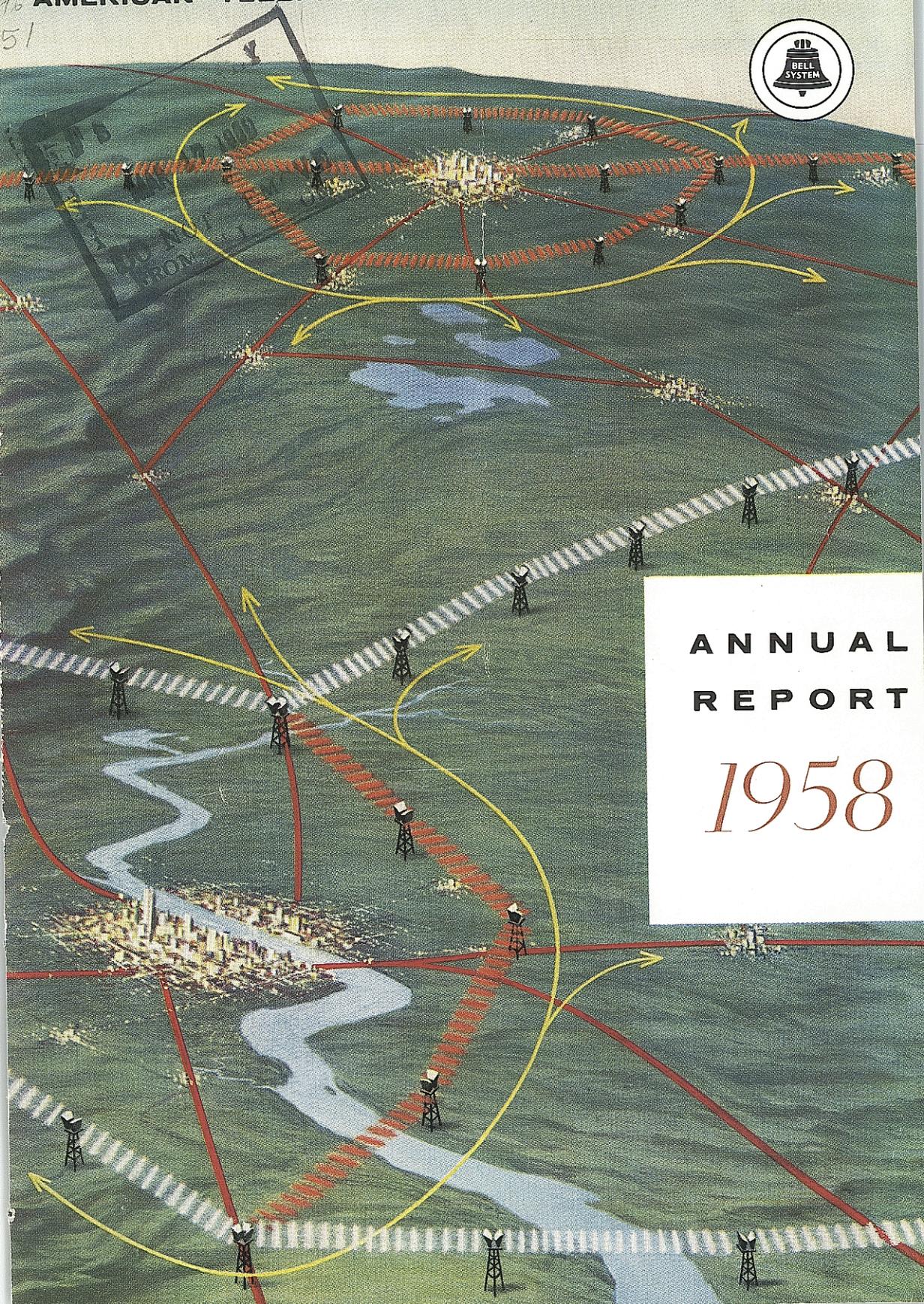


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AMERICAN TELEPHONE AND TELEGRAPH COMPANY



ANNUAL
REPORT

1958

AMERICAN TELEPHONE

Report

BUILDING COMMUNICATIONS STRONG FOR DEFENSE

The cover shows how new telephone routes bypass critical areas to insure that essential nationwide communications will be maintained in case of disaster. We have built 8,000 miles of such routes in the last three years. In 1959 we are building 2,000 miles more.

“Express” routes (in white) avoid major population centers entirely. These now reach across the nation. Other main routes (in red) connect with the express routes and go *around* big cities as well as between them. If these cities are destroyed, communications can bypass them as the arrows indicate.

Today in fact it is possible to interconnect any two major cities in the country without going through any of the most critical areas.

The drawing indicates only a few main routes on an imaginary map. On the real map of the United States, more than 60 million miles of long distance circuits travel over cable and radio relay systems, and connections between cities are made over many alternate paths. The tremendous size and great flexibility of this network are vital to the nation. And we are building it bigger—stronger—more flexible—with every passing day.

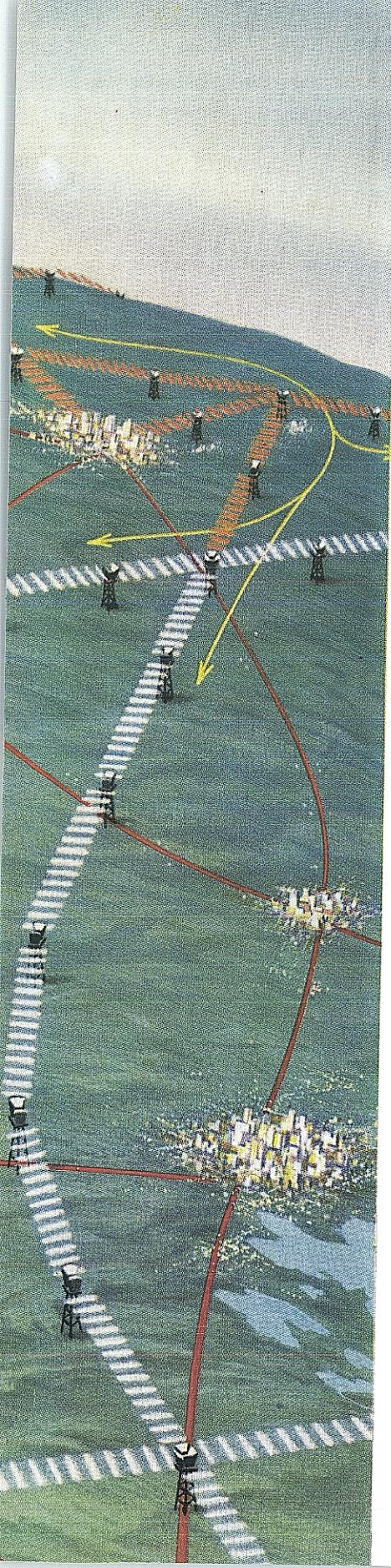
Of top importance, hundreds of thousands of trained telephone people are spread all over the country too—and emergency equipment and supplies as well. Men and materials are always “at the ready” to give essential service under any conditions.



Cable Routes



Radio Relay Routes



AND TELEGRAPH COMPANY

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

M-126

ANNUAL REPORT

1958

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*The Annual Meeting of
 the Share Owners will be
 held on April 15, 1959
 at the Company's office
 at 50 Varick Street
 New York, N. Y.*

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LIBRARY
FLORIDA STATE UNIVERSITY
TALLAHASSEE FLORIDA

1958 in brief



An installer displays attractive telephones which invite our customers to order complete home service.

EARNINGS improved last year for a number of reasons. We were able to increase the efficiency of operations. The services and instruments we provide are increasingly attractive and they have been vigorously sold. Some of the telephone companies obtained much-needed increases in rates.

The capital invested and kept in the business by the share owners rose to an average of \$155 a share in 1958, compared with \$151 in 1957 and \$134 ten years ago. With more dollars per share at work, earnings per share should of course also increase.

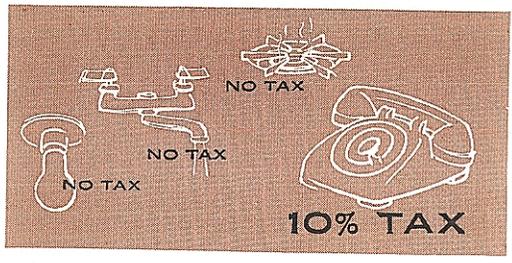
GOOD EARNINGS AND GOOD SERVICE go hand in hand. Our progress in expanding service—in developing and introducing service betterments—in financing and building the new communication facilities needed by growing America—is directly related to our financial good health. In some areas however low earnings still hamper the companies' ability to meet all the growing needs of the public. The companies concerned are therefore continuing every effort to improve the earnings and are requesting increases in telephone rates where they are required.

CONSTRUCTION EXPENDITURES were \$2.2 billion. The System obtained \$1,377,000,000 of new capital, of which \$966,000,000 came from sale and conversion of A. T. & T. convertible debentures. At year-end the proportion of debt in total capital was 35 per cent.

TO WIDEN THE MARKET for A. T. & T. stock, your Board of Directors announced in December that it would propose a three-for-one stock split to the share owners at the Annual Meeting in April 1959. If the proposal is approved, we expect to pay the first quarterly dividend on the split shares in July at the rate of \$.82½ a share, which would be an annual rate of \$3.30 a share. Dividends of \$9 a share on the present shares were paid in 1958.

TAXES EQUAL TO \$3.18 PER TELEPHONE PER MONTH (on the average) were paid on Bell System service. The total was \$2,033,000,000, including \$550,000,000 in federal excise taxes paid directly by telephone users. Operating taxes were \$1,483,000,000 (more than \$21 per share of A. T. & T. stock) and more than \$500 million of this amount was in state and local taxes.

We consider the 10 per cent excise tax unjust and discriminatory—in fact the telephone is the only household utility that is



BELL
SYSTEM
FINANCIAL
SUMMARY

	1958	1957
Operating Revenues and Other Income	\$6,908,090,000	\$6,459,765,000
Operating Expenses and Taxes	\$5,715,018,000	\$5,434,188,000
Interest Deductions	\$211,609,000	\$172,673,000
Net Income	\$981,463,000	\$852,904,000
A. T. & T. Shares — Average for Year	67,982,000	63,811,000
— Number at Year-End	70,545,000	64,548,000
Net Income per Average Share	\$14.01	\$13.00

so taxed. Yet proposals have been made which, if they become law, could make this tax a permanent part of *both* the federal and state tax structures. We are speaking out against this. When tax laws are revised the telephone excise should be repealed—not perpetuated.

THE TOTAL INCREASE IN TELEPHONES was nearly 2,500,000. Some 54,700,000 are in service; 94 per cent are dial-operated. We made fine progress in promoting “complete” home service. Over 1,100,000 extension telephones were added—more than in 1957. The number of people having individual line service continued to go up and the number on 4-party lines continued to go down.

