

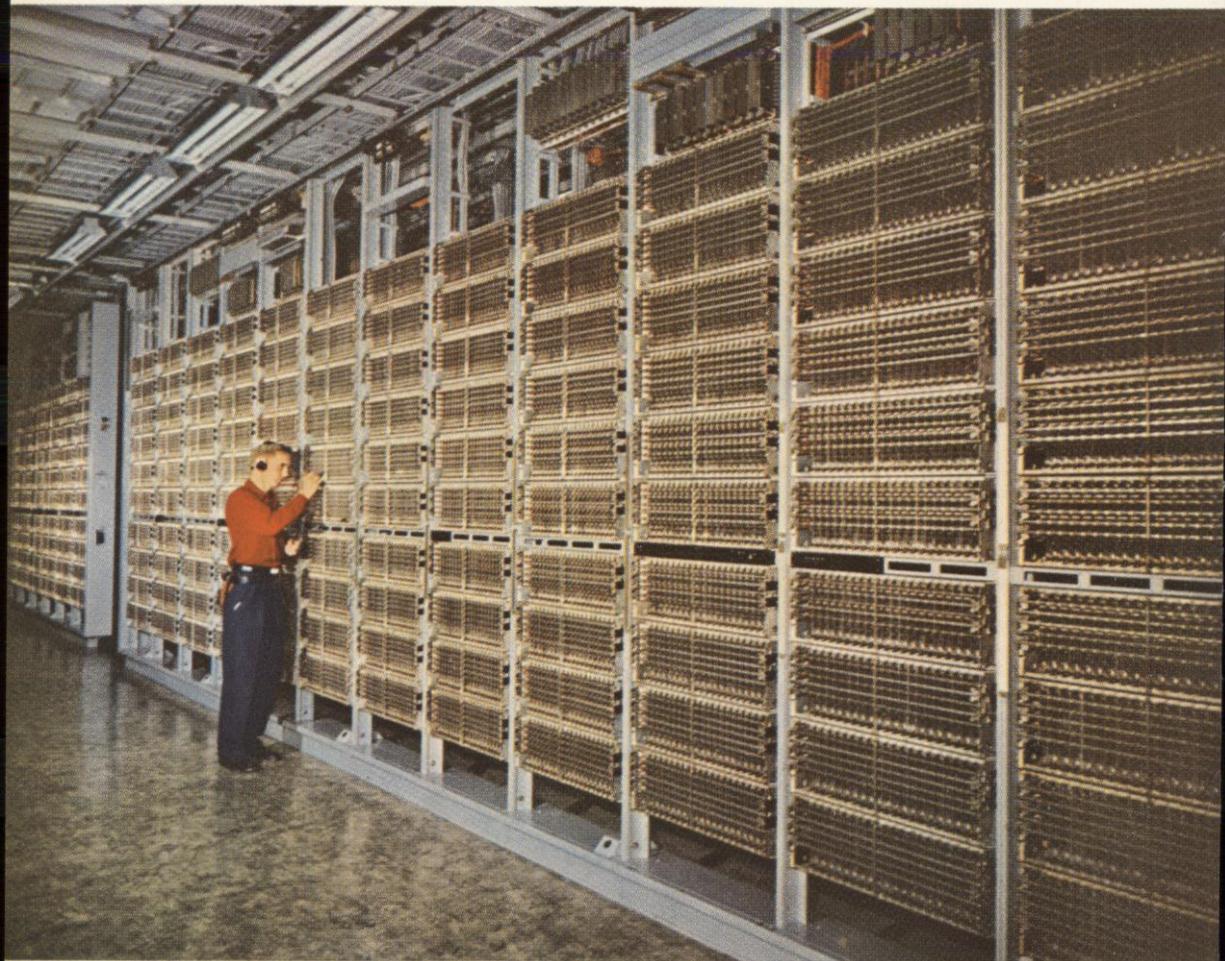


BOARDS
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1955

annual report

AMERICAN TELEPHONE AND TELEGRAPH COMPANY



When telephone users or operators dial far-away numbers, this kind of equipment puts the calls through in a matter of seconds.





annual
report 1955

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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 18, 1956, at the Company's offices at 50 Varick Street, New York.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BOARD OF DIRECTORS

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

OFFICERS

PRESIDENT

Cleo F. Craig

EXECUTIVE VICE PRESIDENTS

Hal S. Dumas
Eugene J. McNeely

VICE PRESIDENTS

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William C. Bolenius	James W. Cook
Henry T. Killingsworth	Sanford B. Cousins
George L. Best	Horace P. Moulton
E. Hornsby Wasson	H. I. Romnes

SECRETARY

S. Whitney Landon

TREASURER

John J. Scanlon

COMPTROLLER

Alexander L. Stott

Financial Summary 1955

BELL SYSTEM

	1955	1954
Earnings on Capital	6.8%	6.2%
Operating Revenues and Other Income	\$5,390,936,000	\$4,867,897,000
Operating Expenses and Taxes	\$4,576,053,000	\$4,172,642,000
Interest Deductions	\$131,339,000	\$130,356,000
Net Income	\$683,544,000	\$564,899,000
A. T. & T. Shares—Average for Year	50,706,000	46,148,000
Number at Year-End	54,116,000	48,162,000
Net Income per Average Share	\$13.10	\$11.92
Total Retained Earnings per Share at Year-End	\$19.99	\$18.19

EFFECT OF 1955 EARNINGS OF \$13.10 PER AVERAGE SHARE

To Pay Dividends	\$9.00
To Prevent Reduction in Retained Earnings per Share as Shares Increased	\$2.18
To Increase Retained Earnings per Share	\$1.92
On the Larger Number of Shares at Year-End This Equalled	\$1.80
. . . bringing total retained earnings per share from \$18.19 at the end of 1954 to \$19.99 at the end of 1955.	

BELL SYSTEM earnings improved in 1955. The improvement provides needed protection for the share owners' investment and betters the financial outlook.

Earnings of \$13.10 per average share in 1955 were \$4.10 greater than the dividend payments of \$9. As the table shows, with the increase of nearly six million shares during the year, \$2.18 of this was needed to keep the amount of earnings retained in the business for each share of stock the same at the end of 1955 as at the end of 1954. Hence \$11.18, or more than 85 per cent of earnings, was required to pay dividends and maintain the retained earnings protecting each share. Less than 15 per cent was available to increase retained earnings per share. These are still quite low and needed strengthening in a good year like 1955 if we are to make prudent provision for future years when business conditions may be less favorable.

Earnings improved with the unprecedented prosperity of the nation. They reflected our participation in a rapidly expanding economy. Vigorous promotion of tele-

phone services contributed much to our financial progress.

We obtained \$1,200,000,000 new capital to expand and improve service. Most of this came from the sale of convertible debentures and their conversion into stock. The earnings retained in the business are also important in providing funds for construction. Without this money, we should have to raise even more capital and spread our earnings over an even larger number of shares.

Operating taxes were \$1,041,000,000, an increase of \$156,000,000 over 1954. Operating taxes equalled \$19.92 per share of A. T. & T. stock. Federal excise taxes paid directly by telephone users were \$435,000,000, or \$35,000,000 less than in 1954. This decrease reflects the reduction in excise tax rates by Congress April 1, 1954. Total taxes on telephone service averaged \$2.75 a month per telephone.

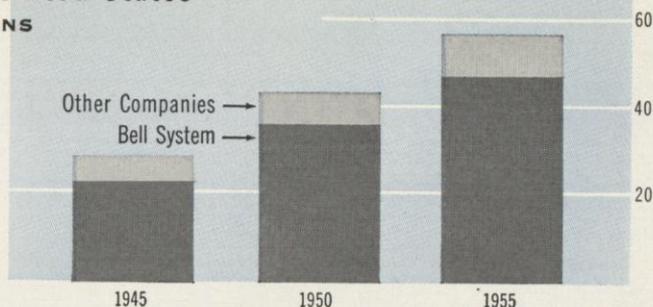
A. T. & T. share owners increased 102,000 to a total of 1,409,000. This is two and a half times the number of share owners in any other company, and the 1955 increase was larger than in any other company.



“Zone melting” at a Western Electric plant produces probably the purest material ever made by man—crystals of germanium with only one part of impurity in a billion. The crystals are used to make transistors. These remarkable new electronic devices were invented at Bell Laboratories and we are putting them to work more and more in the modern telephone system. The Laboratories also developed the zone melting process.

Telephones in the United States

IN MILLIONS



Service Summary 1955

OUR CUSTOMERS used more telephone service in 1955 than ever before; in fact the increase was the biggest in years. The Bell System added 2,880,000 telephones, nearly half again as many as in 1954. Long distance conversations went up 12 per cent. To meet the public's needs we invested more than \$1.6 billion in new and improved facilities.

Bell System people made further strides in providing more complete and convenient service. Additional telephones in homes that already had one or more instruments increased about 875,000 — almost double the gain in 1954. These "convenience telephones" in bedrooms, kitchens, farm buildings and other locations now total nearly 4,450,000. Colored telephones are proving quite popular; we installed nearly a million of them last year.

