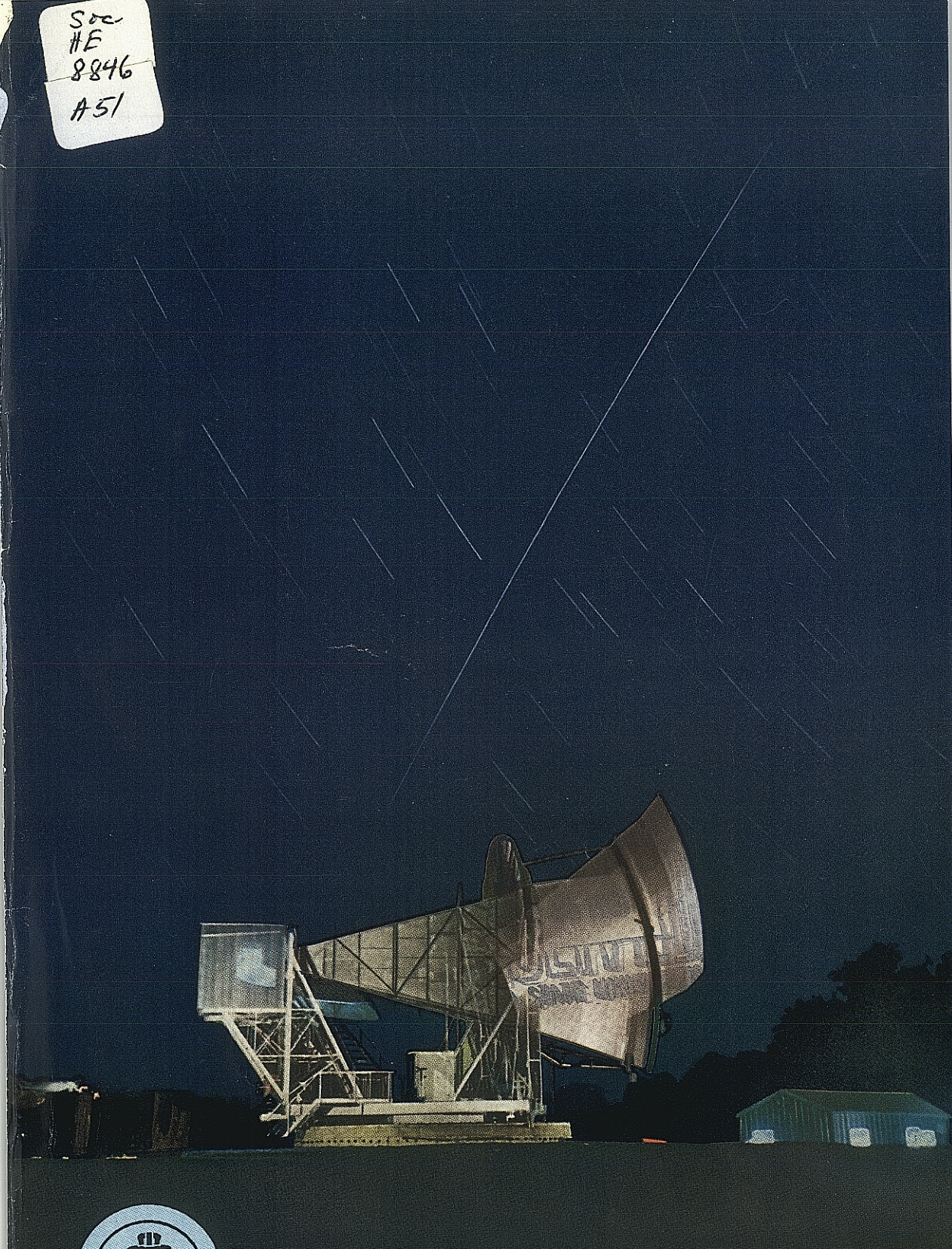
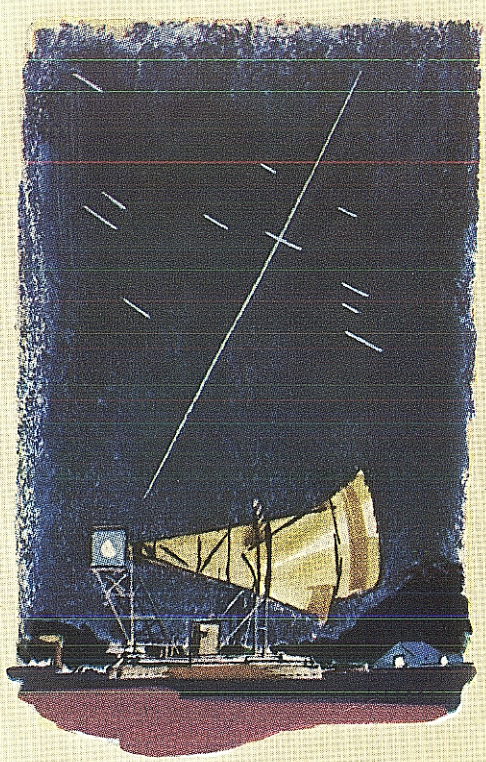


BELL SYSTEM

1960 ANNUAL REPORT

AMERICAN TELEPHONE AND TELEGRAPH COMPANY



Above Bell Laboratories' big receiving antenna in New Jersey, the *Echo I* satellite launched last August 12 by the National Aeronautics and Space Administration speeds across the sky. The time exposure on the cover shows the satellite as a long streak. The short streaks are stars. The motion of the antenna is also indicated as it turns to follow the satellite's path.

Bouncing voice signals off *Echo I*, Bell System and Space Administration scientists talked from coast to coast. These historic experiments demonstrated the practical possibilities of satellite communications. We are now working at top speed to develop satellites and ground equipment that will link the Bell System's nationwide network of telephone, television, and data-carrying channels with points overseas.

AT&T

1960 ANNUAL REPORT

to more than 1,900,000 Share Owners

The seventy-sixth Annual Meeting of the Share Owners will be held on April 19, 1961, at McCormick Place, 23rd Street and Lake Shore Drive, Chicago, Illinois. Meeting time will be 1:30 p.m.

FOR SHARE OWNERS WHO ARE BLIND

This report is available in Braille and on talking records. Kindly address requests to the Secretary of the Company. Copies will be distributed with the assistance of the Telephone Pioneers of America, the organization of long-service employees who work with the blind as one of their activities.

CONTENTS

This report reviews the work of the American Telephone and Telegraph Company and its associated companies in the Bell System. Annual Reports of the principal telephone subsidiaries of the A. T. & T. Company, and of Western Electric, manufacturing and supply unit of the System, are available on request. The System furnishes service in 48 states and the District of Columbia, and its lines connect with other telephone systems in all 50 states in this country, and throughout the world. A list of the Bell System companies is given on page 29.

DIRECTORS

William C. Bolenius
Lloyd D. Brace
Vannevar Bush
Henry T. Heald
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Frederick R. Kappel
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John J. McCloy
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TREASURER
L. Chester May

COMPTROLLER
Alexander L. Stott

AMERICAN TELEPHONE & TELEGRAPH COMPANY
195 Broadway, New York 7, N. Y. Telephone: Area Code 212 EXeter 3-9800

Bell System Financial Summary

	1960	1959
Operating Revenues and Other Income	**$8,110,217,000**	$7,540,194,000
Operating Expenses	**$4,754,289,000**	$4,479,495,000
Taxes	**$1,847,702,000**	$1,690,289,000
Interest Deductions	**$257,271,000**	$221,641,000
Net Income	**$1,250,955,000**	$1,148,769,000
Applicable to Minority Interests	**$37,989,000**	$35,617,000
Applicable to A. T. & T. Stock	**$1,212,966,000**	$1,113,152,000
Earnings per A. T. & T. Share	**$5.53**	$5.22
Average Shares Outstanding	**219,234,000**	213,403,000

Highlights of 1960

The Bell companies gained 2,793,000 telephones, a growth of 5 per cent, and long distance conversations increased 7 per cent to a total of nearly 3¼ billion for the year.

At the end of the year 736,000 employees were serving the public; manufacturing, installing, and operating communication facilities; and planning, inventing, and designing for the future.

