

75 YEARS OF
SERVICE TO
THE NATION



1876-1951

ANNUAL REPORT 1950



American Telephone and Telegraph Company

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

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195 BROADWAY, NEW YORK 7, N. Y.

BELL SYSTEM HIGHLIGHTS FOR 1950

The Telephone Serves The Nation's Defense

The Bell System is working at top speed to meet every defense communication need. Demands are very heavy, for the telephone is vital to production and to the Armed Services and Civilian Defense authorities. The System is on the alert and will continue to do its full part—always.

Over 35,300,000 Telephones in Service

The gain in 1950 was more than 1,900,000 and since the war totals 13,500,000. A thousand rural telephones were added each working day.

High-Quality Service Was Well Maintained

Accuracy in handling calls improved. Despite heavy increases in toll and long distance calling 94 per cent went through on a “no hang-up” basis and the average speed was 1.6 minutes.

Bell System Earnings

Net operating income was less than 4.5 per cent on telephone plant. Earnings on capital were 6.1 per cent, compared with 4.9 per cent in 1949 and 7 per cent ten years ago. Consolidated earnings on A. T. & T. stock were \$12.58 per share in 1950. The Company needs more equity capital and adequate earnings are required to bring about conversion of convertible debentures into stock.

Taxes Totaled A Billion Dollars

Operating taxes together with Federal excise taxes paid by customers currently equal \$2.65 per telephone per month.

990,000 Stockholders

Nearly a million people living in 19,000 communities—better than one out of every 45 families in the United States—now own A. T. & T. stock.

\$2 Billion Total Payroll

Wage rates of Bell System employees on the average are about double the wage rates of 1939.

Nearly \$900 Million Expended for New Construction

In the last five years the System has expended almost five and a half billion dollars to expand and improve telephone service.



PRODUCTION FOR DEFENSE is speeded by fast, dependable telephone service. The telephone helps to make steel and everything else the country needs. Expansion and improvement of America's telephone system is of utmost value to all industry in getting more things done more quickly.

REPORT FOR THE YEAR 1950

The Board of Directors of the American Telephone and Telegraph Company presents herewith the management's accounting of its stewardship for the year 1950. This report is for the information of stockholders, employees, telephone users and the entire American people who have entrusted to private enterprise the responsibility for carrying on this essential nationwide service.

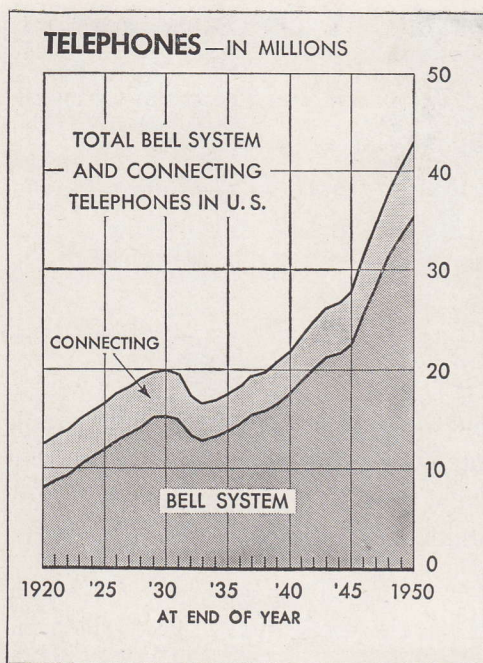
IN THE 75TH YEAR of the telephone the Bell System served more people and handled two and a half billion more conversations than in any previous year. The national emergency brought a new tide of telephone demand. Service high in quality was well maintained. The men and women of the System did a superb job.

Today more than ever, our country has the most and the best telephone service in the world. This is a bulwark of defense. The telephone speeds production. It is vital to the Armed Services. It spreads warning against attack. As the nation gathers its strength, the urgent calls of the hour are on the telephone lines.

The Bell System is alert to its essential task and is preparing further. The System will do its full part in helping to keep America secure. That is our Number One job today.

In the last five years the System has spent almost five and a half billion dollars to expand and improve telephone facilities. An important part of this progress was made in 1950. Nearly \$900,000,000 was expended for new plant. All requests of military and defense authorities were fully met. More than 1,900,000 telephones were added. The proportion of dial telephones increased to 76 per cent. Service to farmers was further extended and modernized. Thousands of miles of radio relay and coaxial cable systems were placed in operation. Many more cities and towns were equipped for toll dialing and operators now dial more than a third of all toll and long distance calls straight through to the distant telephone. Direct dialing by customers was further extended so that some 3,500,000 telephone users can now dial many of their calls to nearby communities.

In 1950 also, Bell System earnings showed improvement over recent years. The proportion of debt in total capital, while still too high, was slightly



reduced. These are essential steps forward in enabling the Bell Companies to discharge their great responsibilities in the period ahead. Only a financially strong telephone system can contribute the most to the strength of the nation.

Over forty-three million telephones now serve the people of the United States—double the number before World War II and 15 million more than five years ago. This enormous gain plainly shows the increasing part the telephone plays in our national life. It also demonstrates the conspicuous success of the telephone industry in furnishing good service at reasonable prices.

In the performance of the industry as a whole, thousands of independently owned companies and systems operate nearly eight million telephones and make possible nationwide service through interconnection with Bell System lines. The continuing cooperation between the Independent organizations and the Bell Companies has been essential to the record of rapid growth and steady improvement.

Financing to Meet Demands for Service

While the System's service has doubled in the last ten years, new demand continues high. The plant is very heavily loaded and there are many urgent needs that require substantial construction.

In November 1950 the Company's stockholders voted to increase the number of shares of stock that can be issued from 35 to 45 million. They also authorized the Board of Directors at its discretion to issue up to \$435,000,000 in convertible debentures and to offer a maximum of 3,000,000 shares to Bell System employees under a new Employees' Stock Plan.

Pursuant to the above authorization, the Company has offered to stockholders \$415,414,000 of Twelve Year 3 $\frac{3}{8}$ % Convertible Debentures, for subscription in the ratio of \$100 of debentures for each seven shares of stock held on January 29, 1951. These debentures will be dated March 19, 1951. They



EVERY WORKING DAY in 1950, 1,000 rural telephones were added. More than 1,500,000 have been added in five years. The cost of construction has been more than \$100,000,000 a year.

will be convertible into stock beginning June 1, 1951, at \$138 per share, payable by surrender of \$100 of debentures and payment of \$38 in cash.

In February of 1950 the American Company sold \$200,000,000 of non-convertible debentures. About 2,370,000 shares of stock were issued during the year as the result of conversions of the Company's three outstanding convertible debenture issues; this reduced debt by \$237,000,000 and increased stock capital by \$313,500,000, the latter amount being larger on account of the cash premiums paid in. Nearly a million shares were issued under the Employees' Stock Plan, and employees made installment payments toward purchase of additional shares.

A year ago the proportion of debt in the System's capital was about 52 per cent. Today it is about 48 per cent, and with full subscription of the new issue of convertible debentures the proportion would be about 50 per cent. This general level of debt is much too high. Most of the new money needed to meet service demands should come from the issue of stock, either

through bond conversions or otherwise. That is the foundation of our whole financing program. About \$400,000,000 of the previous three convertible debenture issues are now outstanding. Their complete conversion, together with conversion of the full amount of the new issue, and sale of the balance of shares which may be issued under the Employees' Stock Plan authorized in 1946, would reduce the debt in the System's capital structure to about 37 per cent.

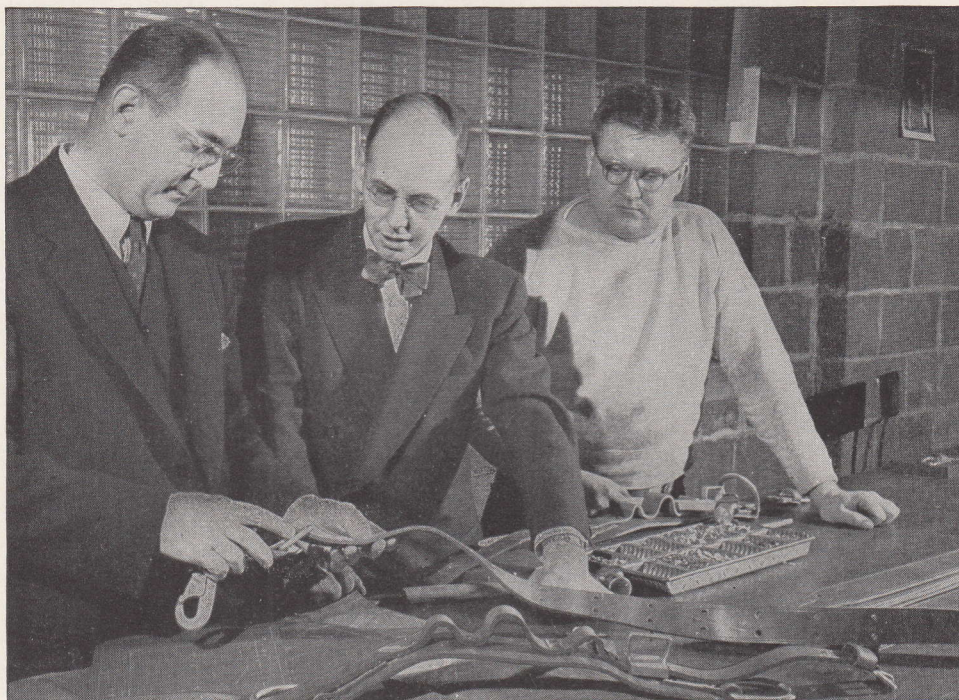
As a long-range objective, the proportion of debt should be further reduced. Experience makes clear the wisdom of this. When the System entered the postwar period less than a third of its capital was debt. That made it possible for the Bell Companies to obtain, in a very short time, the enormous amounts of new money needed to meet unprecedented service demands. It is hard to see how otherwise we could have discharged our responsibilities to the public we serve. We should be no less well prepared for the future.

Rates and Earnings Must Be Adequate

Today we face new responsibilities, and great ones. The Bell System must be ready to meet them all and meet them well. Especially in these critical times, it is essential to keep the System in the best possible position to meet the nation's every need for fast, efficient, dependable telephone service. The foundation of our strength to serve is our financial strength.

Operating revenues of the System in 1950 were \$3,261,528,000, an increase of \$368,255,000 or about 13 per cent over 1949. Operating expenses of \$2,334,362,000 compared with \$2,248,833,000 in 1949. Net operating income in 1950 was less than 4.5 per cent on telephone plant and the return would be even lower if the plant were valued at present costs. The rate of earnings on capital was 6.1 per cent, compared with 4.9 per cent in 1949 and 7 per cent in 1940, ten years ago.

Total income available for interest and dividends in 1950 was \$472,114,000. Interest charges amounted to \$113,247,000. Consolidated net income applicable to American Telephone and Telegraph Company stock was \$346,962,000, or \$12.58 per share, compared with \$9.70 per share in 1949. Investment per share at the end of 1950 was \$138, compared with about \$135 at the end of 1949. Net income of the American Company by itself (which includes earnings of subsidiaries only to the extent that they have been received by the Company as dividends) was \$10.40 per share in 1950, compared with \$9.49 in 1949.