Households served by individual lines increased to 10,400,000. We added another 325,000 telephones in rural areas, bringing the postwar gain in these areas to 3,000,000.

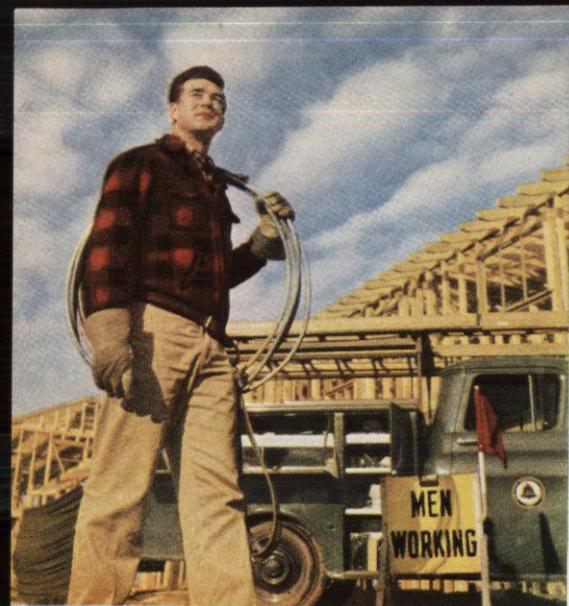
We also changed 350 more central offices to dial operation. Nearly 87 per cent of all 46,200,000 Bell telephones are now dial-operated. Long distance operators dial three of every five calls they handle straight through to the distant telephone. In 65 places, compared with 25 a year ago, users themselves dial directly to many distant points.

We built and are building thousands of miles of new long distance voiceways to expand and improve service. These include express routes bypassing large cities and other locations that might be critical areas in event of war. The network for carrying TV programs continued to grow. Work on the first transatlantic telephone cable has gone well and we expect to start handling conversations over it late in 1956.

Services for industry are growing rapidly. Bell System lines carry speech — teletypewriter messages — electrical signals for remote control and measurement — and data of many kinds between business machines. The field is enormous; we are only at the beginning.

Western Electric, manufacturing unit of the System, greatly increased production. Two-thirds of the equipment produced for the Bell companies was of new types developed since the war. Today at Bell Laboratories, new switching and transmission systems of great promise are coming into being. Both Western and the Laboratories have also continued vital defense work.

Again in flood, hurricane and other emergencies, Bell System men and women did a splendid job. And in every day's work, it is always the skill and spirit of telephone people that make good service. Both will count in the even larger undertakings we see ahead in 1956.



Each morning brings the telephone man another busy day. As the country grows, he's always on the job to meet its growing needs for the best in telephone service.

Report to the Share Owners

YOU HAVE SEEN from the foregoing pages that 1955 was a year of outstanding progress for the Bell System.

It was the year of largest telephone growth since the period right after the war. Telephone users had more service, and better service, too.

It was also a year of financial progress. Earnings in 1955 were a distinctly encouraging step up from the average post-war level. They brought about a very desirable strengthening of the share owner's position.

To help care for the great increase in the country's telephone needs, the Bell companies made the biggest investment in new and improved facilities they have ever made in a single year.

Employment increased, and telephone wages and working conditions kept pace with industry generally—as they must.

All of these things grow from what the public asks of us, and how we respond.

Service Progress

One may ask, "Why have telephone services grown so rapidly?" We think there are several reasons.

Population is increasing. There are more families, and more businesses also. And modern conditions of living create

more need to telephone. We live in spread-out cities and suburbs. We work in decentralized offices, factories and stores. On the job and at home, we want to talk with each other regardless of distance.

Second, the standard of living has gone up and the relative cost of the telephone has gone down. In the last fifteen years telephone rates have increased much less than the rise in personal incomes. Our service is a better value than ever.

Finally, the service is better, faster, more convenient and more pleasing. Calls go through quickly, and it is easy to hear and be heard. Also, the telephone is dependable. It is rarely out of order—on the average, only about once in five years. Small wonder that people rely on it and ask for it more than ever before.

The Bell companies felt the full force of the public's asking in 1955, when the economy of the country generally moved ahead very fast. In a year's time they added 2,880,000 telephones. They also handled the second largest increase in long distance conversations ever recorded. In some places there are still some orders for telephone service unfilled. These are a matter of utmost urgency. We are making every possible effort to care for them all, and as fast as we can.

In most places we could and did install service promptly on request. And for ever-increasing numbers of people, we are now providing the complete telephone facilities they want and should have. For example, Chart 1 shows the growth of additional "convenience telephones" in homes. Chart 2 shows the increase in families who have service with no other parties on the same line.

We see ahead a continuing increase in homes that have, in all appropriate living spaces, telephones styled and colored for every need—homes where the communication arrangements will be no less complete and convenient than, for example, the best-planned lighting system. We also expect to keep on increasing residential one-party service. Likewise, we are studying the particular needs of different types of businesses and are developing new equipment and systems to meet them.

What we want to do in every case is to learn and if possible anticipate the needs of the public, and then satisfy them fully. As a further aid to this, the Bell companies have organized to bring about a fully coordinated merchandising program. This includes studying and measuring the market for present and future services; forecasting and planning to meet long-

Additional
Telephones in Homes
IN MILLIONS

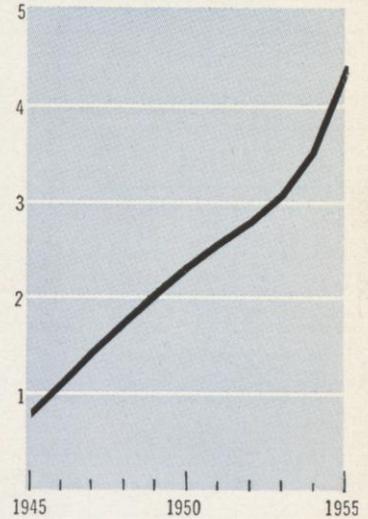


CHART 1

Families on
Individual Lines
IN MILLIONS

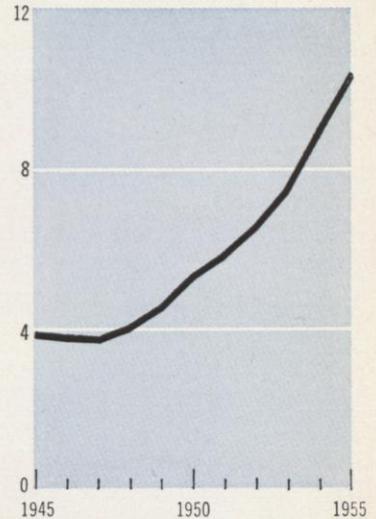


CHART 2



The lady is one of many who like the convenience and protection offered by a telephone in the bedroom.

range needs; bringing grass-roots knowledge of public preferences to the designers of equipment; and scheduling manufacture, promotion and marketing activities so that all services desired will be promptly available. These efforts of course involve all branches of the business, and merchandising groups have been set up to help coordinate the job.

Increasing numbers of telephone users in 1955 were able to dial their own calls to nearby points beyond the local service area. In addition, about 500,000 people in 65 exchanges—40 more than a year ago—can now dial directly to 16,000,000 telephones in 17 metropolitan centers all over the country. Customers like the speed and convenience of this *direct distance dialing*. We expect to expand it steadily; by the end of this year people in some 250 exchanges will be dialing nationwide. Within a few years most telephone users will be able to call across the country as quickly and easily as they now dial neighbors across the street.

The network of long distance lines continues to grow. Last year for example we established another “backbone” route across the country. This uses both radio relay and coaxial

cables, which can carry hundreds of conversations as well as television. To make even surer that essential services will be maintained in time of disaster, and also to provide for continuing growth, we are working on construction of 5,500 miles of new "express" routes. These will bypass congested areas that might be primary targets in event of war, and will connect with existing routes outside such areas.

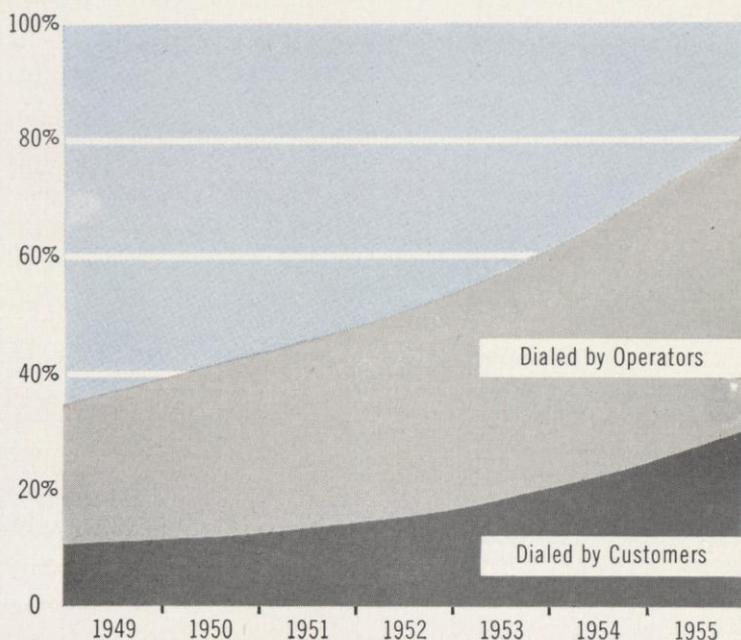
TELEPHONE CABLES TO GREAT BRITAIN, HAWAII AND ALASKA

More conversations crossed the oceans in 1955 than in any other year—1,200,000 of them between the United States and 108 other countries or territories. This was four times as many as ten years ago and 25 times as many as 15 years ago.

