



1953

BOARDS

MR6

653.6

Am 38

Annual Report

BOARD OF 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

PRESIDENT

Cleo F. Craig

EXECUTIVE VICE PRESIDENT

Hal S. Dumas

VICE PRESIDENTS

Bartlett T. Miller	T. Brooke Price
William C. Bolenius	E. Hornsby Wasson
Henry T. Killingsworth	Eugene J. McNeely
George L. Best	H. Randolph Maddox
James W. Cook	

SECRETARY

S. Whitney Landon

TREASURER

John J. Scanlon

COMPTROLLER

Alexander L. Stott

1953 Annual Report



AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 Broadway, New York 7, N. Y.

EXchange 3-9800

THE YEAR IN BRIEF...

Bell System people in 1953 brought friendly, convenient, dependable telephone service to more of their neighbors and fellow-citizens than ever before. The total number of telephones operated by the System reached 41,350,000. When we add those served by other telephone companies there are now more than 50 million instruments interconnected in the United States—more than in all the rest of the world.

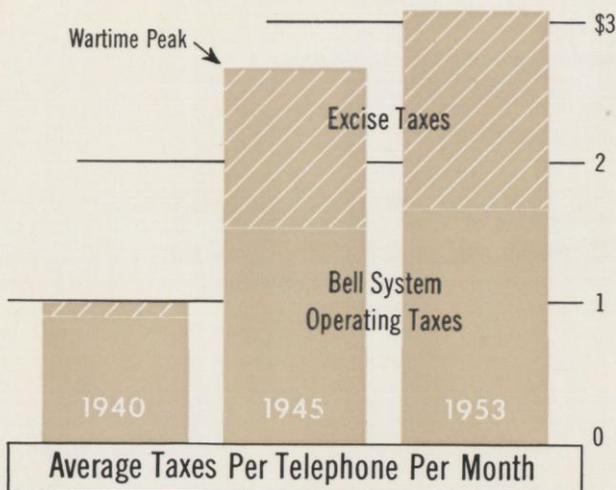


Quality of service improved distinctly. The Bell companies also reduced the number of unfilled orders by a third and cared for more than a million party-line customers who had asked for individual lines or lines they would share with fewer people. Many new long distance lines were provided and long distance calls went through with increasing speed. With operators dialing nearly

half of these calls straight through to the distant telephone, more and more connections were made in a matter of seconds.



Earnings of the System in 1953 were above the postwar average, and slightly better than in 1952. But earnings are still low. Telephone rates do not offset the effects of inflation, and with costs still rising they need to be increased. The companies are therefore keeping right on with the necessary work of pressing their needs before the regulatory authorities. Increases in rates were authorized last year in 29 states, and also for interstate long distance services.



The System expended more than \$25 million a week to enlarge and improve telephone facilities. To meet current and future construction needs we obtained a billion dollars of new capital. Some \$600 million of this came from sale of a new issue of convertible debentures. Previous convertible issues were largely converted into stock, and so the number of shares outstanding continued to rise. The number of share owners also increased by 45,000 to a total of 1,265,000.

Customers as well as operators dialed more out-of-town calls. More service was provided in rural areas. We announced plans to build the first transatlantic telephone cable. Communications for Civil Defense were further extended and strengthened. The Bell System television network reached 260 stations in 161 cities; it also carried pictures in color from coast to coast. The Army announced it was beginning installations of "Nike," the first anti-aircraft guided missile system, developed by Bell Laboratories and made by Western Electric, our manufacturing organization, with the assistance of Douglas Aircraft. Bell System research, operating and manufacturing people teamed together at the request of the Air Force to build the first experimental units of a "Distant Early Warning Line" against air attack, at the top of Alaska and Canada, 1,200 miles from the North Pole.



At year end and in the first weeks of 1954, the new demand for additional telephone service was somewhat below a year ago. But it was still very large. And there is still a great deal to do to catch up on all customer needs—to give the very best service it is possible to provide. That is the aim of all telephone people, and the key to the continuing success of the business.

Bell System

FINANCIAL HIGHLIGHTS

	1953	1952
Operating Revenues and Other Income	\$4,490,621,000	\$4,098,731,000
Operating Expenses and Taxes.....	\$3,883,418,000	\$3,563,240,000
Income Available for Fixed Charges.....	\$607,203,000	\$535,491,000
Fixed Charges.....	\$115,509,000	\$117,029,000
Net Income.....	\$491,694,000	\$418,462,000
Net Income per Share of A. T. & T. Stock.....	\$11.71	\$11.45
Annual Dividend Paid per Share.....	\$9	\$9
Shares Outstanding at End of Year.....	42,282,000	38,979,000
Total Retained Earnings per Share (cumulative) at End of Year.....	\$17.48	\$16.04
Total Invested Capital	\$10,722,008,000	\$9,580,201,000
Earnings on Capital....	6.1%	5.9%



The Spirit of Telephone Service

Telephone work is serving others. It is meeting human needs with ready skill and friendly courtesy. This the chief operator knows, and helps her young associates to understand. Youth and experience work together in a great tradition.

Report to The Share Owners

AMERICANS IN 1953 found their telephone service fast, convenient, economical, and progressively improving. They used more of it than in any year since telephoning first began.

The number of telephones passed 50 million. At the end of the year more than 41 million were served by the Bell System, and about nine million by other telephone companies which operate in all sections of the United States.

The 50-millionth instrument was presented to President Eisenhower by the telephone industry in November. It was presented as a symbol of the telephone's achievement and responsibility—to help in keeping the nation united, to help it to grow, to help keep it strong. In this country 160 million Americans use more telephone service than all of the two billion people elsewhere in the world. Bell and non-Bell companies, working closely together, make it possible for anyone to talk with almost anyone else, quickly and at low cost.

Bell System progress took many forms in 1953. Outstanding was the steady improvement in service quality. Operators handled calls on the average with greater speed. Maintenance men kept the service even more dependable, more free from mechanical failure, than at any time in the past. Installers and construction crews put in more and more telephones and lines and switching equipment of new design and greater capabilities.

The people of the Bell System further extended their service in rural areas. They enlarged and strengthened the communication networks on which military and Civil Defense agencies rely. For many customers who need extensive communications—pipe lines, utilities, railroads, air lines and others—they provided a variety of modern services which increase industrial operating efficiency and reduce costs. Regulatory agencies authorized increases in telephone rates in 29 states, and for interstate long distance services.

Much of our progress in 1953, and in the postwar period generally, has been associated with the introduction of improved equipment and methods. We have new tools and systems that do more work and new kinds of work. But although we can perform an increasing number of operations automatically, good and improving telephone service will always depend on people. It will always depend on how telephone men and women feel about their work, how competent they are in doing it, and how well they are trained and organized.

The very technology we are using is the result of personal effort and devotion, and the success with which new tools are invented, produced and fitted into the busy stream of operations strongly emphasizes the value of the Bell System's unified organization. This organization integrates research, manufacturing and operating groups—all three. Each learns from, and contributes to, the work of the others. All work together to the same objective—to provide the best telephone service possible.

This objective is unqualified. We do not approach it with reservations. And this kind of service is more than efficient. It is friendly, courteous and personal. Throughout the past year, telephone men and women in every community demonstrated their spirit of helpfulness countless times and in countless ways. They were truly and effectively good neighbors. This is the very essence of our service and our business. It is an outstanding reason for the good results of 1953.

WE ARE ON THE WAY TO MEET ALL SERVICE DEMANDS

In eight years since the war the Bell System has added more than 19 million telephones. The gain in 1953 was 1,900,000. New demand receded somewhat in the later months and the volume of long distance calling did not show its usual rate of increase. However, the flow of new orders coming in is still very large and we have a great deal of work to do to meet all the needs of telephone users.

