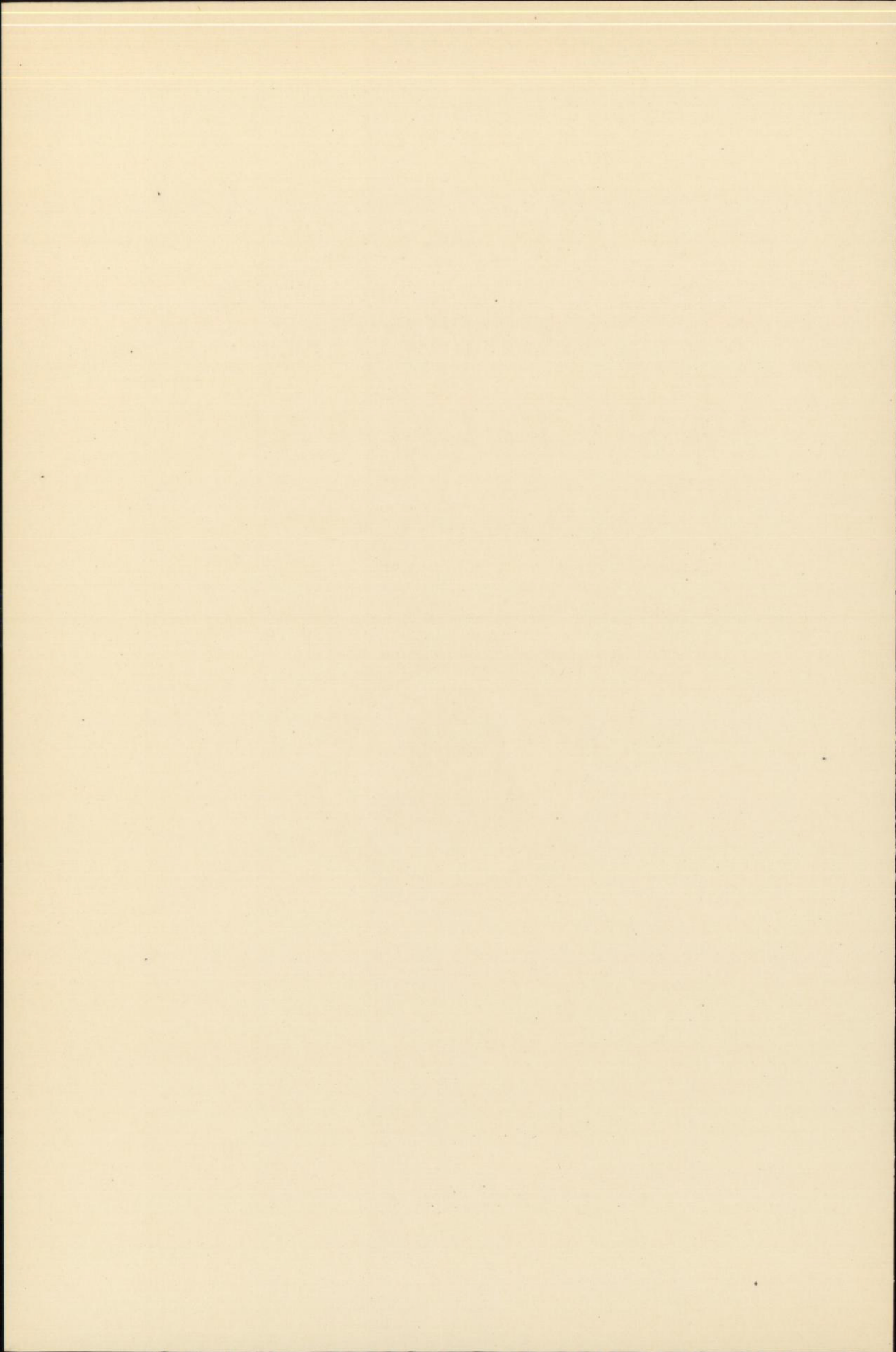


AMERICAN  
TELEPHONE  
AND TELEGRAPH  
COMPANY



*ANNUAL REPORT*  
*FOR THE YEAR 1948*

BOARDS  
MRT  
653.6  
Am 38.



**T**HE Board of Directors of the American Telephone and Telegraph Company presents herewith the management's accounting of its stewardship for the year 1948 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.

Leroy A. Wilson

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK 7, N. Y.

•  
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LEROY A. WILSON

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## HIGHLIGHTS OF 1948 BELL SYSTEM OPERATIONS

|  |  |
|--|--|
| Telephones Added                           | <b>2,860,000</b><br>Four out of every five new orders for service were cared for. Demand continues strong and about 1,150,000 people are waiting for service.  |
| Telephones in Service                      | <b>31,365,000</b><br>This represents an increase of about 9,500,000 telephones since the end of the war.   |
| Average Time to Complete Out of Town Calls | <b>1.8 minutes</b><br>This is 20 per cent faster than a year ago.  |
| Consolidated Earnings per Share            | <b>\$9.86</b><br>The average investment per share is now \$134.56.   |
| Expenditures for New Construction          | <b>\$1,460,000,000</b><br>The largest sum ever expended in a single year for new construction to improve service and meet customer demands.  |
| New Capital Obtained                       | <b>\$1,027,000,000</b><br>New capital obtained since the war now totals \$2,750,000,000.   |
| Number of Employees                        | <b>656,500</b><br>Pay rolls were \$227,332,000 above 1947 and \$1,290,159,000 above 1941. Expense pay rolls of the Telephone Companies represent almost two-thirds of total operating expenses other than taxes. |
| Number of Stockholders                     | <b>765,800</b><br>One out of about every 60 families in the United States shares in the ownership of the Bell System.  |
| A. T. & T. Co. Shares                      | <b>23,350,963</b><br>Shares outstanding increased by 1,862,981 in 1948, principally as the result of conversions of the Company's convertible debentures.  |
| Total Capital                              | <b>\$6,831,000,000</b><br>This is the amount of money invested in the Bell System by people in all walks of life.  |
| Telephone Plant Investment                 | <b>\$8,619,000,000</b><br>This is what the physical facilities needed to provide Bell System telephone service have cost.  |

## REPORT FOR THE YEAR 1948

**T**HE BELL SYSTEM set new records of achievement during 1948. The quality of telephone service was raised to the best level since prewar years, and new facilities required to further improve the service and to meet demand were installed at the highest rate in history.

New demand for service maintained its record-breaking postwar pace. Approximately 2,860,000 telephones were added and the volume of calls reached a new high of 177,000,000 a day. Recent rapid growth reflects the success achieved by the System in providing fast, convenient service at attractive prices well within the reach of millions. The gain in telephones since the war now totals 9,500,000, which is more than the total gain in the 20 years before the war. At the end of 1948 there were nearly 31,400,000 Bell System telephones in service — twice as many as ten years ago.

The System's construction program in 1948 was almost certainly the largest program ever carried out in a single year by any business organization in the interest of its customers. Expenditures for new construction totaled nearly one and a half billion dollars, and the amount of new capital secured exceeded a billion. Since the end of the war, in order to meet the public's needs for good telephone service, the System has had to obtain from investors some \$2,750,000,000 of new capital — about two-fifths of its total capital now outstanding.

Western Electric Company, our manufacturing and supply unit, surpassed in 1948 the peak production records established in the previous year. Compared with prewar production, Western's postwar output to serve Bell telephone users has increased substantially more than production in most other industries.

There are now approximately 38,200,000 telephones in the United States, of which about 6,800,000 are served by some 6,000 independently owned telephone companies and 60,000 rural or farmer lines and systems. Interconnection between Bell and independently owned telephones makes possible a truly nationwide telephone service. During 1948, as for many years past, there was continued cordial and effective cooperation between

the various companies in meeting the telephone needs of the public in all parts of the country.

### **Higher Earnings Are Needed**

Operating revenues of the Bell System in 1948 were \$2,624,827,000. Operating expenses were \$2,078,651,000. While revenues in 1948 were 102 per cent greater than in 1941, the last prewar year, operating expenses have gone up 148 per cent in the same period. Net operating income in 1948 was less than 3.5 per cent on telephone plant, compared with 4.75 per cent in 1941. The current return would be even lower if the value of the plant were adjusted to today's costs.

Total income available for interest and dividends in 1948 was \$319,500,000. Interest charges were \$90,336,000, or \$27,676,000 more than in 1947, reflecting a further increase in debt obligations to finance the heavy construction program required to meet demands for service. The proportion of debt in total capital is now over 50 per cent. Consolidated net income applicable to American Telephone and Telegraph Company stock in 1948 was \$222,416,000, or \$9.86 per share on the average per share investment of over \$134. Net income of the American Company by itself (which includes the Company's interest in subsidiaries only to the extent that such earnings have been received as dividends) amounted to \$9.20 per share.

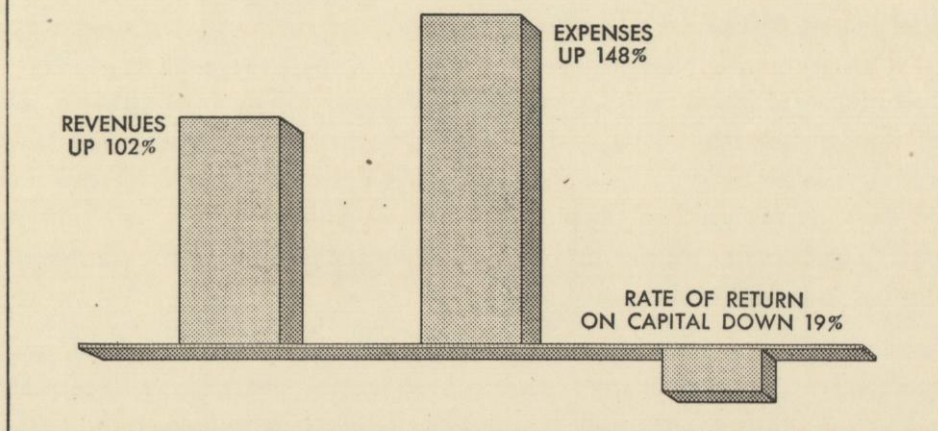
The average rate of earnings of the Bell System since the war on the total capital invested in the business has been even lower than the subnormal earnings during the war, which were the lowest in the System's history up to that time except for the worst years of the depression in the early 1930's.

Taxes paid by the Telephone Companies in 1948 amounted to \$292,477,000, and Federal excise taxes paid by customers and remitted by the Companies to the United States Treasury came to \$406,000,000 — a total of about \$700,000,000, or nearly \$2 a month for every telephone in service. Telephone excise taxes paid by customers are more than double the increase in telephone rates since the war. Taxes paid by the Telephone Companies and Western Electric exceeded the total amount which remained available for interest and dividends.