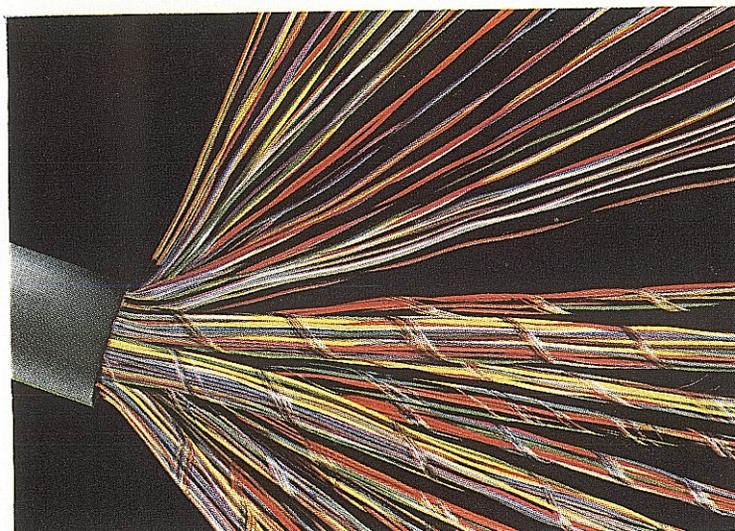
LONG DISTANCE CONVERSATIONS rose about 5 per cent. The 1958 total was 2,800,000,000

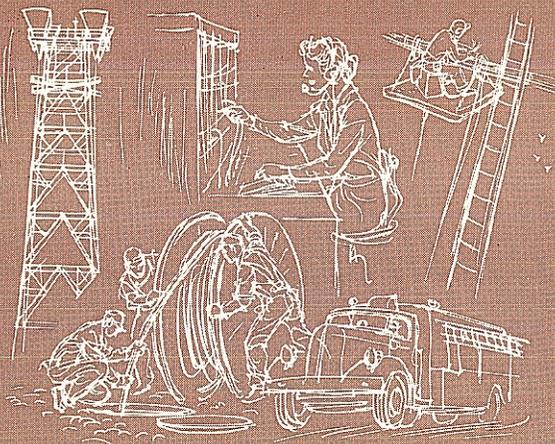
and the speed of service was the fastest ever. Twenty million customers now use Direct Distance Dialing, of whom about eight million can dial far-away places. Telephone users now dial one out of five calls straight through to the distant telephone and operators dial three-quarters of the rest.

NEW DEVELOPMENTS are coming along at a good pace. Bell Telephone Laboratories maintains leadership in research. Western Electric, our manufacturing and supply organization, is pioneering new production methods. The operating telephone companies are testing new forms of service. We believe the close coordination of research, manufacture and marketing and operations will bring about even greater progress in the future than in the past.

A NEW DEVELOPMENT OF GREAT IMPORTANCE

This is PIC cable—cable with polyethylene-insulated conductors. Each wire is moistureproof. Each is guaranteed perfect so no spares are needed. The insulation comes in numerous colors. These qualities allow more “trouble free” service; ready access to the wires at any point, with no need to hermetically seal openings in the outer cover; easy identification of each wire; and simpler record keeping.





REPORT FOR 1958

FOR the Bell System 1958 was a year of unusual problems and significant decision. To help make clear the main considerations which guided us, a bit of background may be useful.

Ours is decidedly a growth business. Telephone service has much more than doubled since World War II and will be increasingly needed in the future. The continuing rise in population is not the only reason for this. As our economic and social structure grows more complex—and as the nation strives to meet the problems of defense and of world-wide economic and political competition—it seems clear that industry, government, the armed forces, and the general public will rely more and more on fast and abundant communications.

Second, we are a growth business which needs to build and operate an exceptionally large amount of physical facilities. To stress the point a little—millions of dollars worth of equipment is needed to be ready to handle the average local telephone call. Some calls (depending on where they go) pass through equipment which has cost tens of millions. Relating *all* the equipment to *all* the service, our capital investment is about two and one-half times our annual revenue. As we continue to grow, we shall need more and more physical plant and large additional amounts of capital.

A third fundamental is that the types of equipment employed must be constantly changing and improving. We

“Competitive spirit and creative selling effort are essential to doing a progressive telephone job, which is the only kind the public wants.”

could not offer the services people expect today, at attractive prices, if we were limited to the apparatus and methods of a dozen years ago. Nor shall we be able to satisfy the needs of the coming generation if we stick to the tools of today. So we must keep probing for new knowledge. We must develop new arts and work out the ways to apply them. We must bring about a continuous evolution of the telephone system and constantly endow it with new capabilities.

Fourth, we are very much a business of people and our contributions to progress will always depend on the kind of people we are. Good and improving service requires many technical and craft skills. But it also needs much more. We must be understanding of the wishes of our customers, and sensitive to their problems and expectations in each community. We must have what we call the *spirit of service*, expressing in personal action our willing acceptance of responsibility. And we surely have as much need as any other business for competitive spirit and vigorous, creative selling effort. This is essential to doing a progressive job and a progressive job on our part is the only kind the public wants.

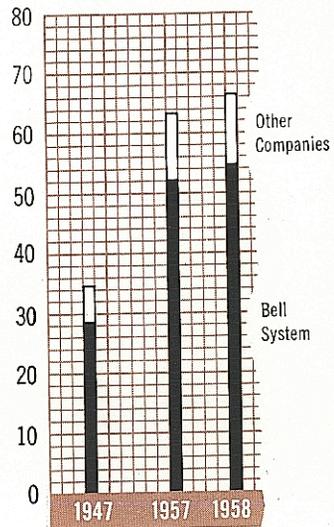
To look now at 1958 progress in the light of these ideas:

In the early months of the year the rate of telephone growth slowed down. This trend started in 1957 and it was necessary then to determine the future pace of our construction. Our decision—to go ahead with expenditures of \$2.2 billion, an amount only moderately reduced from the 1957 peak—was directly related to some of the factors mentioned above.

For example, we made little change in our long-range program for installing the newer forms of equipment which improve service and make the telephone system more capable; Direct Distance Dialing is one illustration. In the largest area of expenditure—construction to take care of

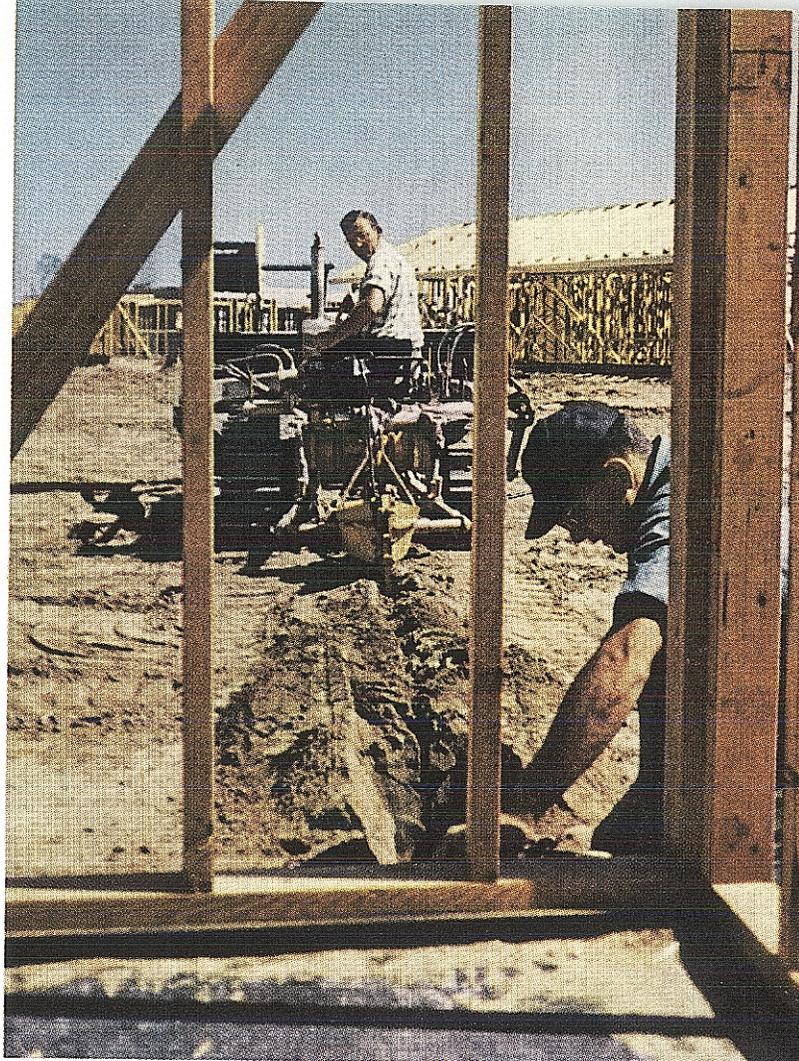
Telephones in the United States

IN MILLIONS

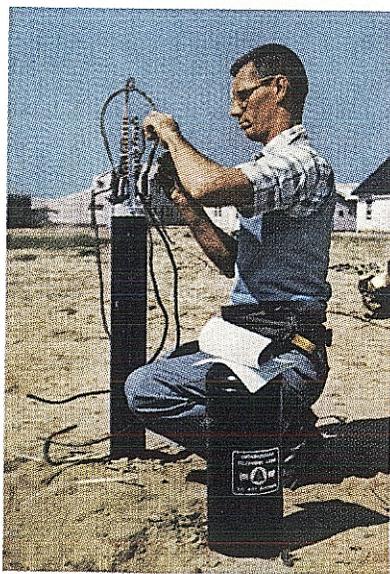


UNDERGROUND CABLE AND WIRE

In a very large housing development, where soil conditions have been found suitable, we have experimentally used new underground construction methods to serve new homes. At right, plow lays wire from house to main cable.



Cable wires run out through pipes on which terminals are mounted.



At each terminal wires from several homes connect with those in cable.



Telephone wiring in house connects here with line that runs to cable.

growth—prudence required some reduction from the previous year. However we spent \$1.3 billion for this purpose. We felt confident that with vigorous sales effort we could continue to develop new business, and that the speed of telephone growth would again turn upward in reasonable time. Experience to date has justified that expectation.

Our largest financing was the sale of \$718 million of A. T. & T. convertible debentures which were offered to share owners. By the end of the year debenture holders had converted nearly 85 per cent of these into stock by turning in \$100 of debentures plus \$42 in cash for each share. Six subsidiary telephone companies sold bonds totaling \$340 million; from the proceeds of three of these issues, previous bond issues totaling \$115 million were refunded, and \$225 million was new capital. Under the employees' stock plan authorized in January, 1958 nearly 319,000 employees are making installment payments on some three million shares.

A WIDER MARKET FOR A. T. & T. STOCK, your Board of Directors believes, will result from favorable action on their proposal to split the present shares on a three-for-one basis, and from the increase in the dividend which is anticipated if the stock split is approved. These steps will strengthen our position in competing for the large amounts of equity capital needed to meet the nation's requirements for telephone service.

