



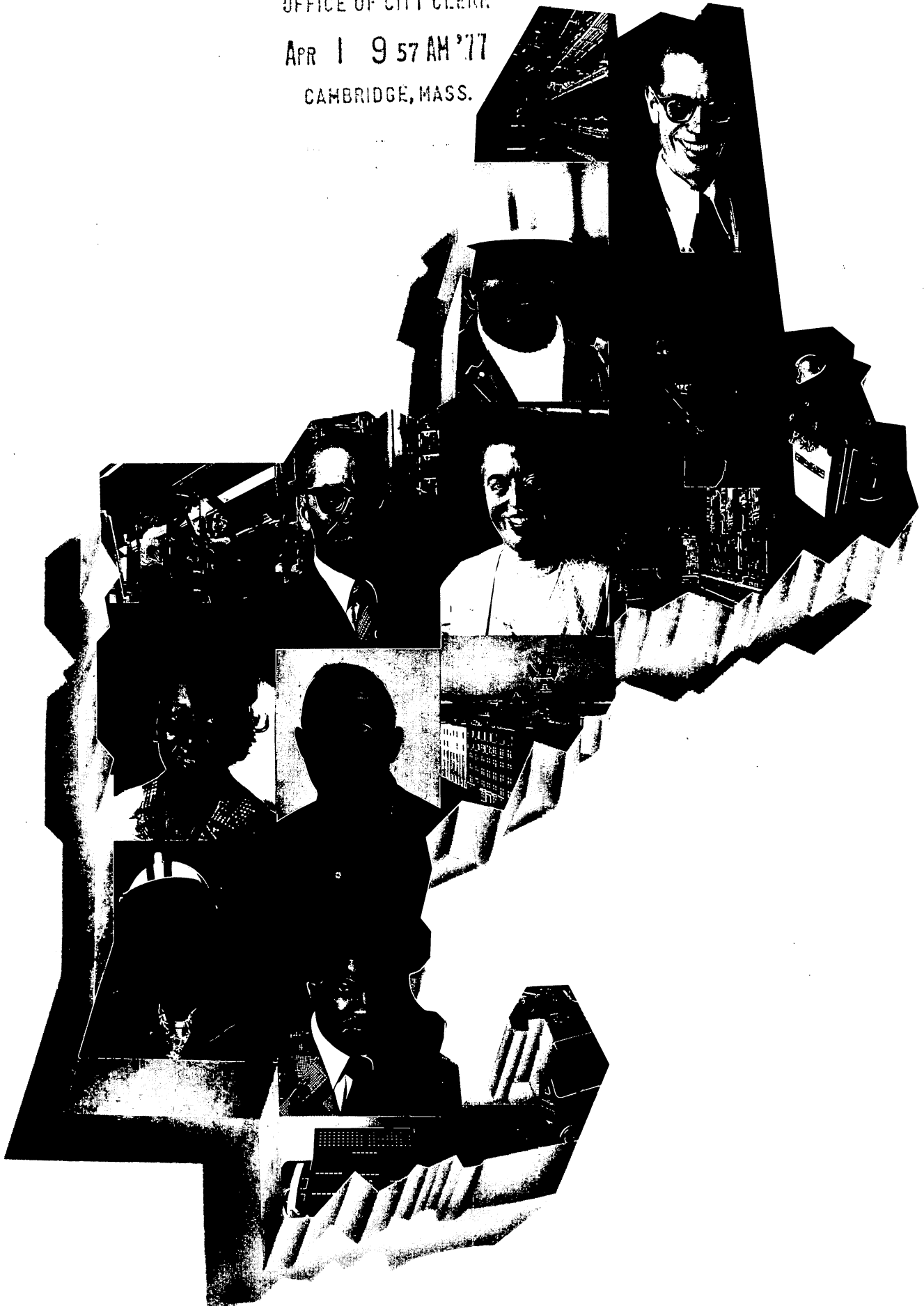
**New England Telephone**

**1976 Annual Report**

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## Management Analysis of Results In Brief

**Earnings per share** rose \$1.18 to \$3.61 in 1976, as net income increased \$68 million and average shares outstanding increased 2.4 million as a result of the 1975 stock issue. Total revenues (including other income) were up 16.5 per cent while total expenses (including taxes and interest) rose 13%. Earnings per share for 1975 decreased 15 cents to \$2.43 from 1974 while net income increased \$5.2 million. The decrease in earnings per share in 1975 was caused by a 4.9 million rise in average shares outstanding in 1975.

**Revenues from local and toll services and other income** increased \$242.6 million in 1976 and \$130.4 million in 1975 for several reasons: more telephones in service and growth in vertical services and local and long distance calling volumes in both years; in 1976 \$140 million and in 1975 \$57 million resulting from higher intrastate rates; in 1976 \$9.9 million and in 1975 \$13.6 million resulting from higher interstate long distance rates that were authorized by the FCC; and increased sales of directory advertising in both years.

**Operating expenses** rose \$87.7 million in 1976 and \$107.5 million in 1975. Principal reasons for these increases were higher wages and fringe benefits, and in addition in 1975, higher depreciation rates. Higher wages

(including cost-of-living adjustments) accounted for about \$34.6 million of the increase in 1976 and \$38.9 million in 1975. About \$20.3 million in 1976 was attributable to higher pension accrual rates and improvements in other fringe benefits while the same costs rose \$25.1 million in 1975. Depreciation expense increased \$12.2 million in 1976 and \$28.2 million in 1975, reflecting larger plant investment and, in 1975, higher depreciation rates authorized by the FCC.

**Income taxes on operations** rose \$68.4 million in 1976 and \$5.9 million in 1975, reflecting higher taxable income.

**Other taxes on operations** increased \$19.2 million in 1976 and \$10.2 million in 1975, largely as a result of a \$12.9 million increase in 1976 and \$5.8 million in 1975 in property taxes. Gross receipts taxes increased \$3.7 million in 1976 and \$2.4 million in 1975. Social security taxes rose \$2.2 million in 1976 and \$2.1 million in 1975, mainly because of statutory increases in the taxable wage base.

**Interest expense** decreased \$.75 million in 1976 due to a decrease in average short term borrowing offset in part by the increase in bond interest associated with the 9½% debentures issued in 1975. This was the principal cause of the \$1.6 million increase in 1975 interest expense.

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### Stock Transfer Offices

The Company maintains stock transfer offices at 185 Franklin Street, Boston, Massachusetts, 02107; and at 180 Fulton Street, New York, New York 10007.

### Annual Meeting of Share Owners

The annual share owners' meeting will be held at the Company's headquarters building, 185 Franklin Street, Boston, at 10:30 a.m. on April 19, 1977.

**New England Telephone** is engaged in the business of furnishing communications services, mainly local and toll telephone service, in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. The Company is an associated company of the Bell System. The annual report for the System as a whole is issued by the American Telephone and Telegraph Company. We shall be happy to supply copies of that report, or additional copies of the New England Telephone report, upon request to any of our business offices. A copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission for the year 1976 will be furnished, without charge, on request directed to the Secretary of the Company, Room 100, 185 Franklin St., Boston, Mass. 02107.

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**On the Cover: Service to the community takes many forms. Illustrating this are the Telephone men and women on our cover who are shown again inside the Annual Report — along with additional Telephone people — as they serve in volunteer civic and service jobs, in efforts to protect the environment, in the Company's economic contributions to the area and in provision of modern communications.**



**New England Telephone and Telegraph Company**

185 Franklin Street, Boston, Massachusetts 02107 • Telephone 617 743-9800

**Results in Brief**

	<b>1976</b>	<b>1975</b>	<b>1974</b>	<b>1973</b>	<b>1972</b>
Earnings per share .....	\$ <u>3.67</u>	\$ <u>2.43</u>	\$ <u>2.58</u>	\$ <u>2.66</u>	\$ <u>2.59</u>
Based on average shares					
outstanding (thousands) .....	52,970	50,589	45,685	40,591	39,159
Dividends declared per share .....	\$ 2.42	\$ 2.36	\$ 2.36	\$ 2.36	\$ 2.36
	Thousands	Thousands	Thousands	Thousands	Thousands
<b>Income</b>					
Local service .....	\$ 848,063	\$ 716,226	\$ 670,882	\$ 607,312	\$ 548,859
Toll service .....	814,050	705,256	620,601	546,341	471,346
Other .....	<u>47,987</u>	<u>46,061</u>	<u>45,647</u>	<u>44,354</u>	<u>43,331</u>
	<u>1,710,100</u>	<u>1,467,543</u>	<u>1,337,130</u>	<u>1,198,007</u>	<u>1,063,536</u>
<b>Expenses</b>					
Operating .....	1,083,745	996,036	888,577	804,748	720,860
Income taxes .....	162,794	94,411	88,526	73,106	66,202
Other taxes .....	160,132	140,953	130,724	116,356	99,555
Interest .....	<u>112,217</u>	<u>112,968</u>	<u>111,372</u>	<u>95,858</u>	<u>75,555</u>
	<u>1,518,888</u>	<u>1,344,368</u>	<u>1,219,199</u>	<u>1,090,068</u>	<u>962,172</u>
Net Income .....	\$ <u>191,212</u>	\$ <u>123,175</u>	\$ <u>117,931</u>	\$ <u>107,939</u>	\$ <u>101,364</u>
Telephones in service					
at end of year .....	6,264	6,095	5,886	5,705	5,501
Average toll messages					
per business day .....	2,041	1,981	1,930	1,855	1,721

