

AMERICAN TELEPHONE AND TELEGRAPH COMPANY



1954

Annual Report

BOARDS

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TO MORE THAN 1,300,000 SHARE OWNERS

BOARD OF DIRECTORS

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

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Cleo F. Craig

EXECUTIVE VICE PRESIDENT

Hal S. Dumas

VICE PRESIDENTS

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Henry T. Killingsworth

George L. Best

T. Brooke Price

E. Hornsby Wasson

Eugene J. McNeely

H. Randolph Maddox

James W. Cook

Sanford B. Cousins

SECRETARY

S. Whitney Landon

TREASURER

John J. Scanlon

COMPTROLLER

Alexander L. Stott

1954 Annual Report

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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 1 p.m. on April 20, 1955, at the Company's offices at 50 Varick Street, New York.



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SUMMARY
OF 1954
RESULTS

SERVICE

For the Bell System 1954 was a year of much progress. In most places our new construction caught up with demand and we were able to meet the needs of telephone users promptly. We came a long way toward our goal of giving every user the service he wants when he wants it.

To accomplish this the Bell companies spent \$1.4 billion for new and improved facilities. At the same time they began more vigorous merchandising and sales efforts.

The System added 1,967,000 telephones, compared with 1,900,000 in 1953. The rate of growth increased markedly in the latter months of the year. Long distance calling set new records.

The companies met ninety per cent of all requests for telephones without delay. They reduced unfilled orders by more than half, to 181,000. To aid in this and to provide more individual-line service they



installed new local cables containing 13 million miles of wire—the largest amount ever added in one year.

A million more telephones were changed to dial service. Eighty-four per cent of all Bell telephones are now dial-operated. Operators dial more than half of all long distance calls straight through to the distant number. Telephone users are dialing directly about a quarter of their shorter calls beyond the immediate local area, and people in 25 places can dial many of their distant calls as well.

The average time for completing out-of-town calls dropped to 1.4 minutes and 97 out of every 100 went through while the calling party stayed on the

line. By these and other measures telephone service was the best on record.

We started work on the first undersea voice cable to Europe, equipped our main TV network routes to carry color programs, and invented a device to convert sunlight directly into electricity.

Western Electric Company and Bell Telephone Laboratories, our manufacturing and research organizations, undertook major new defense assignments at the Government's request.

Three disastrous hurricanes last fall temporarily affected more than a million telephones. On each occasion Bell System employees did a magnificent job in restoring service.

The prospect ahead is for another very busy year, and for even greater progress toward meeting and also anticipating all the wants of telephone users.

FINANCIAL

Earnings of the System applicable to A. T. & T. stock equalled \$11.92 per share on 46,147,747 average shares outstanding, compared with \$11.71 per share on 40,857,190 average shares outstanding in 1953. The proportion of debt in total capital was reduced from 41 per cent to 37 per cent.

Earnings on total capital were at the rate of 6.2 per cent, compared with 6.1 per cent in 1953.

Operating revenues increased 8.3 per cent to approximately \$4.8 billion. Operating expenses increased 6.6 per cent to \$3.3 billion.

Operating taxes totaled \$885 million, or an average of \$1.75 a month per telephone. This was an increase of \$87 million, or 10 cents a month per telephone, over 1953.

However Federal excise taxes paid directly by telephone users were reduced by Congress April 1. As a result they declined from \$670 million in 1953 to \$470 million in 1954, or from \$1.38 a month per telephone to 93 cents.

Total taxes on telephone service were accordingly \$1,355,000,000, or on the average about \$2.70 per telephone per month, compared with \$1,469,000,000, or more than \$3 per telephone per month, in 1953.

Telephone rates increased an average of about 30 cents a month on 16 million telephones in 19 states. Applications for rate increases are now pending in 7 states.

To help build the new facilities required to expand and improve the service, we obtained large additional sums from investors. Total Bell System capital rose from \$10,722,008,000 to \$11,560,560,000. This increase resulted chiefly from the sale of bonds and from conversions of convertible debentures into A. T. & T. stock.

Approximately 5,879,000 new shares of A. T. & T. stock were issued and 48,162,000 shares were outstanding at the end of the year.

In 1954 we welcomed 145,000 new share owners. The net increase in share owners was 42,000 and the total number at year-end was 1,307,000.



“Where will the man put this white phone, Mummy?” Chances are that mother will want it right at hand on her kitchen wall—convenient, good to look at, yet out of her way as she works. In most places today we’re happy to be able to furnish the full service the family wants—and the installer will be glad to arrange the service to best advantage.

.....

REPORT TO THE SHARE OWNERS

NINETEEN FIFTY-FOUR was a time of constructive change in our business. More than in any other postwar year, we had new facilities to meet promptly the personal wants and preferences of telephone users.

Ever since World War II we have been working to get ahead of the enormous demand for telephone service. Year after year we have built new lines and buildings and switchboards, and added new millions of telephones. Each year also, investors have provided hundreds of millions of new capital for telephone expansion—seven billion dollars since 1945.

Nevertheless new demands for service have continuously crowded our facilities. It is true we have steadily cut down backlogs—greatly extended dial service—made the telephone more reliable and trouble-free. But many times, to our regret, we have had to ask people to wait; and frequently we have had to offer customers a little less service, or perhaps a little different service, than they might personally choose.

By 1954, however, in most places this situation had markedly changed.

With new facilities increasingly available, we could promote the advantages of *complete* telephone service for home and business.

We could promote and sell the speed, convenience and economy of long distance service, and show businessmen how to profit by its use.

We could market new services and refinements of existing service, and find new ways to make all the telephone's uses more satisfactory from the customer's point of view.

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Demand for Both Local And Long Distance

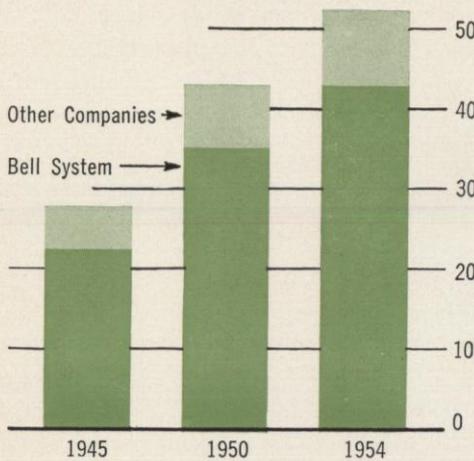
Services Increased As The Year Went On

The total gain of 1,967,000 telephones was 67,000 more than in 1953. Effective sales work helped to add 463,000 extension telephones in homes—60 per cent more than in the previous year.

Long distance as well as local service made its best gains in the latter months. Early in 1954 the volume of long distance calls showed no increase over 1953. By the end of the year however conversations were up ten

.....

Telephones in U.S. IN MILLIONS



Growth increases the value of service by enabling each telephone user to communicate with more people.

.....

per cent, and for the year as a whole they increased about five per cent.

At present both telephones and long distance messages are increasing at a healthy pace. Gains in 1955 may well exceed those of last year. Customers have been quick to respond to the knowledge that in most places they can get the full service they want, when and as they want it. And our merchandising efforts have just begun. As they increase, we are confident that the satisfaction of telephone users and the revenues of the System will both grow with them.

.....

We Have A Great Variety of Equipment

To Meet Our Customers' Individual Wants

The field of opportunity is immense. For instance, more and more families today need and should have individual lines instead of party lines. Before the war the proportion of homes so served was a little more than one-third. Due to wartime and postwar shortages of facilities, this declined to less than one-quarter in 1948. Already the proportion is back up to the prewar figure—and the cost in relation to average family income is much less than it used to be. We see a very broad prospect ahead to increase individual-line service.

Again, a great many families need more than one telephone line, each with its own number. Our objective is not simply to provide the customer with one or two or more telephones, but to furnish the *complete service* that will be most satisfactory to him.

