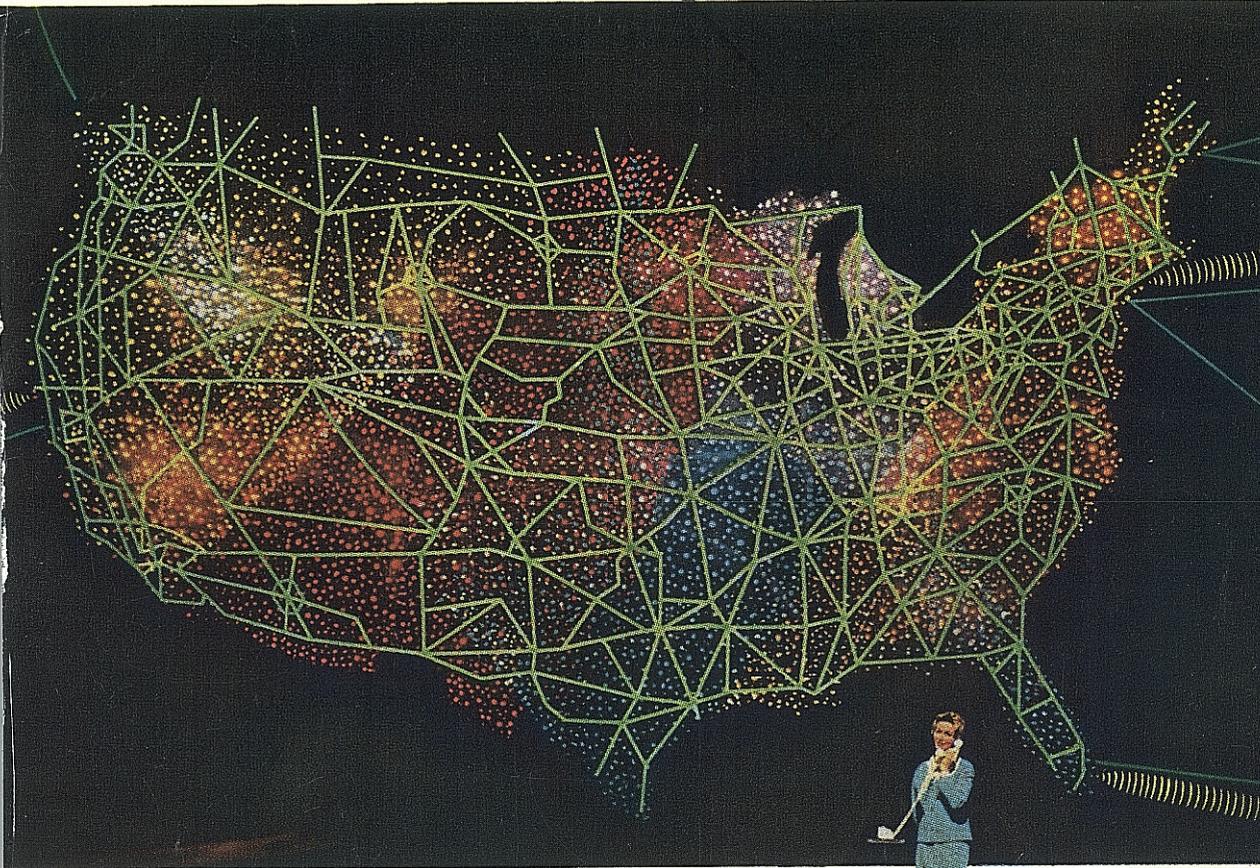
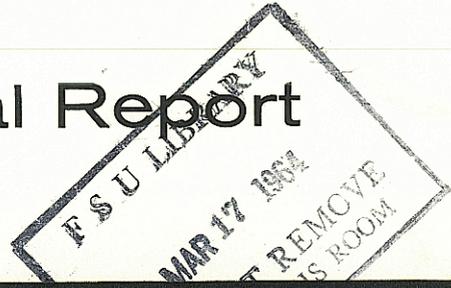


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# Annual Report



The Bell System communications network will be seen in moving light at the New York World's Fair

# 1963

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

*ON THE COVER: A changing panorama of light, showing how the versatile Bell System network serves the needs of America for social, business, and defense communications, will be one of many Bell Telephone exhibits at the World's Fair starting in April. Share owners are cordially invited to attend. (For security reasons, the network pictured is not an exact representation—many routes have been altered or omitted.)*



*Our new cable ship LONG LINES passes the Statue of Liberty. Her first assignment, last summer, was to lay a third transatlantic telephone cable between the United States and Europe. This has been in service since October. The LONG LINES is now placing a cable between Hawaii and Japan, via Midway, Wake, and Guam. This will go into operation in July.*

# Annual Report 1963



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The seventy-ninth Annual Meeting of the share owners will be held at 2 p.m., April 15, 1964, at the Kingsbridge Armory, 29 West Kingsbridge Road, The Bronx, New York City.

**American Telephone and Telegraph Company**

195 Broadway, New York, N. Y. 10007

Telephone: Area 212 393-9800

## Board of Directors

---

LLOYD D. BRACE  
Chairman of the Board  
The First National Bank  
of Boston

EDWARD B. HANIFY  
Partner, Ropes & Gray

HENRY T. HEALD  
President, The Ford Foundation

J. VICTOR HERD  
Chairman of the Boards  
The Continental Insurance Companies

WILLIAM A. HEWITT  
President, Deere & Company

FREDERICK R. KAPPEL  
Chairman of the Board

JAMES R. KILLIAN, JR.  
Chairman of the Corporation  
Massachusetts Institute of Technology

JOHN L. McCAFFREY  
Retired Chairman of the Board  
International Harvester Company

JOHN J. McCLOY  
Partner, Milbank, Tweed,  
Hadley & McCloy

EUGENE J. McNEELY  
President

J. IRWIN MILLER  
Chairman of the Board  
Cummins Engine Company, Inc.

WILLIAM B. MURPHY  
President  
Campbell Soup Company

THOMAS F. PATTON  
Chairman and President  
Republic Steel Corporation

MONROE J. RATHBONE  
Chairman  
Standard Oil Company (New Jersey)

H. I. ROMNES  
Vice Chairman of the Board

GEORGE F. SMITH  
Consultant, retired President  
Johnson & Johnson

JAY TAYLOR  
Owner  
Jay Taylor Cattle Company

WILLIAM WHITE  
President, The Delaware and  
Hudson Company, and Chairman,  
Erie-Lackawanna Railroad Company

# Officers

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CHAIRMAN OF THE BOARD  
Frederick R. Kappel

PRESIDENT  
Eugene J. McNeely

VICE CHAIRMAN OF THE BOARD  
H. I. Romnes

EXECUTIVE VICE PRESIDENT  
James E. Dingman

## VICE PRESIDENTS

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George L. Best  
James W. Cook  
Horace P. Moulton  
Edward B. Crosland

Gordon N. Thayer  
Wellington Powell  
Walter K. MacAdam  
Prescott C. Mabon

Lloyd S. Miller  
Richard R. Hough  
Lowell F. Wingert  
Cornelius W. Owens  
Richard A. Goodson

VICE PRESIDENT AND TREASURER  
John J. Scanlon

VICE PRESIDENT AND COMPTROLLER  
Alexander L. Stott

VICE PRESIDENT AND SECRETARY  
Charles E. Wampler

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This report reviews the work of American Telephone and Telegraph Company and its associated companies in the Bell System. The System furnishes service in 48 states and the District of Columbia, and its lines connect with other telephone systems in all 50 states of this country and throughout the world. A list of the Bell System companies is given on page 27. Annual reports of Western Electric Company, manufacturing and supply unit of the System, and of the principal telephone subsidiaries of A. T. & T., are available on request. For share owners who are blind, the American Company report is available in Braille and on talking records. Kindly address requests to the Secretary. Copies will be distributed with the assistance of the Telephone Pioneers of America, the organization of long-service employees in the telephone industry.

# 1963 Report in brief

Earnings per share of A. T. & T. stock were \$6.06 compared with \$5.79 in 1962. Plans were announced to offer new shares to the share owners; to increase the quarterly dividend to \$1 on April 1, 1964; and to split the stock two-for-one later in the spring.

The Bell companies gained 2,690,000 telephones. Long distance conversations increased 8.4 per cent over 1962. Construction expenditures were \$3,136,000,000, a new high.

---

## Bell System Financial Summary

|  | 1963                   | 1962            |
|--|------------------------|-----------------|
| Operating Revenues and Other Income . . .        | <b>\$9,720,297,000</b> | \$9,147,840,000 |
| Operating Expenses . . . . .                     | <b>\$5,611,856,000</b> | \$5,305,037,000 |
| Taxes . . . . .                                  | <b>\$2,245,764,000</b> | \$2,102,901,000 |
| Interest Deductions . . . . .                    | <b>\$335,319,000</b>   | \$306,950,000   |
| Net Income . . . . .                             | <b>\$1,527,358,000</b> | \$1,432,952,000 |
| Applicable to Minority Interests . . .           | <b>\$47,841,000</b>    | \$44,777,000    |
| Applicable to A. T. & T. Stock . . .             | <b>\$1,479,517,000</b> | \$1,388,175,000 |
| <b>NET INCOME PER A. T. &amp; T. Share . . .</b> | <b>\$6.06*</b>         | \$5.79*         |

\*Based on 244,101,000 average shares outstanding in 1963 and 239,587,000 in 1962.