In cooperation with British and Canadian government communication agencies, we are now building the first transatlantic telephone cable. This will not only provide more voice paths but will also make service more dependable. Last summer the first of two cables (one for each direction of talking) was laid from Newfoundland to Scotland. Tests show the voice quality is excellent. Cable-laying work will be completed next summer so that service can begin before the end of the year. By that time also a submarine cable between the mainland of the United States and Ketchikan, Alaska, will be ready for operation.

More Dialing

Curves on the chart show the rising proportion of all calls *beyond* immediate local areas which are dialed by operators and customers.





Aboard ship as the first section of the first transatlantic telephone cable was being laid last summer: the cable (the lower of the two lines at far right) runs to the bow, then overboard. Buoy at left was used to mark end of first cable section at sea.

Another big project is now in the making. In order to strengthen the national defense, the Government has requested that we advance the laying of a cable between the mainland and Hawaii. With the Hawaiian Telephone Company, we are now working on such a cable. This will be similar to the Atlantic cable in design and construction, and we expect to put it in service early in 1958.

COMMUNICATION NETWORKS FOR INDUSTRY ARE GROWING

Our network serving the television industry continued to grow in 1955. The network now reaches nearly 390 stations in some 260 cities, and can carry color programs to about 270 stations in more than 150 cities. In addition to television broadcasting, there is considerable use of "closed-circuit" networks for sports events and sales meetings. Last year for example there were more than 25 closed-circuit programs,

each going to theaters, hotels, or other locations in cities across the country. For sales meetings, color shows merchandise to best advantage. In 1955 we used closed-circuit color television ourselves to promote a nationwide telephone sales program, and to good effect.

As we said earlier, the people of the Bell System are working to measure and anticipate the communication needs of every customer, so that we can meet them fully. This is just as true in serving industrial needs, which can be extremely large and complex, as in serving families in their homes. To give one indication of progress in this field, our private-line services to business and government organizations increased 14 per cent in 1955.

An important part of this growth was in serving railroads, airlines, pipe line companies, electric utilities and other businesses which need a wide variety of communications to control and coordinate their operations over great distance. These customers find many advantages in using Bell System services. They do not have to make any communication investment of their own. They can be sure the equipment provided will be the best. They have no maintenance problems.

BUSINESS MACHINES SEND AND RECEIVE DATA OVER BELL SYSTEM LINES

A big new field for communication service to industry is just now opening up. It goes by the somewhat difficult name of "integrated data processing," or IDP for short. Taken apart, the simplest meaning of this is doing repetitive paper work mechanically. Only those parts of the job which are different each time are done by hand. Then machines put together or "process" the constant and variable data. Such automatic processing may range all the way from keeping routine records to the operation of electronic computers which absorb great quantities of data and turn out answers with astonishing speed.

How the machines are arranged depends on the work to be done. There are any number of possible uses. And whether the machines are mechanical or electronic, communication between them is becoming more and more important. For example, a business machine can translate information from punched cards to a "common language" paper tape, the tape feeds into a teletypewriter, and the information goes right away to a computing center perhaps hundreds of miles distant. Or the teletypewriter can automatically write



A growing use of Bell System teletypewriter service: information recorded on perforated tape is transmitted and automatically reproduced on other teletypewriters at whatever locations desired.



A new emergency telephone system, developed at Bell Telephone Laboratories, enables the person placing the alarm to talk directly with the fire or police department. Pictured is one of the street-corner boxes in use in Omaha.

and distribute orders from customers, and at the same time make a second tape containing only those items of information which should go to a computing center for analysis.

Teletypewriter services already play a large part in IDP, and we are developing new methods for carrying data at much higher speeds between electronic business machines.

Two other important developments may be briefly mentioned. In Americus, Georgia, we have been testing new equipment which carries five conversations at the same time over one pair of rural telephone wires. This will soon go into regular manufacture and will help us do an even better job in rural areas. Instead of vacuum tubes, the equipment uses transistors, the wonderful new electronic devices invented a few years ago at Bell Laboratories. Also at Americus, we have been experimentally using the Bell Solar Battery, another invention of our Laboratories, to supply part of the electric power to operate the new equipment. This battery converts sunlight directly into electricity.

Last year's report told of experimental work on a new kind of high-power radio system between Florida and Cuba. This can send both telephone conversations and television up to 250 miles, across areas where intermediate relay stations are not practical. We expect to have it ready for regular telephone service to Cuba early in 1957 in cooperation with the telephone company there. Experiments in sending TV programs over this kind of system will be continued.

UNIFIED ORGANIZATION MEANS A BETTER TELEPHONE JOB

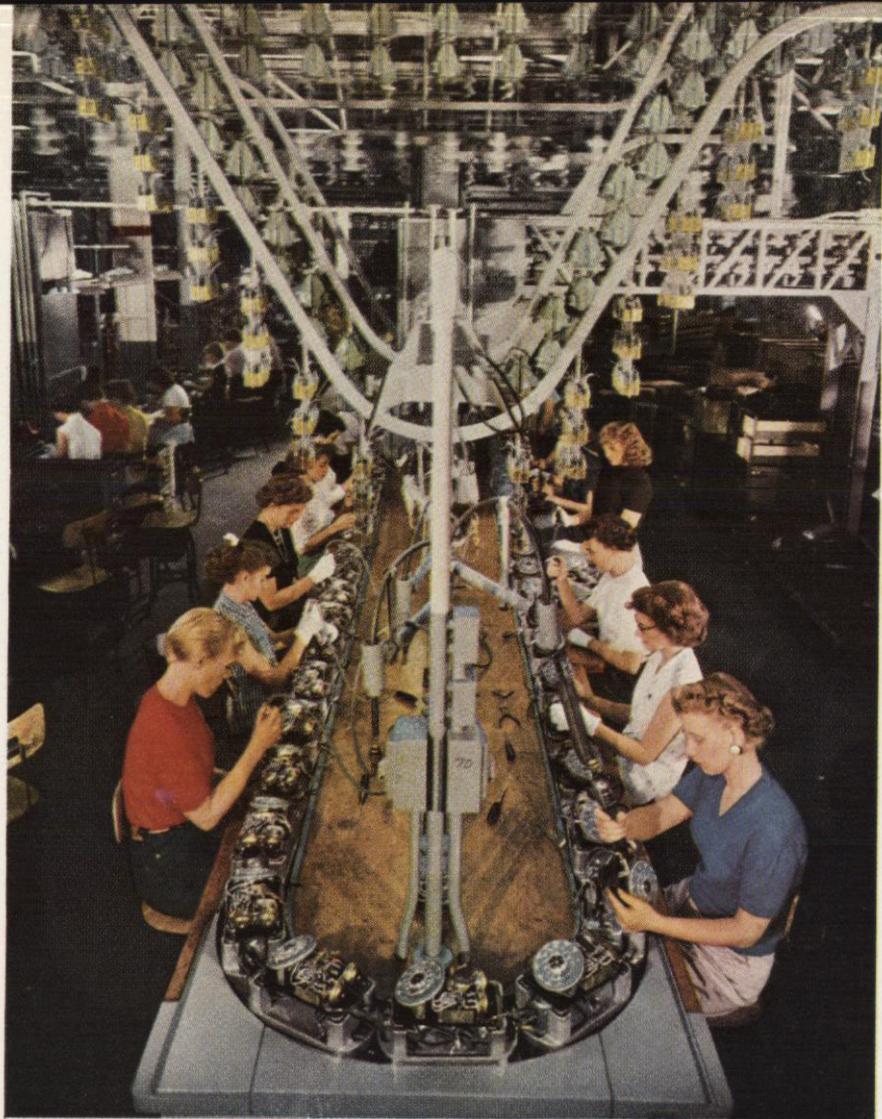
What we are always trying to do is to keep expansion and improvement going along together. One of the greatest aids to this is that the people who design our equipment, those who make and install it, and those who operate it, are all members of the unified organization which is the Bell System.

Scientists at Bell Laboratories invent and develop for service. Western Electric manufactures and installs for service. The people of the telephone companies plan and provide the service day by day. This continuous teamwork contributes immensely to the forward motion of the business. It was never more effective than in 1955.

One evidence was Western Electric's remarkable increase in production last year to meet fast-growing public needs. The company delivered about 30 per cent more telephone cable,



A Bell Solar Battery in experimental use on rural line.



Making new telephones
at the Western Electric
plant at Indianapolis.

52 per cent more dial central office equipment, and 48 per cent more telephone instruments than in 1954. In all its work for the System, Western had the assistance of thousands of sub-contractors and suppliers.