We are introducing telephones in a range of attractive colors. We have telephones with push-buttons that control extensions and lines. We have other telephones with "light up" dials that can be seen in the dark. We can provide convenient additional listings in the telephone directory.



The Bell companies today are telling and selling their services through magazine and newspaper advertising, on the radio and through television, and through exhibits and displays. This "general store" shows some of the many kinds of equipment available to meet different telephone needs. It is one of numerous telephone exhibits appearing at fairs, expositions and business conventions.

Out of Doors

We are providing more and more public telephone booths, attractive and well-lighted, in cities and towns and along parkways, toll roads and other highways.



We have equipment which will automatically answer calls when no one is in, and give and take recorded messages. To obtain the service he prefers, the customer may choose among these and many other features.

And a hundred million times a year, employees in Bell telephone business offices are in contact with our customers. Twenty-five million times a year, installers and maintenance men visit their homes and offices. These are all natural occasions for learning the customer's needs and preferences and suggesting the kinds of service that will best fit the particular situation.

..... **We Made Further Progress in Long Distance**

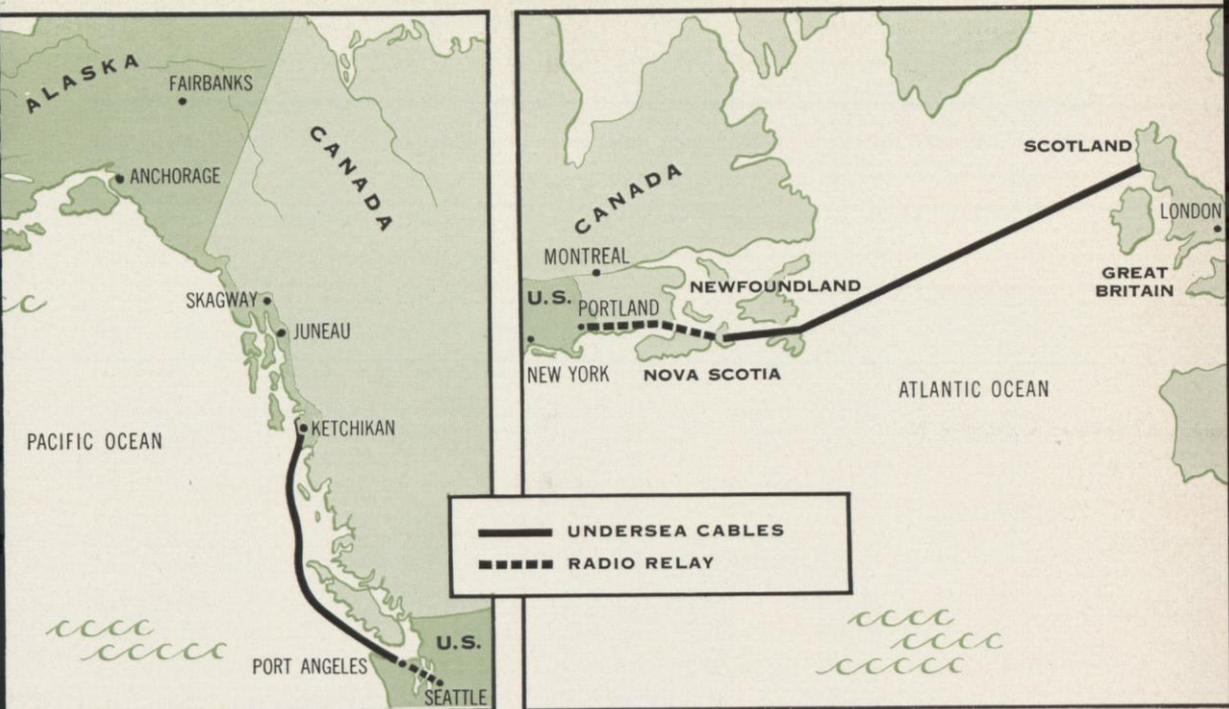
Dialing And Other Major Projects

Towns and cities connected to the long distance dial network increased from 2,450 to 3,350; operators now dial straight through to the called telephone more than half of the long distance calls they handle. In the Philadelphia, New York, San Francisco and Oakland areas, and in numerous other localities, customers may now dial directly to many more nearby communities than a year ago. And in 25 places, compared with three at the start of 1954, telephone users can dial directly to 14 metropolitan areas in different parts of the country.

Our ultimate aim is to provide the convenience of direct distance dialing to all customers. We are working to that end in close cooperation with the thousands of non-Bell telephone companies and cooperatives in all sections of the country. This is but one aspect of the fine teamwork between Bell and non-Bell companies which contributes so much to the nation's telephone progress.

Service in rural areas continues to increase. One of every seven Bell telephones added last year serves a rural area customer. More than two and a half million telephones have been added in rural areas since World War II—295,000 of them in 1954.

The Bell System television network grew to reach 357 stations in 233 cities—an increase of nearly 100 stations and 70 cities since the beginning of the year. To accomplish this we added 20,000 miles of television channels, bringing the total to 69,000 miles. We have equipped our network routes to carry color programs to 129 cities having 232 stations: when 1955 began 149 of these stations in 109 cities were using this service and it is available to all when they desire it.



New undersea telephone cables to Great Britain and Alaska are leading toward greater dependability in world-wide telephony. Both are scheduled to go into service in late 1956.

Overseas telephone messages reached a new high of 1,064,000 in 1954. At the same time work went forward on the new transatlantic submarine cable system first announced in December of 1953. This will be able to carry 36 conversations at a time, and will be immune to atmospheric disturbances which sometimes affect radiotelephone circuits over the Atlantic. The cables and voice amplifiers are now being manufactured and cable-laying operations will begin this summer. The goal is to open service over the new system before the end of 1956.

New Undersea Cables to Alaska And A New

Kind of Radiotelephone System to Cuba

Two other new projects also concern telephone service to points outside the continental United States.

One is a submarine cable, 640 nautical miles long, between Port Angeles, Washington, and Ketchikan, Alaska, connecting there with the

Alaska Communications System of the Army Signal Corps. Twin cables like those to be used under the Atlantic will be laid several miles apart, one for northbound and the other for southbound transmission. Each will contain built-in amplifiers at intervals of every 40 miles. The system will contain 36 telephone circuits and will be ready for use in late 1956. It will provide a reliable backbone route between the United States and Alaska, supplementing the present wire lines through Canada and radio-telephone channels.

Also in progress is a new kind of radio system between Florida and Cuba. Up to now radio waves capable of carrying both telephone conversations and television pictures have been amplified and relayed from tower to tower every 30 miles or so. Hence the term "radio relay." However, research in which Bell Telephone Laboratories has participated indicates that where it is not practical to build relay stations at frequent intervals, certain of these waves may be sent "over the horizon" 150 miles or more without need of amplification. By using special transmitters and receiving antennas, we expect to send such waves between southern Florida and northern Cuba. This will provide needed telephone channels to supplement existing submarine cables, and will also open up the possibility of television service over the route.

..... **Special Services to Industry And Government**

Are Growing in Number And Importance

The country's economic progress continually brings out new needs and opportunities for communication service; these the telephone companies are on the alert to provide.

More pipe line companies and power utilities are using Bell System lines to measure the flow of oil, gas and electrical energy at points many miles away, and for remote control of valves and switches.

We are supplying communications for certain thruways and toll roads, and are providing and maintaining mobile radio systems for numerous organizations.

We are working closely with civil and military authorities to provide communications for air navigation and air defense. The first Bell System facilities connecting a series of radio stations for air-ground communication on an airways route are being made ready for service between Chicago and Cleveland. This is the beginning of a system that will eventually extend across the continent.



Through this new long distance building at White Plains, outside of New York, we now route many calls formerly handled in the city. This illustrates how long distance facilities are being decentralized and strengthened to assure that essential communications will be maintained in time of emergency. Radio relay antennas are mounted on the building tower.

