090,607</u>	<u>\$ 205,143,596</u>
DEFERRED CREDITS	\$ 4,772,378	\$ 5,541,203
DEPRECIATION AND AMORTIZATION RESERVES	\$1,304,376,440	\$1,253,081,519
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
SURPLUS APPLICABLE TO STOCKS OF SUBSIDIARIES CONSOLIDATED HELD BY PUBLIC	<u>\$ 3,702,634</u>	<u>\$ 3,021,303</u>
SURPLUS APPLICABLE TO STOCK OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY		
SURPLUS RESERVED	\$ 68,911,157	\$ 71,187,161
<i>Comprised, at December 31, 1939, of \$63,264,444 reserved against general contingencies by American Telephone and Telegraph Company and \$5,646,713 reserved by subsidiaries consolidated, principally against contingency of refunds of revenues collected.</i>		
UNAPPROPRIATED SURPLUS	256,479,514	237,610,935
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS....	<u>\$ 325,390,671</u>	<u>\$ 308,798,096</u>
<i>(See page 23)</i>		
TOTAL LIABILITIES †	<u>\$5,227,361,850</u>	<u>\$5,119,062,915</u>

C. A. HEISS, Comptroller.

† For statement as to certain contingent liabilities see note (i) on page 24.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement

	Year 1939	Year 1938
OPERATING REVENUES		
LOCAL SERVICE REVENUES.....	\$ 744,498,825	\$ 713,084,657
<i>Revenues from local exchange service.</i>		
TOLL SERVICE REVENUES	332,355,170	311,663,707
<i>Revenues from long distance and local toll service.</i>		
MISCELLANEOUS REVENUES	34,427,693	33,025,243
<i>Revenues derived from directory advertising, rents and miscellaneous sources.</i>		
LESS: UNCOLLECTIBLE OPERATING REVENUES.....	4,093,990	5,115,775
<i>Provision for revenues which may be uncollectible.</i>		
TOTAL OPERATING REVENUES (j)	\$1,107,187,698	\$1,052,657,832
OPERATING EXPENSES		
CURRENT MAINTENANCE	\$ 214,289,622	\$ 207,979,688
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
DEPRECIATION AND AMORTIZATION EXPENSE.....	159,985,056	157,508,634
<i>Provision to meet loss of investment when depreciable property is retired from service, based on rates designed to spread this loss of investment uniformly over the service life of the property. Such provision represented approximately 3.8% of average investment in depreciable plant in service during 1939 and 3.9% during 1938.</i>		
TRAFFIC EXPENSES	164,053,760	161,178,111
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
COMMERCIAL EXPENSES	88,457,467	85,937,289
<i>Costs incurred in business relations with customers; pay station commissions; also the cost of directories, sales activities, advertising, etc.</i>		
OPERATING RENTS	13,453,218	13,390,016
<i>Rents for the use of buildings, poles, conduits and other facilities.</i>		
GENERAL AND MISCELLANEOUS EXPENSES:		
General Administration	13,968,832	14,279,148
Accounting and Treasury Departments.....	38,732,189	38,248,916
Development and Research (k)	10,783,778	10,011,894
Provision for Employees' Service Pensions (l)	13,342,094	13,290,204
Employees' Sickness, Accident, Death and Other Benefits	8,269,162	7,663,287
Other General Expenses.....	14,349,148	13,476,899
Less: Expenses Charged Construction.....	6,151,081	5,919,663
TOTAL OPERATING EXPENSES.....	\$ 733,533,245	\$ 717,044,423
NET OPERATING REVENUES (carried forward).....	\$ 373,654,453	\$ 335,613,409

For explanatory notes (j), (k) and (l), see page 24.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement—Continued

	Year 1939	Year 1938
NET OPERATING REVENUES (<i>brought forward</i>).....	\$373,654,453	\$335,613,409
OPERATING TAXES		
FEDERAL INCOME	\$ 40,197,383	\$ 34,045,491
SOCIAL SECURITY (<i>Excludes \$2,352,379 in 1939 and \$2,284,011 in 1938 charged Construction</i>).....	16,738,165	16,634,246
OTHER—PRINCIPALLY STATE AND LOCAL (<i>Excludes \$244,417 in 1939 and \$34,763 in 1938 charged Construction</i>).....	99,373,092	94,433,326
TOTAL OPERATING TAXES.....	<u>\$156,308,640</u>	<u>\$145,113,063</u>
NET OPERATING INCOME	\$217,345,813	\$190,500,346
OTHER INCOME		
DIVIDENDS FROM SUBSIDIARIES NOT CONSOLIDATED.....	\$ 14,506,568	\$ 4,953,278
PROPORTIONATE INTEREST IN EARNINGS OR DEFICITS (AFTER DIVIDENDS) OF SUBSIDIARIES NOT CONSOLIDATED.....	3,710,895	2,369,635
DIVIDENDS FROM NON-CONTROLLED COMPANIES.....	4,199,246	4,268,379
INTEREST, AND MISCELLANEOUS ITEMS—NET.....	2,506,842	4,607,838
TOTAL INCOME	<u>\$242,269,364</u>	<u>\$206,699,476</u>
INTEREST DEDUCTIONS	\$ 42,082,226	\$ 41,801,746
AMORTIZATION OF DEBT DISCOUNT AND EXPENSE AND OTHER FIXED CHARGES	628,397	607,117
NET INCOME	<u>\$199,558,741</u>	<u>\$164,290,613</u>
NET INCOME APPLICABLE TO STOCKS OF SUBSIDIARIES CONSOLIDATED HELD BY PUBLIC		
PREFERRED STOCKS	\$ 2,720,767	\$ 3,636,066
COMMON STOCKS	<u>6,557,097</u>	<u>5,111,403</u>
NET INCOME APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK*	\$190,280,877	\$155,543,144
DIVIDENDS ON AMERICAN TEL. AND TEL. CO. STOCK	<u>168,181,146</u>	<u>168,181,146</u>
BALANCE FOR CONSOLIDATED SURPLUS APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK	\$ 22,099,731	†\$ 12,638,002

* Equivalent to \$10.18 per share in 1939 and \$8.32 per share in 1938.

† Negative amount.