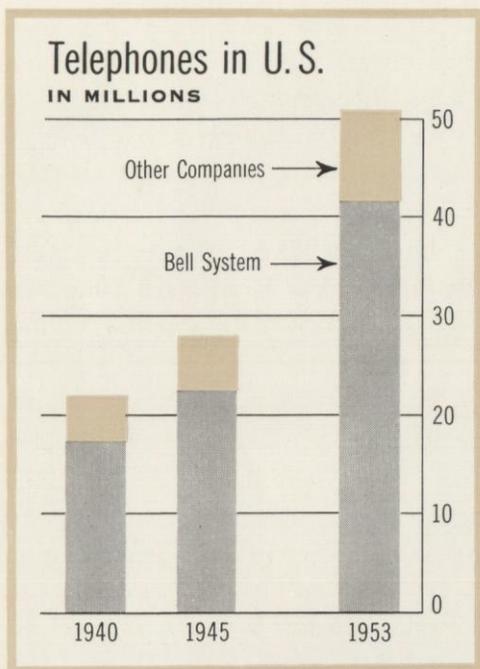
The Bell companies last year cut the number of held orders by a third. We were able to give an increasing proportion of new residence subscribers just the type of service they wanted, and we also cared for requests of more than a million party-line customers who had asked for individual lines, or lines they would share with fewer people. Nevertheless we still have another million requests of this kind on hand and new ones come in every day. This is all urgent business and continuing heavy construction is essential to a first-rate job of meeting our customers' wants; this despite the



A New Telephone for President Eisenhower

The President watches as Mr. Craig (in foreground) and Warren B. Clay, president of the United States Independent Telephone Association, install the 50-millionth telephone. Beside Mr. Eisenhower are Chairman Rosel H. Hyde of the Federal Communications Commission and President C. L. Doherty of the National Association of Railroad and Utilities Commissioners. Forty-eight stars and the seal of the United States on the instrument symbolize the telephone industry's service to the nation.





fact that our postwar expenditures for new construction have already reached a total of more than nine billion dollars.

Part of this amount, of course, has been spent to increase long distance facilities. Forty million miles of voiceways now criss-cross the nation. The increase of 20 per cent last year was the largest since the war and has appreciably speeded the service. Average time for putting through out-of-town calls dropped from 1.8 minutes in 1952 to 1.6 minutes in 1953. Also, there were fewer delays on account of long distance lines being busy; this meant that more calls than ever

before—95 per cent of them—went through while the person calling held the line.

For the year as a whole long distance conversations increased about five per cent over 1952. The percentage increase was higher in the first half of the year, lower in the second half. At the end of 1953 the day-to-day volume was about the same as it had been twelve months before; this is also true today. We now have lines and switchboards available to justify vigorous promotion of long distance service, and determined sales effort is under way.

Many of the new long distance channels were obtained by adding "carrier" equipment which increases the capacity of existing lines. However, there were also important extensions, notably 3,300 route miles of radio relay systems. These now extend for more than 10,000 miles and provide nearly five million miles of telephone circuits—thirteen per cent of all long distance voiceways. Principal new routes established in 1953 were between Pittsburgh and St. Louis; Chicago and St. Louis; Chicago, Milwaukee and Minneapolis; Louisville, Chattanooga, Atlanta and Jacksonville; and Yakima and Spokane.

It is interesting to recall that plans for the first experimental radio relay telephone system, between New York and Boston, were announced only ten years ago.

DIAL SERVICE CONTINUES TO EXPAND

More than 81 per cent of all Bell System telephones were dial at the end of 1953, and customers as well as operators are dialing an increasing number of long distance calls.

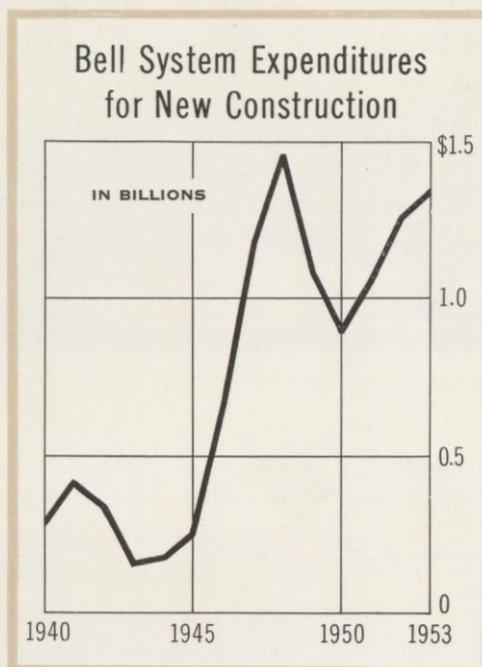
Two installations made last year—one in Birmingham, Michigan, a suburb of Detroit, and one in suburban East Pittsburgh—permit customers to dial their own long distance calls direct to about 13 million telephones in 14 metropolitan areas from coast to coast. This service is similar to that introduced in Englewood, New Jersey, in 1951.

A new type of system installed in Washington, D.C., and Detroit, substantially extends the dialing range in those cities. People in Washington can now dial calls to Baltimore, Annapolis and other cities in Maryland and Virginia, as well as throughout metropolitan Washington. Detroit customers can reach the Windsor, Ontario area and a number of Michigan cities and towns. This is made possible by centrally located equipment which automatically records on tape all information needed for billing except the calling number. An operator comes in on the line momentarily to obtain this from the person making the call.

Long distance dialing of calls handled by operators also continues to increase. Last year the number of cities and towns in the dialing network rose to 2,450 and operators dialed 44 per cent of the calls straight through to the distant telephone.

In 1954 there will be more dial telephones. Customers in additional towns will be able to dial far-away places. Operators will dial more calls. The range of customer dialing will increase in several more metropolitan areas, including San Francisco, New York and Philadelphia.

The ultimate objective is nationwide dialing for all customers. This requires continuous long-range planning in which Bell and non-Bell companies work closely together, for nationwide extension of the service depends



on the coordinated efforts of all. The process will be gradual, and it will be necessary among other things to develop additional new equipment.

Notwithstanding the continuous increase in dialing, the number of Bell System telephone operators at work during 1953 averaged above 250,000, or more than in any previous year. This was due to the overall gain in telephones and the greater volume of long distance calls.

FIRST TRANSATLANTIC TELEPHONE CABLE STARTED

Bell System overseas telephone service began in January 1927 with a single radiotelephone circuit connecting New York and London. Last year about a million calls traveled over 147 direct radiotelephone circuits between



That Voices May Travel Under the Sea . . .



Scientists at Bell Laboratories test a model of the amplifiers which will keep voice currents strong and clear along the deep-sea section of the transatlantic cable. The amplifiers are long, narrow, and flexible in structure, so that they will make only a slight bulge in the cable and will pass right through the gear of the cable-laying ship.

the United States and foreign countries, and during the year service was extended to New Caledonia, Macao, Syria and Turkey.

In December plans were announced to build the first telephone cable system across the Atlantic. This will extend from Nova Scotia to Scotland via Newfoundland, and will be owned jointly by the A. T. & T. Company, the British Post Office, which provides telephone service in Great Britain, and the Canadian Overseas Telecommunication Corporation. We will have a one-half interest, that part of our interest which is located in Canada being vested in our subsidiary, Eastern Telephone and Telegraph Company.

The cable from Newfoundland to Scotland will be 2,000 nautical miles long and will be laid on the ocean floor at depths up to three miles. Westward from Newfoundland another submarine cable will extend 300 miles to Nova Scotia, connecting there with overland lines to the United States and to other parts of Canada. The cables will be able to carry 36 conversations at a time. Construction will take three years and will cost about \$35 million.

Twenty-five years of study and experiment lie behind this historic project. At the heart of the cable system are the vacuum tube amplifiers built into the line about every 40 miles to keep the voice currents strong. They are designed to work unfailingly for years at the bottom of the sea, and prototypes have already undergone years of underwater test. This new facility for talking overseas will be immune to atmospheric disturbances which sometimes affect radiotelephone circuits over the Atlantic, and will be an important means for strengthening the ties between America, Great Britain and all of Europe.

PROGRESS IN MANY DIRECTIONS

There are many sides to the country's need for good communications. The following examples tell of progress in 1953 in a variety of fields:

Telephones in rural areas increased nearly 275,000, bringing total post-war additions in these areas to two and a quarter million. We are working closely with the connecting telephone companies and cooperatives to bring about continuing extension and improvement of service to rural customers.

As 1954 began the Bell System television network reached 260 stations in 161 cities. Today more than twice as many cities and television stations are interconnected as a year ago. Nearly 50,000 miles of long distance TV highways bring network programs within range of 100 million or more people. We are also equipping our facilities to transmit color programs from city to city. Eighteen cities received color pictures of the Tournament

of Roses parade held in Pasadena on January 1, 1954; other lines will be arranged for color as needs of the broadcasting companies indicate.

Our television facilities were also used seven times last year to bring events to theater audiences in different cities. The largest network of this kind served 45 theaters in 33 cities from coast to coast.

More than 12,000 telephones in automobiles and other vehicles can now be connected with the nationwide system. Automatic telephone answering service, by means of equipment which the customer can switch on when he leaves office or home, is steadily expanding. A telephone set with an illuminated dial, for use in dimly lighted locations, and a shoulder rest to provide "hands free" use of the telephone will soon be available.

Long distance calls go through faster when people know the distant number and give it to the operator. We have been making it a point to inform our customers of this, and with good results. Last year telephone users called by number on 85 out of every 100 long distance calls—the highest proportion on record.

