

Annual Report

AMERICAN TELEPHONE AND TELEGRAPH COMPANY



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AMERICAN TELEPHONE AND TELEGRAPH COMPANY

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LEROY A. WILSON

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CARROLL O. BICKELHAUPT

Treasurer

DONALD R. BELCHER

Comptroller

WILLIAM SHELMERDINE

195 BROADWAY, NEW YORK 7, N. Y.

BELL SYSTEM HIGHLIGHTS FOR 1949

33,388,000 Telephones in Service

2,028,000 telephones were added, including 295,000 in rural areas. Three out of four orders for service were cared for without delay and the waiting list was further reduced. Total gain since the war exceeds 11,500,000.

Overall Service Quality at Peak

Average time to complete toll and long distance calls was down to 1½ minutes; 95 per cent of these calls were handled on a "no hang-up" basis — a new high record. Local calls likewise went through faster and more accurately.

\$9.70 Consolidated Earnings Per Share

The average investment per share at the end of the year was \$134.93. The annual dividend of \$9 per share has been paid for 29 consecutive years.

4.9 Per Cent Earned on Total Capital

This is substantially less than the average rate of earnings over the years.

Taxes More Than \$2 per Telephone per Month

Operating taxes together with Federal excise taxes paid by customers totaled nearly \$800,000,000.

940,000 Stockholders

There were 829,500 A. T. & T. stockholders at year-end and the number increased to about 940,000 in February 1950. More than 175,000 Bell System employees are now stockholders. One out of about every 50 families in the United States shares in the ownership of the System.

\$2,020,000,000 Total Payroll

On the average, wage rates for Bell System employees are now about double what they were ten years ago.

\$1,080,000,000 Expended for New Construction

\$622,000,000 of new capital was obtained. Expenditures for new construction since the war total \$4,525,000,000 and new capital obtained since the war amounts to \$3,373,000,000.

REPORT FOR THE YEAR 1949

The Board of Directors of the American Telephone and Telegraph Company presents herewith the management's accounting of its stewardship for the year 1949. This report is 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 nationwide service.

NINETEEN FORTY-NINE was a year of outstanding progress and improvement in the Bell Telephone System. The men and women of the System turned in a splendid performance and the overall quality of telephone service was raised to new high levels. At the same time, the scope and value of service were further increased and broad foundations laid to make it continuously better and more valuable in the future.

Progress in 1949 was carried forward on many fronts. The System handled a record volume of local, toll and long distance conversations. New equipment and methods contributed to faster and more accurate handling of calls. The proportion of dial telephones increased to 73 per cent. Service to farmers was further improved and some 295,000 more rural telephones were installed, bringing to about 1,300,000 the number added by the Bell System in rural areas since the war. Inter-city telephone facilities which are also suitable for transmitting television programs were greatly extended and more are under way. Stockholders increased to a record number and now total 940,000. For the third successive year, the System expended more than a billion dollars for construction of the best plant that telephone scientists and engineers can devise. Total expenditures for new construction since the war amount to \$4,525,000,000.

Well over 40 million telephones — better than one for every four people — are now interconnected throughout all parts of the United States. Some 33,400,000 are Bell System telephones and about 7,200,000 are served by several thousand independently owned telephone companies and by additional thousands of rural or farmer lines and systems. For many years the Bell and Independent organizations have worked effectively together in providing nationwide telephone service; their continuing cooperation was, as usual, essential to the progress and achievements of 1949.



MORE THAN 2,000,000 NEW TELEPHONES were added to the Bell System in 1949. The gain since the war now exceeds 11,500,000 — a 50 per cent increase. All of these additional telephones increase the value of all telephones in service. You can call more people — and more can call you.

1949 Earnings Were Below Average

Bell System operating revenues in 1949 were \$2,893,273,000, or ten per cent more than in 1948, and operating expenses were \$2,248,833,000, an increase of eight per cent over the previous year.

However, with a further substantial increase in capital investment, due to the need for continuing heavy construction expenditures to meet service demands, the rate of earnings on capital declined from 5.1 per cent in 1948 to 4.9 per cent in 1949. This compares with 6.3 per cent in 1941, the last pre-war year, and is substantially less than the average rate of earnings over the years. Net operating income in 1949 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 plant were valued at present costs. Also, while revenues increased by a slightly higher percentage than expenses during 1949, it is noteworthy that in the war and postwar periods as a whole expenses have gone up proportionately far more than revenues.

The total income available for interest and dividends in 1949 was \$352,799,000. More than 50 per cent of the total capital consisted of debt

at the end of the year and interest charges amounted to \$112,043,000. Consolidated net income applicable to American Telephone and Telegraph Company stock was \$232,855,000, or \$9.70 per share on the average investment per share of over \$134. This compares with \$9.86 per share in 1948. Net income of the American Company by itself (which includes the Company's interest in subsidiaries only to the extent that their earnings have been received as dividends) was \$9.49 per share in 1949, compared with \$9.20 in 1948.

The Proportion of Debt Should Be Reduced

In times like the present, when the level of business activity is extremely high, earnings should be substantially above the average, rather than below it; a margin of safety is essential to assure the rendering of good telephone service at all times.

Furthermore, over half the System's total capital, as already stated, is still in the form of debt, compared with less than a third before the war. Some 3,100,000 shares of American Company stock have been issued since the end of 1948. About 1,100,000 of these were issued under the Employees' Stock Plan (including 880,000 shares issued in February 1950) and the balance in conversion of debentures. However, the largest portion of the \$622,000,000 of new capital obtained in 1949 came from sale of \$394,372,900 of the Company's 3½% Convertible Debentures, of which about \$175,000,000 have subsequently been converted into stock. Also, in February 1950 the Company sold \$200,000,000 of 21-year non-convertible debentures.

About \$650,000,000 of the Company's three issues of convertible debentures are still outstanding.* Complete conversion of these debentures into stock, together with sale of the balance of the shares authorized under the Employees' Stock Plan, would reduce the debt ratio in the Bell System's capital structure to about 40 per cent. It is clear that as additional new capital becomes needed to meet service demands, the greater part should come from the issue of stock, either through bond conversions or otherwise.

* Of the Company's \$394,372,900 3½% Convertible Debentures of 1959, by February 1, 1950 approximately \$175,000,000 have been converted into stock at \$130 per share, payable by surrender of one \$100 debenture and \$30 in cash for each share issued on conversion. These debentures are convertible at \$130 per share until June 20, 1951, and on and after that date will be convertible at \$140 per share. About \$195,000,000 of the Company's \$357,532,600 2¾% Convertible Debentures of 1957 have been converted into stock at \$140 per share, and about \$72,000,000 of the \$343,087,700 2¾% Convertible Debentures of 1961 have been converted at \$150 per share (\$148 since October 1949). Some \$166,000,000 has been received as stock premiums from conversions. 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.

AVERAGE TELEPHONE CHARGES UP MUCH LESS THAN MOST OTHER PRICES

CHANGES SINCE 1939

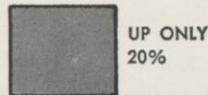
INCREASE IN AVERAGE INDUSTRIAL WAGES AND SALARIES



INCREASE IN COST OF LIVING



INCREASE IN BELL SYSTEM REVENUES FROM RATE INCREASES AUTHORIZED AND REQUESTED



TELEPHONE SERVICE IS A BARGAIN — Rate increases so far, plus those now requested, average only a penny or so per call. Related to incomes, the real cost of telephone service has gone down.

The System's major financial task is to obtain capital in this way, and to reduce the proportion of debt below the present high level. Additional earnings are needed to accomplish this task and thereby assure a sound financial basis for rendering the best possible telephone service in the years ahead.

Further Telephone Rate Increases Are Necessary

To obtain earnings that are adequate for the long pull, the Bell Companies have applied for additional rate increases in many states and will make other applications in the near future.

Telephone rate increases are necessary for a very simple reason: the increased cost of doing business has made it impossible to earn a reasonable return without them. The Telephone Companies have not asked nor do they intend to ask for more than is needed to enable them to meet their responsibilities properly and well.

While increases in telephone rates have varied for different classes of service in different places, the increases already authorized, plus the full amount now being sought, average only about 20 per cent of Bell System revenues. The rate increases that have been granted are only about half the

current annual cost — \$728,000,000 — of telephone wage increases made effective during the war and postwar periods. In addition to wages, of course, the costs of materials and almost everything else used in furnishing telephone service have risen substantially.

These higher costs not only increase current operating expenses. They also increase the cost of construction, and hence the amount of capital per telephone on which a return must be earned. New facilities required to serve new telephones and to replace used plant cost more than the plant previously in service. Technological developments and improved operating methods help to meet the problem, but in a period of rapidly lifted costs such as we are experiencing they cannot meet it entirely. It is essential that these higher construction costs be adequately recognized in the present repricing of telephone service.

The Tax Bill Is Very Heavy

Taxes on Bell System telephone service in 1949 amounted to nearly \$800,000,000. This is about \$100,000,000 more than the 1948 tax bill and is equal to more than \$2 a month for every telephone in service.

Federal excise taxes paid by customers in 1949, and remitted by the Bell Companies to the United States Treasury, came to about \$445,000,000. Taxes imposed on the Companies (but also paid by customers in the final analysis) were \$346,144,000. In connection with increases in telephone rates it may be noted that for each \$1.00 in additional net revenues, the Companies must charge telephone customers \$1.61 to offset the additional Federal net income tax, which is at the rate of 38 per cent. In addition the customer pays a minimum of 15 per cent for excise taxes, or 24 cents more for a total of \$1.85. Of this, the Government receives 85 cents and the Company \$1.00.

