

Annual Report *1952*



BOARDS

MRb

6536

Am 38

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

DIRECTORS

James F. Bell	John L. McCaffrey
Lloyd D. Brace	John J. McCloy
Vannevar Bush	Arthur W. Page
Cleo F. Craig	Thomas I. Parkinson
David A. Crawford	Elihu Root, Jr.
John W. Davis	Tom K. Smith
Hal S. Dumas	Myron C. Taylor
W. Cameron Forbes	Samuel A. Welldon
G. Peabody Gardner	William White
A. Lee M. Wiggins	

OFFICERS

<i>President</i>	T. Brooke Price
Cleo F. Craig	Charles E. Wampler
<i>Executive Vice President</i>	E. Hornsby Wasson
Hal S. Dumas	Eugene J. McNeely
<i>Vice Presidents</i>	<i>Secretary</i>
Bartlett T. Miller	S. Whitney Landon
William C. Bolenius	<i>Treasurer</i>
Frederick R. Kappel	Alexander L. Stott
Henry T. Killingsworth	<i>Comptroller</i>
George L. Best	William Shelmerdine

Pictured on the cover are three TRANSISTORS

Transistors are a new and highly important kind of electronic device. They can do many things that vacuum tubes do and many more besides. But they are not vacuum tubes and work on entirely different principles. The transistor was invented at Bell Telephone Laboratories and telephone scientists and engineers have since devised new and more versatile types.

The Bell System began regular production of transistors in 1952. Most of this production is for military use, but in 1952 also the transistor took its first telephone job in new equipment used in long distance dialing. This is just the beginning of many telephone uses.

Transistors take various forms for different purposes. They are very small — about two-thirds the size shown on the cover — and will be low in cost. They require only tiny amounts of power but can amplify electric signals a hundred thousand times. Invention of the transistor may well prove to be one of the great landmarks of telephone research.

Annual Report *1952*

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 Broadway, New York 7, N. Y.

EXchange 3-9800

The Annual Meeting of the Share Owners will be held at the Company's office, 195 Broadway, at 1 P.M. on April 15, 1953





Highlights of the Bell

THE NATION'S NEED FOR SERVICE was greater than ever before. Telephone men and women responded ably to the need. The Bell System companies cared for some 15,000,000 orders to install, remove and relocate telephones; the net gain was about two million, including 245,000 in rural areas, and there are now 39,400,000 telephones in operation—17½ million more than at the end of World War II. Long distance conversations last year increased about five per cent over 1951 and were 70 per cent above the level of 1945.

BELL SYSTEM EARNINGS on total capital were at the rate of 5.9 per cent in 1952, substantially the same as the 5.8 per cent earned in 1951. Earnings per share of A. T. & T. stock were \$11.45, compared with \$11.76 in 1951. In 1952 there was an average of 35,528,000 shares outstanding—4,500,000 more than in 1951.

There is evidence of better understanding by regulatory authorities that good earnings and a sound financial structure are essential to providing the best in telephone service. However, telephone rates are still below the levels required to offset the effects of inflation. The Bell companies are therefore continuing to present to regulatory agencies their needs for rate increases to provide more adequate earnings.

1,220,000 SHARE OWNERS held A. T. & T. stock at the end of 1952 — 128,000 more than at the end of 1951. As already indicated, there was also an increase in the number of shares outstanding. This was due mainly to the fact that holders of the Company's convertible bonds converted many of their bonds into stock. As a result, the proportion of debt in Bell System capital decreased from a little over 44 per cent to about 40 per cent. It is important to continue this improvement of the System's financial structure.

OPERATING TAXES in 1952 amounted to \$19.28 per share. This was \$7.83 more per share than the earnings. Total taxes, including the high excise taxes on telephone service, averaged \$2.85 per telephone per month. Though the telephone is far from being a luxury, telephone excise taxes are much higher than those imposed on any other essential service or product. They discriminate against telephone users.



NEW CONSTRUCTION to meet service demands required expenditures averaging nearly \$3½ million a day. Even so, the plant is over-

Telephone Story in 1952

loaded and here and there delays in service could not be avoided. Generally however telephone service was good in 1952. Telephone people were able to reduce substantially the number of unfilled orders, and also to meet the requests of nearly 900,000 party-line customers for higher classes of service.



NEW EQUIPMENT AND METHODS are playing a more and more important part in enabling telephone men and women to better serve their communities and the nation. In 1952 operators dialed two out of every five long distance calls straight through to the called telephone. We placed in service new radio relay and coaxial cable systems; these can carry hundreds of telephone messages at the same time and can also carry television programs. Bell System facilities are meeting new needs and the telephone organization is alive to the opportunities. As one example, the service of the Bell companies to newspapers and to radio and television stations in the political campaign and elections — and later for the inauguration — made possible the widest instant news cov-

erage ever given to such events. At the end of the year long distance television channels served 114 stations in 71 cities and made it possible for more than 90 million people to view network programs. Television networks also linked audiences in theatres and at other locations.



TELEPHONE SERVICE FOR DEFENSE continued to get first attention throughout the year. The telephone companies provided many special facilities to military and defense agencies. They also took additional steps to increase the reliability of service under disaster conditions. The Army, Navy and Air Force called on Bell Telephone Laboratories and Western Electric, our research and manufacturing organizations, to perform an increasingly large amount of work, including the development, engineering and production of military communication equipment and advanced electronic weapon systems. For the third successive year, Western Electric and Bell Laboratories served the Atomic Energy Commission by operating its Sandia Laboratory at Albuquerque, New Mexico, which develops and designs atomic weapons.

MAR 9 1953



**MORE BELL TELEPHONES HAVE BEEN ADDED SINCE
THE WAR THAN WERE IN SERVICE BEFORE THE WAR**

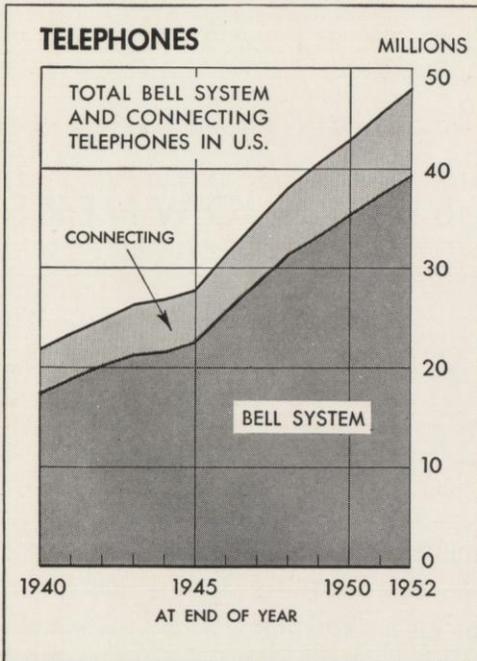
REPORT TO THE SHARE OWNERS

THE TELEPHONE served more homes and businesses, more farms, more factories and more people in 1952. The Bell System companies added two million telephones, met the requests of many party-line customers for individual lines, and made substantial headway in reducing the number of unfilled orders. Dial service continued to increase. New facilities installed during the year were the best we have ever put into use. New operating methods increased efficiency and made for better service. Our research work opened up new promise for the future.

To meet the nation's telephone needs we again built a great deal of new physical plant, and to help finance the heavy construction program we obtained from investors a large amount of new capital.

Increases in telephone rates became effective in 37 states at various times during 1952, but earnings still are adversely affected by the pressure of higher costs. Better equipment and more efficient operation have prevented costs from reaching even higher levels, but technical and operating improvements alone cannot offset the effects of inflation. As a result the telephone companies continue to find it necessary to obtain increases in the rates charged for service.

As in previous years, telephone needs of the armed forces and defense industry received special attention. The Bell companies have provided extensive networks for defense against air attack. These operate 24 hours a day in the service of the military. In addition, the companies have arranged many other lines so that they can be immediately released to enlarge the military networks if need should arise. The people of the Bell System know that nothing is more important to national defense than good communications. They are deeply conscious that this is their first responsibility.



The Government has asked Bell Telephone Laboratories and Western Electric Company, our research and manufacturing organizations, to take on a greatly increased amount of work in producing advanced weapon systems which largely depend on communications technology. The Laboratories and Western Electric have worked for many years in close cooperation with the operating telephone companies. They have thus acquired unique experience and ability in creating complete systems to communicate intelligence. This experience and skill, in addition to their value in improving

telephone service, are important in helping to keep our country's weapons ahead of the rest of the world.

About 14,000 employees, including 1,100 women, were on leave from the Bell System companies in military service at the end of 1952. Since fighting began in Korea, 85 employees have given their lives. Some 10,000 have been released from military duty and over 90 per cent of this group have returned to their companies. We are delighted to have them back.

With the continuing growth of telephone service, the work of the Bell System touches more and more people—as customers, as owners of the business, and as employees. There are now more than 1,200,000 share owners and nearly 700,000 men and women are employed. These are large figures. They are most meaningful when we remember that they represent that many individual people, and their families, in communities across the nation.

