

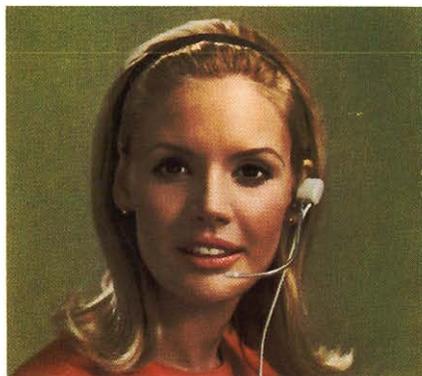


AT&T

1967 Annual Report



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The cover is another reminder that today as in the past, trained, courteous telephone operators are always ready to help. Fashions change and the equipment operators use continues to improve but the spirit of service is timeless. It is of interest also that among Bell telephone operators today—of whom there are more than when there was no dial service—some 20,000 are Negro women.



AT&T 1967 Annual Report

for the information of
share owners, employees, and
all whom we serve

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The Annual Meeting of share owners will be held at 2 p.m. on April 17, 1968 at the War Memorial Auditorium, Boston, Massachusetts.

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
225 West Randolph St., Chicago, Ill. 60606
140 New Montgomery St., San Francisco, Cal. 94105

AT&T directors—
most pictures taken
during recent visit to
Bell Laboratories



Above, left to right, Messrs. Patton, Murphy, Haniff... Heald, Dillon, and Taylor



Messrs. Hewitt, Rathbone, Gilmer, deButts... Killian and Smith



Messrs. Brace, Miller... Kappel, Batten, Romnes, and Herd

Board of Directors

WILLIAM M. BATTEN
Chairman of the Board
J. C. Penney Company

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

JOHN D. deBUTTS
Vice Chairman of the Board

C. DOUGLAS DILLON
President
U. S. & Foreign
Securities Corporation

BEN S. GILMER
President

EDWARD B. HANIFY
Partner, Ropes & Gray

HENRY T. HEALD
Chairman
Heald, Hobson and Associates, Inc.

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

WILLIAM A. HEWITT
Chairman, Deere & Company

FREDERICK R. KAPPEL
Chairman of the Executive Committee

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

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
Former Chairman
Standard Oil Company
(New Jersey)

H. I. ROMNES
Chairman of the Board

GEORGE F. SMITH
Former President
Johnson & Johnson

JAY TAYLOR
Owner
Taylor Cattle Company

Officers

CHAIRMAN OF THE BOARD
H. I. Romnes

PRESIDENT
Ben S. Gilmer

VICE CHAIRMAN OF THE BOARD
John D. deButts

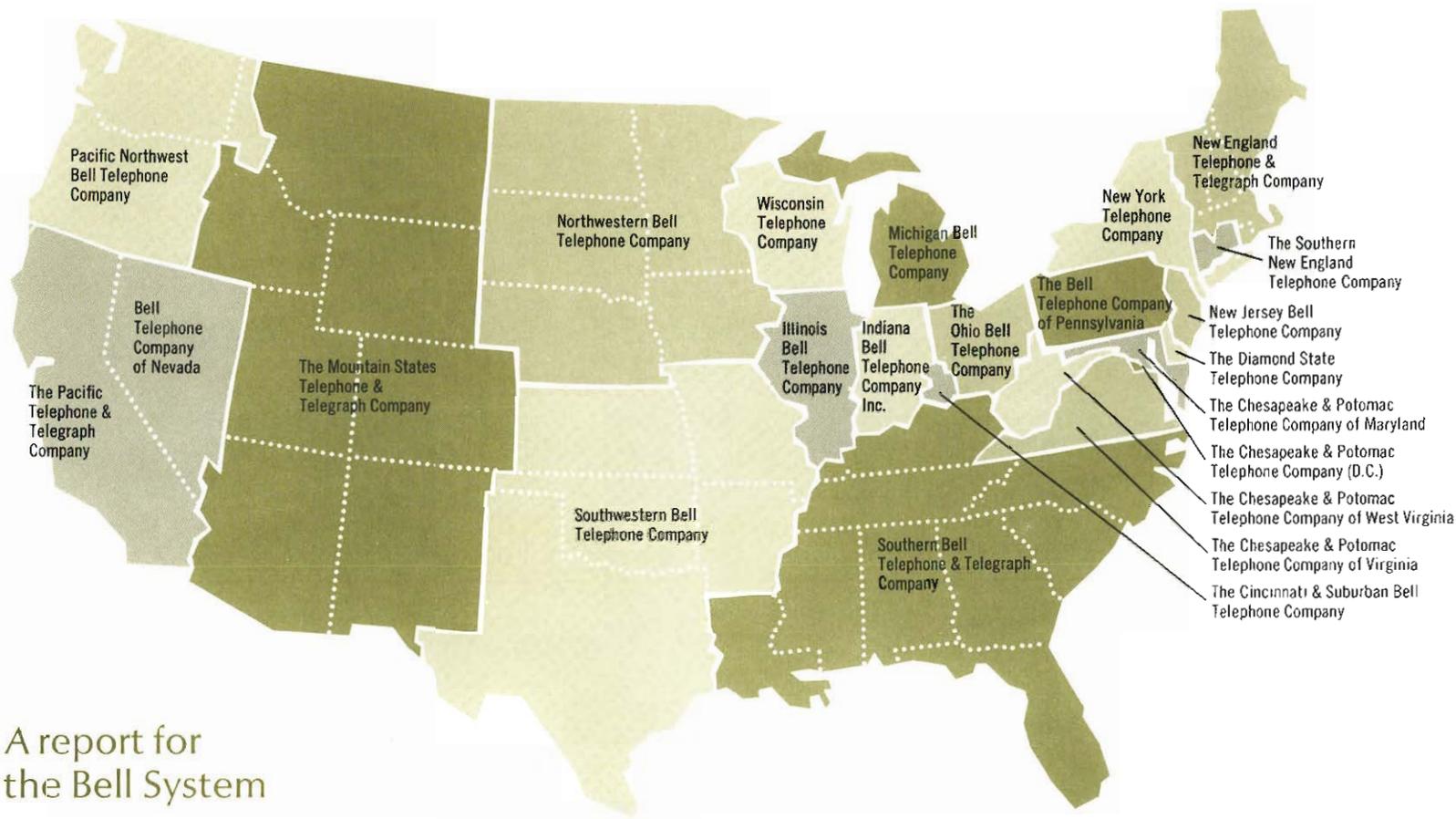
EXECUTIVE VICE PRESIDENT
Angus S. Alston

VICE PRESIDENTS
Horace P. Moulton
Edward B. Crosland
Prescott C. Mabon
Lloyd S. Miller
Richard R. Hough
Hubert L. Kertz
Benjamin H. Oliver, Jr.
Albert M. Froggatt
F. Mark Garlinghouse
William C. Mercer
Walter W. Straley
Kenneth G. McKay
William M. Ellinghaus

VICE PRESIDENT AND COMPTROLLER
Alexander L. Stott

VICE PRESIDENT AND TREASURER
John J. Scanlon

VICE PRESIDENT AND SECRETARY
Charles E. Wampler



A report for the Bell System

This report reviews the work of American Telephone and Telegraph Company and its subsidiary and associated companies which provide service in the areas shown. Other telephone companies also operate in nearly all sections of the United States and Bell System lines connect with these companies and with the telephone systems of other countries throughout the world.

AT&T owns all the stock of most of the subsidiary companies named above. In five subsidiaries it owns a majority of the shares, as follows: New England, 69.5%; Illinois, 99.3%; Mountain States, 86.8%; Pacific

Northwest, 89.2%; Pacific, 89.7%. The Bell Telephone Company of Nevada is wholly owned by Pacific. In two other Bell-associated companies shown on the map, the Southern New England and the Cincinnati and Suburban Companies, AT&T owns 18.0 per cent and 27.2 per cent of the stock, respectively, and in The Bell Telephone Company of Canada it owns 2.2 per cent.

AT&T also owns Western Electric, manufacturing and supply unit of the Bell System, and AT&T and Western Electric jointly own Bell Telephone Laboratories.

Effective July 1, 1968, the Southern Bell

Company will operate in North and South Carolina, Georgia, and Florida, and a new company, the South Central Bell Telephone Company, which will also be wholly owned by AT&T, will take over the business now conducted by Southern Bell in Kentucky, Tennessee, Louisiana, Mississippi, and Alabama.

Annual reports of all the Bell telephone companies and of Western Electric Company are available on request. Share owners who are blind may obtain the AT&T report in braille or on talking records. Kindly address requests to the Secretary.

Bell System results in brief

	1967	1966
Operating revenues and other income	\$13,284,000,000	\$12,419,000,000
Operating expenses	\$ 7,816,000,000	\$ 7,261,000,000
Taxes	\$ 2,876,000,000	\$ 2,718,000,000
Interest deductions	\$ 481,000,000	\$ 403,000,000
Net income applicable to AT&T shares	\$ 2,049,000,000	\$ 1,979,000,000
Earnings per AT&T share	\$3.79	\$3.69
Dividends paid per share	\$2.20	\$2.20
Average number of shares outstanding	540,312,000	536,107,000
AT&T share owners*	3,110,100	3,089,600
Construction expenditures	\$ 4,310,000,000	\$ 4,193,000,000
Telephones*	83,762,000	79,903,000
Equipped for direct distance dialing	91%	90%
Average daily conversations		
Local	290,799,000	280,400,000
Long distance	16,074,000	14,787,000
Overseas conversations (Total for year)	12,300,000	9,932,000
Employees*		
Telephone companies	656,300	650,800
Western Electric	169,700	168,400
Bell Telephone Laboratories	15,200	14,400

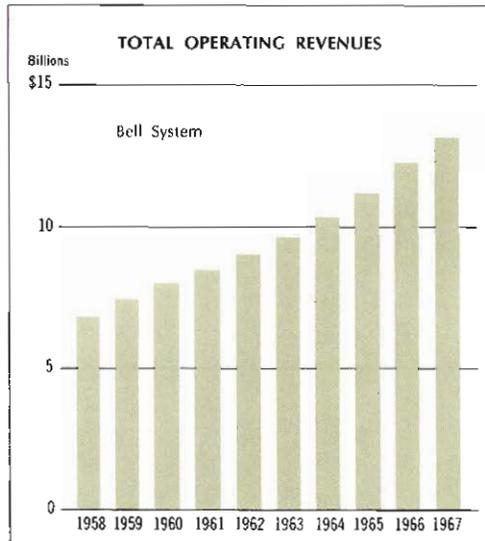
*End of year

Re share owners

The business of the Bell System increased at a strong pace in 1967. Revenues increased more than in any year except 1966. The rate of increase accelerated in the later months and in the period starting in September the gain in telephones was the highest ever.

Operating revenues rose slightly more than seven per cent. Net income per share of AT&T stock improved. Telephones increased by 3,859,000. Long distance conversations were up 8½ per cent.