For the past three years the Bell System has spent \$2 billion or more a year for construction—a substantial part of the money has been raised through the sale of securities—and expenditures of this magnitude are expected to continue. This is considerably more than has been spent by any other privately owned corporation. It has furnished employment to many thousands of people and has had a good effect on business conditions throughout the country. If we are to proceed with these large and important construction programs, the broadest possible market for our stock is essential.

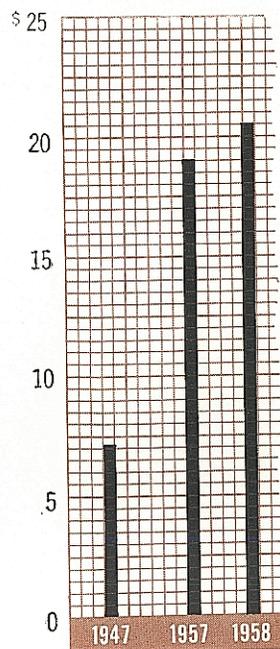
THE IMPROVEMENT IN EARNINGS accomplished in recent years has been necessary to keep our facilities and service growing and to support the research which is so vital to the future. In states where earnings have been low, the Bell companies have continued to ask for increases in telephone rates. Last year the regulatory commissions authorized rate increases amount-



Planned and plentiful outlets for telephone service make homes more attractive to prospective buyers.

Telephone Plant Investment

IN BILLIONS



“The earnings of industry have risen to counter the decreased value of the dollar. We must compete with all industry for materials, for capital, for people.”

ing to \$87 million annually. Applications totaling about \$26 million are pending and further requests are planned.

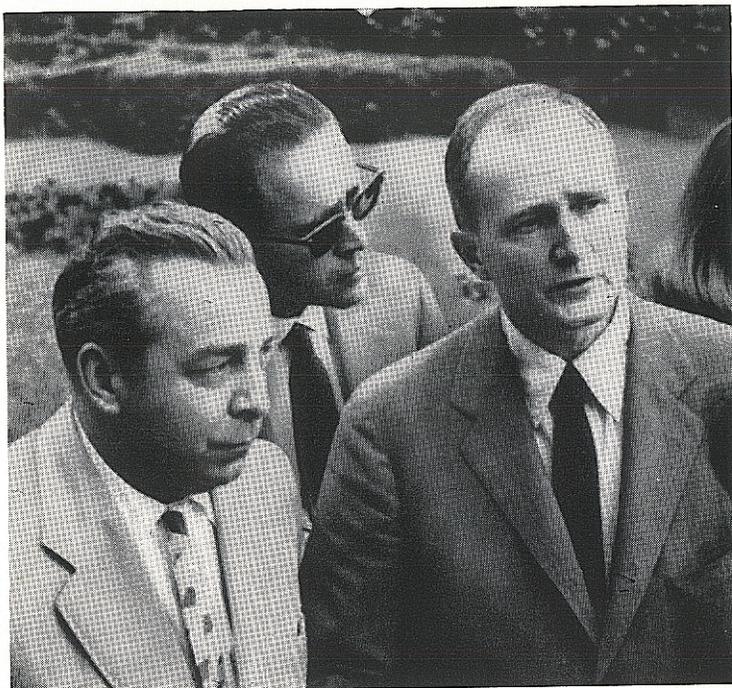
The earnings of industry as a whole have risen to counter the decreased value of the dollar. Our progress under regulation has been slower, and for a long time the gap between our earnings and those of nonregulated companies continued to widen. This could not go on without doing great harm to our business and service. We must compete with all industry for materials, for capital, for people. Investors in the long run insist on earnings that are reasonably related to the value of their investment. First-rate employees—potential managers—are drawn to businesses that have the vigor to rouse their interest and challenge their abilities. We cannot work effectively in one kind of economic climate while the rest of business is moving ahead in another.

Specifically also, as we furnish service we continuously use up property, and can recover in depreciation charges only the same *number* of dollars as were originally invested. But the dollars we recover this year and next are smaller dollars—they have much less value than those which were put into the business in the past. Non-regulated industry generally meets this problem by charging prices which provide a margin in earnings; we believe regulation should make a similar allowance in fixing our rates.

LET US TURN NOW to some of the ways in which, as we grow, we are working to “evolutionize” telephone plant and services and our methods of operation.

In January 1959 we completed the third microwave radio relay route across the country. Between Denver and Salt Lake City we have started to build still another cross-country system of a new type which can handle 11,160 conversations at a time—more than three times as many as the type now in use. Last year also we made the first installations of a microwave system designed especially for short routes.

Pictured at Geneva conference last summer, Dr. James B. Fisk, right, was appointed by President Eisenhower to head the Western delegation of scientists who met with Russian scientific group to determine technical procedures for detecting violations of any agreement which may ultimately be reached to suspend nuclear tests. Dr. Fisk, at that time executive vice president of Bell Telephone Laboratories, was elected president of the Laboratories on January 1, 1959, succeeding Dr. Mervin J. Kelly who is retiring.

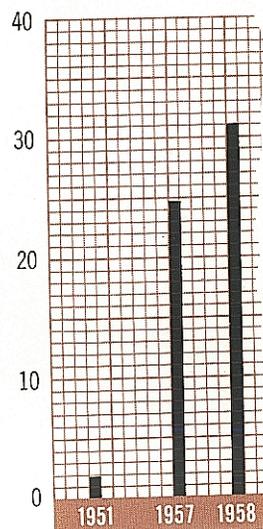


More than 30 per cent of the nearly 63 million miles of long distance channels, and two-thirds of the mileage added last year, are provided by radio relay systems. They provide all the new express routes and most of the other facilities which bypass critical areas. They also furnish most of the network interconnecting 610 TV stations in 403 cities. Thus they are every day more important to economical, reliable public service, and we are continuing to urge the Federal Communications Commission to allocate additional microwave frequencies to communication companies.

Today our long distance lines carry many kinds of communications—voice, pictures, data, TV, control and metering signals, and so on. Moreover millions of people can dial long distance calls without operator assistance. These things mean that more than ever, our circuits must *always* be first-rate. We are therefore studying our network with great care to make sure that every part is in top condition. Bell Laboratories is developing automatic test gear and additional regulating devices for this purpose.

At the same time we are streamlining methods for billing charges on calls handled by operators. In many places operators now mark the necessary information on special cards instead of paper tickets. Machines then “read” the cards and

Percent of Long Distance Telephone Circuit Miles Provided by Microwave Radio



prepare bills automatically. This procedure has proved both accurate and economical and we shall extend it all over the Bell System.

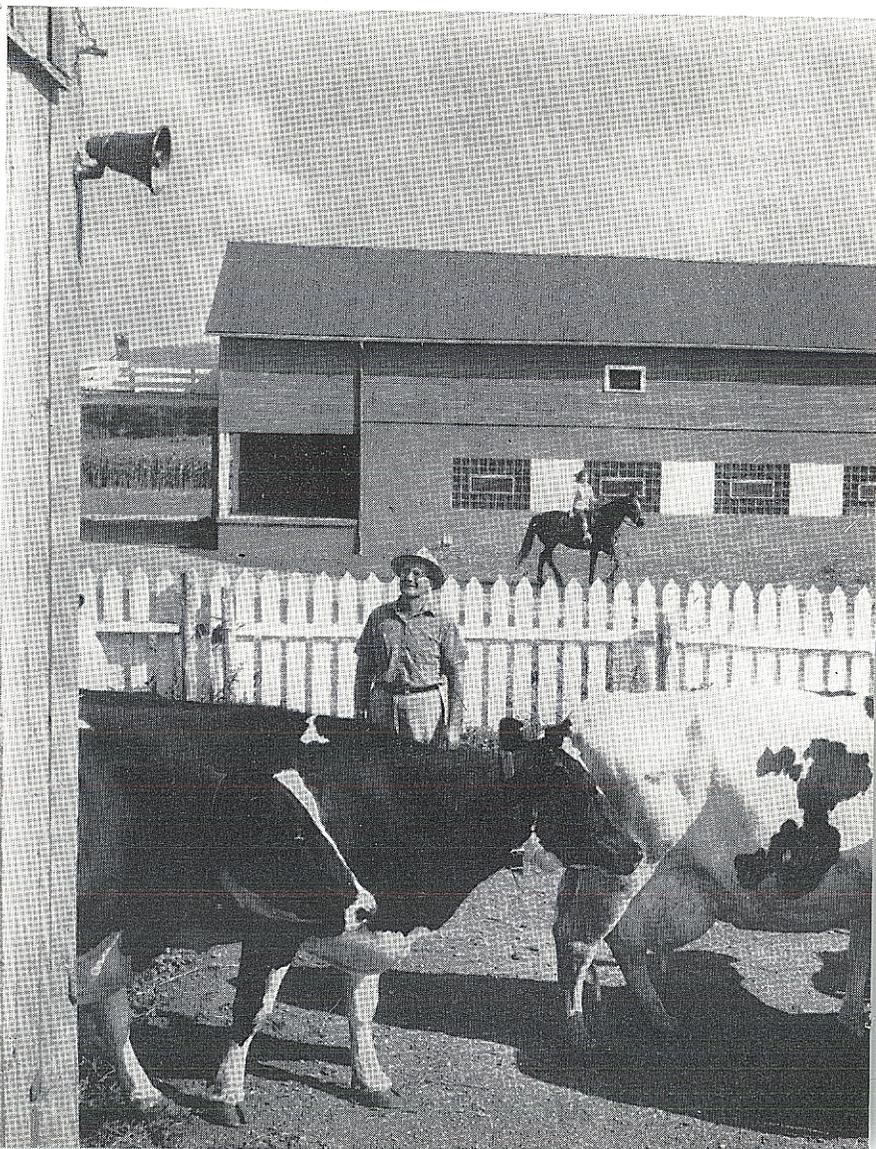
It might be added that automatic message accounting systems developed at Bell Laboratories, in conjunction with other machines, now handle the billing on perhaps half a billion customer-dialed long distance calls a year. Also, we are using electronic data processing machines to assist in many clerical operations and to assemble and analyze information of all kinds.

CHANGE AND EVOLUTION proceeded last year in many other ways. For instance we installed 3,600,000 colored telephones. There is no question that instruments in attractive colors have been a powerful factor in promoting "complete" service, with several telephones around the house.



NEW COMMUNICATION SYSTEM FOR FARMS

When calls are received the person answering (above) can telephone the farmer in the barn or out in the fields. He hears through loudspeakers like the one at top of picture on right, and can "talk back" through the nearest loudspeaker. This system has been under test and regular production will begin this year.



The home communication system we have been trying out has found wide favor and regular production will begin this year. This offers numerous conveniences. For example, one can answer the doorbell from any phone in the house and talk with the person outside.

Customers have also liked a new, smaller telephone we have tested and this too is going into production in 1959.