---

Wage rates were raised and employee benefits were substantially increased.

Taxes on Bell System operations were \$2,245,764,000. This was equal to \$8.87 per share of A. T. & T. stock, and more than \$33 per telephone. In addition, customers paid \$759 million in Federal excise taxes. Congress again extended the excise tax on local telephone service, until June 30, 1964. Such excise taxes discriminate against telephone users and in our judgment should be removed.

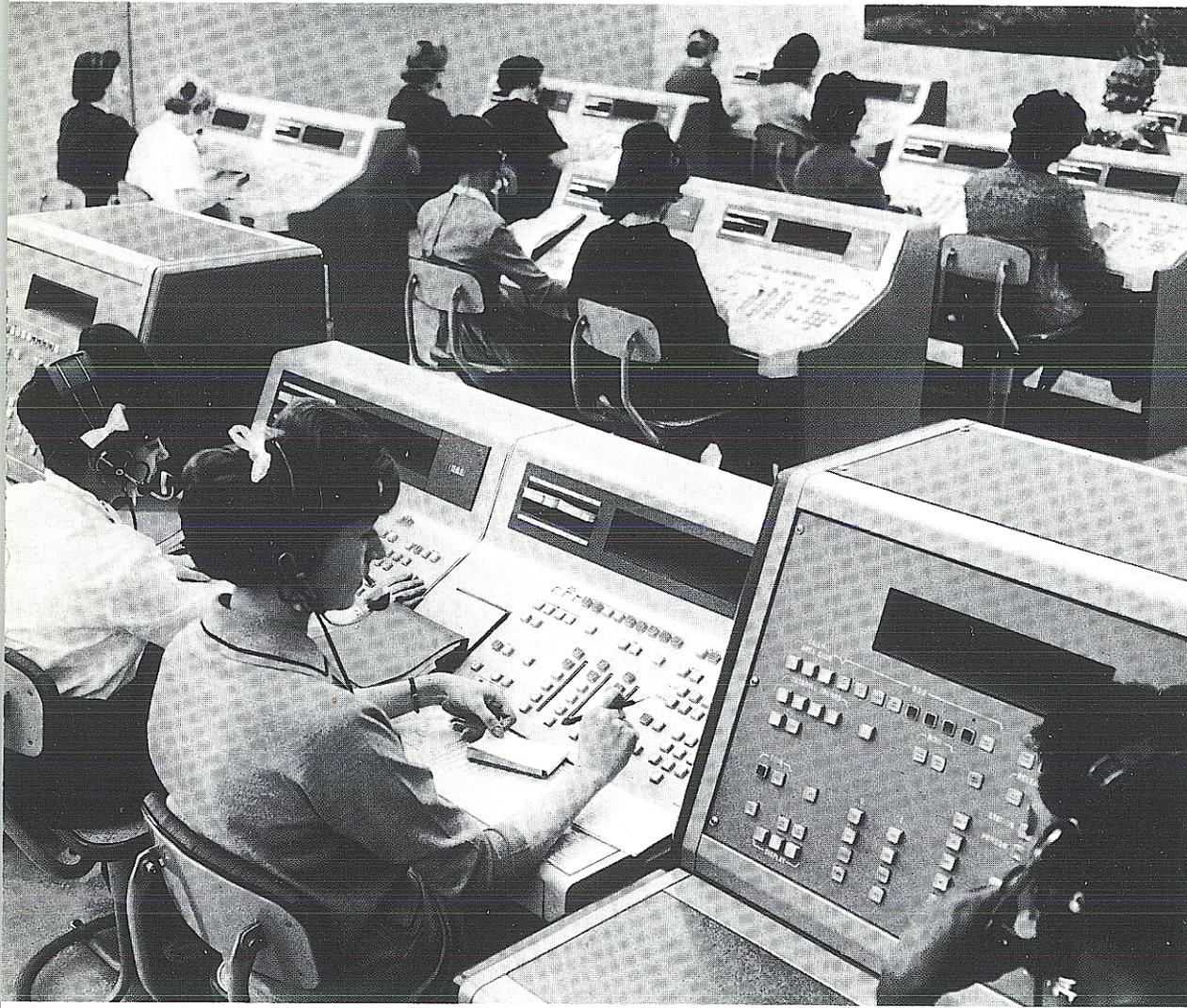
Service improved in dependability, speed of connection, ease of talking and hearing, and promptness of installation and repair. The decisive measure of service quality is how well users like it. Our goal is to make it as nearly perfect as possible from the customer's point of view.

The year saw strong growth in data communication services, wide area telephone service (WATS), and Telpak service to customers who need to send large quantities of communications between specific points.

The second TELSTAR® satellite, launched last spring, has successfully handled voice, television, and data communications—reported on the effects of the space environment—and enabled us to improve the techniques of providing communications service via satellites.

Our first electronic PBXs (private branch exchanges) were placed in operation in 1963. Our first electronic central office for commercial operation is being made ready by Bell Laboratories, Western Electric, and telephone company engineers to go into use in 1965. Western Electric is already producing apparatus for future electronic exchanges.

# Report to the



*These operators in New York are using new pushbutton consoles (the first of their kind) to help customers get much faster service on person-to-person calls, calls from coin telephones, and others that need operator assistance. On a person-to-person call, for instance, the customer first dials "O" and then the number he wants. An operator comes on the line and, when the distant telephone answers, makes sure the desired person is reached. The girls in the foreground are student operators who are receiving instruction. Similar service will be provided throughout the country in the years ahead.*

# Share Owners 1963

**L**AST YEAR your management was able to increase the value of service to telephone users; increase wages and benefits to employees; and increase earnings per share of A. T. & T. stock in keeping with the growth of the investment behind each share. The rate of return on investment was the same in 1963 as in 1962.

The Bell System exists to serve the public. The responsibility of manage-

ment is to see that this is done as well as possible. This in turn entails full regard for the interests of share owners and employees.

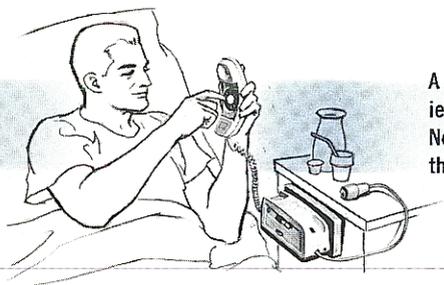
In fact, the success of the business depends on a proper balance of the interests of investors, employees, and customers.

Results in 1963 maintained this balance well; and, we believe, to the benefit of all three groups.

## 1. Earnings supported plans to increase the dividend and offer new stock to share owners to help finance the construction program.

As the summary on page 4 shows, earnings per share increased. Dividends paid on each share were \$3.60 and the earnings remaining after dividends were put back into the business. This re-investment of earnings in communications plant and equipment makes an important contribution to the Company's earnings per share.

At the end of 1963 some 2,250,000 share owners held 244,730,000 shares of A. T. & T. stock. The amount paid in to the Company for this stock was \$11,499,531,000. Accumulated earnings retained in the business amounted to \$4,469,694,000. These amounts, together with installment payments of \$375,083,000 on stock being purchased



A new telephone system that offers unprecedented convenience to hospital patients and staff will be tested in 1964. Note "the dial that comes to you" in the telephone set. In the future, this will also be offered to other customers.

by employees, totaled \$16,344,308,000.

In November the Board of Directors announced that the Company would offer additional stock to share owners of record on February 18, 1964, in the ratio of one new share for each 20 shares held. Rights to subscribe to the new shares, at \$100 per share, will be mailed early in March and the subscription period will end April 6.

Also, in accordance with plans announced last November, the Board of Directors has voted a quarterly dividend of \$1 per share payable April 1, and will propose to the share owners at the Annual Meeting on April 15 that the stock be split two-for-one (one additional share for each present share). If the proposal is approved, the additional shares resulting from the split will be distributed late in June. The Directors intend that after the split the quarterly dividend payable in July 1964 will be equivalent to 50 cents a share on the split shares. The dividend increase and stock split will, we believe, make the Company's stock more attractive to individual investors, widen the market for the stock, and facilitate raising the capital required.

The offering of new stock is occasioned by the continuing need for new capital to help finance the Bell System's construction program. We anticipate construction expenditures in 1964 of about \$3 $\frac{1}{4}$  billion, the largest amount ever.

Why are construction expenditures so large? For several reasons. We must provide lines, instruments, and switching apparatus to take care of growth. We must modernize existing plant and provide new and improved services. We must rearrange equipment as customers move, relocate lines as highways are rebuilt, and replace outworn or obsolete equipment.