The present high excise tax rates are a carry-over of wartime restrictions and have no place in the peacetime economy. They discriminate against users of telephone service, as they saddle on them too great a portion of the total tax load. We therefore believe they should be abolished as soon as possible. If they cannot be abolished completely, the first step should be to eliminate the taxes on local telephone service and on toll messages of less than 50 cents, and to reduce greatly the tax rate on other toll messages.

Good Service Grows Steadily Better

Not only was overall service by the end of 1949 as good or better than the best before the war — the trend of performance was steadily upward and we

are looking forward to further improvement. Both local and out-of-town calls are going through faster and more accurately. The average time for putting through toll and long distance calls is now down to 1.5 minutes and 95 out of every 100 — more than ever before — are being completed while the calling party holds the line. Equipment troubles were again reduced in 1949 and the quality of plant maintenance has never been better. Service was marked, as usual, by the courtesy, friendliness and consideration which are at once a pleasure and a tradition with telephone people.

Telephone conversations during 1949 averaged 132,000,000 a day, compared with 125,300,000 a day in 1948 and 73,800,000 ten years ago. Toll and long distance messages averaged 5,900,000 a day — more than 4,000 a minute around the clock; this was about three per cent above the 1948 average and two and a half times the volume of ten years ago.

New demand continues far higher than in prewar years and despite the heavy construction program telephone plant is still heavily loaded. Nevertheless three out of every four people who applied for service in 1949 received their telephones without delay. Steady progress was made in reducing the



HALF OF ALL AMERICAN FARMS HAVE TELEPHONES — a far higher proportion than in any other country. Some 295,000 more rural telephones were added by the Bell System in 1949. About 1,300,000 have been added since the war — a remarkable record of progress. Telephone service to farmers is being improved, too, with fewer parties on the line and fewer rings heard by users.



OPERATOR TOLL DIALING speeds "Long Distance" and makes for more accurate service too. By this method operators can dial calls straight through to distant telephones. Nearly 30 per cent of all toll and long distance calls—about twice as many as two years ago—are now handled in this way. Plans are being made so that all calls can eventually be dialed by operators or customers.

waiting list. The number of unfilled orders — mostly for residential service in localities where growth and demand are heaviest — has now been reduced to about two per cent of the telephones in service. There have always been some orders awaiting completion of construction work, but the number at present is still higher than we should like and diligent efforts are being continued to reduce it further. We are likewise working hard to meet requests from over two million party line customers who desire individual lines or other higher classes of service. More than 600,000 such requests were taken care of in 1949.

Dial telephones increased by 3,000,000 and the proportion of dial telephones rose from 68 to 73 per cent. Significant progress was also made in extending the dialing of toll and long distance calls. This helps to make for faster service. By the end of the year 25,000 toll circuits reaching more than 600 cities and towns were so equipped that operators could dial calls straight through to distant telephones, including transcontinental calls between many cities on the Atlantic and Pacific coasts. In addition, equipment in several areas now enables over 2½ million customers to dial their own calls directly to

nearby cities or communities beyond their local calling area. Additional facilities are being installed that will further extend the dialing of out-of-town calls both by operators and telephone users.

Overseas service continued to expand, with 622,000 calls completed during the year — a new high record. Speed of service was further improved. New direct circuits were established from San Francisco to Hong Kong and Formosa, and between New York and Capetown. Service was extended to Iran, Tangier, Malta and the Bahrein Islands and now reaches 87 countries.

940,000 People Own the Bell System

The Bell System has been for many years the most widely owned enterprise in the world. Today it is far more widely owned than ever before. The Company's stockholders increased by 63,700 in 1949 to a new high of 829,500, and as this report is written the number of owners has reached 940,000.

Today about one in every 50 families in all walks of life — in the cities, towns and rural areas of America — shares directly in this ownership.

More than 175,000 Bell System employees are stockholders. In December 1949, employees completed installment payments on the first offering of shares under the Employees' Stock Plan, and approximately 1,100,000 shares have been issued. Under the second offering made in December 1948, 190,000 employees are now making payments on an additional 1,100,000 shares. A third offering is now being made of the balance of the 2,800,000 shares authorized under the Plan.

At the end of the year 95 per cent of the stockholders were individuals and more than half of them were women. The remaining five per cent were trustees, colleges, churches and others holding the stock for a great many beneficiaries. Some 230,000 stockholders held five shares or less, and 780,000 held less than 100 shares each. More than 360,000 have owned stock for 10 years or longer. The average holding was 30 shares, and no stockholder held as much as one-half of one per cent of the total stock.

Advances in Telephone Science Benefit Users

A new telephone set has been developed that uses new materials and new ideas. It is attractive in appearance, convenient and light in weight. Through application of new scientific principles, talking and hearing qualities are improved and the loudness of the set is automatically adjusted to compensate for its distance from the central office. A trial lot of several thousand has

been installed to check performance under all conditions before regular production of the sets begins.

From its earliest days the Bell System has carried on organized research to give telephone users prompt and full benefits from advances in science. This work at Bell Telephone Laboratories covers all phases of communication, from improving the simpler things used in telephony to developing complex new systems and studying fundamental principles.

Operator toll dialing, mentioned above, is an illustration of a complex system. It works through an intricate web of equipment spread over many cities. Various parts of this equipment remember what telephone is wanted, locate a route, pass the number from place to place, and connect together the various sections of lines over which telephone users will talk. Other devices then keep constant watch over the connection and promptly light signals in front of the calling operator when the call is answered, and when it ends. If the called line is busy, that also is indicated. Equipment to do all these things is now in use, and additional facilities are being developed which will provide still greater speed, reliability and economy.



RADIOACTIVE ISOTOPES NOW USED IN TELEPHONE LABORATORIES. These by-products of atomic energy research help in many telephone problems—for example, in detecting impurities in materials. This means better, longer-lasting telephone equipment. For safety, chemists at Bell Laboratories handle the “hot” isotopes with tongs from behind a shield of lead bricks.

One of the most recent inventions of the Laboratories is the photo-transistor. It is based on the same principle as the amplifying transistor mentioned in last year's report, but is controlled by light rather than by electric current. One of its applications will be in a machine to be used in toll dialing.

Bell Laboratories also draws upon developments made elsewhere. For example, radioactive isotopes, developed by others as by-products of atomic energy research, are now being used to study the penetration of preservatives into telephone poles, the wear that occurs in important moving parts, the causes for deterioration of vacuum tube filaments and many other problems.

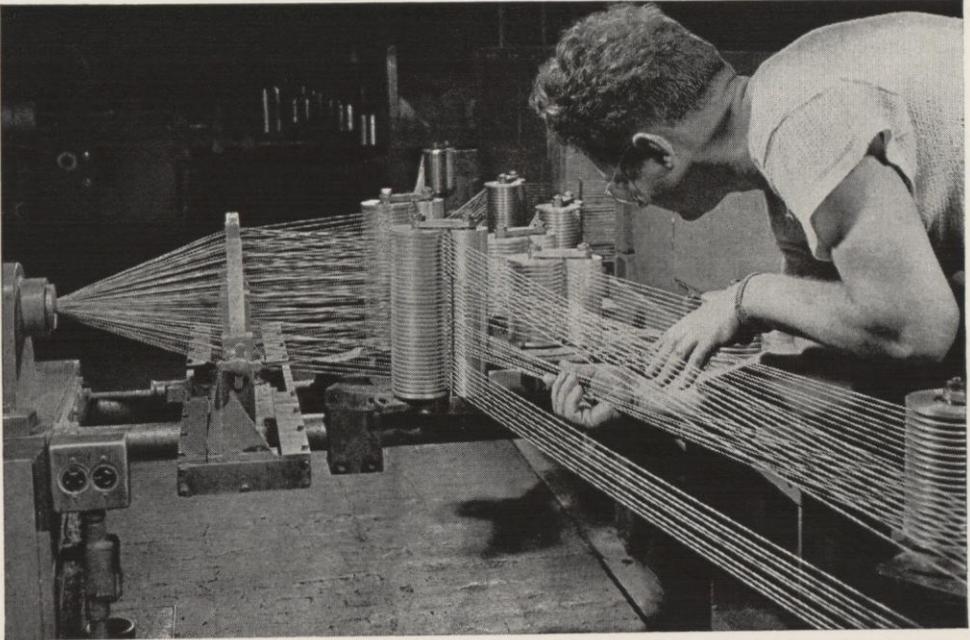
Western Electric Serves Atomic Energy Commission

At the request of the United States Atomic Energy Commission, Western Electric Company, the manufacturing and supply unit of the System, took over on November 1 the operation of the Commission's Sandia Laboratory near Albuquerque, New Mexico. This Laboratory has an important function in bridging the gap between research and the manufacturing operations on atomic weapons. The contract with the Commission is effective through 1953 and at the Company's suggestion provides for no profit. To conduct the work, Western Electric has organized a subsidiary named the Sandia Corporation which will be able to call upon both Bell Telephone Laboratories and Western Electric itself for scientific services and technical and managerial assistance.

Western Electric was able to meet the large requirements of the Bell Telephone Companies in 1949 without operating at such high levels as in the two previous years. Sales of \$858,191,000 compared with \$1,132,972,000 in 1948 and \$995,964,000 in 1947. The 1949 sales were still double the dollar volume of the biggest prewar year. Eighty-nine per cent were to Bell Telephone Companies. More than half of the remaining sales of \$97,000,000 were to the United States Government.

Earnings were \$42,566,000 or 5 per cent of sales. Western Electric continued in 1949 the downward movement of prices it initiated in 1948 when prices of manufactured products generally were holding firm or rising. The Bell Telephone Companies last year paid nearly \$14,000,000 less for Western Electric products and services than if 1948 year-end prices had remained unchanged.