LINEMEN'S SAFETY BELTS are inspected by a buyer who is purchasing them for the telephone companies. The Bell System spends millions every month in purchases from many thousand local firms all over the country. This helps local business. So does the spending of wages by 600,000 Bell employees. And dividends to nearly a million A. T. & T. owners are banked and spent in 19,000 communities. A financially healthy Bell System contributes to prosperity everywhere.

Wage, tax and material costs have continued to mount. Telephone rates and earnings must be sufficient to meet these increases, to attract and protect equity capital, and to assure a sound financial structure. With rates adequate to maintain the necessary earnings, most of the Company's convertible debentures would be converted into stock and the debt would be reduced.

Telephone Charges Are Up Much Less Than Most Prices

The telephone industry has long been under continuous public regulation. Regulatory authorities through the years have generally had the wisdom to approve levels of rates that have permitted good service, fair wages and reasonable earnings. The outstanding development of the telephone in this country is due in no small measure to this fact.

Since the middle of 1950 alone, increases in costs have offset a substantial part of the progress made in the entire postwar period in adjusting rates up-

ward. Over the war and postwar years labor and raw material costs have doubled. Yet the rise in telephone charges continues to be much less than the increase in cost of most other things, and amounts to only a few cents per day per telephone. Telephone rate increases so far, together with those requested, average less than 25 per cent of Bell System revenues; and the rate increases that have been authorized amount to only a little more than half the current annual cost of telephone wage increases alone.

Construction of new plant must go forward to meet the nation's new needs and to replace equipment that can no longer be used. Each telephone added today requires a much larger investment than the average investment five years ago. Thus increases in rates are needed not only to meet rises in the costs of doing business but also to provide a reasonable return on the higher investment per telephone. Applications for increased rates are pending in most states and other applications will be made as necessity requires.

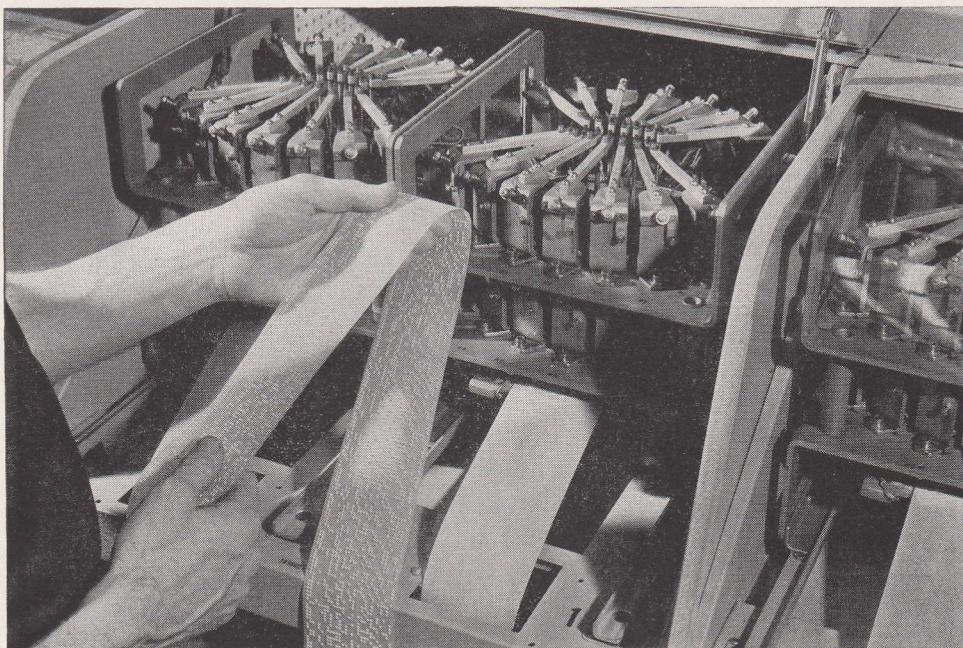
In relation to family incomes—as the very growth of the service makes clear—the telephone is a better buy today than ever before. Also, the increase in the scope of service has further increased its value. Telephone users in the average community can now reach twice as many telephones without toll charges as ten years ago. In many places the increase has been much greater because of enlargement of the local service area to include neighboring towns or cities. A further result of these enlargements is that several hundred million calls a year which previously would have been handled as toll calls are now being handled as a part of the local service.

In January 1951 the Federal Communications Commission ordered hearings beginning April 16 to determine if the Bell Companies' interstate toll and long distance rates should not be reduced. Subsequently the Commission postponed the date for hearings until August 20. The Companies have informed the Commission that they consider the order unjustified.

Taxes Are \$2.65 Per Telephone Per Month

Taxes on Bell System telephone service in 1950 were about a billion dollars—some \$200 million more than in 1949. The effect of the new Federal tax laws recently enacted will be to increase taxes somewhat further in 1951, due mainly to the higher corporation surtax rate. Currently, taxes are running at a rate of well over a billion dollars annually, and are equal to about \$2.65 per telephone per month.

Federal excise taxes paid by customers in 1950, and remitted by the



NEW AUTOMATIC ACCOUNTING SYSTEMS developed by Bell Telephone Laboratories are making it possible for customers in more areas to dial many of their own out-of-town calls. As each call is made, the equipment simultaneously punches a record of it into a special paper tape. The tapes are then automatically "translated" into billing information at telephone accounting centers.

Bell Companies to the United States Treasury, came to about \$500,000,000. Taxes levied on the Companies (and also borne by telephone users in the last analysis) were \$499,451,000. While it is recognized that the nation's overall tax needs should be shared by all sections of the economy, it is apparent that the users of telephone service are carrying at least their full share of the existing tax load. No service of like necessity carries a like burden.

Demand for Service Continued to Increase

Though the gain in telephones in 1950 was a little less than in 1949, the gain in the second half of the year was higher. Toll and long distance messages increased throughout the year and most sharply in the second half. Demand went up as the nation acted to meet the defense emergency. The importance of good telephone service was never more clear.

Six million telephones were installed to meet new requests for service. The net increase of 1,955,000 brought the total number in service to over 35,300,000. Toll and long distance calls were put through at an average speed of 1.6 minutes and 94 per cent of them were handled while the calling

party held the line. This performance was close to the best in the past. Accuracy in handling both toll and local calls was further improved. Reports from customers of trouble on their lines were at the lowest level in history.

Twenty billion more telephone conversations were handled than in the last years before the war. In the same period toll and long distance messages have tripled. Especially over the longer distances, volume surged upward in 1950. Long-haul messages in the last six months were 17 per cent ahead of the same period in 1949; from the beginning to the end of the year, the increase was substantially greater than in the previous four years combined. Overseas calls, too, reached a new record high, with 715,000 messages handled—15 per cent more than in 1949.

Such increases illustrate the imperative need for continuing to build additional telephone lines and equipment in large amounts. Despite postwar expenditures for new construction averaging more than a billion dollars a year, the tremendous demand for service has made it necessary to load all facilities heavily. With demands continuing to rise, and with no margins in the existing plant, provision of additional service requires building additional plant in proportion.

The number of unfilled orders in 1950 was held to about two per cent of all telephones in service. Most of these are recent orders for residence service in areas where growth has been greatest. More than 900,000 requests were cared for from party-line customers desiring higher classes of service. Defense construction requirements and related problems, including shortages of copper, nickel and other essential materials, make it more difficult to meet all civilian needs, but substantial construction is programmed and every effort will be continued.

The Telephone Works for Defense

The Bell System is meeting all the communication needs of military and civilian defense authorities. Telephone facilities are linking the country's air defense system into a nationwide network, from radars and observation posts to control centers, airfields and local defense organizations. Thousands of miles of private lines are being provided to the Armed Forces. More and more lines and switchboards serve military camps and bases. Attended public telephone centers and other convenient arrangements are provided to handle calls for men in uniform.

The Bell Companies have moved to guard vital telephone equipment

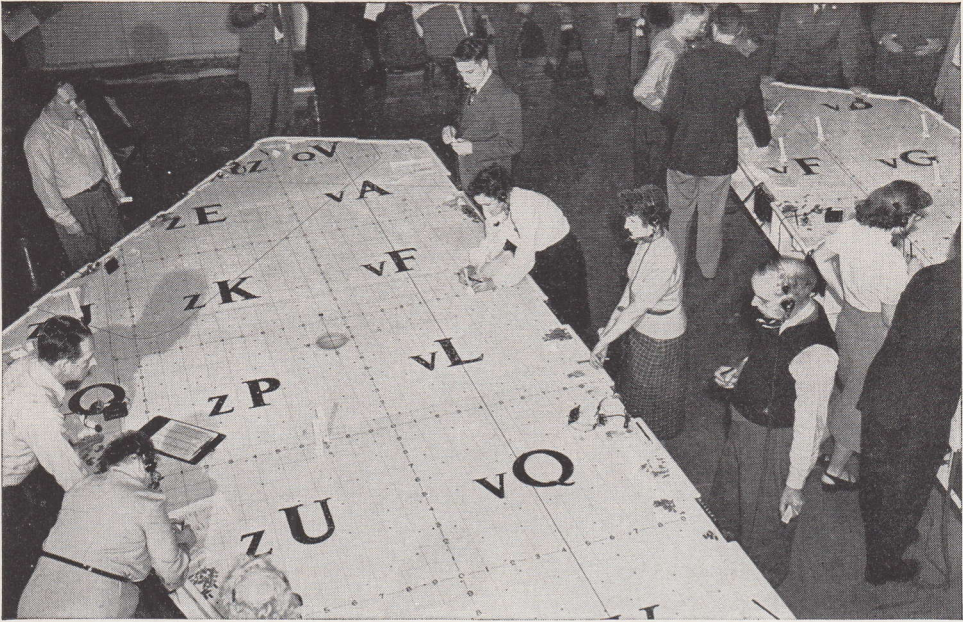


FRIENDLY SERVICE is provided at attended telephone centers in military bases and training camps.

against sabotage. Standby engine-driven power plants are ready to operate in case of emergency. Work is going ahead to assure that if production centers or other key locations are attacked, alternate communication routes will be ready.

Over and above specific developments of this kind, the whole expansion and improvement of the telephone system since World War II have made it more sturdy, more useful, more convenient, and a greater asset to the nation. The long distance network has grown from 16 to 26 million miles. Dial service has been greatly expanded for both toll and local calling. Rural areas served by the Bell Companies have more than twice as many telephones as in 1945. Service to automobiles, trucks, boats, trains and other vehicles is available in nearly 150 areas and more than 9,000 vehicles are being served—a 20 per cent increase last year.

Radio relay systems were extended more than 2,000 miles in 1950 and construction to provide transcontinental telephone service by radio relay is now under way. These systems, like coaxial cables, provide wide communications highways that can carry hundreds of telephone conversations, or television programs. Facilities for carrying television programs more than doubled during the year and networks now serve 82 television stations in 44



AIRCRAFT MOVEMENTS ARE MAPPED in a civilian defense "filter center" as reports from observation posts are received by telephone. The Bell System is now providing very large defense communication facilities at the request of military and civilian defense authorities.

cities, or 19 more cities than at the end of 1949. These stations broadcast over areas containing half the country's population.

