American Telephone & Telegraph Company

Annual Report 1965

ON THE COVER

Pictures show five of the many telephone instruments and services that help make modern communications increasingly useful and convenient.

TOP LEFT: Through her Data-Phone™ data set, the lady sets up connection so business machine behind her can send data over the line. The data set then converts the business machine's output into a form suitable for transmission over the telephone network.

TOP RIGHT: The Call Director® telephone offers remarkable convenience . . . many features can be incorporated to suit individual needs . . . perfect also for the secretary who answers calls for several people.

CENTER: The dial-in-handset Trimline® telephone, introduced last year in several states, is proving very popular. It is offered optionally at small extra cost and will soon be widely available.

LOWER LEFT: In foreground is one of the various kinds of automatic dialers that quickly and quietly dial numbers near and far.

LOWER RIGHT: Touch-Tone® calling, using push-buttons instead of dials, is available to more than five million customers, will spread rapidly in years ahead.

ANNUAL MEETING The eighty-first Annual Meeting of the share owners will be held at 2 p.m., April 20, 1966, at Cobo Hall Arena, Detroit, Mich.

1965 Annual Report

CONTENTS

This report reviews the work of American Telephone and Telegraph Company and its associated companies in the Bell System (listed on page 27). The companies provide service in all states except Alaska and Hawaii, and Bell System lines connect with other telephone systems in this country and throughout the world. Annual reports of all the Bell telephone companies, and of Western Electric Company, manufacturing and supply unit of the Bell System, are available on request. Share owners who are blind may obtain the A. T. & T. report in braille or on talking records. Kindly address all requests to the Secretary.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY
195 Broadway, New York, N.Y. 10007 Telephone: 212 393-9800

The company maintains stock transfer offices at the address above and also at 185 Franklin St., Boston, Mass. 02107; 212 West Washington St., Chicago, Ill. 60606; and 140 New Montgomery St., San Francisco, Cal. 94105.

1965 IN BRIEF

Bell System Financial Summary

The gain in telephones of 3,827,910 was the largest in history. Long distance messages increased 12 per cent over 1964.

Higher Earnings per Share and Increased Dividends

Earnings per share of A.T.&T. stock were $3.41, or 17 cents more than in 1964. Beginning with the dividend paid in January 1966, the quarterly payment was increased from 50 to 55 cents a share. Earnings on total Bell System capital were again around 7½ per cent. This is at the lower end of the range of earnings that we believe is required for fair treatment of share owners and sound, economical financing to meet the public's ever-growing need for service. Earnings in this range are necessary also to stimulate and sustain innovating effort that will hold down cost and increase the quality and value of service.

Taxes

Operating taxes of $2,440,033,000 were equal to $33.06 per telephone and $4.48 per share of A.T.&T. stock. In addition, customers paid $867,984,000 in Federal excise taxes. These amounts, taken together, represent a three per cent increase over 1964 in the total taxes on Bell System service, even though the Federal corporate income tax rate was reduced in 1965 from 50 to 48 per cent.

Federal Excise Tax On Telephone Users

Congress last year reduced this from ten to three per cent beginning in January 1966, and provided for its complete elimination by 1969. The Administration has now recommended that the ten per cent rate be reimposed until January 1968. While we fully recognize the country's need for additional revenues during the Vietnam emergency, we cannot help but regret any step toward restoring this discriminatory tax on an essential service, which the public generally finds unfair. We have earnestly requested the Congress, if it takes action, to make clear the temporary and emergency nature of the increase, and to provide that the schedule to end the tax completely will be resumed not later than January 1968.

Construction and Financing

Construction expenditures in 1965 were $3,917,644,000—a new high record. New capital of $1 billion was obtained, principally from the sale of debt issues by six subsidiary companies and from employee purchase of shares under the employee stock plan.

Good, Dependable, Improving Service

This is the absolute requirement in our business.

More customers had individual lines in 1965.

	1965	1964
Operating Revenues and Other Income	$11,323,000,000	$10,566,948,000
Operating Expenses	$6,670,547,000	$6,125,738,000
Taxes	$2,440,033,000	$2,382,809,000
Interest Deductions	$362,235,000	$347,778,000
Net Income	$1,850,185,000	$1,710,623,000
Applicable to Minority Interests	$54,091,000	$52,017,000
Applicable to A.T.&T. Co. Shares	$1,796,094,000	$1,658,606,000
Earnings per A.T.&T. Co. Share	$3.41*	$3.24*

* Based on 526,635,000 average shares outstanding in 1965 and 512,047,000 in 1964.

Many more could talk over extended calling areas without toll charges. Thousands of telephone operators worked at new push-button consoles that help them render better service. We organized additional nighttime "Repair Service" centers manned by experienced craftsmen. These centers are now available to three-quarters of all our customers and more are being established.

In 1965 we experienced the shocks of hurricanes and tornadoes to an unusual degree. The cost of meeting all disaster emergencies approximated $25 million. Prompt, coordinated effort kept essential services working and speeded full service restoration. In power blackouts and floods, service was well maintained because plans, people, and equipment were ready.

Interstate Earnings Investigation

The Federal Communications Commission, which regulates the interstate portion of our business, has ordered an investigation of interstate and international rates and earnings. The Bell System has long been regulated by both Federal and state commissions. We are accustomed to providing full information about our business, our record is good, and we expect to show that we have served the public well and at reasonable cost.

For a good many years interstate earnings have been maintained in a range up to 8 per cent on investment. We believe the results have been greatly in the public interest. Service has been expanded and improved and rates brought well below what they were before World War II. Since 1959 there have been three major rate reductions, including a $100 million reduction in 1965. Telephone users can now make interstate calls anywhere in the United States (except to Alaska or Hawaii) and talk three minutes for no more than $1 after 8 p.m. weekdays, and at any time on Sundays.

The Way of Progress

We are proud that our technical advances and increasing efficiency through the years have enabled us to hold down costs and increase the quality of service. We also believe the nation's ability to communicate at low cost makes a significant contribution to economic growth and a rising standard of living.

But we must again stress the importance of our being allowed to maintain good earnings that are achieved through efficient and imaginative operation of the business. Economic and social progress flows from innovation that reduces costs and creates useful new products or services. Good earnings are indispensable to this. They are a principal cause, as well as a result, of better, more valuable service to the public. In the past several years most regulatory commissions, including the F.C.C., have recognized the importance of good telephone earnings, and we sincerely trust that this judgment will continue to prevail.

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Alexander L. Stott

VICE PRESIDENT AND TREASURER
John J. Scanlon

VICE PRESIDENT AND SECRETARY
Charles E. Wampler

1965 Report to the Share Owners

Nineteen sixty-five marked twenty years of postwar progress in communications. All through this period the service and business of the Bell System have grown without interruption, and this growth has been considerably more rapid than that of the economy as a whole. In 1965 the gain in telephones (reported on page 2) was the largest ever, and the per cent increase in long distance calls was one of the largest.

Many other events and developments of 1965 also evidenced the dynamic nature of our business.

The first electronic central office went into service in May, the second in January 1966. Twelve more are now in various stages of installation. We have also developed electronic switching systems for private branch exchanges (PBXs) and a number of these are now serving business customers.

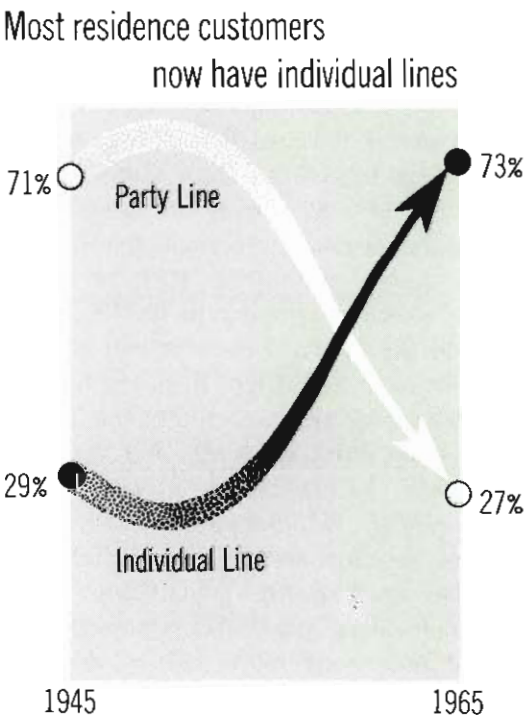
Data communications expanded further. Overseas telephone conversations increased 22 per cent. For the hugely successful Gemini space missions, abundant and reliable communications, flowing over Bell System lines, were indispensable to command and control.

Touch-Tone® service, introduced in a few places in 1963, is now available through 800 telephone central offices that serve about ten per cent of our customers. More than 375,000 people have enthusiastically chosen this optional "push-button calling" service at moderate extra cost. It will be offered to the great majority of all our customers during the next five years.

The first Touch-Tone data communication systems are already in operation. After a call is made, the same tones that set up the connection can then be used to send coded information or queries to a business machine at the other end of the line. For example, tellers in some banks can now interrogate a computer (in code) about depositors' accounts and receive immediate recorded voice answers. Airlines, stores, manufacturers, hospitals, schools, libraries, and other organizations are also investigating Touch-Tone data communications. About 80 systems are in service and many more are in various stages of study.

WHEN THE LIGHTS WENT OUT: This emergency generator in New York, and many more there and in hundreds of other places, went to work promptly to keep telephone service going when regular power failed in several northeastern states last November 9. People, plans, and equipment were ready. The telephone operators at left, working at new "Traffic Service Positions," in Boston, were among the thousands who worked cheerfully through the night to help handle the flood of calls.