See Page 20 for 5-year company statistics

**Market and Dividend Information**

The principal market where New England Telephone and Telegraph Company common shares are traded is the New York Stock Exchange. The composite high and low sales prices and the dividends paid on these securities for each quarterly period during the most recent two fiscal years were:

Year	1976				1975			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High	30 ¼	28 ¾	32 ¾	34 ¾	27 ¾	27	26 ¾	27 ½
Low	25 ¼	27 ½	28 ½	31 ¾	23 ¼	22 ¾	23 ¾	23 ¾
Dividends Paid	\$ .59	\$ .59	\$ .59	\$ .65	\$ .59	\$ .59	\$ .59	\$ .59

## Report of the President

*"Therefore, our number one objective for 1976 is to raise the Company's level of earnings to insure continued good service, and to compensate more adequately the nearly 46,000 investors — some large, mostly small — who have put their savings into this business."*

*- From the 1975 Annual Report*



**W. C. Mercer, President of the Company is currently serving as President of the United Way of Massachusetts Bay encompassing 66 communities**

**Greater Boston, and was Campaign Chairman for their 1974 Fund Drive. He also works with many other charitable, civic and educational organizations**

**in New England. The volunteer community roles of other Telephone men and women are presented in subsequent pages of the Annual Report.**

Dear Share Owner:

It is a pleasure to report that we met our primary objective for 1976 — to better the Company's level of earnings while at the same time providing good service.

As a result of the continuing improvement in earnings, the Directors voted in November to raise the dividend from \$.59 to \$.65 per share quarterly, or \$2.60 per share annually.

### **Earnings Per Share**

Earnings per share were \$3.61 for the year compared with \$2.43 for 1975, an increase of \$1.18.

Close control of costs, greater efficiency, stepped-up sales efforts and rate increases all made very strong contributions to the financial and operating improvement of the Company. All of these factors, plus efficient management of capital investment, precluded the need for any new capital financing during the year.

In the final analysis, however, the results for 1976 depended upon New England Telephone men and women, and their splendid performance was primarily responsible for the progress that we attained.

### **The Quality of Service**

Looking back over the year, I am particularly encouraged by the caliber of service we were able to supply New England Telephone customers. This was due in part to our investment over the past five years of more than \$2 billion in added facilities, more sophisticated computerized systems and more productive equipment. The results of this large investment of capital are reflected in the high quality of daily telephone service in New England.

We know this is so because our customers tell us it



**New England  
Telephone**

185 Franklin Street  
Boston, Mass. 02107  
Phone (617) 743-2534

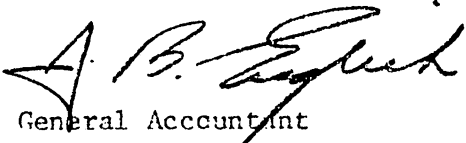
**John B. English**  
General Accountant

March 31, 1977

Dear Sir:

Enclosed is a copy of Annual Report to the Share Owners of  
New England Telephone and Telegraph Company for the year 1976 filed  
in accordance with Massachusetts General Laws (Ter. Ed.), Chapter 166,  
Section 12A.

Very Truly yours,

  
General Accountant

Encl.

is. We regularly call about 3,000 of them each month to get their opinions on a number of service related matters. We also measure about 70 aspects of our performance each month against standards used by other Bell System companies.

As a consequence, I can say that New England Telephone customers today are getting better telephone service than ever before, and we are continuing to improve the high quality of that service.

### Marketing Our Services

In our sales efforts we are continuing to emphasize the importance of being a market-oriented company. By that I mean a company that anticipates and meets the communications needs of customers as customers view those needs, rather than simply filling orders or selling a product or service we may want to sell.

This market-oriented policy requires sales specialists with a thorough knowledge of a particular industry a product that fulfills the communications needs of that industry, prompt and efficient service on what we sell and pricing that is attractive to the subscriber.

We are continuing to refine the expertise of our marketing and customer service people, and the range of new telecommunications systems and products gives us a solid base for growth and enhances our effectiveness in the marketplace.

### Competition

One of the major issues facing the 1977 session of Congress will be to determine what kind of national telecommunications system will serve this country in the future.

Since the late 1960's, the Federal Communications Commission, through a series of decisions, has opened selected parts of the telecommunications industry to other than presently regulated common carrier companies. In my opinion, this policy is wrong because it will lead to a lower quality of service at higher costs for the majority of customers. The basic issue, in my judgment, is not competition versus regulated monopoly. The issue is whether the unnecessary duplication of

intercity services by others is wasteful, and will result in higher rates for home telephones, small communications users and those who live in less populated areas. An equally important issue is whether the national communications network, which is used by everyone for a variety of voice, video and data services, will be adequately protected.

Congress held preliminary hearings on this issue last year, and more hearings will be scheduled for 1977. During these hearings, some 1,600 independent telephone companies, joined by the Bell System and labor, farm and other organizations, will continue to support a Consumer Communications Reform Act whose objective is to ensure that high quality telephone service continues to be universally available to all Americans at reasonable rates.

### Rate Increases

In 1976, as a result of state regulatory commission and judicial decisions, we received approximately \$77 million in additional annual revenues. Only in New Hampshire and Vermont, however, were the amounts awarded by commissions adequate to meet the impact of inflation on this business. In all other cases, we appealed the commissions' findings to the courts, and in Massachusetts and Rhode Island, additional revenues were granted to us under bond.

In spite of this continued reluctance on the part of some regulatory commissions to grant relief based on our current investment and operating costs, we shall continue to make a strong case that only a company that earns well can provide the kind of service that customers want and deserve.

### Equal Job Opportunity

As an Affirmative Action employer, we are meeting every legal requirement and making every response that good faith and honest intent require of us. During the recent period of limited hiring and promotion, we have developed minorities and women candidates for jobs as openings have occurred. I believe that our progress has been substantial, and it will continue.

### Corporate Responsibility

In this report for 1976, we are taking the opportunity to report on the Company as it relates to the communities of New England.

This Company touches the lives of virtually every person in our 5-state New England area through the provision of an essential communications service.

But our responsibility and our opportunities to serve do not end with providing ample and affordable communications at a reasonable profit. This corporation, in my view, has a social role to fulfill as well. In the section of our Annual Report following this letter, some of the ways we are performing in this broader area of corporate accountability are reviewed.

### Strengths of the Business

The year 1976 has been a successful one from both a service and an earnings standpoint, and our objective is to make each succeeding year a better one.

This business has many strengths as we look to the future:

- its scientific and production resources as a member of the Bell System with its Bell Laboratories and Western Electric facilities
- its modern communications facilities
- its capable personnel
- its long tradition of service first under all conditions
- its capacity for continuous improvement in efficiency
- and its outlook for steady business and earnings growth, all provide a basis for confidence as we move ahead in 1977.

We greatly appreciate the support of our share owners and we shall continue to do everything we can to protect and advance your interests.

Sincerely,



W. C. Mercer  
President

February 15, 1977

## More Than Telephone Service

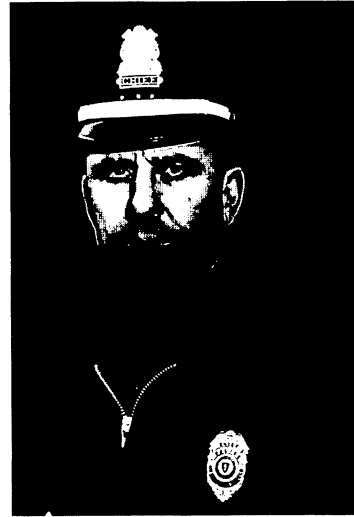
Service to others is a long-standing tradition for Telephone men and women and it extends off the job as well as at work.

Throughout New England, you will find Telephone

people actively involved in local community service and public affairs. Some fulfill leadership roles in community organizations. Others hold elective or appointive office where there is no conflict with

their Telephone Company positions.

The Telephone Pioneers is a unique organization of some 24,000 active and retired employees of New England Telephone who vol-



**Coin Collector John Mathewson serves as a volunteer member of the Brattleboro, Vermont, Rescue Squad.**

**Photo Top:** Outside Plant Engineer Richard Bieksha is president of the Rutland, Massachusetts, Lions Club.

**Photo Below:** Retired employee Ann Ward of Sandwich, Massachusetts, a former clerk in the Network Department, is a Life Member Pioneer. She works at the Pioneers' teletype answering service for the deaf in Framingham, the first of its kind in the nation. The Pioneer center transfers teletype messages orally to hearing people by telephone and relays the answer back to the deaf by teletype-writer.

**Photo Top:** As an urban affairs specialist, Public Relations Staff Supervisor Cecile H. Gordon helped develop and manage the Company's partnership program to assist career development efforts at Dorchester High School in Boston.

**Photo Below:** John Zabek, East Brookfield, Massachusetts, installer-repairman, is chief of police of his hometown community of West Brookfield.

