

A N N U A L R E P O R T

AMERICAN
TELEPHONE
AND TELEGRAPH
COMPANY



STRAWBOARDS

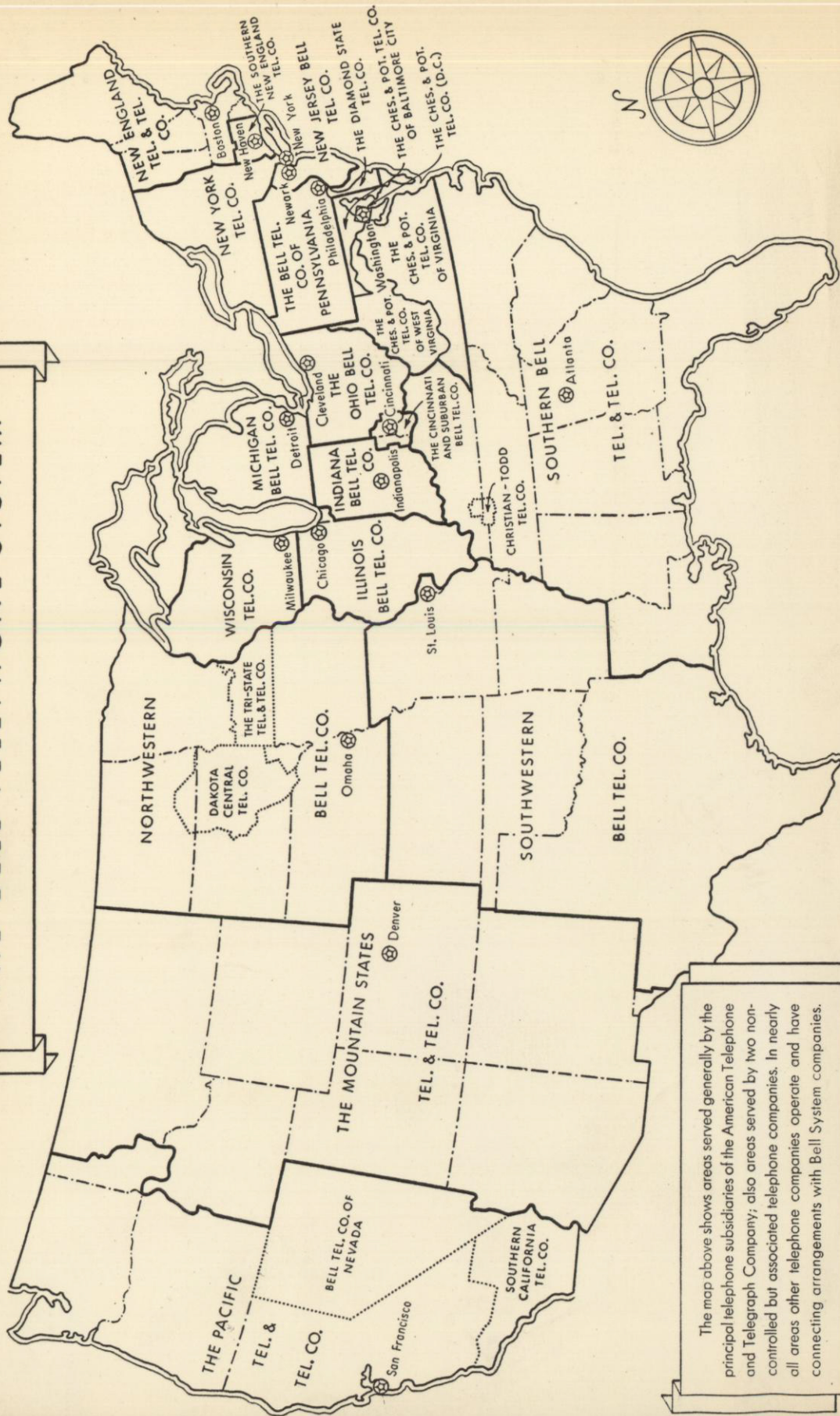
FOR THE YEAR 1940

MRB

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THE BELL TELEPHONE SYSTEM



The map above shows areas served generally by the principal telephone subsidiaries of the American Telephone and Telegraph Company; also areas served by two non-controlled but associated telephone companies. In nearly all areas other telephone companies operate and have connecting arrangements with Bell System companies.



"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. Eifford



REC'D IN B. I. B. 5-15-56

MAY 6 1941

American Telephone and Telegraph Company

195 BROADWAY, NEW YORK

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DIRECTORS

CHARLES FRANCIS ADAMS	WALTER S. GIFFORD
WINTHROP W. ALDRICH	BARKLIE HENRY
JAMES F. BELL	ARTHUR W. PAGE
LEWIS H. BROWN	THOMAS I. PARKINSON
CHARLES P. COOPER	ELIHU ROOT, JR.
DAVID A. CRAWFORD	TOM K. SMITH
JOHN W. DAVIS	MYRON C. TAYLOR
W. CAMERON FORBES	SAMUEL A. WELLDON
G. PEABODY GARDNER	DANIEL WILLARD
S. CLAY WILLIAMS	

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OFFICERS

President

WALTER S. GIFFORD

Vice Presidents

C. M. BRACELEN	A. W. PAGE	W. H. HARRISON
F. B. JEWETT	K. W. WATERSON	C. F. CRAIG
C. P. COOPER	K. S. MCHUGH	F. P. LAWRENCE
ROBERT W. CURRAN		

Secretary

R. H. STRAHAN

Treasurer

JAMES F. BEHAN

Comptroller

C. A. HEISS

Fifty-Sixth Annual Report of American Telephone and Telegraph Company

The management of the American Telephone and Telegraph Company presents herewith an accounting of its stewardship for the year 1940 for the information of stockholders, employees, telephone users, and the entire American people who have entrusted to private enterprise the responsibility for carrying on this essential national service.

National defense considerations greatly influenced the course of events in 1940 in the American Telephone and Telegraph Company and its Associated Companies in the Bell System. Much pending construction was advanced ahead of schedule. Prudent measures were taken to safeguard telephone facilities. Reserve power equipment was installed or ordered at all important telephone central offices which did not already have it, so as to assure continuity of power supply under all conditions. The establishment of alternate toll routes between important points, which has already done so much to improve the dependability of toll and long distance service, was given further impetus. The telephone companies of the System co-operated with the military services in Army maneuvers and airplane warning tests and provided promptly the facilities required at camps, air fields, arsenals and munitions plants. Where the need lay in the future, rather than in the present, steps were taken to increase the available number of telephone circuits along important routes and to make sure of adequate circuits, equipment and personnel at points where there might be unusual service demands. Concurrently, there was a general expansion of activity throughout the System to meet the increasing demand for service, and to be ready for whatever additional demands the future may bring.

The Bell System's manufacturing organization and its laboratories—the Western Electric Company, Incorporated and the

Bell Telephone Laboratories, Incorporated—were busy supplying special needs of the military services besides caring for the increased needs of the telephone operating companies.

A number of officials, scientists and other specially qualified employees of Bell System telephone companies, the Western Electric Company and the Bell Telephone Laboratories are serving part or full time on national defense committees or otherwise aiding directly in the defense program. Over 500 employees entered the military service during 1940.

The nation-wide universal telephone service needed for defense as well as for every-day business and social life is made possible by the interconnection of 17,484,000 Bell System* telephones with more than 4,375,000 telephones of some 6,400 connecting telephone companies and more than 60,000 rural or farmer lines. The splendid co-operation between independently owned telephone companies and lines and the Bell System is an essential factor in enabling anyone anywhere to pick up a telephone and talk to anyone else, anywhere else, clearly and quickly. Moreover, this co-operation is invaluable in marshalling the resources of the entire telephone industry in the interest of national defense.

Telephones and Conversations

The number of Bell System telephones in service increased 950,000 in 1940 and reached a new high of 17,484,000 at the end of the year. This is the largest gain ever recorded in a single year. The gain in 1939 was 775,000. The average number of telephone conversations per day in 1940 was 79,303,000, or over 5,500,000 more per day than in 1939.

Telephone Plant

Telephone plant consists of land, buildings, rights of way, switchboards, pole lines, wires, cables, underground conduits, telephones and all the other equipment which is needed for the communication services furnished by the Bell System. In 1940, the System expenditures for new plant construction, not including plant and material which were taken out of service and

*"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 20.

re-used, amounted to \$290,000,000. Total gross additions to telephone plant, which include re-used plant and material, amounted to \$381,393,000 and retirements to \$224,229,000, resulting in a net increase of \$157,164,000, or 3.4 per cent. This compares with a net increase of \$101,432,000 in plant, or 2.3 per cent, in 1939. The investment in telephone plant at the end of the year was \$4,747,674,000, against which there were depreciation and amortization reserves of \$1,360,896,000, or 28.7 per cent.

Employees

The employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, numbered 322,000 at the end of 1940, an increase of 24,900 over the end of 1939. Of the total employees, 147,500 were men. About 57,000 of these were between the ages of 21 and 35, inclusive, and were registered under the Selective Training and Service Act of 1940. Total payroll for 1940, including operating, construction, manufacturing and laboratory personnel, was \$607,593,000, an increase of \$37,442,000 over 1939.

Revenues

In 1940, the Bell System gross operating revenue was \$1,174,322,000, an increase of 6 per cent or \$67,134,000 over 1939. As a result of tax increases, net operating income failed to increase correspondingly and was only 1.6 per cent, or \$3,531,000, more than in 1939. Other income increased \$16,079,000. The total net income of the System, after interest deductions, applicable to American Telephone and Telegraph Company stock was \$210,497,000, an increase of \$20,216,000 over 1939.

The American Telephone and Telegraph Company earned \$10.08 per share of stock in 1940, as compared with \$9.24 per share in 1939. The total net income of the System applicable to American Telephone and Telegraph Company stock was \$11.26 per share, as compared with \$10.18 in 1939.

Taxes

Although Bell System earnings were not sufficient to subject the System to any excess profits tax, taxes continued to rise.

For 1940, taxes, including those charged to construction, amounted to \$187,598,000, an increase of \$28,693,000 over 1939, which year in turn showed an increase of \$11,474,000 over 1938. Taxes in 1940 were equal to about \$11 per telephone, or nearly a dollar a month.

Financing

In November, 1940, the American Telephone and Telegraph Company sold an issue of \$140,000,000, 2 $\frac{3}{4}$ % Debentures due in 1970, to provide funds for plant expansion and other capital expenditures. During the year, the Company and its principal telephone subsidiaries paid off \$5,166,000 of their 4% Notes held by the Trustee of their respective Pension Funds. The Chesapeake and Potomac Telephone Company of Virginia paid at maturity a serial note of \$1,000,000, and the Wisconsin Telephone Company retired its \$4,947,000, 7% Preferred Stock. The New York Telephone Company negotiated with the holders of its \$75,000,000 Mortgage Bonds due in 1964 a reduction from 3 $\frac{3}{8}$ % to 3% in the coupon interest rate. Outstanding debt obligations of the Bell System increased \$133,372,000 during the year. Cash assets of the System at the end of the year were \$229,836,000, of which this Company held \$199,977,000.

