

*D. H. Arnold*  
C. WALLACE  
REPORT

*Feb 4 put*  
OF THE DIRECTORS

OF THE

American Bell Telephone Co.

TO THE STOCKHOLDERS,

MARCH 29, 1881.

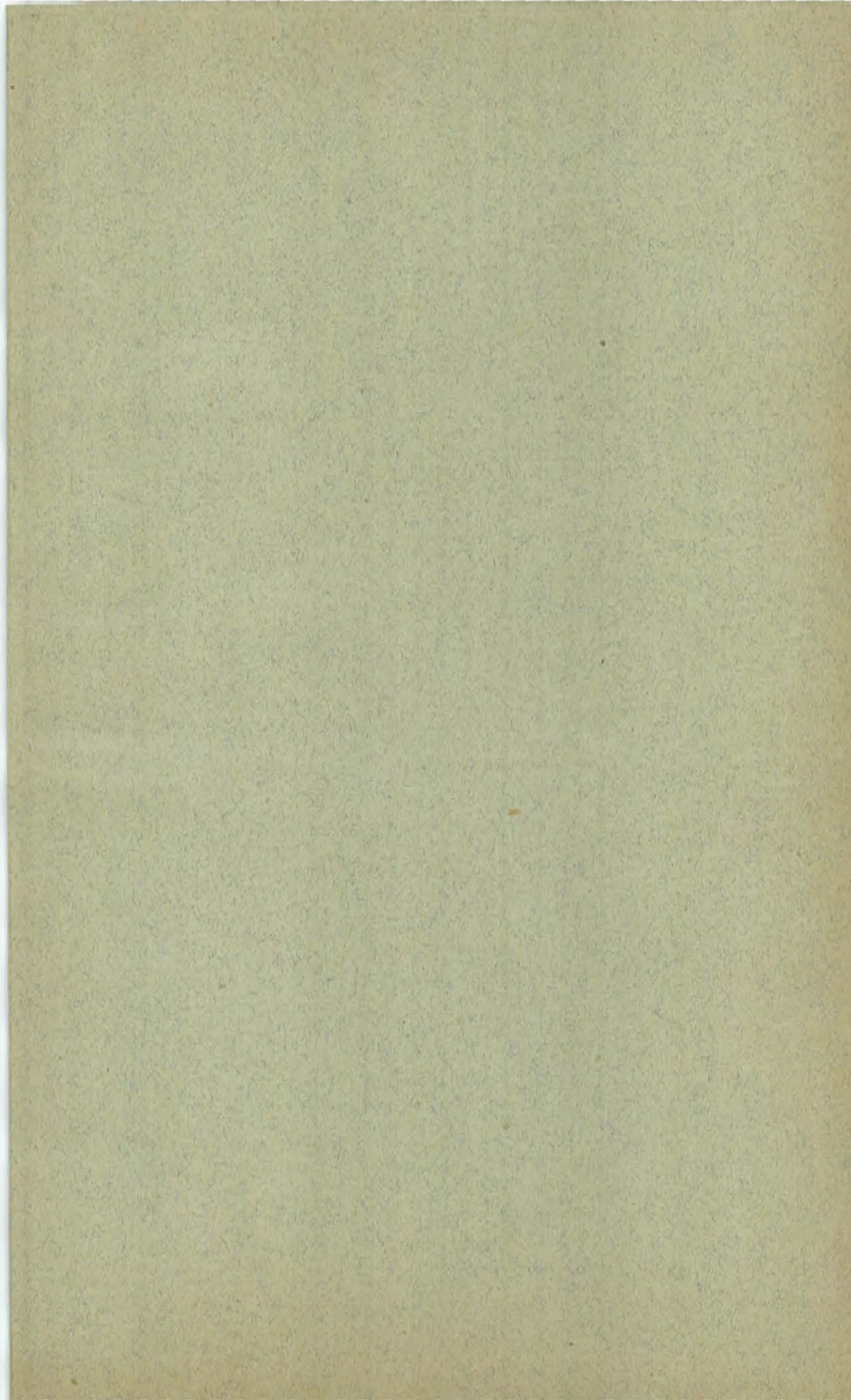
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OFFICE OF THE AMERICAN BELL TELEPHONE CO.,  
BOSTON, March 29, 1881.

