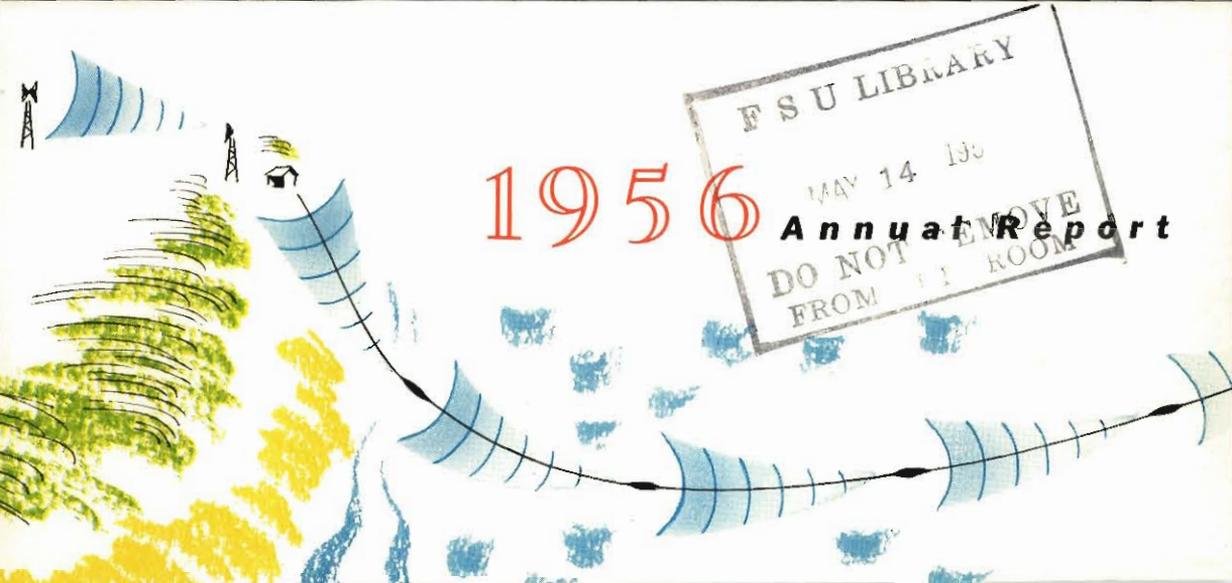


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TELEPHONE SERVICE THROUGH OCEAN CABLES



AMERICAN TELEPHONE AND TELEGRAPH COMPANY



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1956 Annual Report



SERVICE THROUGH OCEAN CABLES

Telephone operators now handle many calls to Europe through the first transatlantic telephone cable. Service began on September 25, 1956. The cable supplements existing overseas radiotelephone channels and reaches from Nova Scotia to Scotland. It is owned and operated jointly by the Bell System and British and Canadian communication agencies. A microwave radio relay system connects it to the U. S.

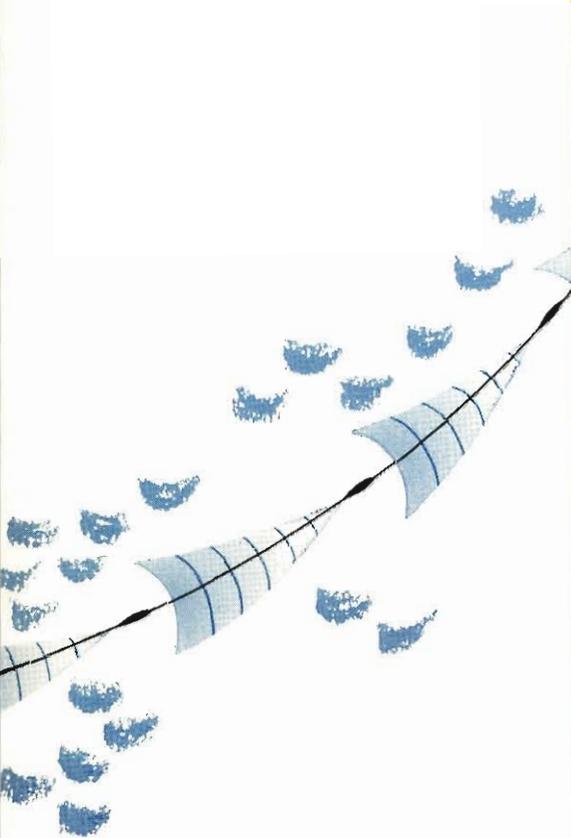
The map also shows other ocean telephone cables now in use or under construction. The cable at top left runs to Ketchikan, Alaska, connecting there with the Alaska Communication System. Service began December 11, 1956. A cable to Hawaii (dotted line at left) is planned to be ready for service by the end of this year. The Hawaiian Telephone Company is associated with us in this undertaking.

The cable route to the right of the operator is between Key West and Havana. Experience here laid the basis for successful service over longer routes.

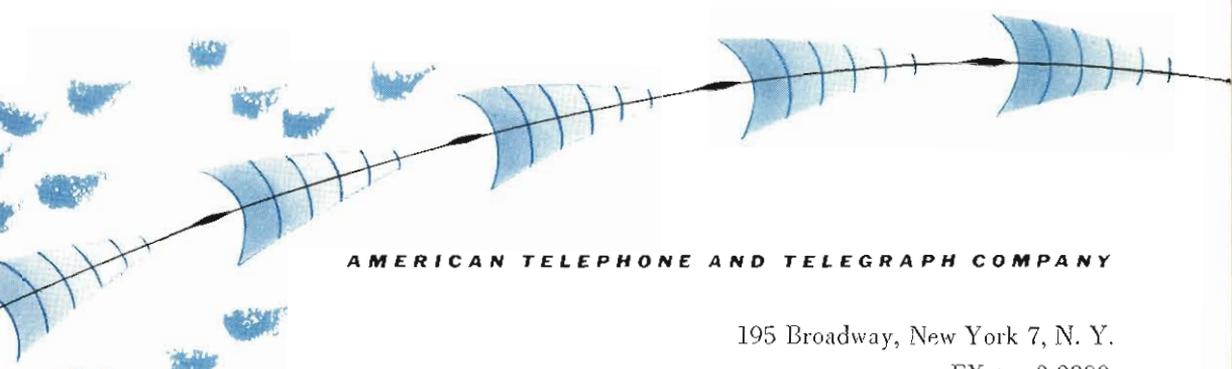
Voice Amplifiers Make It All Possible

The sketch that starts on the cover shows how electronic amplifiers repeatedly boost the voice-carrying currents to keep them strong and clear. On land, such boosters are located at each radio relay tower, about 30 miles apart. Under the ocean, they are built into the cable at intervals of 40 miles. The amplifiers used on deep-sea routes are designed by Bell Laboratories and made by Western Electric. They represent the ultimate in engineering exactness and manufacturing care.

Of course long distance telephone conversations must be amplified in both directions. For simplicity, only one direction is shown in the diagram.



1956 **Annual Report**



AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 Broadway, New York 7, N. Y.
EXeter 3-9800

*The Annual Meeting
of the Share Owners
will be held on
April 17, 1957, at
1 P.M., at the
Company's office at
50 Varick Street
New York, N. Y.*

DIRECTORS AND OFFICERS OF THE COMPANY

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Lloyd D. Brace

Vannevar Bush

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G. Peabody Gardner

Frederick R. Kappel

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Clifton W. Phalen

Elihu Root, Jr.

Tom K. Smith

Myron C. Taylor

Samuel A. Welldon

William White

A. Lee M. Wiggins

PRESIDENT

Frederick R. Kappel

EXECUTIVE VICE PRESIDENTS

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E. Hornsby Wasson

H. Randolph Maddox

James W. Cook

Sanford B. Cousins

Horace P. Moulton

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SECRETARY

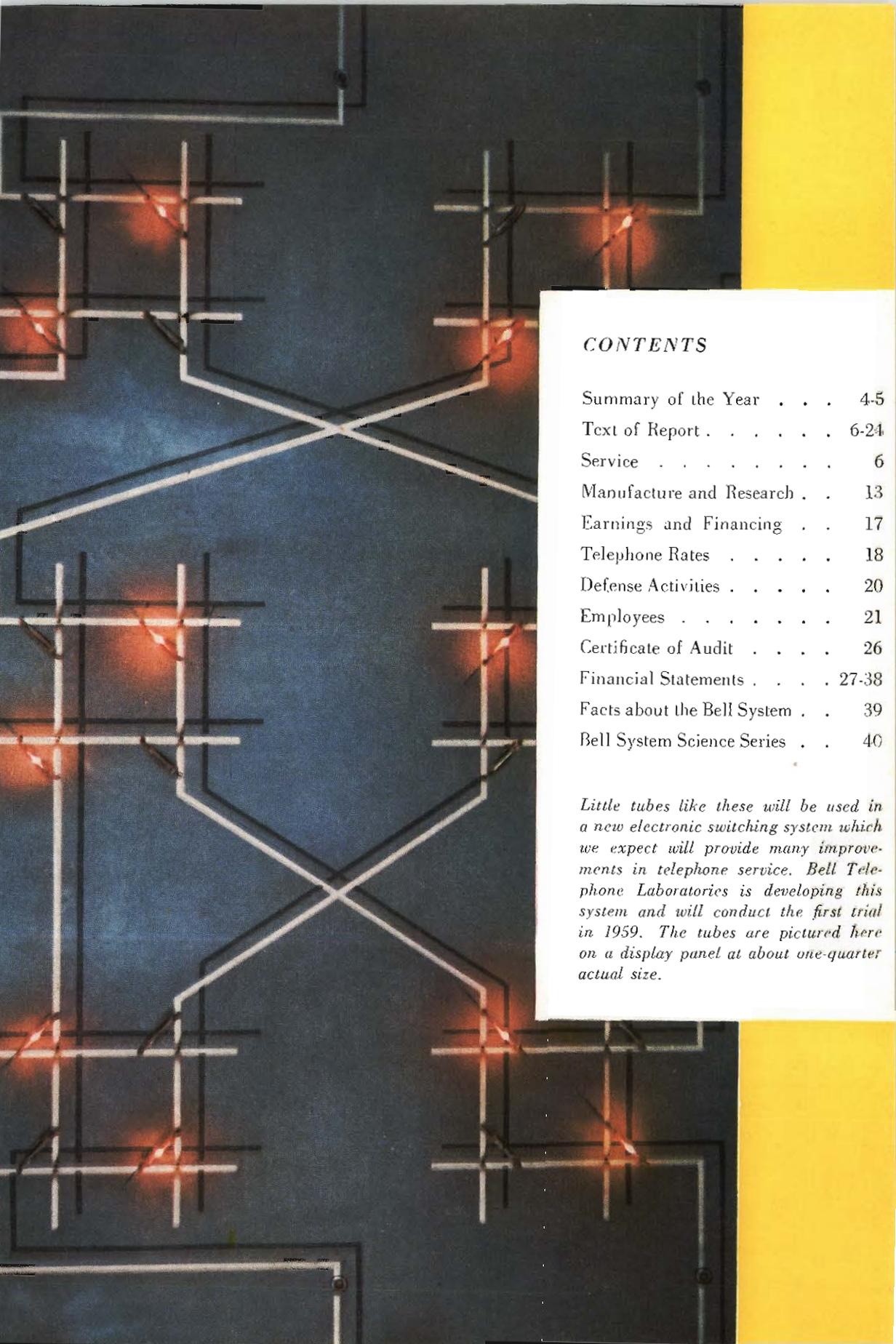
S. Whitney Landon

TREASURER

John J. Scanlon

COMPTROLLER

Alexander L. Stott



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Little tubes like these will be used in a new electronic switching system which we expect will provide many improvements in telephone service. Bell Telephone Laboratories is developing this system and will conduct the first trial in 1959. The tubes are pictured here on a display panel at about one-quarter actual size.