Employees Demonstrated the Spirit of Service

The work of telephone men and women was never better performed than in 1950. Bell System employees are able and courteous and the day-by-day spirit of the telephone job is the spirit of friendly and personal public service. Last year also, the resources and abilities of Bell people and their Companies were challenged by some of the most severe emergencies in telephone history. These included ice storms in the far west and midwest—hurricanes in the south—and the devastating November windstorm in the east.

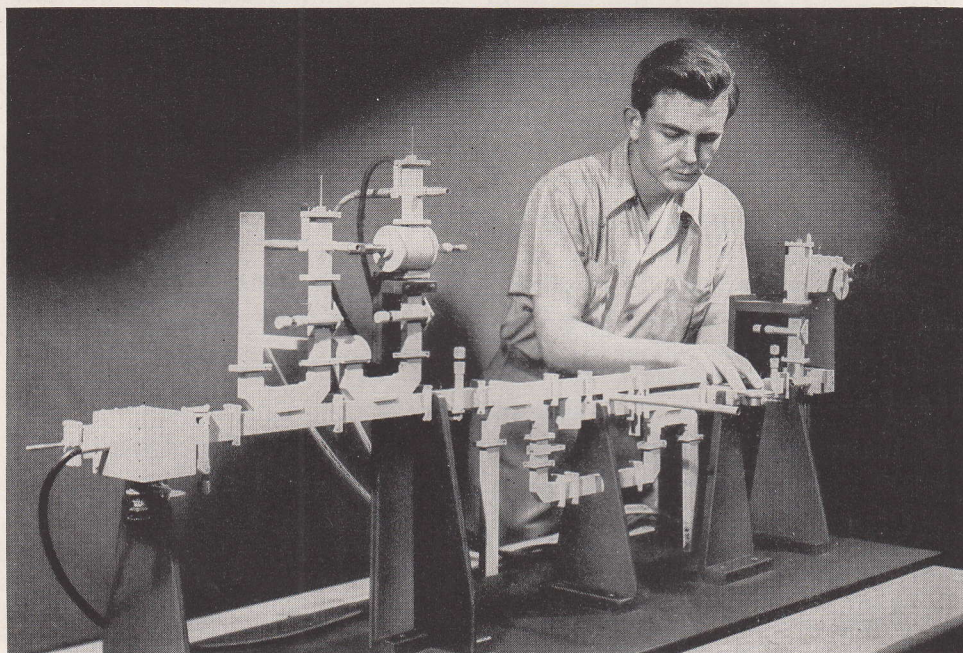
The latter put more than 600,000 telephones temporarily out of service—a larger number than in any previous storm. At the same time snowbound conditions a little farther west sent the volume of calls up 50 per cent. The emergency was magnificently handled. Operators and others stayed long hours at their posts to get calls through. Plant crews worked around the clock. More than half the silenced telephones were back in service within 48 hours and most of the rest within the next two or three days. Hundreds of skilled

Bell System plant craftsmen moved into the hardest hit sections from neighboring states. Western Electric, the System's service of supply, kept a steady flow of materials moving and in the week following the storm shipped 17 million feet of rubber-covered wire into storm-struck areas—more than five times the normal need. The spirit of service and teamwork of Bell System people overcame the most difficult conditions in record time.

Research Is Increasingly Productive

Bell System research has resulted in a greater output of new things in the last five years than in any similar period before. It has produced a new telephone set for the customer's use; new kinds of wires and cables to carry his messages; new ways of using the wires and cables more efficiently; new devices and systems for carrying intelligence by microwave, without wires; new dial systems to connect telephones together; and new ways of automatically recording information for the customer's bill.

These things will contribute greatly to the nation's defense, both in providing essential communication services and in reducing the need for



THIS IS A "WAVE GUIDE" — used in guiding electric waves through a radio relay station. Wave guides are one of many Bell Laboratories developments that make microwave radio relay systems possible. These rectangular pipe-like structures must be designed and built with the greatest accuracy. Here a laboratory test is being made of the electrical effect of a particular surface finish.

scarce materials. For example, a new system is now being manufactured that permits twelve conversations to be carried over each four wires in short telephone cables, from 20 to 200 miles in length. This can be applied to cables already in place and hence will be of particular value in saving copper. Carrier systems, of which this is one, have been employed for years and Bell Laboratories has led the world in their development. Previous systems, however, have been economical only over longer distances. The new "N Carrier," combining new ideas and miniature apparatus in a remarkably effective way, opens up a whole new field to the carrier art.

Bell Laboratories scientists are diligently seeking substitutes for various scarce materials used in telephone equipment. Research on materials has long been a major Laboratories activity, and the experience gained will help greatly in obtaining utmost economy in critical materials, with a minimum of compromise in the quality of equipment.

Bell System research facilities are also an invaluable national resource in the development of military equipment. Bell Laboratories contributions in World War II, especially in radar, submarine detection, and gunfire and bombing control systems, as well as in military communications by wire and radio, played a major role on land and sea and in the air. Since the war a substantial amount of research has been continued for the Armed Services on projects requiring the Laboratories' unique skills and facilities. These activities are now being sharply expanded at the Services' request.

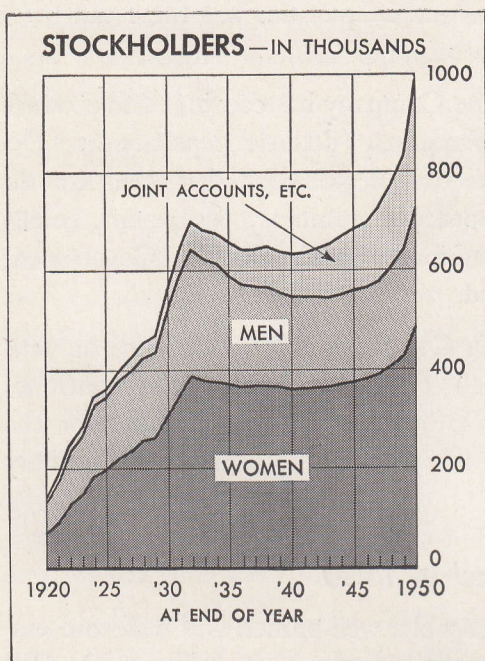
Nearly One Million A. T. & T. Owners

More than 990,000 owners now hold the stock of American Telephone and Telegraph Company. The Company has twice as many stockholders as any other business enterprise. The increase of 156,000 in 1950 was the largest in any year.

Better than one in every 45 families in the United States shares directly in Bell System ownership. These families live in 19,000 cities, towns and rural areas throughout the country. They are a cross-section of the American people.*

More than 200,000 Bell System employees own A. T. & T. stock. Over 150,000 received shares in 1950 as they completed installment payments under

* An interesting article about A. T. & T. stockholders, entitled "Here Are the People Who Own This Business," may be obtained on request to the Secretary of the Company, 195 Broadway, New York 7, N. Y.



the Employees' Stock Plan. Of the 2,800,000 shares authorized by the stockholders in 1946 for sale to employees, nearly 1,200,000 shares have been purchased and 230,000 employees are buying the rest.

Nearly 40,000 stockholders are trustees, schools, churches and others who hold their stock for the benefit of a great many other people. Some 220,000 other holdings are in joint accounts shared usually by two people, sometimes by more. Three-quarters of all stockholders at the end of the year held 25 shares or less. About 270,000 have owned stock for 15 years or longer. The average holding was

29 shares and no stockholder held as much as one-half of one per cent of the total stock.

Western Electric Sales Were \$758,000,000

Western Electric Company, the manufacturing and supply unit of the System, had another busy year meeting the heavy needs of the Bell Telephone Companies. Production was again far above the level of pre-war years although not as large as in 1949. Sales amounted to \$758,064,000. Eighty-seven per cent of the sales were to Bell Telephone Companies and most of the remainder to the United States Government. Earnings for the year were \$38,647,000 or 5.1 per cent of sales.

Regular production of the new "N" carrier system already described was begun in 1950 and output was being built up by the end of the year. The new improved telephone set was also brought into regular production in a new factory in Indianapolis specially designed and built for the purpose.

The Company's ability to produce telephone equipment and cable for the Bell Telephone Companies has already been affected by shortages of strategic materials such as copper, zinc, nickel, rubber and aluminum. Continuing difficulties in obtaining materials and parts may curtail deliveries to the Bell System in 1951. Western Electric and Bell Laboratories are taking

advantage of all practical substitutions and adaptations but these can meet the problem only in part.

Since the end of World War II the Company has continued to produce much special equipment for the Government defense departments. Deliveries to the Government in 1950 exceeded \$53,000,000. In recent months work has started on large additional orders for military equipment, chiefly electronic in character. Telephone equipment and cable for Government defense projects are also being supplied.

Through its subsidiary, the Sandia Corporation, Western Electric with the cooperation and assistance of Bell Telephone Laboratories continues to operate the Sandia Laboratory at Albuquerque, New Mexico, for the Atomic Energy Commission. This establishment is concerned with military applications of atomic energy.

Bell System Employees Increased in 1950

Good telephone service requires capable, well-trained and well-paid employees. Two hundred and five thousand employees have worked in the Bell System 10 years or more and 143,000 have served 20 years or more. The rate of turnover in the force is well below the rate in industry generally and in 1950 it continued to decline.

All told there were 602,500 employees at the end of the year, an increase of about 8,600 over 1949. Of these, 73,500 were employed by Western Electric Company and 5,800 by Bell Telephone Laboratories. More than 60 per cent of all employees are women. The 1950 total payroll, including Western Electric and the Laboratories, exceeded two billion dollars for the third successive year. The expense payroll of the telephone companies represented 63 per cent of operating expenses other than taxes. On the average, wage rates for Bell System employees are now about double what they were in 1939.

Most of the Bell Companies concluded new wage agreements with the unions at different times during the year. Three divisions of the Communications Workers of America (CIO), representing certain Western Electric employees, and one division representing employees of the Michigan Bell Telephone Company were on strike for ten days in November. However, service was approximately normal except in scattered localities.

More than 8,000 employees were on active duty with the Armed Forces at the end of the year. This number includes officers and enlisted

specialists who had volunteered for service in four reserve units formed in cooperation with the Signal Corps of the Army. Five other similar units are still on reserve status.

Employees of the Bell Companies entering military service generally receive the difference between Company pay and military pay for a specified period. The period is ordinarily longer in the case of those who have dependents. Employees on military leave are also generally assured full credit for Company service while they are away, and protection of their benefit and pension rights. For employees represented by unions, such plans have been worked out through collective bargaining.

The Bell Companies maintain thrift plans under which employees may authorize regular allotments from pay. Under these plans, employees in 1950 laid aside \$234,000,000, or 12 per cent of the payroll, for purchase of U. S. Savings Bonds and A. T. & T. stock, and for life insurance premiums, hospital and surgical care plans, and deposits in savings institutions.