In cooperation with the Air Navigation Development Board and the Civil Aeronautics Administration, the Bell System has undertaken to develop communication facilities and services for an improved system of air traffic control. By applying in this field the new knowledge and techniques that telephone research is making available, we look forward to making a further important contribution to the progress of aviation.

Last year was the 75th anniversary of the publication of the first telephone directories. The very first, published in New Haven, Connecticut, was a single sheet of paper containing the names of 47 subscribers. By contrast, in 1953 the Bell companies published about 3,000 different directories containing 40 million names, addresses and telephone number listings. Some 90,000 tons of paper went into the making of 60 million separate copies. However, the really distinguishing feature of the directories is their great accuracy; and in this respect the telephone people who prepare them set a new high mark last year.

TELEPHONE EARNINGS, RATES AND TAXES

Bell System earnings on total capital in 1953 were at the rate of 6.1 per cent, compared with 5.9 per cent in 1952 and 5.8 per cent in 1951. The 1953 result was above the postwar average of 5.6 per cent, but well below the average earnings of 6.6 per cent during the previous 25 years, which included years of depression as well as years of high business activity.



“Open House” at a Telephone Central Office

From time to time telephone people like to invite the neighbors in to see how telephone work is carried on. All the Bell companies try to keep their customers up to date on what is going on in the business, and to learn their views and wishes. This activity aims to increase mutual understanding, and to help telephone users get the most from their service.



Net income of the System in 1953 equalled \$11.71 per share of A. T. & T. stock, compared with \$11.45 in 1952 and \$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 \$10.32 per share in 1953, compared with \$10.09 in 1952 and \$10.54 in 1951. The average number of shares outstanding was 40,857,190 in 1953; 35,528,308 in 1952; and 31,028,485 in 1951.

Regulatory authorities in 29 states last year authorized rate increases averaging about 40 cents per month for 17,500,000 telephones. Also, increases in rates for teletypewriter exchange service became effective on July 1, and on October 1 interstate long distance telephone rates were increased about \$65 million or about eight per cent. Despite the increase in 1953, most rates for interstate long distance telephone service are still below prewar levels.

At the end of 1953 applications were pending for further rate increases in 18 states and other requests are contemplated. The basic reason for this continuing need can be stated in a single word—inflation. Costs of providing service have greatly increased and are still rising. New facilities for growth and to replace worn-out equipment require investment of more dollars per telephone, on which more dollars must be earned. For example, the average investment in local facilities serving an individual line residence telephone in 1940 was about \$265. The average for each such telephone added in 1953 was more than \$400.

We have pointed out in previous reports that telephone rates on the average have gone up much less than most other things, and less than the general level of consumer incomes. The same facts are still with us and they bear repeating. Also, we must still compete for capital with other industries which have been able to meet the effects of inflation by increasing their earnings substantially. To be successful in this competition is basic to providing good service. It is therefore most important that the regulatory agencies authorize telephone rates which are realistically related to actual current costs, and to the current value of all the investment that has been made in the business through the years.

Further improvement in earnings would likewise serve the public interest by strengthening the System's ability to deal with all the risks of the future. Our service responsibilities have increased tremendously. To meet them and at the same time keep a sound capital structure, it has been necessary to increase substantially the number of shares of outstanding stock. But as the number of shares has increased, the total amount of earnings per share retained in the business—which is the margin of financial safety for owners, employees and customers—has remained very modest. It would



When Disasters Strike Our Cities . . .

Telephone calls kept going through this battered cable in Flint, Michigan, when one of a series of terrible tornadoes struck there last year. Telephone men and women know that communications are almost the first need in every emergency. They act instantly to maintain essential services, bend every effort to restore full service as fast as possible. And the lines are built sturdy and strong to resist destructive forces.



still be modest if it were substantially larger, and the System would be in a better position to assure the utmost in service to the nation at all times.

Some regulatory agencies have lagged noticeably in authorizing adequate rates, but the commissions on the whole are trying to meet effectively the many problems involved. The companies are presenting to them all the facts which govern our needs and will continue to press for the further increases in rates which are required.

Operating taxes paid by the System were \$799 million in 1953, an increase of \$93 million over 1952. Excise taxes paid by customers and collected by us for the government last year were \$670 million. Thus direct taxes on Bell System service in 1953 totaled \$1,469,000,000. This was an average of more than \$3 per telephone per month. As we have said in previous reports, this heavy burden discriminates against telephone users. They are paying higher than "luxury" excise taxes on a service that is not at all a luxury. Representatives of the System have therefore made several appearances before government bodies in the past year to urge that these excise taxes be reduced.

BELL SYSTEM FINANCING IN 1953

To meet the continuing need for new construction the System has obtained large amounts of new capital. In the fall of the year the A. T. & T. Company offered to share owners a new issue of \$602,543,700 twelve-year 3¾% convertible debentures. Ninety-nine per cent of the issue was subscribed through the exercise of rights. The unsubscribed balance was sold in the market last month. These debentures are convertible into A. T. & T. stock at a conversion price of \$136 per share, as explained in the prospectus, payable by turning in to the Company one \$100 debenture plus cash for the balance.

Of the Company's three other outstanding convertible issues, \$327,608,600 were converted into stock in 1953, with accompanying cash payments which totaled \$125,478,400. Only about ten per cent of the original aggregate amount of these three issues is still outstanding. Principally as a result of debenture conversions, 3,303,000 shares of stock were issued. Four subsidiaries of the Company sold \$130 million of bonds. Bell System employees made installment payments of \$93 million toward purchase of shares under the employees' stock plan.

The net effect of all this financing, prior to issuance of the new convertibles in December, was to reduce the proportion of debt in the System's



Transistors Act as the Card "Translator"



Many perforated cards are in the machines. Dialing of a distant number causes a certain one to fall into position. Beams of light, shining through, pick out and energize a number of transistors, the new electronic devices invented at Bell Laboratories. "Reading" the card, the transistors give the switching apparatus all the information needed to send the long distance call automatically over the correct route. This new equipment was installed last year in several cities, will be installed in others in 1954.

total capital to less than 38 per cent. The new issue raised the debt ratio to about 41 per cent at year end; complete conversion of all convertibles now outstanding would reduce it to about one third—approximately the same as when we entered the postwar period. It was largely because our debt at that time was a moderate part of our capital that we were able to raise at reasonable cost the great sums of new money needed to meet postwar demands for service. A sound financial structure will always be essential to telephone progress.

About 140,000 new members joined the nationwide family of A. T. & T. share owners in 1953. Some 95,000 transferred their shares to others. The net increase in share owners was therefore 45,000 and the total number at the end of the year was 1,265,000.

Nearly half of our owners hold ten shares or less. The largest single group—about 100,000—holds exactly ten shares each, and the next largest group holds two shares each. No individual owns as much as one fortieth of one per cent of the stock, and the average number of shares held by individuals is 28. Approximately 200,000 of our share owners are employees of the Bell System. Some 47,000 trustees, corporations and other organizations own A. T. & T. stock, including insurance companies, schools, churches and many other institutions which hold their stock for the benefit of millions of people.

TELEPHONE RESEARCH AND MANUFACTURE

Bell Telephone Laboratories, our research and development organization, and Western Electric Company, the System's manufacturing and supply branch, continue to make contributions of fundamental importance to telephone progress. In addition, agencies of the government in 1953 called on them to devise and produce military electronic systems to an even greater extent than in the past few years. One of these equipments now in production is the first anti-aircraft guided missile system; it is called "Nike" (pronounced Ny-key) after the ancient Greek goddess of Victory. This remarkable weapon is designed to locate and destroy hostile bombers which by height, speed and evasive tactics might escape conventional weapons.

New equipment developed by the Laboratories and made by Western plays an essential part in the long distance dialing program. One example is the apparatus already mentioned which automatically records information for billing customer-dialed calls. Another is a new type of switching system which went into service last year in four cities. This uses transistors, the

new electronic devices invented at the Laboratories, in equipment which routes long distance calls automatically.

Electronics research has resulted in a new device called the "backward wave" oscillator. It is a vacuum tube which can be made to oscillate at frequencies varying over thousands of millions of cycles, simply by changing the voltage. No mechanical adjustment is needed. This new tool is expected to have important uses in the development of future microwave radio relay systems which will have increased capacity for carrying both long distance telephone calls and television programs.



Elements of the Nike Guided Missile System

Units of a Nike installation are pictured where they are tested before delivery to the Army.

