

AMERICAN
TELEPHONE
AND TELEGRAPH
COMPANY



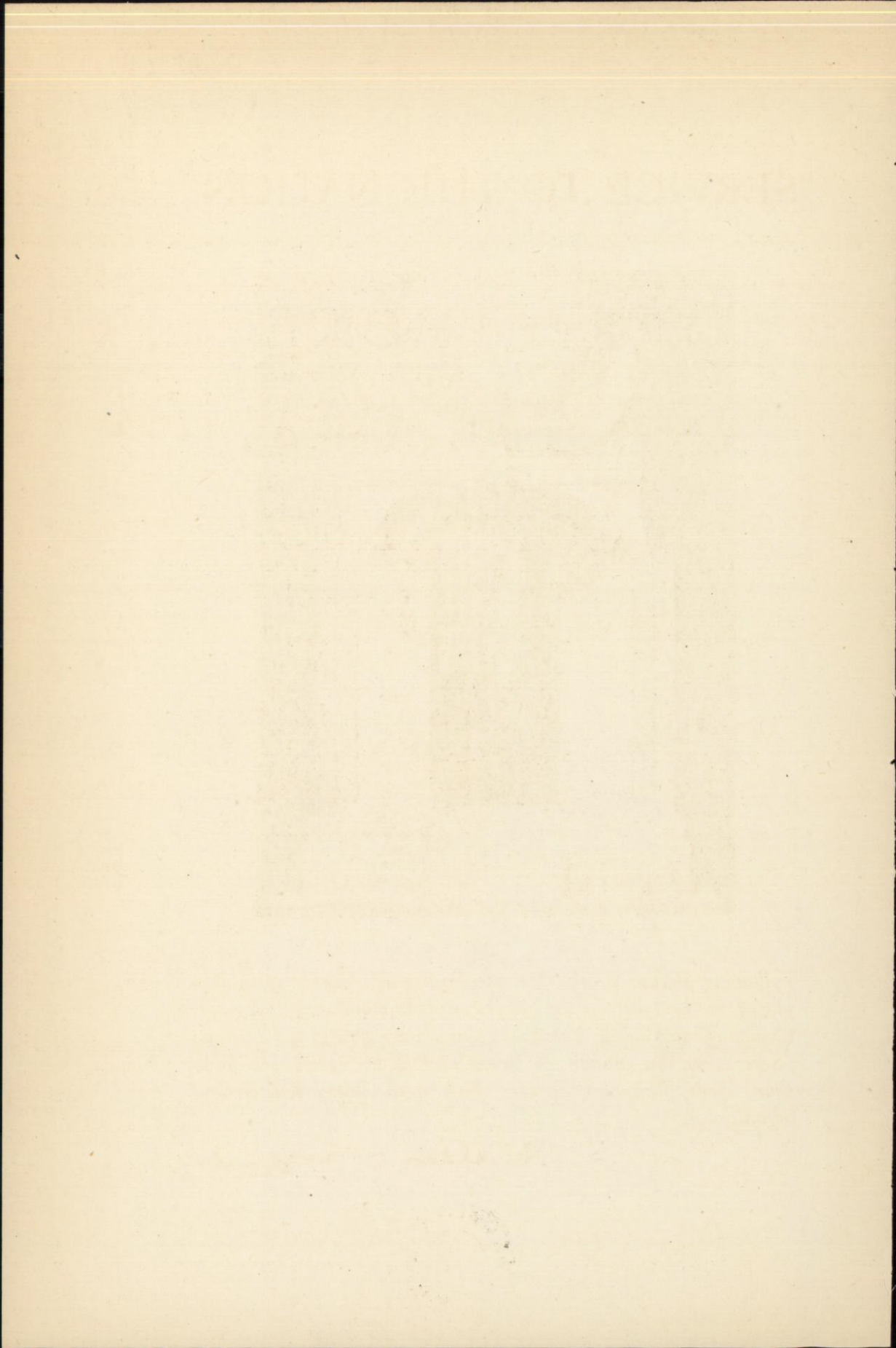
ANNUAL REPORT
FOR THE YEAR 1941

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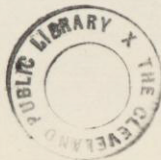


"SERVICE TO THE NATION"



Following the last World War this bronze and marble group was placed in the lobby of the American Telephone and Telegraph Company building in New York. On it are inscribed these words, "Service to the Nation in Peace and War." They are more than words. They are the very spirit of the entire Bell System organization.

Walter S. Gifford



AMERICAN TELEPHONE AND TELEGRAPH COMPANY
195 BROADWAY, NEW YORK

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FIFTY-SEVENTH ANNUAL REPORT

The management of the American Telephone and Telegraph Company presents herewith an accounting of its stewardship for the year 1941 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.

THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY and its Associated Companies in the Bell System were put to the test in 1941 as never before and, on the whole, performed their task—the biggest they have ever tackled—with credit to all concerned. The nation needed new telephone facilities in new places—it needed more telephone facilities in usual places—and it needed the facilities in a hurry. About 1,360,000 telephones were added—409,000 more than ever before in one year.

The average number of telephone conversations per day in 1941 was 84,692,000, a record high and 5,389,000 per day more than in 1940. There were times during the year when the increase in long distance calls between many important places was more than 100 per cent—between some places as much as 400 per cent.

The number of employees of the System, including the Western Electric Company, Incorporated, and the Bell Telephone Laboratories, Incorporated, increased 57,600 and was 379,900 at the end of the year. Rates of pay were increased and are now the highest on record. Total payrolls increased \$114,936,000, or 19 per cent.

For the System, including the Western Electric Company and the Bell Telephone Laboratories, taxes increased \$88,279,000 and amounted to \$288,493,000. This support of government and war activities was equal to nearly \$15 per share of stock.

Telephone rates were reduced during the year, saving telephone users about \$22,000,000 annually. Most of the reductions were in long distance rates.

All parts of the System co-operated fully and wholeheartedly with the Army, the Navy, Civilian Defense and other governmental agencies and departments. Such co-operation was especially extensive in meeting the urgent telephone needs of new military camps, in field maneuvers, in air interceptor and warning services and in emergencies.

Help was given to the defense and war effort by the loan of skilled administrative and scientific personnel on full or part time to important positions in the Government.

Over 5,700 Bell System employees were in the military services at the end of the year.

The Bell Telephone Laboratories devoted a large part of its time to important war research. The Bell System's manufacturing organization—the Western Electric Company—took on large amounts of work for the Army and the Navy of vital importance to the successful prosecution of the war and at the same time increased its production of essential telephone equipment for the Bell Telephone Companies by nearly 50 per cent over 1940.

On the whole, the quality of telephone service has been maintained at a high standard.

In spite of an increase in taxes equal to \$4.60 per share, and of increased wages and material costs, and of reductions in telephone rates, the dividend of \$9 per share was earned in 1941 with a small margin. With a record volume of business and with total operating revenues of \$124,367,000 more than in 1940, net income applicable to American Telephone and Telegraph Company stock decreased \$18,727,000, resulting in earnings per share of \$10.26 in 1941 as compared with \$11.26 in 1940.

At the end of the year, there were 23,450,000 telephones in the United States, of which Bell System telephones numbered 18,841,000. There has never been finer co-operation between the 6,350 independently owned telephone companies in this country and the Bell System Companies. All these companies, together with more than 60,000 rural or farmer lines and systems, make possible nation-wide universal telephone service, offering to the telephone user the ability to talk to anyone, anywhere, promptly and clearly. This co-operation is more important now under the stress of total war than ever before.

Bell System Facilities

The great expansion of telephone service, both local and toll, reduced the margins of unused plant held for future growth and resulted in some cases in shortages of plant facilities, particularly on certain long distance routes where growth was the most rapid. As a result, it was necessary to construct large amounts of additional plant of all types. Every effort was made to do this with a minimum use of strategic war materials. Expenditures for new construction were high, approximately \$420,000,000, as compared with \$290,000,000 in 1940. The investment in telephone plant at the end of the year was \$5,047,880,000, against which there were depreciation and amortization reserves of \$1,444,262,000, or 28.6 per cent.

Over 1,000,000 miles of long distance circuits were added—twice as many as in 1940 and the most ever added in any one year. An important factor in the ability of the Bell System to add great numbers of long distance circuits to its plant rapidly and without excessive draft upon supplies of copper and other scarce materials has been the large scale application of broad band carrier systems, which provide a great number of telephone channels over a single circuit.

Anticipating the importance of increased transcontinental facilities in the event of war, sixty additional transcontinental circuits, increasing the total by about one-third, were provided prior to December 7th. Additional transcontinental circuits are now being rushed to completion and it is anticipated that about thirty-six more will have been made available by the time this Report is issued. In the meantime, work on the transcontinental underground cable, which will provide the first all-cable transcontinental telephone line and which will double present transcontinental facilities, is being pushed forward rapidly. Service on this cable route is now being given as far west as Denver and the cable is expected to be completed to the Pacific Coast via Salt Lake City by the latter part of 1942.

Altogether about 4,000 miles of toll and long distance telephone cables were added during the year, raising the total mileage of these cables in service to about 36,000 miles. Over two-thirds of the cable added was placed underground; most of it by using the recently perfected method of plowing the cables into the ground to a depth of thirty inches or more with heavy mechanized equipment.

Development of the coaxial cable, which can carry several hundred telephone conversations simultaneously in two pairs of specially designed conductors, reached the point of regular commercial use when the 200-mile cable of this type between Minneapolis and Stevens Point, Wisconsin, was placed in service in 1941. The extensive use of coaxial cables is planned on the longer heavy traffic routes as an economical means of providing long distance circuits. Coaxial cables are suitable also for use in inter-city networks for the transmission of television.

The first installation of a newly developed 12-channel radiotelephone system was placed in service across Chesapeake Bay. The land wire circuits follow a circuitous route over 400 miles in length, whereas the direct radio route, including connecting wire lines, is only thirty miles.

Saving Strategic War Materials

The 1941 large construction program was carried on under conditions of increasing difficulty due to the shortage of essential materials. Anticipating these shortages and beginning over two years ago, early in the emergency, steps were taken to reduce the Bell System use of strategic materials. Those responsible for the design and manufacture of telephone apparatus and supplies have carried on continuous and extensive studies of the use of alternate materials and as rapidly as possible substitutions have been made to meet imminent or prospective shortages.

Also, throughout the Bell System, emergency engineering and operating practices were adopted in 1941 to reduce as far as possible the use of strategic materials. These emergency practices included the deferment, wherever practicable of plant construction for the purpose of betterment by continuing in service plant which normally would have been replaced, and by repairing and reusing a larger proportion of plant removed from service. Where new plant was built, it was engineered to take care of growth for a relatively short period in the future by greatly reducing the size of cables and of additions to central office equipment and other plant.

These necessary changes in design and in engineering and operating practices added to the load at a time when all hands were hard pressed

by an unusually large manufacturing and construction program, including much special work for the armed forces and other defense agencies. The substitutions and the emergency practices which have been adopted involve some economic penalties in the form of increased costs, either currently or in the long run.

The value of the combined effect of these measures from the standpoint of the war effort is shown by the large reduction in the use of strategic materials which has been effected. For example, Bell System consumption of aluminum has been reduced to less than one-fifth of that which otherwise would be required, use of magnesium has been reduced to one-sixth, rubber and zinc to about one-half, copper and nickel to about two-thirds.

Service

Bell System telephone service is a 24-hour service, day in and day out, week-days, Sundays and holidays. This means that a substantial proportion of the employees are "on duty" at times when most other people are normally at leisure or asleep. More than a hundred thousand employees are working during some part of the hours between 6 P. M. and 7 A. M. Over one-half of that number are on the job on Sundays and holidays. This availability of telephone service at any hour of the day or night, any day of the year, is of especial value in times of emergency like the present.

There were numerous service problems of an unusual nature during 1941. Many of these were associated with defense activities. Most of them required quick action. Telephone facilities were provided for hundreds of military camps and bases, many of them in out of the way places. Service was furnished for army field maneuvers, for aircraft warning and other military requirements.