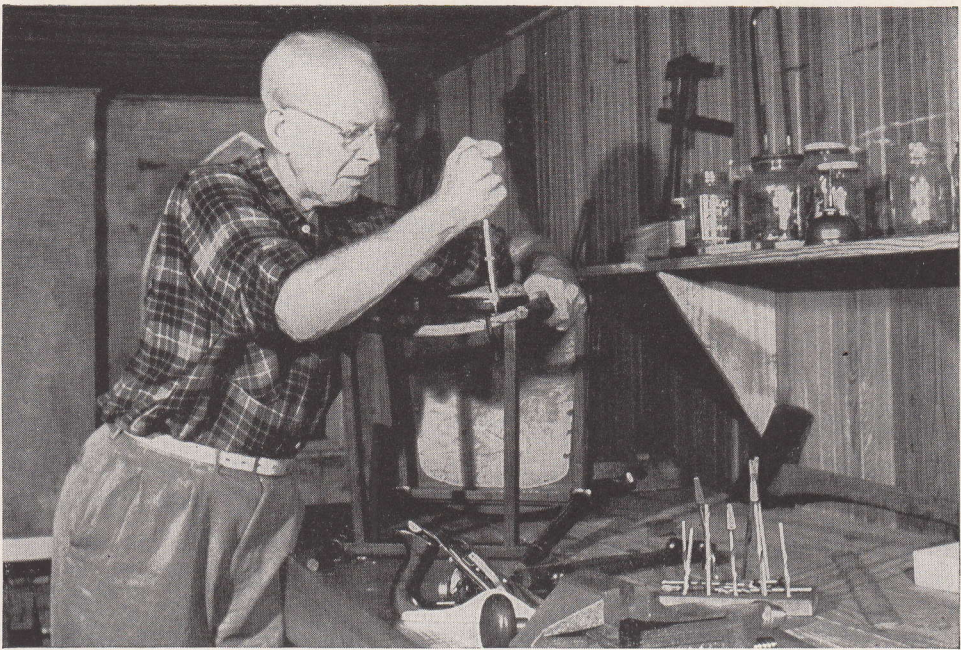
Under the Theodore N. Vail Memorial Fund established in 1920, four silver medals and 37 bronze medals were awarded in 1950. These awards were made in recognition of acts of noteworthy public service which reflect the Bell System's high traditions of loyalty and devotion to duty.

Employee Benefit and Pension Payments

About \$199,000,000, equal to 9.9 per cent of the payroll, was expended for benefit and pension purposes in 1950 by the Bell System Companies, including Western Electric Company and Bell Telephone Laboratories. Payments to about 118,000 employees and their dependents, to Pension Trust Funds, and to the Federal Government for Social Security old age benefits, were as follows:

To Pension Trust Funds	\$137,656,000
Employer's Tax—Social Security Old Age Benefits.....	23,747,000
Sickness Disability Benefits	28,641,000
Accident Disability Benefits.....	1,622,000
Death Benefits	4,996,000
Disability Pensions	2,474,000
Total	<hr/> \$199,136,000

The Plans of the Companies for Employees' Pensions, Disability Benefits and Death Benefits, as amended from time to time to meet changed conditions, have been in effect since 1913. They have been maintained on



PENSIONS ARE AN IMPORTANT ASSISTANCE to retired Bell System men and women. The Pension Plans of the Bell Companies have been among the best in all industry for nearly 40 years.

a sound basis and without any cost to employees. The Plans are an important assistance to employees and over the 38 years of their existence they have continuously helped to maintain the efficiency of the business.

Service pensions are paid from Pension Trust Funds accrued in advance on an actuarial basis. These Funds are devoted wholly and irrevocably to service pension purposes. Other payments under the Plans are made directly by the Companies as they become payable.

The Pension Trust Funds of the Bell System Companies, including Western Electric Company and Bell Telephone Laboratories, amounted to \$1,231,332,000 at the end of 1950. There were 14,962 men and 10,250 women, or a total of 25,212 on the service pension rolls at the end of the year. Some 17,400 more employees had been credited with enough service and had attained the age which entitled them to retire on pension at their own request.

Freedom to Serve in Freedom's Defense

For three quarters of a century the Bell System has rendered service of more and more value to the American people. The telephone began in this

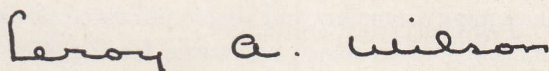
country. Here it has been most widely developed and used. Our service has always been the best in the world, and its greatest increase in usefulness has come in the last five years. This is a great asset in helping to defend the freedom of the United States.

Our telephone service is also a product of freedom. In the building of the Bell System, countless discoveries and inventions have had to be achieved by the inquiring spirit of free men. Opportunity has been open to all. Competition has flourished throughout the organization. Worthwhile incentives and reasonable rewards have fostered the will and capacity for leadership. In the rendering of service day by day, the responsibility to get the message through is accepted as a public trust: that too is the exercise of freedom.

All that has been achieved flows from the nation we serve. Under public regulation, the Bell System has generally been allowed the freedom it needs to perform its service well. It is essential that this freedom to serve be undiminished; that research and invention go vigorously forward; that new leaders be encouraged and prepared to lead; and that earnings be fully adequate to continue to pay good wages to employees, and a return to investors sufficient to attract and protect the billions of dollars of savings that make the service possible.

Through the years private enterprise and public policy in telephone communication have returned to the nation a value beyond price. We are confident they will do no less in the years to come. We are determined to meet the responsibilities entrusted to us, and we pledge our utmost efforts, always, in devotion to the public service and to the lasting security and advantage of the people of the United States.

For the Board of Directors,

A handwritten signature in dark ink, reading "Leroy A. Wilson". The signature is written in a cursive, flowing style. The first name "Leroy" is written in a larger, more prominent script, followed by "A." and then "Wilson".

President

FEBRUARY 21, 1951

CERTIFICATE OF AUDIT

TO THE STOCKHOLDERS OF AMERICAN TELEPHONE
AND TELEGRAPH COMPANY:

We have examined the balance sheet of American Telephone and Telegraph Company as of December 31, 1950, the consolidated balance sheet of the company and its principal telephone subsidiaries as of December 31, 1950, and the related statements of income and surplus for the year 1950. Our examination with respect to such companies was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Examinations of similar scope have been made by us of the balance sheets as of December 31, 1950 and of the statements of income and surplus for the year 1950 of the principal nonconsolidated subsidiaries of American Telephone and Telegraph Company, except Western Electric Company, Incorporated, and its subsidiaries, and we have reviewed accounting reports for the year 1950 rendered to American Telephone and Telegraph Company by all other nonconsolidated subsidiaries. The consolidated balance sheet of Western Electric Company, Incorporated, and consolidated subsidiaries as of December 31, 1950 and the related statement of consolidated income of these companies for the year 1950, with certificate of examination thereof by other independent accountants, have been furnished to us.

In our opinion, the financial statements (pages 28 to 31) and the consolidated financial statements (pages 21 to 26) present fairly the position at December 31, 1950 and the results of operations for the year 1950 of American Telephone and Telegraph Company and the consolidated position at December 31, 1950 and the consolidated results of operations for the year 1950 of the company and its principal telephone subsidiaries, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.
February 20, 1951

FINANCIAL STATEMENTS

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS appear on pages 22 to 26, inclusive. These statements consolidate the accounts of the American Telephone and Telegraph Company, its directly-owned telephone subsidiaries (listed on page 32), and the Bell Telephone Company of Nevada, a wholly-owned subsidiary of the Pacific Telephone and Telegraph Company.

The companies consolidated have for many years maintained their accounts in accordance with Uniform Systems of Accounts prescribed for telephone companies by Federal authorities. The System of Accounts now in use was prescribed by the Federal Communications Commission, effective January 1, 1937.

Telephone Plant is shown in the Consolidated Balance Sheet in the aggregate of the amounts at which it is carried in the accounts of the individual companies consolidated. For the companies in the consolidated group, all intercompany security holdings, intercompany receivables and payables, and intercompany items of income and expense, except minor items which cannot readily be identified, are excluded. In the elimination of intercompany security holdings the difference between the total cost of such securities to the companies owning them and the total par value of such securities has been applied to reduce the combined surplus accounts of the companies consolidated.

The proportionate interest of the companies consolidated in subsidiaries not consolidated is included in the Consolidated Balance Sheet in the aggregate of the equities applicable thereto as computed from the accounts of these subsidiaries, and the proportionate interest in their earnings is included in "Other Income" in the Consolidated Income Statement. The principal subsidiary not consolidated is Western Electric Company, which manufactures most of the telephone apparatus, cable, switchboards, etc., used by the companies consolidated and procures and sells to them material and supplies not of its own manufacture. Contracts between Western Electric Company and its affiliated telephone companies provide that its prices to them shall be as low as to its most favored customers for like materials and services under comparable conditions. Items purchased by the telephone companies from Western Electric Company are entered in their accounts at cost to them, which includes the return realized by Western Electric Company on its investment devoted to such business.

Financial Statements of the American Telephone and Telegraph Company alone are shown on pages 28 to 31.

W. SHELMEKDINE
Comptroller.

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

CONSOLIDATED BALANCE SHEET

ASSETS

PLANT AND OTHER INVESTMENTS	December 31, 1950	December 31, 1949
Telephone Plant (a)	\$10,101,521,562	\$ 9,432,749,584
Classified in the accounts of the companies at December 31, 1950 as follows:		
Telephone Plant in Service.....	\$9,930,837,984	
Telephone Plant under Construction....	145,692,571	
Property Held for Future Telephone Use	14,850,111	
Telephone Plant Acquisition Adjustment	10,140,896	
Miscellaneous Physical Property	3,666,219	5,747,913
Investments in Subsidiaries not consolidated (b)	395,190,274	396,852,101
Equities in Subsidiaries not consolidated in excess of investments therein	58,604,389	52,543,023
Other Investments (b)	67,728,176	59,645,114
Principally in associated telephone companies.		
Total Plant and Other Investments	<u>\$10,626,710,620</u>	<u>\$ 9,947,537,735</u>

CURRENT ASSETS

Cash and Demand Deposits	\$ 87,583,878	\$ 77,751,341
Temporary Cash Investments	289,271,507	246,983,715
Comprises at December 31, 1950 U. S. short-term obligations having a market value of \$289,043,000.		
Special Cash Deposits	7,638,229	11,991,062
Current Receivables	383,391,516	325,875,951
Amounts due for service (less reserves amounting to \$4,114,309 at December 31, 1950), working advances, interest and dividends receivable, etc.		
Material and Supplies	109,220,982	98,983,926
Principally for construction and maintenance purposes.		
Total Current Assets	<u>\$ 877,106,112</u>	<u>\$ 761,585,995</u>

DEFERRED CHARGES

Prepayments of Directory Expenses, Rents, Taxes, etc.....	\$ 46,070,455	\$ 41,979,893
Other Deferred Charges	26,079,420	24,130,490
Total Deferred Charges	<u>\$ 72,149,875</u>	<u>\$ 66,110,383</u>
Total Assets	<u>\$11,575,966,607</u>	<u>\$10,775,234,113</u>

For notes, see page 26.