More than $1 billion of new capital was obtained. Construction expenditures were over $2.6 billion, the largest amount in history.

A. T. & T. share owners numbered 1,911,000 at the end of the year.

Work began toward a system that will provide worldwide communications using relay stations in space satellites.

New and improved services found good markets and numerous others were readied for introduction in 1961.

The world's first Electronic Central Office, forerunner of future switching systems, was placed in operation.

1960 REPORT TO THE SHARE OWNERS

Bell System services continued to grow in 1960. With general business conditions on a downward trend during much of the year, our rate of growth was less rapid than in 1959. Nevertheless, as shown on the preceding page, the gain in telephones was very considerable and so too was the increase in long distance calling. Your management was able to increase efficiency and improve earnings. The business also made excellent progress in research and development.

Construction expenditures of more than $2.6 billion were slightly above the previous peak in 1957. New capital was obtained mostly through the sale of bonds—$250 million sold by the A. T. & T. Company and $567 million by 12 subsidiary companies. Employees purchasing A. T. & T. shares made installment payments of $269 million. At year-end 36 per cent of Bell System capital was debt.

We shall be enlarging and improving our plant in 1961 on almost the same scale as last year, and much new capital will be needed. Accordingly, the Company will offer new stock to share owners of record on February 23, 1961, in the ratio of one share for each 20 shares held. The offering price will be $86 per share. Rights to subscribe to the new shares will be mailed about March 10 and the subscription period will expire April 14. The first dividend on these shares will be paid in July. It is contemplated that beginning at that time, the quarterly dividend rate will be $.90 a share.

The very scope of this financing emphasizes the need for earnings and dividends that support dynamic progress. Good profit and fair rewards to risk capital are vital to sound economic growth. They are the foundation of our ability to generate services that facilitate the productive effort of all industry. Without the improvement made in earnings in recent years, the Bell System could not possibly move forward as the times require.

But, given the means to plan boldly for the future — to deepen and broaden research — to inspire the best effort of the best talent we can draw into the business — and with this, to command the full confidence of investors on whom we depend

for vast sums of capital—given such means, we are sure we can make great contributions to the economic advance of the country. Moreover, good earnings will result in maximum value to consumers over the long run; for it is only from a position of financial strength that we can make the expenditures required to produce long-run service improvements and economies.

Service Progress in 1960

Three out of five residence telephone users now have individual line service, whereas ten years ago three out of four were on party lines. Also, more and more homes have more than one telephone—nearly 1,200,000 residence extension phones were added in 1960. It is evident that most people want and are willing to pay for the best grade of service.

Half of our customers can now dial directly to distant places. In the case of several million telephones, the calling number is recorded automatically, instead of an operator coming in on the line to ask for it. During the next two years we shall provide automatic recording for several millions more. This program for automatic recording is a good example of how ability to plan and spend for the future makes for progress. The cost in 1960, 1961, and 1962 will total about $90 million. But it will produce better service—and a saving too.

Does this mean that telephone operators will have a minor role in the years to come? Not at all. They have a big job ahead—working on calls that require special handling, answering calls to "information," helping customers in emergencies, assisting them in many other ways. Today, when most local calls and about a third of all long distance calls are dialed directly, more operators are needed than years ago when only half our telephones had dials. And as service grows in future

Telephone operators of the future will use a new type of push-button switchboard, now being designed at Bell Laboratories, to give assistance on the many kinds of long distance calls that do not go through on a fully automatic basis — collect calls, for instance, person-to-person calls, and numerous others. It will probably look much like this preliminary model. An interesting feature of this switchboard is that it can display on lamps the telephone number of the calling party or of the telephone called.

TAXES: Last September 15 the Bell System filed a consolidated Federal income tax return for 1959 of more than a billion dollars. This speaks eloquently of what the growth and prosperity of your business mean to government. In this picture made on the day of filing, the four volumes of the return are on the desk, and two of our tax specialists are going over checks (totaling in the hundreds of millions) also about to be delivered as a quarterly installment toward 1960 Federal income taxes.

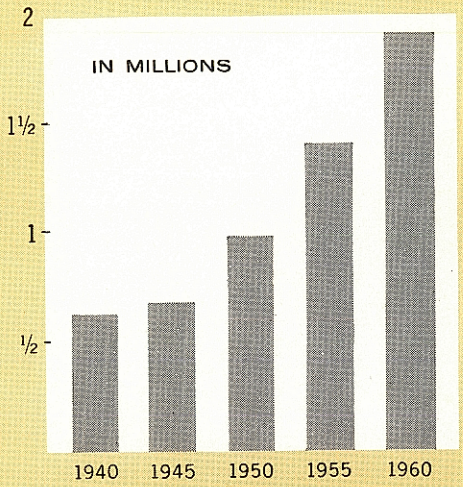
Total taxes on Bell System service in 1960 were $2½ billion, an average of $41.89 per telephone for the year. Federal, state, and local taxes on operations were $1,848,000,000, equal to $8.14 per share of A. T. & T. stock. State and local taxes alone were $641 million, or $59 million more than in 1959. In addition, telephone users paid $640 million in Federal excise taxes, which are discussed further on page 18.

years, we expect there will be more operators, not fewer, than there are today.

An important change on the way is a change in telephone numbering. This will be made gradually in the years ahead. If we continue to use both names and numerals, the day will come when there will not be enough combinations to go around. Hence we are starting now to identify telephones by numbers alone—a system we have carefully studied and tested. About two million telephones already have this kind of numbering and experience with it has been good.

Telephone service today is faster, more reliable, more convenient and useful than ever before. But we know it is not faultless, and our aim is to make it better—much better. Last year some 15 million telephones were connected and more than 12 million disconnected. Our customers made billions of calls, received millions of bills, and made millions of requests to telephone employees. In the constant effort to eliminate errors and increase public satisfaction, we try to see ourselves as others see us—to gain in understanding as well as in technical competence—to consider all steps that promise improvement. And we should like to say to the share owners: Whenever your experience with telephone service is not what you think it ought to be, we hope you will tell us. Give us your comment by word or by letter. We shall welcome your criticism and we believe it will help us toward our goal.

1,911,000 A.T.&T. SHARE OWNERS AT THE END OF 1960



42% WERE WOMEN

21% WERE MEN

31% WERE JOINT ACCOUNTS

6% WERE "OTHER"

including financial agents holding stock for thousands of investors, and institutions such as schools, hospitals, churches, and insurance companies, holding stock for the benefit of millions of people.

ALMOST THREE-QUARTERS OF THE OWNERS HOLD LESS THAN 100 SHARES

OWNERS:	321,000 17%	728,000 38%	353,000 18%	454,000 24%	55,000 3%
SHARES:	10 or less	11-49	50-99	100-499	500 or more

Overseas Telephone Service

Overseas conversations in 1960 increased about 20 per cent over 1959. The capacity of transatlantic cables has been doubled by means of "TASI" equipment described in previous reports. Similar equipment will be installed this year on the cables to Puerto Rico and Hawaii. Jointly with Cable and Wireless, Ltd., of Great Britain, we are now building cable systems between this country and Bermuda and from Puerto Rico to Antigua. Late in 1962 another will be constructed from Florida to Jamaica. A third transatlantic cable, directly connecting the United States and Great Britain, is planned for 1963, and in the same year the Florida-Jamaica cable will be extended to South America. In 1964 a cable will be built between Hawaii and Japan, and also a second cable between Hawaii and the U. S. mainland. In addition, agreement has been reached for us to share in the proposed British Commonwealth cables across the Atlantic and between Hawaii and Australia.*

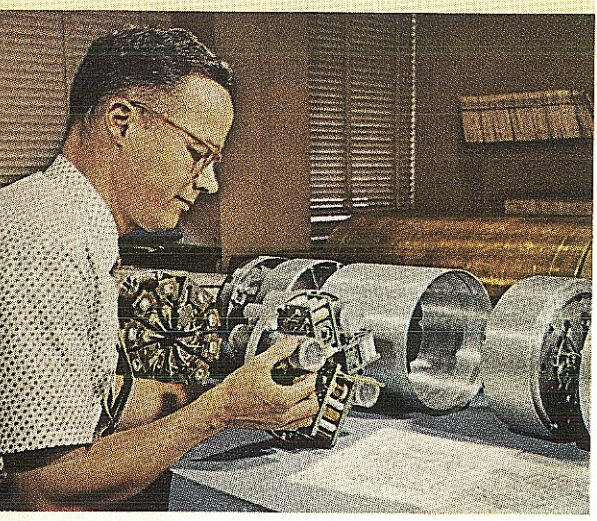
The cables to Jamaica, South America, and Great Britain, and our new Pacific cables, will be of a new Bell Laboratories design, affording increased capacity and economy. With this large program facing us and a scarcity of adequate cable ships, we have ordered construction of a ship especially designed to meet our needs. This is now being built.