**Photo Top:** Oscar Morin, Manchester, New Hampshire, PBX installer, is a veteran member of the Board of Selectman in Hooksett, New Hampshire.

**Photo Below:** Robert Payne, a central office foreman, is also assistant fire chief of the Raymond, Maine, Volunteer Fire Department.

unteer their time and know-how in a wide variety of community service projects.

In addition, Telephone people of all ages and responsibilities serve public endeavors such as civic, char-

itable and educational organizations.

As a corporate citizen, the Company from time to time makes available employees with special, needed skills to serve as members of state

and local government task forces, and assigns some employees to work in partnership with representatives of other organizations striving to solve current social problems.

Telephone men and women are encouraged by the Company to volunteer for service in their communities and thereby make our cities and towns better places in which to live and work.



**Photo Top:**  
Perry Hudson, general manager of the Company in the state of Maine, is a member of the Governor's Economic Advisory Committee, and the Maine Councils on Manpower Service, Economic Education and Humanities and Public Policy.

**Photo Below:**  
Eileen F. Brough, operator, of Rutland, Vermont, serves as a justice of the peace in Castleton, Vermont.

**Photo Top:**  
Portland Central Office Repairman Sherman Mcrrill is the ordained minister of the North Street United Methodist Church in Gorham, Maine, and the Unitec Methodist Church of Buxton, Maine.

**Photo Below:**  
John Preridville is vice president-engineering of the Company. He also serves as referee-in-chief of the Minute Man Hockey League comprised of Acton, Bedford, Concord, Littleton and Stow, Massachusetts.

**Photo Top:**  
Dorothy Perkins, Warren, Rhode Island, central office repairwoman, is a member of the Library Board of Trustees for the Town of Barrington.

**Photo Below:**  
Clerical Assistant Carole Linton of the Directory Department, Lynn, Massachusetts, was awarded the Bronze Vail Medal for heroism for her actions during a fire in her apartment building. She continued to awaken residents despite the heavy smoke and flames spreading through the structure. A Vail Medal is the highest honor the Bell System can bestow on an employee for service beyond the call of duty.

Network Manager Roger McGrath of Laconia was elected in 1975 to his first 2-year term as mayor of this central New Hampshire city of 24,000.

## Conserving Environmental Resources

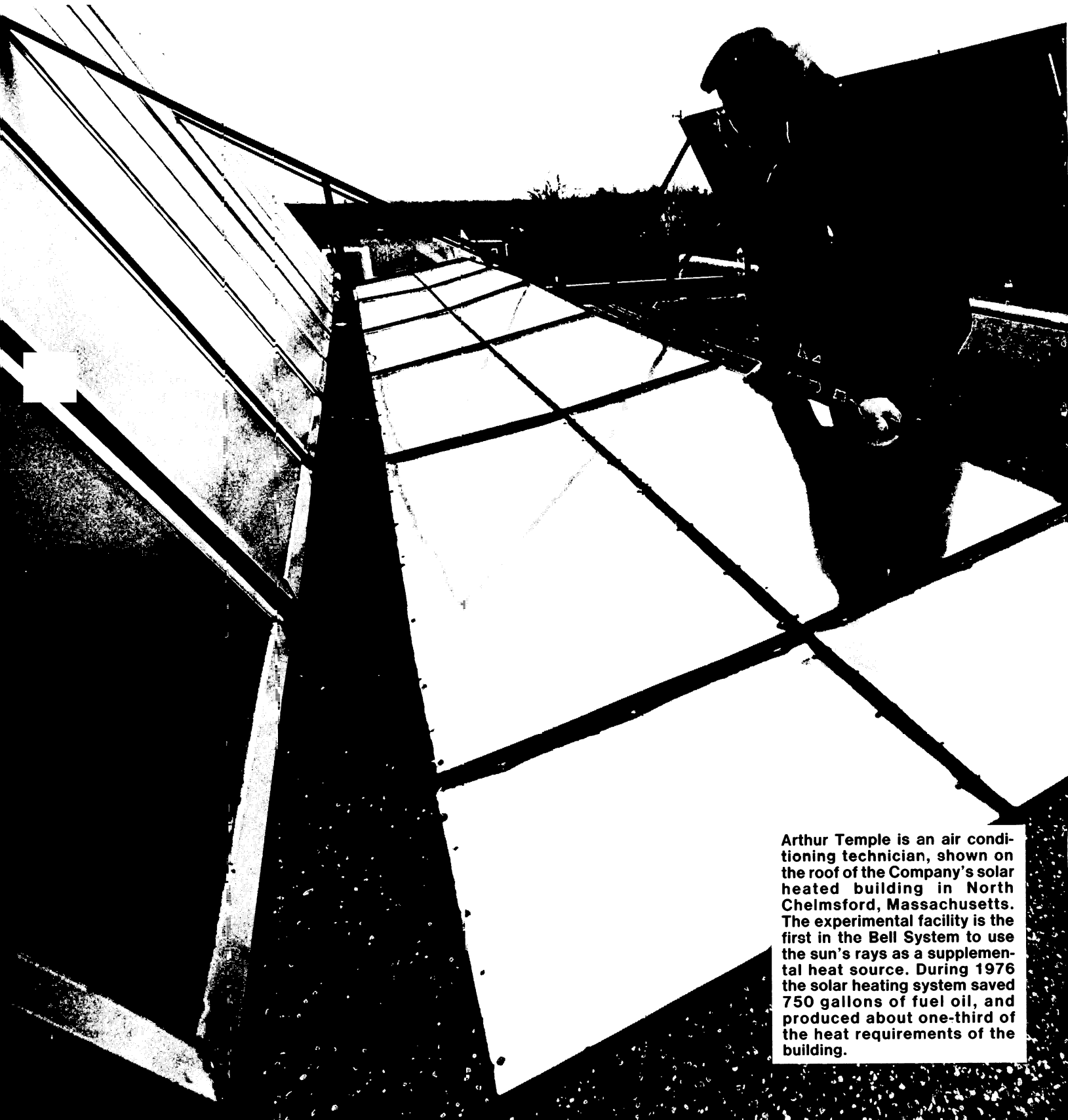
We give careful attention to how the operation of our business affects the quality of our surroundings.

In the area of air pollution, New England Telephone, with the largest private vehicular fleet in our region, equipped all its cars and trucks with exhaust emission control devices even before the law made them mandatory. We shut down all

of our incinerators, and changed to a cleaner burning — although more expensive — fuel oil for heating Telephone buildings. In Massachusetts, the Company was one of the first and largest firms to comply with Environmental Protection Agency regulations on air pollution levels, and we have underway a program, working with a state organiza-

tion, to encourage the use of carpools and public transit by our employees.

In conservation of energy, we have lowered the speed limit for Company vehicles, reduced lighting requirements and set new maximums and minimums for heating and cooling buildings. In 1976 we purchased compact and sub-compact passenger cars when re-



**Arthur Temple is an air conditioning technician, shown on the roof of the Company's solar heated building in North Chelmsford, Massachusetts. The experimental facility is the first in the Bell System to use the sun's rays as a supplemental heat source. During 1976 the solar heating system saved 750 gallons of fuel oil, and produced about one-third of the heat requirements of the building.**

placements were needed, and further reduced our total vehicle fleet - now some 2,000 vehicles fewer than at the start of 1974. We continue to recycle used motor oil, return old tires for recapping or other ecological disposition and reprocess plastic, cable and scrap metal from our operations.

A 15 per cent or more energy saving is expected from

studies on redesigning the heating and air conditioning systems of major older buildings to make them more energy-efficient. The Company also received awards in 1976 from the Federal Energy Administration for reducing energy use significantly at eight work locations. Since the start of our conservation projects in November 1973, we have saved

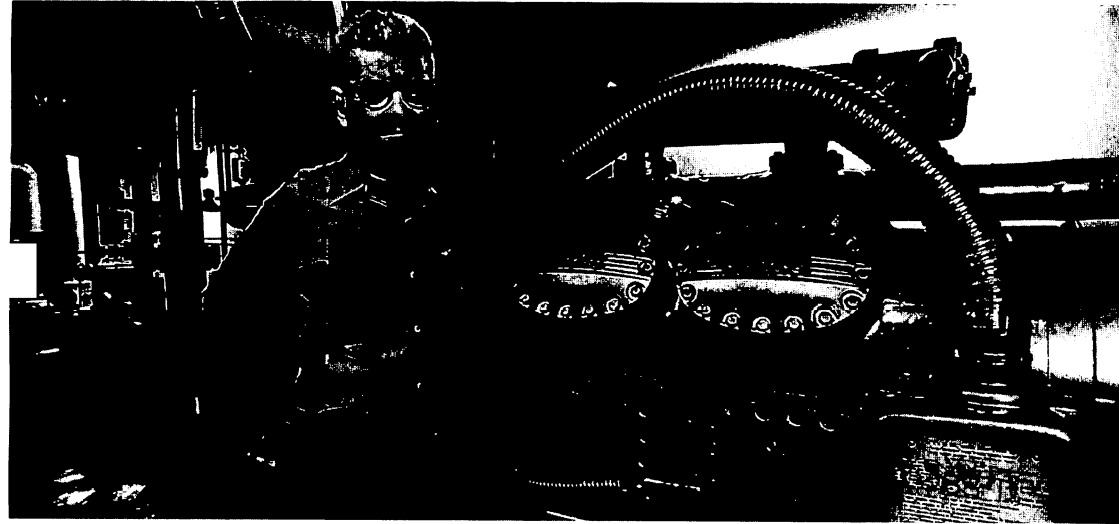
enough energy to heat over 2,400 average New England homes during a normal winter.