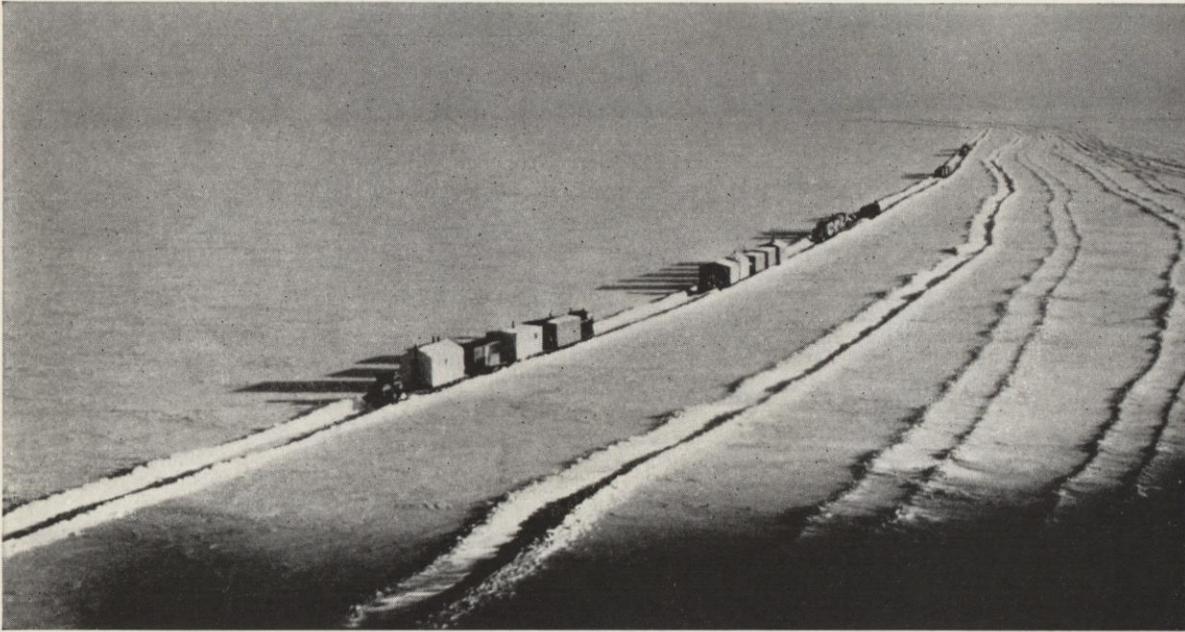
Standing upright in the center is one of the missiles.

The other elements are radars and electronic computers. These track the target aircraft, launch the missile and control its flight.

Bell Laboratories developed the system, Western Electric makes the vital control equipment, both on the ground and in the missile, and Douglas Aircraft Company designed and builds the missile itself.

From the Laboratories has also come a new wire facility to help in extending service to farmers. Six pairs of copper wires insulated with polyethylene are stranded around a steel core. This provides an economical means for providing service in many rural areas. In addition, field trial of a new system using transistors to increase the message-carrying capacity of rural telephone wires is starting this month.

Western Electric Company had a very busy year. Sales amounted to \$1,507,953,000, an increase of \$196,621,000 over 1952. Earnings were \$52,604,000 or 3.5 per cent of sales. Sales to the Bell companies were \$1,012,826,000, compared with \$935,541,000 in 1952. There was no



Tracks in the Trackless Arctic Snows

These are the tracks of “cat trains”—freight sledges pulled by tractors—bound for distant, secret sites on the northernmost shores of Alaska. This was the last leg of the long journey of Bell System men and materials to establish first experimental sites of the DEW Line—the radar line for life-saving *distant early warning* of air attack from over the top of the world.

increase in the price level of Western Electric manufactured articles.

Sales of \$440,204,000 to the defense departments of the government were by far the highest since World War II. The company made substantial deliveries of the Nike guided missile system to the Army, which is proceeding with installations to protect important cities and military establishments. The company also had in production throughout the year other electronic weapon systems developed by Bell Laboratories, as well as military communication apparatus.

Another noteworthy defense project was construction for the Air Force of the first experimental units of a "Distant Early Warning Line" of radar stations on the northern shores of Alaska and Canada, only 1,200 miles from the North Pole. This line would give prompt and positive warning of hostile aircraft. To construct and equip the experimental stations in their remote and frigid location involved many unusual problems. Specially qualified personnel from all parts of the System—Western Electric, the Laboratories and the operating telephone companies—worked together on the task. They performed it successfully and with great speed.

Since 1949 the Sandia Corporation, a subsidiary of Western Electric, has operated the Atomic Energy Commission's Sandia Laboratory at Albuquerque, New Mexico, which develops and designs atomic weapons.

Increased capital needs of Western Electric were met in part by an issue of 1,050,000 shares of stock in February, 1953. The offering was made to share owners, was fully subscribed and provided \$42,000,000 additional ownership capital. The A. T. & T. Company purchased 1,048,663 of the shares offered.

THE PEOPLE OF THE BELL SYSTEM

All the progress told in these pages is the work of men and women: the people of the telephone companies, of the laboratory, of the manufacturing and supply organization. To say that 1953 was a constructive and successful year is also to say, "They made it so."

The employee group at the end of the year numbered about 703,000. Many are veterans in telephone work; in fact, nearly 107,000 employees have served in the Bell System for 25 years or more. But there are many more who are young in the business. Through the years telephone people have built a fine working association, and they continue to do so today.

Some 15,000 employees are on military leave from their companies. Nine out of ten who have concluded their military service have returned,

we are glad to say, to Bell System work. In the period of fighting in Korea, more than 100 gave their lives.

Opportunity for advancement, good wages, pleasant working conditions, sound benefit and pension arrangements—each of these plays a part in attracting and keeping men and women who will do a fine job. In 1953 there was a healthy movement of people upward in the organization; in this business promotions are made from the ranks. Collective bargaining between the companies and the unions resulted in increases in wage rates which kept telephone pay at levels commensurate with wages paid by other firms in the same communities. In three of the telephone companies strikes were called but many employees continued to work and in most places telephone service was well maintained. To provide pensions and disability and death benefits, the Bell companies as a group, including Western Electric and Bell Laboratories, last year expended \$272,000,000 or 9.6 per cent of the payrolls. This amount includes that part of Federal Social Security old-age benefit taxes which is paid by the companies. The companies pay the entire cost of their benefit and pension plans, and to provide service pensions they accrue, on an actuarial basis, pension trust funds which are devoted entirely and irrevocably to service pension purposes. At the end of last year 17,998 men and 14,730 women were receiving service pensions, and about 21,000 employees had attained the age and length of service which entitled them to retire at their own request.

Telephone people did a fine job in 1953, and that means among other things that in a safe industry they worked even more safely. They have done so for nine years in a row. And for the second consecutive year, they won for their companies the National Safety Council's highest Award of Honor for significant improvement in safety performance.

Last year also the Telephone Pioneers of America increased its membership to 175,000 men and women who live in every state of the union and throughout Canada. This has been since 1911 the association of active and retired employees who have had at least 21 years of service in the industry. Of all who are eligible, nearly 95 per cent are members. Their constitution says:

“The purpose of the Telephone Pioneers of America shall be to provide a means of friendly association for the longer-service employees . . . and to promote among them a continuing fellowship and a spirit of mutual helpfulness; to exemplify and perpetuate those principles which have come to be regarded as the ideals and traditions of the industry; and to participate in such undertakings as may be deemed to make for the happiness, well-being and usefulness of the membership and for the progress of the Association.”

That is one manifestation of the telephone spirit. Another is in the extraordinary resourcefulness and devotion to duty signified by the award of Theodore N. Vail Medals. Last year 25 of these medals of honor—3 of silver, 22 of bronze—commemorated acts of noteworthy service by telephone men and women.

The people of the Bell System are devoted to their calling and to the needs of the people they serve. Ours is a service of neighbor to neighbor—human, personal, friendly, courteous. In all we are trying to do, we have been greatly assisted by the constructive interest and support of the share owners; to them goes our sincere appreciation. To our fellow citizens in community and nation, we pledge our continuing utmost efforts to provide fast, dependable and always better and more helpful telephone service in the years ahead.