Ours is a home-town business in each community. Good telephone service has grown from the personal concern of telephone men and women to serve their neighbors well. The company's relationship with each share owner also rests on the sense of personal responsibility. And in the planning and supervising of telephone work, as well as in each act of service, it is the individual efforts of employees in each community that spell out our progress. The people of the Bell System turned in a fine performance in 1952. We can be sure that the success of the business will always depend on the experience and skill of the men and women in it, and on our devotion to meeting every telephone need of our neighbors and fellow-citizens who rely on us.

TRUSTEESHIP IN PUBLIC SERVICE

In a message to the share owners in January, 1953, the Board of Directors put into writing the considerations that guide their conduct of the business. Their statement reaffirms the basic policy of the Company and appropriately belongs with this Report of our progress in 1952. It reads:

“Each of us considers that he is a trustee for the savings of every individual who has put money in the business. It is our responsibility that the Company shall prosper.

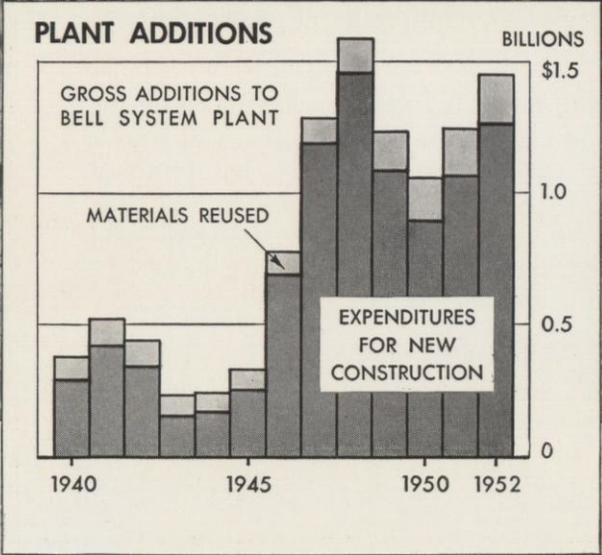
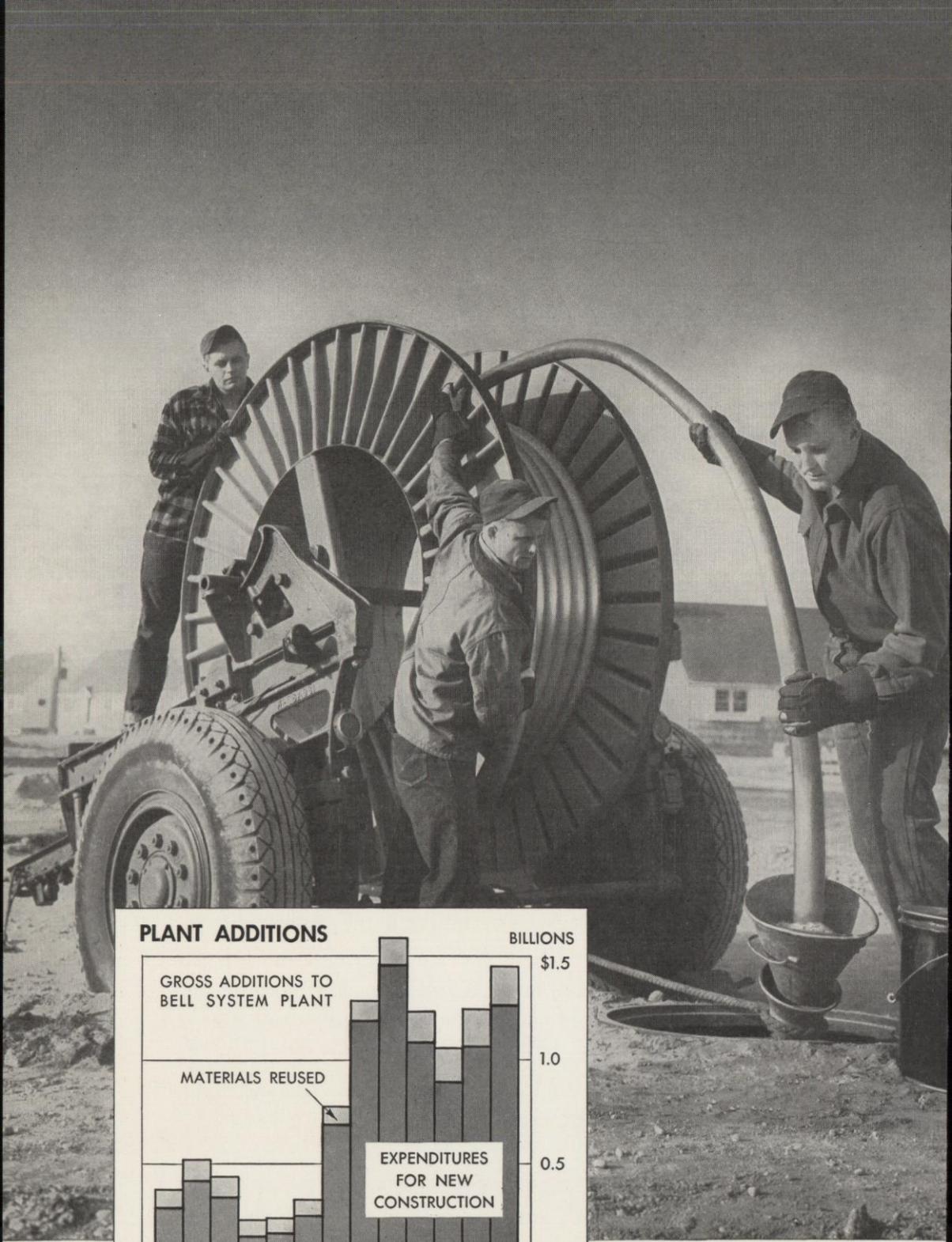
“We are sure that to perform this duty, we must serve the public as well as possible. The Company is a servant of the public. The services it performs are necessary to the people of the United States. They are necessary to the building of our nation and to our national security. Clearly, we occupy a position of great public trust.

“We think it all-important therefore that we furnish the best telephone service it is in our power to provide—a service high in value and steadily improving—at a cost to the user that will always be as low as possible and at the same time keep the business in good financial health.

“The success of the business depends on the people in it. To serve well and prosper the Company must attract and keep capable employees. They must be well paid and have opportunity to advance in accordance with ability. And we must continually develop first-rate leaders for the future.

“Finally, it seems to us that it is always our duty to act for the long run. Sound financing, good earnings, reasonable and regular dividends—these are all long-term projects. So is our continual research to find better means for giving better service. So is the building of the human organization and character on which good service depends. So is the training of leaders. In all our undertakings, the long view is essential.

“This is the way we understand the trust you have placed in us. It is a trust that deserves, and will continue to receive, the most painstaking care we can give it.”



**NEW HOUSING NEEDS
NEW TELEPHONE CABLES**

OPERATING AND FINANCIAL REVIEW

THE GREAT majority of telephone calls went through quickly and without error. Demand for service was so high that notwithstanding the tremendous construction program there are still shortages of lines and switchboards. However, new operating methods have helped to minimize delays—for instance, a new procedure for handling long distance calls enables operators to use the circuits on busy routes more efficiently. The average time for making long distance connections last year was 1.8 minutes and more than nine out of ten calls went through on a “no hang up” basis. Customers reported less trouble with their telephones than ever before. Maintenance forces cleared the troubles more quickly.

Four out of five Bell System telephones are now dial instruments and operators dial two out of every five long distance calls straight through to the distant telephone. At the end of the year long distance dial switching centers were in use in 18 large cities. The dialing network now interconnects more than 1,700 cities and towns. We are building more switching centers and are further extending the network in 1953. This program also fits in closely with plans that will make it possible for telephone users eventually to dial their own long distance calls.

A trial of long distance dialing by customers in Englewood, New Jersey, has shown that people like this kind of service. Englewood telephone users are able to reach about 11 million telephones in a dozen areas from coast to coast without the assistance of an operator. They can call the operator if they prefer, but last year they chose to dial 96 per cent of all their calls to points within the dial's reach. The Bell companies expect to provide similar service in several other areas in 1953 and 1954, and in cooperation with the independently owned telephone companies of the nation they will work toward extending it all over the country. This will necessarily be a gradual process, for it involves an immense amount of preparatory work and a great deal of equipment.