Early in 1941, the Illinois Bell Telephone Company called for redemption on April 1 its \$45,000,000 First and Refunding Mortgage 3 $\frac{1}{2}$ % Bonds, Series B, due in 1970 and sold a new issue of \$50,000,000 First Mortgage 2 $\frac{3}{4}$ % Bonds, Series A, due in 1981; also, The Bell Telephone Company of Pennsylvania sold as of April 1, 1941, \$20,000,000 First and Refunding Mortgage 2 $\frac{3}{4}$ % Bonds, Series D, due in 1976 and called its \$20,000,000, 6 $\frac{1}{2}$ % Preferred Stock for redemption on April 15.

Financial Structure

The total capital obligations of the System, including capital stock premiums and surplus, at the end of the year were \$3,861,038,000, of which debt obligations amounted to \$1,234,092,000, or less than 32 per cent. The soundness of this financial structure means much in the ability of the System to weather depressions and to meet the needs of national defense.

This financial strength could not have been achieved nor can it be maintained except as management is able to produce, and regulatory authorities permit, earnings in times of business activity that are enough to offset the inadequacy of earnings in times of depression.

Stockholders

At the end of 1940, there were 630,900 stockholders of record of the American Telephone and Telegraph Company. This is 5,900 less than at the end of 1939. The average number of shares held per stockholder at the end of 1940 was 30. Geographically, the stock was widely held. Approximately one-fifth of the Bell System employees owned stock in the Company. No stockholder held as much as 1 per cent of the total stock. Of the total stockholders, 210,000 held from 1 to 5 shares each and 595,400 held less than 100 shares each. The 35,500 stockholders—including insurance companies and many other institutional holders—who owned 100 shares or more each were 5.6 per cent of the total number of stockholders and held 50 per cent of the total stock.

Service

Despite the addition and training of many thousands of new employees, and the necessity of caring for a record volume of traffic and a record growth in telephones, the quality of service not only did not suffer, but was on the whole improved.

The personnel continued to make telephone service friendly and helpful as well as technically efficient. This has, in fact, become a way of life for telephone workers. Moreover, telephone people have to give service very frequently under onerous and unusual conditions, both in central offices and outside. To appreciate this, it is only necessary to recall what they confront in storms, disasters and other emergencies. No material reward by itself can secure the services rendered by telephone employees under these conditions. To mention only one recent specific instance, in November a disastrous explosion occurred at Woodbridge, New Jersey. Such is the traditional spirit of service that, within ten minutes of the explosion, every off-duty operator of the Woodbridge exchange

had called the Chief Operator to see if she were needed to help carry the inevitable overload on the service. Telephone workers on this and countless other occasions have shown that they regard themselves as under obligation to the service and to the public.

Over the years there has been constant improvement in the reliability of telephone service and today the average Bell telephone is in working order more than 99.98 per cent of the time, in spite of the complexity of the telephone instrument itself, the intricate switching, signaling and circuit mechanisms in the telephone central offices and on telephone lines, and the interruptions in service caused by sleet, wind, floods and lightning.

The number of dial telephones in service increased by 1,250,000 in 1940. About 60 per cent of Bell System telephones were dial at the end of the year, as compared with 56 per cent at the end of 1939. The crossbar dial system, which is a new and somewhat more flexible central office switching system, was installed in several additional cities with satisfactory results. Some 350,000 telephones are now served by crossbar equipment. During the year, more than 400 small Bell System central offices were converted to dial operation, most of these conversions being from magneto service, in which the person calling turns a crank to call the operator.

Progress was made in the dialing of toll calls by operators. Under this method of operation, a person telephoning places his call with the operator as usual, but the operator, instead of relaying the call to another operator at the distant central office, dials the called party at the distant point directly over the toll line. About 15 per cent of all toll messages were handled in 1940 in this manner, some of them to distances of 200 miles, with resulting improvement in speed and accuracy. The method of operation by which the shorter haul toll calls are dialed by the telephone user directly instead of calling an operator was further extended in 1940.

The handset is now the predominant type of telephone in use in the Bell System. At the end of 1940, about three-fourths of all Bell System telephones were handsets and over one-third of these were of the type which includes the bell and all other necessary apparatus in the base of the set.

Further improvement was made in the appearance and usefulness of telephone directories, of which about 2,200 issues, containing some 16,000,000 listings, are currently provided by Bell System Companies. These improvements include better legibility due to a new style of type, more convenient arrangement of information sections, and improved appearance of the cover.

Weather report service over the telephone, previously available only in New York City and nearby communities and in Chicago, was extended in 1940 to Washington, Baltimore, Boston and Detroit. This service has proved valuable to many businesses and is popular with the general public.

Trials are being conducted between Detroit and New York of an experimental new form of telephone conference service which permits a group of people in a room at one place to talk with another group elsewhere as if they were all around one conference table. By means of a combined microphone and loudspeaker unit in each room and a connection of specially arranged telephone circuits, each group hears what the other says and both are thus brought into one conference. The purpose of these trials is to find out whether there is a field in business for this form of telephone service.

Long Distance Facilities

The broad band transmission systems, which have been developed in the last few years, provide for as many as twelve telephone conversations simultaneously over a single pair of wires. They have become particularly important, under present conditions, for supplying quickly and economically the additional toll circuits required. These systems also make it economical to use toll cable, that is, wires enclosed in an impervious lead sheath, along many routes where open wire has heretofore been used. The reliability of toll service is thus increased by lessening the possibility of its interruption by snow, ice and high wind.

To meet the increased traffic, long distance facilities were extended in 1940 by about 500,000 circuit miles. Approximately

one-third of these circuits were provided by means of broad band transmission systems.

At the end of the year, about two-thirds of all long distance circuits were in cable. The long distance cable network, already some 20,000 miles long, extends over the Northeast and reaches south to Atlanta and as far west as Omaha and Fort Worth, Texas. In addition, there is a considerable network between principal cities on the Pacific coast.

Plans were advanced in 1940 ahead of schedule for the westward extension of the long distance cable network beyond Omaha and by the end of 1941 it is expected that twin cables from Omaha to Denver will be ready for service. The initial cost is estimated to be about \$13,000 a mile. For most of the 600 mile distance the cables will be buried about 30 inches deep by a special plow which was perfected in 1940. Two small cables are being installed instead of a single larger one to permit operation of the broad band transmission system. If a single cable were installed, a built-in shield would be necessary to prevent crosstalk between west-bound and east-bound channels.

It is planned to extend these cables beyond Denver to connect with the far western cable network at Sacramento, California. To speed this operation, it is intended to work from both ends simultaneously. This will provide the first all-cable transcontinental telephone line and will make it possible more than to double present transcontinental facilities. Four open wire transcontinental telephone lines now cross the western part of the United States by four separate routes. The new buried cables will substantially relieve the present line on the central route, and will further improve the dependability of coast-to-coast service.

In the 112 mile section of the transcontinental line which runs through Amarillo, Texas, and Tucumcari, New Mexico, service over the open wire lines between these points has been especially subject to interruption by snow and ice. Cables replacing the open wire lines and equipped with a broad band transmission system have therefore been placed in this section.

An example of a project being advanced ahead of schedule

for reasons of national defense is the twin cable installation between Richmond and Norfolk, Virginia. Normally this work would have been done about 1943, but to meet the rapid expansion of activity at the naval base near Norfolk, construction is well under way and circuits are expected to be in service early in 1941.

Another important new cable is one which has been installed between Baltimore and Washington. This runs underground along a different route from that followed by the direct cables previously in service between the two cities.

Portable radiotelephone equipment was used upon several occasions during the year as an aid in restoring service temporarily by bridging gaps in wire lines caused by severe storms. The number of portable two-way radiotelephone sets available at strategic points throughout the System is being increased considerably.

The advent of frequency-modulation (FM) broadcasting has stimulated interest on the part of broadcasters in wire circuits which will transmit a broader frequency band than the 5,000 cycle range carried by the wire networks now generally used in transmitting broadcast programs. For long distance transmission, channels 60 per cent wider can be provided by the Bell System Companies. For service between studios and transmitters some broadcasting stations are already being furnished channels which transmit frequencies up to 15,000 cycles. The Bell System developments in this field will continue to keep abreast of the needs of the broadcasting industry.

Radiotelephone

Except where war conditions prevent, any Bell telephone can be connected with any one of 93 per cent of the telephones in the world located in more than 70 countries or territories. During 1940, direct radiotelephone service was established for the first time to Germany, Switzerland and Spain. In January, 1941, service was extended to Greece, which is reached over the radiotelephone circuit to Berne, Switzerland, and thence by land line. As of February 1, 1941, telephone service was generally available, although in some cases on a restricted basis,

to all of Europe except Belgium, France, Gibraltar, Luxembourg and the Netherlands, where service had been temporarily suspended, and Russia and Turkey, where service had not yet been established. Service to Iceland, the Balearic Islands, Africa, China, Malaya, French Indo-China, Thailand, India and eastern Mediterranean points had also been temporarily suspended.

Substantial increases were experienced in overseas traffic with Central and South America and with Hawaii, the Philippines and the Netherlands Indies. During the year radiotelephone service was extended to Bolivia via Argentina. Equipment was placed in service just before the end of the year which provides separate radiotelephone facilities to Argentina, replacing the previous arrangement whereby Argentina shared a circuit with other countries. Equipment is being installed to provide a similar separate circuit arrangement for service with Panama.

A local ultra-short wave radio system which was installed in New York City in 1940 furnishes connections between the wire telephone system and motor vehicles of public utilities in times of emergencies.

Telephone service by radio to coastal and harbor vessels continued to increase. New Bell System radiotelephone stations for this service were opened during the year at Wilmington, Delaware; Charleston, South Carolina; Tampa, Florida; and Galveston, Texas; and a second radiotelephone channel was added to the New York station to care for the growth in traffic. Also, construction was started on radiotelephone stations of this type at Portland and Astoria, Oregon. At the end of the year, 22 shore stations—15 of them Bell System stations—connected ships and smaller vessels to the telephone network on land. Several hundred vessels were newly equipped for this service, bringing the total at the end of 1940 to more than 2,500.

"The Telephone Hour"

After a series of local and regional experiments with radio broadcasting programs extending through several years, the Bell System started a nation-wide program in April, 1940. The program is heard regularly every Monday evening over one of

the major radio networks. It is known as "The Telephone Hour" and is made up largely of light classical music. The entertainment is furnished by a symphonic orchestra, a chorus of mixed voices and two well known vocal soloists.

Two brief messages are a feature of each week's broadcast. These informative remarks cover a wide range of subjects—company policies, organization, service aims and practices, rates and other information about the Bell System which seems timely and appropriate.

This radio program supplements the newspaper and magazine advertising which the companies of the System have carried on for years. It provides a medium for speaking directly and quickly to a large number of the public. At the turn of the year, the weekly audience was calculated by an outside commercial survey organization as totalling more than eleven million listeners.

World's Fairs

With the closing of the New York and San Francisco Fairs, it is estimated that during the two seasons about 20,000,000 people visited the Bell System exhibits. Both Fairs provided an opportunity for the Bell System to give these many millions of people a better understanding of the business and particularly of the speed and value of long distance service.

Anniversaries

The year 1940 was the twenty-fifth anniversary of the establishment of transcontinental telephone service. It was also the twenty-fifth anniversary of the first successful experimental transmission of speech across the Atlantic, which brought about the establishment of regular commercial transoceanic radiotelephone service eleven years later.

Telephone Rates

During 1940, reductions in Bell System telephone rates resulted in savings to telephone users of some \$13,500,000 annually, of which over \$5,000,000 was due to the reduction in this Company's long distance rates, effective May 1, 1940. The reduction in these long distance rates was greatest at the maxi-

imum mileage, the rate for a three minute station to station call from New York to San Francisco, for example, having been reduced from \$6.50 to \$4.00 during the daytime and from \$4.25 to \$3.00 at night and on Sunday.