In November the directors voted to increase the AT&T dividend from \$.55 to \$.60 quarterly beginning in January 1968. This was the fifth increase in dividends since the Spring of 1959. The dividend rate is now 60



Revenues increased \$871 million in 1967—more than in any other year except 1966

per cent higher than it was nine years ago.

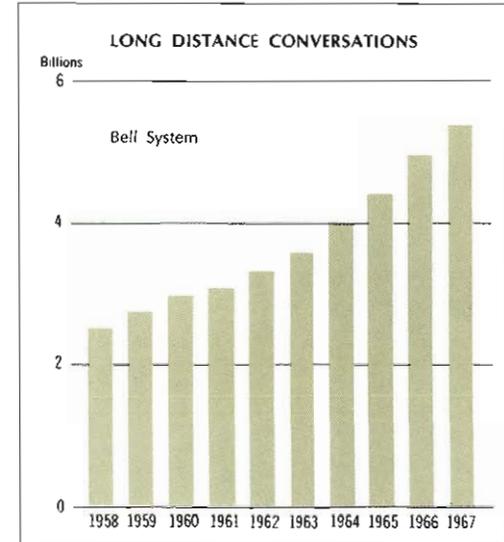
Record construction expenditures were necessary to meet the nation's ever-growing demand for service and to introduce new facilities that embody advanced technology. Higher wages and other rising costs (the full effect of 1966 wage agreements was felt in 1967) and the slowing of the growth rate in the first part of the year, were major challenges to management. The rate of earnings on capital was 7.77 per cent, down a little from 1966 but with that exception the best in many years.

Financing and taxes

The Bell companies continued to need much new capital. More than \$1.6 billion was obtained, mainly from the sale of debt issues and in smaller part from purchases of shares under the employees' stock plan.

The interest cost of debt issues sold last year ranged from 5.43 to 6.71 per cent. The average cost of these issues was 5.86 per cent—the highest figure since 1920. However, capital must be raised to finance our growth and the prevailing rates must be paid. At the end of the year interest on all long-term debt averaged 4.24 per cent, compared with 4.04 per cent a year ago.

The proportion of debt in Bell System capital is now a little over 35 per cent. We expect to use debt financing in the next few years, if conditions permit, until the proportion of debt reaches about 40 per cent. At that time we shall reexamine our debt ratio objectives.



400 million more long distance conversations were made in 1967 than in 1966

Operating taxes last year were nearly \$2.9 billion, equal to more than \$35 per telephone and more than \$5 per AT&T share. Customers paid, in addition, more than \$955 million in Federal excise taxes on communications service. We regret that it has again been proposed that the schedule to end this discriminatory tax should be postponed.

Service growth and improvement

The Bell System continues to grow about twice as fast as the economy as a whole. A principal reason, we are confident, is that the services we provide contribute so importantly to all economic growth. This results from endless effort to make our facilities

more efficient and versatile and to extend their usefulness in providing a wide range of services. Already various machine "languages," as well as the human voice, travel swiftly through the nationwide switched network and the experimental beginnings of Picturephone® service are at hand as a natural further development.

Here are a few aspects of recent progress:

Twenty electronic central offices are now in service and 27 more are scheduled for 1968. Another 15 electronic offices serve the Autovon military communications network. These electronic "systems of the future" enlarge the prospect for more varied services and for greater dependability and economy in operation.

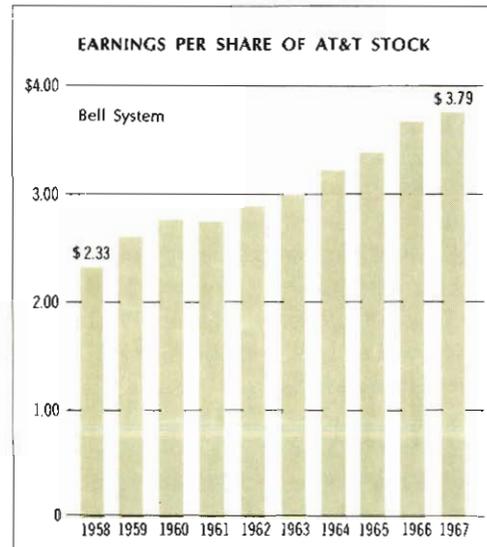
Pushbutton Touch-Tone® service is now available to 28 per cent of our customers. Nearly four out of five Bell telephone users have individual lines. Seventy per cent of the new dwelling units for which we provided service last year were reached by wires underground.

We opened new business offices to meet customers' convenience, scheduled many service installations outside of regular business hours, staffed virtually all repair bureaus with skilled people at night and on weekends, and speeded up service to customers who ask for help in identifying long distance calls on their bills.

Coin telephone service improved although vandalism remains a difficult problem. We worked also to make service more convenient for servicemen in hospitals and

at other military locations. Telephone directories were made more attractive. Our drive against abusive and annoying calls made significant progress.

Every day Bell telephone operators handle some 40,000 fire, police, and other emergency calls. Dialing "O" (operator) has long been a simple and effective procedure when the person calling does not know the emergency number. We are also planning however to make "911" available as a standard emergency number whenever this is desired



Based on average shares outstanding each year

for calls to unified telephone bureaus of police and other emergency agencies.

In recent years we have provided many service options. With the same objective, we

have invited the makers of exotic decorator telephones to design them so that essential telephone company parts, compatible with our network, can be put in by our installers. Another plan soon to be effective in most Bell companies enables customers to make a single payment, if they wish, when ordering Princess® or Trimline® telephones or a BELL CHIME signal, instead of paying something each month for these features. In many areas residence customers may also obtain service "packages" at rates substantially less than if each item were ordered individually. In short, these are optional plans for optional service items.

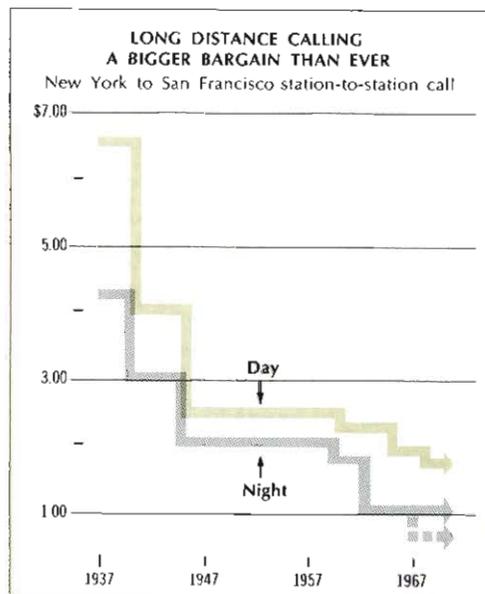
Interstate service and rates

Interstate and international services continue to be made more economical as they increase in volume. Rates for many overseas calls were reduced in 1967 and on November 1, pursuant to a September order of the Federal Communications Commission, changes in interstate rates brought savings to our customers of more than \$100 million annually.

The Commission's September ruling substantially modified an earlier order issued in July. This had been widely regarded as putting a rigid ceiling of 7½ per cent on interstate earnings and had also disallowed certain amounts that we believe should be included in the investment that rates and earnings are based on. We therefore asked that these and some other matters be reconsidered. In response, the Commission said in

September that it had had no intention of setting an arbitrary ceiling of 7½ per cent and it also agreed that \$544 million invested in facilities under construction should be included in the rate base.

Methods of allocating investment and expenses between interstate and intrastate business are again being modified (with the effect of increasing the allocation to inter-



Thirty years ago the weekday charge for a three-minute coast-to-coast call was \$6.50. It is now \$1.75 Monday to Friday and on weekends the \$1 "night" rate applies all day as well as at night. In fact, a rate of no more than \$1 applies during nearly two-thirds of all hours in the week, and during nearly half the hours if we disregard those from midnight to 7 a.m. In those early morning hours calls dialed directly are only 75 cents.

state services) and hearings have moved on to questions involved in the pricing of various classes of service.

These are important matters. However, in a report on 1967 developments we believe the most significant aspect of the FCC proceedings is that the Commission has clearly recognized the need for a range in earnings that will provide ample incentives to progress. In recent years we have been able to achieve good earnings on interstate business and at the same time improve service. The way is now open to continue this performance.

Similarly, the state regulatory commissions with some exceptions have recognized that good earnings and ever-improving service go hand in hand. We believe that under present conditions of intensive competition for investment capital Bell System earnings in the future will need to be somewhat higher and we shall continue our efforts to demonstrate to the commissions that our earnings should be in the upper end of a range of 7½ to 8½ per cent on the money invested in the business.

Overseas service

Overseas telephone conversations increased 24 per cent last year. Overseas operators now dial calls directly to telephones in 23 countries and trials of new operating methods, including a trial of customer dialing, point toward continuing service improvement as well as rapid growth. A transistorized cable system that provides 720 two-way voice channels will be installed this summer

to serve the Caribbean area and we believe additional ocean cables will be required, in conjunction with satellites, to assure the most effective development of global communications services.

Cables and satellites

Some proposals have been made that we rely on satellites entirely for the additional overseas communications channels that will be needed in future years. We think this would be a great mistake. We have learned from long experience that to assure dependable service we should use more than one kind of facility. Other important considerations are: First, ocean cables are growing in capability and their continuing use will surely stimulate, and be attended by, further advances in technology. Second, since two satellites in tandem cannot be used for telephone service (time delays would make conversation well-nigh impossible) additional cable circuits will be necessary to connect Europe and America with satellite circuits serving numerous points in the Pacific and in Asia.

We see plenty of room for increasing use of satellites—indeed, we foresee the practicability of employing satellite links to help expand the domestic long distance network. And there are tremendous possibilities in the use of satellites to reach distant countries including the nations of Asia, Africa, and Latin America. To repeat, however, all experience strengthens the view that both cables and microwave radio systems (which

is what satellite channels are) are vital to communications progress.

Western Electric

Western Electric sales were \$3,718,000,000 compared with \$3,624,000,000 in 1966. Earnings were 4.1 per cent of sales compared with 4.8 per cent. Sales to the Bell companies were \$3,053,000,000. Most of the balance was in sales to the Government, representing in large part work handled by Bell Laboratories with the aid of many subcontractors. All told, Western Electric purchased more than \$1.6 billion in goods and services from more than 45,000 suppliers located throughout the country.

Higher wage and material costs, which have put great pressure on industry generally, made it necessary late in the year for Western Electric to make some increases in price on products it manufactures for the Bell System. Even with this change, prices for these products are still 10 per cent below the 1950 level—a remarkable record achieved by continuous cost reduction programs that accomplished in 1967, for example, manufacturing savings of nearly \$40 million.

For a number of years, at the Government's request, Western Electric and Bell Laboratories have conducted research and development work on the Nike-X defensive anti-missile system. Last year the Secretary of Defense announced a decision to deploy such a system, called *Sentinel*, to meet a potential threat from China. It is expected that contract negotiations between Western

Electric and the Army may be in progress this coming Spring. In the meantime I want to say emphatically that we have not at any time pressed for deployment of an anti-missile system. Our sole responsibility and intent are to help in design and production projects as requested by the Department of Defense.

