

FIFTH  
ANNUAL REPORT  
OF  
THE DIRECTORS  
OF  
THE AMERICAN BELL TELEPHONE CO.  
TO THE STOCKHOLDERS,  
YEAR ENDING DECEMBER 31, 1884.

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BOSTON:  
ALFRED MUDGE & SON, PRINTERS,  
24 FRANKLIN STREET.  
1885.









OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,  
BOSTON, March 31, 1885.

TO THE STOCKHOLDERS :

Telephone business in the year ending Dec. 31, 1884, has shared the dulness which characterized most branches of industry during the same period. Nevertheless, the increase in the number of subscribers and the telephones in use has continued, although at a diminished rate.

The following comparative statement gives the statistics for the year, which are substantially correct, although exact figures in regard to some of the items cannot be insured, as a considerable portion of the properties are not under our direct ownership and control.

EXCHANGES.

	1883.	1884.	1885.	INCREASE OVER 1884.
Exchanges....	725	906	764	*142
Branch Offices.....	345	419	481	62
Miles of wire on poles.....			88,481	.....
“ “ “ buildings.....			11,886	.....
“ “ “ underground.....			1,225	.....
Total miles of wire.....	68,571	85,896	101,592	15,696
“ circuits.....	74,484	97,422	107,268	9,846
“ subscribers.....	97,728	123,625	134,601	10,976
“ employés.....	3,716	4,762	5,162	400

\* Decrease.

EXTRA-TERRITORIAL LINES.

	JAN. 1, 1883.	JAN. 1, 1884.	JAN. 1, 1885.	INCREASE DURING 1884.
Number of lines.....	247	598	826	228
Miles of pole lines.....	6,154	20,592	25,766	5,174
“ “ wire.....	13,653	29,359	35,631	6,272

## INSTRUMENTS.

	Dec. 20, 1882	Dec. 20, 1883	Dec. 20, 1884	INCREASE DURING YEAR.
In hands of licensees under rental .....	237,728	298,580	325,574	26,994

The average daily number of exchange connections in the United States is . . . 697,966  
or a total number per year of . . . 251,267,760  
the subscribers paying according to the size of the exchange and character of the service, from 3 1-10 to 5 7-10 cents per connection.

The average daily number of extra-territorial connections (that is, connections between a resident of one exchange district and a resident of another exchange district) is 7,526  
or a total number per year of . . . 2,709,360

Our share of the receipts from extra-territorial and toll business has increased nearly 50 per cent over the receipts of the previous year.

It will be noted that during the year there was a net gain of 10,976 subscribers in the exchanges, with an increase in miles of wire of 15,696.

As a rule, all the larger exchanges have a steady growth, and there seems no reason to doubt that this will continue for some time to come. On the other hand, there is a pause in building exchanges in small places, and some seventy-eight of those already started have been for the present given up, while sixty-one new ones have been established.

The establishment of these systems in small towns was probably pushed too rapidly, in view of the stagnation in general business which followed. Many of those now abandoned will be restored upon a revival of business, and others can be put into operation under a system which is being

worked out for small exchanges without a central office, and which, if as successful as we hope, will carry the telephone into a large number of towns and villages where it is now impossible to place them upon a paying basis.

The table shows an apparent decrease of one hundred and forty-two in the number of exchanges reported ; but one hundred and twenty-five of these have been redistricted as branch offices, and are still in operation, while sixty-three branch offices have become toll stations.

The process of taking the wires from house-tops and placing them on pole lines has continued, and now there are in the exchanges 88,481 miles upon poles, and only 11,886 miles upon buildings.

Great progress has also been made in getting the heavy overhead lines into aerial cables in the cities ; this is an important step, and one that is materially reducing the unsightliness of the telephone systems, while adding much to the safety of the wires and reducing the cost of maintenance. There are now 4,300 miles of wire in sixty-nine miles of aerial cables in use.

Some progress has been made in getting wires underground for short distances in the cities, and 1,225 miles of wire underground are now reported. In New York the Legislature, against the recommendation of the Roosevelt Committee to whom the matter was referred, passed an act requiring telephone companies in cities of over 500,000 population (that is, New York and Brooklyn) to place *all* their wires underground before Nov. 1, 1885. This is wholly impracticable for several reasons. In the first place, no method is known by which entire telephone exchange systems can be worked underground, although for limited distances and in certain localities fairly satisfactory results can be obtained. Even were the method discovered, part of the wires must be overhead for distribution from central points, and for reaching places where subscribers are so few that the cost of going underground would be out of all proportion to the price they could pay.



