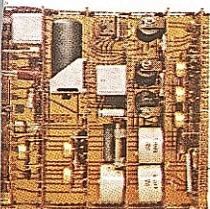


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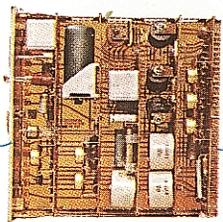
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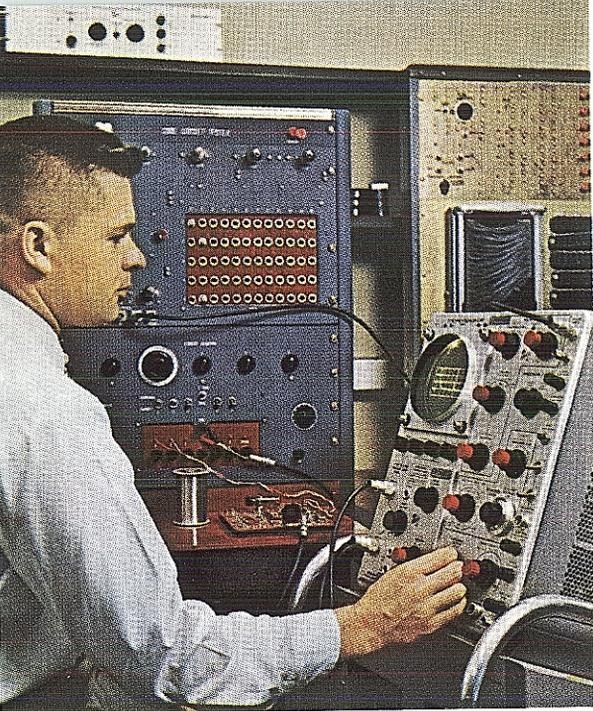


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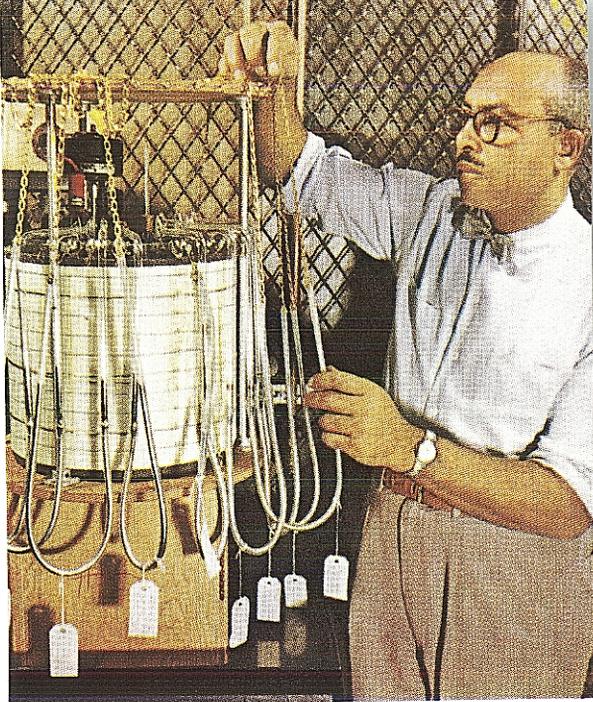


AMERICAN TELEPHONE AND TELEGRAPH COMPANY





Testing the "Twistor," experimental memory device using new knowledge discovered at Bell Telephone Laboratories.



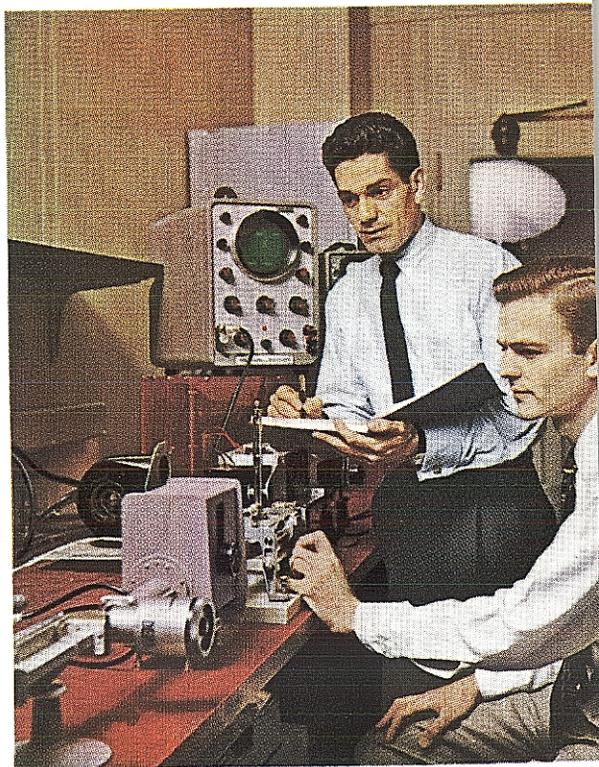
Research in chemistry includes studies of how oxygen and temperature affect polyethylene and various other plastics.

BASIC RESEARCH paces telephone progress

If you will turn to the back of this report, you will find there a brief explanation of the diagram on the cover.



Basic research in solid materials (a model of silicon is shown) produced the transistor and many other new devices.



Investigators study the behavior of a new ferrite, or magnetic oxide device, being developed for telephone use.

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1957

ANNUAL REPORT

American Telephone and Telegraph Company

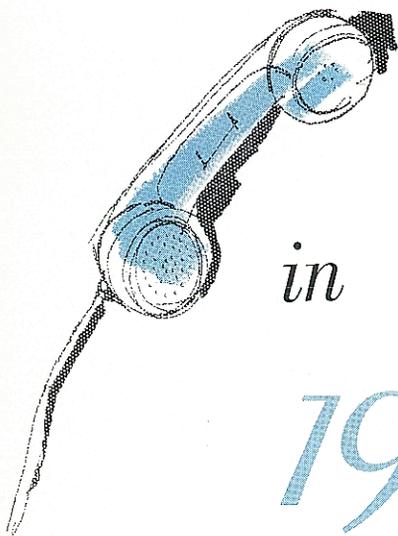
195 Broadway, New York 7, N. Y.

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*The Annual Meeting of
the Share Owners will be
held on April 16, 1958
at the Company's office
at 50 Varick Street
New York, N. Y.*



in
1957

BELL System earnings were \$13 per share of A. T. & T. stock. These earnings were based on the average of 63,811,000 shares outstanding—6,388,000 more than in 1956 and 13,105,000 more than in 1955. After dividends of \$9, earnings per share retained in the business at year-end were \$24.49, compared with \$20.94 at the end of 1956.

Telephones in service increased 2,815,000 to a total of 52,250,000. Long distance conversations rose more than 7 per cent. These gains were somewhat less than the increases of the previous year, but they still represent a tremendous volume of new business.

To enlarge and modernize telephone plant, the System spent more than \$2.5 billion for construction. Of this, about \$1 billion was available from internal sources, mainly depreciation charges and retained earnings, and \$1.5 billion was supplied from new capital obtained toward the end of 1956 and from additional funds raised during 1957.

The funds raised last year totaled about \$1.160,000,000 and were obtained almost entirely through the sale of bonds. At year-end the proportion of debt in total capital was 36 per cent. In January 1958 A. T. & T. share owners authorized a new issue of de-

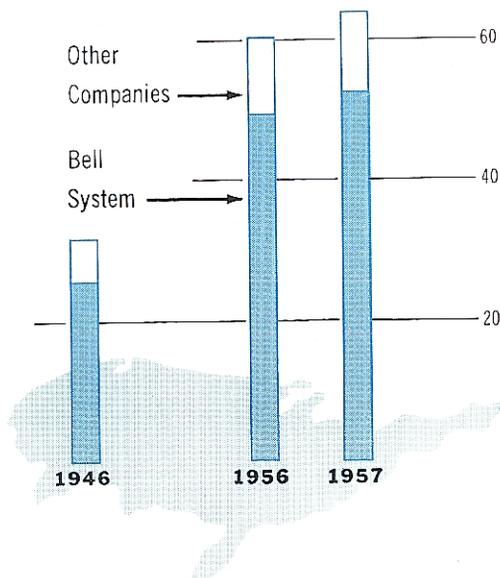
ventures convertible into stock, and a new employees' stock plan. Issuance of new shares under the terms of this financing will increase the proportion of stock capital.

Taxes were \$1,784,000,000, or an average of \$2.92 a month per telephone. Of the total, \$1,269,000,000 (equalling \$19.28 per share of A. T. & T. stock) was in taxes on operations. The remaining \$515,000,000 was in the Federal excise tax paid directly by customers. This tax began as a war-emergency levy; it is discriminatory and should be ended as soon as possible. There is no excise tax on such other necessities as electricity, gas, water, or local transportation. Yet the telephone carries the same 10% "supercharge" as various luxury goods.

The cost of providing service continues to rise. Wage increases in 1957 will increase both operating and construction costs in

Telephones in the United States

IN MILLIONS



BELL SYSTEM FINANCIAL SUMMARY

	1957	1956
Earnings on Capital	6.7%	6.8%
Operating Revenues and Other Income	\$6,459,765,000	\$5,956,807,000
Operating Expenses and Taxes	\$5,434,188,000	\$5,034,412,000
Interest Deductions	\$172,673,000	\$144,604,000
Net Income	\$852,904,000	\$777,791,000
A. T. & T. Shares — Average for Year	63,811,000	57,423,000
— Number at Year-End	64,648,000	62,894,000
Net Income per Average Share	\$13.00	\$13.16

1958. Interest rates on new debt capital are higher than they were a few years ago. These facts emphasize why the Bell companies in many states are pressing for increases in telephone rates. In the long run, as the nation grows it is bound to need much more telephone service. To make sure we meet all needs well, we are bending every effort to raise the level of earnings. This is vital to our success in raising large amounts of new capital year after year, in competition with all other industry.