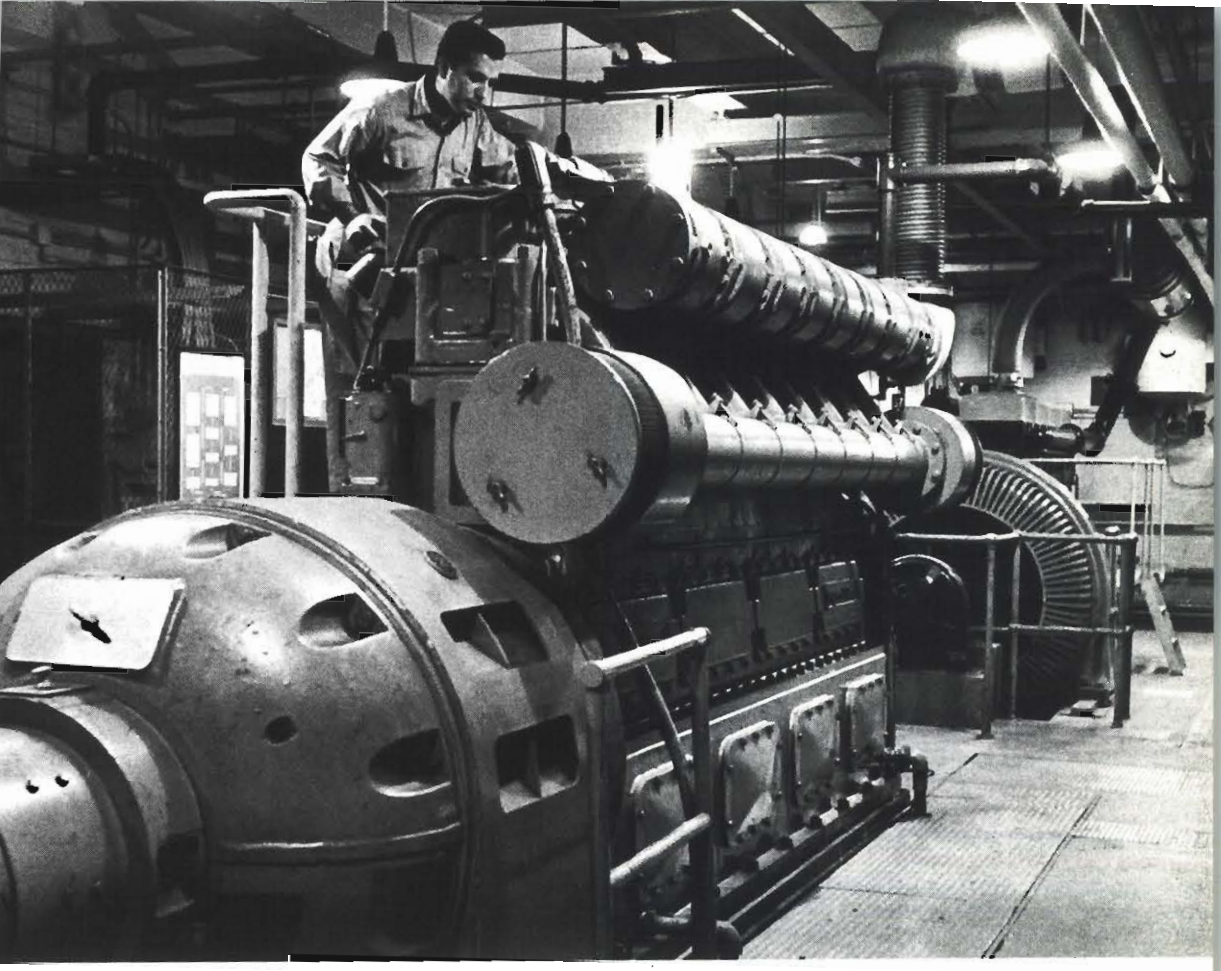
Last year we expanded local calling areas in about 500 exchanges. This has been a continuing transition over the years. It has done much to increase the convenience and value of service for millions of people. Twenty years ago less than half of our customers could reach one or more nearby exchanges by making a "local" call. Today nine out of ten can do so. It is interesting to note also that more than a third of the calls handled 20 years ago as long distance calls now go through as local.



Progress also continues in providing better grades of service. In the first few years after the war, only one residence customer in four to five had an individual line. All others were on party lines. Now nearly three out of four have individual lines, and of those who do not, most share their lines with only one other party. Much of this improvement has been in outlying areas, where growth in the number of customers and better technology have also enabled us, in many places, to reduce or eliminate extra charges based on distance from the central exchange.

Better Long Distance Service

Notwithstanding enlargement of local calling areas, long distance conversations have continued to increase at a remarkable pace. The total of 4½ billion in 1965 was nearly 40 per cent more than the number of five years ago. Nearly nine out of ten Bell telephones are now equipped for



nation-wide direct dialing and more than half of all long distance calls are dialed straight through in a few seconds' time. In the majority of cases, also, the calling number is automatically recorded so that it is unnecessary for an operator to request it for billing purposes.

Further progress is in the mill. From nearly 4 million telephones today, customers can dial person-to-person as well as station-to-station calls directly, and also credit card and coin calls. An operator comes on the line to give assistance as appropriate. The operators work at new push-button consoles associated with equipment that automatically records time and other details and thus makes possible speedier, more accurate service. These consoles, developed at Bell Laboratories, are a major improvement in telephony. By year-end we had installed more than 1,800 of them in 13 cities. By 1970 we expect to have more than 15,000 in service.

Computers Aid Operators

Imaginative use of computers is also helping Bell System people improve service and at the same time hold down costs. In certain areas, when customers ask for the rates to towns not often called, operators can obtain the answers almost instantly by dialing a computer over another line. We are also testing computer programs to aid information operators in their work. To assist people who call numbers that have been changed, a system now under development at Bell Laboratories will be able to announce the new number immediately. In another experimental computer program, telephone lines and numbers are assigned instantly when customers order service installed, and in

A LECTURE BY WIRE: Tele-lecture service over telephone lines can be used for many purposes. During this lecture in anthropology to a university extension class in another city, the speaker, at left, is using a handwriting machine to note points of emphasis that the class sees reproduced on the screen. The signals between the machines that transmit and reproduce the handwriting are sent over the line and received through our Data-Phone data sets.

some cases the service can be ready for use within minutes.

Overseas calls increased even more rapidly than usual last year. The fourth transatlantic cable, linking the United States directly with continental Europe, has been in operation since mid-September. And since June, we have been using a substantial number of *Early Bird* satellite circuits, leased from the Communications Satellite Corporation, to augment other transatlantic facilities.

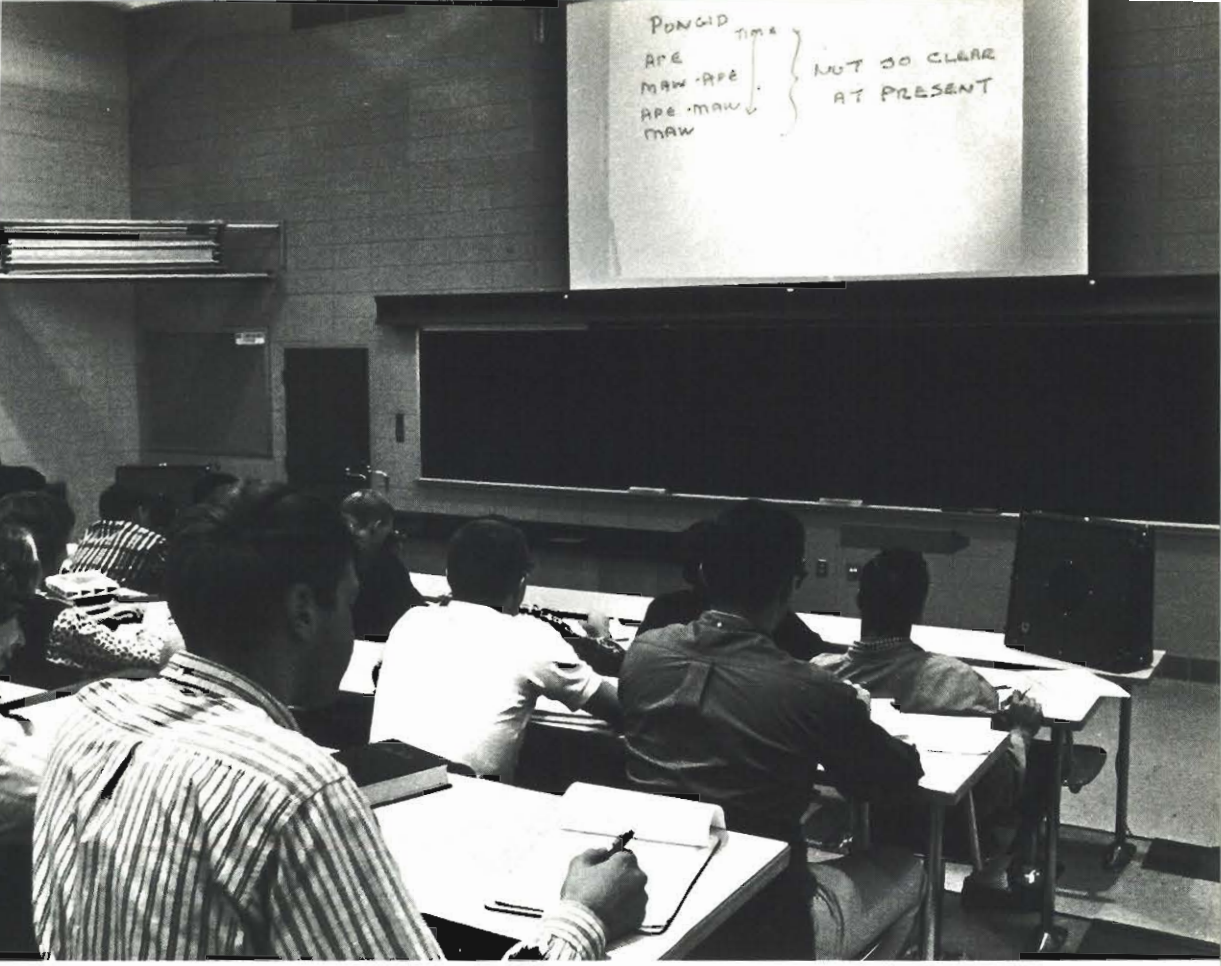
Helping to Create Attractive Neighborhoods

To help build a more beautiful America we are putting many new telephone lines underground. Nearly half of the new dwelling units for which we provided service in 1965 were reached by underground neighborhood cables. We expect that by 1970 essentially all new residential distribution lines will be underground. This is a tremendous undertaking, made possible by years of work in developing new materials and cable-laying techniques.

Many of our customers rely on telephone answering services for assistance of various kinds. There are a great many such answering services, varying in size, but all of them important "small businesses" that work closely with us to help provide complete communications. With the help of new equipment developed at Bell Laboratories, more and more answering bureaus can now offer more efficient service and also new services. For instance, they can serve clients economically on an occasional basis, for a few days or even a few hours.

A word here also about community antenna television, or CATV as it is usually called: This is a service by which TV broadcast signals are received at a favorable antenna site, and distributed from there by cable to the TV sets of people who subscribe to the service. The Bell companies do not furnish CATV service and do not expect to. However, we *are* providing to numerous CATV concerns the cable connections to *their* customers' homes—just as we provide other "closed circuit" networks to school systems for educational TV and to business concerns for industrial TV.