S U M M A R Y O F

1956

F I N A N C I A L

BELL SYSTEM FINANCIAL SUMMARY

	1956	1955
Earnings on Capital	6.8%	6.8%
Operating Revenues and Other Income	\$5,956,807,000	\$5,390,936,000
Operating Expenses and Taxes	\$5,034,412,000	\$4,576,053,000
Interest Deductions	\$144,604,000	\$131,339,000
Net Income	\$777,791,000	\$683,544,000
A. T. & T. Shares — Average for Year	57,423,000	50,706,000
— Number at Year-End	62,894,000	54,116,000
Net Income per Average Share	\$13.16	\$13.10

THE Bell System in 1956 again earned above \$13 per share on A. T. & T. stock, based on the much larger average number of shares outstanding than in 1955.

Dividends were paid at the rate of \$9 per share. Share owners of record on September 14 also received valuable rights to subscribe for one additional share at par, \$100, for each ten shares held. Share owners who used their rights to purchase stock were thus able to increase the rate of return on their total investment. For share owners who sold their rights, the average market price was \$6.93 per right.

While the number of shares increased, we were also able to make some addition to the total retained earnings per share. This figure rose from \$19.99 a year ago, when 54,116,000 shares were outstanding, to \$20.94 at the end of 1956, when 62,894,000 shares were outstanding.

In sum, share owners had a steady return in dividends; they had opportunity to improve the rate of return on their investment;

and the retained earnings which help to protect their investment increased moderately.

To finance the record-breaking needs for service we obtained about \$1,350,000,000 of new capital. The larger part of this came from the offering of stock to the share owners at par and from conversions of A. T. & T. debentures. Over \$550 million, however, was in debt issues. At the end of the year 33 per cent of the Bell System's total capital was in the form of debt.

Expenses including wages have continued to rise and the higher cost of doing business must be met by further increases in telephone rates. Earnings above the present level are needed to assure successful financing, fair treatment of share owners and improved service. The Bell companies are applying for rate increases in many states and will vigorously pursue this program.

Income taxes and other operating taxes in 1956 were \$1,158,000,000—an increase of \$117,000,000 over 1955. They equalled \$19.54 per share of A. T. & T. stock. In

AND SERVICE RESULTS

addition, Federal excise taxes paid directly by telephone users were \$475,000,000, or \$40,000,000 above 1955. Total taxes on telephone service in 1956 averaged \$2.85 a month per telephone.

To provide the service the public wants the Bell companies last year spent more than \$2.2 billion for construction. We expect construction will be even greater in 1957, and much new capital will therefore be needed. Total investment in Bell System physical facilities is now approximately \$17 billion and the average investment for each of the nearly 49,500,000 telephones in service at the end of 1956 was \$345.

The System added 3,227,000 telephones last year—almost as many as the record gain in 1946, the first postwar year. Long distance conversations were up nearly 10 per cent over 1955.

Additional telephones in bedrooms, kitchens, playrooms, and other locations in homes increased more than 1,000,000. Families served by individual lines instead of party lines increased 1,450,000.

Long distance calls went through at an average speed of 1.4 minutes. More and more

of these calls are dialed straight through to the distant telephone in a matter of seconds.

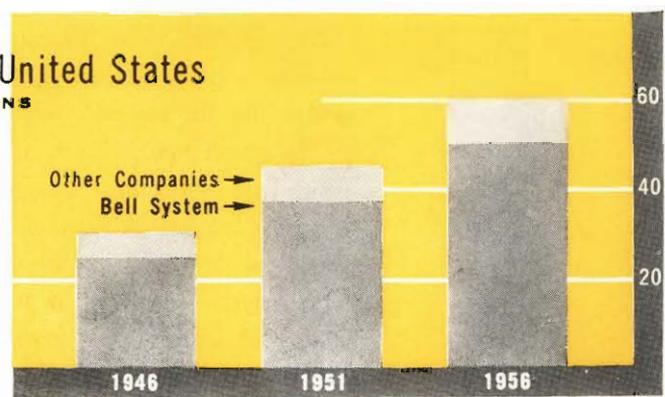
Some 11,000,000 customers can now dial nearby cities and towns directly and 2,700,000 can dial as many as 20 million other telephones all over the nation. Eighty-nine per cent of all Bell System telephones today are dial-operated.

Since the opening of the transatlantic cable, calls to and from Great Britain have nearly doubled. Conversations with other countries in Europe that can be reached through the cable have also increased markedly. In all, overseas telephone services reach 112 countries and territories, mostly by radio, and conversations are now running 30 per cent above a year ago.

Defense activities were greater than in any year since World War II. The operating telephone companies, Western Electric (manufacturing unit of the System) and Bell Telephone Laboratories all participated.

Also, Western Electric's production for the Bell System was the largest in history and Bell Laboratories has stepped up research and development programs which will contribute greatly to telephone progress in the years ahead.

Telephones in the United States IN MILLIONS





REPORT TO THE SHARE OWNERS

PERHAPS YOU HAVE already seen these words around the familiar symbol of Bell telephone service: *working together to bring people together*.

In 1956 we brought more people together by telephone than ever before—in their hometown life, in commerce and industry, in building the welfare and security of the nation.

There are more of us working together, too. At the end of the year 787,000 Bell System men and women were busy in telephone operations, supply, manufacture and research. This was about 41,000 more than a year ago.

Our family of share owners is also larger than ever. More than 185,000 new share owners invested in the Company in 1956, and the net increase during the year was 83,000. Your business is owned by 1,492,000 people—nearly two and a half times as many as any other company.

In sending you this report we'd like particularly to express to every share owner, new or old, our sincere appreciation for the support you give us.

To serve you well we must, of course, serve the public well. This is the only possible foundation for success. It is the most important element in the reputation of your business, and in the integrity and safety of your investment.

So again we report to you first on our service progress. The story begins with growth, for the country is growing fast and looks to us for more service all the time.



In bedroom shared by sons Collen, 15, and Johnny, 13, the family enjoys weekly long distance call from eldest son Tom, at college in Colorado.

**MODERN SERVICE FOR
A MODERN FAMILY**

This page and the next show how the Arthur W. Drews family, of South Milwaukee, use their telephone service. It's a far cry from having one telephone in the hall! And each month, each year, more families are getting complete service to suit their personal needs, just as Mr. and Mrs. Drews and their sons enjoy the service pictured here.



Mrs. Drews, in her kitchen, likes the convenience of a wall telephone by the stove. She says, "We've made the telephone a part of the way we live."



Mr. Drews heads the music department of South Milwaukee High School. He is also a police and fire commissioner. At his bedroom phone (which has a dial light) he arranges concert details, talks with students, makes appointments, keeps in touch with his associates and friends.



No extra steps for Mrs. Drews when she does the laundry: her basement telephone is right at hand.

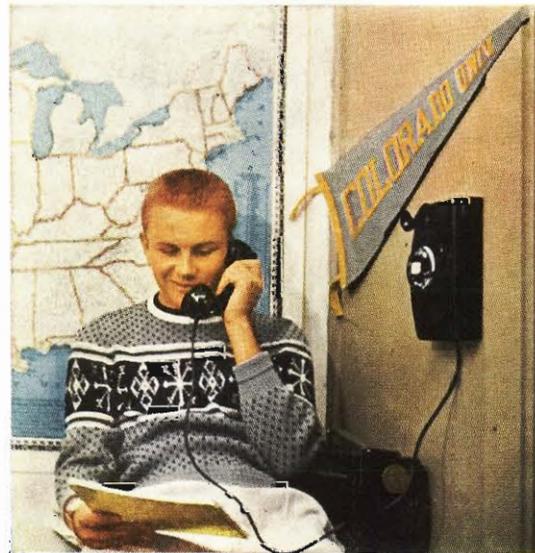


Collen and John discuss homework with friends.



The boys also have a newspaper route. They phone every day to get the exact number of papers they will need. This gives new customers prompt service, also eliminates need to return unsold papers.

... and here is Tom Drews, 20, at the other end of the line at Colorado University.



Late in 1953 the 50-millionth telephone was placed in service in the United States. At that time the Bell System served about 41 million and other companies the rest. Today the country is using more than 60 million telephones, of which we in the Bell System provide nearly 50 million. This is an increase of 20 per cent in about three years.

But growth in telephones is only one measure of progress. There are many others. Each is important.

Obviously it's important that service be dependable. And also fast. We're glad to report that in both respects it was never better. The average telephone goes for years without getting out of order. As to speed, most calls go through in a matter of seconds. Last year we changed 369 more central offices to dial operation, and greatly extended long distance dialing. This all helps to make the service even faster. Our customers like it and are quick to tell us so.

Service should also be convenient and, one might say, attractive. This has several aspects which deserve mention.

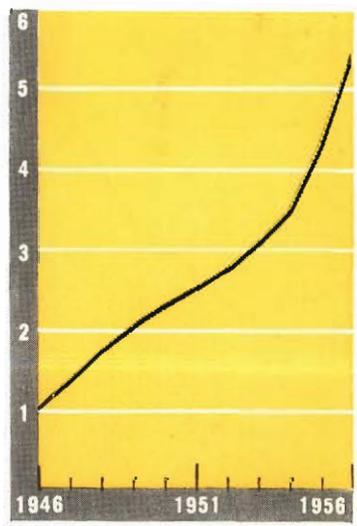
In the first place, we need to remember that the standard of living in this country has risen a great deal and is still rising. This means among other things that more people are free to exercise a wider choice in the way they live and in what they buy.

Secondly, all industry is competing in the market place to provide this wider choice. You know this from your own experience. Today any American who only wants to repaint a wall can choose from literally hundreds of different colors. He has the choice of dozens of household appliances. For his car he can buy any one of several grades of oil or gasoline.

Thus progressive business is pressing every conceivable attraction on the consumer. And the public expects us to be equally progressive in answering their needs and wishes for the best in telephone service. To meet these expectations fully, our service should be as attractive and pleasant to use as we can make it, and should offer a range of features to suit the differing wants and preferences of different people.

Still a third point related to convenience is that we serve not only the consumer at home but the businessman in his office. And his communication needs are always changing and growing. Moreover the needs of different businesses vary a great deal. So we must constantly seek out new ways to meet new needs more skillfully. Only by doing this can

Additional
Telephones in Homes
IN MILLIONS



This shows the growth in service to homes having two or more telephones.

we make our full contribution to the progress of industry.