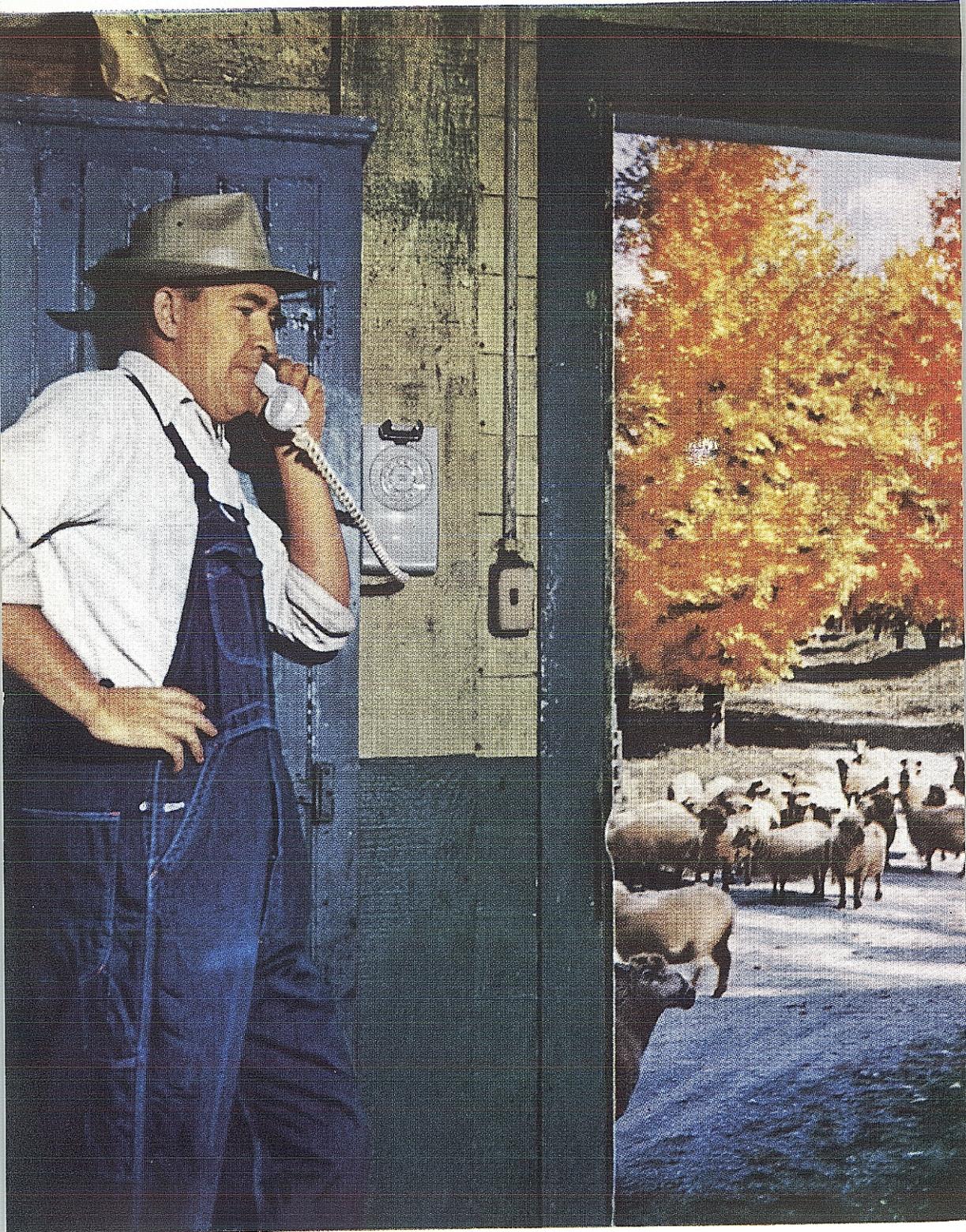
The very growth of telephone service makes it more useful and convenient. Also, we are introducing and spreading many specific betterments. Fewer families are on party lines. More businesses, and more families too, have communication arrangements tailored to their special needs. Some five million customers today can use "DDD"—direct distance dialing—to as many as 30 million other telephones from coast to coast, and another 10 million customers can dial nearby cities and towns.

In October the new telephone cable between the U. S. mainland and Hawaii was opened for service. Since then conversations

have increased about 30 per cent. The first telephone cable across the Atlantic, opened in 1956, is now so heavily used that work has already begun on a second cable which is expected to be ready in 1959.

Underlying all our progress are research at Bell Telephone Laboratories and manufacture of top-quality equipment by Western Electric. In addition, both organizations continue to work on guided missile systems and other vital defense projects.

World events in 1957 strongly emphasize the country's need for science. Basic research at Bell Laboratories has led the way to America's pre-eminence in telephone communications and this we are determined to maintain. In recent years the Laboratories has pioneered new programs to train young scientists and engineers, and has made special arrangements with universities to the same end. Western Electric also has organized training centers for its engineers, and is going ahead with plans for an engineering research center which will concentrate on fundamental problems of production. We believe these efforts will bring new advantage to the Bell System and to the nation.



Portrait of a man who can talk with 115 million other telephones—down the lane and across the world.

1957

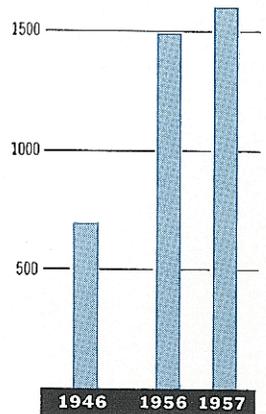
ANNUAL REPORT TO THE SHARE OWNERS

LAST year was a good year for your Company. The summary on the preceding pages gives the main facts in a few words. We made excellent gains in service, earned \$13 per share of A. T. & T. stock though we had many more shares outstanding, and increased the earnings retained in the business after payment of dividends. Our financial structure is sound. Our markets continue to grow. The number of share owners increased more than 110,000, as the chart in the margin shows.

The story of a year is partly the story of capital invested, service rendered, income received, expenses paid, and profits earned. But it is also a story of things begun with an eye to the future. These go all the way from basic research to testing experimental services, training employees for new responsibilities, and obtaining telephone rates that will make for good service and strengthen earnings in years to come.

You will probably get the best picture of the business, therefore, if you will visualize a great many things going on in it all at once, but at different stages of development. With this in mind, besides recording work completed last year, we should also like to tell you about some of the beginnings we have been working on.

AT&T Share Owners
IN THOUSANDS



Of our 1,605,000 owners,
95 percent are individuals.

**Service
Improved
further
in 1957**

PROGRESS IN SERVICE is of course the foundation for everything else in this report. We made good progress in 1957. For example, we changed a million more telephones to dial service. Today 92 per cent of our telephones are dial-operated. In a few more years, just about all of them will be.

Last year also we provided individual lines to 1,600,000 more families; and the number of additional instruments in homes which have more than one telephone increased nearly 1,050,000.

Long distance service was the fastest ever. The average speed of connection was only 72 seconds. Long distance calls dialed directly by telephone users go through almost as fast as local calls.

Overseas telephone service is now provided to 119 countries and territories and the number of conversations went up nearly 20 per cent last year. Between points served by the new ocean cables, the increase was far greater.

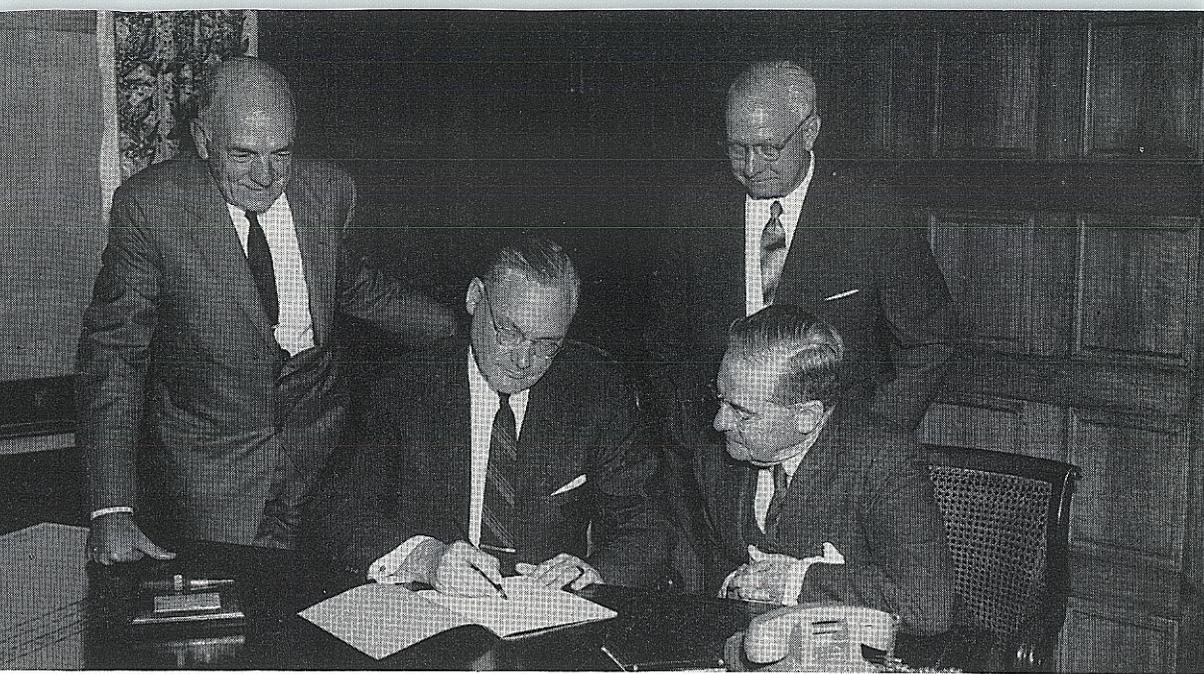
Here we might note a typical example of what we mentioned earlier—work proceeding at different stages. First are the cables in actual service, handling thousands of calls to and from Europe, Alaska and Hawaii. Next is the second transatlantic cable, with contracts signed and manufacture started. Third is an important beginning—a new engineering development now under way at Bell Telephone Laboratories.