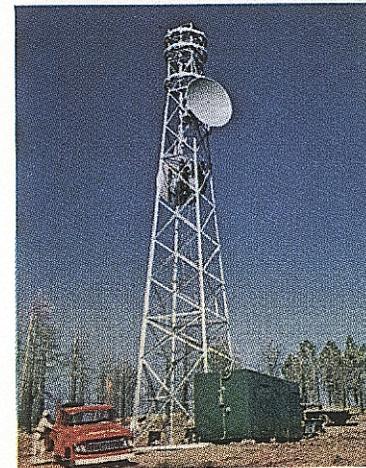
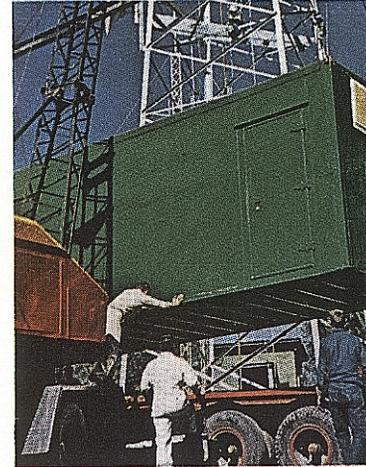
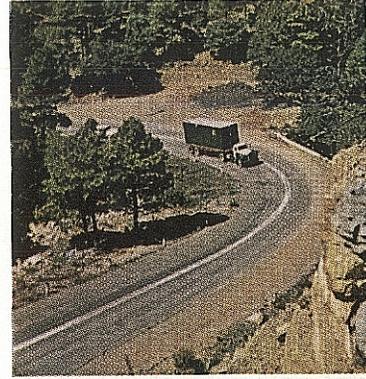
Another popular innovation is a centralized chime-or-bell signal. By turning a switch, the user may hear a pleasant chime—a regular bell if he prefers that—a loud bell if he is out of doors.

We have just introduced a new business telephone, the Call Director. This we think is the most advanced and flexible telephone ever offered for business use. It is pictured on page 15.

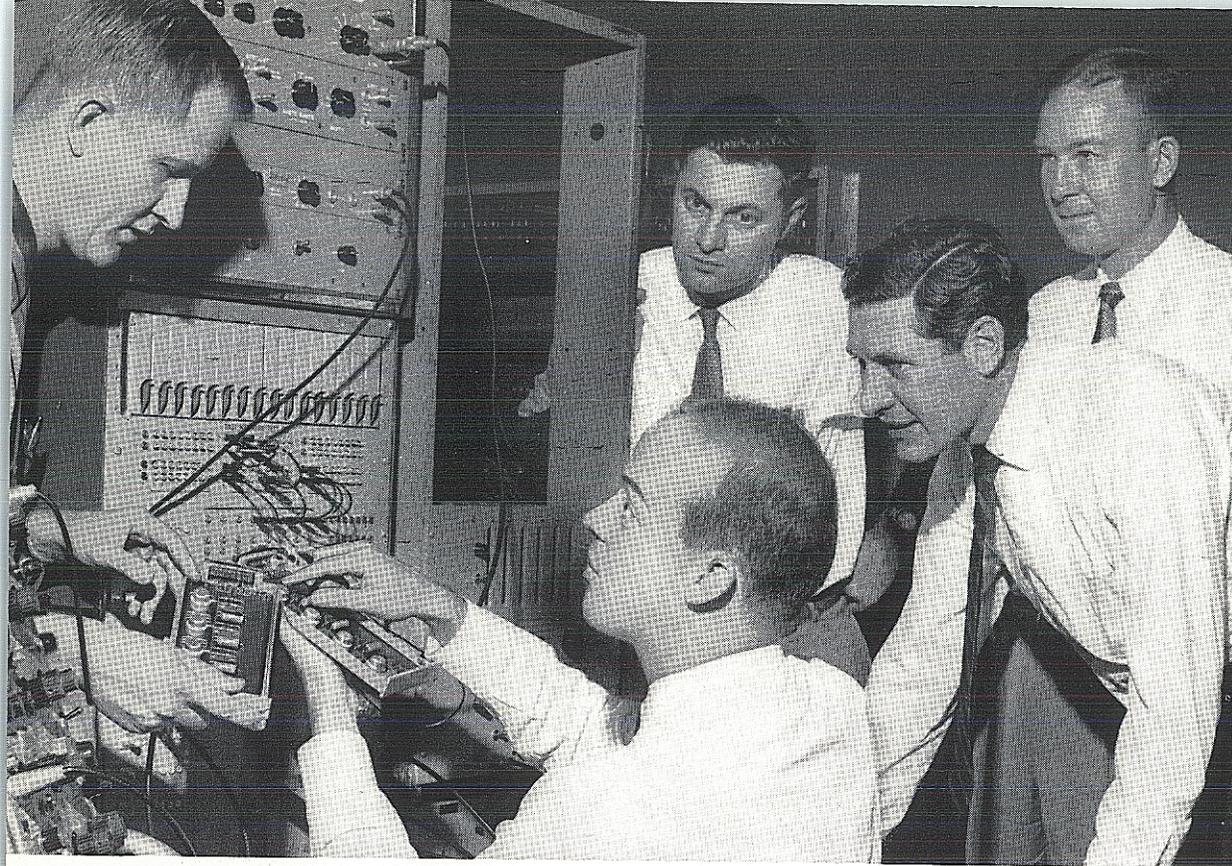
Last year we installed for several large customers private branch exchange equipment which permits callers from “outside” to dial direct to individual extensions without going through the switchboard attendant. We expect to provide this improved, more economical service to more businesses as time goes on. In addition we are working hard to shorten the time required to engineer and install the often complex communication systems needed by industry and government.

Trials of “dataphone” service are going ahead with the cooperation of several business customers. This service, first announced last year, permits sending data of various kinds over the regular local and long distance telephone network as well as over private lines. Other projects in the testing stage include new methods for connecting button telephones in business offices so that service can be installed or changed much more quickly; and panels of telephone equipment which can be built into desk drawers or kitchen cabinets. Telephones with push-buttons instead of dials are also being tried out in two places. Their general use however is some way off because this involves broad changes in the telephone system.

Overseas conversations increased 11 per cent last year. Service is now available to 125 countries and territories. We believe the market for world-wide telephone communication is just beginning to open up. A second transatlantic cable will be laid this summer and placed in operation this coming fall. This will handle conversations primarily with France



*“PACKAGED” MICROWAVE
Truck hauls building with built-in equipment up mountain to radio relay site. Building is installed beside tower. This completes station on new microwave radio system for short routes.*



Many telephone company engineers receive two years of Bell Laboratories training in the latest communication technology, which includes the use of transistors and many other new devices. The current group numbers 90 men. At the Laboratories they "learn by doing," as well as in the classroom. The men here are discussing features of some new equipment.

and Germany but circuits will also reach Belgium, Italy, The Netherlands, and Switzerland. A cable to Puerto Rico will go into service early next year. On this system operators will dial straight through to the distant telephone, as they do now over the Hawaiian cable and (since last month) over the cable to Alaska.

Ocean telephone cables are very important to defense. They are not subject to atmospheric disturbances—which sometimes interfere with overseas radiotelephone circuits—and they cannot be “jammed.”

Western Electric has begun manufacture of the first TASI* system developed at Bell Laboratories. This will be ready for service between the United States and England next year. TASI increases the capacity of ocean cables by automatically assigning voice channels to talkers in the intervals when other people are listening or pausing; at the same time each conversation remains completely private. Work has

* Time Assignment Speech Interpolation

“Our sales effort seeks constantly to develop new ways for customers to use services, and new methods to meet their needs.”

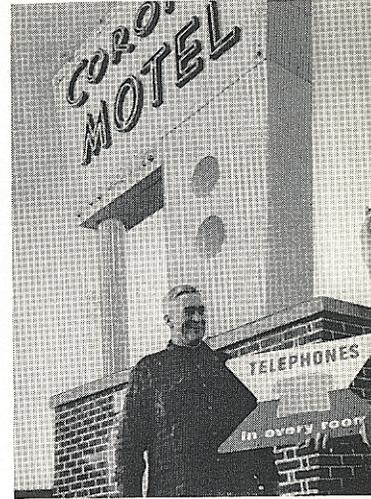
also begun on an “over the horizon” radio system between Florida and the Bahamas. This will be similar to the system placed in service between Florida and Cuba in 1957.

THOROUGH MARKETING AND SALES EFFORT is necessary to the evolutionary change and progress we have been discussing.

Take for example the spread of coin telephone service. Today 128,000 of 950,000 Bell System coin telephones are outdoors—many of them on highways—and market testing and booth design go hand in hand. New “drive-up” and “walk-up” phones are being tried out, also a single slot instrument. (This “beeps” once for a nickel, twice for a dime, and five times for a quarter.) Coin telephone revenues last year were more than \$400 million. We are exploring every means to keep them growing.

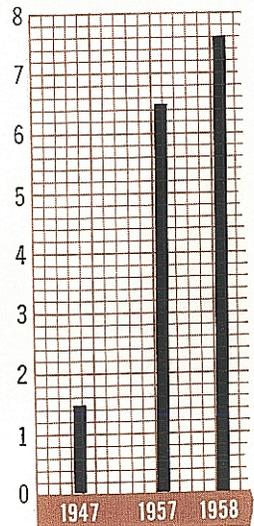
Our sales effort seeks constantly to develop new ways for customers to use services, and new methods to meet their needs. We visit our business customers to show how they can increase sales and reduce costs by systematic use of long distance. We are convincing more and more motels of the value of having telephones in every room; and to motels and hotels alike, we are presenting the advantages of telephone systems which enable guests to dial their calls directly. Working closely with retail stores, we are promoting the “shop by telephone” idea and installing arrangements that speed the handling of telephoned orders.

Last year we rang doorbells to sell service in many homes which had no telephones. Trained telephone saleswomen sold service and equipment to both residence and business customers. Other telephone people continuously studied the needs of large firms to make sure they have the most useful service. Telephone installers and maintenance men, as they visited homes and offices, sold service features which added more than \$50 million annual revenue. “Yellow Pages” salesmen sold directory advertising which helps people to locate



“Telephones in every room” will bring business to this motel.

Extension Telephones
in Homes
IN MILLIONS





In a large department store, telephone men work with the store management to enlarge and improve "shop by telephone" service for its customers.

goods and services—encourages them to telephone—and brings business to the advertisers.

The sustained and broadening sales effort of thousands of Bell System employees was a key factor in enabling us to meet the problems of recession. We had many improvements to offer. We sold them hard. This contributed greatly to service betterment—to revenues and earnings—and to telephone jobs.

WESTERN ELECTRIC AND BELL LABORATORIES work as partners with the telephone companies to provide new and ever-improving equipment. For instance, Western's model shop quickly turns out experimental instruments and systems which telephone people use to make market tests. Laboratories and Western engineers work together at manufacturing locations to speed new developments into production. Research, manufacturing, and operating people all have the same goal—to come up with the answers that produce the best in service at lowest cost.