One of the country's largest railroads has recently ordered a teletypewriter system which will extend from the Atlantic seaboard to the Mississippi. This will be used primarily to report the movement and location of freight cars.

Business is making more and more use of electronic computers and other office machines that automatically sort, analyze or translate information. It seems certain that Bell System services will be widely used in conjunction with such equipment and will extend its usefulness. For instance, a business machine in Ohio "reads" statistical questions from punched cards, and over a telephone line instantly sends corresponding electrical impulses to a computing center in New York. In a different kind of system now being installed, business machines at an automobile company headquarters will send out to teletypewriters at 500 locations, along the production lines of 22 manufacturing plants, exact information as to what colors, accessories and various parts will be required for each car on the production line, and at what time.

..... **Telephone People Did A Record-Breaking Job**

In Restoring Service After Three Hurricanes

In a seven-week period last autumn hurricanes Carol, Edna and Hazel together dealt the heaviest blows at telephone service in all Bell System history. The people of the System promptly dealt back the biggest and fastest job of service restoration on record.

The first two storms struck the northeastern part of the country—most heavily in New England—on August 31 and September 11. The third, on October 15, spread destruction through the states northward from South Carolina to Canada. The three together affected over a million telephones and caused \$17 million damage to Bell System property. But on each occasion much of the interrupted service was restored within two days, and substantially all service was back to normal within six days.

The skill and devotion of telephone men and women—line crews, repairmen and engineers, operators at the switchboards, others in all departments—made this possible. Backing and aiding them was organization. Western Electric, the System's manufacturing and supply unit, promptly met every need for materials. Into hard-hit New England, when help was needed, rolled telephone trucks bringing men from New York and New Jersey, from Pennsylvania and the Chesapeake country, from as far away



When hurricane Edna struck New England these Michigan Bell trucks, and Michigan men to man them, speeded to Maine by rail to help restore telephone service. Other men and trucks came over the highways from New York, New Jersey, Pennsylvania, Maryland and the District of Columbia. It is important to the country that the Bell System companies have the resources, the organization and the will to meet the full needs of each community.

as Michigan. The heart-warming letters and comments the companies have received are welcome testimony to the success of the restoration effort.

..... **Earnings Improved Slightly But There Is Still**

Need for Further Increases in Telephone Rates

Bell System earnings on total capital in 1954 were at the rate of 6.2 per cent, compared with 6.1 per cent in 1953. Net income of the System applicable to A. T. & T. stock was \$11.92 per share on 46,147,747 average shares outstanding, compared with \$11.71 on 40,857,190 average shares in 1953. Net income of the A. T. & T. Company by itself (which includes the earnings of subsidiaries only to the extent that they have been received by the Company as dividends) was \$10.41 per share in 1954 compared with \$10.32 per share in 1953.

Earnings in 1954 were supported by telephone rate increases during the year to a lesser extent than for several years past. In general the rate increases authorized were below the amounts which the companies involved deemed necessary, and in a number of states commissions still lag notably in granting adequate rates. It is true that for the most part the level of rates has measurably improved compared with a few years ago, and true likewise that the general level of prices has not changed substantially in the last year or so. However, these facts do not signify that there is no further need for rate increases. With construction costs continuing at the high level reached in the last year or so, the average investment per telephone is still rising.

Where rate increases are needed, the companies will continue to press for them. We are confident that adequate rate levels will not deter our customers from expanding their use of the service. The telephone bill is a smaller part of the average family budget than it used to be. Also, in many places, when rates have increased the companies at the same time have extended local calling areas to provide more and better service for each telephone dollar. Notably last year, out-of-town charges were eliminated on calls between Minneapolis and St. Paul, and in areas centering on Seattle, Dallas, Fort Worth, Louisville and many smaller communities. As a result of such changes since the war, hundreds of millions of calls a year previously charged for as long distance messages are now handled as local calls.

Telephone users have welcomed these expansions of local service, even at somewhat higher local rates. And as already indicated, our merchandising and sales program is bringing a fine response. All this is good evi-



Mrs. David Fairchild, left, and Mrs. Gilbert Grosvenor, daughters of Alexander Graham Bell, last November unveiled a bronze memorial to their father, inventor of the telephone, in our headquarters building. Mrs. Fairchild holds a replica of Mr. Bell's first telephone. As the inscription tells, "He found the means to speed the spoken word to distant places." The vision of this great man is the heritage of all telephone men and women.

dence that the public realizes telephone service is a present-day necessity—extremely low in cost in relation to its value, as well as in comparison with the cost of other things that people buy.

..... **The Telephone Is Still The Only Household**

Utility Subject to Federal Excise Tax

As pointed out in the summary on page 3, Congress substantially reduced telephone excise tax rates beginning April 1, 1954. The rates of 25 per cent on long distance calls of 25 cents or more, and 15 per cent on other long distance calls and on local service, were both reduced to 10 per cent. Accordingly the excise tax burden on Bell System telephone users decreased from \$670 million in 1953 to about \$470 million in 1954.

This was an important and welcome step forward. However the new rate of 10 per cent remains as high as the rate on many luxuries. Also, the tax discriminates against telephone users; it is the only Federal excise tax on any essential household utility—water, gas and electricity being completely exempt. We shall continue to work for its complete elimination.

..... **We Obtained Additional Large Amounts**

Of Capital To Expand And Improve Our Service

During the year the Company sold \$250 million of bonds and six subsidiaries sold \$255 million of bonds. Three of those subsidiaries called \$115 million of bonds for redemption.

The Company issued 5,879,348 shares of stock in 1954, most of them in exchange for convertible debentures. At the beginning of the year some \$740 million of convertible debentures were outstanding. Holders converted \$581 million of these into stock with accompanying cash payments totaling \$213 million. The Company called for redemption two issues of convertible debentures, the 3³/₈'s of 1963 and the 3¹/₂'s of 1964. The 2³/₄% convertible debentures of 1961 have also been called for redemption on March 1, 1955.

Bell System employees made installment payments of \$78 million toward purchase of shares under the employees' stock plan. Payments on these shares are being completed this month and thus approximately 1,550,000 shares will have been issued out of the 3,000,000 authorized by the share owners in 1950. At the end of 1954 the Company made a

further offering of stock to employees and some 300,000 have elected to purchase the 1,450,000 shares remaining under the plan.

The proportion of debt in the System's total capital was reduced during the year from 41 per cent to 37 per cent.

The Share Owners Are Making A Fundamental

Contribution to Telephone Progress

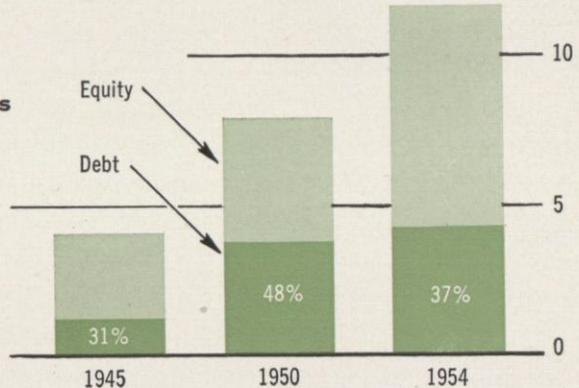
In the nine years since the war the Bell System has obtained seven billion dollars of new capital from investors to carry forward its construction program. Nearly \$4 billion of this total is share owners' capital, of which \$3.4 billion has flowed to the business through the sale of convertible debentures and their subsequent conversion into stock.