Two-thirds of all the equipment Western now produces for the Bell System is of types newly developed in the last ten years. This is the practical, concrete translation of scientific discovery into better and more valuable telephone service. The result appears in more convenient and more attractive telephone instruments. In radio relay systems that provide millions of miles of voiceways and television channels. In the new dial systems which make distance dialing possible. In cables that have better structures, better insulation, better sheaths, and are spliced together in more efficient ways. In

a great variety of improved small devices which we use by the million, and even by the billion, in the complete assembly of the telephone system.

This process of transforming our physical plant is never-ending. And it will be even greater in the next 20 years than in the last. This will be a gradual evolution, not a revolution. But it is surely under way.

There are two main technical problems in our business. One is to transmit intelligence clearly over any distance. The other is to switch calls so that any customer can quickly reach any other. In both fields progress at Bell Laboratories holds great promise for the future.

TRANSISTORS ARE LEADING TO A NEW TELEPHONE ART

In the first field, for example, we are working on a new system that we hope will do the same kind of thing for short, local lines within cities that we have been able to do for years on long lines—that is, multiply the number of conversations which each can carry at the same time. Up to now such “carrier” systems have been little used locally. The reason is that they have depended on vacuum tube equipment and the costs of operation have been too high to justify installing them for local exchange service. The proposed new system, however, will use transistors. We expect it to bring lowered costs, better talking quality on many lines, and opportunities for completely new telephone services.

In the second field also (that of switching) the remarkable properties of transistors open the door to a new era. Their small size and low power consumption, their long life, and the fact that they will operate in millionths of a second—all these characteristics offer great potential advantages. The Laboratories are therefore hard at work on an entirely new electronic switching system which will exploit these advantages. The first telephone central office of this kind will be in Morris, Illinois, and we expect it will be ready for service sometime in 1958.

This is new telephone art. As indicated, it is being built around Bell Laboratories' fundamental invention of the transistor, first announced a few years ago. And in 1955 Bell scientists made another discovery in the same field, second in importance only to the first. This is a new process for making transistors with superior properties, and the most efficient power rectifiers ever built. We are confident this

will promote mass production, reduce costs and make all these devices more widely useful.

ANTI-TRUST SUIT CONCLUDED BY FINAL JUDGMENT

The Government anti-trust suit brought against A. T. & T. and Western Electric early in 1949 was concluded on January 24, 1956, by a Final Judgment entered with the consent of the parties in the Federal District Court in New Jersey.

The Government's complaint had asked among other things that Western Electric be separated from the Bell System. Our position from the beginning was that Western's being part of the System is in the public interest, and that supervision of the telephone companies by Federal and State regulatory bodies safeguards this interest.

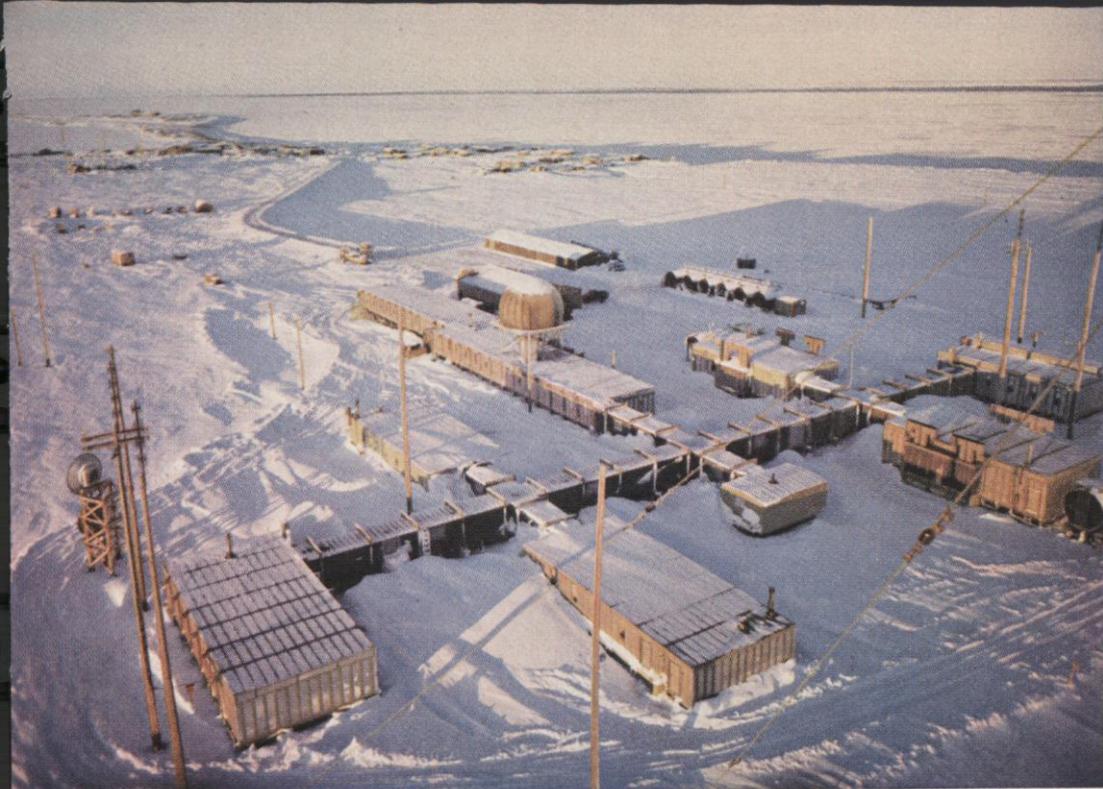
The final decree recognizes this position. Western Electric will continue to manufacture and supply equipment the Bell System uses in furnishing regulated communication services. At the same time the decree orders that A. T. & T. and its operating subsidiaries shall not provide non-regulated services, and it generally confines Western to the kind of manufacturing and other activities in which it engages for the System. Exceptions to these restrictions include work for the Government, experimental work, telephone directory advertising, and work incidental to furnishing regulated services.

The decree requires the System to grant licenses under its United States patents for any purpose—royalty-free in most cases under existing patents, and at reasonable royalties under all future patents; and it requires Western to furnish technical information at reasonable charges to the licensees. However, we are not required to license others unless they are willing to license us.

The terms of the judgment do not curtail major services nor will they appreciably affect revenues and earnings. Most important, the long-standing relationships among the manufacturing, research and operating branches of the System, which have been fundamental in all our progress, remain intact. This will be, we are sure, to the continuing advantage of the public and the business.

THE TELEPHONE SYSTEM AS AN ASSET IN DEFENSE

An essential part of telephone service is in aiding the nation's defense. Recently the Director of Communications of the Air Force said, "As an assistance to national defense,



particularly in the air defense aspects, the telephone system is becoming a greater national asset each year.”

The telephone system as a whole is provided by the Bell companies jointly with many non-Bell companies and cooperatives, some of which are assisted in their financing by the Rural Electrification Administration. All work together in furnishing nation-wide service. This applies in meeting defense responsibilities as it does in everything else.

Also, all branches of the Bell System are continuously at the service of the Army, the Navy, the Air Force and other government departments. It is not our practice to seek military contracts, but when we are asked to perform work in the fields where we are specially qualified, we make special effort to meet the requests. There are three reasons why we are called on. One, communications are literally the first line of defense. Two, modern weapon systems use in large measure the same art that we use in telephone systems. Three, the skills of Bell System people cover the whole range of inventing, building and operating systems that use this art.

In 1955 Bell Laboratories continued to work on electronic methods for the control of new defense weapons, and Western Electric maintained high-level production of “Nike” guided

This is a post on the Distant Early Warning Line in the Arctic, now being built for the Air Force. Warning radar is in the dome in the center of the picture.

missile systems to protect American cities. Completed during the year was a 1,500-mile submarine cable system to serve a guided-missile test range over tropical waters north of the Caribbean; this was largely engineered by the Laboratories and was built by Western. In the far north, construction proceeded on the Distant Early Warning Line of radar stations, and also on related military communication facilities in Alaska. The Sandia Corporation, Western Electric's subsidiary, continued to manage the Atomic Energy Commission's Sandia Laboratory in New Mexico, which develops and designs atomic weapons.

The Air Force has asked us to provide certain services for its proposed semi-automatic air warning and control system known as SAGE. This is a system for tying together radars and defense weapons through a chain of electronic computing centers. It is not a new air defense system but an improvement over the existing system for which the telephone companies now provide communications. Western Electric has been called on to design and supervise construction of key government-owned buildings, and to coordinate engineering and administrative work. The Bell telephone companies, and the non-Bell companies likewise, are to provide the interconnecting communication facilities and services. The rates for these are established under the supervision of public regulatory bodies and will be the same as those charged any other customer.

Financial Progress

Earnings of the Bell System applicable to A. T. & T. stock were \$13.10 per average share in 1955, compared with \$11.92 in 1954. The rate of earnings on total capital in the business was 6.8 per cent. This compares with 6.2 per cent in 1954 and was in fact the best we have done since 1940. Last year's level of earnings was however less than we have earned in previous times of very high business activity.

Moderate as it was, the improvement in earnings in 1955 was extremely encouraging. As mentioned in the summary on page 3, the economy of the country surged ahead at an extraordinary pace. It was only natural that a business such as ours, which serves so many elements of the nation, should take part in this advance.