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

CONSOLIDATED BALANCE SHEET—Continued

LIABILITIES

	December 31, 1950	December 31, 1949
CAPITAL STOCK		
American Telephone and Telegraph Company:		
Common Stock—Par Value	\$ 2,861,595,600	\$ 2,526,118,300
Premiums on Capital Stock	626,252,091	522,888,638
<i>Amount received in excess of par value.</i>		
Capital Stock Installments (c)	123,821,900	169,778,347
Subsidiaries Consolidated—stocks held by public:		
Common Stock	109,829,200	100,705,700
Preferred Stock	17,904,300	17,904,300
Total Capital Stock	<u>\$ 3,739,403,091</u>	<u>\$ 3,337,395,285</u>
FUNDED DEBT (see page 27)		
American Telephone and Telegraph Company:		
Convertible Debentures (d)	\$ 444,954,000	\$ 681,975,900
Other Debentures	1,440,000,000	1,240,000,000
Subsidiaries Consolidated	1,748,000,000	1,733,000,000
Total Funded Debt	<u>\$ 3,632,954,000</u>	<u>\$ 3,654,975,900</u>
CURRENT AND ACCRUED LIABILITIES		
Notes Payable	\$ 54,000,000	\$ 112,900,000
Accounts Payable	299,800,331	250,911,813
Advance Billing for Service and Customers' Deposits	77,742,465	69,768,367
Dividends Payable	64,793,471	57,191,179
Other Current Liabilities	17,506,459	14,677,106
Interest Accrued	27,058,414	25,431,099
Taxes Accrued	336,162,173	207,458,280
Total Current and Accrued Liabilities	<u>\$ 877,063,313</u>	<u>\$ 738,337,844</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 14,504,123	\$ 15,635,150
<i>(After deduction of unamortized discount and expense.)</i>		
Other Deferred Credits	14,529,335	14,736,414
Total Deferred Credits	<u>\$ 29,033,458</u>	<u>\$ 30,371,564</u>
DEPRECIATION AND AMORTIZATION RESERVES	<u>\$ 2,826,244,999</u>	<u>\$ 2,649,266,064</u>
<i>Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.</i>		
SURPLUS APPLICABLE TO STOCKS OF SUBSIDIARIES		
CONSOLIDATED HELD BY PUBLIC	<u>\$ 9,367,971</u>	<u>\$ 5,517,457</u>
SURPLUS APPLICABLE TO STOCK OF A. T. & T. CO.		
Earned Surplus Reserved (e)	\$ 18,749,309	\$ 19,282,084
Unappropriated Earned Surplus (see page 25)	443,150,466	340,087,915
	<u>\$ 461,899,775</u>	<u>\$ 359,369,999</u>
Total Liabilities	<u>\$11,575,966,607</u>	<u>\$10,775,234,113</u>

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

CONSOLIDATED INCOME STATEMENT

OPERATING REVENUES	Year 1950	Year 1949
Local Service Revenues	\$1,941,369,137	\$1,697,291,339
Toll Service Revenues	1,184,655,271	1,071,840,752
Miscellaneous Revenues	145,004,457	134,376,823
<i>Derived from directory advertising, rents and miscellaneous sources.</i>		
Less: Uncollectible Operating Revenues	9,500,833	10,235,558
Total Operating Revenues (f)	<u>\$3,261,528,032</u>	<u>\$2,893,273,356</u>
OPERATING EXPENSES		
Current Maintenance	\$ 681,834,666	\$ 644,654,882
<i>Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition.</i>		
Depreciation and Amortization Expense	333,759,881	320,976,914
<i>Provision to meet loss of investment when depreciable property is retired from service, based on rates designed to spread this loss uniformly over the service life of the property. Such provision for 1950 represented approximately 3.8% of average investment in depreciable plant in service.</i>		
Traffic Expenses	662,818,178	659,122,348
<i>Costs incurred in the handling of messages, principally operators' wages.</i>		
Commercial Expenses	285,301,631	274,007,541
<i>Costs incurred in business relations with customers; pay station commissions; cost of directories, advertising, etc.</i>		
Operating Rents	27,327,292	25,570,037
General and Miscellaneous Expenses:		
General Administration	29,852,220	28,600,097
Accounting and Treasury Departments	135,808,469	133,015,959
Development and Research (g)	16,264,380	16,497,204
Provision for Employees' Service Pensions (h)	109,923,777	99,386,112
Employees' Sickness, Accident, Death and Other Benefits	34,818,812	29,388,563
Other General Expenses	44,868,313	44,570,194
Less: Expenses Charged Construction	28,215,403	26,956,546
Total Operating Expenses	<u>\$2,334,362,216</u>	<u>\$2,248,833,305</u>
Net Operating Revenues	<u>\$ 927,165,816</u>	<u>\$ 644,440,051</u>
OPERATING TAXES		
Federal Taxes on Income	\$ 240,758,813	\$ 121,017,203
Other Taxes—principally State, local and Social Security..	258,692,549	225,126,539
Total Operating Taxes	<u>\$ 499,451,362</u>	<u>\$ 346,143,742</u>
Net Operating Income (carried forward)	<u>\$ 427,714,454</u>	<u>\$ 298,296,309</u>

For notes, see page 26.

BELL SYSTEM FINANCIAL STATEMENTS

(American Telephone and Telegraph Company and its Principal Telephone Subsidiaries)

CONSOLIDATED INCOME STATEMENT—Continued

	Year 1950	Year 1949
Net Operating Income (brought forward)	\$ 427,714,454	\$ 298,296,309
OTHER INCOME		
Dividends from subsidiaries not consolidated (i)	\$ 33,662,144	\$ 39,292,447
Proportionate interest in earnings (after dividends) of subsidiaries not consolidated (j)	5,857,176	4,671,110
Dividends from other companies	4,799,911	4,199,121
Miscellaneous income (k)	13,190,714	18,133,067
Less: Miscellaneous deductions from income (h)	13,110,899	11,793,013
Income Available for Fixed Charges	<u>\$ 472,113,500</u>	<u>\$ 352,799,041</u>
FIXED CHARGES		
Interest on Funded Debt	\$ 108,892,158	\$ 105,951,671
Other Interest	4,633,386	6,360,265
Other Fixed Charges	31,014	28,180
Less: Release of Premium on Funded Debt—net	309,982	297,080
Net Income	<u>\$ 358,866,924</u>	<u>\$ 240,756,005</u>
NET INCOME APPLICABLE TO MINORITY INTERESTS		
Preferred Stock	\$ 1,074,258	\$ 1,074,258
Common Stock	10,830,615	6,826,282
Net Income Applicable to A.T.&T. Co. Stock ..	<u>\$ 346,962,051</u>	<u>\$ 232,855,465</u>
Consolidated Earnings per share of A. T. & T. Co. Stock (l)	\$12.58	\$9.70

Statement of Consolidated Unappropriated Earned Surplus Applicable to American Telephone and Telegraph Company Stock—Year 1950

BALANCE—DECEMBER 31, 1949	\$ 340,087,915
Net Income applicable to A. T. & T. Co. Stock	\$ 346,962,051
Transferred from Earned Surplus Reserved—Net	532,775
Profit on sales of securities	3,377,972
Adjustment of tax accruals for prior years	2,792,576
Miscellaneous additions	791,681
TOTAL ADDITIONS	<u>\$ 354,457,055</u>
Dividends on A. T. & T. Co. Stock	\$ 248,270,460
Amortization of Telephone Plant Acquisition Adjustment	707,812
Organization and Capital Stock Expense charged off	1,603,095
Net loss on sales of property and abandoned projects	707,408
Miscellaneous deductions	105,729
TOTAL DEDUCTIONS	<u>\$ 251,394,504</u>
BALANCE—DECEMBER 31, 1950	<u>\$ 443,150,466</u>

NOTES TO BELL SYSTEM FINANCIAL STATEMENTS

(a) "Telephone Plant" comprises land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, vehicles, furniture, etc. As required by the Uniform System of Accounts for Telephone Companies, "Telephone Plant in Service", "Telephone Plant under Construction" and "Property Held for Future Telephone Use" are stated at cost to the companies except that property included therein which was acquired from a predecessor owner is stated at its original cost when first dedicated to the public use. The amount classified as "Telephone Plant Acquisition Adjustment" represents certain costs attributable to property purchased from predecessor owners. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.

(b) These investments are, with minor exceptions, stated at cost. At December 31, 1950, securities carried in Investments in Subsidiaries not consolidated at \$26,678,000 have been deposited as part of the security for funded debt of a subsidiary consolidated.

(c) Installment payments and interest credited thereon applicable to shares (1,474,874 at December 31, 1950) which employees of the American Telephone and Telegraph Company and its subsidiaries elected to purchase under the Employees' Stock Plan authorized by stockholders in 1946. 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. In November 1950 stockholders authorized the Board of Directors at its discretion to offer a maximum of 3,000,000 shares of stock to employees of the American Telephone and Telegraph Company and its subsidiaries under a new Employees' Stock Plan.

(d) The American Telephone and Telegraph Company has given stockholders of record on January 29, 1951 rights to subscribe to \$415,414,000 principal amount of Twelve Year 3 $\frac{3}{8}$ % Convertible Debentures, due March 19, 1963, which will be convertible beginning June 1, 1951 into 4,154,140 shares of the Company's capital stock at \$138 per share.

(e) Reservations against contingency of refunds to subscribers in connection with certain pending rate proceedings.

(f) "Total Operating Revenues" include approximately \$17,600,000 in 1950 and \$11,300,000 in 1949 with respect to which reservations of surplus have been made against contingency of refunds to subscribers in connection with certain pending rate proceedings.

(g) Cost of development and research work carried on in behalf of the American Telephone and Telegraph Company by Bell Telephone Laboratories.

(h) The total provision for employees' service pensions amounted to \$118,105,483 for 1950 and \$107,567,818 for 1949, of which \$8,181,706 for each year was charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The companies and their independent public accountants consider that this latter amount was, in fact, a current operating expense.

(i) Includes dividends received from Western Electric Company in the amounts of \$31,439,361 in 1950 and \$37,424,155 in 1949.

(j) Includes the American Telephone and Telegraph Company's proportionate interest (over 99%) in the earnings (after dividends) of Western Electric Company and its subsidiaries amounting to \$7,133,372 in 1950 and \$5,055,380 in 1949.

(k) Includes interest charged construction in the amounts of \$7,275,809 in 1950 and \$12,700,328 in 1949.

(l) Based on average number of shares outstanding—27,585,607 in 1950 and 24,014,147 in 1949.