Again, to place even the bulk of the 6,639 miles of wire in the New York and Brooklyn systems underground in one year would involve the tearing up all at once of most of the streets in those cities, and would not for a moment be permitted. In New York, however, some important underground work will be done this summer, the results of which will possess great interest for our company, and if favorable, we expect to follow them up with extensive improvements in this direction.

The financial year of our company has been changed so as to end December 31, and the Treasurer's statement is therefore made for ten months to that date.

The statement shows gross earnings for the ten months from all sources, of \$2,067,543.97, and net earnings of \$1,380,165.45, which with the balance of income from previous year, \$348,884.17, and miscellaneous credit items, \$34,918.45, gives a total of \$1,763,968.07. From this have been paid regular dividends of \$1,152,252, and an extra dividend \$288,063, and the balance of \$323,653.07 carried to surplus account.

Adding the net earnings for January and February, 1885, to that of the previous ten months, would make the net earnings for twelve months, \$1,710,892.69, as compared with \$1,475,431.37 in the previous year.

We have received during the year \$3,051,150, in stock of licensed companies for licenses and \$107,450 for cash paid, and have now a total of \$22,125,173.36 in stocks.

As we have sold our licenses to these companies, we have charged the stocks received in payment to "Stocks" account, and credited the amount to Patent account, Profit and Loss. When the amount of stock, therefore, amounted to more than the value of the patent rights upon our books, the Patent account appeared upon the credit side, where it now stands at \$9,540,120.31, as "Patent Account, Profit and Loss."

The report of the Auditing Committee is appended.

Nearly all of the licensed companies are in good condition,

and many of them continue to pay regular dividends in spite of the general dulness. It has not, however, been a year when new enterprises of any kind could be easily promoted, and in common with other industries the telephone companies have found it difficult to sell stocks or bonds for their construction purposes. It has probably been as much due to this as to the lessening of the demand for telephone service that our output of instruments has decreased.

Most of the companies have met this condition of affairs by applying their net earnings in part, and in some cases wholly, to their new construction.

The result of this conservative policy, although temporarily disappointing to stockholders, has been to materially increase the intrinsic value and earning capacity of the properties; and in view of the importance of an early occupation of the field, while numerous infringing claimants were striving to gain a foothold, we have no doubt the policy was the right one. How far it should be continued under the more favorable conditions that now prevail, is to be carefully considered by each company.

The amount of net earnings applied to new construction in those of our licensed companies in which we hold stock is stated by our Auditor to be \$806,633.97 out of a total spent for construction in 1884 of \$1,505,907.64

The absence of revenue to our company from its investment in the New England Telephone and Telegraph Company is noticeable, and is owing to the fact that we have been obliged to use the net earnings of Boston, which, but for the consolidation of the Boston exchange with several New England companies, would have been a constant source of income to us, in the reconstruction of the exchanges and lines outside of Boston. From this it will be apparent that the charges made against The American Bell Telephone Company of having gained an advantage over the New England companies by the consolidation, is so far from being true that we have actually lost money by the transaction.



The New England Company has earned in the year ending Dec. 31, 1884, gross \$912,621.75 and net \$222,441.63, of which \$192,098.77 has been spent for construction.

In Canada, the Minister of Agriculture has declared the Bell patent void on account of alleged failure to comply with the law requiring manufacture in Canada of patented articles, and with another requiring that such articles shall be offered to the public. The action of the Bell Company of Canada in these regards has been taken in accordance with the best legal advice that could be obtained in Canada, and the decision of the Minister has occasioned much surprise there. The matter will be carried, if necessary, to the Privy Council in England. The infringing company will be at once sued under the other patents owned by the Bell Company, and in the mean time the net earnings of the company will have to be used for construction. The company is carefully managed, and its net earnings for the past year have increased to \$118,951.78 on a capital of \$1,000,000, and of these earnings \$83,951.78 have been spent for construction.