Statement of Consolidated Surplus (Reserved and Unappropriated) Applicable to American Telephone and Telegraph Company Stock—Year 1939

BALANCE—DECEMBER 31, 1938.....	\$308,798,096
Income applicable to American Tel. and Tel. Co. stock (after dividends).....	22,099,731
Miscellaneous additions	1,176,600
TOTAL	<u>\$332,074,427</u>
DEDUCTIONS:	
Refunds of revenues collected in prior years (including interest thereon) upon final determination of rate cases	\$ 1,924,801
Adjustments of equity in subsidiaries not consolidated	3,063,865
Miscellaneous deductions	1,695,090
TOTAL	<u>\$ 6,683,756</u>
BALANCE—DECEMBER 31, 1939†.....	<u>\$325,390,671</u>

C. A. HEISS, Comptroller.

† For statement as to certain contingent liabilities see note (i) on page 24.

BELL SYSTEM FINANCIAL STATEMENTS

Explanatory Notes Relating to Consolidated Balance Sheet and Income Statement

- (a) The Uniform System of Accounts for Telephone Companies prescribed by the Federal Communications Commission 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. The total shown for Telephone Plant, which includes the three accounts above mentioned and the amount classified as "Telephone Plant Acquisition Adjustment," represents substantially the cost of the plant to the individual companies. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.
- (b) These investments are, with minor exceptions, stated at cost. On December 31, 1939, securities included herein at \$28,338,000 were hypothecated or pledged under certain bond indentures.
- (c) This item represents the net amount by which the interest of the companies consolidated in the subsidiaries not consolidated (as computed from the accounts of such subsidiaries) exceeds their investment therein.
- (d) Stated at cost, except for minor items carried at depreciated or nominal values. Securities included herein at \$6,345,594 on December 31, 1939, were hypothecated or pledged under certain bond indentures.
- (e) At December 31, 1939 Current Receivables and Accounts Payable include respectively \$764,515 and \$26,703,154 representing accounts with subsidiaries not consolidated.
- (f) Includes at December 31, 1939, \$1,000,000 maturing in 1940.
- (g) 4% demand and one-year notes held by Trustee as an investment of pension funds not presently required to meet pension payments. Under present arrangements with the Trustee, the companies expect to retire approximately \$5,200,000 of these notes during 1940.
- (h) Federal income tax returns of American Telephone and Telegraph Company and most of its subsidiaries have not been closed for years subsequent to 1932.
- (i) At December 31, 1939, four of the subsidiaries consolidated had contingent liabilities in respect of certain revenues collected during all or part of the period 1935 to 1939, 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 \$4,800,000, and against the contingency of such refunds, if any, Surplus has been reserved by these subsidiaries in the amount of \$3,896,713.

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

1. 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.
 2. Pending litigation in which certain of the companies are defendants involving claims for substantial amounts since it is the opinion of counsel for the companies that it is improbable that the claims thereunder can be sustained.
- (j) Revenues shown include relatively minor amounts subject to possible refund in the event of adverse decisions in pending rate cases.
 - (k) Cost of development and research work carried on in behalf of the American Telephone and Telegraph Company by Bell Telephone Laboratories.
 - (l) Includes \$2,303,302 in 1939 and \$2,306,056 in 1938 due to an increase in the current accrual rates by certain of the subsidiaries consolidated, the accounting for which is under consideration by the Federal Communications Commission.

CERTIFICATE OF AUDIT

New York, N. Y., February 13, 1940.

To the Stockholders of American Telephone
and Telegraph Company:

We have examined the balance sheet of American Telephone and Telegraph Company as at December 31, 1939, the consolidated balance sheet of the company and its principal telephone subsidiaries as at December 31, 1939, and the related income statements for the year then ended, have reviewed the systems of internal control and the accounting procedures of the company and its subsidiaries consolidated and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

Examinations of similar scope have been made by us of the balance sheets as at December 31, 1939 and of the statements of income and surplus for the year 1939 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 for the year 1939 rendered to American Telephone and Telegraph Company by all other nonconsolidated subsidiaries. The consolidated balance sheet of Western Electric Company, Incorporated, and its 100% directly-owned subsidiaries as at December 31, 1939 and the consolidated statements of income and surplus of these companies for the year 1939, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 26 to 28) and the consolidated financial statements (pages 19 to 24) present fairly the position at December 31, 1939 and the results of operations for the year 1939 of American Telephone and Telegraph Company and the consolidated position at December 31, 1939 and the consolidated results of operations for the year 1939 of the company and its principal telephone subsidiaries, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet

ASSETS

	December 31, 1939	December 31, 1938
PLANT AND OTHER INVESTMENTS		
TELEPHONE PLANT (a).....	\$ 445,573,024	\$ 442,521,392
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, office furniture, vehicles, tools, etc. At December 31, 1939 this property was classified in the accounts as follows:</i>		
Telephone Plant in Service.....	\$ 440,492,010	
Telephone Plant under Construction.....	3,400,475	
Property Held for Future Telephone Use	375,895	
Telephone Plant Acquisition Adjustment	1,304,644	
INVESTMENTS IN SUBSIDIARIES (b).....	2,366,315,292	2,373,048,316
Stocks	\$2,224,820,969	
Notes and Advances	141,494,323	
OTHER INVESTMENTS (b)	43,003,202	42,969,262
Stocks	\$ 41,699,064	
Notes	1,212,895	
Miscellaneous Physical Property.....	91,243	
SINKING FUND	500,000	500,000
TOTAL PLANT AND OTHER INVESTMENTS.....	<u>\$2,855,391,518</u>	<u>\$2,859,038,970</u>
CURRENT ASSETS		
CASH AND DEPOSITS	\$ 41,587,318	\$ 58,451,335
TEMPORARY CASH INVESTMENTS	76,478,335	38,460,036
<i>United States Government obligations. Market value, December 31, 1939, \$76,481,000.</i>		
CURRENT RECEIVABLES	11,648,559	13,173,298
<i>Amounts due for service (less reserve for uncollectible accounts amounting to \$34,876 at December 31, 1939), interest and dividends receivable, working advances, etc. Includes at December 31, 1939, \$8,936,413 receivable from subsidiaries.</i>		
MATERIAL AND SUPPLIES.....	4,585,788	5,115,059
<i>Principally for construction and maintenance purposes.</i>		
TOTAL CURRENT ASSETS.....	<u>\$ 134,300,000</u>	<u>\$ 115,199,728</u>
DEFERRED DEBITS		
UNAMORTIZED DEBT DISCOUNT AND EXPENSE.....	\$ 2,283,228	\$ 2,386,530
OTHER DEFERRED DEBITS.....	2,050,028	1,849,974
<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>\$ 4,333,256</u>	<u>\$ 4,236,504</u>
TOTAL ASSETS	<u>\$2,994,024,774</u>	<u>\$2,978,475,202</u>

(a) For note (a) see page 24.