In April 1949 Western Electric and American Telephone and Telegraph Company filed answer in the Federal District Court in New Jersey to the



THE TELEPHONE CABLE BEING MADE HERE, and other equipment of highest quality, is supplied to the operating telephone companies of the System by Western Electric at lower prices than it can be bought anywhere else. Western Electric in turn bought from 23,000 concerns last year in about 2,500 American cities and towns. Co-ordination of research, manufacturing and operation is an important reason why this country has the best and most economical telephone service in the world.

complaint brought in January 1949 by the United States Attorney General alleging violation of the Sherman Anti-Trust Act. The answer denies any violation of the Act and points out that the American Company's ownership of Western Electric benefits telephone users, who thereby obtain better service at lower cost. To date there have been no further proceedings in the suit.

Issuance of 1,500,000 additional shares of capital stock at \$40 per share increased the equity capital of Western Electric Company in 1949 by \$60,000,000. The shares were offered pro rata to stockholders and the offering was fully subscribed. American Telephone and Telegraph Company purchased 1,497,791 shares.

Keeping Pace with the Progress of Television

The System in 1949 substantially increased its facilities for carrying television programs. Networks in the East and Mid-West, linked together early in the year, were extended to about 8,500 channel miles and now interconnect 25 cities having 50 television stations. Facilities will be further increased in

1950. We are also keeping in close touch with color television developments and will be in a position to transmit color programs when that is desired.

Both coaxial cable and radio relay systems are generally designed for carrying telephone conversations and television programs. One television channel uses as many facilities as are needed to carry several hundred conversations.

The overall coaxial network was extended over another 1,100 miles of route, bringing the total to 7,600 miles, and radio relay facilities were completed over half a dozen or more relatively short routes. A much longer radio relay system is now being installed between New York and Chicago and work is also under way to extend this westward to Des Moines and Omaha. Construction of the more than 30 relay towers between New York and Chicago was nearly completed in 1949 and much of the equipment was installed.

Payrolls Remain at High Level

With the passing of the high peak of telephone manufacturing and construction activity reached in late 1947 and 1948, Bell System employment declined somewhat in 1949 though it is still far higher than before or during the war.

At the end of the year there were 593,900 employees, including 72,100 employed by Western Electric Company and 5,900 by Bell Telephone Laboratories. This compared with a total of 656,500 in 1948; 443,200 at the end of the war; and 323,700 in 1940. More than 200,000 employees have worked in the System ten years or more and 139,000 have served 20 years or more. Nearly three-fifths of all employees are women.

The 1949 expense payroll of the System, excluding Western Electric and Bell Telephone Laboratories, represented 63 per cent of operating expenses other than taxes. Total payroll in 1949, including Western Electric and the Laboratories, was \$2,019,681,000 or about the same as the high level reached in 1948. On the average, wage rates for Bell System employees are now about double what they were ten years ago.

The majority of labor agreements between the Bell Companies and the unions may be reopened as to wages or terminated by the middle of 1950. In a few instances contracts expired or were reopened by the unions for wage negotiations in the latter part of 1949. Early in January 1950 most divisions of the Communications Workers of America served notice of intention to exercise wage reopening provisions in their contracts. CWA later said that some divisions would strike February 8, but subsequently changed

the date to February 24. All CWA divisions together represent about half the employees of Bell System Companies who are represented by unions.

The Bell Companies maintain thrift plans under which employees may specify allotments from pay for purchase of U. S. Savings Bonds and American Telephone and Telegraph Company stock, for life insurance premiums and hospital service and surgical care subscriptions, for deposits in savings institutions and for other related purposes. During 1949 the amount so laid aside by employees was \$258,000,000, or about 13 per cent of the payroll.

Under the Theodore N. Vail Memorial Fund established in 1920, four silver medals, 21 bronze medals and one special plaque were awarded in 1949. These Vail awards were made in recognition of noteworthy acts of service reflecting the high ideals and traditions of telephone work.

Employee Benefit and Pension Plans Again Improved

It may be recalled that in January 1946 the Plans of the Bell System Companies for Employees' Pensions, Disability Benefits and Death Benefits were amended to increase the minimum pension from \$30 to \$50. New amendments that became effective November 16, 1949, provide for further upward adjustment of the minimum in the light of current conditions. Under these new provisions, the minimum pension payment under the Plans is the amount which, when added to related benefits under Federal Social Security (if any), will equal \$100 a month for persons who have attained age 65 and \$75 a month for persons who have not reached 65. The minimum applies to full-time employees who have completed 20 years or more of service at time of retirement on pension.

The Plans have been in effect since 1913 and are maintained by the Companies without any cost to employees. During 37 years of operation they have been amended from time to time to meet changing conditions and in such a way that the Plans have remained sound. They have thus served most effectively the purposes for which they are designed — to help maintain the efficiency of the business, to assist employees and their dependents in meeting the problems that come with sickness, accident or death, and to provide pension payments on retirement.

Charges have been filed by some unions with the National Labor Relations Board alleging unfair labor practices on the part of the Companies in amending their Plans. The Plans apply alike to all employees, both union members and others, and have always contained provisions that they can be amended so long as changes do not take away the rights of any employee, with-

out his consent, to any benefit or pension to which he may have previously become entitled. The amendments of November 16, 1949, like preceding amendments, are in keeping with these provisions.

About \$180,000,000 was expended in 1949 by the Bell System, including Western Electric and Bell Telephone Laboratories, for pensions and for sickness, accident and death benefits. These payments were made to about 112,000 employees and dependents of employees; to Pension Trust Funds; and to the Federal Government for old age benefit purposes under the Social Security Act. They amounted to 8.9 per cent of the payroll and were as follows:

To Pension Trust Funds	\$128,927,000
Employer's Tax — Social Security Old Age Benefits	16,342,000
Sickness Disability Benefits	26,700,000
Accident Disability Benefits	1,622,000
Death Benefits	4,676,000
Disability Pensions	1,617,000
	<hr/>
TOTAL	\$179,884,000

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. This is in accordance with sound pension practices. Other payments are made directly by the Companies as they become payable.

The Pension Trust Funds of the Bell Companies, including Western Electric Company and Bell Telephone Laboratories, amounted to \$1,089,677,000 at the end of 1949. As of December 31, 1949, there were 13,623 men and 8,919 women, or a total of 22,542 on the service pension rolls. Some 16,000 more had been credited with enough service and had attained the age which entitled them, at their own request, to retire with a pension.

Mr. Gifford Designated Honorary Chairman

After more than 45 years of service in the Bell System, during 23 years of which he served as President of this Company, Mr. Walter S. Gifford, Chairman of the Board, retired at the end of 1949 in accordance with the Company's retirement plan. The Board of Directors has designated him as its Honorary Chairman and as such he will continue to be available for advice.

With courage, wisdom and foresight Mr. Gifford led the Bell System through nearly a quarter-century of outstanding achievement. During his presidency fundamental policies were formulated and put into practice that have made the System an institution the American people can be proud of.

The Directors of American Telephone and Telegraph Company wish here to record again their appreciation of his long and distinguished contribution to the welfare of the Company and of the public, their personal affection for him and their best wishes for the future.

Breaking New Ground

Telephone service today is generally as fast, clear, accurate and dependable as at any time in history and the Bell System is breaking new ground in service betterment.

It is fundamental in the policy of the business that the only good service in the long run is one that is always improving. We expect to go forward in the years ahead as we have in the years gone by. Bell System research was never more effective than it is today. Bell System manufacturing, supply and service operations were never better performed. The men and women of all departments are doing a magnificent job and the facilities they design, build and operate are far and away the best in history and getting better every day.

We are confident too that telephone users desire good and improving service and prefer to pay what it reasonably costs. We believe the public understands the need for good telephone wages and working conditions—for a sound financial structure—and for earnings that will continue to provide a steady and reasonable return on the billions of dollars invested in the Bell System by hundreds of thousands of men and women. We have confidence that under wise regulation, in future as in the past, the System will continue to have the means and the freedom it needs to do the best job that it can.

Those are cornerstones in the building of a communication system that is a great national asset. The character of the organization is in its full acceptance of the responsibilities entrusted to it. It is in the knowledge and skill that the Bell System has gained and is constantly increasing. It is in the desire of telephone people to serve with friendliness and courtesy and cheerful will to get the message through. All of these things are as real as the ring of the telephone bell. They are found alike in “the voice with the smile” — in the mind and hands of the craftsman — and in the consideration of every problem of policy. They mean that the Bell System can be relied on to move steadily forward in providing better and better telephone service to the American people.

For the Board of Directors,

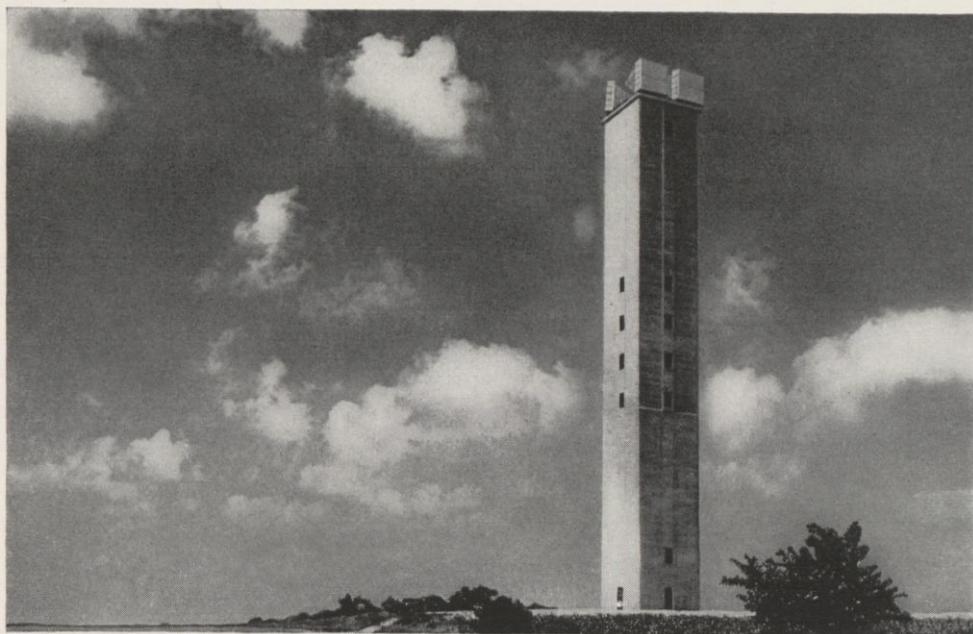
Leroy A. Wilson

FEBRUARY 15, 1950.