For many years the Independent and Bell telephone companies have worked together cordially and effectively; the lines of some 5,300 Independent companies serving nearly nine million telephones interconnect with Bell System lines to provide a truly nationwide telephone service. As the needs of the public grow and change, all the companies keep in close touch to

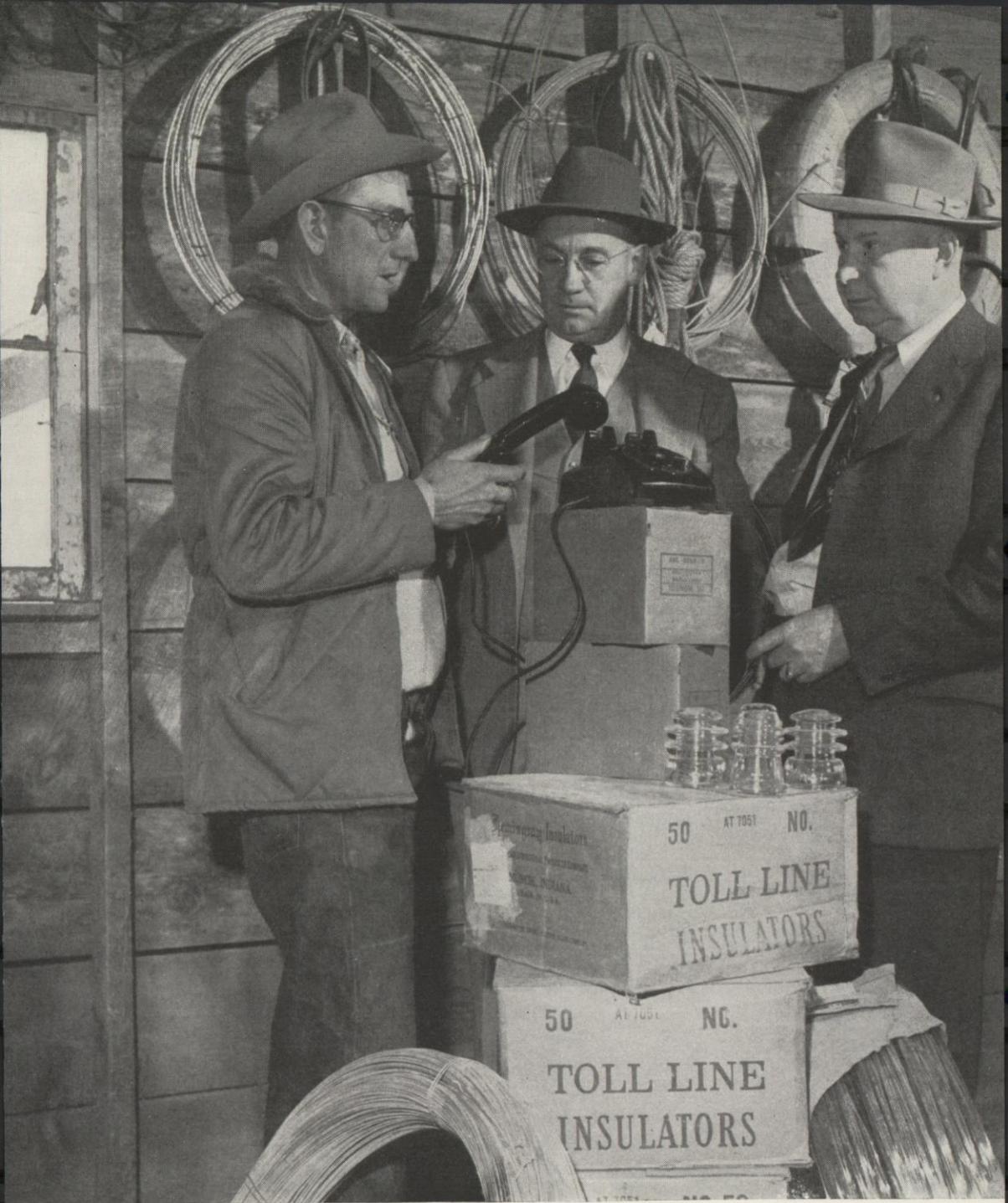
solve common problems. A particular point of common interest is to extend and improve telephone service to farmers. Since the war the Bell companies have added more than two million telephones serving customers in rural areas. In addition to working with their Independent company neighbors, they are cooperating also with the Rural Electrification Administration of the Federal Government to help meet farm telephone needs in other areas.

The network of long distance lines increased very substantially in 1952. New radio relay lines now connect Kansas City and Dallas, Dallas and San Antonio, Seattle and Portland, Los Angeles and San Diego, Rochester and Syracuse, and New York and Atlanta. New coaxial cables were placed in service between Oklahoma City and Amarillo, Jackson and New Orleans, Sioux Falls and Sioux City, Chattanooga and Knoxville, and Orlando and Tampa. By applying modern carrier systems to these facilities and other cable and wire lines, we were able to obtain over seven thousand more long distance circuits. There are still shortages of circuits on many routes, but extensive construction is continuing.

Particular attention has centered on making telephone service even more reliable. The Missouri River floods last spring demonstrated the value of advance planning as an additional measure of security in time of disaster. Ahead of the flood crest, employees protected central offices by dikes, provided emergency pumps and additional power supplies, put underground cables under nitrogen gas pressure to keep out water, and moved many telephones and customers' switchboards to safe locations. The result was that interruptions of service and damage to facilities were relatively small. Telephone people were able to handle a very large number of calls and to provide important special services to flood control and relief agencies.

We have also further enlarged and improved our facilities to serve men and women in the armed forces. They make many more calls than the average civilian, and they have to make most of them during a relatively brief period in the evening. To meet their special needs we have installed many new long distance lines to serve military camps and bases. We now have 144 special telephone centers in the larger military establishments—nearly 50 more than a year ago—where telephone employees are on hand to help service men and women get their calls through. At the principal military hospitals we provide numerous arrangements to make telephoning just as easy and convenient as possible. These include "tele-carts" to bring service to patients in bed, booths large enough for wheel chairs, and equipment for the hard of hearing and for those who do not have use of their hands.

Overseas telephone messages increased to a new high of 950,000 for the year. The names of the territories to which we extended overseas service



GOOD TELEPHONE NEIGHBORS

A rancher in Kim, Colorado, left, and two Bell telephone men discuss the building of a telephone exchange to serve remote cattle-ranching country. The Bell System company operating in Colorado helped the people of Kim to plan and construct their own lines. These run to a modern dial exchange which connects with the rest of the world by radio. Enterprise like this is helping to increase telephone service to farms and ranches every year.



THERE IS MORE AND MORE DIAL EQUIPMENT . .



AND THERE ARE MORE "WEAVERS OF SPEECH" TOO

Demand for telephone service is so great that 250,000 women — more than ever before — were on the job at Bell telephone switchboards throughout the nation at the end of 1952. Three-fifths of all Bell System operators today are long distance operators. The country's need for the telephone could not be met without dials — or without the voice with the smile.

in 1952 indicate its world-wide scope: Aden, Angola (Portuguese West Africa), the Azores, Cape Verde Islands, French West Africa, Iraq, Lebanon, Madagascar, Madeira Islands and Mozambique. Service for automobiles, boats, trains and other vehicles also continued to grow. About 11,500 vehicular telephones can now be connected with any other telephone in the world-wide network.

Providing "Tailor-Made" Communication Services

The art of sending information instantaneously from one place to another has made tremendous strides in recent years. Coaxial cable and microwave radio systems can carry a vast amount of intelligence, including television pictures as well as spoken words. Taken together, these and other modern communication facilities have new capabilities. For example, they made possible the great extension of the television network in 1952, and unprecedented service to radio and television stations, newspapers and news agencies during the political campaigns. Telephone people are also meeting the needs of other customers for specially designed service arrangements. These include mobile telephone networks to serve organizations developing oil lands—a radiotelephone system to coordinate all air-to-ground communications of a transcontinental airline—facilities to aid in coordinating the flow of electric energy in a large power-generating system. Electric utilities, railroads and oil and gas pipe-line companies have particular need for extensive and dependable communications and the telephone companies provide tailor-made services to meet their varying requirements.

Prior to 1952 theatre television networks had been used chiefly to televise sporting events to audiences in different cities. Last year there were new uses for television over long distance networks interconnecting theatres and also other locations. The Metropolitan Opera Company televised a benefit performance of the opera "Carmen" from the stage in New York to 31 theatres in 26 cities. On another occasion a manufacturer sent a program over a coast-to-coast network to show the firm's new products to distributors and dealers in more than 50 cities.

A new service introduced in 1952 is automatic telephone answering and recording. It works in this way: A device furnished by the telephone company may be connected to the customer's telephone when he is away from office or home. This equipment answers calls by "speaking" a recorded announcement and also makes a record of any brief message the calling party wishes to leave. The main use of the service will probably be among business and professional people but we also anticipate that there will be some use in residences.



THE BIG NEWS OF 1952

Millions of Americans watched scenes like this last summer as the political drama unfolded before their eyes on television screens. Throughout the campaign the communication services provided by the Bell System companies, including the coast-to-coast television network, helped make possible the widest and fastest news coverage ever given to such an event.

Earnings Were 5.9 Per Cent on Total Capital

The rate of earnings in 1952 was 5.9 per cent on total capital invested in the business. This compares with 5.8 per cent in 1951 and 6.1 per cent in 1950. During the seven postwar years earnings on capital have averaged 5.5 per cent. Despite the fact that these have been years of great activity and heavy telephone demand, all of these figures are below the rate of earnings during previous periods of high activity and demand. In fact, they are below the long-term average earnings of the System. The Bell companies have been giving this problem continuous attention; they have repeatedly applied in recent years for increased rates and improved earnings, and they contemplate further requests.

Consolidated net income per share of American Telephone and Telegraph Company stock in 1952 was \$11.45, compared with \$11.76 in 1951. Net income of the American Company by itself (which includes the earnings of subsidiaries only to the extent they have been received by the Company as dividends) was \$10.09 per share in 1952, compared with \$10.54 in 1951. The average number of shares outstanding was 35,528,308 in 1952 and 31,028,485 in 1951. The dividend of \$9 per share was the same as in previous years.