(b) For detailed list of investments in securities see page 29. Securities are carried at cost, except for certain debentures included in Other Investments which are stated at \$8,000, market value at December 31, 1939.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet—Continued

LIABILITIES

	December 31, 1939	December 31, 1938
CAPITAL STOCK		
COMMON STOCK—par value (\$100 per share).....	\$1,868,679,400	\$1,868,679,400
<i>Authorized, 25,000,000 shares; outstanding, 18,686,794 shares.</i>		
PREMIUMS ON CAPITAL STOCK.....	269,975,028	269,975,028
<i>Amount received in excess of par value.</i>		
TOTAL CAPITAL STOCK.....	<u>\$2,138,654,428</u>	<u>\$2,138,654,428</u>
FUNDED DEBT (See page 32)	\$ 430,155,700	\$ 430,170,700
NOTE SOLD TO TRUSTEE OF PENSION FUND (c)	\$ 7,383,199	\$ 7,922,580
CURRENT AND ACCRUED LIABILITIES		
DIVIDEND PAYABLE AFTER CLOSE OF YEAR.....	\$ 42,045,287	\$ 42,045,287
ACCOUNTS PAYABLE	4,854,179	4,481,547
<i>Includes at December 31, 1939, \$2,460,389 payable to subsidiaries.</i>		
INTEREST AND TAXES ACCRUED	13,584,104	11,855,479
TOTAL CURRENT AND ACCRUED LIABILITIES.....	<u>\$ 60,483,570</u>	<u>\$ 58,382,313</u>
DEFERRED CREDITS	\$ 1,331,940	\$ 1,294,130
DEPRECIATION AND AMORTIZATION RESERVES		
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>	<u>\$ 133,213,770</u>	<u>\$ 123,499,264</u>
SURPLUS		
RESERVED	\$ 63,264,444	\$ 63,264,444
<i>Amount reserved against general contingencies.</i>		
UNAPPROPRIATED SURPLUS	159,537,723	155,287,343
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS....	<u>\$ 222,802,167</u>	<u>\$ 218,551,787</u>
Analysis of increase during 1939:		
Income balance transferred to Surplus (after dividends)	\$4,405,393	
Miscellaneous Additions	9,623	
Total Additions	<u>\$4,415,016</u>	
Miscellaneous Deductions	164,636	
Net Increase	<u>\$4,250,380</u>	
TOTAL LIABILITIES	<u>\$2,994,024,774</u>	<u>\$2,978,475,202</u>

(c) 4% demand note held by Trustee as an investment of pension funds not presently required to meet pension payments. Under present arrangements with the Trustee, the Company expects to reduce this note approximately \$575,000 during 1940.

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. While the City has made claims of substantial amount in this connection, the Company denies liability for such taxes. Also no specific provision has been made for contingent liabilities in connection with pending litigation in which the Company is a defendant involving claims for substantial amounts since it is the opinion of its counsel that it is improbable that the claims thereunder can be sustained.

Federal income tax returns of the Company have not been closed for the years subsequent to 1932

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement

	Year 1939	Year 1938
OPERATING REVENUES		
TOLL SERVICE REVENUES	\$ 93,953,677	\$ 85,311,996
<i>Message tolls and private line service revenues.</i>		
LICENSE CONTRACT REVENUES	15,092,047	14,463,707
<i>Payments received for services furnished telephone companies under License Contracts.</i>		
MISCELLANEOUS REVENUES	4,289,242	4,313,644
LESS: UNCOLLECTIBLE OPERATING REVENUES.....	569,104	715,156
TOTAL OPERATING REVENUES	<u>\$112,765,862</u>	<u>\$103,374,191</u>
OPERATING EXPENSES (a)		
CURRENT MAINTENANCE	\$ 19,778,996	\$ 18,284,613
DEPRECIATION AND AMORTIZATION EXPENSE.....	16,837,155	16,642,917
TRAFFIC EXPENSES	7,393,944	7,230,758
COMMERCIAL EXPENSES	3,582,687	3,665,077
OPERATING RENTS	11,621,520	11,576,079
GENERAL ADMINISTRATION	6,003,523	6,298,135
ACCOUNTING AND TREASURY EXPENSES.....	3,631,739	3,633,667
DEVELOPMENT AND RESEARCH (b).....	10,783,778	10,011,894
PROVISION FOR EMPLOYEES' SERVICE PENSIONS.....	891,598	884,453
EMPLOYEES' SICKNESS, ACCIDENT, DEATH AND OTHER BENEFITS	608,570	581,770
OTHER GENERAL EXPENSES	1,783,575	1,320,825
LESS: EXPENSES CHARGED CONSTRUCTION.....	239,612	239,250
TOTAL OPERATING EXPENSES	<u>\$ 82,681,473</u>	<u>\$ 79,890,938</u>
NET OPERATING REVENUES	<u>\$ 30,084,389</u>	<u>\$ 23,483,253</u>
OPERATING TAXES		
FEDERAL INCOME	\$ 6,257,712	\$ 4,926,700
SOCIAL SECURITY (<i>Excludes \$74,921 in 1939 and \$78,916 in 1938 charged Construction</i>).....	1,272,382	1,263,452
OTHER—PRINCIPALLY STATE AND LOCAL.....	6,256,194	6,115,094
TOTAL OPERATING TAXES.....	<u>\$ 13,786,288</u>	<u>\$ 12,305,246</u>
NET OPERATING INCOME	<u>\$ 16,298,101</u>	<u>\$ 11,178,007</u>
DIVIDEND INCOME	165,522,792	147,896,567
INTEREST INCOME	6,811,349	9,585,533
OTHER INCOME—NET	554,682	413,340
TOTAL INCOME	<u>\$189,186,924</u>	<u>\$169,073,447</u>
INTEREST DEDUCTIONS (c)	16,600,385	16,645,419
NET INCOME (d)	<u>\$172,586,539</u>	<u>\$152,428,028</u>
DIVIDENDS DECLARED	168,181,146	168,181,146
BALANCE TRANSFERRED TO SURPLUS	<u>\$ 4,405,393</u>	<u>(e) \$ 15,753,118</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 in the performance of License Contract services furnished telephone companies.

(b) Cost of development and research work carried on in behalf of the Company by Bell Telephone Laboratories.

(c) Includes \$102,161 in 1939 and \$102,248 in 1938 for amortization of debt discount and expense.