The 1964 stock issue will be the first since the spring of 1961. Since that time, however, we have needed a steady input of new money to supplement the funds available from depreciation accruals and retained earnings. In fact, new money requirements in the last three years have averaged more than a billion dollars a year. New capital raised in 1963 came from eight debt issues of subsidiary companies totaling \$355 million, and from employee payments of \$332 million for the purchase of A. T. & T. shares under the employees' stock plan. In addition, outstanding debt of \$345 million was refunded at lower interest rates.

Two comments may be made here.

First, a satisfactory profit is the essential foundation for a financing and construction program that puts steadily improving communications at the service of more and more people, at reasonable price.

Second, our construction projects—the earnings that support them—and the

**Touch-Tone®** service is being introduced in numerous cities this year, will gradually be extended. By pressing buttons, users can "dial" calls with remarkable speed and convenience. This is an optional service at moderate cost.



operation of the services they permit—make an important contribution to employment and to the nation's economic growth. Employees of the Bell System at the end of 1963 numbered 733,138 (about 4,000 more than in 1962) and contractors and suppliers who assist us also employ a large number of people by reason of Bell System work. For example, Western Electric Company, our manufacturing and supply unit, last year obtained \$1.2 billion of equipment, materials, and services from 40,000 firms in every state. In addition, the operating

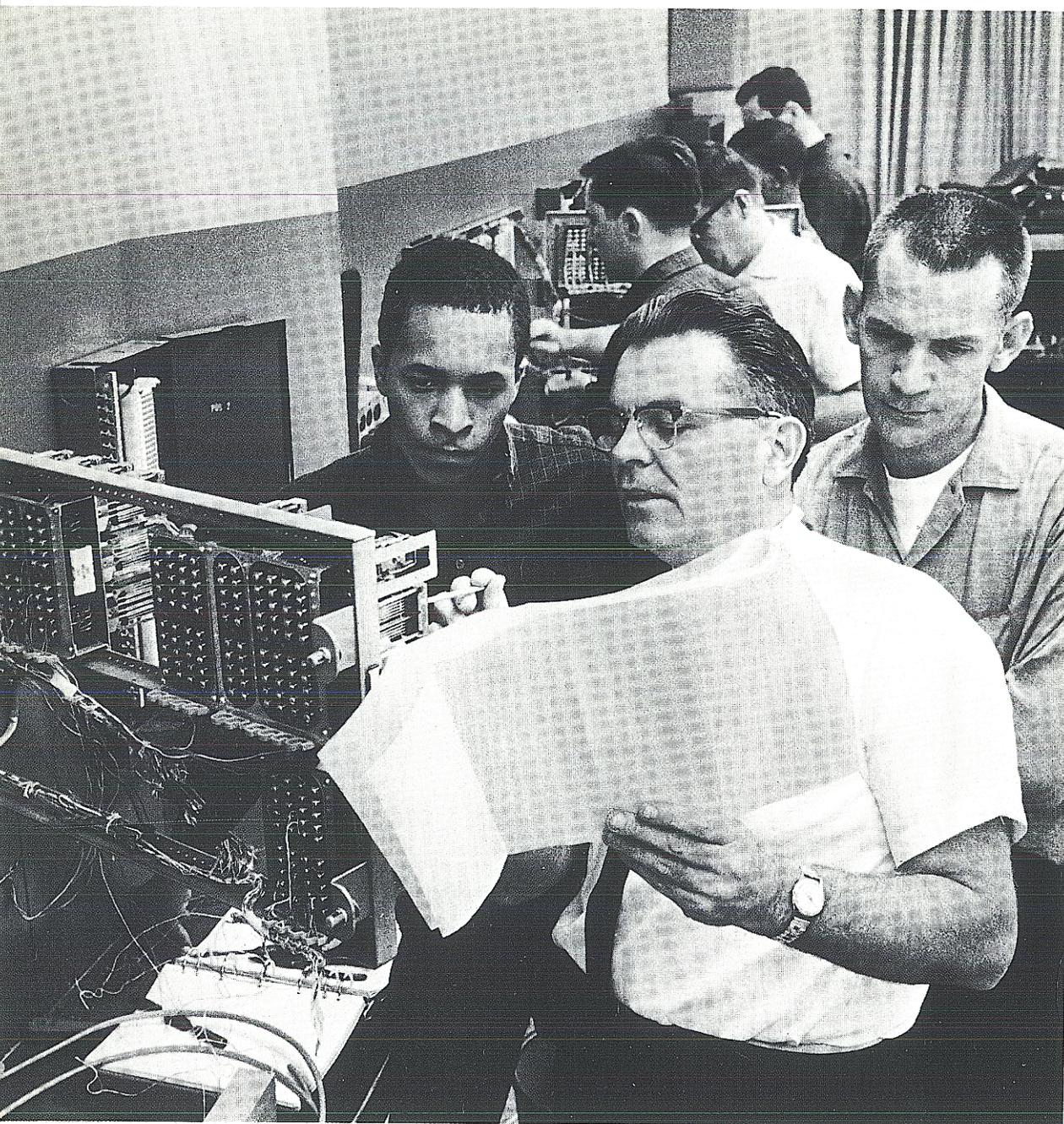
telephone companies make substantial local purchases of goods and services.

Most of the regulatory commissions, we feel sure, clearly recognize the relationship between good earnings, successful financing, job opportunities, sustained investment in new and better equipment, and the readiness of the telephone companies to do a fine service job. We believe the best results will flow from regulation that allows earnings on equity capital that compare well with the earnings of a broad cross-section of well managed companies in nonregulated industry.

## 2. Improvements in wages and benefits, in work opportunities, and in the training and development of employees.

Good service and good financial results depend on the competence, drive, and good spirit of employees. Wages and conditions of work must attract able people. The opportunities we offer must challenge their interest and skill. Training must stimulate the individual's ability to learn and grow.

Collective bargaining in 1963 resulted in new agreements with most of the unions. In most cases, these cover 38-month periods. They provide not only increases in basic wage rates, but, additionally, significant improvements in pensions, death benefits, vacations, medical insurance, and group life insurance.



*Bell craftsmen study the circuitry of a telephone system that provides various features for the convenience of business customers. Thorough training is necessary to good performance in installing and maintaining equipment, and ability to learn how to do the work, and then do it well, is the essential qualification for employment.*

Educational television continues to grow in schools and colleges. The telephone companies provide interconnecting channels for both local and statewide systems.



The contracts may be reopened twice for bargaining on wages.

Last year we began to use new procedures that make training more effective—for example in the training of long distance operators. First-rate service depends on the operator's good judgment and her sense that "the most important customer is the one I am talking with." To help develop these qualities, we are introducing new techniques of instruction that enable the learner in effect to teach herself for about half the learning period. This procedure stimulates continuous, active response, enhances self-confidence and judgment, and tends to shorten learning periods and reduce training costs. We are using it therefore in training employees for various other assignments.

Fast-changing technology also requires continuous programs of engineering education. These are conducted within the telephone companies, on several university campuses, at Bell Telephone Laboratories, and in the Western Electric Company. At our Data Communications School in Cooperstown, N. Y., men from the engineering, marketing, and plant operating organizations all participate. An integral part of these programs is the study of applied economics, for a

technical solution to a service problem must also qualify as a sound economic choice.

Telephone men who recruit potential future managers on college campuses are learning better, surer ways to pick the more promising candidates. To an increasing extent, new managers-in-training are being assigned promptly to work that tests their full abilities. Their bosses are challenged—and trained—to work with the learners in ways that encourage development and growth.

The times sharply emphasize our responsibility to hire and promote people according to ability alone. This is our policy and we have taken a careful look and positive steps to make sure that it is being carried out. At the end of 1963 the Bell companies had some 29,000 non-white men and women on their payrolls compared with 25,000 the year before. It is sometimes said that relatively few Negro men have been encouraged to prepare for careers in business, because they have not felt that business offered them much opportunity. We believe, however, that non-white as well as white candidates can be found who meet our requirements, and in each Bell company, progress in this undertaking is examined regularly.



*The communication network pictured on the cover of this report is not rigid. It is extremely flexible: circuits are continuously being rearranged to handle changing patterns of traffic. Above, at one of a dozen control centers, "network managers" watch reports that give minute-to-minute information on traffic flow. Conditions in one part of the country are communicated to all other sections, so that rearrangements can be made promptly to avoid or minimize congestion.*

Improved larger telephone booths are being installed all over the country. They give telephone users better light, better ventilation, more comfortable seats, and more room.



### 3. Improvements that increase the convenience, dependability, variety, and value of service to our customers.

The number of customers served by individual lines, with no other party on the line, continued to increase. More homes had the convenience of bedroom and kitchen telephones. In many more communities, "extended area" service broadened the range of local calling where formerly long distance charges applied. We estimate that these changes in 1963 reduced the number of calls charged as long distance calls by about 30 million a year.

Low-rate long distance calling after 9 p.m., with a maximum charge of \$1 for a three-minute station-to-station interstate call between any two points in the United States (except Alaska and Hawaii) has been very popular. Reduced "after nine" rates are also in effect in most states for calls within the state.