BELL SYSTEM FUNDED DEBT

December 31, 1950

	Amount	Increase During Year
American Telephone and Telegraph Company:		
Ten Year Convertible Debenture 2¾s, 1957.....	\$ 119,535,600	—\$ 45,424,700
Ten Year Convertible Debenture 3½s, 1959.....	59,170,000	—186,845,800
Fifteen Year Convertible Debenture 2¾s, 1961.....	266,248,400	—4,751,400
Thirty Year Debenture 2¾s, 1970.....	140,000,000	.....
Twenty-One Year Debenture 2¾s, 1971.....	200,000,000	200,000,000
Twenty-Five Year Debenture 3¾s, 1973.....	150,000,000	.....
Thirty Year Debenture 2¾s, 1975.....	160,000,000	.....
Thirty-Five Year Debenture 2¾s, 1976.....	90,000,000	.....
Thirty-Five Year Debenture 2¾s, 1980.....	175,000,000	.....
Thirty-Five Year Debenture 2¾s, 1982.....	200,000,000	.....
Forty Year Debenture 2½s, 1986.....	125,000,000	.....
Forty Year Debenture 2½s, 1987.....	200,000,000	.....
New England Telephone and Telegraph Company:		
First Mortgage 4½s, 1961, Series B.....	40,000,000	.....
First Mortgage 2¾s, 1975, Series D.....	20,000,000	.....
Twenty-Five Year Debenture 3s, 1974.....	35,000,000	.....
Thirty-Five Year Debenture 3s, 1982.....	40,000,000	.....
New York Telephone Company:		
Refunding Mortgage 3s, 1964, Series C.....	75,000,000	.....
Refunding Mortgage 2¾s, 1982, Series D.....	125,000,000	.....
Refunding Mortgage 3½s, 1978, Series E.....	60,000,000	.....
Refunding Mortgage 3s, 1981, Series F.....	90,000,000	.....
New Jersey Bell Telephone Company:		
Forty Year Debenture 3½s, 1988.....	55,000,000	.....
Forty Year Debenture 2¾s, 1990.....	15,000,000	15,000,000
Bell Telephone Company of Pennsylvania:		
First and Refunding Mortgage 5s, 1960, Series C.....	50,000,000	.....
First and Refunding Mortgage 2¾s, 1976, Series D.....	20,000,000	.....
First and Refunding Mortgage 2¾s, 1973, Series E.....	35,000,000	.....
Twenty-Five Year Debenture 3s, 1974.....	25,000,000	.....
Diamond State Telephone Company:		
Thirty Year Debenture 3s, 1968.....	3,000,000	.....
Southern Bell Telephone and Telegraph Company:		
Thirty Year Debenture 2¾s, 1972.....	35,000,000	.....
Forty Year Debenture 3s, 1979.....	25,000,000	.....
Forty Year Debenture 2¾s, 1985.....	45,000,000	.....
Forty Year Debenture 2½s, 1987.....	75,000,000	.....
Michigan Bell Telephone Company:		
Forty Year Debenture 3½s, 1988.....	75,000,000	.....
Illinois Bell Telephone Company:		
First Mortgage 2¾s, 1981, Series A.....	50,000,000	.....
First Mortgage 3s, 1978, Series B.....	60,000,000	.....
Northwestern Bell Telephone Company:		
Thirty-One Year Debenture 3½s, 1979.....	.....	—60,000,000
Thirty-Four Year Debenture 2¾s, 1984.....	60,000,000	60,000,000
Southwestern Bell Telephone Company:		
Thirty-Five Year Debenture 3½s, 1983.....	100,000,000	.....
Forty Year Debenture 2¾s, 1985.....	75,000,000	.....
Mountain States Telephone and Telegraph Company:		
Thirty Year Debenture 3½s, 1978.....	25,000,000	.....
Forty Year Debenture 2½s, 1986.....	35,000,000	.....
Pacific Telephone and Telegraph Company:		
Thirty Year Debenture 3¼s, 1978.....	75,000,000	.....
Thirty-Five Year Debenture 3½s, 1983.....	75,000,000	.....
Forty Year Debenture 2¾s, 1985.....	75,000,000	.....
Forty Year Debenture 2½s, 1986.....	75,000,000	.....
Forty Year Debenture 3½s, 1987.....	100,000,000	.....
Total Funded Debt	\$3,632,954,000	—\$ 22,021,900

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET

ASSETS

PLANT AND OTHER INVESTMENTS	December 31, 1950	December 31, 1949
Telephone Plant (a)	\$ 905,535,520	\$ 873,374,066
<i>Classified in the accounts at December 31, 1950 as follows:</i>		
Telephone Plant in Service	\$ 885,216,095	
Telephone Plant under Construction ..	19,790,989	
Property Held for Future Telephone Use	528,436	
Investments in Subsidiaries—at cost (see page 32)	4,925,944,468	4,560,262,065
Stocks	\$4,621,097,468	
Advances	304,847,000	
Other Investments—at cost (see page 32)	56,506,291	49,870,560
Stocks	\$ 55,210,851	
Advances	1,000,000	
Miscellaneous	295,440	
Total Plant and Other Investments	<u>\$5,887,986,279</u>	<u>\$5,483,506,691</u>
CURRENT ASSETS		
Cash and Demand Deposits	\$ 15,023,035	\$ 16,393,203
Temporary Cash Investments	284,270,285	239,983,008
<i>Comprises at December 31, 1950 U. S. short-term obligations having a market value of \$284,047,000.</i>		
Special Cash Deposits	2,630,711	2,903,367
Current Receivables	33,915,431	37,744,354
<i>Amounts due for service (less reserve amounting to \$50,000 at December 31, 1950), working advances, interest and dividends receivable, etc.</i>		
Material and Supplies	7,298,695	8,448,115
<i>Principally for construction and maintenance purposes.</i>		
Total Current Assets	<u>\$ 343,138,157</u>	<u>\$ 305,472,047</u>
DEFERRED CHARGES	\$ 15,317,459	\$ 14,747,158
Total Assets	<u>\$6,246,441,895</u>	<u>\$5,803,725,896</u>

- For notes, see page 31.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

BALANCE SHEET—Continued

LIABILITIES

	December 31, 1950	December 31, 1949
CAPITAL STOCK		
Common Stock—par value (\$100 per share).....	\$2,861,595,600	\$2,526,118,300
At December 31, 1950—authorized, 45,000,000 shares; outstanding, 28,615,956 shares (b).		
Premiums on Capital Stock	626,252,091	522,888,638
Amount received in excess of par value.		
Capital Stock Installments (c)	123,821,900	169,778,347
Total Capital Stock	<u>\$3,611,669,591</u>	<u>\$3,218,785,285</u>
FUNDED DEBT (see page 27)		
Convertible Debentures (d)	\$ 444,954,000	\$ 681,975,900
Other Debentures	1,440,000,000	1,240,000,000
Total Funded Debt	<u>\$1,884,954,000</u>	<u>\$1,921,975,900</u>
CURRENT AND ACCRUED LIABILITIES		
Dividend Payable	\$ 64,258,288	\$ 56,669,227
Accounts Payable	18,686,056	14,662,995
Interest Accrued	10,746,958	8,674,978
Taxes Accrued	33,776,858	21,376,490
Total Current and Accrued Liabilities	<u>\$ 127,468,160</u>	<u>\$ 101,383,690</u>
DEFERRED CREDITS		
Unextinguished Premium on Funded Debt	\$ 3,215,523	\$ 2,929,726
(After deduction of unamortized discount and expense.)		
Other Deferred Credits	12,614,163	12,450,828
Total Deferred Credits	<u>\$ 15,829,686</u>	<u>\$ 15,380,554</u>
DEPRECIATION RESERVE	<u>\$ 345,621,721</u>	<u>\$ 323,383,407</u>
Provision to meet loss of investment in Telephone Plant upon its ultimate retirement from service.		
UNAPPROPRIATED EARNED SURPLUS	\$ 260,898,737	\$ 222,817,060
Analysis of change during 1950:		
Net Income (see page 30)	\$286,802,293	
Miscellaneous additions	493,959	
Total additions	<u>\$287,296,252</u>	
Dividends declared	\$248,270,460	
Miscellaneous deductions	944,115	
Total deductions	<u>\$249,214,575</u>	
Net increase	\$ 38,081,677	
Total Liabilities	<u>\$6,246,441,895</u>	<u>\$5,803,725,896</u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INCOME STATEMENT

OPERATING REVENUES	Year 1950	Year 1949
Toll Service Revenues (e)	\$200,594,692	\$181,889,988
License Contract Revenues	30,445,197	26,979,133
<i>Received for services furnished telephone companies.</i>		
Miscellaneous Revenues	13,287,604	13,481,209
Less: Uncollectible Operating Revenues	822,025	997,899
Total Operating Revenues	<u>\$243,505,468</u>	<u>\$221,352,431</u>

OPERATING EXPENSES (f)

Current Maintenance	\$ 43,715,594	\$ 41,716,600
Depreciation Expense	33,307,289	36,008,721
Traffic Expenses	27,515,347	26,651,649
Commercial Expenses	6,723,327	6,873,168
Operating Rents	3,874,696	4,996,044
General Administration	11,676,442	11,419,970
Accounting and Treasury Expenses	8,280,946	8,584,642
Development and Research (g)	16,264,380	16,497,204
Provision for Employees' Service Pensions (h)	6,840,072	6,502,882
Employees' Sickness, Accident, Death and Other Benefits..	2,102,870	1,818,862
Other General Expenses	4,928,974	4,981,780
Less: Expenses Charged Construction	979,950	1,281,326
Total Operating Expenses	<u>\$164,249,987</u>	<u>\$164,770,196</u>
Net Operating Revenues	<u>\$ 79,255,481</u>	<u>\$ 56,582,235</u>

OPERATING TAXES

Federal Taxes on Income	\$ 26,996,000	\$ 15,285,000
Other Taxes—principally State, local and Social Security..	14,558,270	13,157,113
Total Operating Taxes	<u>\$ 41,554,270</u>	<u>\$ 28,442,113</u>
Net Operating Income	<u>\$ 37,701,211</u>	<u>\$ 28,140,122</u>

OTHER INCOME

Dividend Income (i)	\$294,339,638	\$239,891,294
Interest Income	12,381,761	14,992,132
Miscellaneous Income	1,182,090	1,226,450
Less: Miscellaneous Deductions from Income (h)	1,315,482	1,049,125
Income Available for Fixed Charges	<u>\$344,289,218</u>	<u>\$283,200,873</u>

FIXED CHARGES

Interest on Funded Debt	\$ 55,542,678	\$ 52,691,040
Other Interest	2,026,058	2,583,876
Less: Release of Premium on Funded Debt—net	81,811	77,442
Net Income	<u>\$286,802,293</u>	<u>\$228,003,399</u>
Earnings per share (j)	<u>\$10.40</u>	<u>\$9.49</u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

NOTES TO BALANCE SHEET AND INCOME STATEMENT

(a) "Telephone Plant" comprises land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, vehicles, furniture, etc. As required by the Uniform System of Accounts for Telephone Companies, "Telephone Plant in Service," "Telephone Plant under Construction" and "Property Held for Future Telephone Use" are stated at cost to the Company except that property included therein which was acquired from a predecessor owner is stated at its original cost when first dedicated to the public use. Expenditures for patents have been charged off as incurred and thus are not included in the asset accounts.