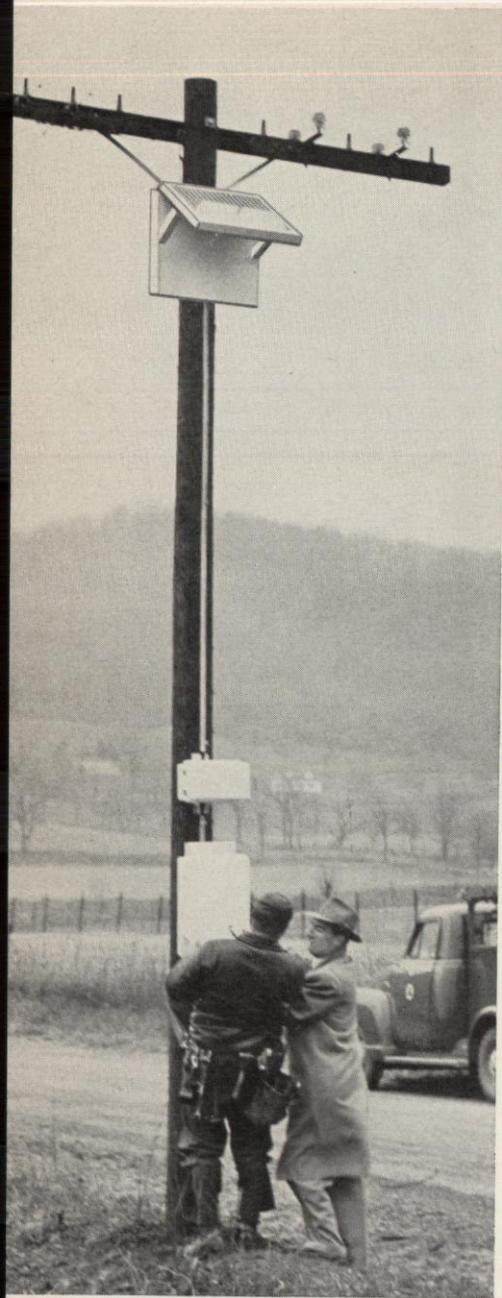
The participation of hundreds of thousands of our share owners—both old friends and new—has been absolutely essential to this great undertaking. Their willingness to invest and reinvest in A. T. & T. has been indispensable to our ability to meet the huge demands for telephone service and at the same time maintain a strong financial structure. To provide the full service the nation needs and wants, large additional amounts of capital will be required.

Since 1945 our nationwide family of share owners has nearly doubled. The average holding of individuals has increased from 24 to 30 shares. More than 60 per cent of the 400,000 owners who have been with us all through these years have increased their investment during the period. More than half of the entire group of 1,300,000 have added to their shares since their first purchase.

Bell System Capital
IN BILLIONS OF DOLLARS

Since 1945 the System's capital has increased from a little over \$4 billion to more than \$11 billion. A sound capital structure has been maintained.





Mounted near the top of the pole is a model of the Bell solar battery, which converts sunlight into electricity. The picture gives a general idea of how such a battery may be employed to supply power for equipment on a rural telephone line. Experimental work to this end will begin this year.

Ours is the largest family of share owners in the world. It is nearly three times as large as that of any other company. More than two-thirds of our members own 25 shares or less. Half own fewer than 15 shares. No individual owns as much as one-fiftieth of one per cent of the stock. On the average more than one in every 45 families throughout the nation has a direct ownership in A. T. & T. Our share owners truly represent a cross-section of America, and they are making a fundamental contribution to America's progress in communications.

..... **Research And Manufacture Are**

Coordinated to Provide Ever

Improving Telephone Service

Our progress also depends on putting capital to work as efficiently as possible. We are always trying to develop new equipment that will improve service, encourage usage, make possible new services and keep down costs. Long experience has proved to us that the best way to do this is to have our own research and manufacturing organizations, working in close cooperation with the telephone companies and with the same purpose of furnishing the best service.

The rapid postwar advance in long distance dialing, for instance, flows from this teamwork. Bell Laboratories research, Western Electric manufacture and telephone company planning and operations have been intimately coordinated.

The people of the Laboratories and Western Electric are full partners in our merchandising program. They are working hand in hand with the operating telephone companies to provide the services and kinds of

equipment that will best meet individual wants. Customers see the results most often in new telephones of improved design and greater capabilities. In other instances the improvement may be hidden from the eye but it is there just the same.

For example, inside the new "volume control" telephones—especially useful to many people with impaired hearing—we now employ transistors. They amplify the sound better and eliminate the need for batteries.

Inside many new telephone cables are plastic-insulated wires. These are relatively immune to moisture and thereby promise greater dependability and more economical maintenance.

Every few miles along the routes of some of our most heavily traveled coaxial cables are new types of equipment which triple their capacity. With this equipment a pair of coaxial tubes can carry 1,800 conversations simultaneously, or 600 conversations and two television programs.

These are typical of the many new developments in service last year. Others are in different stages of progress at the Laboratories. Of particular interest perhaps is the Bell solar battery, first announced last spring. This device converts sunlight directly into electricity. It is made of high-purity silicon by processes similar to those used in making transistors. As the picture on the opposite page shows, one of the first experimental uses of solar batteries will be to supply power for new equipment which will multiply the call-carrying capacity of rural telephone lines.

Western Electric last year produced increased quantities of equipment particularly adapted to long distance dialing. It also turned out the largest quantity of telephone cable in history. Sales totaled \$1,526,231,000, an increase of \$18,278,000 over 1953. Sales to the Bell telephone companies were \$1,019,279,000 compared with \$1,012,826,000 in 1953. Earnings for the year were \$55,837,000 or 3.7 per cent of sales.

..... **Western Electric And Bell Laboratories Are**

At Work on Numerous Vital Defense Projects

Western Electric sales to defense agencies of the Government totaled \$452,200,000 and were the largest in any peacetime year. The Government has now requested both Western and Bell Laboratories to take on the responsibility of additional defense work.

It is an important and varied responsibility indeed.

Most of Western's current production for the Government consists of electronic weapon systems. Among them is "Nike," the remarkable anti-

aircraft guided missile system developed by our Laboratories with the collaboration of Douglas Aircraft. The Army is installing this near many American cities for their protection.

Bell Laboratories scientists are now designing other weapon systems for use on land, at sea and in the air. They have been asked to make basic studies on the handling of combat information in naval operations, and on new techniques for communications in land combat.

On another very important defense project Western and the Laboratories are working in cooperation with the Lincoln Laboratory of Massachusetts Institute of Technology and several other organizations. The goal is to integrate the country's radars and defense weapons into a nationwide semi-automatic system. This vast undertaking will require numerous centers where radar information will be electronically computed to guide defensive weapons. To provide the interconnecting network thousands of communication channels will be needed.

Last year we reported that a team led by Western and drawn from all branches of the System had built for the Air Force in northern Alaska the first experimental units of a "Distant Early Warning Line" of radar stations to warn of hostile aircraft approaching from over the polar regions. After extensive tests the Governments of the United States and Canada have agreed to collaborate on extending the line eastward across the northern rim of the continent. Our Bell System team has now completed the initial Arctic survey work to select the route and at the request of the Air Force we have started work to build and equip the stations.

Early in 1954 Sandia Corporation, a subsidiary of Western Electric, signed a new five-year contract with the Atomic Energy Commission under which it will continue to operate the Commission's Sandia Laboratory at Albuquerque, New Mexico, which develops and designs atomic weapons. This work was originally undertaken in 1949.

..... ***In Defense Activities And in All We Do,***

We Are Trying to Work for The Community

The underlying reason for these defense activities is the same as for everything we do. Our business is to provide communications for each community we serve, and throughout the larger community which is the nation. Implicit in this is the obligation to use the knowledge and skills we have gained as the community may require—in this instance, to help strengthen the country's security.



Telephone employees watch for their opportunities to be good citizens.

Everything in our business comes from the community and returns to it. Our capital is supplied through savings by men and women in every walk of life, in just about every city and town and neighborhood. Conversely we pay dividends and interest to individuals and insurance companies and other institutions to the benefit of millions of people everywhere in the nation.

