

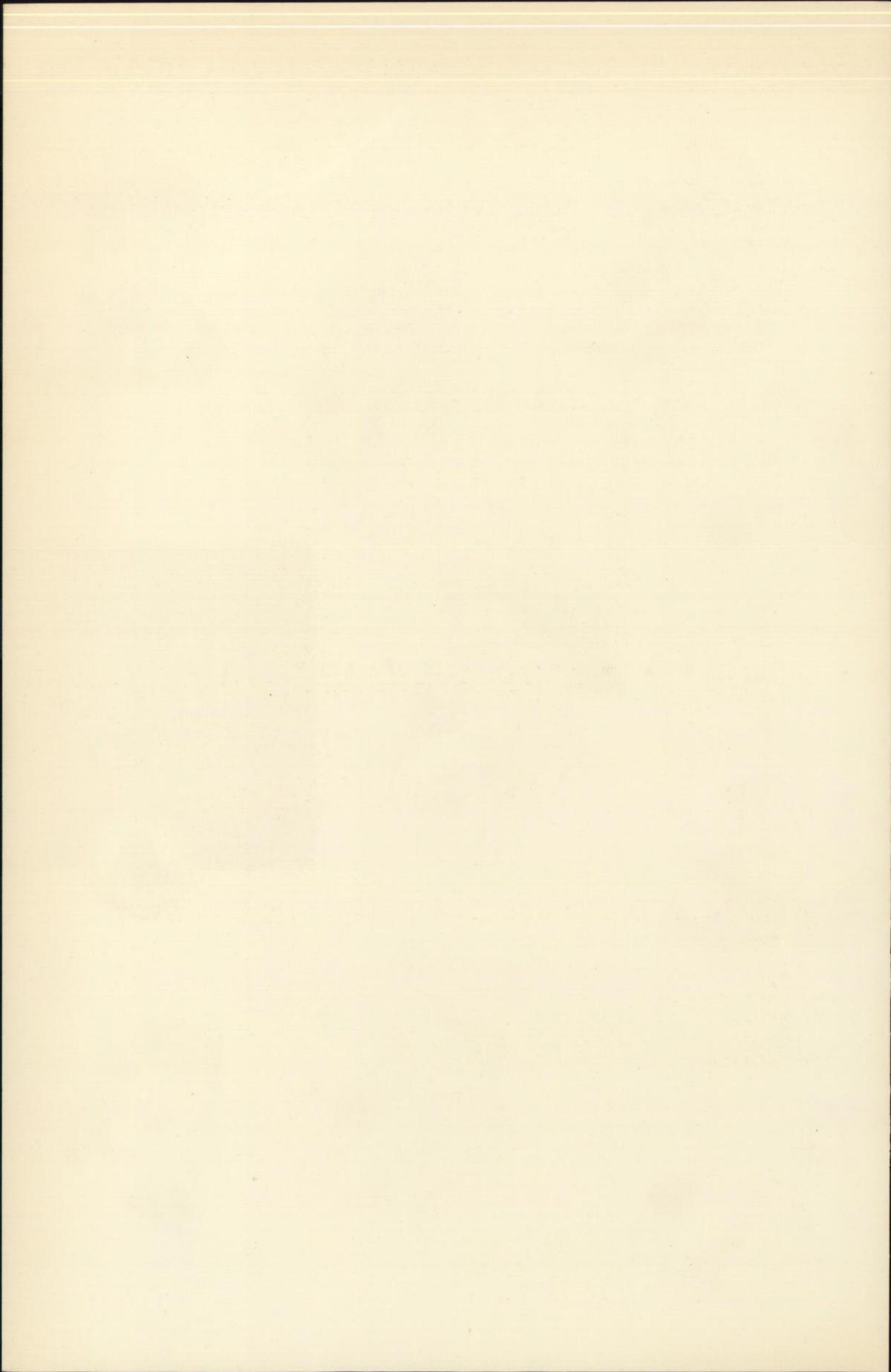


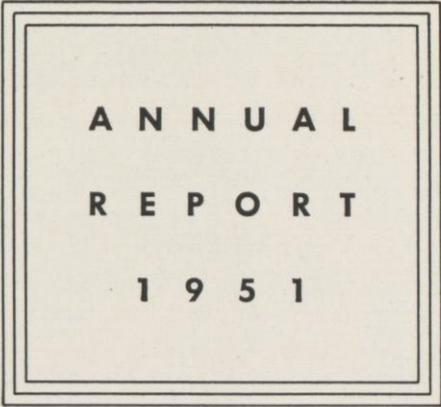
ANNUAL
REPORT
1951



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ANNUAL
REPORT
1951

American Telephone and Telegraph Company

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

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195 BROADWAY, NEW YORK 7, N. Y.

BELL SYSTEM HIGHLIGHTS FOR 1951

NATIONAL DEFENSE was the first order of business. The rapidly expanding telephone needs of military and Civil Defense authorities were promptly met.

TELEPHONE MEN AND WOMEN did a splendid job in keeping up service quality in the face of heavy demands and shortages of materials. Some 2,070,000 telephones were added. There are now about 37,400,000 Bell System telephones in service.

BELL SYSTEM EARNINGS were \$11.76 per share of A. T. & T. stock, compared with \$12.58 per share in 1950. The average number of shares outstanding in 1951 was 31,028,485, or 3,442,878 more than in 1950. A dividend of \$9 was paid. Operating taxes in 1951 equalled \$19.70 per share. Including excise taxes on telephone service paid by customers, the total tax bill was equal to about \$2.70 per telephone per month — an increase of more than 65 cents a month in the last two years.

COSTS INCREASED faster than telephone rates. In addition to the rise in taxes and in costs of materials, telephone wages also rose. Earnings on capital were 5.8 per cent, compared with 6.1 per cent in 1950. As long as costs continue to go up, increases in rates will continue to be needed.

IMPORTANT NEW DEVELOPMENTS MARKED THE YEAR'S PROGRESS

Microwave radio relay spanned the continent, adding many needed long distance telephone voiceways and making possible coast-to-coast network television.

New facilities were developed for Air Defense.

Direct dialing by customers over long distances began on a trial basis.

The number of A. T. & T. share owners passed one million.

TO THE SHARE OWNERS

AGAIN IN 1951 the Bell System rendered more service than in any previous year. An even larger number of telephones was added than in 1950 or 1949. Telephone conversations reached an all-time high. The System expended more than a billion dollars for new construction. Nevertheless, demand for service continued to run ahead of this tremendous building program, and the load on lines and switchboards increased as the year went on.

National defense was—and continues to be—our task of first importance. This is an extremely big job, for military and civil defense communication needs today are even more varied and extensive than in World War II.

Bell Telephone Laboratories, our research organization, and Western Electric Company, our manufacturing branch, are being called on to take an increasing part in the defense program. Because of the special experience and skills they have acquired as members of the Bell System, the Government has assigned to them much important work in designing and producing electronically coordinated weapon and communication systems.

Sixty employees in military service have given their lives since the outbreak of fighting in Korea. A number have been decorated or cited for gallantry in action or devotion to duty. All told, about 15,000 employees, including nearly 700 women, are serving with the Armed Forces. Some 3,400 more have returned from military service.

Since large amounts of equipment and hundreds of thousands of miles of telephone channels were required exclusively for defense, the burden on other facilities was thereby increased. Along with this, the telephone companies were not able to obtain sufficient raw materials. In the face of these difficulties, Bell System employees did a remarkable job in keeping up the overall quality of service. They overcame great obstacles with resourcefulness and skill. Their work was marked as usual by the courteous, friendly spirit that is part of the telephone way.

In 1951 the average telephone was made even more dependable—more free from mechanical failure or imperfect operation—than at any time in the past. Because of the pressure of demand, long distance calls over certain routes sometimes took longer to complete than in 1950. On the other hand, new equipment and new methods made it possible to handle an increasing



The radio relay station at Mt. Rose, Nevada — highest on the transcontinental radio relay route — looks across the High Sierras. This is one of 107 stations or towers which relay telephone conversations and television programs along microwave radio beams from coast to coast. Each tower along the route has four antenna horns similar to the one that can be seen in this picture. Two face East, two face West, to receive and transmit in each direction.

number of calls faster than ever before. Thus, while temporary shortages of facilities slowed some calls, long-range improvements speeded others.

More and more voiceways were provided in 1951 through coaxial cable and radio relay systems. Operators were able to dial many more long distance calls straight through to the distant telephone. In November, an important

trial of long distance dialing by customers began in Englewood, New Jersey. Telephone service to farmers continued to expand rapidly. All over the nation, telephone facilities were made ready to serve the growing air defense system. In this task as in others, there was continuing and effective cooperation between the Bell System Companies and the several thousand independently owned telephone companies which connect with our lines to make possible nationwide service.

Telephone taxes, wages and other expenses were substantially higher than in 1950. Notwithstanding these mounting costs, regulatory authorities in a few states denied increases in telephone rates which the Bell System Companies serving those states believe to be clearly justified. All Companies are proceeding with every effort to bring about full recognition of their needs and are continuing to apply for rate increases as and when necessary.