Four out of five telephone users can now dial directly to other telephones

throughout the nation; and again last year we were able to improve the accuracy and dependability of this service over the year before. To help this effort, we are using new "network management" techniques as illustrated on the opposite page. Our goal is to make nationwide dialing just as easy, convenient, and reliable, every time, as calling the corner drugstore.

We worked hard in 1963 to improve the quality of installation and repair work; to make and keep appointments with customers at times that best serve their convenience; to shorten the time required for installing business communication services. Often the needs of large customers require simultaneous attention in many places. To see that these needs are well met we have designated permanent coordinating teams.

At Succasunna, New Jersey, the Bell



In many cities, emergency reporting systems enable citizens to report fire or other emergencies by using telephones connected directly to the fire or police department.

System's first electronic telephone central office is being made ready for regular commercial service next year. At Cocoa Beach, Florida, we have already placed in operation an electronic system that serves the PBXs (private branch exchanges) of several business concerns.

This is the advent of a new era in communications. As electronic switching is extended, telephone users will enjoy new service convenience. For example, at the customer's option, his service can be arranged so that he can reach any telephone in an extensive list of frequently called numbers, nearby or far away, by pressing just three buttons on a TOUCH-TONE® telephone.

Data communication services grew in volume and variety in 1963. More growth is in prospect. Four new kinds of data sets are now available for sending data and facsimile signals at high speeds over the Telpak channels we now provide to business and government customers. For teletypewriter exchange service (TWX) we are now offering 100-word-per-minute teletypewriters. These have a keyboard similar to that of regular typewriters and use a new code recently standardized by the business machine industry.

The Yellow Pages of the telephone directories have become increasingly useful to more people. A recent study indicates that in a 12-month period,

nearly three-quarters of the adult population used them to locate products or services—the average use being more than three times a month.

This year we shall be introducing a much improved mobile telephone service. Calls to or from vehicles may be dialed directly; the equipment automatically selects one of several radio channels; and the inconvenience of pushing a button to talk, and releasing to listen, is eliminated. However, broad expansion of this service will depend on the Federal Communications Commission's authorizing additional radio frequencies.

The growing network of ocean cables makes overseas telephone service increasingly convenient. Dialing by operators, straight through to distant telephones, is speeding up the service. This procedure was introduced last year between the United States and three European countries, and to Australia over a new British Commonwealth cable (in which we have usage rights) that connects Canada with Australia via Hawaii. Operator dialing began in January to three more European countries—Switzerland, Belgium, and the Netherlands. It will soon be provided to Italy, and, this coming summer, to Japan.

Overseas calling has tripled since the introduction of transoceanic telephone cables in 1956. Conversations in 1963 totaled nearly 5,300,000. Looking a few

Many DATA-Phone, teletypewriter, and other data communication services are now available for transmitting information in various forms, including charts and pictures.



years ahead, we see the need for both cable and satellite systems to handle overseas communications and to provide diversity of routes and types of facilities. Diversity is important to assure reliable service and is of great value from the standpoint of national security. We have therefore informed the Communications Satellite Corporation that if satellite circuits of satisfactory quality are available in 1966 or early 1967, and at reasonable cost, we would prefer to use them to meet our additional needs across the North Atlantic, instead of laying additional cables at that time.

This would of course depend on the agreement of communication agencies in the other countries, and on authorization by the Federal Communications Commission.



The foregoing has summarized various 1963 developments as they relate to the interests of customers, employees, and share owners. But these interests, specific as they are, are not separate. They are closely linked, and success in meeting each depends essentially on our response to several broad social responsibilities.

One of these responsibilities is to serve the needs of defense as well as we are able. Another is to explore every

scientific resource that will help to advance the art of communications. Another is to control factors of quality and cost so that the public value of services rendered will continue to rise. Another is to keep our whole system and service continuously alert to new public needs as they develop.

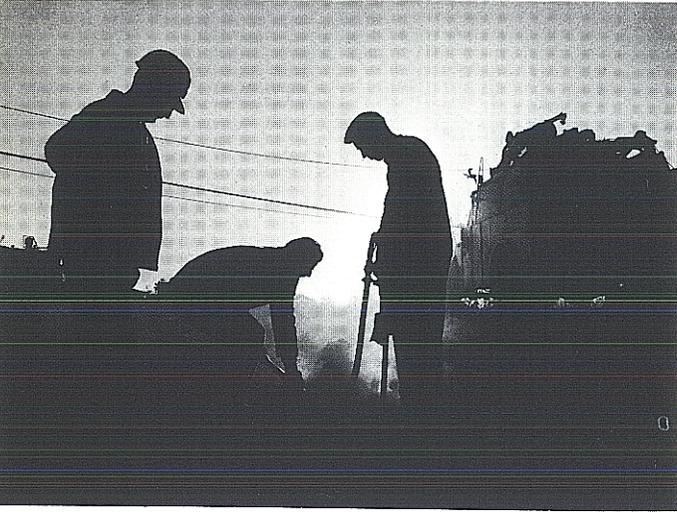
### Defense Activities and Other Services to Government

Last year we further strengthened our ability to meet emergencies. More alternate routes were built and more communication centers equipped to operate under disaster conditions. The blast-resistant underground cable we are building from coast to coast now reaches three-quarters of the way. Microwave radio towers that can relay 6,000 conversations simultaneously are ready for rapid transport and assembly in case of damage to existing towers (see pages 16 and 17).

We have also continued much work for the Defense Communications Agency and the various military commands. Bell Laboratories, Western Electric, and the telephone companies work together on these projects as needs require. Engineering studies are under way to develop an integrated communication system to serve all military departments. This will



At 4 a.m. (or it might be at any time) the word goes out, "Tower theoretically destroyed!"

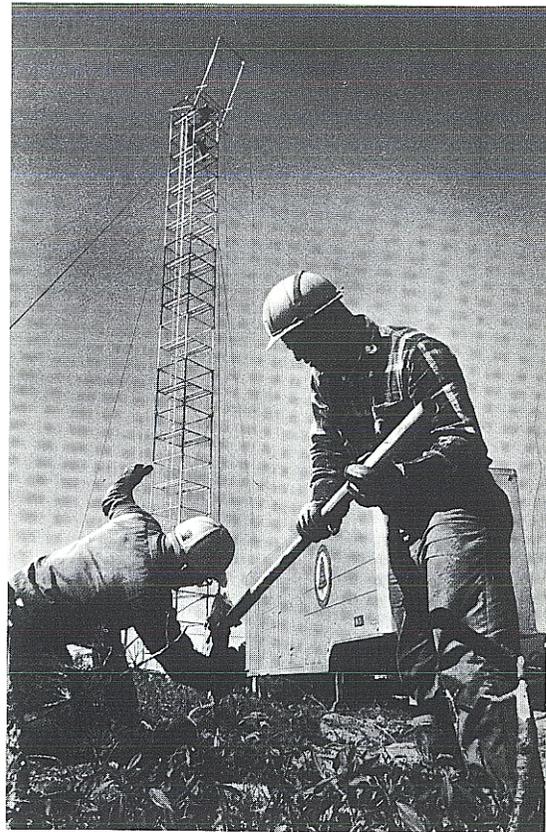


Dawn at the site—digging to set foundations for steel strands that will guy the emergency tower.

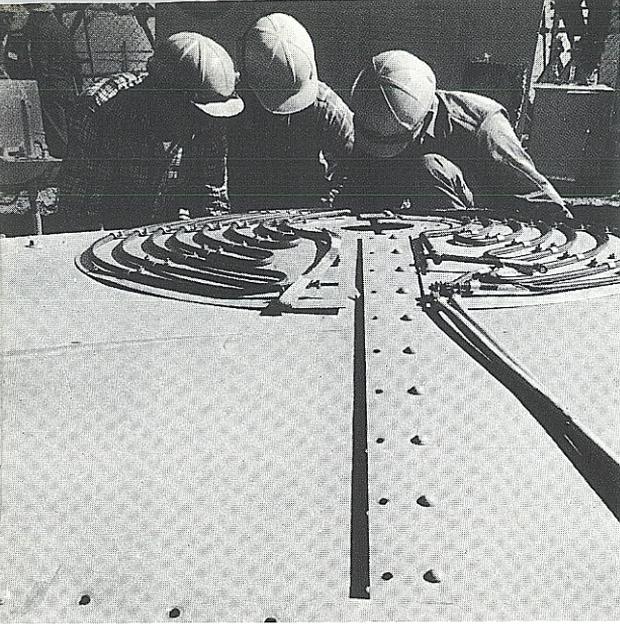
Exercise in

## PREPAREDNESS

These pictures show the rapid construction of a radio relay station on a major long distance route when one of the regular stations is theoretically "destroyed" in a practice alert. Replacing stations are packed in vans and garaged at strategic locations. When the alert sounds, men and materials move at once. However, emergency restoral of service does not wait on the new tower going up. Communications are rerouted immediately over predetermined alternate routes. Practice of this kind has the same value, of course, in preparing against an emergency caused by tornado or other natural disaster.