Over a period of 27 years, the dividend of \$9 paid by American Telephone and Telegraph Company has provided an average return of 6.6 per cent on the average investment represented by each share of stock. The average market price of the stock has been only slightly above the investment per

## CHANGES SINCE THE PREWAR PERIOD

BELL SYSTEM - 1948 COMPARED WITH 1941



share, indicating that the long-term earnings of the System — including the higher earnings in past years of prosperity—have been necessary to attract and safeguard the money which stockholders have put into the business. Earnings in the present period, when the volume of telephone business is so great and the plant is so heavily loaded, should be substantially higher than average in order to provide the margin of safety that is essential if the System is to give good telephone service at all times.

Of the \$2,750,000,000 of new capital obtained since the war, more than \$2,250,000,000 is in the form of debt. This financing has increased the proportion of debt in total capital from about one-third to slightly more than one-half. The heavy construction program will continue to require large additional amounts of new capital, and sound financing for the long run requires that the greater part of this new money come from the issue of stock through bond conversions or otherwise.

These facts emphasize the need for earnings that will attract and safeguard additional equity capital. Nearly two-thirds of the Company's convertible debentures are still outstanding and with telephone rates adequate to produce the necessary earnings most of these would be converted into stock.

### ***Applications Are Pending for Increased Telephone Rates***

Wage and other costs have continued to rise and it is important that proper adjustments in prices for telephone service be made effective as

promptly as possible. To obtain the additional earnings needed, the Bell Companies since late 1946 have applied for increases in telephone rates in practically all states. Regulatory authorities generally have recognized the need and increases amounting to \$178,000,000 annually have already been authorized or made effective. Applications for increases amounting to more than \$260,000,000 annually are now pending and further requests will be made.

Rates for telephone service are still low. The continuing high demand for service is outstanding evidence of its increasing value in the new post-war economy. The increases pending, plus those already granted, average only about 18 per cent of revenues. Telephone rates have increased far less than the cost of living, and far less than the rise in telephone wages and other costs of providing telephone service. Also, the total amount of increases granted and pending is less than the current savings to telephone users resulting from telephone rate reductions in the last 20 years.

Along with the increase in day-to-day operating expenses, additions to plant to meet the public's telephone needs must be made at today's higher costs, resulting in a higher investment per telephone. The Telephone Companies are responsible for furnishing service; they must, so far as is within their power, proceed with required construction in spite of higher costs. To do this they must be able to increase their earnings in order to obtain a reasonable return.

### ***Quality of Service Has Been Markedly Improved***

Our sights are set on restoring and bettering the prewar quality of service and we are making real progress in the job. Service quality in most respects is back to, or approaching, the high levels which prevailed before the war. Both local and long distance calls are being handled more promptly and more accurately. The average time for making out-of-town connections has been cut to 1.8 minutes, and 92 per cent of these calls are put through while the calling person remains at the telephone. Service is fast, convenient and courteous.

The rate of equipment troubles reported by customers has decreased 15 per cent from a year ago and 95 per cent of "out-of-service" conditions reported during the business day are cleared the same day.

More than 80 per cent of all new applications for service during the year were taken care of, but so great was the demand that 1,150,000 people were still waiting for telephones at the year's end. In addition, some 2,500,000 party line customers have requested individual lines or other

higher classes of service. With the continuing heavy demand for service, the entire telephone plant remains heavily loaded.

About 700,000 manual telephones were converted to dial operation. Much needed additions were also made to toll and long distance plant. The coaxial cable network, which can carry television programs as well as telephone conversations, was increased by 1,900 miles to a total of 6,500 miles. An important step toward faster and more accurate handling of long distance calls was made in December, when new operator toll dialing networks centering at New York and Chicago were placed in service. Facilities of this kind now enable operators to dial calls straight through to distant telephones in some 300 cities, without the assistance of other operators along the route or in the distant place. Additional facilities of this type are being installed.

Marked progress was also made in the installation of equipment which enables the customer to dial calls to nearby cities, in the same manner as he dials local calls. A new type of equipment, developed by Bell Telephone Laboratories, employs an electrical "brain" to receive the dialed number and complete the call, while an automatic message accounting system gathers the information necessary for billing. If trouble is encountered, the "brain" makes a second attempt but at the same time makes out a punch-card report giving the location of the trouble.

About 580,000 overseas calls were completed in 1948. This exceeds any previous year and is about ten times the number before the war. Speed of service was improved and restoration of service to points reached before the war practically completed. Service was established for the first time to Okinawa, the Belgian Congo and the Sudan. More than 80 countries are now reached and any Bell telephone can be connected with practically all other telephones throughout the world.

### ***Research Yields New Devices and Techniques***

Improvements in telephone service rest on a foundation of continuous Bell System research. Progress since the war has been tremendous and there is more to come. Even as new developments like nation-wide operator dialing are being introduced, scientists at Bell Telephone Laboratories continue to open up still further opportunities for the years ahead.

Fundamental research at the Laboratories on the flow of electricity in semi-conductive materials has brought discovery of a new principle, and with it a new device of great promise — the Transistor. This is a new type of

electronic amplifier completely different from the well-known vacuum tube. It is so simple, so tiny and so economical in using electrical energy that it should ultimately find many important uses in telephone service.

Electronics plays an ever more important role in communications. As research makes new knowledge available, improvements are introduced and the field of application is widened. Newly developed voice amplifiers will be used to improve transmission on relatively long local circuits and also on short toll circuits. Another important new development provides an economical means of carrying many more conversations on existing short toll cables.

A new electron tube, precise in construction as a watchmaker's masterpiece, and a new lens to focus beams of microwaves have made possible improvements in radio relay systems and have increased their carrying capacity for speech and television channels. These improvements are going into the radio relay system now projected between New York and Chicago.

Thanks to research, we are no longer entirely dependent on the limited supply of natural quartz for the crystals used in carrying many conversations simultaneously over the same wires. Recently the Laboratories have developed synthetic crystals that can be substituted for quartz and they have now succeeded in growing quartz crystals identical with those found in nature.

Lead for sheathing telephone cables is another scarce material. Our research has developed a new type of cable — called Alpeh cable — using a thin layer of aluminum covered with a layer of polyethylene plastic, as a substitute for the lead-covered type. By the end of 1948 there had been produced 3,100 miles of the new cable containing 3,600,000 miles of wire, and most of this has gone into service.

Effective October 1, 1948 and until further notice, the American Company is receiving as payment for the research and other essential services it renders to the Bell Operating Companies under the License Service Contracts, 1 per cent of the Operating Companies' revenues or about \$11,000,000 less on an annual basis than at the former rate of 1½ per cent.

### ***New Financing Continued at High Level***

With expenditures for new construction at a record high in 1948, the Bell System for the second consecutive year required and obtained more than a billion dollars of new capital. This is about 15 per cent of the total capital outstanding. Eight of the American Company's subsidiaries sold debt

issues totaling \$675,000,000, and the American Company in December sold \$150,000,000 of Twenty-Five Year Debentures. All these issues were sold at competitive bidding. Reflecting the increasing cost of borrowing, the annual interest cost to the American Company on the \$150,000,000 issue is 3.33 per cent — the highest for any debt issue of this Company since 1930.

Of the Company's \$357,532,600 2¾% Convertible Debentures of 1957, which became convertible March 1, 1948, \$180,000,000, or over one-half, have been converted into stock at \$140 per share, payable by surrender of one \$100 debenture and \$40 in cash. About \$70,000,000 of the Company's \$343,087,700 2¾% Convertible Debentures of 1961 have also been converted into stock. To date some \$107,000,000 has been received as stock premiums as the result of conversions of these two issues.

More than one-eighth of the total debt of the System at the end of 1948 was convertible into stock of the American Company. The effect of conversions is to reduce debt by the amount of bonds converted and to increase equity capital by a larger amount due to the cash premiums paid in. Equity capital will be further increased and the debt ratio decreased to the extent that additional shares are issued under the Employees' Stock Plan.

### ***Stock Again Offered to Employees***

At the end of 1948 approximately 220,000 Bell System employees were purchasing some 1,200,000 shares of the Company's stock through installment payments under the Employees' Stock Plan. Installments paid in by the end of the year totaled about \$83,000,000. The Company made a second offering under the Plan in December, 1948. Approximately 300,000 employees now have in effect elections to purchase some 2,300,000 shares under one or both offerings. Payment is at the rate of \$5 per share per month with interest credited at 2 per cent on installment payments. The price per share to employees is fixed at \$20 below the market price at the time payment is completed but not more than \$150 or less than \$100. An employee may cancel his election to purchase in whole or in part and receive a refund which he may either take in cash or apply to the purchase of a smaller number of shares.

### ***Stockholders Total 765,800***

During 1948 the Company's stockholders increased by 42,400 to a new high of 765,800. The people who own the Bell System come from all walks of life throughout the cities, towns and countryside of America — in fact,

about one in every 60 families in the United States shares directly in this ownership.

Ninety-five per cent of the stockholders are individuals and more than half of them are women. The remaining 5 per cent are trustees, colleges, hospitals, churches and other institutions. At the end of the year, women held 43.0 per cent of the shares and men held 25.8 per cent, while 11.9 per cent were held in joint accounts.

Holders of 1 to 5 shares numbered 210,000 while 720,000 stockholders held less than 100 shares each. The average number of shares held was 30.5 and no stockholder held as much as one-third of 1 per cent of the total stock. More than 270,000 stockholders have owned stock in the Company for 15 years or longer. Some 50,000 Bell System employees now own about 775,000 shares of the Company's stock, and this number will increase substantially as stock is issued under the Employees' Stock Plan.

### ***Western Electric Production at All-Time High***

The value to telephone users of a manufacturing and supply unit integrated in the Bell System has never been more readily apparent than in the postwar years. Much of the System's postwar accomplishment is due to our having an experienced manufacturer-supplier with the same service objectives as the Telephone Companies.

Western Electric production in 1948 was from two to three times its prewar peak. Had the Bell operating companies in the postwar period been dependent upon outside manufacturers alone, it is doubtful whether their needs for equipment and supplies to meet service demands would have been met.

Again, during this winter's devastating storms in the West, enormous quantities of wire, poles and other materials were rushed by Western Electric to the stricken areas from 43 cities in 21 states. The close teamwork between supply and operating organizations has been of the utmost value in speeding restoration of telephone service.