Telephone rates that produce a reasonable profit will always be essential to good service, and good service is vital to our national life. To provide it, we shall continue to need large additional amounts of capital. Our ability to attract and protect the savings of investors and keep on doing a better job in the future depends fundamentally on good earnings and good credit. Financial good health is the basis for real economy in rendering service, for it is this that enables the Bell System to invent, develop, finance and install new and better facilities which improve service, partially offset rises in costs caused by inflation, and save the public money. We are sure most regulatory commissions recognize this, and that they will generally hold to the view that rates which produce good earnings are in the public interest.

Continuing the progress made in 1950, the proportion of debt in the Bell System's capital structure was further reduced during 1951. It is important that we make additional progress in this direction in the future.

Leroy A. Wilson

The untimely death of President Leroy A. Wilson on June 28, 1951, after an illness of several months, brought profound sorrow to his associates. The Board of Directors again desire to record their deep sense of loss, and in tribute to Mr. Wilson's great ability they wish to repeat here these words from the Memorial Resolution passed by the Board last July:

"In the short period of his presidency he met the most serious problems in Bell System history with distinguished success. There are few instances in the management of great enterprises when one man has done so much in so little time."

A Great National Resource

Six years of postwar telephone progress have brought outstanding results. Together the Bell System and the Independent telephone companies of the United States now serve more than 45 million telephones all over the nation. This fast, convenient, reliable service is by far the best and most extensive telephone service in the world. No other country has such a resource.

This has not just happened.

Good telephone service depends on able people of good spirit. The men and women of the Bell System are competent, courteous and devoted to their work. They are well trained. They have opportunity to get ahead. They also have competition, for promotions are made from the ranks on the basis of ability.

Good telephone service depends on sound organization. The Bell System is well organized for its task. Responsibility and authority are decentralized. At the same time, service to the public is unified. Operating, research and manufacturing groups, working closely together, are dedicated to the common purpose of rendering the best possible service to the public at the lowest possible cost.

Good telephone service requires constant effort to improve methods and provide the best in equipment. Bell System research is continually opening up new frontiers. Equipment produced by the System's own manufacturing organization, the Western Electric Company, is of the highest quality and is supplied at prices that help to keep the cost of service low.

Good telephone service depends on the continuing full confidence of many hundreds of thousands of people to whom we look for capital. The Bell System is financially sound. Under regulation, it has been free through the years to earn enough to pay good wages, pursue effective research, reward ability, and keep faith with all who have put their savings into the business.

Finally, good telephone service is the result of a way of life—a tradition and policy of trying always for the best, a personal sense of responsibility, and the determination to meet individual and national needs no matter what the obstacles.

Results in 1951 bear witness to the effectiveness of these principles in action. The Bell System can be relied on to serve the nation well.

OPERATING AND FINANCIAL REVIEW

A GREAT AMOUNT and wide variety of telephone services contribute essentially to this nation's defense. Fast two-way voice communication is essential to industry and industrial use of the telephone has steadily increased all through the organization and expansion of the defense production program.

Many defense telephone needs parallel those of World War II. But there is this difference: today the danger of enemy attack on the United States is greater, and measures to meet the danger have to be much more extensive and complex. Telephone facilities and services are an absolute necessity in the growing air defense system. The tremendous telephone growth of the last six years, and the availability today of new types of circuits, switching systems and other equipment, add greatly to our defensive strength.

New systems have been developed to spread air-raid warnings more quickly than in World War II. Private line networks have been installed for the Air Force to speed such warnings from regional control centers to key cities. To transmit the alerts from these key points to police and fire departments, Civil Defense units, hospitals, key industries and others, an entirely new system has been designed by Bell System engineers and is being produced by the Western Electric Company. This will enable the key point to "dial the color" of the alert—Yellow, Red or White. At all points to be warned the degree of alert is simultaneously indicated by colored lamps and a bell that rings a corresponding signal.

With these arrangements it will be possible to alert the entire United States in less than two minutes.

Readiness for Emergency

If bombs should fall, telephone services for military and disaster agencies must be immediate, extensive and of large capacity. The telephone companies are taking many steps to make sure that these needs will be met.

They have a good foundation to build on. The very size and expanse of the telephone system contribute greatly to its reliability in emergencies. Cities are underlaid by networks of underground cables, which, as experience at Hiroshima showed, would not be generally destroyed by atomic bombing.



Fast, reliable telephone service is essential to our country's air defense system. New arrangements make it possible to spread air raid warnings more quickly than ever before, and the Bell System is using every means to insure that the telephone communication needed by all military and Civil Defense agencies will be available no matter what the emergency.

Telephone buildings are of unusually strong construction. Calls between cities can be routed over many alternate paths, and destruction at one point would be like throwing a pebble through a tremendous spider web. While service as a whole might be temporarily reduced, it would not be interrupted.

Protective measures are in force to guard against sabotage. Auxiliary power plants in telephone buildings insure continuous supply of electricity should normal power fail. Mobile telephones are widely available for emergency use. Precautions are being taken in the larger cities to insure that essential long distance calls can go through even though the main telephone office might be totally destroyed. Stocks of telephone supplies are on hand in all sections of the country.

Most important of all, hundreds of thousands of skilled telephone men and women are ready to take quick and effective action. Each year they deal with ten to twenty flood, storm or other major disasters, some of

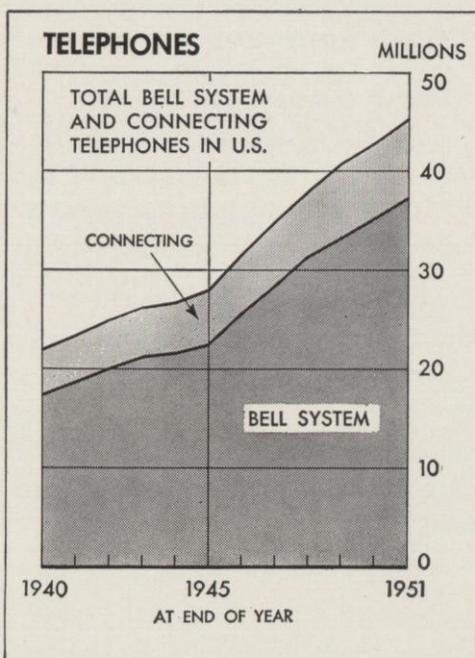
which involve vast damage over wide areas. Their experience and know-how, and the great scope and flexibility of the physical network of wire, cable, radio relay and mobile radiotelephones, make the telephone organization and the telephone system a solid and invaluable resource in the nation's defense.

Modern warfare requires intricate systems of weapons and of communications. As in the telephone plant, all parts must work efficiently as a whole. Bell Telephone Laboratories has acquired outstanding skill in dealing with such complex problems, and this skill is now being drawn upon by the Armed Forces. One recent result is an advanced type of self-propelled guided missile. Another is a complete system for locating hostile aircraft, tracking them, and controlling the fire of anti-aircraft guns to destroy them. In both instances, important help was received from other industrial laboratories, but the responsibility for planning and for the subsequent development of equipment rested with Bell Laboratories throughout.

Similarly, the experience and skill of Western Electric in producing equipment of this sort has led the Government to ask that Company to take responsibility for important contracts in the fields of radar, radio and guided missiles, as well as for military communication equipment. In addition, Western Electric through its subsidiary, the Sandia Corporation, has continued to operate the Sandia Laboratory at Albuquerque, New Mexico, for the Atomic Energy Commission. The work at this establishment, which is concerned with military applications of atomic energy, is carried on jointly with Bell Telephone Laboratories.

Telephone Facilities Are Heavily Loaded

The Bell System added about 2,070,000 telephones in 1951, compared with 1,955,000 in the previous year and about 2,025,000 in 1949. This was accomplished partly by building new plant and partly by further loading of existing facilities. As a result, the load on



local exchange lines and on central offices has now reached an all-time high.

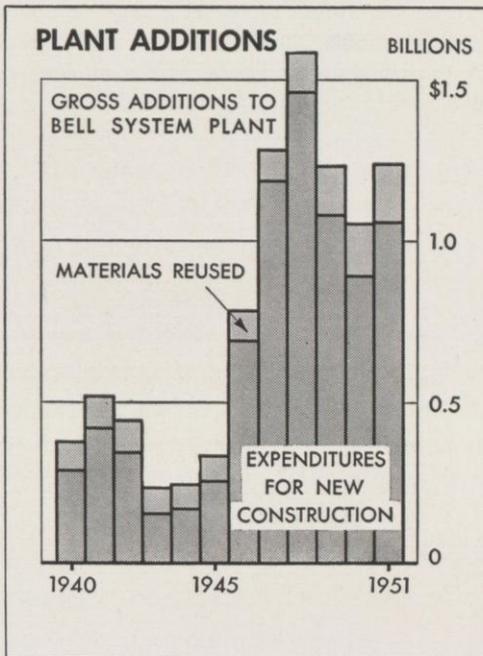
Over 15½ million Bell System telephones have been added since the end of World War II and there are now nearly 37½ million in service—twice the number served before the war.