And there have been important internal factors also:



The high level of business activity stimulated growth in all telephone services.

Improvements in service which make service more wanted. More efficient methods of operation. Sales effort carefully applied to make the best use of our physical facilities. All contributed to our financial progress.

The System's ability to produce good earnings also depends in no small measure on the breadth of view of the public commissions which regulate telephone rates. Some of the commissions still seem to feel there is public advantage in keeping telephone earnings at a bare subsistence level. The Bell companies are convinced, on the contrary, that the greatest advantage to the public, no less than to telephone share owners and employees, will always flow from a truly prospering condition. This is what enables any business to explore, improve and advance. Therefore, where earnings are inadequate, the telephone companies will continue to press for increases in rates. Applications are now pending in several states and other applications will be made in 1956.

1955 EARNINGS STRENGTHEN THE SHARE OWNERS' POSITION

With better earnings in 1955, we were able by the end of the year to increase the accumulated earnings retained in the business to an amount equalling \$19.99 per share of A. T. & T. stock. This compares with \$18.19 per share at the end of 1954, when there were 5,954,000 fewer shares outstanding.

Retained earnings are an important financial margin of safety for the Bell System. They are invested in the business and their growth is very important to the share owners. In addition to protecting your investment, the earnings retained in the business work constructively to your advantage. Here is a significant illustration:

For as long as the public continues to want great increases in telephone service, the Bell System must continue to obtain very large sums of new capital. Ploughing a reasonable amount of earnings back into the business, after payment of dividends, will contribute greatly to the success of this necessary future financing. As we plough back some of the dollars we have earned, we thereby reduce the total amount of new capital we need to raise. Also, these reinvested earnings themselves help to produce new earnings. It is in these ways that our ability in 1955 to increase our re-invested funds has improved the share owners' position and strengthened our financial future.



Under the stairway of the old Wanamaker building in New York, A. T. & T. employees in 1955 handled subscriptions for convertible debentures.

In 1955 the System obtained more than \$1,200 million of new capital to help pay the costs of new construction. The greater part came from the sale of \$637 million of new $3\frac{7}{8}\%$ convertible debentures. These became convertible into shares of stock on December 13, on payment of \$48 in cash with each \$100 of debentures turned in for conversion. At the end of the year almost half of the issue had been converted.

Of the 5,954,000 shares of stock issued during the year, about three-quarters were issued on conversion of debentures, and one-quarter under the employees' stock plan. Some 275,000 employees are now making installment payments toward purchase of additional shares. These payments in 1955 totaled \$87 million.

Other financing included the sale of \$207 million of bonds by six subsidiaries, and redemption by one of them of \$15 million of bonds. After all financing, the proportion of debt in the System's total capital declined from 37 to 35 per cent.

CONVERTIBLE DEBENTURES OF 1965 CALLED FOR REDEMPTION

On February 2, 1956, the Company called for redemption on May 1 all its then outstanding $3\frac{3}{4}\%$ convertible debentures of 1965. The redemption price is \$106 for each \$100 of debentures. Until May 1 these debentures may be con-

verted into A. T. & T. stock on payment of \$36 in cash with each \$100 of debentures turned in for conversion. At the close of business on that date the conversion privilege expires.

Western Electric Company sales in 1955 were \$1,853,299,000, an increase of \$327,068,000 over 1954. Earnings were \$63,340,000, or 3.4 per cent of sales. Sales to the Bell companies were \$1,230,915,000, compared with \$1,019,279,000 in 1954. Sales to the defense departments of the Government were \$558,717,000, or 24 per cent above 1954.

In April Western Electric sold 1,155,000 shares of stock. Of these the A. T. & T. Company purchased 1,153,064. The offering provided \$51,975,000 additional capital to Western and brought the number of shares outstanding to 12,705,000.

The Business and the Community

Telephone linemen at work along the highway. The voices of telephone operators and the girls in the business office. The ring of the doorbell when the telephone installer comes to the house. These are familiar reminders that in every community we serve, ours is a business of people working to help other people.

As usual, the men and women of the System faced great emergencies in 1955, and met them wonderfully well. Hurricanes and floods in the South and East. Tornadoes in Kansas and Oklahoma. A terrible oil fire in Indiana. In late December, disastrous floods in the Far West. And through the year there were any number of smaller emergencies that didn't make headlines, but were supremely important to the people concerned.

Disaster dramatizes the human spirit and skill and organization that make a good telephone job. But these are just as important every day as they are in time of crisis. For the need for service arises every day, and is always personal and immediate. And in the last analysis it is the response of local employees and managers, their ability and their feeling about their work, that determine how well each need will be met. This is no less true where our customers have dial service. Dial equipment is merely one of the tools we use to serve them. The responsibility for service always rests with telephone people.

The better the tools, of course, the greater our ability to serve economically and well, and the more our customers



New telephone cable replaces line torn away when flood destroyed a bridge.

want what we have to offer. The result among other things has been to increase Bell System employment. Today, when 87 per cent of all Bell telephones are dial-operated, there are over 100,000 more operators at work than 35 years ago, when our dial service started. Ten years ago 475,000 employees worked in all branches of the business. Now there are more than 745,000—an increase of 57 per cent.

COMPANY AND COMMUNITY INTEREST MUST FIND COMMON GROUND

The Bell companies employ more people, are owned by more people, and directly serve more people, than any other private enterprise in the world. Such a business can only thrive to the benefit of all three groups—share owners, customers, and employees—when its first concern is to work for the community, and from the community's point of view. This means something more than just doing what we may feel is the right and best thing to do. It means first of all being truly a part of the community. It means living in the community, taking part in community affairs, understanding what the community view really is. It means making every diligent and thoughtful effort to insure that community and company interest will find a common ground.

Nor does success in these efforts come by direction from the top. It grows with the growth in understanding and ability of local men and women who *are* the telephone company in each village, city and state.

Recognizing this, the Bell companies are giving local district and division managers increasing opportunity for organized study and training. The objective is to keep spreading responsibility and authority farther and farther out to those who are really in and of the local community. To repeat, it is they on whom the business must rely to discern local needs. It is they who know best how to meet them. Not only telephone service itself, but all our local conduct and citizenship, depend on the free exercise of good judgment and broad judgment by local people. Fortunately we have this, in great and increasing measure.

Good wages and favorable working conditions are another expression of citizenship in the community. The Bell companies believe they must pay, and they wish to pay, wages that compare well with what other concerns in the local area are paying for similar skills. This is essential to attract and keep employees who have the ability to give good service.



Last year collective bargaining between the companies and the unions resulted in wage increases that were in keeping with the general rise in wage levels in the areas the companies serve. In two of the companies the unions called strikes, but many employees continued to work and in most places the companies were able to maintain service well.

Bell System employees in 1955 earned wages totaling more than \$3 billion. The companies paid out or set aside \$287,000,000—9 per cent of their payrolls—to provide pensions, to pay sickness, accident, and death benefits, and to pay the companies' portion of Federal taxes for Social Security old age insurance benefits. The companies pay the entire cost of their benefit and pension plans; service pensions are paid from trust funds accrued on an actuarial basis, and the funds can be used for no other purpose. At the end of the year 38,521 retired employees—20,301 men and 18,220 women—were receiving service pensions.

Telephone people again improved their safety record in 1955. Accidents on the job declined to an all-time low of three injuries for every five million hours of work. Women employees have cut their accident rate 85 per cent in the last ten years. Telephone work is safe work—10 times safer than the average for 40 major industries reporting to the National

Telephone management people all over the country are meeting to study and develop ideas to improve their management job.

Safety Council. But we still have some accidents, and we shall keep on working to reduce them. Any accident is one too many.

Over 117,000 members of the System have worked 25 years or more in the business. Some 66,000 have served more than 30 years. All who have been in the business for 21 years are eligible to become members of the Telephone Pioneers of America. In this group today are more than 165,000 men and women, both active and retired. Their fellowship is another mark of the spirit which brings telephone people together and helps to make for the best in service.

In conclusion, there is another factor always at work to bring this business closely into the community. This is our relationship with you, the share owners. Today there are approximately 1,409,000 of you—about 102,000 more than a year ago. You live in every state and in some 19,000 local communities. Many of you have a large investment in the business, yet no individual owns as much as one-thirtieth of one per cent of the stock. About two-thirds of you hold 25 shares or less, and the average holding among all individuals is 32 shares. More than a million of you have become share owners within the last ten years.

It is to every share owner—large and small and old and new—that your Board of Directors and management are responsible. We believe that both in service and earnings, the progress of the business in 1955 has been to your advantage. Your confidence and support have been most helpful.

Looking ahead, we are sure the country's communication needs will continue to grow. We are confident that future improvements in service will make the telephone even more widely wanted and used. And we are convinced that the way to meet our obligations to you fully is to go straight ahead to satisfy all community needs with the best, the most complete, and the most valuable telephone service in the world.