Notwithstanding the great volume of new business, the high quality of service of recent years was well maintained. Plant troubles were fewer and were cleared more quickly, thus effecting a further improvement in the reliability of service over last year when the average telephone was in working order more than 99.98 per cent of the time. There was an improvement in the promptness with which customers' telephones were installed. Continued progress was made in increasing the usefulness and improving the appearance of telephone directories

through the further introduction of the new and more legible style of type and adoption of a uniform cover design.

The most difficult problem was that of maintaining fast speed of service on long distance calls. The average speed of service on these calls was 1.6 minutes in 1941, compared with 1.4 minutes in 1940. The proportion of calls completed without hanging up the telephone was 91.6 per cent, compared with 93 per cent in 1940. These changes—the result of record traffic volumes and lowered plant margins—are relatively small. However, on some routes where traffic increased tremendously, calls were occasionally subject to delays, particularly in the evenings at the time the lower evening rates become effective. Also, there were a number of unpredictable surges of traffic, the extreme example being that following “Pearl Harbor” when traffic on some routes jumped to levels two, three and even five times normal and persisted at such levels for several days. Additional long distance facilities required by the increased traffic are being provided as rapidly as possible.

To meet the greater work volume, a substantial number of employees were added, particularly telephone operators. The increase in the number of operators—20,700—was the largest in any single year in the history of the business. It is interesting that this occurred when nearly two-thirds of Bell System telephones are dial. To provide this increase and to replace losses, it was necessary to employ 62,000 operators. Plant forces were increased by 12,000. To provide this increase and replace losses—including those who left to join the armed forces—it was necessary to employ 26,000 persons.

The “know how” underlying good telephone service starts with the training of the forces. Present day training methods embody the results of years of experience and intensive study and development. Without these perfected training methods it would have been impossible to induct such large numbers of new people into the business without adverse reaction on the service.

The extensive training requirements added considerably to expenses. Nearly \$7,000,000 was expended for training new telephone operators and a similar sum was involved in training new men for the plant forces.

In addition to programs for training their own people, Bell System Companies in 1941 trained some 800 men of the Signal Corps and

other military branches for key positions in the rapidly expanding forces.

Overseas Telephone Service

Overseas telephone traffic, as a whole, continued to grow rapidly during the year despite the decline in European messages due to the war conditions. New record levels were reached in transpacific, Caribbean, and South American traffic and telephone calls with Hawaii, Panama, Puerto Rico and the Philippines increased several fold.

During 1941, direct circuits to Europe were in operation with London, Berne, Madrid, Berlin and Rome, and in June direct radiotelephone service was established to Portugal, formerly reached via Madrid. Upon the outbreak of war with the Axis powers, in December, the circuits to Berlin, Rome and Tokio were discontinued. Upon the occupation of Manila, early in January, 1942, the San Francisco-Manila service was suspended.

To meet the increases in traffic and to strengthen important routes, radiotelephone facilities are being improved and augmented. During the summer of 1941, additional circuits were provided to Panama, the Philippines and the Netherlands Indies. Two additional circuits to Honolulu are being installed for completion early in 1942. An additional circuit to San Juan, Puerto Rico, and a second circuit to Rio de Janeiro, Brazil, are planned for the middle of 1942.

Safeguarding Service

The measures which were started during 1940 to safeguard telephone service were extended and intensified in 1941 in keeping with the changing conditions. By the end of 1941, the vital communication centers had been placed under guard consistent with war conditions. Practices had been set up calling for the use of special means of identification for employees and others seeking entrance to telephone buildings. Further measures such as placing of steel protective screens and the installation of warning and signalling devices were instituted where this seemed desirable.

A great safeguard for long distance service is the large number of alternative routes provided by the nation-wide interconnected system of long distance cables and open wire lines. In 1941, about 1,000 miles

of additional routes were provided, which, together with a big increase in carrier systems on existing routes, have greatly increased the ability to maintain toll and long distance telephone service under emergency conditions. Also, additional alternative routes were provided for many local circuits, particularly where important from a defense standpoint.

Additional portable radiotelephone equipment located at strategic points throughout the entire country was made available for emergency service in the event that failure of normal communication facilities should otherwise completely isolate a community.

Insurance against power failures, which under present conditions might be of greater duration than would be anticipated in normal times, was increased by the provision of additional portable engine generator sets capable of being quickly transported to and installed at a point where failure has occurred, and by making additional standby installations of engine-driven generator sets in large telephone central offices.

Aircraft Warning

In co-operation with the Army, extensive communications systems required in defense against enemy air attack were developed and installed during the year. These air defense arrangements are largely based on experience in Great Britain, modified by the experience gained in maneuvers and airplane warning tests conducted by the United States Army. The basic features of the systems employed here take full advantage of the nation's extensive telephone network. Means are provided whereby the Army can quickly receive and correlate information of the movement of enemy aircraft from tens of thousands of civilian observers spotted at telephones in cities and towns and over the country-side, direct the defense actions of the armed forces and give air raid warnings to the civilian defense authorities. Communications arrangements have also been worked out in co-operation with the civilian defense authorities for facilitating direction of the many civilian activities required in defense against enemy air attack.

Research

The science underlying electrical communication is at the very heart of modern war. It is responsible for plane locators, submarine detectors, gun-fire control systems, communication between planes

moving in the air and tanks on the ground and ships at sea, and the means of quick control of vast numbers of men and units of equipment, as well as for the instantaneous communication in a war front stretching around the world. The contest between the scientists of free people and those of the Axis powers is one of the real battles of the war.

Bell Telephone Laboratories has increased its activity and thrown much of its effort to advancing the art of war. With its 5,000 employees, the Laboratories is contributing notably to the country's military strength not only in the field of communication but also in allied fields where radio devices and other tools of telephony are indispensable. The Laboratories has undertaken more than a hundred research and development projects for the Army, Navy and National Defense Research Committee. Several of its scientists are on leave of absence with the Government and a considerable number of its technical staff and executives are serving on a part time basis as consultants and committee members. Back of these men and the defense activities of the Laboratories are the scientific knowledge and skills accumulated over years of continuous research and development.

The work of the Laboratories not directly concerned with war activities is now in large part devoted to meeting the present emergency needs for greatly increased communication facilities. In this, it is of great importance that extensive and uninterrupted development over the years has resulted in a highly efficient plant well adapted to meeting emergencies because of its flexible character.

Broad band carrier systems of transmission for open wire, cable and coaxial conductors by which a large number of telephone channels can be provided over a single circuit are proving invaluable in the present emergency. During the past year, improvements have been made in these systems to increase their economy, effectiveness and dependability and to reduce consumption of strategic war materials. Examples of these improvements are modifications in open wire systems to permit more circuits to be placed on existing pole lines, and a new regulating method for cable carrier systems that employs "thermistors" to compensate for changes in temperature over the cable route. The thermistor, which is about the size of a pea, replaces an expensive and complicated mechanism formerly required. Modifications have also been made in the filters of all broad band carrier systems that greatly reduce the amount of quartz required for crystal elements.

With the increase in speech channels provided by the extension of broad band systems and in other ways, added facilities are needed at toll switchboards to handle increased traffic. To provide these with minimum demands on manufacturing facilities, emergency equipment has been developed that greatly increases the capacity of the toll switchboard with only a relatively small increase in equipment.

To provide greater security for the communication lines of the country, more and more of them are being placed under ground in lead sheathed cable. While this avoids the more usual forms of damage, it has been found that in some cases even underground cable needs protection. When lightning strikes the ground, for example, it tends to spread along the lines of least resistance, and if a cable is in the vicinity, it is usually the cable that forms the path of lowest resistance. Methods have recently been developed to protect cables from these surges of lightning current.

Damage to telephone plant from warfare or from storm and flood may be sudden and spectacular, but in the long run more extensive harm is done by the insidious action of corrosion. The Laboratories maintains a continuous development program to protect Bell System apparatus and equipment from this slow wasting away which, if not arrested, may result in failure. Development has been particularly active recently in extending micro- and electro-chemical methods of analysis, which permit extremely thin films of corrosion products to be detected and analyzed, and thus make it possible to take corrective measures before appreciable harm has been done. In some cases, films only one ten-millionth of an inch in thickness can be detected and analyzed, and corrosive substances may be detected when they are present in quantities less than a millionth of a gram.

Considerable work has been carried on during the past year in developing ultra-short-wave radio systems to serve as adjuncts to land lines.

In November, 1941, some of the laboratory groups moved to the new buildings at Murray Hill, New Jersey. The rural site of the 200-acre plot on which this new laboratory is located offers advantages for research work not readily obtainable in a large city. The buildings provide facilities for about 800 workers. Their design has been based on a thorough analysis of the requirements of telephone research and many unusual features have been incorporated to facilitate any rear-

rangements that may be required by the ever changing requirements of research work.

Financing

In July, 1941, the American Telephone and Telegraph Company offered to its stockholders \$233,584,900 of Fifteen-Year 3% Convertible Debenture Bonds, convertible into stock after January 1, 1942, at \$140 per share. Stockholders of record on July 25, 1941, were entitled to subscribe for \$100 principal amount of these Convertible Debenture Bonds for each eight shares of stock held. Subscriptions were received for \$222,745,200, or 95.4 per cent of the amount offered and the unsubscribed balance of \$10,839,700 was sold later in the open market, at an average price of \$111 per \$100 bond. The Company called for redemption on November 1, 1941, its Twenty-Year Sinking Fund 5½% Gold Debenture Bonds outstanding in the amount of \$94,192,500. To provide funds for the retirement of these bonds, the Company sold \$90,000,000 of 2¾% Debentures due in 1976.

Early in 1941, the Bell Telephone Company of Pennsylvania sold \$20,000,000 First and Refunding Mortgage 2¾% Bonds, Series D, due in 1976, and retired its \$20,000,000 of 6½% Preferred Stock. Illinois Bell Telephone Company sold a new issue of \$50,000,000 First Mortgage 2¾% Bonds, Series A, due in 1981 and redeemed its \$45,000,000 First and Refunding Mortgage 3½% Bonds, Series B, due in 1970.

The Pacific Telephone and Telegraph Company and the New England Telephone and Telegraph Company, both of which have common stock outstanding in the hands of the public, offered additional shares late in 1941 at par, \$100 per share, for subscription by shareholders in proportion to their holdings. The Pacific Company's offer, amounting to 656,250 shares (\$65,625,000), expired on December 31, 1941, and the New England Company's offer, amounting to 222,243 shares (\$22,224,300), expired on January 15, 1942. This Company subscribed for its proportion of both of these offerings—547,417 shares of Pacific Company and 145,157 shares of New England Company stock—while subscriptions from the public were 6,014 and 21,043 shares, respectively. In January, 1942, this Company purchased at par the unsubscribed portion of both of these offerings—102,819 shares of Pacific Company stock and 56,043 shares of New England Company stock.

During the year, this Company and its principal telephone subsidiaries paid off \$5,854,000 of their 4% Notes held by the Trustee of their respective Pension Funds, and The Chesapeake and Potomac Telephone Company of Virginia paid at maturity a serial note of \$1,000,000.

Outstanding debt obligations of the Bell System increased \$247,036,000 during the year. Cash assets of the System at the end of the year were \$301,617,000, of which this Company held \$271,072,000.

Financial Structure

At the end of the year, the total capital obligations of the System, including capital stock premiums and surplus, were \$4,104,236,000, of which debt obligations amounted to \$1,481,130,000, or 36 per cent of the total. This ratio of debt to total capital obligations is higher than at any year end since 1925 when the ratio was 38.7 per cent. Should the convertible bonds be converted into stock in 1942 at the specified conversion rate of \$140 per share of stock, the debt ratio would then be reduced from 36 per cent to 29.7 per cent and over \$90,000,000 additional would be available to meet 1943 capital requirements.

A strong capital structure can only be maintained if management is able to produce and regulatory authorities permit the return on investment necessary to enable the business to obtain through equity financing much the greater part of the large sums of new money required for additions and extensions of plant to meet the public demand for more and more telephone service. This means that earnings in times of active business conditions, when new capital requirements are also heavy, must be high enough to offset the lower earnings in times of depression.