As a result of Bell System rate reductions in the past ten years, the public has already saved well over \$300,000,000 and is saving currently about \$100,000,000 a year on its telephone bill.

These rate reductions have, on the whole, been made possible by improved and more economical methods of operation, maintenance and manufacture, and above all by fundamental progress in the telephone art growing out of scientific research. This scientific research, while it has brought about large economies in practically all telephone operations, has from the very nature of the telephone art, produced especially striking economies in telephoning over the longer distances. Mostly as a result of this, more than one-third of the amount of the rate reductions during the past ten years has been in interstate rates, although less than 2 per cent of Bell System messages and only about 15 per cent of Bell System gross revenues are interstate.

The policy of participation in informal conferences with regulatory bodies concerning rate questions has been continued, in efforts to avoid, whenever practicable, prolonged and costly controversial formal proceedings. At the end of the year, relatively few important rate proceedings were pending.

Research

In the Bell Telephone Laboratories there are about 4,600 people, of whom some 2,000 are scientists and engineers. Another thousand are draftsmen, laboratory assistants, skilled mechanics and technicians. The remainder are staff and service employees. The value of maintaining this research and development organization and the extensive laboratories in which they work is strikingly emphasized by present emergency conditions.

The technical problems involved in giving special telephone service to the military establishment, and the requests of the Army and Navy for new types of communication equipment are being met satisfactorily by the Bell Telephone Laboratories.

In June, 1940, the experimental coaxial cable between New York and Philadelphia was used successfully for television transmission of the National Republican Convention in Philadelphia to New York City, where it was broadcast by the National Broadcasting Company over its television transmitter. The total length of the circuit was 102 miles, including local connections of some three miles at each end in ordinary telephone cable. The use of wires in ordinary cables for local television circuits may be of considerable importance in the future, and the Laboratories have developed, on an experimental basis, associated equipment to make such transmission possible.

Wires, their coverings and supports are elements of fundamental importance in furnishing telephone service and are subject to continuous development. Recent typical improvements are: the use of cellulose acetate in place of silk for the insulation of wires and cables in central offices; synthetic rubber covering for wire used in telephone installations to give better appearance and durability; drop-wire of longer life for connection between pole lines and subscribers' premises; and a method of fastening aerial cables to the supporting strand by a spiral lashing of steel wire.

Rubber-covered wire plowed into the ground along highways or private rights of way is being used for reaching subscribers in some rural districts. For other rural situations, economical open wire lines have been devised that use long spans of high-strength steel wire, thereby reducing the number of telephone poles needed.

Many extensive wire networks are used to give private teletypewriter service to large business concerns. An automatic switching arrangement has been recently developed for such service to provide rapid and accurate routing of any message to its destination by code letters typed at the head of the message by the sending operator. A system of this type, with a network extending to many of the important cities of the United States, was established for a large manufacturing company in 1940.

A valuable survey of hearing sensitivity has been obtained from the three million hearing tests made in the Bell System

exhibits at the New York and San Francisco Fairs. These tests give definite data on loss of hearing; for example, the loss for the higher pitch sounds is as great for men at 45 as for women at 55 years of age. Also, one-eighth of the population has a slight loss; about one in 25 persons has difficulty hearing in auditoriums, one in 125 in direct conversations, and one in 400 in using the telephone without the aid of the amplifying equipment which is available for the hard of hearing. Such information is being used in the design of telephone equipment and hearing aids.

A method of recording and reproducing music "stereophonically", which has been developed by the Laboratories, was demonstrated in 1940. This method enables the listener to hear every sound he could have heard during the original playing of the music, and also gives him the same sense of the direction from which each sound comes that is experienced when listening to an orchestra on a stage. In addition, through a re-recording process, the artist or director whose playing is recorded can vary the volume and change the tonal color of the music to suit his taste, softening it or amplifying it to a volume as great as ten times that of any orchestra.

A new handset coin-box telephone has been standardized after field trials. A new material, vicalloy, has been developed with mechanical and magnetic properties particularly suitable for magnetic tape recording like that used in the announcement of weather reports over the telephone.

Manufacture

The System's need for additional plant facilities to provide for the increased rate of telephone growth, together with Government requirements for communication equipment for the military defense services, resulted in greatly increased activity for the Western Electric Company, over 99 per cent of the capital stock of which is owned by the American Telephone and Telegraph Company. Sales of the Western Electric Company were the largest in ten years, amounting to \$241,618,000, an increase of \$54,758,000, or 29 per cent over 1939. Substantial reductions in prices of telephone apparatus sold to the Bell

System Companies were made in 1940 and again early in 1941. The net earnings, after interest charges, of the Western Electric Company, including its subsidiaries, were \$32,787,000, or \$16,311,000 greater than in 1939. For the past ten years, which, of course, include the depression years, the average return of the Western Electric Company on its net investment has been at the rate of about 4 per cent. In 1940, the Western Electric Company paid off \$16,944,000 of its 4% Notes held by the Trustee of its Pension Fund.

Benefit and Pension Plan

The Plan for Employees' Pensions, Disability Benefits and Death Benefits has operated successfully as a valuable aid to the business since its adoption, twenty-eight years ago, on January 1, 1913. This Plan, which is in effect throughout the Bell System, is provided without cost to the employees. It is an important factor in developing and retaining a personnel of high morale and vitality which is so necessary in the rendering of the best possible telephone service on an efficient and economical basis. Enlightened public opinion has long recognized the desirability and propriety of making reasonable provisions to assist employees in meeting the financial problems arising from sickness, accident, death and retirement. Superannuation is an inevitable expense of the business and if it is not met by a well developed and adequately financed pension plan, its effect on the efficiency and cost of operation will become unduly great. In the absence of definite provisions for handling this problem, there is a natural tendency to retain employees of long service beyond their period of real usefulness to the business, thereby retarding the progress and promotion of younger employees. The resulting decline in morale and efficiency in the organization would adversely affect the rendering of good telephone service and greatly increase its cost. The pension provisions of the Plan were designed to solve this problem in an effective and economical manner by providing for the orderly and systematic retirement on pension of employees of long service and advanced age. Experience during the twenty-eight years of its existence has shown that the Plan is success-

fully meeting its objectives and its value to the business, in addition to its obvious advantages to employees, has been fully demonstrated.

In the light of actuarial studies completed during the year, revised service pension accrual rates were made effective in the Bell System Companies, including the Western Electric Company and the Bell Telephone Laboratories, as of January 1, 1940. These increased accrual rates were made necessary by the effect of the adjustment of service pensions resulting from the 1939 amendments to the Social Security Act, by proportionately fewer employee separations from the service prior to retirement, and by lower interest earnings on Pension Fund investments. The pension accruals which were charged to expenses and added to the Pension Trust Funds amounted to \$26,734,000, during 1940, or 4.4 per cent of the payroll.

The balance in the Pension Trust Funds maintained by the Bell System Companies, including the Western Electric Company and the Bell Telephone Laboratories, aggregated \$296,191,000 at the end of 1940. Service pension payments made during the year from these Trust Funds were \$8,496,000. At the end of the year, there were 9,897 retired employees on the service pension rolls, of whom 6,879 were men and 3,018 were women.

Other payments made under the Plan to more than 50,000 employees in 1940 were:

Sickness Disability Benefits	\$ 7,240,000
Accident Disability Benefits	520,000
Death Benefits	1,996,000
Disability Pensions	481,000
Total	<u>\$10,237,000</u>

Savings and Insurance Plans

Participation by employees in 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 continued to increase during 1940. These plans are designed to make it easy and convenient for employees to save part of their earnings for future needs. All administrative expenses are borne by the

Companies. Employees are completely free to use the plans or not, as well as to decide as to the amount and purpose of whatever allotments they wish to make.

At the end of 1940, under the life insurance plans, 83,150 employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, were carrying regular life insurance totalling \$259,350,000. Total premiums paid through these plans during 1940 amounted to \$8,400,000. In addition, annuity contracts were being carried by employees, premium payments on which during 1940 amounted to \$725,000.

Premiums paid by payroll allotment in 1940 on United States Government Insurance carried by World War veterans in the Companies amounted to about \$200,000. The total of such insurance in effect at the end of 1940 was \$8,000,000.

The plans for purchasing United States Savings Bonds were being used by 21,350 employees at the end of 1940. Payroll allotments for the purchase of these bonds amounted to \$2,935,000 during the year.

Employees using the plans for deposits in savings banks and institutions of their own selection numbered 115,000 at the end of 1940.

Vail Medal Awards

The Theodore N. Vail Memorial Fund provides for annual awards in recognition of unusual acts of service. This year fifteen bronze medals, all with accompanying citations, and one silver medal with \$250 in cash were awarded.

SILVER MEDAL AWARD

FURN W. UNDERWOOD

Splicer's Helper, Santa Ana, California

Southern California Telephone Company

For prompt action, courage and resourcefulness, under hazardous conditions, which resulted in the probable saving of a human life.

A National Asset

As 1940 ended, it found the Bell System meeting fully the increased demands upon it, including those growing out of the

national defense program. In these critical times, national defense is the concern of all. Communications are an essential part of national defense and it is encouraging to know that telephone facilities in this country are by far the most comprehensive and the best in the world.