*To the Stockholders :*

The business of the company since its organization in May, 1880, has been in every respect satisfactory.

Up to the present time the chief development of the telephone has been for exchange systems, but there is reason to expect a large use of the instrument for private lines, branch lines and speaking-tube purposes; and to this, during the coming year, especial attention should be directed.

For purposes of comparison, statistics have been prepared for twelve months, ending Feb. 28, 1881, including the last two and a half months of the work of the *National* Bell Telephone Company.

The general manager's report shows that on the 1st of March, 1880, 138 exchanges were in operation or about to open, and on Feb. 28, 1881, the number was 408; an increase of 270.

The number of instruments in the hands of our licensees in the United States,

Feb. 20, 1880, was	.	.	.	.	60,873
Feb. 20, 1881	.	.	.	.	132,692

Showing an output for the year of 71,819 instruments. This number includes 20,885 taken over from the Gold and Stock Telegraph Company, and in use by our licensees.

The number of instruments sold for export purposes

up to Feb. 20, 1880, was	.	.	.	.	2,800
During the past year	.	.	.	.	16,041

In the United States there are only nine cities of more than 10,000 inhabitants, and one of more than 15,000, without a telephone exchange.

The total number of cities and towns for which licenses to build exchanges have been issued, is 1,523 ; and there is no reason to doubt that, in most of these points of any importance, the system will within a few months be put in operation.

With the exception of Camden, New Jersey, which is still in process of settlement, there is no exchange in the United States now being operated or built under any license except that of this company.

The business of connecting cities and towns by telephone wires has been taken up in the past year with some vigor, and the prospect is good for a large increase in these lines. Boston, for example, is now in communication with seventy-five cities and towns, including Providence, Worcester, Springfield, Lawrence, Lowell, and other important places.

It will take some time yet to get first-rate service in a large network of towns, as the practical difficulties at least equal those which were met in giving prompt connection within the limits of one city, but nothing but experience and tests of various methods are needed to enable such groups of exchanges to reach satisfactory results. Thirty-two contracts have been given to other companies for this class of work, and the reports to date show 1,398 miles of wire and 731 miles of pole line in use.

The connection of exchanges with the telegraph lines has been begun in a small way all over the country, and although it will take time to accustom people to the use of the telephone for the sending of telegraph messages, the commission from this source will undoubtedly grow and become of substantial value.

The company has now a stock interest in the companies in New York, Chicago, Philadelphia, St. Louis, San Francisco, Elmira, New Haven and Canada, amounting, in the aggregate, at par, to \$1,300,300, and owns the whole of the Boston Exchange, which has cost, with the Edison Exchange bought from the opposition, \$130,358.97.

The business of all these companies is now upon a paying

basis, although the requirements for new construction and for the cost of putting together two systems in New York, Chicago and Boston, have thus far absorbed all net earnings in these places, while in consequence of these changes the service in these cities is not yet fully satisfactory.

In New York and Chicago the local companies will probably at once make provision for their new construction outside of their net earnings, and put themselves in a position to pay dividends upon their capital.

In Boston some \$15,000 will be required from the treasury for construction, after which it is expected that the business will be sufficient to provide for its own further growth.

The business of the New York company already promised handsome results, when, on the 21st of January, a sleet storm, more severe than any known since the telegraph came into general use, prostrated the wires and many poles in all parts of the city, and inflicted severe direct and indirect loss upon the company.

The executive committee of that company, however, feel every confidence that its business will prove of very great value, and that beyond certain important questions of construction, which are somewhat difficult of solution in that city, we have no serious obstacles to a great success.

In settling with the Western Union Company it was necessary, in order that the competing interests should be harmonized, that all their exchange systems should be bought, and it was estimated at the time of the settlement that we might have to sustain a loss of some \$50,000 in completing these arrangements.

With one unimportant exception, that of Camden, N. J., before mentioned, we have settled all of these cases and have either bought and resold to, or procured to be bought by our licensees, fifty-five exchanges, costing . \$325,160 06

of which we have kept Boston, costing . \$26,000 00

and have recovered upon the remaining fifty-

four . . . . . 267,187 98

leaving a loss of . . . . . \$31,972 08



This may be considered a satisfactory settlement, as there was much waste and bad building on the part of the opposition exchanges for which our licensees were unwilling to pay, and yet it was of the greatest importance to get the whole country settled, and under one system.