*Existing and proposed cables are shown on the map of Overseas Telephone Service following page 15.

Tests of the Echo I communication satellite last summer confirmed in all respects the studies made by Bell Laboratories scientists over a period of years. We are confident that man-made satellites can be used successfully and economically to provide high-quality, large-capacity microwave radio channels across the oceans. Such channels will be able to handle telephone conversations, data, and television programs.

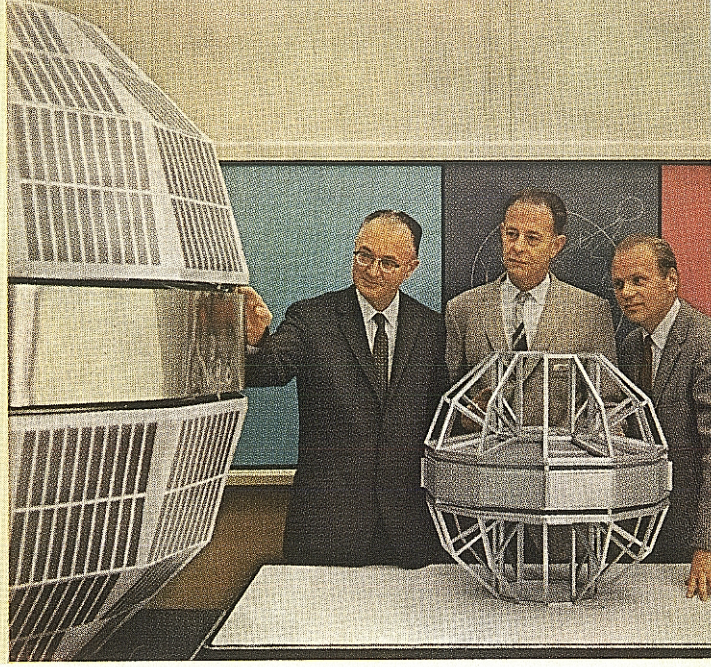
As a step toward a worldwide system, we are working on a new satellite that will receive signals from ground stations, amplify them, and send them on to terminals overseas. The Federal Communications Commission has allocated microwave radio frequencies to permit testing this satellite, and we are exploring with the National Aeronautics and Space Administration the possibilities for launching it. Our goal is that sometime in the early part of next year, Bell System engineers will be testing a satellite in orbit, in cooperation with engineers in Great Britain and continental Europe. This trial should provide much of the information needed to establish a full-scale commercial system.

Improved undersea "repeaters," or amplifiers, are the heart of the new ocean telephone cable system now being developed.



A tremendous increase in general public use of overseas communications is surely coming in the years ahead. Both cables and satellites will be needed to meet the demand and assure reliable service. We believe that equipment used to connect the Bell System network with networks overseas by way of satellites should be provided just as ocean cables are provided for the same purpose. Thus, your Company would own and operate ground stations in the United States, and share satellite costs with the communication agencies of nations overseas.

This arrangement will work in the best interest of the service, for all parts of a communication system must be in harmony and it is important that these new facilities be integrated in the country's existing network. Further, this country traditionally has followed a policy of conducting international communications through private enterprise. This policy has brought about America's unquestioned telephone leadership, and we feel strongly that private enterprise can best maintain



Preliminary Bell Laboratories model (in full scale at left) of an "active" communication satellite that would receive and re-transmit voice, data, and TV signals. Design changes are expected, but we are confident that with a considerable number of satellites in orbit, dependable worldwide communication services can be provided through space.

that leadership in space communications. We appreciate fully that a program for satellite communications can be undertaken only with government approval and under government regulation. However we should like to emphasize: We are ready to do the job, eager to move ahead, and confident the result will serve the public interest well.

New Services

Matters have also been moving fast in other fields.

The Bell companies are appointing skilled Account Managers to work full time with large business customers; the job of each is to make certain that his client gets the communication services best suited to meet all needs, and gets them as fast as possible.

Two entirely new services are now ready to help meet the developing needs of modern industry. One, called Wide Area Telephone Service, was offered in January 1961. The other, TELPAK, will be generally available as soon as the regulatory bodies signify their agreement.

Wide Area Telephone Service is for customers who make many long distance calls to many points. For a fixed charge per month, the customer obtains a special "access" line that is connected to the nationwide dialing network; over this line he can make as many calls as he likes within a selected wide area, the widest area covering the entire country except Alaska and Hawaii. There is *no* charge per individual call. The customer may choose full-time service, 24 hours a day, or for a lower monthly rate he may buy 15 hours of conversation a month, with additional use charged by the hour.

TELPAK is for customers who send large quantities of communications between

specific points. Their needs may be for telephone, teletypewriter, telephotograph, facsimile, high speed data, and so on. TELPAK meets these needs with communication highways of various sizes, each of which we will divide into lanes or channels to suit the customer's purpose. This new service, which will compete directly with privately owned microwave systems, will offer numerous advantages to many customers. For instance, alternate routes will insure reliable service if troubles occur. Customers may have their communication highways quickly added to or changed, without long "lead time" and with no worry about whether they have too much or too little investment in communication facilities. Also, customers will incur no long-term investment in equipment that may become obsolete, and will have no problem of organizing to operate and maintain the system.

Data-Phone service is on its way to great growth. This service makes it possible to interconnect business machines merely by dialing a regular telephone call. Some 1,100 Data-Phones are already in use. In a few years' time, we expect them to be counted in hundreds of thousands. Paper tape, magnetic tape, punched cards, and telewriting techniques can all work with Data-Phones.

New switchboards and compact consoles for switchboard attendants will be on the market this year. Two or three kinds of automatic dialing devices will be available, and also a greatly improved Speakerphone for hands-free telephoning.

Public air-ground telephone service is now provided to aircraft flying the Chicago-Washington-New York triangle.

"Centrex" service is a fast-growing private branch exchange development that presents great advantages to many business telephone users, airports, government departments, and universities. Centrex permits direct dialing to extension telephones from "outside"; it makes a record of outward long distance calls dialed from each extension; and it combines these and other features in a complete service offered at simplified rates.

The Bell companies already have in service more than 1,200,000 of the new Princess telephones. Also newly introduced last year were the Home Interphone, an intercommunicating system tied in with regular telephone service; the Farm Interphone, a similar system for farm customers; and the Bell Chime, with three settings for regular bell, loud bell, or musical chime. "Bellboy" service, now working in 18 cities, enables a person away from his telephone to hear, in a pocket radio receiver, a signal meaning, "Please call in for a message." We shall offer this service in additional cities in 1961.

A study of stock brokerage firms, completed last year, has produced many ideas for improving brokers' communications.

We are working closely with department stores to help improve telephone

A large chemical company uses these Data-Phones (on wall shelves) to send information to and from business machines. A regular telephone call sets up the connection.

This telephone set contains an automatic dialer—one of several types that will soon be generally available. For each frequently called number there is a punched card. Inserting a card and pressing the bar operates the machine.

One of the attractive new office switchboard consoles that will be coming on the market in 1961. The attendant connects incoming calls to the extension telephone desired merely by pressing a button.

ordering services. About 175 of the largest stores we serve are deeply engaged in this program to increase their sales.

Hundreds of hotels and motels are making a striking change in room telephone service—a change that owners tell us is both popular with guests and profitable to them. Guests can reach valet or restaurant with a single turn of the dial, and can call directly to other rooms or outside. In many instances a small lamp on the telephone tells when the hotel office is holding a message.

National Yellow Pages Service now enables advertisers to buy ads in groups of directories, regionally or nationally, through a single point of contact.