Telephone Rates

On April 2, 1941, the Federal Communications Commission announced that it had instituted a formal rate proceeding against the Bell System Companies, with specific regard to the long distance rates of the American Company. In view of the national emergency and the extraordinary conditions prevailing, the Company appealed to the Commission to rescind or postpone the rate investigation. After several conferences, a settlement was effected involving reduced charges of \$14,000,000 on an annual basis. Thus, prolonged and costly proceedings, which would have absorbed extensive efforts of the management and key people in

the organization at a time when urgently needed for important defense work, were avoided. Other rate changes made in the System during the year involved reductions of approximately \$8,000,000 annually. Since these reductions, new taxes have been imposed, further wage increases have been made, and material costs have risen.

Earnings

In 1941, the Bell System operating revenues were \$1,298,689,000, an increase of \$124,367,000, or 10.6 per cent over 1940. Operating expenses before taxes increased \$69,961,000, or 9.1 per cent. Net operating revenues before taxes increased \$54,405,000, or 13.4 per cent. Net operating income, which is after taxes and reflects the effect of substantially increased taxes under the Federal Revenue Act of 1941, and other income, which was also greatly reduced by increased 1941 taxes, totalled \$248,469,000, or \$13,411,000 less than in 1940. Interest charges increased \$6,542,000, due to additional bonds issued and outstanding. The total net income of the System applicable to American Telephone and Telegraph Company stock was \$191,771,000, or \$18,727,000 less than in 1940.

The American Telephone and Telegraph Company earned \$10.01 per share of stock in 1941, as compared with \$10.08 in 1940. The total net income of the System applicable to American Telephone and Telegraph Company stock was \$10.26 per share, as compared with \$11.26 in 1940.

Taxes

Total taxes of the Bell System Companies, including Western Electric Company and Bell Telephone Laboratories, for 1941 were \$288,493,000, an increase of \$88,279,000, or 44 per cent over the previous year. This tax bill was equal to nearly \$15 per share of American Telephone and Telegraph Company stock outstanding, an increase of \$4.60 per share over 1940. Taxes in 1941 exceeded by \$89,032,000 the earnings of the System available for dividends.

In addition to the taxes paid by the Bell System Companies, certain taxes to be borne by the users of the service must be added to all telephone bills and collected by the telephone companies on behalf of the Federal Government. The amount being so collected, based on the volume of business at the end of 1941 and the tax rates then in effect, is in the neighborhood of \$85,000,000 per year.

Communications Act Amendment

An amendment to the Federal Communications Act was passed in January, 1942, granting the President power to authorize the use and control of any wire facility by any department of the Government with just compensation to the owners. The period of such use and control is limited to not later than six months after the termination of the war, or not later than such earlier date as Congress by joint resolution may designate. In reporting the bill, the committees of both the House and Senate referred to the fact that the government departments recommending its passage stated that no general taking over of wire communications facilities was intended.

Stockholders

At the end of 1941, there were 634,151 stockholders of record of the American Telephone and Telegraph Company. This is 3,249 more than at the end of 1940. The average number of shares held per stockholder at the end of 1941 was 29. Geographically, the stock was widely held. Approximately one-sixth of the Bell System employees owned stock in the Company. No stockholder held as much as one-half of one per cent of the total stock. Of the total stockholders, 207,000 held from one to five shares each and 598,600 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 less than 50 per cent of the total stock.

Manufacture and Supply

The 1941 sales of Western Electric Company, the manufacturing, purchasing and supply unit of the Bell System, reached a total of \$385,418,000, or nearly 60 per cent in excess of 1940. Of this amount, \$35,905,000 were sales to the United States Government.

While 1941 sales were greater in dollars than in any other year except 1929, taking into account the lower prices prevailing in 1941 the volume of business was the greatest in the Company's history. This production record was made possible by large additions to the personnel, and the extensive use of overtime and multiple shifts.

Because of Western Electric's experience in the manufacture of com-

munication equipment in large volume, the nation's armed forces called upon it during the year to produce large quantities of special radio and telephone apparatus vital to modern military operations. With the declaration of war, the demands were so greatly increased that production of equipment for the Government in 1942 will be ten times as great as in 1941. For this purpose, one and one-half million square feet of rented space have been acquired, machinery is being installed and additional forces are being hired and trained.

Reductions in prices of telephone apparatus sold to Bell System Companies were made in 1940 and further reductions were made early in 1941. These 1941 reductions were later cancelled.

Net earnings of the Western Electric Company, including its subsidiary companies, were \$18,428,000, or \$14,359,000 less than in 1940. Higher costs of operation, particularly an increase in taxes of \$42,170,000, reduced the net earnings substantially below those of 1940. Net earnings were \$3.07 per share compared with \$5.46 per share in 1940.

Employees

The employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, numbered 379,900 at the end of 1941, an increase of 57,600, or 17.9 per cent over the number at the end of 1940. To secure this net increase of 57,600 employees, it was necessary to employ 131,000 people. At the end of the year, approximately 83,000 employees had been in the business less than one year, as compared with 38,000 at the end of 1940. Of the total employees, 172,800 were men and 207,100 were women.

The total 1941 payroll of the System, including the Western Electric Company and the Bell Telephone Laboratories, was \$723,418,000, an increase of \$114,936,000 over 1940. Higher wages negotiated with the unions representing the employees amounted on a full annual basis to about \$50,000,000 and increases in wage rates normally made to provide for progressive stepping up of wages as an employee's service and experience increase, amounted for the year 1941 to \$17,000,000. Schedules of pay are now the highest in the history of the business.

Personnel in War Activities

Over 5,700 employees were in the military services of the nation at the close of the year. Their rights to sickness, accident and death benefits and to pensions under the Benefit and Pension Plan are protected for at least two years and for longer periods depending on their term of employment. The difference between army and company compensation is paid for three months following entrance into the services to those employed for a year or more. Allowances are also made for a further period in cases of dependency in accordance with circumstances.

As a result of recent legislation making all men between 20 and 44 years of age, inclusive, liable for active military duty, it may be expected that a substantially larger number of Bell System employees eventually will be in the military services.

During the year, continued assistance was given the military authorities in securing the services of employees having abilities of special types which were being sought.

The President of this Company is Chairman of the Industry Advisory Committee of the Defense Communications Board and twelve other members of the headquarters organization are assisting in the work of this Board as members or alternate members of its several committees. Vice President F. B. Jewett, who is also Chairman of the Board of Bell Telephone Laboratories, is serving as a member of the National Defense Research Committee; and more than a score of the leading scientists and executives at the Laboratories are serving as members or as consultants in the work of its various divisions and sections. Vice President C. O. Bickelhaupt, Colonel, Signal Corps Reserve, has been called to active duty by the Chief Signal Officer, U. S. Army. Vice President W. H. Harrison has been on leave of absence since the summer of 1940 on government defense work and is now Chief of the Production Division of the War Production Board. A number of other Bell System men have been loaned to the Government in connection with war work.

Benefit and Pension Plan

The Plan for Employees' Pensions, Disability Benefits and Death Benefits, which has been in successful operation throughout the Bell System for twenty-nine years, affords a substantial degree of assurance

and assistance to employees in cases of sickness, accident, death and retirement. Being a non-contributory plan, it is provided by Bell System Companies with no direct or indirect expense to employees. All costs are paid by the Companies and the benefits of the Plan are applied to all employees alike according to length of service and pay.

The Plan is well adapted to the sound administration of a complex business rendering an essential public service which, by its very nature, must have an organization of sustained vitality and high morale. The Plan is a necessary factor in this accomplishment through providing means, first, for meeting on a reasonable basis the unpredictable hazards of sickness, accident and death which may occur during the active careers of employees and, secondly, by making appropriate provisions to effect the orderly retirement of those who become superannuated after long periods of service and whose retention in the business would involve great expense and have a retarding influence on effective operation.

Expenditures under the Plan, other than for service pensions, are charged directly to expenses on a pay-as-you-go basis. In accordance with sound pension practices, service pensions are provided for in advance by accruing, on an actuarial basis, amounts which are paid into Pension Trust Funds which are irrevocably dedicated to pension purposes and from which the Trustee pays the pensions.

In 1937, seven Bell System Companies increased their expenses by additional pension accruals which were designed to distribute more evenly over the years the provision for future pension costs. The increases in accruals were not questioned by the Federal Communications Commission but the charging of them to expenses was challenged as not in accordance with the established system of accounts. Throughout the more than four years that this matter has been before the Commission, similar increases in accrual charges have been under consideration by the other Bell System Telephone Companies which did not take action in 1937. Believing that such action should no longer be postponed, these Companies in 1941 increased their accrual charges to reflect a basis similar to that being followed by the Companies which acted in 1937. The Commission having issued a Proposed Report adhering to its view of four years ago, these new and additional accruals for 1941, amounting to approximately \$8,200,000, or 1.4 per cent of the payroll for the Bell System as a whole, were charged to the income

accounts under protest. Arguments against any final determination that such additional accruals are not chargeable to current operating expenses will be presented to the Commission.

Pension accruals added to the Pension Trust Funds during 1941 for the Bell System Companies, including the Western Electric Company and Bell Telephone Laboratories, amounted to \$40,430,600, or 5.6 per cent of the payroll. The balance in the Trust Funds maintained by these Companies as of December 31, 1941, aggregated \$339,817,000. Pension disbursements made during the year from these Trust Funds were \$9,401,000. There were 10,806 retired employees on the service pension rolls at the end of the year.

Other payments made under the Plan to about 55,000 employees in 1941 were:

Sickness Disability Benefits	\$ 8,193,000
Accident Disability Benefits	707,000
Death Benefits	2,009,000
Disability Pensions	512,000
	<hr/>
Total	\$11,421,000

Savings and Insurance Plans

The Bell System Companies maintain various plans to aid individual thrift on the part of the personnel. Under these plans employees may, on an entirely voluntary basis, have specified amounts of their pay allotted to the purchase of United States Government Bonds and life insurance and for deposits in savings institutions. These plans were used in 1941 to a greater extent than ever before and during the year payroll allotments thereunder by employees of the Bell System, including the Western Electric Company and the Bell Telephone Laboratories, totaled \$51,150,000.

The Payroll Savings Plan for United States Savings Bonds was established in 1938 as a means of purchasing the "baby bonds" of the United States Government and was revised in 1941 to cover the newly issued Defense Savings Bonds. With the entrance of the United States into war, there has been a sharp increase in the purchases of these bonds by employees.

Payments of premiums on United States Government Insurance carried by veterans of the previous World War are included in these

payroll allotment plans and similar provisions are being made for men carrying National Service Life Insurance when they return from military service.

First Aid Training

The Bell System has for many years been active in first aid training and 36,000 First Aid Certificates have been issued to employees in the past five years. A forward step in the first aid training program of the Bell System was taken in 1941, with the completion of new arrangements with the American Red Cross. These arrangements provided for the adoption of a special edition of the Red Cross First Aid Text Book for Bell System use and for the training of Bell System first aid instructors and the issuance of joint American Red Cross-Bell System certificates for those who have satisfactorily completed the course of instruction. During the year, not only have Bell System first aid instructors carried on a greatly enlarged program within the Companies, but also an increasing number of them have voluntarily assisted the Red Cross in conducting outside first aid training classes.

Vail Medal Awards

The Theodore N. Vail Memorial Fund was established in 1920 to provide annual awards of medals to employees in recognition of exceptional acts and services which reflect the Bell System's ideals of responsibility for public service. Since its establishment, 14 gold, 95 silver and 1,020 bronze medals have been awarded.

Bronze plaques, commemorating acts for which employees have received gold or silver medals, are presented to the Companies in which the recipients were employed, for display on telephone property as a permanent and public memorial. In addition, twenty-four special bronze plaques have been awarded in especially outstanding cases of groups of employees where it was not possible to single out one or more for individual award.

The gold and silver medals have always been accompanied by cash awards and, effective in 1941, provision has been made for a cash award to accompany individual bronze medals. The amount of cash accompanying gold and silver medals has been increased as follows: gold medals—\$1,000, formerly \$500 or \$1,000; silver medals—\$500, formerly \$250; bronze medals—\$100, formerly no cash award.

Three gold medals, seven silver medals, nine bronze medals to individuals and one bronze medal to a group, all with accompanying citations, were awarded in 1941.

GOLD MEDAL AWARDS

FRANK ATKINSON, Combinationman, Fort Morgan, Colorado, "for supreme courage, initiative, persistent effort and self-sacrificing devotion to service in attempting to restore telephone circuits during a blizzard" (posthumous award).