In addition to supplies purchased directly by the telephone companies, the materials and equipment purchased by Western Electric to supply the Bell System come from some 28,000 suppliers in 3,000 communities all over the country.

Bell System employees spend and save their wages, which last year exceeded \$2.9 billion, in thousands of local stores and banks.

Our tremendous expenditures for new construction have been made in every state. And in nearly all the states, so far as we are able to tell, the local Bell telephone company's postwar outlay for plant construction and improvement since the war exceeds the construction expenditures of any other company in the same area.

All of these community benefits grow out of the System's primary responsibility, which is to furnish telephone service. How that is done depends altogether on the people who are doing it.

At present about 686,000 of us work in all branches of the System—in telephone operations, manufacture and research. Three out of five are



Young men just beginning their telephone training have their eyes on a chart their instructor is using to help them learn their new jobs. But training in our business is not for beginners only. As the business keeps changing and growing, it is a regular and recurring experience for all telephone people—on the job, and through discussion and conference.

women. More than 115,000 have served 25 years or more in the business. Some 62,000 have served more than 30 years. At the same time we are continually enlisting new talent. Approximately 440,000 employees have served less than ten years, and 270,000 less than five.

Good wages are essential to attract and retain able employees. Here again the Bell companies operate on the community principle, which means that they try to keep wages and working conditions in favorable relation with local practice. Wage rates paid by other industries in the places where we operate went up again in 1954, and agreements between Bell System companies and the unions likewise provided for wage increases.

The companies also maintain sound and liberal benefit and pension plans. For service pensions they accrue on an actuarial basis trust funds devoted entirely and irrevocably to pension payments. Last year the companies as a group expended \$284,000,000 or 9.7 per cent of the payrolls to provide for pensions and to pay disability and death benefits. This amount includes the companies' share of Federal social security taxes for old-age benefits. At the end of the year 19,190 men and 16,412 women were receiving service pensions.

Again telephone men and women showed in many ways that they have the interests of their communities and neighbors deeply at heart. Thirty-six employees were awarded Theodore N. Vail Medals for noteworthy acts of public service. Many thousands teamed together to meet the challenge of the hurricanes. Emergencies bring out the spirit of service in dramatic fashion, but the desire to serve in a friendly and willing spirit is fundamental in every day's work. Last year the new opportunities to render our customers a more complete service, and to anticipate their wishes, brought new satisfaction to the job.

As the System grows our responsibilities in each community increase accordingly. And as always, they touch each other at many points, for bringing people and communities together is the essence of our service and the way we perform in one place affects performance in all. With this in mind, the companies are working closely together on broad programs of executive development as well as other phases of management and vocational training. The success of the business requires that we do our utmost in the community's behalf; we shall surely gain in that accomplishment as we are able to grow in outlook and stature.

For the interest and support of the share owners, without which this 1954 telephone story could not be told, we again wish to express our warm appreciation. With you we look forward to rendering ever better, more complete and more valuable service to community and nation.

For the Board of Directors,

Clas & Craig

President

February 16, 1955

.....
*The Annual Meeting of the Share Owners will be held at 1 p.m. on
April 20, 1955, at the Company's offices at 50 Varick Street, New York.*
.....



MARK R. SULLIVAN



ALMA F. JACOBSON

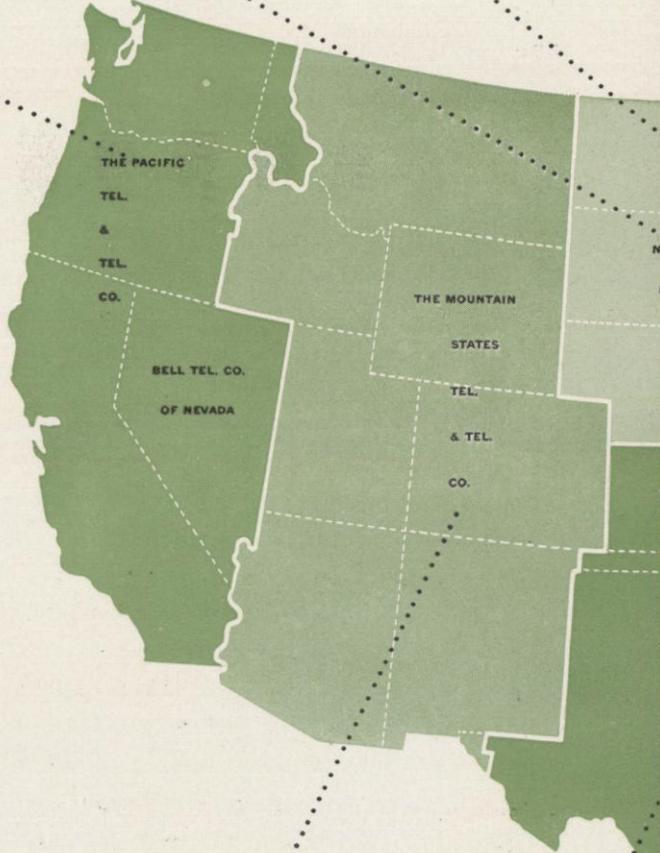


WILLIAM V. KAHLER



CHARLES E. WAMPLER

Bell System Companies and Presidents



CLEO F. CRAIG
American Telephone
and Telegraph Company

The principal telephone subsidiaries of American Telephone and Telegraph Company provide service in 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.



DR. MERVIN J. KELLY
Bell Telephone
Laboratories



FREDERICK R. KAPPEL
Western Electric
Company



WALTER K. KOCH



EDWIN M. CLARK



CLIFTON W. PHALEN



JOHN A. GREENE



KEITH S. McHUGH



JOE E. HARRELL



LUCIUS S. ROWE



WILLIAM A. HUGHES



WILFRED D. GILLEN



HARRY S. HANNA



BAYARD L. KILGOUR, JR.



FRED J. TURNER



JAMES B. MORRISON

CERTIFICATE OF AUDIT

New York, N. Y.
February 15, 1955

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, 1954, the consolidated balance sheet of the Company and its principal telephone subsidiaries as of December 31, 1954, and the related statements of income and retained earnings for the year 1954. 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, 1954 and of the statements of income and retained earnings for the year 1954 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 1954 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, 1954 and the related statement of consolidated income of these companies for the year 1954, 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, 1954 and the results of operations for the year 1954 of American Telephone and Telegraph Company and the consolidated position at December 31, 1954 and the consolidated results of operations for the year 1954 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 and premium on 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

PLANT AND OTHER INVESTMENTS	December 31, 1954	December 31, 1953
Telephone Plant (a)		
Telephone Plant in Service.....	\$13,851,364,695	\$12,720,106,862
Telephone Plant under Construction.....	258,565,660	318,185,928
Property Held for Future Telephone Use.....	15,525,690	14,208,541
Telephone Plant Acquisition Adjustment.....	5,821,131	6,730,805
	<u>\$14,131,277,176</u>	<u>\$13,059,232,136</u>
Less: Depreciation Reserve.....	3,665,903,104	3,461,841,634
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$10,465,374,072</u>	<u>\$ 9,597,390,502</u>
Miscellaneous Physical Property.....	4,263,995	2,879,780
Investments in Subsidiaries not consolidated (b).....	445,251,997	438,733,922
Equities in Subsidiaries not consolidated in excess of investments therein.....	126,813,132	105,907,393
Other Investments (b).....	82,943,159	83,803,307
<i>Principally investments in associated telephone companies.</i>		
Total	<u>\$11,124,646,355</u>	<u>\$10,228,714,904</u>
CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 87,595,166	\$ 95,105,698
Temporary Cash Investments.....	887,840,826	925,353,459
<i>Comprises at December 31, 1954 U. S. short-term obligations having a market value of \$887,600,000.</i>		
Special Cash Deposits.....	11,617,004	9,011,654
Current Receivables	506,817,248	494,013,474
<i>Amounts due for service (less reserves amounting to \$4,787,106 at December 31, 1954), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	135,278,195	134,450,894
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 1,629,148,439</u>	<u>\$ 1,657,935,179</u>
DEFERRED CHARGES		
Prepayments of Directory Expenses, Rents, Taxes, etc....	\$ 79,996,181	\$ 70,188,152
Other Deferred Charges.....	15,831,803	15,868,854
Total Deferred Charges	<u>\$ 95,827,984</u>	<u>\$ 86,057,006</u>
Total Assets	<u>\$12,849,622,778</u>	<u>\$11,972,707,089</u>