This is called TASI.* Today twin ocean cables (one for each direction of talking) can carry 36 conversations at once. What we look forward to is that TASI may as much as double this capacity. This it will do by taking advantage of the times when people are listening or pausing. The voice channels they leave temporarily unused will be automatically assigned to other talkers; and when a listener starts to talk, he will instantly have the use of a channel which another person has left idle.

**Use of
radio is
increasingly
important**

THE GROWING USE OF MICROWAVE RADIO offers another illustration of progress at different stages. A dozen years ago we built our first radio relay system between New York and Boston. Today radio relay routes all over the country provide 12 million miles of telephone circuits, or nearly one-quarter of our entire long distance network. They also furnish

* Short for "Time Assignment Speech Interpolation."



In September Mr. Kappel signed the contract for a second transatlantic telephone cable system which will directly connect the United States and Europe in 1959. Vice president George L. Best, at left, and assistant vice president William G. Thompson, seated, negotiated agreements with communication agencies of France and West Germany. Vice president Henry T. Killingsworth, at right, heads our Long Lines Department which is handling the project for the Bell System.

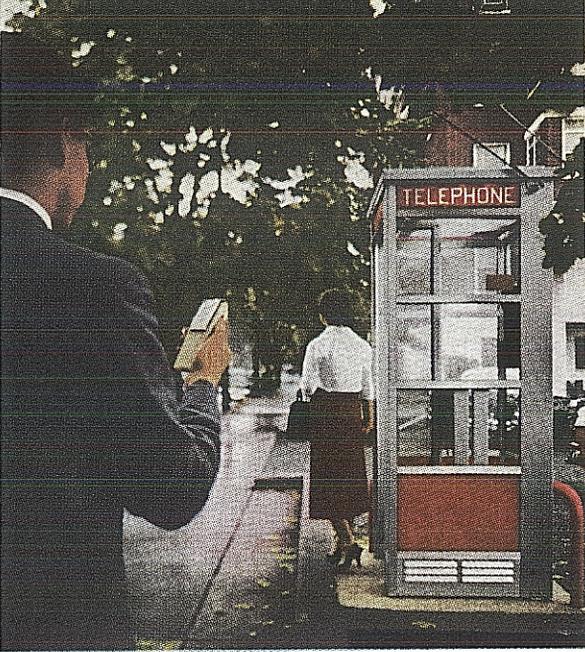


80 per cent of the channels in our television network, which reaches 513 TV stations in 348 cities.

Now we are beginning to build new microwave systems which can provide additional thousands of voice channels on heavily used long distance lines, or efficiently serve "light" routes, as the case may be. We expect also that in the next several years, we shall be able to make microwave radio extremely useful even over very short distances.

In fact, use of radio is sure to be more and more important in enabling us to provide the best and most economical service in years to come. We have therefore asked the Federal Communications Commission to increase the number of microwave frequencies allocated to communication companies. The number of frequencies is limited, and a policy assuring their orderly assignment to companies serving the general public will allow far more efficient use of the radio spectrum than could result from indiscriminate licensing for private operation. Moreover, such a policy is essential to permit expansion of the communication network in ways that will best serve the nation's defense.

We have also asked the Commission for additional fre-



Pocket radio signalling service is under experiment in two cities. A buzz in this receiver means, "Please phone in." The radio signal is sent out from the telephone office when someone asks to have the customer "paged."



Service for air travelers is being tried out experimentally on a number of planes flying the route between Detroit and Chicago. Passengers on these planes may be connected with any telephone in the nationwide network.

NEW IDEAS ARE BEING TESTED

Services starting or on trial

quencies to provide general public service between vehicles and telephones in the nationwide system. Only if more frequencies are available can such service grow and improve.

QUITE A FEW NEW DEVELOPMENTS are making a start in use today. The "message-waiting" light pictured on page 9 is one, and others are pictured on later pages. Still others include: a new transistorized system for increasing the talking paths on rural lines; new equipment for reporting fires or other emergencies from telephones on city streets; telephone instruments in new colors and shades.

Today also we are installing new telephone cables which contain wires insulated by a thin film of polyethylene plastic instead of paper pulp. This is important for several reasons. Moisture can't get through this new protection, so service is more trouble-free. The cable sheathing does not have to be hermetically sealed wherever a wire comes out of the cable to be connected to someone's house. Moreover each pair of wires can have a distinctive color—something not possible before. These advantages mean faster construction



A bedroom telephone is one of several new instruments we are offering in two cities on a trial basis. It is compact and convenient, comes in four new colors, and has a dial-light to make it easy to use in the dark.



The "message-waiting" light is lighted on this telephone in a hotel room. Seeing it, the returning guest knows a message is waiting for him, and that he can get it by telephoning the operator at the hotel switchboard.

of new lines, easier identification of the wires, and simpler maintenance.

Still other new developments were in the stage of testing and experiment in 1957. Some are shown in our photographs. Another is a "drive-up" coin telephone which one can use without getting out of an automobile. Another interesting possibility is to have a centralized ringer for all the telephones in a house, instead of a separate ringer in each instrument. We conduct trials of these and other new ideas to get the reactions of customers, and to help us design the equipment and services people want at prices which they are willing to pay and which will earn a profit.

Last year's report mentioned that we were intensively studying the telephone needs of different industries. These studies are proving very useful. To give one example, the group studying the airlines has made many recommendations to improve communication service in all phases of air transport. In the coming jet age, the nation's airlines expect to carry 72 million passengers annually by 1960. Specially trained telephone people will work closely with the airlines to develop and provide the services needed.



Dataphone service is new and we believe has a big future. It permits sending many kinds of data over ordinary telephone lines through the regular exchange and long distance network.

The user may prepare his data in various ways. Then a telephone call is placed in the usual manner. Pushing a button turns on the Dataphone; this converts the data into tones and sends them over the line. The distant Dataphone converts them back. The "call" is ended by simply hanging up the telephone.

The Dataphone equipment above accepts and stores data on magnetic tape, then transmits it at high speed. For instance, it can send the entire inventory position of a supermarket in about 15 minutes. Another type of Dataphone takes data directly from business machines and sends it immediately over the telephone line. These services will be introduced first in a few states, and gradually extended in the future.



Western Electric's biggest year

OUR MANUFACTURING AND RESEARCH ORGANIZATIONS also work on projects at various stages. Western Electric last year produced and purchased more equipment for the Bell System than ever before. It designed new machines to manufacture new systems developed at Bell Laboratories. It went ahead with construction of new plants which will enhance the efficiency of operations in future years.

Western Electric sales in 1957 were \$2,480,614,000

compared with \$2,372,726,000 in 1956. Sales to the Bell companies were \$1,821,198,000 compared with \$1,648,875,000. Most of the balance was in sales to the government for national defense. Earnings in 1957 were \$84,608,000, equal to 3.4 cents per dollar of sales. In the spring of 1957 Western Electric sold 1,568,518 shares of stock. This provided \$70,583,310 additional capital to the company and increased its outstanding shares to 15,685,184.

These reports have often referred to the public advantage which comes from the unification of telephone operations, manufacture and research. This allows a teamwork which could not be achieved in any other way, and in which the single purpose of all concerned is to provide the best and most efficient service.

A typical example of this teamwork in 1957 has to do with the plastic-insulated wire already mentioned. To produce this at a price that will enable the telephone companies to take full advantage of the benefits, Western Electric engineers designed a production line which combines in one continuous operation all the processes for drawing, annealing and insulating the wire. In a new plant in Omaha, Western will soon install 55 of these production lines. Moreover, while this is being done, Bell Laboratories engineers are seeking a way to foam the polyethylene insulation so delicately that it will keep all its good properties, but the amount of material used, and the cost, will be further reduced.

Such collaboration makes for increased efficiency in all phases of Bell System operations. Most products made by Western for the System today have been developed since World War II, and their prices last year actually averaged *less* than in 1950. This compares with a price rise of about 25 per cent for manufactured non-food products generally.

Even this outstanding performance could not make up for all the increases in wages and other costs that we have experienced. Furthermore Bell System earnings have been low all through the postwar period, and increases in telephone rates have been imperative for that reason too. Nevertheless it is clear that our three-way tie between research, manufacture and operations is vital to keeping the price of service as low as possible. This is one of the main reasons why, as the general level of prices has risen, and personal incomes have increased, the cost of tele-

*A NEW TELEPHONE
SYSTEM FOR SMALL
BUSINESSES*



This attractive and space-saving console is the "switchboard" of a new dial telephone system designed for firms needing from 20 to 60 telephones. Here the attendant is dialing an extension in the office to connect a caller from outside. Attendants can spend up to half their time in other office duties.



**The search
for new
knowledge
continues**

phone service has become a smaller part of the average family budget than it was before the war.

BELL TELEPHONE LABORATORIES is one of the largest research organizations in industry. One reason is simply that there is so much work to be done. Also, big size in itself is a distinct asset. To make significant scientific discovery we need the best scientific minds. Those minds usually want the stimulus of association with others of like caliber, in a well-rounded scientific community that has pre-eminent standing. This we have in Bell Laboratories.

There for many years the attack on communication problems has begun with basic research—the search for new understanding and knowledge of nature. This has made possible long distance service; the multiplication of talking paths over the same physical conductors; the development of radio relay systems; the creation of modern dial switching systems; and many other developments. In fact, the entire telephone network of today is built on the knowledge which basic research has supplied.

The transistor, invented at Bell Laboratories about ten years ago, is now finding many communication uses: to route long distance calls automatically; to provide rural telephone circuits; to send data at high speeds; to produce the "ringing signal" in telephones of the kind the little girl is using in the picture on page 9; to amplify sound in other telephones for people who have difficulty in hearing; to implement the system illustrated on our cover. These are examples. Also, development work continues on the new electronic switching system in which transistors play a vital part. This is a major undertaking. We are confident it will make possible many new conveniences and improvements in telephone service.

Meanwhile basic research goes on. Bell System scientists today are studying the effects of nuclear radiation on crystals and plastics. They have found new ways to join materials together—to bond them so that they may be used in ways previously impossible. They are studying how to send huge quantities of information over long distances through hollow "waveguides." They have demonstrated an entirely new microwave amplifier—a small crystal in which, at a temperature near absolute zero, the spin of electrons in the atoms provides the amplifying action. Such a device promises to detect far weaker signals than could ever be detected before—even reflections from small objects in outer space.