Progress and change

Communications technology and service make a profound contribution to social change and no business is more deeply involved than we are in the changing life of community and nation.

Bell System companies and people are therefore increasingly engaged to help meet the critical problems of the cities, especially the problem of improving education and increasing employability among "unemployables" or underemployed. The greater part of our business is in the cities. Our future depends on the good health of urban life. This in itself would be reason enough to concentrate attention on how much we can do right now to help make a better tomorrow.

On the national scene the very pace and vitality of communications progress tend to raise questions of policy. The FCC is conducting an inquiry on the convergence of computers and communications and possible resultant problems in regulation. A Presidential Task Force is studying questions of national communications policy including problems of international accommoda-

tion and agreement. We believe the FCC inquiry is well timed and we have also welcomed the opportunity to cooperate with the Task Force.

The FCC has proposed that combining our teletypewriter exchange service (TWX) with Western Union's message telegram business may serve the public interest. Discussions are continuing with Western Union regarding their possibly acquiring TWX but agreement has not been reached. Whatever the outcome, let me say again that it will take full account of the interests of our share owners, employees, and customers.

The following pages emphasize several aspects of our service, our markets, and our technical and human progress. They reflect some of the great assets of the business: continuous innovation, growing capability, a spirit of service, and the tremendous social usefulness of what we do. All these strengthen our confidence in the future, and with it our resolution to justify fully your own confidence and that of all the share owners.

For the Board of Directors,



Chairman of the Board

February 14, 1968

Creative communications for industry

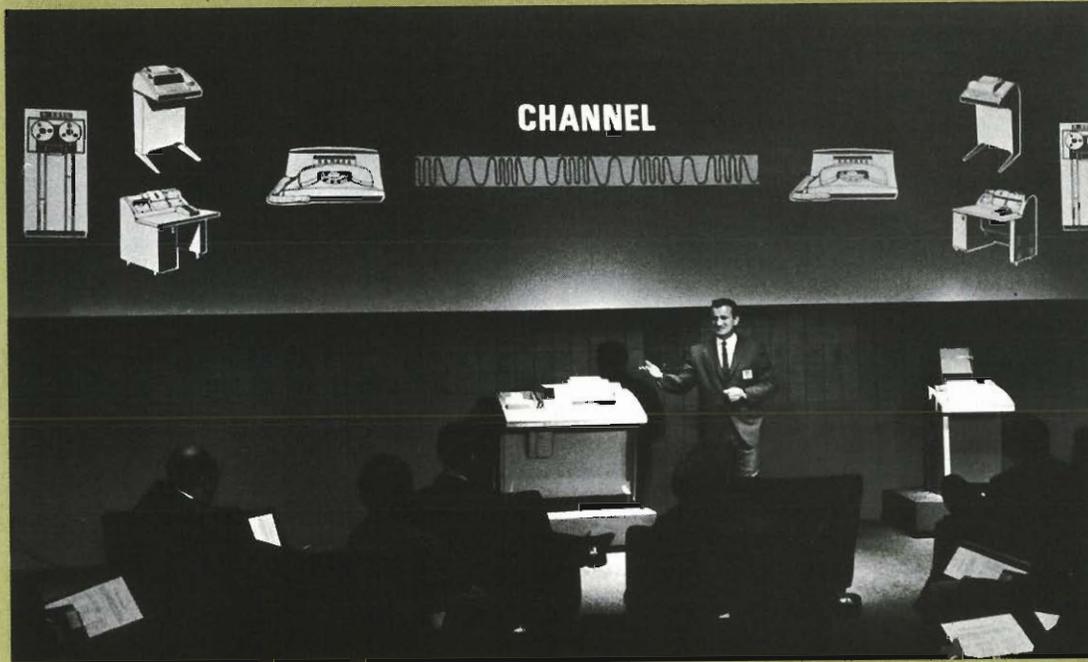
Growing variety of services helps American business to hold down pressure of rising costs

Businesses large and small use the Bell System switched network, or private lines that we provide, or both, for whatever combinations of service best meet their particular needs. As the picture at the right illustrates, a regular voice communication channel can also handle data between different kinds of machines. And using Touch-Tone telephones people can also "talk" with computers. In the banking picture, for example, a teller in a branch office, by pressing Touch-Tone keys, asks a downtown computer to verify an account. The computer answers at once through a recorded voice.

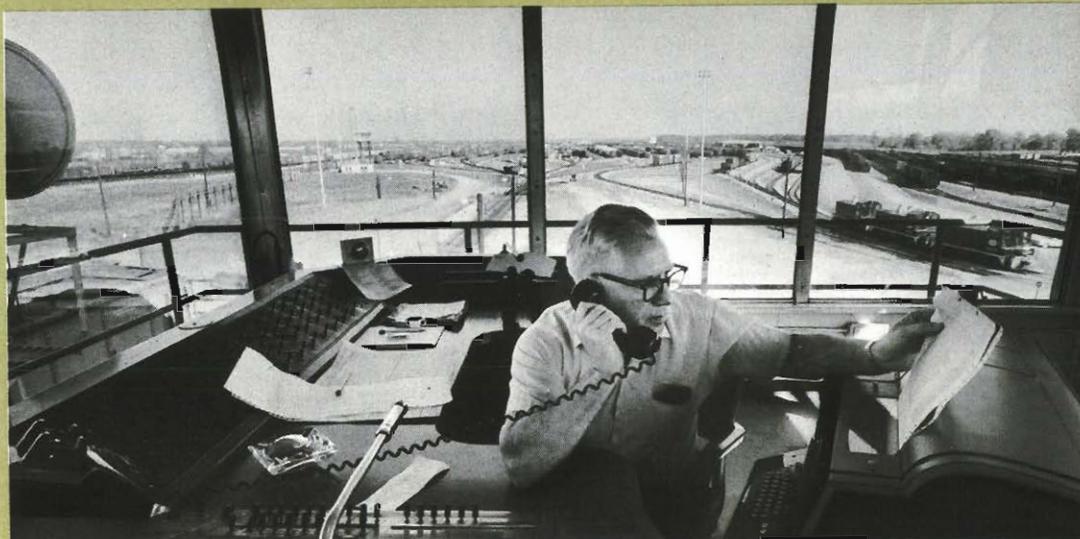
All this saves time and money; and the railroad and TV pictures make the same point. The TV conference brings together four groups in four places. The railroad man has had a request to locate a freight car. The teletypewriter has brought him a message from a computer that tells when the car will arrive. Here he is answering the question. All in a few minutes. And at low cost.

The standby generator is just another reminder of our constant effort to serve *without fail*. We are confident that dependable, versatile services that help all business hold down costs are a main reason for—and assurance of—continuing Bell System growth.

How Bell System network handles data is discussed at business communications seminar

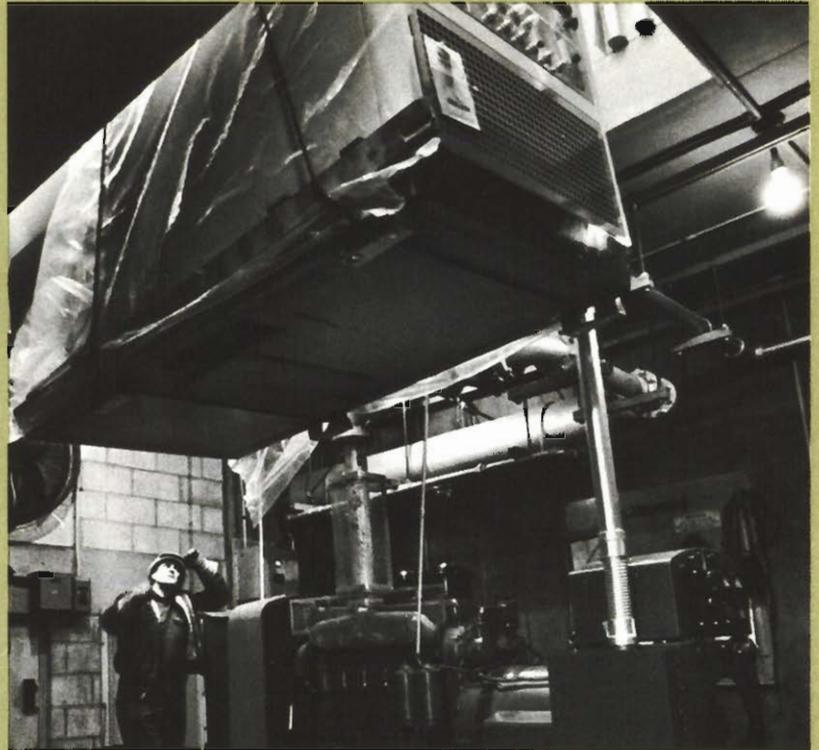


Railroad keeps constant watch over freight traffic





Bank teller uses Touch-Tone phone to query computer

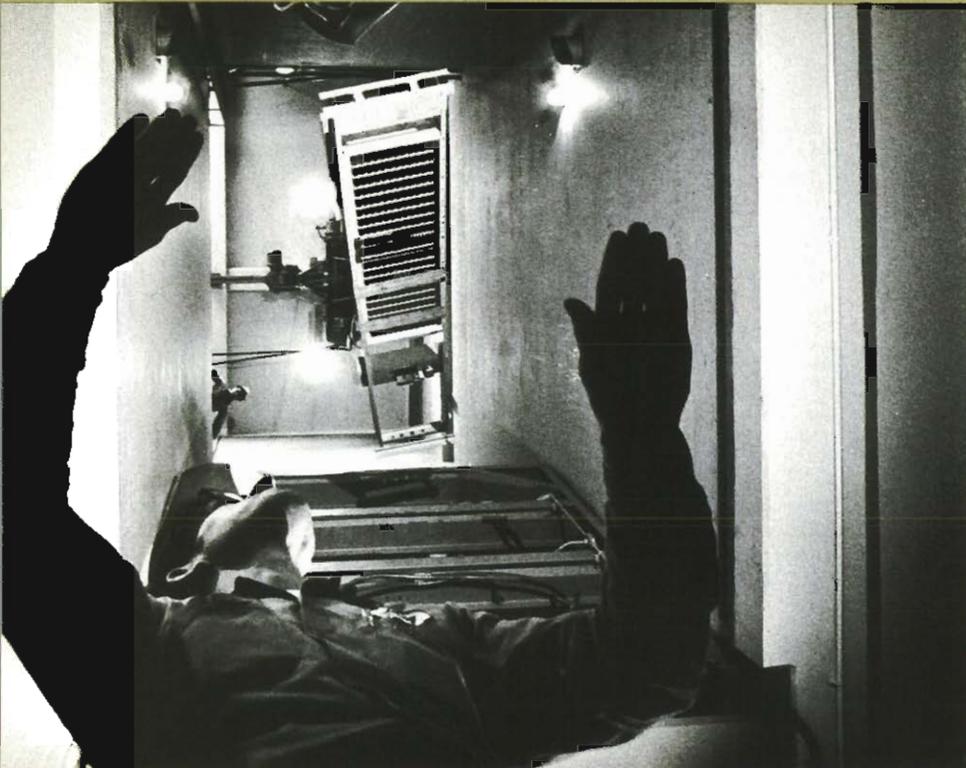


As telephone exchange grows, standby power generator is installed to supplement generator already in place in central office