(b) A total of 4,449,540 authorized and unissued shares was reserved at December 31, 1950 for conversion of Debentures, as follows: 1,195,356 shares for the Ten Year 2 $\frac{3}{4}$ % Convertible Debentures, due December 15, 1957, which are convertible at \$140 per share; 591,700 shares for the Ten Year 3 $\frac{1}{8}$ % Convertible Debentures, due June 20, 1959, which are convertible at \$130 per share through June 19, 1951 and at \$140 per share thereafter; and 2,662,484 shares for the Fifteen Year 2 $\frac{3}{4}$ % Convertible Debentures, due December 15, 1961, which are convertible at \$146 per share. (These conversion prices are subject to adjustment as provided in the respective Indentures.) See also notes (c) and (d) below.

(c) Installment payments and interest credited thereon applicable to shares (1,474,874 at December 31, 1950) which employees of the Company and its subsidiaries elected to purchase under the Employees' Stock Plan authorized by stockholders in 1946. 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. In November 1950 stockholders authorized the Board of Directors at its discretion to offer a maximum of 3,000,000 shares of stock to employees of the Company and its subsidiaries under a new Employees' Stock Plan.

(d) The Company has given stockholders of record on January 29, 1951 rights to subscribe to \$415,414,000 principal amount of Twelve Year 3 $\frac{3}{8}$ % Convertible Debentures, due March 19, 1963. 4,154,140 authorized and unissued shares have been reserved for conversion of such debentures, which will be convertible beginning June 1, 1951 into stock at \$138 per share.

(e) Represents the Company's share of total revenues from toll business handled jointly with subsidiaries and other telephone companies amounting to \$566,840,000 in 1950 and \$494,429,000 in 1949.

(f) Operating expenses are incurred principally in connection with the Company's long distance communication services and in the performance of License Contract services furnished telephone companies.

(g) Cost of development and research work carried on in behalf of the Company by Bell Telephone Laboratories.

(h) The total provision for employees' service pensions amounted to \$7,339,476 for 1950 and \$7,002,286 for 1949, of which \$499,404 for each year was charged to Miscellaneous Deductions from Income in order to comply with accounting requirements of the Federal Communications Commission. The Company and its independent public accountants consider that this latter amount was, in fact, a current operating expense.

(i) Includes dividends from subsidiaries amounting to \$290,299,073 in 1950 and \$236,394,254 in 1949.

(j) Based on average number of shares outstanding—27,585,607 in 1950 and 24,014,147 in 1949.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

INVESTMENTS IN STOCKS AND ADVANCES—DECEMBER 31, 1950

TELEPHONE SUBSIDIARIES	CAPITAL STOCKS (a)			ADVANCES
	Par Value of Holdings	% of Total Outstanding	Book Value (Cost)	
New England Tel. & Tel. Co....	\$107,214,200	68.92	\$ 112,165,721	\$ 88,700,000
New York Tel. Co.....	606,300,000	100.00	629,280,335	.....
New Jersey Bell Tel. Co.....	210,000,000	100.00	223,667,184	.....
Bell Tel. Co. of Pennsylvania....	245,000,000	100.00	251,316,050	20,100,000
Diamond State Tel. Co.....	13,000,000	100.00	13,700,000	1,020,000
Chesapeake & Potomac Tel. Co.	80,000,000	100.00	81,000,000	900,000
Chesapeake & Potomac Tel. Co. of Baltimore City.....	115,000,000	100.00	116,467,862	4,800,000
Chesapeake & Potomac Tel. Co. of Virginia	100,000,000	100.00	100,000,000	4,475,000
Chesapeake & Potomac Tel. Co. of West Virginia	50,000,000	100.00	50,000,000	375,000
Southern Bell Tel. & Tel. Co....	470,000,000	100.00	471,817,298	24,100,000
Ohio Bell Tel. Co.....	269,999,900	99.99	270,042,198	6,000,000
Michigan Bell Tel. Co.....	219,986,000	99.99	220,398,232	11,700,000
Indiana Bell Tel. Co.....	89,998,800	99.99	90,585,286	7,025,000
Wisconsin Tel. Co.....	122,000,000	100.00	125,223,835	.....
Illinois Bell Tel. Co.....	271,106,500	99.31	276,587,308	69,600,000
Northwestern Bell Tel. Co.....	168,000,000	100.00	169,039,490	11,200,000
Southwestern Bell Tel. Co.....	464,998,400	99.99	468,251,478	41,900,000
Mountain States Tel. & Tel. Co..	90,080,100	83.52	91,485,063	11,700,000
Pacific Tel. & Tel. Co.....	446,140,200	91.43	441,798,388	.....
Pacific Tel. & Tel. Co.—Preferred	64,095,700	78.17	55,999,180	.....

OTHER SUBSIDIARIES

Bell Telephone Laboratories, Inc.	19,000,000	(b) 50.00	19,000,000	.....
Western Electric Co., Inc.....	(c)	99.81	325,682,560	.....
195 Broadway Corporation.....	17,500,000	100.00	17,515,000	1,250,000
Eastern Tel. & Tel. Co. (Inactive)	75,000	100.00	75,000	2,000
Total			<u>\$4,621,097,468</u>	<u>\$304,847,000</u>

OTHER COMPANIES

Southern New England Tel. Co. \$	21,339,900	26.67	\$ 21,651,721	\$ 1,000,000
Cincinnati & Suburban Bell Tel. Co.	13,978,400	29.79	14,541,847	.....
Bell Telephone Company of Canada	18,749,800	9.66	18,854,783	.....
Cuban American Tel. & Tel. Co.	865,000	50.00	162,500	.....
Total			<u>\$ 55,210,851</u>	<u>\$ 1,000,000</u>

(a) Common stocks unless otherwise indicated.

(b) Remaining shares owned by Western Electric Company.

(c) 10,479,922 shares—no par value.

TRUSTEE'S REPORT OF PENSION TRUST FUND

established by

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance in Fund—December 31, 1949	\$ 63,727.974
ADDITIONS TO FUND DURING 1950—	
Payments into Fund by Company	\$ 7,339,476
Interest Revenue, including gain or loss on investments disposed of	1,865,221
TOTAL ADDITIONS	\$ 9,204,697
DISBURSEMENTS FOR PENSIONS DURING 1950	1,828,920
NET INCREASE IN FUND	7,375,777
Balance in Fund—December 31, 1950	<u>\$ 71,103,751</u>
COMPRISED OF—	
Bonds of Bell Telephone Companies	\$ 11,507,512
U. S. Government Obligations	21,239,079
Public Utility, Railroad and Industrial Bonds	36,894,557
Other Investments	747,220
Cash and accrued interest not due	715,383
TOTAL	<u>\$ 71,103,751</u>

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, Trustee

New York, N. Y.—January 29, 1951.

By W. B. DUNCKEL, Vice President.

CONSOLIDATED STATEMENT OF PENSION TRUST FUNDS

established by

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS PRINCIPAL
TELEPHONE SUBSIDIARIES, WESTERN ELECTRIC COMPANY, INCORPORATED,
AND ITS SUBSIDIARIES, AND BELL TELEPHONE LABORATORIES, INCORPORATED

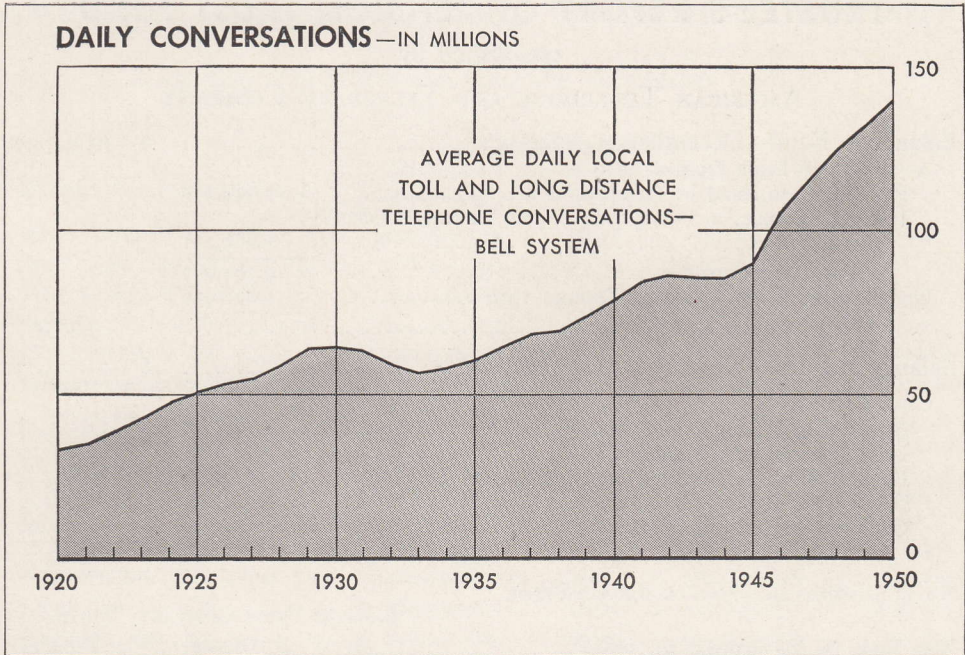
Balance in Funds—December 31, 1949	\$1,089,677.205
ADDITIONS TO FUNDS DURING 1950—	
Payments into Funds by Companies	\$137,656,149
Interest Revenue, including gain or loss on investments disposed of	31,995,196
Other Additions	545,431
TOTAL ADDITIONS	\$170,196,776
DISBURSEMENTS FOR PENSIONS DURING 1950	28,541,877
NET INCREASE IN FUNDS	141,654,899
Balance in Funds—December 31, 1950	<u>\$1,231,332,104</u>
COMPRISED OF—	
Bonds of Bell Telephone Companies	\$ 200,935,152
U. S. Government Obligations	361,971,818
Public Utility, Railroad and Industrial Bonds	646,583,338
Other Investments	10,097,556
Cash and accrued interest not due	11,744,240
TOTAL	<u>\$1,231,332,104</u>

NOTE: Securities are shown on amortized basis.

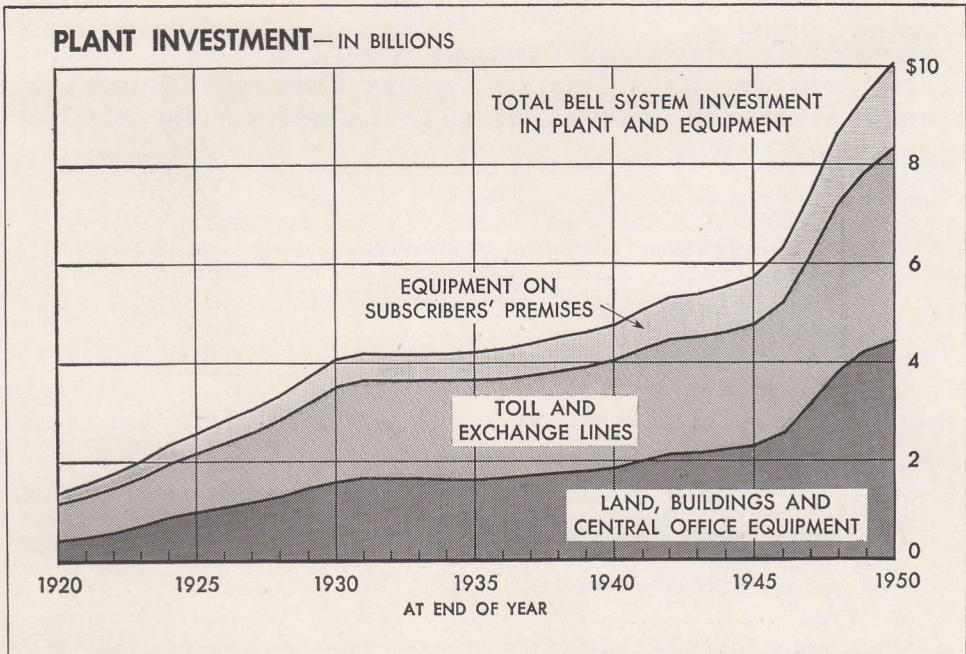
BANKERS TRUST COMPANY, Trustee for the respective Funds

New York, N. Y.—January 29, 1951.