Western Electric sales amounted to \$1,132,972,000, an increase of 13.8 per cent over 1947, the previous high year. Sales to the Bell Telephone Companies accounted for about 90 per cent of total sales. Non-Bell sales included \$59,978,000 of direct sales to the Federal Government, principally of equipment useful for the nation's defense. Serious shortages of steel, zinc, lead and copper, which are used in large quantity, continued throughout the year.

Construction of a plant at Allentown, Pennsylvania, for the manufacture of electronic equipment was completed in 1948. Construction was started on a new manufacturing plant at Indianapolis and new distributing houses were completed at St. Louis and Houston. Gross expenditures for plant and facilities during 1948 were \$46,400,000.

Earnings of Western Electric Company amounted in 1948 to \$50,848,000. This was 4.5 per cent of sales, a rate of earnings considerably less than that in manufacturing industry generally. There were two general decreases in the prices of Western Electric equipment during the year—one in January and one in June. With the substantial increase in the cost of lead and copper, it became necessary to increase prices on cables and wires. The amount paid in 1948 by Bell System Telephone Companies for products of Western Electric manufacture was about 7 per cent or \$46,000,000 less than if prices had remained unchanged during the year. Prices of products purchased from other manufacturers for use by the Telephone Companies were increased during the year.

Products manufactured by Western Electric for the Bell System have gone up in price on the average less than 20 per cent since prewar years, while prices of goods produced by manufacturing industry generally have increased about 75 per cent.

### **Government Suit Brought Against the Company**

On January 14, 1949 the United States Attorney General filed a suit in the Federal District Court in New Jersey against American Telephone and Telegraph Company and Western Electric Company alleging violation of the Sherman Anti-Trust Act and asking that Western be separated from the Bell System. The Companies will contest the suit to the limit of their ability. They believe the charges are without foundation and that they are not violating any of the anti-trust laws.

The Company is confident that its relationships and arrangements with Western Electric Company, which originated in 1881, have been and are of the highest value to the users of telephone service and to the public generally. Telephone calls go through faster, people hear each other better and service is more dependable because of the quality of Western Electric equipment which is in general use throughout the Bell System. The Western Electric relationship is a major contributing factor in making Bell System service the best in the world and the cost to the users the lowest possible.

The public and the telephone users would suffer most if there were to be any change.

### ***Rural Telephone Development Up 65 Per Cent***

Rural telephone service is more highly developed in this country than anywhere else in the world and its development has been steadily increasing for many years. Although postwar telephone gain has been phenomenal throughout the nation, rural telephones have increased even faster and are up 65 per cent since the latter part of 1945.

The one-millionth rural Bell telephone to be added since the war was installed in December. The System's program to further extend and improve rural service was undertaken as soon as possible after the war ended. The initial goal of adding a million rural telephones has been reached in just over three years and we are keeping right on with the program. The Bell Companies have installed telephones in rural areas three times faster than ever before, placed one and a quarter million telephone poles, and strung a half million miles of wire—enough to go around the world twenty times.

### ***Television Networks Greatly Expanded***

In keeping with the rapid growth of the television industry, the System last year substantially increased the number and extent of its facilities for carrying programs from city to city, and from pickup points to television studios and transmitters.

Following extended experimental operation of television channels between Washington and New York, and later to Boston, commercial charges were inaugurated on May 1, 1948. Demand was immediate and has continued to expand. During the summer, additional facilities were provided on the East coast network and the network was extended to Richmond. A second network was opened in September in the Midwest, interconnecting Buffalo, Cleveland, Toledo, Detroit, Chicago, Milwaukee and St. Louis. On January 12, 1949, the two networks were interconnected, making possible the simultaneous broadcasting of the same television program from the Atlantic to the Mississippi. Some 5,000 circuit miles of special facilities are now in use serving 32 television broadcasting stations in areas where 40,000,000 people live. The network uses both coaxial cable and radio relay facilities, which generally provide for carrying both telephone conversations and television. Many additional installations are planned which will permit the further extension of television network service.

## **More Traveling Telephones**

Mobile telephone service was provided in 1948 to an increasing number of automobiles, trucks, trains and other vehicles, in more cities and along more highways. At the end of the year there were 6,000 mobile telephones, in 129 areas, which could be connected via radio and wire lines with any other telephone in the nation. Service is now available to passengers on fourteen trains running daily between New York and Washington, Boston, Pittsburgh and Buffalo. Railroads are showing increasing interest in radiotelephone service both for passenger and operational use; about 20 railroad companies are now using such service furnished by the Bell System.

Service to ocean and harbor vessels and on inland waterways also continues to increase. Some 11,000 vessels are now registered for this telephone service which like the mobile service permits them to talk with any telephone in the nation. Also 150 airplanes are registered for this service.

These services have already assumed great importance in many businesses. Demand in a number of places exceeds the capacity of the radio channels allocated, and applications have been made for additional channels. Police, utilities and industrial concerns continue to make increasing use of private mobile telephone systems leased and serviced by the Bell Companies.

## **Employees Number 656,500**

At the end of the year the number of employees in the Bell System was 656,500 as compared with 663,100 in 1947. Of these, 103,800 were employed by Western Electric Company and about 6,000 by Bell Telephone Laboratories.

During the year 137,800 women and 43,200 men, a total of 181,000 people, were hired. Nearly 60 per cent of all employees are women. Employees who have worked in the System for ten years or more number 197,100, and of these 127,600 have served twenty years or more.

A large number of the Bell System Companies concluded wage agreements during 1948. Since the beginning of 1949 wage agreements have been concluded by most of the other Companies.

The 1948 expense pay roll of the Bell System, excluding Western Electric Company and Bell Telephone Laboratories, represented 64 per cent of total operating expenses other than taxes. The total pay roll, including Western Electric and Bell Telephone Laboratories, was \$2,018,248,000, an increase of \$227,332,000 over 1947 and \$1,290,159,000 more than in 1941.

Under the Theodore N. Vail Memorial Fund established in 1920, four silver medals, 33 bronze medals and two special plaques were awarded in 1948. The Vail awards are the distinguished service awards of the telephone industry, and are made in recognition of acts of noteworthy public service which reflect the highest tradition of loyalty and devotion to duty.

To assist in thrift programs, the Bell System Companies have plans through which employees may authorize regular allotments from their pay for life insurance premiums, hospital service and surgical care subscriptions, purchase of U. S. Savings Bonds and American Telephone and Telegraph Company stock, deposits in savings institutions and, in some Companies, for other related purposes. The total amount laid aside by employees during 1948 under these thrift plans was \$218,000,000, or about 11 per cent of the pay roll.

### ***Employee Benefits and Pensions***

About \$175,500,000 was expended by the Bell System including Western Electric Company and Bell Telephone Laboratories in 1948 for sickness, accident and death benefits to employees or their dependents, for disability pensions, for payments into Pension Trust Funds and for Social Security old-age benefit purposes.

The System's Plan for Employees' Pensions, Disability Benefits and Death Benefits, as amended from time to time, has been in effect since January 1, 1913. This Plan is maintained by the Companies without any direct or indirect cost to employees, and during 36 years of operation its continuing value has been fully demonstrated. The Plan is important to the business in maintaining its efficiency and is advantageous to employees through the aid it affords in helping to meet the financial problems associated with sickness, accident and death, and in providing pension payments upon retirement.

Service pensions are paid from Pension Trust Funds accrued in advance on an actuarial basis, and these Funds are devoted wholly and irrevocably to service pension purposes. Other payments under the Plan are made directly by the Companies as they become payable.

The Pension Trust Funds of the Bell System Companies, including Western Electric Company and Bell Telephone Laboratories, amounted to \$955,642,000 at the end of 1948. There were 12,523 men and 7,926 women, or a total of 20,449, on the service pension rolls at the end of the year. Some

14,500 more had been credited with enough service and had attained the age which entitled them, at their own request, to retire with a pension.

Payments under the Plan in 1948 to the Pension Trust Funds and to about 119,000 employees and dependents of employees, and payments by the Companies to the Federal Government for old-age benefit purposes under the Social Security Act amounted to 8.7 per cent of the pay roll and were:

|   |               |
|---|---------------|
| To Pension Trust Funds . . . . .                            | \$125,800,000 |
| Employer's Tax — Social Security Old-Age Benefits . . . . . | 16,600,000    |
| Sickness Disability Benefits . . . . .                      | 25,848,000    |
| Accident Disability Benefits . . . . .                      | 1,605,000     |
| Death Benefits . . . . .                                    | 4,303,000     |
| Disability Pensions . . . . .                               | 1,363,000     |
|   | <hr/>         |
| TOTAL . . . . .   | \$175,519,000 |

### ***The Future Holds Great Promise***

Neither chance nor mere good fortune has brought this nation the finest telephone service in the world. The service Americans enjoy in such abundance is directly the product of their own imagination, enterprise and common sense.

The people of America have put billions of dollars of their savings into building their telephone system. They have learned more and more ways to use the telephone to advantage, and have continuously encouraged invention and initiative to find new paths toward new horizons. They have made the rendering of telephone service a public trust; at the same time, they have given the Telephone Companies, under regulation, the freedom and resources they must have to do their job as well as possible.

In this climate of freedom and responsibility, the Bell System has provided service of steadily increasing value to more and more people. Our policy, often stated, is to give the best possible service at the lowest cost consistent with financial safety and fair treatment of employees. We are organized as we are in order to carry that policy out. Bell Telephone Laboratories leads the world in improving communication devices and techniques. Western Electric Company provides the Bell operating companies with telephone equipment of the highest quality at reasonable prices, and can always be counted on in emergencies to deliver the goods whenever and wherever

needed. The operating telephone companies and the parent company work together so that improvements in one place may spread quickly to others. Because all units of the System have the same service goals great benefits flow to the public.

Similarly, the financial good health of the Bell System over a period of many years has been to the advantage of the public no less than the stockholders and employees. It is equally essential and in the public interest that telephone rates and earnings now and in the future be adequate to continue to pay good wages, protect the billions of dollars of savings invested in the System, and attract the new capital needed to meet the service opportunities and responsibilities ahead.

There is a tremendous amount of work to be done in the near future and the System's technical and human resources to do it have never been better. Our physical equipment is the best in history, though still heavily loaded, and we have many new and improved facilities to incorporate in the plant. Employees are competent and courteous. The long-standing Bell System policy of making promotions from the ranks assures the continuing vigor of the organization.

With these assets, with the traditional spirit of service to get the message through, and with confidence that the American people understand the need for maintaining on a sound financial basis the essential public services performed by the Bell System, we look forward to providing a service better and more valuable in the future than at any time in the past. We pledge our utmost efforts to that end.