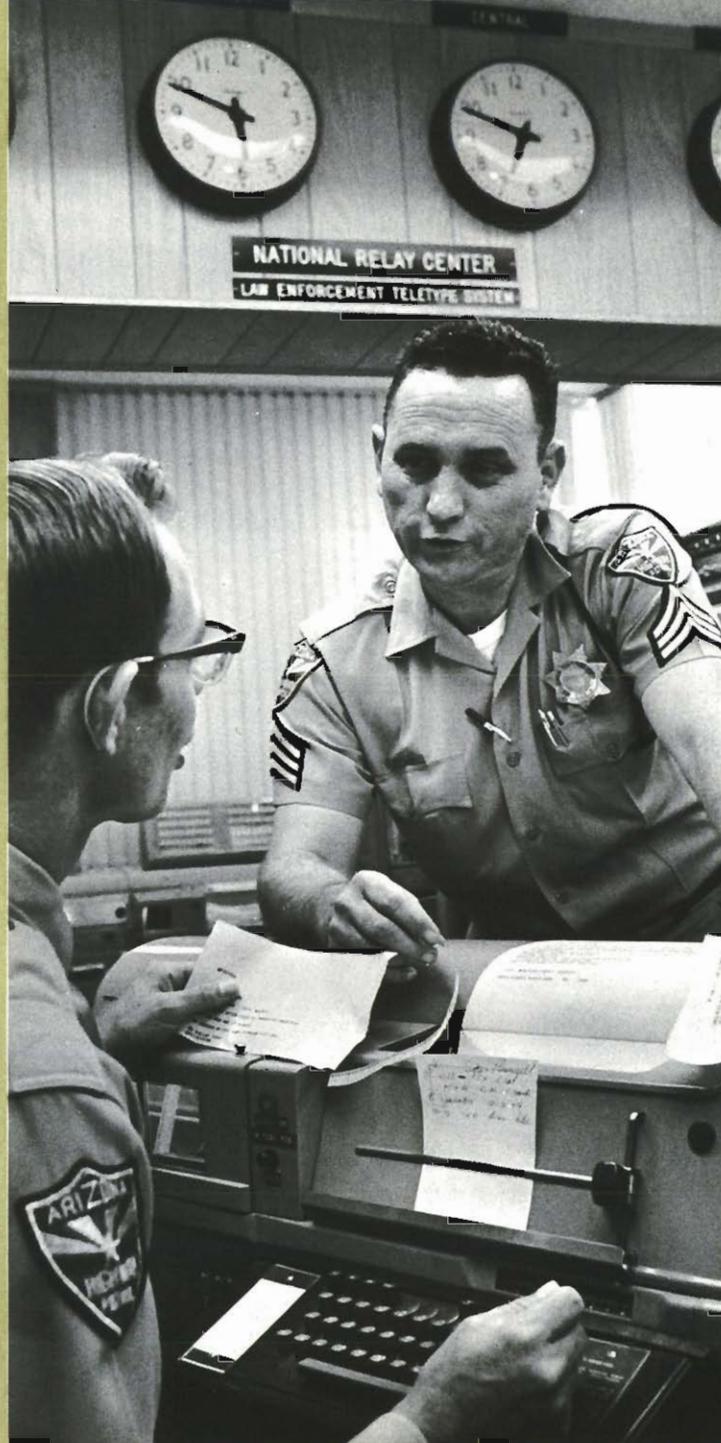
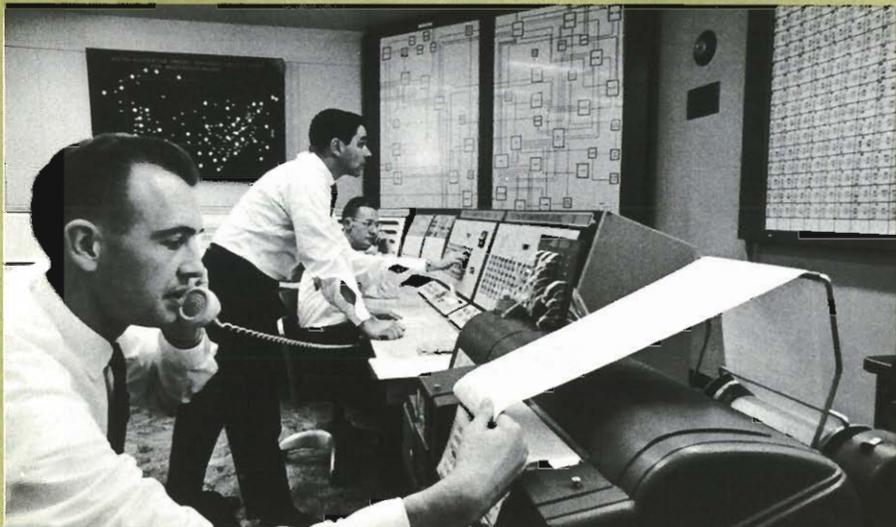


Industrial closed-circuit television conference

From safe vantage point in underground building on blast-resistant Boston-Miami cable route, workman guides telephone equipment down



An AT&T control center. Aim: speediest restoral of any interrupted service



Police rely on teletypewriter network

Services for defense and all government

Communications essential in military and space programs and in law enforcement

The surrounding pictures reflect only a few aspects of our services to Federal, State, and local governments. The underground building at the left is one of several on the new Boston-Miami coaxial cable system recently opened for service between Miami and Washington. This when fully equipped will be able to handle 32,400 simultaneous conversations. It will serve the general public. However, as a vital communications highway its blast-resistant construction, like that of other new cables, is greatly influenced by national security considerations.

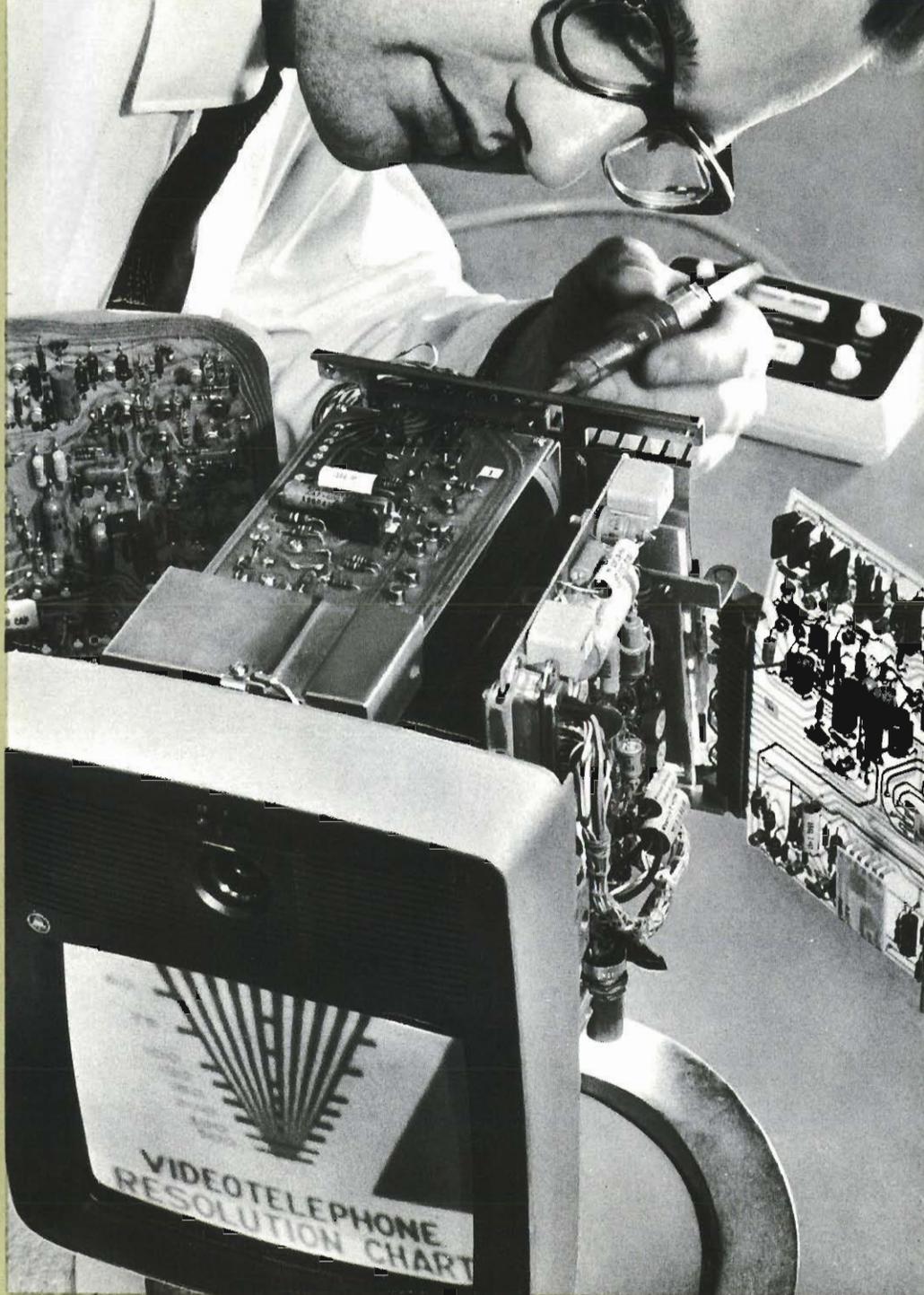
Work on the Department of Defense's *Autovon* network, including installation of several more electronic switching centers, continued apace in 1967. Sandia Corporation, a subsidiary of Western Electric, has entered its nineteenth year of service to the Atomic Energy Commission. Our Bellcomm subsidiary continues to do systems engineering for the manned space flight programs of the National Aeronautics and Space Administration. And to come down from space to one of our many vital services to local government, Bell System sidewalk emergency reporting systems, first made available in 1954, are now in use in more than 400 municipalities.