For notes, see page 32

BALANCE SHEET

LIABILITIES

CAPITAL STOCK EQUITY	December 31, 1954	December 31, 1953
American Telephone and Telegraph Company:		
Common Stock—Par Value (\$100 per share).....	\$ 4,816,173,100	\$ 4,228,238,300
Common Stock Installments—see note (c) on page 37...	207,567,788	129,150,321
Premium on Common Stock.....	1,356,574,852	1,141,266,864
<i>Amount received in excess of par value.</i>		
Retained Earnings:		
Reserved (c)	12,981,350	7,239,199
Unappropriated	863,151,548	731,882,776
Total Retained Earnings (see page 31).....	\$ 876,132,898	\$ 739,121,975
Total Applicable to A. T. & T. Co. Stock	\$ 7,256,448,638	\$ 6,237,777,460
Subsidiaries Consolidated—stocks held by public:		
Common Stock	\$ 179,451,900	\$ 162,829,300
Preferred Stock	17,904,300	17,904,300
Retained Earnings	11,081,435	9,841,248
Total Applicable to Stocks of Subsidiaries Held by Public	\$ 208,437,635	\$ 190,574,848
Total Capital Stock Equity	\$ 7,464,886,273	\$ 6,428,352,308
FUNDED DEBT		
American Telephone and Telegraph Company:		
Convertible Debentures	\$ 162,673,500	\$ 740,655,700
Other Debentures—see note (d) on page 37.....	1,690,000,000	1,440,000,000
Subsidiaries Consolidated (d).....	2,148,000,000	2,008,000,000
Total Funded Debt	\$ 4,000,673,500	\$ 4,188,655,700
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 95,000,000	\$ 105,000,000
Accounts Payable	350,341,505	393,884,572
Advance Billing for Service and Customers' Deposits....	114,980,414	103,860,911
Dividends Payable	108,873,202	95,799,269
Other Current Liabilities	27,371,751	23,046,551
Interest Accrued	32,052,525	31,403,457
Taxes Accrued	634,239,033	584,650,742
Total Current and Accrued Liabilities	\$ 1,362,858,430	\$ 1,337,645,502
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net.....	\$ 18,472,183	\$ 14,856,719
Other Deferred Credits.....	2,732,392	3,196,860
Total Deferred Credits	\$ 21,204,575	\$ 18,053,579
Total Liabilities	\$12,849,622,778	\$11,972,707,089

BELL SYSTEM (American Telephone

CONSOLIDATED

OPERATING REVENUES	Year 1954	Year 1953
Local Service Revenues	\$2,836,957,744	\$2,642,905,301
Toll Service Revenues	1,720,742,465	1,571,087,617
Miscellaneous Revenues	241,677,018	214,955,851
<i>Derived from directory advertising, rents and miscellaneous sources.</i>		
Less: Uncollectible Operating Revenues	14,876,800	12,219,155
Total Operating Revenues (e)	\$4,784,500,427	\$4,416,729,614
 OPERATING EXPENSES		
Current Maintenance (f)	\$ 999,147,826	\$ 897,181,073
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation Expense	447,648,044	411,298,341
<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% of the average investment in depreciable plant in service.</i>		
Traffic Expenses	858,265,044	864,597,652
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	435,218,623	399,253,707
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	42,469,792	38,766,251
General and Miscellaneous Expenses:		
General Administration	45,923,717	43,160,477
Accounting and Treasury	201,261,261	188,585,444
Development and Research (g)	23,532,509	20,628,531
Provision for Employees' Service Pensions (h)	161,061,980	151,925,212
Employees' Sickness, Accident, Death and Other Benefits	43,434,443	43,683,056
Other General Expenses	70,740,068	64,168,565
Less: Expenses Charged Construction	41,430,140	38,501,472
Total Operating Expenses	\$3,287,273,167	\$3,084,746,837
Net Operating Revenues	\$1,497,227,260	\$1,331,982,777
 OPERATING TAXES		
Federal Taxes on Income	\$ 508,905,696	\$ 459,087,308
Other Taxes—principally State, local and Social Security	376,463,021	339,583,846
Total Operating Taxes	\$ 885,368,717	\$ 798,671,154
Net Operating Income (carried forward)	\$ 611,858,543	\$ 533,311,623

For notes, see page 32

INCOME STATEMENT

	Year 1954	Year 1953
Net Operating Income (<i>brought forward</i>).....	\$ 611,858,543	\$ 533,311,623
OTHER INCOME		
Dividends from subsidiaries not consolidated (i)	\$ 35,507,604	\$ 35,630,443
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (j)	20,819,032	17,908,607
Dividends from other companies	6,545,679	5,777,803
Miscellaneous income (k)	28,393,205	27,323,738
Less: Miscellaneous deductions from income (h)	7,869,395	12,749,499
Income Available for Fixed Charges	<u>\$ 695,254,668</u>	<u>\$ 607,202,715</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 119,474,866	\$ 110,065,483
Other Interest	11,287,612	5,774,375
Less: Release of Premium on Funded Debt—net	406,354	331,000
Net Income (f)	<u>\$ 564,898,544</u>	<u>\$ 491,693,857</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	13,893,063	12,107,334
Net Income Applicable to A. T. & T. Co. Stock	<u>\$ 549,931,223</u>	<u>\$ 478,512,265</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (1)	\$11.92	\$11.71

Statement of Consolidated Retained Earnings Applicable to American Telephone and Telegraph Company Stock—Year 1954

BALANCE—DECEMBER 31, 1953	\$ 739,121,975
Net Income applicable to A. T. & T. Co. Stock	\$ 549,931,223
Profit on sales of securities	3,720,196
Adjustment of prior years' tax accruals	2,943,329
Miscellaneous additions	279,565
TOTAL ADDITIONS	<u>\$ 556,874,313</u>
Dividends on A. T. & T. Co. Stock	\$ 415,329,720
Organization and Capital Stock Expense charged off	2,089,464
Net loss on sales of property and abandoned projects	1,115,582
Miscellaneous deductions	1,328,624
TOTAL DEDUCTIONS	<u>\$ 419,863,390</u>
BALANCE—DECEMBER 31, 1954	<u>\$ 876,132,898</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, \$470,000,000 from 1971 to 1980, and \$1,510,000,000 thereafter.

(e) Total Operating Revenues include approximately \$14,350,000 in 1954 and \$5,750,000 in 1953 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 \$775,000 in 1953 which has been or is to be refunded.

(f) Current Maintenance for 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 of which \$7,502,481 was charged to Miscellaneous Deductions from Income in order to comply with then effective accounting requirements of the Federal Communications Commission.

(i) Includes dividends of \$34,585,755 for each year from Western Electric Company.