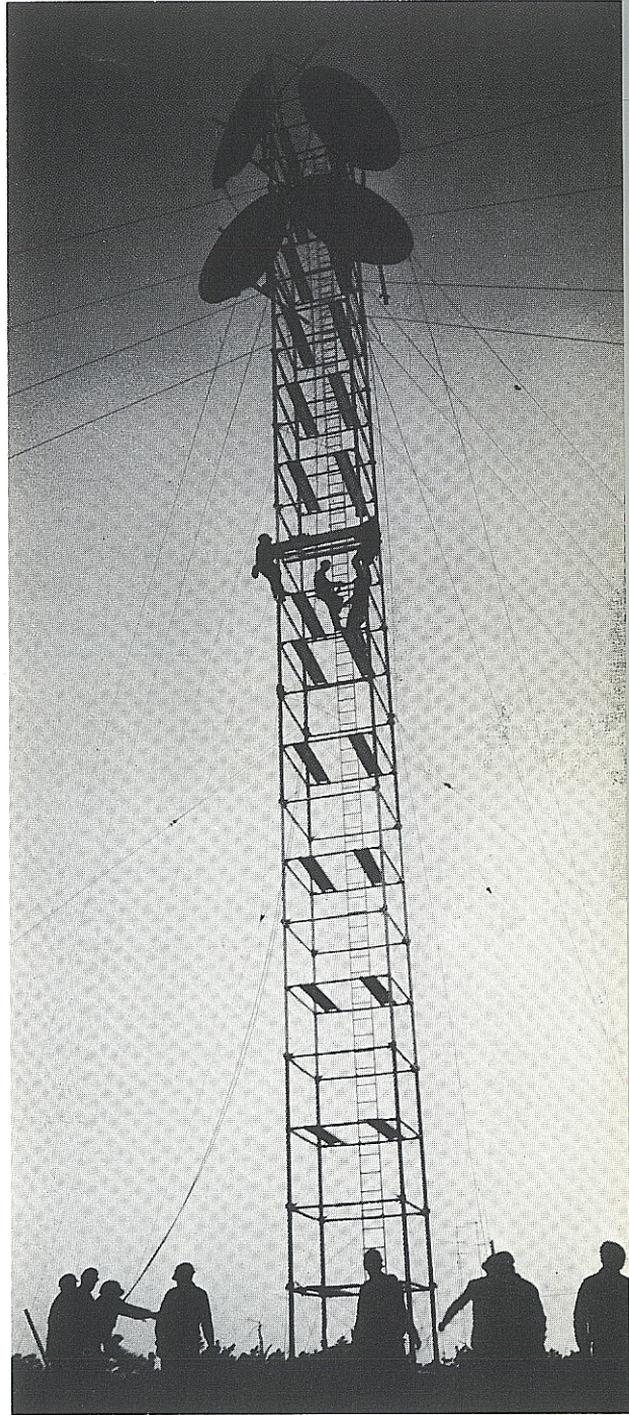
Supporting strands are set at proper tension. Tower was assembled from sections transported in vans.



▲ Microwave antennas are assembled while the tower is being put up.



▲ Antennas are positioned to receive and relay microwave signals that carry communications.



▲ New tower ready for service—same day. Associated equipment on ground (just out of picture) is also ready for use.



Three kinds of special-purpose telephones are helpful to many people. One enables a person with impaired hearing to "turn up" the sound. Another boosts weak speech. Another cuts down the effect of room noise in noisy locations.

use advanced techniques to assure superb service, survivability, and maximum economy.

The telephone companies, both Bell and Independent, jointly serve many requirements of government in addition to military needs. The communication system provided for the General Services Administration of the Federal Government, for example, now integrates voice and data communications for Federal agencies in 43 cities. It will reach about 300 more cities by the end of 1964. Under a new concept, a National Communications System is being fashioned that would provide necessary communications for the Government under all conditions, ranging from normal situations to international crises. With the Independent telephone companies, we are working to accomplish these ends.

The Army has authorized Western Electric and Bell Laboratories to develop an advanced anti-missile system, designated "Nike X." This grows out of the Nike Zeus program and requires development of new radars, an extremely high velocity intercepting missile, and a data processing system of great capacity and speed.

Sandia Corporation, a subsidiary of Western Electric, for the fourteenth year managed the ordnance laboratories of the Atomic Energy Commission at Albuquerque, N. M., and Livermore, Cal.

Bellcomm, Inc. continued to provide planning and engineering support for the manned space flight programs of the National Aeronautics and Space Administration. Bellcomm was formed for this purpose in 1962 at the space agency's request. It is owned jointly by A. T. & T. and Western Electric.

### The Building Blocks and Systems of Tomorrow

Mention has been made of the advent of electronic switching, of TOUCH-TONE calling, of new data services, of new pushbutton consoles for telephone operators. All these, like TELSTAR satellites and ocean telephone cables, are fashioned from materials, devices, and systems developed at Bell Telephone Laboratories. And here the building blocks and systems of the future continue to be shaped.

New cable and radio systems that are now under development will use advanced transistor technology to provide high-quality, low-cost communication channels in abundance over both long and relatively short distances. Work has also started on devices that will permit use of still smaller wires on many local telephone lines. New equipment is being devised for high-speed, versatile handling of messages between different types and

Modern "guest dial" systems for large and small hotels and motels afford visitors the utmost convenience in making calls, obtaining hotel services, and getting messages.



groups of business machines. A service now being developed will enable a person to interrogate a computer from a simple keyboard (perhaps the buttons of a TOUCH-TONE telephone) and get an answer in voice form.

Underlying these and other developments is an ever-growing understanding of the properties and behavior of materials of all kinds: metals, plastics, ceramics; paper, textiles, wood; conductors, semi-conductors, insulators, and magnetic materials. Such knowledge is of crucial importance, for it is out of thousands of different materials that we design transmitters and receivers, circuits and switches, cables and amplifiers—the whole array of devices organized by the billion in a system capable of making trillions of different connections.

Step by step, Bell scientists and engineers have discovered whole families of new materials. They have brought deep insight to the understanding and application of magnetic substances and compounds. They have learned how to produce certain elements in purer form than ever before achieved—and how to add infinitesimal amounts of other substances, in a very precise way, to create transistors and other enormously useful devices. They have altered the composition of plastics to give them long life in weather and sun. Studying crystal structures, they have gained new under-

standing of how materials behave under stress. They have developed basic principles of adhesion, and shown, for instance, that where a softened glue will not adhere to a hard plastic, the softened plastic will stick fast to the solidified glue.

Out of these studies come great advances. A rod of ruby (a crystal of aluminum oxide with a few chromium atoms added) quietly amplifies faint signals from satellites in space. Transistors in an electronic switching system pull information out of magnetic memories in millionths of a second. And costs—these are vitally affected too. Thus, new laminated structures of plastic and aluminum promise marked savings for certain uses, as well as exceptional strength. A new experimental "memory card" containing thousands of tiny magnets costs a third as much as a preceding laboratory design. Over and over again, thorough knowledge of materials contributes to quality, durability and economy, all three.

### **Unified Efforts to Improve Quality and Reduce Cost**

This endeavor runs all through the design of equipment, its manufacture and installation, and day-to-day operations. Last year, for example:

Close collaboration between Bell Lab-



*At Bell Telephone Laboratories, see-while-you-talk service is under experiment and test. The time when such service may be introduced will depend on cost factors and market demand as well as on further technical development. Meanwhile, visitors at the Bell System exhibit at the New York World's Fair will be able to take part in demonstrations of an experimental system.*

Many youngsters who have to stay home because of a disability can still "go to school" by telephone. Two-way speakers in classroom and home make this possible.



oratories and Western Electric engineers enabled us to speed the manufacture of many new products and reduce the time required to get improved equipment into use. And working closely with telephone men, Western Electric further developed the use of electronic data processing to prepare detailed specifications for the installation of equipment the telephone companies order.

Western Electric also strengthened its ability to hold prices down by effecting further substantial reductions in manufacturing costs. Its service division completed the organization of seven regional centers to coordinate equipment engineering, and distribution and installation services to the telephone companies.

Total sales of Western Electric Company were \$2,833,000,000, an increase of \$71,000,000 over 1962. Sales to the Bell telephone companies were \$2,278,000,000 compared with the 1962 figure of \$2,153,000,000. Most of the balance was in sales to the Government. Western Electric earnings were \$140,484,000, compared with \$135,216,000 in the previous year.

A new system developed by Western Electric significantly improves the handling of information required to manufacture communications equipment. This system uses an electronic data processor to help forecast demand, order materials, schedule production, and control inven-

tory. It is now in operation at the company's Kansas City Works.

In the telephone companies, electronic data processors are used for many purposes. The advantages in quality and cost of service are large and the fields of use continue to grow. As we said in our report of two years ago, we do not expect this to cause a general permanent reduction in employment. Fluctuations will no doubt occur in the future as in the past, but over the long term, as the public uses more communications service, we believe employment opportunities will increase.

### Looking to The Future

The fourth broad responsibility mentioned earlier is to keep our system and service continuously alert to new public needs. Most everything we have said bears on this, but a few other points deserve emphasis.