For the Board of Directors,

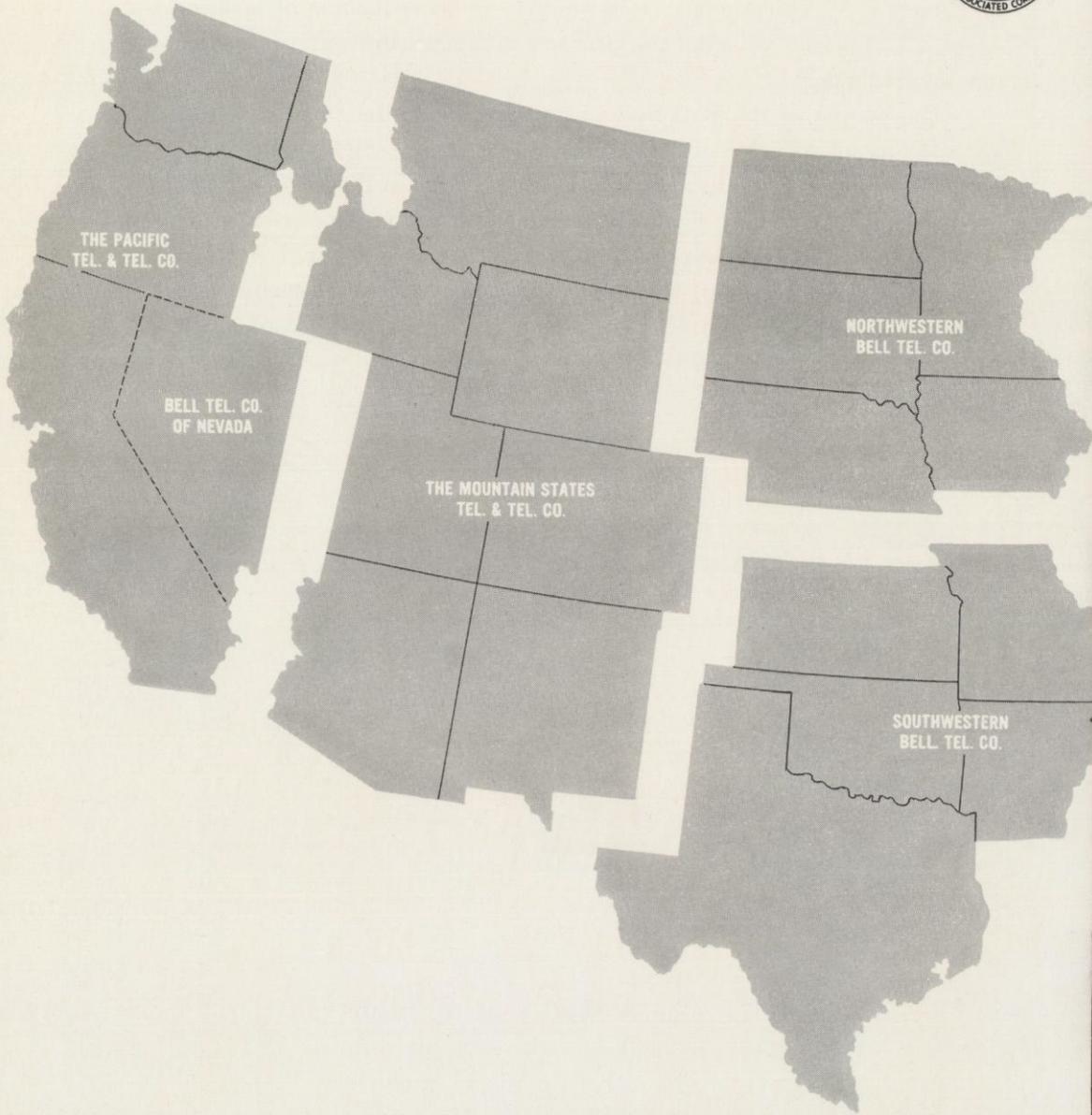
Cleo T. Craig

President

FEBRUARY 17, 1954

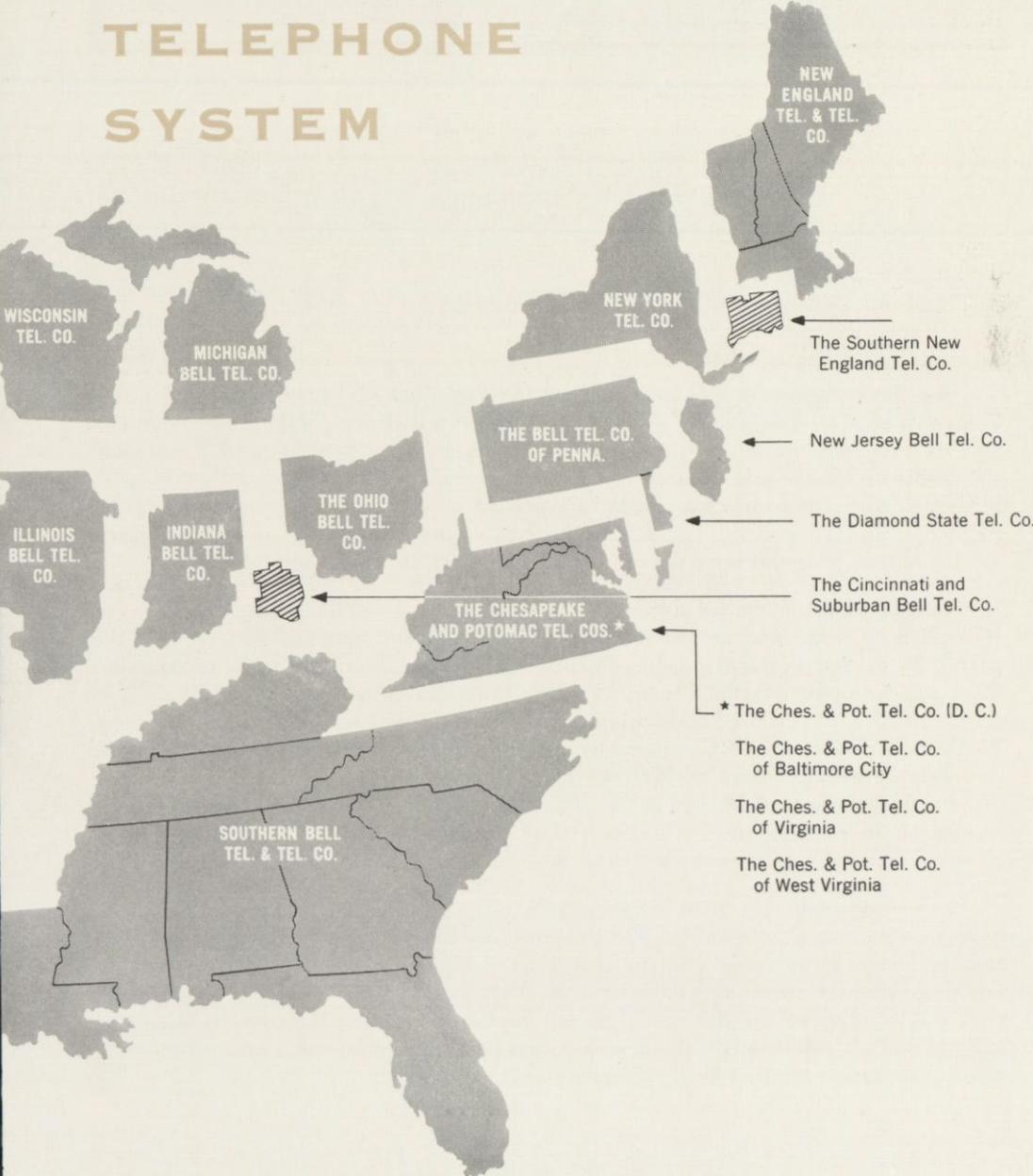


The Annual Meeting of the Share Owners will be held at 1 p.m. on April 21, 1954, at the Company's offices at 195 Broadway, New York.



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 BELL TELEPHONE SYSTEM



CERTIFICATE OF AUDIT

New York, N. Y.
February 16, 1954

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

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.

A. L. STOTT
Comptroller.

BELL SYSTEM *(American Telephone and Telegraph Company)*

consolidated

ASSETS		
	December 31, 1953	December 31, 1952
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$12,720,106,862	\$11,651,758,929
Telephone Plant under Construction.....	318,185,928	297,651,351
Property Held for Future Telephone Use.....	14,208,541	14,183,431
Telephone Plant Acquisition Adjustment.....	6,730,805	7,842,016
	<u>\$13,059,232,136</u>	<u>\$11,971,435,727</u>
Less: Depreciation and Amortization Reserves.....	3,461,841,634	3,262,995,614
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$ 9,597,390,502</u>	<u>\$ 8,708,440,113</u>
Miscellaneous Physical Property.....	2,879,780	3,072,510
Investments in Subsidiaries not consolidated (b).....	438,733,922	396,326,354
Equities in Subsidiaries not consolidated in excess of investments therein	105,907,393	88,533,896
Other Investments (b)	83,803,307	76,166,701
<i>Principally investments in associated telephone companies.</i>		
Total	<u>\$10,228,714,904</u>	<u>\$ 9,272,539,574</u>
 CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 95,105,698	\$ 97,182,450
Temporary Cash Investments.....	925,353,459	689,843,175
<i>Comprises at December 31, 1953 U. S. short-term obligations having a market value of \$926,558,000.</i>		
Special Cash Deposits.....	9,011,654	6,564,553
Current Receivables	494,013,474	462,997,125
<i>Amounts due for service (less reserves amounting to \$4,291,919 at December 31, 1953), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	134,450,894	127,865,597
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 1,657,935,179</u>	<u>\$ 1,384,452,900</u>
 DEFERRED CHARGES		
Prepayments of Directory Expenses, Rents, Taxes, etc..	\$ 70,188,152	\$ 62,155,025
Other Deferred Charges.....	15,868,854	15,201,461
Total Deferred Charges	<u>\$ 86,057,006</u>	<u>\$ 77,356,486</u>
Total Assets	<u>\$11,972,707,089</u>	<u>\$10,734,348,960</u>

For notes, see page 32.