With a blast-resistant transcontinental underground coaxial cable system now in service, we are currently building a similar system between Massachusetts and Illinois. This will be ready in late 1966. Still another underground communications su-



perhighway is under construction between Boston and Miami. This will use the newest coaxial system designed by Bell Laboratories, which provides 32,400 conversation channels in one cable.

Facilities like these are essential to the nation's economy, to the public welfare, to national defense. We build into them, in the public interest, all the quality and strength we know how to achieve.

In Two Decades . . . .

We have already noted the passage of 20 postwar years. Following are a few more aspects of overall accomplishment during the period.

In these years Bell System telephones have increased nearly 3½ times and long distance conversations more than 4½ times, while population has grown about 40 per cent. We are now serving about 85 per cent of all households in the areas where we operate, compared with 50 per cent in 1945.

New and improved instruments and optional service features have offered our customers more choices, more opportunity to obtain the particular services that best suit individual needs and tastes. We have developed and built increasingly efficient, high-capacity systems that can transmit information in every form—voice, pictures, data—alternatively or simultaneously. The speed of long distance service has been cut to seconds and "hearability" much improved.

New kinds of cables are more rugged, better insulated, more proof against hazards, simpler to work with. And our craftsmen have better tools to work with too—trucks, diggers, lifts; splicing tools that make better splices and do it faster.

GEMINI SPACE FLIGHT COMMUNICATIONS: While the eyes of the world followed Gemini Missions 5, 6, and 7, these telephone men were two of many who kept their eyes on communication services between Cape Kennedy and Gemini Mission Control in Houston. The communications network for the Gemini flights was designed and engineered for the National Aeronautics and Space Administration by the Bell System. It provided data, television, telephone, and teletypewriter services. Flight functions handled over the network included direction of the launching and control of the entire mission from lift-off to splash-down.

We have devised Centrex service, enabling many businesses, government departments, and other institutions to organize their communications more efficiently. Wide area telephone service, Telpak service, and switched networks also meet many important industrial and governmental needs. The television network has grown so that more than 100,000 miles of channels now interconnect TV broadcasting stations. Communication by teletypewriter has been made faster and more flexible. And we have developed a large family of Data-Phone data sets for handling communications between computers and other business machines.

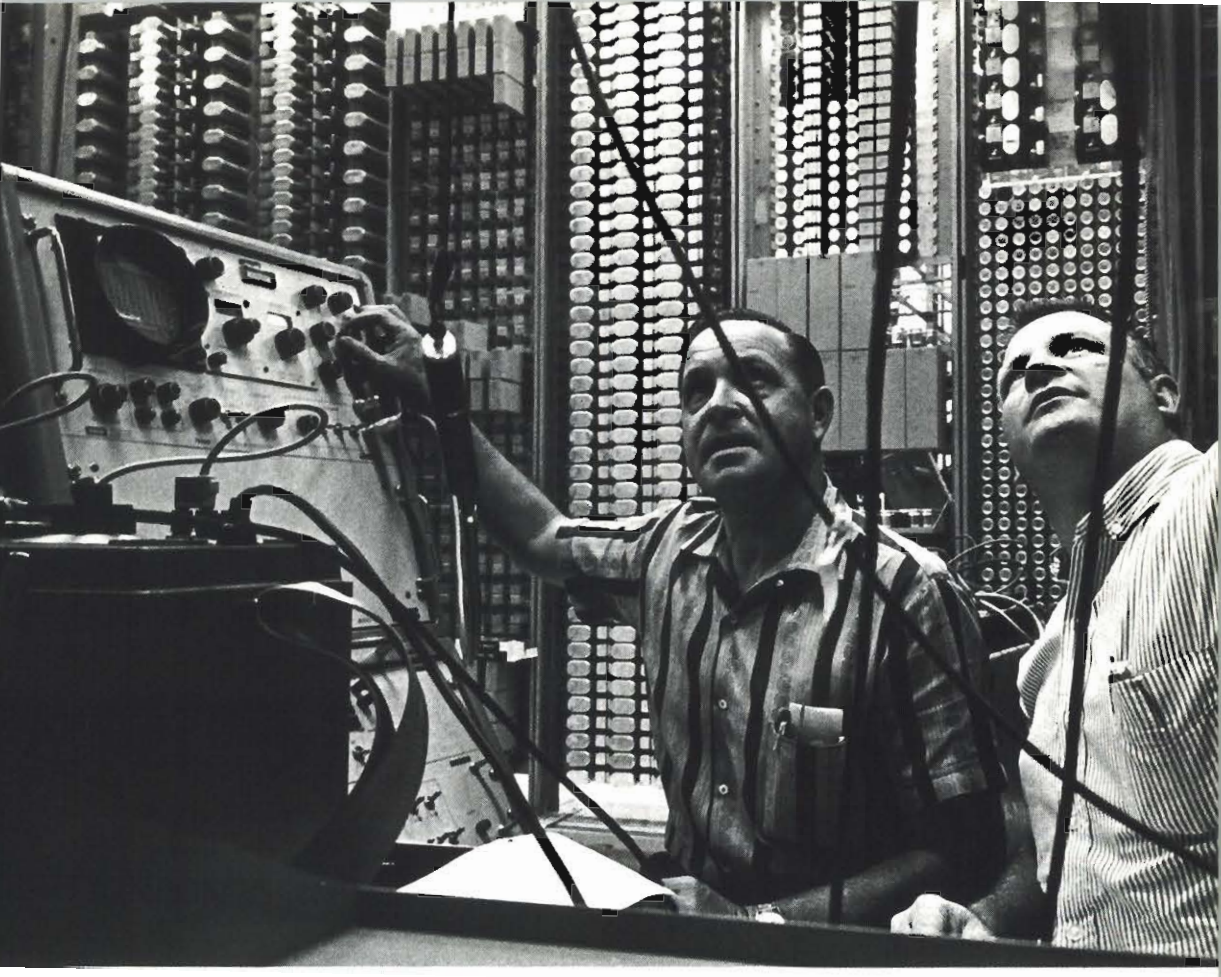
In Communications, Defense Comes First

Special efforts have been made to provide the greatest possible assurance of the survivability and continuity of essential communications. We have built alternate routes around critical target areas, and cross-country express routes that bypass them entirely. On the underground coaxial systems already referred to, even the buildings are underground.

Bell System people in the 1950s engineered and managed construction of the Distant Early Warning Line across the Arctic North. They built the White Alice network that links the remotest areas of Alaska and the Aleutians with our defense communication systems. They designed, and have helped to build, maintain, and operate communications for the Ballistic Missile Early Warning System and the SAGE system of air defense. They are now taking a major part in the development and construction of a new military communication system, called *Autovon* for short, that will have capabilities of a new order.

In these 20 years, Bell System research and technology have produced the Nike systems for air defense. Most recently, research and development in this area have centered on Nike anti-missile systems. Only Government can decide whether it is wise to undertake production and deployment of these. We simply point out that the skills of our organization have made possible defensive systems of phenomenal capability.

In these same years telephone cables have reached across the oceans, making talk between continents as easy as telephoning across the street. Our Telstar® experiments have opened the way to inter-



continental communications via satellites. Other activities in space also owe much to telephone progress. Bell System lines link control centers with launch pads, astronauts, and computers. Equipment made possible by telephone research guides space capsules and satellites into orbit.

Fundamental to the accomplishment of 20 years has been the teamwork of operating telephone companies, Western Electric, our manufacturing and supply unit, and Bell Telephone Laboratories.

Leadership in Technology

Research and technical development have brought results of outstanding importance and worldwide influence. Invention of the transistor at our Laboratories in 1947 signaled a revolution in electronics. The new switching systems of today and tomorrow—high-capacity coaxial cables and microwave radio systems—communications satellites—high-speed data communications and data processing—all these have resulted from pioneering work in solid-state materials, techniques, and devices.

In addition to the original invention of the transistor, work at Bell Laboratories has produced new transistor structures to improve performance; indispensable processes and materials for the fabrication of semi conductor devices; economical high-speed electronic memories; precise and stable circuits made of ultra-thin films of tantalum; masers and other amplifiers that are almost noise-free; and microwave devices that use magnetic materials unknown a few years ago.

Solid-state technology is still evolving. It has now shrunk transistors and other

A NEW ERA IN MANUFACTURE: At Western Electric's Allentown Works, millions of transistors are being manufactured for new electronic switching systems. Even as these come off production lines in quantity, Bell Laboratories and Western Electric engineers work together to perfect designs and test techniques for producing integrated circuits that contain many transistors and other elements. The name of the game is teamwork *and this without question has been indispensable to America's leadership in communications.*

circuit elements to dimensions almost invisible to the naked eye. This miniaturization makes possible faster, better, more reliable performance at less cost. Complete "integrated" circuits containing numerous transistors and other circuit elements can be built into a piece of material a tenth of an inch or less on a side. This requires processes that control the composition of crystals on an atomic scale, and detailed understanding of their properties. Bell Laboratories pioneered in this field and expects to stay out in front.