Portable telephones in military hospital bring voices from home



Bell System-designed communications coordinate test firing over Pacific naval missile range





Designing tomorrow today

**New devices, new systems,
new services are continuously
being developed and tested**

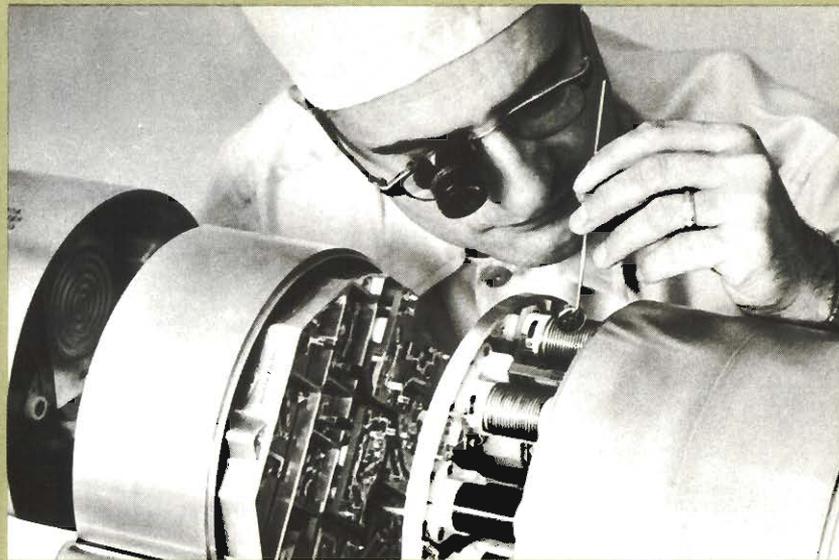
For the Picturephone set you see here Bell Laboratories has created a new camera tube that uses, among other things, 660,000 silicon semiconductor units in an area the size of a dime. This makes clear pictures even in poor light. The new Picturephone set also contains many "integrated" circuits of microscopic size. In coming years such circuits will help reduce costs and increase reliability in telephones, Data-Phone® sets, transmission systems, private branch exchanges, and military systems. Bell Laboratories is a leader in the field and our business and service will gain much thereby.

A few more examples of designing and producing for tomorrow: In 1967 we made trial installations of aluminum telephone cable, developed a new technique for growing quartz crystals, and installed the first system that automatically measures telephone traffic (so that needs for new equipment can be more accurately gauged). Production started on a new "electronic translator" that controls the routing of long distance calls. A specially designed plow buried miles of ocean cable *under* the ocean floor to protect it from fishing trawlers. And a new organization is now coordinating development of computerized business systems for all Bell telephone companies.

New, improved Picturephone set soon to be tested in experimental use



How coin service will look in new high-speed New York-Washington train scheduled to start in 1968



Inspecting transistorized amplifier for ocean cable that can carry 720 simultaneous conversations



Testing use of visual output from computer to aid service in telephone business office



New Trimline® telephone has 12 Touch-Tone buttons; two of these are available for the future simplification of "dialing" into distant areas and also for potential special services

New tools for teaching and learning

Educators use communications to reach more people and extend educational resources

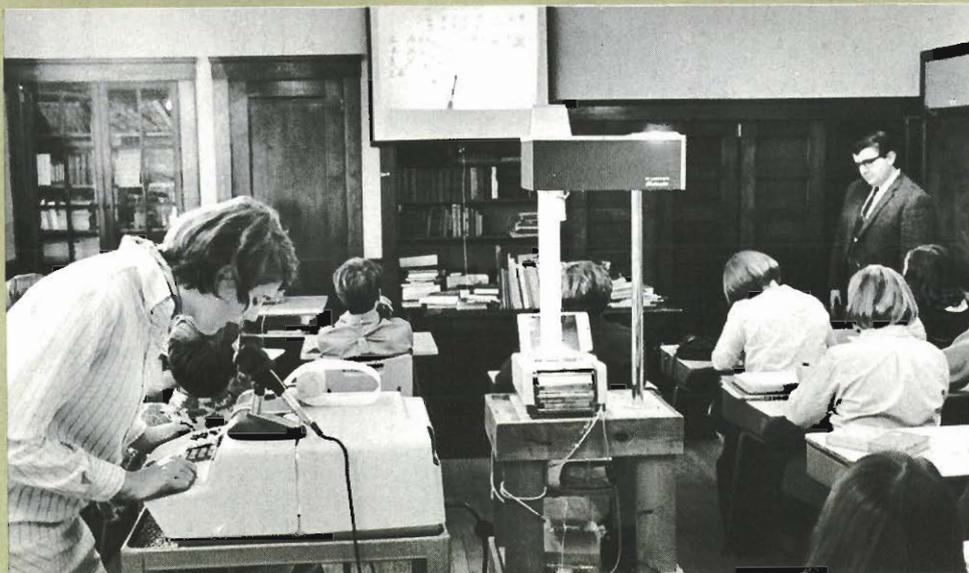
The class at right is in Jackson State College in Mississippi and their lecturer is at a distant university. In such ways high-quality educational programs can be shared, using resources located anywhere. The island schoolroom emphasizes the same point. The island is Block Island and the class is learning the elements of how to use a computer. Experience indicates, by the way, that the combination of sight and sound—what we have named “tele-lecture” and “teletyping”—gets good attention for the distant lecturer.

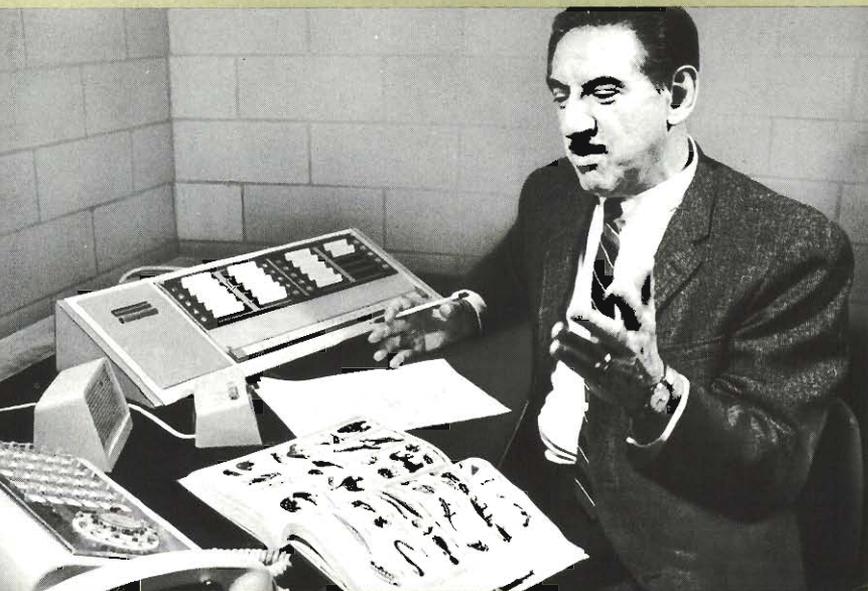
The other photographs are self-explanatory but a few supplementary points are important. Information today is stored not only in print and on film but on tapes and in computers. This means that both telephone and teletypewriter will increasingly provide access to knowledge. And the knowledge is readily shared. Up to 30 students, for example, can listen to the same sound tape in a learning laboratory. Likewise, the teletypewriter gives students and faculty alike access to computer facilities for study and research. Such considerations strengthen the likelihood that communications will be more and more used in education. The educators themselves must determine the methods, but the many tools at hand will surely encourage innovations and improvements.

Student talks with distant university lecturer who is heard through loudspeaker

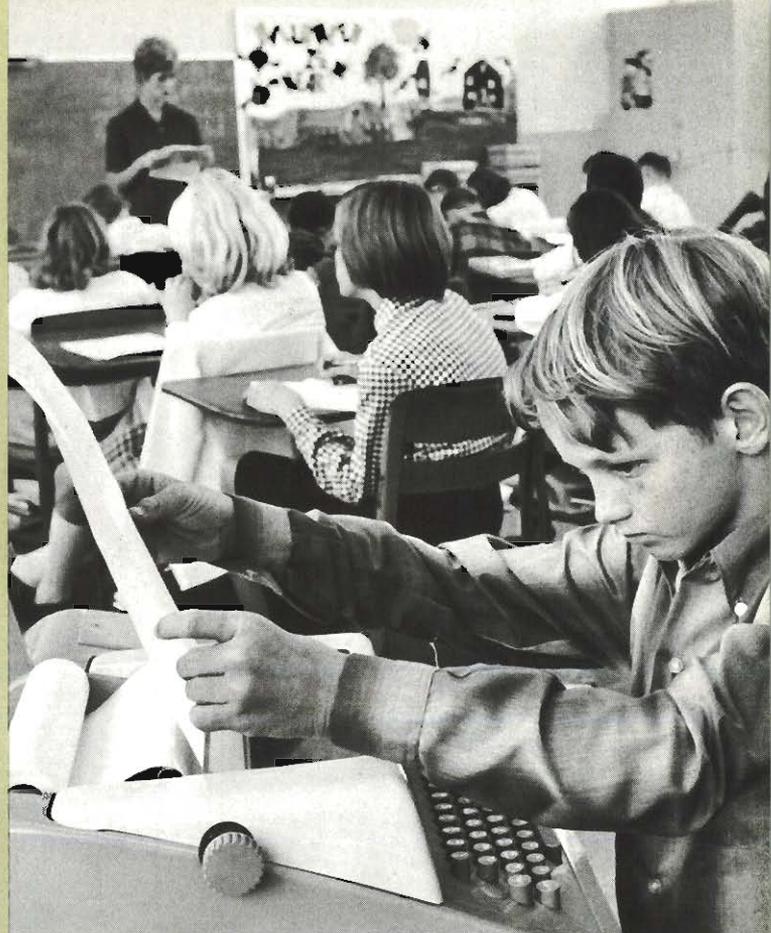


Class in island school sees notes made by math teacher on mainland

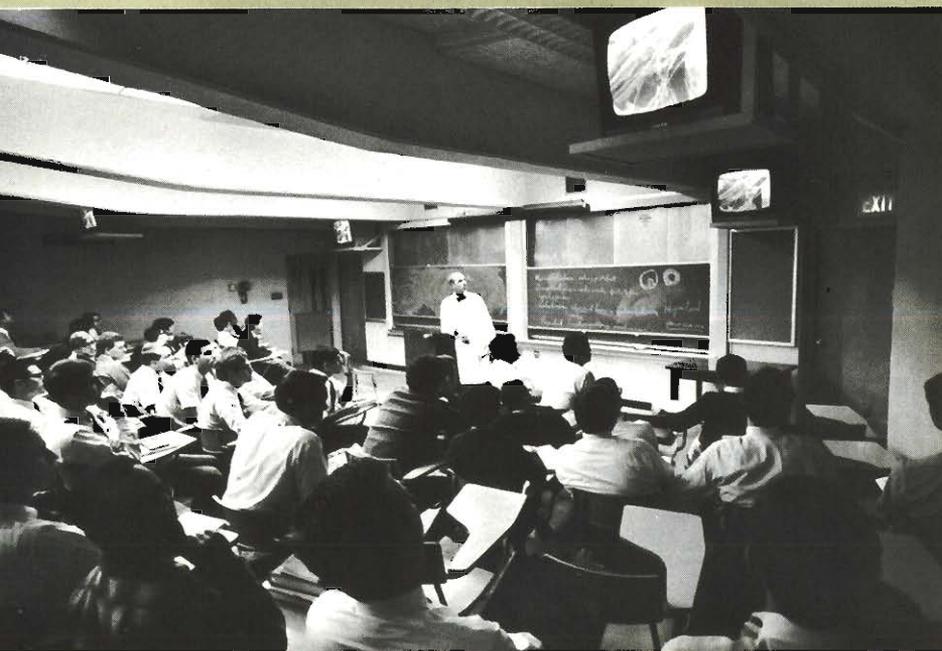




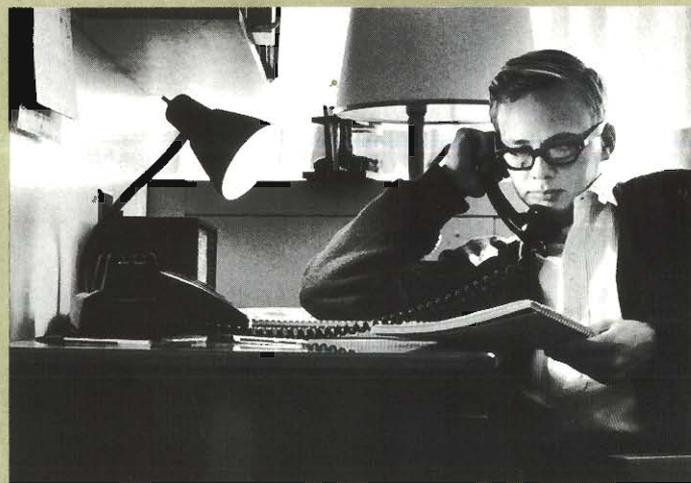
This teacher can reach a "tele-class" of as many as 20 homebound students