It is hoped that before the next annual meeting a valuable business will be developed in Canada. It seemed to the directors of importance to control the license of instruments in the Dominion, in order to prevent the smuggling of telephones across the border. Two companies have been formed in that country; one to hold the patents and issue licenses, and the other to develop the business. Our company holds and should continue to hold a majority of the capital stock of the former; and as considerable delay occurred in settling the competition between the Bell and the Gold and Stock licensees in the Dominion, it was found necessary to advance enough money to the second company to get the contest ended, the plant of both parties under one control, and the business under some headway. All this has been done, and the development of exchanges is proceeding with much enterprise; and it is probable that the Bell Telephone Company of Canada will, ere long, be in such a position that we can readily sell such part of the stock which we have received for our investment there as it may not be thought best to keep. It is, however, as yet too early to give any exact report upon the business in Canada, but we are advised that 4,496 telephones are in use, and 2,082 subscribers are connected with the various exchanges, and the managers of the company feel entirely confident of success.

In regard to claims for telephone patents advanced by other parties, the directors are advised by Messrs. Chauncey Smith and James J. Storrow, the counsel of the company, as follows:—

MARCH 23, 1881.

“ W. H. FORBES, Esq., *President American Bell Telephone Co.* :

“ *Dear Sir,* — The condition of the patent controversies which the company is concerned in in relation to the Bell patents is as follows:—

"These patents cover every apparatus capable of transmitting articulate speech by electricity which has yet been devised, and the more carefully the subject is examined the more certain it appears that no instrument can do it except by copying the method invented by Mr. Bell and patented to him by his patent of March 7, 1876. For eighteen months after the grant of that patent no one publicly, at least, disputed his claims to originality. After his telephones had gone into general use, the Western Union Telegraph Company set up three claimants, and pushed these claims in the Patent Office and in the courts. But after the facts of the case had been fully brought out in evidence, the acute and sagacious counsel of the Western Union Telegraph Company were satisfied that Mr. Bell would prevail.

"This particular question, though the most important part of the controversy with the Western Union, was only a part of it, and the contract of Nov. 10, 1879, settled the whole controversy. The settlement was based upon the assumption and concession that the Bell patent was valid, and that it covered all the apparatus known, and upon the recognition of the advantage to the Telephone Company of the exclusive right to use certain subordinate inventions owned by your opponents, and upon the commercial advantages likely to arise from other provisions of the contract in the then condition of your company.

"It was necessary that the controversies thus originated in the Patent Office should be proceeded with, but there is no doubt whatever about the result. Moreover, the American Bell Telephone Company own the exclusive right to use those inventions of your opponents.

"W. L. Voelker, of Philadelphia, has since been added to those who claimed the great invention, but his evidence has been taken and his dates are too late to leave him any ground for contest.

"Recently a new claimant has appeared. The People's Telephone Company, formed in the summer of 1880, acquired the right to prosecute a claim for Daniel Drawbaugh, who alleges that he preceded Mr. Bell by six or seven years. But we consider them to be absolutely without chance of success. This claim was not heard of until the summer of 1880. Every one remembers the attention which Mr. Bell's discovery at once attracted, and it is absurd to suppose that practical telephones existed in the suburbs of Harrisburg for ten years before anybody published the fact.



"It is the common fortune of important patents, after they have developed great commercial value, to be the subject of similar claims, but such tardy attacks on such valuable patents have invariably failed. It always turns out that such claimants have done something, but have stopped short of the successful result which the patentee had reached.

"We are satisfied, as we have already advised you verbally, that the People's Company have nothing to sell which is worth buying.

"The Drawbaugh applications now stand rejected in the Patent Office.

"In October last we obtained a preliminary injunction against the People's Company after a contest. The suit has been pushed, our evidence taken, and case only waits such proof as the defendants may have to offer.

"We have also obtained three other injunctions on the Bell patents in New York, one in Boston, and one in Chicago.