A CONVENIENT HOME TELEPHONE SYSTEM

We are exploring the market for a handy new telephone arrangement which gives both convenience and protection. From each telephone in the house one can transfer incoming calls to other parts of the house—talk between different rooms—or, as the lady is doing here, talk with a visitor who has just rung the doorbell.



**Good earnings
are essential
to attract
and protect
investment**

INVESTMENT AS WELL AS RESEARCH is essential to telephone service, as the chart on this page shows.

In January 1958 the share owners authorized an issue of \$718,300,000 of 4¼% convertible debentures, and an employees' stock plan under which the Company can make offerings of up to 7,000,000 shares of its stock to Bell System employees. To share owners who held stock on January 24, we have mailed Warrants evidencing their Rights to subscribe for the new debentures. One \$100 debenture may be purchased for each nine shares held. The Rights should be exercised or sold by March 12, 1958. Beginning May 12, 1958, holders of the debentures may convert them into stock by turning in \$100 of debentures, with payment of \$42 in cash, for each share.

Before the new employees' stock plan was authorized, the Company had sold to employees nearly all of the 3,000,000 shares authorized by the share owners in 1950. Some 1,340,000 of these were issued in 1957.

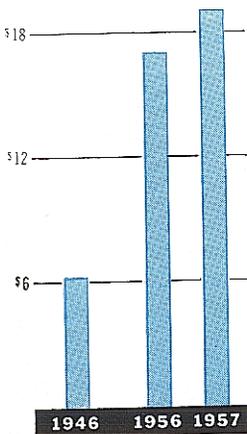
As pointed out in the summary on page 2, the Bell System obtained most of its new capital last year through the sale of bonds. These totaled \$1,100 million, consisting of two A. T. & T. issues of \$250 million each, and 12 issues of subsidiary telephone companies totaling \$600 million. The average interest cost was nearly 4¾%—the highest in many years.

The higher cost of money is only one of the reasons why the Bell companies have been requesting increases in telephone rates. As already mentioned, wages have increased and the costs of providing service continue to rise. Our capital needs are very large, and to attract and protect investors' savings we must compete with other industries which have been earning much more on investment than we have.

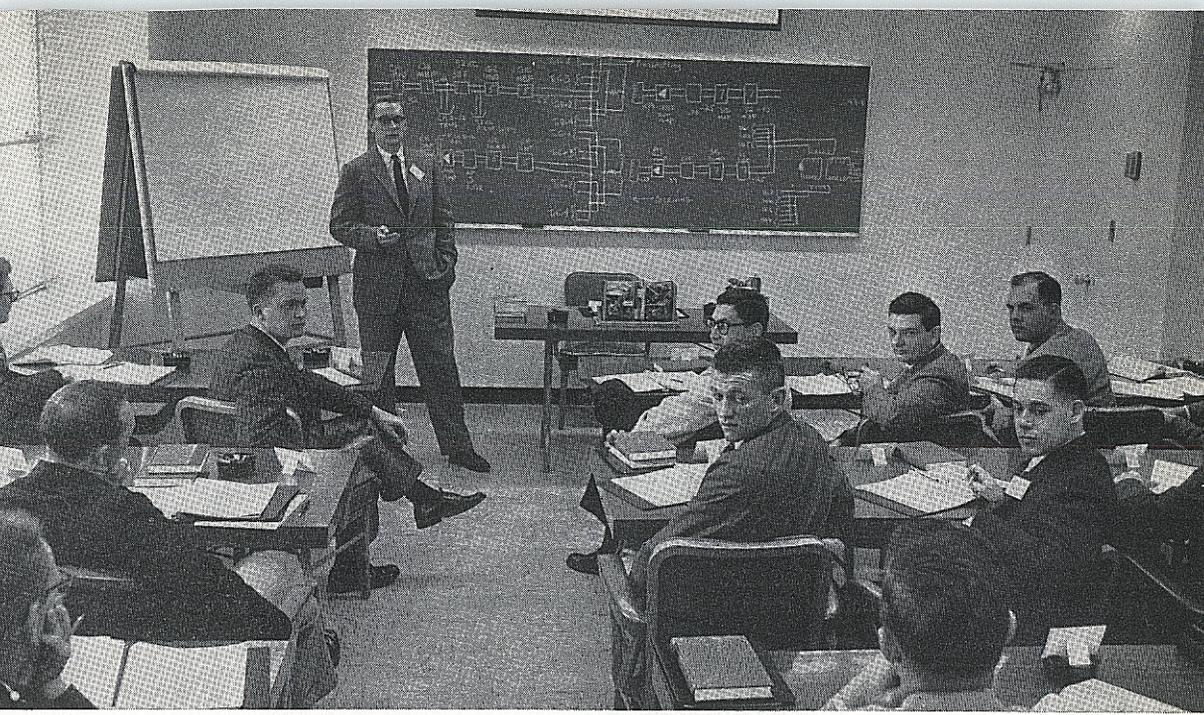
Also, under the law the amounts we can charge as depreciation expense—to provide for the wearing out and obsolescence of telephone plant—are based on its original cost. But in these times of rising costs, the full worth of much of the plant is more than the allowed depreciation will ever add up to. As a practical matter, this means that when we put in, say, a new telephone pole to replace an old one, the reserve that has been accumulated to retire the old will not equal the cost of the new. The difference must come from somewhere.

Telephone Plant
Investment

IN BILLIONS



Investment in Bell System plant at the end of 1957 totaled more than \$19 billion.



Creative engineering translates invested capital into improved telephone plant that produces both service and earnings. To help our engineers keep up with new technology, the Bell companies conduct widespread training. Here, men taking part in Western Electric's program discuss a point in class.



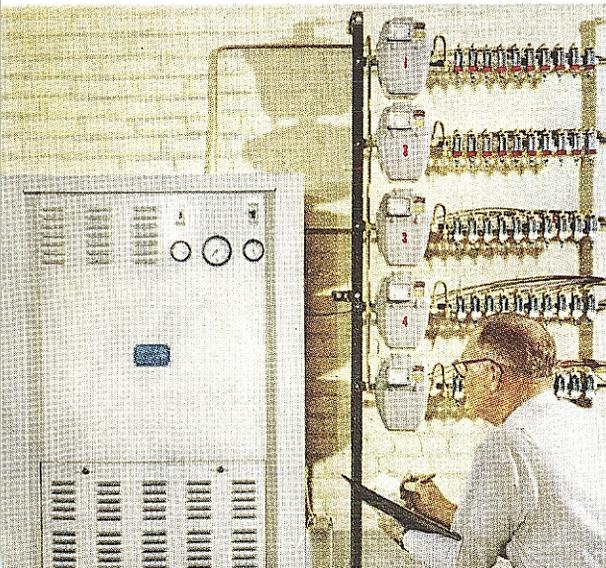
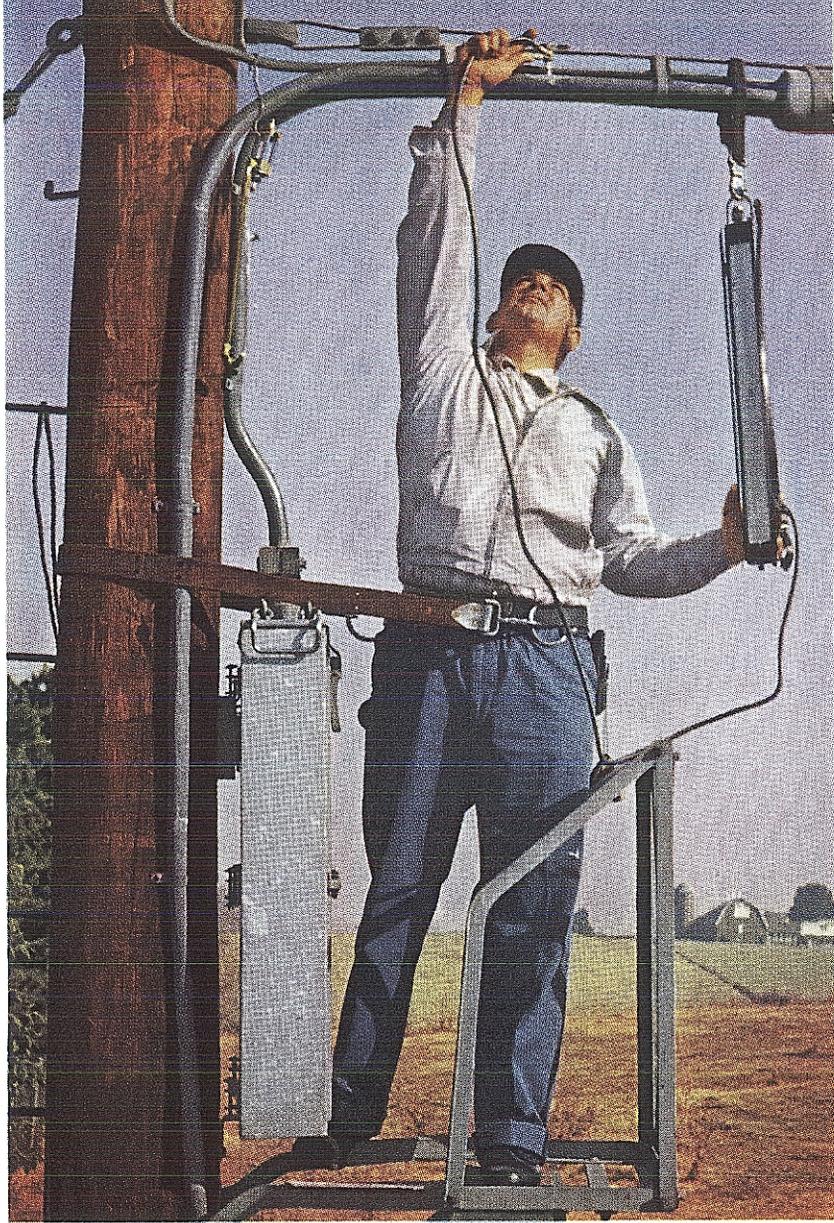
Under inflation all business has had to face this problem. Successful unregulated industries have generally been able to meet it out of increased earnings. As they have pointed out, this is one reason why they need a good profit margin. The same holds true for us. In fact it holds even more strongly, for we have a larger capital investment in relation to our volume of business than most other companies.