The investment by the licensed companies of their net earnings in development, has prevented such an increase of our income from our stock in those companies as we had hoped for. We received from this source in the twelve months ending Feb. 29, 1884, \$440,923, and in the ten months ending Dec. 31, 1884, the sum of \$317,887.20. The two months of January and February, 1885, will bring this sum up to \$465,580.20.

This year an increase is to be expected, depending in amount upon the necessity in various quarters of applying net earnings for construction.

The business of the Western Electric Company has especially felt the effects of the general depression. The gross business for the year ending Dec. 1, 1884, was \$1,534,784.04, and the net about \$110,000, or 11 per cent on the capital stock.

The question of how to consolidate its business with ad-

vantage is under consideration. Mr. W. S. Smoot, formerly with the Remington Arms Co., has been elected president, and we expect to secure an increase of business with a less expensive system of operation, before long. The company has, since October, 1882, put its net earnings into the business, but has just declared a dividend of one and one half per cent, — \$15,000.

The experimental line between Boston and New York has proved entirely successful. It was built with a metallic circuit of two copper wires (hard drawn No. 12), and was placed upon poles belonging to the several companies occupying the route *via* Providence. Conversation can readily be carried on in low tones, the speaker's voice being easily recognized. There can no longer be a question of the success of long-distance lines between all points within two hundred to three hundred miles of each other, and even more, where the demand for such service is of a character to warrant the building of metallic circuit systems. Such systems will be very costly, and our present licensed companies are neither provided with capital nor organized for the purpose of undertaking a work of the proportions which commercial success in this business will involve.

It therefore becomes necessary for our company to take the lead in building lines of connection between the large cities, and a beginning will be made this summer between New York and Philadelphia.

As we have already nearly reached the limit of our authorized capital, it is necessary either to obtain authority for an additional amount, or to devise means of raising what may be required in some other way than by an increase in our own capital stock. The preference for the latter method, however, being general, we have applied to the Massachusetts Legislature for authority to increase our capital to \$30,000,000, in order that we may be equipped both for the work just described, and for the extensive enlargement of our business in any branches that may appear desirable. It



should be understood that it is not proposed to issue any part of this stock, except as needed for the development of our business.

As soon as definite arrangements can be made for going forward with the work, the directors will place before the shareholders their programme for such enterprises as it is thought best to undertake this spring and summer.

Among the inventions of the year, that of a new transmitter, by Mr. Francis Blake, is prominent, and most excellent results are hoped for in its adaptation to both long and short lines. We expect to test it shortly in actual use in our business. Mr. Blake has offered it to this company on terms which are thought favorable, provided the tests result satisfactorily.

Important progress has been made with the lawsuits in which we have been engaged in the past year.

The suit against the People's Telephone Company (Drawbaugh case), so long pending, was argued on final hearing in September last, and on December 1, the Court rendered decree for the complainants. Thereafter, the motion for preliminary injunction in the Overland cases, which had been heard and suspended in January, 1884, was taken up, and on the thirteenth day of January, 1885, a preliminary injunction was granted in the Pennsylvania Overland case, and on the same day in the Trenton case. A bill was filed on the 6th of November last against the McDonough Telephone and Telegraph Company and the United States Telephone Manufacturing Company; and on this a preliminary injunction was granted against the defendants on the 14th of February, 1885, and in the case against the Baxter Overland Telephone Company of Central New York, a preliminary injunction was granted the 17th of March, instant.

In the telephone interference cases pending in the Patent Office, argument on the appeal to the Commissioner in person in cases A, B, G, and No. 1, was had, and on the 3d of March, current, a decision was rendered by the Commis-



sioner affirming the decision of the Board of Examiners-in-Chief, which had been given last October in favor of Bell and Edison, whose inventions were controlled by our company.

The cases against the Molecular Telephone Company and against the Clay Commercial have both been set down for an early final hearing.

It is hoped that this year will see the end of the most vexatious and expensive part of our litigation, and that the accumulating decisions of our courts that Bell invented the telephone, will enable us to prevail with ease against the infringers in all parts of the country, and will deter capital from investing in infringing companies.

During the past year the Electrical Department has been reorganized and its scope somewhat extended.

In the laboratory, all investigations and experiments in connection with the patent litigation are conducted. In addition to these, a series of experiments on insulation materials is being conducted with special reference to underground and cable systems.