We are serving more and more housing subdivisions through buried wire and cable. Facilities were provided to serve nearly 100,000 homes in 1960 and we expect to connect an increasing proportion of all new homes by lines underground.

Last year one of the Bell companies began to process telephone bills and payment records with the aid of a high-speed electronic computer. In this and various other ways we are increasing our use of computer techniques to help run the business more efficiently.

Three-Way Teamwork in Action

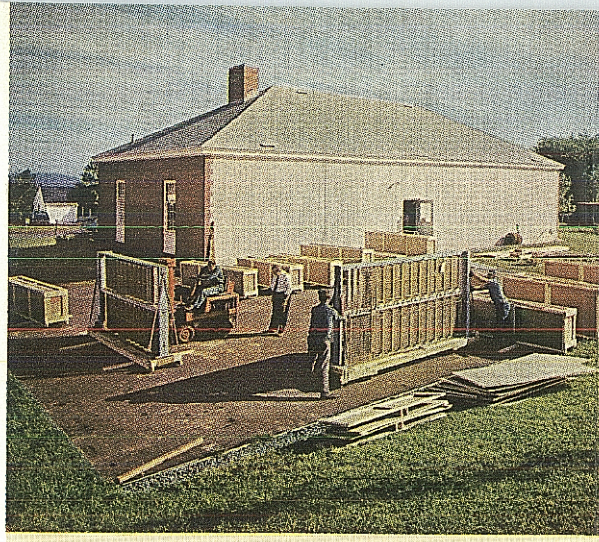
The Bell System's progress in communications stems from concerted action by the telephone companies, Bell Laboratories, and Western Electric.

In 1960 this teamwork succeeded in cutting sharply the time required to engineer, deliver, and install complex equipment for business telephone users. Similar effort has produced a new "packaged" dial central office that promises large savings in installation time and cost. Again, the telephone companies needed a new, inexpensive radio relay system of moderate capacity for short routes. Not long ago this system was little more than an idea. However, working side by side, Western Electric and Bell Laboratories men have found ways to speed the job so that first deliveries will be made in mid-1961.

One more example concerns the swift translation into manufacture of an outstanding new development in transistors. Last year Bell Laboratories announced a new "epitaxial diffused transistor." Its importance can hardly be overstated, for epitaxial transistors will operate several times faster than their predecessors. Less than six months after the development, these new devices were coming off a pilot production line.

How could this be done? By shoulder-to-shoulder teamwork. There is no other way.

Last year Western Electric continued to hold the line on the prices of products it manufactured for the Bell System. A new plant in Oklahoma City is turning out modern "crossbar" switching equipment, and a plant in Kansas City, where electronic devices will be made, will be



The first "packaged" dial central office made by Western Electric was delivered in Connecticut last year (above left). The cooperation of telephone engineers, designers in the laboratory, and factory production men generated this technical advance which makes possible important savings in installation time and cost. In right-hand picture, Bell System men in Florida Keys size up a service restoration problem

completed this year. Western's earnings in 1960 were $124,490,000 compared with $102,188,000 in 1959. Total sales were $2,640,830,000, an increase of 14.1 per cent. Of this amount, sales to the Bell System were $1,850,248,000, the highest in history. Most of the balance was in sales to the Government, principally for national defense.

Purchasing and Purchasing Policy

In 1960 Western Electric paid more than $1¼ billion to nearly 40,000 firms in 3,500 cities and towns for materials, supplies, and services, including transportation. Nine out of ten of these firms were businesses with fewer than 500 employees. They do a fine job for the Bell System and we appreciate it greatly.

Bell System purchasing policy is well understood in all branches of the business. Last year we re-emphasized it to employees in words that bear repeating here. Briefly, the policy is to award business

following Hurricane Donna as riggers work on radio relay tower in background. Donna put almost 500,000 telephones out of service, cost the Bell System nearly $7 million. Telephone company and Western Electric people working together restored most service in a day or two, and all service (except where homes were destroyed) was restored within a week.

solely on the basis of merit and without favoritism, and wherever practicable on a competitive basis. This requires that Bell System people must have no relationships and engage in no activities that might impair their independence of judgment. They must have no personal financial interests in suppliers of property, goods, or services that would affect their decisions or actions in the System's behalf. They must not accept gifts, benefits, or unusual hospitality that might tend in any way to influence them in the performance of their duties. If any conflict of interest situation arises, prompt steps must be taken to eliminate it.

Research and Development

The impact of Bell Laboratories pioneering is reflected in many of the topics already mentioned: The vault of communications into space. The new ocean cables that will handle nearly three times as many calls as those built only a few years ago. The epitaxial transistor. The switching and transmission systems that enable people to talk across the nation in seconds, and operate distant computers with a few turns of a telephone dial.

The world's first Electronic Central Office, forerunner of future switching systems, is now in operation at Morris, Illinois; as this trial proceeds, work is also going ahead to develop a system for volume production a few years hence. In February 1961 Bell Laboratories' new "heavy route" long distance microwave system, capable of handling more than 11,000 conversations, was placed in service between Denver and Salt Lake City. By the spring of 1962 we expect it to be working all the way from Utah to New Jersey. Meanwhile, the engineers are testing another new system designed to carry 24 conversations under city streets on two pairs of wires. This should make it possible to provide much more service over wires already in place underground.

Within the laboratory and on pilot production lines, we are learning to build complete electrical structures for transistorized equipment by depositing films of metals and insulators on glass or ceramic materials. Instead of the various elements being assembled one by one, many units are formed simultaneously in the structure desired. Other research has created new alloys that can be made into superconducting magnetic coils. This is a discovery of great potential usefulness in many fields of

communication technology, including satellite communications. And, in 1960, Bell Laboratories demonstrated a new device, the optical maser, that can amplify light waves in much the same way that radio waves are handled. This may ultimately increase by 10,000 times the spectrum of waves that can be used for future communications through hollow "wave guide" pipes.

Defense Projects

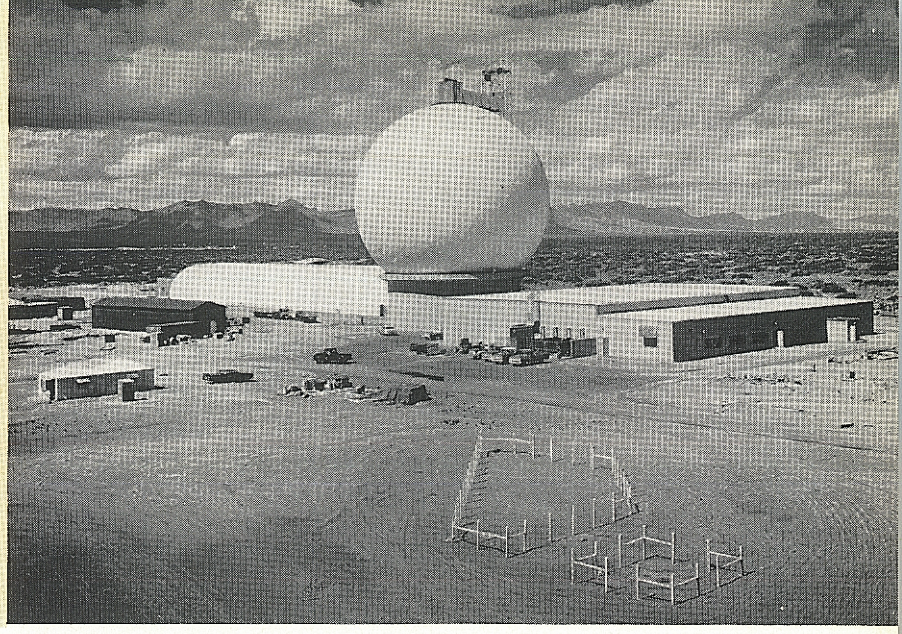
To strengthen the long distance network further, we are building a deep-buried transcontinental cable system. Amplifier stations along the route are all underground, as well as the cable itself. Like many other long distance routes, this one will by-pass critical defense areas.