Balance sheet

	December 31, 1953	December 31, 1952
LIABILITIES		
CAPITAL STOCK EQUITY		
American Telephone and Telegraph Company:		
Common Stock—Par Value (\$100 per share)	\$ 4,228,238,300	\$ 3,897,944,800
Common Stock Installments—see note (c) on page 37	129,150,321	35,797,631
Premium on Common Stock	1,141,266,864	1,015,026,847
<i>Amount received in excess of par value.</i>		
Retained Earnings:		
Reserved (c)	7,239,199	6,190,634
Unappropriated	731,882,776	619,215,878
Total Retained Earnings (see page 31)	\$ 739,121,975	\$ 625,406,512
Total Applicable to A. T. & T. Co. Stock	\$ 6,237,777,460	\$ 5,574,175,790
Subsidiaries Consolidated—stocks held by public:		
Common Stock	\$ 162,829,300	\$ 151,789,100
Preferred Stock	17,904,300	17,904,300
Retained Earnings	9,841,248	9,469,962
Total Applicable to Stocks of Subsidiaries Held by Public	\$ 190,574,848	\$ 179,163,362
Total Capital Stock Equity	\$ 6,428,352,308	\$ 5,753,339,152
FUNDED DEBT		
American Telephone and Telegraph Company:		
Convertible Debentures	\$ 740,655,700	\$ 471,861,500
Other Debentures—see note (d) on page 37	1,440,000,000	1,440,000,000
Subsidiaries Consolidated (d)	2,008,000,000	1,878,000,000
Total Funded Debt	\$ 4,188,655,700	\$ 3,789,861,500
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 105,000,000	\$ 37,000,000
Accounts Payable	393,884,572	378,580,185
Advance Billing for Service and Customers' Deposits . .	103,860,911	95,087,393
Dividends Payable	95,799,269	87,995,227
Other Current Liabilities	23,046,551	23,779,948
Interest Accrued	31,403,457	31,865,480
Taxes Accrued	584,650,742	506,922,381
Total Current and Accrued Liabilities	\$ 1,337,645,502	\$ 1,161,230,614
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 14,856,719	\$ 15,028,030
<i>(After deduction of unamortized discount and ex- pense.)</i>		
Other Deferred Credits—see note (e) on page 37	3,196,860	14,889,664
Total Deferred Credits	\$ 18,053,579	\$ 29,917,694
Total Liabilities	\$11,972,707,089	\$10,734,348,960

BELL SYSTEM (American Telephone and Telegraph Company)

consolidated

OPERATING REVENUES	Year 1953	Year 1952
Local Service Revenues	\$2,642,905,301	\$2,397,552,352
Toll Service Revenues	1,571,087,617	1,470,267,186
Miscellaneous Revenues	214,955,851	182,900,054
<i>Derived from directory advertising, rents and miscellaneous sources.</i>		
Less: Uncollectible Operating Revenues	12,219,155	11,055,374
Total Operating Revenues (e)	\$4,416,729,614	\$4,039,664,218
OPERATING EXPENSES		
Current Maintenance (f)	\$ 897,181,073	\$ 831,414,618
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation and Amortization Expense	411,298,341	381,679,170
<i>Portion of cost of depreciable property charged against current operations. These charges are based on rates designed to spread this cost uniformly over the service life of the property and represented approximately 3.7% in 1953 and 3.8% in 1952 of the average investment in depreciable plant in service.</i>		
Traffic Expenses	864,597,652	819,489,621
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	399,253,707	362,020,059
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	38,766,251	34,035,738
General and Miscellaneous Expenses:		
General Administration	43,160,477	39,542,817
Accounting and Treasury	188,585,444	174,234,834
Development and Research (g)	20,628,531	18,035,459
Provision for Employees' Service Pensions (h)	151,925,212	132,899,085
Employees' Sickness, Accident, Death and Other Benefits	43,683,056	42,394,651
Other General Expenses	64,168,565	56,238,378
Less: Expenses Charged Construction	38,501,472	34,371,688
Total Operating Expenses	\$3,084,746,837	\$2,857,612,742
Net Operating Revenues	\$1,331,982,777	\$1,182,051,476
OPERATING TAXES		
Federal Taxes on Income	\$ 459,087,308	\$ 391,426,594
Other Taxes—principally State, local and Social Security	339,583,846	314,200,374
Total Operating Taxes (i)	\$ 798,671,154	\$ 705,626,968
Net Operating Income (carried forward) ..	\$ 533,311,623	\$ 476,424,508

For notes, see page 32.

Income statement

	Year 1953	Year 1952
Net Operating Income (<i>brought forward</i>)	\$ 533,311,623	\$ 476,424,508
OTHER INCOME		
Dividends from subsidiaries not consolidated (j)	\$ 35,630,443	\$ 32,413,477
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (k)	17,908,607	15,581,817
Dividends from other companies	5,777,803	5,648,760
Miscellaneous income (l)	27,323,738	25,299,499
Less: Miscellaneous deductions from income (h) (i) . .	12,749,499	19,876,861
Income Available for Fixed Charges	<u>\$ 607,202,715</u>	<u>\$ 535,491,200</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 110,065,483	\$ 111,395,895
Other Interest	5,750,248	5,905,862
Other Fixed Charges	24,127	24,498
Less: Release of Premium on Funded Debt—net.	331,000	296,951
Net Income (f)	<u>\$ 491,693,857</u>	<u>\$ 418,461,896</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	12,107,334	10,726,332
Net Income Applicable to A. T. & T. Co. Stock	<u>\$ 478,512,265</u>	<u>\$ 406,661,306</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (m)	\$11.71	\$11.45

Statement of Consolidated Retained Earnings Applicable to American Telephone and Telegraph Company Stock—Year 1953

BALANCE—DECEMBER 31, 1952	\$ 625,406,512
Net Income applicable to A. T. & T. Co. Stock	\$ 478,512,265
Settlement of prior years' taxes and adjustment of related tax accruals . .	5,496,289
Miscellaneous additions	615,523
TOTAL ADDITIONS	<u>\$ 484,624,077</u>
Dividends on A. T. & T. Co. Stock	\$ 367,714,714
Organization and Capital Stock Expense charged off	1,278,793
Amortization of Telephone Plant Acquisition Adjustment.	854,054
Miscellaneous deductions	1,061,053
TOTAL DEDUCTIONS	<u>\$ 370,908,614</u>
BALANCE—DECEMBER 31, 1953	<u>\$ 739,121,975</u>

NOTES TO BELL SYSTEM FINANCIAL STATEMENTS

(a) Telephone Plant, with minor exceptions, is stated at cost to the companies. 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, with minor exceptions, are stated at cost.

(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, \$500,000,000 from 1971 to 1980, and \$1,340,000,000 thereafter.

(e) Total Operating Revenues include approximately \$8,550,000 in 1953 and \$5,500,000 in 1952 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 \$889,000 in 1952 which has been or is to be refunded.

(f) Current Maintenance for the year 1953 reflects the credit of \$11,500,000 described in note (e) on page 37 with a resultant increase in Net Income of approximately the same amount.

(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 \$159,427,693 for 1953 and \$140,401,566 for 1952, of which \$7,502,481 for each year was charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The companies and their independent public accountants consider that this latter amount was, in fact, a current operating expense.

(i) Provision for taxes, principally Federal Taxes on Income, was reduced by \$7,869,048 in 1952 with a corresponding increase 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.

(j) Includes dividends of \$34,585,755 in 1953 and \$31,439,766 in 1952 from Western Electric Company.

(k) 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 \$17,920,499 in 1953 and \$15,552,100 in 1952.