To add to the attractiveness of the environment, and also for service reliability, some 25 million miles, or 58 per cent, of our wire in cable is now underground.

Our experiments on new sources for energy are continuing. In 1976 we constructed a

wind-powered generator to provide electricity for all our telephone facilities on Block Island, Rhode Island, and we continued experimental operation of our solar-heated building in North Chelmsford, Massachusetts.

Our intent is to do everything possible to help conserve and protect the environment of the New England area.



**Air Conditioning Technician Charles J. Mantville works on an experimental program to save energy by redesigning heating and cooling systems in existing Company buildings.**

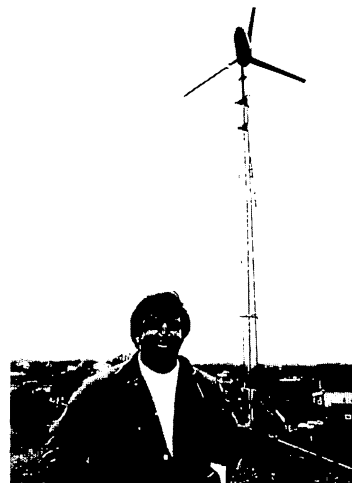
This system in a Boston building has been modified to distribute outside colder air during winter via ducts to equipment areas thereby elim-

inating the need for year-round cooling by air conditioning. Estimated energy savings are 30 per cent or \$58,000 annually.



**PBX Installer Repairman Peter B. Kenny of Boston uses one of the Company's new 4-cylinder mini vans. Manual transmissions and lighter weight of these vehicles result in considerable gasoline economy. We**

have reduced our fleet of vehicles by 2,000 since the start of 1974 for an estimated savings of \$6 million annually. 90 per cent of our passenger fleet is now composed of compact cars.



**Installer Repairman Michael Hanewich is the resident telephone man on Block Island, Rhode Island. Here he stands beside an experimental 60-foot windmill constructed last summer to provide electric power used by the Company on the Island. The generator can produce a minimum of 20,000 kilowatts annually. This energy conservation facility was one of the first commercial uses of wind power in recent years in the region.**



**Mechanic Raymond Palmaccio of our Woonsocket, Rhode Island, garage is involved in a company program to drain thousands of gallons of old crankcase oil from Company vehicles and sell the oil to a recycling contractor for other uses. While the dollar return from this program is not large, the environmental impact is great.**

## Economic Contributions to the Community

While the Company benefits from the economic growth of the New England area, it is at the same time a major contributor to that growth due to the size and extent of its business operations.

As one of the largest companies in the region, we employed an average of 41,700 people during 1976

with a total payroll for the year of \$647 million.

Taxes payable to state and local governments were \$152 million. This equates to a tax of \$44.75 on each main telephone in service.

Some 18,600 New England Telephone share owners living in our territory received \$6.2 million in dividends, and



Mayor of Chelsea Joel M. Pressman, left, accepts a check from Commercial Manager Robert A. Buckley in payment of the Company's

annual property taxes in that Massachusetts city. In 1976 the Company's taxes payable to 851 state and local governments in our 5-state area

were \$152 million, or about 2 per cent of the total taxes collected by these jurisdictions.



Accounting Office Supervisor George W. Thorpe of Boston demonstrates a "burster" machine which signs and separates all payroll checks for some 4800 employees in our North Division. New England Telephone's annual payroll for its 5-state operation in 1976 was \$647 million, money that flowed back into the economy through local employee purchases, savings accounts and other investments.

an additional 234,200 American Telephone and Telegraph Company share owners in New England were paid \$153 million in dividends.

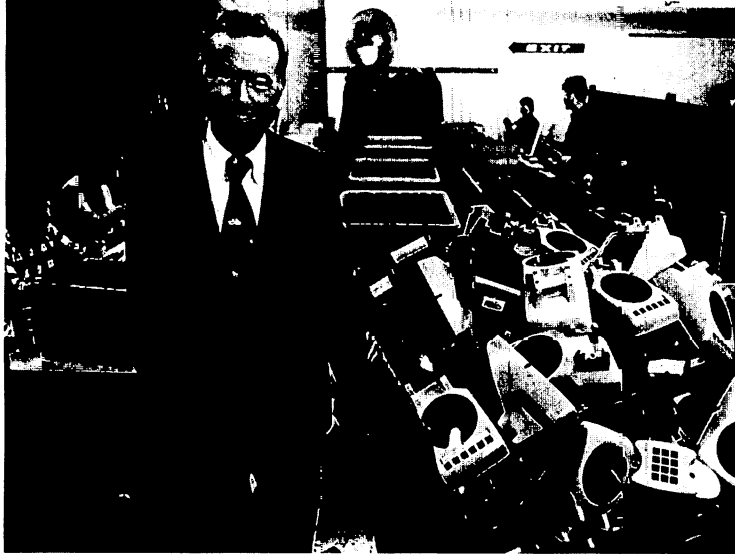
For monies we borrowed to purchase telephone facilities and equipment, we made interest payments of \$11.9 million in 1976 to bond holders in New England.

Purchases from companies in our region of supplies, equipment and services, either by Western Electric Company for the Bell System, or directly by our Company totaled about \$200 million.

In addition to the above economic benefits provided by New England Telephone, the Company made direct grants

totaling \$616,000 to civic, charitable, educational and cultural institutions throughout New England during the past year.

These are some of the ways by which New England Telephone made significant contributions to the economic health of our 5-state region in 1976.



General Public Information Supervisor Elmer R. Beers is president of the Greater Boston Association for Retarded Children. The Association operates a Vocational Adjustment Center where its trainees do contract work for Boston

companies. One contract for \$375,000 annually is with the Bell System's Western Electric Company to salvage and refurbish telephone set components for New England Telephone.



Inspecting the tape manufacturing process at Plymouth Rubber Company, Canton, Massachusetts, are Edward J. Dwyer, Western Electric purchases products inspector, right, and Joseph Santos, Jr., quality assurance supervisor of Plymouth Rubber. The Bell System purchases over \$2 mil-

lion in tape products each year from the Massachusetts firm for use by telephone companies across the country. This is just one of the hundreds of New England companies — large and small — from which supplies, materials and products are purchased for use nationwide by the Bell System.



The equipment operated by Treasury Clerk Nanci A. Schifino in our Boston stock transfer office is called a CRT position. She can summon from a computer a share owner's records and in a matter of sec-

onds the information appears on the viewer in front of her. Almost half of the Company's 45,000 share owners lived in our New England territory at the end of 1976, and received their dividend income here.

## Service to the Community

The more useful, reliable and efficient we can make our service, the more we contribute to the progress of the region and the well-being of the people of Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

A never-ending stream of new communications systems, better equipment and improved materials flows from Bell Laboratories to the manu-

facturing facilities of Western Electric Company and into Bell System operating companies such as New England Telephone. The communications needs of our customers are progressing swiftly in diversity, volume and speed requirements. Therefore, we are continually at work to bring on line whatever technological advance that is required to serve today's and tomorrow's more



Edward A. Doherty, New England Telephone service consultant, left, and Sceva E. Whitney, district manager - sales, services and facilities operations of General Electric Company, inspect the new Dimension® PBX installed at the General Electric office in Wellesley, Massachusetts. The Dimension PBX is an electronic system with a computer-like capacity to be programmed, thereby enabling it to perform a wide variety of services on an individualized basis.



Service Consultant Jeanne M. Castaldini of the Marketing Department's large accounts group in Boston, demonstrates the new Touch-a-matic® telephone that automatically dials any of 16 numbers at the touch of a single button. It is intended for use in the home or small business.



Service Adviser Maryjane Loughlin of our business services group in Worcester assists PBX Attendant Gwendolyn Stenlund of the Smith Valve Corporation, Westboro, Massachusetts. Smith Valve was one of the first Dimension

PBX customers in the Worcester area. Our service advisers are available to any business to instruct personnel in the use of new equipment. During 1976 our business services people made some 90,000 such customer contacts.

complex communications applications. Electronic handling of calls in fractions of a second, new PBX consoles that can be programmed like a computer, telephones with built-in memory systems and data transmission systems that operate over the regular voice network are but a few examples of this new era in communications.

Many of our services are especially designed for the

handicapped — those with hearing, sight, speech or motion impairments. We want to help anyone who has a problem using the telephone.