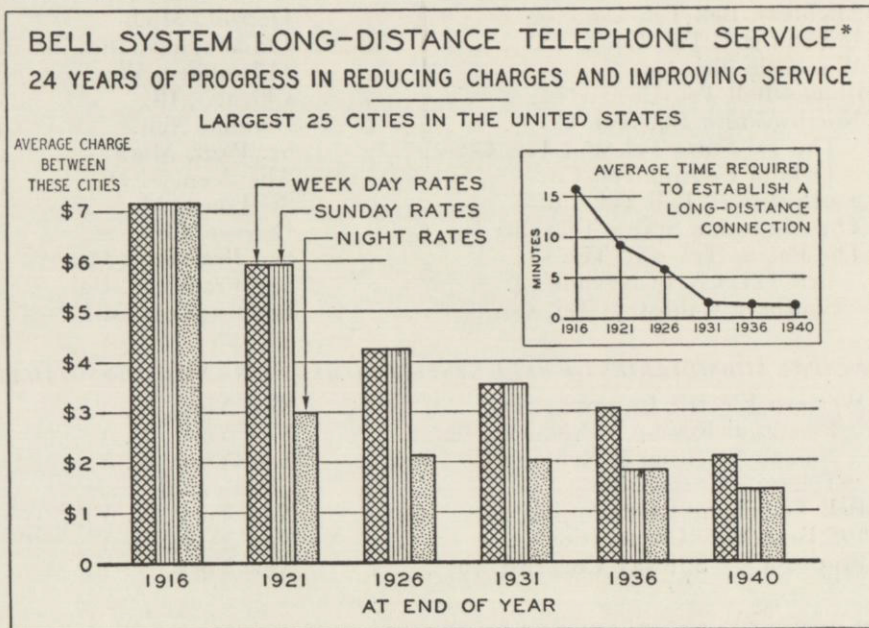
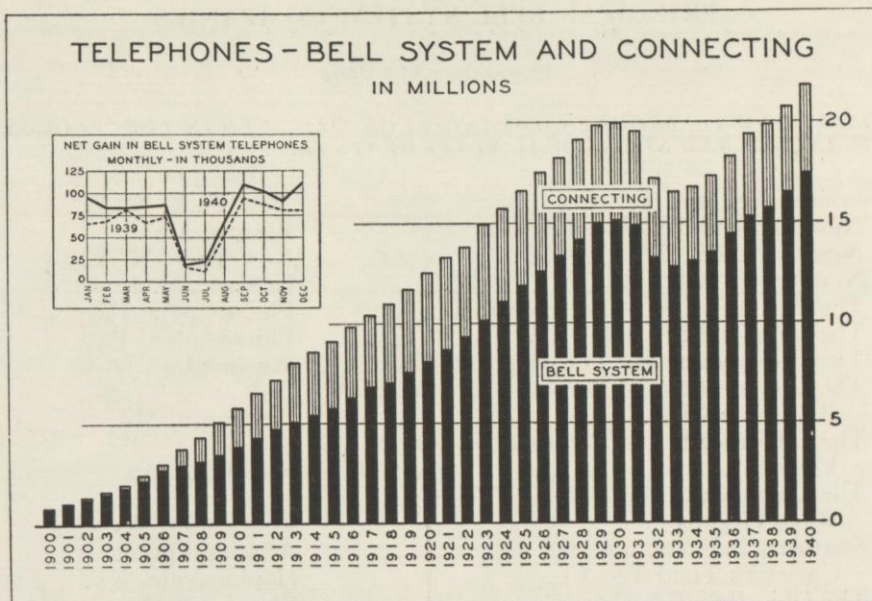
Telephone service in the United States is the result of initiative and ability, fostered and given free rein in an enterprise privately owned and privately managed. The Bell System is financially sound. It contributes to the support of Government one-half million dollars a day in direct taxes. It has the best telephone equipment in the world. This equipment has been provided out of the voluntary savings of hundreds of thousands of men and women. The System has a great scientific laboratory, which is constantly improving the communication art in which it has always been the leader. The Western Electric Company, manufacturer of telephone equipment for over sixty years, is the System's service of supply, with stocks of apparatus and materials in warehouses strategically located throughout the nation. With 21,000 motor vehicles in its construction and maintenance services, the Bell System has a highly mechanized and mobile fleet, which, along with standardization of materials and of methods of work throughout the country, makes possible the rapid concentration of men and materials wherever needed with a maximum of efficiency. Above all, trained and experienced men and women and the management are accustomed to work together and to plan ahead so that the right material and the right skill will be at the right place at the right time. By training they are competent and by tradition they are pledged to keep the lines of communications open and to see to it that the message gets through at all times and under all circumstances. The American Telephone and Telegraph Company and its Associated Companies in the Bell System can be counted on to continue to do their part in protecting and promoting the welfare of the nation.

WALTER S. GIFFORD,

President

MARCH 4, 1941

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BELL SYSTEM



*This chart shows at intervals over a 24-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 largest 25 cities in the United States according to the 1940 Federal Census of Population. The night rates are those which were in effect at 8:30 P.M. throughout the period. The average air line distance involved is 937 miles. 1916 was the first year in which all of the 25 cities were interconnected by telephone. The insert shows the *average* number of minutes required to establish a long-distance connection in these 25 cities.

PRINCIPAL BELL SYSTEM COMPANIES

December 31, 1940

I. BELL SYSTEM TELEPHONE COMPANIES CONSOLIDATED IN THE "BELL SYSTEM" FINANCIAL AND STATISTICAL STATEMENTS (a).

	Headquarters
American Tel. and Tel. Co.	New York, N. Y.
New England Tel. and Tel. Co.	Boston, Mass.
New York Tel. Co.	New York, N. Y.
New Jersey Bell Tel. Co.	Newark, N. J.
The Bell Tel. Co. of Pennsylvania	Philadelphia, Pa.
The Diamond State Tel. Co.	Philadelphia, Pa.
The Chesapeake and Potomac Tel. Co. . .	Washington, D. C.
The Chesapeake and Potomac Tel. Co. of Baltimore City	Baltimore, Md.
The Chesapeake and Potomac Tel. Co. of Virginia	Richmond, Va.
The Chesapeake and Potomac Tel. Co. of West Virginia	Charleston, W. Va.
Southern Bell Tel. and Tel. Co.	Atlanta, Ga.
Christian-Todd Tel. Co.	Hopkinsville, Ky.
The Ohio Bell Tel. Co.	Cleveland, Ohio
Michigan Bell Tel. Co.	Detroit, Mich.
Indiana Bell Tel. Co.	Indianapolis, Ind.
Wisconsin Tel. Co.	Milwaukee, Wis.
Illinois Bell Tel. Co.	Chicago, Ill.
Northwestern Bell Tel. Co.	Omaha, Neb.
The Tri-State Tel. and Tel. Co.	St. Paul, Minn.
Dakota Central Tel. Co.	Aberdeen, S. D.
Southwestern Bell Tel. Co.	St. Louis, Mo.
The Mountain States Tel. and Tel. Co. .	Denver, Colo.
The Pacific Tel. and Tel. Co.	San Francisco, Cal.
Bell Tel. Co. of Nevada	San Francisco, Cal.
Southern California Tel. Co.	Los Angeles, Cal.

II. PRINCIPAL SUBSIDIARIES OF BELL SYSTEM COMPANIES—NOT CONSOLIDATED (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. (b) . . .	New York, N. Y.

III. NON-CONTROLLED TELEPHONE COMPANIES WHICH HAVE LICENSE CONTRACT ARRANGEMENTS WITH AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

The Southern New England Tel. Co.	New Haven, Conn.
The Cincinnati and Suburban Bell Tel. Co.	Cincinnati, Ohio
The Bell Tel. Co. of Canada	Montreal, Quebec

(a) Subsidiaries are indented under the controlling company.

(b) Subsidiary of New York Telephone Company.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Financial Statements which follow on pages 22 to 26, inclusive, consolidate the accounts of the American Telephone and Telegraph Company and its principal telephone subsidiaries listed on page 20, Section I. The subsidiaries so consolidated comprise all 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, 1940	December 31, 1939
ASSETS		
PLANT AND OTHER INVESTMENTS		
TELEPHONE PLANT (a)	\$4,747,674,470	\$4,590,509,972
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, etc. At December 31, 1940 this property was classified in the accounts of the companies as follows:</i>		
Telephone Plant in Service	\$4,675,729,770	
Telephone Plant under Construction	46,497,106	
Property Held for Future Telephone Use	11,380,203	
Telephone Plant Acquisition Adjustment	14,067,391	
MISCELLANEOUS PHYSICAL PROPERTY	20,110,674	21,749,080
INVESTMENTS IN SUBSIDIARIES NOT CONSOLIDATED (b)	199,157,377	198,299,274
EQUITIES IN SUBSIDIARIES NOT CONSOLIDATED IN EXCESS OF INVESTMENTS THEREIN (c)	24,430,480	18,457,545
OTHER INVESTMENTS (d)	63,679,900	64,462,339
<i>Principally investments in non-controlled telephone companies.</i>		
SINKING FUNDS	839,517	1,325,000
TOTAL PLANT AND OTHER INVESTMENTS	\$5,055,892,418	\$4,894,803,210
CURRENT ASSETS		
CASH AND DEPOSITS	\$ 189,546,973	\$ 71,771,606
TEMPORARY CASH INVESTMENTS	40,289,878	77,949,279
<i>Comprised at December 31, 1940 of United States Government obligations. Market value, \$40,297,235.</i>		
CURRENT RECEIVABLES (e)	117,919,457	109,189,382
<i>Amounts due for service (less reserves for uncollectible accounts amounting to \$1,817,486 at December 31, 1940), working advances, interest and dividends receivable, etc.</i>		
MATERIAL AND SUPPLIES	51,356,785	45,764,507
<i>Principally for construction and maintenance purposes.</i>		
TOTAL CURRENT ASSETS	\$ 399,113,093	\$ 304,674,774
DEFERRED DEBITS		
UNAMORTIZED DEBT DISCOUNT AND EXPENSE	\$ 11,736,628	\$ 9,973,236
PREPAYMENTS OF RENTS, TAXES, DIRECTORY EXPENSES, ETC.	11,800,769	11,105,796
OTHER DEFERRED DEBITS	6,446,021	6,804,834
TOTAL DEFERRED DEBITS	\$ 29,983,418	\$ 27,883,866
TOTAL ASSETS	\$5,484,988,929	\$5,227,361,850

For explanatory notes (a) to (g), inclusive, see page 26.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Balance Sheet—Continued

	December 31, 1940	December 31, 1939
LIABILITIES		
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	85,797,721	85,798,621
Preferred Stocks held by public	37,907,950	42,854,950
TOTAL CAPITAL STOCK	<u>\$2,262,360,099</u>	<u>\$2,267,307,999</u>
FUNDED DEBT (See page 32)		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY		
.....	\$ 569,694,000	\$ 430,155,700
SUBSIDIARIES CONSOLIDATED (f)	560,568,000	561,568,000
TOTAL FUNDED DEBT	<u>\$1,130,262,000</u>	<u>\$ 991,723,700</u>
NOTES SOLD TO TRUSTEE OF PENSION FUNDS (g)		
AMERICAN TELEPHONE AND TELEGRAPH COMPANY		
.....	\$ 6,786,569	\$ 7,383,199
SUBSIDIARIES CONSOLIDATED	97,044,388	101,614,222
TOTAL NOTES	<u>\$ 103,830,957</u>	<u>\$ 108,997,421</u>
CURRENT AND ACCRUED LIABILITIES		
ACCOUNTS PAYABLE (e)	\$ 62,864,012	\$ 52,917,689
ADVANCE BILLING FOR SERVICE AND CUSTOMERS' DEPOSITS	25,169,012	23,971,368
DIVIDENDS PAYABLE	42,863,940	42,950,512
OTHER CURRENT LIABILITIES	4,476,776	4,188,555
TAXES ACCRUED	116,526,546	88,565,461
INTEREST ACCRUED	8,672,740	8,497,022
TOTAL CURRENT AND ACCRUED LIABILITIES	<u>\$ 260,573,026</u>	<u>\$ 221,090,607</u>
DEFERRED CREDITS	\$ 2,480,493	\$ 4,772,378
DEPRECIATION AND AMORTIZATION RESERVES	\$1,360,896,740	\$1,304,376,440
<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	\$ 4,133,846	\$ 3,702,634
SURPLUS APPLICABLE TO STOCK OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY		
SURPLUS RESERVED	\$ 63,076,567	\$ 68,911,157
<i>Comprised, at December 31, 1940 of \$60,817,757, reserved against general contingencies by American Telephone and Telegraph Company and \$2,258,810, reserved by subsidiaries consolidated, principally against contingency of refunds of revenues collected.</i>		
UNAPPROPRIATED SURPLUS	297,375,201	256,479,514
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS	<u>\$ 360,451,768</u>	<u>\$ 325,390,671</u>
<i>(See page 25)</i>		
TOTAL LIABILITIES ‡	<u>\$5,484,988,929</u>	<u>\$5,227,361,850</u>

C. A. HEISS, Comptroller.

‡ For statement as to certain contingent liabilities see note (h) on page 26.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement

