

C. WALLACE

REPORT

OF

THE DIRECTORS

OF THE

American Bell Telephone Co.

TO THE STOCKHOLDERS,

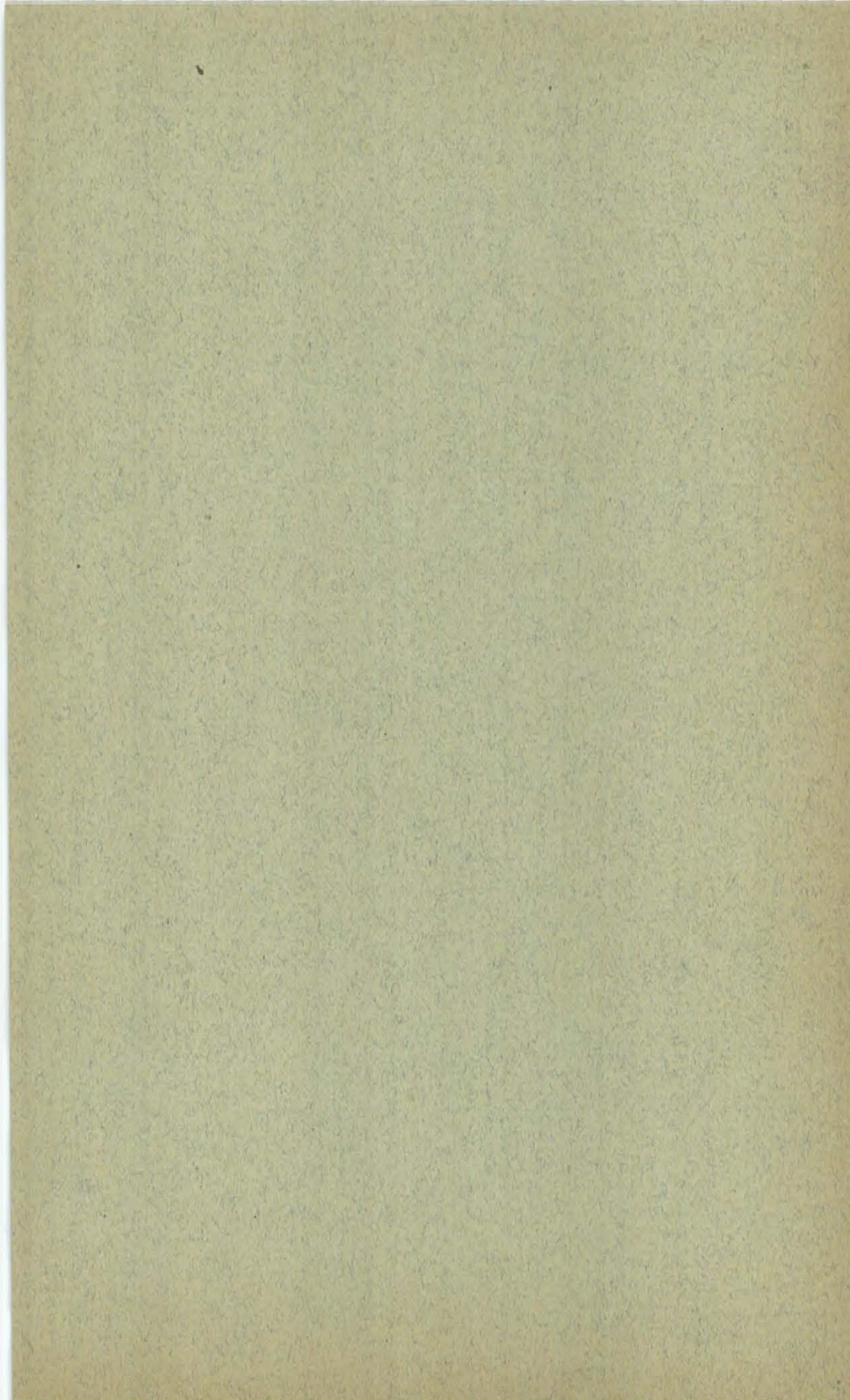
MARCH 28, 1882.

---

BOSTON:

PRESS OF ROCKWELL & CHURCHILL, NO. 39 ARCH STREET.

1882.





OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,

BOSTON, March 28, 1882.

TO THE STOCKHOLDERS :—

The business of the year ending February 28, 1882, has been large and satisfactory.

The principal output of telephones has continued to be for Exchange Systems. Most of the large cities have shown a fair increase in their number of subscribers, while the increase in the smaller cities and towns has been large. The use of the Exchange System is extending into smaller places than was expected, and many villages, not large enough to maintain an exchange service, are providing themselves with club lines.