These are some of the reasons why we worked hard last year to serve more and more families as we serve the family pictured on preceding pages. This is why we are doing the very most we can to provide an individual line, without delay, to every family that wants it. This is why we are making every possible effort to be ready to serve *anyone*—at home or in the office—with a good choice of attractive instruments and services.

There Are Broad Markets for New Services

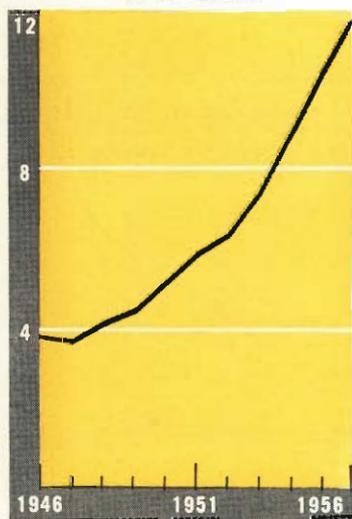
In past years we have told you about colored telephones—about new instruments that may be used without lifting the receiver—equipment that automatically answers the telephone when no one is in—and other new conveniences. Today millions of colored telephones are in use, thousands of Speakerphones, thousands of answering sets. There are broad markets for them all; they are wanted and used.

Now we are testing a simple new home communicating system. This will offer new convenience in answering calls, or in talking from room to room. Also, a person in the house will be able to talk from any telephone with a caller at the door, through a small loudspeaker.

We are also developing a new telephone of a design especially suited for use in bedrooms. We have others for noisy locations, so that people talking on the telephone will not be bothered by room noise. Still another instrument that will soon be available is designed for talking in a very low voice. With this, in a quiet place like a library, one can speak in little more than a whisper.

Services for business are spreading fast. Private line services last year rose 18 per cent. Teletypewriter exchange service, 25 years old last year, now handles 100,000 messages a day. Mobile telephones in cars and trains and river and harbor craft increased 10 per cent and the number of messages somewhat more. We are providing complete communication systems for the three largest natural gas pipelines completed or under construction last year. For railroads, new teletypewriter equipment will automatically relay information on the make-up of freight trains. With the enormous expansion of aviation, we are experimenting with microwave radio to carry radar signals for air traffic control, and developing new equipment for the air lines' own communications.

Families on
Individual Lines
IN MILLIONS



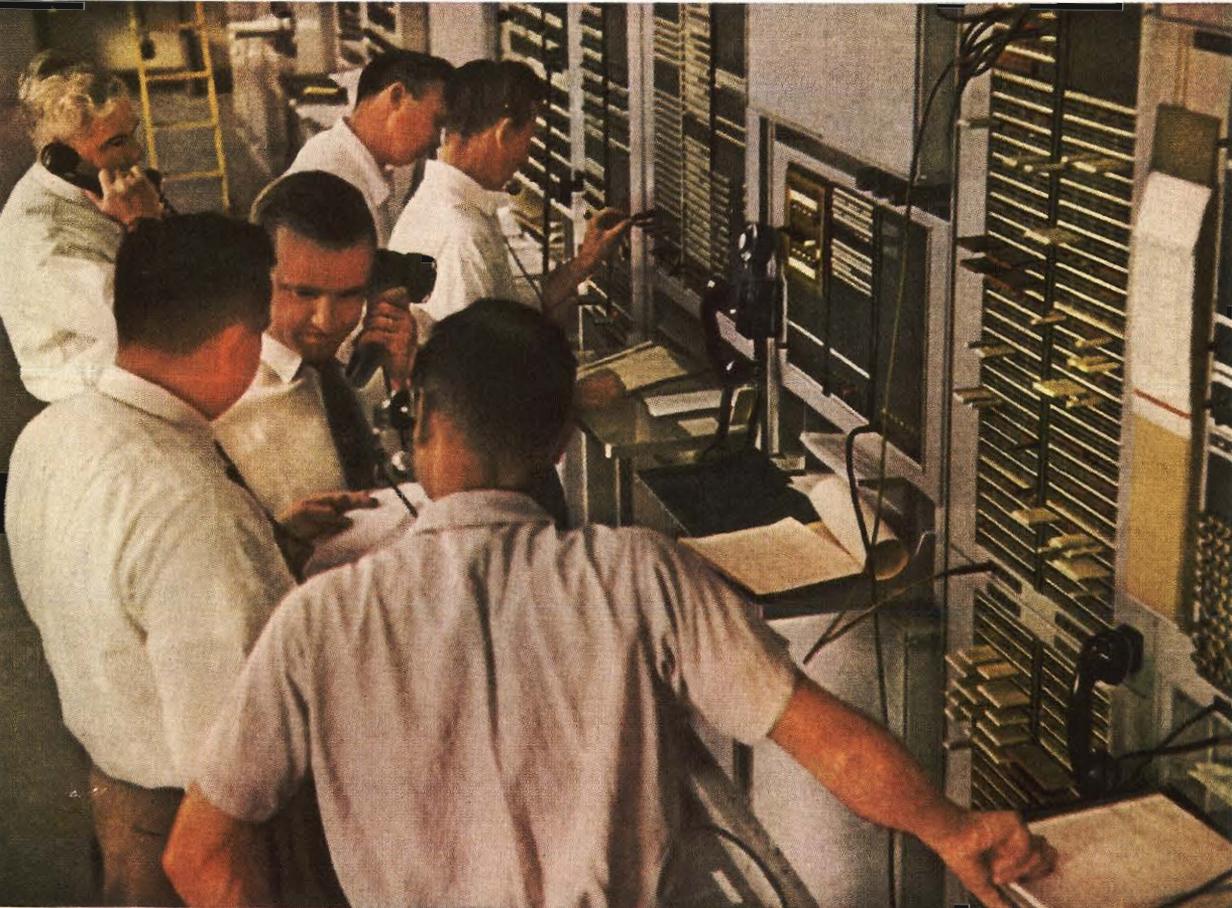
*THE NATION AT
YOUR FINGERTIPS*

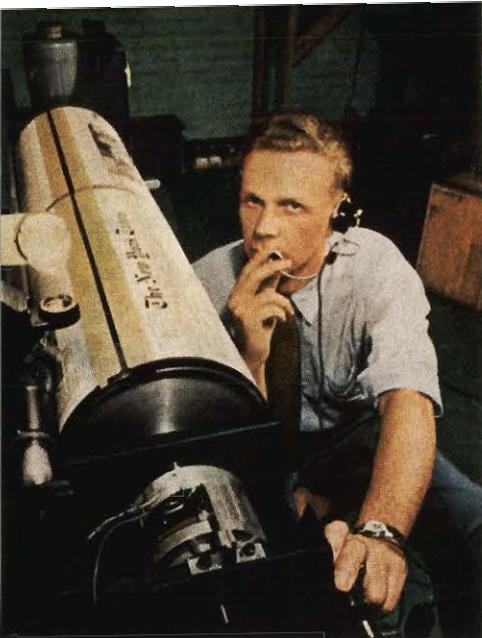
*Some 2,700,000 telephone
users can now dial
directly to millions of
other telephones across
the nation. This is a
five-fold increase
over a year ago.*



In South Bend, Indiana, Mayor Edward F. Voorde dials the first call at a ceremony marking the start of direct dialing in that city.

*In Stamford, Connecticut, telephone men "cut into
service" the new direct dialing equipment there.*





**A NEWSPAPER
SPEEDS ACROSS
THE CONTINENT**

A "facsimile edition" of The New York Times was sent over special Bell System facilities to San Francisco last summer during the Republican convention. The time of transmission was less than half an hour. At left above is the transmitting equipment. From the facsimile received in San Francisco, printing plates were made and copies printed on presses there.

To serve business well we must *study* different businesses. Right now we have 36 intensive studies under way. They cover mail order houses and department stores, banks and hotels, railroads and hospitals, insurance and power companies, truck lines and refineries. These and other organizations under study represent in turn some 400,000 different businesses, all of which we serve. They want to know—and we do too—how improved communications can aid their own efforts to control costs, increase productivity, and improve sales. Our studies are fruitful in two ways. First, they show how services we already provide can best be tailored to a company's needs. Second, they suggest practical new services.

Each year we are developing more flexible communications for small business as well as for large. A brand new dial system for small organizations is now being tried out. It is small in size itself, can be installed quickly, and has many convenient features. For instance, it will automatically connect incoming calls to a busy telephone as soon as the line is free. In another new system as many as 36 telephones can reach each other without calls having to go through the regular switching equipment. We are also designing new

telephone instruments on the "building-block" principle, so that conveniences may be added as the user prefers.

In last year's report we mentioned the use of teletypewriter services in "integrated data processing," or IDP for short. The simplest form of this is doing repetitive paper work mechanically. And IDP is growing, no doubt about it. We are convinced that increasing use of computers and other office machines will require more and more communicating in machine language, and we are going ahead to provide the means.

Our network interconnecting television stations grew further in 1956. Television channels were also used increasingly for "closed circuit" business meetings. In Hagerstown, Maryland, we are providing the connecting paths for a significant experiment in teaching school by television. Eight school buildings and three other civic buildings are now interconnected. This trial is expected to last about five years, with the network eventually reaching 48 schools in Washington County. The purpose is to study and assess the usefulness of television as a medium for teaching in an entire school system.