(d) Net Income of the Company by itself, for 1939 and 1938, is less by \$17,694,338 and \$3,115,116, respectively, than the Company's proportion of the consolidated Net Income of the Bell System for these years as shown on page 23.

(e) Negative amount.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Investments, including Notes and Advances, in Subsidiary and Other Companies at December 31, 1939

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	\$ 8,700,000
New York Tel. Co.	421,300,000	100.00	444,280,335	5,000,000
New Jersey Bell Tel. Co.	140,000,000	100.00	153,667,184	4,225,000
Bell Tel. Co. of Pennsylvania	110,000,000	100.00	116,316,050	9,475,000
Diamond State Tel. Co.	5,000,000	100.00	5,700,000	-----
Chesapeake & Potomac Tel. Co.	20,000,000	100.00	21,000,000	10,525,000
Chesapeake & Potomac Tel. Co. of Balt. City	35,000,000	100.00	36,467,862	8,100,000
Chesapeake & Potomac Tel. Co. of Va.	24,000,000	100.00	24,000,000	5,500,000
Chesapeake & Potomac Tel. Co. of West Va..	16,200,000	100.00	16,200,000	4,525,000
Southern Bell Tel. & Tel. Co.	140,000,000	100.00	141,817,298	2,800,000
Ohio Bell Tel. Co.	139,999,600	99.99	140,041,898	3,400,000
Michigan Bell Tel. Co. (b)	124,988,629	99.99	125,401,232	(b) 10,000,000
Indiana Bell Tel. Co.	36,999,100	99.99	37,585,586	3,409,323
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	21,740,000
Southwestern Bell Tel. Co.	172,999,000	99.99	176,252,078	6,350,000
Mountain States Tel. & Tel. Co.	35,187,500	73.23	36,592,463	-----
Pacific Tel. & Tel. Co.—Common	154,870,900	85.80	150,529,084	22,550,000
Pacific Tel. & Tel. Co.—Preferred	64,095,700	78.17	55,999,180	-----
Bell Telephone Laboratories, Inc.	2,400,000	(c) 50.00	2,400,000	-----
Western Electric Co., Inc. (no par value) (d)	5,966,248	99.44	144,231,274	-----
195 Broadway Corporation	5,500,000	100.00	5,515,000	(e) 15,195,000
Eastern Tel. & Tel. Co. (Canada).....	75,000	100.00	75,000	(f)
TOTAL BOOK VALUE			<u>\$2,224,820,969</u>	<u>\$141,494,323</u>
OTHER COMPANIES				
Southern New England Tel. Co.	\$ 13,337,400	33.34	\$ 13,649,213	\$ 1,200,000
Cincinnati & Suburban Bell Tel. Co.	8,169,150	29.72	8,732,568	-----
Bell Telephone Company of Canada.....	18,749,800	23.18	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	-----
Others				(g) 12,895
TOTAL BOOK VALUE			<u>\$ 41,699,064</u>	<u>\$ 1,212,895</u>

(a) Common stocks except as otherwise indicated.

(b) On January 2, 1940 the Michigan Bell Telephone Company paid its notes of \$10,000,000 and sold common stock in the same amount for cash at par to this Company.

(c) Remaining 50% owned by Western Electric Company, Inc.

(d) Number of shares.

(e) Includes real estate mortgages of \$13,100,000.

(f) Advances of \$1,485,000 to Eastern Telephone and Telegraph Company are included in the Balance Sheet under Deferred Debits at a net amount of \$85,000, a reserve of \$1,400,000 having been provided in 1938 in respect of possible loss thereon.

(g) Includes New York World's Fair 4% Debentures stated at \$8,000, market value.

**TRUSTEE'S REPORT OF PENSION TRUST FUND ESTABLISHED BY
AMERICAN TELEPHONE AND TELEGRAPH COMPANY**

BALANCE IN FUND—DECEMBER 31, 1938		\$ 21,351,961.07
ADDITIONS TO FUND DURING 1939—		
Payments into Fund by Company	\$ 891,598.00	
Interest Revenue, including gain or loss on investments disposed of	737,830.26	
TOTAL ADDITIONS	\$ 1,629,428.26	
DISBURSEMENTS FOR PENSIONS DURING 1939	545,698.36	
NET INCREASE IN FUND		\$ 1,083,729.90
BALANCE IN FUND—DECEMBER 31, 1939		\$ 22,435,690.97
COMPRISED OF—		
4% Demand Note of American Telephone and Telegraph Company.....		\$ 7,383,199.31
Bonds of Bell Telephone Companies		8,837,693.50
U. S. Government Obligations		2,155,865.00
Public Utility, Railroad and Industrial Bonds		3,362,193.50
Cash and accrued interest not due.....		696,739.66
TOTAL		\$ 22,435,690.97

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, TRUSTEE

By W. B. DUNCKEL

Trust Officer.

New York, N. Y.—January 23, 1940.

**CONSOLIDATED STATEMENT OF PENSION TRUST FUNDS ESTAB-
LISHED BY AMERICAN TELEPHONE AND TELEGRAPH
COMPANY AND ITS PRINCIPAL TELEPHONE
SUBSIDIARIES**

BALANCE IN PENSION TRUST FUNDS—DECEMBER 31, 1938		\$191,270,557.07
ADDITIONS DURING 1939—		
Payments into Funds by Companies	\$13,346,339.25	
Interest Revenue, including gain or loss on disposal of investments and adjustments of book value	6,899,991.56	
TOTAL ADDITIONS	\$20,246,330.81	
DISBURSEMENTS FOR PENSIONS DURING 1939	6,393,345.32	
NET INCREASE		\$ 13,852,985.49
BALANCE IN PENSION TRUST FUNDS—DECEMBER 31, 1939		\$205,123,542.56
COMPRISED OF—		
4% Demand and One-Year Notes of Bell Telephone Companies.....		\$108,997,420.80
Bonds of Bell Telephone Companies		44,632,279.94
U. S. Government Obligations		22,742,176.42
Public Utility, Railroad and Industrial Bonds*.....		22,551,351.70
Cash and accrued interest not due		6,200,313.70
TOTAL		\$205,123,542.56

NOTE: Securities are shown on amortized basis.

* Includes a Voting Trust Certificate carried at \$455.

We certify that the above consolidated statement of the Pension Trust Funds established by the American Telephone and Telegraph Company and its Principal Telephone Subsidiaries, for which Funds this Company is Trustee, is correct.