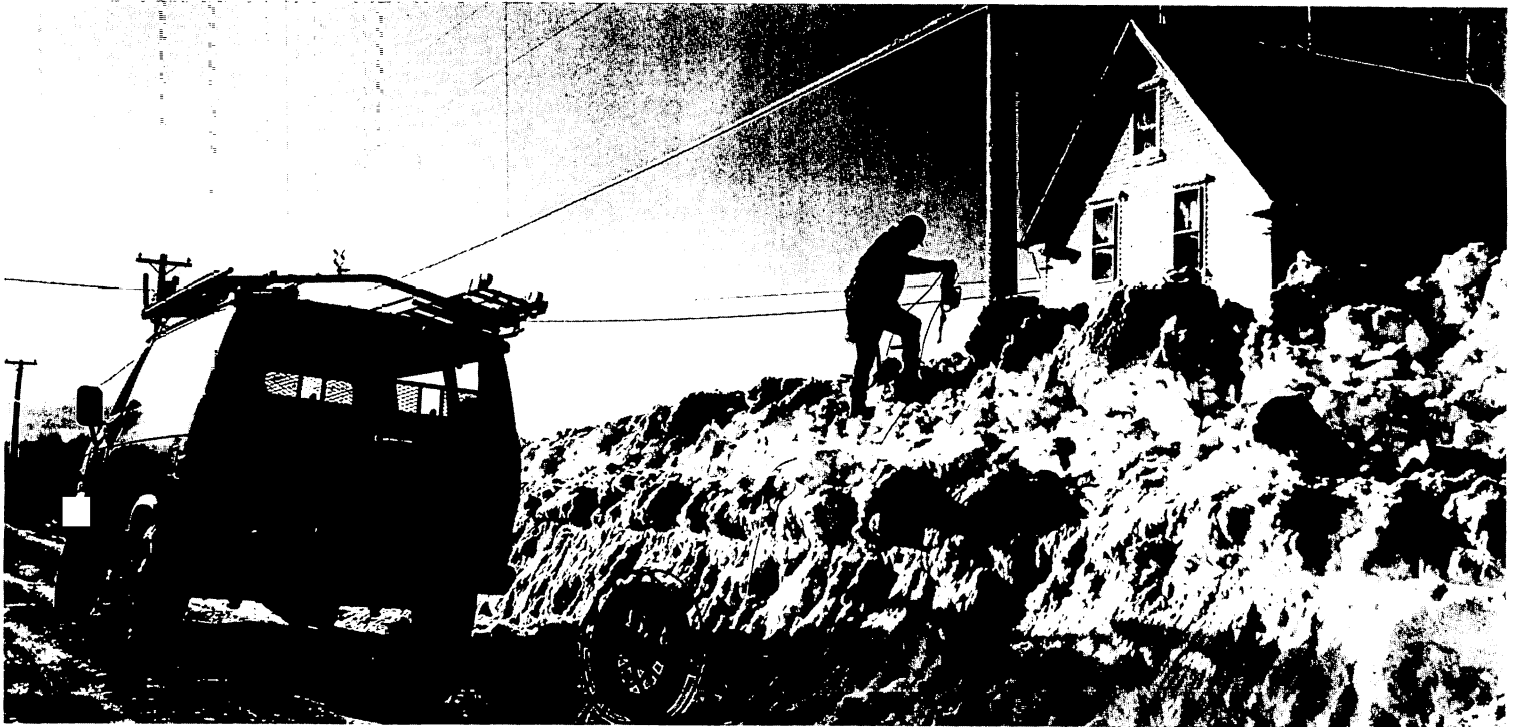
In times of emergency, assistance is as close as the "O" for Operator on the telephone or the "911" system in use in many communities. We're prepared for disasters that would affect our capability to serve, and can put into oper-

ation alternate sources of power supplies, mobile systems and can call upon other Bell System companies which can assist us using the same tools, equipment and work procedures as our own.

As the possibilities of our technology grow, so does the responsibility of Telephone people to make certain that the human element remains foremost in the way we serve. We

believe that a courteous and helpful response to the user of our service is as important as the service itself.

Our aim is the very best communications service possible by every measurement, and at a reasonable cost to the people of New England. By supplying such a service, we provide our basic and greatest support to the New England community.



**William R. Evans, engineering coordinator — handicapped services, custom designs telephone instruments for use by the handicapped. He is shown in the East Boston home of David E. Ray, a quadriplegic. Mr. Ray's service provides a hands-free speakerphone which can be activated by a touch of the head to a special tape switch placed on a pillow.**



**Central Office Repairman George Montville is at the control panel of the Worcester, Massachusetts, Electronic Switching System (ESS). Placed in service in October 1976, the Worcester ESS serves 63,000 customers. This equipment is capable of handling 230,000 calls an hour. ESS also allows us to offer custom calling features such as call forwarding, speed calling and three-way calling.**



**Robert Tangney, plant supervisor, is in the Company's Emergency Restoral Center in the headquarter's building in Boston. Here key personnel from various departments assemble whenever an emergency arises to establish a command post for assessment and action to overcome a situation. A status board pinpoints storm or other emergency-related service problems.**

**Very often the telephone is more important in bad weather than in good. That is why our people do everything they can, despite weather conditions, to keep every customer's telephone working.**

# Balance Sheets

ASSETS	Thousands of Dollars	
	December 31, 1976	December 31, 1975
TELEPHONE PLANT — at cost		
In service .....	<b>\$4,619,682</b>	\$4,423,116
Under construction .....	<b>70,146</b>	77,548
Held for future use and other .....	<b>3,907</b>	4,058
	<b>4,693,735</b>	4,504,722
Less: Accumulated depreciation .....	<b>1,060,768</b>	980,353
	<b>3,632,967</b>	3,524,369
CURRENT ASSETS		
Cash and temporary cash investments (e) .....	<b>56,029</b>	9,617
Receivables — less allowance for uncollectibles:		
1976, \$1,791,000; 1975, \$1,426,000 .....	<b>244,980</b>	231,277
Material and supplies .....	<b>17,928</b>	15,654
Prepaid expenses .....	<b>14,926</b>	12,976
	<b>333,863</b>	269,524
DEFERRED CHARGES .....	<b>40,647</b>	41,154
TOTAL ASSETS .....	<b>\$4,007,477</b>	\$3,835,047

The notes on pages 17, 18 and 19 are an integral part of the financial statements.

**LIABILITIES AND CAPITAL**Thousands of Dollars  
December 31,  
**1976**                      December 31,  
1975

## EQUITY

Common shares — par value \$20 per share .....	<b>\$1,059,394</b>	\$1,059,394
Authorized 60,000,000 shares; Outstanding 52,969,692 shares		
Proceeds in excess of par value .....	<b>396,087</b>	396,087
Reinvested earnings — see page 15 (d) .....	<b>300,885</b>	237,880
	<b><u>1,756,366</u></b>	<u>1,693,361</u>

LONG AND INTERMEDIATE TERM DEBT (f) .....	<b><u>1,545,165</u></b>	<u>1,565,789</u>
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## CURRENT LIABILITIES

Accounts payable (e) .....	<b>89,792</b>	78,836
Taxes accrued .....	<b>56,959</b>	11,464
Dividend payable .....	<b>34,430</b>	31,252
Interest accrued .....	<b>23,139</b>	23,044
Advance billing and customers' deposits .....	<b>15,864</b>	14,135
	<b>220,184</b>	158,731
Debt maturing within one year (g) .....	<b>20,281</b>	50,920
	<b><u>240,465</u></b>	<u>209,651</u>

## DEFERRED CREDITS

Accumulated deferred income taxes .....	<b>339,949</b>	267,149
Unamortized investment tax credits .....	<b>121,888</b>	95,953
Other .....	<b>3,644</b>	3,144
	<b><u>465,481</u></b>	<u>366,246</u>

## LEASE COMMITMENTS (h)

TOTAL LIABILITIES AND CAPITAL .....	<b><u>\$4,007,477</u></b>	<u>\$3,835,047</u>
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## Statements of Income and Reinvested Earnings

	Thousands of Dollars	
	Year 1976	Year 1975
<b>OPERATING REVENUES</b>		
Local service .....	<b>\$ 848,063</b>	\$ 716,226
Toll service .....	<b>814,050</b>	705,256
Directory advertising and other .....	<b>53,934</b>	47,895
Less: Provision for uncollectibles .....	<u><b>10,571</b></u>	<u>8,811</u>
<b>Total Operating Revenues</b> .....	<u><b>1,705,476</b></u>	<u>1,460,566</u>
<b>OPERATING EXPENSES</b>		
Maintenance .....	<b>343,553</b>	320,399
Depreciation .....	<b>224,650</b>	212,415
Traffic .....	<b>121,219</b>	116,650
Primarily costs of handling messages		
Commercial .....	<b>55,795</b>	49,805
Primarily costs of local business office operations		
Marketing .....	<b>69,431</b>	61,108
Accounting .....	<b>43,965</b>	41,344
Provision for pensions and other employee benefits (b) .....	<b>161,183</b>	138,851
Services received from parent under License Contract .....	<b>27,810</b>	22,067
Other operating expenses .....	<u><b>36,139</b></u>	<u>33,397</u>
<b>Total Operating Expenses</b> .....	<u><b>1,083,745</b></u>	<u>996,036</u>
<b>Net Operating Revenues</b> .....	<u><b>621,731</b></u>	<u>464,530</u>
<b>OPERATING TAXES</b>		
Federal income (a):		
Current .....	<b>51,918</b>	(6,076)
Deferred .....	<b>64,928</b>	61,312
Investment tax credits — net .....	<b>26,581</b>	26,684
State income (a):		
Current .....	<b>11,495</b>	4,036
Deferred .....	<b>7,872</b>	8,455
Property, gross receipts, payroll-related and other taxes .....	<u><b>160,132</b></u>	<u>140,953</u>
<b>Total Operating Taxes</b> .....	<u><b>322,926</b></u>	<u>235,364</u>
<b>Operating Income</b> (carried forward) .....	<b>\$ 298,805</b>	\$ 229,166

The notes on pages 17, 18 and 19 are an integral part of the financial statements.