For the Board of Directors,

LEROY A. WILSON,  
*President.*

FEBRUARY 15, 1949.

## CERTIFICATE OF AUDIT

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TO THE STOCKHOLDERS OF AMERICAN TELEPHONE  
AND TELEGRAPH COMPANY:

We have examined the balance sheet of American Telephone and Telegraph Company as of December 31, 1948, the consolidated balance sheet of the company and its principal telephone subsidiaries as of December 31, 1948, and the related statements of income and surplus for the year 1948, 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 and included all procedures which we considered necessary in the circumstances.

Examinations of similar scope have been made by us of the balance sheets as of December 31, 1948 and of the statements of income and surplus for the year 1948 of the principal nonconsolidated subsidiaries of American Telephone and Telegraph Company, except Western Electric Company, Incorporated, and its subsidiaries, and we have reviewed accounting reports for the year 1948 rendered to American Telephone and Telegraph Company by all other nonconsolidated subsidiaries. The consolidated balance sheet of Western Electric Company, Incorporated, and its 100% directly-owned subsidiaries as of December 31, 1948 and the consolidated statements of income and surplus of these companies for the year 1948, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 24 to 27) and the consolidated financial statements (pages 17 to 22) present fairly the position at December 31, 1948 and the results of operations for the year 1948 of American Telephone and Telegraph Company and the consolidated position at December 31, 1948 and the consolidated results of operations for the year 1948 of the company and its principal telephone subsidiaries, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.  
February 14, 1949.

## FINANCIAL STATEMENTS

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS appear on pages 18 to 22, inclusive. These statements consolidate the accounts of the American Telephone and Telegraph Company, its directly-owned telephone subsidiaries (listed on page 28), and the Bell Telephone Company of Nevada, a wholly-owned subsidiary of The Pacific Telephone and Telegraph Company. The total investment of these companies in telephone subsidiaries not consolidated is less than \$4,000,000.

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, all intercompany security holdings, intercompany receivables and payables, and intercompany items of income and expense, except minor items which cannot readily be identified, are excluded. In the elimination of intercompany security holdings the difference between the aggregate cost of such securities to the companies owning them and the aggregate par value of such securities has been applied to reduce the combined surplus accounts of the companies consolidated.

The proportionate interest of the companies consolidated in subsidiaries not consolidated 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 is included in "Other Income" in the Consolidated Income Statement. The principal subsidiary not consolidated is Western Electric Company, which manufactures most of the telephone apparatus, cable, switchboards, etc., used by the companies consolidated and procures and sells to them material and supplies not of its own manufacture. Contracts between Western Electric Company and its affiliated telephone companies provide that its prices to them shall be as low as to its most favored customers for like materials and services under comparable conditions. Items purchased by the telephone companies from Western Electric Company are entered in their accounts at cost to them, which includes the return realized by Western Electric Company on its investment devoted to such business.

Financial Statements of the American Telephone and Telegraph Company alone are shown on pages 24 to 27.

PIERRE W. SAXTON  
Comptroller.

# BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

## CONSOLIDATED BALANCE SHEET

### ASSETS

|   | December 31,<br>1948           | December 31,<br>1947          |
|---|--------------------------------|-------------------------------|
| <b>PLANT AND OTHER INVESTMENTS</b>  |                                |                               |
| Telephone Plant (a) .....   | \$ 8,618,842,204               | \$7,348,802,865               |
| <i>Classified in the accounts of the companies at December 31, 1948 as follows:</i> |                                |                               |
| Telephone Plant in Service .....  | \$8,253,479,682                |                               |
| Telephone Plant under Construction....  | 338,811,307                    |                               |
| Property Held for Future Telephone Use  | 14,064,845                     |                               |
| Telephone Plant Acquisition Adjustment  | 12,486,370                     |                               |
| Miscellaneous Physical Property.....  | 4,137,236                      | 7,066,961                     |
| Investments in Subsidiaries not consolidated (b).....                               | 334,634,340                    | 325,895,608                   |
| Equities in Subsidiaries not consolidated in excess of investments therein .....    | 46,865,549                     | 31,706,002                    |
| Other Investments (b).....  | 56,145,825                     | 59,607,008                    |
| <i>Principally in non-controlled telephone companies.</i>                           |                                |                               |
| <b>Total Plant and Other Investments .....</b>                                      | <b><u>\$ 9,060,625,154</u></b> | <b><u>\$7,773,078,444</u></b> |

### CURRENT ASSETS

|   |                              |                              |
|---|------------------------------|------------------------------|
| Cash and Demand Deposits.....   | \$ 79,070,810                | \$ 71,877,921                |
| Temporary Cash Investments.....   | 376,853,892                  | 460,709,313                  |
| <i>Comprises at December 31, 1948, U. S. short-term obligations having a market value of \$376,805,000.</i>   |                              |                              |
| Special Cash Deposits.....  | 7,189,990                    | 5,589,744                    |
| Current Receivables .....   | 290,328,370                  | 270,509,708                  |
| <i>Amounts due for service (less reserves amounting to \$3,743,165 at December 31, 1948), working advances, interest and dividends receivable, etc.</i> |                              |                              |
| Material and Supplies.....  | 123,610,075                  | 135,663,468                  |
| <i>Principally for construction and maintenance purposes.</i>   |                              |                              |
| <b>Total Current Assets .....</b>   | <b><u>\$ 877,053,137</u></b> | <b><u>\$ 944,350,154</u></b> |

### DEFERRED DEBITS

|  |                                |                               |
|--|--------------------------------|-------------------------------|
| Prepayments of Directory Expenses, Rents, Taxes, etc.... | \$ 37,092,834                  | \$ 28,752,669                 |
| Other Deferred Debits.....                               | 25,911,901                     | 26,196,023                    |
| <b>Total Deferred Debits .....</b>                       | <b><u>\$ 63,004,735</u></b>    | <b><u>\$ 54,948,692</u></b>   |
| <b>Total Assets .....</b>                                | <b><u>\$10,000,683,026</u></b> | <b><u>\$8,772,377,290</u></b> |

For notes, see page 22.

# BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

## CONSOLIDATED BALANCE SHEET—Continued

### LIABILITIES

|   | December 31,<br>1948    | December 31,<br>1947   |
|---|-------------------------|------------------------|
| <b>CAPITAL STOCK</b>  |                         |                        |
| American Telephone and Telegraph Company:   |                         |                        |
| Common Stock—Par Value.....   | \$ 2,335,096,300        | \$2,148,798,200        |
| Premiums on Capital Stock.....  | 463,674,285             | 387,920,653            |
| <i>Amount received in excess of par value.</i>  |                         |                        |
| Capital Stock Installments (c).....   | 82,971,178              | 7,122,639              |
| Subsidiaries Consolidated—stocks held by public:  |                         |                        |
| Common Stock .....  | 98,117,100              | 95,526,000             |
| Preferred Stock .....   | 17,904,300              | 17,904,300             |
| <b>Total Capital Stock</b> .....  | <u>\$ 2,997,763,163</u> | <u>\$2,657,271,792</u> |
| <b>FUNDED DEBT</b> (see page 23)  |                         |                        |
| American Telephone and Telegraph Company.....   | \$ 1,699,995,200        | \$1,726,100,300        |
| Subsidiaries Consolidated .....   | 1,708,000,000           | 1,033,000,000          |
| <b>Total Funded Debt</b> .....  | <u>\$ 3,407,995,200</u> | <u>\$2,759,100,300</u> |
| <b>CURRENT AND ACCRUED LIABILITIES</b>  |                         |                        |
| Notes Payable .....   | \$ 77,260,000           | \$ 40,000,000          |
| Accounts Payable .....  | 282,204,515             | 297,283,013            |
| Advance Billing for Service and Customers' Deposits.....  | 59,242,857              | 50,155,126             |
| Dividends Payable .....   | 52,978,012              | 48,755,688             |
| Other Current Liabilities.....  | 14,373,486              | 18,855,625             |
| Interest Accrued .....  | 24,855,616              | 18,294,896             |
| Taxes Accrued .....   | 179,511,131             | 145,135,403            |
| <b>Total Current and Accrued Liabilities</b> .....  | <u>\$ 690,425,617</u>   | <u>\$ 618,479,751</u>  |
| <b>DEFERRED CREDITS</b>   |                         |                        |
| Unextinguished Premium on Funded Debt.....  | \$ 16,110,508           | \$ 8,224,267           |
| <i>(After deduction of unamortized discount and expense.)</i>   |                         |                        |
| Other Deferred Credits.....   | 14,607,336              | 14,205,445             |
| <b>Total Deferred Credits</b> .....   | <u>\$ 30,717,844</u>    | <u>\$ 22,429,712</u>   |
| <b>DEPRECIATION AND AMORTIZATION RESERVES</b> .....   |                         |                        |
| <i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i> | <u>\$ 2,525,788,325</u> | <u>\$2,380,465,795</u> |
| <b>SURPLUS APPLICABLE TO STOCKS OF SUBSIDIARIES</b>   |                         |                        |
| CONSOLIDATED HELD BY PUBLIC .....   | \$ 4,594,145            | \$ 4,148,797           |
| <b>SURPLUS APPLICABLE TO STOCK OF A. T. &amp; T. CO.</b>  |                         |                        |
| Earned Surplus Reserved (d).....  | \$ 11,853,780           | \$ 5,081,641           |
| Unappropriated Earned Surplus (see page 21).....  | 331,544,952             | 325,399,502            |
| <b>Total Liabilities</b> .....  | <u>\$10,000,683,026</u> | <u>\$8,772,377,290</u> |

# BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

## CONSOLIDATED INCOME STATEMENT

| OPERATING REVENUES   | Year 1948              | Year 1947              |
|--|------------------------|------------------------|
| Local Service Revenues .....   | \$1,506,293,102        | \$1,272,935,157        |
| Toll Service Revenues.....   | 1,009,770,892          | 862,565,598            |
| Miscellaneous Revenues .....   | 117,206,351            | 95,716,686             |
| <i>Derived from directory advertising, rents and miscellaneous sources.</i>  |                        |                        |
| Less: Uncollectible Operating Revenues.....  | 8,443,278              | 6,634,509              |
| <b>Total Operating Revenues (e) .....</b>  | <u>\$2,624,827,067</u> | <u>\$2,224,582,932</u> |
| <b>OPERATING EXPENSES</b>  |                        |                        |
| Current Maintenance .....  | \$ 583,366,263         | \$ 482,621,307         |
| <i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>  |                        |                        |
| Depreciation and Amortization Expense.....   | 278,130,536            | 237,397,877            |
| <i>Provision to meet loss of investment when depreciable property is retired from service, based on rates designed to spread this loss uniformly over the service life of the property. Such provision represented approximately 4% of average investment in depreciable plant in service.</i> |                        |                        |
| Traffic Expenses .....   | 649,082,881            | 580,567,850            |
| <i>Costs incurred in the handling of messages, principally operators' wages.</i>   |                        |                        |
| Commercial Expenses .....  | 251,827,552            | 214,262,371            |
| <i>Costs incurred in business relations with customers; pay station commissions; cost of directories, advertising, etc.</i>  |                        |                        |
| Operating Rents .....  | 23,128,233             | 19,754,727             |
| General and Miscellaneous Expenses:  |                        |                        |
| General Administration .....   | 26,356,405             | 23,914,382             |
| Accounting and Treasury Departments.....   | 122,417,487            | 105,968,527            |
| Development and Research (f).....  | 15,583,014             | 13,662,516             |
| Provision for Employees' Service Pensions (g).....   | 91,357,124             | 83,586,066             |
| Employees' Sickness, Accident, Death and Other Benefits  | 27,388,478             | 23,703,887             |
| Other General Expenses .....   | 38,350,599             | 31,299,675             |
| Less: Expenses Charged Construction.....   | 28,337,662             | 23,351,503             |
| <b>Total Operating Expenses .....</b>  | <u>\$2,078,650,910</u> | <u>\$1,793,387,682</u> |
| <b>Net Operating Revenues .....</b>  | <u>\$ 546,176,157</u>  | <u>\$ 431,195,250</u>  |
| <b>OPERATING TAXES</b>   |                        |                        |
| Federal Taxes on Income.....   | \$ 100,648,493         | \$ 74,381,767          |
| Other Taxes—principally State, local and Social Security..   | 191,828,705            | 171,272,855            |
| <b>Total Operating Taxes .....</b>   | <u>\$ 292,477,198</u>  | <u>\$ 245,654,622</u>  |
| <b>Net Operating Income (carried forward) .....</b>  | <u>\$ 253,698,959</u>  | <u>\$ 185,540,628</u>  |

For notes, see page 22.

# BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

## CONSOLIDATED INCOME STATEMENT—Continued

|   | Year 1948             | Year 1947             |
|---|-----------------------|-----------------------|
| <b>Net Operating Income</b> (brought forward) . . . . .   | \$ 253,698,959        | \$ 185,540,628        |
| <b>OTHER INCOME</b>   |                       |                       |
| Dividends from subsidiaries not consolidated (h) . . . . .  | \$ 37,279,878         | \$ 28,272,377         |
| Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (i) . . . . . | 15,056,152            | 5,471,188             |
| Dividends from other companies . . . . .  | 4,120,408             | 3,879,658             |
| Miscellaneous income (j) . . . . .  | 20,968,190            | 16,023,975            |
| Less: Miscellaneous deductions from income (g) . . . . .  | 11,623,246            | 10,891,872            |
| <b>Income Available for Fixed Charges</b> . . . . .   | <u>\$ 319,500,341</u> | <u>\$ 228,295,954</u> |
| <b>FIXED CHARGES</b>  |                       |                       |
| Interest on Funded Debt . . . . .   | \$ 87,419,067         | \$ 61,439,505         |
| Other Interest . . . . .  | 3,049,272             | 1,148,401             |
| Amortization of Debt Discount and Expense—net . . . . .   | .....                 | 47,694                |
| Other Fixed Charges . . . . .   | 29,717                | 23,919                |
| Less: Release of Premium on Funded Debt—net . . . . .   | 162,499               | .....                 |
| <b>Net Income</b> . . . . .   | <u>\$ 229,164,784</u> | <u>\$ 165,636,435</u> |
| <b>NET INCOME APPLICABLE TO MINORITY INTERESTS</b>  |                       |                       |
| Preferred Stock . . . . .   | \$ 1,074,258          | \$ 1,074,258          |
| Common Stock . . . . .  | 5,674,658             | 3,373,554             |
| <b>Net Income Applicable to A. T. &amp; T. Co. Stock</b> . . . . .                                  | <u>\$ 222,415,868</u> | <u>\$ 161,188,623</u> |
| Consolidated Earnings per share of A. T. & T. Co. Stock (k) . . . . .                               | \$9.86                | \$7.66                |

### Statement of Consolidated Unappropriated Earned Surplus Applicable to American Telephone and Telegraph Company Stock—Year 1948

|  |                       |
|--|-----------------------|
| BALANCE—DECEMBER 31, 1947 . . . . .                            | \$ 325,399,502        |
| Net Income applicable to A. T. & T. Co. Stock . . . . .        | \$ 222,415,868        |
| Adjustment of tax accruals for prior years . . . . .           | 1,724,427             |
| Miscellaneous additions . . . . .                              | 584,915               |
| <b>TOTAL ADDITIONS</b> . . . . .                               | <u>\$ 224,725,210</u> |
| Dividends on A. T. & T. Co. Stock . . . . .                    | \$ 203,101,621        |
| Transferred to Earned Surplus Reserved . . . . .               | 6,772,139             |
| Write-down of Miscellaneous Physical Property . . . . .        | 3,138,905             |
| Write-down of Telephone Plant Acquisition Adjustment . . . . . | 2,904,498             |
| Write-off of Organization and Capital Stock Expense . . . . .  | 1,709,087             |
| Miscellaneous deductions . . . . .                             | 953,510               |
| <b>TOTAL DEDUCTIONS</b> . . . . .                              | <u>\$ 218,579,760</u> |
| BALANCE—DECEMBER 31, 1948 . . . . .                            | <u>\$ 331,544,952</u> |

## NOTES TO BELL SYSTEM FINANCIAL STATEMENTS

(a) "Telephone Plant" comprises land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, vehicles, furniture, etc. As required by the Uniform System of Accounts for Telephone Companies, "Telephone Plant in Service," "Telephone Plant under Construction" and "Property Held for Future Telephone Use" are stated at cost to the companies except that property included therein which was acquired from a predecessor owner is stated at its original cost when first dedicated to the public use. The amount classified as "Telephone Plant Acquisition Adjustment" represents certain costs attributable to property purchased from predecessor owners. 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. At December 31, 1948, securities included in Investments in Subsidiaries not consolidated at \$28,338,000 and securities included in Other Investments at \$2,401 were pledged under a bond indenture.

(c) Installment payments and interest credited thereon applicable to shares (1,247,715 at December 31, 1948) which employees of American Telephone and Telegraph Company and its subsidiaries have elected to purchase pursuant to the Employees' Stock Plan. The Plan provides that an employee may cancel his election to purchase in whole or in part at any time and receive a refund which may be taken in cash or applied to the purchase of shares. (See page 8.)

(d) Reservations against contingency of refunds to subscribers in connection with certain pending rate proceedings.

(e) "Total Operating Revenues" include approximately \$11,650,000 in 1948 and \$4,500,000 in 1947 with respect to which reservations of surplus have been made against contingency of refunds to subscribers in connection with certain pending rate proceedings.

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

(g) The total provision for employees' service pensions amounted to \$99,538,830 for 1948 and \$91,766,049 for 1947, of which \$8,181,706 for 1948 and \$8,179,983 for 1947 were charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The companies and their independent public accountants consider that these latter amounts were, in fact, current operating expenses.

(h) Includes dividends received from Western Electric Company in the amounts of \$35,926,364 in 1948 and \$26,943,786 in 1947.

(i) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$14,818,302 in 1948 and \$5,280,541 in 1947.

(j) Includes interest charged construction in the amounts of \$16,079,496 in 1948 and \$11,532,954 in 1947.

(k) Based on average number of shares outstanding—22,566,847 in 1948 and 21,034,761 in 1947.

# BELL SYSTEM FUNDED DEBT

DECEMBER 31, 1948

|   | Amount                 | Increase<br>During Year |
|---|------------------------|-------------------------|
| <b>American Telephone and Telegraph Company:</b>        |                        |                         |
| Ten Year Convertible Debenture 2¾s, 1957.....           | \$ 185,985,000         | —\$162,433,500          |
| Fifteen Year Convertible Debenture 2¾s, 1961.....       | 274,010,200            | —13,671,600             |
| Thirty Year Debenture 2¾s, 1970.....                    | 140,000,000            | .....                   |
| Twenty-Five Year Debenture 3⅜s, 1973.....               | 150,000,000            | 150,000,000             |
| Thirty Year Debenture 2¾s, 1975.....                    | 160,000,000            | .....                   |
| Thirty-Five Year Debenture 2¾s, 1976.....               | 90,000,000             | .....                   |
| Thirty-Five Year Debenture 2¾s, 1980.....               | 175,000,000            | .....                   |
| Thirty-Five Year Debenture 2¾s, 1982.....               | 200,000,000            | .....                   |
| Forty Year Debenture 2⅞s, 1986.....                     | 125,000,000            | .....                   |
| Forty Year Debenture 2⅞s, 1987.....                     | 200,000,000            | .....                   |
| <b>New England Telephone and Telegraph Company:</b>     |                        |                         |
| First Mortgage 5s, 1952, Series A.....                  | 35,000,000             | .....                   |
| First Mortgage 4½s, 1961, Series B.....                 | 40,000,000             | .....                   |
| First Mortgage 2¾s, 1975, Series D.....                 | 20,000,000             | .....                   |
| Thirty-Five Year Debenture 3s, 1982.....                | 40,000,000             | .....                   |
| <b>New York Telephone Company:</b>                      |                        |                         |
| Refunding Mortgage 3s, 1964, Series C.....              | 75,000,000             | .....                   |
| Refunding Mortgage 2¾s, 1982, Series D.....             | 125,000,000            | .....                   |
| Refunding Mortgage 3⅜s, 1978, Series E.....             | 60,000,000             | 60,000,000              |
| Refunding Mortgage 3s, 1981, Series F.....              | 90,000,000             | 90,000,000              |
| <b>New Jersey Bell Telephone Company:</b>               |                        |                         |
| Forty Year Debenture 3⅜s, 1988.....                     | 55,000,000             | 55,000,000              |
| <b>Bell Telephone Company of Pennsylvania:</b>          |                        |                         |
| First and Refunding Mortgage 5s, 1960, Series C.....    | 50,000,000             | .....                   |
| First and Refunding Mortgage 2¾s, 1976, Series D.....   | 20,000,000             | .....                   |
| First and Refunding Mortgage 2¾s, 1973, Series E.....   | 35,000,000             | .....                   |
| <b>Diamond State Telephone Company:</b>                 |                        |                         |
| Thirty Year Debenture 3s, 1968.....                     | 3,000,000              | .....                   |
| <b>Southern Bell Telephone and Telegraph Company:</b>   |                        |                         |
| Thirty Year Debenture 2¾s, 1972.....                    | 35,000,000             | .....                   |
| Forty Year Debenture 3s, 1979.....                      | 25,000,000             | .....                   |
| Forty Year Debenture 2¾s, 1985.....                     | 45,000,000             | .....                   |
| Forty Year Debenture 2⅞s, 1987.....                     | 75,000,000             | .....                   |
| <b>Michigan Bell Telephone Company:</b>                 |                        |                         |
| Forty Year Debenture 3⅜s, 1988.....                     | 75,000,000             | 75,000,000              |
| <b>Illinois Bell Telephone Company:</b>                 |                        |                         |
| First Mortgage 2¾s, 1981, Series A.....                 | 50,000,000             | .....                   |
| First Mortgage 3s, 1978, Series B.....                  | 60,000,000             | 60,000,000              |
| <b>Northwestern Bell Telephone Company:</b>             |                        |                         |
| Thirty-One Year Debenture 3¼s, 1979.....                | 60,000,000             | 60,000,000              |
| <b>Southwestern Bell Telephone Company:</b>             |                        |                         |
| Thirty-Five Year Debenture 3⅜s, 1983.....               | 100,000,000            | 100,000,000             |
| Forty Year Debenture 2¾s, 1985.....                     | 75,000,000             | .....                   |
| <b>Mountain States Telephone and Telegraph Company:</b> |                        |                         |
| Thirty Year Debenture 3⅜s, 1978.....                    | 25,000,000             | 25,000,000              |
| Forty Year Debenture 2⅞s, 1986.....                     | 35,000,000             | .....                   |
| <b>Pacific Telephone and Telegraph Company:</b>         |                        |                         |
| Thirty Year Debenture 3¼s, 1978.....                    | 75,000,000             | 75,000,000              |
| Thirty-Five Year Debenture 3⅜s, 1983.....               | 75,000,000             | 75,000,000              |
| Forty Year Debenture 2¾s, 1985.....                     | 75,000,000             | .....                   |
| Forty Year Debenture 2⅞s, 1986.....                     | 75,000,000             | .....                   |
| Forty Year Debenture 3⅜s, 1987.....                     | 100,000,000            | .....                   |
| <b>Total Funded Debt</b> .....                          | <u>\$3,407,995,200</u> | <u>\$648,894,900</u>    |