BANKERS TRUST COMPANY, TRUSTEE

By W. B. DUNCKEL

Trust Officer.

New York, N. Y.—January 25, 1940.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

December 31, 1939

I. PRINCIPAL TELEPHONE SUBSIDIARIES (a)

	Headquarters	Company Telephones	Connecting Telephones (b)
New England Tel. and Tel. Co.	Boston, Mass.	1,254,600	44,500
New York Tel. Co.	New York, N. Y.	2,618,000	216,400
New Jersey Bell Tel. Co.	Newark, N. J.	734,000	13,000
The Bell Tel. Co. of Pennsylvania	Philadelphia, Pa.	1,293,000	220,000
The Diamond State Tel. Co.	Philadelphia, Pa.	46,400	200
The Chesapeake and Potomac Tel. Co.	Washington, D. C.	254,000	400
The Chesapeake and Potomac Tel. Co. of Baltimore City	Baltimore, Md.	280,500	3,100
The Chesapeake and Potomac Tel. Co. of Virginia	Richmond, Va.	213,100	55,300
The Chesapeake and Potomac Tel. Co. of West Virginia	Charleston, W. Va.	139,200	26,000
Southern Bell Tel. and Tel. Co.	Atlanta, Ga.	1,235,500	335,600
Christian-Todd Tel. Co.	Hopkinsville, Ky.	5,200	700
The Ohio Bell Tel. Co.	Cleveland, Ohio	765,400	306,600
Michigan Bell Tel. Co.	Detroit, Mich.	742,100	104,100
Indiana Bell Tel. Co.	Indianapolis, Ind.	238,500	265,900
Wisconsin Tel. Co.	Milwaukee, Wis.	376,600	171,900
Illinois Bell Tel. Co.	Chicago, Ill.	1,471,900	305,100
Northwestern Bell Tel. Co.	Omaha, Nebr.	683,900	517,900
The Tri-State Tel. and Tel. Co.	St. Paul, Minn.	137,800	84,000
Dakota Central Tel. Co.	Aberdeen, S. D.	31,300	20,700
Southwestern Bell Tel. Co.	St. Louis, Mo.	1,549,400	581,000
The Mountain States Tel. and Tel. Co.	Denver, Colo.	517,800	40,800
The Pacific Tel. and Tel. Co.	San Francisco, Cal.	1,191,600	172,000
Bell Tel. Co. of Nevada	San Francisco, Cal.	14,300	5,400
Southern California Tel. Co.	Los Angeles, Cal.	742,100	164,800

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 more than 40,000 directly and indirectly connecting rural lines.

(c) Subsidiary of New York Telephone Company.

NOTE: The Southern New England Telephone Company, New Haven, Conn., and The Cincinnati and Suburban Bell Telephone Company, Cincinnati, Ohio, are not controlled by, but have License Contract arrangements with, the American Telephone and Telegraph Company. They have respectively 360,400 and 189,300 company telephones and 1,900 and 9,800 connecting telephones.

BELL SYSTEM

Stocks, Bonds and Notes Outstanding December 31, 1939

(Inter-Company Holdings Excluded)

COMMON STOCK

	Par Value	Increase (a) During Year
American Telephone and Telegraph Company.....	\$1,868,679,400	.....
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	.....
Pacific Telephone and Telegraph Company.....	25,629,100	.....
Other Principal Telephone Subsidiaries.....	15,321	\$ 60
TOTAL COMMON STOCK.....	\$1,954,478,021	\$ 60

PREFERRED STOCK

Bell Telephone Company of Pennsylvania 6½%.....	\$ 20,000,000	.....
Christian-Todd Telephone Company 6%.....	3,650	.....
Wisconsin Telephone Company 7%.....	4,947,000	.....
Pacific Telephone and Telegraph Company 6%.....	17,904,300	.....
TOTAL PREFERRED STOCK.....	\$ 42,854,950	.....

BONDS AND NOTES

	Face Value	
American Telephone and Telegraph Company:		
Twenty-Year Sinking Fund Debenture 5½s, 1943.....	\$ 95,155,700	\$ 15,000
Twenty-Five Year Debenture 3¼s, 1961.....	175,000,000	.....
Thirty-Year Debenture 3¼s, 1966.....	160,000,000	.....
New England Telephone and Telegraph Company:		
First Mortgage Series A 5s, 1952.....	35,000,000	.....
First Mortgage Series B 4½s, 1961.....	40,000,000	.....
First Mortgage Series C 3¼s, 1968.....	20,000,000	.....
Real Estate Mortgage.....	.....	2,000,000
New York Telephone Company:		
First and General Mortgage 4½s, 1939.....	.....	60,868,035
Refunding Mortgage 3¼s, 1967, Series B.....	25,000,000	.....
Refunding Mortgage 3¾s, 1964, Series C.....	75,000,000	75,000,000
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	.....
Diamond State Telephone Company:		
Thirty-Year Debenture 3s, 1968.....	3,000,000	.....
Chesapeake and Potomac Telephone Company of Virginia:		
Serial Notes (1¼% to 2%) Maturing 1940-1943, incl.	4,000,000	.....
Southern Bell Telephone and Telegraph Company:		
Twenty-Five Year Debenture 3¼s, 1962.....	45,000,000	.....
Forty Year Debenture 3s, 1979.....	25,000,000	25,000,000
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	.....
First and Refunding Mortgage 3s, 1968, Series C.....	30,000,000	.....
Mountain States Telephone and Telegraph Company:		
Thirty-Year Debenture 3¼s, 1968.....	30,000,000	.....
Pacific Telephone and Telegraph Company:		
Refunding Mortgage 3¼s, 1966, Series B.....	29,652,000	14,000
Refunding Mortgage 3¼s, 1966, Series C.....	24,916,000	12,000
4% Notes Sold to Trustee of Pension Funds (Principally Demand).....	108,997,421	12,539,103
TOTAL BONDS AND NOTES.....	\$1,100,721,121	\$24,551,862

(a) Decreases in italics.