MRS. MILDRED LOTHROP, Agency Chief Operator, Homer, Nebraska, "for courage, initiative and effective use of telephone facilities in warning inhabitants of a flood and in directing rescue work in the face of great personal danger."

MRS. NELLE LAZURE, Agent Operator, Winnebago, Nebraska, "for exceptional courage, initiative and effective use of telephone facilities in warning inhabitants of oncoming flood waters despite great personal danger."

SILVER MEDAL AWARDS

LUTHER ELBERT LAMB, Combinationman, Winona, Mississippi, "for initiative and prompt, intelligent and courageous action in the rescue of a man who had come in contact with high voltage wires."

RUSSELL T. ANDRESS, Combinationman; WALTER N. BURT, Installer-Repairman; ALTON G. COOK, Combinationman; THOMAS E. DONAHUE, Installer-Repairman; ARTHUR J. SULLEY, Installer-Repairman; SIDNEY WALTON, Service Foreman; all of Dover, New Jersey, "for prompt action, initiative, courage and devotion to duty in restoring telephone service in the face of personal danger during an emergency following a munitions explosion."

An American Institution

That the Bell System was able to perform its vital part in our nation's defense program so successfully in 1941 did not just accidentally happen. Over the years, the Bell System has been permitted by regulatory

bodies generally to manage its own affairs and to earn enough to keep a sound financial structure which has made possible the securing of the large amounts of capital needed for growth, to pay good salaries and wages, to provide good working conditions and to make provision for pensions for those who have grown old in the service. Also, the System has been able to afford a scientific laboratory of the highest rank which has made advances in the art of telephony that have improved the quality, extended the scope and greatly reduced the cost of telephone service. Telephone users have received all the benefits of the improved and extended service. The reduced cost growing out of the advances in the art and the very important cost reductions growing out of greater efficiency of operation have been passed on to the telephone users in rate reductions, to the general public in greatly increased tax payments to governmental bodies and have made possible increased wages and other benefits for employees. On the whole, the return to the stockholder of the American Telephone and Telegraph Company has not varied much—the same dividend has been paid for twenty-two years and there have never been any “melons”, extra cash dividends or stock dividends. This is the history behind the Bell System of today—an American institution which has furnished our country with the best telephone service in the world—an example of the superiority of free enterprise in a free country.

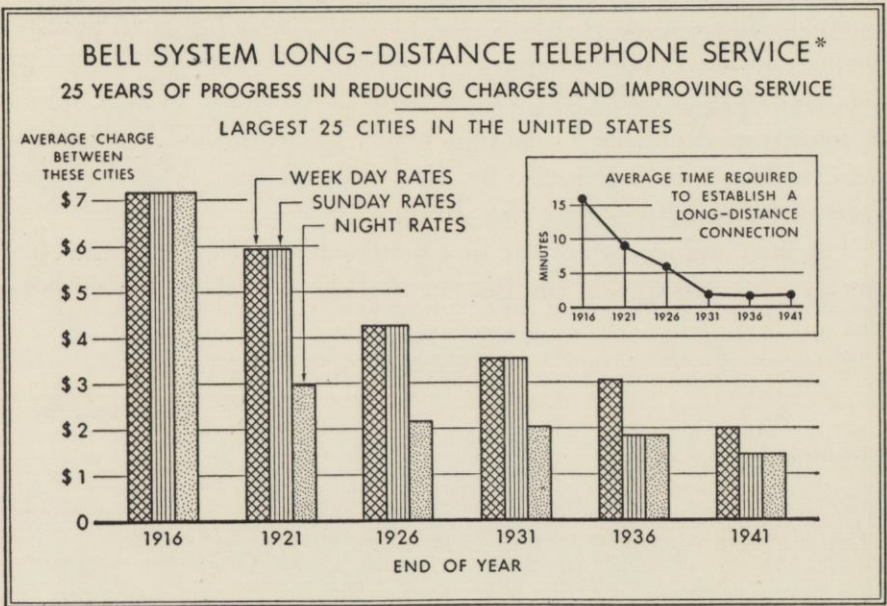
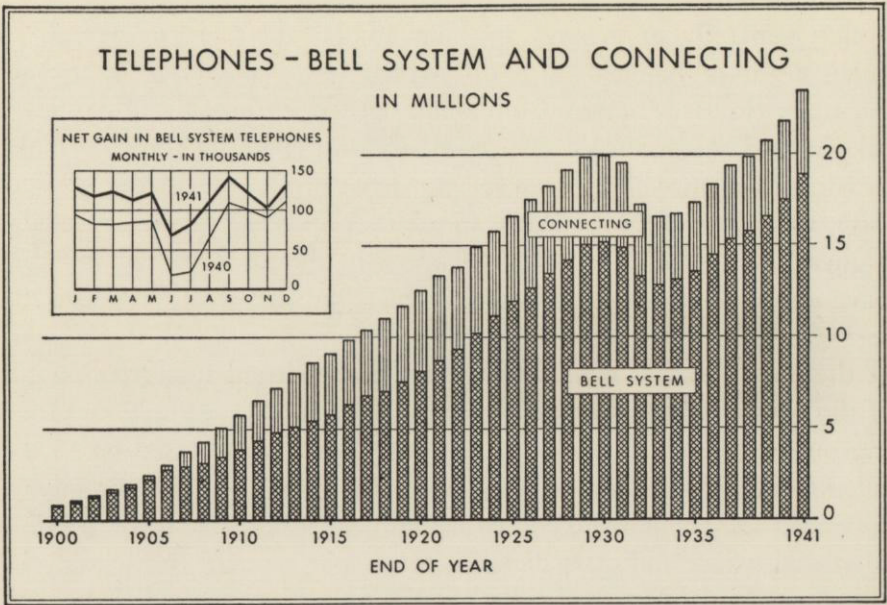
The men and women of the Bell System are accustomed to meeting emergencies and can be counted on to do their full part in winning the war.

WALTER S. GIFFORD,

President

FEBRUARY 18, 1942.

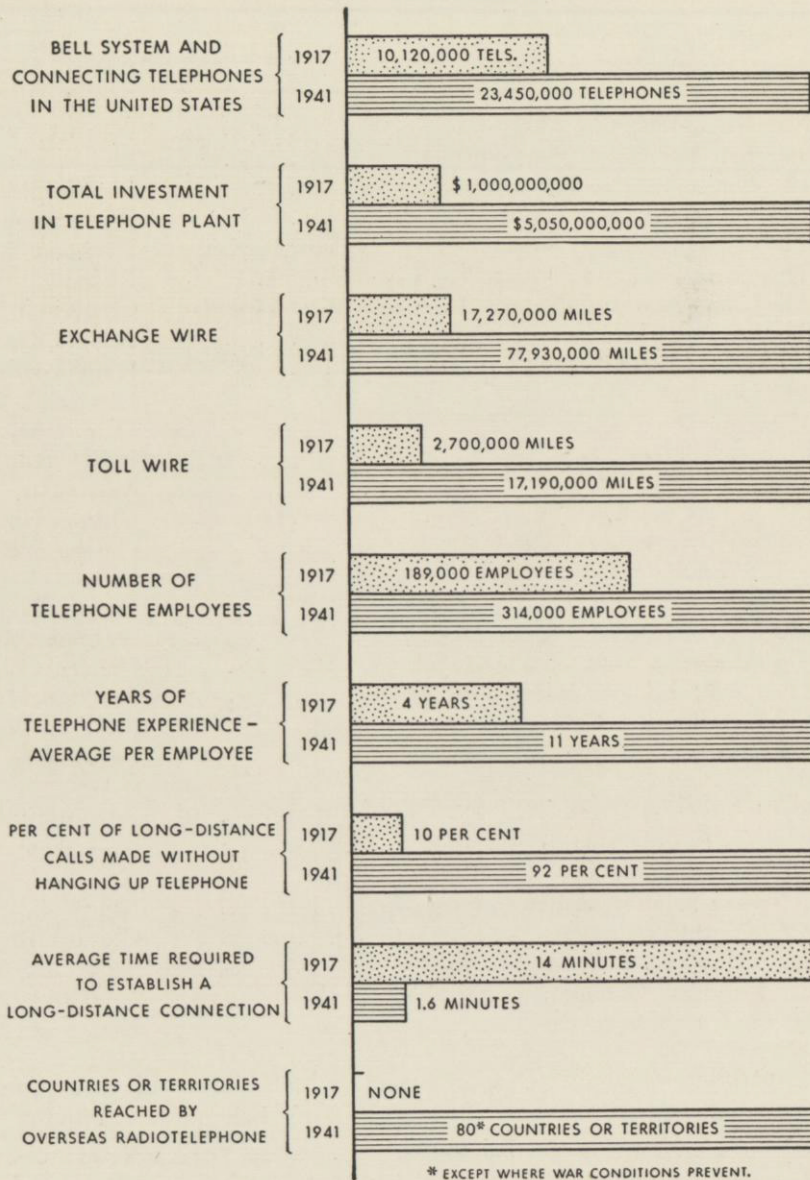
NOTE: The general policies and conduct of so large a business as the Bell System can not be given in full detail in an Annual Report. For those who wish more information, there is a book recently published, “The Bell Telephone System” by Arthur W. Page, a Vice President of the Company. An inexpensive edition of this book will be sent free upon request to the Secretary, Robert H. Strahan, 195 Broadway, New York City.



*This chart shows at intervals over a 25-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.

BELL SYSTEM PREPAREDNESS FOR WAR

1941 COMPARED WITH 1917



PRINCIPAL BELL SYSTEM COMPANIES

December 31, 1941

I. Bell System Telephone Companies Consolidated in the "Bell System"
Financial and Statistical Statements (a).

	<i>Headquarters</i>
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.	Omaha, Neb.
Dakota Central Tel. Co.	Omaha, Neb.
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.
Weco Corporation	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 and include only those in which securities representing more than 50% of the voting power are owned.

(b) Subsidiary of New York Telephone Company.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Financial Statements which follow on pages 26 to 30, inclusive, consolidate the accounts of the American Telephone and Telegraph Company and its principal telephone subsidiaries listed on page 24, 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 has a majority interest, i.e., in which it owns, directly or indirectly, securities representing more than 50% of the voting power. The proportionate interest of the companies consolidated in majority-owned 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 1941	December 31 1940
ASSETS		
Plant and Other Investments		
Telephone Plant (a).....	\$5,047,880,351	\$4,747,674,470
<p style="margin-left: 20px;"><i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, etc. At December 31, 1941 this property was classified in the accounts of the companies as follows:</i></p>		
Telephone Plant in Service.....	\$4,952,541,275	
Telephone Plant under Construction....	70,709,857	
Property Held for Future Telephone use	11,149,207	
Telephone Plant Acquisition Adjustment	13,480,012	
Miscellaneous Physical Property.....	18,403,154	20,110,674
Investments in Subsidiaries not consolidated (b).....	205,521,331	203,960,323
Equities in majority-owned Subsidiaries not consolidated in excess of investments therein (c).....	24,684,061	24,430,480
Other Investments (d).....	61,578,707	58,876,954
<i>Principally investments in non-controlled telephone companies.</i>		
Sinking Funds	575,000	839,517
TOTAL PLANT AND OTHER INVESTMENTS.....	\$5,358,642,604	\$5,055,892,418
Current Assets		
Cash and Deposits.....	\$ 112,115,945	\$ 189,546,973
Temporary Cash Investments.....	189,501,976	40,289,878
<i>Included at December 31, 1941, \$151,000,000 (face value) of U. S. Treasury Tax Notes; also \$38,500,976 of other U. S. Government Obligations having a market value of \$38,498,000.</i>		
Current Receivables (e).....	138,922,572	117,919,457
<i>Amounts due for service (less reserves for uncollectible accounts amounting to \$1,952,003 at December 31, 1941), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	65,634,330	51,356,785
<i>Principally for construction and maintenance purposes.</i>		
TOTAL CURRENT ASSETS.....	\$ 506,174,823	\$ 399,113,093
Deferred Debits		
Unamortized Debt Discount and Expense—net.....	\$ 8,439,377	\$ 11,736,628
Prepayments of Rents, Taxes, Directory Expenses, etc.....	13,225,387	11,800,769
Other Deferred Debits.....	7,283,728	6,446,021
TOTAL DEFERRED DEBITS.....	\$ 28,948,492	\$ 29,983,418
TOTAL ASSETS	\$5,893,765,919	\$5,484,988,929

For explanatory notes (a) to (h), inclusive, see page 30.