# AMERICAN TELEPHONE AND TELEGRAPH COMPANY

## BALANCE SHEET

### ASSETS

|   | December 31,<br>1948   | December 31,<br>1947   |
|---|------------------------|------------------------|
| <b>PLANT AND OTHER INVESTMENTS</b>  |                        |                        |
| Telephone Plant (a) .....   | \$ 836,532,249         | \$ 760,366,941         |
| <i>Classified in the accounts at December 31, 1948 as follows:</i>  |                        |                        |
| Telephone Plant in Service .....  | \$ 795,278,194         |                        |
| Telephone Plant under Construction .....  | 40,786,720             |                        |
| Property Held for Future Telephone Use .....  | 467,335                |                        |
| Investments in Subsidiaries—at cost (see page 28) .....   | 3,877,516,944          | 3,526,668,794          |
| Stocks .....  | \$3,608,820,694        |                        |
| Advances .....  | 268,696,250            |                        |
| Other Investments—at cost (see page 28) .....   | 46,720,371             | 48,546,936             |
| Stocks .....  | \$ 46,381,245          |                        |
| Miscellaneous .....   | 339,126                |                        |
| <b>Total Plant and Other Investments</b> .....  | <u>\$4,760,769,564</u> | <u>\$4,335,582,671</u> |
| <b>CURRENT ASSETS</b>   |                        |                        |
| Cash and Demand Deposits .....  | \$ 15,781,478          | \$ 15,802,727          |
| Temporary Cash Investments .....  | 374,858,262            | 456,708,650            |
| <i>Comprises at December 31, 1948, U. S. short-term obligations having a market value of \$374,809,000.</i>   |                        |                        |
| Special Cash Deposits .....   | 2,360,625              | 2,006,813              |
| Current Receivables .....   | 36,963,980             | 31,775,123             |
| <i>Amounts due for service (less reserve amounting to \$50,000 at December 31, 1948), working advances, interest and dividends receivable, etc.</i> |                        |                        |
| Material and Supplies .....   | 8,640,674              | 13,424,778             |
| <i>Principally for construction and maintenance purposes.</i>   |                        |                        |
| <b>Total Current Assets</b> .....   | <u>\$ 438,605,019</u>  | <u>\$ 519,718,091</u>  |
| <b>DEFERRED DEBITS</b> .....  | \$ 13,994,064          | \$ 15,399,321          |
| <b>Total Assets</b> .....   | <u>\$5,213,368,647</u> | <u>\$4,870,700,083</u> |

For notes, see page 27.

# AMERICAN TELEPHONE AND TELEGRAPH COMPANY

## BALANCE SHEET—Continued

### LIABILITIES

|   | December 31,<br>1948   | December 31,<br>1947   |
|---|------------------------|------------------------|
| <b>CAPITAL STOCK</b>  |                        |                        |
| Common Stock—par value (\$100 per share).....   | \$2,335,096,300        | \$2,148,798,200        |
| <i>Authorized, 35,000,000 shares; outstanding at December 31, 1948, 23,350,963 shares (b).</i>            |                        |                        |
| Premiums on Capital Stock.....  | 463,674,285            | 387,920,653            |
| <i>Amount received in excess of par value.</i>  |                        |                        |
| Capital Stock Installments (c).....   | 82,971,178             | 7,122,639              |
| <b>Total Capital Stock</b> .....  | <u>\$2,881,741,763</u> | <u>\$2,543,841,492</u> |
| <b>FUNDED DEBT</b> (see page 23).....   | <u>\$1,699,995,200</u> | <u>\$1,726,100,300</u> |
| <b>CURRENT AND ACCRUED LIABILITIES</b>  |                        |                        |
| Dividend Payable .....  | \$ 52,468,992          | \$ 48,333,730          |
| Accounts Payable .....  | 19,428,222             | 27,605,605             |
| Interest Accrued .....  | 8,488,958              | 8,283,146              |
| Taxes Accrued .....   | 26,579,763             | 21,698,298             |
| <b>Total Current and Accrued Liabilities</b> .....  | <u>\$ 106,965,935</u>  | <u>\$ 105,920,779</u>  |
| <b>DEFERRED CREDITS</b>   |                        |                        |
| Unextinguished Premium on Funded Debt.....  | \$ 3,369,740           | \$ 2,194,943           |
| <i>(After deduction of unamortized discount and expense.)</i>   |                        |                        |
| Other Deferred Credits.....   | 12,111,905             | 12,189,775             |
| <b>Total Deferred Credits</b> .....   | <u>\$ 15,481,645</u>   | <u>\$ 14,384,718</u>   |
| <b>DEPRECIATION RESERVE</b> .....   | <u>\$ 298,603,353</u>  | <u>\$ 273,670,580</u>  |
| <i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i> |                        |                        |
| <b>UNAPPROPRIATED EARNED SURPLUS</b> .....  | \$ 210,580,751         | \$ 206,782,214         |
| Analysis of change during 1948:   |                        |                        |
| Net Income (see page 26).....   | \$207,617,760          |                        |
| Miscellaneous additions .....   | 2,218                  |                        |
| Total additions .....   | <u>\$207,619,978</u>   |                        |
| Dividends declared .....  | \$203,101,621          |                        |
| Miscellaneous deductions .....  | 719,820                |                        |
| Total deductions .....  | <u>\$203,821,441</u>   |                        |
| Net increase .....  | \$ 3,798,537           |                        |
| <b>Total Liabilities</b> .....  | <u>\$5,213,368,647</u> | <u>\$4,870,700,083</u> |

# AMERICAN TELEPHONE AND TELEGRAPH COMPANY

## INCOME STATEMENT

| OPERATING REVENUES  | Year 1948            | Year 1947            |
|---|----------------------|----------------------|
| Toll Service Revenues .....                                 | \$184,239,475        | \$162,413,496        |
| License Contract Revenues .....                             | 32,557,044           | 29,996,511           |
| <i>Received for services furnished telephone companies.</i> |                      |                      |
| Miscellaneous Revenues .....                                | 11,607,250           | 9,444,124            |
| Less: Uncollectible Operating Revenues .....                | 820,464              | 675,999              |
| <b>Total Operating Revenues</b> .....                       | <b>\$227,583,305</b> | <b>\$201,178,132</b> |
| <b>OPERATING EXPENSES (d)</b>                               |                      |                      |
| Current Maintenance .....                                   | \$ 42,306,608        | \$ 36,524,327        |
| Depreciation Expense .....                                  | 32,815,748           | 28,559,295           |
| Traffic Expenses .....                                      | 28,166,646           | 26,209,921           |
| Commercial Expenses .....                                   | 6,849,473            | 6,664,067            |
| Operating Rents .....                                       | 7,380,355            | 6,891,832            |
| General Administration .....                                | 10,888,194           | 9,948,414            |
| Accounting and Treasury Expenses .....                      | 8,389,038            | 7,894,999            |
| Development and Research (e) .....                          | 15,583,014           | 13,662,516           |
| Provision for Employees' Service Pensions (f) .....         | 6,003,943            | 5,372,663            |
| Employees' Sickness, Accident, Death and Other Benefits ..  | 1,759,940            | 1,520,196            |
| Other General Expenses .....                                | 4,549,091            | 4,131,770            |
| Less: Expenses Charged Construction .....                   | 1,918,842            | 1,582,756            |
| <b>Total Operating Expenses</b> .....                       | <b>\$162,773,208</b> | <b>\$145,797,244</b> |
| <b>Net Operating Revenues</b> .....                         | <b>\$ 64,810,097</b> | <b>\$ 55,380,888</b> |
| <b>OPERATING TAXES</b>                                      |                      |                      |
| Federal Taxes on Income .....                               | \$ 20,375,000        | \$ 17,120,000        |
| Other Taxes—principally State, local and Social Security .. | 12,304,238           | 10,704,459           |
| <b>Total Operating Taxes</b> .....                          | <b>\$ 32,679,238</b> | <b>\$ 27,824,459</b> |
| <b>Net Operating Income</b> .....                           | <b>\$ 32,130,859</b> | <b>\$ 27,556,429</b> |
| <b>OTHER INCOME</b>   |                      |                      |
| Dividend Income (g) .....                                   | \$204,584,659        | \$150,320,564        |
| Interest Income .....                                       | 16,797,257           | 14,036,431           |
| Miscellaneous Income .....                                  | 1,297,733            | 1,230,386            |
| Less: Miscellaneous Deductions from Income (f) .....        | 1,027,391            | 831,059              |
| <b>Income Available for Fixed Charges</b> .....             | <b>\$253,783,117</b> | <b>\$192,312,751</b> |
| <b>FIXED CHARGES</b>  |                      |                      |
| Interest on Funded Debt .....                               | \$ 45,080,133        | \$ 35,987,518        |
| Other Interest .....  | 1,156,900            | 18,300               |
| Less: Release of Premium on Funded Debt—net .....           | 71,676               | 37,305               |
| <b>Net Income</b> .....                                     | <b>\$207,617,760</b> | <b>\$156,344,238</b> |
| Earnings per share (h) .....                                | <b>\$9.20</b>        | <b>\$7.43</b>        |

# AMERICAN TELEPHONE AND TELEGRAPH COMPANY

## NOTES TO BALANCE SHEET AND INCOME STATEMENT

(a) "Telephone Plant" comprises land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, vehicles, furniture, etc. As required by the Uniform System of Accounts for Telephone Companies, "Telephone Plant in Service," "Telephone Plant under Construction" and "Property Held for Future Telephone Use" are stated at cost to the Company except that property included therein which was acquired from a predecessor owner is stated at its original cost when first dedicated to the public use. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.