"There are other interference controversies on some minor features of the Bell patents, but they give us no anxiety, because the evidence taken shows the strength of Mr. Bell's case, and because, if we fail in any of them, you will obtain the patents of the other parties at a moderate cost.

"The company is concerned in other patent controversies, but in view of the evidence which has been taken in all the important ones, we perceive no cause for alarm in any of them.

"Yours truly,

"(Signed) CHAUNCEY SMITH.

"(Signed) JAMES J. STORROW."

A large amount of work has been done in the electrical and experimental department, both in examining new inventions and testing telephones and apparatus, and in studying the question of overhead and underground cables, and the improvement of telephones and lines, for both short and long distance service. This work is expensive, but it is of the first importance to our company, and must be continued.

The report of the General Inspector upon this department shows that we own or control, either by purchase or by inventions made by our own electricians, 124 patents, and have applications in the Patent Office for 77 more. Among these a considerable number are of great value as a



protection to our business, and from them a substantial revenue has already been received by royalties from our licensees. This source of income will be materially increased, and should eventually more than cover our experimental and electrical expenses.

Immediately after the settlement with the Western Union Company the policy of making only five-year contracts was adopted, in order that our company could have time to learn the best permanent basis for the relations between the company and its licensees, and to see which of them would prove satisfactory as associates. Many applications are now being made for permanent licenses, and we have begun to give such permanent contracts in places where the business is being prosecuted with energy and success, in exchange for a substantial interest in the stock of the local companies. By pursuing this plan, the company will gradually acquire a large permanent interest in the telephone business throughout the country, so that you will not be dependent upon royalties for a revenue when the patents shall have expired.

The treasurer's report shows that the total re-

ceipts, including sales of stock and loans, for

the year ending Feb. 28, 1881, have been \$2,058,184 08

And the total expenditures, including con-

struction account . . . . . 1,957,430 97

Balance on hand . . . . . \$100,753 11

The capital or construction accounts include settlements with the Western Union and Gold and Stock Telegraph Companies for instruments and exchange plant, purchase of new telephones, purchase of exchange interests, patents, plant in Canada, and sundry smaller items, and amount to . . . . . \$1,537,456 93

The earnings of all kinds for the same period

have been . . . . . 605,184 01

Expenses of operating, including royalty to

Western Union and associates . . . . . 339,425 44

Dividend, Jan. 1, 1881 . . . . . 178,500 00

The increase in earnings has been steady from \$28,151.54 per month, in March, 1880, to \$61,244.93 in February, 1881. And the net earnings for these twelve months show an increase of \$193,037.44 over those of the previous year.

Much of the electrical and legal work of these first years of the company, and indeed some of our expenses incurred in studying and classifying the business, are substantially for the establishment of the property, and might be charged to construction and capitalized, but the directors have preferred the more conservative policy of charging everything to operating which could reasonably be put there, although the result upon the books appears less favorable, in consequence, than the business prospects might warrant us in exhibiting.

If this course is continued, when the suits in progress become settled, and the rush to secure patents for all the early inventions is over, our operating expenses in the legal and electrical departments can be much lessened, and a business of far greater volume than that of the past year can be done with no increase in our expense account.

No reason is now apparent for any increase of consequence in the construction account, beyond the limit provided for by the \$500,000 loan negotiated last October, and the directors do not foresee any occasion for raising any further amounts of money.

The treasurer's accounts show that the company is earning something more than a three per cent dividend for the current six months, and if the net increase of telephones producing rental continues at over 4,000 per month, the latter half of the year will give a still better result.

After two years passed in a struggle for existence, and a third largely devoted to the settlement of disputes inherited from that contest, the owners of the telephone patents, at the beginning of their fourth year, for the first time find themselves free from all serious complications, with nothing to prevent the company from directing its whole working force



to the development of the business, and with a defined policy for its future operations, which seems to be working well in all parts of the country.

In conclusion, the directors wish to express their appreciation of the ability, fidelity, and zeal with which the general manager and his assistants have grappled with the unusually perplexing difficulties encountered in systematizing our affairs.

The statement of the treasurer for the year ending Feb. 28, 1881, and the report of the auditing Committee, are appended.