Long distance calling also reached new high levels in 1951. The increase over 1950 amounted to eight per cent, and conversations over the longer interstate lines increased 14 per cent. Ninety-three per cent of all long distance calls were handled on a “no hang up” basis and the average speed of connection was 1.8 minutes, or 14 seconds slower than in 1950. This somewhat slower speed resulted from the unusually heavy load on facilities, particularly on routes where demand has increased most sharply, or where many circuits have had to be devoted to military use. Many more long distance lines are needed. They are being built as rapidly as possible.

Throughout the year there was continuing improvement in one of the most important features of telephone service—reliability. In spite of storms, floods and other destructive forces, reports of trouble of any kind with the average telephone now average less than one every two years. “Out-of-service” reports average only one in five years and nearly all such troubles reported on a business day are cleared the same day.

Expenditures for new construction in 1951 totaled \$1,059 millions. The

amount that has been expended to build new telephone plant in the last six years is larger than the total amount invested in plant at the end of World War II. Notwithstanding this huge outlay, we are still not able to meet every request for service promptly; the aggregate of all demands continues to run ahead of supply. We are keenly aware that in many communities some people who want telephones are still obliged to wait. But the renewed upswing in demand, the pressing requirements of defense, and, along with these, strict government allocation of materials, have limited our ability





Careful salvage is an important part of the Bell System's effort to conserve raw materials. When worn equipment cannot be repaired or wire or cable reused, metals are reclaimed. The materials pictured here have been sent by the telephone company to one of Western Electric's warehouses, where they are sorted and sent on their way to the smelting furnace.

to do everything we want to do. The need for increased amounts of materials, particularly copper, is being kept before the National Production Authority; amounts allocated in 1951 and so far this year have been insufficient and we are pressing our appeal for a more adequate supply in 1952.

Great effort is being made to conserve critical materials and employ substitutes. The new telephone set now being installed in large numbers permits use of smaller wires in many local cables. Increasing use of plastic for sheathing cables is reducing consumption of lead. Expedients have reduced the use of other scarce materials and work is being pushed to supplement production of copper-wire cables with cables containing aluminum wires. The Bell System Companies have also been recovering scrap copper, which goes into the national pool, at the rate of nearly a thousand tons a month.

Radio relay systems were providing 450,000 miles of telephone channels

at the end of 1951—a distance equivalent to 150 times across the country. The transcontinental radio relay system opened in August is the seventh telephone highway to cross the western expanse of the country. New radio relay routes being built include routes from Washington, D. C. to Atlanta and from Kansas City to Oklahoma City and several cities in Texas. Coaxial cables, which like radio relay provide hundreds of telephone circuits, are also being extended, and new “carrier” systems are being applied to other cable and wire lines to increase their capacity. All such facilities make it possible to expand the nationwide network with far less consumption of copper than would otherwise be required.

Coast-to-coast television over the transcontinental radio relay system was inaugurated September 4, 1951, when President Truman addressed the Japanese Peace Treaty Conference in San Francisco. More than half the



The Twenty-Fifth Anniversary of overseas telephone service was celebrated on January 7, 1952. When overseas telephoning started, service was provided only between New York and London and the rate for three minutes was \$75. Today any telephone in this country's nationwide system can be connected with some 90 other countries on all continents and the maximum rate for a three-minute call to almost any place in the world is \$12.

people of the United States, it is estimated, are within range of television broadcasting stations served by the growing Bell System network. There has also been a marked increase in the use of networks between cities to televise special events to theatre audiences.

Bell System telephones in rural areas increased by 268,000 in 1951, bringing the total increase in the postwar period to more than 1,800,000. Mobile telephone service also continued to grow; 10,000 cars, trucks, boats, trains and other vehicles in areas all over the country can now be connected with the general telephone network. Overseas telephone service increased nearly 25 per cent in 1951. Close to 900,000 messages last year helped to link the United States and other nations overseas.

More Long Distance Calls Are Being Dialed

Dialing of both local and out-of-town calls continued to increase. The proportion of dial telephones in service is now 77 per cent. At the end of 1951 operators were dialing 38 per cent of all long distance calls directly through to the distant telephone, and 1,375 cities and towns in all parts of the country—300 more than a year ago—were connected to the long distance dialing network. In addition, some 3,750,000 telephone users are now able to dial their own calls to many nearby communities, and such calls are being made at the rate of about 400 million a year.

The extension of the long distance dialing network is of great value in helping to maintain fast and accurate service as demand increases. The equipment is working well and has successfully carried heavy loads. Moreover, improvements which add to the efficiency of long distance dialing systems are being introduced as the network continues to grow.

This whole development is an excellent example of the benefits to telephone users resulting from the Bell System form of organization. The System's objective is—good telephone service: the best it is possible to provide, at the lowest possible cost. All the equipment used in long distance dialing must fit properly together and work well under all kinds of actual operating conditions. To do the best job possible, research, manufacturing and telephone operating companies must intimately understand each other's problems and *want* to meet them, fully and promptly, so that the common interest of all three can best be realized.

That is the way the Bell System works. Designers, makers and operators



Since last November some ten thousand telephone users in Englewood, New Jersey, have been able to dial their own long distance calls to any of eleven million telephones in and around a dozen cities from coast to coast. Pictured here is a small part of the apparatus through which calls are dialed. Automatic accounting equipment records and bills the charges. This important trial at Englewood makes it possible to study and perfect equipment and methods, before further extension of this new, convenient means for calling long distance.

work closely together to achieve the same objective. There is no divergence or conflict of purpose. Everyone on the job is on the same team.

In the single instance of the introduction and spread of long distance dialing, the value to the public of this close association between the designing, manufacturing and operating groups of the Bell System, is tremendous. In the entire development of telephone service in this country, the value is beyond estimate.

Operating Expenses and Taxes Continued to Rise

Earnings for 1951 reflect the pressure of increasing costs. Operating taxes alone paid by the Bell System in 1951 amounted to \$629,559,000—an increase of \$130,108,000 over 1950. The operating tax bill equalled \$19.70 per share of American Telephone and Telegraph Company stock. Consolidated net income applicable to A. T. & T. stock was equal to \$11.76 per share, compared with \$12.58 per share in 1950. The investment per share at the end of 1951 was about \$140 compared with \$138 at the end of 1950.

Net income of the American Company by itself (which includes earnings of subsidiaries only to the extent they have been received by the Company as dividends) was \$10.54 per share in 1951, compared with \$10.40 in 1950. A dividend of \$9 per share was paid to the share owners.

The full 12-months effect of the higher levels of expense reached in 1951 will be felt in 1952, and the costs of providing service continue to go up. Telephone wage increases alone, in the war and postwar years, have greatly exceeded all increases in charges to telephone users. To meet today's steeply rising costs the Bell System Companies have no alternative except to obtain increases in rates.

Early in 1951 the Company sold \$415,414,000 of Twelve Year 3³/₈% Convertible Debentures which it offered to shareholders in the ratio of one \$100 debenture for each seven shares of stock held. About \$215 million of these debentures were converted into stock during the year; conversions of three other issues outstanding totaled \$156 million; debt was thus reduced by \$371 million, while equity capital was increased by the larger amount of \$513 million, due to the cash premiums paid when debentures were converted.

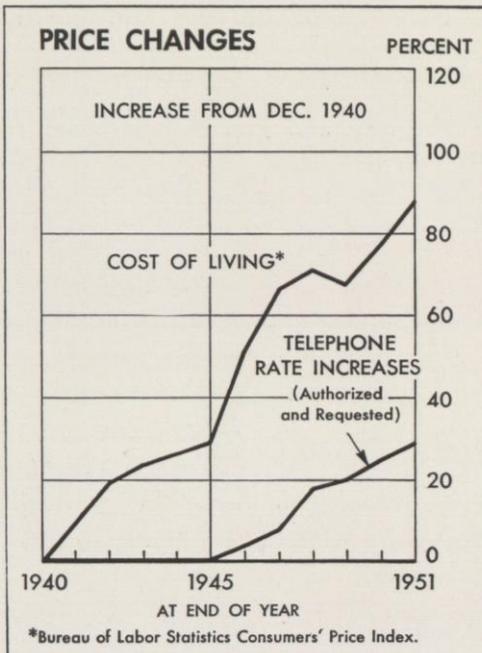
A total of 4,560,000 shares of stock were issued during the year, includ-

ing 850,000 shares sold to employees under the Employees' Stock Plan. As a result the proportion of debt in Bell System capital was reduced from about 48 per cent to about 44 per cent. It is very important that this progress be continued, for the proportion of debt is still too high and most of the new capital we need should be obtained by issuing stock, rather than by borrowing. When the System entered the postwar period less than a third of its capital was debt. That fact made it possible to raise readily the huge sums needed from investors to meet service demands. We should be no less well prepared to meet the great needs of the future. Only a sound financial structure can support a fully dependable and improving telephone service, on the scale the nation needs and wants.