Operating taxes paid by the Bell System in 1952 were \$706 million. This was \$76 million more than the 1951 tax bill and \$206 million more than in 1950. In addition our customers paid telephone excise taxes in 1952 amounting to \$615 million. Thus total direct taxes on Bell telephone service last year came to \$1,321,000,000. This was equal to about 28 cents in every dollar that telephone users spent for their service or approximately \$2.85 per average telephone per month. We have often pointed out that the telephone bears an unusually heavy tax load, and we shall continue to present to the taxing authorities our views as to why and how this burden should be reduced.

The Proportion of Debt Decreased

In April 1952 the American Company's share owners voted to increase the number of shares of stock that can be issued from 45 to 60 million. Under authorization also voted by the share owners in April, the Company offered in June a new issue of Twelve Year 3½% Convertible Debentures in the amount of \$498,656,300. The debentures became convertible into stock at \$136 per share on September 30. By the end of the year holders had converted about half of the total issue into stock.

In addition, holders of the Company's four other convertible debenture issues converted \$261 million of these into stock. Two of the four issues were called for redemption on October 29, at which time all but about \$6 million

had been converted. Total conversions of all debentures in 1952 came to \$510 million and reduced debt by that amount. At the same time ownership capital increased by the larger amount of \$704 million due to cash payments made on conversion of debentures into stock.

All told, 5,800,000 shares of stock were issued during 1952, including about 700,000 shares sold to Bell System employees. At the end of the year 265,000 employees were making payments toward purchase of 1,784,000 shares under the Employees' Stock Plan.

Four subsidiaries of the American Company sold bonds during the year totaling \$100 million. The proportion of debt in total Bell System capital at the end of 1952 was about 40 per cent, compared with about 44 per cent a year ago. Complete conversion of all convertible debentures now outstanding, together with the sale of all 3,000,000 shares authorized under the Employees' Stock Plan, would reduce the proportion of debt to about one-third of total capital.

Telephone Rates and Earnings Lag Behind Costs

Intrastate telephone rates were adjusted upward during 1952 in all or part of 37 states. Some adjustments were also made in interstate rates, principally increases at the shorter distances. The rate increases granted during the past several years clearly have been essential in bringing earnings up from the postwar low in 1947. Generally, however, increases in rates have not compensated adequately for the rise in costs during the war and postwar periods. Also, the time required to handle rate applications is a matter of concern, to the commissions as well as to the companies. There is evidence that many regulatory authorities are appreciating more fully the necessity for adequate rates, but the level of earnings allowed by a number of commissions is still extremely meager. Among the main facts and problems which the Bell companies are emphasizing to the commissions are these:

During this inflationary period, telephone rates on the average have risen much less than consumer incomes, and only about a quarter as much as the cost of living.

Likewise, telephone rates have gone up much less than the cost of doing business. In view of this, it is especially important to shorten the usually long intervals between rate applications and commission action.

Even if there should be no further rise in day-to-day operating expense or in the general level of prices—even if the value of the dollar should stay around the present level—the telephone companies' costs will be higher in the years ahead. The reason is that new facilities, both for growth and to replace

old facilities built at lower prices, will inevitably cost more than if inflation had not occurred.

It is vital to the public interest that we keep the confidence of investors and be able to raise capital on reasonable terms to meet the country's need for telephone service.

Most of this capital should be stock or ownership capital, and to obtain it we must compete with other businesses, many of which have substantially increased their earnings in recent years.

Through the years of inflation the value of the dollars earned on telephone investment has shrunk. At the same time there has been no rise in the rate of telephone earnings to offset this decline in dollar value—on the contrary, the average rate of earnings on investment is lower than it was before the war.

Telephone rates that will assure adequate earnings on the fair value of telephone property will still be low in relation to the general income and price levels.

For such reasons the Bell System companies are continuing to apply for more adequate rates. In the long run, it is to the advantage of telephone users for them to pay enough to enable the companies to go ahead with a vigorous, progressive service program. Telephone service is too important to each community, and to the nation, to risk impairing it. We are sure the regulatory commissions know this and that they will increasingly recognize that good telephone earnings are in the public interest.

Teamwork in Research, Manufacture and Operations

Close cooperation between the research, manufacturing and telephone operating organizations of the Bell System has had an important effect in enabling us to introduce improvements rapidly and prevent costs from rising higher than they have. The Bell Telephone Laboratories have pioneered development of better equipment. Western Electric has produced it in quantity at prices that mean large savings to telephone users. Telephone company engineers and operating people have devised better ways of using it. The interchange of experience between operator, builder and designer—all of whom are equally interested in improving service—is the best basis for telephone progress.

Research brought new values into being in 1952. The transistor, which we have pictured on the cover and discussed earlier in this report, is finding the first of what we are confident will be many uses in the telephone system. Western Electric last year began regular production of certain types of tran-



LEARNING TO MAKE THE "MIGHTY MITE"

The art of making transistors is new. Here a Bell Laboratories technician assembles an experimental transistor inside a moisture-free transparent plastic compartment. Note that he uses magnifying lenses to see the work.

sistors for military and telephone use, and in behalf of the Bell System has licensed 38 other companies to make and sell transistors under our patents. This is in accordance with our policy of making any of our inventions available for use by others on a non-exclusive basis and on reasonable terms.

Three other recent Bell Laboratories developments illustrate current progress in the continuous effort to improve telephone service and hold down its cost.

The telephone system uses millions of relays, or magnetic switches. An entirely new design of relay has gone into manufacture. This "wire spring" relay has longer life, is cheaper to make and operates more reliably than its predecessors. Its use in large quantities as the years go on will effect substantial economies.

Telephone service also depends on countless connections between wires and metal terminals. Each year about one billion such connections must be made. For many years soldering the connection has been the accepted method of assuring trouble-free operation. Bell Laboratories has now developed a special tool to make a solder-less wrapped connection. Here again we expect technical and economic advantages.

A new system that triples the capacity of coaxial cables is under test between New York and Philadelphia. This new "L₃" system is another step forward in sending more information over a single pair of conductors. Equipped with L₃, each pair of coaxial tubes will be able to handle as many as 1,800 telephone conversations, or 600 conversations plus a television picture in each direction.

Behind specific developments is fundamental research. This is producing a steady flow of new knowledge that will continue to improve telephone service and will also provide new facilities for meeting the demands of the future. Important progress in the functioning and reliability of communication systems is ahead. This will bring further benefit to the public and added strength to the nation.

Western Electric Reduced Prices

Despite the higher costs of materials that go into equipment manufactured by Western Electric, and although wages paid by Western have continued to rise, the company was able to reduce prices on most telephone products of its own manufacture in April and again in August. The combined effect of the two reductions averaged 17 per cent. This was a remarkable accomplishment, and was helpful to the telephone companies in their efforts to offset the generally upward trend of construction costs.

Western Electric earnings in 1952 were \$47,082,000 or 3.6 per cent of sales. Sales to the Bell telephone companies were \$935,541,000 and sales of equipment to the U. S. Government were \$319,517,000. In addition to military communications equipment, deliveries included electronic control systems developed by Bell Laboratories for airplanes, anti-aircraft batteries, guided missiles and naval guns. Western Electric's enlarged North Carolina Works are engaged exclusively in Government work and other plants are working on military projects along with their production for the telephone companies. More than 26,000 subcontractors and suppliers assist Western in producing and supplying equipment for the military and for the Bell telephone companies.

A Business of Many People

As emphasized at the beginning of this report, more people than ever before are now associated with the Bell System as share owners and as employees.

Of the more than 1,200,000 owners of A. T. & T. shares, about a third have held stock for ten years or longer. No individual owner holds as much as one-thirtieth of one per cent of the total stock and the average number of shares held by individuals is 27. Nearly half of the owners hold 10 shares or less. Some 300,000 holdings each represent two people—husbands and wives, mothers and daughters, sisters and brothers who have invested savings in their joint names. About one share owner in every five is an employee of the Bell System. More than 10,000 organizations and institutions hold A. T. & T. stock, and through these holdings millions of people indirectly share the benefits of ownership.

The number of Bell System employees at the end of 1952 was 692,400. Of these, Western Electric Company employed 104,900 and Bell Telephone Laboratories 8,000. More than 230,000 employees have served in the Bell System 10 years or more and 140,000 have served 20 years or more.

Four telephone people last year were awarded silver Theodore N. Vail Medals for distinguished service and 30 received bronze medals. In each instance, the award signifies an unusual act of service in keeping with the highest telephone traditions.

The quality of telephone service depends on the people who provide it. Attracting and keeping able people depends on good wages, favorable working conditions and opportunity for advancement. Contracts negotiated with the unions in 1952 provided for wage increases that maintain telephone pay at levels in good relation with the wages paid by other firms in the communities where telephone people work.



HIGHEST AWARD FOR SAFETY

In October 1952 the National Safety Council presented to the Bell telephone companies its highest award for improvement in safety performance. In the picture Ned H. Dearborn, president of the Council, displays the award to Cleo F. Craig, president of A. T. & T. The men and women who provide telephone service are maintaining one of the best safety records in industry.