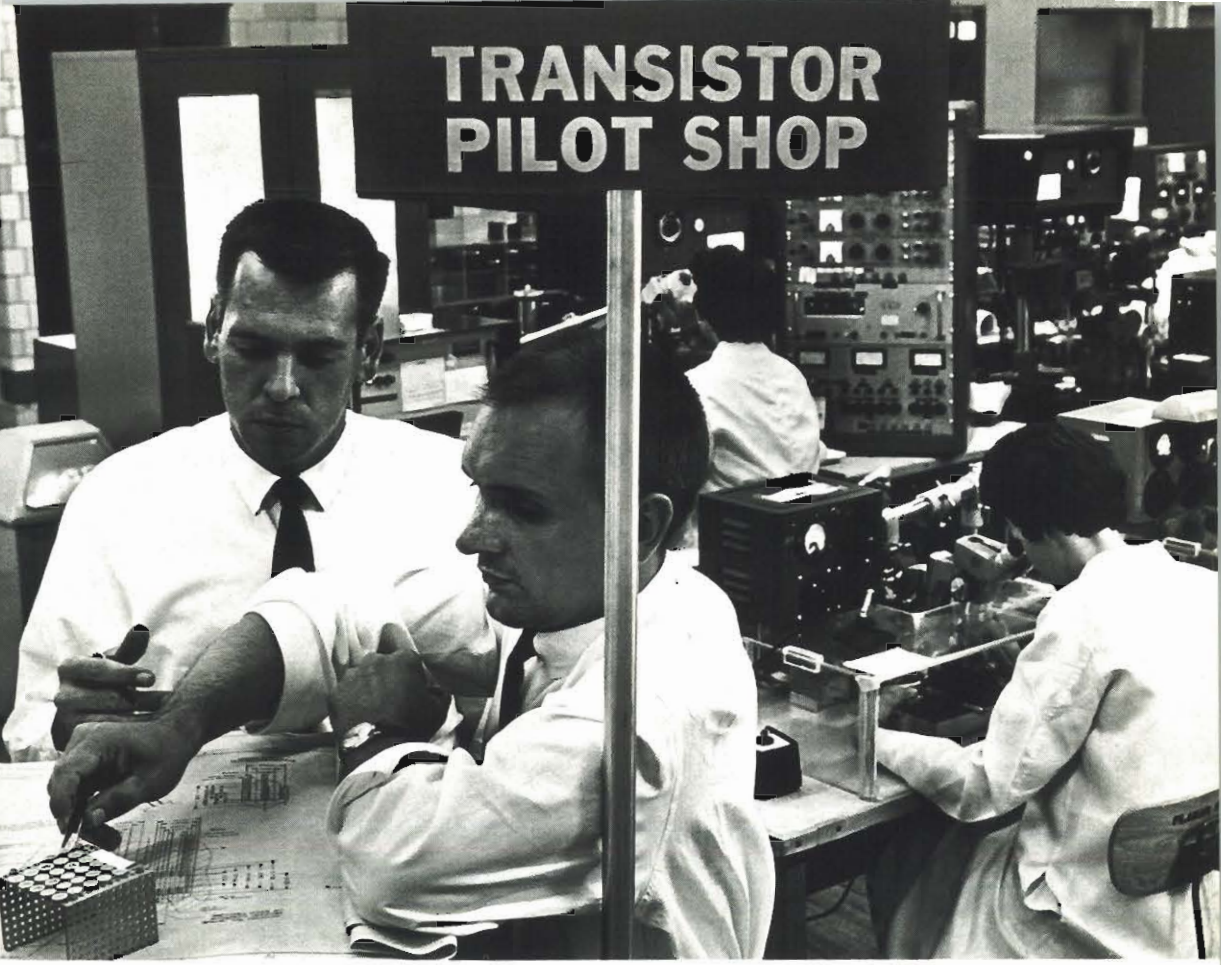
Investigation of many other materials has brought great improvements in Bell System plant and holds great promise for the future.

For example, almost every kind of plastic is now used to advantage in our business, in cables and telephones, antennas and batteries, insulators and adhesives. In hundreds of applications, our facilities have been made stronger, safer, more versatile, more reliable, capable and efficient.

Another example is found in laser research. "Coherent" laser light has the potential of carrying a tremendous volume of communications. Bell Laboratories researchers have already found many sources of such light, at different frequencies, in both solid and gaseous lasers. Development of communication systems that use lasers will depend, of course, not only on technical feasibility, but also on future public needs, alternative methods, and relative costs. The point noted here is that knowledge of materials gained through the years has contributed to our leadership in laser technology, and gives assurance that efficient optical techniques for communications will be provided when needed.

Quality Manufacture with Continuous Cost Reduction

Progress in manufacture has proceeded hand in hand with the development of new communications arts. Western Electric has worked in intimate association with Bell Laboratories and the telephone companies to bring new developments into practical use quickly and at low cost. Western Electric people contribute to new designs to assure economical manufacture, and product engineering control centers facilitate the handling of problems of joint concern. Each year cost reduction programs achieve millions of dollars of operating economies. Since 1955, these cost reduction efforts in



manufacturing alone have accomplished economies that now come to $200 million a year.

Reflecting such efforts, in March of 1965 Western Electric prices on products of its own manufacture sold to the Bell telephone companies were reduced $33 million annually. A similar reduction in 1964 came to $44 million annually. These two reductions brought Western Electric prices on such products at year-end to a point 16 per cent *below* the price level at the start of 1950. This has been accomplished in the face of numerous and substantial increases in wage rates and a 38 per cent rise in material costs during the same period.

We believe this performance is unmatched in all industry. It is dramatic evidence of Western Electric's full commitment to the Bell System goal of providing the best in service at reasonable cost. And there were numerous other evidences of this commitment in 1965. Western Electric completed its organization of regional centers strategically placed to provide warehousing, engineering, installation, and repair services for the telephone companies. In Shreveport, Louisiana, work started on a new plant to manufacture telephones. When hurricane Betsy struck the South, Western Electric people in many parts of the country worked night and day to rush supplies to restore telephone service.

Western Electric sales in 1965 totaled $3,363 million, 8 per cent over 1964. Earnings in both years were about 5 per cent of sales. Sales to the Bell companies in 1965 were $2,802 million. Most of the balance was in sales to the Government, of which about two-thirds covered research

UNDERGROUND DETECTIVE: One of many seismometers located over an 8,400-square-mile area in Montana is here being buried in the earth. From it, cable will run to the microwave tower in distance, which relays data to a computer center operated for the Atomic Energy Commission by M.I.T. The purpose is to detect underground nuclear explosions with greater sensitivity and over longer distances than had been possible before. In this system 19,200 "bits" of data per second are transmitted over thousands of miles of communication channels provided by Bell and Independent telephone companies. This is one example of the many uses of high-speed data communications.

and development handled by Bell Telephone Laboratories. In conducting its business in 1965 Western Electric obtained about $1.4 billion of goods and services from 40 thousand suppliers and subcontractors.

Additional Services Performed For The Government

Reference has already been made to several defense activities. Other work for the Government in 1965 included the provision of communications equipment and systems to help meet military needs in the Far East; continued work for the Atomic Energy Commission, through Western Electric's subsidiary, Sandia Corporation; assistance to the National Aeronautics and Space Administration (through our subsidiary, Bellcomm, Inc.,) in programs for manned space flight; and, at the request of the Agency for International Development of the State Department, assistance to the telecommunications agencies of Turkey and Iran, and to the Ministry of Communications in Nigeria.

In their work on defense projects, Western Electric and Bell Laboratories conduct careful "Value Engineering" programs to make sure that the Government gets a maximum return for every dollar spent. By reason of this effort, we were able to report to the Government, in 1965, present and expected savings of $49 million on current defense contracts. In a letter of commendation, President Johnson expressed his thanks for our continuing effort to achieve all possible economies.

Better Service, Better Earnings Have Gone Hand in Hand

We have tried in the foregoing pages to indicate some long-range results of our work, as well as current highlights. At this point a few comments may be appropriate.

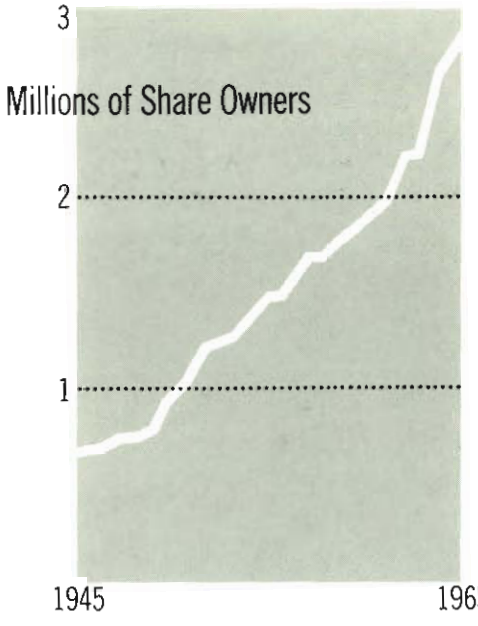
First, it seems to us the overall record is one of progress and leadership. No performance is perfect and we are well aware of that. We are far from satisfied. Nevertheless, we believe the service accomplishments of 20 years have made a considerable contribution to the welfare and security of the nation.

Second, this progress has been possible only by reason of our success in bringing Bell System earnings up from the de-

pressed levels that prevailed during and after World War II. We operate under close public regulation, and the improvement accomplished in earnings has depended on the understanding shown by regulatory commissions. It is simply a fact that better service and better earnings have gone hand in hand. This business could never in the world have met enormous public demands—pushed research and development—raised billions of dollars of new capital on a sound basis—put into its undertakings the "extra something" that spells quality and dependability—if it had not been able to raise the level of profit.*

* However, we are still concerned that regulatory and taxing authorities do not permit depreciation charges that recognize the effect of the decline in the purchasing power of the dollar. Depreciation allowances limited to the number of dollars originally invested cannot recover the real cost of the investment consumed.

Third, this has been accomplished largely through advances in technology, the creation of more efficient physical facilities, and improvements in operating methods. In the steep postwar inflation, it was indeed necessary to increase many telephone rates, (although the increases in total came to much less than the rise in the cost of living generally and many rates have actually been reduced). More recently, however, except in a few states where earnings have been low, the Bell companies have not asked for general rate increases. They ask only for the opportunity to maintain, by imaginative operation of the business, a range of profit that will compare favorably with the profits of other businesses of comparable risk. In our judgment this is essential to assure our ability to raise additional capital on reasonable terms, and to stimulate



VISIT WITH A SHARE OWNER: Bell System managers appreciate the opportunity each year to call on many A. T. & T. share owners. The number of share owners is now 2,840,500; more than 2,100,000 have bought their stock since World War II. Most share owners are individuals who hold their stock directly. Only one per cent are institutions. Two-thirds own 100 shares or less. If we consider the large number of accounts in the names of two people, and also the many individuals whose shares are held for them by brokers and trustees, we estimate that all told, some 4 million people have invested savings in A. T. & T. stock.

continuous innovations in service and further increases in efficiency.

Contributing to Economic Growth

This view, it may be noted, is directly relevant to the concept of economic growth. There is wide agreement that continuous innovation is necessary to keep the economy moving so that job opportunities can be expanded, education encouraged, poverty alleviated, and standards of living raised. The key to innovation in business (and hence to economic growth) is unquestionably the opportunity to make a reasonable profit if the innovation works. And this is just as true in a regulated business as it is in any other.

Moreover, the communications business by its very nature is in the main stream of economic growth. Progress in communications contributes much to progress in other industry. To the degree that we are dynamic and innovative, the whole industrial community, and the nation, will benefit. This is not to suggest that we are entitled to any favors in the way of profit —profits must be earned! However, earnings that stimulate communications progress *will* have a buoyant, energizing influence on other industry as well.