President.



BLAZING NEW TRAILS — Through cities and towns, to villages and farms, across deserts, under rivers and over mountain tops, the Bell System keeps pushing forward to improve and extend telephone service. More than \$1,000,000,000 was spent for construction of new plant in 1949.



THE BELL SYSTEM'S RADIO RELAY NETWORK not only provides added Long Distance telephone facilities but also plays an important part in television. Already it is helping to carry television programs to areas totaling more than 45,000,000 population. Further expansion is under way.

CERTIFICATE OF AUDIT

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, 1949, the consolidated balance sheet of the company and its principal telephone subsidiaries as of December 31, 1949, and the related statements of income and surplus for the year 1949. Our examination with respect to such companies was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Examinations of similar scope have been made by us of the balance sheets as of December 31, 1949 and of the statements of income and surplus for the year 1949 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 1949 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, 1949 and the statement of consolidated income and surplus of these companies for the year 1949, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 26 to 29) and the consolidated financial statements (pages 19 to 24) present fairly the position at December 31, 1949 and the results of operations for the year 1949 of American Telephone and Telegraph Company and the consolidated position at December 31, 1949 and the consolidated results of operations for the year 1949 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, 1950

FINANCIAL STATEMENTS

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS appear on pages 20 to 24, inclusive. These statements consolidate the accounts of the American Telephone and Telegraph Company, its directly-owned telephone subsidiaries (listed on page 30), and the Bell Telephone Company of Nevada, a wholly-owned subsidiary of the Pacific Telephone and Telegraph Company.

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 total cost of such securities to the companies owning them and the total 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 26 to 29.

W. SHELMEKDINE
Comptroller.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1949	December 31, 1948
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a).....	\$ 9,432,749,584	\$ 8,618,842,204
<i>Classified in the accounts of the companies at December 31, 1949 as follows:</i>		
Telephone Plant in Service.....	\$9,222,457,112	
Telephone Plant under Construction....	185,840,654	
Property Held for Future Telephone Use	13,759,169	
Telephone Plant Acquisition Adjustment	10,692,649	
Miscellaneous Physical Property.....	5,747,913	4,137,236
Investments in Subsidiaries not consolidated (b).....	396,852,101	334,634,340
Equities in Subsidiaries not consolidated in excess of investments therein	52,543,023	46,865,549
Other Investments (b).....	59,645,114	56,145,825
<i>Principally in non-controlled telephone companies.</i>		
Total Plant and Other Investments.....	<u>\$ 9,947,537,735</u>	<u>\$ 9,060,625,154</u>
CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 77,751,341	\$ 79,070,810
Temporary Cash Investments.....	246,983,715	376,853,892
<i>Comprises at December 31, 1949, U. S. short-term obligations having a market value of \$247,045,000.</i>		
Special Cash Deposits.....	11,991,062	7,189,990
Current Receivables	325,875,951	290,328,370
<i>Amounts due for service (less reserves amounting to \$4,229,974 at December 31, 1949), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	98,983,926	123,610,075
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets.....	<u>\$ 761,585,995</u>	<u>\$ 877,053,137</u>
DEFERRED DEBITS		
Prepayments of Directory Expenses, Rents, Taxes, etc.....	\$ 41,979,893	\$ 37,092,834
Other Deferred Debits.....	24,130,490	25,911,901
Total Deferred Debits	<u>\$ 66,110,383</u>	<u>\$ 63,004,735</u>
Total Assets	<u>\$10,775,234,113</u>	<u>\$10,000,683,026</u>

For notes, see page 24.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET—Continued

LIABILITIES

	December 31, 1949	December 31, 1948
CAPITAL STOCK		
American Telephone and Telegraph Company:		
Common Stock—Par Value.....	\$ 2,526,118,300	\$ 2,335,096,300
Premiums on Capital Stock.....	522,888,638	463,674,285
<i>Amount received in excess of par value.</i>		
Capital Stock Installments (c).....	169,778,347	82,971,178
Subsidiaries Consolidated—stocks held by public:		
Common Stock	100,705,700	98,117,100
Preferred Stock	17,904,300	17,904,300
Total Capital Stock	<u>\$ 3,337,395,285</u>	<u>\$ 2,997,763,163</u>
FUNDED DEBT (see page 25)		
American Telephone and Telegraph Company (d).....	\$ 1,921,975,900	\$ 1,699,995,200
Subsidiaries Consolidated	1,733,000,000	1,708,000,000
Total Funded Debt	<u>\$ 3,654,975,900</u>	<u>\$ 3,407,995,200</u>
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 112,900,000	\$ 77,260,000
Accounts Payable	250,911,813	282,204,515
Advance Billing for Service and Customers' Deposits.....	69,768,367	59,242,857
Dividends Payable	57,191,179	52,978,012
Other Current Liabilities.....	14,677,106	14,373,486
Interest Accrued	25,431,099	24,855,616
Taxes Accrued	207,458,280	179,511,131
Total Current and Accrued Liabilities	<u>\$ 738,337,844</u>	<u>\$ 690,425,617</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt.....	\$ 15,635,150	\$ 16,110,508
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits.....	14,736,414	14,607,336
Total Deferred Credits	<u>\$ 30,371,564</u>	<u>\$ 30,717,844</u>
DEPRECIATION AND AMORTIZATION RESERVES		
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
\$ 2,649,266,064	<u>\$ 2,649,266,064</u>	<u>\$ 2,525,788,325</u>
SURPLUS APPLICABLE TO STOCKS OF SUBSIDIARIES		
CONSOLIDATED HELD BY PUBLIC		
\$ 5,517,457	<u>\$ 5,517,457</u>	<u>\$ 4,594,145</u>
SURPLUS APPLICABLE TO STOCK OF A. T. & T. Co.		
Earned Surplus Reserved (e).....	\$ 19,282,084	\$ 11,853,780
Unappropriated Earned Surplus (see page 23).....	340,087,915	331,544,952
\$ 359,369,999	<u>\$ 359,369,999</u>	<u>\$ 343,398,732</u>
Total Liabilities	<u>\$10,775,234,113</u>	<u>\$10,000,683,026</u>

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED INCOME STATEMENT

OPERATING REVENUES	Year 1949	Year 1948
Local Service Revenues.....	\$1,697,291,339	\$1,506,293,102
Toll Service Revenues.....	1,071,840,752	1,009,770,892
Miscellaneous Revenues	134,376,823	117,206,351
<i>Derived from directory advertising, rents and miscellaneous sources.</i>		
Less: Uncollectible Operating Revenues.....	10,235,558	8,443,278
Total Operating Revenues (f)	\$2,893,273,356	\$2,624,827,067
OPERATING EXPENSES		
Current Maintenance	\$ 644,654,882	\$ 583,366,263
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation and Amortization Expense.....	320,976,914	278,130,536
<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	659,122,348	649,082,881
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	274,007,541	251,827,552
<i>Costs incurred in business relations with customers; pay station commissions; cost of directories, advertising, etc.</i>		
Operating Rents	25,570,037	23,128,233
General and Miscellaneous Expenses:		
General Administration	28,600,097	26,356,405
Accounting and Treasury Departments.....	133,015,959	122,417,487
Development and Research (g).....	16,497,204	15,583,014
Provision for Employees' Service Pensions (h).....	99,386,112	91,357,124
Employees' Sickness, Accident, Death and Other Benefits	29,388,563	27,388,478
Other General Expenses.....	44,570,194	38,350,599
Less: Expenses Charged Construction.....	26,956,546	28,337,662
Total Operating Expenses	\$2,248,833,305	\$2,078,650,910
Net Operating Revenues	\$ 644,440,051	\$ 546,176,157
OPERATING TAXES		
Federal Taxes on Income.....	\$ 121,017,203	\$ 100,648,493
Other Taxes—principally State, local and Social Security..	225,126,539	191,828,705
Total Operating Taxes	\$ 346,143,742	\$ 292,477,198
Net Operating Income (carried forward)	\$ 298,296,309	\$ 253,698,959

For notes, see page 24.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED INCOME STATEMENT—Continued

	Year 1949	Year 1948
Net Operating Income (brought forward).....	\$ 298,296,309	\$ 253,698,959
OTHER INCOME		
Dividends from subsidiaries not consolidated (i).....	\$ 39,292,447	\$ 37,279,878
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (j).....	4,671,110	15,056,152
Dividends from other companies.....	4,199,121	4,120,408
Miscellaneous income (k).....	18,133,067	20,968,190
Less: Miscellaneous deductions from income (h).....	11,793,013	11,623,246
Income Available for Fixed Charges	<u>\$ 352,799,041</u>	<u>\$ 319,500,341</u>
FIXED CHARGES		
Interest on Funded Debt.....	\$ 105,951,671	\$ 87,419,067
Other Interest	6,360,265	3,049,272
Other Fixed Charges.....	28,180	29,717
Less: Release of Premium on Funded Debt—net.....	297,080	162,499
Net Income	<u>\$ 240,756,005</u>	<u>\$ 229,164,784</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	6,826,282	5,674,658
Net Income Applicable to A. T. & T. Co. Stock ..	<u>\$ 232,855,465</u>	<u>\$ 222,415,868</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (1) ..	\$9.70	\$9.86

Statement of Consolidated Unappropriated Earned Surplus Applicable to American Telephone and Telegraph Company Stock—Year 1949

BALANCE—DECEMBER 31, 1948.....	\$ 331,544,952
Net Income applicable to A. T. & T. Co. Stock.....	\$ 232,855,465
Profit on sales of securities.....	1,072,666
Adjustment of tax accruals for prior years.....	511,473
Miscellaneous additions	1,401,878
TOTAL ADDITIONS	<u>\$ 235,841,482</u>
Dividends on A. T. & T. Co. Stock.....	\$ 216,127,324
Transferred to Earned Surplus Reserved—Net.....	7,428,304
Write-down of Telephone Plant Acquisition Adjustment.....	1,242,137
Write-off of Organization and Capital Stock Expense.....	1,220,155
Net losses on sales of property and abandoned projects written off.....	1,049,718
Miscellaneous deductions	230,881
TOTAL DEDUCTIONS	<u>\$ 227,298,519</u>
BALANCE—DECEMBER 31, 1949.....	<u>\$ 340,087,915</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, 1949 securities carried in Investments in Subsidiaries not consolidated at \$28,338,000 have been deposited as part of the security for funded debt of a subsidiary consolidated.