	Year 1940	Year 1939
OPERATING REVENUES		
LOCAL SERVICE REVENUES	\$ 787,746,624	\$ 744,498,825
<i>Revenues from local exchange service.</i>		
TOLL SERVICE REVENUES	354,174,843	332,355,170
<i>Revenues from long distance and local toll service.</i>		
MISCELLANEOUS REVENUES	36,647,977	34,427,693
<i>Revenues derived from directory advertising, rents and miscellaneous sources.</i>		
LESS: UNCOLLECTIBLE OPERATING REVENUES.....	4,246,927	4,093,990
<i>Provision for revenues which may be uncollectible.</i>		
TOTAL OPERATING REVENUES (i).....	<u>\$1,174,322,517</u>	<u>\$1,107,187,698</u>
OPERATING EXPENSES		
CURRENT MAINTENANCE	\$ 227,518,398	\$ 214,289,622
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
DEPRECIATION AND AMORTIZATION EXPENSE.....	163,594,249	159,985,056
<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 1940 and 1939.</i>		
TRAFFIC EXPENSES	170,868,704	164,053,760
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
COMMERCIAL EXPENSES	91,649,875	88,457,467
<i>Costs incurred in business relations with customers; pay station commissions; also the cost of directories, sales activities, advertising, etc.</i>		
OPERATING RENTS	13,357,660	13,453,218
<i>Rents for the use of buildings, poles, conduits and other facilities.</i>		
GENERAL AND MISCELLANEOUS EXPENSES:		
General Administration	13,994,675	13,968,832
Accounting and Treasury Departments	40,104,869	38,732,189
Development and Research (j)	11,927,747	10,783,778
Provision for Employees' Service Pensions (k)	20,113,889	13,342,094
Employees' Sickness, Accident, Death and Other Benefits	9,742,018	8,269,162
Other General Expenses	13,672,840	14,349,148
Less: Expenses Charged Construction	7,869,409	6,151,081
TOTAL OPERATING EXPENSES.....	<u>\$ 768,675,515</u>	<u>\$ 733,533,245</u>
NET OPERATING REVENUES (carried forward).....	<u>\$ 405,647,002</u>	<u>\$ 373,654,453</u>

For explanatory notes (i), (j), (k), (l) and (m), see page 26.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement—Continued

	Year 1940	Year 1939
NET OPERATING REVENUES (<i>brought forward</i>).....	\$405,647,002	\$373,654,453
OPERATING TAXES		
FEDERAL INCOME (1)	\$ 62,485,391	\$ 40,197,383
SOCIAL SECURITY (<i>Excludes \$2,524,730 in 1940 and \$2,352,379 in 1939 charged Construction</i>).....	16,081,719	16,738,165
OTHER—PRINCIPALLY STATE AND LOCAL (<i>Excludes \$304,381 in 1940 and \$244,417 in 1939 charged Construction</i>).....	106,202,481	99,373,092
TOTAL OPERATING TAXES.....	\$184,769,591	\$156,308,640
NET OPERATING INCOME	\$220,877,411	\$217,345,813
OTHER INCOME		
DIVIDENDS FROM SUBSIDIARIES NOT CONSOLIDATED.....	\$ 25,567,512	\$ 14,506,568
PROPORTIONATE INTEREST IN EARNINGS OR DEFICITS (AFTER DIVIDENDS) OF SUBSIDIARIES NOT CONSOLIDATED (m).....	8,688,985	3,710,895
DIVIDENDS FROM NON-CONTROLLED COMPANIES.....	4,065,286	4,199,246
INTEREST, AND MISCELLANEOUS ITEMS—NET.....	2,680,814	2,506,842
TOTAL INCOME	\$261,880,008	\$242,269,364
INTEREST DEDUCTIONS	\$ 41,862,240	\$ 42,082,226
AMORTIZATION OF DEBT DISCOUNT AND EXPENSE AND OTHER FIXED CHARGES	603,750	628,397
NET INCOME	\$219,414,018	\$199,558,741
NET INCOME APPLICABLE TO STOCKS OF SUBSIDIARIES CONSOLIDATED HELD BY PUBLIC		
PREFERRED STOCKS	\$ 2,489,907	\$ 2,720,767
COMMON STOCKS	6,426,658	6,557,097
NET INCOME APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK*	\$210,497,453	\$190,280,877
DIVIDENDS ON AMERICAN TEL. AND TEL. CO. STOCK	168,181,146	168,181,146
BALANCE FOR CONSOLIDATED SURPLUS APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK.....	\$ 42,316,307	\$ 22,099,731

* Equivalent to \$11.26 per share in 1940 and \$10.18 per share in 1939.

Statement of Consolidated Surplus (Reserved and Unappropriated) Applicable to American Telephone and Telegraph Company Stock—Year 1940

BALANCE—DECEMBER 31, 1939	\$ 325,390,671
Income applicable to American Tel. and Tel. Co. stock (after dividends).....	42,316,307
Miscellaneous additions	1,755,105
TOTAL	\$ 369,462,083
DEDUCTIONS:	
Payments in settlement of tax claims applicable to prior years.....	\$ 2,836,268
Redemption premium on securities retired and costs incurred in connection with the reduction of the interest rate on an outstanding bond issue.....	1,541,624
Adjustments arising from charges (net) made directly to Surplus by subsidiaries not consolidated	2,717,509
Miscellaneous deductions	1,914,914
TOTAL	\$ 9,010,315
BALANCE—DECEMBER 31, 1940†	\$ 360,451,768

C. A. HEISS, Comptroller.

† For statement as to certain contingent liabilities see note (h) on page 26.

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, 1940, 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 items carried at depreciated or nominal values. Securities included herein at \$6,232,595 on December 31, 1940, were hypothecated or pledged under certain bond indentures.
- (e) At December 31, 1940, Current Receivables and Accounts Payable include respectively \$560,354 and \$35,949,048 representing accounts with subsidiaries not consolidated.
- (f) Includes at December 31, 1940, \$1,000,000 maturing in 1941.
- (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 \$5,800,000 of these notes during 1941.
- (h) At December 31, 1940, three of the subsidiaries consolidated had contingent liabilities in respect of certain revenues collected during all or part of the period 1935 to 1940, 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 \$2,400,000 and against the contingency of such refunds, if any, Surplus has been reserved by these subsidiaries in the amount of \$2,008,810.
- The Consolidated Financial Statements contain no specific provision in respect of 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, nor for certain claims made by municipalities for taxes under local laws as to which the companies concerned deny liability.
- (i) Revenues shown include relatively minor amounts subject to possible refund in the event of adverse decisions in pending rate cases.
- (j) Cost of development and research work carried on in behalf of the American Telephone and Telegraph Company by Bell Telephone Laboratories.
- (k) Includes \$2,624,032 in 1940 and \$2,303,302 in 1939, the accounting for which is under consideration by the Federal Communications Commission.
- The increase in provision for employees' service pensions in 1940 as compared with 1939 is due mainly to a revision of the accrual rates, effective as of January 1, 1940.
- (l) The companies consolidated do not consider that they have any liability under the Excess Profits Tax Act of 1940.
- (m) The amount shown for 1940 reflects a change in accounting practice by Western Electric Company, Inc., the company having established from earnings a reserve for equalization of development expenses in the amount of \$4,489,000. During 1940, that company also increased its previously established employment stabilization reserve \$2,254,000.

CERTIFICATE OF AUDIT

New York, N. Y., February 10, 1941.

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, 1940, the consolidated balance sheet of the company and its principal telephone subsidiaries as at December 31, 1940, 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, 1940 and of the statements of income and surplus for the year 1940 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 1940 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, 1940 and the consolidated statements of income and surplus of these companies for the year 1940, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 28 to 30) and the consolidated financial statements (pages 21 to 26) present fairly the position at December 31, 1940 and the results of operations for the year 1940 of American Telephone and Telegraph Company and the consolidated position at December 31, 1940 and the consolidated results of operations for the year 1940 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, 1940	December 31, 1939
PLANT AND OTHER INVESTMENTS		
TELEPHONE PLANT (a).....	\$ 455,801,858	\$ 445,573,024
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, office furniture, vehicles, tools, etc. At December 31, 1940 this property was classified in the accounts as follows:</i>		
Telephone Plant in Service.....	\$ 450,040,148	
Telephone Plant under Construction.....	4,094,388	
Property Held for Future Telephone Use.....	360,422	
Telephone Plant Acquisition Adjustment.....	1,306,900	
INVESTMENTS IN SUBSIDIARIES (b).....	2,440,622,587	2,366,315,292
Stocks.....	\$2,274,221,969	
Notes and Advances.....	166,400,618	
OTHER INVESTMENTS (b).....	43,695,900	43,003,202
Stocks.....	\$ 41,699,064	
Notes.....	1,913,249	
Miscellaneous Physical Property.....	83,587	
SINKING FUND.....	14,517	500,000
TOTAL PLANT AND OTHER INVESTMENTS.....	<u>\$2,940,134,862</u>	<u>\$2,855,391,518</u>
CURRENT ASSETS		
CASH AND DEPOSITS.....	\$ 159,777,381	\$ 41,587,318
TEMPORARY CASH INVESTMENTS.....	40,200,050	76,478,335
<i>United States Government obligations. Market value, December 31, 1940, \$40,201,300.</i>		
CURRENT RECEIVABLES.....	14,016,704	11,648,559
<i>Amounts due for service (less reserve for uncollectible accounts amounting to \$35,585 at December 31, 1940), interest and dividends receivable, working advances, etc. Includes at December 31, 1940, \$10,680,484 receivable from subsidiaries.</i>		
MATERIAL AND SUPPLIES.....	4,932,361	4,585,788
<i>Principally for construction and maintenance purposes.</i>		
TOTAL CURRENT ASSETS.....	<u>\$ 218,926,496</u>	<u>\$ 134,300,000</u>
DEFERRED DEBITS		
UNAMORTIZED DEBT DISCOUNT AND EXPENSE.....	\$ 4,496,551	\$ 2,283,228
OTHER DEFERRED DEBITS.....	1,794,015	2,050,028
<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>\$ 6,290,566</u>	<u>\$ 4,333,256</u>
TOTAL ASSETS.....	<u>\$3,165,351,924</u>	<u>\$2,994,024,774</u>

(a) For note (a) see page 26.

(b) For detailed list of investments in securities see page 31. Securities are carried at cost.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet—Continued

LIABILITIES

	December 31, 1940	December 31, 1939
CAPITAL STOCK		
COMMON STOCK—par value (\$100 per share)..... <i>Authorized, 25,000,000 shares; outstanding, 18,686,794 shares.</i>	\$1,868,679,400	\$1,868,679,400
PREMIUMS ON CAPITAL STOCK..... <i>Amount received in excess of par value.</i>	269,975,028	269,975,028
TOTAL CAPITAL STOCK.....	<u>\$2,138,654,428</u>	<u>\$2,138,654,428</u>
FUNDED DEBT (See page 32).....	\$ 569,694,000	\$ 430,155,700
NOTE SOLD TO TRUSTEE OF PENSION FUND (c)	<u>\$ 6,786,569</u>	<u>\$ 7,383,199</u>
CURRENT AND ACCRUED LIABILITIES		
DIVIDEND PAYABLE AFTER CLOSE OF YEAR.....	\$ 42,045,287	\$ 42,045,287
ACCOUNTS PAYABLE..... <i>Includes at December 31, 1940, \$4,276,218 payable to subsidiaries.</i>	6,784,774	4,854,179
INTEREST AND TAXES ACCRUED.....	18,225,678	13,584,104
TOTAL CURRENT AND ACCRUED LIABILITIES.....	<u>\$ 67,055,739</u>	<u>\$ 60,483,570</u>
DEFERRED CREDITS	\$ 906,391	\$ 1,331,940
DEPRECIATION AND AMORTIZATION RESERVES <i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>	<u>\$ 141,761,189</u>	<u>\$ 133,213,770</u>
SURPLUS		
SURPLUS RESERVED..... <i>Amount reserved against general contingencies.</i>	\$ 60,817,757	\$ 63,264,444
UNAPPROPRIATED SURPLUS.....	179,675,851	159,537,723
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS.....	<u>\$ 240,493,608</u>	<u>\$ 222,802,167</u>
Analysis of increase during 1940:		
Income balance transferred to Surplus (after dividends).....	\$20,162,886	
Miscellaneous Additions.....	29,584	
Total Additions.....	<u>\$20,192,470</u>	
Payment in settlement of tax claims of City of New York, applicable to prior years.....	\$ 2,361,687	
Miscellaneous Deductions.....	139,342	
Total Deductions.....	<u>\$ 2,501,029</u>	
Net Increase.....	<u>\$17,691,441</u>	
TOTAL LIABILITIES	<u>\$3,165,351,924</u>	<u>\$2,994,024,774</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 \$625,000 during 1941.