	Thousands of Dollars	
	Year 1976	Year 1975
<b>Operating Income</b> (brought forward) .....	<b>\$ 298,805</b>	\$ 229,166
<b>OTHER INCOME</b>		
Interest charged construction (a) .....	<b>5,311</b>	8,224
Miscellaneous income and deductions — net (c) .....	<b>(687)</b>	(1,247)
Total Other Income .....	<b>4,624</b>	6,977
<b>Income Before Interest Deductions</b> .....	<b>303,429</b>	236,143
<b>INTEREST DEDUCTIONS</b> .....	<b>112,217</b>	112,968
<b>NET INCOME</b> (d) .....	<b>\$ 191,212</b>	\$ 123,175
<b>EARNINGS PER SHARE</b> based on average shares outstanding, 52,969,692 in 1976 and 50,588,602 in 1975 .....	<b>\$ 3.61</b>	\$ 2.43
<b>REINVESTED EARNINGS</b>		
At beginning of year .....	<b>\$ 237,880</b>	\$ 235,642
Add: Net Income .....	<b>191,212</b>	123,175
	<b>429,092</b>	358,817
Deduct — Dividends declared per share:		
\$2.42 in 1976, \$2.36 in 1975 .....	<b>128,186</b>	120,711
Miscellaneous — net .....	<b>21</b>	226
	<b>128,207</b>	120,937
<b>REINVESTED EARNINGS AT END OF YEAR</b> .....	<b>\$ 300,885</b>	\$ 237,880

# Statements of Changes in Financial Position

	Thousands of Dollars	
SOURCE OF FUNDS	Year 1976	Year 1975
Operations		
Net Income .....	<b>\$ 191,212</b>	\$ 123,175
Add, Expenses not requiring funds:		
Depreciation.....	<b>224,650</b>	212,415
Deferred income taxes.....	<b>72,800</b>	69,767
Investment tax credits — net (a).....	<b>25,935</b>	24,184
Less, Income not providing funds:		
Interest charged construction.....	<b>5,311</b>	8,224
Total funds from operations .....	<b><u>509,286</u></b>	<u>421,317</u>
Financing		
Issuance of shares .....	—	165,724
Proceeds from sale of long term debt.....	—	175,000
Total funds from financing .....	—	340,724
Other — net .....	<b>1,331</b>	(2,101)
	<b><u>\$ 510,617</u></b>	<u>\$ 759,940</u>
APPLICATION OF FUNDS		
Telephone plant.....	<b>\$ 328,282</b>	\$ 366,476
Dividends .....	<b>128,186</b>	120,711
Change in working capital .....	<b>33,525</b>	272,257
Reduction of long and intermediate term debt .....	<b>20,624</b>	496
	<b><u>\$ 510,617</u></b>	<u>\$ 759,940</u>
The increase in working capital is accounted for by:		
Increase in current assets:		
Cash and temporary cash investments.....	<b>\$ 46,412</b>	\$ 1,001
Receivables .....	<b>13,703</b>	28,328
Material and supplies.....	<b>2,274</b>	(267)
Prepaid expenses .....	<b>1,950</b>	(542)
	<b><u>64,339</u></b>	<u>28,520</u>
Increase in current liabilities:		
Accounts payable .....	<b>\$ 10,956</b>	\$ (13,264)
Taxes accrued.....	<b>45,495</b>	4,923
Dividend payable .....	<b>3,178</b>	4,298
Advance billing and customers' deposits.....	<b>1,729</b>	1,809
Interest accrued.....	<b>95</b>	358
Debt maturing within one year (g) .....	<b>(30,639)</b>	(241,861)
	<b><u>30,814</u></b>	<u>(243,737)</u>
Change in working capital above.....	<b><u>\$ 33,525</u></b>	<u>\$ 272,257</u>

( ) Denotes Negative

## Notes to Financial Statements

(a) ACCOUNTING POLICIES — The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission (the "FCC"). The financial statements reflect the application of the accounting policies described in this note and have been prepared in conformity with generally accepted accounting principles, which are consistent in all material respects with the accounting prescribed by the FCC, except for revenue refunds (see note (d)). Other policies and practices are covered in notes (b) and (e).

PURCHASES FROM WESTERN ELECTRIC — Most of the telephone equipment, apparatus and materials used by the Company have been manufactured or procured for it by Western Electric Company, Incorporated ("Western Electric"), a wholly-owned subsidiary of American Telephone and Telegraph Company. The contract with the Company provides that Western Electric's prices shall be as low as to its most favored customers for like materials and services under comparable conditions. The financial statements reflect items purchased from Western Electric at cost to the Company, which cost includes the return realized by Western Electric on its investment devoted to this business.

INTEREST CHARGED CONSTRUCTION — Regulatory authorities allow the Company to provide for a return on capital invested in new telephone plant while under construction by including interest charged construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but, under the regulatory process, will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

DEPRECIATION — Provision in the accounts for depreciation (5.14% in 1976 and 5.15% in 1975 of the cost of depreciable plant in service) is based on straight-line composite rates. Depreciation for income tax purposes is provided on different bases and methods as explained under "Income Taxes" below.

### INCOME TAXES:

- (1) Under various accelerated depreciation provisions of the Federal tax law, depreciation for income tax purposes on plant placed in service after 1969 is greater than the straight-line depreciation provided in the accounts. In addition, the Company has adopted for income tax purposes shorter depreciation lives than those used for book purposes for certain plant, as allowed in income tax regulations of the Treasury Department. Provision is included in income tax expense for the deferred income taxes resulting from the use of accelerated depreciation and shorter tax lives.
- (2) Provisions of the tax law allow for reductions in tax liability related to certain construction expenditures. Such reductions, which are captioned "investment tax credits," are accounted for as operating tax expense in the year they occur and are amortized, principally as reductions in operating tax expense, over the life of the plant constructed.
- (3) The negative amount of current operating Federal income taxes in 1975 results principally from a substantial increase in investment tax credits provided by the Tax Reduction Act of 1975 and the continued use of accelerated depreciation and shorter tax lives for

income tax purposes (for which deferred income taxes have been provided as described in (1) above). Because the Company participates in the consolidated Federal income tax return of the American Telephone and Telegraph Company (the "American Company"), it is able to obtain the full benefit of those credits and deductions currently.

- (4) The Company's effective Federal income tax rate, as determined by dividing Federal income taxes (including those identified in note (c)) by the sum of Federal income taxes and Net Income, was 42.8% in 1976 and 39.6% in 1975. The differences of 5.2% and 8.4% in 1976 and 1975, respectively, between the effective rate and the 48% Federal income tax statutory rate are attributable to the following factors:

	<u>1976</u>	<u>1975</u>
a. Certain taxes and payroll-related construction costs capitalized in the financial statements, but deducted for income tax purposes, net of related depreciation adjustments for current and prior years.....	2.9%	4.7%
b. Interest charged construction which is excluded from taxable income, net of related depreciation adjustments for current and prior years.....	.2%	1.2%
c. Amortization of investment tax credits over the life of the plant which gave rise to the credits. Such amortization reduced income tax expense for the years 1976 and 1975 by about \$7,275,000 and \$5,369,000, respectively.....	2.2%	2.6%
d. Other miscellaneous differences .	<u>(0.1%)</u>	<u>(0.1%)</u>
Total .....	<u>5.2%</u>	<u>8.4%</u>

- (b) PROVISION FOR PENSIONS AND DEATH BENEFITS — The Company has a noncontributory plan covering all employees and providing for service pensions and certain death benefits. The Company has an accrual program 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, including amounts charged to construction, was \$103,960,000 in 1976 and \$91,900,000 in 1975, which represented 17.3% in 1976 and 16.0% in 1975 of salaries and wages. Amendments to the Plan, effective January 1, 1976, adopted pursuant to the 1974 union contracts, which provide for improved benefits for all employees, and changes made in compliance with the Employee Retirement Income Security Act of 1974, increased pension accruals in 1976 by about \$3,301,000. Based on the latest actuarial valuation, adjusted to reflect those benefits which became effective January 1, 1977, the Company estimates that the actuarially computed value of vested benefits exceeded the cost of trust fund assets by about \$35,000,000. The accrual program contemplates that there will be available in the funds amounts sufficient to provide benefits as stated in the Plan.
- (c) MISCELLANEOUS INCOME AND DEDUCTIONS — Included as income are the income tax benefits related to

non-operating deductions, in thousands of dollars:

	<u>1976</u>	<u>1975</u>
Federal.....	\$ 604	\$ 1,182
State .....	73	157
Total .....	<u>\$ 677</u>	<u>\$ 1,339</u>

- (d) EARNINGS SUBJECT TO POSSIBLE REFUND — Net Income includes the following amounts resulting from intra-state rate increases authorized by the Massachusetts Department of Public Utilities, effective June 14, 1976, and the Rhode Island Public Utility Administration, effective July 26, 1976, and from interstate rate increases effective February 29, 1976 authorized by the FCC, all of which are subject to investigation and possible refund, in thousands of dollars, were:

	<u>1976</u>
Intrastate.....	\$16,427
Interstate.....	4,140
Total.....	<u>\$20,567</u>
Per share .....	\$ .39

- (e) CASH AND TEMPORARY CASH INVESTMENTS — The Company follows the practice of making certain payments by draft and recording such drafts as accounts payable until such time as the banks honoring the drafts have presented them for payment. The American Company maintains cash and temporary cash investments upon which the Company may draw on a day-to-day basis to meet its obligations, including coverage for outstanding drafts. Outstanding drafts included in accounts payable amounted to \$7,851,000 at December 31, 1976 and \$4,849,000 at December 31, 1975.