Telephone lines now link 14 SAGE air defense centers and Western Electric continues to provide coordinating management services on SAGE construction. Since September a 6000-mile ultra-dependable communication system developed by Bell Laboratories, installed and tested by Western, and operated by telephone companies in Canada and the United States, has been carrying data from Ballistic Missile Early Warning System radars in Greenland to North American Air Defense Command headquarters at Colorado Springs. A defense communication system is also being installed in the Aleutians. Eastward from Baffin Island, work proceeds on extension of the DEW Line and related communications. For the Army Signal Corps, Bell Laboratories is heading an industrial team to develop an integrated communication system to meet all major military needs.

Nike Hercules anti-aircraft missile systems now stand guard in the United States, Formosa, and NATO countries overseas. Western Electric is producing an improved version that has shown it can destroy not only aircraft but short-range missiles. Bell Laboratories is working intensively on development of the Nike Zeus system for defense against long-range missiles, and Western is developing methods to manufacture the system. At Kwajalein Island in the Pacific Ocean, preparations are being made for tests of Nike Zeus against ICBMs.

Underwater sound systems developed by our Laboratories provide surveillance of ocean areas along missile ranges, and determine the point of impact of test missiles as they hit the water. The Laboratories' guidance system for the Titan missile and for space vehicles has been outstandingly successful. Last year it placed the Tiros weather satellites in near-perfect circular orbits and did the same for Echo I. We believe it will be used often in future satellite launchings.

For Project Mercury, the nation's effort to send a man into orbit in space, Western Electric and the companies working with it have virtually finished construction of 18 tracking stations around the world that



Prototype of the "search" radar developed for the Nike Zeus system of defense against long-range missiles is under test at the Army's missile range at White Sands, New Mexico.

will maintain communications with the astronaut. This system is now being tested. The Sandia Corporation, a subsidiary of Western, continued for the eleventh year to operate the Atomic Energy Commission's ordnance laboratories.

Bell System People

Notwithstanding dial equipment, computers, and every other kind of machine, this business is run by men and women and always will be. Our success depends utterly on the quality of human effort.

The Bell System operates under strict regulation; we also have stiff competition and plenty of it.

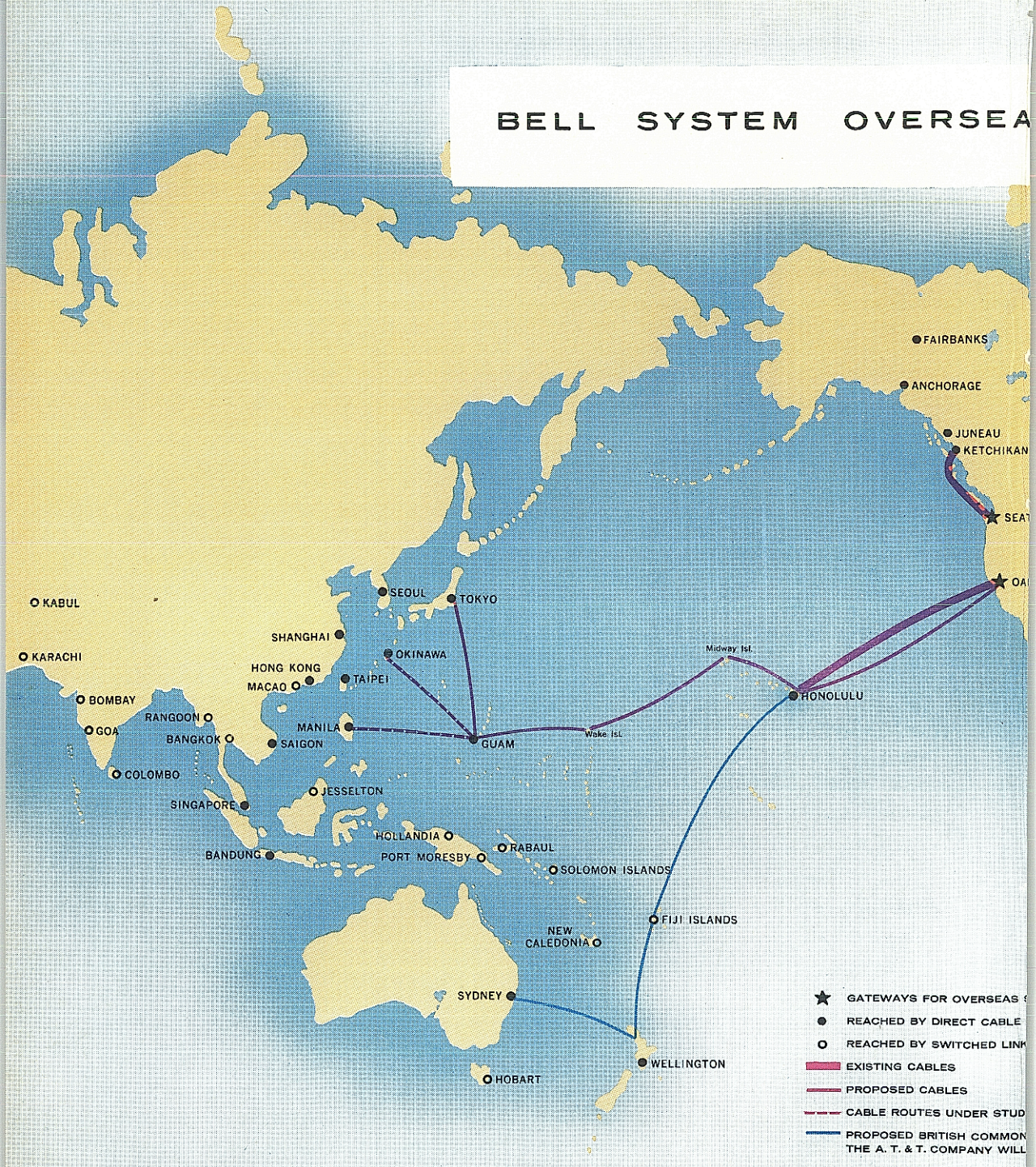
Our job is highly technical; it is also highly personal.

It calls for doing big things well; it also depends on doing well any number of little things.

All this adds up to an extraordinary challenge. To meet it we must compete with all other industry in recruiting highly qualified people. We must draw out their best efforts and really know how to appraise their capabilities. We must help them grow in an atmosphere where the competition for personal advancement is great and rewards are in proportion to performance.

The above is stated to emphasize the effort we are making to improve our skills in selecting and developing people. In recent years the Bell System has hired more than 2,500 college graduates a year to take on a wide variety of assignments in management, including engineering and research. Each year also about twice that many men and women are promoted from non-management to management jobs. This is a partial measure of the opportunity that exists in the Bell System. It is equally a measure of our responsibility to maintain the vitality of the business and make sure it has the managers it needs.

BELL SYSTEM OVERSEA



Telephone service is now provided over ocean ca

research and development work to provide experime

S TELEPHONE SERVICE

VICE
RADIO LINKS

ALTH CABLES IN WHICH
VE CIRCUITS

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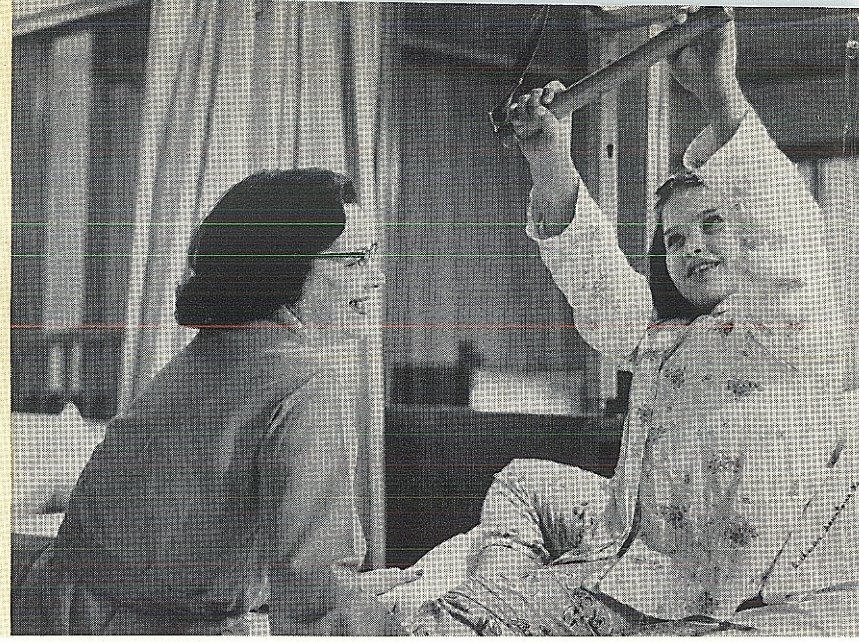
al telephone and TV channels by way of satellites.