For 40 years the Benefit and Pension Plans of the Bell System companies have played an important part in the life of the business and in the lives of telephone people. The companies pay their entire cost. To provide service pensions they accrue in advance, on an actuarial basis, Pension Trust Funds which are devoted entirely and irrevocably to service pension purposes. Last year the Bell companies as a group, including Western Electric and Bell Telephone Laboratories, expended \$245,000,000 or 9.4 per cent of the payrolls to provide pensions and disability and death benefits. This amount included Federal taxes paid by the companies for Social Security old-age benefits. At the end of the year 16,969 men and 13,157 women were receiving service pensions, and about 20,100 employees had attained the age and length of Bell System service which entitled them to retire at their own request.

A New Range of Value

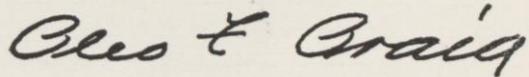
In the last few years the people of the United States have called on the Bell System companies to install and operate more new telephones than the entire number they served before the war. This country has always enjoyed the best telephone service in the world. Today, in the abundance and scope of the service—in its ability to meet new needs—in its importance to the welfare and security of the nation—the value of the telephone has reached a new high.

The Bell System intends and expects to keep this value growing. Our research is charting new paths. Our laboratories and our telephone manufacturing and operating organizations work closely and effectively together and they are all devoted to the common purpose of serving the public well. Telephone people in all branches of the business have the will as well as the skill to provide an ever-improving service at the lowest possible cost.

The statement by the Board of Directors which is printed on page 7 again sets forth the long-standing principles and policy of the Company. We must prosper to serve well. We must serve well to prosper. We must have capable, well-paid employees who find real opportunity in the business. We must think and act for the long run.

This policy is in the public interest and is the mainspring of all our effort. With eagerness and enthusiasm, we look forward to rendering ever better and more valuable service to the nation.

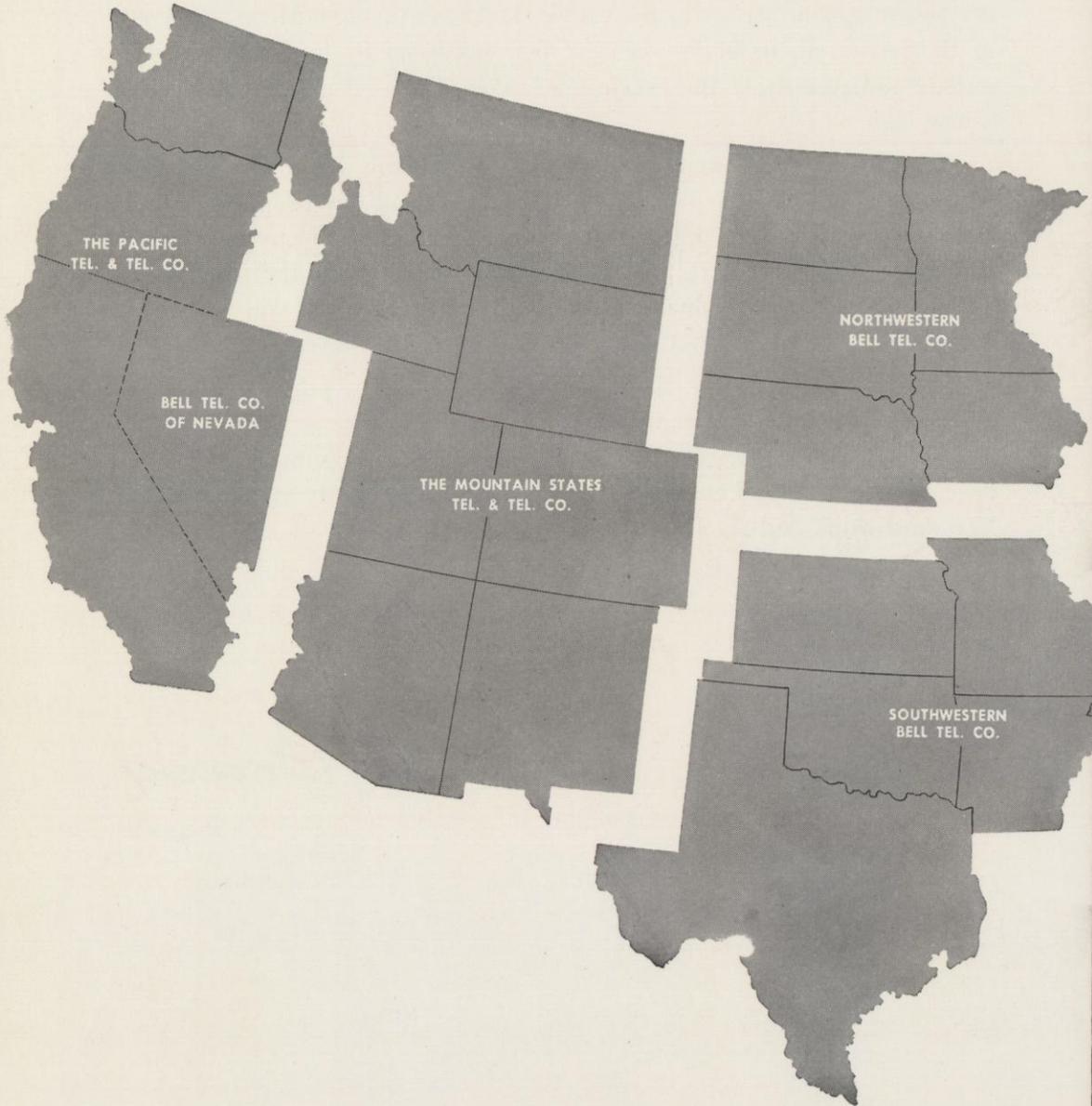
For the Board of Directors,

A handwritten signature in cursive script, reading "C. E. Craig".

President

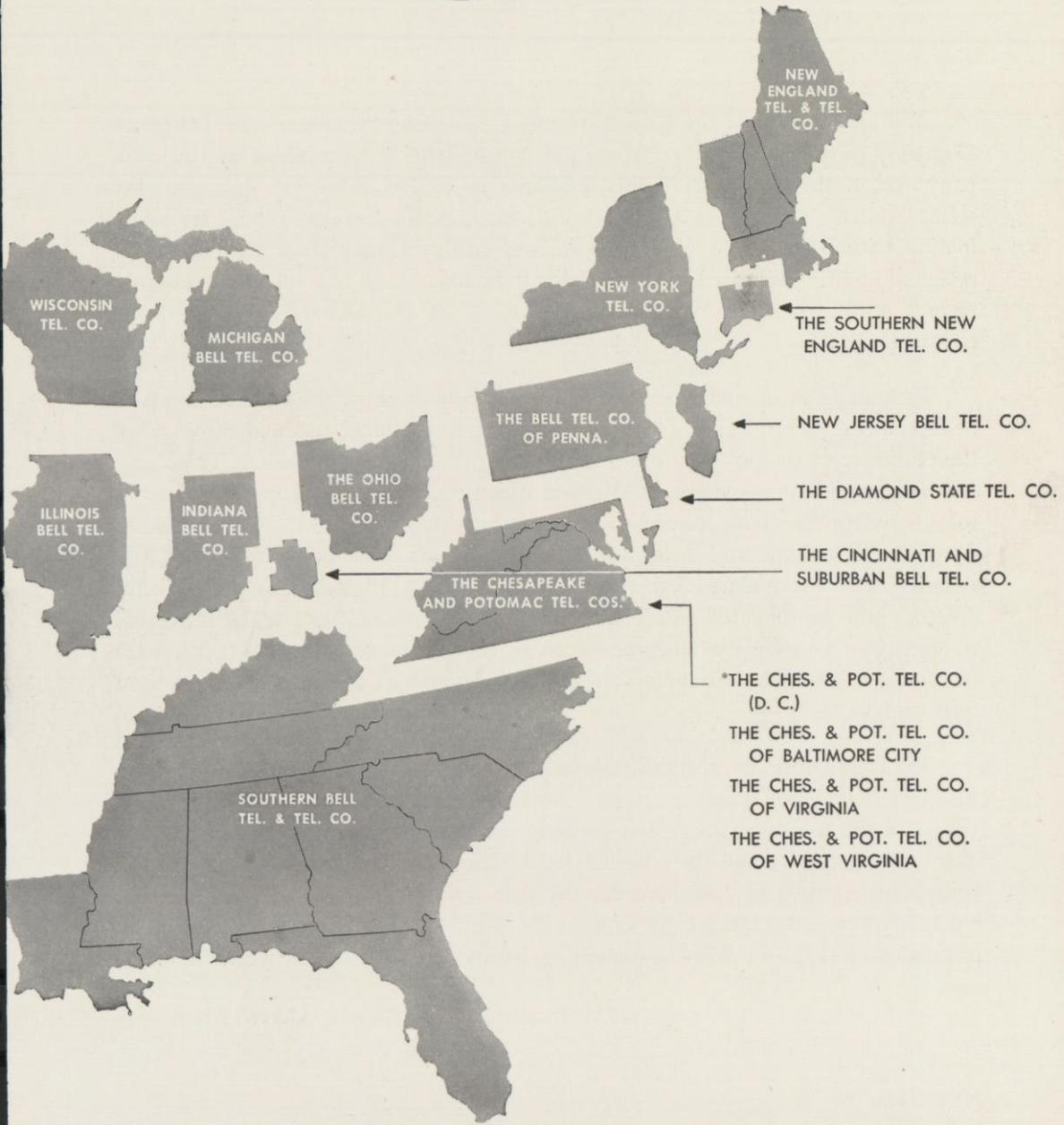
FEBRUARY 18, 1953

The Bell Telephone



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.