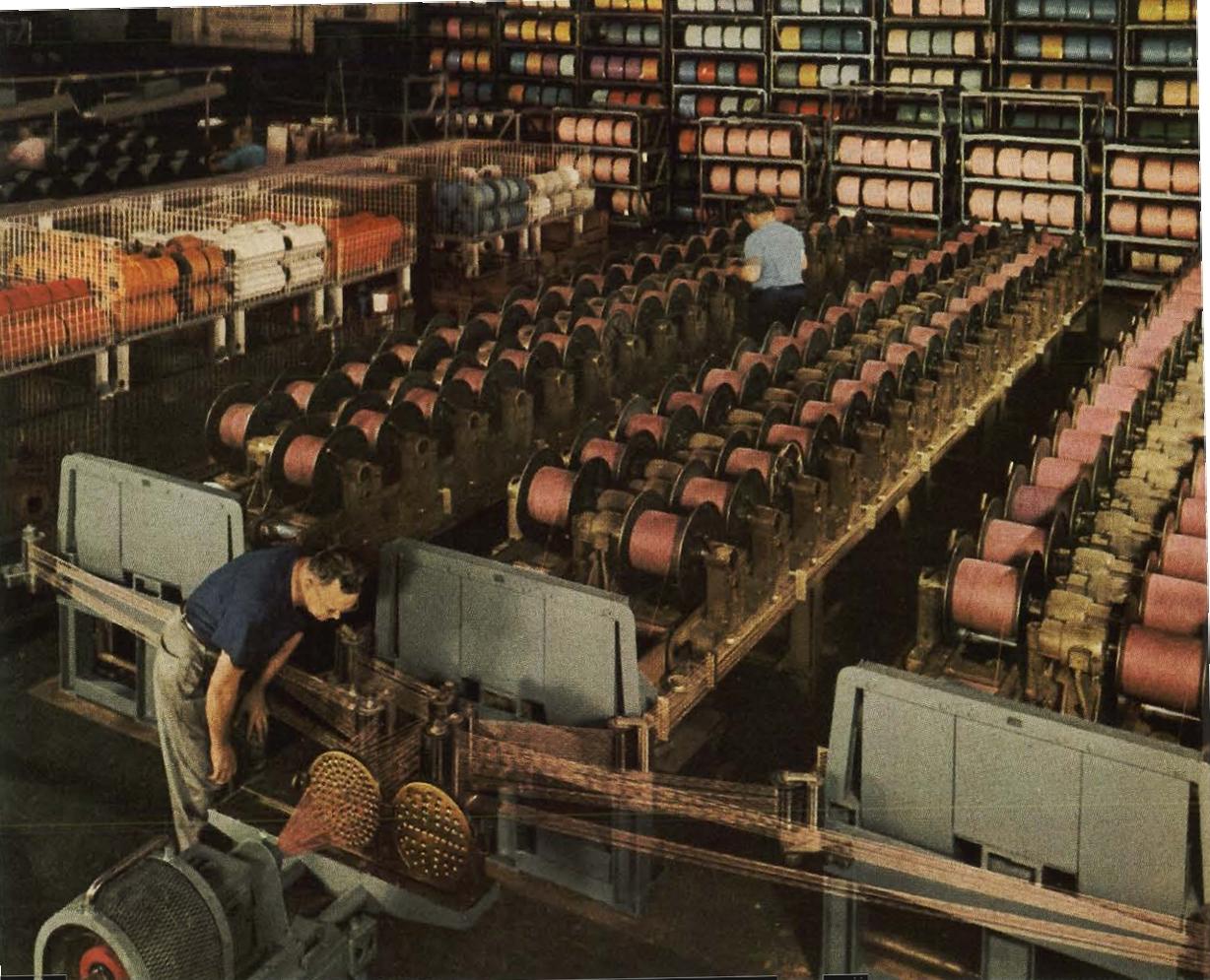
Advances in Manufacture and Research

The great expansion of our business places a tremendous call on Western Electric Company, the manufacturing and supply unit of the System. Western's response has been nothing short of remarkable.

Last year it supplied more dial equipment, telephones, and telephone cable than ever before—much more than in 1955, which in turn was far above 1954. In all its operations Western enlisted the help of 30,000 other manufacturers and suppliers. Nearly nine out of every ten of these are small concerns having less than 500 employees. More than half of every dollar of Western's gross sales went to other firms for supplies and raw materials and for services rendered.

In 1956 Western went ahead with new manufacturing plants in Massachusetts and Nebraska. It also proceeded with major additions to four other plants and put still more on the drawing boards. Already, since the end of World War II, the company has completed as much new building construction as in all the years before.

Finally, Western's manufacturing engineers, working with the people of Bell Laboratories, are finding entirely



Forming telephone cable in a Western Electric plant. The cable supplied by Western to the Bell telephone companies last year contained 23 million miles of wire—enough to reach to the moon and back 47 times.

new ways to produce new devices. Many of our modern equipments depend on tiny parts used in great quantity. This makes it desirable and even necessary to make them by automatic methods. Just as one example Western Electric is now assembling, testing and packaging small electrical switches automatically, by methods quite unknown a few years ago.

At Bell Laboratories, development of the new electronic switching system is going full speed ahead. We are sure this will lead to many improvements in service and also to greater efficiency. The first service trial will start in Morris, Illinois, in 1959.

This year we expect to begin using a new high-power radio system for telephone service between Florida and

Cuba, in cooperation with the telephone company there. This system can transmit up to 200 miles without relay stations. It may prove suitable for carrying television programs also.

The Laboratories are also trying out a new microwave radio relay system. This is economical for carrying telephone conversations or television over distances of 100 to 200 miles. Another system now under development in the Laboratories will be able to carry four times as many conversations as the radio relay systems today in use across the continent.

This year we shall test out a method for sending several conversations at the same time over local telephone wires. This will be done in very fast pulses—more than a million a second. Transistors and other miniature apparatus will keep the pulses accurate. The tests will be made over wires interconnecting central offices in a large city—"exchange trunks," we call them. This may well be the start of multiplying local voice paths on existing lines as we now multiply long distance paths. It holds tremendous promise for the future.

As use of the transistor spreads, the 1956 Nobel Prize in physics has been awarded to its inventors: Dr. Walter H. Brattain of Bell Laboratories, and Drs. William Shockley and John Bardeen, former members of the staff. They invented the transistor when all three men were working at the Laboratories.

Telephone progress in large measure grows out of new

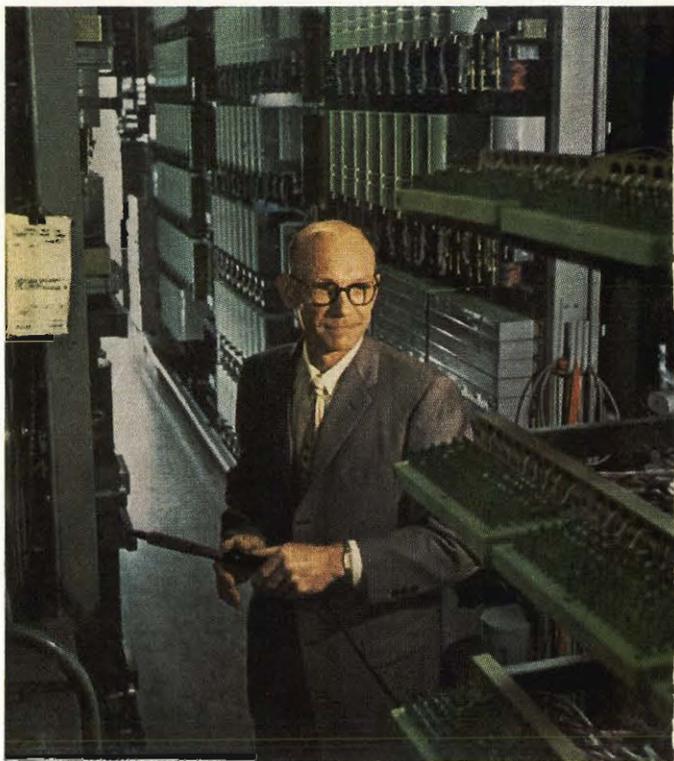
Western Electric is enlarging existing plants and building new ones. This addition is at Allentown, Pennsylvania.





Above is one of several mobile telephone offices used to help speed service to new housing developments while permanent central offices are being built.

This is a view inside the trailer. When the permanent telephone office is ready, the trailer is moved to a new location.



systems, new devices, new structures, new concepts, new physical principles, new materials. At Bell Laboratories, research goes to the heart of the matter and builds out from there. And sometimes the result of a fundamental study may be far more important than it is spectacular. To end this glance at current research, let us mention just one case in point.

Thousands of miles of telephone cable have an outer covering of polyethylene. It is a fine, tough, durable material. But light affects it, and so does oxygen in the atmosphere. To protect against light, we add carbon black. To protect against oxidation, we add another chemical. But until recently, chemicals used for this purpose have lost some of their effectiveness in the presence of carbon black. The problem was to find new chemicals which would not have this weakness.

Now this problem has been solved. New ingredients have been discovered which actually work better with carbon black than without it. The result should be to lengthen the life of polyethylene sheathing and increase the sturdiness and dependability of telephone cables.

1956 Earnings and Financing

Bell System earnings in 1956 are given in the financial statements and also in the summary on page 4. In brief, the System earned \$13.16 per share of A. T. & T. stock, based on the much larger average number of shares outstanding than in 1955, when \$13.10 per share was earned.

As the summary also shows, we paid \$9 per share in dividends. And the amount of earnings after dividend payments was sufficient to increase somewhat the total retained earnings behind each share of stock outstanding at the end of the year. Share owners of record on September 14 also received valuable rights which entitled them to subscribe for one new share at par, \$100 a share, for each ten shares held.

The total number of shares so offered was 5,726,000. Some 5,715,000 shares (99.8 per cent of those offered) were purchased. More than half the share owners used their rights to buy stock and bought more than two-thirds of the issue.

The average market value of the rights was \$6.93. This is the eighth time since 1946 that our share owners have had rights to subscribe to new securities. The market value of such rights for each share has totaled about \$22.

About 60 per cent of the 62,894,000 shares outstanding at the end of 1956 have been sold in the postwar period following the issuance of rights to share owners to subscribe for convertible debentures or stock. In fact more than 31 million shares have been so issued since 1950.

This is not surprising. Our business and service and physical plant have grown more in the postwar years than in all the years before. This could only be done by employing much new capital, both equity and debt. Still it is worth noticing that the larger part of all our equity capital has been obtained through offers to share owners during this period. While receiving regular dividends each year, share owners have also had frequent opportunity to increase their investment on favorable terms. At the same time, taking the postwar period as a whole, we have maintained a sound financial structure, kept our indebtedness at a reasonable level, and strengthened the share owners' position through a moderate increase in the retained earnings which help to protect each share of stock.

Total capital obtained in 1956 was approximately

Bell System
Capital
IN BILLIONS



\$1,350,000,000. Of this, \$558 million came from the sale of bonds; these included \$250 million of A. T. & T. bonds sold in July and \$308 million of other issues sold by seven subsidiary companies. From the offering of stock at par, \$566 million was obtained. The Company also received \$149 million as convertible debentures were converted into 3,151,000 shares of stock, and employees who are buying stock made installment payments of \$85 million. In all, 3,773,000 A. T. & T. shares were issued.

Sales of Western Electric Company to the Bell telephone companies in 1956 were \$1,648,875,000, compared with \$1,230,915,000 in 1955. Sales to others, mainly the defense departments of the Government, increased the total to \$2,372,726,000, compared with \$1,853,299,000 in 1955. Western's earnings for the year, exclusive of certain items pertaining to prior years, were \$75,054,000 or 3.2 per cent of sales.

In May Western Electric sold 1,411,666 shares of stock. This financing provided \$63,525,000 additional capital to Western and increased its outstanding shares to 14,116,666.

We Are Working Hard to Improve Earnings

Early in this report we said that the foundation of our success must always be to give good service. And this means progressively better service: service always so attractive that it will win and keep public favor. To prosper we must serve well. Not fairly well, or moderately well, but very well—as well as we can.

However, it is just as true that to serve well we must prosper. This coin like any other has two sides.

Right now, in common with all other business, we are experiencing higher costs of operation, including higher wage costs. We cannot escape this, for we must have able people and pay to get them.

Our efficiency keeps improving, yes. We have continuously better equipment and operating methods. But the costs that arise from inflation are much greater than these savings.

This is one reason why we need to increase telephone rates in many areas. The Bell companies now have applications pending for increases which total some \$130,000,000 annually. Other applications will be made and the companies intend to pursue this program with all possible energy.