Distant computer helps young man learn by way of teletypewriter



Louisiana medical schools and hospitals use closed-circuit TV in program of continuing education



Telephone in dormitory room connects student with tape in library

Electronic switching is on its way

Telephone companies, Bell Laboratories and Western Electric join in vast project

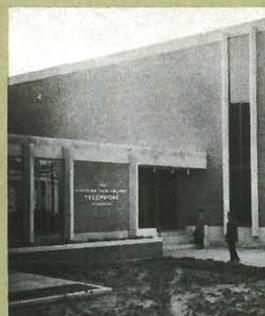
Numerous electronic central offices, some of them pictured at the right, are already in service and working well. By the mid-1970s there will be hundreds of these systems and soon thereafter thousands. They will enable us to provide more "tailor-made" services and take care of future needs that we could not otherwise handle so well. Experience is also demonstrating important advantages in reliability and operating cost.

Electronic offices like computers work according to instructions or "programs" stored in electronic memories. Each office combines certain programs worked out at Bell Laboratories with other programs based on telephone company specifications for each local community. Bringing these together requires intimate teamwork among the telephone companies, Bell Laboratories, and Western Electric. The latter not only makes and installs the physical hardware of the system but is the indispensable producer of the combined instructions or "software" that controls it.

Only a few of the many steps required to create an electronic office are shown. The important point is that the very complexity of the system, plus the *no interruption in service* requirement, intensifies need for cooperation among designers, manufacturing people, and telephone companies.



California



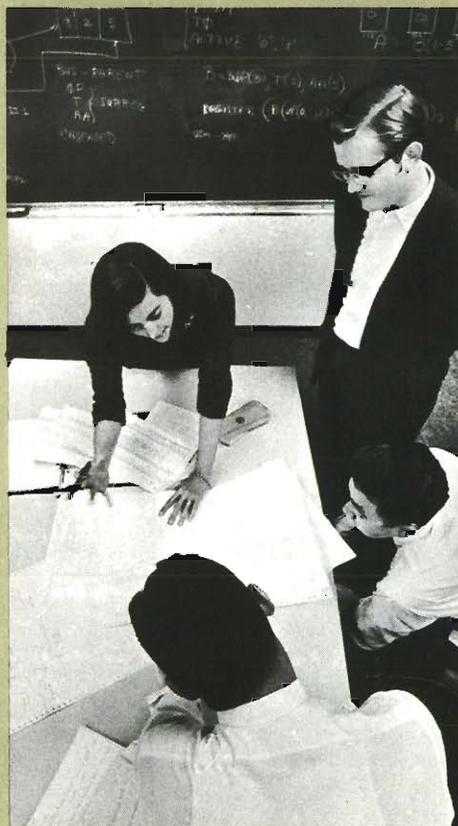
Connecticut



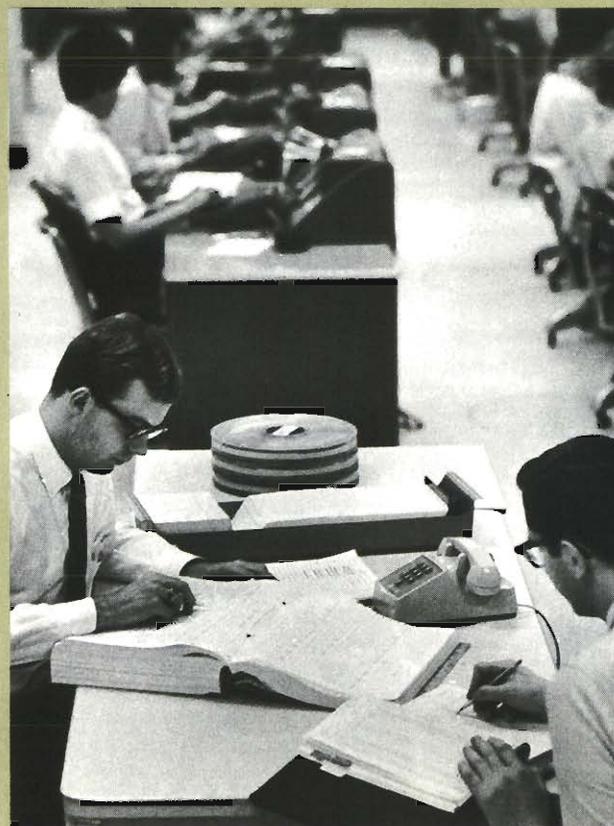
Minnesota



Georgia



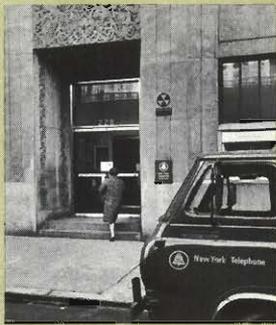
Bell Laboratories staff members work on basic "program" problems



Western Electric engineers translate telephone company specifications to electronic language



Maryland



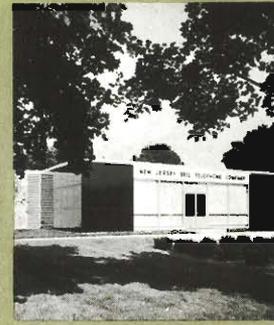
New York



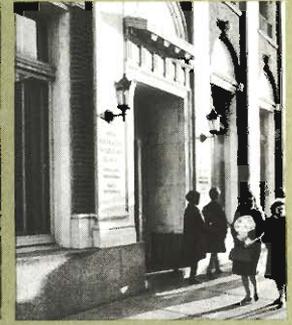
Michigan



Florida



New Jersey



Pennsylvania



Completed programs on magnetic tapes are transferred to memory plates used in electronic office



Installers test operation of office



Concern for social responsibility

We are stepping up corporate and human effort to help meet urgent problems of our time

Nearly three-quarters of our business is done in urban areas. The future of the Bell System—all our success in the interest of share owners, employees, and customers alike—depends largely on the sound development of urban life. Today, however, the cities face urgent problems. These problems demand action and it is essential that we do our full part to help meet them.

Our greatest opportunity and responsibility, we believe, lie in the areas of education and employment. Training and jobs. In cooperation with the schools and other interested public agencies, therefore, we are intensifying efforts to help. We are also expanding employee training that aims to increase respect among people of different race—for this too is essential to successful conduct of the business.

Bell System people have a long tradition of concern and participation in community life. This is reflected again in the pictures of the braillists—the machine that digs under the neighborhood street—the laser specially designed and articulated (as an outgrowth of communications research) to help the surgeon. This tradition, we are confident, will strongly energize and support a widening practical program in urban affairs.

Detroit high school students take Saturday training, with pay, in telephone company school to qualify for jobs

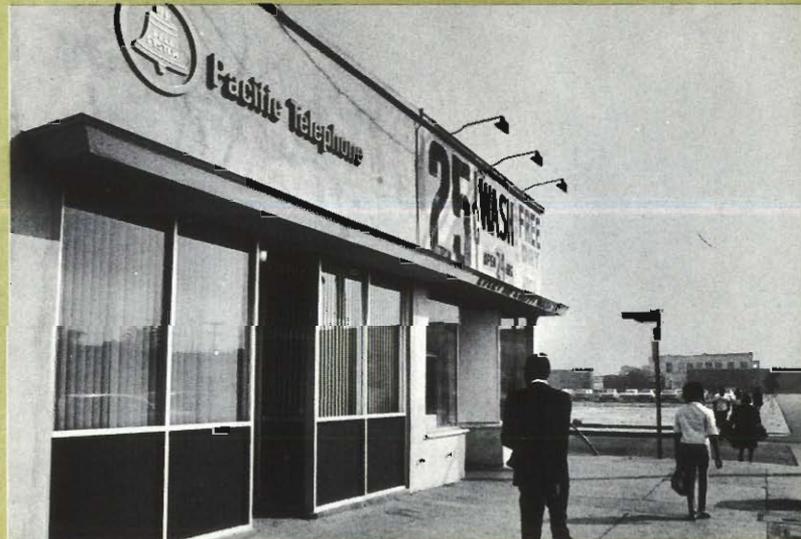
To help make neighborhood attractive, earth auger
channels path under street for telephone wire



Surgeon uses laser "light knife" designed at Bell Laboratories
to facilitate eye surgery