In the Patent Division, the preparation of the history of the development of the telephone system has been continued, and is now nearly complete. The usual examination of all new inventions and patents, with special reference to practicability and the state of the art, has been made. The extent of this work is best shown by the fact, that up to the close of the year there have been issued 1330 United States patents on telephone and telephonic apparatus.

In the Mechanical Division, established this year, good and efficient service has been done.

The principal work which has shown results has been : A series of experiments on long-line apparatus ; the protection of our systems and apparatus from strong currents, either lightning or electric-light currents ; perfecting the central office apparatus to be used in small exchanges ; simplifying and perfecting the apparatus in general use ; testing line wire and establishing a standard for the same.

In view of the statements which have been circulated that

the larger part of the stock of The American Bell Telephone Company represents merely water, it may be well to recall to the stockholders the fact that out of the \$9,602,100 of issued capital stock, about \$5,000,000 has been paid in in cash by the stockholders of the National Bell and American Bell Telephone companies; \$190,000 represents property taken over by the National Bell Telephone Company at its organization, and \$105,000 is still in the treasury, and the balance represents patents. And in addition to the \$5,200,000 paid in in cash or property, net earnings have been used to the amount of \$351,000 in increasing the plant of the company.

As showing the magnitude of the telephone business, it will be interesting to know that the capital stock of telephone companies in the United States operating under the Bell patents (omitting The American Bell Telephone Company) was on Jan. 1, 1885, over \$53,000,000. The gross earnings were (partly estimated) over 9,500,000 and the net earnings were (partly estimated) 3,450,000 showing a gain over the earnings of 1883, though to what extent it is difficult to say, as some of the companies failed to report the increase, and several have not been in business long enough to be able to furnish the comparison.

At this time, when the question of the rates charged to the users of telephones is being discussed both in legislatures and by the public, it seems proper to call the attention of the stockholders to a few facts in relation to this subject.

The average cost of a connection to a subscriber varies from three and one tenth to five and seven tenths cents, as has been previously stated. For this sum the telephone company is obliged to keep at the service of the subscriber a wire, which, for a large part of the time, is idle; to keep an operator ready to receive his calls at all hours; to maintain his telephones and batteries in good condition; to provide for the rapid depreciation of poles, wires, switch-boards, and all the apparatus of the central office, and finally to provide all the improvements in apparatus which each year develops,



for the public very properly insists on receiving the most efficient service that can be given.

As an instance of the rapid depreciation of property and of the changes likely to occur in electrical inventions, it may be well to say that the telephone system in Boston has been twice rebuilt, and the new multiple switch-boards for the Boston office had hardly been received and had not been put in place, when the invention of an improvement in detail gave such promise of excellent results that the boards were shipped back to Chicago to have the new invention added to them.

The sum, then, charged to the subscriber does not seem large when the cost of the service rendered by the telephone company is considered. Neither does it seem exceptional when it is seen what the subscriber receives for his payment of three to six cents. He obtains an immediate conversation with any subscriber to his exchange, a conversation which renders needless the employment of messengers, telegraphs, and even the mail, all of which modes of communication are either slower or more costly, and often both more slow and more costly and less satisfactory than that which is given by the telephone. The subscriber also obtains the privilege of communicating for a small extra charge with the subscribers of any exchange in towns or cities within a limited distance from his own. And as the number of subscribers in each exchange increases, and as the distance through which telephonic communication is possible becomes extended, the advantage to the subscriber is also greatly increased.

Finally, we may venture to hope that, as the season opens and the general business outlook becomes brighter and as the infringing companies are one by one compelled to acknowledge the validity of the Bell patents, the telephone companies will also share in the returning business prosperity.