Volunteer hospital service is one of the many community activities of telephone people. Service is the great tradition of our business and it carries over in citizenship off the job as well as on. More than 200,000 men and women who have served in the business 21 years or more are members of the Telephone Pioneers of America. They seek out community needs and try to do something about them, and through both service and social programs they maintain a continuous fellowship between active and retired employees.

To help meet this responsibility the Bell companies are deeply engaged in educational effort. Programs include both preparatory and advanced technical training, management development courses of many kinds, fellowships for university study, and plans under which tuition is paid for employees studying on their own time. Also, in 1960 the companies made financial contributions to many colleges and universities throughout the country.

A great many telephone men and women served last year in community posts and worked for their political parties. Thousands took courses in government and studied political action at the precinct level. Several of the companies set up plans whereby employees could conveniently and with privacy contribute money to the party of their choice. We believe we have an obligation to encourage active citizenship and we shall continue to do so. Further, we are stepping up effort to inform employees about economic and political issues and stimulate thinking about public policies.

Important Public Policies

Three such policies that touch directly on the business may be referred to here.

1. In 1959 Congress voted to end the 10 per cent tax on local telephone service as of June 30, 1960. However, last spring the termination date was postponed until June 30, 1961. This tax is unjust and discriminatory in the extreme, as is the similar tax on long distance service. It was passed as a "temporary" wartime measure. It taxes a necessary service at a luxury rate. It puts a burden on the telephone that is borne by no other household utility. These facts are generally recognized—but still the tax has continued. We hope it will be allowed to die this coming June 30.

2. In 1960 the Federal Communications Commission made final an order that

opened the way for almost unrestricted licensing of private microwave radio systems. Microwave radio frequencies are a limited natural resource, and such wide-open licensing would ultimately limit their availability for public services. Also, wide-open licensing would seriously compound the problem of providing frequencies for space communications, and make it more difficult for this country to coordinate with other countries in that field.

Still pending before the Commission is our application for additional frequencies to expand general public telephone service to vehicles. Only if the necessary frequencies are allocated can this service be made adequate.

Private microwave systems compete, of course, against Bell System services to companies that have need for extensive communications. We have submitted our proposals for competitive services to the regulatory bodies, and have no doubt of our ability to provide systems and services of superlative value, at prices that are attractive to customers and profitable to us. However this point should be made: There is no excise tax on communications over a private system. But there is generally on publicly offered service. Thus the Bell companies, whose rates and charges are established under public regulation, are further restricted, as they compete for business, by the excise levy. This, we submit, should not be.

3. Despite decades of rising prices, many regulatory bodies have continued to regard property built years ago as worth no more of today's thin dollars than of yesterday's plump ones. Also, taxation has followed the theory that depreciation charges to recover investment may not exceed the number of dollars originally invested, even if each dollar recovered is worth less. Today there is growing national awareness that this failure to allow for the decline in the value of the dollar slows up economic progress.

We believe regulatory bodies should measure today's earnings against today's value of investment, not against cost in yesterday's dollars.

We also believe the tax laws should permit our business, and every business, to recover in full, through year-by-year depreciation charges, the purchasing power of the dollars originally invested in property. This is the way of progress and we have urged legislative action to achieve it.

Wages and Benefits

Bell System employees numbered 736,000 at the end of 1960. Wages totaled $4,174,000,000. New agreements negotiated with unions representing most of the System's nonsupervisory employees included wage increases and improvements in working conditions that were in keeping with those received by people in other industries.

In addition to wages, the Bell com-

panies paid out $459,000,000, or 11 per cent of their payrolls, for pensions; for sickness, accident, and death benefits; for group life and extraordinary medical expense insurance; and in Federal taxes for Social Security old age and disability insurance. The companies pay the entire cost of their pension and benefit programs except group life insurance, which is paid for jointly by the companies and their employees. The extraordinary medical expense insurance plans were established in 1960 to supplement the basic hospital-surgical plans available to employees and pensioners and paid for by them. At the end of the year 27,335 men and 30,969 women were receiving pensions paid from trust funds that are actuarially accrued and can be used only for this purpose.

In Conclusion . . .

Since World War II the Bell System has grown a good deal faster than the economy as a whole. Sales, expenses, capital investment, payrolls, taxes paid, expenditures for research and development—all have tripled or more. In the last year or so the subject of "economic growth" has had much public attention. However, the vital role of regulated industry in contributing to economic growth has gone largely unnoticed. Our enterprise has provided services of increasing utility and convenience to the public. It has made major contributions to the nation's defensive strength. It has done much, we believe, to help other businesses deliver goods and services more effectively.

Essential to this progress has been the System's ability to bring its earnings up from the low levels that prevailed in the earlier postwar years. At the same time, the overall cost of telephone service has gone up since the war only half as much as the general rise in living costs; and for the average family, the telephone bill today is a considerably smaller part of the household budget than it used to be. We aim to keep the value of service always growing, but it must be emphasized that success in this effort, and the stability of telephone prices, will depend on sound Government fiscal policy and the integrity of the dollar.

The growth of competition in communications requires and is producing intense competitive effort in all branches of the System—in research, in manufacture, in marketing, in providing service from day to day. Competition also calls attention to the fact that there is far less difference between this business and non-regulated industry than was once thought. Incentives to progress are much the same everywhere, and to spur maximum advances in service the Bell System needs profits that are in good relationship with the profits of well-managed, progressive companies in non-regulated industry. Further, such earnings enable us to plan and carry out long-range improvements that increase operating efficiency, give telephone users

This was the telephone message center at the Democratic convention in Los Angeles. For both Democratic and Republican conventions, and during the campaign, the Bell System made special effort to provide never-failing communications. Meeting unusual needs is an important part of our job and we try to meet them well.

more for their money, attract new customers, and maintain employment at high levels.

There is no question that our technical equipment and systems are becoming ever more capable, more flexible, more readily adaptable to meet new needs. But their full usefulness, to repeat, depends on their being imaginatively employed by able people who have a genuine desire to serve. The people of the Bell System turned in a splendid record of performance in 1960. For outstanding acts in emergencies, Vail medals were awarded to 39 individuals and also to three groups. On countless other occasions, employees demonstrated the spirit of service that is the great tradition of your business and its most important asset. Our goal is that each service opportunity will bring out the best effort of the individual employee to meet the specific need—that he will use personal good judgment in dealing with problems as they arise—and that he will strive to do the most that can be done in any situation.

For the continuing support of the share owners we are deeply grateful. We appreciate the comments and suggestions many of you have made, by letter and in person. We believe 1960 has been one of the best years in Bell System history, not only in 1960 results but also in the foundations established for future progress. We hope you share this feeling, and we shall do the most we can, in every way, to merit your confidence and support in the years ahead.

For the Board of Directors,

President

February 15, 1961

THE BELL TELEPHONE SYSTEM

The principal telephone subsidiaries of American Telephone and Telegraph Company serve generally the areas shown. The Cincinnati and Suburban and Southern New England companies are non-controlled but associated companies. In nearly all areas other telephone companies operate and connect with Bell System lines.

Financial Statements

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS, which appear on the following pages, consolidate the accounts of the American Telephone and Telegraph Company and its principal telephone subsidiaries (listed on page 29).

These companies maintain their accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission.

For the companies consolidated, all significant intercompany items are excluded from the consolidated statements. Investments in subsidiaries not consolidated as stated in the Consolidated Balance Sheets include 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 and equipment 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.