(c) Installment payments and interest credited thereon applicable to shares which employees of the American Telephone and Telegraph Company and its subsidiaries elected to purchase under the Employees' Stock Plan — at December 31, 1949, \$113,868,424 applicable to 891,879 shares elected under the initial offering and \$55,909,923 applicable to 1,105,207 shares elected under the second offering. Regular installment payments under the initial offering were completed in December 1949 and 882,185 shares elected under such offering have been issued in February 1950, making a total of 1,088,013 shares which have been issued to date under the Plan. The Company made a third offering in January 1950 of the balance of the 2,800,000 shares authorized under the 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.

(d) The American Telephone and Telegraph Company sold in February 1950, \$200,000,000 principal amount of Twenty-One Year 2¾% Debentures, due February 1, 1971.

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

(f) "Total Operating Revenues" include approximately \$21,050,000 in 1949 and \$5,750,000 in 1948 with respect to which reservations of surplus have been made against contingency of refunds to subscribers in connection with certain pending rate proceedings.

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

(h) The total provision for employees' service pensions amounted to \$107,567,818 for 1949 and \$99,538,830 for 1948, of which \$8,181,706 for each year was 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 this latter amount was, in fact, a current operating expense.

(i) Includes dividends received from Western Electric Company in the amounts of \$37,424,155 in 1949 and \$35,926,364 in 1948.

(j) 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 \$5,055,380 in 1949 and \$14,818,302 in 1948.

(k) Includes interest charged construction in the amounts of \$12,700,328 in 1949 and \$16,079,496 in 1948.

(l) Based on average number of shares outstanding — 24,014,147 in 1949 and 22,566,847 in 1948.

BELL SYSTEM FUNDED DEBT

DECEMBER 31, 1949

	Amount	Increase During Year
American Telephone and Telegraph Company:		
Ten Year Convertible Debenture 2 ³ / ₄ s, 1957.....	\$ 164,960,300	—\$ 21,024,700
Ten Year Convertible Debenture 3 ¹ / ₈ s, 1959.....	246,015,800	246,015,800
Fifteen Year Convertible Debenture 2 ³ / ₄ s, 1961.....	270,999,800	—3,010,400
Thirty Year Debenture 2 ³ / ₄ s, 1970.....	140,000,000	.....
Twenty-Five Year Debenture 3 ³ / ₈ s, 1973.....	150,000,000	.....
Thirty Year Debenture 2 ³ / ₄ s, 1975.....	160,000,000	.....
Thirty-Five Year Debenture 2 ³ / ₄ s, 1976.....	90,000,000	.....
Thirty-Five Year Debenture 2 ³ / ₄ s, 1980.....	175,000,000	.....
Thirty-Five Year Debenture 2 ³ / ₄ s, 1982.....	200,000,000	.....
Forty Year Debenture 2 ⁵ / ₈ s, 1986.....	125,000,000	.....
Forty Year Debenture 2 ⁷ / ₈ s, 1987.....	200,000,000	.....
New England Telephone and Telegraph Company:		
First Mortgage 5s, 1952, Series A.....	.....	—35,000,000
First Mortgage 4 ¹ / ₂ s, 1961, Series B.....	40,000,000	.....
First Mortgage 2 ³ / ₄ s, 1975, Series D.....	20,000,000	.....
Twenty-Five Year Debenture 3s, 1974.....	35,000,000	35,000,000
Thirty-Five Year Debenture 3s, 1982.....	40,000,000	.....
New York Telephone Company:		
Refunding Mortgage 3s, 1964, Series C.....	75,000,000	.....
Refunding Mortgage 2 ³ / ₄ s, 1982, Series D.....	125,000,000	.....
Refunding Mortgage 3 ¹ / ₈ s, 1978, Series E.....	60,000,000	.....
Refunding Mortgage 3s, 1981, Series F.....	90,000,000	.....
New Jersey Bell Telephone Company:		
Forty Year Debenture 3 ¹ / ₈ s, 1988.....	55,000,000	.....
Bell Telephone Company of Pennsylvania:		
First and Refunding Mortgage 5s, 1960, Series C.....	50,000,000	.....
First and Refunding Mortgage 2 ³ / ₄ s, 1976, Series D..	20,000,000	.....
First and Refunding Mortgage 2 ³ / ₄ s, 1973, Series E..	35,000,000	.....
Twenty-Five Year Debenture 3s, 1974.....	25,000,000	25,000,000
Diamond State Telephone Company:		
Thirty Year Debenture 3s, 1968.....	3,000,000	.....
Southern Bell Telephone and Telegraph Company:		
Thirty Year Debenture 2 ³ / ₄ s, 1972.....	35,000,000	.....
Forty Year Debenture 3s, 1979.....	25,000,000	.....
Forty Year Debenture 2 ³ / ₄ s, 1985.....	45,000,000	.....
Forty Year Debenture 2 ⁷ / ₈ s, 1987.....	75,000,000	.....
Michigan Bell Telephone Company:		
Forty Year Debenture 3 ¹ / ₈ s, 1988.....	75,000,000	.....
Illinois Bell Telephone Company:		
First Mortgage 2 ³ / ₄ s, 1981, Series A.....	50,000,000	.....
First Mortgage 3s, 1978, Series B.....	60,000,000	.....
Northwestern Bell Telephone Company:		
Thirty-One Year Debenture 3 ¹ / ₄ s, 1979.....	60,000,000	.....
Southwestern Bell Telephone Company:		
Thirty-Five Year Debenture 3 ¹ / ₈ s, 1983.....	100,000,000	.....
Forty Year Debenture 2 ³ / ₄ s, 1985.....	75,000,000	.....
Mountain States Telephone and Telegraph Company:		
Thirty Year Debenture 3 ¹ / ₈ s, 1978.....	25,000,000	.....
Forty Year Debenture 2 ⁵ / ₈ s, 1986.....	35,000,000	.....
Pacific Telephone and Telegraph Company:		
Thirty Year Debenture 3 ¹ / ₄ s, 1978.....	75,000,000	.....
Thirty-Five Year Debenture 3 ¹ / ₈ s, 1983.....	75,000,000	.....
Forty Year Debenture 2 ³ / ₄ s, 1985.....	75,000,000	.....
Forty Year Debenture 2 ⁷ / ₈ s, 1986.....	75,000,000	.....
Forty Year Debenture 3 ¹ / ₈ s, 1987.....	100,000,000	.....
Total Funded Debt	\$3,654,975,900	\$246,980,700

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET

ASSETS

PLANT AND OTHER INVESTMENTS	December 31, 1949	December 31, 1948
Telephone Plant (a)	\$ 873,374,066	\$ 836,532,249
<i>Classified in the accounts at December 31, 1949 as follows:</i>		
Telephone Plant in Service	\$ 851,834,754	
Telephone Plant under Construction	21,027,210	
Property Held for Future Telephone Use	512,102	
Investments in Subsidiaries—at cost (see page 30)	4,560,262,065	3,877,516,944
Stocks	\$4,216,152,065	
Advances	344,110,000	
Other Investments—at cost (see page 30)	49,870,560	46,720,371
Stocks	\$ 49,048,747	
Advances	500,000	
Miscellaneous	321,813	
Total Plant and Other Investments	<u>\$5,483,506,691</u>	<u>\$4,760,769,564</u>
CURRENT ASSETS		
Cash and Demand Deposits	\$ 16,393,203	\$ 15,781,478
Temporary Cash Investments	239,983,008	374,858,262
<i>Comprises at December 31, 1949 U. S. short-term obligations having a market value of \$240,044,000.</i>		
Special Cash Deposits	2,903,367	2,360,625
Current Receivables	37,744,354	36,963,980
<i>Amounts due for service (less reserve amounting to \$50,000 at December 31, 1949), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	8,448,115	8,640,674
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 305,472,047</u>	<u>\$ 438,605,019</u>
DEFERRED DEBITS	\$ 14,747,158	\$ 13,994,064
 Total Assets	 <u>\$5,803,725,896</u>	 <u>\$5,213,368,647</u>

For notes, see page 29.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET—Continued