NOTE:

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.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement

OPERATING REVENUES	Year 1940	Year 1939
TOLL SERVICE REVENUES	\$101,498,499	\$ 93,953,677
<i>Message tolls and private line service revenues.</i>		
LICENSE CONTRACT REVENUES	15,853,343	15,092,047
<i>Payments received for services furnished telephone companies under License Contracts.</i>		
MISCELLANEOUS REVENUES	4,460,181	4,289,242
LESS: UNCOLLECTIBLE OPERATING REVENUES	668,283	569,104
TOTAL OPERATING REVENUES	<u>\$121,143,740</u>	<u>\$112,765,862</u>
OPERATING EXPENSES (a)		
CURRENT MAINTENANCE	\$ 20,397,088	\$ 19,778,996
DEPRECIATION AND AMORTIZATION EXPENSE	17,050,173	16,837,155
TRAFFIC EXPENSES	7,980,837	7,393,944
COMMERCIAL EXPENSES	3,165,002	3,582,687
OPERATING RENTS	11,785,983	11,621,520
GENERAL ADMINISTRATION	5,887,693	6,003,523
ACCOUNTING AND TREASURY EXPENSES	3,676,020	3,631,739
DEVELOPMENT AND RESEARCH (b)	11,927,747	10,783,778
PROVISION FOR EMPLOYEES' SERVICE PENSIONS (c)	1,261,197	891,598
EMPLOYEES' SICKNESS, ACCIDENT, DEATH AND OTHER BENEFITS	642,906	608,570
OTHER GENERAL EXPENSES	1,821,808	1,783,575
LESS: EXPENSES CHARGED CONSTRUCTION	379,133	235,612
TOTAL OPERATING EXPENSES	<u>\$ 85,217,321</u>	<u>\$ 82,681,473</u>
NET OPERATING REVENUES	<u>\$ 35,926,419</u>	<u>\$ 30,084,389</u>
OPERATING TAXES		
FEDERAL INCOME	(d) \$ 10,599,749	\$ 6,257,712
SOCIAL SECURITY (<i>Excludes \$99,486 in 1940 and \$74,921 in 1939 charged Construction</i>)	1,086,307	1,272,382
OTHER—PRINCIPALLY STATE AND LOCAL (<i>Excludes \$28,637 in 1940 charged Construction</i>)	6,538,626	6,256,194
TOTAL OPERATING TAXES	<u>\$ 18,224,682</u>	<u>\$ 13,786,288</u>
NET OPERATING INCOME	<u>\$ 17,701,737</u>	<u>\$ 16,298,101</u>
DIVIDEND INCOME	179,903,618	165,522,792
INTEREST INCOME	6,893,120	6,811,349
OTHER INCOME—NET	591,721	554,682
TOTAL INCOME	<u>\$205,090,196</u>	<u>\$189,186,924</u>
INTEREST DEDUCTIONS (e)	16,746,164	16,600,385
NET INCOME (f)	<u>\$188,344,032</u>	<u>\$172,586,539</u>
DIVIDENDS DECLARED	168,181,146	168,181,146
BALANCE TRANSFERRED TO SURPLUS	<u>\$ 20,162,886</u>	<u>\$ 4,405,393</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) The increase in provision for employees' service pensions in 1940 as compared with 1939 is due mainly to a revision of the accrual rate, effective as of January 1, 1940.

(d) The Company does not consider that it has any liability under the Excess Profits Tax Act of 1940.

(e) Includes \$108,690 in 1940 and \$102,161 in 1939 for amortization of debt discount and expense.

(f) Net Income of the Company by itself, for 1940 and 1939, is less by \$22,153,421 and \$17,694,338, respectively, than the Company's proportion of the consolidated Net Income of the Bell System for these years as shown on page 25.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Investments, including Notes and Advances, in Subsidiary and Other Companies at December 31, 1940

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	\$ 11,500,000
New York Tel. Co.....	421,300,000	100.00	444,280,335	2,400,000
New Jersey Bell Tel. Co.	140,000,000	100.00	153,667,184	2,700,000
Bell Tel. Co. of Pennsylvania	110,000,000	100.00	116,316,050	13,475,000
Diamond State Tel. Co.	5,000,000	100.00	5,700,000	405,000
Chesapeake & Potomac Tel. Co.....	20,000,000	100.00	21,000,000	15,775,000
Chesapeake & Potomac Tel. Co. of Balt. City	40,000,000	100.00	41,467,862	8,200,000
Chesapeake & Potomac Tel. Co. of Va.	24,000,000	100.00	24,000,000	10,575,000
Chesapeake & Potomac Tel. Co. of West Va. (b)	16,200,000	100.00	16,200,000	(b) 4,900,000
Southern Bell Tel. & Tel. Co.....	155,000,000	100.00	156,817,298	7,245,457
Ohio Bell Tel. Co.	149,999,700	99.99	150,041,998	-----
Michigan Bell Tel. Co.	139,989,629	99.99	140,402,232	399,800
Indiana Bell Tel. Co.	36,999,100	99.99	37,585,586	4,629,966
Wisconsin Tel. Co.	43,400,000	100.00	46,623,835	-----
Illinois Bell Tel. Co.	148,959,600	99.31	154,440,399	1,500,000
Northwestern Bell Tel. Co.	100,000,000	100.00	101,039,490	23,510,395
Southwestern Bell Tel. Co.	172,998,900	99.99	176,251,978	6,350,000
Mountain States Tel. & Tel. Co.	35,187,500	73.23	36,592,463	4,650,000
Pacific Tel. & Tel. Co.—Common.....	154,870,900	85.80	150,529,084	33,300,000
Pacific Tel. & Tel. Co.—Preferred.....	64,095,700	78.17	59,999,180	-----
Bell Telephone Laboratories, Inc.	3,400,000	(c) 50.00	3,400,000	-----
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) 14,885,000
Eastern Tel. & Tel. Co. (Canada).....	75,000	100.00	75,000	-----
TOTAL BOOK VALUE			\$2,274,221,969	\$166,400,618
OTHER COMPANIES				
Southern New England Tel. Co.	\$ 13,337,400	33.34	\$ 13,649,213	\$ 1,900,000
Cincinnati & Suburban Bell. Tel. Co.....	8,169,150	29.72	8,732,568	-----
Bell Telephone Company of Canada.....	18,749,800	22.83	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				13,249
TOTAL BOOK VALUE			\$ 41,699,064	\$ 1,913,249

(a) Common stocks except as otherwise indicated.

(b) As of January 1, 1941 the Chesapeake and Potomac Telephone Company of West Virginia paid \$2,800,000 of its notes 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.

BELL SYSTEM

Stocks, Bonds and Notes Outstanding December 31, 1940

(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.....	14,421	\$ 900
TOTAL COMMON STOCK.....	<u>\$1,954,477,121</u>	<u>\$ 900</u>
PREFERRED STOCK		
Bell Telephone Company of Pennsylvania 6½% (b).....	\$ 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.....	<u>\$ 37,907,950</u>	<u>\$ 4,947,000</u>
BONDS AND NOTES		
American Telephone and Telegraph Company:	Face Value	
Twenty-Year Sinking Fund Debenture 5½s, 1943.....	\$ 94,694,000	\$ 461,700
Twenty-Five Year Debenture 3¼s, 1961.....	175,000,000	-----
Thirty-Year Debenture 3¼s, 1966.....	160,000,000	-----
Thirty-Year Debenture 2¾s, 1970.....	140,000,000	140,000,000
New England Telephone and Telegraph Company:		
First Mortgage 5s, 1952, Series A.....	35,000,000	-----
First Mortgage 4½s, 1961, Series B.....	40,000,000	-----
First Mortgage 3¼s, 1968, Series C.....	20,000,000	-----
New York Telephone Company:		
Refunding Mortgage 3¼s, 1967, Series B.....	25,000,000	-----
Refunding Mortgage 3s, 1964, Series C (c).....	75,000,000	-----
Bell Telephone Company of Pennsylvania (d):		
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 (1½% to 2%) Maturing 1941-1943, incl.	3,000,000	1,000,000
Southern Bell Telephone and Telegraph Company:		
Twenty-Five Year Debenture 3¼s, 1962.....	45,000,000	-----
Forty Year Debenture 3s, 1979.....	25,000,000	-----
Illinois Bell Telephone Company:		
First and Refunding Mortgage 3½s, 1970, Series B (e) ..	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	-----
Refunding Mortgage 3¼s, 1966, Series C.....	24,916,000	-----
4% Notes Sold to Trustee of Pension Funds (Principally Demand)	103,830,957	5,166,464
TOTAL BONDS AND NOTES.....	<u>\$1,234,092,957</u>	<u>\$133,371,836</u>

(a) Decreases in italics.

(b) Called for redemption on April 15, 1941.

(c) Interest rate reduced from 3¾%.

(d) Company is issuing as of April 1, 1941 \$20,000,000 First and Refunding Mortgage 2¾s, 1976, Series D.

(e) Called for redemption on April 1, 1941. The Company sold in January, 1941, \$50,000,000 First Mortgage 2¾s, 1981, Series A.

BELL SYSTEM STATISTICS

	Dec. 31, 1920	Dec. 31, 1925	Dec. 31, 1930	Dec. 31, 1935	Dec. 31, 1940	*Increase During 1940
NUMBER OF TELEPHONES (a).....	8,133,759	11,909,578	15,187,296	13,573,025	17,483,981	948,177
NUMBER OF CENTRAL OFFICES.....	5,767	6,147	6,639	6,896	7,052	51
MILES OF POLE LINES.....	362,481	394,529	428,212	407,454	399,838	2,636
MILES OF WIRE:						
In Underground Cable.....	14,207,000	27,769,000	45,116,000	47,639,000	54,339,000	2,298,000
In Aerial Cable.....	6,945,000	12,835,000	23,777,000	26,425,000	30,307,000	1,397,000
Open Wire.....	3,711,000	4,339,000	5,231,000	4,562,000	4,660,000	74,000
Total.....	24,863,000	44,943,000	74,124,000	78,626,000	89,306,000	3,769,000
AVERAGE DAILY TELEPHONE CONVERSATIONS† (b).....	33,125,000	50,141,000	64,034,000	60,290,000	79,303,000	5,501,000
TOTAL PLANT.....	\$1,373,802,000	\$2,566,809,000	\$4,028,836,000	\$4,187,790,000	\$4,747,674,000	\$ 157,164,000
OPERATING REVENUES†.....	\$ 446,115,000	\$ 737,560,000	\$1,075,228,000	\$ 919,116,000	\$1,174,322,000	\$ 67,134,000
TAXES† (c).....	\$ 27,743,000	\$ 58,113,000	\$ 84,732,000	\$ 94,507,000	\$ 184,770,000	\$ 28,461,000
NUMBER OF EMPLOYEES (d).....	228,943	292,902	318,119	241,169	275,317	15,387
NUMBER OF AMERICAN TEL. AND TEL. CO. STOCKHOLDERS.....	139,448	362,179	567,694	657,465	630,902	5,869

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

(a) Excludes private line telephones numbering 76,450 on December 31, 1940. Including telephones of about 6,400 connecting companies and more than 60,000 directly and indirectly connecting rural lines, the total number of telephones in the United States which can be inter-connected is approximately 21,860,000.