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 1941	December 31 1940
Capital Stock (See page 36)		
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
Amount received in excess of par value.		
Subsidiaries Consolidated:		
Common Stocks held by public (f).....	86,439,750	85,797,721
Preferred Stocks held by public.....	17,907,950	37,907,950
TOTAL CAPITAL STOCK	\$2,243,002,128	\$2,262,360,099
Funded Debt (See page 36)		
American Telephone and Telegraph Company.....	\$ 798,584,900	\$ 569,694,000
Subsidiaries Consolidated (g).....	584,568,000	560,568,000
TOTAL FUNDED DEBT	\$1,383,152,900	\$1,130,262,000
Notes Sold to Trustee of Pension Funds (h)		
American Telephone and Telegraph Company.....	\$ 6,146,963	\$ 6,786,569
Subsidiaries Consolidated.....	91,829,652	97,044,388
TOTAL NOTES	\$ 97,976,615	\$ 103,830,957
Current and Accrued Liabilities		
Accounts payable (e).....	\$ 88,083,959	\$ 62,864,012
Advance billing for service and customers' deposits.....	27,613,629	25,169,012
Dividends payable.....	42,538,940	42,863,940
Other current liabilities.....	14,215,435	4,476,776
Taxes accrued.....	158,654,857	116,526,546
Interest accrued.....	11,350,713	8,672,740
TOTAL CURRENT AND ACCRUED LIABILITIES	\$ 342,457,533	\$ 260,573,026
Deferred Credits.....	\$ 2,810,455	\$ 2,480,493
Depreciation and Amortization Reserves.....	\$1,444,262,051	\$1,360,896,740
<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	\$ 4,196,391	\$ 4,133,846
Surplus Applicable to Stock of A. T. & T. Co.		
Surplus Reserved.....	\$ 61,922,569	\$ 63,076,567
<i>Comprised at December 31, 1941 of \$60,817,757 reserved against general contingencies by American Telephone and Telegraph Company and \$1,104,812, reserved by subsidiaries consolidated, principally against contingency of refunds of revenues collected.</i>		
Unappropriated Surplus.....	313,985,277	297,375,201
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS	\$ 375,907,846	\$ 360,451,768
(See page 29)		
TOTAL LIABILITIES ‡.....	\$5,893,765,919	\$5,484,988,929

C. A. HEISS, Comptroller.

‡ For statement as to certain contingent liabilities see note (i) on page 30.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement

	Year 1941	Year 1940
Operating Revenues		
Local Service Revenues.....	\$ 846,313,265	\$ 787,746,624
Revenues from local exchange service.		
Toll Service Revenues.....	416,798,828	354,174,843
Revenues from long distance and local toll service.		
Miscellaneous Revenues.....	39,843,474	36,647,977
Revenues derived from directory advertising, rents and miscellaneous sources.		
Less: Uncollectible Operating Revenues.....	4,266,671	4,246,927
Provision for revenues which may be uncollectible.		
TOTAL OPERATING REVENUES (j)	\$1,298,688,896	\$1,174,322,517
Operating Expenses		
Current Maintenance.....	\$ 252,581,023	\$ 227,518,398
Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.		
Depreciation and Amortization Expense.....	173,078,652	163,594,249
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 3.9% of average investment in depreciable plant in service during 1941 and 3.8% during 1940.		
Traffic Expenses.....	196,401,075	170,868,704
Costs incurred in the handling of messages, principally operators' wages.		
Commercial Expenses.....	96,921,028	91,649,875
Costs incurred in business relations with customers; pay station commissions; also the cost of directories, sales activities, advertising, etc.		
Operating Rents.....	13,538,554	13,357,660
Rents for the use of buildings, poles, conduits and other facilities.		
General and Miscellaneous Expenses:		
General Administration.....	14,628,593	13,994,675
Accounting and Treasury Departments.....	44,463,143	40,104,869
Development and Research (k).....	8,847,239	11,927,747
Provision for Employees' Service Pensions (l).....	22,194,068	20,113,889
Employees' Sickness, Accident, Death and Other Benefits.....	11,120,922	9,742,018
Other General Expenses.....	14,370,623	13,672,840
Less: Expenses Charged Construction.....	9,508,015	7,869,409
TOTAL OPERATING EXPENSES	\$ 838,636,905	\$ 768,675,515
NET OPERATING REVENUES (carried forward)	\$ 460,051,991	\$ 405,647,002

For explanatory notes (j) to (l), inclusive, see page 30.

BELL SYSTEM FINANCIAL STATEMENTS

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

Consolidated Income Statement—Continued

	Year 1941	Year 1940
NET OPERATING REVENUES (brought forward).....	\$460,051,991	\$405,647,002
Operating Taxes		
Federal Income	\$ 83,399,178	\$ 62,485,391
Federal Excess Profits.....	22,869,350	-----
Other—Principally state, local and Social Security (Excludes \$3,220,019 in 1941 and \$2,829,111 in 1940 charged Construction)	124,571,781	122,284,200
TOTAL OPERATING TAXES.....	\$230,840,309	\$184,769,591
NET OPERATING INCOME.....	\$229,211,682	\$220,877,411
Other Income		
Dividends from subsidiaries not consolidated.....	\$ 19,716,682	\$ 25,812,071
Dividends from other companies.....	3,842,994	3,820,727
Proportionate interest in earnings (after dividends) of majority-owned subsidiaries not consolidated.....	333,024	8,688,985
Miscellaneous income	5,744,223	4,553,100
Less: Miscellaneous deductions from income (1).....	10,379,411	1,872,286
INCOME AVAILABLE FOR FIXED CHARGES.....	\$248,469,194	\$261,880,008
Interest Deductions	\$ 48,340,712	\$ 41,862,240
Amortization of Debt Discount and Expense and Other Fixed Charges	667,677	603,750
NET INCOME	\$199,460,805	\$219,414,018
Net Income Applicable to Stocks of Subsidiaries Consolidated Held by Public		
Preferred Stocks	\$ 1,453,477	\$ 2,489,907
Common Stocks	6,236,634	6,426,658
Net Income Applicable to A. T. & T. Co. Stock *	\$191,770,694	\$210,497,453
Dividends on A. T. & T. Co. Stock.....	168,181,146	168,181,146
BALANCE FOR CONSOLIDATED SURPLUS APPLICABLE TO AMERICAN TEL. AND TEL. CO. STOCK.....	\$ 23,589,548	\$ 42,316,307

* Equivalent to \$10.26 per share in 1941 and \$11.26 per share in 1940.

Statement of Consolidated Surplus (Reserved and Unappropriated) Applicable to American Telephone and Telegraph Company Stock—Year 1941

BALANCE—DECEMBER 31, 1940.....	\$ 360,451,768
Income applicable to American Tel. and Tel. Co. stock (after dividends).....	23,589,548
Miscellaneous additions	769,331
TOTAL	\$ 384,810,647
Redemption premiums on securities retired.....	\$ 5,360,305
Refunds of revenues, collected in prior years, upon final determination of rate case.....	1,366,816
Miscellaneous deductions	2,175,680
TOTAL	\$ 8,902,801
BALANCE—DECEMBER 31, 1941.....	\$ 375,907,846

C. A. HEISS, Comptroller.

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, 1941, securities included herein at \$33,140,946 were pledged under certain bond indentures.
- (c) This item represents the net amount by which the interest of the companies consolidated in majority-owned 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 \$1,285,955 on December 31, 1941 were pledged under certain bond indentures.
- (e) At December 31, 1941, Current Receivables and Accounts Payable include respectively \$456,405 and \$45,950,623, representing accounts with subsidiaries not consolidated.
- (f) Includes at December 31, 1941, \$40,000, subscriptions for shares to be subsequently issued.
- (g) Includes at December 31, 1941, \$1,000,000 maturing in 1942.
- (h) 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 \$7,000,000 of these notes during 1942.
- (i) 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 for taxes under local or State laws as to which the companies concerned deny liability.
- (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) The total provision for employees' service pensions during 1941 amounted to \$30,404,179, of which \$22,194,068 was charged to Operating Expenses and \$8,210,111 to Miscellaneous Deductions from Income. The companies consider that the latter amount resulting from an increase in accrual rates should properly have been included in Operating Expenses but, in view of questions now before the Federal Communications Commission as to the accounting for similar provision (amounting to \$2,876,524 in 1941 and \$2,624,032 in 1940) included in Operating Expenses since 1937 by seven of the companies consolidated, the additional amount of \$8,210,111, representing provision by companies consolidated other than the seven, was charged against Income in 1941.

CERTIFICATE OF AUDIT

New York, N. Y., February 11, 1942.

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, 1941, the consolidated balance sheet of the company and its principal majority-owned telephone subsidiaries as at December 31, 1941, 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. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Examinations of similar scope have been made by us of the balance sheets as at December 31, 1941 and of the statements of income and surplus for the year 1941 of the principal majority-owned 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 1941 rendered to American Telephone and Telegraph Company by all other majority-owned nonconsolidated subsidiaries. The consolidated balance sheet of Western Electric Company, Incorporated, and its 100% directly-owned subsidiaries as at December 31, 1941 and the consolidated statements of income and surplus of these companies for the year 1941, with certificate of examination thereof by other independent accountants, have been furnished to us.

Reference is made to Note (c) to the accompanying income statement of American Telephone and Telegraph Company and to Note (1) to the accompanying consolidated income statement regarding the inclusion as a miscellaneous deduction from income of a portion of the provision made during the year for employees' service pensions. We concur in the opinion of the companies, expressed in such notes, that properly such items constitute operating expense.

With the explanation appearing in the immediately preceding paragraph, in our opinion, the financial statements (pages 32 to 34) and the consolidated financial statements (pages 25 to 30) present fairly the position at December 31, 1941 and the results of operations for the year 1941 of American Telephone and Telegraph Company and the consolidated position at December 31, 1941 and the consolidated results of operations for the year 1941 of the company and its principal majority-owned 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 1941	December 31 1940
Plant and Other Investments		
Telephone Plant (a).....	\$ 487,872,854	\$ 455,801,858
<i>Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, office furniture, vehicles, tools, etc. At December 31, 1941 this property was classified in the accounts as follows:</i>		
Telephone Plant in Service.....	\$ 479,421,164	
Telephone Plant under Construction.....	6,552,753	
Property Held for Future Telephone Use.....	577,621	
Telephone Plant Acquisition Adjustment.....	1,321,316	
Investments in Subsidiaries (b).....	2,609,786,531	2,440,622,587
Stocks.....	\$2,425,239,269	
Notes and Advances.....	184,547,262	
Other Investments (b).....	47,626,467	43,695,900
Stocks.....	\$ 42,456,036	
Notes.....	5,139,590	
Miscellaneous Physical Property.....	30,841	
Sinking Fund.....		14,517
TOTAL PLANT AND OTHER INVESTMENTS.....	\$3,145,285,852	\$2,940,134,862
Current Assets		
Cash and Deposits.....	\$ 81,580,005	\$ 159,777,381
Temporary Cash Investments.....	189,492,576	40,200,050
<i>Comprised at December 31, 1941, of \$151,000,000 (face value) of U. S. Treasury Tax Notes for use by the Company and its subsidiaries in payment of Federal taxes; also \$38,492,576 of other U. S. Government obligations having a market value of \$38,489,500.</i>		
Current Receivables.....	18,183,208	14,016,704
<i>Amounts due for service (less reserve for uncollectible accounts amounting to \$39,848 at December 31, 1941), interest and dividends receivable, working advances, etc. Includes at December 31, 1941, \$13,336,803 receivable from subsidiaries.</i>		
Material and Supplies.....	6,113,835	4,932,361
<i>Principally for construction and maintenance purposes.</i>		
TOTAL CURRENT ASSETS.....	\$ 295,369,624	\$ 218,926,496
Deferred Debits		
Unamortized Debt Discount and Expense—net.....	\$ 2,368,532	\$ 4,496,551
<i>Amount after deduction in 1941 of \$1,949,428 comprising unamortized premium on funded debt.</i>		
Other Deferred Debits.....	2,701,982	1,794,015
<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.....	\$ 5,070,514	\$ 6,290,566
TOTAL ASSETS.....	\$3,445,725,990	\$3,165,351,924

(a) For note (a) see page 30.