- (f) LONG AND INTERMEDIATE TERM DEBT — At December 31, 1976, in thousands of dollars, were:

Maturities	3 to 3 1/4%	4 to 7%	8 to 9 1/2%	Total
1978	\$ —	\$ 137	\$ —	\$ 137
1979	—	100,020	—	100,020
1980	—	5	—	5
1981	—	3	—	3
1982-1991	100,000	—	—	100,000
1992-2001	—	90,000	—	90,000
2002-2010	—	535,000	720,000	1,255,000
Total	<u>\$100,000</u>	<u>\$725,165</u>	<u>\$720,000</u>	<u>\$1,545,165</u>

On January 21, 1977 the Company offered to redeem \$175,000,000 of its 9 1/2% debentures due June 1, 2010 which are included as Long and Intermediate Term Debt in the accompanying balance sheet.

- (g) DEBT MATURING WITHIN ONE YEAR — The Company follows the practice of financing construction of telephone plant partially through interim debt (advances from the American Company, bank loans and commercial paper payable in 12 months or less after issuance), pending long term financing. See note (f) above. In the Company's computation of ratios of debt to total capitalization (usually referred to as "debt ratios") for regulatory and other purposes, interim debt and long and intermediate term debt maturing within one year are usually included with long and intermediate term debt.

Outstanding at December 31, in thousands of dollars, were:

	<u>1976</u>	<u>1975</u>
Advances from the American Company.....	\$ —	\$40,000
Notes Payable:		
Bank Loans.....	—	8,000
Commercial Paper.....	—	2,400
3 1/4% Debentures due 1977 ...	20,000	—
Other.....	281	520
18 Total.....	<u>\$20,281</u>	<u>\$50,920</u>

Advances, evidenced by demand notes, are not in practice required to be settled currently, although the Company may elect to repay them as a whole or in part prior to demand. Interest on advances is at a variable rate at all times equal to the lowest prime rate being charged on new borrowings by three designated New York City banks.

The maximum amount of notes payable at any month-end during the year 1976 was \$23,700,000 and the average amount outstanding during the year was approximately \$9,931,000 at an average interest rate of 5.25%, computed by averaging the face amount of the notes payable each day of the year and dividing such average into the aggregate related interest expense.

- (h) LEASE COMMITMENTS — Total rental expense for the years ended December 31, 1976 and 1975 was about \$28,537,000 and \$27,615,000, respectively. At December 31, 1976 the aggregate minimum rental commitments under non-cancelable leases were as follows, in thousands of dollars:

<u>Year</u>	<u>Amount</u>
1977	\$24,024
1978	22,972
1979	20,989
1980	18,440
1981	16,196
1982-1986	64,213
1987-1991	49,595
1992-1996	18,360
Thereafter	8,137

- (i) DEPARTMENT OF JUSTICE ANTITRUST ACTION — In November 1974 the Department of Justice brought a civil antitrust action naming the American Company, Western Electric and Bell Telephone Laboratories as defendants, and the 23 Bell System telephone companies (including the Company) as co-conspirators but not defendants. This matter might not be resolved for several years. The American Company has stated that it believes that the relief sought, which includes dismemberment of the Bell System, is adverse to the public interest and that it is confident that it has not been in violation of the antitrust laws and that the structure of the Bell System will remain basically unchanged. In the opinion of the Company, dismemberment of the Bell System would have adverse effects on its business, could affect its ability to raise capital, its credit standing and the market value of its securities and could require an immediate payment by the Company of Federal income taxes previously deferred on intercompany profits. A lump sum payment of such deferred taxes, which are being credited to the plant accounts, would have no direct effect on net income but would materially increase the Company's requirements for cash which in turn would increase requirements for revenues related to the cost of such funds.

- (j) QUARTERLY FINANCIAL INFORMATION (UNAUDITED) — Subject to the outcome of the rate matters referred to below, all adjustments necessary for a fair statement of income for each period have been included.

	<u>Thousands of Dollars</u>			
	<u>Total</u>			
<u>Calendar</u>	<u>Operating</u>	<u>Operating</u>	<u>Net</u>	<u>Earnings</u>
<u>Quarter</u>	<u>Revenues</u>	<u>Income</u>	<u>Income</u>	<u>Per Share</u>
<u>1976</u>				
1st .....	\$ 402,039	\$ 66,233	\$ 39,064	\$ .74
2nd .....	421,634	74,762	48,454	.91
3rd .....	443,120	81,572	53,976	1.02
4th .....	438,683	76,238	49,718	.94
	<u>\$1,705,476</u>	<u>\$298,805</u>	<u>\$191,212</u>	<u>\$3.61</u>

Results for the second, third and fourth calendar quarters include approximately \$2,730,000, \$8,705,000 and \$8,771,000, respectively, of Net Income (\$.05, \$.16 and \$.17, respectively, per share) resulting from intrastate and interstate rate increases which are subject to investigation and possible refund. See Note (d).

- (k) **REPLACEMENT COST (UNAUDITED)** — In response to Securities and Exchange Commission requirements, the following figures compare telephone plant investment as shown on the balance sheet at December 31, 1976 with the approximate cost to replace its productive capacity at that date. They also compare accumulated depreciation at that date with the amount that would have been provided had past depreciation accruals contemplated such replacement costs. Additionally, they compare depreciation expense for the year ended December 31, 1976 with depreciation expense computed (using historic depreciation assumptions) on these estimates of replacement cost.

	Thousands of Dollars		
	As Stated	At Replacement Cost	Difference
Telephone Plant Investment:			
For which replacement cost has been determined.....	\$ 4,591,508	\$ 7,146,731	\$ 2,555,223
Included at historic cost.....	102,227	102,227	—
Total.....	4,693,735	7,248,958	2,555,223
Accumulated Depreciation.....	1,060,768	2,113,708	1,052,940
Net Telephone Plant Investment...	<u>\$ 3,632,967</u>	<u>\$ 5,135,250</u>	<u>\$ 1,502,283</u>
Depreciation Expense.....	<u>\$ 224,650</u>	<u>\$ 316,538</u>	<u>\$ 91,888</u>

These replacement cost figures are theoretical, based on the assumptions that, as of December 31, 1976: electronic switching systems would replace all electromechanical switching systems; most other telephone plant would be replaced in accordance with present replacement practices; and building space would be reduced because of the use of electronic switching systems. Certain telephone plant categories are included at historic cost: principally land, telephone plant under construction, and telephone plant held for future use.

The difference between historic and estimated replacement cost of net telephone plant investment does not represent additional book value for the Company's stock. The above replacement cost is an approximation of the amount of capital that could have been required were the Company to have replaced the entire productive capacity of such plant on December 31, 1976. Replacement actually will take place over many years and the funds needed will be derived from sources similar to those available during 1976.

Depreciation expense based on an estimate of replacement cost also is a theoretical figure and not deductible in determining income tax expense. The excess of depreciation on replacement cost over that determined on historic cost is a measure of the extent to which current operations have not been making provision for higher replacement cost of the present plant capacity. Such provision, if made, would provide funds which would be used in lieu of funds from other sources for plant construction.

It would be unrealistic to impute a reduced net income by the difference between depreciation based on historic cost and that based on estimates of replacement cost. New plant is likely to provide largely-offsetting additional revenue-generating services and operating efficiencies. Additionally, replacement of plant will take place over many years. It is true, however, that the earnings of the Company must be high enough to provide some equity capital from reinvested earnings and to attract additional debt and equity to provide funds for any replacement cost in excess of depreciation accruals based on the historic cost of the plant.

## **Report of Independent Certified Public Accountants**

To the Share Owners of  
New England Telephone and Telegraph Company:

We have examined the balance sheet of New England Telephone and Telegraph Company as of December 31, 1976 and the related statements of income and reinvested earnings and changes in financial position for the year then ended. Our examination 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. We previously examined and reported upon the financial statements of the Company for the year 1975.

As described in Note (d) to Financial Statements, net income for 1976 includes amounts resulting from rate increases which are subject to investigation and possible refund.