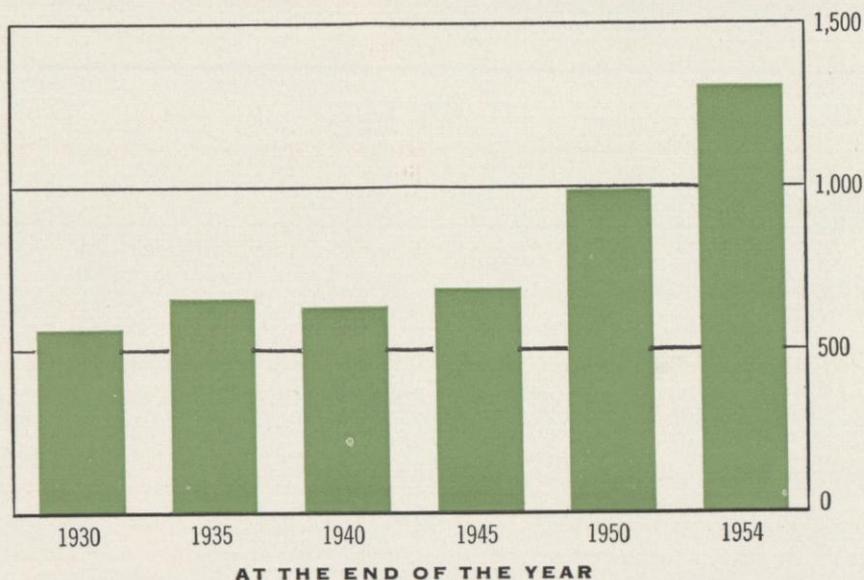
(j) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$21,146,176 in 1954 and \$17,920,499 in 1953.

(k) Includes \$13,858,843 in 1954 and \$14,033,525 in 1953 for interest charged construction.

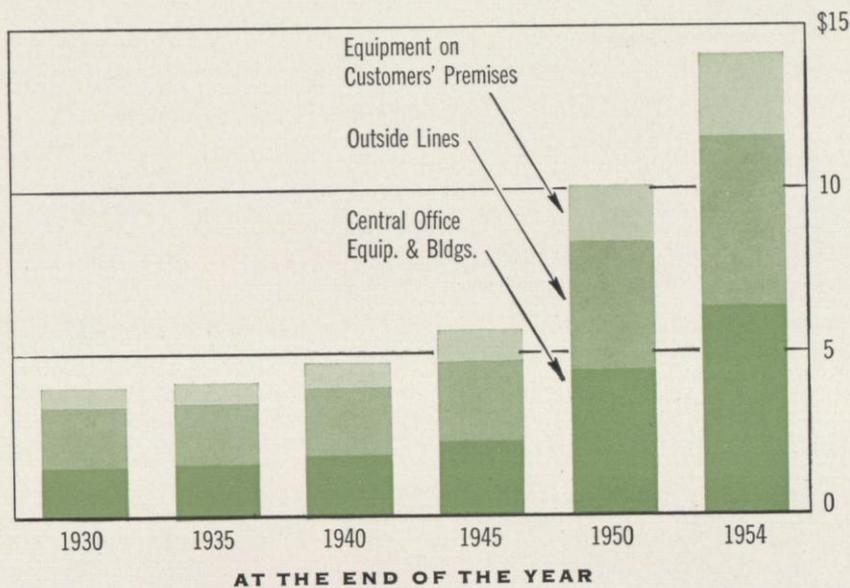
(l) Based on average shares outstanding—46,147,747 in 1954 and 40,857,190 in 1953.

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 \$1,968,675,911 on December 31, 1954 and in each company are adequate to meet future pension payments for those now receiving pensions and those now entitled to retire on pension at their own request.

A.T.&T. Share Owners IN THOUSANDS



Total Bell System Plant Investment IN BILLIONS



AMERICAN TELEPHONE

BALANCE

	December 31, 1954	December 31, 1953
ASSETS		
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$1,224,402,253	\$1,111,084,531
Telephone Plant under Construction.....	28,723,928	49,087,437
Property Held for Future Telephone Use.....	406,067	295,044
	<u>\$1,253,532,248</u>	<u>\$1,160,467,012</u>
Less: Depreciation Reserve.....	458,787,558	427,571,636
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$ 794,744,690</u>	<u>\$ 732,895,376</u>
Investments in Subsidiaries—at cost (see page 38).....	7,058,843,151	6,452,198,934
Stocks	\$6,804,237,034	
Advances	254,606,117	
Other Investments—at cost (see page 38).....	68,224,110	70,150,808
Stocks	\$ 67,872,877	
Miscellaneous	351,233	
Total	<u>\$7,921,811,951</u>	<u>\$7,255,245,118</u>
CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 15,059,708	\$ 15,489,986
Temporary Cash Investments.....	887,840,826	925,353,459
<i>Comprises at December 31, 1954 U. S. short-term obliga- tions having a market value of \$887,600,000.</i>		
Special Cash Deposits.....	1,461,610	1,854,990
Current Receivables	51,212,549	44,448,965
<i>Amounts due for service (less reserve amounting to \$200,000 at December 31, 1954), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	13,825,680	14,666,250
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 969,400,373</u>	<u>\$1,001,813,650</u>
DEFERRED CHARGES	\$ 2,997,630	\$ 2,575,151
Total Assets	<u><u>\$8,894,209,954</u></u>	<u><u>\$8,259,633,919</u></u>

For notes, see page 37

AND TELEGRAPH COMPANY

SHEET

LIABILITIES

	December 31, 1954	December 31, 1953
CAPITAL STOCK EQUITY		
Common Stock—Par Value (\$100 per share)	\$4,816,173,100	\$4,228,238,300
<i>Authorized, 60,000,000 shares; outstanding, 48,161,731 shares at December 31, 1954 (b).</i>		
Common Stock Installments (c)	207,567,788	129,150,321
Premium on Common Stock	1,356,574,852	1,141,266,864
<i>Amount received in excess of par value.</i>		
Retained Earnings (see page 36)	470,470,927	403,267,080
Total Capital Stock Equity	<u>\$6,850,786,667</u>	<u>\$5,901,922,565</u>

FUNDED DEBT

Convertible Debentures	\$ 162,673,500	\$ 740,655,700
Other Debentures (d)	1,690,000,000	1,440,000,000
Total Funded Debt	<u>\$1,852,673,500</u>	<u>\$2,180,655,700</u>

CURRENT AND ACCRUED LIABILITIES

Dividend Payable	\$ 108,071,440	\$ 95,101,720
Accounts Payable	22,120,911	30,610,378
Interest Accrued	12,926,041	12,448,293
Taxes Accrued	40,499,888	37,072,618
Total Current and Accrued Liabilities	<u>\$ 183,618,280</u>	<u>\$ 175,233,009</u>

DEFERRED CREDITS

Unextinguished Premium on Funded Debt—net	\$ 6,795,182	\$ 990,733
Other Deferred Credits	336,325	831,912
Total Deferred Credits	<u>\$ 7,131,507</u>	<u>\$ 1,822,645</u>
Total Liabilities	<u>\$8,894,209,954</u>	<u>\$8,259,633,919</u>