LIABILITIES

CAPITAL STOCK	December 31, 1949	December 31, 1948
Common Stock—par value (\$100 per share).....	\$2,526,118,300	\$2,335,096,300
<i>Authorized, 35,000,000 shares; outstanding at December 31, 1949, 25,261,183 shares (b).</i>		
Premiums on Capital Stock.....	522,888,638	463,674,285
<i>Amount received in excess of par value.</i>		
Capital Stock Installments (c).....	169,778,347	82,971,178
Total Capital Stock	<u>\$3,218,785,285</u>	<u>\$2,881,741,763</u>
FUNDED DEBT (see page 25 and note d).....	<u>\$1,921,975,900</u>	<u>\$1,699,995,200</u>
CURRENT AND ACCRUED LIABILITIES		
Dividend Payable	\$ 56,669,227	\$ 52,468,992
Accounts Payable	14,662,995	19,428,222
Interest Accrued	8,674,978	8,488,958
Taxes Accrued	21,376,490	26,579,763
Total Current and Accrued Liabilities	<u>\$ 101,383,690</u>	<u>\$ 106,965,935</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt.....	\$ 2,929,726	\$ 3,369,740
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits.....	12,450,828	12,111,905
Total Deferred Credits	<u>\$ 15,380,554</u>	<u>\$ 15,481,645</u>
DEPRECIATION RESERVE	<u>\$ 323,383,407</u>	<u>\$ 298,603,353</u>
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
UNAPPROPRIATED EARNED SURPLUS	\$ 222,817,060	\$ 210,580,751
Analysis of change during 1949:		
Net Income (see page 28).....	\$228,003,399	
Miscellaneous additions	755,402	
Total additions	<u>\$228,758,801</u>	
Dividends declared	\$216,127,324	
Miscellaneous deductions	395,168	
Total deductions	<u>\$216,522,492</u>	
Net increase	\$ 12,236,309	
Total Liabilities	<u>\$5,803,725,896</u>	<u>\$5,213,368,647</u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INCOME STATEMENT

OPERATING REVENUES	Year 1949	Year 1948
Toll Service Revenues (e).....	\$181,889,988	\$184,239,475
License Contract Revenues (f).....	26,979,133	32,557,044
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	13,481,209	11,607,250
Less: Uncollectible Operating Revenues.....	997,899	820,464
Total Operating Revenues	<u>\$221,352,431</u>	<u>\$227,583,305</u>
OPERATING EXPENSES (g)		
Current Maintenance	\$ 41,716,600	\$ 42,306,608
Depreciation Expense	36,008,721	32,815,748
Traffic Expenses	26,651,649	28,166,646
Commercial Expenses	6,873,168	6,849,473
Operating Rents	4,996,044	7,380,355
General Administration	11,419,970	10,888,194
Accounting and Treasury Expenses.....	8,584,642	8,389,038
Development and Research (h).....	16,497,204	15,583,014
Provision for Employees' Service Pensions (i).....	6,502,882	6,003,943
Employees' Sickness, Accident, Death and Other Benefits..	1,818,862	1,759,940
Other General Expenses.....	4,981,780	4,549,091
Less: Expenses Charged Construction.....	1,281,326	1,918,842
Total Operating Expenses	<u>\$164,770,196</u>	<u>\$162,773,208</u>
Net Operating Revenues.....	<u>\$ 56,582,235</u>	<u>\$ 64,810,097</u>
OPERATING TAXES		
Federal Taxes on Income.....	\$ 15,285,000	\$ 20,375,000
Other Taxes—principally State, local and Social Security...	13,157,113	12,304,238
Total Operating Taxes	<u>\$ 28,442,113</u>	<u>\$ 32,679,238</u>
Net Operating Income	<u>\$ 28,140,122</u>	<u>\$ 32,130,859</u>
OTHER INCOME		
Dividend Income (j).....	\$239,891,294	\$204,584,659
Interest Income	14,992,132	16,797,257
Miscellaneous Income	1,226,450	1,297,733
Less: Miscellaneous Deductions from Income (i).....	1,049,125	1,027,391
Income Available for Fixed Charges	<u>\$283,200,873</u>	<u>\$253,783,117</u>
FIXED CHARGES		
Interest on Funded Debt.....	\$ 52,691,040	\$ 45,080,133
Other Interest	2,583,876	1,156,900
Less: Release of Premium on Funded Debt—net.....	77,442	71,676
Net Income	<u>\$228,003,399</u>	<u>\$207,617,760</u>
Earnings per share (k).....	\$9.49	\$9.20

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 6,819,759 authorized and unissued shares was reserved at December 31, 1949 for conversion of Debentures, as follows: 1,649,603 shares for the Ten Year 2¾% Convertible Debentures, due December 15, 1957, which are convertible at \$140 per share; 2,460,158 shares for the Ten Year 3⅛% Convertible Debentures, due June 20, 1959, which are convertible at \$130 per share through June 19, 1951 and at \$140 per share thereafter; and 2,709,998 shares for the Fifteen Year 2¾% Convertible Debentures, due December 15, 1961, which were convertible at \$150 per share until October 28, 1949 when the conversion price was reduced to \$148. (These conversion prices are subject to adjustment as provided in the respective Indentures.) See also note (c) below.

(c) Installment payments and interest credited thereon applicable to shares which employees of the Company and its subsidiaries elected to purchase under the Employees' Stock Plan — at December 31, 1949, \$113,868,424 applicable to 891,879 shares elected under the initial offering and \$55,909,923 applicable to 1,105,207 shares elected under the second offering. Regular installment payments under the initial offering were completed in December 1949 and 882,185 shares elected under such offering have been issued in February 1950, making a total of 1,088,013 shares which have been issued to date under the Plan. The Company made a third offering in January 1950 of the balance of the 2,800,000 shares authorized under the 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.

(d) The Company sold in February 1950, \$200,000,000 principal amount of Twenty-One Year 2¾% Debentures, due February 1, 1971.

(e) Represents the Company's share of total revenues from toll business handled jointly with subsidiaries and other telephone companies amounting to \$494,429,000 in 1949 and \$475,349,000 in 1948.

(f) Based on 1½% of gross earnings of licensee companies to October 1, 1948 and 1% thereafter.

(g) 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.

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

(i) The total provision for employees' service pensions amounted to \$7,002,286 for 1949 and \$6,503,347 for 1948, 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 this latter amount was, in fact, a current operating expense.

(j) Includes dividends from subsidiaries amounting to \$236,394,254 in 1949 and \$201,153,702 in 1948.

(k) Based on average number of shares outstanding—24,014,147 in 1949 and 22,566,847 in 1948.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INVESTMENTS IN STOCKS AND ADVANCES—DECEMBER 31, 1949

TELEPHONE SUBSIDIARIES	Par Value of Holdings	CAPITAL STOCKS (a)		ADVANCES
		% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co.....	\$107,214,200	68.92	\$ 112,165,721	\$103,300,000
New York Tel. Co.....	521,300,000	100.00	544,280,335	.....
New Jersey Bell Tel. Co.....	160,000,000	100.00	173,667,184	47,500,000
Bell Tel. Co. of Pennsylvania....	245,000,000	100.00	251,316,050	4,900,000
Diamond State Tel. Co.....	13,000,000	100.00	13,700,000	495,000
Chesapeake & Potomac Tel. Co...	65,000,000	100.00	66,000,000	12,975,000
Chesapeake & Potomac Tel. Co. of Baltimore City.....	90,000,000	100.00	91,467,862	27,650,000
Chesapeake & Potomac Tel. Co. of Virginia	75,000,000	100.00	75,000,000	26,100,000
Chesapeake & Potomac Tel. Co. of West Virginia.....	40,000,000	100.00	40,000,000	12,375,000
Southern Bell Tel. & Tel Co....	435,000,000	100.00	436,817,298	.....
Ohio Bell Tel. Co.....	264,999,900	99.99	265,042,198	3,000,000
Michigan Bell Tel. Co.....	219,988,000	99.99	220,400,232	4,700,000
Indiana Bell Tel. Co.....	84,998,800	99.99	85,585,286	5,500,000
Wisconsin Tel. Co.....	118,000,000	100.00	121,223,835	.....
Illinois Bell Tel. Co.....	271,106,500	99.31	276,587,308	59,700,000
Northwestern Bell Tel. Co.....	160,000,000	100.00	161,039,490	700,000
Southwestern Bell Tel. Co.....	414,998,500	99.99	418,251,578	22,000,000
Mountain States Tel. & Tel. Co..	75,066,700	81.63	76,471,663	12,050,000
Pacific Tel. & Tel. Co.....	373,249,300	91.75	368,907,485	.....
Pacific Tel. & Tel. Co.—Preferred	64,095,700	78.17	55,999,180	.....
OTHER SUBSIDIARIES				
Bell Telephone Laboratories, Inc..	19,000,000	(b) 50.00	19,000,000	.....
Western Electric Co., Inc.....	(c)	99.80	325,639,360	.....
195 Broadway Corporation.....	17,500,000	100.00	17,515,000	1,165,000
Eastern Tel. & Tel. Co. (Inactive)	75,000	100.00	75,000	.....
Total			<u>\$4,216,152,065</u>	<u>\$344,110,000</u>
OTHER COMPANIES				
Southern New England Tel. Co..	\$ 18,672,400	26.67	\$ 18,984,217	\$ 500,000
Cincinnati & Suburban Bell Tel. Co.	10,483,800	29.76	11,047,247	.....
Bell Telephone Company of Canada	18,749,800	11.83	18,854,783	.....
Cuban American Tel. & Tel. Co..	432,500	50.00	162,500	.....
Total			<u>\$ 49,048,747</u>	<u>\$ 500,000</u>

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 10,479,382 shares—no par value.