By W. B. DUNCKEL, Vice President.

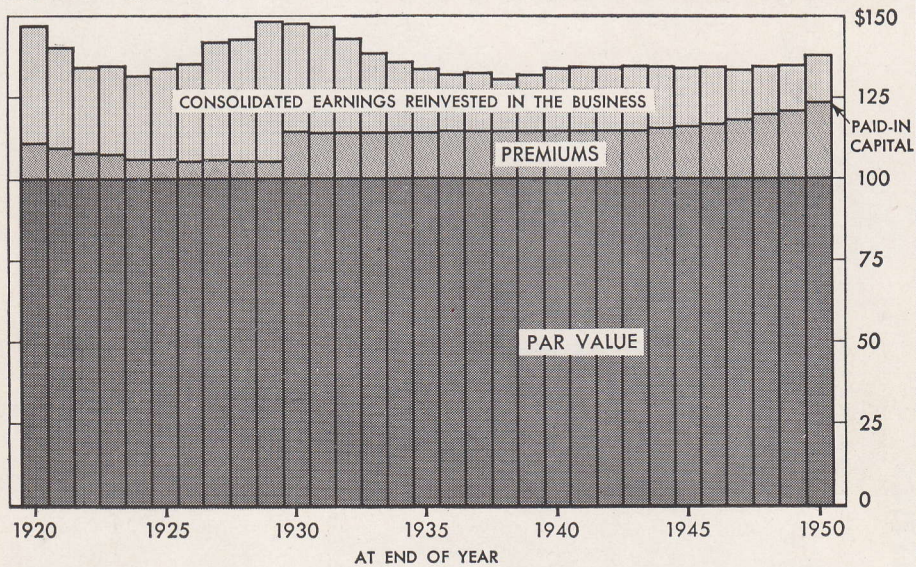


141,000,000 CONVERSATIONS A DAY were handled by the Bell System in 1950—some 8,800,000 a day more than in 1949. Toll and long distance messages in 1950 totaled 5,900,000 a day.



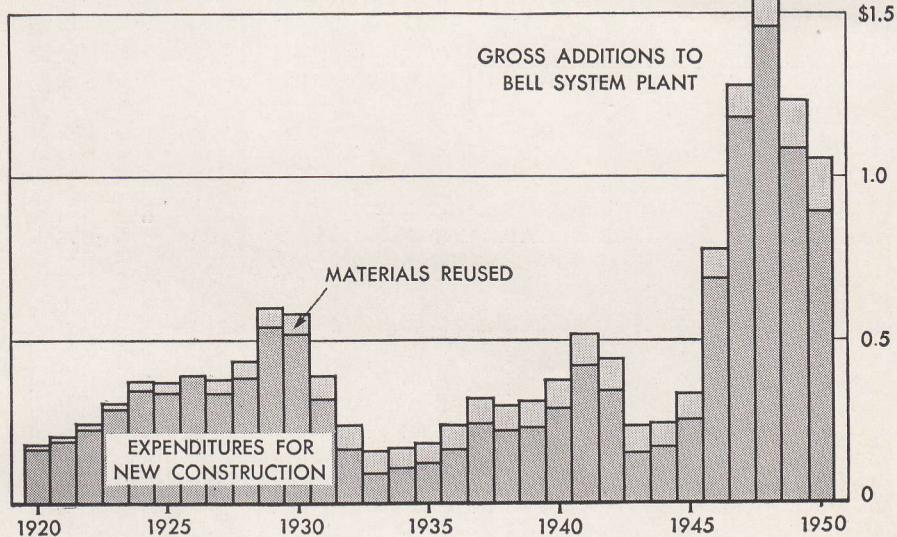
\$10,100,000,000 is invested in the physical facilities of the Bell System. The greater part is in central office facilities and outside lines, a much lesser part in equipment on 'customers' premises.

BOOK EQUITY—PER SHARE OF A.T.&T. CO. STOCK



\$138.03 WAS INVESTED PER SHARE of A. T. & T. stock at the end of 1950. Over a period of 30 years, the dividend of \$9.00 has provided an average return of 6.6 per cent on investment.

PLANT ADDITIONS—IN BILLIONS



ALMOST \$5,500,000,000 has been expended by the Bell System in the last five years to meet the demands for telephone service during the postwar period and to improve the quality of service.

BELL SYSTEM STATISTICS

	Dec. 31 1930	Dec. 31 1935	Dec. 31 1940	Dec. 31 1945	Dec. 31 1950	Increase During 1950
Number of telephones (a)	15,187,296	13,573,025	17,483,981	22,445,519	35,343,440	1,955,182
Number of central offices	6,639	6,896	7,052	7,374	8,470	246
Miles of pole lines	428,212	407,454	399,838	420,009	502,892	19,115
Miles of wire:						
In underground cable	45,116,000	47,639,000	54,339,000	60,759,000	86,963,000	5,098,000
In aerial cable	23,777,000	26,425,000	30,307,000	33,966,000	48,240,000	3,427,000
Open wire	5,231,000	4,562,000	4,660,000	5,034,000	6,578,000	167,000
Total	74,124,000	78,626,000	89,306,000	99,759,000	141,781,000	8,692,000
Average daily telephone conversations* (b)	64,034,000	60,290,000	79,303,000	90,548,000	140,782,000	8,759,000
Total plant	\$4,041,237,000	\$4,187,790,000	\$4,747,674,000	\$5,702,057,000	\$10,101,522,000	\$668,772,000
Operating revenues*	\$1,077,300,000	\$ 919,116,000	\$1,174,222,000	\$1,930,889,000	\$3,261,528,000	\$368,255,000
Number of employees (c)	391,746	268,754	323,701	474,527	602,466	8,597
Number of American Tel. and Tel. Co. stockholders	567,694	657,465	630,902	683,897	985,583	156,085

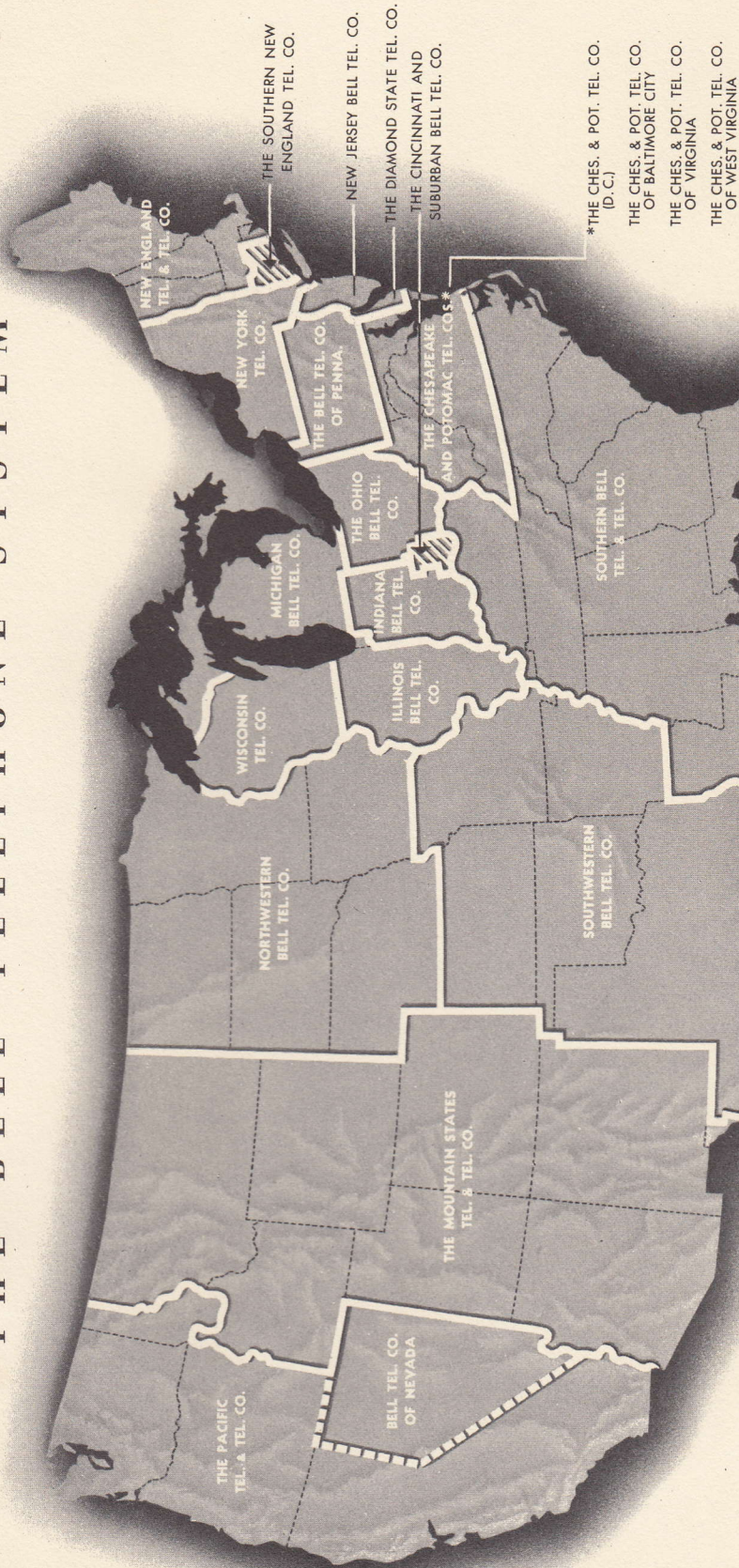
* For year ending December 31.

(a) Excludes private line telephones numbering 115,107 on December 31, 1950. Including telephones of the several thousand independently owned connecting telephone companies and additional thousands of connecting rural or farmer lines and systems, the total number of telephones in the United States which can be interconnected is approximately 43,000,000.

(b) For the year 1950 there were approximately 134,870,000 average daily local conversations and 5,912,000 toll and long distance conversations. During 1950 many calls were reclassified from "toll" to "local," due to enlargement of numerous local calling areas. When the data are adjusted for this reclassification, there was an increase of 6.5 per cent in local conversations, and 8.6 per cent in toll and long distance conversations, over the year 1949.

(c) Includes employees of Western Electric Company and Bell Telephone Laboratories.

THE BELL TELEPHONE SYSTEM



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