AMERICAN TELEPHONE

INCOME STATEMENT

	Year 1954	Year 1953 (e)
OPERATING REVENUES		
Toll Service Revenues (f)	\$278,915,314	\$224,896,666
License Contract Revenues	45,308,380	42,232,175
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	17,638,999	17,392,300
Less: Uncollectible Operating Revenues	1,171,854	837,841
Total Operating Revenues	<u>\$340,690,839</u>	<u>\$283,683,300</u>
OPERATING EXPENSES (g)		
Current Maintenance	\$ 67,557,331	\$ 52,658,172
Depreciation Expense	42,520,018	37,820,171
<i>Represents approximately 3.7% in 1954 and 3.6% in 1953 of average investment in depreciable plant.</i>		
Traffic Expenses	33,590,207	36,166,992
Commercial Expenses	11,171,216	8,992,509
Operating Rents	4,579,148	4,868,991
General Administration	18,304,952	17,401,295
Accounting and Treasury Expenses	14,454,767	12,967,972
Development and Research (h)	23,532,509	20,628,531
Provision for Employees' Service Pensions (i)	9,980,848	9,263,090
Employees' Sickness, Accident, Death and Other Benefits ..	2,749,792	2,639,988
Other General Expenses	7,423,068	7,394,323
Less: Expenses Charged Construction	1,576,756	1,565,501
Total Operating Expenses	<u>\$234,287,100</u>	<u>\$209,236,533</u>
Net Operating Revenues	<u>\$106,403,739</u>	<u>\$ 74,446,767</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 31,931,000	\$ 28,220,000
Other Taxes—principally State, local and Social Security ..	18,993,976	17,753,261
Total Operating Taxes	<u>\$ 50,924,976</u>	<u>\$ 45,973,261</u>
Net Operating Income	<u>\$ 55,478,763</u>	<u>\$ 28,473,506</u>
OTHER INCOME		
Dividend Income (j)	\$459,932,797	\$426,437,666
Interest Income	21,786,194	18,583,284
Miscellaneous Income	2,714,623	1,789,387
Less: Miscellaneous Deductions from Income (i)	543,079	1,075,262
Income Available for Fixed Charges	<u>\$539,369,298</u>	<u>\$474,208,581</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 55,612,208	\$ 50,897,873
Other Interest	3,567,385	1,877,915
Less: Release of Premium on Funded Debt—net	87,601	52,777
Net Income	<u>\$480,277,306</u>	<u>\$421,485,570</u>
Earnings per share (k)	\$10.41	\$10.32

Statement of Retained Earnings—Year 1954

BALANCE—DECEMBER 31, 1953	\$403,267,080
Net Income	\$480,277,306
Profit on sales of securities	3,720,149
Miscellaneous additions	11,609
TOTAL ADDITIONS	<u>\$484,009,064</u>
Dividends declared	\$415,329,720
Capital Stock Expense charged off	985,912
Miscellaneous deductions	489,585
TOTAL DEDUCTIONS	<u>\$416,805,217</u>
BALANCE—DECEMBER 31, 1954	<u>\$470,470,927</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) 1,626,735 authorized and unissued shares were reserved at December 31, 1954 for conversion of Debentures, as follows: 385,928 shares for the 2 $\frac{3}{4}$ % Debentures due December 1961 (called for redemption March 1, 1955) convertible at \$143.84 per share; and 1,240,807 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, 1954 installment payments were being made on 1,445,074 shares of the 3,000,000 shares authorized by the stockholders in 1950. Installment payments on these shares will be completed in February 1955. The Company in October 1954 offered the balance of the 3,000,000 shares authorized under the Plan and installment payments on approximately 1,450,000 of such shares begin in February 1955.

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

(e) Current Maintenance for 1953 reflects a credit of \$11,500,000 which, with the approval of the Federal Communications Commission, was released from a reserve of like amount 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. 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.

(f) Represents the Company's share of toll revenues of \$921,725,000 in 1954 and \$827,539,000 in 1953 from toll business handled jointly with subsidiary and other telephone companies.

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

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

(i) The total provision for employees' service pensions amounted to \$9,720,878 for 1953 of which \$457,788 was charged to Miscellaneous Deductions from Income in order to comply with then effective accounting requirements of the Federal Communications Commission.

(j) Includes dividends from subsidiaries of \$454,405,108 in 1954 and \$421,608,325 in 1953.

(k) Based on average shares outstanding—46,147,747 in 1954 and 40,857,190 in 1953.

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 \$107,511,337 on December 31, 1954 and is 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, 1954

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	\$ 52,500,000
New York Tel. Co.	901,300,000	100.00	924,280,335	.....
New Jersey Bell Tel. Co.....	315,000,000	100.00	328,667,184	1,200,000
Bell Tel. Co. of Pennsylvania..	400,000,000	100.00	406,316,050	22,500,000
Diamond State Tel. Co.....	25,000,000	100.00	25,700,000	615,000
Chesapeake & Potomac Tel. Co.	80,000,000	100.00	81,000,000	11,350,000
Chesapeake & Potomac Tel. Co. of Baltimore City	135,000,000	100.00	136,467,862	23,625,000
Chesapeake & Potomac Tel. Co. of Virginia	150,000,000	100.00	150,000,000	4,950,000
Chesapeake & Potomac Tel. Co. of West Virginia	57,000,000	100.00	57,000,000	6,575,000
Southern Bell Tel. & Tel. Co...	785,000,000	100.00	786,817,298	17,600,000
Ohio Bell Tel. Co.	340,000,000	100.00	340,042,298	10,500,000
Michigan Bell Tel. Co.	309,987,000	99.99	310,399,232	10,100,000
Indiana Bell Tel. Co.	115,998,900	99.99	116,585,386	2,200,000
Wisconsin Tel. Co.	156,000,000	100.00	159,223,802	3,700,000
Illinois Bell Tel. Co.	395,363,800	99.32	400,844,640	51,600,000
Northwestern Bell Tel. Co.	252,000,000	100.00	253,039,490	11,958,000
Southwestern Bell Tel. Co....	814,998,500	99.99	818,251,578	10,000,000
Mountain States Tel. & Tel. Co.	211,125,500	86.73	212,530,464	9,825,000
Pacific Tel. & Tel. Co.....	655,813,900	90.89	651,472,092	.....
Pacific Tel. & Tel. Co.—Pre- ferred	64,095,700	78.17	55,999,180	.....
OTHER SUBSIDIARIES				
Bell Telephone Laboratories, Inc.	20,000,000	(b) 50.00	20,000,000	.....
Western Electric Co., Inc....	(c)	99.81	367,655,912	.....
195 Broadway Corporation....	20,000,000	100.00	20,015,000	3,000,000
Eastern Tel. & Tel. Co.....	74,200	98.93	74,200	808,117
Total			\$6,804,237,034	\$254,606,117
OTHER COMPANIES				
Southern New England Tel. Co. \$	29,342,400	24.01	\$ 29,654,232	.....
Cincinnati & Suburban Bell Tel. Co.	18,637,900	29.82	19,201,362	.....
Bell Tel. Co. of Canada.....	18,749,800	6.38	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			\$ 67,872,777	.....

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 11,528,585 shares—no par value.

FACTS ABOUT THE BELL SYSTEM

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1953	Dec. 31 1954
Number of Telephones (a)	22,445,519	35,343,440	41,353,483	43,321,849
Dial Operated	14,504,851	26,700,319	33,637,683	36,369,187
Per cent Dial Operated.	64.6	75.5	81.3	84.0
Number of Central Offices.	7,374	8,470	9,206	9,523
Miles of Wire:				
In Underground Cable..	60,759,000	86,963,000	102,712,000	109,044,000
In Aerial Cable.	33,966,000	48,240,000	60,341,000	65,905,000
Open Wire	5,034,000	6,578,000	7,058,000	7,245,000
Total	99,759,000	141,781,000	170,111,000	182,194,000
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	153,693,000	159,595,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$13,059,232	\$14,131,277
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$4,416,730	\$4,784,500
Number of Employees (c)	474,527	602,466	702,822	685,944
Number of A. T. & T. Company Share Owners.	683,897	985,583	1,265,461	1,307,215
Number of A. T. & T. Company Shares Out- standing	20,166,251	28,615,956	42,282,383	48,161,731

* For year ended December 31.

(a) Excludes private line telephones numbering 154,314 on December 31, 1954. Including telephones of some 4,900 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 52,800,000.

(b) For the year 1954 there were approximately 153,041,000 average daily local conversations and 6,554,000 average daily toll and long distance conversations. During 1954 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 3.8 per cent in local conversations, and 5.4 per cent in toll and long distance conversations, over the year 1953.

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

Soon—within the next two years—man's voice will travel the vast depths of ocean by telephone cable . . . under the Atlantic to Europe . . . under the Pacific to Alaska. Every 40 miles along the ocean floor electronic amplifiers will keep the voice strong and clear; their design and construction represents the ultimate in engineering exactness and manufacturing care. More than 20 years of study and experiment have gone into preparing this new chapter in the conquest of distance.