TRUSTEE'S REPORT OF PENSION TRUST FUND

established by

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance in Fund—December 31, 1948.....		\$ 56,570,526
ADDITIONS TO FUND DURING 1949—		
Payments into Fund by Company.....	\$ 7,002,286	
Interest Revenue, including gain or loss on investments dis- posed of	1,619,489	
TOTAL ADDITIONS	\$ 8,621,775	
DISBURSEMENTS FOR PENSIONS DURING 1949.....	1,464,327	
NET INCREASE IN FUND.....		7,157,448
Balance in Fund—December 31, 1949		<u>\$ 63,727,974</u>
COMPRISED OF—		
Bonds of Bell Telephone Companies.....	\$ 10,089,944	
U. S. Government Obligations.....	21,928,438	
Public Utility, Railroad and Industrial Bonds.....	30,423,846	
Other Investments	746,920	
Cash and accrued interest not due.....	538,826	
TOTAL		<u>\$ 63,727,974</u>

NOTE: Securities are shown on amortized basis.

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

New York, N. Y.—January 31, 1950.

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, 1948.....		\$ 955,641,674
ADDITIONS TO FUNDS DURING 1949—		
Payments into Funds by Companies.....	\$128,926,706	
Interest Revenue, including gain or loss on investments dis- posed of	27,307,915	
TOTAL ADDITIONS	\$156,234,621	
DISBURSEMENTS FOR PENSIONS DURING 1949.....	22,199,090	
NET INCREASE IN FUNDS.....		134,035,531
Balance in Funds—December 31, 1949		<u>\$1,089,677,205</u>
COMPRISED OF—		
Bonds of Bell Telephone Companies.....	\$ 171,841,122	
U. S. Government Obligations.....	383,302,971	
Public Utility, Railroad and Industrial Bonds.....	513,015,734	
Other Investments	10,437,885	
Cash and accrued interest not due.....	11,079,493	
TOTAL		<u>\$1,089,677,205</u>

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, Trustee for the respective Funds

New York, N. Y.—January 31, 1950.

By W. B. DUNCKEL, Vice President.

BELL SYSTEM STATISTICS

	Dec. 31 1930	Dec. 31 1935	Dec. 31 1940	Dec. 31 1945	Dec. 31 1949	Increase During 1949
Number of telephones (a).....	15,187,296	13,573,025	17,483,981	22,445,519	33,388,258	2,023,765
Number of central offices.....	6,639	6,896	7,052	7,374	8,224	217
Miles of pole lines.....	428,212	407,454	399,838	420,009	483,777	12,007
Miles of wire:						
In underground cable.....	45,116,000	47,639,000	54,339,000	60,759,000	81,865,000	5,467,000
In aerial cable.....	23,777,000	26,425,000	30,307,000	33,966,000	44,813,000	3,201,000
Open wire	5,231,000	4,562,000	4,660,000	5,034,000	6,411,000	167,000
Total	74,124,000	78,626,000	89,306,000	99,759,000	133,089,000	8,835,000
Average daily telephone conversations* (b)	64,934,000	60,290,000	79,303,000	90,548,000	132,023,000	6,752,000
Total plant	\$4,041,237,000	\$4,187,790,000	\$4,747,674,000	\$5,702,057,000	\$9,432,750,000	\$813,908,000
Operating revenues*	\$1,077,300,000	\$ 919,116,000	\$1,174,322,000	\$1,930,889,000	\$2,893,273,000	\$268,446,000
Number of employees (c).....	391,746	268,754	323,701	474,527	593,869	(62,651) †
Number of American Tel. and Tel. Co. stockholders	567,694	657,465	630,902	683,897	829,498	63,674

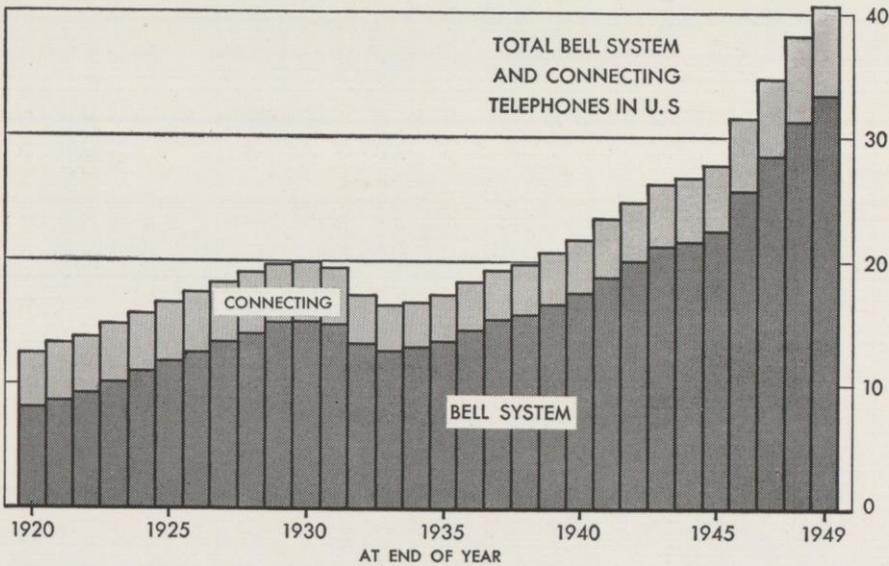
* For year ending December 31. † Decrease.

(a) Excludes private line telephones numbering 108,737 on December 31, 1949. Including telephones of the several thousand independently owned connecting telephone companies and additional thousands of connecting rural or farmer lines and systems, the total number of telephones in the United States which can be interconnected is approximately 40,600,000.

(b) For the year 1949 there were approximately 126,100,000 average daily local conversations and 5,923,000 toll and long distance conversations, an increase of 5.5% and 3.0%, respectively, over the year 1948.

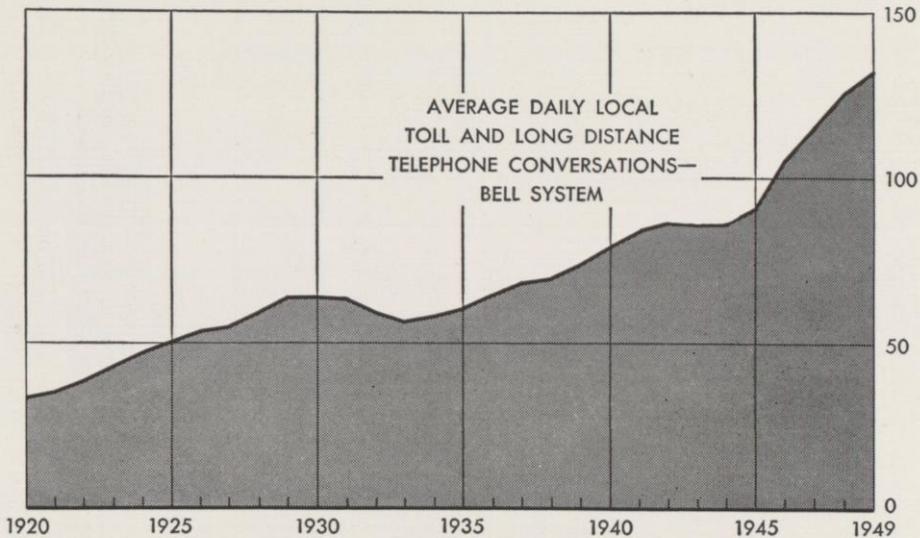
(c) Includes employees of Western Electric Company and Bell Telephone Laboratories.

TELEPHONES—IN MILLIONS



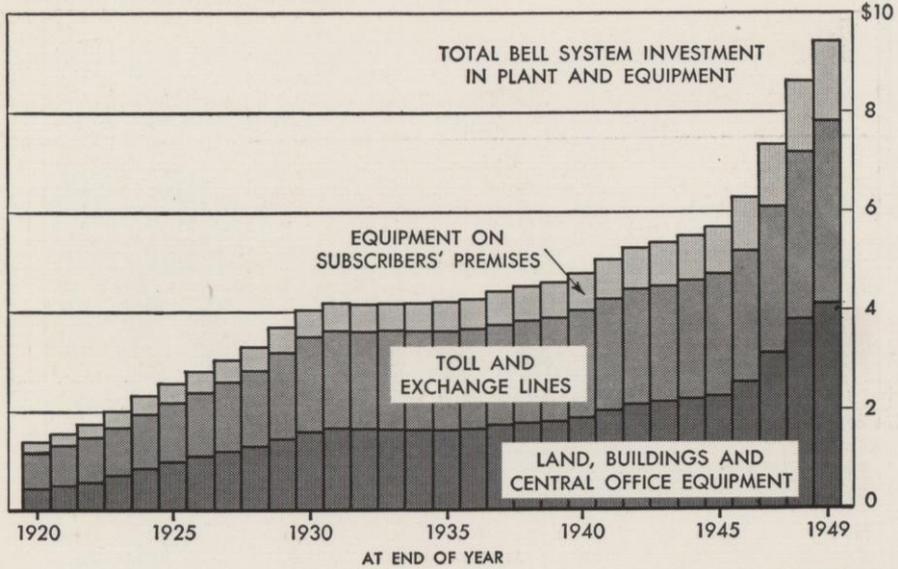
40,600,000 TELEPHONES were in service in the United States at the end of 1949. Of these, 33,388,000 were Bell telephones—twice as many as ten years ago and three times as many as 25 years ago.