A Reasonable Rate Program

While increases in telephone rates have varied for different classes of service in different places, on the average they have amounted to only about 20 per cent since 1940, and the average increase per telephone is less than five cents a day. If all rate increases that have been requested are authorized, the average increase since 1940 would still come to less than 30 per cent, or hardly more than a third of the rise in the cost of living.

The evidence of the growing value of the telephone is all around us.



In 1940 there were about two telephones for every 12 people in the United States. Today there are about two for every seven people. As family incomes have risen, telephone charges generally have not risen in proportion, and a much smaller part of the average household budget is needed to pay for a service of much greater value.

Non-regulated industries in the last few years have generally been able to recover higher costs promptly by immediate repricing of their products. Many industrial corporations have also succeeded in increasing their margin of profit so as to compensate, at least in part,

for the shrinkage in the value of the dollar. To obtain from investors the money needed to build new telephone facilities, the Bell System must earn profits that will enable it to compete successfully for new capital with these other industries. Some of the regulatory commissions, however, have not yet recognized that the decline in the value of the dollar affects the telephone companies no less than it does other industry. Some have expressed a belief that because the System has been able to raise large amounts of new capital in recent years, this implies that recent earnings and present capital structure offer a correct pattern for the future.

This cannot be taken as sound judgment for the long run. Telephone rates and earnings which recognize the fact of inflation, and its effect on telephone investors, are the best assurance that the Bell System will be able to meet its tremendous service responsibilities in the years ahead. Telephone service in this country has been made the world's best because, through the long-term past, the Companies and the commissions alike have given weight to the needs and also the risks of the future, and the companies have generally been allowed the freedom and the financial strength they need to do the best job possible. We are confident that even though the regulatory process may continue to take time, the validity of our current and future needs will be recognized.

The hearings ordered by the Federal Communications Commission in January 1951 to determine whether interstate long distance rates should not be reduced were cancelled in November, following reallocation of costs between interstate and intrastate services. The effect of these changes is to increase substantially the amounts of property and expenses assigned to the interstate services. In order to offset in part these increased interstate costs, the Companies have filed, to become effective March 1, 1952, adjustments in the interstate long distance rates which will produce approximately \$14,000,000 additional revenue annually. The new rates involve increases at some of the shorter distances and some decreases at longer distances.

Research Improves Service and Holds Down Costs

The public benefits from Bell System research in many ways: through new services; through improvements in existing services; through less expensive lines, switchboards, and operating methods, which have kept the cost of our services low and held down the increases in telephone rates needed in this period of shrinking dollar values.



Bell Telephone Laboratories has long been a fountainhead of progress in telephony. It is one of the largest and most effective industrial laboratories in the world. In these modern buildings at Murray Hill, New Jersey, more than 2,500 of the nearly 7,000 members of Bell Laboratories carry on their work to find new and better ways of providing telephone service.

Among the most significant products of our research in recent years is the transistor. This device is capable of doing many things now done by vacuum tubes, occupies so little space and uses so little power that it will almost certainly open up a new era in electronics. The year 1951 saw important strides in its development, and in preparations for transistor manufacture. In cooperation with the Armed Services, Bell Laboratories scientists last September met with technical experts of the Services and their suppliers to discuss the properties and uses of transistors. The purpose and result of these meetings were to make our knowledge of the new device available to those who can best use it in the defense effort.

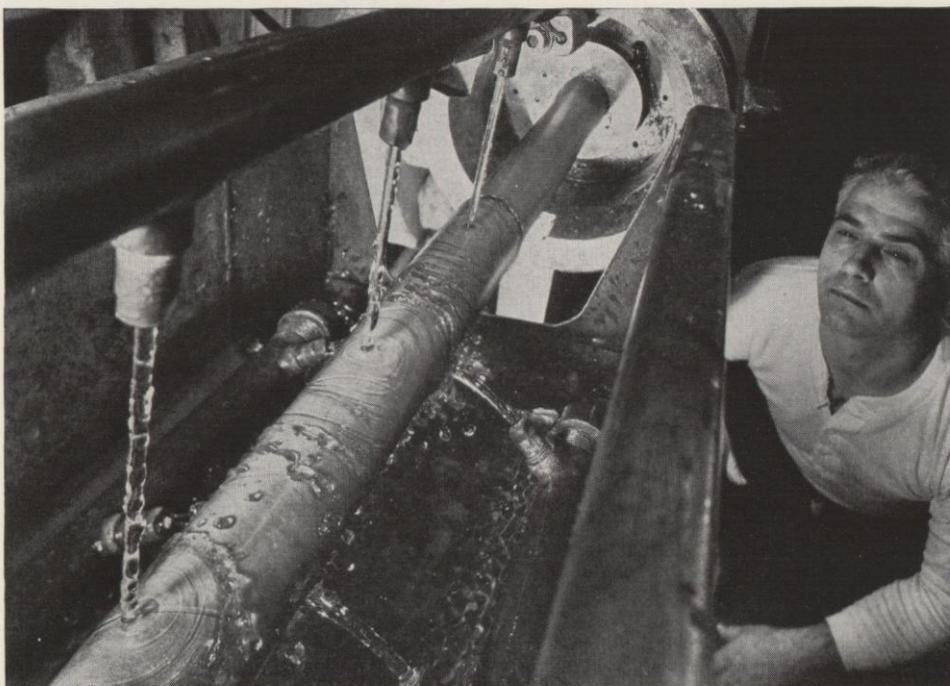
In order to increase the inadequate supply of telephone cable, Bell Laboratories and Western Electric are jointly undertaking to develop cables using aluminum instead of copper wires. Until recently such cables would have been too costly. Aluminum wires have to be larger in diameter than copper, making the entire cable larger. This requires more lead in the covering sheath, and lead is both expensive and scarce. However, the development of

plastic sheathing for use in place of lead has changed the situation, and good progress is also being made toward solving a second problem: how to splice aluminum wires. Field tests of a trial cable will soon be undertaken.

Western Electric Had Another Busy Year

Sales of Western Electric Company amounted to \$984,995,000 in 1951, compared with \$758,064,000 in the previous year. Both the heavy requirements of the Bell Telephone Companies and larger deliveries of military equipment to the U. S. Government contributed to this increase. Earnings for the year, exclusive of certain items pertaining to prior years, were \$42,341,000 or 4.3% of sales. Sales to the Government in 1951 exceeded \$125,800,000, compared with \$53,091,000 in 1950. More than 6,000 sub-contractors and suppliers now assist Western Electric in handling its military production.

Raw material shortages have impeded efforts to meet all needs of the telephone companies. In close cooperation with them and with Bell Laboratories, efforts to conserve strategic materials through salvage, substitutions,



This new type of telephone cable is in the final stage of manufacture at Western Electric's Point Breeze Works, near Baltimore. Instead of having a sheath made entirely of lead, the wires are sheathed first by tough plastic, then by a thin coating of lead. Other new types of cable use no lead. Here water cools the still-hot plastic before thin lead is applied.

and adaptations have been continued diligently and with excellent results.

Production of carrier telephone equipment, which increases the message-carrying capacity of cables and wires, was larger in 1951 than in any previous year. First deliveries were made of a new system developed by Bell Laboratories for use on short open wire lines, and the system introduced in 1950 for use on short cables was in substantial production.

In connection with the suit filed by the United States Attorney General against this Company and Western Electric in 1949, alleging violation of the Sherman Anti-Trust Act and asking that Western be separated from the Bell System, we are furnishing to the Department of Justice documents and other information required under motions filed by the Government in the Federal District Court in New Jersey in 1951. As stated in previous reports to the shareholders, the Companies deny that there has been any violation of the law. They believe their existing relationship is very much in the public interest and they will contest the suit to the limit.

More Than One Million Share Owners

In May of last year the American Telephone and Telegraph Company became the first business owned by more than a million shareholders. At the end of 1951 there were 1,092,000 owners. The savings of people in all walks of life make this enterprise possible. Most of our owners—96 per cent of them—are individuals. On the average, more than one in every 45 families across the country is represented. The average number of shares held by individual owners is 26, and no individual owner holds as much as one-twentieth of one per cent of the total stock. About half the owners hold ten shares or less. Nearly a third have owned their stock ten years or more.

Some 250,000 employees of the Bell System have purchased more than two million of the 2,800,000 shares offered under the Employees' Stock Plan authorized in 1946. Most of the remainder are now being purchased through installment payments.

Many organizations and institutions also hold A. T. & T. stock. Through such holdings, large additional numbers of people indirectly help to finance this business, and millions benefit from the dividends paid. Among the share owners are some 2,100 churches and other religious institutions; more than 700 schools and colleges; more than 1,100 hospitals and homes; some 350 insurance companies; about 1,400 banks and brokers who hold stock in behalf of many thousands of their customers; and about 700 civic and social groups. The owners of the Bell System are truly a cross-section of America.



When Mr. and Mrs. Brady Denton, of Saginaw, Michigan, bought seven shares of A. T. & T. last Spring, this Company became the first business owned by a million people. In July Postman Ralph W. Stroebel brought the Dentons' first dividend to them and their two sons.