(b) For the year 1940 there were approximately 76,560,000 average daily local conversations and 2,743,000 toll and long distance conversations, an increase of 7.4% and 8.1%, respectively, over the year 1939.

(c) Excludes taxes charged construction (amounting in 1940 to \$2,829,100).

(d) In addition, the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., had 46,721 employees on December 31, 1940.

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

BALANCE IN FUND—DECEMBER 31, 1939	\$ 22,435,690.97
ADDITIONS TO FUND DURING 1940—	
Payments into Fund by Company	\$ 1,261,197.00
Interest Revenue, including gain or loss on investments disposed of	755,503.80
TOTAL ADDITIONS	\$ 2,016,700.80
DISBURSEMENTS FOR PENSIONS DURING 1940	603,600.51
NET INCREASE IN FUND	\$ 1,413,100.29
BALANCE IN FUND—DECEMBER 31, 1940	\$ 23,848,791.26
COMPRISED OF—	
4% Demand Note of American Telephone and Telegraph Company	\$ 6,786,569.27
Bonds of Bell Telephone Companies	8,838,020.05
U. S. Government Obligations	2,709,808.56
Public Utility, Railroad and Industrial Bonds	4,482,029.10
Cash and accrued interest not due	1,032,364.28
TOTAL	\$ 23,848,791.26

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, TRUSTEE

By **W. B. DUNCKEL**
Trust Officer.

New York, N. Y.—January 29, 1941.

**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, 1939	\$205,123,542.56
ADDITIONS DURING 1940—	
Payments into Funds by Companies	\$20,113,889.64
Interest Revenue, including gain or loss on disposal of investments and adjustments of book value	7,109,122.89
TOTAL ADDITIONS	\$27,223,012.53
DISBURSEMENTS FOR PENSIONS DURING 1940	7,133,381.20
NET INCREASE	\$ 20,089,631.33
BALANCE IN PENSION TRUST FUNDS—DECEMBER 31, 1940	\$225,213,173.89
COMPRISED OF—	
4% Demand and One-Year Notes of Bell Telephone Companies	\$103,830,956.66
Bonds of Bell Telephone Companies	45,899,609.44
U. S. Government Obligations	30,698,452.32
Public Utility, Railroad and Industrial Bonds	32,926,015.40
Cash and accrued interest not due	11,858,140.07
TOTAL	\$225,213,173.89

NOTE: Securities are shown on amortized basis.

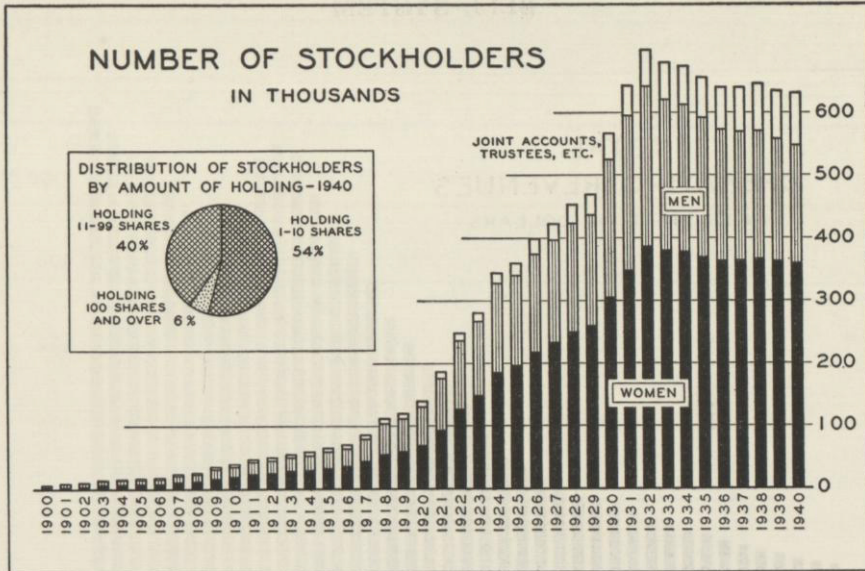
We certify that the above consolidated statement of the Pension Trust Funds established by the American Telephone and Telegraph Company and its Principal Telephone Subsidiaries, for which Funds this Company is Trustee, is correct.

BANKERS TRUST COMPANY, TRUSTEE

By **W. B. DUNCKEL**
Trust Officer.

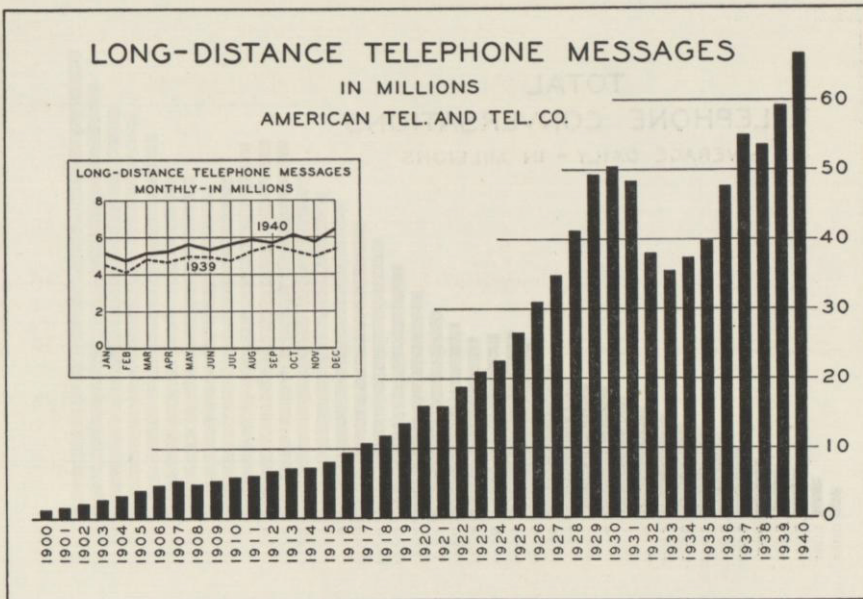
New York, N. Y.—January 31, 1941.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

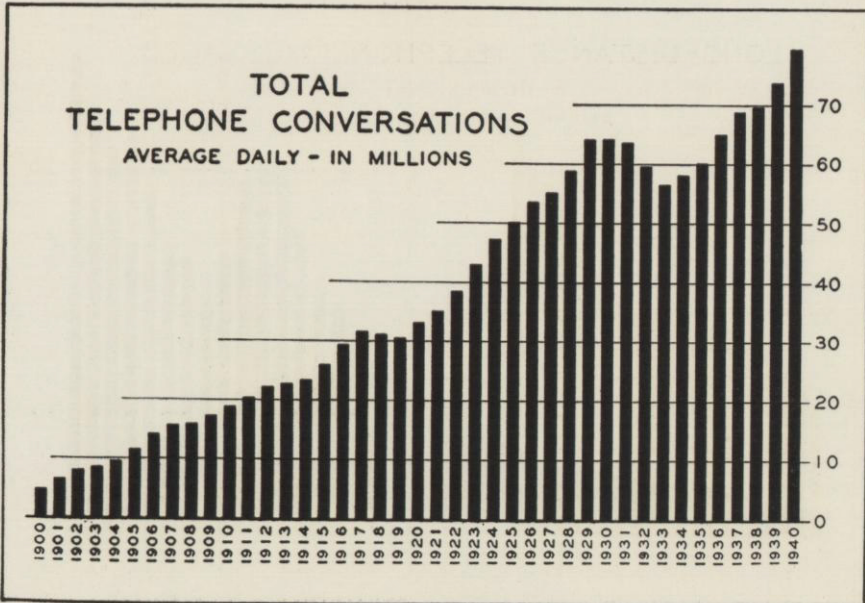
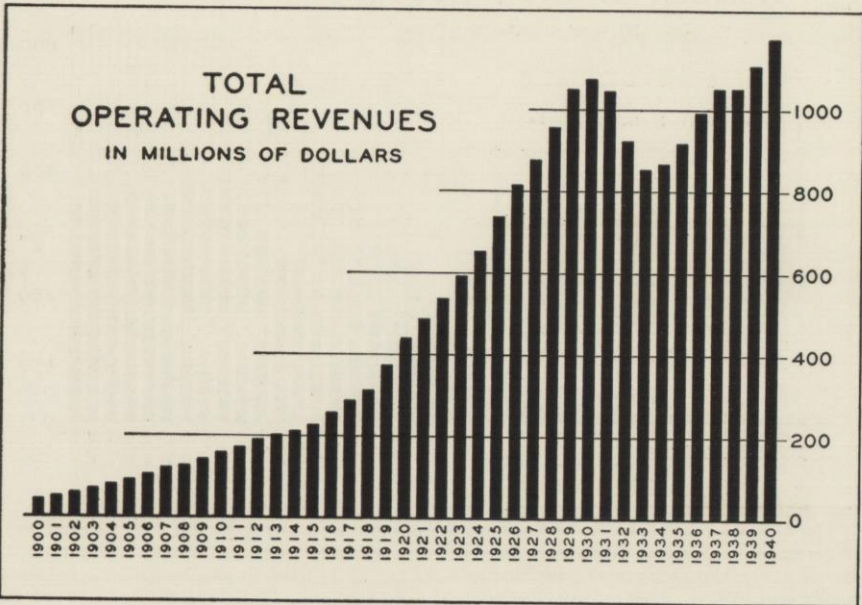


The number of stockholders of record of the Company on December 31, 1940 was 630,902, as compared with 636,771 at the end of 1939. The average number of shares held per stockholder at the end of the year was 30. About 42 per cent of the shares were held by women; 30 per cent by men; 5 per cent in joint accounts; 21 per cent by trustees, insurance companies, corporations, private firms, etc.; and less than 2 per cent were in the names of brokers. No stockholder of record held as much as one per cent of the total stock outstanding.