1. The public will need many more telephones in the future—and more telephone numbers. This and this alone is the reason for changing to the all-numeral system, which makes many more numbers available. With the continuing growth in telephones, the old system could not adequately meet the requirements of the future, and so we have studied every reasonable alternative. On



A new Business Interphone system, available later this year, provides "hands-free" answering and other features for prompt, effortless intercommunication at business locations.

the basis of careful trials, the all-numeral system stands out as the best solution presenting the least inconvenience to telephone users.

Some of our customers regret the loss of old established central office names. We do too. We appreciate all the more, therefore, the good understanding and acceptance most people have shown. We are also making every effort, by means of electronic exchanges, automatic dialers, TOUCH-TONE calling, and other developments, to make telephoning easier and simpler for everyone, and we sincerely believe that in the next few years these efforts will bring noticeable and even surprisingly good results.

2. Industry and government in the United States have increasing need for communication services often spoken of as integrated—that is, where voice and "record" communications (such as data for example) are both required and the same system used for the one may also be used for the other. Many private microwave radio systems now have this capability and compete with both the Bell System and Western Union. In recent years the Federal Communications Commission has conducted hearings on certain Bell System services that may be considered competitive with communication systems and services offered by others; and the Commission also, during its current investigation of the domestic

telegraph industry, has heard it contended that certain offerings of record communication services by the System constitute unfair competition.

In our belief there is no merit in this contention. Here, however, we shall only point out that the Bell System has developed facilities for services that would otherwise be unavailable; and that the needs of the economy make the furnishing of the integrated communication services we offer imperative.

3. Ability to meet developing future needs depends on foresight, technical know-how, and a spirit of wanting to excel. It also depends on financial strength. As we said earlier, we are sure most regulatory commissions recognize this. There is also encouraging evidence of wider public understanding of the importance of good profit, and hopefully, tax revision will strengthen the ability of this business, along with others, to advance the country's economic welfare. We wish to reiterate, however, a few points we consider important.

The tax law for too many years has limited depreciation allowances to the number of dollars originally invested in plant and equipment. With the decline in the purchasing power of the dollar over the past two decades, depreciation charges based on this principle do not recover the real cost of the investment consumed. We say again, therefore, that

Last year nearly 800 executives representing many businesses attended Bell System seminars held in Chicago to inform them on new communications developments that can benefit their companies.



taxing and regulatory authorities should allow depreciation charges that recognize the lowering of the dollar's value.

We have also expressed to the Senate Finance Committee our opposition to repeal of the four per cent dividend credit. We believe this would hinder new investment in equity securities, make domestic investment generally less attractive, and retard economic growth.

With regard to the investment credit authorized by the Revenue Act of 1962, the Federal Communications Commission

last year ordered accounting treatment that would increase income by the amount of the credit in the year new equipment is acquired. We feel strongly, and our independent public accountants concur, that the credit should not be accounted for in this way, but should be spread over the life of the equipment. We therefore asked the Commission to reconsider its order and the matter is still pending. In the meantime, temporary accounting authorized by the Commission leaves net earnings unaffected.



Such are the main outlines of Bell System work and progress in 1963. We believe the results have been of value to all concerned, and of profit to society.

We look to the future with confidence and high hopes. Our financial structure is sound. Our scientific and technical resources continue to increase. The spirit of service is strong in Bell System people: in Telephone Pioneers who have worked long in the business, in young men and women as well. Their aim, our aim, is to make a great business, not merely a big one. This is partly a matter of practical down-to-earth management. It is no less a matter of citizenship, of being involved in the community's interest, of accepting responsibility and moving to meet it.

Again during the past year many Bell System managers were able to meet personally with share owners in their communities. After the Annual Meeting which is to be held on April 15 we shall be making more of these visits. We welcome the opportunity to exchange views and hope that those of you whom we call on find it helpful too. And to every share owner we say: Thank you sincerely for your support. We shall do our best to merit your continuing confidence and trust.

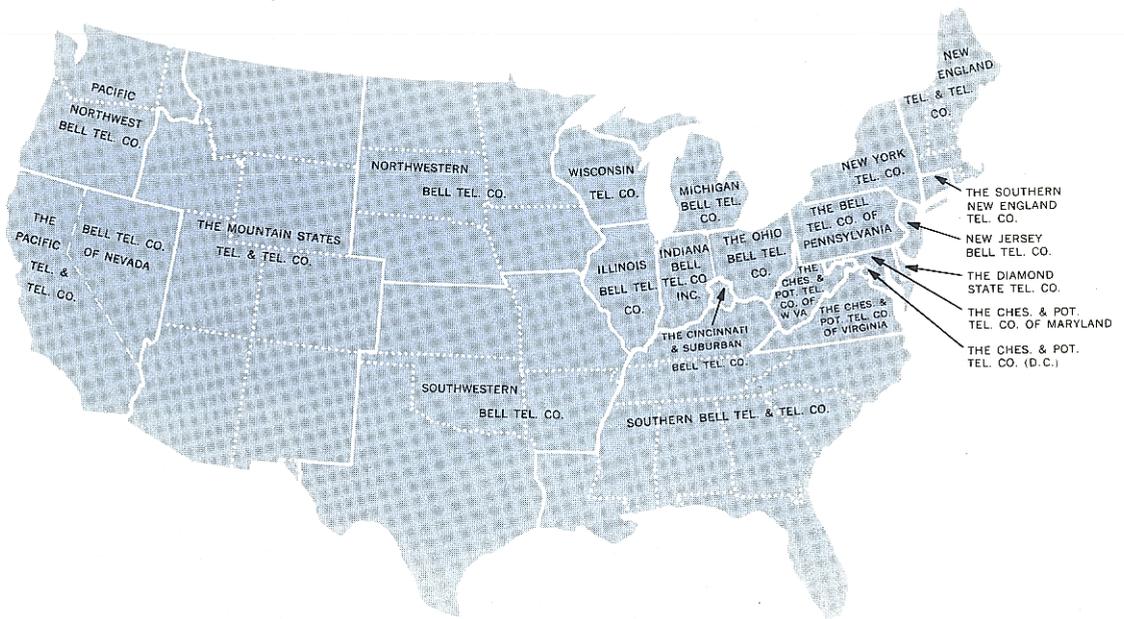
For the Board of Directors,

FEBRUARY 11, 1964

CHAIRMAN OF THE BOARD



*Last October this New Jersey telephone repairman saved the life of a two-year-old child overcome by smoke. Trained in first aid, he first used mouth-to-mouth resuscitation on the unconscious child, then, as breathing was restored, applied oxygen brought by an ambulance.*



## The Bell Telephone System

The Bell telephone companies serve generally the areas shown. In nearly all areas other telephone companies operate and connect with Bell System lines. Some significant Bell System figures are as follows:

|  |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| Telephones .....                                   | 1963<br>68,639,837 | 1960<br>60,735,073 | 1950<br>35,343,440 |
| Percent Equipped for Direct Distance Dialing ..... | 79%                | 48%                | None               |
| Average Daily Conversations#                       |                    |                    |                    |
| Local .....  | 240,110,000        | 209,891,000        | 136,164,000        |
| Long Distance .....                                | 11,315,000         | 9,202,000          | 4,618,000          |
| Overseas Conversations .....                       | 5,290,000          | 3,713,000          | 1,000,000          |
| (total for year)                                   |                    |                    |                    |
| Net Telephone Plant* .....                         | \$23,672,643       | \$18,825,273       | \$7,275,277        |
| Operating Revenues* .....                          | \$9,568,961        | \$7,920,454        | \$3,261,528        |
| Construction Expenditures* .....                   | \$3,135,949        | \$2,658,381        | \$891,000          |
| Operating Taxes* .....                             | \$2,245,764        | \$1,847,702        | \$499,451          |
| Employees  |                    |                    |                    |
| Telephone Companies .....                          | 571,366            | 580,405            | 523,251            |
| Western Electric .....                             | 147,210            | 143,352            | 73,458             |
| Bell Tel. Laboratories .....                       | 14,562             | 12,009             | 5,757              |
| Total Wages* .....                                 | \$4,705,846        | \$4,174,500        | \$2,007,216        |
| A. T. & T. Share Owners .....                      | 2,251,065          | 1,911,484          | 985,583            |

#On basis of present classification between local and long distance

\*Thousands of dollars

# Financial Statements

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS on the following pages consolidate the accounts of American Telephone and Telegraph Company and its principal telephone subsidiaries (listed on page 27). 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 these statements. Investment in subsidiaries not consolidated as stated in the Balance Sheets includes the proportionate interest in the net assets of such subsidiaries, and the proportionate interest in their earnings is included in the Income Statements.

Western Electric Company, the principal subsidiary not consolidated, manufactures most of the telephone equipment and apparatus used by the companies consolidated and sells to them materials and supplies procured from others. Contracts with the telephone companies provide that Western's prices to them shall be as low as to its most favored customers for like materials and services under comparable conditions. Items purchased from Western by the telephone companies are entered in their accounts at cost to them, which includes the return realized by Western on its investment devoted to this business.