Employee Benefit Payments and Thrift Plans

Approximately \$217,000,000, or 9.5 per cent of the payroll, was expended in 1951 by the Bell System Companies, including Western Electric and Bell Telephone Laboratories, for pension purposes and for sickness and other disability benefits and death benefits. About 121,000 employees and their dependents received payments. On the service pension rolls at the end of the year were 15,978 men and 11,724 women, or a total of 27,702. Some 18,600 more employees had been credited with enough service and had attained the age which entitled them to retire on service pension at their own request.

The plans for Employees' Pensions, Disability Benefits and Death Benefits have been in effect in the various Companies since 1913. They have been amended from time to time to meet changes in conditions, and for more than 39 years have played an important part in assisting employees and in maintaining an efficient business. They are financed on a sound basis and without any cost to employees. Service pensions are paid from Pension Trust Funds accrued in advance on an actuarial basis. These Funds are devoted

entirely and irrevocably to service pension purposes. Other payments under the Plans are made directly by the Companies.

The Bell Companies assist the thrift programs of employees by maintaining plans under which individuals may authorize allotments from pay. Such allotments are made for purchase of U. S. Defense Bonds and A. T. & T. stock, payment of life insurance premiums, payments to hospital service and surgical care organizations, and deposits in savings institutions. The amounts so laid aside by employees in 1951 totaled \$230,000,000.

Good Service with Good Spirit

At the end of the year there were 648,500 Bell System men and women—an increase of about 46,000 over 1950. Of the total number, 90,200 were employed by Western Electric and nearly 6,900 by Bell Telephone Laboratories. More than 220,000 employees have worked in the System 10 years or more, 142,000 have served 20 years or more, and 94,000 have completed 25 or more years of telephone work.

All agreements executed between Bell System Companies and the unions in 1951 provided for wage increases, in keeping with higher wage levels in the communities in which the Companies operate. These agreements were within the framework of regulations of the Wage Stabilization Board. The few Companies which did not make new wage agreements in 1951 had already negotiated them in the latter part of 1950, and will bargain new agreements during early 1952, when existing contracts expire.

Under the Plan of Award for Theodore N. Vail Medals established in 1920, one silver medal and 42 bronze medals were awarded to telephone people in 1951 for distinguished public service. These awards reflect the spirit of loyalty and devotion to duty which is the telephone tradition.

The men and women of the Bell System are its greatest asset. They served the nation well in 1951. Their ability and good spirit are the foundation for confidence in the years to come.

For the Board of Directors,

Bless E. Craig

FEBRUARY 20, 1952

President

The Annual Meeting of the share owners will be held at 1 p. m. on April 16, 1952, at the Company's offices at 195 Broadway, New York.



Each month, from the principal military camps and bases of the United States, service men and women make about a million and a half long distance calls. To help render them as personal and friendly service as possible, about 100 telephone centers attended by telephone people have been set up in 50 military establishments and others are being provided.



**FINANCIAL
STATEMENTS**

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, 1951, the consolidated balance sheet of the company and its principal telephone subsidiaries as of December 31, 1951, and the related statements of income and surplus for the year 1951. 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, 1951 and of the statements of income and surplus for the year 1951 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 1951 rendered to American Telephone and Telegraph Company by all other nonconsolidated subsidiaries. The consolidated balance sheet of Western Electric Company, Incorporated, and consolidated subsidiaries as of December 31, 1951 and the related statement of consolidated income of these companies for the year 1951, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 34 to 37) and the consolidated financial statements (pages 27 to 32) present fairly the position at December 31, 1951 and the results of operations for the year 1951 of American Telephone and Telegraph Company and the consolidated position at December 31, 1951 and the consolidated results of operations for the year 1951 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 19, 1952

FINANCIAL STATEMENTS

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS appear on pages 28 to 32, inclusive. These statements consolidate the accounts of the American Telephone and Telegraph Company, its directly-owned telephone subsidiaries (listed on page 38), 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 34 to 37.

WILLIAM SHELMEKDINE
Comptroller.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET

ASSETS

PLANT AND OTHER INVESTMENTS	December 31, 1951	December 31, 1950
Telephone Plant (a)		
Telephone Plant in Service	\$10,736,020,362	\$ 9,930,837,984
Telephone Plant under Construction	189,992,566	145,692,571
Property Held for Future Telephone Use	14,614,327	14,850,111
Telephone Plant Acquisition Adjustment	9,058,267	10,140,896
	<u>\$10,949,685,522</u>	<u>\$10,101,521,562</u>
Less: Depreciation and Amortization Reserves	3,041,697,173	2,826,244,999
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
	<u>\$ 7,907,988,349</u>	<u>\$ 7,275,276,563</u>
Miscellaneous Physical Property	3,174,559	3,666,219
Investments in Subsidiaries not consolidated (b)	395,928,663	395,190,274
Equities in Subsidiaries not consolidated in excess of investments therein	72,935,592	58,604,389
Other Investments (b)	89,800,031	80,095,987
<i>Principally investments in associated telephone companies.</i>		
Total	<u>\$ 8,469,827,194</u>	<u>\$ 7,812,833,432</u>
 CURRENT ASSETS		
Cash and Demand Deposits	\$ 83,280,640	\$ 87,583,878
Temporary Cash Investments	547,802,391	289,271,507
<i>Comprises at December 31, 1951 U. S. short-term obligations having a market value of \$547,818,000.</i>		
Special Cash Deposits	8,388,168	7,638,229
Current Receivables	430,112,345	383,391,516
<i>Amounts due for service (less reserves amounting to \$3,707,935 at December 31, 1951), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	118,165,322	109,220,982
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 1,187,748,866</u>	<u>\$ 877,106,112</u>
 DEFERRED CHARGES		
Prepayments of Directory Expenses, Rents, Taxes, etc.	\$ 51,991,315	\$ 46,070,455
Other Deferred Charges	22,951,412	13,711,609
Total Deferred Charges	<u>\$ 74,942,727</u>	<u>\$ 59,782,064</u>
Total Assets	<u>\$ 9,732,518,787</u>	<u>\$ 8,749,721,608</u>

The arrangement of certain items in this statement has been changed from previous reports to agree with revised requirements for reports filed with the Federal Communications Commission, the principal change being the deduction of Depreciation and Amortization Reserves from Telephone Plant rather than the inclusion of such reserves under Liabilities.

For notes, see page 32.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET—Continued

LIABILITIES

CAPITAL STOCK AND SURPLUS	December 31, 1951	December 31, 1950
American Telephone and Telegraph Company:		
Common Stock—Par Value	\$3,317,945,000	\$2,861,595,600
Capital Stock Installments (c)	66,714,082	123,821,900
Premium on Capital Stock	797,713,867	626,252,091
<i>Amount received in excess of par value.</i>		
Earned Surplus Reserved (d)	11,968,927	18,749,309
Unappropriated Earned Surplus (see page 31)	532,268,881	443,150,466
Total	<u>\$4,726,610,757</u>	<u>\$4,073,569,366</u>
Subsidiaries Consolidated—stocks held by public:		
Common Stock	\$ 141,186,600	\$ 109,829,200
Preferred Stock	17,904,300	17,904,300
Earned Surplus	9,710,552	9,367,971
Total	<u>\$ 168,801,452</u>	<u>\$ 137,101,471</u>
Total Capital Stock and Surplus	<u>\$4,895,412,209</u>	<u>\$4,210,670,837</u>
FUNDED DEBT		
American Telephone and Telegraph Company:		
Convertible Debentures	\$ 489,317,300	\$ 444,954,000
Other Debentures—see note (d) on page 37	1,440,000,000	1,440,000,000
Subsidiaries Consolidated (e)	1,778,000,000	1,748,000,000
Total Funded Debt	<u>\$3,707,317,300</u>	<u>\$3,632,954,000</u>
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 97,000,000	\$ 54,000,000
Accounts Payable	331,983,393	299,800,331
Advance Billing for Service and Customers' Deposits	85,204,308	77,742,465
Dividends Payable	75,011,080	64,793,471
Other Current Liabilities	33,830,096	17,506,459
Interest Accrued	29,318,806	27,058,414
Taxes Accrued	448,290,163	336,162,173
Total Current and Accrued Liabilities	<u>\$1,100,637,846</u>	<u>\$ 877,063,313</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 14,507,393	\$ 14,504,123
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits	14,644,039	14,529,335
Total Deferred Credits	<u>\$ 29,151,432</u>	<u>\$ 29,033,458</u>
Total Liabilities	<u>\$9,732,518,787</u>	<u>\$8,749,721,608</u>