For the Directors,

W. H. FORBES,

*President.*

# COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES.

## EARNINGS.

	1883-84. (12 mos.)	1884. (10 mos.)
Rental of Telephones . . . .	\$1,695,678 58	\$1,635,848 64
Sales of Instruments and Supplies . . . .	17,969 59	5,803 55
Royalty from Manufacturers . . . .	4,837 74	
Dividends . . . . .	440,923 00	317,887 20
Commission from Extra-Territorial and Branch Lines . . . .	45,819 68	58,109 75
Commission from Telegraph Business . . . .	12,305 81	11,290 10
Interest . . . . .	78,059 67	38,604 73
	<u>\$2,295,594 07</u>	<u>\$2,067,543 97</u>

## EXPENSES.

Expenses of Operation . . . .	\$172,909 69	\$193,553 59
Legal Expenses . . . . .	129,893 22	124,809 25
Interest and Taxes . . . . .	125,882 89	33,710 25
Depreciation . . . . .	24,120 69	98 24
Commission . . . . .	354,856 21	325,207 19
Royalty . . . . .	12,500 00	10,000 00
	<u>\$820,162 70</u>	<u>\$687,378 52</u>
Net Earnings . . . . .	\$1,475,431 37	\$1,380,165 45
Balance of Income from previous year . . . .	168,081 54	348,884 17
Miscellaneous Items to Surplus Account . . . . .	91,291 87	34,918 45
	<u>\$1,734,804 78</u>	<u>\$1,763,968 07</u>
Dividends declared . . . . .	\$1,051,479 00	\$1,152,252 00
Extra Dividends, Dec. 15, 1884 . . . . .		288,063 00
Carried to Surplus Account . . . . .	334,441 61	323,653 07
Balance to Income Account . . . . .	348,884 17	
	<u>\$1,734,804 78</u>	<u>\$1,763,968 07</u>

WM. R. DRIVER, *Treasurer.*

Boston, Jan. 31, 1885.

N. B.—The above Statement shows the business for ten months. Previous financial years ended Feb. 28. Future financial years will end Dec. 31.

# STATEMENT OF ASSETS AND LIABILITIES, DEC. 31, 1884.

## ASSETS.

Telephones . . . . .	\$558,319 51
Stocks . . . . .	22,125,173 36
Merchandise and Machinery . . . . .	18,851 28
Lines . . . . .	102,270 55
Bills and Accounts Receivable . . . . .	681,493 74
Cash and Deposits . . . . .	520,536 33

## LIABILITIES.

Capital Stock . . . . .	\$9,602,100 00
Loan of 1882 (Convertible) . . . . .	3,600 00
• Bills and Accounts Payable* . . . . .	516,935 81
Patent Account (Profit and Loss), . . . . .	9,540,120 31
Profit and Loss . . . . .	3,225,478 63
Reserve . . . . .	61,297 59
Surplus . . . . .	1,057,112 43
	<hr/>
	\$24,006,644 77
	<hr/>
	\$24,006,644 77
	<hr/>

\* Of this amount \$288,063 is the dividend payable Jan. 15, 1885, to stockholders of record Dec. 31, 1884.

## REPORT OF AUDITING COMMITTEE.

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Boston, Sept. 6, 1884.

I hereby certify that I have audited the books and accounts of the Treasurer of the American Bell Telephone Company for the six months ending Aug. 31, 1884, as follows:—

The cash book, its debits and credits and all accounts thereto pertaining, including all rental accounts, the journalizings, stock ledger, stock investments, notes receivable, bank accounts, and cash on hand.

In my investigations have found everything in connection with the above correct; that all disbursements as entered in cash book are sustained by approved vouchers; the certificates of stock investments and notes, which the ledger balances call for, are on hand or properly accounted for; and the books are kept with accuracy.

CHARLES T. PLIMPTON,

*Auditor.*

Approved and forwarded by

W. G. SALTONSTALL,

*Committee on Accounts, American Bell Telephone Co.*



Boston, Jan. 14, 1885.

W. H. FORBES, Esq.,

*President American Bell Telephone Company:*

Dear Sir, — I enclose herewith the report of Mr. C. T. Plimpton, the accountant I have employed to examine the books and accounts of the company for the four months ending Dec. 31, ulto.

Respectfully yours,

W. G. SALTONSTALL,

*Committee on Accounts.*

Boston, Jan. 13, 1885.

I hereby certify that I have audited the books and accounts of the Treasurer of the American Bell Telephone Company for four months ending Dec. 31, 1884, as follows:—

The cash book, its debits and credits, and all accounts thereto pertaining, including all rental accounts, the journalizings, stock ledger, stock investments, bills receivable, bank accounts, and cash on hand.