Western Electric sales in 1958 were \$2,173,827,000 compared with \$2,480,614,000 in 1957. Sales to the Bell com-



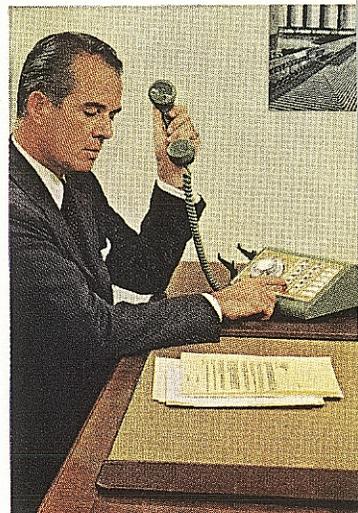
Helping a visitor to the telephone business office choose the colors for her telephones.

panies were \$1,527,912,000 compared with \$1,821,198,000. Most of the balance was in sales to the government for national defense. Earnings were \$85,936,000. The company obtained \$78,425,900 of new capital through the sale of stock which was offered to its share owners. This increased shares outstanding to 17,253,702.

Western Electric last year paid more than a billion dollars to other concerns for materials, services, and transportation. It did business with more than 30,000 suppliers in every state—nine out of ten of them small businesses. This teamwork is good for the Bell System and good for our suppliers too. It gives a boost to the whole economy.

The court decree which concluded the government anti-trust suit three years ago confines Western (with some exceptions) to the kind of work in which it engages for the Bell System and for the government. Accordingly the company last year disposed of the assets of Teletypesetter Corporation and also sold the Westrex Corporation.

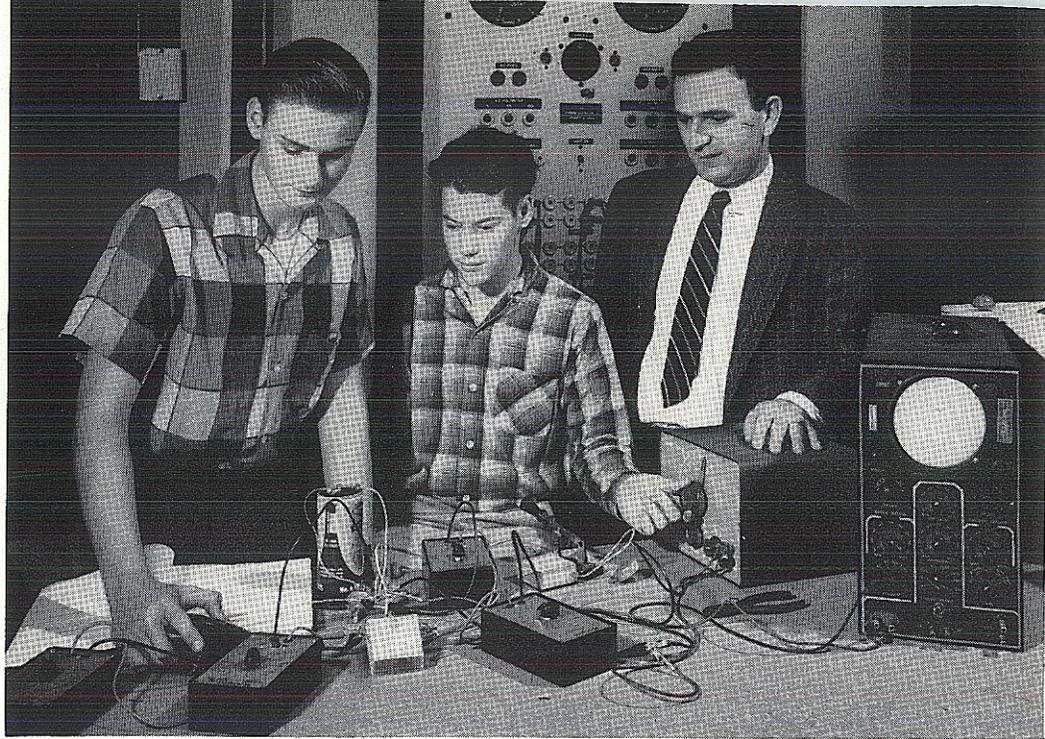
Mounting wage and material costs made modest price increases necessary on some items of equipment last year. Western Electric has made an outstanding record however in



Using the new "Call Director."

Bell Laboratories and Western Electric engineers work closely together at manufacturing locations. Such teamwork helps to speed production of new designs—in this instance the "Call Director" (on table between the men), a telephone designed especially for business.





Students and teacher in Washington, D.C., school system use transistors (in small white case) given by the telephone company to aid studies in science. The Bell companies are glad to turn over to schools and colleges many items of equipment no longer required for regular use in the telephone system. We may also note that Bell Laboratories' invention of the transistor has created a whole new transistor industry, employing tens of thousands of people in this country and also abroad.

combating rising cost trends and in 1958 the company continued to increase its operating efficiency.

Last year for example Western developed a system for automatic testing of dial switching equipment before it leaves the factory—"grew" better quartz crystals than are found in nature—and automated the assembly of telephone transmitters. Production engineers have also gained much experience in automating the assembly of transistors and other minute devices. In the new Omaha manufacturing plant, production lines have gone into operation which draw, anneal, and insulate cable wires—all in one non-stop sequence.

A new Western Electric plant is under construction in Columbus, Ohio. Another has been started in Oklahoma City. New distributing houses have been completed to serve the telephone companies; more are under way. Work has begun at an engineering research center in Hopewell, New Jersey. Complementing research at Bell Laboratories, efforts here will concentrate on production processes. For example, Western will investigate how different materials may be used in the manufacturing process, just as the Laboratories studies their properties for use in the equipment it designs.

RESEARCH AND TECHNOLOGY give the telephone system the new capabilities it needs. We have already mentioned several developments pioneered at Bell Laboratories—ocean cables and radio relay systems, new telephones and direct distance dialing, PIC cables and transistors. Our research and development work last year was on a larger scale than ever before. We are confident its value is increasing also. The new devices and systems developed in the last dozen years have been fundamental to our financial progress as well as to our service; and from the standpoint of telephone users, the fact is that without these developments it would be impossible today to give a comparable service at anything like the same price.

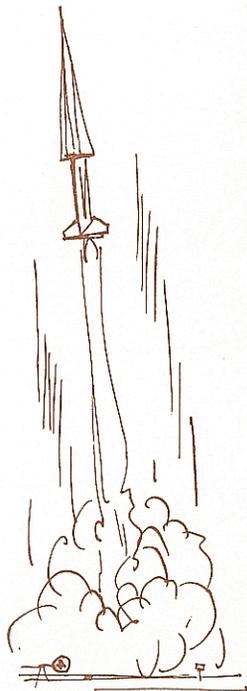
To mention only two more instances of current progress: The telephone system uses hundreds of thousands of amplifiers on so-called “exchange trunks” between central offices. It also maintains any number of automatic power plants to assure dependable service in emergencies. We are now introducing new transistorized amplifiers to further improve transmission on the exchange trunks, and other new “solid state” devices to improve the power plants. These are indicative of the kind of change that goes on all the time—unseen by the public, but ever so important.

Western Electric has started to build equipment for the first public trial of a fully electronic telephone switching system now under development at Bell Laboratories. The trial is planned for next year at Morris, Illinois. It will offer a glimpse of the future and we believe will profoundly influence the whole course of communications.

HOW THE TELEPHONE SYSTEM'S GROWTH HELPS DEFENSE is illustrated on the cover. All major additions to the long distance network today follow the express route concept and each addition gives added strength. We have also been working for defense in many other ways. For example:

Bell Laboratories has over-all responsibility for the design of Nike missile systems. Western Electric produces guidance and control systems for Nike Hercules, which can destroy whole fleets of planes, and the Laboratories is now designing a new anti-missile missile, Nike Zeus. The task of Nike Zeus is to discover, track, intercept, and destroy—all in a few minutes' time—oncoming ballistic missiles traveling at more than 15,000 miles an hour.

A Laboratories-developed guidance system for the Titan



ICBM is under test at Cape Canaveral. Western Electric last March turned over to the Air Force the 3,100-mile "White Alice" communication system which links Alaskan military bases and outposts, ties cities and towns together in the 49th State, and connects with the Distant Early Warning (DEW) Line of radar stations in the Arctic. The DEW Line is being extended in the Aleutians and a Greenland extension is being designed.

Western and Bell Laboratories are also working to provide communications for a new Ballistic Missile Early Warning System (BMEWS) now under construction in the far north. Such a network must carry complex data at high speeds and with utmost reliability. The same is true of the telephone lines which interconnect radars, computer centers, and defense weapons in the new, highly automated SAGE air defense system. The first three sectors of this system have now been activated. Western Electric coordinates the work of many contractors; the telephone companies, both Bell and non-Bell, are providing more and more interconnecting facilities; and Bell Laboratories works continuously to improve data transmission systems for this and other projects. We are also extending and improving civil defense and military voice networks. For example, the latest alerting network for the Strategic Air Command now covers 200,000 miles; this is being so arranged that if at any time, any part of the network is not in perfect working order, flashing lights and ringing bells will say so on the instant.

The Atomic Energy Commission has asked Western Electric, through its subsidiary the Sandia Corporation, to continue to manage the Commission's Sandia Laboratory which works on military applications of atomic energy. A contract renewing the relationship for five more years was signed in December.

BELL SYSTEM EMPLOYEES did an outstanding job last year. The good results of 1958 bear witness to both the character and competence of telephone men and women.

The human side of our job is always the most important—and the most challenging. There are many ways in which we can increase understanding between ourselves and our customers; many ways in which we can improve personal performance; many ways too in which we can broaden our abilities as managers. And we in the business need to keep



Telephone man and telephone truck assist operator on her way to work on stormy night.

A telephone company driving instructor assists local police in community effort to teach principles of "defensive driving"—courtesy, concentration, and control.



looking outside it in order that we may better fulfill our responsibilities to the nation we serve and the world we live in.

So in 1958 we went ahead with numerous activities designed to widen viewpoints, sharpen perception, and increase knowledge and ability: Open houses and "town meetings" where local managers and employees meet with customers to talk over matters of common interest. College courses for people in Bell System management and for many in the ranks. Training programs for craft employees, supervisors, middle management people, and department heads, to help develop deeper understanding of the business, including its financial aspects.

Many of the wage agreements between the Bell companies and the unions were not open for negotiation in 1958, because their initial term was for more than 12 months. Where new agreements were negotiated, wages increased in keeping with community wage levels.

Last year the Bell companies paid out \$348,000,000, or 9.3 per cent of the payrolls, to provide pensions, benefits, and group life insurance, and as Federal taxes for Social Security old-age and disability insurance benefits. Group life insurance is financed by both employee and company contri-

“We believe we can meet our responsibility to our share owners only by furnishing the best communication service it is possible to provide.”

butions. The companies pay the entire cost of their pension and other benefit programs. Service pensions are paid from trust funds which are actuarially accrued by each company and can be used only for this purpose. At the end of the year 24,200 men and 24,806 women were receiving such pensions.