(b) For detailed list of investments in securities see page 35. Securities are carried at cost, except United States Savings Bonds, which are included in Other Investments on an amortized basis.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet—Continued

LIABILITIES

	December 31 1941	December 31 1940
Capital Stock		
Common Stock—par value (\$100 per share).....	\$1,868,679,400	\$1,868,679,400
Authorized, 25,000,000 shares; outstanding, 18,686,794 shares (c).		
Premiums on Capital Stock.....	269,975,028	269,975,028
Amount received in excess of par value.		
TOTAL CAPITAL STOCK.....	<u>\$2,138,654,428</u>	<u>\$2,138,654,428</u>
Funded Debt (see page 36).....	\$ 798,584,900	\$ 569,694,000
Note Sold to Trustee of Pension Fund (d).....	\$ 6,146,963	\$ 6,786,569
Current and Accrued Liabilities		
Dividend Payable after close of year.....	\$ 42,045,287	\$ 42,045,287
Accounts Payable.....	17,743,428	6,784,774
Includes at December 31, 1941, \$5,489,324 payable to subsidiaries and \$9,043,065 matured funded debt.		
Interest and Taxes Accrued.....	28,566,716	18,225,678
TOTAL CURRENT AND ACCRUED LIABILITIES.....	<u>\$ 88,355,431</u>	<u>\$ 67,055,739</u>
Deferred Credits.....	\$ 634,632	\$ 906,391
Depreciation and Amortization Reserves.....	\$ 154,416,398	\$ 141,761,189
Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.		
Surplus		
Surplus Reserved.....	\$ 60,817,757	\$ 60,817,757
Amount reserved against general contingencies.		
Unappropriated Surplus.....	198,115,481	179,675,851
TOTAL RESERVED AND UNAPPROPRIATED SURPLUS	<u>\$ 258,933,238</u>	<u>\$ 240,493,608</u>
Analysis of increase during 1941:		
Income balance transferred to surplus (after dividends).....	\$18,793,589	
Miscellaneous additions.....	15,949	
Total additions.....	<u>\$18,809,538</u>	
Miscellaneous deductions.....	369,908	
Net increase.....	<u>\$18,439,630</u>	
TOTAL LIABILITIES.....	<u>\$3,445,725,990</u>	<u>\$3,165,351,924</u>

(c) Of the authorized and unissued capital stock, 2,335,849 shares are reserved for issuance upon conversion of the \$233,584,900 of Fifteen Year 3% Convertible Debenture Bonds, Due September 1, 1956 (convertible 1942 through 1954 unless previously called for redemption), at \$140 per share, the conversion price being subject to adjustment as provided in the Indenture.

(d) 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 \$675,000 during 1942.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Income Statement

	Year 1941	Year 1940
Operating Revenues		
Toll Service Revenues.....	\$125,295,721	\$101,498,499
<i>Message tolls and private line service revenues.</i>		
License Contract Revenues.....	17,312,916	15,853,343
<i>Payments received for services furnished telephone companies under License Contracts.</i>		
Miscellaneous Revenues.....	5,249,643	4,460,181
Less: Uncollectible Operating Revenues.....	804,396	668,283
TOTAL OPERATING REVENUES.....	<u>\$147,053,884</u>	<u>\$121,143,740</u>
Operating Expenses (a)		
Current Maintenance.....	\$ 22,882,812	\$ 20,397,088
Depreciation and Amortization Expense.....	18,039,334	17,050,173
Traffic Expenses.....	10,827,545	7,980,837
Commercial Expenses.....	3,234,335	3,165,002
Operating Rents.....	12,587,573	11,785,983
General Administration.....	6,068,698	5,887,693
Accounting and Treasury Expenses.....	4,170,552	3,676,020
Development and Research (b).....	8,847,239	11,927,747
Provision for Employees' Service Pensions (c).....	1,393,603	1,261,197
Employees' Sickness, Accident, Death and Other Benefits.....	723,772	642,906
Other General Expenses.....	2,207,590	1,821,808
Less: Expenses Charged Construction.....	644,267	379,133
TOTAL OPERATING EXPENSES.....	<u>\$ 90,338,786</u>	<u>\$ 85,217,321</u>
NET OPERATING REVENUES.....	<u>\$ 56,715,098</u>	<u>\$ 35,926,419</u>
Operating Taxes		
Federal Income (d).....	\$ 18,765,218	\$ 10,599,749
Other—principally state, local and Social Security (Excludes \$251,080 in 1941 and \$128,123 in 1940 charged Construction).....	8,078,716	7,624,933
TOTAL OPERATING TAXES.....	<u>\$ 26,843,934</u>	<u>\$ 18,224,682</u>
NET OPERATING INCOME.....	<u>\$ 29,871,164</u>	<u>\$ 17,701,737</u>
Dividend Income.....	169,759,381	179,903,618
Interest Income.....	9,668,134	6,893,120
Miscellaneous Income.....	919,427	717,797
Less: Miscellaneous Deductions from Income (c).....	868,204	126,076
TOTAL INCOME.....	<u>\$209,349,902</u>	<u>\$205,090,196</u>
Interest Deductions.....	22,210,745	16,637,474
Amortization of Debt Discount and Expense—net.....	164,422	108,690
NET INCOME (e).....	<u>\$186,974,735</u>	<u>\$188,344,032</u>
Dividends Declared.....	168,181,146	168,181,146
BALANCE TRANSFERRED TO SURPLUS.....	<u>\$ 18,793,589</u>	<u>\$ 20,162,886</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) Provision for employees' service pensions during 1941 amounted to \$1,973,954, of which \$1,393,603 was charged to Operating Expenses and \$580,351 to Miscellaneous Deductions from Income. The Company considers that this latter amount should properly have been included in Operating Expenses, but in view of questions now before the Federal Communications Commission as to the accounting for such items, it was charged for 1941 against Income.

(d) The Company does not consider that it has any liability for Excess Profits Taxes in either year.

(e) Net Income of the Company by itself, for 1941 and 1940, is less by \$4,795,959 and \$22,153,421, respectively, than the Company's proportion of the consolidated Net Income of the Bell System for these years as shown on page 29.

C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Investments in Subsidiary Companies, and Other Investments

December 31, 1941

	CAPITAL STOCKS (a)			NOTES AND ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	Face Value
Subsidiary Companies				
New England Tel. & Tel. Co. (b).....	\$ 87,094,200	65.31	\$ 92,045,721	\$ 14,800,000
New York Tel. Co.....	421,300,000	100.00	444,280,335	1,500,000
New Jersey Bell Tel. Co.....	140,000,000	100.00	153,667,184	4,150,000
Bell Tel. Co. of Pennsylvania.....	130,000,000	100.00	136,316,050	1,600,000
Diamond State Tel. Co.....	5,000,000	100.00	5,700,000	1,930,000
Chesapeake & Potomac Tel. Co.....	20,000,000	100.00	21,000,000	27,600,000
Chesapeake & Potomac Tel. Co. of Balt. City	40,000,000	100.00	41,467,862	14,250,000
Chesapeake & Potomac Tel. Co. of Va. (b)	30,000,000	100.00	30,000,000	14,175,000
Chesapeake & Potomac Tel. Co. of W. Va.	19,000,000	100.00	19,000,000	4,000,000
Southern Bell Tel. & Tel. Co.....	175,000,000	100.00	176,817,298	19,300,000
Ohio Bell Tel. Co.....	159,999,700	99.99	160,041,998	-----
Michigan Bell Tel. Co. (b).....	149,989,000	99.99	150,401,232	7,600,000
Indiana Bell Tel. Co. (b).....	36,999,100	99.99	37,585,586	6,312,385
Wisconsin Tel. Co. (b).....	44,200,000	100.00	47,423,835	-----
Illinois Bell Tel. Co. (b).....	148,959,600	99.31	154,440,399	12,500,000
Northwestern Bell Tel. Co.....	125,000,000	100.00	126,039,490	3,541,577
Southwestern Bell Tel. Co.....	172,998,900	99.99	176,251,978	14,300,000
Mountain States Tel. & Tel. Co.....	35,187,500	73.23	36,592,463	9,550,000
Pacific Tel. & Tel. Co.—Common (b).....	209,612,600	88.88	205,270,784	12,858,300
Pacific Tel. & Tel. Co.—Preferred.....	64,095,700	78.17	55,999,180	-----
Bell Telephone Laboratories, Inc.....	5,000,000	(c)50.00	5,000,000	-----
Western Electric Co., Inc. (no par value) (d)	5,967,268	99.45	144,307,874	-----
195 Broadway Corporation (e).....	5,500,000	100.00	5,515,000	14,580,000
Eastern Tel. & Tel. Co. (Canada).....	75,000	100.00	75,000	-----
TOTAL BOOK VALUE.....			\$2,425,239,269	\$184,547,262
Other Companies				
Southern New England Tel. Co.....	\$ 13,337,400	33.34	\$ 13,649,213	\$ 5,100,000
Cincinnati & Suburban Bell Tel. Co.....	8,986,100	29.73	9,549,540	-----
Bell Telephone Company of Canada.....	18,749,800	22.52	18,854,783	-----
Cuban American Tel. & Tel. Co.—Common	432,500	50.00	162,500	-----
Cuban American Tel. & Tel. Co.—Preferred	240,000	50.00	240,000	-----
Miscellaneous Investments.....				39,590
TOTAL BOOK VALUE.....			\$ 42,456,036	\$ 5,139,590

(a) Common stocks except as otherwise indicated.

(b) In January 1942 common stock was sold to this Company for cash at par and the proceeds were used in whole or in part to repay indebtedness as follows:

	Stock Sold to this Company	Notes and Advances Repaid
New England Tel. & Tel. Co.	\$20,120,000	\$14,200,000
Chesapeake & Potomac Tel. Co. of Va.	10,000,000	10,000,000
Michigan Bell Tel. Co.	8,000,000	7,600,000
Indiana Bell Tel. Co.	4,000,000	4,000,000
Wisconsin Tel. Co.	3,000,000	-----
Illinois Bell Tel. Co.	12,413,300	12,413,300
Pacific Tel. & Tel. Co.	10,281,900	10,281,900

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

(d) Number of shares.

(e) Notes and Advances include real estate mortgages of \$13,100,000 which were paid on January 2, 1942. On that date the Corporation sold this Company \$12,000,000 par value of common stock for cash at par.

BELL SYSTEM

Stocks, Bonds and Notes Outstanding December 31, 1941

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.....	46,283,700	\$ 32,100
Illinois Bell Telephone Company.....	1,048,300	7,900
Mountain States Telephone and Telegraph Company.....	12,862,200	
Pacific Telephone and Telegraph Company.....	26,230,500	601,400
Other Principal Telephone Subsidiaries.....	15,050	629
TOTAL COMMON STOCK.....	\$1,955,119,150	\$ 642,029
Preferred Stock		
Bell Telephone Company of Pennsylvania 6½%.....		\$ 20,000,000
Christian-Todd Telephone Company 6%.....	\$ 3,650	
Pacific Telephone and Telegraph Company 6%.....	17,904,300	
TOTAL PREFERRED STOCK.....	\$ 17,907,950	\$ 20,000,000
Bonds and Notes	Face Value	
American Telephone and Telegraph Company:		
Twenty-Year Sinking Fund Debenture 5½s, 1943.....		\$ 94,694,000
Fifteen-Year Convertible Debenture 3s, 1956.....	\$ 233,584,900	233,584,900
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	
Thirty-Five Year Debenture 2¾s, 1976.....	90,000,000	90,000,000
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.....	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	
First and Refunding Mortgage 2¾s, 1976, Series D.....	20,000,000	20,000,000
Diamond State Telephone Company:		
Thirty-Year Debenture 3s, 1968.....	3,000,000	
Chesapeake and Potomac Telephone Company of Virginia:		
Serial Notes (1¾ and 2%) Maturing 1942 and 1943.....	2,000,000	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.....		45,000,000
First Mortgage 2¾s, 1981, Series A.....	50,000,000	50,000,000
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).....	97,976,615	5,854,342
TOTAL BONDS AND NOTES.....	\$1,481,129,515	\$247,036,558

(a) Decreases in italics.