BELL SYSTEM STATISTICS

	Dec. 31, 1920	Dec. 31, 1925	Dec. 31, 1930	Dec. 31, 1935	Dec. 31, 1939	* Increase During 1939
NUMBER OF TELEPHONES (a)	8,133,759	11,909,578	15,187,296	13,573,025	16,535,804	774,709
NUMBER OF CENTRAL OFFICES.....	5,707	6,147	6,639	6,896	7,001	26
MILES OF POLE LINES	362,481	394,529	428,212	407,454	397,202	2,166
MILES OF WIRE:						
In Underground Cable	14,207,000	27,769,000	45,116,000	47,639,000	52,041,000	1,258,000
In Aerial Cable	6,945,000	12,885,000	23,777,000	26,425,000	28,910,000	838,000
Open Wire	3,711,000	4,339,000	5,231,000	4,562,000	4,586,000	4,000
Total	24,863,000	44,943,000	74,124,000	78,626,000	85,537,000	2,092,000
AVERAGE DAILY TELEPHONE CONVERSATIONS† (b)	33,125,000	50,141,000	64,034,000	60,290,000	73,802,000	3,906,000
TOTAL PLANT	\$1,373,802,000	\$2,566,809,000	\$4,028,836,000	\$4,187,790,000	\$4,590,510,000	\$101,432,000
OPERATING REVENUES†	\$ 446,115,000	\$ 737,560,000	\$1,075,228,000	\$ 919,116,000	\$1,107,188,000	\$54,530,000
TAXES† (c)	\$ 27,743,000	\$ 58,113,000	\$ 84,732,000	\$ 94,507,000	\$ 156,309,000	\$11,196,000
NUMBER OF EMPLOYEES (d)	228,943	292,902	318,119	241,169	259,930	2,487
NUMBER OF AMERICAN TEL. AND TEL. Co. STOCKHOLDERS	139,448	362,179	507,694	657,465	636,771	10,111

* Decreases shown in italics. † For year ending December 31.

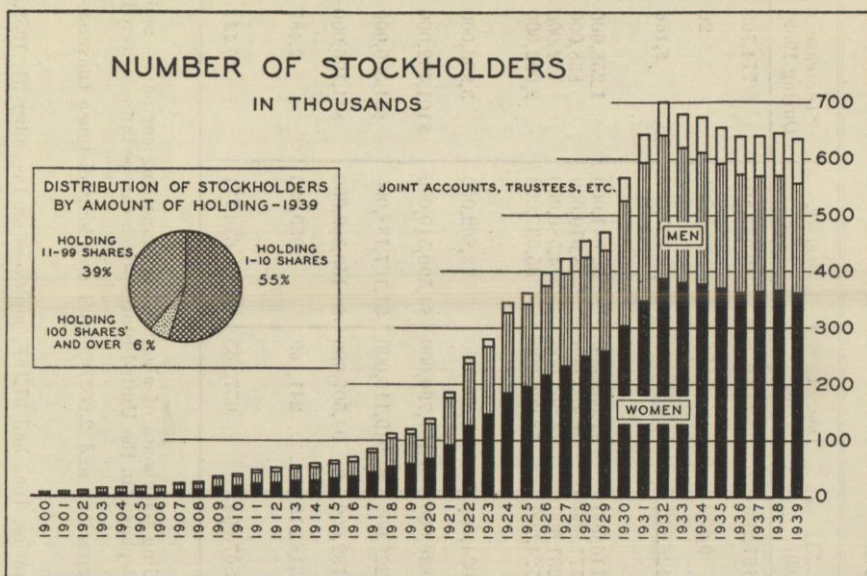
(a) Excludes private line telephones numbering 77,495 on December 31, 1939. Including telephones of about 6,500 connecting companies and more than 40,000 directly and indirectly connecting rural lines, the total number of telephones in the United States which can be interconnected is approximately 20,750,000.

(b) For the year 1939 there were approximately 71,200,000 average daily local conversations and 2,602,000 toll and long distance conversations, an increase of 5.6% and 5.5%, respectively, over the year 1938.

(c) Excludes taxes charged construction (amounting in 1939 to \$2,596,800).

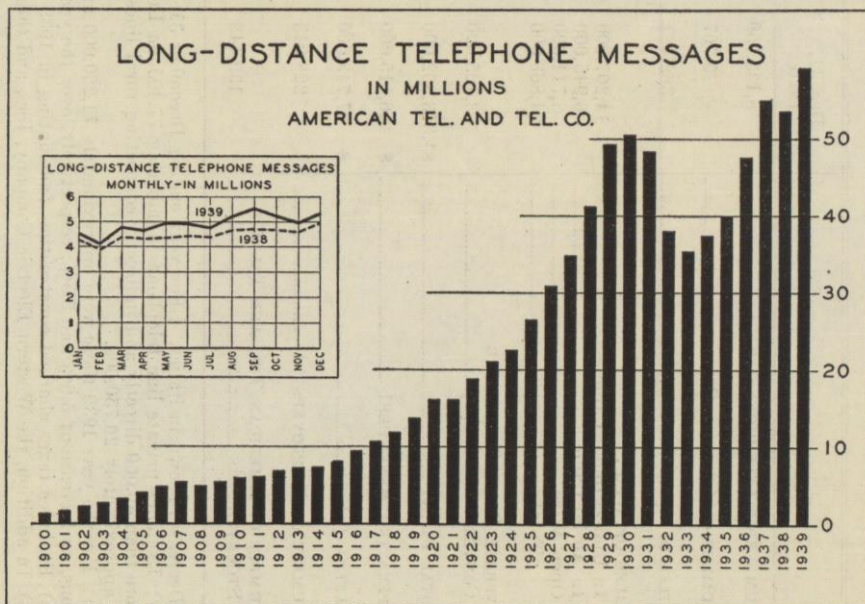
(d) In addition, the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., had 37,197 employees on December 31, 1939.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