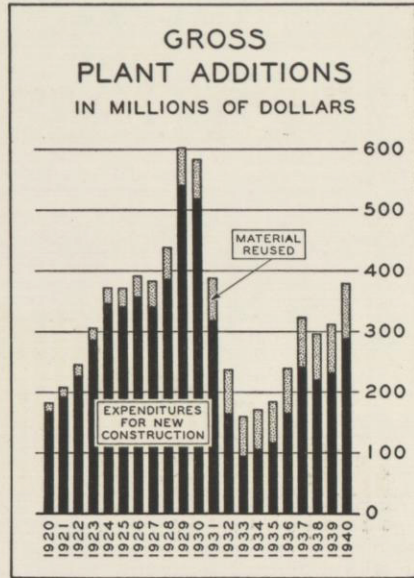
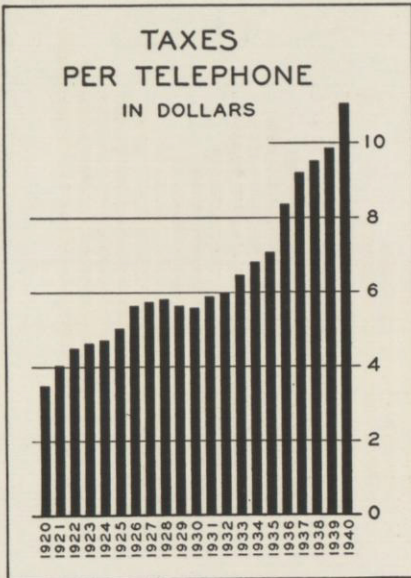
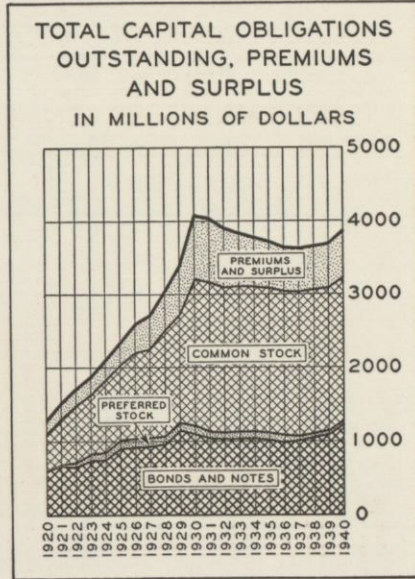
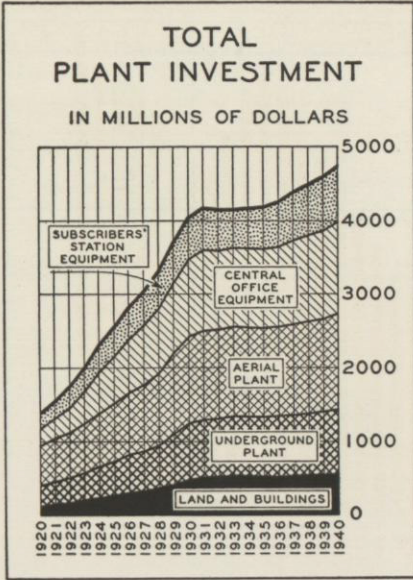
There were also at the end of 1940 about 24,000 holders of common stock and 33,000 holders of preferred stock of the Company's principal telephone subsidiaries. Allowing for duplications in these totals, there were about 670,000 owners of stock of the Company and its principal telephone subsidiaries.



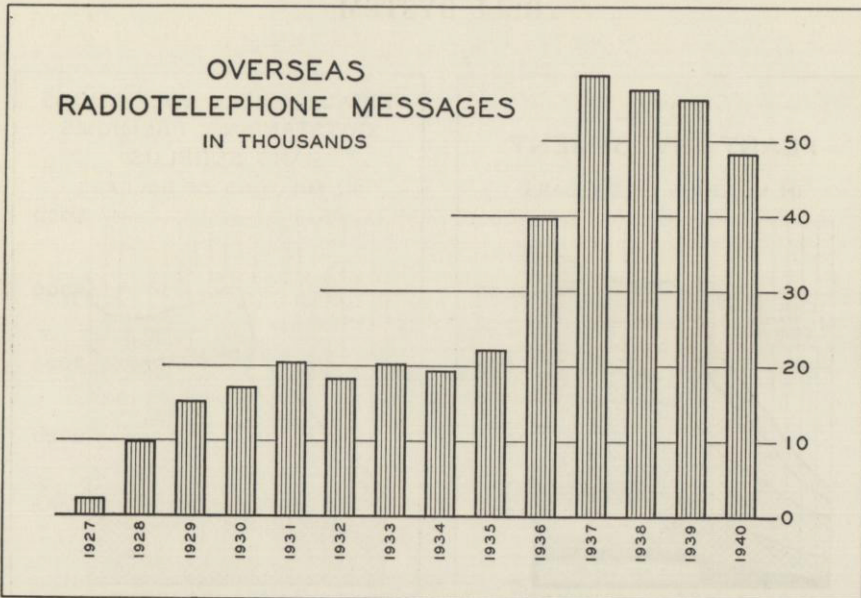
BELL SYSTEM



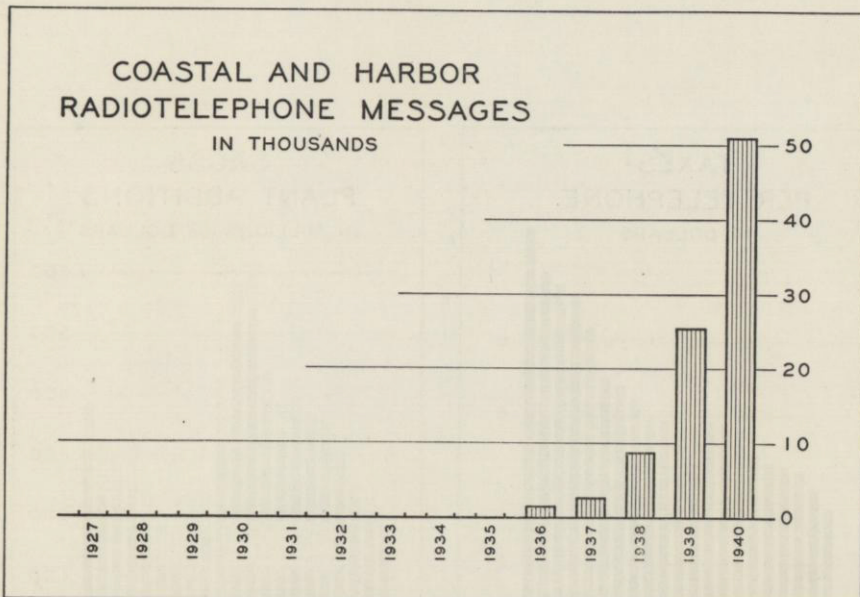
BELL SYSTEM



BELL SYSTEM



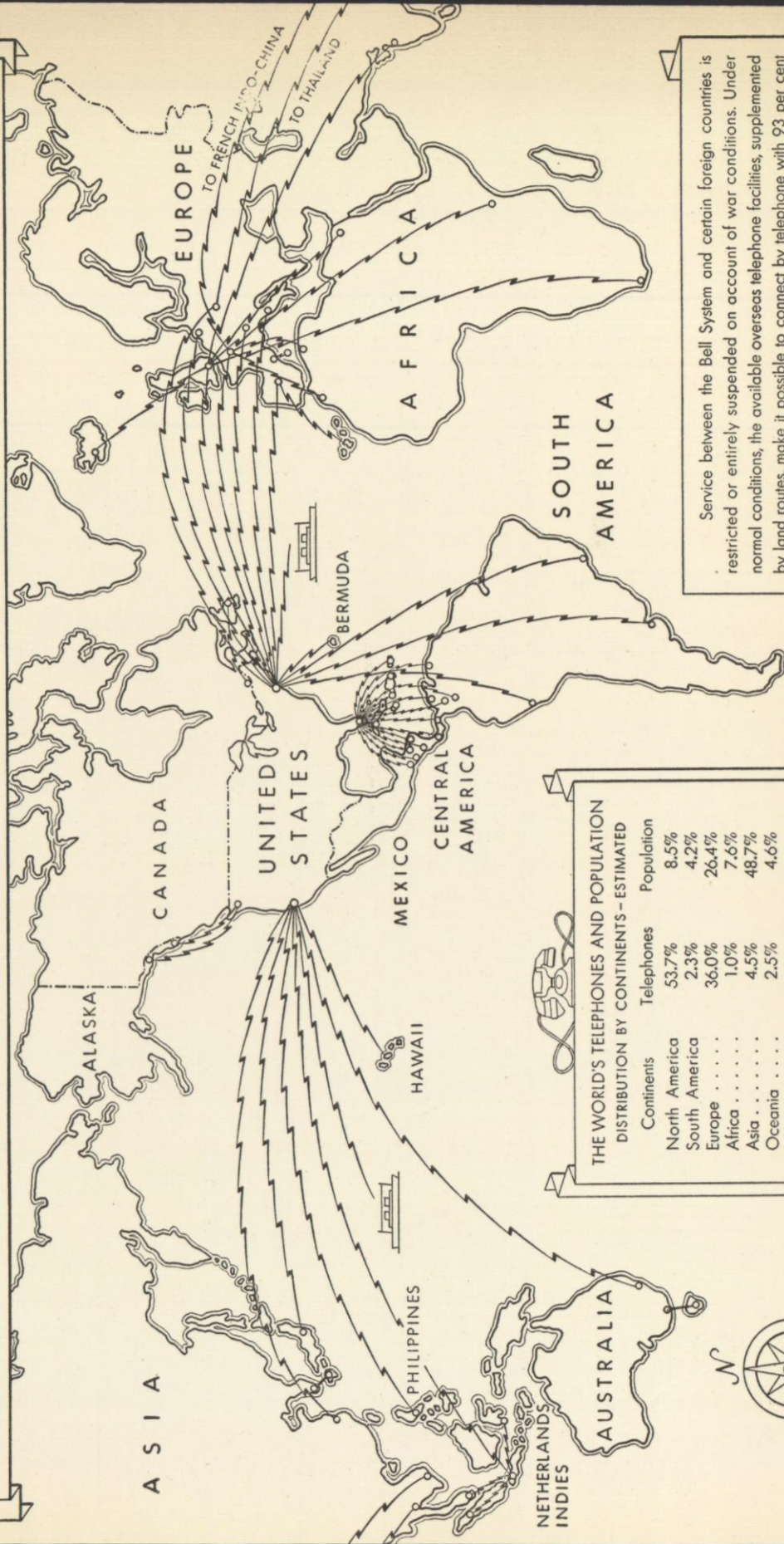
For the year 1940, overseas radiotelephone messages were distributed as follows: Transatlantic 25%, Transpacific 31%, with Central and South American points 41%, and with transoceanic ships 3%.



At the end of 1940, the Bell System and connecting companies operated 22 radiotelephone shore stations for connection with more than 2,500 small vessels and coastwise ships on the Atlantic, Gulf and Pacific coasts and the Great Lakes. The chart shows the messages handled through Bell System coastal-harbor facilities.



OVERSEAS TELEPHONE CONNECTIONS OF THE BELL SYSTEM



THE WORLD'S TELEPHONES AND POPULATION

DISTRIBUTION BY CONTINENTS - ESTIMATED

Continents	Telephones	Population
North America	53.7%	8.5%
South America	2.3%	4.2%
Europe	36.0%	26.4%
Africa	1.0%	7.6%
Asia	4.5%	48.7%
Oceania	2.5%	4.6%
TOTAL WORLD	44,200,000	2,190,000,000

Service between the Bell System and certain foreign countries is restricted or entirely suspended on account of war conditions. Under normal conditions, the available overseas telephone facilities, supplemented by land routes, make it possible to connect by telephone with 93 per cent of the world's telephones. About one-half of the world's telephones are in the United States and, of these, 17,484,000 are in the Bell System.