A. L. STOTT

Vice President and Comptroller

## Report of Independent Public Accountants

TO THE SHARE OWNERS OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY:

We have examined the consolidated balance sheet of American Telephone and Telegraph Company and its principal telephone subsidiaries as of December 31, 1963 and the related income statement and statement of retained earnings for the year 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 did not examine the consolidated financial statements of the Company's principal nonconsolidated subsidiary, Western Electric Company, Incorporated and Subsidiaries, which statements were examined by other independent accountants whose report thereon has been furnished to us. Our opinion expressed herein is based upon our examinations and upon the aforementioned report of other accountants. We previously examined and reported upon the consolidated statements of the Company and its principal telephone subsidiaries for the year 1962.

In our opinion, the consolidated financial statements (pages 26 to 32) present fairly the consolidated position at December 31, 1963 and 1962 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.

New York, N. Y., February 11, 1964

LYBRAND, ROSS BROS. & MONTGOMERY

# Bell System Companies

**COMPANIES INCLUDED  
IN CONSOLIDATED STATEMENTS**

December 31, 1963

**AMERICAN TELEPHONE AND TELEGRAPH COMPANY**

| PRINCIPAL TELEPHONE SUBSIDIARIES                  | % Owned   | Capital Stocks<br>Owned by A.T.&T. Co. | Advances<br>from |
|---|-----------|--|------------------|
|   |           | Equity (a)                             | A.T.&T. Co.(a)   |
| New England Tel. & Tel. Co.....                   | 69.33     | \$ 531,544                             | \$ 20,700        |
| New York Tel. Co. ....                            | 100.00    | 1,858,711                              | .....            |
| New Jersey Bell Tel. Co. ....                     | 100.00    | 729,503                                | 26,900           |
| Bell Tel. Co. of Pennsylvania .....               | 100.00    | 809,290                                | 10,000           |
| Diamond State Tel. Co. ....                       | 100.00    | 53,034                                 | 5,575            |
| Chesapeake & Potomac Tel. Co. ....                | 100.00    | 134,772                                | 22,500           |
| Chesapeake & Potomac Tel. Co. of Maryland . . .   | 100.00    | 324,650                                | 26,000           |
| Chesapeake & Potomac Tel. Co. of Virginia . . . . | 100.00    | 362,471                                | 11,400           |
| Chesapeake & Potomac Tel. Co. of West Virginia    | 100.00    | 122,780                                | 10,500           |
| Southern Bell Tel. & Tel. Co. ....                | 100.00    | 1,839,118                              | 38,600           |
| Ohio Bell Tel. Co. ....                           | 100.00    | 669,158                                | 32,000           |
| Michigan Bell Tel. Co. ....                       | 100.00    | 543,738                                | 26,700           |
| Indiana Bell Tel. Co., Inc. ....                  | 100.00    | 265,631                                | 9,850            |
| Wisconsin Tel. Co. ....                           | 100.00    | 278,453                                | 11,900           |
| Illinois Bell Tel. Co. ....                       | 99.32     | 1,029,633                              | 25,900           |
| Northwestern Bell Tel. Co. ....                   | 100.00    | 604,201                                | 23,100           |
| Southwestern Bell Tel. Co. ....                   | 100.00    | 1,772,218                              | 116,500          |
| Mountain States Tel. & Tel. Co. ....              | 86.75     | 634,793                                | 16,300           |
| Pacific Northwest Bell Tel. Co. ....              | 89.13     | 377,820                                | 18,100           |
| Pacific Tel. & Tel. Co. ....                      | 89.62     | 1,751,631                              | 49,000           |
| Bell Tel. Co. of Nevada .....                     | (b) ..... | .....                                  | .....            |
| <b>Total</b> .....                                |           | <b>\$14,693,149</b>                    | <b>\$501,525</b> |
| <b>SUBSIDIARIES NOT CONSOLIDATED</b>              |           |  |                  |
| Bell Telephone Laboratories, Inc. ....            | (c) 50.00 | \$ 35,000                              | .....            |
| Western Electric Co., Inc. ....                   | 99.82     | 1,333,042                              | .....            |
| 195 Broadway Corporation .....                    | 100.00    | 29,051                                 | \$ 4,725         |
| Other (d) .....                                   | .....     | 50,614                                 | 3,914            |
| <b>Total</b> .....                                |           | <b>\$ 1,447,707</b>                    | <b>\$ 8,639</b>  |
| <b>OTHER COMPANIES</b>                            |           |  |                  |
|   |           | <b>Cost (a)</b>                        |                  |
| Southern New England Tel. Co. ....                | 18.58     | \$ 36,990                              | \$ 7,500         |
| Cincinnati & Suburban Bell Tel. Co. ....          | 29.02     | 21,065                                 | 3,100            |
| Bell Tel. Co. of Canada .....                     | 2.81      | 18,855                                 | .....            |
| Miscellaneous investments (d) .....               | .....     | 35,527                                 | .....            |
| <b>Total</b> .....                                |           | <b>\$ 112,437</b>                      | <b>\$ 10,600</b> |

(a) Thousands of dollars.

(b) Wholly-owned subsidiary of Pacific Tel. & Tel. Co. (Equity—\$60,118,000; Advances—\$800,000).

(c) Remainder owned by Western Electric Company.

(d) Includes investments of principal telephone subsidiaries.

# Bell System

*American Telephone and Telegraph Company*

## ASSETS

|   | (Thousands of Dollars)  |                         |
|---|-------------------------|-------------------------|
|   | December 31,<br>1963    | December 31,<br>1962    |
| <b>TELEPHONE PLANT AND OTHER INVESTMENTS</b>                            |                         |                         |
| Telephone Plant (land, buildings and equipment)—at cost                 |                         |                         |
| In service .....  | \$29,329,488            | \$27,291,822            |
| Under construction .....  | 711,706                 | 597,181                 |
| Other (principally held for future use) .....                           | 23,075                  | 24,743                  |
|   | <u>30,064,269</u>       | <u>27,913,746</u>       |
| Less: Depreciation reserve .....  | 6,391,626               | 5,949,326               |
|   | <u>23,672,643</u>       | <u>21,964,420</u>       |
| Other Investments   |                         |                         |
| Investment in subsidiaries not consolidated (a) .....                   | 1,456,346               | 1,381,361               |
| Other (principally in associated telephone companies)—<br>at cost ..... | 123,037                 | 110,659                 |
|   | <u>25,252,026</u>       | <u>23,456,440</u>       |
| <br><b>CURRENT ASSETS</b>   |                         |                         |
| Cash and temporary cash investments .....                               | 1,499,929               | 1,819,697               |
| Receivables—less reserve for uncollectibles .....                       | 1,167,643               | 1,112,014               |
| Material and supplies .....   | 105,159                 | 94,017                  |
|   | <u>2,772,731</u>        | <u>3,025,728</u>        |
| <br><b>PREPAYMENTS AND DEFERRED CHARGES</b>                             |                         |                         |
| Prepayments (principally directory expenses and taxes) ..               | 152,096                 | 145,713                 |
| Deferred charges .....  | 97,887                  | 88,655                  |
|   | <u>249,983</u>          | <u>234,368</u>          |
| <br><b>Total Assets</b> .....   | <br><u>\$28,274,740</u> | <br><u>\$26,716,536</u> |

For notes, see page 32

# Balance Sheets

and its Principal Telephone Subsidiaries Consolidated

## LIABILITIES

|   | (Thousands of Dollars)  |                         |
|---|-------------------------|-------------------------|
|   | December 31,<br>1963    | December 31,<br>1962    |
| <b>EQUITY</b>   |                         |                         |
| American Telephone and Telegraph Company  |                         |                         |
| Common stock—par value (\$33 $\frac{1}{3}$ per share) (b) . . . .                           | \$8,157,658             | \$8,103,371             |
| <i>Authorized 300,000,000 shares; outstanding at December 31, 1963, 244,729,744 shares.</i> |                         |                         |
| Common stock installments (c) . . . . .   | 375,083                 | 210,184                 |
| Premium on common stock . . . . .   | 3,341,873               | 3,228,199               |
| Retained earnings—see page 31 . . . . .   | 4,469,694               | 3,872,323               |
|   | <u>16,344,308</u>       | <u>15,414,077</u>       |
| <br>Minority Interests in Subsidiaries Consolidated . . . . .                               | <br><u>585,788</u>      | <br><u>507,368</u>      |
|   | <u>16,930,096</u>       | <u>15,921,445</u>       |
| <br><b>FUNDED DEBT (d) . . . . .</b>  | <br><u>8,578,618</u>    | <br><u>8,224,171</u>    |
| <br><b>CURRENT LIABILITIES</b>  |                         |                         |
| Notes payable . . . . .   | 92,000                  | 158,000                 |
| Accounts payable . . . . .  | 785,715                 | 708,136                 |
| Advance billing and customers' deposits . . . . .   | 246,522                 | 229,925                 |
| Dividends payable . . . . .   | 221,979                 | 220,248                 |
| Taxes accrued . . . . .   | 1,181,600               | 1,072,086               |
| Interest accrued . . . . .  | 93,812                  | 88,248                  |
|   | <u>2,621,628</u>        | <u>2,476,643</u>        |
| <br><b>DEFERRED CREDITS</b>   |                         |                         |
| Unextinguished premium on funded debt—net . . . . .   | 18,903                  | 28,720                  |
| Other (e) . . . . .   | 125,495                 | 65,557                  |
|   | <u>144,398</u>          | <u>94,277</u>           |
| <br><b>Total Liabilities . . . . .</b>  | <br><u>\$28,274,740</u> | <br><u>\$26,716,536</u> |