System



CERTIFICATE OF AUDIT

TO THE SHARE OWNERS OF AMERICAN TELEPHONE
AND TELEGRAPH COMPANY:

We have examined the balance sheet of American Telephone and Telegraph Company as of December 31, 1952, the consolidated balance sheet of the company and its principal telephone subsidiaries as of December 31, 1952, and the related statements of income and retained earnings for the year 1952. 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, 1952 and of the statements of income and retained earnings for the year 1952 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 1952 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, 1952 and the related statement of consolidated income of these companies for the year 1952, 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, 1952 and the results of operations for the year 1952 of American Telephone and Telegraph Company and the consolidated position at December 31, 1952 and the consolidated results of operations for the year 1952 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 17, 1953

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 retained earnings of the companies consolidated.

Investments in subsidiaries not consolidated are included in the Consolidated Balance Sheet in amounts equivalent to the proportionate interest in the net assets of such subsidiaries as shown by their accounts, 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 Company and its telephone subsidiaries and procures and sells to them materials and supplies not of its own manufacture. Contracts between Western Electric Company and such 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, 1952	December 31, 1951
Telephone Plant (a)		
Telephone Plant in Service	\$11,651,758,929	\$10,736,020,362
Telephone Plant under Construction	297,651,351	189,992,566
Property Held for Future Telephone Use	14,183,431	14,614,327
Telephone Plant Acquisition Adjustment	7,842,016	9,058,267
	<u>\$11,971,435,727</u>	<u>\$10,949,685,522</u>
Less: Depreciation and Amortization Reserves	3,262,995,614	3,041,697,173
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
	<u>\$ 8,708,440,113</u>	<u>\$ 7,907,988,349</u>
Miscellaneous Physical Property	3,072,510	3,174,559
Investments in Subsidiaries not consolidated (b)	396,326,354	395,928,663
Equities in Subsidiaries not consolidated in excess of investments therein	88,533,896	72,935,592
Other Investments (b)	76,166,701	89,800,031
<i>Principally investments in associated telephone companies.</i>		
Total	<u>\$ 9,272,539,574</u>	<u>\$ 8,469,827,194</u>

CURRENT ASSETS

Cash and Demand Deposits	\$ 97,182,450	\$ 83,280,640
Temporary Cash Investments	689,843,175	547,802,391
<i>Comprises at December 31, 1952 U. S. short-term obligations having a market value of \$689,846,000.</i>		
Special Cash Deposits	6,564,553	8,388,168
Current Receivables	462,997,125	430,112,345
<i>Amounts due for service (less reserves amounting to \$4,229,903 at December 31, 1952), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	127,865,597	118,165,322
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 1,384,452,900</u>	<u>\$ 1,187,748,866</u>

DEFERRED CHARGES

Prepayments of Directory Expenses, Rents, Taxes, etc.	\$ 62,155,025	\$ 51,991,315
Other Deferred Charges	15,201,461	22,951,412
Total Deferred Charges	<u>\$ 77,356,486</u>	<u>\$ 74,942,727</u>
Total Assets	<u>\$10,734,348,960</u>	<u>\$ 9,732,518,787</u>

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 EQUITY	December 31, 1952	December 31, 1951
American Telephone and Telegraph Company:		
Common Stock—Par Value (\$100 per share)	\$ 3,897,944,800	\$3,317,945,000
Common Stock Installments—see note (c) on page 37..	35,797,631	66,714,082
Premium on Common Stock	1,015,026,847	797,713,867
<i>Amount received in excess of par value.</i>		
Retained Earnings:		
Reserved (c)	6,190,634	11,968,927
Unappropriated	619,215,878	532,268,881
Total Retained Earnings (see page 31)	<u>\$ 625,406,512</u>	<u>\$ 544,237,808</u>
Total Applicable to A. T. & T. Co. Stock	<u>\$ 5,574,175,790</u>	<u>\$4,726,610,757</u>
Subsidiaries Consolidated—stocks held by public:		
Common Stock	\$ 151,789,100	\$ 141,186,600
Preferred Stock	17,904,300	17,904,300
Retained Earnings	9,469,962	9,710,552
Total Applicable to Stocks of Subsidiaries Held by Public	<u>\$ 179,163,362</u>	<u>\$ 168,801,452</u>
Total Capital Stock Equity	<u>\$ 5,753,339,152</u>	<u>\$4,895,412,209</u>
 FUNDED DEBT		
American Telephone and Telegraph Company:		
Convertible Debentures	\$ 471,861,500	\$ 489,317,300
Other Debentures—see note (d) on page 37.....	1,440,000,000	1,440,000,000
Subsidiaries Consolidated (d)	1,878,000,000	1,778,000,000
Total Funded Debt	<u>\$ 3,789,861,500</u>	<u>\$3,707,317,300</u>
 CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 37,000,000	\$ 97,000,000
Accounts Payable	378,580,185	331,983,393
Advance Billing for Service and Customers' Deposits	95,087,393	85,204,308
Dividends Payable	87,995,227	75,011,080
Other Current Liabilities	23,779,948	33,830,096
Interest Accrued	31,865,480	29,318,806
Taxes Accrued	506,922,381	448,290,163
Total Current and Accrued Liabilities	<u>\$ 1,161,230,614</u>	<u>\$1,100,637,846</u>
 DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 15,028,030	\$ 14,507,393
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits	14,889,664	14,644,039
Total Deferred Credits	<u>\$ 29,917,694</u>	<u>\$ 29,151,432</u>
Total Liabilities	<u>\$10,734,348,960</u>	<u>\$9,732,518,787</u>

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED INCOME STATEMENT

OPERATING REVENUES	Year 1952	Year 1951
Local Service Revenues	\$2,397,552,352	\$2,146,439,464
Toll Service Revenues	1,470,267,186	1,342,914,273
Miscellaneous Revenues	182,900,054	159,605,129
<i>Derived from directory advertising, rents and miscellaneous sources.</i>		
Less: Uncollectible Operating Revenues	11,055,374	9,496,501
Total Operating Revenues (e)	\$4,039,664,218	\$3,639,462,365
OPERATING EXPENSES		
Current Maintenance	\$ 831,414,618	\$ 753,114,350
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation and Amortization Expense	381,679,170	353,209,171
<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	819,489,621	738,566,505
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	362,020,059	318,302,370
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	34,035,738	29,591,385
General and Miscellaneous Expenses:		
General Administration	39,542,817	33,928,513
Accounting and Treasury	174,234,834	153,764,110
Development and Research (f)	18,035,459	15,087,146
Provision for Employees' Service Pensions (g)	132,899,085	118,334,318
Employees' Sickness, Accident, Death and Other Benefits	42,394,651	41,557,870
Other General Expenses	56,238,378	50,421,122
Less: Expenses Charged Construction	34,371,688	31,564,504
Total Operating Expenses	\$2,857,612,742	\$2,574,312,356
Net Operating Revenues	\$1,182,051,476	\$1,065,150,009
OPERATING TAXES		
Federal Taxes on Income	\$ 391,426,594	\$ 339,347,212
Other Taxes—principally State, local and Social Security ..	314,200,374	290,211,678
Total Operating Taxes (h)	\$ 705,626,968	\$ 629,558,890
Net Operating Income (carried forward)	\$ 476,424,508	\$ 435,591,119

For notes, see page 32.