For the Board of Directors

Oliver & Craig

PRESIDENT

February 15, 1956

*The Annual Meeting of
the Share Owners
will be held at 1 p.m. on
April 18, 1956, at the
Company's offices at 50
Varick Street, New York.*

Below, looking up from the ground toward the antennas of a radio relay tower. At right is a close-up of one of the antennas. These are of a new type developed by Bell Laboratories, and are capable of handling as many as 15,000 conversations at the same time.



certificate of audit

New York, N. Y.
February 14, 1956

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, 1955, the consolidated balance sheet of the Company and its principal telephone subsidiaries as of December 31, 1955, and the related statements of income and retained earnings for the year 1955. 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, 1955 and of the statements of income and retained earnings for the year 1955 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 1955 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, 1955 and the related statement of consolidated income of these companies for the year 1955, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 34 to 38) and the consolidated financial statements (pages 27 to 32) present fairly the position at December 31, 1955 and the results of operations for the year 1955 of American Telephone and Telegraph Company and the consolidated position at December 31, 1955 and the consolidated results of operations for the year 1955 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 principal telephone subsidiaries which are directly owned (listed on page 33), 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 as stated in the Consolidated Balance Sheet include 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 38.

A. L. STOTT
Comptroller.

consolidated

ASSETS

	December 31, 1955	December 31, 1954
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$14,970,657,119	\$13,851,364,695
Telephone Plant under Construction.....	351,910,986	258,565,660
Property Held for Future Telephone Use.....	14,568,947	15,525,690
Telephone Plant Acquisition Adjustment.....	3,358,152	5,821,131
	<u>\$15,340,495,204</u>	<u>\$14,131,277,176</u>
Less: Depreciation Reserve.....	3,899,461,309	3,665,903,104
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$11,441,033,895</u>	<u>\$10,465,374,072</u>
Miscellaneous Physical Property.....	3,725,917	4,263,995
Investments in Subsidiaries not consolidated (b).....	503,370,965	445,251,997
Equities in Subsidiaries not consolidated in excess of investments therein.....	147,266,129	126,813,132
Other Investments (b).....	82,060,951	82,943,159
<i>Principally investments in associated telephone companies.</i>		
Total	<u>\$12,177,457,857</u>	<u>\$11,124,646,355</u>
CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 104,464,774	\$ 87,595,166
Temporary Cash Investments.....	1,272,102,128	887,840,826
<i>Comprises U. S. short-term obligations.</i>		
Special Cash Deposits.....	9,599,365	11,617,004
Current Receivables	594,995,778	506,817,248
<i>Amounts due for service (less reserves amounting to \$5,097,991 at December 31, 1955), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	176,465,495	135,278,195
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 2,157,627,540</u>	<u>\$ 1,629,148,439</u>
DEFERRED CHARGES		
Prepayments of Directory Expenses, Rents, Taxes, etc.....	\$ 87,114,269	\$ 79,996,181
Other Deferred Charges (c).....	57,442,317	15,831,803
Total Deferred Charges	<u>\$ 144,556,586</u>	<u>\$ 95,827,984</u>
Total Assets	<u>\$14,479,641,983</u>	<u>\$12,849,622,778</u>

For notes, see page 32

Telegraph Company and its Principal Telephone Subsidiaries]

Balance sheet

LIABILITIES

	December 31, 1955	December 31, 1954
CAPITAL STOCK EQUITY		
American Telephone and Telegraph Company:		
Common Stock—Par Value (\$100 per share)	\$ 5,411,596,000	\$ 4,816,173,100
Common Stock Installments—see note (c) on page 37..	76,089,368	207,567,788
Premium on Common Stock	1,630,721,133	1,356,574,852
<i>Amount received in excess of par value.</i>		
Retained Earnings:		
Reserved (d)	17,658,929	12,981,350
Unappropriated	1,063,982,700	863,151,548
Total Retained Earnings (see page 31)	\$ 1,081,641,629	\$ 876,132,898
Total Applicable to A. T. & T. Co. Stock	\$ 8,200,048,130	\$ 7,256,448,638
Subsidiaries Consolidated—stocks held by public:		
Common Stock	\$ 215,703,200	\$ 179,451,900
Preferred Stock	17,904,300	17,904,300
Retained Earnings	14,692,425	11,081,435
Total Applicable to Stocks of Subsidiaries Held by Public	\$ 248,299,925	\$ 208,437,635
Total Capital Stock Equity	\$ 8,448,348,055	\$ 7,464,886,273
FUNDED DEBT		
American Telephone and Telegraph Company:		
Convertible Debentures	\$ 345,645,600	\$ 162,673,500
Other Debentures—see note (d) on page 37	1,690,000,000	1,690,000,000
Subsidiaries Consolidated (e)	2,340,000,000	2,148,000,000
Total Funded Debt	\$ 4,375,645,600	\$ 4,000,673,500
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 152,000,000	\$ 95,000,000
Accounts Payable	464,854,885	350,341,505
Advance Billing for Service and Customers' Deposits	127,780,448	114,980,414
Dividends Payable	115,653,156	108,873,202
Taxes Accrued	706,968,050	634,239,033
Interest Accrued	37,169,251	32,052,525
Other Current Liabilities	29,169,199	27,371,751
Total Current and Accrued Liabilities	\$ 1,633,594,989	\$ 1,362,858,430
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net	\$ 19,212,497	\$ 18,472,183
Other Deferred Credits	2,840,842	2,732,392
Total Deferred Credits	\$ 22,053,339	\$ 21,204,575
Total Liabilities	\$14,479,641,983	\$12,849,622,778

BELL SYSTEM

[American Telephone and Telegraph Company]

consolidated

OPERATING REVENUES	Year 1955	Year 1954
Local Service Revenues	\$3,086,454,857	\$2,836,957,744
Toll Service Revenues	1,959,667,241	1,720,742,465
Miscellaneous Revenues	264,967,317	241,677,018
<i>Principally directory advertising.</i>		
Less: Uncollectible Operating Revenues	14,046,241	14,876,800
Total Operating Revenues (f).....	<u>\$5,297,043,174</u>	<u>\$4,784,500,427</u>
OPERATING EXPENSES		
Current Maintenance	\$1,098,093,507	\$ 999,147,826
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation Expense	487,785,817	447,648,044
<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 average investment in depreciable plant.</i>		
Traffic Expenses	900,411,976	858,265,044
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	474,923,429	435,218,623
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	47,801,145	42,469,792
General and Miscellaneous Expenses:		
Accounting and Treasury	214,153,609	201,261,261
Development and Research (g).....	27,398,461	23,532,509
Provision for Employees' Service Pensions	151,503,463	161,061,980
Employees' Sickness, Accident, Death and Other Benefits	46,631,081	43,434,443
General Administration and Other General Expenses....	129,724,663	116,663,785
Less: Expenses Charged Construction	43,791,603	41,430,140
Total Operating Expenses.....	<u>\$3,534,635,548</u>	<u>\$3,287,273,167</u>
Net Operating Revenues.....	<u>\$1,762,407,626</u>	<u>\$1,497,227,260</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 626,939,691	\$ 508,905,696
Other Taxes—principally State, local and Social Security	414,477,922	376,463,021
Total Operating Taxes.....	<u>\$1,041,417,613</u>	<u>\$ 885,368,717</u>
Net Operating Income (carried forward).....	<u>\$ 720,990,013</u>	<u>\$ 611,858,543</u>

For notes, see page 32

Income Statement

	Year 1955	Year 1954
Net Operating Income (<i>brought forward</i>).....	\$ 720,990,013	\$ 611,858,543
OTHER INCOME		
Dividends from subsidiaries not consolidated (h).....	\$ 44,110,070	\$ 35,507,604
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (i).....	20,347,422	20,819,032
Dividends from other companies	6,632,372	6,545,679
Miscellaneous income (j).....	29,791,326	28,393,205
Less: Miscellaneous deductions from income.....	6,988,380	7,869,395
Income Available for Fixed Charges	<u>\$ 814,882,823</u>	<u>\$ 695,254,668</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 123,250,263	\$ 119,474,866
Other Interest	8,545,942	11,287,612
Less: Release of Premium on Funded Debt—net	456,831	406,354
Net Income	<u>\$ 683,543,449</u>	<u>\$ 564,898,544</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	18,225,775	13,893,063
Net Income Applicable to A. T. & T. Co. Stock	<u>\$ 664,243,416</u>	<u>\$ 549,931,223</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (k)	\$13.10	\$11.92

Statement of Consolidated Retained Earnings Applicable to American
Telephone and Telegraph Company Stock—Year 1955

BALANCE—DECEMBER 31, 1954	\$ 876,132,898
Net Income applicable to A. T. & T. Co. Stock	\$ 664,243,416
Profit on sales of securities	1,843,032
Adjustment of prior years' tax accruals	1,548,931
Miscellaneous additions	193,999
TOTAL ADDITIONS	<u>\$ 667,829,378</u>
Dividends on A. T. & T. Co. Stock	\$ 456,351,022
Organization and Capital Stock Expense charged off	2,455,458
Amortization of Telephone Plant Acquisition Adjustment	2,343,109
Miscellaneous deductions	1,171,058
TOTAL DEDUCTIONS	<u>\$ 462,320,647</u>
BALANCE—DECEMBER 31, 1955	<u>\$1,081,641,629</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. During 1955 Telephone Plant was credited with \$33,577,800 applicable to 1954 and \$36,769,141 applicable to 1955 because of deferment of Federal income taxes on profits realized by Western Electric Company on sales of items charged to the plant accounts of the telephone companies. This deferment arises from the filing of consolidated tax returns by Bell System companies, including Western Electric, and future income taxes of the telephone companies will be increased because such profits will thereafter be excluded in determining depreciation expense allowable for tax purposes. The effect of the credits to Telephone Plant is to decrease depreciation expense over the life of the plant, so that there is no material effect on net income of the telephone companies.