In our opinion, subject to the final outcome of the rate matters referred to in the preceding paragraph, the financial statements (pages 12 to 19) present fairly the financial position of New England Telephone and Telegraph Company at December 31, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Coopers & Lybrand*

Boston, Massachusetts  
February 4, 1977

## **Management Responsibilities for Financial Reports**

The financial statements which appear on pages 12 to 19 are summaries of the accounts of New England Telephone and Telegraph Company. The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission.

*H. H. DeLoach Jr.*

Vice President — Finance  
and Comptroller

## Company Statistics

AT DECEMBER 31	1976	1975	1974	1973	1972
NUMBER OF SHARES OUTSTANDING ..	52,969,692	52,969,692	45,685,080	45,685,080	39,158,640
Book Value Per Share .....	\$33.16	\$31.97	\$33.39	\$33.17	\$33.57
Number of Share Owners .....	45,117	45,708	44,221	43,353	41,953
TOTAL PLANT INVESTMENT .....	\$4,693,735,000	\$4,504,722,000	\$4,262,825,000	\$3,918,260,000	\$3,524,189,000
Depreciation Reserve.....	1,060,768,000	980,353,000	900,702,000	847,093,000	805,775,000
Net Plant Investment .....	3,632,967,000	3,524,369,000	3,362,123,000	3,071,167,000	2,718,414,000
% RESIDENCE EXTENSIONS TO					
RESIDENCE MAIN.....	57%	53%	48%	45%	43%
EMPLOYEES.....	40,779	42,378	46,739	49,169	48,692
YEAR					
CONSTRUCTION EXPENDITURES.....	\$ 336,028,000	\$ 364,499,000	\$ 486,263,000	\$ 526,379,000	\$ 501,863,000
ORIGINATING CALLS —					
AVERAGE BUSINESS DAY .....	32,575,000	31,531,000	31,001,000	29,520,000	28,689,000
LONG DISTANCE MESSAGES .....	631,945,000	610,370,000	599,829,000	576,182,000	533,352,000
Customer Dialed .....	90%	88%	86%	84%	81%
TOTAL TAXES.....	\$ 412,434,000	\$ 322,411,000	\$ 308,991,000	\$ 279,177,000	\$ 253,549,000
Federal Income and Social Security .....	170,630,000	107,656,000	101,890,000	85,361,000	74,250,000
State and Local.....	152,296,000	127,708,000	117,360,000	104,101,000	91,507,000
Federal Excise .....	80,748,000	79,544,000	82,956,000	83,502,000	82,317,000
State Sales.....	8,760,000	7,503,000	6,785,000	6,213,000	5,475,000
Total Taxes per Customer per month ....	\$10.07	\$8.01	\$7.77	\$7.11	\$6.62

### Responsibilities for Financial Statements

The financial statements on the preceding pages have been prepared in conformity with generally accepted accounting principles. Such principles are consistent in all material respects with the Accounting prescribed by the Federal Communications Commission for Telephone Companies.

The integrity and objectivity of data in these financial statements are the responsibility of management. To this end, management maintains a highly developed system of internal controls and supports an extensive program of internal audits. More fundamentally, the Company seeks to assure the objectivity and integrity of its accounts by careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility, and by communications programs aimed at assuring that its policies and standards are understood throughout the organization.

These financial statements have been examined by Coopers & Lybrand, certified public accountants, and their report is shown on page 19. The auditors' report expresses an

informed judgement as to whether management's financial statements, considered in their entirety, present fairly in conformity with generally accepted accounting principles the Company's financial condition and operating results. It is based on procedures described in the first paragraph of the report, which include obtaining an understanding of the Company's system and procedures and performing tests and other procedures sufficient to provide reasonable assurance that the financial statements neither are materially misleading nor contain material errors. While the auditors make extensive tests of Company procedures, it is neither practicable nor necessary for them to scrutinize a large portion of the Company's transactions.

The Board of Directors pursues its responsibilities for these financial statements through its audit committee, which meets periodically with both management and the independent auditors to assure that each is carrying out its responsibilities. The independent auditors have full and free access to the audit committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

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We hereby certify that the condensed return of its business and financial condition contained on pages 12 to 19 inclusive of this Annual Report is full, just and true.

  
*Treasurer.*



*Vice President – Finance and Comptroller.*

THE COMMONWEALTH OF MASSACHUSETTS  
Suffolk ss. Boston, March 1, 1977. Then personally appeared the above-named J.F. Crain, Treasurer, and H.H. Fellows, Jr., Vice President – Finance and Comptroller, and severally made oath that the foregoing certificate by them subscribed is true to the best of their knowledge, information and belief.

Before me,



*Notary Public.*

My Commission expires November 27, 1981.

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## Board of Directors

### **JAMES S. BARKER**

Chairman of the Board, Indian Head National Bank of Concord, Concord, New Hampshire

### **LOUIS W. CABOT**

Chairman of the Board, Cabot Corporation, Boston, Mass.

### **ABRAM T. COLLIER**

Chairman of the Board, New England Mutual Life Insurance Company, Boston, Mass.

### **HAYNES H. FELLOWS, JR.**

Vice President, New England Telephone and Telegraph Company

### **ROBERT H. I. GODDARD**

Partner, Brown & Ives, Providence, Rhode Island

### **ELLIOTT M. GORDON**

Chairman of the Board, Towle Manufacturing Company, Newburyport, Mass.

### **RICHARD D. HILL**

Chairman of the Board and Chief Executive Officer, First National Boston Corporation, Boston, Mass.

### **MAURICE LAZARUS**

Chairman of the Finance Committee, Federated Department Stores, Inc., Boston, Mass.

### **WILLIAM C. MERCER**

President, New England Telephone and Telegraph Company

### **JOHN S. NORTH**

Vice President, New England Telephone and Telegraph Company

### **THOMAS S. NURNBERGER**

Executive Vice President, American Telephone and Telegraph Company, New York, N.Y.

### **MRS. GEORGE L. SARGENT**

President, Board of Governors, New England Medical Center Hospital, Inc., Boston, Mass.

### **HUGH C. SAUNDERS**

President, Saunders Brothers, Inc., Westbrook, Maine

### **FREDERICK P. SMITH**

Chairman of the Board and Chief Executive Officer, Burlington Savings Bank, Burlington, Vermont

### **H. BRADFORD WASHBURN, JR.**

Director, Museum of Science, Boston, Mass.

## Executive Committee

### **WILLIAM C. MERCER**

CHAIRMAN

### **ABRAM T. COLLIER**

### **ELLIOTT M. GORDON**

### **MAURICE LAZARUS**

### **JOHN S. NORTH**

### **H. BRADFORD WASHBURN, JR.**

## Audit Committee

### **RICHARD D. HILL**

CHAIRMAN

### **LOUIS W. CABOT**

### **FREDERICK P. SMITH**

## Pension Committee

### **MAURICE LAZARUS**

CHAIRMAN

### **JAMES S. BARKER**

### **ELLIOTT M. GORDON**

## Organization Changes

Mrs. George L. Sargent was elected a Director of the Company on April 20, 1976. She is President of the Board of Governors of New England Medical Center, Boston. She also serves as a Director of Boston Safe Deposit and Trust Company, and of Scudder, Stevens and Clark, a mutual trust fund. She is a Trustee of the Boston Symphony Orchestra, the Civic Education Foundation and Tufts University.

Peter W. Bertschmann was elected Vice President-Massachusetts on April 1, 1976. He joined the Company in 1961, and before assuming his new responsibility, was Director of Corporate Planning.

Peter C. Manus was elected Vice President-Revenue Matters on August 1, 1976. He began his Bell System career in 1957 with New York Telephone Company, and from 1970 to 1973 he served as U.S. Deputy Assistant Secretary of Commerce. Prior to his election as a Vice President, Mr. Manus was Assistant Vice President-State Regulatory Matters at American Telephone and Telegraph Company, New York.

John J. Coleman was appointed General Manager-New Hampshire on November 1, 1976. He formerly served as Division Plant Manager-South in Massachusetts.

## Officers

PRESIDENT

### **WILLIAM C. MERCER**

VICE PRESIDENTS

### **C. DUANE ALDRICH**

GENERAL COUNSEL

### **PETER W. BERTSCHMANN**

### **HAROLD R. DANN**

### **LINCOLN A. DIVOLL**

### **DELBERT L. EMERY**

### **HAYNES H. FELLOWS, JR.**

FINANCE AND COMPTROLLER

### **WILLIAM M. HOGAN, JR.**

### **ROBERT F. LANDRY**

### **PETER C. MANUS**

### **JOHN S. NORTH**

### **JOHN F. PRENDIVILLE, JR.**

### **RODNEY M. TORRES**

### **JOSEPH J. URBAN**

TREASURER

### **JAMES F. CRAIN**

SECRETARY

### **WILLIAM H. P. SMITH**

## General Managers

### **PERRY M. HUDSON**

Maine

### **PETER W. BERTSCHMANN**

Massachusetts

### **JOHN J. COLEMAN**

New Hampshire

### **BRUCE W. BALDWIN**

Rhode Island

### **JAMES W. WOOSTER, III**

Vermont

# City of Cambridge

Annual Report from the New England Telephone  
Co. for the year 1976.

In City Council,  
April 11, 1977

*Placed on file*