BELL SYSTEM STATISTICS

	Dec. 31 1925	Dec. 31 1930	Dec. 31 1935	Dec. 31 1940	Dec. 31 1941	Increase During 1941
Number of telephones (a).....	11,909,578	15,187,296	13,573,025	17,483,981	18,841,132	1,357,151
Number of central offices.....	6,147	6,639	6,896	7,052	7,128	76
Miles of pole lines.....	394,529	428,212	407,454	399,838	407,190	7,352
Miles of wire:						
In underground cable.....	27,769,000	45,116,000	47,639,000	54,339,000	58,102,000	3,763,000
In aerial cable.....	12,835,000	23,777,000	26,425,000	30,307,000	32,187,000	1,880,000
Open wire.....	4,339,000	5,231,000	4,562,000	4,660,000	4,838,000	178,000
Total.....	44,943,000	74,124,000	78,626,000	89,306,000	95,127,000	5,821,000
Average daily telephone conversations† (b)	50,141,000	64,034,000	60,290,000	79,303,000	84,692,000	5,389,000
Total plant.....	\$2,566,809,000	\$4,028,836,000	\$4,187,790,000	\$4,747,674,000	\$5,047,880,000	\$ 300,206,000
Operating revenues†.....	\$ 737,560,000	\$1,075,228,000	\$ 919,116,000	\$1,174,322,000	\$1,298,689,000	\$ 124,367,000
Taxes† (c).....	\$ 58,113,000	\$ 84,732,000	\$ 94,507,000	\$ 184,770,000	\$ 230,840,000	\$ 46,070,000
Number of employees (d).....	292,902	318,119	241,169	275,317	313,647	38,330
Number of American Tel. and Tel. Co. stockholders.....	362,179	567,694	657,465	630,902	634,151	3,249

† For year ending December 31.

(a) Excludes private line telephones numbering 80,832 on December 31, 1941. Including telephones of about 6,350 connecting companies and more than 60,000 directly and indirectly connecting rural or farmer lines and systems, the total number of telephones in the United States which can be interconnected is approximately 23,450,000.

(b) For the year 1941 there were approximately 81,576,000 average daily local conversations and 3,116,000 toll and long distance conversations, an increase of 6.5% and 15.4%, respectively, over the year 1940.

(c) Excludes taxes charged construction (amounting in 1941 to \$3,220,019).

(d) In addition, the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., had 66,224 employees on December 31, 1941.

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

Balance in Fund—December 31, 1940.....	\$ 23,848,791.26
ADDITIONS TO FUND DURING 1941—	
Payments into Fund by Company.....	\$ 1,973,954.00
Interest Revenue, including gain or loss on invest- ments disposed of	779,815.05
TOTAL ADDITIONS	\$ 2,753,769.05
DISBURSEMENTS FOR PENSIONS DURING 1941.....	647,083.82
NET INCREASE IN FUND	2,106,685.23
Balance in Fund—December 31, 1941.....	\$ 25,955,476.49
COMPRISED OF—	
4% Demand Note of American Telephone and Telegraph Company.....	\$ 6,146,963.49
Bonds of Bell Telephone Companies	8,838,284.80
U. S. Government Obligations	4,140,189.37
Public Utility, Railroad and Industrial Bonds.....	5,322,235.80
Cash and accrued interest not due.....	1,507,803.03
TOTAL	\$ 25,955,476.49

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, Trustee
By W. B. DUNCKEL
Trust Officer.

New York, N. Y.—January 30, 1942.

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

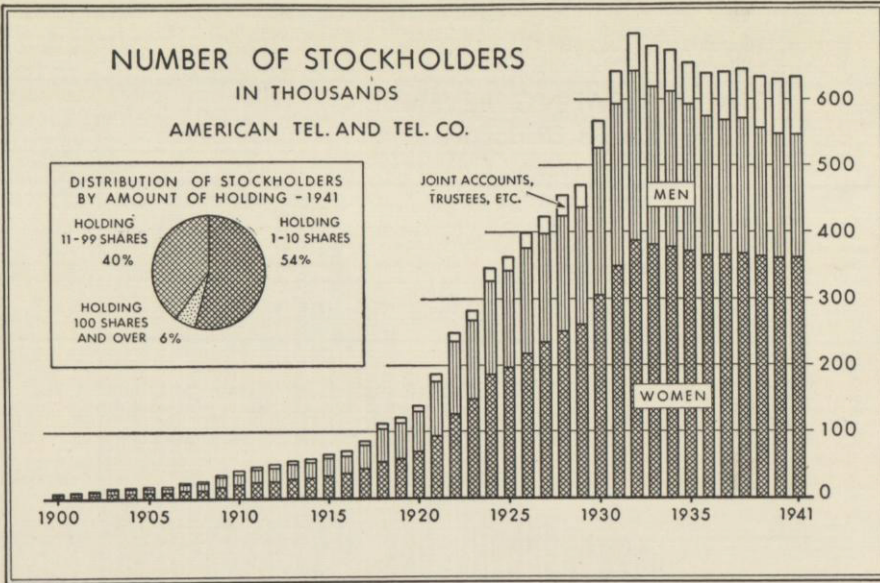
Balance in Funds—December 31, 1940.....	\$225,213,173.89
ADDITIONS TO FUNDS DURING 1941—	
Payments into Funds by Companies.....	\$30,404,179.00
Interest Revenue, including gain or loss on disposal of investments and adjustments of book value.....	7,534,765.27
TOTAL ADDITIONS	\$37,938,944.27
DISBURSEMENTS FOR PENSIONS DURING 1941.....	7,938,401.57
NET INCREASE IN FUNDS	30,000,542.70
Balance in Funds—December 31, 1941.....	\$255,213,716.59
COMPRISED OF—	
4% Demand and One-Year Notes of Bell Telephone Companies.....	\$ 97,976,615.43
Bonds of Bell Telephone Companies	50,198,054.21
U. S. Government Obligations	45,891,330.81
Public Utility, Railroad and Industrial Bonds.....	44,478,888.90
Cash and accrued interest not due.....	16,668,827.24
TOTAL	\$255,213,716.59

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.

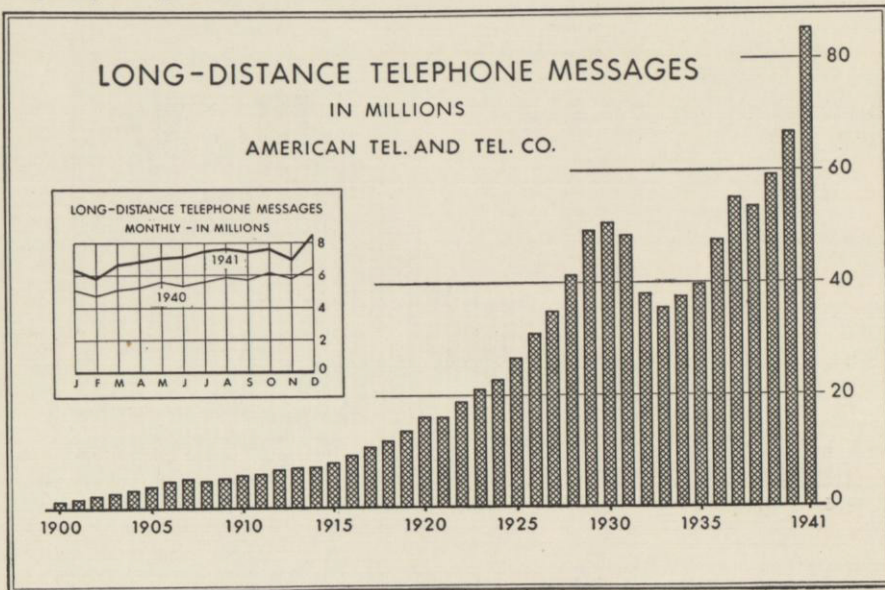
BANKERS TRUST COMPANY, Trustee
By W. B. DUNCKEL
Trust Officer.

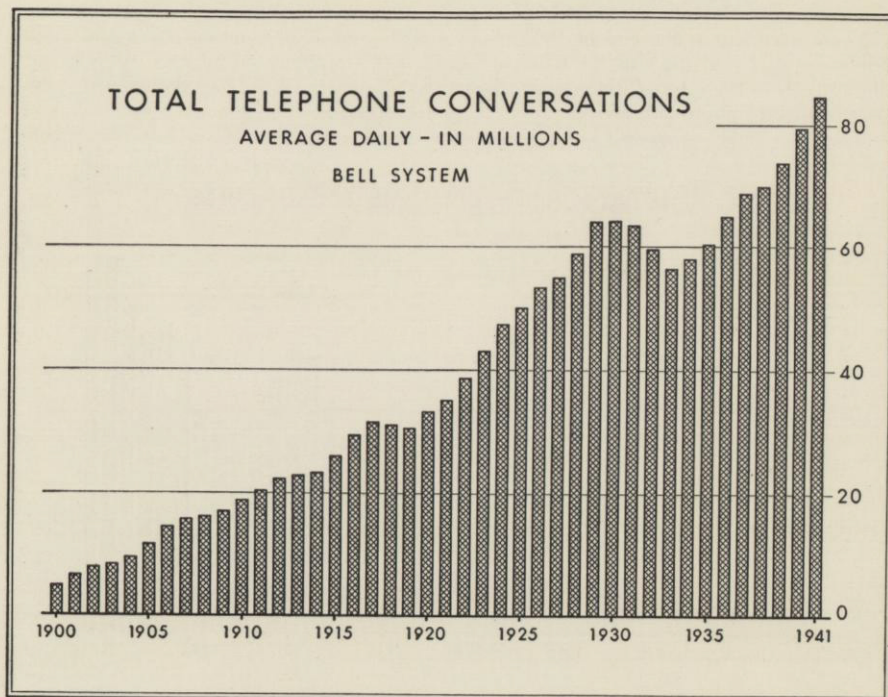
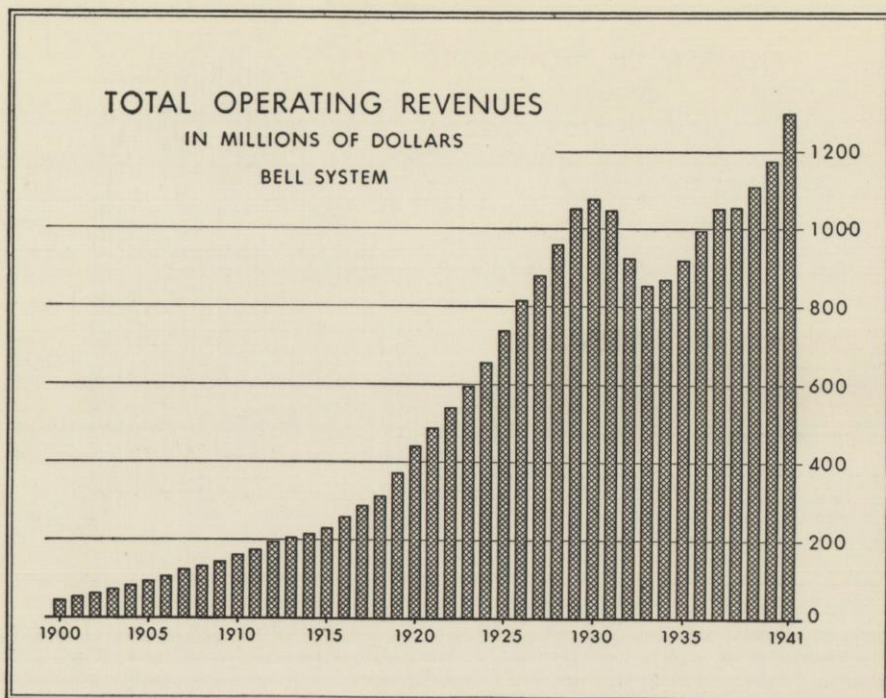
New York, N. Y.—February 5, 1942.