*Part of the organization which handled
subscriptions to the Company's
offering of stock at par
worked in our auditorium
at 50 Varick Street,
New York.*

We are sure as we can be that in the long run, ample earnings will bring better service to telephone users at less cost to them. The reasons are simple but far-reaching. Genuinely good earnings make possible fully adequate financing on sound terms. They permit long-range economies in engineering, construction and operation. They pay the cost of intensified research and pioneering which produce further improvements and savings.

Last year and in 1955 the Bell System earned 6.8 per cent on its total capital. This was better than in the other postwar years. Still it was less than the System earned in earlier years of high business activity; and in these times of unprecedented growth, with the need to obtain billions of dollars of new capital from investors, earnings above the present level are required.

In this rising economy, successful nonregulated industry earns two or three times as much on investment as the Bell companies have earned under regulation. While a regulated business may not equal nonregulated companies in earnings.

the present disparity is certainly greater than it should be. To meet our obligations to share owners and users alike, we are doing our utmost to improve our relative earnings position. The regulatory bodies know that the billions of dollars needed to finance telephone growth will be forthcoming only if they authorize rates that produce healthy earnings. We are sure the regulators desire us to meet every need and meet it well. We are confident they will recognize their joint responsibility in enabling us to give all the service people want, and the kinds of service they ask for.

Defense Activities Increased Last Year

As you know we do a great deal of work to help in the national defense. We did more in 1956 than in any year since World War II. The times require it and the Government looks to the Bell System to take assignments for which we are specially qualified.

The very growth of the telephone system makes it an ever stronger national bulwark. And we always keep defense considerations in mind as we plan and build new routes to meet general needs. This often requires special construction to insure that emergency services will be maintained in event of war damage. Work is also going right ahead on the SAGE air defense system which will tie radars and weapons together through a chain of electronic computing centers. This will use great quantities of interconnecting circuits supplied by the telephone companies.

On work of this kind we cooperate closely with the non-Bell telephone organizations, as we do in our merchandising efforts, in extending direct dialing, and in meeting many other problems. The fine relations throughout the industry are important to defense and to all telephone progress.

Bell Laboratories last year continued to work on military communications, guided missiles, and new electronic devices needed for defense. It is also taking a major part in developing guidance systems for the Air Force's intercontinental and intermediate-range ballistic missiles. Western Electric produced Nike missile systems in quantity and also began production of new Nike systems that have a much longer range. Building construction on the Distant Early Warning Line has been nearly finished and installation of detection and communications equipment will be completed on sched-

ule this year. In Alaska, the first section of the "White Alice" communication network was turned over to the Air Force late in 1956. When completed in 1958, this system will link Alaskan defense outposts and cities across a distance of 3,100 route miles. In New Mexico, Western Electric's subsidiary, the Sandia Corporation, continued its management of the Sandia Laboratory of the Atomic Energy Commission. This Laboratory develops, designs and tests atomic weapons.

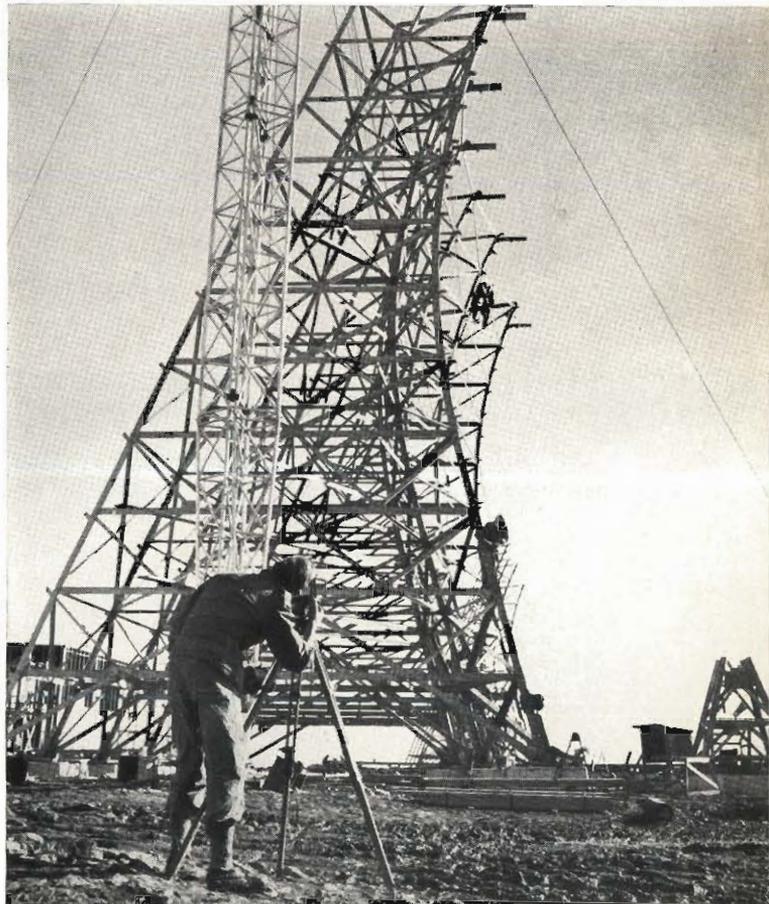
The Business Grows As Its People Grow

Our report began with the thought of working together to bring people together. We'd like to end with a few facts and thoughts about the people who are working together.

Your business—and what the public thinks of it—depends mainly on the people who work in it. To be sure we use many wonderful machines. We couldn't do without

CONSTRUCTING "WHITE ALICE"

Giant antennas like this serve the high-powered microwave radio system employed in "White Alice"—the name given to the Air Force's new defense communication network in Alaska.



them. But people invent the machines, and build and install them, and use them, and are responsible for them. It is always the people who give the service, and give it the personal touch.

We ask the public at regular intervals what they think about the service and about the Bell System. And we know this: telephone users who are acquainted with telephone employees, and see them and talk with them, usually have a better understanding of what we are trying to do, and a higher regard for our efforts, than those who do not.

Naturally this all begins with the kind of service we give, and the kind of people we are. But we think we help our community living, and public understanding that this is a business of people, by doing all we can to keep telephone men and women really well informed about the business. This is a continuous process, for there are always people going out of the Bell System and others coming in. Right now, for example, while more than 115,000 employees have been with us 25 years or more, some 345,000 have served less than five years. But whether they are old or young in experience, the part they take in their communities, and their skills and spirit and understanding of what telephone users expect of them, are the greatest asset we have.

A business expanding as ours is can only grow well if its people grow well. Perhaps that sounds a little obvious. It may sound less so when we add that in the next ten years, we expect more than 80,000 Bell System men and women to



Telephone people serve their communities as good citizens. Here is a telephone woman with some of the members of her Sunday School class . . .

... and this telephone man, in his spare time, installed the first water system in the tiny village where he lives. Visiting a neighbor, he shares her pleasure in the result.



take new posts in management with increased responsibility.

With this prospect, we have already broadened management development activities (or better stated, activities to help management people develop themselves). And we intend to do more. Since many of our future supervisors will be moving into management for the first time, several of the Bell companies are organizing additional training to aid in this first step. Also, practically all the companies have established schools for middle management people and are conducting training conferences organized specifically for them. These activities are all in addition to continuous programs for training nonsupervisory employees.

As mentioned earlier, wage levels again rose in 1956. The wage increases negotiated between Bell System companies and the unions were in keeping with the general rise in wage levels in the communities where the companies operate. In recent months some of the companies have instituted group life insurance programs which are financed jointly by the companies and the participating employees. Other companies are considering similar programs.

Last year the companies of the System paid out or set aside \$312,000,000 (an amount equal to 8.7 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 pension funds

accrued on an actuarial basis; these funds can be used only for service pension payments. At the end of the year 41,745 retired employees were receiving service pensions: 21,585 men and 20,160 women.

We're particularly glad to report that Bell telephone people have again earned the highest honor award of the National Safety Council. The Council tells us the communications industry stays in first place with its safety record. But we want to cut accidents even further. For example, with 80,000 telephone trucks and cars on the road, the companies are giving added training to stress "the Three C's" of safe driving—Courtesy, Concentration, and Control.

There are a good many figures in this report but we'd like to mention just two more. Both are important.

The first is 31. Thirty-one telephone men and women last year were awarded Theodore N. Vail Medals for exceptional service in emergencies. We're deeply proud of their devotion and skill and we hope you will be also.

The other number is 183,000. This is the membership of the Telephone Pioneers of America. All who have served in the telephone industry for 21 years are eligible and 97 per cent of the eligibles have chosen to be members. The Pioneers, both active and retired, keep the spirit and fellowship of their calling. Their organization means much to the business and much to them. It is another fine and enduring example of working together to bring people together.

This is a many-sided business. It needs the best efforts of many people. But those efforts are greatly strengthened because our goal is clear. We aim to give the best and most valuable telephone service in the world. This is the sure way to broaden opportunity and keep your investment working profitably for you. With great confidence in the future, we express again to every share owner our sincere appreciation for your personal interest and support. We are deeply aware that it is your faith and your investment which make our progress possible. All of us on the Board of Directors and throughout the organization will continue to do everything in our power to justify the trust you have placed in us.