(b) A total of 4,599,952 authorized and unissued shares was reserved at December 31, 1948 for conversion of debentures, as follows: 2,740,102 shares for conversion of the Fifteen Year 2¾% Convertible Debentures, due December 15, 1961, which are convertible at \$150 per share, and 1,859,850 shares for conversion of the Ten Year 2¾% Convertible Debentures, due December 15, 1957, which are convertible at \$140 per share. (These conversion prices are subject to adjustment as provided in the respective indentures.) See page 8 as to shares being purchased under Employees' Stock Plan.

(c) Installment payments and interest credited thereon applicable to shares (1,247,715 at December 31, 1948) which employees of the Company and its subsidiaries have elected to purchase pursuant to the Employees' Stock Plan. The Plan provides that an employee may cancel his election to purchase in whole or in part at any time and receive a refund which may be taken in cash or applied to the purchase of shares. (See page 8.)

(d) Operating expenses are incurred principally in connection with the Company's long distance communication services and in the performance of License Contract services furnished telephone companies.

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

(f) The total provision for employees' service pensions amounted to \$6,503,347 for 1948 and \$5,872,067 for 1947, of which \$499,404 for each year was charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The Company and its independent public accountants consider that the latter amount was, in fact, a current operating expense.

(g) Includes dividends from subsidiaries amounting to \$201,153,702 in 1948 and \$147,072,141 in 1947.

(h) Based on average number of shares outstanding—22,566,847 in 1948 and 21,034,761 in 1947.

# AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INVESTMENTS IN STOCKS AND ADVANCES—DECEMBER 31, 1948

| TELEPHONE SUBSIDIARIES                                  | CAPITAL STOCKS (a)       |                           |                      | ADVANCES      |
|---|--------------------------|---------------------------|----------------------|---------------|
|   | Par Value<br>of Holdings | % of Total<br>Outstanding | Book Value<br>(Cost) |               |
| New England Tel. & Tel. Co.....                         | \$107,214,200            | 68.92                     | \$ 112,165,721       | \$ 90,700,000 |
| New York Tel. Co.....                                   | 421,300,000              | 100.00                    | 444,280,335          | .....         |
| New Jersey Bell Tel. Co.....                            | 160,000,000              | 100.00                    | 173,667,184          | 19,900,000    |
| Bell Tel. Co. of Pennsylvania.....                      | 220,000,000              | 100.00                    | 226,316,050          | 16,156,250    |
| Diamond State Tel. Co. ....                             | 10,500,000               | 100.00                    | 11,200,000           | 985,000       |
| Chesapeake & Potomac Tel. Co...                         | 65,000,000               | 100.00                    | 66,000,000           | 6,275,000     |
| Chesapeake & Potomac Tel. Co.<br>of Baltimore City..... | 90,000,000               | 100.00                    | 91,467,862           | 15,250,000    |
| Chesapeake & Potomac Tel. Co.<br>of Virginia .....      | 75,000,000               | 100.00                    | 75,000,000           | 14,550,000    |
| Chesapeake & Potomac Tel. Co.<br>of West Virginia ..... | 40,000,000               | 100.00                    | 40,000,000           | 6,325,000     |
| Southern Bell Tel. & Tel. Co.....                       | 355,000,000              | 100.00                    | 356,817,298          | .....         |
| Ohio Bell Tel. Co.....                                  | 249,999,800              | 99.99                     | 250,042,098          | .....         |
| Michigan Bell Tel. Co.....                              | 174,986,000              | 99.99                     | 175,398,232          | 18,800,000    |
| Indiana Bell Tel. Co.....                               | 74,998,800               | 99.99                     | 75,585,286           | 3,800,000     |
| Wisconsin Tel. Co.....                                  | 100,000,000              | 100.00                    | 103,223,835          | .....         |
| Illinois Bell Tel. Co.....                              | 232,377,000              | 99.31                     | 237,857,808          | 43,700,000    |
| Northwestern Bell Tel. Co.....                          | 125,000,000              | 100.00                    | 126,039,490          | 16,000,000    |
| Southwestern Bell Tel. Co.....                          | 329,998,900              | 99.99                     | 333,251,978          | .....         |
| Mountain States Tel. & Tel. Co...                       | 56,300,000               | 77.84                     | 57,704,963           | 14,750,000    |
| Pacific Tel. & Tel. Co.....                             | 300,358,400              | 90.34                     | 296,016,584          | .....         |
| Pacific Tel. & Tel. Co.—Preferred                       | 64,095,700               | 78.17                     | 55,999,180           | .....         |
| <b>OTHER SUBSIDIARIES</b>                               |                          |                           |                      |               |
| Bell Telephone Laboratories, Inc..                      | 17,500,000               | (b) 50.00                 | 17,500,000           | .....         |
| Western Electric Co., Inc.....                          | (c)                      | 99.80                     | 265,696,790          | .....         |
| 195 Broadway Corporation.....                           | 17,500,000               | 100.00                    | 17,515,000           | 1,505,000     |
| Eastern Tel. & Tel. Co. (Inactive)                      | 75,000                   | 100.00                    | 75,000               | .....         |
| <b>Total</b> .....                                      |                          |                           | \$3,608,820,694      | \$268,696,250 |
| <b>OTHER COMPANIES</b>                                  |                          |                           |                      |               |
| Southern New England Tel. Co... \$                      | 16,004,900               | 26.67                     | \$ 16,316,715        | .....         |
| Cincinnati & Suburban Bell Tel. Co.                     | 10,483,800               | 29.76                     | 11,047,247           | .....         |
| Bell Telephone Company of Canada                        | 18,749,800               | 14.60                     | 18,854,783           | .....         |
| Cuban American Tel. & Tel. Co...                        | 432,500                  | 50.00                     | 162,500              | .....         |
| <b>Total</b> .....                                      |                          |                           | \$ 46,381,245        | .....         |

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 8,981,591 shares—no par value.

## TRUSTEE'S REPORT OF PENSION TRUST FUND

*established by*

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

|  |                  |
|--|------------------|
| Balance in Fund—December 31, 1947 .....                                      | \$ 49,953,637.30 |
| ADDITIONS TO FUND DURING 1948—   |                  |
| Payments into Fund by Company.....   | \$ 6,503,347.00  |
| Interest Revenue, including gain or loss on investments<br>disposed of ..... | 1,362,056.89     |
| TOTAL ADDITIONS.....   | \$ 7,865,403.89  |
| DISBURSEMENTS FOR PENSIONS DURING 1948.....                                  | 1,248,515.56     |
| NET INCREASE IN FUND.....  | 6,616,888.33     |
| Balance in Fund—December 31, 1948 .....                                      | \$ 56,570,525.63 |
| COMPRISED OF—  |                  |
| Bonds of Bell Telephone Companies.....                                       | \$ 9,788,887.30  |
| U. S. Government Obligations.....  | 23,433,994.43    |
| Public Utility, Railroad and Industrial Bonds.....                           | 22,339,909.80    |
| Other Investments .....  | 200,000.00       |
| Cash and accrued interest not due.....                                       | 807,734.10       |
| TOTAL .....  | \$ 56,570,525.63 |

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, Trustee  
By W. B. DUNCKEL, Vice President.

New York, N. Y.—January 28, 1949.

## CONSOLIDATED STATEMENT OF PENSION TRUST FUNDS

*established by*

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS PRINCIPAL  
TELEPHONE SUBSIDIARIES, WESTERN ELECTRIC COMPANY, INCORPORATED,  
AND ITS SUBSIDIARIES, AND BELL TELEPHONE LABORATORIES, INCORPORATED

|  |                  |
|--|------------------|
| Balance in Funds—December 31, 1947 .....                                     | \$826,475,458.22 |
| ADDITIONS TO FUNDS DURING 1948—  |                  |
| Payments into Funds by Companies.....  | \$125,800,004.43 |
| Interest Revenue, including gain or loss on investments<br>disposed of ..... | 22,898,707.53    |
| TOTAL ADDITIONS .....  | \$148,698,711.96 |
| DISBURSEMENTS FOR PENSIONS DURING 1948.....                                  | 19,532,496.43    |
| NET INCREASE IN FUNDS.....   | 129,166,215.53   |
| Balance in Funds—December 31, 1948 .....                                     | \$955,641,673.75 |
| COMPRISED OF—  |                  |
| Bonds of Bell Telephone Companies.....                                       | \$165,603,647.02 |
| U. S. Government Obligations.....  | 398,595,779.03   |
| Public Utility, Railroad and Industrial Bonds.....                           | 374,291,484.50   |
| Other Investments .....  | 2,301,794.65     |
| Cash and accrued interest not due.....                                       | 14,848,968.55    |
| TOTAL .....  | \$955,641,673.75 |

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, Trustee for the respective Funds

New York, N. Y.—January 28, 1949.

By W. B. DUNCKEL, Vice President.