BELL SYSTEM FINANCIAL STATEMENTS

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

CONSOLIDATED INCOME STATEMENT—Continued

	Year 1952	Year 1951
Net Operating Income (brought forward)	\$ 476,424,508	\$ 435,591,119
OTHER INCOME		
Dividends from subsidiaries not consolidated (i)	\$ 32,413,477	\$ 32,411,536
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (j)	15,581,817	14,358,550
Dividends from other companies	5,648,760	5,344,353
Miscellaneous income (k)	25,299,499	18,947,166
Less: Miscellaneous deductions from income (g) (h)	19,876,861	13,488,238
Income Available for Fixed Charges	<u>\$ 535,491,200</u>	<u>\$ 493,164,486</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 111,395,895	\$ 111,198,657
Other Interest	5,905,862	6,607,610
Other Fixed Charges	24,498	28,821
Less: Release of Premium on Funded Debt—net	296,951	283,557
Net Income	<u>\$ 418,461,896</u>	<u>\$ 375,612,955</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	10,726,332	9,664,521
Net Income Applicable to A.T.&T. Co. Stock	<u>\$ 406,661,306</u>	<u>\$ 364,874,176</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (1)	\$11.45	\$11.76

Statement of Consolidated Retained Earnings Applicable to American Telephone and Telegraph Company Stock—Year 1952

BALANCE—DECEMBER 31, 1951	\$ 544,237,808
Net Income applicable to A. T. & T. Co. Stock	\$ 406,661,306
Adjustment of tax accruals for prior years	2,100,883
Miscellaneous additions	1,266,463
TOTAL ADDITIONS	<u>\$ 410,028,652</u>
Dividends on A. T. & T. Co. Stock	\$ 319,754,772
Refunds to customers of amounts applicable to prior years, less related taxes	1,047,261
Organization and Capital Stock Expense charged off	2,874,062
Amortization of Telephone Plant Acquisition Adjustment	939,891
Transfer to depreciation reserve of amount transferred from the reserve to surplus in 1921	1,151,658
Charge in connection with acquisition of telephone business and certain properties from Western Union Telegraph Company	2,378,810
Miscellaneous deductions	713,494
TOTAL DEDUCTIONS	<u>\$ 328,859,948</u>
BALANCE—DECEMBER 31, 1952	<u>\$ 625,406,512</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, 1952, 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) Reservations against contingency of refunds in connection with certain rate proceedings.

(d) Of the funded debt of subsidiaries consolidated, \$50,000,000 matures in 1960, \$118,000,000 from 1961 to 1970, \$470,000,000 from 1971 to 1980, and \$1,240,000,000 thereafter.

(e) "Total Operating Revenues" include approximately \$8,850,000 in 1952 and \$3,550,000 in 1951 with respect to which reservations of retained earnings have been made against contingency of refunds to customers in connection with certain pending rate proceedings, and \$2,219,000 in 1951 which was refunded in 1952.

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

(g) The total provision for employees' service pensions amounted to \$140,401,566 for 1952 and \$125,836,794 for 1951, of which \$7,502,481 for 1952 and \$7,502,476 for 1951 were charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The companies and their independent public accountants consider that these latter amounts were, in fact, current operating expenses.

(h) Provision for taxes, principally Federal Taxes on Income, was reduced by \$7,869,048 in 1952 and by \$1,741,598 in 1951, with corresponding increases in Net Operating Income by reason of items which were deductible in determining taxable income although not included in the income accounts. Amounts offsetting such tax reductions were charged to Miscellaneous Deductions from Income and the balance of the items was charged against retained earnings.

(i) Includes dividends of \$31,439,766 for each year from Western Electric Company.

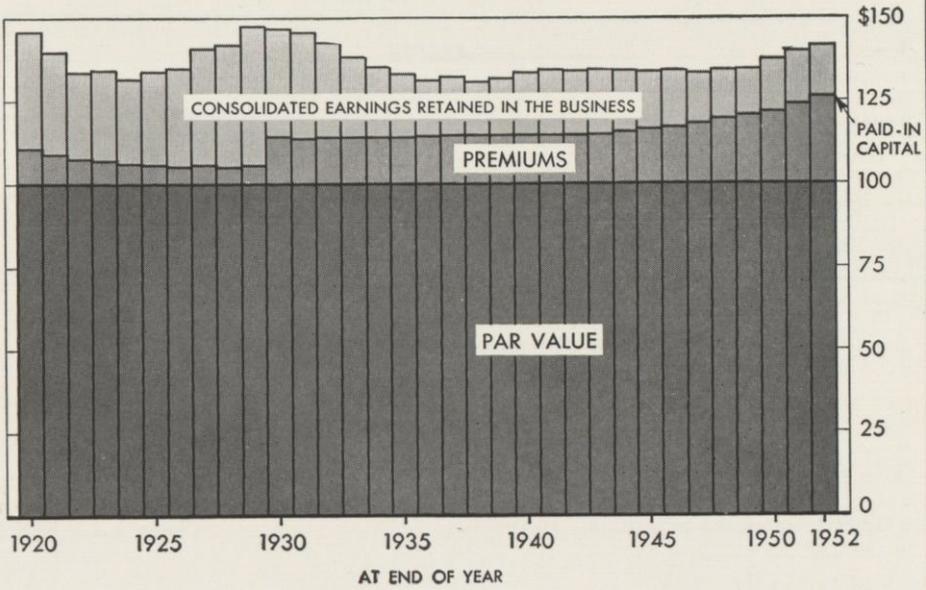
(j) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$15,552,100 in 1952 and \$14,285,011 in 1951.

(k) Includes \$11,747,873 in 1952 and \$7,887,684 in 1951 for interest charged construction.

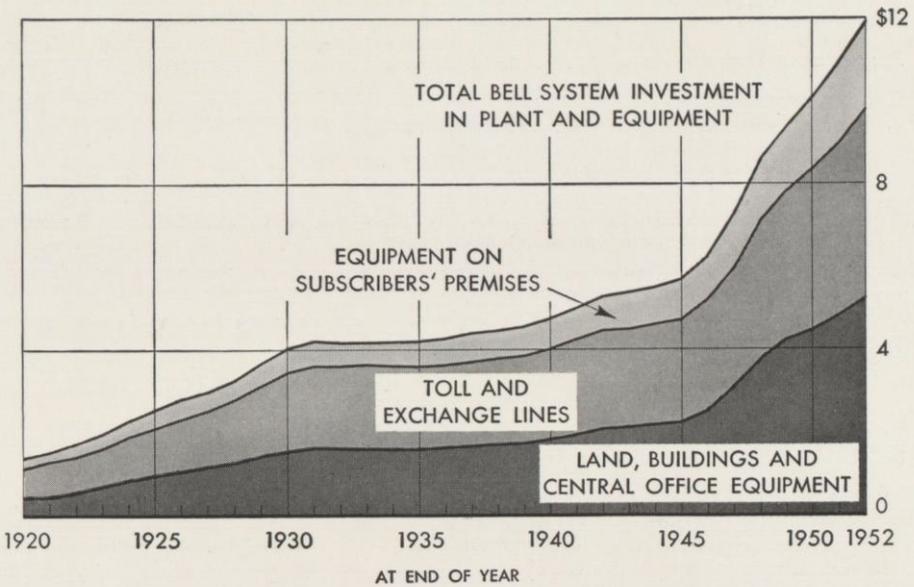
(l) Based on average shares outstanding—35,528,308 in 1952 and 31,028,485 in 1951.

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 \$1,559,908,964 on December 31, 1952 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



PLANT INVESTMENT—IN BILLIONS



AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET

ASSETS

PLANT AND OTHER INVESTMENTS	December 31, 1952	December 31, 1951
Telephone Plant (a)		
Telephone Plant in Service	\$ 1,013,835,400	\$ 940,444,830
Telephone Plant under Construction.....	42,334,162	24,035,517
Property Held for Future Telephone Use.....	360,476	473,968
	<u>\$ 1,056,530,038</u>	<u>\$ 964,954,315</u>
Less: Depreciation Reserve	404,887,703	373,151,085
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
	<u>\$ 651,642,335</u>	<u>\$ 591,803,230</u>
Investments in Subsidiaries—at cost (see page 38)	5,916,466,498	5,302,746,670
Stocks	\$ 5,720,206,498	
Advances	196,260,000	
Other Investments—at cost (see page 38)	61,018,935	74,868,116
Stocks	\$ 60,545,858	
Miscellaneous	473,077	
Total	<u>\$ 6,629,127,768</u>	<u>\$ 5,969,418,016</u>
CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 16,032,176	\$ 15,291,209
Temporary Cash Investments	687,850,286	543,799,223
<i>Comprises at December 31, 1952 U. S. short-term obligations having a market value of \$687,852,000.</i>		
Special Cash Deposits	1,505,350	2,578,289
Current Receivables	44,464,681	40,761,189
<i>Amounts due for service (less reserve amounting to \$200,000 at December 31, 1952), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	11,004,218	10,797,180
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 760,856,711</u>	<u>\$ 613,227,090</u>
DEFERRED CHARGES		
Total Assets	<u>\$ 2,471,952</u>	<u>\$ 3,808,749</u>
	<u>\$ 7,392,456,431</u>	<u>\$ 6,586,453,855</u>

For notes, see page 37.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET—Continued

LIABILITIES

	December 31, 1952	December 31, 1951
CAPITAL STOCK EQUITY		
Common Stock—Par Value (\$100 per share)	\$3,897,944,800	\$3,317,945,000
<i>At December 31, 1952—authorized, 60,000,000 shares; outstanding, 38,979,448 shares (b).</i>		
Common Stock Installments (c)	35,797,631	66,714,082
Premium on Common Stock	1,015,026,847	797,713,867
<i>Amount received in excess of par value.</i>		
Retained Earnings (see page 36)	349,250,056	312,569,989
Total Capital Stock Equity	<u>\$5,298,019,334</u>	<u>\$4,494,942,938</u>
 FUNDED DEBT		
Convertible Debentures	\$ 471,861,500	\$ 489,317,300
Other Debentures (d)	1,440,000,000	1,440,000,000
Total Funded Debt	<u>\$1,911,861,500</u>	<u>\$1,929,317,300</u>
 CURRENT AND ACCRUED LIABILITIES		
Dividend Payable	\$ 87,407,878	\$ 74,452,212
Accounts Payable	28,202,513	23,248,354
Interest Accrued	14,637,035	12,482,507
Taxes Accrued	37,580,727	36,480,199
Total Current and Accrued Liabilities	<u>\$ 167,828,153</u>	<u>\$ 146,663,272</u>
 DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 2,532,574	\$ 2,918,241
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits	12,214,870	12,612,104
Total Deferred Credits	<u>\$ 14,747,444</u>	<u>\$ 15,530,345</u>
Total Liabilities	<u>\$7,392,456,431</u>	<u>\$6,586,453,855</u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INCOME STATEMENT