DAILY CONVERSATIONS—IN MILLIONS



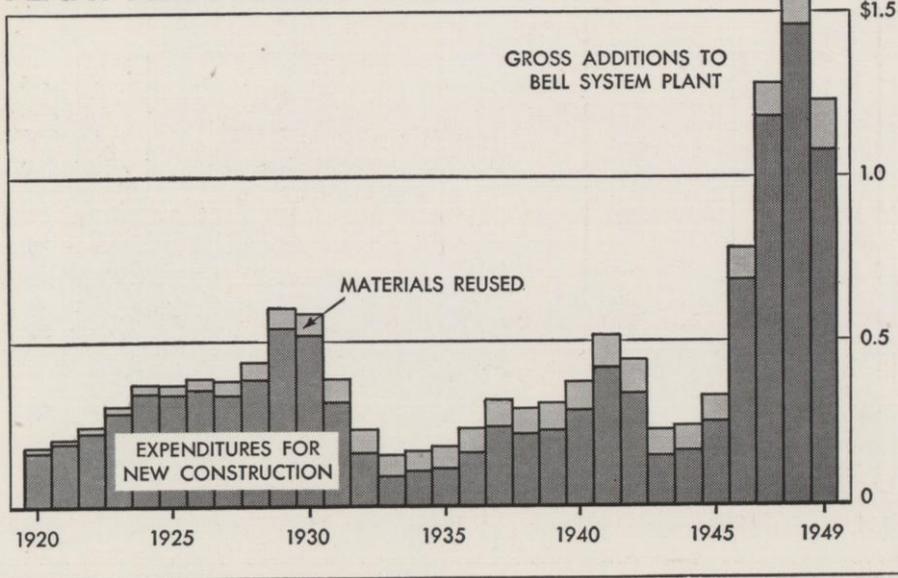
132,000,000 CONVERSATIONS A DAY were handled by the Bell System in 1949—6,750,000 a day more than in the previous year and a new high record. Toll and long distance messages in 1949 totaled 5,900,000 a day.

PLANT INVESTMENT — IN BILLIONS



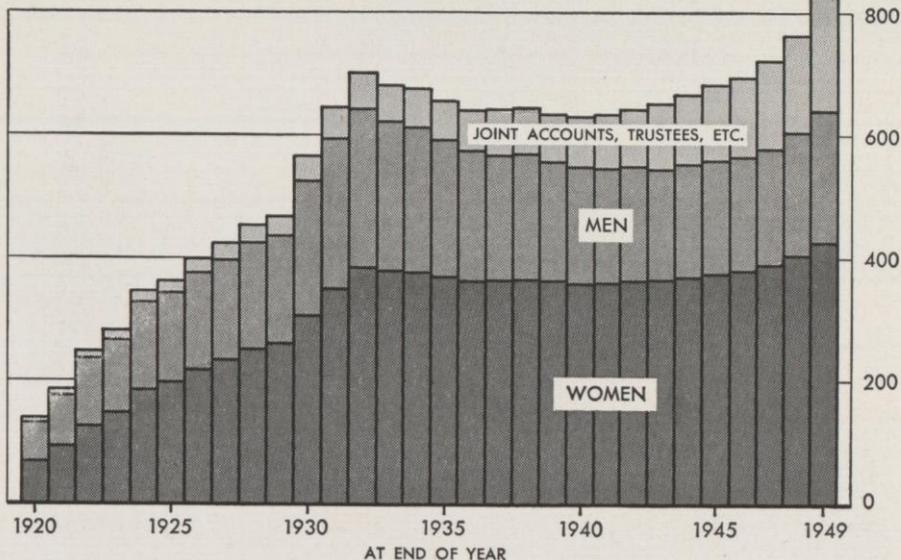
\$9,400,000,000 is invested in the physical facilities used by the Bell System to provide telephone service. The greater part is in central office facilities and outside lines, a much lesser part in equipment on customers' premises.

PLANT ADDITIONS — IN BILLIONS



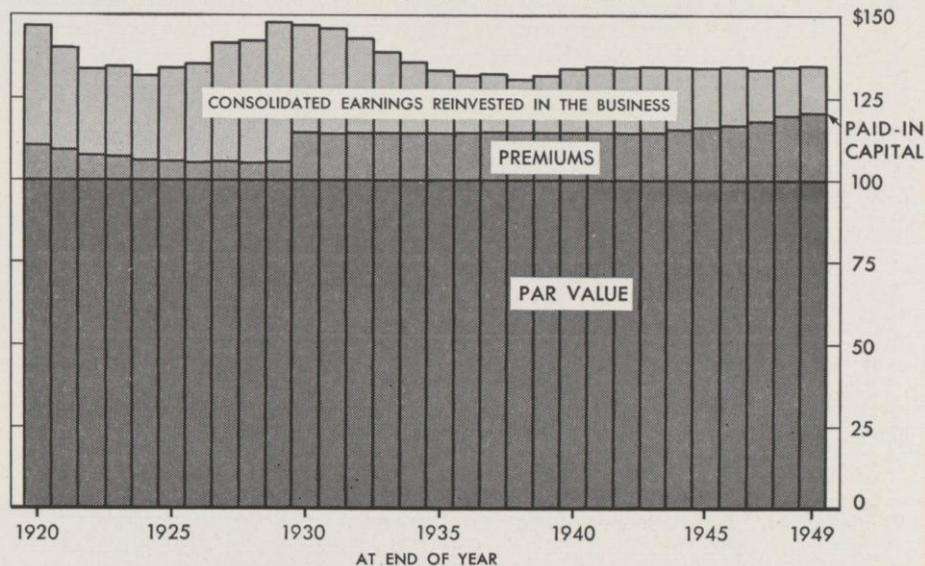
MORE THAN \$1,000,000,000 FOR CONSTRUCTION has been spent by the Bell System in each of the last three years to meet the postwar demand for telephone service and to restore and improve on prewar quality of service.

A.T. & T. CO. STOCKHOLDERS—IN THOUSANDS



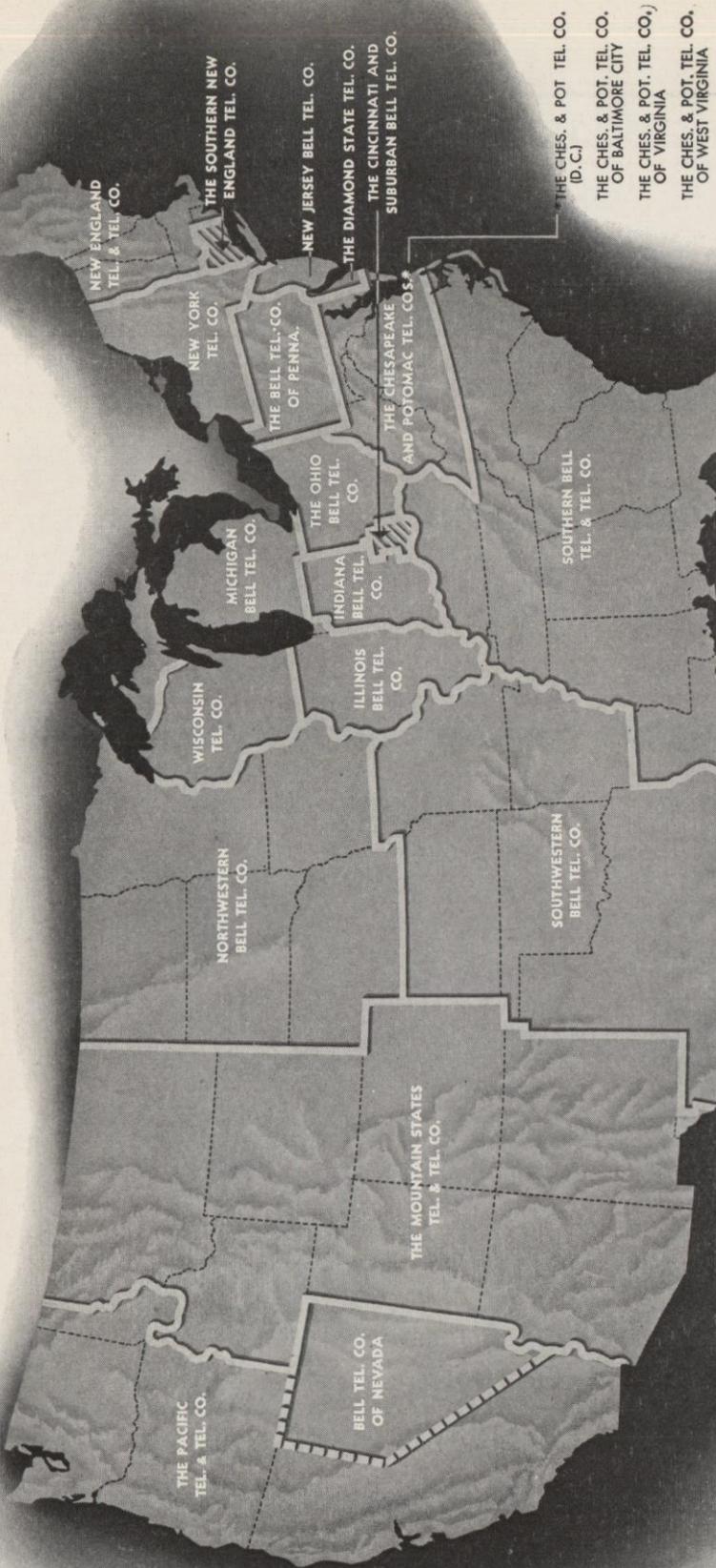
A RECORD NUMBER OF STOCKHOLDERS—issuance of stock to Bell System employees under the Employees' Stock Plan, together with continuing conversion of debentures into stock, brought the total in February 1950 to about 940,000.

BOOK EQUITY—PER SHARE OF A.T. & T. CO. STOCK



\$134.93 WAS INVESTED PER SHARE of A. T. & T. stock at the end of 1949. Over a period of 29 years, the dividend of \$9.00 has provided an average return of 6.6 per cent on the average investment per share.

THE BELL TELEPHONE SYSTEM



The principal telephone subsidiaries of American Telephone and Telegraph Company serve generally the areas shown. The Southern New England and Cincinnati and Suburban are associated but non-controlled companies. In nearly all areas other telephone companies operate and connect with Bell System lines.