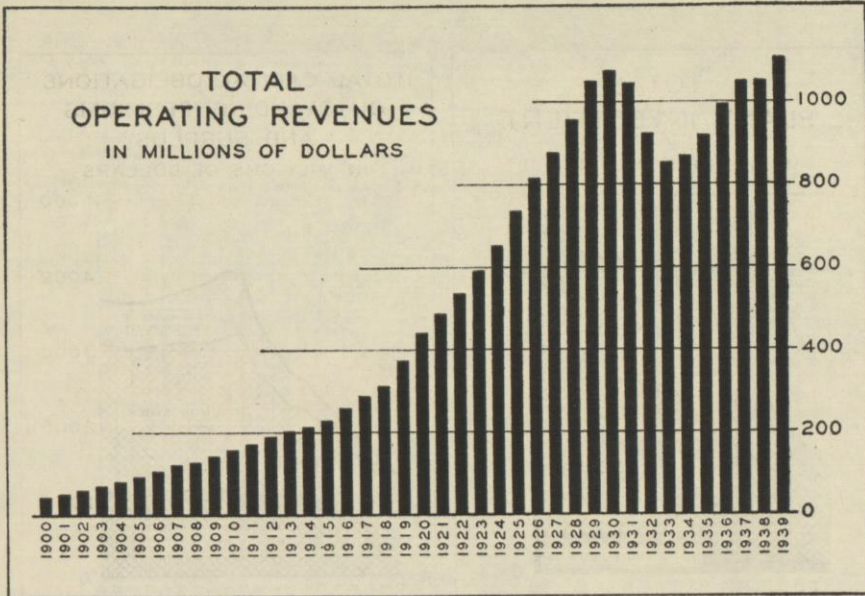


The number of stockholders of record of the Company on December 31, 1939 was 636,771, as compared with 646,882 at the end of 1938. The average number of shares held per stockholder at the end of the year was 29. About 42 per cent of the shares are held by women; 31 per cent by men; 4 per cent in joint accounts; 21 per cent by trustees, insurance companies, corporations, private firms, etc.; and 2 per cent are in the names of brokers. No stockholder of record holds as much as one per cent of the total stock outstanding.

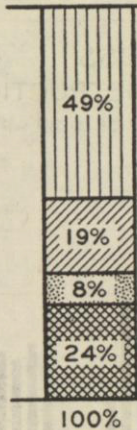
There were also at the end of 1939 about 24,000 holders of common stock and 40,000 holders of preferred stock of the Company's principal telephone subsidiaries. Allowing for duplications in these totals, there are now about 680,000 owners of stock of the Company and its principal telephone subsidiaries.



BELL SYSTEM

DISPOSITION OF THE GROSS REVENUES OF THE
BELL SYSTEM - BY DECADES

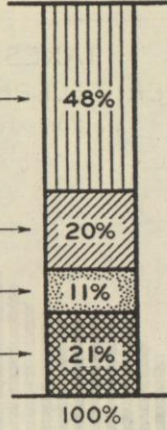
1920 - 1929, INCL.



1930 - 1939, INCL.

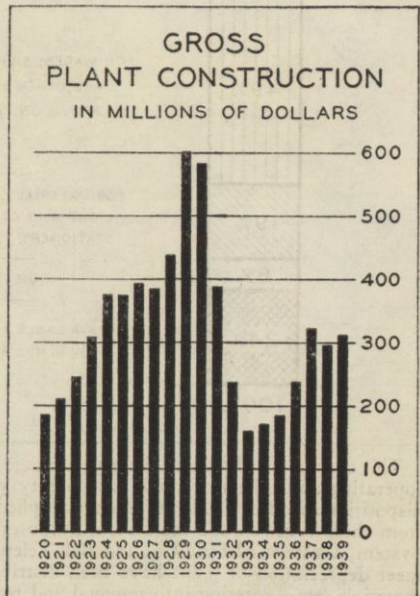
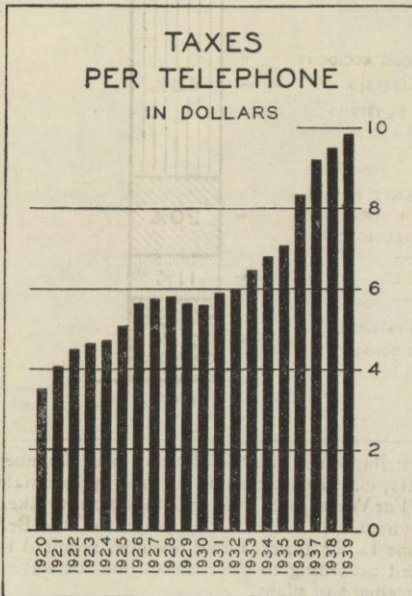
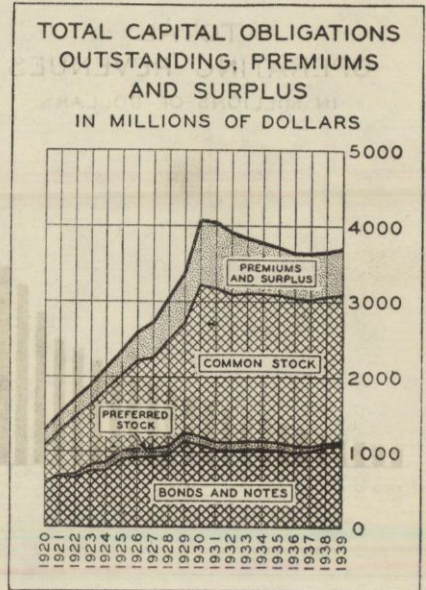
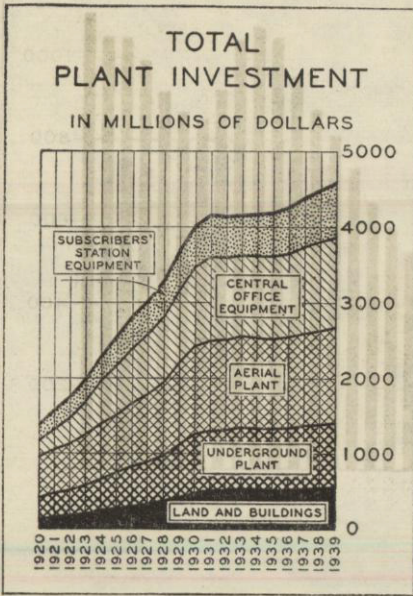
FOR WAGES; SICKNESS, ACCIDENT
AND OTHER BENEFITS; AND
PROVISION FOR PENSIONSFOR MATERIALS, RENTS, POWER,
LIGHT AND OTHER SERVICES,
STATIONERY, TRAVELING, ETC.

FOR TAXES

AVAILABLE FOR INTEREST,
DIVIDENDS AND SURPLUS

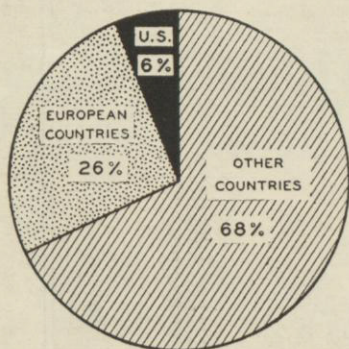
This chart shows by decades the percentage distribution of total Bell System gross revenues (operating and other) over the past twenty years, classified according to their approximate disposition as indicated. Gross revenues applied "For Wages, etc." comprise the amounts taken from these revenues for the several purposes indicated in respect of employees of the Bell System, Western Electric Co. and Bell Telephone Laboratories. Gross revenues required to meet depreciation of plant have been distributed according to their disposition for wages, materials, etc., entering into removal and replacement of plant.