	Year 1952	Year 1951
OPERATING REVENUES		
Toll Service Revenues (e)	\$230,296,579	\$219,521,792
License Contract Revenues	38,182,536	34,336,204
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	15,986,778	14,842,217
Less: Uncollectible Operating Revenues	958,118	965,640
Total Operating Revenues	<u>\$283,507,775</u>	<u>\$267,734,573</u>
OPERATING EXPENSES (f)		
Current Maintenance	\$ 58,045,750	\$ 52,560,620
Depreciation Expense	38,293,423	35,207,244
Traffic Expenses	37,468,072	33,574,312
Commercial Expenses	9,721,314	9,041,693
Operating Rents	4,757,834	4,433,784
General Administration	16,394,668	13,296,431
Accounting and Treasury Expenses	11,918,533	10,161,121
Development and Research (g)	18,035,459	15,087,146
Provision for Employees' Service Pensions (h)	8,085,183	7,207,235
Employees' Sickness, Accident, Death and Other Benefits	2,515,094	2,467,697
Other General Expenses	6,814,735	5,367,098
Less: Expenses Charged Construction	1,284,191	1,178,937
Total Operating Expenses	<u>\$210,765,874</u>	<u>\$187,225,444</u>
Net Operating Revenues	<u>\$ 72,741,901</u>	<u>\$ 80,509,129</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 29,508,000	\$ 28,679,000
Other Taxes—principally State, local and Social Security ..	16,315,074	15,596,211
Total Operating Taxes	<u>\$ 45,823,074</u>	<u>\$ 44,275,211</u>
Net Operating Income	<u>\$ 26,918,827</u>	<u>\$ 36,233,918</u>
OTHER INCOME		
Dividend Income (i)	\$368,198,853	\$333,834,158
Interest Income	20,343,604	16,593,950
Miscellaneous Income	1,747,246	1,311,205
Less: Miscellaneous Deductions from Income (h)	1,442,479	1,128,863
Income Available for Fixed Charges	<u>\$415,766,051</u>	<u>\$386,844,368</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 56,131,172	\$ 57,968,655
Other Interest	1,206,295	2,010,567
Less: Release of Premium on Funded Debt—net	64,620	79,562
Net Income	<u>\$358,493,204</u>	<u>\$326,944,708</u>
Earnings per share (j)	\$10.09	\$10.54

Statement of Retained Earnings—Year 1952

BALANCE—DECEMBER 31, 1951	\$312,569,989
Net Income	\$358,493,204
Miscellaneous additions	975,248
TOTAL ADDITIONS	<u>\$359,468,452</u>
Dividends declared	\$319,754,772
Organization and Capital Stock Expense charged off	1,524,946
Charge in connection with acquisition of telephone business and certain properties from Western Union Telegraph Company	1,065,000
Miscellaneous deductions	443,667
TOTAL DEDUCTIONS	<u>\$322,788,385</u>
BALANCE—DECEMBER 31, 1952	<u>\$349,250,056</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 4,718,615 authorized and unissued shares was reserved at December 31, 1952 for conversion of Debentures, as follows: 1,636,546 shares for the Fifteen Year 2¾% Convertible Debentures, due December 15, 1961, which are convertible at \$143.84 per share; 584,087 shares for the Twelve Year 3¾% Convertible Debentures, due March 19, 1963, which are convertible at \$138 per share; and 2,497,982 shares for the Twelve Year 3½% Convertible Debentures, due July 31, 1964, which are convertible at \$136 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 under elections to purchase by employees of the Company and its subsidiaries under Employees' Stock Plans. The Plans provide 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. At December 31, 1952 installment payments were being made on 1,784,453 shares of the 3,000,000 shares authorized by the stockholders in 1950.

(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 \$756,157,000 in 1952 and \$682,245,000 in 1951.

(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 \$8,542,971 for 1952 and \$7,665,023 for 1951, of which \$457,788 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.

(i) Includes dividends from subsidiaries of \$363,543,760 in 1952 and \$329,347,169 in 1951.

(j) Based on average shares outstanding—35,528,308 in 1952 and 31,028,485 in 1951.

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 \$87,291,362 on December 31, 1952 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, 1952

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	\$ 165,772,831	\$ 22,000,000
New York Tel. Co.....	746,300,000	100.00	769,280,335	.....
New Jersey Bell Tel. Co.....	245,000,000	100.00	258,667,184	100,000
Bell Tel. Co. of Pennsylvania	330,000,000	100.00	336,316,050	10,000,000
Diamond State Tel. Co.....	19,000,000	100.00	19,700,000	265,000
Chesapeake & Potomac Tel. Co.	80,000,000	100.00	81,000,000	8,550,000
Chesapeake & Potomac Tel. Co. of Baltimore City	115,000,000	100.00	116,467,862	28,175,000
Chesapeake & Potomac Tel. Co. of Virginia	100,000,000	100.00	100,000,000	27,000,000
Chesapeake & Potomac Tel. Co. of West Virginia	50,000,000	100.00	50,000,000	2,475,000
Southern Bell Tel. & Tel. Co.....	665,000,000	100.00	666,817,298	6,800,000
Ohio Bell Tel. Co.....	307,499,900	99.99	307,542,198	5,000,000
Michigan Bell Tel. Co.....	264,986,000	99.99	265,398,232	10,000,000
Indiana Bell Tel. Co.....	94,998,800	99.99	95,585,286	2,250,000
Wisconsin Tel. Co.....	127,500,000	100.00	130,723,835	2,300,000
Illinois Bell Tel. Co.....	338,883,200	99.31	344,364,024	28,300,000
Northwestern Bell Tel. Co.....	217,000,000	100.00	218,039,490	3,600,000
Southwestern Bell Tel. Co.....	674,998,400	99.99	678,251,478	1,300,000
Mountain States Tel. & Tel. Co..	135,120,300	86.41	136,525,263	36,850,000
Pacific Tel. & Tel. Co.....	565,825,200	91.08	561,483,392	.....
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	1,295,000
Eastern Tel. & Tel. Co. (Inactive)	75,000	100.00	75,000	.....
Total			\$5,720,206,498	\$196,260,000
OTHER COMPANIES				
Southern New England Tel. Co. \$	26,674,900	26.67	\$ 26,986,728	.....
Cincinnati & Suburban Bell Tel. Co.	13,978,400	29.79	14,541,847	.....
Bell Telephone Company of Canada	18,749,800	7.81	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			\$ 60,545,858	.....

- (a) Common stocks unless otherwise indicated.
- (b) Remaining shares owned by Western Electric Company.
- (c) 10,479,922 shares—no par value.

SOME INTERESTING FACTS ABOUT THE BELL SYSTEM

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1951	Dec. 31 1952
Number of Telephones (a) ..	22,445,519	35,343,440	37,413,614	39,413,889
Dial Operated	14,504,851	26,700,319	28,950,622	31,194,105
Per cent Dial Operated...	64.6	75.5	77.4	79.1
Number of Central Offices ..	7,374	8,470	8,671	8,870
Miles of Pole Lines.....	420,000	503,000	519,000	546,000
Miles of Wire:				
In Underground Cable...	60,759,000	86,963,000	91,007,000	96,689,000
In Aerial Cable.....	33,966,000	48,240,000	51,624,000	55,509,000
Open Wire	5,034,000	6,578,000	6,750,000	6,914,000
Total	99,759,000	141,781,000	149,381,000	159,112,000
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	145,136,000	149,360,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$10,949,686	\$11,971,436
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$3,639,462	\$4,039,664
Number of Employees (c) ..	474,527	602,466	648,459	692,398
Number of American Tel. and Tel. Co. Share Owners...	683,897	985,583	1,092,433	1,220,509

* For year ended December 31.

(a) Excludes private line telephones numbering 134,279 on December 31, 1952. Including telephones of some 5,300 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 48,100,000.

(b) For the year 1952 there were approximately 143,231,000 average daily local conversations and 6,129,000 average daily toll and long distance conversations. During 1952 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 2.8 per cent in local conversations, and 5.2 per cent in toll and long distance conversations, over the year 1951.

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



PUTTING A NEW IDEA TO WORK

This helicopter is blowing frost from telephone wires. Last November freezing fog in the State of Washington coated 700 miles of telephone lines with frost up to three inches thick. This interfered with service on long distance calls. Local telephone men thought, "Could the downdraft from helicopter blades blow the frost off?" They tried the experiment and it worked. Thus men with an idea, using modern equipment, soon restored normal service.