It seems appropriate to mention several other matters under the heading of citizenship. They are widely different yet each reflects acceptance of responsibility in the community.

When the danger of Asian flu arose more than a year ago, a majority of Bell System employees accepted the opportunity to be vaccinated. We were glad to have the advice and aid of the U. S. Public Health Service in this program, and glad also to meet their request for certain weekly reports of absences from work. This information, the Surgeon General has informed us, was of great value in charting the course of the epidemic.

Since last October thousands of students and teachers from coast to coast have been watching the early-morning “Continental Classroom” TV course in physics. The Bell System is one of several businesses which have cooperated with the Ford Foundation to finance this program. We have a deep interest in spreading understanding of science (our own Science Series programs on TV have broadly the same goal) and it has seemed to us that support of this effort is a form of corporate good citizenship.

Seventy-one Theodore N. Vail Medals were awarded to telephone men and women during 1958. These medals are awarded for exceptional courage or skill—and often both—in emergencies. We are always proud to tell about them.

Nearly 200,000 men and women who have worked in the telephone industry 21 years or more now belong to the Telephone Pioneers of America. More than a quarter of them are retired people. The motto of all is “fellowship, loyalty, and



service." Pioneers express this spirit not only in telephone work but in many other ways, including for example volunteer hospital service, technical aid to research organizations, and transcribing textbooks into Braille.

Not all Pioneers—or all telephone employees—are members of the Bell System. Nearly four thousand other telephone companies, employing many thousands of people, provide telephone service in the United States. In fact, they serve exchanges covering about one-third of the total area of the country, as the Bell System also does, the remaining third being largely uninhabited. Our long distance lines connect with their facilities, and with their service growing as rapidly as ours, we must all work closely together to provide fast, dependable, nationwide service. This we continued to do in 1958 with good spirit and good results.

THE SENSE OF RESPONSIBILITY TO OUR SHARE OWNERS is basic to all Bell System progress. We believe we can meet this responsibility only by furnishing the best communication service it is possible to provide. In words that have been used before—we must serve well to prosper, and prosper to serve well. Last year, in the face of a slow-down in the general economy, we were able to maintain a healthy growth, build many new facilities, improve service, strengthen our capacity to aid defense, and intensify research. This was all the work of people, but it needs to be repeated that it could not have been done without improvement in earnings. Past, present, and future, this is vital to the service we provide.

Looking ahead, we have no thought of altering the fundamental character of this business. We are determined to safeguard the interests of our nearly 1,620,000 share owners. We shall have larger opportunities for service, no doubt about it. We shall need to grow, to build, to finance, to find new ways to do our job more effectively. But these things only mean that we shall have more need than ever for the confidence which you, the share owners, place in us. We welcome your questions and suggestions, and for the backing you give our efforts we are deeply grateful. We shall do our best always to deserve it.

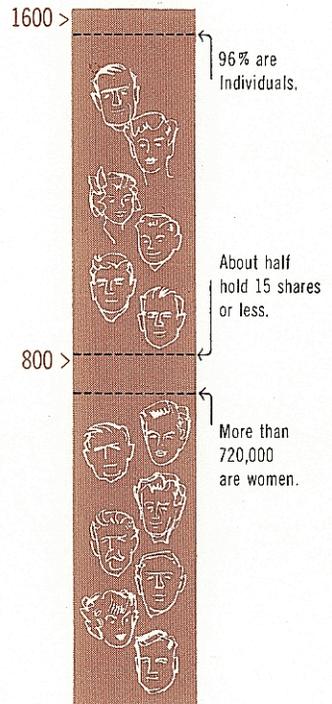
For the Board of Directors,



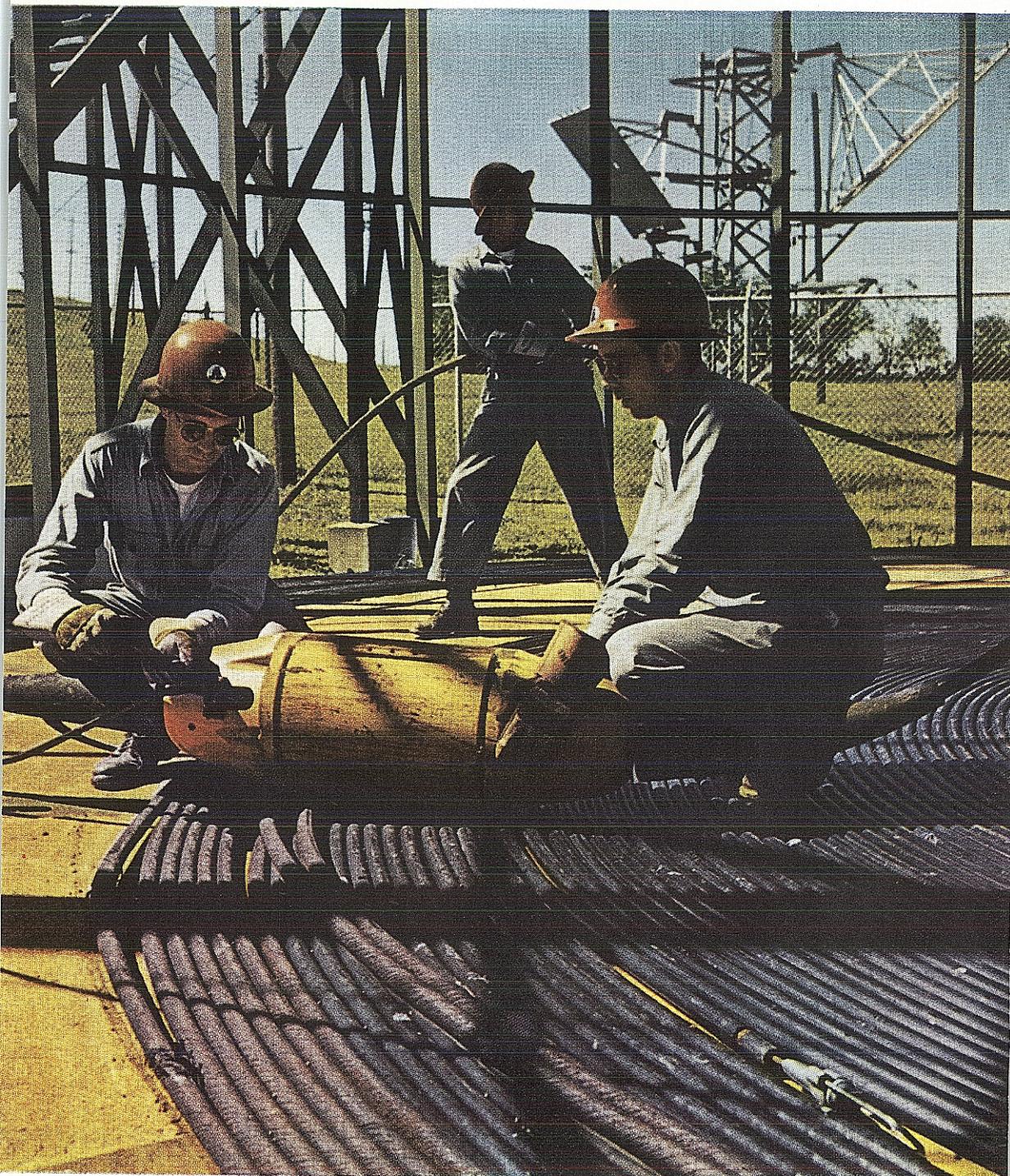
February 11, 1959

PRESIDENT

A. T. & T.
Share Owners
IN THOUSANDS



At the end of 1958 the average holding was 43 shares, and the average holding by individuals was less than 36 shares.



At sea on land: In this replica of one of the great tanks or holds of a cable-laying ship, Bell Laboratories engineers study new methods for packaging and handling the amplifiers which are vital to transoceanic telephone cables. One problem—to devise means to get the amplifiers out of the hold and into the water without stopping the ship. Nearby, the Laboratories is also building a miniature "ocean" where deep-sea water pressures are duplicated.

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.

These companies 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. 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.

BELL SYSTEM

American Telephone and Telegraph Company and its Principal Telephone Subsidiaries

ASSETS

	(Thousands of Dollars)	
	December 31, 1958	December 31, 1957
PLANT AND OTHER INVESTMENTS		
Telephone Plant—at cost with minor exceptions		
Telephone Plant in Service.....	\$20,143,871	\$18,438,267
Telephone Plant under Construction.....	485,498	660,596
Property Held for Future Telephone Use.....	15,774	16,337
Telephone Plant Acquisition Adjustment.....	1,212	1,777
	20,646,355	19,116,977
Less: Depreciation Reserve.....	4,626,961	4,363,439
	16,019,394	14,753,538
Miscellaneous Physical Property.....	8,630	7,761
Investment in Subsidiaries Not Consolidated (a).....	972,475	861,476
Other Investments—at cost.....	102,482	115,179
<i>Principally investments in associated telephone com- panies.</i>		
	17,102,981	15,737,954
 CURRENT ASSETS		
Cash and Demand Deposits.....	126,066	122,199
Temporary Cash Investments.....	1,206,457	794,821
<i>Principally U. S. short-term obligations.</i>		
Special Cash Deposits.....	10,965	9,048
Receivables—less reserve for uncollectibles.....	769,722	716,180
Material and Supplies.....	99,786	115,114
	2,212,996	1,757,362
 DEFERRED CHARGES		
Prepayments of Directory Expenses, Rents, Taxes, etc.....	110,564	106,345
Other Deferred Charges.....	67,410	76,215
	177,974	182,560
Total Assets	\$19,493,951	\$17,677,876

For notes, see page 28.