BELL SYSTEM

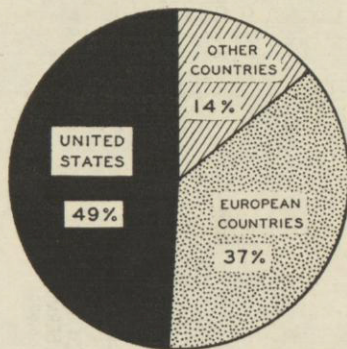


THE WORLD'S POPULATION AND TELEPHONES

DISTRIBUTION IN 1939



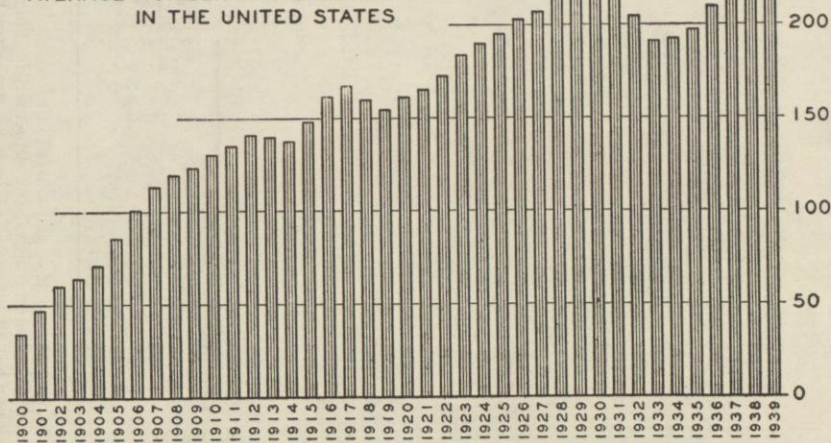
POPULATION



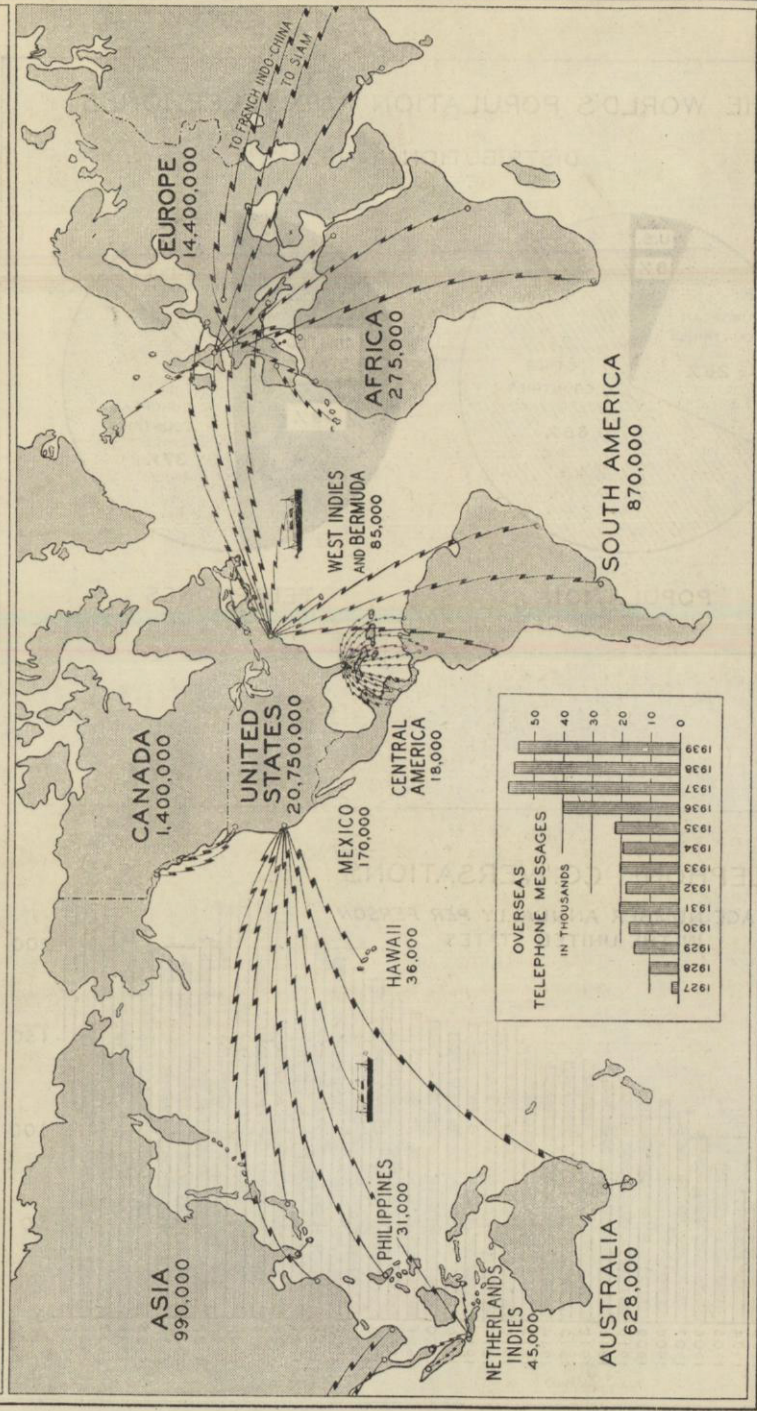
TELEPHONES

TELEPHONE CONVERSATIONS

AVERAGE NUMBER ANNUALLY *PER PERSON*
IN THE UNITED STATES



OVERSEAS TELEPHONE CONNECTIONS OF THE BELL SYSTEM*



*Service over some of the routes indicated has been temporarily suspended or restricted due to war conditions. Under normal conditions, the available overseas telephone facilities, supplemented by land routes, make it possible to connect by telephone with 93% of the world's 42,600,000 telephones. About one-half of the world's telephones are in the United States, and the figures on the map indicate the approximate number of the world's telephones which may be connected with telephones of the Bell System. Overseas telephone messages during 1939 were distributed as follows: Transatlantic 52%, Transpacific 16%, with Central and South American points 25%, and with transoceanic ships 7%. In addition, the Bell System and its connecting companies operate 15 radiotelephone shore stations, not indicated on the map, for communication with small vessels and coastwise steamships on the Atlantic, Gulf and Pacific coasts and the Great Lakes.