The connection of cities and towns with each other, and with smaller tributary places, is extending quite rapidly, and promises to add greatly to the value of the telephone service in each place, while also doing much to increase the stability of the companies acting in concert under our patents.

The territory available for exchange systems is being rapidly taken up, few places of much value being now left open.

The following statistics as to exchanges, connecting lines, and output of telephones will be of interest :—

	Jan. 1, 1881.	Jan. 1, 1882.	Increase for the year.
<i>Exchanges</i> in operation . . . . .	408	592	184
Subscribers . . . . .	47,880	70,525	22,645
Miles of wire . . . . .	28,316	49,168	20,852

	Whole No. March 1, 1881.	Whole No. March 1, 1882.	Increase dur- ing the year.
<i>Extra-Territorial Lines</i> (con- necting towns with each other) . . . . .	21	75	54
Miles of pole lines . . . . .	730	2,007	1,277
Miles of wire . . . . .	1,398	3,037	1,639
Exchanges connected . . . . .	66	149	83
Towns connected where there are no Exchanges . . . . .	55	95	40

	Feb. 20, 1881.	Feb. 20, 1882.	Increase dur- ing the year.
No. of <i>Instruments</i> under rental . . . . .	132,692	189,374	56,682

Instruments manufactured and purchased up to Feb. 20, 1882 . . . . .		258,075
In hands of licensees . . . . .	189,374	
On hand available . . . . .	11,910	
Destroyed . . . . .	7,304	
Defective, and to be destroyed . . . . .	46,925*	
Balance in suspense account, or used for telegraph or experimental purposes . . . . .	2,562	
		<u>258,075</u>

We have, during the year, pursued the policy of giving permanent contracts to our licensees, taking a stock interest in payment. The company can in this way obtain a permanent vested interest in the telephone business independent of its royalty upon telephones.

\* Chiefly purchased from Gold and Stock Telegraph Co.

In exchanging short contracts for permanent licenses, dividends upon our portion of stock have been waived for periods varying according to the periods of the old contracts. The revenue from this source, for the next two or three years, will, therefore, be moderate; but, after that time, it should rapidly increase, as most of the exchanges promise to have a paying business.

In the large cities where we already had a stock interest the outlook is promising. The New York company is earning a considerable net revenue, but it has so far been compelled to put all of its earnings into construction. The sleet storm of January, 1881, cost, in direct damage and in loss of business, nearly \$100,000, besides causing great delay in the reorganization and improvement of the service. That company has now made provision, by a mortgage loan, for its immediate construction requirements, and, unless required for the purpose of putting its system under ground, its earnings should now take care of its construction and pay fair dividends upon the stock. Its authorized loan is \$600,000, bearing six per cent. interest, of which \$300,000 has been issued, having been offered to its stockholders *pro rata*. The remainder can be used for construction purposes, if needed.

This company has taken its share as a stockholder of the above bonds, namely, \$154,500, expecting to sell them again during the year.

The companies in Philadelphia, San Francisco, and Chicago are now earning and paying dividends to us. The Boston Exchange is also showing fair net results; but its earnings are still needed to provide construction, including provision for an underground system.

The Canadian companies are in good condition, and both recently declared a dividend. As money was needed there for instruments and construction, your Directors consented to reinvest the amount of our dividends there in treasury stock of the companies. The Canadian business, although



not as large, in proportion to population, as in the States, promises good results.

Our experiments in underground cables, while not as successful as we had hoped, have given sufficient promise of satisfactory results to warrant us in undertaking a considerable expense to test the different methods. With this object, we have asked permission to put down cables in Boston, and, as soon as the needed consent is obtained, we propose to make careful and thorough practical tests of the best systems offered. There is no strictly underground telephone system in any part of the world, the Paris wires being placed in huge sewers, practically large galleries, entirely altering the ordinary underground electrical conditions. Foreign companies are apparently waiting to see what is done in America; we have, therefore, nothing to guide us but our own experiments.

The cost of replacing an extensive overhead system in a large city is so serious that it cannot be hastily decided upon; yet, if the wires can be laid underground and made to work rightly, at a cost which will not be prohibitory, it is hoped that the service will be better than now, and the cost of operating less than by overhead wires. In view of the serious objections to keeping the wires above the streets and houses the company has every inducement to hasten the solution of this problem, and must submit to considerable expense in its experimental department for the present.