An Adequate Range of Earnings Is Necessary

To sum up, we believe the improvement in telephone earnings has been greatly in the public interest, and in the investigation ordered by the Federal Communications Commission (see page 3) we shall present strong, and we earnestly hope decisive evidence, that to promote the best progress in the future, interstate earnings should continue in a range that is certainly no lower than it has been during recent years.

In this connection, Chairman E. William Henry of the Commission publicly stated last December, "I would emphasize that the Commission's designation of a formal hearing for consideration of these regulatory problems is not a prejudgment of the issues so designated. Nor does the order imply a determination to require changes in A.T.&T.'s earnings, or in its plans for the financing of expanded investment in new services and new plant. It simply reflects a concern that certain matters must be considered, at this time, on a public record. It is supported by a confidence that A.T.&T.'s health is sound. It fully recognizes that strong communications common carriers have a vital role to play in

the continuing welfare and security of this nation."

At one point in its order the F.C.C. has suggested that some of our interstate services may be underpriced and that the competitive effect on other communications companies needs to be examined. This suggestion evidently flows from a study of our costs that was ordered by the Commission in connection with its investigation of the domestic telegraph industry. In our judgment this study cannot properly be used as a basis for rate-making, or for determining whether a particular service is compensatory. We have no intent to compete unfairly against Western Union or any other organization, and any assertion that the Bell System seeks to subsidize competitive services out of earnings on regular telephone service is unfounded.

Teletypewriter Exchange Service

For some time we have been exploring with Western Union the possibility of that company's acquiring our teletypewriter exchange (TWX) service. Revenues from this service are about one-half of one per cent of total Bell System revenues. In any consideration of its possible sale, we shall have firmly in mind the interests of investors in our business, and of all customers and employees involved.

We are not seeking to dispose of TWX service, but it has been suggested that combining it with Western Union's message telegram business may serve the broad public interest. We have therefore been willing to enter into negotiations. Further, the F.C.C. has assured us it will not construe this as a step toward the separation of voice from non-voice services. We are sure such a separation would

(continued on page 20)

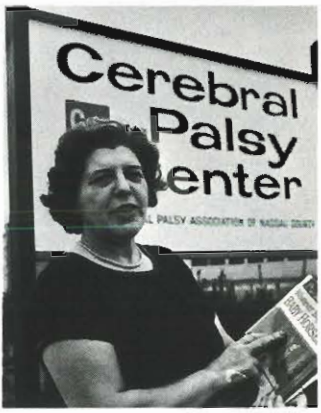
Citizens at Work in Community and Nation

Telephone people live and work in cities and towns throughout the country. Many thousands take active parts in community service and public affairs. The Telephone Pioneers, our organization of long-service men and women, seek out community problems where their experience and skills can be used constructively. The Bell companies, at the request of various branches of government, likewise render, in the way of good citizenship, services for which their skills have qualified them.

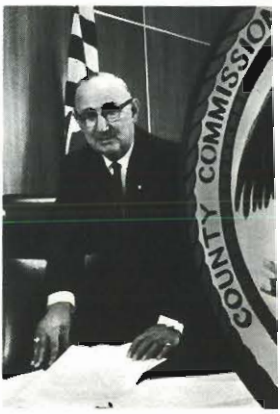
Shown here are a number of telephone men and women, active and retired, whose interests and activities are, we believe, representative.

Telephone repairman Leonard Reed is chief of the Lawrence Road Fire Company in Lawrence Township, New Jersey. He is also a member of the First Aid Squad.

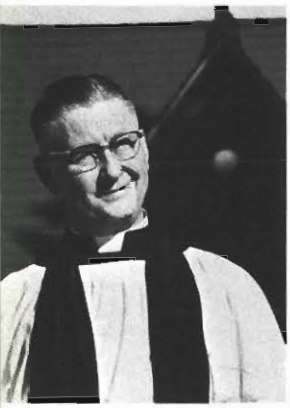
Miss Eileen Henderson of the diana Bell Company is a volur speaker at hospitals. The hosp regard her talks as both therapy and good entertainme



Mrs. Bertha Pertile established the first Scout Troop for boys with cerebral palsy. An assistant chief telephone operator on Long Island, she does much volunteer work with cerebral palsy patients.



When Abraham Davis retired fr service with the telephone co pany he was a cable splicing fo man. At present he is chairman the County Commissioners Harford County, Maryland.



After 38 years of telephone service, Fergus With retired from the Bell System in 1963 to be ordained as a minister. He is now rector of two parishes in southeastern Wisconsin.

Telephone man Herbert Nicholls does outstanding work with youth in Brooklyn and Queens. He is youth advisor, coordinator for neighborhood improvement groups, and adult education leader.

Miss Eileen Boone, a secretary in the Southern Bell Company, is president of the Women's Chamber of Commerce in Atlanta. A recent project was the planting of trees in downtown Atlanta.

James A. Skidmore has temporari taken leave from his work wit New Jersey Bell to serve as pres dent of the United States Junio Chamber of Commerce.

eer Frank Drake is one of a
of Western Electric men
ng under a U.S. State Depart-
A.I.D. program to help the
nment of Nigeria establish a
rn communications system.

Dr. William O. Baker, head of the research department at Bell Telephone Laboratories, serves on the National Science Board and on numerous other Government advisory boards.

Daniel Rekoske, telephone installer-repairman, heads the Columbus Wis., Community Chest, is chairman of the City Recreation Committee, an alderman, and past president of Rotary and the P.T.A.

Larry Evert, recently retired from Ohio Bell, is director of the Cleveland Businessmen's Interracial Committee for Community Action and a leader in other welfare organizations.

n S. Scruggs, a telephone
for 27 years, is senior vice
dent of the National Urban
ue, a trustee of Hampton In-
e, and a director of United
nunity Funds and Councils.

Miss Carmen Olguin recently returned to her work with Pacific Telephone and Telegraph Company in Los Angeles, after a two-year leave of absence when she served in the Peace Corps in Colombia.

Accounting manager Joseph B. Davis was named Man of the Year by the Savannah, Georgia, Junior Chamber of Commerce. He was cited especially for his work in the Red Cross blood drive.

In Wichita Falls, Texas, district telephone manager Bill Bass last year headed drives for the Salvation Army, Boy Scouts, the Community Fund, and the Center for Crippled Children.

d Welling of Southwestern
organized a chapter of the
ir Patrol, in cooperation with
awrence, Kansas, Optimist
Seventeen flyers are enlisted.

William O. Mills, on leave of absence from his work as a telephone manager, is administrative assistant to United States Congressman Rogers C. B. Morton.

Walter Zimmerman of Western Electric, as member of a Telephone Pioneer project team, designed this electrical apparatus to help children with speech defects communicate with their teachers.

During business hours, Timothy J. (Ted) Connors serves telephone customers in Portsmouth, New Hampshire. The rest of the time he serves the whole community as mayor.

THE MEANING OF COMPUTERS: Seminars for Bell System executives are aimed at conveying a direct, first-hand sense of how electronic information systems operate. In the next decade, so-called "real time," while-you-hold-the-line computer systems will play an increasing role in telephone operations. We regard it as essential that managers in all departments have a grasp of the capabilities and also the limitations of computers, so that these machines may be used to greatest practical advantage in helping to realize the goals of the business.

be technically unsound and economically wrong, and the F.C.C. staff has recently stated that a policy of this kind in domestic communications is not now justified.

To Help Prevent Improper Use of The Telephone . . .

In the last year or so public attention has been drawn to three other matters on which we would like to make clear our policy and point of view.

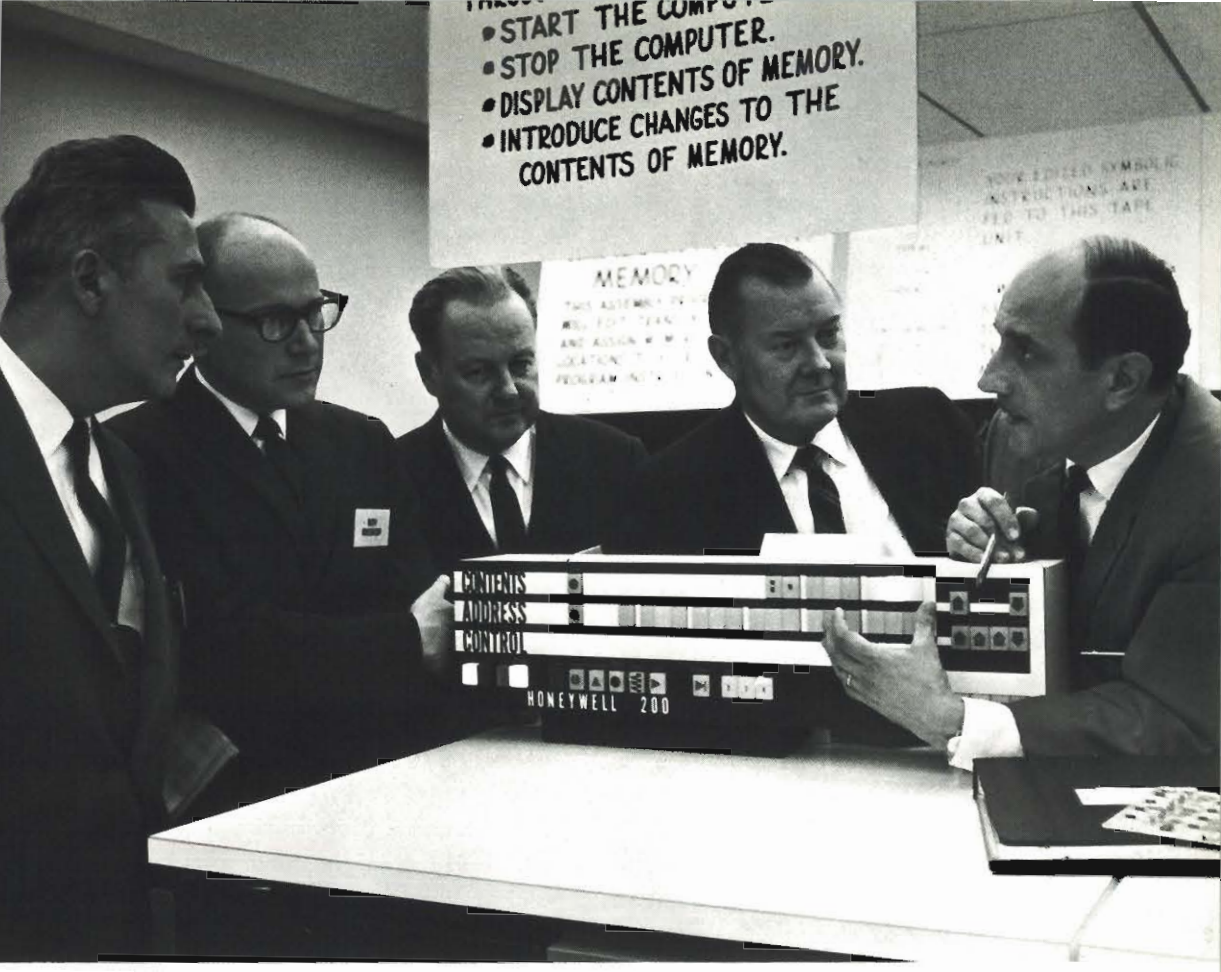
A considerable number of people have been troubled by receiving harassing, abusive, obscene, or threatening telephone calls. We want it known that in every instance we are anxious to help and will do so to the limit of our ability. Such calls violate state laws and we are strongly in favor of prosecution of violators. Sometimes the problem is difficult. But difficult or not, we invite customers to ask our help. We shall take every appropriate action, and stay with the problem until it is worked out.