CONSOLIDATED BALANCE SHEETS

LIABILITIES

(Thousands of Dollars)
December 31, 1958 December 31, 1957

CAPITAL STOCK EQUITY

American Telephone and Telegraph Company		
Common Stock—Par Value (\$100 per share)	\$ 7,054,529	\$ 6,464,818
<i>Authorized 100,000,000 shares; outstanding at December 31, 1958, 70,545,294 shares. See note (a) on page 33.</i>		
Common Stock Installments—see note (b) on page 33 ..	110,005	.....
Premium on Common Stock	2,107,490	1,860,758
Retained Earnings—see page 27 and note (b)	1,933,327	1,583,204
APPLICABLE TO A. T. & T. Co. STOCK	<u>11,205,351</u>	<u>9,908,780</u>
Subsidiaries Consolidated—stocks held by public		
Common Stock	326,269	277,507
Preferred Stock	17,904	17,904
Retained Earnings	28,573	22,010
APPLICABLE TO STOCKS OF SUBSIDIARIES HELD BY PUBLIC	372,746	317,421
	<u>11,578,097</u>	<u>10,226,201</u>

FUNDED DEBT

American Telephone and Telegraph Company		
Convertible Debentures	129,208	.....
Other Debentures—see note (c) on page 33	2,440,000	2,440,000
Subsidiaries Consolidated (c)	3,473,000	3,248,000
	<u>6,042,208</u>	<u>5,688,000</u>

CURRENT AND ACCRUED LIABILITIES

Notes Payable	103,000	76,000
Accounts Payable	509,193	543,919
Advance Billing for Service and Customers' Deposits	163,552	152,865
Dividends Payable	159,762	146,494
Taxes Accrued	846,242	755,551
Interest Accrued	58,483	54,856
	<u>1,840,232</u>	<u>1,729,685</u>

DEFERRED CREDITS

Unextinguished Premium on Funded Debt—net	30,842	31,069
Other Deferred Credits	2,572	2,921
	<u>33,414</u>	<u>33,990</u>
Total Liabilities	<u>\$19,493,951</u>	<u>\$17,677,876</u>

BELL SYSTEM

American Telephone and Telegraph Company and its Principal Telephone Subsidiaries

OPERATING REVENUES	(Thousands of Dollars)	
	Year 1958	Year 1957
Local Service	\$3,944,443	\$3,647,596
Toll Service	2,490,649	2,357,650
Miscellaneous	360,590	331,375
<i>Principally from directory advertising.</i>		
Less: Provision for Uncollectibles.....	24,279	22,788
Total Operating Revenues	<u>6,771,403</u>	<u>6,313,833</u>

OPERATING EXPENSES

Maintenance	1,214,008	1,205,315
<i>Cost of inspection, repairs and rearrangements to keep the plant and equipment in good operating condition.</i>		
Depreciation	842,990	763,002
<i>Representing approximately 4.5% of average investment in depreciable plant.</i>		
Traffic	887,460	947,351
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial	589,131	571,606
<i>Costs incurred in business relations with customers; public telephone commissions; cost of directories, advertising, etc.</i>		
Accounting	249,202	245,311
Development and Research (d)	32,267	34,504
Provision for Employees' Service Pensions.....	163,091	160,233
Employees' Sickness, Accident, Death and Other Benefits...	72,084	65,217
Other Operating Expenses	246,322	236,162
Less: Expenses Charged Construction.....	64,687	63,105
Total Operating Expenses	<u>4,231,868</u>	<u>4,165,596</u>
Net Operating Revenues	<u>2,539,535</u>	<u>2,148,237</u>

OPERATING TAXES

Federal Taxes on Income	914,897	753,767
Other Taxes—principally state, local and social security..	568,253	514,825
Total Operating Taxes	<u>1,483,150</u>	<u>1,268,592</u>
Net Operating Income (carried forward)	<u>\$1,056,385</u>	<u>\$ 879,645</u>

For notes, see page 28.

CONSOLIDATED INCOME STATEMENTS

	(Thousands of Dollars)	
	Year 1958	Year 1957
Net Operating Income (<i>brought forward</i>).....	\$1,056,385	\$ 879,645
OTHER INCOME		
Proportionate Interest in Earnings of Subsidiaries not Consolidated (e)	87,756	85,944
Dividends from Other Companies.....	7,689	7,037
Miscellaneous (f)	50,497	60,746
Less: Miscellaneous Deductions from Income.....	9,255	7,795
Income Available for Fixed Charges	<u>1,193,072</u>	<u>1,025,577</u>
FIXED CHARGES		
Interest on Funded Debt.....	205,984	166,014
Other Interest	6,563	7,450
Less: Release of Premium on Funded Debt—net.....	938	791
Net Income	<u>981,463</u>	<u>852,904</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	1,074	1,074
Common Stock	28,084	22,051
Net Income Applicable to A. T. & T. Co. Stock	<u>\$ 952,305</u>	<u>\$ 829,779</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (g)...	<u>\$14.01</u>	<u>\$13.00</u>

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

	(Thousands of Dollars)	
	Year 1958	Year 1957
BALANCE AT BEGINNING OF PERIOD.....	\$1,583,204	\$1,316,978
Net Income applicable to A. T. & T. Co. Stock.....	952,305	829,779
Adjustment of prior years' tax accruals.....	12,870	312
Profit on sales of securities.....	1,375	13,987
Miscellaneous additions	172	803
TOTAL ADDITIONS	<u>966,722</u>	<u>844,881</u>
Dividends on A. T. & T. Co. Stock.....	611,843	574,303
Organization and Capital Stock Expense charged off.....	2,474	1,776
Amortization of Telephone Plant Acquisition Adjustment.....	1,209	645
Miscellaneous deductions	1,073	1,931
TOTAL DEDUCTIONS	<u>616,599</u>	<u>578,655</u>
BALANCE AT CLOSE OF PERIOD.....	<u>\$1,933,327</u>	<u>\$1,583,204</u>

Notes to Bell System Financial Statements

- (a) Comprises \$717,131,080 at December 31, 1958 and \$639,714,529 at December 31, 1957 representing cost of investments, and \$255,343,602 at December 31, 1958 and \$221,761,392 at December 31, 1957, representing proportionate interest in the net assets of subsidiaries not consolidated in excess of such cost.
- (b) Includes \$16,646,800 at December 31, 1958 and \$11,880,559 at December 31, 1957 representing reservations against contingency of refunds in connection with certain rate proceedings.
- (c) Of the funded debt of subsidiaries consolidated, \$118,000,000 matures from 1961 to 1970, \$560,000,000 from 1971 to 1980, and \$2,795,000,000 thereafter.
- (d) Cost of work carried on for the American Telephone and Telegraph Company by Bell Telephone Laboratories.
- (e) Includes American Telephone and Telegraph Company's proportionate interest (over 99%) in earnings of Western Electric Company and its subsidiaries amounting to \$85,779,676 in 1958 and \$84,454,816 in 1957 of which \$60,591,138 in 1958 and \$54,954,662 in 1957 was received by the Company in dividends.
- (f) Includes \$27,160,663 in 1958 and \$31,749,925 in 1957 for interest charged construction.
- (g) Based on average shares outstanding—67,982,493 in 1958 and 63,811,428 in 1957.
-

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, 1958 the pension funds amounted to \$2,826,647,392. 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.



When snow drifts deep across the highways, telephone people are on top of their jobs.

American Telephone and Telegraph Company

ASSETS

	(Thousands of Dollars)	
	December 31, 1958	December 31, 1957
PLANT AND OTHER INVESTMENTS		
Telephone Plant—at cost with minor exceptions		
Telephone Plant in Service.....	\$ 1,736,915	\$ 1,568,322
Telephone Plant under Construction.....	92,587	119,051
Property Held for Future Telephone Use.....	934	545
	1,830,436	1,687,918
Less: Depreciation Reserve.....	594,585	560,541
	1,235,851	1,127,377
Investments in Subsidiaries—at cost (see page 34).....	10,378,277	9,692,546
Stocks	\$10,124,480	
Advances	253,797	
Other Investments—at cost (see page 34)	86,911	100,105
Stocks	\$ 77,072	
Advances	9,300	
Miscellaneous	539	
	11,701,039	10,920,028
 CURRENT ASSETS		
Cash and Demand Deposits.....	16,747	16,004
Temporary Cash Investments.....	1,206,457	791,542
<i>Principally U. S. short-term obligations.</i>		
Special Cash Deposits.....	2,473	2,109
Receivables—less reserve for uncollectibles.....	79,704	57,593
Material and Supplies.....	16,088	15,383
	1,321,469	882,631
 DEFERRED CHARGES.....	 13,710	 13,677
Total Assets	\$13,036,218	\$11,816,336

For notes, see page 33.

BALANCE SHEETS

LIABILITIES

	(Thousands of Dollars)	
	December 31, 1958	December 31, 1957
CAPITAL STOCK EQUITY		
Common Stock—Par Value (\$100 per share)	\$ 7,054,529	\$ 6,464,818
<i>Authorized 100,000,000 shares; outstanding at December 31, 1958, 70,545,294 shares. (a)</i>		
Common Stock Installments (b)	110,005	.....
Premium on Common Stock	2,107,490	1,860,758
Retained Earnings (see page 33)	906,652	771,357
	<u>10,178,676</u>	<u>9,096,933</u>
 FUNDED DEBT		
Convertible Debentures	129,208	.....
Other Debentures (c)	2,440,000	2,440,000
	<u>2,569,208</u>	<u>2,440,000</u>
 CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	38,376	44,822
Dividend Payable	158,574	145,458
Taxes Accrued	54,438	53,181
Interest Accrued	23,931	22,284
	<u>275,319</u>	<u>265,745</u>
 DEFERRED CREDITS		
Unextinguished Premium on Funded Debt—net	12,567	13,269
Other Deferred Credits	448	389
	<u>13,015</u>	<u>13,658</u>
Total Liabilities	<u>\$13,036,218</u>	<u>\$11,816,336</u>

American Telephone and Telegraph Company

Income statements

	(Thousands of Dollars)	
	Year 1958	Year 1957
OPERATING REVENUES		
Toll Service (d).....	\$407,988	\$385,279
License Contract Revenues.....	63,966	59,720
<i>For services furnished associated telephone companies.</i>		
Miscellaneous	21,339	21,870
Less: Provision for Uncollectibles.....	1,716	1,942
Total Operating Revenues.....	<u>491,577</u>	<u>464,927</u>
OPERATING EXPENSES (e)		
Maintenance	93,589	94,907
Depreciation	60,409	56,096
<i>Representing approximately 3.7% of average investment in depreciable plant in 1958 and 3.9% in 1957.</i>		
Traffic	33,278	36,541
Commercial	17,920	18,441
Accounting	13,837	13,336
Development and Research (f).....	32,267	34,504
Provision for Employees' Service Pensions.....	10,044	9,718
Employees' Sickness, Accident, Death and Other Benefits..	4,590	4,454
Other Operating Expenses	46,703	47,078
Less: Expenses Charged Construction.....	2,700	2,575
Total Operating Expenses.....	<u>309,937</u>	<u>312,500</u>
Net Operating Revenues.....	<u>181,640</u>	<u>152,427</u>
OPERATING TAXES		
Federal Taxes on Income.....	58,168	53,778
Other Taxes—principally state, local and social security...	30,013	27,078
Total Operating Taxes.....	<u>88,181</u>	<u>80,856</u>
Net Operating Income.....	<u>93,459</u>	<u>71,571</u>
OTHER INCOME		
Dividends—principally from subsidiaries.....	699,476	637,730
Interest	44,511	48,038
Miscellaneous	205	670
Less: Miscellaneous Deductions from Income.....	679	646
Income Available for Fixed Charges.....	<u>836,972</u>	<u>757,363</u>
FIXED CHARGES		
Interest on Funded Debt	92,128	69,154
Other Interest	1,183	2,525
Less: Release of Premium on Funded Debt—net.....	412	374
Net Income	<u>\$744,073</u>	<u>\$686,058</u>
Earnings per share (g).....	\$10.95	\$10.75

Statements of Retained Earnings

	(Thousands of Dollars)	
	Year 1958	Year 1957
BALANCE AT BEGINNING OF PERIOD	\$771,357	\$659,201
Net Income	744,073	686,058
Profit on sales of securities	4,423	884
Miscellaneous additions	6	8
TOTAL ADDITIONS	748,502	686,950
Dividends declared	611,843	574,303
Capital Stock Expense charged off	1,172	344
Miscellaneous deductions	192	147
TOTAL DEDUCTIONS	613,207	574,794
BALANCE AT CLOSE OF PERIOD	\$906,652	\$771,357

Notes to Financial Statements

(a) At December 31, 1958 there were 1,292,075 authorized and unissued shares reserved for conversion of the 4¼% Debentures due March 12, 1973 convertible at \$142. (The price is subject to adjustment as provided in the Indenture.) See also note (b) below.