(b) These investments, with minor exceptions, are stated at cost.

(c) In connection with the deferment of Federal income taxes referred to in Note (a), Other Deferred Charges include \$36,067,940 at December 31, 1955 pending distribution as tax installments are paid in 1956.

(d) Reservations against contingency of refunds in connection with certain rate proceedings.

(e) Of the funded debt of subsidiaries consolidated, \$50,000,000 matures in 1960, \$118,000,000 from 1961 to 1970, \$470,000,000 from 1971 to 1980, and \$1,702,000,000 thereafter.

(f) Total Operating Revenues include approximately \$17,600,000 in 1955 and \$13,200,000 in 1954 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 \$1,180,000 in 1954 which has been or is to be refunded.

(g) Cost of work carried on for the American Telephone and Telegraph Company by Bell Telephone Laboratories.

(h) Includes dividends of \$42,886,891 in 1955 and \$34,585,755 in 1954 from Western Electric Company.

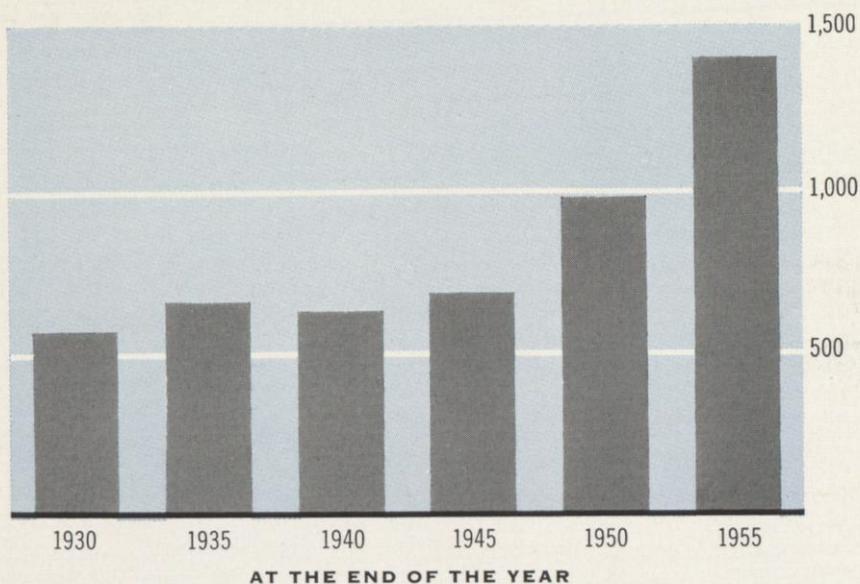
(i) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$20,337,125 in 1955 and \$21,146,176 in 1954.

(j) Includes \$13,557,666 in 1955 and \$13,858,843 in 1954 for interest charged construction.

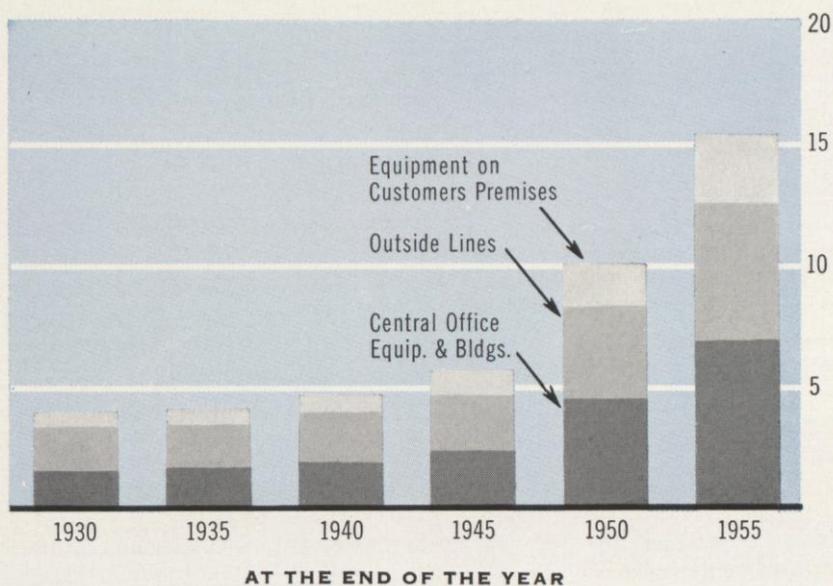
(k) Based on average shares outstanding—50,705,669 in 1955 and 46,147,747 in 1954.

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 \$2,167,863.483 on December 31, 1955 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

ASSETS		
	December 31, 1955	December 31, 1954
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$1,280,649,621	\$1,224,402,253
Telephone Plant under Construction.....	45,656,088	28,723,928
Property Held for Future Telephone Use.....	708,240	406,067
	<u>\$1,327,013,949</u>	<u>\$1,253,532,248</u>
Less: Depreciation Reserve.....	490,881,354	458,787,558
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$ 836,132,595</u>	<u>\$ 794,744,690</u>
Investments in Subsidiaries—at cost (see page 38).....	7,670,242,113	7,058,843,151
Stocks.....	\$7,554,117,779	
Advances.....	116,124,334	
Other Investments—at cost (see page 38).....	68,188,937	68,224,110
Stocks.....	\$ 67,872,877	
Miscellaneous.....	316,060	
Total	<u>\$8,574,563,645</u>	<u>\$7,921,811,951</u>
CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 16,183,006	\$ 15,059,708
Temporary Cash Investments.....	1,272,102,128	887,840,826
<i>Comprises U. S. short-term obligations.</i>		
Special Cash Deposits.....	2,007,891	1,461,610
Current Receivables	53,365,853	51,212,549
<i>Amounts due for service (less reserve amounting to \$200,000 at December 31, 1955), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	14,121,917	13,825,680
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$1,357,780,795</u>	<u>\$ 969,400,373</u>
DEFERRED CHARGES.....	\$ 6,990,963	\$ 2,997,630
Total Assets	<u>\$9,939,335,403</u>	<u>\$8,894,209,954</u>

For notes, see page 37.

nd Telegraph Company

s h e e t

LIABILITIES

	December 31, 1955	December 31, 1954
CAPITAL STOCK EQUITY		
Common Stock—Par Value (\$100 per share).....	\$5,411,596,000	\$4,816,173,100
<i>Authorized, 60,000,000 shares; outstanding, 54,115,960 shares at December 31, 1955 (b).</i>		
Common Stock Installments (c).....	76,089,368	207,567,788
Premium on Common Stock.....	1,630,721,133	1,356,574,852
<i>Amount received in excess of par value.</i>		
Retained Earnings (see page 36).....	561,729,110	470,470,927
Total Capital Stock Equity.....	<u>\$7,680,135,611</u>	<u>\$6,850,786,667</u>
 FUNDED DEBT		
Convertible Debentures	\$ 345,645,600	\$ 162,673,500
Other Debentures (d).....	1,690,000,000	1,690,000,000
Total Funded Debt.....	<u>\$2,035,645,600</u>	<u>\$1,852,673,500</u>
 CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	\$ 36,749,603	\$ 22,120,911
Dividend Payable	114,745,419	108,071,440
Taxes Accrued	50,066,024	40,499,888
Interest Accrued	15,367,856	12,926,041
Total Current and Accrued Liabilities.....	<u>\$ 216,928,902</u>	<u>\$ 183,618,280</u>
 DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net.....	\$ 6,227,826	\$ 6,795,182
Other Deferred Credits	397,464	336,325
Total Deferred Credits	<u>\$ 6,625,290</u>	<u>\$ 7,131,507</u>
Total Liabilities	<u>\$9,939,335,403</u>	<u>\$8,894,209,954</u>