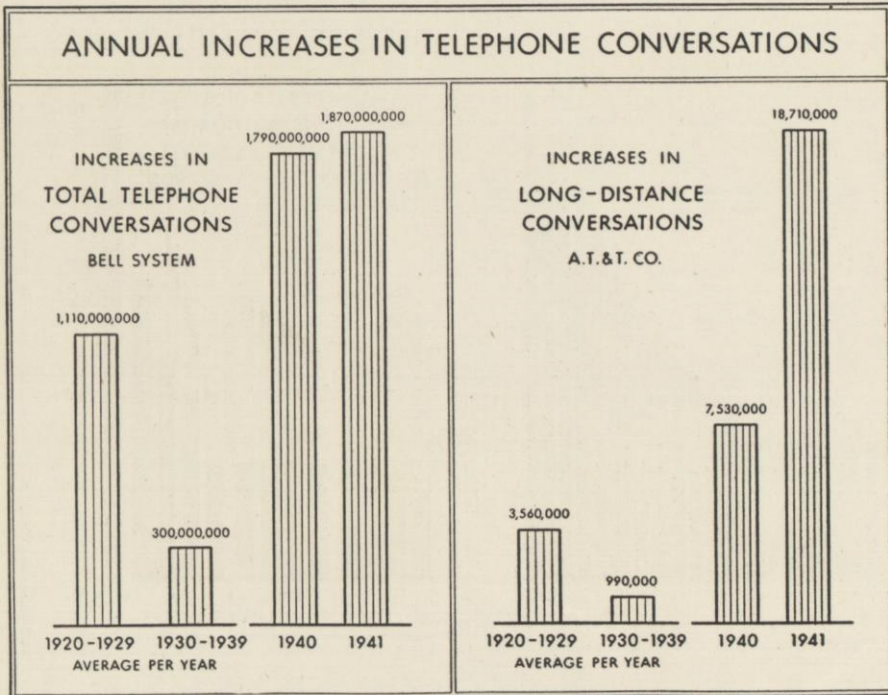
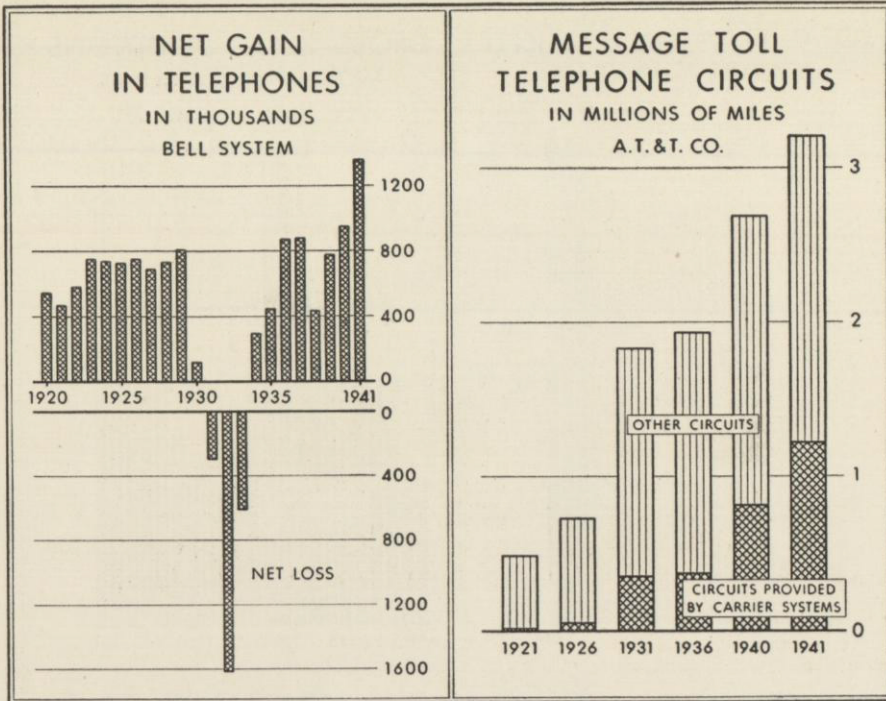


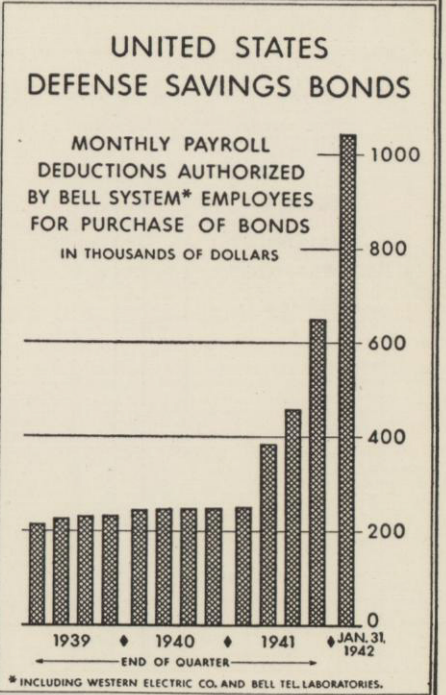
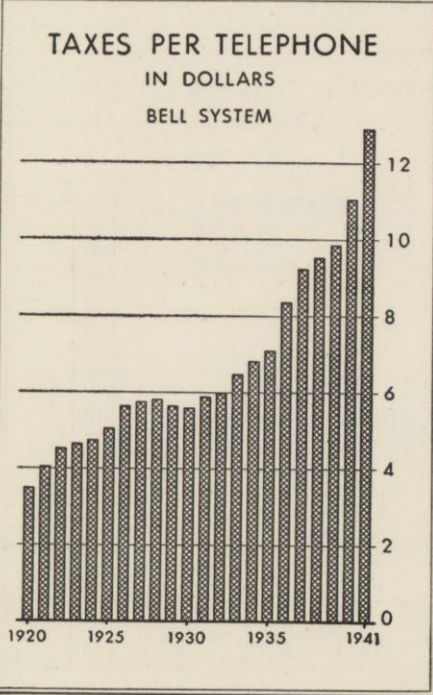
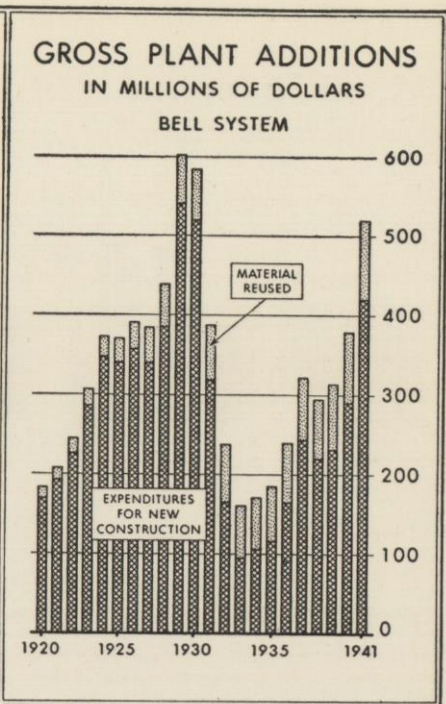
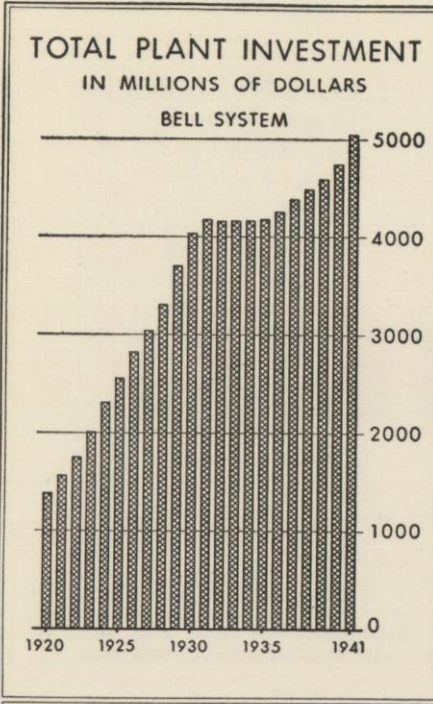
The number of stockholders of record of the Company on December 31, 1941 was 634,151, as compared with 630,902 at the end of 1940. The average number of shares held per stockholder at the end of the year was 29. About 42 per cent of the shares were held by women; 29 per cent by men; 5 per cent in joint accounts; 22 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-half of one per cent of the total stock outstanding.

There were also at the end of 1941 about 24,000 holders of common stock and 2,700 holders of preferred stock of the Company's principal telephone subsidiaries. Allowing for duplications in these totals, there were about 646,000 owners of stock of the Company and its principal telephone subsidiaries.

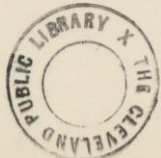


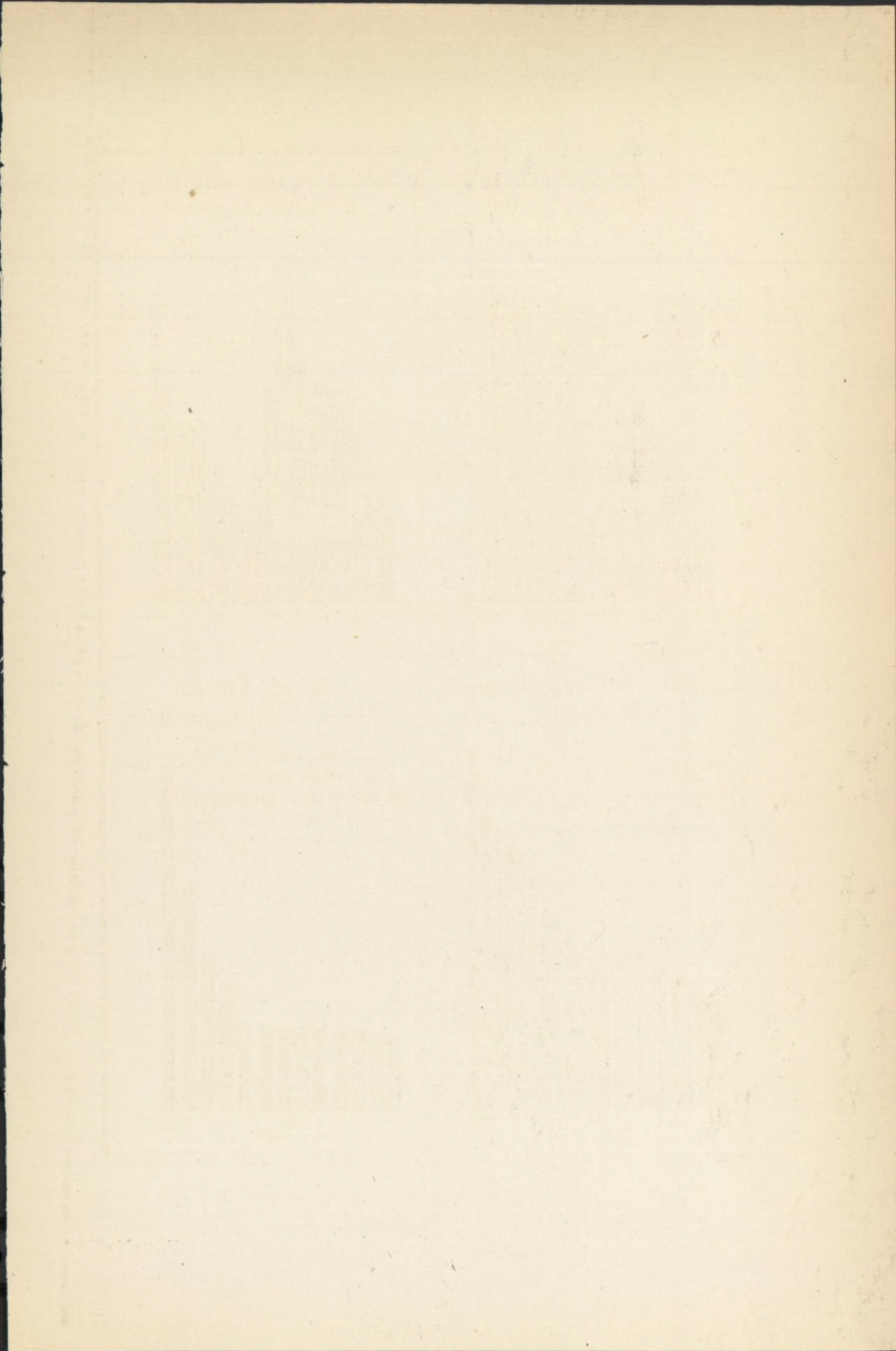






* INCLUDING WESTERN ELECTRIC CO. AND BELL TEL. LABORATORIES.





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