Residential sales canvassing by telephone is also a frequent source of irritation. So much of economic life depends on selling that few people would make absolute rules against it. However, the most exasperated recipient of an obnoxious sales pitch is no more opposed to intrusive, inconsiderate telephone selling than we are. If people will tell us who it is that is bothering them (and when sales calls are received this is not hard to ascertain) we will do our best to help.

In our own sales work we are guided by these principles: First, only if the customer obtains added value should he buy. Second, only if the value continues will the sale last. Third, only if the sale lasts will it benefit both buyer and seller.

We think these are sound principles but in addition, real consideration for the other fellow is always the first essential. So we say again—if you are distressed by calls that are failing in courtesy and good taste, please let us know. We will try to improve the situation.

A third topic of public concern has been use of the telephone for anonymous recorded messages. We do not think it is within our province to censor, but we deplore the use of our facilities to disseminate disparaging remarks. We also believe much of the public concern stems from the anonymity of the messages. To help meet the situation, in most states it is now



required that the sponsor of any recorded message that conveys an opinion include his name and address. We hope such measures will be effective and we have suggested to the appropriate committee of the Senate, in Washington, that it may be wise to wait and see, before any conclusion is reached on the need for legislation.

People Are Always The Life of The Business

The number of Bell System employees again increased in 1965 and wage rates again rose, as they did in industry generally. Also, in accordance with agreements reached with the unions in previous years, the Bell companies increased their contributions to help pay the costs of employees' hospital and medical insurance.

Our business without question depends most of all on people. Naturally they need tools to work with, and in an emergency like the power blackout in the Northeast last November it was clearly the combination of people and emergency equipment that kept the telephones working. Nevertheless, people are always the life of the business. The emergencies of 1965 dramatized this several times. In the floods, the hurricanes, the Watts riots in Los Angeles, the sleet storms, the problems caused by loss of power, and the transit strike in New York in January 1966, thousands of telephone men and women showed their mettle. They were resourceful, patient, cheerful under pressure. Many acted in the face of danger, or put aside personal distress, or both. They did their jobs, they did them well, and from it all

DOWN BUT NOT OUT: Tornadoes last April in the Mid-west left a trail of wreckage, including the telephone central office in Russiaville, Indiana. At left, remnants are hoisted onto a truck. Yet within hours, temporary emergency service was restored. Soon a mobile exchange rolled into town to handle calls while a new building was built and Western Electric installers worked around the clock to install new equipment. A few weeks later, the new central office was alive and working. Once again, Bell System teamwork—the close, whole-hearted cooperation between telephone companies and Western Electric, our manufacturing and supply unit—had proved its worth.

great benefits flowed to the public.

Such performance reflects the kind of spirit that is vital to good service at any time. But there is another point to emphasize as well: Precisely because so many people in our business work with machines, the quality of this man-machine relationship is extremely important.

A Harmony of People and Machines

For example, the new push-button consoles, or "Traffic Service Positions," for telephone operators, are marvelous machines in themselves. One of the best things about them, however, is that the girls like to use them. And this is important to our customers as well, for the combination of good human spirit and superb equipment lifts the quality of service.

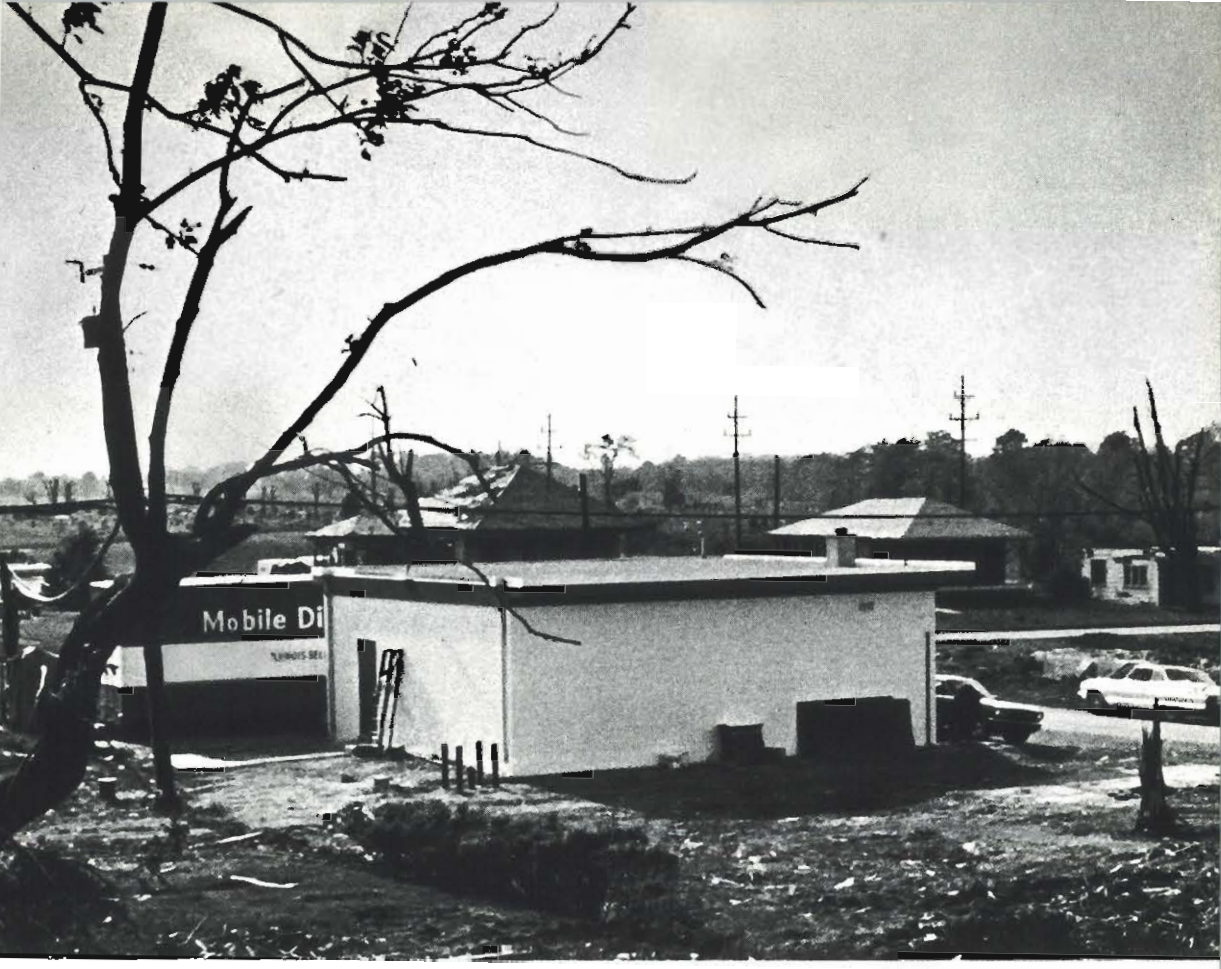
Similarly, we believe we should plan electronic business information systems so that they will support and extend human effort. An effective system will not be achieved by centering all attention on computers, but by creating a harmony of people and machines.

To give an analogy in manufacturing, Western Electric has made basic studies in biomechanics, which is concerned with all aspects of the individual's environment. The studies have led to many changes in the design of tools and other equipment, and these changes have reduced fatigue and improved the quality of work. Comparably, computer systems must be planned so that people and machines can work together to best advantage. For if human needs are overlooked, or human organization slighted, human abilities will not be well exercised and neither people nor machines will do the work of which they are capable.

Human and Helpful Service to Customers

This is all the more important because technology will continue to advance, but the need to be human and helpful to our customers will never diminish. The personal interest of telephone people in serving telephone customers is vitally important. We are concerned with each customer as an individual, and we want every employee to use the tools, the systems—all the aids to good service we can develop—to bring about fully satisfactory solutions to every customer's problem.