American Telephone

Income Statement

	Year 1955	Year 1954
OPERATING REVENUES		
Toll Service Revenues (e).....	\$319,688,330	\$278,915,314
License Contract Revenues.....	49,918,656	45,308,380
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	19,086,631	17,638,999
Less: Uncollectible Operating Revenues.....	1,157,940	1,171,854
Total Operating Revenues.....	<u>\$387,535,677</u>	<u>\$340,690,839</u>
OPERATING EXPENSES (f)		
Current Maintenance	\$ 74,194,287	\$ 67,557,331
Depreciation Expense	45,973,658	42,520,018
<i>Represented approximately 3.7% of average investment in depreciable plant.</i>		
Traffic Expenses	34,944,766	33,590,207
Commercial Expenses	14,445,595	11,171,216
Operating Rents	4,496,209	4,579,148
Accounting and Treasury Expenses.....	15,628,838	14,454,767
Development and Research (g).....	27,398,461	23,532,509
Provision for Employees' Service Pensions.....	9,193,962	9,980,848
Employees' Sickness, Accident, Death and Other Benefits..	2,919,789	2,749,792
General Administration and Other General Expenses.....	27,209,988	25,728,020
Less: Expenses Charged Construction.....	1,661,208	1,576,756
Total Operating Expenses.....	<u>\$254,744,345</u>	<u>\$234,287,100</u>
Net Operating Revenues.....	<u>\$132,791,332</u>	<u>\$106,403,739</u>
OPERATING TAXES		
Federal Taxes on Income.....	\$ 45,201,000	\$ 31,931,000
Other Taxes—principally State, local and Social Security..	21,036,904	18,993,976
Total Operating Taxes.....	<u>\$ 66,237,904</u>	<u>\$ 50,924,976</u>
Net Operating Income.....	<u>\$ 66,553,428</u>	<u>\$ 55,478,763</u>
OTHER INCOME		
Dividend Income—principally from subsidiaries.....	\$512,529,527	\$459,932,797
Interest Income	22,395,342	21,786,194
Miscellaneous Income	2,238,546	2,714,623
Less: Miscellaneous Deductions from Income.....	627,893	543,079
Income Available for Fixed Charges.....	<u>\$603,088,950</u>	<u>\$539,369,298</u>
FIXED CHARGES		
Interest on Funded Debt.....	\$ 55,648,855	\$ 55,612,208
Other Interest	1,580,655	3,567,385
Less: Release of Premium on Funded Debt—net.....	185,927	87,601
Net Income	<u>\$546,045,367</u>	<u>\$480,277,306</u>
Earnings per share (h).....	\$10.77	\$10.41

Statement of Retained Earnings—Year 1955

BALANCE—DECEMBER 31, 1954.....	\$470,470,927
Net Income	\$546,045,367
Profit on sales of securities	1,740,571
Adjustment of prior years' tax accruals	1,134,341
Miscellaneous additions	9,558
TOTAL ADDITIONS	<u>\$548,929,837</u>
Dividends declared	\$456,351,022
Capital Stock Expense charged off.....	976,526
Miscellaneous deductions	344,106
TOTAL DEDUCTIONS	<u>\$457,671,654</u>
BALANCE—DECEMBER 31, 1955.....	<u>\$561,729,110</u>

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. During 1955 Telephone Plant was credited with \$3,482,239 applicable to 1954 and \$3,080,746 applicable to 1955 because of deferment of Federal income taxes on profits realized by Western Electric Company on sales of items charged to the plant accounts of the Company. This deferment arises from the filing of consolidated tax returns by Bell System companies, including the Company and Western Electric, and future income taxes of the Company will be increased because such profits will thereafter be excluded in determining depreciation expense allowable for tax purposes. The effect of the credits to Telephone Plant is to decrease depreciation expense over the life of the plant, so that there is no material effect on net income of the Company.

(b) 3,456,456 authorized and unissued shares were reserved at December 31, 1955 for conversion of Debentures, as follows: 193,755 shares for the 3 $\frac{3}{4}$ % Debentures due December 1965 (called for redemption May 1, 1956) convertible at \$136 per share; and 3,262,701 shares for the 3 $\frac{7}{8}$ % Debentures due October 1967 convertible at \$148. (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 approved by stockholders in 1950 which authorizes the sale of a total of 3,000,000 shares. 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. Regular installment payments under the initial offering were completed in February 1955 and 1,541,814 shares were issued under this offer. In October 1954, the Company offered the balance of the 3,000,000 shares and at December 31, 1955 installment payments were being made on 1,371,214 shares.

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

(e) Represents the Company's share of toll revenues of \$1,063,839,000 in 1955 and \$921,725,000 in 1954 from toll business handled jointly with subsidiary and other telephone companies.

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

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

(h) Based on average shares outstanding—50,705,669 in 1955 and 46,147,747 in 1954.

Amounts accrued for employees' service pensions under the Plan established by the Company are paid to Bankers Trust Company as Trustee of the Pension Plan. This Fund is irrevocably devoted to service pension purposes and is not a part of the assets of the Company. Such Fund amounted to \$117,032,477 on December 31, 1955 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 Subsidiaries and in Other Companies

December 31, 1955

PRINCIPAL TELEPHONE SUBSIDIARIES	CAPITAL STOCKS (a)			ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co...	\$212,284,200	69.26	\$ 217,235,731	\$ 25,000,000
New York Tel. Co.....	901,300,000	100.00	924,280,335	.....
New Jersey Bell Tel. Co.....	335,000,000	100.00	348,667,184	2,000,000
Bell Tel. Co. of Pennsylvania...	460,000,000	100.00	466,316,050	14,500,000
Diamond State Tel. Co.....	28,000,000	100.00	28,700,000	350,000
Chesapeake & Potomac Tel. Co.	90,000,000	100.00	91,000,000	2,525,000
Chesapeake & Potomac Tel. Co. of Maryland	160,000,000	100.00	161,467,862	4,500,000
Chesapeake & Potomac Tel. Co. of Virginia	165,000,000	100.00	165,000,000	2,875,000
Chesapeake & Potomac Tel. Co. of West Virginia	67,000,000	100.00	67,000,000	3,025,000
Southern Bell Tel. & Tel. Co...	885,000,000	100.00	886,817,298	5,000,000
Ohio Bell Tel. Co.....	365,500,000	100.00	365,542,298	8,000,000
Michigan Bell Tel. Co.....	342,987,000	99.99	343,399,232	6,100,000
Indiana Bell Tel. Co.....	126,998,900	99.99	127,585,386	1,900,000
Wisconsin Tel. Co.....	172,000,000	100.00	175,223,802	1,500,000
Illinois Bell Tel. Co.....	461,257,800	99.32	466,738,660	3,700,000
Northwestern Bell Tel. Co.....	275,000,000	100.00	276,039,490	19,462,500
Southwestern Bell Tel. Co.....	894,998,400	99.99	898,251,478	4,100,000
Mountain States Tel. & Tel. Co.	253,350,600	86.74	254,755,564	5,100,000
Pacific Tel. & Tel. Co.....	775,798,900	90.70	771,457,117	.....
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)	99.82	419,552,012	.....
195 Broadway Corporation....	23,000,000	100.00	23,015,000	1,925,000
Eastern Tel. & Tel. Co.....	74,100	98.80	74,100	4,561,834
Total			\$7,554,117,779	\$116,124,334
OTHER COMPANIES				
Southern New England Tel. Co.	\$ 29,342,400	21.61	\$ 29,654,232	.....
Cincinnati & Suburban Bell Tel. Co.	18,637,900	29.82	19,201,362	.....
Bell Tel. Co. of Canada.....	18,749,800	5.50	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			\$ 67,872,877	.....

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 12,681,649 shares—no par value.

Facts About the Bell System

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1954	Dec. 31 1955
Number of Telephones (a)	22,445,519	35,343,440	43,321,849	46,218,233
Dial Operated	14,504,851	26,700,319	36,369,187	40,041,368
Per cent Dial Operated..	64.6	75.5	84.0	86.6
Number of Central Offices.	7,374	8,470	9,523	9,751
Miles of Wire:				
In Underground Cable..	60,759,000	86,963,000	109,044,000	116,384,000
In Aerial Cable.	33,966,000	48,240,000	65,905,000	73,279,000
Open Wire	5,034,000	6,578,000	7,245,000	7,482,000
Total	99,759,000	141,781,000	182,194,000	197,145,000
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	159,595,000	168,936,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$14,131,277	\$15,340,495
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$4,784,500	\$5,297,043
Number of Employees (c)	474,527	602,466	685,944	745,629
Number of A. T. & T. Company Share Owners.	683,897	985,583	1,307,215	1,408,851
Number of A. T. & T. Company Shares Out- standing	20,166,251	28,615,956	48,161,731	54,115,960

*For year ended December 31.

(a) Excludes private line telephones numbering 173,816 on December 31, 1955. Including telephones of some 4,700 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 56,200,000.

(b) For the year 1955 there were approximately 161,788,000 average daily local conversations and 7,148,000 average daily toll and long distance conversations. During 1955 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 5.6 per cent in local conversations, and 12.0 per cent in toll and long distance conversations over the year 1954.

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

TELEPHONES FOR EACH PERSONAL NEED

Different kinds of instruments are available to make telephoning easy and convenient. Four examples are pictured. Service arrangements can be varied in many ways to suit particular needs in home or office.

The dial of this telephone lights up when the receiver is lifted. Or you may have a steady, low "night light" on the dial, as well as a bright light when you lift the receiver.



The Speakerphone permits "hands-free" telephoning without lifting the receiver. This one is a button telephone (for picking up different lines) with separate microphone for talking and loudspeaker for listening. Other Speakerphones have the microphone in the base of the telephone itself.



In this "volume-control" telephone the sound increases when the user turns the little button in the base. This is especially useful for people who have difficulty in hearing.

Telephones with buttons may be arranged in various ways: to pick up two or more lines; to hold a call on one line while answering another; to signal and talk with a secretary in an adjoining office. Button telephones are offered in several colors.