# Bell System

American Telephone and Telegraph

|  | (Thousands of Dollars) |                    |
|--|------------------------|--------------------|
|  | Year 1963              | Year 1962          |
| <b>OPERATING REVENUES</b>  |                        |                    |
| Local service .....  | \$5,389,702            | \$5,088,488        |
| Toll service .....   | 3,737,146              | 3,471,787          |
| Miscellaneous .....  | 485,703                | 458,659            |
| <i>Principally from directory advertising.</i>   |                        |                    |
| Less: Provision for uncollectibles .....   | 43,590                 | 38,726             |
| <b>Total Operating Revenues</b> .....  | <u>9,568,961</u>       | <u>8,980,208</u>   |
| <br><b>OPERATING EXPENSES</b>  |                        |                    |
| Maintenance .....  | 1,635,502              | 1,527,296          |
| Depreciation .....   | 1,332,146              | 1,219,007          |
| <i>Representing approximately 4.9% of average investment in depreciable plant.</i>                               |                        |                    |
| Traffic .....  | 893,344                | 876,708            |
| <i>Costs, principally operators' wages, incurred in the handling of messages.</i>                                |                        |                    |
| Marketing and Commercial .....   | 791,257                | 750,762            |
| <i>Sales expense, advertising, cost of directories, and costs incurred in business relations with customers.</i> |                        |                    |
| Accounting .....   | 330,687                | 316,493            |
| Development and research (f) .....   | 66,794                 | 74,293             |
| Provision for employees' service pensions .....  | 222,418                | 228,624            |
| Employees' sickness, accident, death and other benefits ..   | 100,434                | 94,870             |
| Other operating expenses .....   | 340,710                | 315,127            |
| Less: Expenses charged construction .....  | 101,436                | 98,143             |
| <b>Total Operating Expenses</b> .....  | <u>5,611,856</u>       | <u>5,305,037</u>   |
| <b>Net Operating Revenues</b> .....  | <u>3,957,105</u>       | <u>3,675,171</u>   |
| <br><b>OPERATING TAXES</b>   |                        |                    |
| Federal income (e) .....   | 1,368,884              | 1,285,020          |
| State, local and social security .....   | 876,880                | 817,881            |
| <b>Total Operating Taxes</b> .....   | <u>2,245,764</u>       | <u>2,102,901</u>   |
| <b>Operating Income</b> (carried forward) .....  | <u>\$1,711,341</u>     | <u>\$1,572,270</u> |

For notes, see page 32

# Income Statements

*Company and its Principal Telephone Subsidiaries Consolidated*

|   | (Thousands of Dollars) |                    |
|---|------------------------|--------------------|
|   | Year 1963              | Year 1962          |
| <b>Operating Income</b> (brought forward) .....                               | \$1,711,341            | \$1,572,270        |
| <b>OTHER INCOME</b>   |                        |                    |
| Proportionate interest in earnings of subsidiaries not consolidated (g) ..... | 143,773                | 137,128            |
| Miscellaneous—net (e), (h) .....  | 7,563                  | 30,504             |
| <b>Total Income before Interest Charges</b> .....                             | <u>1,862,677</u>       | <u>1,739,902</u>   |
| <b>INTEREST CHARGES</b>   |                        |                    |
| Interest on funded debt .....   | 319,803                | 289,945            |
| Other interest .....  | 15,516                 | 17,005             |
| <b>Net Income</b> .....   | <u>1,527,358</u>       | <u>1,432,952</u>   |
| <b>NET INCOME APPLICABLE TO MINORITY INTERESTS</b> .....                      | 47,841                 | 44,777             |
| <b>Net Income Applicable to A. T. &amp; T. Co. Stock</b> .....                | <u>\$1,479,517</u>     | <u>\$1,388,175</u> |
| <b>CONSOLIDATED EARNINGS PER SHARE</b> .....                                  | \$6.06                 | \$5.79             |

*Based on average A. T. & T. Co. shares outstanding, 244,101,340 in 1963 and 239,586,722 in 1962.*

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

|   | (Thousands of Dollars) |                    |
|---|------------------------|--------------------|
|   | Year 1963              | Year 1962          |
| <b>BALANCE AT BEGINNING OF PERIOD</b> .....   | \$3,872,323            | \$3,298,955        |
| Net income applicable to A. T. & T. Co. stock .....   | 1,479,517              | 1,388,175          |
| Proportionate interest in increase in Western Electric Co. retained earnings resulting from change in cost basis of inventories ..... | .....                  | 57,938             |
| Miscellaneous additions .....   | 1,063                  | 1,227              |
| <b>TOTAL ADDITIONS</b> .....  | <u>1,480,580</u>       | <u>1,447,340</u>   |
| Dividends on A. T. & T. Co. stock .....   | 878,765                | 862,512            |
| Refunds to customers of amounts applicable to prior years, less related taxes .....   | .....                  | 8,137              |
| Organization and capital stock expense charged off .....  | 1,629                  | 2,040              |
| Miscellaneous deductions .....  | 2,815                  | 1,283              |
| <b>TOTAL DEDUCTIONS</b> .....   | <u>883,209</u>         | <u>873,972</u>     |
| <b>BALANCE AT CLOSE OF PERIOD</b> .....   | <u>\$4,469,694</u>     | <u>\$3,872,323</u> |

# Notes to Bell System Financial Statements

(a) Comprises at December 31, 1963 and December 31, 1962, respectively, \$860,127,000 and \$853,043,000 representing cost of investments in subsidiaries not consolidated (see page 27), and \$596,219,000 and \$528,318,000 representing proportionate interest in the net assets of these subsidiaries in excess of such cost.

(b) The Company will offer to share owners of record on February 18, 1964, additional shares of its capital stock for subscription at \$100 per share in the ratio of one new share for each twenty shares held on the record date. The Board of Directors is proposing a two-for-one stock split to the share owners for vote at the Annual Meeting to be held in April 1964. If the stock split is approved, the additional shares resulting from the split will be distributed late in June 1964.

(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 36,000,000 shares may be issued under the Plan. At December 31, 1963, 18,318,000 shares had been purchased and installment payments were being made on 6,745,000 shares.

(d) At December 31, 1963, comprises \$75,000,000 maturing in 1964, \$143,000,000 from 1968 to 1970, \$1,343,618,000 from 1971 to 1980 and \$7,017,000,000 thereafter.

(e) As directed by the Federal Communications Commission, provision for Federal income taxes has been reduced by \$56,242,000 in 1963 and by \$47,199,000 in 1962 for the investment credit authorized by the Revenue Act of 1962. An amount equal to the investment credit has been deducted from Miscellaneous income and included in Other deferred credits, as permitted by the Commission on an interim basis, so that Net Income and Earnings per share are unaffected. In the opinion of the companies, the investment credit should not reduce the provision for Federal income taxes and increase income in the year when the new plant giving rise to the credit is placed in service but should, at that time, be applied to reduce the cost of such plant, thereby reducing depreciation expense and increasing income over its productive life. The independent public accountants for the companies concur in this opinion and consider that it is in conformity with generally accepted accounting principles. On July 31, 1963, the Commission ruled that the investment credit should be accounted for as a reduction in income taxes and flow through immediately to income. The companies have filed a petition for reconsideration of the Commission's decision. Pending consideration of this petition, the Commission has granted the companies permission to continue to use the interim accounting described above.

(f) Principally cost of work carried on for American Telephone and Telegraph Company by Bell Telephone Laboratories. In addition, Western Electric Company incurs costs for development work.

(g) Includes American Telephone and Telegraph Company's proportionate interest (over 99%) in earnings of Western Electric Company and its subsidiaries amounting to \$140,230,000 in 1963 and \$134,972,000 in 1962 of which \$72,656,000 in 1963 and \$69,750,000 in 1962 was received by the Company in dividends.

(h) Includes \$31,172,000 in 1963 and \$29,871,000 in 1962 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, 1963, the pension funds amounted to \$4,323,262,000. 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 therefore are not reflected in the balance sheets.



*Safety is everybody's business in the Bell System. Last year employees at Western Electric's Greensboro, N. C. plant set a world's record. The groups above are representative of all employees there: in front—management; in middle area, left to right—medical department, production and maintenance employees, safety advisor, safety inspector, fire guard; in rear, left to right—safety committee, clerical employees, maintenance specialists, engineers. Job responsibilities of some include a special concern for safety, but an excellent record is accomplished by the safety awareness and attitude of all.*

American Telephone and Telegraph Company

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