The Board of Directors will propose to the share owners at the Annual Meeting on April 15 that the stock of the Company be split on a three-for-one basis. If this proposal is approved, it is expected that the additional shares resulting from the split will be distributed about June 1, and that the first quarterly dividend on the split shares will be paid in July at the rate of \$.82½ a share, which would be an annual rate of \$3.30 per share.

(b) 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 1958, authorizes the sale of a total of 7,000,000 shares. At December 31, 1958 installment payments were being made on 3,011,866 shares.

(c) Of these debentures, \$140,000,000 mature in 1970, \$775,000,000 from 1971 to 1980, and \$1,525,000,000 thereafter.

(d) Represents the Company's share of toll revenues of \$1,408,273,000 in 1958 and \$1,334,598,000 in 1957 from toll business handled jointly with subsidiary and other telephone companies.

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

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

(g) Based on average shares outstanding—67,982,493 in 1958 and 63,811,428 in 1957.

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, 1958 the pension fund amounted to \$147,331,700. 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, 1958

PRINCIPAL TELEPHONE SUBSIDIARIES	CAPITAL STOCKS (a)			ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co....	\$ 305,689,400	69.33	\$ 310,640,983	\$ 29,700,000
New York Tel. Co.....	1,151,300,000	100.00	1,174,280,335	.....
New Jersey Bell Tel. Co.....	470,000,000	100.00	483,667,184	4,200,000
Bell Tel. Co. of Pennsylvania..	585,000,000	100.00	591,316,050	30,500,000
Diamond State Tel. Co.....	41,000,000	100.00	41,700,000	4,000,000
Chesapeake & Potomac Tel. Co..	100,000,000	100.00	101,000,000	7,200,000
Chesapeake & Potomac Tel. Co. of Maryland	205,000,000	100.00	206,467,862	18,475,000
Chesapeake & Potomac Tel. Co. of Virginia	220,000,000	100.00	220,000,000	19,300,000
Chesapeake & Potomac Tel. Co. of West Virginia	97,000,000	100.00	97,000,000	15,625,000
Southern Bell Tel. & Tel. Co....	1,135,000,000	100.00	1,136,817,298	22,100,000
Ohio Bell Tel. Co.....	493,500,000	100.00	493,542,298	9,500,000
Michigan Bell Tel. Co.....	408,988,000	99.99	409,400,232	15,700,000
Indiana Bell Tel. Co., Inc.....	174,998,800	99.99	175,585,286	5,600,000
Wisconsin Tel. Co.....	205,000,000	100.00	208,223,802	10,300,000
Illinois Bell Tel. Co.....	605,401,000	99.32	610,881,945	32,600,000
Northwestern Bell Tel. Co.....	370,000,000	100.00	371,039,490	8,300,000
Southwestern Bell Tel. Co.....	1,164,995,100	99.99	1,168,248,178	.....
Mountain States Tel. & Tel. Co.	364,825,000	86.75	366,229,989	2,300,000
Pacific Tel. & Tel. Co.....	1,221,993,100	90.31	1,217,651,366	11,000,000
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	631,721,229	.....
195 Broadway Corporation.....	23,000,000	100.00	23,015,000	3,900,000
Eastern Tel. & Tel. Co.....	(d) 4,999,100	99.98	5,052,424	3,496,335
Total			<u>\$10,124,480,131</u>	<u>\$253,796,335</u>
OTHER COMPANIES				
Southern New England Tel. Co. \$	36,678,000	21.30	\$ 36,989,831	\$ 9,300,000
Cincinnati & Suburban Bell Tel. Co.	20,501,700	29.83	21,065,168	.....
Bell Tel. Co. of Canada.....	(d) 18,749,800	4.12	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			<u>\$ 77,072,282</u>	<u>\$ 9,300,000</u>

- (a) Common stocks unless otherwise indicated.
 (b) Remaining shares owned by Western Electric Co., Inc.
 (c) 17,222,277 shares—no par value.
 (d) Canadian dollars.

Certificate of Audit

New York, N. Y.
February 11, 1959

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, 1958 and 1957, the consolidated balance sheets of the Company and its principal telephone subsidiaries as of December 31, 1958 and 1957, 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, 1958 and 1957 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 1958 and 1957 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, 1958 and 1957 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, 1958 and 1957 and the results of operations for the years then ended of American Telephone and Telegraph Company and the consolidated position at December 31, 1958 and 1957 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 applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

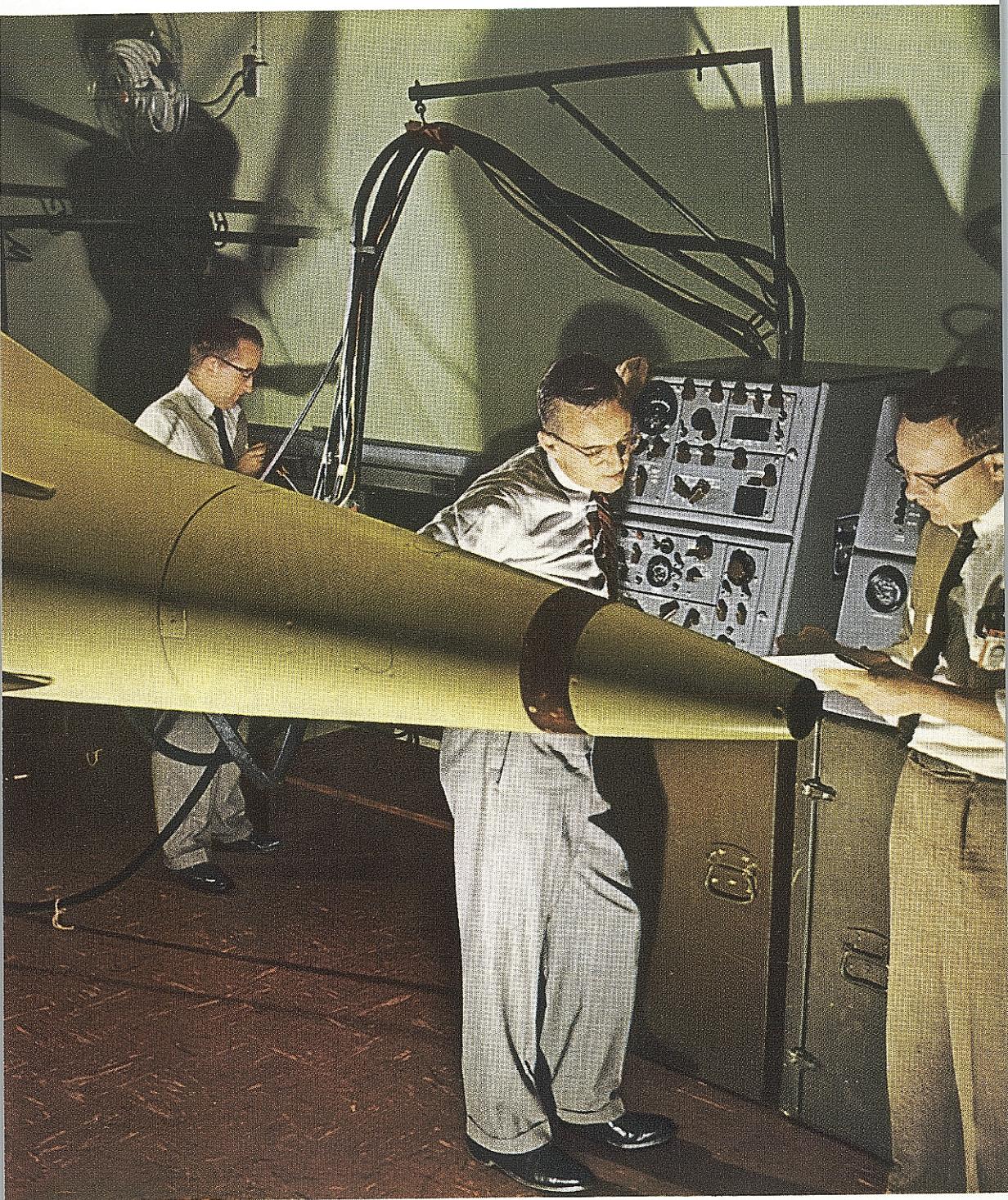
Facts About The Bell System

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1955	Dec. 31 1958
Number of Telephones (a)	22,445,519	35,343,440	46,218,233	54,684,342
Dial Operated	14,504,851	26,700,319	40,041,368	51,300,004
Per cent Dial Operated..	64.6	75.5	86.6	93.8
Number of Central Offices.	7,374	8,470	9,751	10,578
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	168,936,000	196,688,000
Total Plant ("000" omitted)	\$5,702,057	\$10,101,522	\$15,340,495	\$20,646,355
Operating Revenues ("000" omitted)*	\$1,930,889	\$3,261,528	\$5,297,043	\$6,771,403
Number of Employees				
Bell System	387,300	523,251	615,895	592,130
Western Electric Company	80,029	73,458	120,054	122,101
Bell Tel. Laboratories..	7,198	5,757	9,680	10,690
Total	474,527	602,466	745,629	724,921
Number of A. T. & T. Co. Share Owners	683,897	985,583	1,408,851	1,619,397
Number of A. T. & T. Co. Shares Outstanding.	20,166,251	28,615,956	54,115,960	70,545,294

* For year ended December 31.

(a) Excludes private line telephones numbering 208,669 on December 31, 1958. Including telephones of some 3,800 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 66,600,000.

(b) For the year 1958 there were approximately 188,160,000 average daily local conversations and 8,528,000 average daily toll and long distance conversations. During 1958 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 4.4 per cent in local conversations, and 5.3 per cent in toll and long distance conversations over the year 1957.



The Nike Hercules ground-to-air missile system is designed by Bell Laboratories and built by Western Electric, with help from hundreds of subcontractors. This has been called "the most powerful air defense weapon known." It has a range of many miles and has demonstrated that it can destroy targets taking evasive action at more than 1,500 miles an hour.