## BELL SYSTEM STATISTICS

|  | Dec. 31<br>1930 | Dec. 31<br>1935 | Dec. 31<br>1940 | Dec. 31<br>1945 | Dec. 31<br>1948 | Increase<br>During 1948 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------|
| Number of telephones (a) .....                             | 15,187,296      | 13,573,025      | 17,483,981      | 22,445,519      | 31,364,493      | 2,857,698               |
| Number of central offices .....                            | 6,639           | 6,896           | 7,052           | 7,374           | 8,007           | 280                     |
| Miles of pole lines .....                                  | 428,212         | 407,454         | 399,838         | 420,009         | 471,770         | 20,034                  |
| Miles of wire:   |                 |                 |                 |                 |                 |                         |
| In underground cable .....                                 | 45,116,000      | 47,639,000      | 54,339,000      | 60,759,000      | 76,398,000      | 7,261,000               |
| In aerial cable .....                                      | 23,777,000      | 26,425,000      | 30,307,000      | 33,966,000      | 41,612,000      | 3,805,000               |
| Open wire .....  | 5,231,000       | 4,562,000       | 4,660,000       | 5,034,000       | 6,244,000       | 414,000                 |
| Total .....  | 74,124,000      | 78,626,000      | 89,306,000      | 99,759,000      | 124,254,000     | 11,480,000              |
| Average daily telephone conversations* (b)                 | 64,934,000      | 60,290,000      | 79,303,000      | 90,548,000      | 125,271,000     | 10,214,000              |
| Total plant .....  | \$4,041,237,000 | \$4,187,790,000 | \$4,747,674,000 | \$5,702,057,000 | \$8,618,842,000 | \$1,270,039,000         |
| Operating revenues* .....                                  | \$1,077,300,000 | \$ 919,116,000  | \$1,174,322,000 | \$1,930,889,000 | \$2,624,827,000 | \$ 400,244,000          |
| Number of employees (c) .....                              | 391,746         | 268,754         | 323,701         | 474,527         | 656,520         | (6,569) †               |
| Number of American Tel. and Tel. Co.<br>stockholders ..... | 567,694         | 657,465         | 630,902         | 683,897         | 765,824         | 42,450                  |

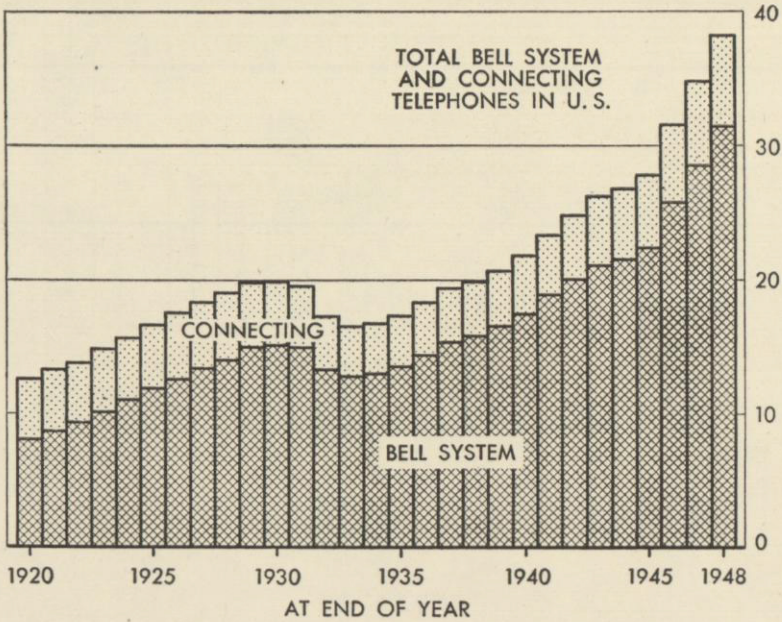
† Decrease. \* For year ending December 31.

(a) Excludes private line telephones numbering 106,989 on December 31, 1948. Including telephones of the some 6,000 connecting companies and about 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 38,200,000.

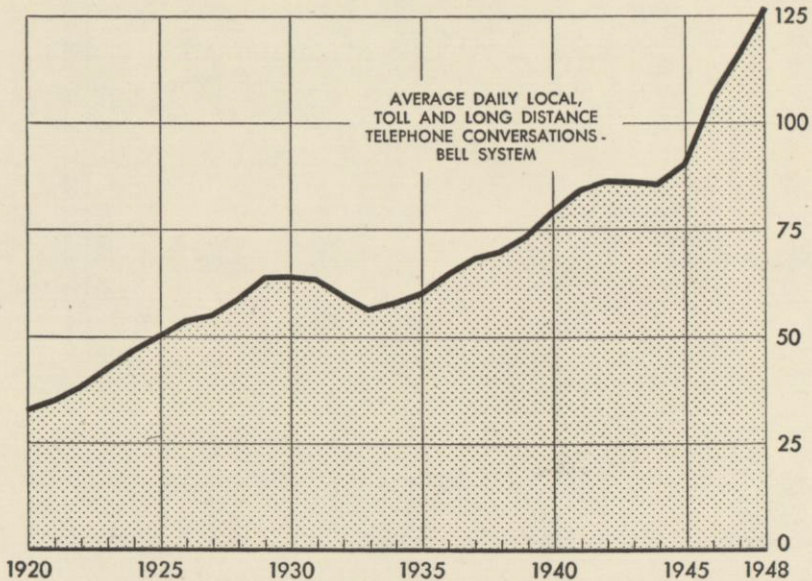
(b) For the year 1948 there were approximately 119,406,000 average daily local conversations and 5,865,000 toll and long distance conversations. an increase of 8.9% and 7.9%, respectively, over the year 1947.

(c) Includes employees of Western Electric Company and Bell Telephone Laboratories.

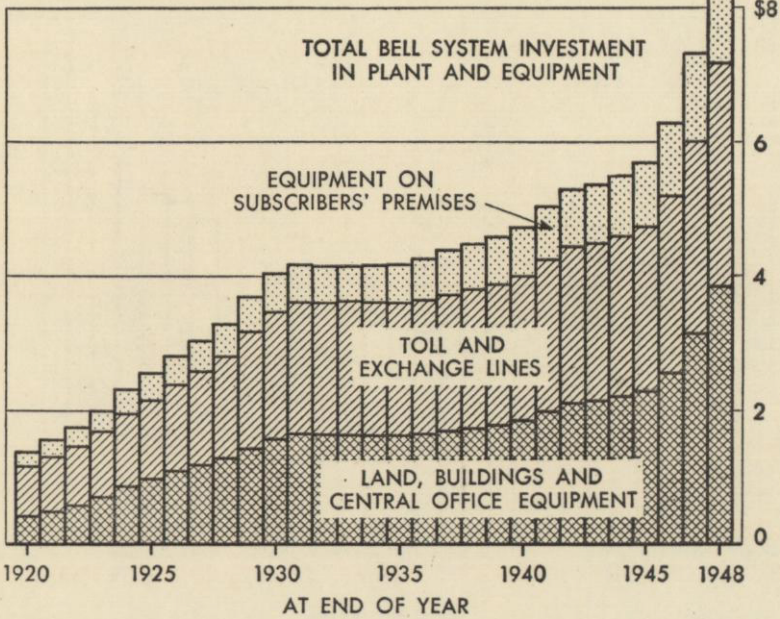
## TELEPHONES - IN MILLIONS



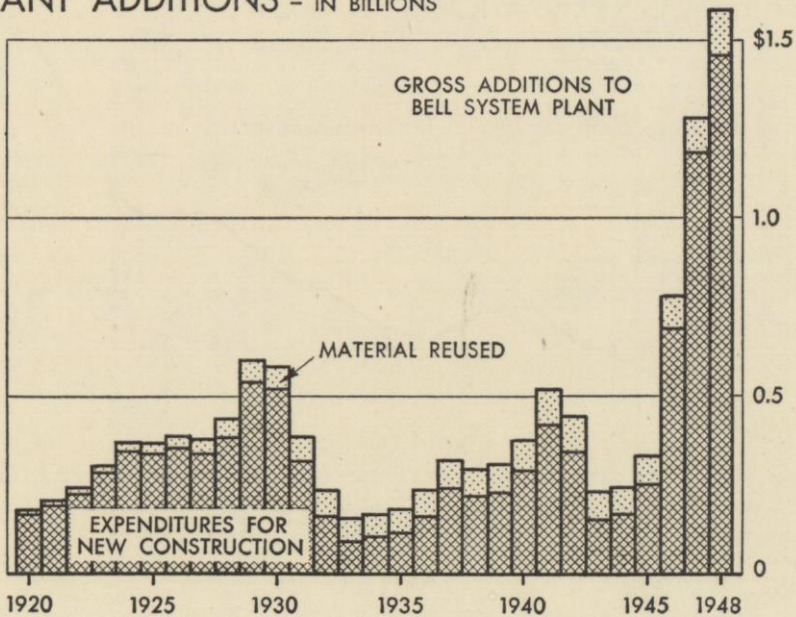
## DAILY CONVERSATIONS - IN MILLIONS



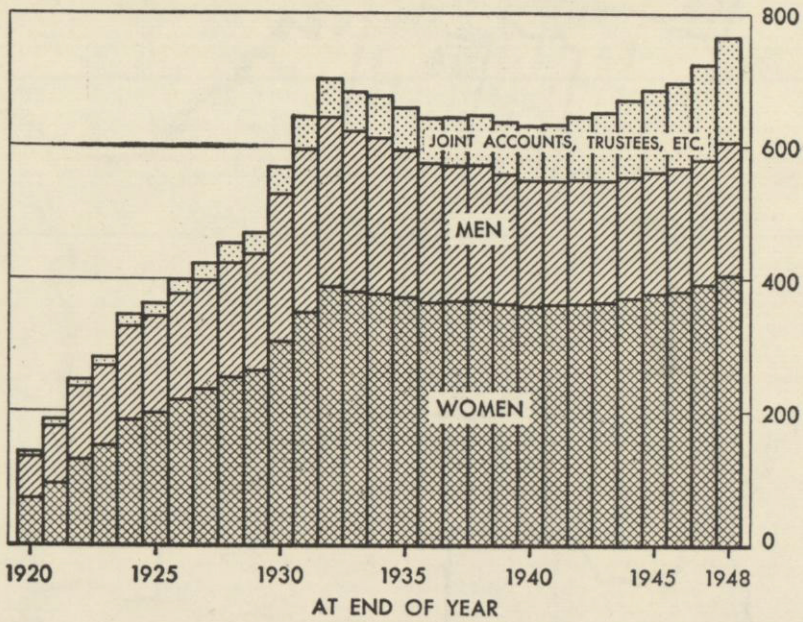
## PLANT INVESTMENT - IN BILLIONS



## PLANT ADDITIONS - IN BILLIONS



## A.T. & T. CO. STOCKHOLDERS - IN THOUSANDS



## BOOK EQUITY - PER SHARE OF A. T. & T. CO. STOCK