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED INCOME STATEMENT

OPERATING REVENUES	Year 1951	Year 1950
Local Service Revenues	\$2,146,439,464	\$1,941,369,137
Toll Service Revenues	1,342,914,273	1,184,655,271
Miscellaneous Revenues	159,605,129	145,004,457
<i>Derived from directory advertising, rents and miscellaneous sources.</i>		
Less: Uncollectible Operating Revenues	<u>9,496,501</u>	<u>9,500,833</u>
Total Operating Revenues (f)	<u>\$3,639,462,365</u>	<u>\$3,261,528,032</u>
OPERATING EXPENSES		
Current Maintenance	\$ 753,114,350	\$ 681,834,666
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation and Amortization Expense	353,209,171	333,759,881
<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 3.8% of average investment in depreciable plant in service.</i>		
Traffic Expenses	738,566,505	662,818,178
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	318,302,370	285,301,631
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	29,591,385	27,327,292
General and Miscellaneous Expenses:		
General Administration	33,928,513	29,852,220
Accounting and Treasury Departments	153,764,110	135,808,469
Development and Research (g)	15,087,146	16,264,380
Provision for Employees' Service Pensions (h)	118,334,318	109,923,777
Employees' Sickness, Accident, Death and Other Benefits	41,557,870	34,818,812
Other General Expenses	50,421,122	44,868,313
Less: Expenses Charged Construction	<u>31,564,504</u>	<u>28,215,403</u>
Total Operating Expenses	<u>\$2,574,312,356</u>	<u>\$2,334,362,216</u>
Net Operating Revenues	<u>\$1,065,150,009</u>	<u>\$ 927,165,816</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 339,347,212	\$ 240,758,813
Other Taxes—principally State, local and Social Security ..	<u>290,211,678</u>	<u>258,692,549</u>
Total Operating Taxes	<u>\$ 629,558,890</u>	<u>\$ 499,451,362</u>
Net Operating Income (carried forward)	<u>\$ 435,591,119</u>	<u>\$ 427,714,454</u>

For notes, see page 32.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED INCOME STATEMENT—Continued

	Year 1951	Year 1950
Net Operating Income (brought forward)	\$ 435,591,119	\$ 427,714,454
OTHER INCOME		
Dividends from subsidiaries not consolidated (i)	\$ 32,411,536	\$ 33,662,144
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (j)	14,358,550	5,857,176
Dividends from other companies	5,344,353	4,799,911
Miscellaneous income (k)	18,947,166	13,190,714
Less: Miscellaneous deductions from income (h)	13,488,238	13,110,899
Income Available for Fixed Charges	<u>\$ 493,164,486</u>	<u>\$ 472,113,500</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 111,198,657	\$ 108,892,158
Other Interest	6,607,610	4,633,386
Other Fixed Charges	28,821	31,014
Less: Release of Premium on Funded Debt—net	283,557	309,982
Net Income	<u>\$ 375,612,955</u>	<u>\$ 358,866,924</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	9,664,521	10,830,615
Net Income Applicable to A.T.&T. Co. Stock	<u>\$ 364,874,176</u>	<u>\$ 346,962,051</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (1)	\$11.76	\$12.58

Statement of Consolidated Unappropriated Earned Surplus Applicable to American Telephone and Telegraph Company Stock—Year 1951

BALANCE—DECEMBER 31, 1950	\$ 443,150,466
Net Income applicable to A. T. & T. Co. Stock	\$ 364,874,176
Transferred from Earned Surplus Reserved—Net	6,780,382
Adjustment of tax accruals for prior years	6,379,362
Miscellaneous additions	188,210
TOTAL ADDITIONS	<u>\$ 378,222,130</u>
Dividends on A. T. & T. Co. Stock	\$ 279,256,365
Refunds to customers of amounts applicable to prior years, less related taxes ..	6,982,506
Organization and Capital Stock Expense charged off	1,680,606
Amortization of Telephone Plant Acquisition Adjustment	739,846
Miscellaneous deductions	444,392
TOTAL DEDUCTIONS	<u>\$ 289,103,715</u>
BALANCE—DECEMBER 31, 1951	<u>\$ 532,268,881</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, 1951, securities carried in Investments in Subsidiaries not consolidated at \$26,678,000 were on deposit as part of the security for funded debt of a subsidiary consolidated.

(c) Installment payments and interest applicable to shares (639,385 at December 31, 1951) which employees of the American Telephone and Telegraph Company and its subsidiaries elected to purchase under the Employees' Stock Plan authorized by stockholders in 1946. 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) Reservations against contingency of refunds in connection with certain rate proceedings.

(e) Of the funded debt of subsidiaries consolidated, \$50,000,000 matures in 1960, \$118,000,000 from 1961 to 1970, \$415,000,000 from 1971 to 1980, and \$1,195,000,000 thereafter.

(f) "Total Operating Revenues" include approximately \$15,400,000 in 1951 and \$6,200,000 in 1950 with respect to which reservations of surplus have been made against contingency of refunds to customers in connection with certain pending rate proceedings, and \$2,395,000 in 1950 of which \$1,692,000 was refunded in 1951 and \$703,000 will be refunded in 1952.

(g) Cost of 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 \$125,836,794 for 1951 and \$118,105,483 for 1950, of which \$7,502,476 for 1951 and \$8,181,706 for 1950 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.

(i) Includes dividends received from Western Electric Company in the amounts of \$31,439,766 in 1951 and \$31,439,361 in 1950.

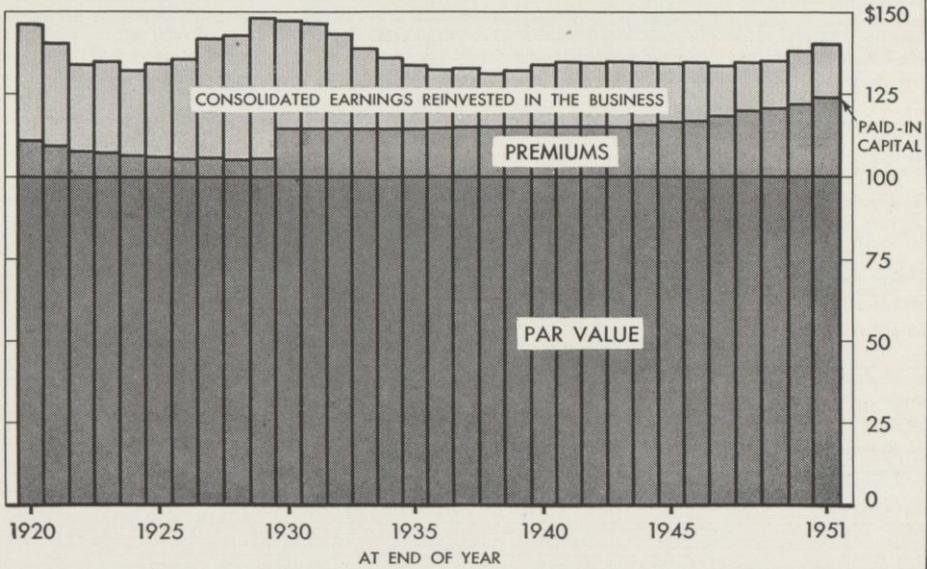
(j) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$14,285,011 in 1951 and \$7,133,372 in 1950.

(k) Includes \$7,887,684 in 1951 and \$7,275,809 in 1950 for interest charged construction.

(l) Based on average shares outstanding—31,028,485 in 1951 and 27,585,607 in 1950.

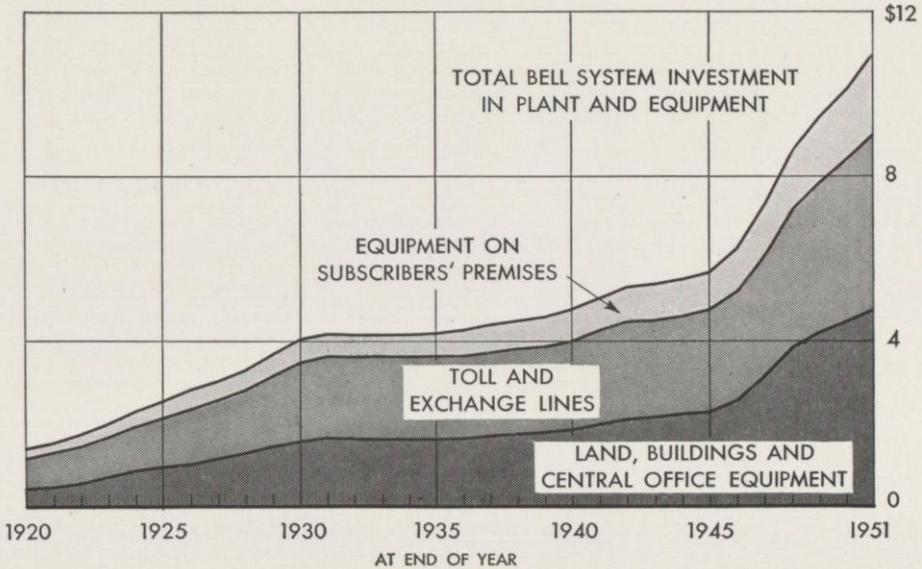
Amounts accrued for employees' service pensions are paid to Bankers Trust Company as Trustee of Pension Funds established by the Company and its subsidiaries which are irrevocably devoted to service pension purposes. Such Pension Funds, which are not a part of the assets of the companies, amounted to \$1,384,963,462 on December 31, 1951 and are more than adequate to meet future pension payments for those now receiving pensions and those now entitled to retire on pension at their own request.