For the directors,

W. H. FORBES,

*President.*

*Statement of the American Bell Telephone Company for Year ending Feb. 28, 1881.*

EARNINGS AND OPERATING EXPENSES.

EARNINGS.

Rental . . . . .	\$535,754 84	
Sales of instruments and supplies . . . . .	29,379 51	
Royalties from manufacturers . . . . .	20,353 45	
Exchange dividends . . . . .	11,200 00	
Miscellaneous . . . . .	8,496 21	
		\$605,184 01

EXPENDITURES.

Expenses of management . . . . .	\$130,672 66	
Legal expenses . . . . .	44,283 58	
Interest and taxes . . . . .	34,486 73	
Royalty on switches, etc. . . . .	12,097 58	
Commission(chiefly royalty to W.U. Telegraph Co. <i>et als.</i> , contract of Nov. 10, 1879) . . . . .	94,406 11	
Depreciation . . . . .	23,478 78	
Dividend . . . . .	178,500 00	
		\$517,925 44

NOTE.—The word *exchange* means *telephonic exchange system*.

The words *exchange interests* mean *interests in local companies operating such systems*.

## CASH STATEMENT.

## RECEIPTS.

Cash balance March 1, 1880 . . . . .	\$130,500 46
Sales of stock . . . . .	850,000 00
Loan of 1880 . . . . .	296,100 00
Temporary loans . . . . .	137,660 42
Rental . . . . .	402,794 18
Sales of instruments and supplies . . . . .	45,040 35
Royalties . . . . .	21,603 90
Exchange dividends . . . . .	11,200 00
Extra Territorial lines and telegraph commissions . . . . .	3,472 60
Transfer of Western Union exchanges	112,658 37
Exchange interests . . . . .	24,425 24
Loans paid . . . . .	11,330 25
Miscellaneous . . . . .	11,398 31

## EXPENDITURES.

## Operating expenses —

General (including salaries, office, travelling, electrical and experi- mental) . . . . .	\$126,660 73	
Legal expenses . . . . .	46,284 89	
Interest and taxes . . . . .	20,805 51	
Commission and royalty (includes royalty to the Western Union Telegraph Company, <i>et als.</i> , con- tracts of November 10, 1879) . . . . .	35,114 30	\$228,865 43
Instruments purchased and manufac- tured . . . . .		305,651 19
Transfer of exchanges . . . . .		188,715 57
Patents . . . . .		123,371 32
Exchange interests . . . . .		441,363 30
Office furniture and library . . . . .		4,859 31
Loans paid . . . . .		477,110 87
Loaned . . . . .		10,000 00
Dividend . . . . .		173,595 00
Miscellaneous . . . . .		3,898 98
Cash on hand . . . . .		100,753 11
	<u>\$2,058,184 08</u>	<u>\$2,058,184 08</u>



## SUMMARY.

## RECEIPTS.

Cash balance March 1, 1880 . . .	\$130,500 46
Capital accounts . . . . .	1,432,424 28
Current accounts . . . . .	495,259 34

## EXPENDITURES.

Capital accounts . . . . .	\$1,537,456 98	
Current accounts . . . . .	419,974 04	
Cash balance Feb. 28, 1881 . . .	100,753 11	
	<u>\$2,058,184 08</u>	<u>\$2,058,184 08</u>

BOSTON, March 28, 1881.

*To the Directors of the American Bell Telephone Co.:*

Gentlemen, — Your committee, appointed to audit the accounts of the treasurer, with authority to employ an expert, has attended to that duty, and herewith presents the report of Mr. C. T. Plimpton, the expert employed for that purpose.

Very respectfully submitted,

CHARLES P. BOWDITCH, *Committee.*

BOSTON, March 21, 1881.

I hereby certify that I have audited the books and accounts of the Treasurer of the National Bell Telephone Company, from March 1, 1880, and of the books and accounts of the American Bell Telephone Company from their commencement in May, 1880, to March 1, 1881, as follows: —

The cash books, their debits and credits, journalizings, postings, stock ledger, bank accounts, trial balances and cash on hand.

In my investigations have found everything in connection with the above correct, and that all disbursements as entered in cash books are sustained by approved vouchers, and that the books are kept with accuracy.

CHARLES T. PLIMPTON, *Auditor.*