We are also aware that if telephone people are to work in this spirit, they need

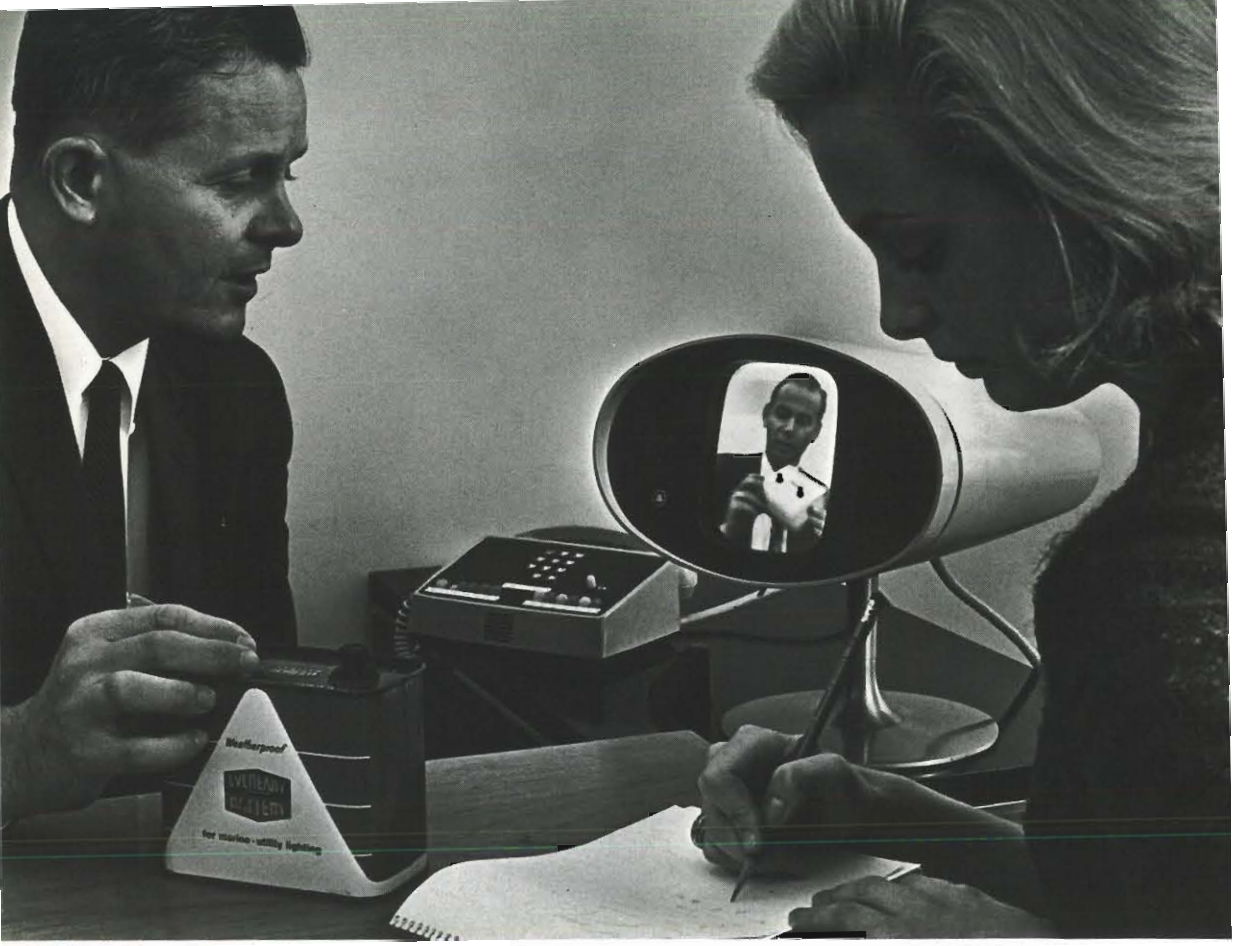


to see this business, and all the work it offers, as truly challenging their interest and abilities. Evidence is mounting that the challenge of the work itself, as distinguished from all other factors of good pay, good working conditions, and the like, is vital to good performance. This is the only kind of performance we want and we shall continue to use every available resource to achieve it.

To every A.T.&T. share owner we again express warmest thanks for your continuing support. We shall do all that we can, now and in the future, to safeguard and advance your interests.

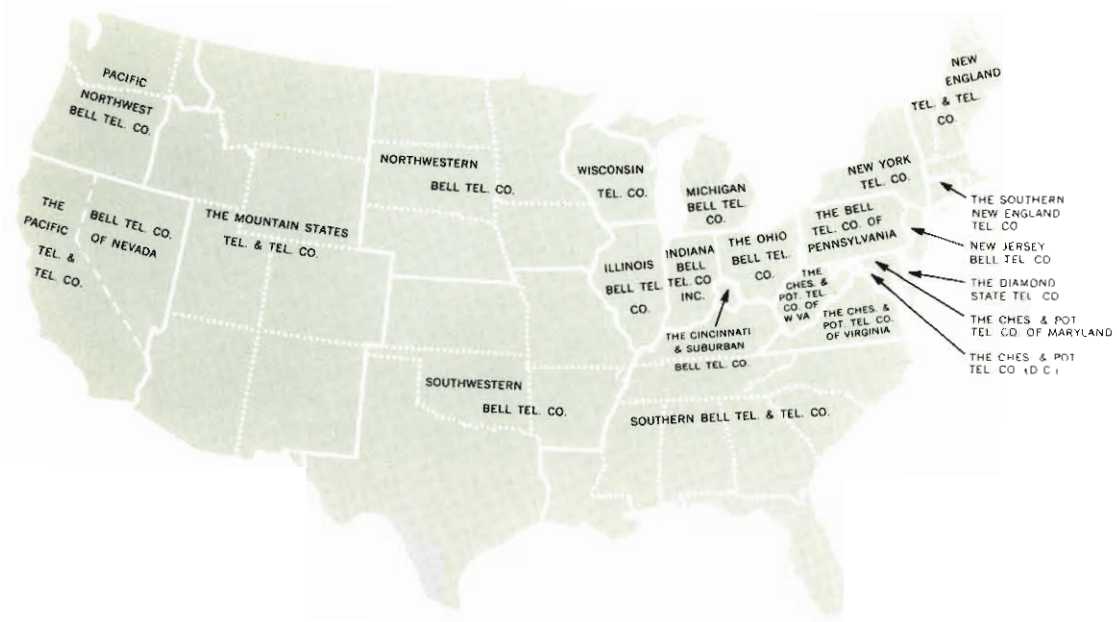
For the Directors,

FEBRUARY 16, 1966 CHAIRMAN OF THE BOARD



TESTING PICTUREPHONE SERVICE: Last year Union Carbide Corporation cooperated with us over a period of several months to test the value of Picturephone service in carrying on day-to-day business. In this photograph, men in Union Carbide offices in New York and Chicago can see each other and also the product they are discussing. Indications are that such service may have wide future usefulness. Bell Laboratories is continuing to work on technical improvements, and regular public service is available between three attended centers in New York, Chicago, and Washington.

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:

	1965	1964	1960	1950
Telephones	75,866,254	72,043,823	60,735,073	35,343,440
Per Cent Equipped for Direct Distance Dialing	87%	84%	48%	None
Average Daily Conversations#				
Local	266,165,000	250,163,000	210,237,000	136,330,000
Long Distance	13,349,000	11,918,000	8,856,000	4,452,000
Overseas Conversations (Total for Year)	7,940,000	6,382,000	3,713,000	1,000,000
Net Telephone Plant*	$27,764,112	$25,594,735	$18,825,273	$ 7,275,277
Operating Revenues*	$11,061,783	$10,305,993	$ 7,920,454	$ 3,261,528
Construction Expenditures*	$ 3,917,644	$ 3,518,896	$ 2,658,381	$ 891,000
Operating Taxes*	$ 2,440,033	$ 2,382,809	$ 1,847,702	$ 499,451
Employees				
Telephone Companies	611,931	589,667	580,405	523,251
Western Electric	168,846	157,626	143,352	73,458
Bell Telephone Laboratories	14,517	14,318	12,009	5,757
Total Employment Costs*	$ 6,188,070	$ 5,715,504	$ 4,624,178	$ 2,211,059
A. T. & T. Share Owners	2,840,500	2,674,141	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.

Most of the telephone equipment, apparatus and materials used by the companies consolidated has been manufactured or procured for them by Western Electric Company, Incorporated, the principal subsidiary not consolidated. 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 CERTIFIED 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, 1965 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 previously examined and reported upon the consolidated statements of the Company and its principal telephone subsidiaries for the year 1964. 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.

In our opinion, the consolidated financial statements (pages 26 to 32) present fairly the consolidated position at December 31, 1965 and 1964 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 16, 1966

LYBRAND, ROSS BROS. & MONTGOMERY

BELL SYSTEM COMPANIES

December 31, 1965

COMPANIES INCLUDED IN CONSOLIDATED STATEMENTS

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

PRINCIPAL TELEPHONE SUBSIDIARIES	% Owned	Capital Stocks Owned by A.T.&T. Co. Equity(a)	Advances from A.T.&T. Co.(a)
New England Tel. & Tel. Co.	69.3	$ 553,795	$ 105,000
New York Tel. Co.	100.0	2,037,546	.....
New Jersey Bell Tel. Co.	100.0	801,547	78,100
Bell Tel. Co. of Pennsylvania	100.0	864,366	65,000
Diamond State Tel. Co.	100.0	63,370	3,775
Chesapeake & Potomac Tel. Co.	100.0	179,944	24,300
Chesapeake & Potomac Tel. Co. of Maryland	100.0	398,590	41,200
Chesapeake & Potomac Tel. Co. of Virginia	100.0	404,356	67,300
Chesapeake & Potomac Tel. Co. of West Virginia	100.0	144,668	15,800
Southern Bell Tel. & Tel. Co.	100.0	2,166,592	135,900
Ohio Bell Tel. Co.	100.0	695,771	104,000
Michigan Bell Tel. Co.	100.0	643,128	34,700
Indiana Bell Tel. Co., Inc.	100.0	297,828	8,600
Wisconsin Tel. Co.	100.0	315,040	22,700
Illinois Bell Tel. Co.	99.3	1,160,935	46,600
Northwestern Bell Tel. Co.	100.0	724,048	50,900
Southwestern Bell Tel. Co.	100.0	2,140,624	88,000
Mountain States Tel. & Tel. Co.	86.7	768,771	23,000
Pacific Northwest Bell Tel. Co.	89.1	433,359	21,900
Pacific Tel. & Tel. Co.	89.6	1,956,993	115,000
Bell Tel. Co. of Nevada	(b)	.....	.....
Total		$16,751,271	$1,051,775

SUBSIDIARIES NOT CONSOLIDATED

Bell Telephone Laboratories, Inc.	(c) 50.0	$ 40,000	.....
Western Electric Co., Inc.	99.8	1,491,218	.....
195 Broadway Corporation	100.0	29,051	$ 2,675
Other (d)	....	54,649	2,423
Total		$ 1,614,918	$ 5,098

OTHER COMPANIES

		Cost (a)	
Southern New England Tel. Co.	18.3	$ 41,587	$ 17,600
Cincinnati & Suburban Bell Tel. Co.	28.4	24,346	2,100
Bell Tel. Co. of Canada	2.5	18,855	.....
Total		$ 84,788	$ 19,700

(a) Thousands of dollars.
(b) Wholly-owned subsidiary of Pacific Tel. & Tel. Co. (Equity—$76,801,000; Advances—$1,100,000).
(c) Remainder owned by Western Electric Company.
(d) Includes investments of principal telephone subsidiaries.