The legal position has been improved during the year by the decision of Judge Lowell, in the U. S. Circuit Court, in the case of the American Bell Telephone Company against Albert Spencer and others, confirming the opinion always confidently expressed by our counsel in regard to the scope of the Bell patents; and by the decision in our favor in the U. S. Circuit Court in New York, on the Irwin claims; a number of small infringers have also been stopped, and the field is comparatively clear of this class of opponents.

Several suits are still in progress against parties who claim to have invented the telephone before Mr. Bell, or to have invented one not covered by his patents. These suits require constant attention on the part of counsel, and involve a large amount of work in preparing and taking testimony. These, together with various smaller suits against infringers, the care of interferences at the Patent Office, and the examination of and application for patents for new inventions, call for a constant heavy legal expense, which must continue at least through this year.

The following report from counsel gives a brief *résumé* of the condition of the suits :—

40 STATE STREET, Boston, March 23, 1882.

W. H. FORBES, Esq., *President American Bell Telephone Company* :—

DEAR SIR,--The most important patent litigation of the American Bell Telephone Company during the past year has been the following :—

Two suits on the Bell patents have come to trial, — one in the U. S. Circuit Court at Boston, against *Spencer*, an agent of the *Eaton Telephone Company*, was vigorously defended by counsel and experts of recognized skill and reputation. The Court decided that the two Bell patents were valid, and that they were infringed by the use of “carbon transmitters” or “microphones.” A case directly against the *Eaton Telephone Company* itself, in the U. S. Circuit Court in New York, was afterwards reached. That company did not think that the prospects of success justified a reargument before another judge, and a decree in favor of the patents has just been entered there.

A number of telephones, put out by irresponsible mechanics, were found in use in New York and elsewhere. Most of the users gave up their use upon being notified and visited, and it was often found that the unauthorized instruments were too badly made for satisfactory results. The amount of infringing use in the whole country probably does not exceed one or two days’ output of your company.

Suits were brought in New York and in Chicago against you by *J. H. Irwin*, on his patents, which were alleged to cover the Blake transmitter. The case was argued in New York, in June, and decided in your favor, on the merits, in October.

In the suit against the *People’s Telephone Company* the defendants have substantially completed their testimony. It is very voluminous,



and makes a great show to a casual reader. It appears to us, however, especially in connection with other facts known and capable of proof, to be unreliable, and insufficient to make out the defence set up. We see no reason to change the opinion we expressed last year.

A suit has been brought against the so-called *Dolbear Condenser Telephone Receiver*, and will be argued shortly. The defence, and the evidence to sustain it, which has been set up, does not appear to us to afford any ground for uneasiness.

A suit has been brought against one of your licensees in Connecticut, on the *McDonough* patents. *McDonough* filed an application in April, 1876, and the statements and descriptions in that application, confirmed by sworn statements subsequently filed by him, prove absolutely that he did not know the first requisite for the electrical transmission of speech, and no speaking telephone patent can lawfully issue on that application. That his application did not disclose a speaking telephone, and that no speaking telephone patent can issue on it, has been officially decided by the Patent Office, in 1876, in 1878, and again in 1881. The pretensions now put forward in his behalf are, therefore, enterprising rather than substantial. The claims in his patents are narrow, and for specific details of construction, which are not essential, and which, in fact, in our opinion, we do not use. No evidence has yet been taken in this case.

The numerous inventions which you own have involved a considerable number of other controversies, which have received due attention during the past year. None of them have resulted, or seem likely to result, in any serious injury.

Yours truly,

CHAUNCEY SMITH.

JAMES J. STORROW.

To obtain a permanent interest in the manufacture of telephones and apparatus, as well as to ensure the highest standards in the same, we have bought the plant and business of Charles Williams, Jr., of Boston, and an interest in the Western Electric Manufacturing Company, of Illinois, and propose to merge the two in a consolidated company, which will avail of the good-will, business, and patents owned by that company, as well as our own, and secure an economical management for the whole of our manufacturing interests. We expect to make this an important and valuable part of our business.



The accompanying statement from the treasurer shows, for the year ending February 28, 1882:—

Gross earnings . . . . .	\$1,001,924 41
Operating expenses, including 20 per cent. to Western Union Telegraph Co. . . . .	439,862 76
Net earnings . . . . .	562,061 65
Our net profit Export Instruments was . . . . .	38,761 00
Our dividends from exchange interests were, . . . . .	56,742 00
From extra-territorial (or connecting) lines, . . . . .	4,932 27
And from telegraph commission . . . . .	5,807 38

A considerable increase from these last three sources, and from royalty on new telephones, may be looked for in the current year.