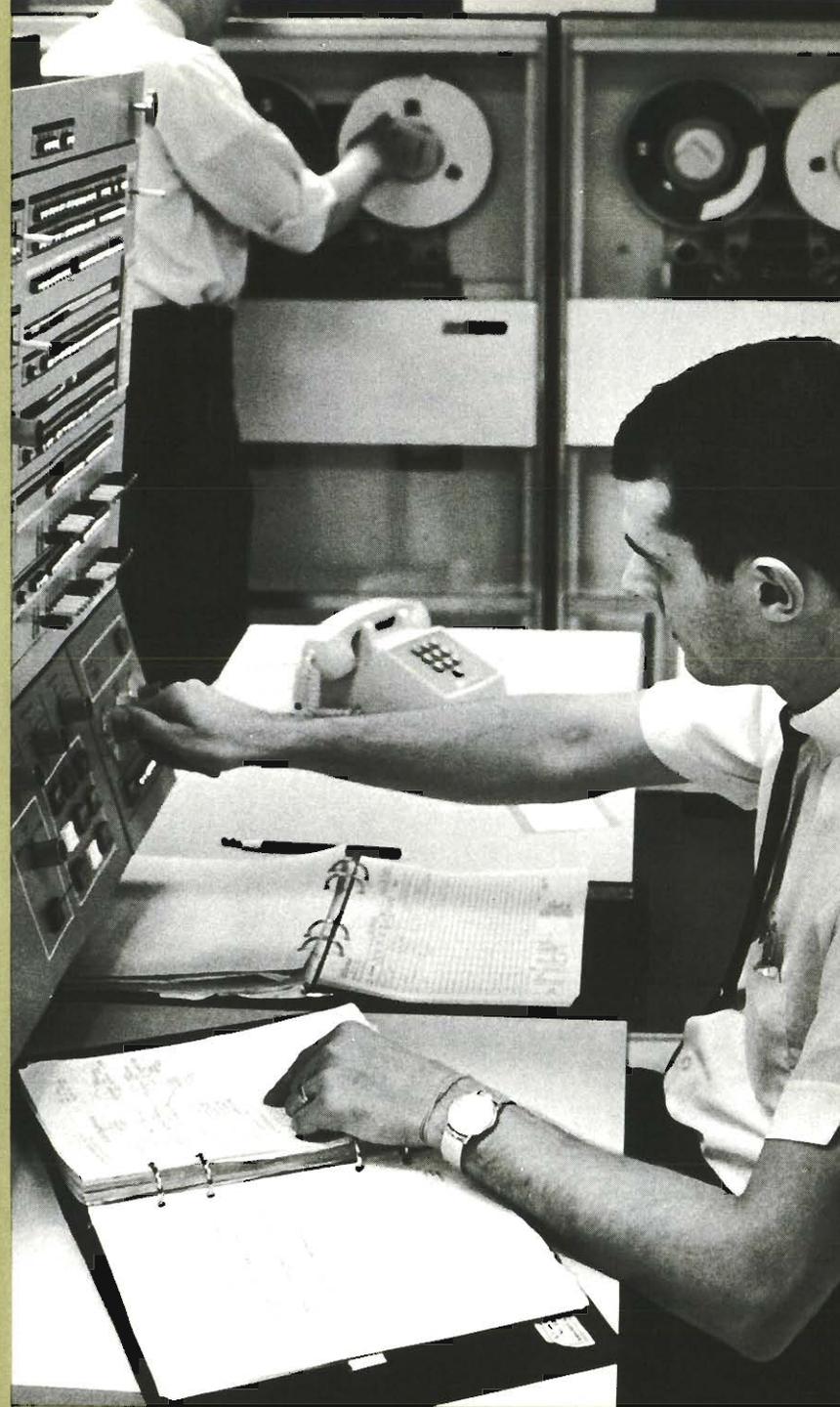
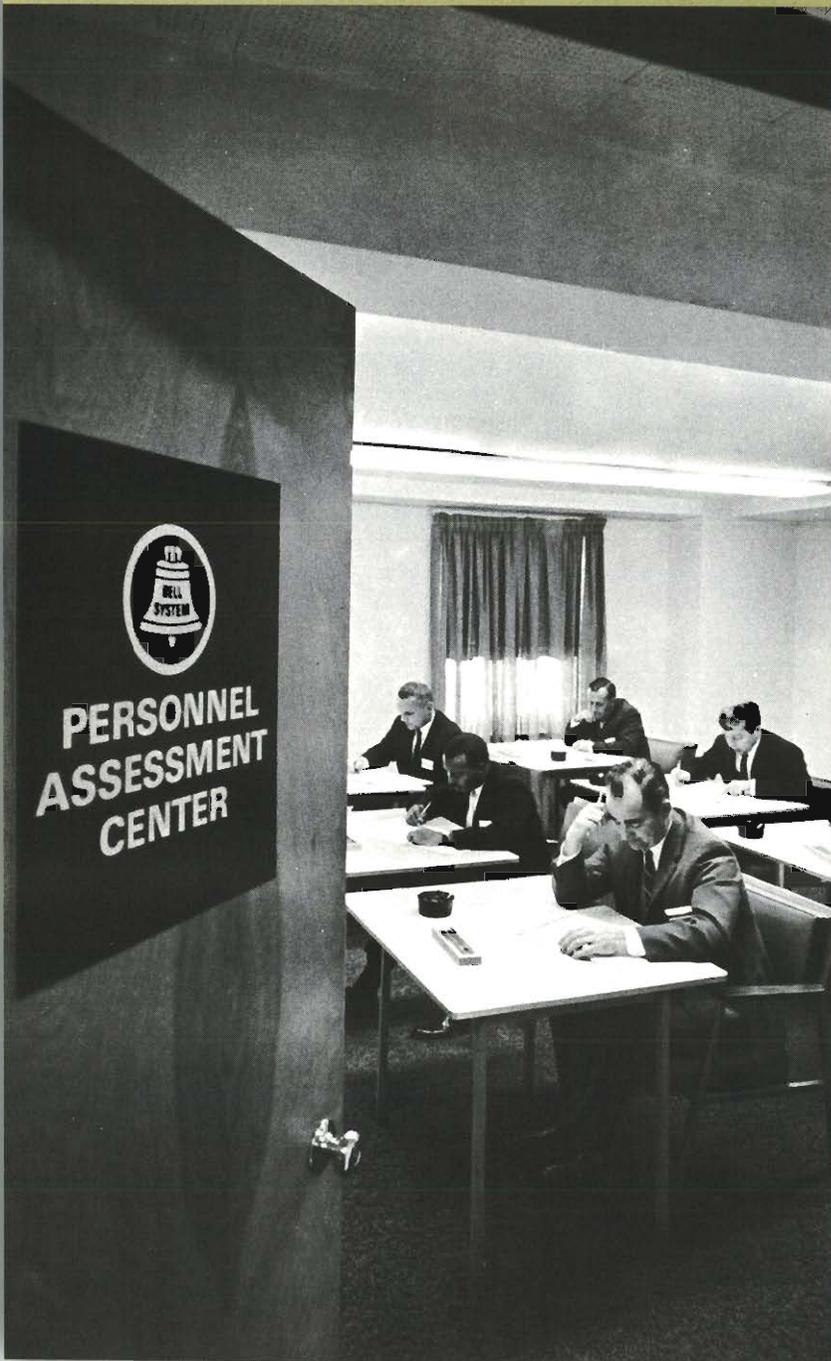


Members of Telephone Pioneers, organization of long-service employees,
make braille transcriptions for the blind



New telephone business office in center of Watts area, Los Angeles

55 assessment centers in the Bell companies aid managerial judgment as to the men and women best qualified for promotion



People use computers, not vice versa

Vital people make a vital business

Good performance depends on people who find challenge in work and enjoy doing it

Superb service is the essential foundation for advancing the success of the business. Last year Bell System people met critical problems head-on in hurricane and other emergencies. Thirty-seven men and women earned Vail medals, including two highest-award gold medals, for unusual achievement. In countless instances from day to day employees showed their will and skill to do a fine job.

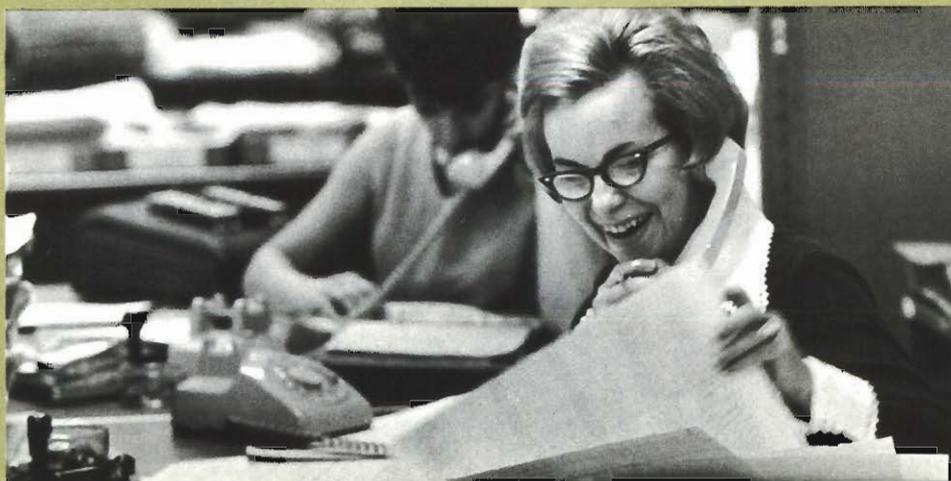
Many in the business—about one in every ten—advanced in responsibility. We worked to make jobs challenging and to appraise abilities more accurately. We strove to communicate better among ourselves, to understand better our shortcomings from the customer's viewpoint, to change procedures that might irritate or annoy. Also, in developing computerized business systems, we are clear that machine functions must be organized in keeping with human needs and abilities, and employee effort not be devised or improvised to fit machine requirements.

Our business depends on organization, certainly. The people in it support each other's efforts. But to do this well they must be individuals whose competence and interest other people can trust. This is the kind of organization we are working to build to meet the responsibilities of tomorrow as well as of today.

In summer study program at Dartmouth, Bell System executives debate business goals and problems in fast-changing environment



When you know your work counts...



The Bell System has much

to contribute to the nation's economic growth and social progress, as the preceding pages suggest.

We are eager to do our best. We are also sure that this depends on full freedom, under regulation, to achieve earnings that will sustain investor confidence and enable us to obtain large sums of capital in competition with alternative investment opportunities.

We want to be a buoyant, constructive force in the economy . . . providing the best and most dependable services at the lowest possible prices consistent with what the users of service desire. We want to draw able people into the business and strongly challenge their talents and energies. We can only do these things, however, in a climate of regulation that encourages efficiency, innovation, and sustained drive toward important goals.

Financial statements

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS on the following pages consolidate the accounts of American Telephone and Telegraph Company and its telephone subsidiaries (named on page 4). 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 telephone subsidiaries as of December 31, 1967 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 telephone subsidiaries for the year 1966. 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 on pages 26 to 29, and related notes on page 32, present fairly the consolidated financial position at December 31, 1967 and 1966 and the consolidated results of operations for the years then ended of American Telephone and Telegraph Company and its telephone subsidiaries, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, N.Y., February 14, 1968

LYBRAND, ROSS BROS. & MONTGOMERY

Bell System

income statements

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

	THOUSANDS OF DOLLARS	
	Year 1967	Year 1966
OPERATING REVENUES		
Local service	\$ 6,737,734	\$ 6,354,655
Toll service	5,737,866	5,274,390
Miscellaneous	608,968	572,574
<i>Principally from directory advertising</i>		
Less: Provision for uncollectibles	75,364	63,354
Total operating revenues	<u>13,009,204</u>	<u>12,138,265</u>
OPERATING EXPENSES		
Maintenance	2,284,614	2,147,072
Depreciation	1,949,314	1,775,121
<i>Portion of the cost, computed on the straight line method, of depreciable plant charged against current operations, approximately 5.2% in 1967 and 5.1% in 1966</i>		
Traffic	1,146,329	1,091,509
<i>Costs, principally operators' wages, incurred in the handling of messages</i>		
Commercial	420,252	394,249
<i>Primarily costs of local business office operations</i>		
Marketing	586,629	552,367
Accounting	418,166	391,023
Research and fundamental development (a)	87,127	82,602
Provision for pensions and other employee benefits (b)	597,738	525,810
Other operating expenses	499,225	458,417
Less: Expenses charged construction	172,980	157,309
Total operating expenses	<u>7,816,414</u>	<u>7,260,861</u>
Net operating revenues	<u>5,192,790</u>	<u>4,877,404</u>
OPERATING TAXES		
Federal income	1,663,288	1,601,478
State, local and social security	1,212,647	1,117,015
Total operating taxes	<u>2,875,935</u>	<u>2,718,493</u>
Operating income (carried forward)	<u>\$ 2,316,855</u>	<u>\$ 2,158,911</u>

For notes, see page 32.