Bell System Balance Sheet

ASSETS

	(Thousands of Dollars) December 31, 1965	December 31, 1964
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone Plant (land, buildings and equipment)—at cost		
In service	$34,313,951	$31,741,900
Under construction	990,196	776,773
Other (principally held for future use)	29,924	25,160
	35,334,071	32,543,833
Less: Depreciation reserve	7,569,959	6,949,098
	27,764,112	25,594,735
Other Investments		
Investment in subsidiaries not consolidated (a)	1,620,016	1,533,540
Other (b)	184,184	168,190
	29,568,312	27,296,465
CURRENT ASSETS		
Cash and temporary cash investments	1,495,716	1,971,918
Receivables—less reserve for uncollectibles	1,334,489	1,244,378
Material and supplies	136,405	123,420
	2,966,610	3,339,716
PREPAYMENTS AND DEFERRED CHARGES		
Prepayments (principally directory expenses and taxes)	176,961	162,428
Deferred charges	106,806	107,686
	283,767	270,114
Total Assets	$32,818,689	$30,906,295

For notes, see page 32.

merican Telephone and Telegraph Company
nd its Principal Telephone Subsidiaries Consolidated

LIABILITIES

	(Thousands of Dollars) December 31, 1965	December 31, 1964
EQUITY		
American Telephone and Telegraph Company		
Shares (common)—par value ($16⅔ per share)	$8,830,737	$8,706,545
Authorized 600,000,000 shares; outstanding at December 31, 1965, 529,844,190 shares.		
Share installments (c)	363,000	348,924
Premium on shares	4,733,031	4,448,882
Retained earnings—see page 31	5,811,235	5,107,881
	19,738,003	18,612,232
Minority Interests in Subsidiaries Consolidated	646,925	597,196
	20,384,928	19,209,428
FUNDED DEBT (d)	9,082,000	8,725,000
CURRENT LIABILITIES		
Notes payable	293,000	102,000
Accounts payable	940,111	850,029
Advance billing and customers' deposits	280,678	262,020
Dividends payable	293,463	262,861
Taxes accrued	1,120,780	1,149,801
Interest accrued	104,807	97,749
	3,032,839	2,724,460
DEFERRED CREDITS		
Unamortized investment credit	260,173	202,179
Other	58,749	45,228
	318,922	247,407
Total Liabilities	$32,818,689	$30,906,295

Bell System Income Statements

	(Thousands of Dollars) Year 1965	Year 1964
OPERATING REVENUES		
Local service	$5,961,279	$5,633,732
Toll service	4,613,708	4,205,484
Miscellaneous	537,923	511,441
Principally from directory advertising.		
Less: Provision for uncollectibles	51,127	44,664
Total Operating Revenues	11,061,783	10,305,993
OPERATING EXPENSES		
Maintenance	1,956,943	1,785,158
Depreciation	1,624,485	1,469,423
Representing approximately 5.1% of average investment in depreciable plant in 1965 and 5.0% in 1964.		
Traffic	1,007,556	935,776
Costs, principally operators' wages, incurred in the handling of messages.		
Commercial	361,409	334,012
Primarily costs of local business office operations.		
Marketing	527,628	504,126
Accounting	370,822	347,024
Research and fundamental development (e)	72,535	69,070
Provision for pensions and other employee benefits	490,727	440,046
Other operating expenses	404,417	371,227
Less: Expenses charged construction	145,975	130,124
Total Operating Expenses	6,670,547	6,125,738
Net Operating Revenues	4,391,236	4,180,255
OPERATING TAXES		
Federal income	1,435,761	1,447,704
State, local and social security	1,004,272	935,105
Total Operating Taxes	2,440,033	2,382,809
Operating Income *(carried forward)*	$1,951,203	$1,797,446

For notes, see page 32.

American Telephone and Telegraph Company
and its Principal Telephone Subsidiaries Consolidated

	(Thousands of Dollars) Year 1965	Year 1964
Operating Income *(brought forward)*	$1,951,203	$1,797,446
OTHER INCOME (f)	261,217	260,955
Total Income	2,212,420	2,058,401
INTEREST DEDUCTIONS *Principally on funded debt.*	362,235	347,778
Net Income	1,850,185	1,710,623
NET INCOME APPLICABLE TO MINORITY INTERESTS	54,091	52,017
Net Income Applicable to A. T. & T. Co. Shares	$1,796,094	$1,658,606
EARNINGS PER SHARE	$3.41	$3.24

Based on average A. T. & T. Co. shares outstanding, 526,635,000 in 1965 and 512,047,000 in 1964.

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

	(Thousands of Dollars) Year 1965	Year 1964
BALANCE AT BEGINNING OF YEAR	$5,107,881	$4,469,694
ADDITIONS:		
Net income applicable to A. T. & T. Co. shares	1,796,094	1,658,606
Miscellaneous—net	—	3,676
DEDUCTIONS:		
Dividends on A. T. & T. Co. shares	1,079,758	1,024,095
Miscellaneous—net	12,982	—
BALANCE AT END OF YEAR	$5,811,235	$5,107,881

Notes to Bell System Financial Statements

(a) Comprises at December 31, 1965, and December 31, 1964, respectively, $866,743,000 and $866,714,000 representing cost of investments in subsidiaries not consolidated, and $753,273,000 and $666,826,000 representing proportionate interest in the net assets of these subsidiaries in excess of such costs (see page 27).

(b) At December 31, 1965, comprises investments at cost in associated telephone companies, $104,488,000 (see page 27, Other Companies), Communications Satellite Corporation, $57,915,000, and other, $21,781,000.

(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 shareholders 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 72,000,000 shares may be issued under the Plan. At December 31, 1965, 52,044,000 shares had been purchased and installment payments were being made on 15,620,000 shares.

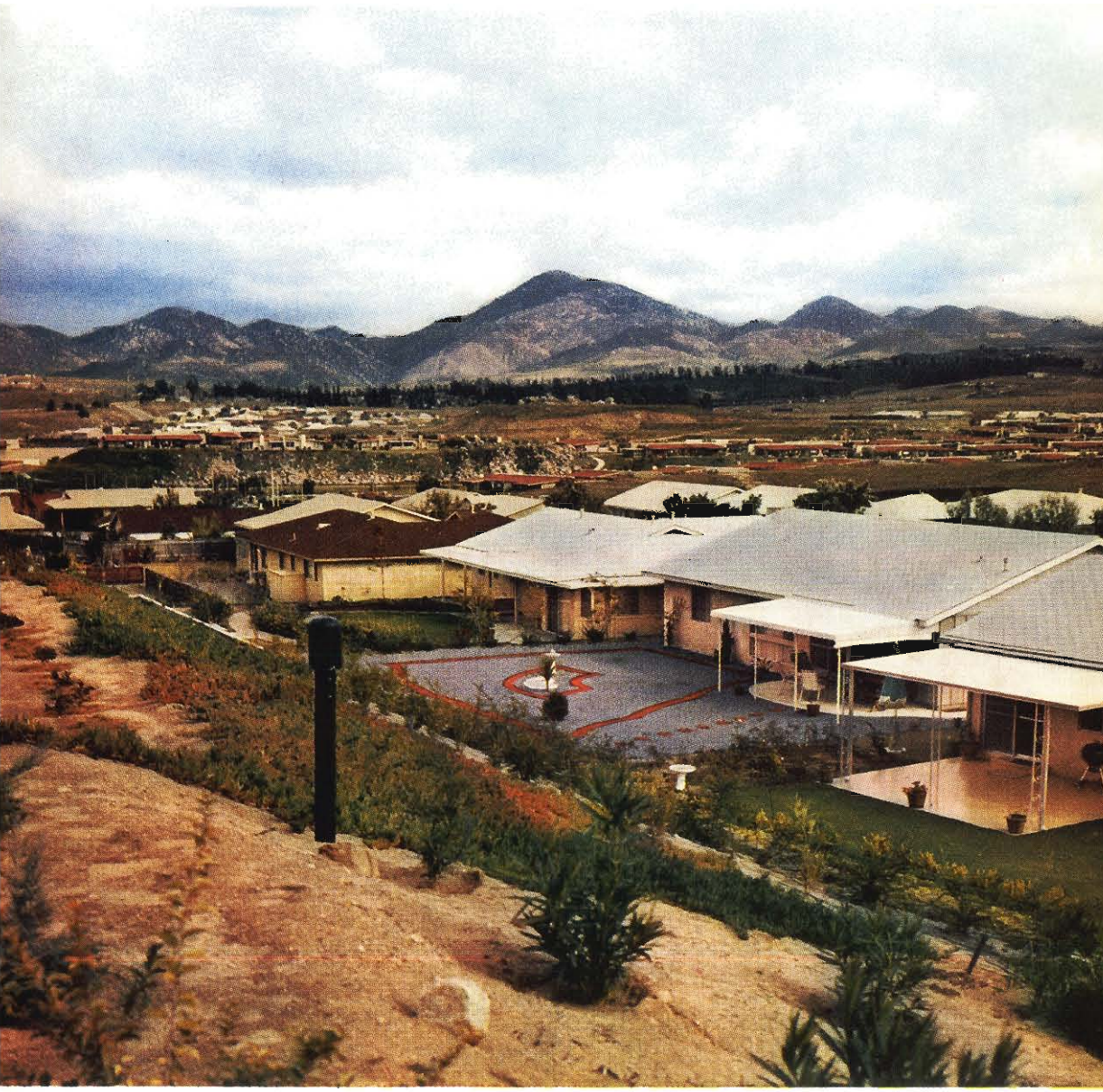
(d) At December 31, 1965, comprises $143,000,000 maturing from 1968 to 1970, $1,335,000,000 from 1971 to 1980 and $7,604,000,000 thereafter.

(e) 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.

(f) Includes American Telephone and Telegraph Company's proportionate interest (over 99%) in earnings of Western Electric Company and its subsidiaries amounting to $168,032,000 in 1965 and $152,507,000 in 1964 of which $81,398,000 in 1965 and $81,381,000 in 1964 was received by the Company in dividends. Also includes $41,102,000 in 1965 and $36,573,000 in 1964 for interest charged construction.

The investment credit authorized by the Revenue Act of 1962 is being amortized by credits to operating income over the service life of the plant giving rise thereto.

The Company and its subsidiaries make regular actuarially determined payments to trust funds which are irrevocably devoted to service pension and death benefit purposes. The funds are not a part of the assets of the companies and therefore are not reflected in the balance sheets.



INVISIBLE TELEPHONE LINES: Almost invisible that is. The dark green pedestal in the foreground contains a terminal where buried telephone cable is connected with wires from homes. In more and more new residential areas, underground lines help to make pleasing, attractive neighborhoods. *For more on this subject, see page 8.*

American Telephone & Telegraph Company
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