A. L. STOTT
Comptroller.

American Telephone and Telegraph Company
and its Principal Telephone Subsidiaries Consolidated

ASSETS

	(Thousands of Dollars) December 31, 1960	December 31, 1959
Telephone Plant and Other Investments		
Telephone Plant (land, buildings and equipment)—at cost		
In service	$23,475,344	$21,725,791
Under construction	575,512	459,135
Other (principally held for future use)	21,643	20,549
	24,072,499	22,205,475
Less: Depreciation reserve	5,247,226	4,941,026
	18,825,273	17,264,449
Other Investments		
Investment in subsidiaries not consolidated (a)	1,184,700	1,013,887
Other (principally in associated telephone companies)—at cost	117,914	104,351
	20,127,887	18,382,687
Current Assets		
Cash and temporary cash investments	1,172,866	1,281,694
Receivables—less reserve for uncollectibles	951,368	849,426
Material and supplies	95,234	100,591
	2,219,468	2,231,711
Prepayments and Deferred Charges		
Prepayments of directory expenses, rents, taxes, etc.	130,892	120,329
Deferred charges	80,036	72,274
	210,928	192,603
Total Assets	$22,558,283	$20,807,001

For notes, see page 28

Balance Sheets

LIABILITIES

	(Thousands of Dollars) December 31, 1960	December 31, 1959
CAPITAL STOCK EQUITY		
American Telephone and Telegraph Company		
Common stock—par value ($33⅓ per share) (b)	$7,450,616	$7,154,342
Common stock installments (c)	172,203	323,218
Premium on common stock	2,298,054	2,150,104
Retained earnings—see page 27	2,841,481	2,354,762
APPLICABLE TO A. T. & T. CO. STOCK	12,762,354	11,982,426
Subsidiaries Consolidated—stocks held by public		
Common stock	352,658	326,274
Preferred stock	17,904	17,904
Retained earnings	47,831	38,137
APPLICABLE TO STOCKS OF SUBSIDIARIES HELD BY PUBLIC	418,393	382,315
	13,180,747	12,364,741
FUNDED DEBT (d)	7,232,239	6,432,275
CURRENT LIABILITIES		
Notes payable	42,000	95,000
Accounts payable	642,085	577,839
Advance billing for service and customers' deposits	191,963	175,443
Dividends payable	185,648	178,222
Taxes accrued	956,642	870,838
Interest accrued	72,273	63,365
	2,090,611	1,960,707
DEFERRED CREDITS		
Unextinguished premium on funded debt—net	39,330	34,705
Other deferred credits	15,356	14,573
	54,686	49,278
Total Liabilities	$22,558,283	$20,807,001

American Telephone and Telegraph Company
and its Principal Telephone Subsidiaries Consolidated

	(Thousands of Dollars) Year 1960	Year 1959
Operating Revenues		
Local service	$4,547,409	$4,250,778
Toll service	2,996,436	2,786,144
Miscellaneous	414,280	381,033
Principally from directory advertising.		
Less: Provision for uncollectibles	37,671	24,958
Total Operating Revenues	7,920,454	7,392,997
Operating Expenses		
Maintenance	1,373,519	1,286,289
Depreciation	1,007,840	930,109
Representing approximately 4.5% of average investment in depreciable plant.		
Traffic	887,739	882,584
Costs, principally operators' wages, incurred in the handling of messages.		
Commercial	670,680	621,261
Costs incurred in business relations with customers; public telephone commissions; cost of directories and advertising.		
Accounting	288,713	263,840
Development and research (e)	40,861	35,059
Provision for employees' service pensions	211,350	204,170
Employees' sickness, accident, death and other benefits	78,608	72,807
Other operating expenses	279,221	261,689
Less: Expenses charged construction	84,242	78,313
Total Operating Expenses	4,754,289	4,479,495
Net Operating Revenues	3,166,165	2,913,502
Operating Taxes		
Federal income	1,143,634	1,054,726
State, local and social security	704,068	635,563
Total Operating Taxes	1,847,702	1,690,289
Net Operating Income *(carried forward)*	$1,318,463	$1,223,213

For notes, see page 28

Income Statements

	(Thousands of Dollars) Year 1960	Year 1959
Net Operating Income *(brought forward)*	$1,318,463	$1,223,213
OTHER INCOME		
Proportionate interest in earnings of subsidiaries not consolidated (f)	126,606	104,171
Miscellaneous (principally interest (g))—net	63,157	43,026
Income Available for Fixed Charges	1,508,226	1,370,410
FIXED CHARGES		
Interest on funded debt	243,218	210,297
Other interest	14,053	11,344
Net Income	1,250,955	1,148,769
NET INCOME APPLICABLE TO MINORITY INTERESTS	37,989	35,617
Net Income Applicable to A. T. & T. Co. Stock	$1,212,966	$1,113,152
CONSOLIDATED EARNINGS PER SHARE	$5.53	$5.22

Based on average A. T. & T. Co. shares outstanding, 219,233,530 in 1960 and 213,403,096 in 1959.

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

	(Thousands of Dollars) Year 1960	Year 1959
BALANCE AT BEGINNING OF PERIOD	$2,354,762	$1,933,327
Net income applicable to A. T. & T. Co. stock	1,212,966	1,113,152
Miscellaneous additions	2,104	1,599
TOTAL ADDITIONS	1,215,070	1,114,751
Dividends on A. T. & T. Co. stock	723,471	688,327
Refunds to customers of amounts applicable to prior years, less related taxes	737	3,176
Organization and capital stock expense charged off	2,293	1,015
Miscellaneous deductions	1,850	798
TOTAL DEDUCTIONS	728,351	693,316
BALANCE AT CLOSE OF PERIOD	$2,841,481	$2,354,762

Notes to Bell System Financial Statements

(a) Comprises $832,194,000 at December 31, 1960 and $718,292,000 at December 31, 1959 representing cost of investments in subsidiaries not consolidated (see page 29), and $352,506,000 at December 31, 1960 and $295,595,000 at December 31, 1959 representing proportionate interest in the net assets of these subsidiaries in excess of such cost.

(b) Authorized 300,000,000 shares; outstanding 223,518,483 shares at December 31, 1960 and 214,630,257 shares at December 31, 1959.

By a Prospectus dated February 15, 1961, the Company is offering to stockholders of record on February 23, 1961 additional shares of its capital stock for subscription at $86 per share in the ratio of one new share for each 20 shares held on the record date.

See also note (c).

(c) Installment payments and interest applicable to shares under elections to purchase by employees of the Company and its subsidiaries under the Employees' Stock Plan approved by stockholders in 1958. 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. A total of 21,000,000 shares may be issued under the Plan. At December 31, 1960 8,693,012 shares had been purchased and installment payments were being made on 8,192,449 shares. At the 1961 annual meeting the stockholders will be asked to authorize an amended Plan under which an additional 15,000,000 shares would be available for sale.

(d) At December 31, 1960 comprises $22,239,000 of 4¼% convertible debentures due March 12, 1973, and other funded debt of which $40,000,000 matures in 1961, $218,000,000 from 1964 to 1970, $1,335,000,000 from 1971 to 1980, and $5,617,000,000 thereafter.

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

(f) Includes American Telephone and Telegraph Company's proportionate interest (over 99%) in earnings of Western Electric Company and its subsidiaries amounting to $124,264,000 in 1960 and $102,002,000 in 1959 of which $67,813,000 in 1960 and $62,000,000 in 1959 was received by the Company in dividends.

(g) Includes $24,370,000 in 1960 and $21,173,000 in 1959 for interest charged construction.

The Company and its subsidiaries have established trust funds which are irrevocably devoted to service pension purposes. Regular payments are made to such funds pursuant to accrual programs. At December 31, 1960 the pension funds amounted to $3,386,775,000. Future service pension payments to those now on 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.