The net output of telephones for the past year was over 4,500 per month, and still continues at the same rate.

Our income from royalties on patents other than telephones was about \$8,000 to July 1, 1881, when the manufacturing company took over this branch.

To pay for the manufacturing interests and plant above referred to, and for 90 shares of the Metropolitan Telephone and Telegraph Co., bought last year, for new telephones, and other items of construction, it has been necessary to borrow money as well as to take part of our net earnings.

The debt of the company, besides the \$500,000 of 6 per cent. bonds, which last will doubtless be taken up by conversion next year, was, on March 1st . . . . .	\$390,000 00
<i>Less</i> available in cash, notes, and bills receivable, and our New York bonds . . . . .	290,000 00

Leaving a net floating debt of say . . . . .	\$100,000 00
--	--------------

Offsetting this we have during the year received assets in stock interests, and manufacturing plant, worth today,

in the judgment of the Board, considerably more than cost.

We may have an opportunity to invest from \$100,000 to \$200,000 more to advantage in our sub-companies this year, and the cost of such purchases, if made, as well as the above debit balance, can be carried temporarily by loan and repaid gradually out of net earnings, or provided for otherwise, as may be thought best by your Directors.

The statement of the treasurer for the year ending February 28, 1882, and the report of the auditing committee, are appended.

For the Directors,

W. H. FORBES,

*President.*



## THE AMERICAN BELL TELEPHONE COMPANY.

## TREASURER'S STATEMENT.

MARCH 1, 1884, TO FEBRUARY 28, 1882.

## EARNINGS.

Rental of instruments . . . .	\$885,312 92	
Sales of instruments and supplies . . . .	40,935 89	
Royalties from manufacturers . . . .	8,193 95	
Dividends from exchange interests . . . .	56,742 00	
Commission from extra-territorial and branch lines . . . .	4,932 27	
Commission from telegraph business	5,807 38	
	<u>          </u>	\$1,001,924 41

## EXPENSES.

Expense of operation . . . .	\$116,632 27	
Legal expenses . . . .	78,121 03	
Interest and taxes . . . .	43,198 71	
Depreciation . . . .	21,502 53	
Commission (chiefly royalty to West- ern Union Telegraph Co. <i>et als.</i> , contract of Nov. 10, 1879) . . . .	180,408 22	
	<u>          </u>	439,862 76
Net earnings for the year . . . .		\$562,061 65
Balance of income account Feb. 28, 1881 . . . .		44,493 36
		<u>          </u>
		\$606,555 01
Paid dividends July, 1881 . . . .	\$178,500 00	
“ “ Jan., 1882 . . . .	238,000 00	
Carried to surplus account . . . .	64,020 43	
Balance of income account Feb. 28, 1882 . . . .	126,034 58	
	<u>          </u>	\$606,555 01
		<u>          </u>

## ASSETS.

Patents . . . . .	\$6,044,451 50
Instruments . . . . .	317,797 76
Exchange interests . . . . .	1,793,111 95
Other stocks and bonds . . . . .	1,837,500 00
Merchandise . . . . .	11,743 40
Bills and accounts receivable . . . . .	121,497 15
Cash and deposits . . . . .	36,011 00

## LIABILITIES.

Capital stock . . . . .	\$7,350,000 00
Loan of 1880 . . . . .	500,000 00
Bills and accounts payable . . . . .	427,851 61
Franchise . . . . .	726,065 94
Income account . . . . .	126,034 58
Surplus . . . . .	64,020 43
Reserve accounts . . . . .	968,140 20
	<hr/>
	\$10,162,112 76
	<hr/>
	\$10,162,112 76
	<hr/>

WM. R. DRIVER, *Treasurer.*

BOSTON, March 20, 1882.

BOSTON, March 13, 1882.

W. H. FORBES, Esq., *Pres. Am. Bell Tel. Co.*:—

DEAR SIR,— Having been chosen the Committee on Examination of the books and accounts of the company for the year 1881-2, I have employed Mr. C. T. Plimpton, an expert, to audit them, and herewith enclose his report.

Respectfully yours,

W. G. SALTONSTALL.



Boston, March 11, 1882.

I hereby certify that I have audited the books and accounts of the Treasurer of The American Bell Telephone Company for the year ending February 28, 1882, as follows:—

The cash-book, its debits and credits, rental, speaking-tube rental, and export books, journalizings, stock ledger, stock accounts, trial balances, bank accounts, bills receivable, and cash on hand.

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

CHARLES T. PLIMPTON,

*Auditor.*