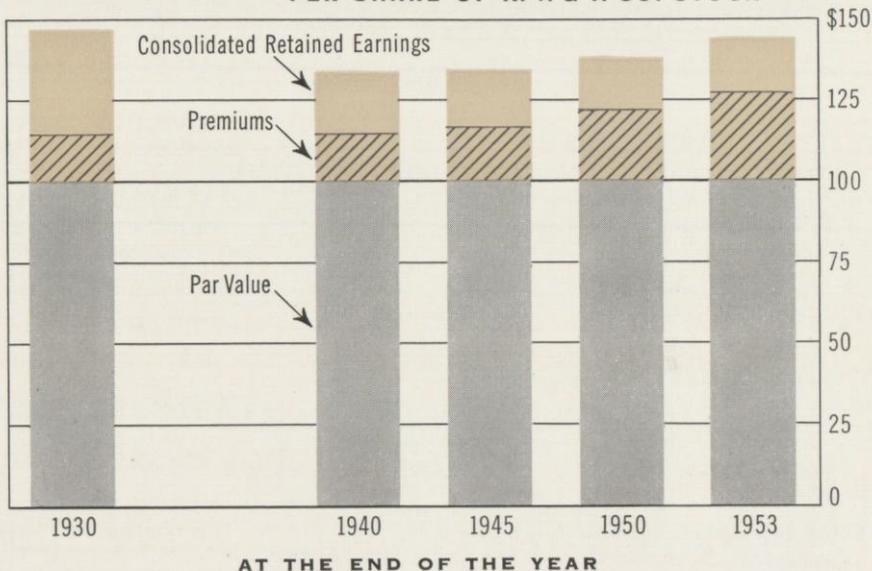
(l) Includes \$14,033,525 in 1953 and \$11,747,873 in 1952 for interest charged construction.

(m) Based on average shares outstanding—40,857,190 in 1953 and 35,528,308 in 1952.

Amounts accrued for employees' service pensions under Plans established by the Bell System Companies are paid to Bankers Trust Company as Trustee of Pension Funds. These Funds are irrevocably devoted to service pension purposes and are not a part of the assets of the Companies. The Funds of all the Companies aggregated \$1,761,954,113 on December 31, 1953 and in each company 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.

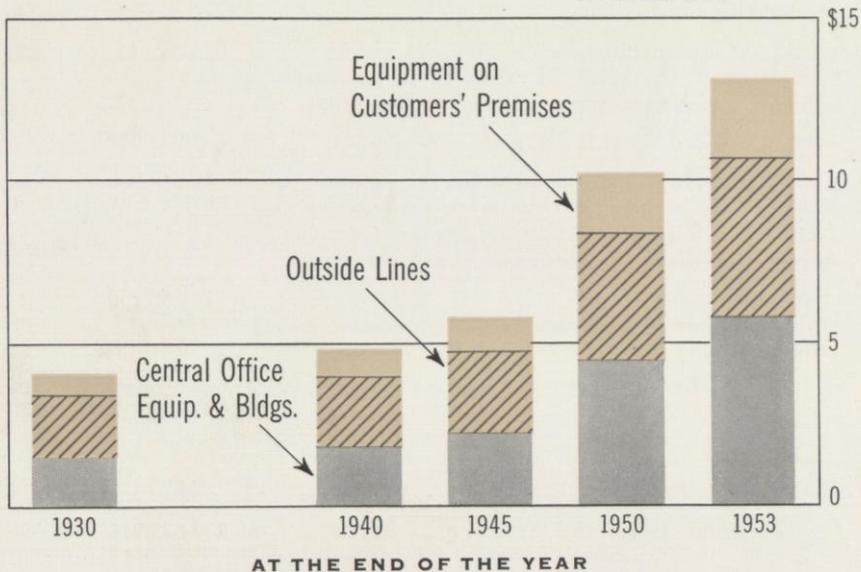
Book Equity

PER SHARE OF A. T. & T. CO. STOCK



Total Bell System Plant Investment

IN BILLIONS



AMERICAN TELEPHONE

balance

ASSETS

	December 31, 1953	December 31, 1952
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service	\$1,111,084,531	\$1,013,835,400
Telephone Plant under Construction	49,087,437	42,334,162
Property Held for Future Telephone Use	295,044	360,476
	<u>\$1,160,467,012</u>	<u>\$1,056,530,038</u>
Less: Depreciation Reserve	427,571,636	404,887,703
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$ 732,895,376</u>	<u>\$ 651,642,335</u>
Investments in Subsidiaries—at cost (see page 38)	6,452,198,934	5,916,466,498
Stocks	\$6,227,523,934	
Advances	224,675,000	
Other Investments—at cost (see page 38)	70,150,808	61,018,935
Stocks	\$ 63,213,377	
Advances	6,500,000	
Miscellaneous	437,431	
Total	<u>\$7,255,245,118</u>	<u>\$6,629,127,768</u>
 CURRENT ASSETS		
Cash and Demand Deposits	\$ 15,489,986	\$ 16,032,176
Temporary Cash Investments	925,353,459	687,850,286
<i>Comprises at December 31, 1953 U. S. short-term obligations having a market value of \$926,558,000.</i>		
Special Cash Deposits	1,854,990	1,505,350
Current Receivables	44,448,965	44,464,681
<i>Amounts due for service (less reserve amounting to \$200,000 at December 31, 1953), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	14,666,250	11,004,218
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$1,001,813,650</u>	<u>\$ 760,856,711</u>
 DEFERRED CHARGES	<u>\$ 2,575,151</u>	<u>\$ 2,471,952</u>
Total Assets	<u>\$8,259,633,919</u>	<u>\$7,392,456,431</u>

For notes, see page 37.

ND TELEGRAPH COMPANY

heet

LIABILITIES

CAPITAL STOCK EQUITY	December 31, 1953	December 31, 1952
Common Stock—Par Value (\$100 per share) <i>Authorized, 60,000,000 shares; outstanding, 42,282,383 shares at December 31, 1953 (b).</i>	\$4,228,238,300	\$3,897,944,800
Common Stock Installments (c)	129,150,321	35,797,631
Premium on Common Stock <i>Amount received in excess of par value.</i>	1,141,266,864	1,015,026,847
Retained Earnings (see page 36)	403,267,080	349,250,056
Total Capital Stock Equity	<u>\$5,901,922,565</u>	<u>\$5,298,019,334</u>

FUNDED DEBT

Convertible Debentures	\$ 740,655,700	\$ 471,861,500
Other Debentures (d)	1,440,000,000	1,440,000,000
Total Funded Debt	<u>\$2,180,655,700</u>	<u>\$1,911,861,500</u>

CURRENT AND ACCRUED LIABILITIES

Dividend Payable	\$ 95,101,720	\$ 87,407,878
Accounts Payable	30,610,378	28,202,513
Interest Accrued	12,448,293	14,637,035
Taxes Accrued	37,072,618	37,580,727
Total Current and Accrued Liabilities	<u>\$ 175,233,009</u>	<u>\$ 167,828,153</u>

DEFERRED CREDITS

Unextinguished Premium on Funded Debt <i>(After deduction of unamortized discount and expense.)</i>	\$ 990,733	\$ 2,532,574
Other Deferred Credits (e)	831,912	12,214,870
Total Deferred Credits	<u>\$ 1,822,645</u>	<u>\$ 14,747,444</u>
Total Liabilities	<u>\$8,259,633,919</u>	<u>\$7,392,456,431</u>

AMERICAN TELEPHON

income statement

	Year 1953 (f)	Year 1952
OPERATING REVENUES		
Toll Service Revenues (g)	\$224,896,666	\$230,296,579
License Contract Revenues	42,232,175	38,182,536
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	17,392,300	15,986,778
Less: Uncollectible Operating Revenues	837,841	958,118
Total Operating Revenues	<u>\$283,683,300</u>	<u>\$283,507,775</u>
OPERATING EXPENSES (h)		
Current Maintenance	\$ 52,658,172	\$ 58,045,750
Depreciation Expense	37,820,171	38,293,423
<i>Represents approximately 3.6% in 1953 and 4% in 1952 of average investment in depreciable plant.</i>		
Traffic Expenses	36,166,992	37,468,072
Commercial Expenses	8,992,509	9,721,314
Operating Rents	4,868,991	4,757,834
General Administration	17,401,295	16,394,668
Accounting and Treasury Expenses	12,967,972	11,918,533
Development and Research (i)	20,628,531	18,035,459
Provision for Employees' Service Pensions (j)	9,263,090	8,085,183
Employees' Sickness, Accident, Death and Other Benefits	2,639,988	2,515,094
Other General Expenses	7,394,323	6,814,735
Less: Expenses Charged Construction	1,565,501	1,284,191
Total Operating Expenses	<u>\$209,236,533</u>	<u>\$210,765,874</u>
Net Operating Revenues	<u>\$ 74,446,767</u>	<u>\$ 72,741,901</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 28,220,000	\$ 29,508,000
Other Taxes—principally State, local and Social Security	17,753,261	16,315,074
Total Operating Taxes	<u>\$ 45,973,261</u>	<u>\$ 45,823,074</u>
Net Operating Income	<u>\$ 28,473,506</u>	<u>\$ 26,918,827</u>
OTHER INCOME		
Dividend Income (k)	\$426,437,666	\$368,198,853
Interest Income	18,583,284	20,343,604
Miscellaneous Income	1,789,387	1,747,246
Less: Miscellaneous Deductions from Income (j)	1,075,262	1,442,479
Income Available for Fixed Charges	<u>\$474,208,581</u>	<u>\$415,766,051</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 50,897,873	\$ 56,131,172
Other Interest	1,877,915	1,206,295
Less: Release of Premium on Funded Debt—net	52,777	64,620
Net Income	<u>\$421,485,570</u>	<u>\$358,493,204</u>
Earnings per share (l)	\$10.32	\$10.09