Another reason why increases in telephone rates are needed is one we have discussed before. We are convinced that in the long run a public policy of allowing the telephone companies to earn well will produce better service at lower cost. There is in fact evidence that public utilities which have earned relatively well provide as good or better service *at lower rates* on the average than those which have had less chance to thrive.

The fundamental is simply this: A business that is financially strong and healthy can afford to do the things that make for progress and economy. A business hampered by low earnings must resort to day-to-day expedients which in the long run are costly to all.

*PREVENTING TROUBLES
BEFORE THEY START*

A lineman measures the pressure of dry compressed air in a telephone cable. Drops in pressure give warning of leaks in the cable covering; these might lead to rainy-day troubles if not spotted and repaired. This is a good example of the forethought and care required to give dependable service.



A combination air compressor and dehumidifier in the telephone office maintains air pressure in the cables. Tubes at the right take the air into the cables and gauges show the rate of flow.

**Aiding
the nation's
defense**

In 1957 the Bell System companies obtained rate increases amounting to \$104 million annually. Applications totaling about \$125 million are now pending in 20 states, and further applications will be made.

THE BELL SYSTEM DOES A WIDE VARIETY OF DEFENSE WORK at the Government's request, and this too proceeded at many stages during 1957. In July Western Electric turned over to the United States Air Force the 3,000-mile Distant Early Warning (DEW) Line in the Arctic—completed on schedule in 32 months. The "White Alice" communication system linking population centers and military installations in Alaska will soon be in full operation. Western Electric is coordinating the work of many contractors on the SAGE air defense system and the telephone companies are furnishing circuits which interconnect radars and computers. In providing for the growth of long distance service, we are continuing to build "express" routes which by-pass areas that might be primary targets for attack; the purpose is to make increasingly sure that in event of disaster, emergency communications will be maintained.

Bell Laboratories' research and development work for the Government includes large-scale effort in developing an inter-continental ballistic missile guidance system. Western Electric has increased production of longer-range Nike missile systems which can carry nuclear warheads, and with the Laboratories is working on further improvements of the Nike missile family. The Sandia Corporation, a subsidiary of Western Electric, continues to manage the Atomic Energy Commission's Sandia Laboratory, which develops, designs and tests atomic weapons.

**Big size
helps us
to serve the
public well**

WE ARE A BIG BUSINESS and a growing one. We believe this is greatly to the country's advantage, for what our growth really means is that we are making the telephone more useful to more people. It is no more than looking facts in the face to say that an abundance of good telephone service, low in cost and constantly improving—the fast, seemingly "easy" inter-connection of millions of telephones—gains much from having a big, unified, nationwide organization.

Only such an organization can coordinate the growth and



This is not a hospital laboratory; it is manufacture for defense, in Western Electric's plant at Laureldale, Pennsylvania. Here in these super-scrubbed rooms, under conditions of unusual cleanliness and the most precise control of temperature and humidity, the people you see are making transistors for military use. Transistors from here are also in the first U. S. satellite.



improvement of a tremendously complex, ever-changing physical system, so that, for example, a telephone user in Phoenix or Hartford, with a few turns of the dial, in twenty seconds or less can be talking to someone in Boston—or St. Louis—or San Francisco.

In manufacture, volume production of top-quality, standardized equipment by Western Electric helps keep down the cost of service to the user.

In research, Bell Telephone Laboratories has the size and standing to attract top-notch scientists and engineers who can tackle big problems and provide pioneering technical leadership.

In the construction of telephone facilities, big investment is a necessity.

In defense, the tremendous size of the telephone network

**Policies that
promote good
human
performance**

gives the best assurance of maintaining emergency service under disaster conditions; and if big organization did not exist to work on defense communication problems, it would have to be created.

Small businesses are vital to the country too. And we work with them constantly—with thousands of suppliers, for example, and with thousands of non-Bell telephone companies both large and small in every state.

But our business must be big. Not for the sake of size, but for the sake of service. What this demands is perfectly clear. It demands the utmost in responsibility—and how well the responsibility is met depends entirely on the competence plus the devotion of telephone men and women. To help build these human qualities is the goal of what are usually called, for brevity, “personnel policies.”

GOOD WAGES AND WORKING CONDITIONS attract and keep able people in our business. Last year, with other wages increasing in the communities where our employees work, telephone wages again rose. Contracts negotiated with the unions were generally for 15 months instead of 12 months.

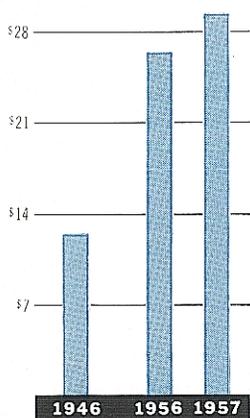
The sense of opportunity is also essential to good and responsible performance. Since 1950, on the average, there have been 13 promotions each year for every 100 Bell System employees. The growth of the business has had much to do with this, but three broad policies are intimately related also.

The first is to make promotions from the ranks in accordance with individual ability.

Second, the pension plans of the Bell companies provide for the orderly retirement of older people. Last year the companies expended a total of \$340,000,000, or 8.9 per cent of the payrolls, for pensions, benefits, and group life insurance, and for Federal taxes for Social Security old-age and disability insurance benefits. Service pensions are paid from trust funds which are accrued actuarially and can be used only for this purpose. At the end of 1957, 22,783 men and 22,224 women were receiving such pensions. The companies pay the entire cost of their pension and benefit programs save for group life insurance, which is financed by both employee and company contributions.

Telephone Plant Investment per Employee

IN THOUSANDS



Increasing investment builds the foundation of all opportunity for Bell System employees.

**We appreciate
the cooperation
that others
give us**

A third factor in providing opportunity is training. We train operators, clerical employees and craftsmen in vocations. We train engineers to help them keep abreast of fast-changing technologies. We give supervisors and managers a wide range of training experience to help them develop the skills of organizing and planning—of coaching and leading—of building an atmosphere which will stimulate men and women to grow. Through frank discussion of the facts about the business, and through organized study and conference, we are working to help managers at all levels broaden their understanding of the Bell System's whole responsibility and the direct relation between their personal performance and the total result. Our duty to the nation is only discharged through the rendering of countless services in home towns all over the country, and every service in each community needs the ability and good citizenship and thoughtful decision of local telephone people.

These personnel policies we believe are basic to the accomplishment of 793,000 Bell System employees. Of that number almost 130,000, or nearly all who have been in the business 21 years or more, are members of the Telephone Pioneers of America, as are more than 40,000 retired employees also. Their fellowship grows out of shared experience and shared devotion in providing service. But the progress of the System is the work of all, and it was the whole organization that made possible the good results of 1957.

For exceptional action in emergencies, 63 men and women last year received Theodore N. Vail Medals. They earned the awards by courage and skill.

WE SHOULD LIKE TO MAKE PARTICULAR MENTION of the wide-ranging cooperation between the people of the Bell System and those in many other companies and countries. Teamwork in communication service goes beyond corporate boundaries; we do not work by ourselves.

Approximately 4,100 other telephone companies and cooperatives in the United States connect with our lines to provide fully nationwide service. As we said earlier, we work closely with all of them. The growth of direct distance dialing, the needs of defense, and the interconnection of nationwide services for large customers—these emphasize further



Some 6,000 Bell System employees are qualified First Aid instructors and more than 170,000 hold First Aid training certificates. This telephone man (in foreground) is conducting a class in his home town, which he is glad to do as a good citizen. First Aid training in the Bell System is closely allied with our continuous effort to promote safety both on and off the job. The communications industry is ranked as the safest in the country by the National Safety Council, and last year the System for the fifth time received the Council's highest Award of Honor.



the importance of good working relationships between all branches of our industry.

Western Electric depends on services provided by some 33,000 suppliers and subcontractors. Ninety per cent of these are small businesses. Bell Laboratories also, particularly in its work for the Government, relies on many other organizations to take subcontracts.

In building the DEW Line, Western Electric cooperated not only with men of the Laboratories and the Bell telephone companies, but with hundreds of contractors, with task groups of the United States armed forces, and with the Canadian Government.

We own and operate the new telephone cable system to Hawaii jointly with the Hawaiian Telephone Company; this was built with the help of both American and British cable manufacturers, and British ships laid the cables under our charter and supervision.

The second transatlantic cable is made possible through agreement and joint participation with the communication agencies of France and West Germany, and similar agencies in Great Britain and Canada have agreed to our using land facilities in Nova Scotia and Newfoundland.

For these and other instances of cooperation we are sincerely grateful. We believe that in these critical times they lend encouragement and strengthen hope. Teamwork can and does produce results.

CLEO F. CRAIG, PRESIDENT OF YOUR COMPANY from 1951 to 1956, and more recently Chairman of the Board, resigned as chairman and retired last May after more than 43 years of Bell System service. We are glad to report that he is continuing as a director, and we should like to repeat here the following words from a resolution passed by the Board:

“Under Mr. Craig’s leadership the Bell System has achieved unprecedented growth and the quality of service has reached new high levels. The earnings and financial position of the business have been strengthened. Thoughtful and far-reaching programs have been instituted to help assure the best possible leadership in years to come. The foundations for continuing progress are sound and strong.”

Finally, we should like to say again to each one of our more than 1,600,000 share owners: Thank you for the support you give us. Your faith and investment are essential to everything we are trying to do, and we greatly value also the views and comments you give us. We are sure the future holds great opportunities for the further success of your business. To meet these opportunities fully, and earn your continuing confidence, we shall always do our utmost.

For the Board of Directors,

A handwritten signature in dark ink, appearing to read "J. R. Kapp". The signature is fluid and cursive, with a large initial "J" and "R".

PRESIDENT

February 13, 1958

Financial Statements

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS appear on pages 24 to 28, inclusive. These statements consolidate the accounts of the American Telephone and Telegraph Company, its principal telephone subsidiaries which are directly owned (listed on page 34), 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 Sheets 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.

