

The First
Bell System
Annual Report

American Bell Telephone Company
March 29, 1881

Copy of
Original Manuscript

President's Report

to
Stockholders Mch 29/81

Boston, March 29, 1881.

To The Stockholders,

The business of The Company since its organization in May 1880 has been in every way 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 February 28th 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 March, 1880 - 138 Exchanges were in operation, or about to open, and on February 28th 1881 - the number was 408, an increase of 270.

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

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

(Showing an out put for the year of 71,819 instruments) This number includes 20,885 telephones taken over from the old

of Stock Telegraph Co. and in use by
our licensees.

The number of instruments sold for
Export purposes up to February 20, 1880,
was 2,800.
During the past year 16,041.

In the United States there is only
one city of over 15,000. and there are only
nine cities of more than 10,000 inhabitants
without an Exchange -

The total number of Cities and Towns
for which licenses to build exchanges have
been issued is 1523 and there is no
reason to doubt that, in most of these
points of any importance, the systems
will within a few months be put in
operation.

With the exception of Camden N. 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 net work 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.

32 Contracts have been given to other Companies for this class of work and the reports to date show 1398 miles of wire and 731 miles of pole-line.

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 \$130,358.⁹⁷/₁₀₀

The business of all of 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 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 three 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 55 Exchanges costing \$ 325,160.00 of which we have kept Boston " \$ 26,000. and have accounted upon the remaining 54 \$ 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 & Stock licenses 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 Co. 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 4496 telephones are in use and 2082 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 accompanying letter from the Counsel of the Company will explain the situation. It should not be forgotten that a property like ours is sure to be a target for claims from all quarters.

Since the settlement with the Western Union Telegraph Company however no opponent of any importance has appeared and the Directors rely with confidence upon our counsel's opinion that we shall have no difficulty in defeating each and all of the claimants as rapidly as the suits can be brought to trial.

"Copy"

March 23, 1881.

" W. H. Forbes Esq

" Pres. Am. 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 elec-
" tricity which has yet been devised, and the
" more carefully the subject is examined the
" more certain it appears that no instru-
" ment can do it except by copying the method
" invented by Mr Bell and patented to him
" by his patent of March 7, 1876. For
" 18 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 & pushed
" these claims in the Patent Office & in the
" courts. But after the facts of the case had
" been fully brought out in evidence the acute
" & sagacious counsel of the Western Union
" Tel. Co. were satisfied that Mr Bell would
" prevail. This particular question, though
" the most important part of the con-
" troversy with the Western Union, was

" only a part of it & the contract of
" Nov. 10 1879 settled the whole contro-
" versy. The settlement was based upon
" the assumption & concession that the
" Bell patent was valid & that it covered
" all the apparatus known, & upon the
" recognition of the advantage to the Tel-
" phone Co. of the exclusive right to use
" certain subordinate inventions owned by your
" opponents & upon the commercial ad-
" vantages 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
" Am. Bell Telephone Co. 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 & his dates are too
" late to leave him any ground for contest.

" Recently a new claimant has ap-
" peared. The Peoples Telephone Co., 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 con-
" sider 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 &
" it is absurd to suppose that prac-
" tical telephones existed in the suburbs of
" Haverbury for 10 years before any body
" published the fact.

" It is the common fortune of im-
" portant patents after they have developed
" great commercial value to be the sub-
" ject of similar claims, but such tardy
" attacks on such valuable patents have
" invariably failed. It always turns out
" that such claimants have done some-
" thing 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 Peoples' Co.
" 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 Peoples

" Company after a contest. The suit has
" been pushed, our evidence taken & case
" only waits such proof as the defendants may
" have to offer.

" We have also obtained three other in-
" junctions 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, & 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 ? Stonow "

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 questions 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 ^{Co} the policy of making only 5 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.

The St Louis Company has just paid us \$120,000. in full paid stock of its capital of \$400,000. for such a contract and similar arrangements are in progress for other important points.

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 Treasurers report shows that
the total receipts, including sales of stock
and loans, for the year ending Feb. 28, 1881
have been: \$2,058,184.68

And the total expenditures including
construction accounts \$1,957,430.97

Balances on hand: 100,753.11

The capital or construction accounts include
settlements with the Western Union and Gold & 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, \$605,124.01

Expenses of Operating, including royalty
to Western Union and associates, \$339,425.44

Dividend Jan'y 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 those
twelve months show an increase
of \$193,037.44 over those of
the previous year or 265 percent.

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 loan of \$500,000.00, 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 3% Dividend for the current six months, and if the net increase of telephones producing rental, continues at over 4000 per month the latter half of the year will give a still better result.

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 (Over)

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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

In the Senate,

W. H. Forbes

President