December 31, 1960

COMPANIES INCLUDED IN CONSOLIDATED STATEMENTS

American Telephone and Telegraph Company

Principal Telephone Subsidiaries	Capital Stocks Owned by A.T.&T. Co. % Owned	Cost (a)	Advances from A.T.&T. Co. (a)
New England Tel. & Tel. Co.	69.33	$ 310,641	$ 84,000
New York Tel. Co.	100.00	1,424,280	.....
New Jersey Bell Tel. Co.	100.00	523,667	18,400
Bell Tel. Co. of Pennsylvania	100.00	666,316	15,500
Diamond State Tel. Co.	100.00	41,700	4,175
Chesapeake & Potomac Tel. Co.	100.00	101,000	22,200
Chesapeake & Potomac Tel. Co. of Maryland	100.00	226,468	28,800
Chesapeake & Potomac Tel. Co. of Virginia	100.00	250,000	28,000
Chesapeake & Potomac Tel. Co. of West Virginia	100.00	97,000	7,700
Southern Bell Tel. & Tel. Co.	100.00	1,266,817	29,000
Ohio Bell Tel. Co.	100.00	532,042	17,500
Michigan Bell Tel. Co.	99.99	409,399	18,000
Indiana Bell Tel. Co., Inc.	100.00	206,587	6,200
Wisconsin Tel. Co.	100.00	218,224	5,900
Illinois Bell Tel. Co.	99.32	671,422	39,000
Northwestern Bell Tel. Co.	100.00	411,040	17,900
Southwestern Bell Tel. Co.	99.99	1,243,243	25,000
Mountain States Tel. & Tel. Co.	86.75	439,195	18,200
Pacific Tel. & Tel. Co.	89.62	1,402,260	134,000
Bell Tel. Co. of Nevada (b)	....	.....	.....
Total		$10,441,301	$ 519,475
SUBSIDIARIES NOT CONSOLIDATED			
Bell Telephone Laboratories, Inc.	(c) 50.00	$ 27,500	.....
Western Electric Co., Inc.	99.82	739,361	.....
195 Broadway Corporation	100.00	26,015	$ 4,600
Other (d)	.....	31,068	3,650
Total		$ 823,944	$ 8,250
OTHER COMPANIES			
Southern New England Tel. Co.	19.06	$ 36,990	$ 4,600
Cincinnati & Suburban Bell Tel. Co.	29.83	21,065	8,100
Bell Tel. Co. of Canada	3.51	18,855	.....
Miscellaneous investments (d)	....	28,304	.....
Total		$ 105,214	$ 12,700

(a) Thousands of dollars.

(b) Wholly-owned subsidiary of Pacific Tel. & Tel. Co. Cost of capital stock—$43,000,000; advances—$300,000.

(c) Remaining shares owned by Western Electric Company.

(d) Includes investments of principal telephone subsidiaries.

Certificate of Audit

To the Share Owners of
American Telephone and Telegraph Company:

We have examined the consolidated balance sheets of American Telephone and Telegraph Company and its principal telephone subsidiaries as of December 31, 1960 and 1959 and the related statements of income and retained earnings for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records of each of the companies consolidated and such other auditing procedures as we considered necessary in the circumstances. We have been furnished consolidated financial statements for the years 1960 and 1959 of the Company's principal nonconsolidated subsidiary, Western Electric Company, Incorporated and consolidated subsidiaries, with report thereon by other independent accountants.

In our opinion, the consolidated financial statements (pages 23 to 29) present fairly the consolidated position at December 31, 1960 and 1959 and the consolidated results of operations for the years then ended of American Telephone and Telegraph Company and its principal telephone subsidiaries, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, N. Y.
February 15, 1961

Facts about the Bell System

	Dec. 31 1945	Dec. 31 1950	Dec. 31 1955	Dec. 31 1960
Telephones (a)	22,445,519	35,343,440	46,218,233	60,735,073
Per cent Dial Operated	64.6	75.5	86.6	97.0
Central Offices	7,374	8,470	9,751	10,978
Average Daily Telephone Conversations* (b)	90,548,000	140,782,000	168,936,000	219,093,000
Total Plant (c)	$5,702,057	$10,101,522	$15,340,495	$24,072,499
Operating Revenues* (c)	$1,930,889	$3,261,528	$5,297,043	$7,920,454
Employees				
Bell System	387,300	523,251	615,895	580,405
Western Electric Company	80,029	73,458	120,054	143,352
Bell Tel. Laboratories	7,198	5,757	9,680	12,009
Total	474,527	602,466	745,629	735,766
A. T. & T. Co. Share Owners	683,897	985,583	1,408,851	1,911,484
A. T. & T. Co. Shares Outstanding	60,498,753	85,847,868	162,347,880	223,518,483

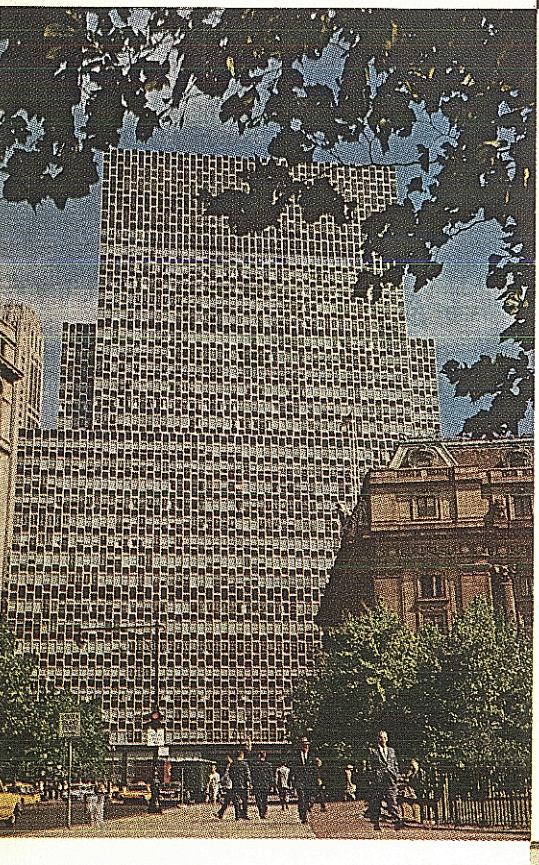
(a) Excludes private line telephones, which numbered 215,514 on December 31, 1960. Including telephones of about 3,300 independently owned connecting telephone companies and additional thousands of connecting rural or farmer lines and systems, the total number of telephones in the United States which can be interconnected is approximately 74,300,000.

(b) For the year 1960 there were approximately 209,373,000 average daily local conversations and 9,720,000 average daily toll and long distance conversations. During 1960 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 5.2 per cent in local conversations, and 7.0 per cent in toll and long distance conversations over the year 1959.

(c) Thousands of dollars.

* For year ended December 31.

Receptionist for a steamship line uses a convenient, efficient Call Director telephone.



When a new office building goes to work....

This new building, like thousands of others all over the country, "comes alive" through communications.

It has about 50 business tenants. They use more than 7,000 telephones—77 switchboards—numerous dial private branch exchanges—145 teletypewriters—and hundreds of other items of modern communication equipment.

The Bell System's investment in equipment installed *in this one building* is about $1,250,000.

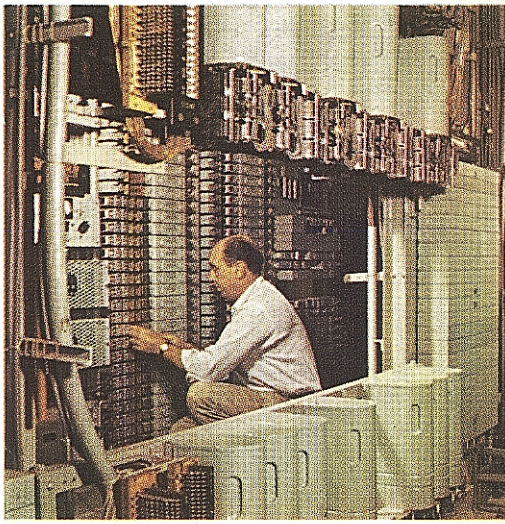
Enough, perhaps, to suggest the importance of big telephone investment, good telephone earnings, and top-flight telephone service in aiding the progress of all business and the nation's economic growth.

Employees of an exporting and importing firm have the world at their fingertips—by telephone.

At this "order desk" a business machine manufacturer keeps in constant touch with its service and repair forces and dispatches them as needed.

Employees of a brokerage firm, reading the latest stock prices from the board, answer 30 to 35 thousand requests a day for price information.

The manager of a bank office considers service arrangements suggested by a telephone company representative.



Telephone craftsman checks operation of one of the private branch exchange dial systems in the building.

A grain dealer uses teletypewriters to send and receive orders and shipping information.

Three-position telephone switchboard serves the offices of a firm of certified public accountants.

American Telephone and Telegraph Company
195 Broadway New York 7, N. Y.

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