Statement of Retained Earnings—Year 1953

BALANCE—DECEMBER 31, 1952	\$349,250,056
Net Income	\$421,485,570
Miscellaneous additions	774,659
TOTAL ADDITIONS	<u>\$422,260,229</u>
Dividends declared	\$367,714,714
Miscellaneous deductions	528,491
TOTAL DEDUCTIONS	<u>\$368,243,205</u>
BALANCE—DECEMBER 31, 1953	<u>\$403,267,080</u>

ND TELEGRAPH COMPANY

Notes to Balance Sheet and Income Statement

(a) Telephone Plant, with minor exceptions, is stated at cost to the Company. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.

(b) 7,467,966 authorized and unissued shares were reserved at December 31, 1953 for conversion of Debentures, as follows: 756,872 shares for the 2 $\frac{3}{4}$ % Debentures due December 1961 convertible at \$143.84 per share; 262,744 shares for the 3 $\frac{3}{8}$ % Debentures due March 1963 convertible at \$138; 422,913 shares for the 3 $\frac{1}{2}$ % Debentures due July 1964 convertible at \$136; and 6,025,437 shares for the 3 $\frac{3}{4}$ % Debentures due December 1965 convertible at \$136. (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 the Employees' Stock Plan. The Plan provides that an employee may cancel his election to purchase in whole or in part at any time and receive a refund which may be taken in cash or applied to the purchase of shares. At December 31, 1953 installment payments were being made on 1,587,638 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) Other Deferred Credits at December 31, 1952 include a reserve amounting to \$11,500,000 provided during 1943-1945 for expected postwar expenditures for maintenance of the Company's Long Lines property deferred because of lack of man-power and materials during the war years. The Company with the approval of the Federal Communications Commission released the reserve during 1953 with concurrent credits to Current Maintenance.

(f) Current Maintenance for 1953 reflects the credit of \$11,500,000 described in note (e) above. Under the arrangement for the division of revenues derived from toll business handled jointly with subsidiaries and certain other telephone companies the participating companies shared the \$11,500,000 increase in earnings resulting from such credit. Since this arrangement provides for division after reimbursement for expenses including Federal income taxes, the sharing had the effect of reducing the Company's Toll Service Revenues by approximately \$15,000,000, with a resulting reduction in the Company's Federal income taxes of approximately \$7,800,000. The result of the above was to increase the Company's Net Operating Income by approximately \$4,300,000.

(g) Represents the Company's share of toll revenues of \$827,539,000 in 1953 and \$756,157,000 in 1952 from toll business handled jointly with subsidiary and other telephone companies.

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

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

(j) The total provision for employees' service pensions amounted to \$9,720,878 for 1953 and \$8,542,971 for 1952, 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.

(k) Includes dividends from subsidiaries of \$421,608,325 in 1953 and \$363,543,760 in 1952.

(l) Based on average shares outstanding—40,857,190 in 1953 and 35,528,308 in 1952.

Amounts accrued for employees' service pensions under the Plan established by the Company are paid to Bankers Trust Company as Trustee of the Pension Fund. This Fund is irrevocably devoted to service pension purposes and is not a part of the assets of the Company. Such Fund amounted to \$97,185,018 on December 31, 1953 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, 1953

TELEPHONE SUBSIDIARIES	CAPITAL STOCKS (a)			ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co...	\$176,903,500	69.21	\$ 181,855,031	\$ 32,300,000
New York Tel. Co.....	816,300,000	100.00	839,280,335
New Jersey Bell Tel. Co.....	260,000,000	100.00	273,667,184	30,500,000
Bell Tel. Co. of Pennsylvania..	355,000,000	100.00	361,316,050	18,000,000
Diamond State Tel. Co.....	22,000,000	100.00	22,700,000	600,000
Chesapeake & Potomac Tel. Co.	80,000,000	100.00	81,000,000	7,975,000
Chesapeake & Potomac Tel. Co. of Baltimore City	135,000,000	100.00	136,467,862	4,875,000
Chesapeake & Potomac Tel. Co. of Virginia	130,000,000	100.00	130,000,000	12,300,000
Chesapeake & Potomac Tel. Co. of West Virginia	50,000,000	100.00	50,000,000	7,175,000
Southern Bell Tel. & Tel. Co...	725,000,000	100.00	726,817,298	8,600,000
Ohio Bell Tel. Co.....	317,500,000	100.00	317,542,298	9,000,000
Michigan Bell Tel. Co.....	281,987,000	99.99	282,399,232	8,800,000
Indiana Bell Tel. Co.....	99,998,800	99.99	100,585,286	5,650,000
Wisconsin Tel. Co.....	141,500,000	100.00	144,723,802	2,700,000
Illinois Bell Tel. Co.....	395,363,800	99.32	400,844,640	7,600,000
Northwestern Bell Tel. Co....	237,000,000	100.00	238,039,490	3,700,000
Southwestern Bell Tel. Co....	744,998,500	99.99	748,251,578	20,000,000
Mountain States Tel. & Tel. Co.	168,900,400	86.66	170,305,364	40,950,000
Pacific Tel. & Tel. Co.....	565,825,200	91.08	561,483,392
Pacific Tel. & Tel. Co.—Pre- ferred	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	367,655,912
195 Broadway Corporation....	17,500,000	100.00	17,515,000	3,950,000
Eastern Tel. & Tel. Co.....	75,000	100.00	75,000
Total			\$6,227,523,934	\$224,675,000
OTHER COMPANIES				
Southern New England Tel. Co. \$	29,342,400	26.67	\$ 29,654,232	\$ 6,500,000
Cincinnati & Suburban Bell Tel. Co.....	13,978,400	29.79	14,541,862
Bell Tel. Co. of Canada.....	18,749,800	6.46	18,854,783
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500
Total			\$ 63,213,377	\$ 6,500,000

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 11,528,585 shares—no par value.

SOME INTERESTING FACTS ABOUT THE BELL SYSTEM

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1952	Dec. 31 1953
Number of Telephones (a)	22,445,519	35,343,440	39,413,889	41,353,483
Dial Operated	14,504,851	26,700,319	31,194,105	33,637,683
Per cent Dial Operated.	64.6	75.5	79.1	81.3
Number of Central Offices.	7,374	8,470	8,870	9,206
Miles of Wire:				
In Underground Cable..	60,759,000	86,963,000	96,689,000	102,712,000
In Aerial Cable.....	33,966,000	48,240,000	55,509,000	60,341,000
Open Wire	5,034,000	6,578,000	6,914,000	7,058,000
Total	99,759,000	141,781,000	159,112,000	170,111,000
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	149,360,000	153,693,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$11,971,436	\$13,059,232
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$4,039,664	\$4,416,730
Number of Employees (c)	474,527	602,466	692,398	702,822
Number of A. T. & T. Company Share Owners.	683,897	985,583	1,220,509	1,265,461
Number of A. T. & T. Company Shares Out- standing	20,166,251	28,615,956	38,979,448	42,282,383

* For year ended December 31.

(a) Excludes private line telephones numbering 142,929 on December 31, 1953. Including telephones of some 5,100 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 50,400,000.

(b) For the year 1953 there were approximately 147,383,000 average daily local conversations and 6,310,000 average daily toll and long distance conversations. During 1953 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 4.9 per cent in toll and long distance conversations, over the year 1952.

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

HOW does a man's dream grow?

*It grows as a nation grows,
Eternally leaping the horizons,
calling others to follow —*

*And the others caught up in his vision —
the builders, the planners,*

*The lineman against the sky —
the girl at her switchboard —*

*The scientist charting the tides
of invisible sound —*

*The splicer sealing the joints of the cable —
All are the weavers of speech serving
the nation in peace and in war*

*Carrying the word—across the
silence of time and of space —*

*Along the gleaming wires —
all the words of love and birth and life —
Throughout all the land — to the
farthest village and town —
And beyond the dark seas — and the endless
horizons beyond the earth's curve —
This was the vision of a man
named Bell —
And we are the inheritors
of his dream!*