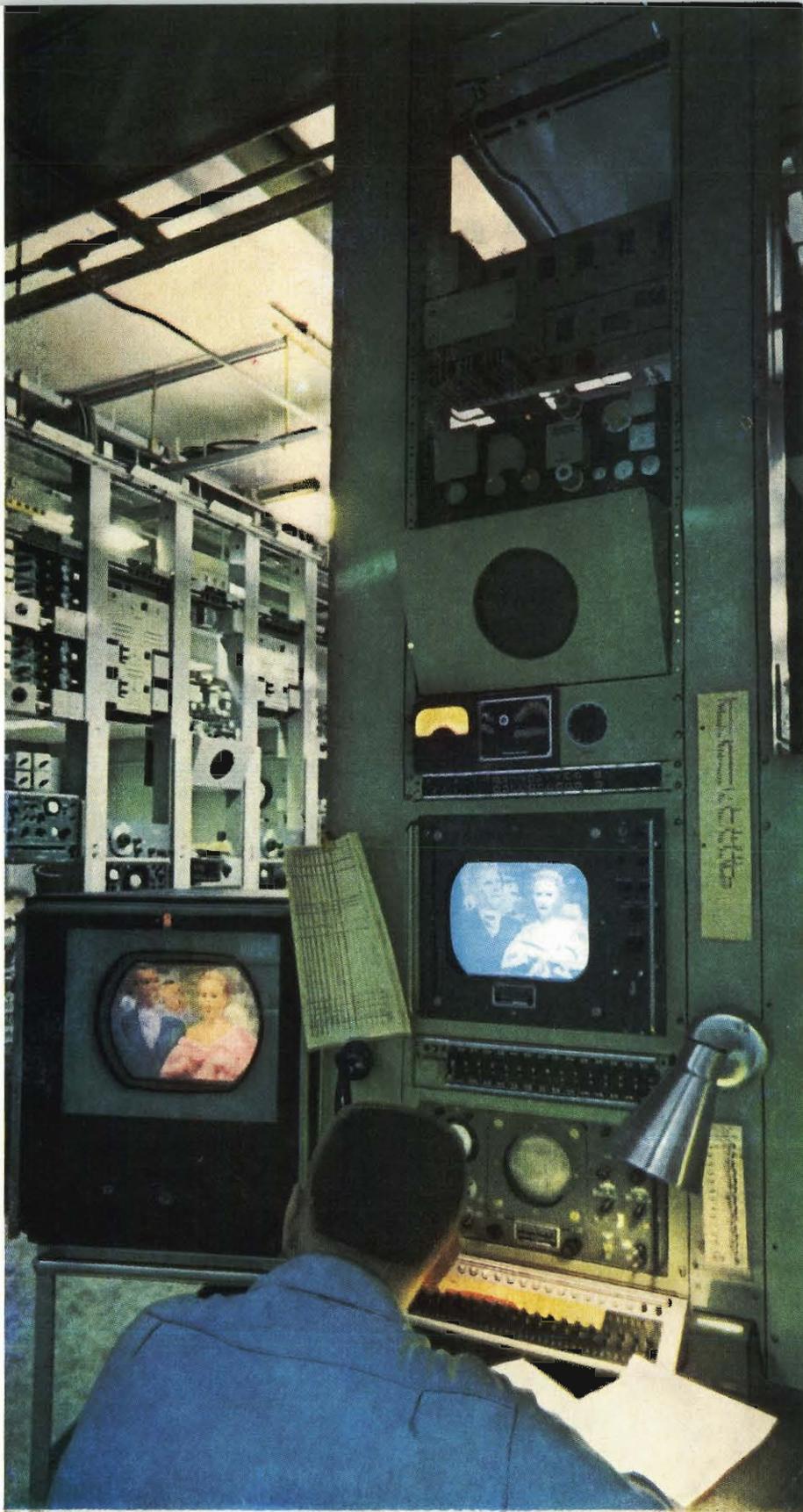


February 13, 1957

PRESIDENT

**SWITCHING
TV NETWORK
PROGRAMS**

*With split-second
timing, telephone men
in many different
cities switch
television programs
carried over the
Bell System network.*



certificate of audit

New York, N. Y.
February 13, 1957

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, 1956, the consolidated balance sheet of the Company and its principal telephone subsidiaries as of December 31, 1956, and the related statements of income and retained earnings for the year 1956. 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, 1956 and of the statements of income and retained earnings for the year 1956 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 1956 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, 1956 and the related statement of consolidated income of these companies for the year 1956, 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, 1956 and the results of operations for the year 1956 of American Telephone and Telegraph Company and the consolidated position at December 31, 1956 and the consolidated results of operations for the year 1956 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 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 the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission.

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.

BELL SYSTEM

[American Telephone and Telegraph Company]

consolidated

ASSETS

PLANT AND OTHER INVESTMENTS	December 31, 1956	December 31, 1955
Telephone Plant (a)		
Telephone Plant in Service.....	\$16,470,144,997	\$14,970,657,119
Telephone Plant under Construction.....	584,919,561	351,910,986
Property Held for Future Telephone Use.....	16,915,456	14,568,947
Telephone Plant Acquisition Adjustment.....	2,225,600	3,358,152
	<u>\$17,074,205,614</u>	<u>\$15,340,495,204</u>
Less: Depreciation Reserve.....	4,113,774,382	3,899,461,309
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$12,960,431,232</u>	<u>\$11,441,033,895</u>
Miscellaneous Physical Property.....	8,317,586	3,725,917
Investment in Subsidiaries not consolidated (b).....	745,245,326	650,637,094
Other Investments—at cost.....	102,593,852	82,060,951
<i>Principally investments in associated telephone companies.</i>		
Total	<u>\$13,816,587,996</u>	<u>\$12,177,457,857</u>

CURRENT ASSETS

Cash and Demand Deposits.....	\$ 106,559,970	\$ 104,464,774
Temporary Cash Investments.....	1,207,773,504	1,272,102,128
<i>Principally U. S. short-term obligations.</i>		
Special Cash Deposits.....	7,868,690	9,599,365
Receivables	679,347,561	594,995,778
<i>Amounts due for service (less reserves for uncollectibles), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	211,233,284	176,465,495
<i>Principally for construction and maintenance purposes</i>		
Total Current Assets	<u>\$ 2,212,783,009</u>	<u>\$ 2,157,627,540</u>

DEFERRED CHARGES

Prepayments of Directory Expenses, Rents, Taxes, etc.....	\$ 96,628,015	\$ 87,114,269
Other Deferred Charges.....	80,572,213	57,442,317
Total Deferred Charges	<u>\$ 177,200,228</u>	<u>\$ 144,556,586</u>
Total Assets	<u>\$16,206,571,233</u>	<u>\$14,479,641,983</u>

For notes, see page 32.

Balance Sheet

LIABILITIES

CAPITAL STOCK EQUITY	December 31, 1956	December 31, 1955
American Telephone and Telegraph Company		
Common Stock—Par Value (\$100 per share).....	\$ 6,289,388,900	\$ 5,411,596,000
<i>At December 31, 1956, authorized 100,000,000 shares; outstanding, 62,893,889 shares. See note (b) on page 37.</i>		
Common Stock Subscribed.....	11,964,600
Common Stock Installments—see note (c) on page 37..	156,909,315	76,089,368
Premium on Common Stock	1,780,815,328	1,630,721,133
<i>Amount received in excess of par value.</i>		
Retained Earnings		
Reserved (c)	8,122,052	17,658,929
Unappropriated	1,308,856,443	1,063,982,700
Total Retained Earnings (see page 31).....	<u>\$ 1,316,978,495</u>	<u>\$ 1,081,641,629</u>
Total Applicable to A. T. & T. Co. Stock ..	<u>\$ 9,556,056,638</u>	<u>\$ 8,200,048,130</u>
Subsidiaries Consolidated—stocks held by public		
Common Stock	\$ 250,928,200	\$ 215,703,200
Preferred Stock	17,904,300	17,904,300
Retained Earnings	18,982,210	14,692,425
Total Applicable to Stocks of Subsidiaries Held by Public	<u>\$ 287,814,710</u>	<u>\$ 248,299,925</u>
Total Capital Stock Equity	<u>\$ 9,843,871,348</u>	<u>\$ 8,448,348,055</u>
FUNDED DEBT		
American Telephone and Telegraph Company		
Convertible Debentures	\$ 29,986,400	\$ 345,645,600
Other Debentures—see note (d) on page 37.....	1,940,000,000	1,690,000,000
Subsidiaries Consolidated (d).....	2,648,000,000	2,340,000,000
Total Funded Debt	<u>\$ 4,617,986,400</u>	<u>\$ 4,375,645,600</u>
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 106,000,000	\$ 152,000,000
Accounts Payable	516,902,583	464,854,885
Advance Billing for Service and Customers' Deposits.....	138,581,811	127,780,448
Dividends Payable	142,410,891	115,653,156
Taxes Accrued	740,948,000	706,968,050
Interest Accrued	42,487,717	37,169,251
Other Current Liabilities.....	27,997,455	29,169,199
Total Current and Accrued Liabilities ..	<u>\$ 1,715,328,457</u>	<u>\$ 1,633,594,989</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net.....	\$ 25,420,032	\$ 19,212,497
Other Deferred Credits.....	3,964,996	2,840,842
Total Deferred Credits	<u>\$ 29,385,028</u>	<u>\$ 22,053,339</u>
Total Liabilities	<u>\$16,206,571,233</u>	<u>\$14,479,641,983</u>

BELL SYSTEM

[American Telephone and Telegraph Company]

consolidated

OPERATING REVENUES	Year 1956	Year 1955
Local Service Revenues	\$ 3,368,607,868	\$ 3,086,454,857
Toll Service Revenues	2,176,240,700	1,959,667,241
Miscellaneous Revenues	297,243,219	264,967,317
<i>Principally directory advertising.</i>		
Less: Uncollectible Operating Revenues	16,794,102	14,046,241
Total Operating Revenues (e).....	\$ 5,825,297,685	\$ 5,297,043,174
OPERATING EXPENSES		
Current Maintenance	\$ 1,242,253,787	\$ 1,098,093,507
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation Expense	535,226,642	487,785,817
<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 3.8% in 1956 and 3.7% in 1955 of average investment in depreciable plant.</i>		
Traffic Expenses	937,163,017	900,411,976
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	529,811,847	474,923,429
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	52,693,698	47,801,145
General and Miscellaneous Expenses		
General Administration	36,089,160	32,808,687
Accounting and Treasury	238,596,577	214,153,609
Development and Research (f).....	32,503,410	27,398,461
Provision for Employees' Service Pensions.....	162,902,978	151,503,463
Employees' Sickness, Accident, Death and Other Benefits.	48,684,195	46,631,081
Other General Expenses	111,890,775	96,915,976
Less: Expenses Charged Construction	51,154,404	43,791,603
Total Operating Expenses	\$ 3,876,661,682	\$ 3,534,635,548
Net Operating Revenues	\$ 1,948,636,003	\$ 1,762,407,626
OPERATING TAXES		
Federal Taxes on Income.....	\$ 695,226,893	\$ 626,939,691
Other Taxes—principally State, local and Social Security	462,523,280	414,477,922
Total Operating Taxes	\$ 1,157,750,173	\$ 1,041,417,613
Net Operating Income (carried forward)	\$ 790,885,830	\$ 720,990,013

For notes, see page 32.

Income Statement

	Year 1956	Year 1955
Net Operating Income (<i>brought forward</i>).....	\$790,885,830	\$720,990,013
OTHER INCOME		
Dividends from subsidiaries not consolidated (g).....	\$ 50,937,816	\$ 44,110,070
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (h).....	31,170,275	20,347,422
Dividends from other companies.....	6,927,505	6,632,372
Miscellaneous income (i).....	49,905,694	29,791,326
Less: Miscellaneous deductions from income.....	7,431,828	6,988,380
Income Available for Fixed Charges	<u>\$922,395,292</u>	<u>\$814,882,823</u>
FIXED CHARGES		
Interest on Funded Debt.....	\$136,593,286	\$123,250,263
Other Interest	8,577,780	8,545,942
Less: Release of Premium on Funded Debt—net.....	566,857	456,831
Net Income	<u>\$777,791,083</u>	<u>\$683,543,449</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	20,782,971	18,225,775
Net Income Applicable to A. T. & T. Co. Stock	<u>\$755,933,854</u>	<u>\$664,243,416</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (j).	\$13.16	\$13.10

Statement of Consolidated Retained Earnings Applicable to American Telephone and Telegraph Company Stock—Year 1956

BALANCE—DECEMBER 31, 1955	\$1,081,641,629
Net Income applicable to A. T. & T. Co. Stock	\$ 755,933,854
Profit on sales of securities	1,126,817
Adjustment of prior years' tax accruals	1,500,542
Miscellaneous additions	67,408
TOTAL ADDITIONS	<u>\$ 758,628,621</u>
Dividends on A. T. & T. Co. Stock	\$ 516,803,616
Organization and Capital Stock Expense charged off	4,374,873
Amortization of Telephone Plant Acquisition Adjustment	1,021,681
Miscellaneous deductions	1,091,585
TOTAL DEDUCTIONS	<u>\$ 523,291,755</u>
BALANCE—DECEMBER 31, 1956	<u>\$1,316,978,495</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) Comprises \$566,048,624 at December 31, 1956 and \$503,370,965 at December 31, 1955, representing cost of investments, and \$179,196,702 at December 31, 1956 and \$147,266,129 at December 31, 1955, representing proportionate interest in the net assets of subsidiaries not consolidated in excess of such cost.