Investments in subsidiaries not consolidated as stated in the Consolidated Balance Sheets 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 Statements. 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 30 to 34.

A. L. STOTT
Comptroller.

c o n s o l i d a t e d

ASSETS

	December 31, 1957	December 31, 1956
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$18,438,267,507	\$16,470,144,997
Telephone Plant under Construction.....	660,596,014	584,919,561
Property Held for Future Telephone Use.....	16,336,571	16,915,456
Telephone Plant Acquisition Adjustment.....	1,776,939	2,225,600
	<u>\$19,116,977,031</u>	<u>\$17,074,205,614</u>
Less: Depreciation Reserve.....	4,363,439,158	4,113,774,382
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$14,753,537,873</u>	<u>\$12,960,431,232</u>
Miscellaneous Physical Property.....	7,760,551	8,317,586
Investment in Subsidiaries not consolidated (b).....	861,475,921	745,245,326
Other Investments—at cost.....	115,179,359	102,593,852
<i>Principally investments in associated telephone com- panies.</i>		
Total	<u>\$15,737,953,704</u>	<u>\$13,816,587,996</u>

CURRENT ASSETS

Cash and Demand Deposits.....	\$ 122,199,102	\$ 106,559,970
Temporary Cash Investments.....	794,820,674	1,207,773,504
<i>Principally U. S. short-term obligations.</i>		
Special Cash Deposits.....	9,047,704	7,868,690
Receivables	716,180,256	679,347,561
<i>Amounts due for service (less reserves for uncollectibles), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies (c).....	115,114,098	211,233,284
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 1,757,361,834</u>	<u>\$ 2,212,783,009</u>

DEFERRED CHARGES

Prepayments of Directory Expenses, Rents, Taxes, etc.....	\$ 106,345,194	\$ 96,628,015
Other Deferred Charges.....	76,214,940	80,572,213
Total Deferred Charges	<u>\$ 182,560,134</u>	<u>\$ 177,200,228</u>
Total Assets	<u>\$17,677,875,672</u>	<u>\$16,206,571,233</u>

For notes, see page 28.

Telegraph Company and its Principal Telephone Subsidiaries]

balance sheets

LIABILITIES

CAPITAL STOCK EQUITY	December 31, 1957	December 31, 1956
American Telephone and Telegraph Company		
Common Stock—Par Value (\$100 per share)	\$ 6,464,817,800	\$ 6,289,388,900
<i>At December 31, 1957, authorized 100,000,000 shares; outstanding, 64,648,178 shares. See note (c) on page 33.</i>		
Common Stock Subscribed		11,964,600
Common Stock Installments—see note (d) on page 33		156,909,315
Premium on Common Stock	1,860,757,911	1,780,815,328
<i>Amount received in excess of par value.</i>		
Retained Earnings		
Reserved (d)	11,880,559	8,122,052
Unappropriated	1,571,323,677	1,308,856,443
Total Retained Earnings (see page 27)	<u>\$ 1,583,204,236</u>	<u>\$ 1,316,978,495</u>
Total Applicable to A. T. & T. Co. Stock	<u>\$ 9,908,779,947</u>	<u>\$ 9,556,056,638</u>
Subsidiaries Consolidated—stocks held by public		
Common Stock	\$ 277,507,000	\$ 250,928,200
Preferred Stock	17,904,300	17,904,300
Retained Earnings	22,009,294	18,982,210
Total Applicable to Stocks of Subsidiaries Held by Public	<u>\$ 317,420,594</u>	<u>\$ 287,814,710</u>
Total Capital Stock Equity	<u>\$10,226,200,541</u>	<u>\$ 9,843,871,348</u>
FUNDED DEBT		
American Telephone and Telegraph Company		
Convertible Debentures—see note (c) on page 33	\$	\$ 29,986,400
Other Debentures—see note (e) on page 33	2,440,000,000	1,940,000,000
Subsidiaries Consolidated (e)	3,248,000,000	2,648,000,000
Total Funded Debt	<u>\$ 5,688,000,000</u>	<u>\$ 4,617,986,400</u>
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 76,000,000	\$ 106,000,000
Accounts Payable	517,265,906	516,902,583
Advance Billing for Service and Customers' Deposits	152,865,501	138,581,811
Dividends Payable	146,493,557	142,410,891
Taxes Accrued	755,550,823	740,948,000
Interest Accrued	54,856,137	42,487,717
Other Current Liabilities	26,652,888	27,997,455
Total Current and Accrued Liabilities	<u>\$ 1,729,684,812</u>	<u>\$ 1,715,328,457</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net	\$ 31,069,649	\$ 25,420,032
Other Deferred Credits	2,920,670	3,964,996
Total Deferred Credits	<u>\$ 33,990,319</u>	<u>\$ 29,385,028</u>
Total Liabilities	<u>\$17,677,875,672</u>	<u>\$16,206,571,233</u>

consolidated

OPERATING REVENUES	Year 1957	Year 1956
Local Service Revenues.....	\$3,647,596,447	\$3,368,607,868
Toll Service Revenues	2,357,650,210	2,176,240,700
Miscellaneous Revenues	331,374,988	297,243,219
<i>Principally directory advertising.</i>		
Less: Uncollectible Operating Revenues	22,788,445	16,794,102
Total Operating Revenues	<u>\$6,313,833,200</u>	<u>\$5,825,297,685</u>
OPERATING EXPENSES		
Current Maintenance (c).....	\$1,205,314,592	\$1,242,253,787
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation Expense (c).....	763,002,316	535,226,642
<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 4.5% in 1957 and 3.8% in 1956 of average investment in depreciable plant.</i>		
Traffic Expenses	947,350,959	937,163,017
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	571,606,448	529,811,847
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Operating Rents	59,844,499	52,693,698
General Administration	38,800,007	36,089,160
Accounting and Treasury Expenses.....	257,349,874	238,596,577
Development and Research (f).....	34,504,458	32,503,410
Provision for Employees' Service Pensions.....	160,233,396	162,902,978
Employees' Sickness, Accident, Death and Other Benefits...	65,216,827	48,684,195
Other General Expenses.....	125,478,175	111,890,775
Less: Expenses Charged Construction.....	63,105,708	51,154,404
Total Operating Expenses	<u>\$4,165,595,843</u>	<u>\$3,876,661,682</u>
Net Operating Revenues	<u>\$2,148,237,357</u>	<u>\$1,948,636,003</u>
OPERATING TAXES		
Federal Taxes on Income.....	\$ 753,767,013	\$ 695,226,893
Other Taxes—principally State, local and Social Security	514,825,268	462,523,280
Total Operating Taxes	<u>\$1,268,592,281</u>	<u>\$1,157,750,173</u>
Net Operating Income (carried forward)	<u>\$ 879,645,076</u>	<u>\$ 790,885,830</u>

For notes, see page 28.

Telegraph Company and its Principal Telephone Subsidiaries]

i n c o m e s t a t e m e n t s

	Year 1957	Year 1956
Net Operating Income (<i>brought forward</i>).....	\$ 879,645,076	\$790,885,830
OTHER INCOME		
Dividends from subsidiaries not consolidated (g).....	\$ 56,848,897	\$ 50,937,816
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (h).....	29,095,392	31,170,275
Dividends from other companies.....	7,037,393	6,927,505
Miscellaneous income (i).....	60,745,730	49,905,694
Less: Miscellaneous deductions from income.....	7,795,546	7,431,828
Income Available for Fixed Charges	<u>\$1,025,576,942</u>	<u>\$922,395,292</u>
FIXED CHARGES		
Interest on Funded Debt.....	\$ 166,013,613	\$136,593,286
Other Interest	7,450,117	8,577,780
Less: Release of Premium on Funded Debt—net.....	791,067	566,857
Net Income	<u>\$ 852,904,279</u>	<u>\$777,791,083</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	22,050,725	20,782,971
Net Income Applicable to A. T. & T. Co. Stock	<u>\$ 829,779,296</u>	<u>\$755,933,854</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (j) ..	\$13.00	\$13.16

Statements of Consolidated Retained Earnings Applicable to American Telephone and Telegraph Company Stock

	Year 1957	Year 1956
BALANCE AT BEGINNING OF PERIOD.....	\$1,316,978,495	\$1,081,641,629
Net Income applicable to A. T. & T. Co. Stock.....	\$ 829,779,296	\$ 755,933,854
Profit on sales of securities.....	13,986,889	1,126,817
Miscellaneous additions	1,114,041	1,567,950
TOTAL ADDITIONS	<u>\$ 844,880,226</u>	<u>\$ 758,628,621</u>
Dividends on A. T. & T. Co. Stock.....	\$ 574,302,856	\$ 516,803,616
Organization and Capital Stock Expense charged off.....	1,776,185	4,374,873
Amortization of Telephone Plant Acquisition Adjustment.....	644,609	1,021,681
Miscellaneous deductions	1,930,835	1,091,585
TOTAL DEDUCTIONS	<u>\$ 578,654,485</u>	<u>\$ 523,291,755</u>
BALANCE AT CLOSE OF PERIOD.....	<u>\$1,583,204,236</u>	<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.

(b) Comprises \$639,714,529 at December 31, 1957 and \$566,048,624 at December 31, 1956, representing cost of investments, and \$221,761,392 at December 31, 1957 and \$179,196,702 at December 31, 1956, representing proportionate interest in the net assets of subsidiaries not consolidated in excess of such cost.

(c) Effective January 1, 1957, a revised practice of accounting for station equipment was adopted. In connection therewith, there was transferred to Telephone Plant \$91,634,175 representing the cost of certain items of equipment previously included in Material and Supplies pending installation. Such items are now charged to Telephone Plant as purchased. This change in accounting practice also had the effect of increasing Depreciation Expense and reducing Current Maintenance with no material effect on net income.

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

(e) Of the funded debt of subsidiaries consolidated, \$168,000,000 matures from 1960 to 1970, \$560,000,000 from 1971 to 1980, and \$2,520,000,000 thereafter.