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



\$140.45 was invested per share of A. T. & T. Company stock at the end of 1951.

PLANT INVESTMENT—IN BILLIONS



Less than one-fifth of the investment in plant is in equipment on customers' premises.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET

ASSETS

	December 31, 1951	December 31, 1950
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service	\$ 940,444,830	\$ 885,216,095
Telephone Plant under Construction.....	24,035,517	19,790,989
Property Held for Future Telephone Use.....	473,968	528,436
	<u>\$ 964,954,315</u>	<u>\$ 905,535,520</u>
Less: Depreciation Reserve	373,151,085	345,621,721
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
	<u>\$ 591,803,230</u>	<u>\$ 559,913,799</u>
Investments in Subsidiaries—at cost (see page 38)	5,302,746,670	4,925,944,468
Stocks	\$5,080,914,670	
Advances	221,832,000	
Other Investments—at cost (see page 38)	74,868,116	68,193,591
Stocks	\$ 57,878,355	
Advances	5,000,000	
Miscellaneous	11,989,761	
Total	<u>\$5,969,418,016</u>	<u>\$5,554,051,858</u>
 CURRENT ASSETS		
Cash and Demand Deposits	\$ 15,291,209	\$ 15,023,035
Temporary Cash Investments	543,799,223	284,270,285
<i>Comprises at December 31, 1951 U. S. short-term obligations having a market value of \$543,817,000.</i>		
Special Cash Deposits	2,578,289	2,630,711
Current Receivables	40,761,189	33,915,431
<i>Amounts due for service (less reserve amounting to \$125,000 at December 31, 1951), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	10,797,180	7,298,695
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 613,227,090</u>	<u>\$ 343,138,157</u>
 DEFERRED CHARGES	 \$ 3,808,749	 \$ 3,630,159
Total Assets	<u>\$6,586,453,855</u>	<u>\$5,900,820,174</u>

The arrangement of certain items in this statement has been changed from previous reports to agree with revised requirements for reports filed with the Federal Communications Commission, the principal change being the deduction of the Depreciation Reserve from Telephone Plant rather than the inclusion of such reserve under Liabilities.

For notes, see page 37.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET—Continued

LIABILITIES

	December 31, 1951	December 31, 1950
CAPITAL STOCK AND SURPLUS		
Common Stock—par value (\$100 per share)	\$3,317,945,000	\$2,861,595,600
<i>Authorized, 45,000,000 shares; outstanding, 33,179,450 shares at December 31, 1951 (b).</i>		
Capital Stock Installments (c)	66,714,082	123,821,900
Premium on Capital Stock	797,713,867	626,252,091
<i>Amount received in excess of par value.</i>		
Unappropriated Earned Surplus (see page 36)	312,569,989	260,898,737
Total Capital Stock and Surplus	<u>\$4,494,942,938</u>	<u>\$3,872,568,328</u>
 FUNDED DEBT		
Convertible Debentures	\$ 489,317,300	\$ 444,954,000
Other Debentures (d)	1,440,000,000	1,440,000,000
Total Funded Debt	<u>\$1,929,317,300</u>	<u>\$1,884,954,000</u>
 CURRENT AND ACCRUED LIABILITIES		
Dividend Payable	\$ 74,452,212	\$ 64,258,288
Accounts Payable	23,248,354	18,686,056
Interest Accrued	12,482,507	10,746,958
Taxes Accrued	36,480,199	33,776,858
Total Current and Accrued Liabilities	<u>\$ 146,663,272</u>	<u>\$ 127,468,160</u>
 DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 2,918,241	\$ 3,215,523
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits	12,612,104	12,614,163
Total Deferred Credits	<u>\$ 15,530,345</u>	<u>\$ 15,829,686</u>
Total Liabilities	<u>\$6,586,453,855</u>	<u>\$5,900,820,174</u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INCOME STATEMENT

	Year 1951	Year 1950
OPERATING REVENUES		
Toll Service Revenues (e)	\$219,521,792	\$200,594,692
License Contract Revenues	34,336,204	30,445,197
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	14,842,217	13,287,604
Less: Uncollectible Operating Revenues	965,640	822,025
Total Operating Revenues	<u>\$267,734,573</u>	<u>\$243,505,468</u>
OPERATING EXPENSES (f)		
Current Maintenance	\$ 52,560,620	\$ 43,715,594
Depreciation Expense	35,207,244	33,307,289
Traffic Expenses	33,574,312	27,515,347
Commercial Expenses	9,041,693	6,723,327
Operating Rents	4,433,784	3,874,696
General Administration	13,296,431	11,676,442
Accounting and Treasury Expenses	10,161,121	8,280,946
Development and Research (g)	15,087,146	16,264,380
Provision for Employees' Service Pensions (h)	7,207,235	6,840,072
Employees' Sickness, Accident, Death and Other Benefits	2,467,697	2,102,870
Other General Expenses	5,367,098	4,928,974
Less: Expenses Charged Construction	1,178,937	979,950
Total Operating Expenses	<u>\$187,225,444</u>	<u>\$164,249,987</u>
Net Operating Revenues	<u>\$ 80,509,129</u>	<u>\$ 79,255,481</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 28,679,000	\$ 26,996,000
Other Taxes—principally State, local and Social Security ..	15,596,211	14,558,270
Total Operating Taxes	<u>\$ 44,275,211</u>	<u>\$ 41,554,270</u>
Net Operating Income	<u>\$ 36,233,918</u>	<u>\$ 37,701,211</u>
OTHER INCOME		
Dividend Income (i)	\$333,834,158	\$294,339,638
Interest Income	16,593,950	12,381,761
Miscellaneous Income	1,311,205	1,182,090
Less: Miscellaneous Deductions from Income (h)	1,128,863	1,315,482
Income Available for Fixed Charges	<u>\$386,844,368</u>	<u>\$344,289,218</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 57,968,655	\$ 55,542,678
Other Interest	2,010,567	2,026,058
Less: Release of Premium on Funded Debt—net	79,562	81,811
Net Income	<u>\$326,944,708</u>	<u>\$286,802,293</u>
Earnings per share (j)	\$10.54	\$10.40

Statement of Unappropriated Earned Surplus—Year 1951

BALANCE—DECEMBER 31, 1950	\$260,898,737
Net Income	\$326,944,708
Adjustment of tax accruals for prior years	4,800,000
Miscellaneous additions	9,856
TOTAL ADDITIONS	<u>\$331,754,564</u>
Dividends declared	\$279,256,365
Miscellaneous deductions	826,947
TOTAL DEDUCTIONS	<u>\$280,083,312</u>
BALANCE—DECEMBER 31, 1951	<u>\$312,569,989</u>

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 4,893,173 authorized and unissued shares was reserved at December 31, 1951 for conversion of Debentures, as follows: 572,299 shares for the Ten Year 2¾% Convertible Debentures, due December 15, 1957, which are convertible at \$140 per share; 96,971 shares for the Ten Year 3⅜% Convertible Debentures, due June 20, 1959, which are convertible at \$140 per share; 2,216,216 shares for the Fifteen Year 2¾% Convertible Debentures, due December 15, 1961, which are convertible at \$146 per share; and 2,007,687 shares for the Twelve Year 3⅜% Convertible Debentures, due March 19, 1963, which are convertible at \$138 per share. (These conversion prices are subject to adjustment as provided in the respective indentures.) See also note (c) below.

(c) Installment payments and interest applicable to shares (639,385 at December 31, 1951) which employees of the Company and its subsidiaries elected to purchase under the Employees' Stock Plan authorized by stockholders in 1946. 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. In November 1950 stockholders authorized the Board of Directors at its discretion to offer a maximum of 3,000,000 shares of stock to employees of the Company and its subsidiaries under a new Employees' Stock Plan.

(d) Of these debentures, \$140,000,000 mature in 1970, \$775,000,000 from 1971 to 1980, and \$525,000,000 thereafter.

(e) Represents the Company's share of total revenues from toll business handled jointly with subsidiaries and other telephone companies of \$682,245,000 in 1951 and \$566,840,000 in 1950.

(f) Operating expenses are incurred principally in providing the Company's long distance communication services and in performing License Contract services furnished telephone companies.

(g) Cost of work carried on in behalf of the Company by Bell Telephone Laboratories.

(h) The total provision for employees' service pensions amounted to \$7,665,023 for 1951 and \$7,339,476 for 1950, of which \$457,788 for 1951 and \$499,404 for 1950 were 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 these latter amounts were, in fact, current operating expenses.

(i) Includes dividends from subsidiaries of \$329,347,169 in 1951 and \$290,299,073 in 1950.

(j) Based on average shares outstanding—31,028,485 in 1951 and 27,585,607 in 1950.