THOUSANDS OF DOLLARS

	Year 1967	Year 1966
Operating income (<i>brought forward</i>)	\$2,316,855	\$2,158,911
OTHER INCOME (c)	274,836	281,165
Total income	<u>2,591,691</u>	<u>2,440,076</u>
INTEREST DEDUCTIONS	481,421	402,818
<i>Principally on long-term debt</i>		
Net income	<u>2,110,270</u>	<u>2,037,258</u>
NET INCOME OF SUBSIDIARIES CONSOLIDATED APPLICABLE TO SHARES NOT OWNED BY AT&T Co.	60,865	58,315
Net income applicable to AT&T Co. shares	<u>\$2,049,405</u>	<u>\$1,978,943</u>
EARNINGS PER SHARE	\$3.79	\$3.69
<i>Based on average AT&T Co. shares outstanding, 540,312,000 in 1967 and 536,107,000 in 1966</i>		

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS APPLICABLE TO AMERICAN TELEPHONE AND TELEGRAPH COMPANY SHARES

THOUSANDS OF DOLLARS

	Year 1967	Year 1966
BALANCE AT BEGINNING OF YEAR	\$6,602,739	\$5,811,235
ADDITIONS:		
Net income applicable to AT&T Co. shares	2,049,405	1,978,943
Miscellaneous—net	18,099	—
DEDUCTIONS:		
Dividends on AT&T Co. shares	1,215,741	1,179,435
Miscellaneous—net	—	8,004
BALANCE AT END OF YEAR	<u>\$7,454,502</u>	<u>\$6,602,739</u>

Bell System balance sheets

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

ASSETS	THOUSANDS OF DOLLARS	
	December 31, 1967	December 31, 1966
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone plant—at cost		
Land, buildings and equipment		
In service	\$40,152,549	\$37,209,053
Under construction	1,286,852	1,108,630
Held for future use	36,270	36,499
	<u>41,475,671</u>	<u>38,354,182</u>
Less: Portion charged to date to operations as provision for depreciation	<u>9,179,490</u>	<u>8,307,902</u>
	32,296,181	30,046,280
Other investments		
Investment in subsidiaries not consolidated (d)	1,787,531	1,713,048
Other (e)	193,763	177,860
	<u>34,277,475</u>	<u>31,937,188</u>
CURRENT ASSETS		
Cash and temporary cash investments	1,236,893	1,293,366
Receivables—less allowance for uncollectibles	1,619,994	1,485,803
Material and supplies	144,375	156,378
	<u>3,001,262</u>	<u>2,935,547</u>
PREPAID EXPENSES AND DEFERRED CHARGES	<u>329,164</u>	<u>345,545</u>
Total assets	<u>\$37,607,901</u>	<u>\$35,218,280</u>

For notes, see page 32.

LIABILITIES

THOUSANDS OF DOLLARS

	December 31, 1967	December 31, 1966
EQUITY		
American Telephone and Telegraph Company		
Shares (common)—par value (\$16 $\frac{2}{3}$ per share)	\$ 9,019,804	\$ 8,990,322
<i>Authorized 600,000,000 shares;</i>		
<i>outstanding at December 31, 1967, 541,188,000 shares</i>		
Share installments (f)	292,054	156,654
Premium on shares—see note (f)	5,081,059	5,026,737
Retained earnings—see page 27	7,454,502	6,602,739
	<u>21,847,419</u>	<u>20,776,452</u>
Subsidiaries consolidated—applicable to shares not owned by AT&T Co.	736,191	720,085
	<u>22,583,610</u>	<u>21,496,537</u>
LONG-TERM DEBT (g)	<u>11,677,000</u>	<u>10,352,000</u>
CURRENT LIABILITIES		
Notes payable	224,000	168,000
Accounts payable	1,017,919	1,022,499
Advance billing and customers' deposits	324,676	299,627
Dividends payable	330,656	302,126
Taxes accrued	852,051	1,070,508
Interest accrued	149,955	123,146
	<u>2,899,257</u>	<u>2,985,906</u>
DEFERRED CREDITS		
Unamortized investment credit	398,509	329,858
Other	49,525	53,979
	<u>448,034</u>	<u>383,837</u>
Total liabilities	<u><u>\$37,607,901</u></u>	<u><u>\$35,218,280</u></u>

Ten years in review

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

000 OMITTED FROM DOLLAR AMOUNTS EXCEPT AMOUNTS PER SHARE

	1967	1966	1965
INCOME AND EARNINGS			
<i>Years ended Dec. 31</i>			
Operating revenues	\$13,009,204	\$12,138,265	\$11,061,783
Operating expenses	7,816,414	7,260,861	6,670,547
Taxes	2,875,935	2,718,493	2,440,031
Net operating income	2,316,855	2,158,911	1,951,201
Other income, net*	274,836	281,165	261,217
Total income	2,591,691	2,440,076	2,212,418
Interest deductions	481,421	402,818	362,231
Net income	2,110,270	2,037,258	1,850,187
Net income applicable to AT&T shares	2,049,405	1,978,943	1,796,094
Earnings per share†	\$3.79	\$3.69	\$3.44
Dividends paid per share†	\$2.20	\$2.20	\$2.00
Return on equity capital	9.73%	9.86%	9.53%
Return on total capital	7.77%	7.91%	7.65%

OWNERSHIP AND CAPITAL

End of year except as noted

AT&T share owners	3,110,074	3,089,648	2,840,500
Shares outstanding—average number†	540,312,000	536,107,000	526,635,000
Equity capital per share†	\$39.83	\$38.23	\$36.50
Total capital	\$34,484,610	\$32,016,537	\$29,759,921
Proportion of debt in total capital	35.36%	33.35%	32.72%

TELEPHONE PLANT, SERVICE, EMPLOYEES

Construction expenditures	\$ 4,309,620	\$ 4,192,564	\$ 3,917,640
Total plant at end of year	41,475,671	38,354,182	35,334,071
Telephones in service—end of year	83,762,000	79,903,000	75,866,000
Average conversations per day	306,873,000	295,187,000	279,686,000
Overseas conversations per year	12,300,000	9,932,000	8,108,000
Employees at end of year**	841,241	833,559	795,291
Wages and pension and benefit costs**	\$ 7,124,688	\$ 6,724,941	\$ 6,188,071

* includes earnings of Western Electric Company

** including Western Electric and Bell Telephone Laboratories

† on basis of \$16½ par value shares

AND ITS TELEPHONE SUBSIDIARIES CONSOLIDATED

1964	1963	1962	1961	1960	1959	1958
\$10,305,993	\$ 9,568,961	\$ 8,980,208	\$ 8,414,426	\$ 7,920,454	\$ 7,392,997	\$ 6,771,403
6,125,738	5,611,856	5,305,037	5,012,790	4,754,289	4,479,495	4,231,868
2,382,809	2,302,006	2,150,100	1,971,687	1,847,702	1,690,289	1,483,150
1,797,446	1,655,099	1,525,071	1,429,949	1,318,463	1,223,213	1,056,385
260,955	207,578	214,831	178,434	189,763	147,197	136,687
2,058,401	1,862,677	1,739,902	1,608,383	1,508,226	1,370,410	1,193,072
347,778	335,319	306,950	282,796	257,271	221,641	211,609
1,710,623	1,527,358	1,432,952	1,325,587	1,250,955	1,148,769	981,463
1,658,606	1,479,517	1,388,175	1,284,586	1,212,966	1,113,152	952,305
\$3.24	\$3.03	\$2.90	\$2.76	\$2.77	\$2.61	\$2.33
\$1.95	\$1.80	\$1.80	\$1.72½	\$1.65	\$1.57½	\$1.50
9.51%	9.49%	9.47%	9.46%	10.00%	9.77%	9.03%
7.56%	7.45%	7.45%	7.41%	7.69%	7.55%	7.01%
2,674,141	2,251,065	2,210,671	2,049,213	1,911,484	1,736,681	1,619,397
512,047,000	488,203,000	479,173,000	465,255,000	438,467,000	426,806,000	407,895,000
\$34.96	\$32.63	\$31.27	\$29.86	\$28.16	\$27.16	\$26.21
\$28,036,428	\$25,600,714	\$24,303,616	\$22,318,062	\$20,454,986	\$18,892,016	\$17,723,305
32.73%	35.33%	35.35%	34.64%	36.40%	36.26%	35.29%
\$ 3,518,896	\$ 3,135,854	\$ 2,975,980	\$ 2,696,026	\$ 2,658,381	\$ 2,249,143	\$ 2,185,764
32,543,833	30,064,269	27,913,746	25,892,817	24,072,499	22,205,475	20,646,355
72,044,000	68,640,000	65,987,000	63,178,000	60,735,000	57,944,000	54,684,000
262,082,000	251,026,000	242,383,000	226,422,000	219,093,000	208,042,000	196,688,000
6,382,000	5,290,000	4,914,000	4,365,000	3,713,000	3,089,000	2,688,000
761,611	733,138	728,978	725,760	735,766	729,035	724,921
\$ 5,715,504	\$ 5,246,160	\$ 5,068,175	\$ 4,798,698	\$ 4,624,178	\$ 4,323,821	\$ 4,085,938

Notes to Bell System financial statements

(a) 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.

(b) The Company and its subsidiaries have non-contributory plans covering all employees that provide for service pensions and death benefits. These companies have accrual programs under which actuarially determined regular payments are made to trust funds that are irrevocably devoted to service pension and death benefit purposes. The total provision for these service pensions and death benefits was \$429,652,000 in 1967 and \$376,895,000 in 1966.

(c) Includes earnings of Western Electric Company and its subsidiaries in the amounts of \$152,996,000 in 1967 and \$172,963,000 in 1966. Also includes \$56,038,000 in 1967 and \$50,269,000 in 1966 for interest charged construction.

(d) Interest in the net assets of subsidiaries not consolidated. The total investment in Western Electric Company, the principal subsidiary not consolidated, was \$1,656,384,000 at December 31, 1967 and \$1,584,910,000 at December 31, 1966.

(e) At December 31, 1967 includes investments at cost in three other associated telephone companies (see page 4), \$110,862,000 and in Communications Satellite Corporation, \$57,915,000.

(f) 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, 1967 63,213,000 shares had been purchased and installment payments were being made on 8,243,000 shares. When shares are issued, the excess of the purchase price over the par value of the shares is credited to Premium on shares.

(g) At December 31, 1967 comprises \$143,000,000 maturing from 1968 to 1970, \$1,335,000,000 from 1971 to 1980 and \$10,199,000,000 thereafter.

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