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

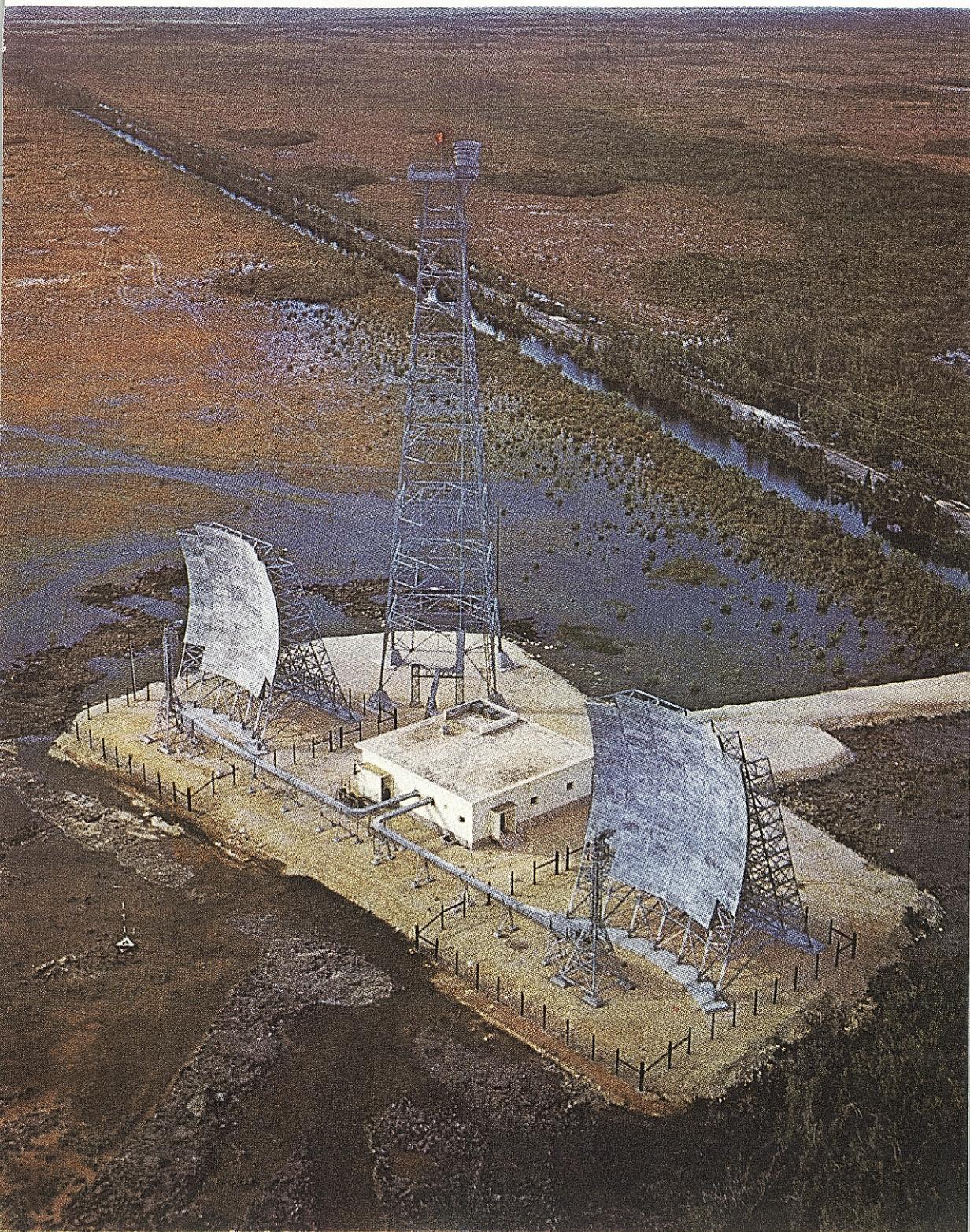
(g) Includes dividends of \$54,954,662 in 1957 and \$49,458,558 in 1956 from Western Electric Company.

(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 \$29,500,154 in 1957 and \$31,427,384 in 1956.

(i) Includes \$31,749,925 in 1957 and \$22,625,977 in 1956 for interest charged construction.

(j) Based on average shares outstanding—63,811,428 in 1957 and 57,422,624 in 1956.

The Company and its subsidiaries have established funds with Bankers Trust Company, New York, N. Y., as Trustee, which are irrevocably devoted to service pension purposes. Regular payments are made to such funds pursuant to accrual programs. At December 31, 1957 the pension funds amounted to \$2,600,214,126. Future service pension payments to those now on the pension rolls and those now entitled to retire on pensions at their own request are fully provided for by the amounts in the funds. The funds are not a part of the assets of the companies and are therefore not reflected in the balance sheets.



These antennas in Florida send and receive conversations and TV programs 185 miles "over the horizon" between the U. S. and Cuba. The tall radio relay tower connects the station with the nationwide network.

American Telephone

b a l a n c e

ASSETS

	December 31, 1957	December 31, 1956
PLANT AND OTHER INVESTMENTS		
Telephone Plant (a)		
Telephone Plant in Service.....	\$ 1,568,321,883	\$ 1,390,490,149
Telephone Plant under Construction.....	119,051,189	96,022,969
Property Held for Future Telephone Use.....	544,667	625,190
	<u>\$ 1,687,917,739</u>	<u>\$ 1,487,138,308</u>
Less: Depreciation Reserve.....	560,541,371	523,237,088
<i>Portion of cost of telephone plant which has been charged against operations.</i>		
	<u>\$ 1,127,376,368</u>	<u>\$ 963,901,220</u>
Investments in Subsidiaries—at cost (see page 34).....	9,692,545,928	8,764,632,993
Stocks	\$ 9,340,064,083	
Advances	352,481,845	
Other Investments—at cost (see page 34).....	100,105,189	89,252,298
Stocks	\$ 77,072,282	
Advances	22,480,000	
Miscellaneous	552,907	
Total	<u>\$ 10,920,027,485</u>	<u>\$ 9,817,786,511</u>
 CURRENT ASSETS		
Cash and Demand Deposits.....	\$ 16,004,162	\$ 16,110,331
Temporary Cash Investments.....	791,541,392	1,207,773,504
<i>Principally U. S. short-term obligations.</i>		
Special Cash Deposits.....	2,109,061	1,954,786
Receivables	57,593,039	63,145,526
<i>Amounts due for service (less reserve for uncollectibles), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies (b).....	15,383,268	18,975,253
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 882,630,922</u>	<u>\$ 1,307,959,400</u>
 DEFERRED CHARGES	<u>\$ 13,677,393</u>	<u>\$ 10,911,397</u>
Total Assets	<u>\$ 11,816,335,800</u>	<u>\$ 11,136,657,308</u>

For notes, see page 33.

LIABILITIES

CAPITAL STOCK EQUITY	December 31, 1957	December 31, 1956
Common Stock—Par Value (\$100 per share).....	\$ 6,464,817,800	\$ 6,289,388,900
<i>At December 31, 1957, authorized 100,000,000 shares; outstanding, 64,648,178 shares. (c)</i>		
Common Stock Subscribed.....	.....	11,964,600
Common Stock Installments (d).....	.....	156,909,315
Premium on Common Stock.....	1,860,757,911	1,780,815,328
<i>Amount received in excess of par value.</i>		
Retained Earnings (see page 33).....	771,357,363	659,201,434
Total Capital Stock Equity.....	\$ 9,096,933,074	\$ 8,898,279,577

FUNDED DEBT

Convertible Debentures (c).....	\$	\$ 29,986,400
Other Debentures (e).....	2,440,000,000	1,940,000,000
Total Funded Debt.....	\$ 2,440,000,000	\$ 1,969,986,400

CURRENT AND ACCRUED LIABILITIES

Accounts Payable	\$ 44,822,014	\$ 47,383,408
Dividend Payable	145,458,401	141,503,155
Taxes Accrued	53,180,968	50,427,113
Interest Accrued	22,283,962	17,742,188
Total Current and Accrued Liabilities.....	\$ 265,745,345	\$ 257,055,864

DEFERRED CREDITS

Unextinguished Premium on Funded Debt—net.....	\$ 13,268,950	\$ 11,062,029
Other Deferred Credits.....	388,431	273,438
Total Deferred Credits.....	\$ 13,657,381	\$ 11,335,467
Total Liabilities.....	\$11,816,335,800	\$11,136,657,308

American Telephone

income statements

OPERATING REVENUES	Year 1957	Year 1956
Toll Service Revenues (f).....	\$385,278,512	\$354,000,865
License Contract Revenues.....	59,720,464	54,972,525
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	21,870,278	20,567,877
Less: Uncollectible Operating Revenues.....	1,941,955	1,403,439
Total Operating Revenues	\$464,927,299	\$428,137,828
OPERATING EXPENSES (g)		
Current Maintenance	\$ 94,907,448	\$ 86,649,114
Depreciation Expense	56,095,924	49,335,208
<i>Represented approximately 3.9% in 1957 and 3.8% in 1956 of average investment in depreciable plant.</i>		
Traffic Expenses	36,540,685	35,952,670
Commercial Expenses	18,440,995	17,148,795
Operating Rents	7,451,936	5,636,177
General Administration	19,746,607	18,301,747
Accounting and Treasury Expenses.....	18,211,077	18,841,220
Development and Research (h).....	34,504,458	32,503,410
Provision for Employees' Service Pensions.....	9,717,536	9,642,463
Employees' Sickness, Accident, Death and Other Benefits..	4,454,169	3,045,985
Other General Expenses.....	15,004,834	14,275,322
Less: Expenses Charged Construction.....	2,575,188	2,172,324
Total Operating Expenses	\$312,500,481	\$289,159,787
Net Operating Revenues	\$152,426,818	\$138,978,041
OPERATING TAXES		
Federal Taxes on Income.....	\$ 53,778,000	\$ 49,033,000
Other Taxes—principally State, local and Social Security..	27,077,643	24,030,000
Total Operating Taxes	\$ 80,855,643	\$ 73,063,000
Net Operating Income	\$ 71,571,175	\$ 65,915,041
OTHER INCOME		
Dividend Income—principally from subsidiaries.....	\$637,730,122	\$574,199,411
Interest Income	48,038,027	38,068,726
Miscellaneous Income	669,963	1,410,880
Less: Miscellaneous Deductions from Income.....	645,976	1,753,358
Income Available for Fixed Charges	\$757,363,311	\$677,840,700
FIXED CHARGES		
Interest on Funded Debt.....	\$ 69,153,779	\$ 59,108,671
Other Interest	2,525,052	2,496,917
Less: Release of Premium on Funded Debt—net.....	373,476	255,095
Net Income	\$686,057,956	\$616,490,207
Earnings per share (i).....	\$10.75	\$10.74