Amounts accrued for employees' service pensions are paid to Bankers Trust Company as Trustee of the Pension Fund established by the Company which is irrevocably devoted to service pension purposes. Such Pension Fund, which is not a part of the assets of the Company, amounted to \$78,753,954 on December 31, 1951 and is more than adequate to meet future pension payments for those now receiving pensions and those now entitled to retire on pension at their own request.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INVESTMENTS IN STOCKS AND ADVANCES—DECEMBER 31, 1951

TELEPHONE SUBSIDIARIES	Par Value of Holdings	CAPITAL STOCKS (a)		ADVANCES
		% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co....	\$160,821,300	69.15	\$ 165,772,821	\$ 22,500,000
New York Tel. Co.....	606,300,000	100.00	629,280,335	.....
New Jersey Bell Tel. Co.....	210,000,000	100.00	223,667,184	18,200,000
Bell Tel. Co. of Pennsylvania	295,000,000	100.00	301,316,050	1,500,000
Diamond State Tel. Co.....	16,000,000	100.00	16,700,000	.....
Chesapeake & Potomac Tel. Co.	80,000,000	100.00	81,000,000	3,925,000
Chesapeake & Potomac Tel. Co. of Baltimore City.....	115,000,000	100.00	116,467,862	12,725,000
Chesapeake & Potomac Tel. Co. of Virginia	100,000,000	100.00	100,000,000	14,225,000
Chesapeake & Potomac Tel. Co. of West Virginia	50,000,000	100.00	50,000,000	575,000
Southern Bell Tel. & Tel. Co....	560,000,000	100.00	561,817,298	12,000,000
Ohio Bell Tel. Co.....	283,499,900	99.99	283,542,198	6,000,000
Michigan Bell Tel. Co.....	234,987,000	99.99	235,399,232	10,500,000
Indiana Bell Tel. Co.....	94,998,800	99.99	95,585,286	825,000
Wisconsin Tel. Co.....	122,000,000	100.00	125,223,835	1,100,000
Illinois Bell Tel. Co.....	271,106,500	99.31	276,587,308	87,000,000
Northwestern Bell Tel. Co.....	198,000,000	100.00	199,039,490	2,900,000
Southwestern Bell Tel. Co.....	589,998,500	99.99	593,251,578	.....
Mountain States Tel. & Tel. Co..	108,096,200	84.81	109,501,163	27,000,000
Pacific Tel. & Tel. Co.....	502,833,100	91.25	498,491,290	.....
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)	99.81	325,682,560	.....
195 Broadway Corporation.....	17,500,000	100.00	17,515,000	855,000
Eastern Tel. & Tel. Co. (Inactive)	75,000	100.00	75,000	2,000
Total			<u>\$5,080,914,670</u>	<u>\$221,832,000</u>
OTHER COMPANIES				
Southern New England Tel. Co. \$	24,007,400	26.67	\$ 24,319,225	\$ 5,000,000
Cincinnati & Suburban Bell Tel. Co.	13,978,400	29.79	14,541,847	.....
Bell Telephone Company of Canada	18,749,800	9.55	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			<u>\$ 57,878,355</u>	<u>\$ 5,000,000</u>

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 10,479,922 shares—no par value.

BELL SYSTEM STATISTICS

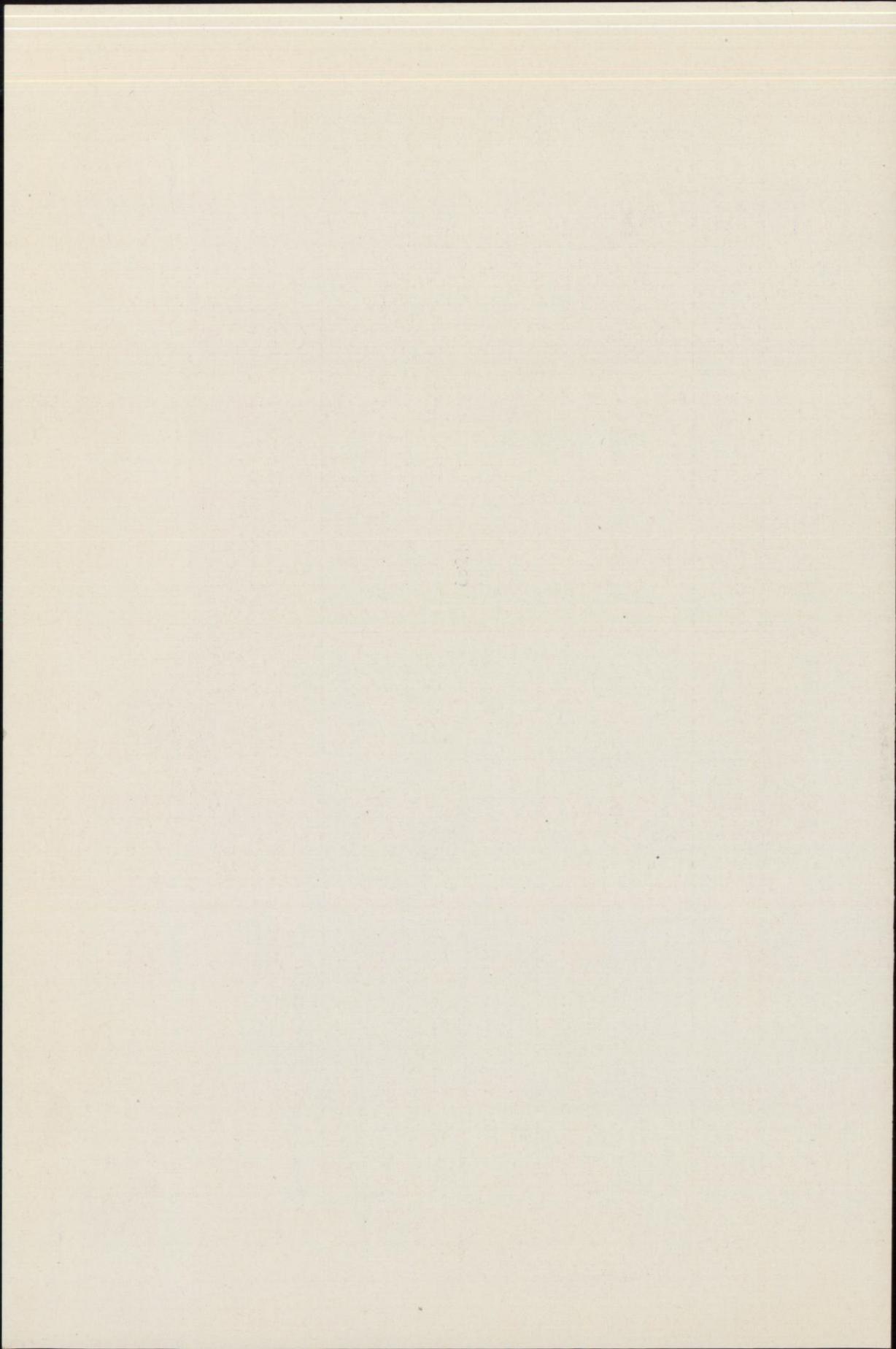
	Dec. 31 1935	Dec. 31 1940	Dec. 31 1945	Dec. 31 1950	Dec. 31 1951	Increase During 1951
Number of telephones (a)	13,573,025	17,483,981	22,445,519	35,343,440	37,413,614	2,070,174
Number of central offices	6,896	7,052	7,374	8,470	8,671	201
Miles of pole lines	407,454	399,838	420,009	502,892	518,987	16,095
Miles of wire:						
In underground cable	47,639,000	54,339,000	60,759,000	86,963,000	91,007,000	4,044,000
In aerial cable	26,455,000	30,307,000	33,966,000	48,240,000	51,624,000	3,384,000
Open wire	4,562,000	4,660,000	5,034,000	6,578,000	6,750,000	172,000
Total	78,626,000	89,306,000	99,759,000	141,781,000	149,381,000	7,600,000
Average daily telephone conversations* (b)	60,290,000	79,303,000	90,548,000	140,782,000	145,136,000	4,354,000
Total plant	\$4,187,790,000	\$4,747,674,000	\$5,792,057,000	\$10,101,522,000	\$10,949,686,000	\$848,164,000
Operating revenues*	\$919,116,000	\$1,174,322,000	\$1,930,889,000	\$3,261,528,000	\$3,639,462,000	\$377,934,000
Number of employees (c)	268,754	323,701	474,527	602,466	648,459	45,993
Number of American Tel. and Tel. Co. stockholders	657,465	630,902	683,897	985,583	1,092,433	106,850

* For year ending December 31.

(a) Excludes private line telephones numbering 124,022 on December 31, 1951. 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 45,600,000.

(b) For the year 1951 there were approximately 139,125,000 average daily local conversations and 6,011,000 average daily toll and long distance conversations. During 1951 many calls were reclassified from "toll" to "local," due to enlargement of numerous local calling areas. When the data are adjusted for such reclassifications, there was an increase of 2.9 per cent in local conversations, and 7.5 per cent in toll and long distance conversations, over the year 1950.

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



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.

*THE CHES. & POT. TEL. CO. (D. C.)
 THE CHES. & POT. TEL. CO. OF BALTIMORE CITY OF VIRGINIA
 THE CHES. & POT. TEL. CO. OF WEST VIRGINIA