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

(d) Of the funded debt of subsidiaries consolidated, \$168,000,000 matures from 1960 to 1970, \$470,000,000 from 1971 to 1980, and \$2,010,000,000 thereafter. Two subsidiaries have sold an aggregate of \$70,000,000 of debentures since December 31, 1956 and one subsidiary has authorized the sale of \$40,000,000 of mortgage bonds.

(e) Total Operating Revenues include approximately \$9,400,000 in 1956 and \$5,700,000 in 1955 with respect to which reservations of retained earnings have been made against contingency of refunds to customers in connection with certain pending rate proceedings.

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

(g) Includes dividends of \$49,458,558 in 1956 and \$42,886,891 in 1955 from Western Electric Company.

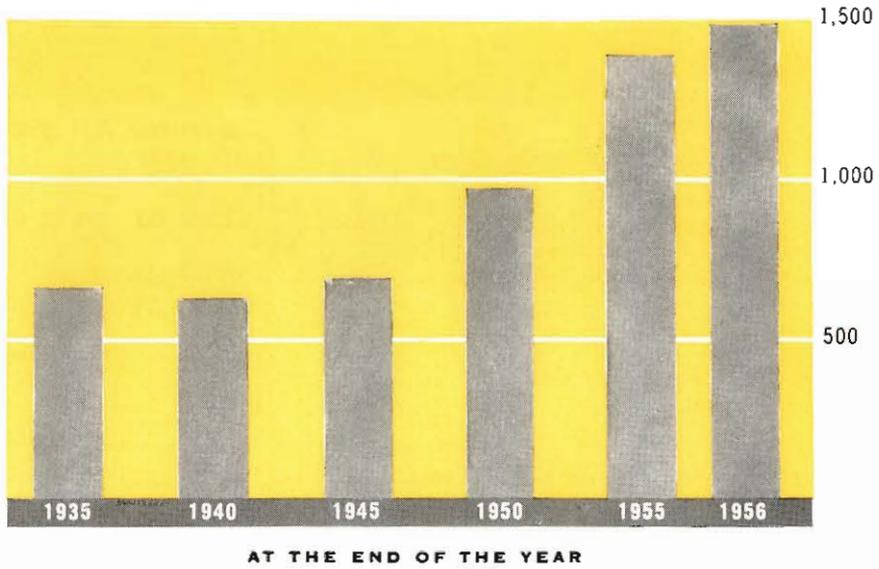
(h) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$31,427,384 in 1956 and \$20,337,125 in 1955.

(i) Includes \$22,625,977 in 1956 and \$13,557,666 in 1955 for interest charged construction, and \$24,072,275 in 1956 and \$12,909,087 in 1955 for interest on government securities.

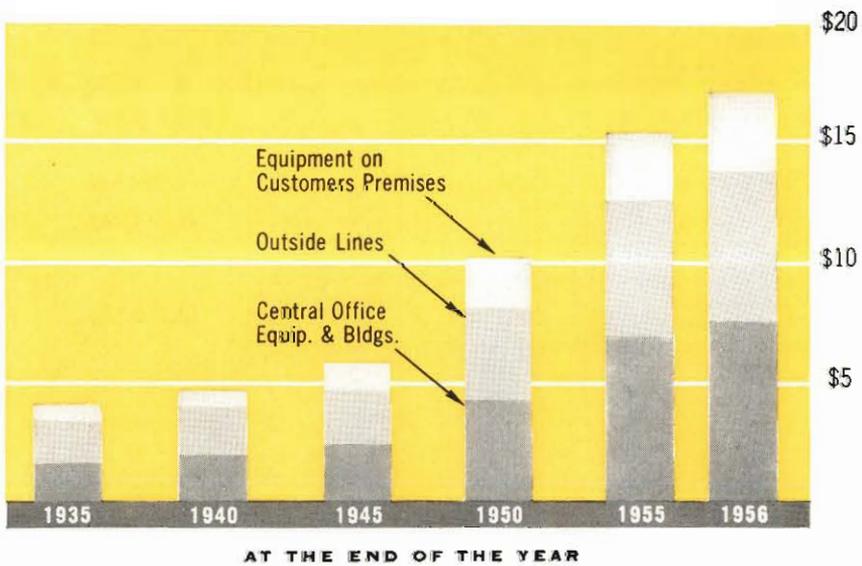
(j) Based on average shares outstanding—57,422,624 in 1956 and 50,705,669 in 1955.

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 \$2,382,394,350 on December 31, 1956 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

b a l a n c e

ASSETS

	December 31, 1956	December 31, 1955
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$ 1,390,490,149	\$1,280,649,621
Telephone Plant under Construction.....	96,022,969	45,656,088
Property Held for Future Telephone Use.....	625,190	708,240
	<u>\$ 1,487,138,308</u>	<u>\$1,327,013,949</u>
Less: Depreciation Reserve.....	523,237,088	490,881,354
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$ 963,901,220</u>	<u>\$ 836,132,595</u>
Investments in Subsidiaries—at cost (see page 38).....	8,764,632,993	7,670,242,113
Stocks	\$8,477,104,861	
Advances	287,528,132	
Other Investments—at cost (see page 38).....	89,252,298	68,188,937
Stocks	\$ 67,872,877	
Advances	21,000,000	
Miscellaneous	379,421	
Total	<u>\$ 9,817,786,511</u>	<u>\$8,574,563,645</u>
 CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 16,110,331	\$ 16,183,006
Temporary Cash Investments.....	1,207,773,504	1,272,102,128
<i>Principally U. S. short-term obligations.</i>		
Special Cash Deposits.....	1,954,786	2,007,891
Receivables	63,145,526	53,365,853
<i>Amounts due for service (less reserve for uncollectibles), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies.....	18,975,253	14,121,917
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 1,307,959,400</u>	<u>\$1,357,780,795</u>
 DEFERRED CHARGES	 \$ 10,911,397	 \$ 6,990,963
Total Assets	<u><u>\$11,136,657,308</u></u>	<u><u>\$9,939,335,403</u></u>

For notes, see page 37.

nd Telegraph Company

s h e e t

LIABILITIES

	December 31, 1956	December 31, 1955
CAPITAL STOCK EQUITY		
Common Stock—Par Value (\$100 per share).....	\$ 6,289,388,900	\$5,411,596,000
<i>At December 31, 1956, authorized 100,000,000 shares; outstanding, 62,893,889 shares. (b)</i>		
Common Stock Subscribed.....	11,964,600
Common Stock Installments (c).....	156,909,315	76,089,368
Premium on Common Stock.....	1,780,815,328	1,630,721,133
<i>Amount received in excess of par value.</i>		
Retained Earnings (see page 37).....	659,201,434	561,729,110
Total Capital Stock Equity.....	<u>\$ 8,898,279,577</u>	<u>\$7,680,135,611</u>
 FUNDED DEBT		
Convertible Debentures	\$ 29,986,400	\$ 345,645,600
Other Debentures (d).....	1,940,000,000	1,690,000,000
Total Funded Debt	<u>\$ 1,969,986,400</u>	<u>\$2,035,645,600</u>
 CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	\$ 47,383,408	\$ 36,749,603
Dividend Payable	141,503,155	114,745,419
Taxes Accrued	50,427,113	50,066,024
Interest Accrued	17,742,188	15,367,856
Total Current and Accrued Liabilities	<u>\$ 257,055,864</u>	<u>\$ 216,928,902</u>
 DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net.....	\$ 11,062,029	\$ 6,227,826
Other Deferred Credits	273,438	397,464
Total Deferred Credits	<u>\$ 11,335,467</u>	<u>\$ 6,625,290</u>
Total Liabilities	<u>\$11,136,657,308</u>	<u>\$9,939,335,403</u>

American Telepho

income statement

OPERATING REVENUES	Year 1956	Year 1955
Toll Service Revenues (e).....	\$354,000.865	\$319,688.330
License Contract Revenues.....	54,972.525	49,918.656
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues.....	20,567.877	19,086.631
Less: Uncollectible Operating Revenues.....	1,403,439	1,157,940
Total Operating Revenues	<u>\$428,137,828</u>	<u>\$387,535,677</u>
OPERATING EXPENSES (f)		
Current Maintenance	\$ 86,649.114	\$ 74,194.287
Depreciation Expense	49,335,208	45,973,658
<i>Represented approximately 3.8% in 1956 and 3.7% in 1955 of average investment in depreciable plant.</i>		
Traffic Expenses	35,952,670	34,944.766
Commercial Expenses	17,148.795	14,445.595
Operating Rents	5,636.177	4,496.209
General Administration	18,301.747	15,951.374
Accounting and Treasury Expenses.....	18,841.220	15,628.838
Development and Research (g).....	32,503.410	27,398.461
Provision for Employees' Service Pensions.....	9,642.463	9,193.962
Employees' Sickness, Accident, Death and Other Benefits..	3,045.985	2,919.789
Other General Expenses.....	14,275.322	11,258.614
Less: Expenses Charged Construction.....	2,172.324	1,661.208
Total Operating Expenses	<u>\$289,159,787</u>	<u>\$254,744,345</u>
Net Operating Revenues	<u>\$138,978,041</u>	<u>\$132,791,332</u>
OPERATING TAXES		
Federal Taxes on Income.....	\$ 49,033.000	\$ 45,201.000
Other Taxes—principally State, local and Social Security..	24,030,000	21,036.904
Total Operating Taxes	<u>\$ 73,063.000</u>	<u>\$ 66,237.904</u>
Net Operating Income	<u>\$ 65,915,041</u>	<u>\$ 66,553,428</u>
OTHER INCOME		
Dividend Income—principally from subsidiaries.....	\$574,199.411	\$512,529.527
Interest Income (h).....	38,068.726	22,395.342
Miscellaneous Income	1,410.880	2,238.546
Less: Miscellaneous Deductions from Income.....	1,753.358	627,893
Income Available for Fixed Charges	<u>\$677,840,700</u>	<u>\$603,088,950</u>
FIXED CHARGES		
Interest on Funded Debt.....	\$ 59,108.671	\$ 55,648.855
Other Interest	2,496.917	1,580.655
Less: Release of Premium on Funded Debt—net.....	255,095	185,927
Net Income	<u>\$616,490,207</u>	<u>\$546,045,367</u>
Earnings per share (i).....	<u>\$10.74</u>	<u>\$10.77</u>

Statement of Retained Earnings—Year 1956

BALANCE—DECEMBER 31, 1955	\$561,729,110
Net Income	\$616,490,207
Profit on sales of securities.....	836,146
Miscellaneous additions	558
TOTAL ADDITIONS	<u>\$617,326,911</u>
Dividends declared	\$516,803,616
Organization and Capital Stock Expense charged off.....	2,854,361
Miscellaneous deductions	196,610
TOTAL DEDUCTIONS	<u>\$519,854,587</u>
BALANCE—DECEMBER 31, 1956	<u>\$659,201,434</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.