Statements of Retained Earnings

	Year 1957	Year 1956
BALANCE AT BEGINNING OF PERIOD.....	\$659,201,434	\$561,729,110
Net Income	\$686,057,956	\$616,490,207
Profit on sales of securities.....	884,095	836,146
Miscellaneous additions	8,088	558
TOTAL ADDITIONS	\$686,950,139	\$617,326,911
Dividends declared	\$574,302,856	\$516,803,616
Organization and Capital Stock Expense charged off....	344,181	2,854,361
Miscellaneous deductions	147,173	196,610
TOTAL DEDUCTIONS	\$574,794,210	\$519,854,587
BALANCE AT CLOSE OF PERIOD.....	\$771,357,363	\$659,201,434

Notes to Financial Statements

- (a) Telephone Plant, with minor exceptions, is stated at cost to the Company.
- (b) Effective January 1, 1957 in connection with a revised practice of accounting for station equipment an amount of \$4,975,455 was transferred from Material and Supplies to Telephone Plant.
- (c) On January 15, 1958 the Board of Directors reserved 7,183,130 shares of capital stock for issuance upon conversion of \$718,313,000 principal amount of Fifteen Year 4 $\frac{1}{4}$ % Convertible Debentures, due March 12, 1973 which were offered to stockholders of record on January 24, 1958. These debentures will be convertible into stock of the Company beginning May 12, 1958 at \$142 per share. On January 15, 1958 the stockholders authorized the Company to place in effect an Employees' Stock Plan under which not to exceed 7,000,000 shares may be issued and sold on an installment basis to employees of the Company and of its subsidiaries.
- (d) At December 31, 1956 represents installment payments and interest thereon applicable to shares of Capital Stock under elections to purchase pursuant to the Employees' Stock Plan approved by the stockholders in 1950. Such elections to purchase provided for completion of installment payments by July 1957.
- (e) Of these debentures, \$140,000,000 mature in 1970, \$775,000,000 from 1971 to 1980, and \$1,525,000,000 thereafter.
- (f) Represents the Company's share of toll revenues of \$1,334,598,000 in 1957 and \$1,205,497,000 in 1956 from toll business handled jointly with subsidiary and other telephone companies.
- (g) Operating expenses are incurred principally in providing the Company's long distance communication services and in performing License Contract services furnished telephone companies.
- (h) Cost of work carried on for the Company by Bell Telephone Laboratories.
- (i) Based on average shares outstanding—63,811,428 in 1957 and 57,422,624 in 1956.

The Company has established a fund with Bankers Trust Company, New York, N. Y., as Trustee, which is irrevocably devoted to service pension purposes. Regular payments are made to the fund pursuant to an accrual program. At December 31, 1957 the pension fund amounted to \$136,809,597. Future service pension payments to those now on the pension rolls and those now entitled to retire on pensions at their own request are fully provided for by the amount in the fund. The fund is not a part of the assets of the Company and is therefore not reflected in the balance sheets.

American Telephone and Telegraph Company

Investments in Subsidiaries and in Other Companies December 31, 1957

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	\$ 78,000,000
New York Tel. Co.....	1,151,300,000	100.00	1,174,280,335	.....
New Jersey Bell Tel. Co.....	435,000,000	100.00	448,667,184	200,000
Bell Tel. Co. of Pennsylvania..	545,000,000	100.00	551,316,050	29,500,000
Diamond State Tel. Co.....	36,000,000	100.00	36,700,000	4,225,000
Chesapeake & Potomac Tel. Co.	100,000,000	100.00	101,000,000	3,325,000
Chesapeake & Potomac Tel. Co. of Maryland	205,000,000	100.00	206,467,862	.....
Chesapeake & Potomac Tel. Co. of Virginia	220,000,000	100.00	220,000,000	3,900,000
Chesapeake & Potomac Tel. Co. of West Virginia	97,000,000	100.00	97,000,000	3,625,000
Southern Bell Tel. & Tel. Co... 1,100,000,000	100.00	1,101,817,298	15,500,000	
Ohio Bell Tel. Co.....	450,500,000	100.00	450,542,298	9,500,000
Michigan Bell Tel. Co.....	378,987,000	99.99	379,399,232	12,800,000
Indiana Bell Tel. Co., Inc.....	162,998,800	99.99	163,585,286	3,800,000
Wisconsin Tel. Co.....	195,000,000	100.00	198,223,802	3,300,000
Illinois Bell Tel. Co.....	518,915,100	99.32	524,396,012	58,600,000
Northwestern Bell Tel. Co.....	325,000,000	100.00	326,039,490	10,700,000
Southwestern Bell Tel. Co.....	1,054,998,400	99.99	1,058,251,478	7,200,000
Mountain States Tel. & Tel. Co.	304,020,800	86.74	305,425,778	21,000,000
Pacific Tel. & Tel. Co.....	1,079,094,300	90.40	1,074,752,545	82,000,000
Pacific Tel. & Tel. Co.—Pre- ferred	64,095,700	78.17	55,999,180	.....
OTHER SUBSIDIARIES				
Bell Telephone Laboratories, Inc.	25,000,000	(b) 50.00	25,000,000	.....
Western Electric Co., Inc.....	(c)	99.82	553,440,179	.....
195 Broadway Corporation.....	23,000,000	100.00	23,015,000	4,400,000
Eastern Tel. & Tel. Co.....	(d) 4,999,100	99.98	5,052,424	906,845
Total			<u>\$9,340,064,083</u>	<u>\$352,481,845</u>
OTHER COMPANIES				
Southern New England Tel. Co. \$	36,678,000	21.46	\$ 36,989,831	\$ 21,000,000
Cincinnati & Suburban Bell Tel. Co.	20,501,700	29.83	21,065,168	1,480,000
Bell Tel. Co. of Canada.....	(d) 18,749,800	4.17	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			<u>\$ 77,072,282</u>	<u>\$ 22,480,000</u>

- (a) Common stocks unless otherwise indicated.
 (b) Remaining shares owned by Western Electric Co., Inc.
 (c) 15,656,656 shares—no par value.
 (d) Canadian dollars.

Certificate of Audit

New York, N. Y.
February 13, 1958

TO THE SHARE OWNERS OF
AMERICAN TELEPHONE AND TELEGRAPH COMPANY:

We have examined the balance sheets of American Telephone and Telegraph Company as of December 31, 1957 and 1956, the consolidated balance sheets of the Company and its principal telephone subsidiaries as of December 31, 1957 and 1956, and the related statements of income and retained earnings for the years then ended. 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, 1957 and 1956 and of the statements of income and retained earnings for the years then ended 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 years 1957 and 1956 rendered to American Telephone and Telegraph Company by all other nonconsolidated subsidiaries. The consolidated balance sheets of Western Electric Company, Incorporated and consolidated subsidiaries as of December 31, 1957 and 1956 and the related statements of consolidated income of these companies for the years then ended, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 30 to 34) and the consolidated financial statements (pages 23 to 28) present fairly the position at December 31, 1957 and 1956 and the results of operations for the years then ended of American Telephone and Telegraph Company and the consolidated position at December 31, 1957 and 1956 and the consolidated results of operations for the years then ended of the Company and its principal telephone subsidiaries, in conformity with generally accepted accounting principles, which have been applied on a consistent basis except for the change in accounting for station equipment referred to in note (c) on page 28 and note (b) on page 33, which change we approve.

LYBRAND, ROSS BROS. & MONTGOMERY

Facts About The Bell System

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1955	Dec. 31 1957
Number of Telephones (a)	22,445,519	35,343,440	46,218,233	52,252,494
Dial Operated	14,504,851	26,700,319	40,041,368	47,987,684
Per cent Dial Operated..	64.6	75.5	86.6	91.8
Number of Central Offices.	7,374	8,470	9,751	10,339
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	168,936,000	188,276,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$15,340,495	\$19,116,977
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$5,297,043	\$6,313,833
Number of Employees (c)	474,527	602,466	745,629	792,634
Number of A. T. & T. Company Share Owners.	683,897	985,583	1,408,851	1,605,046
Number of A. T. & T. Company Shares Out- standing	20,166,251	28,615,956	54,115,960	64,648,178

* For year ended December 31.

(a) Excludes private line telephones numbering 202,211 on December 31, 1957. Including telephones of some 4,100 independently owned connecting telephone companies and additional thousands of connecting rural or farmer lines and systems, the total number of telephones in the United States which can be interconnected is approximately 63,600,000.

(b) For the year 1957 there were approximately 180,084,000 average daily local conversations and 8,192,000 average daily toll and long distance conversations. During 1957 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 5.3 per cent in local conversations, and 7.5 per cent in toll and long distance conversations over the year 1956.

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



Looking east from the Hawaiian terminal of the new ocean telephone cable linking the Hawaiian Islands with the United States mainland. The cable was opened for service on October 8, 1957.

Out of the surf on the coast of California men hauled the line that brought the mainland end of the new cable ashore—2,400 miles from Hawaii.





OUR COVER ILLUSTRATES a method of sending speech which we believe will have important use in years to come. This is to sample voice currents in millionths of a second and send the samples in a series of electrical pulses. These are coded to represent the variations in the voice wave. They fade as they travel, but at regular intervals amplifying equipment detects and recreates them. At the far end they are decoded and speech is reproduced.

The advantage is that many sets of pulses (representing many conversations) can travel the same wires only millionths of a second apart—or for all practical purposes at the same time. This principle goes back some years. Now, however, for the first time, new transistor technology, resulting from basic Bell Laboratories research, gives promise that such a system can efficiently increase the number of voiceways even over short distances—for example, between telephone central offices in the same city.



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