(b) 299,864 authorized and unissued shares were reserved at December 31, 1956 for conversion of the 3 $\frac{7}{8}$ % Debentures due October 1967 convertible at \$144. (The conversion price is subject to adjustment as provided in the Indenture.) There were also reserved 119,646 shares purchased on an installment basis under the 1956 stock offer. 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. The Plan, approved by stockholders in 1950, authorizes the sale of a total of 3,000,000 shares. At December 31, 1956, 1,576,188 shares had been issued under the Plan and installment payments were being made on 1,355,803 shares.

(d) Of these debentures, \$110,000,000 mature in 1970, \$775,000,000 from 1971 to 1980, and \$1,025,000,000 thereafter. In December 1956 the Directors authorized an additional debenture issue of \$250,000,000.

(e) Represents the Company's share of toll revenues of \$1,205,497,000 in 1956 and \$1,063,839,000 in 1955 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) Includes \$23,775,575 in 1956 and \$12,719,895 in 1955 for interest on government securities.

(i) Based on average shares outstanding—57,422,624 in 1956 and 50,705,669 in 1955.

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 \$126,758,819 on December 31, 1956 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, 1956

PRINCIPAL TELEPHONE SUBSIDIARIES	CAPITAL STOCKS (a)			ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co..	\$ 254,741,100	69.29	\$ 259,692,650	\$ 44,300,000
New York Tel. Co.....	1,011,300,000	100.00	1,034,280,335
New Jersey Bell Tel. Co.....	395,000,000	100.00	408,667,184	3,000,000
Bell Tel. Co. of Pennsylvania...	500,000,000	100.00	506,316,050	7,000,000
Diamond State Tel. Co.....	32,000,000	100.00	32,700,000	3,525,000
Chesapeake & Potomac Tel. Co.	90,000,000	100.00	91,000,000	6,700,000
Chesapeake & Potomac Tel. Co. of Maryland	185,000,000	100.00	186,467,862	14,000,000
Chesapeake & Potomac Tel. Co. of Virginia	190,000,000	100.00	190,000,000	3,350,000
Chesapeake & Potomac Tel. Co. of West Virginia	77,000,000	100.00	77,000,000	6,925,000
Southern Bell Tel. & Tel. Co..	995,000,000	100.00	996,817,298	9,700,000
Ohio Bell Tel. Co.....	407,000,000	100.00	407,042,298	9,500,000
Michigan Bell Tel. Co.....	365,987,000	99.99	366,399,232	5,000,000
Indiana Bell Tel. Co., Inc.....	144,998,800	99.99	145,585,286	2,075,000
Wisconsin Tel. Co.....	195,000,000	100.00	198,223,802	2,500,000
Illinois Bell Tel. Co.....	518,915,100	99.32	524,396,012	17,300,000
Northwestern Bell Tel. Co.....	300,000,000	100.00	301,039,490	11,800,000
Southwestern Bell Tel. Co.....	994,998,400	99.99	998,251,478	34,700,000
Mountain States Tel. & Tel. Co.	253,350,600	86.74	254,755,564	45,400,000
Pacific Tel. & Tel. Co.....	915,781,400	90.54	911,439,637	56,000,000
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	482,964,079
195 Broadway Corporation....	23,000,000	100.00	23,015,000	4,500,000
Eastern Tel. & Tel. Co.....	(d) 4,999,100	99.98	5,052,424	253,132
Total			\$8,477,104,861	\$287,528,132
OTHER COMPANIES				
Southern New England Tel. Co. \$	29,342,400	21.61	\$ 29,654,232	\$ 21,000,000
Cincinnati & Suburban Bell Tel. Co.	18,637,900	29.82	19,201,362
Bell Tel. Co. of Canada.....	(d) 18,749,800	4.84	18,854,783
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500
Total			\$ 67,872,877	\$ 21,000,000

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Co., Inc.

(c) 14,090,768 shares—no par value.

(d) Canadian dollars.

Facts About the Bell System

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1955	Dec. 31 1956
Number of Telephones (a)	22,445,519	35,343,440	46,218,233	49,437,917
Dial Operated	14,504,851	26,700,319	40,041,368	44,238,202
Per cent Dial Operated..	64.6	75.5	86.6	89.5
Number of Central Offices.	7,374	8,470	9,751	10,038
Miles of Wire:				
In Underground Cable..	60,759,000	86,963,000	116,384,000	126,583,000
In Aerial Cable.....	33,966,000	48,240,000	73,279,000	81,074,000
Open Wire	5,034,000	6,578,000	7,482,000	7,937,000
Total	99,759,000	141,781,000	197,145,000	215,594,000
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	168,936,000	178,610,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$15,340,495	\$17,074,206
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$5,297,043	\$5,825,298
Number of Employees (c)	474,527	602,466	745,629	786,719
Number of A. T. & T. Company Share Owners.	683,897	985,583	1,408,851	1,492,297
Number of A. T. & T. Company Shares Out- standing	20,166,251	28,615,956	54,115,960	62,893,889

* For year ended December 31.

(a) Excludes private line telephones numbering 191,953 on December 31, 1956. Including telephones of some 4,400 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 60,200,000.

(b) For the year 1956 there were approximately 170,873,000 average daily local conversations and 7,737,000 average daily toll and long distance conversations. During 1956 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 9.3 per cent in toll and long distance conversations over the year 1955.

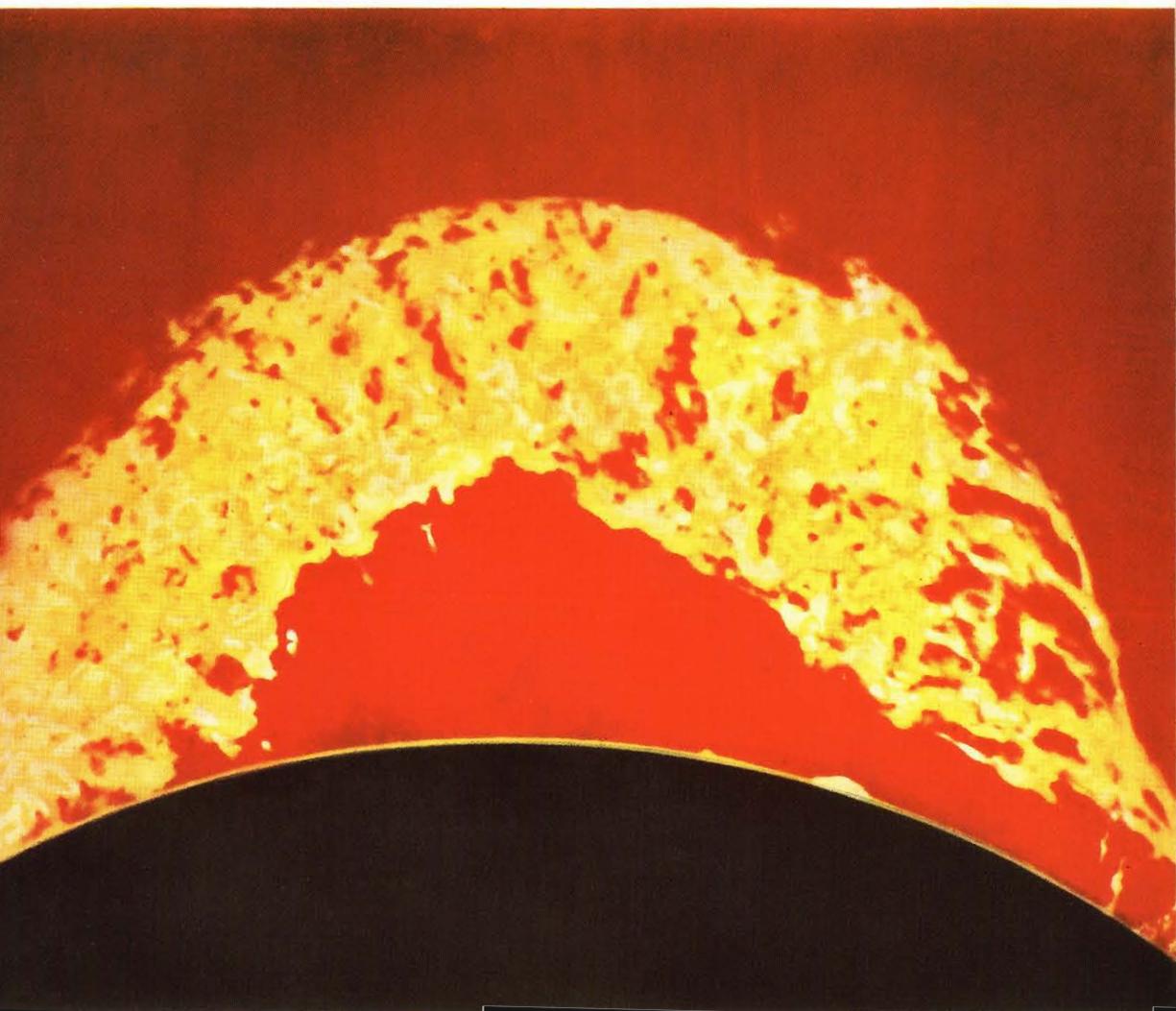
(c) Includes employees of Western Electric Company and Bell Telephone Laboratories.

THE BELL SYSTEM SCIENCE SERIES

ON WEDNESDAY EVENING, March 20, 1957, we shall present "Hemo the Magnificent," the second of our television programs dramatizing progress in science. The first of these, "Our Mr. Sun," was presented last November and showed how the light and energy of the sun support all life on earth. "Hemo the Magnificent" will tell the story of human blood—what it is, how it circulates, and how it nourishes the body. The program will be televised in color over the nationwide CBS network. We suggest you consult your newspaper for the time of showing in your locality.

The purpose of these programs is to show in a dramatic and entertaining way how scientists are working to help mankind toward better and more useful living. We hope they will contribute to a broader understanding of scientific goals, and also stimulate interest in science among young people. The country needs more scientists. The telephone business will always need them, for communication service is based on science and our future success depends largely on scientific progress. These programs therefore are part of our general effort to assure the long-run success of your business.

Frank Capra is the producer and director of "Hemo the Magnificent," as he was of "Our Mr. Sun." The series is under the general supervision of an Advisory Board of distinguished scientists, and other men of eminence in various fields of science serve as special advisers for each program. Films of "Our Mr. Sun" are now available to educational and other groups, and films of the second production will be available after the television performance on March 20.



An explosion on the sun; one scene from the first of the Bell System's television programs on science.