In my investigations have found everything in connection with the above correct; that all disbursements as entered in cash book are sustained by approved vouchers; the certificates of stock investments and bills receivable, which the ledger calls for, are on hand or properly accounted for; and the statement of the Treasurer as exhibited by him as of Dec. 31, 1884, is in accordance with the make-up of the books on that date.

CHARLES T. PLIMPTON,

*Accountant.*

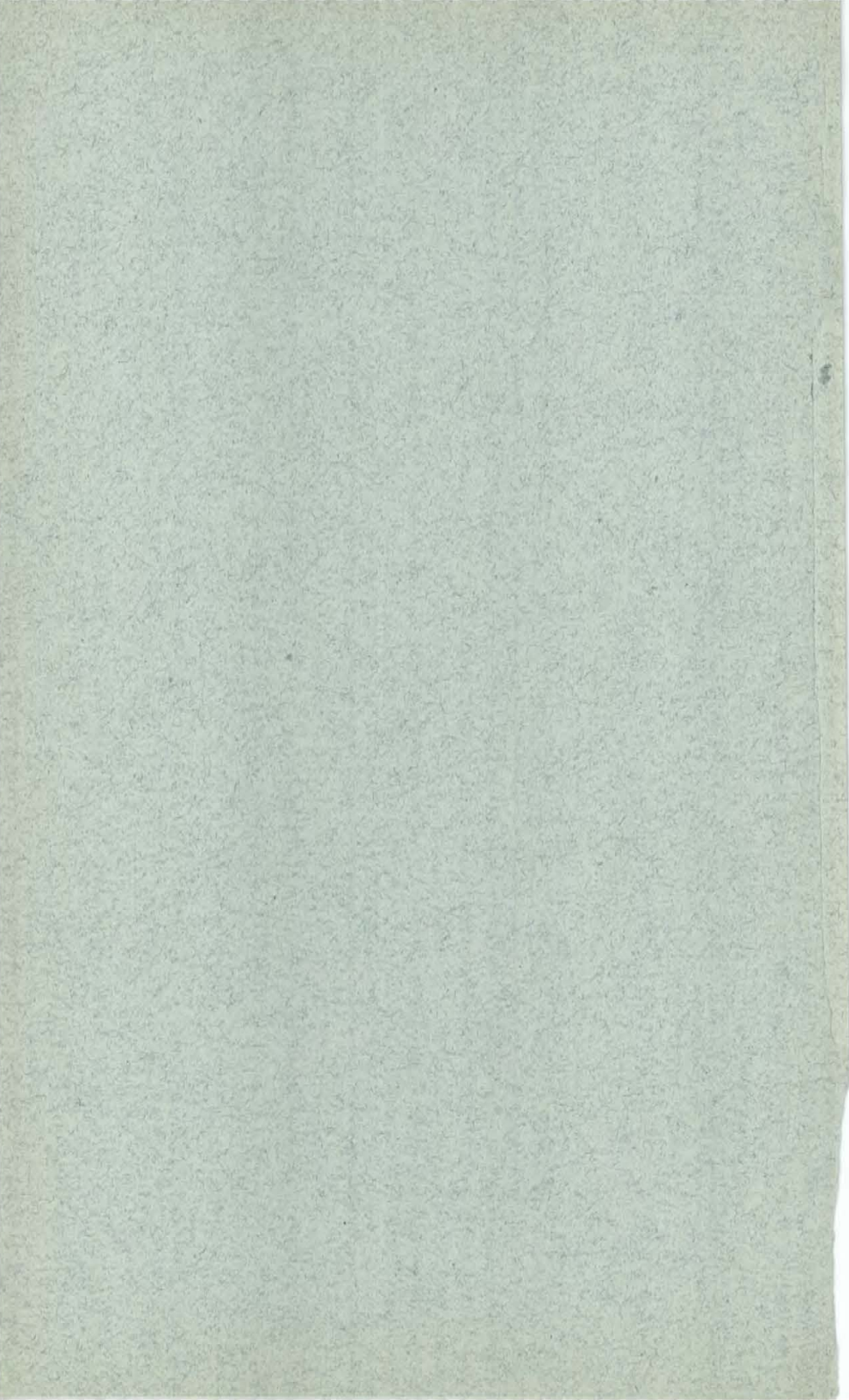










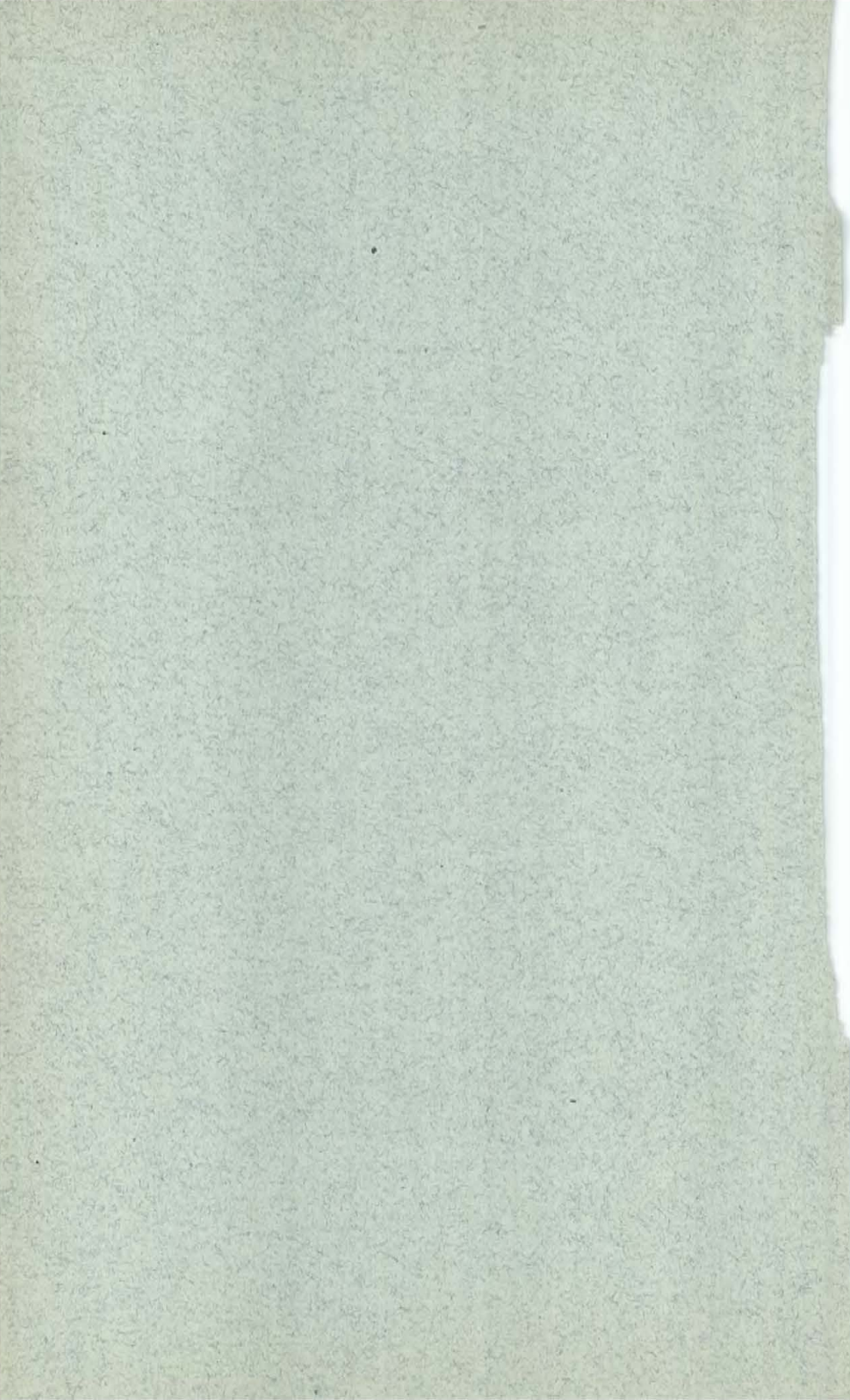




SIXTH  
ANNUAL REPORT  
OF  
THE DIRECTORS  
OF  
THE AMERICAN BELL TELEPHONE CO.  
TO THE STOCKHOLDERS,  
YEAR ENDING DECEMBER 31, 1885.

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BOSTON:  
ALFRED MUDGE & SON, PRINTERS,  
24 FRANKLIN STREET,  
1886.



OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,  
BOSTON, March 30, 1886.

TO THE STOCKHOLDERS :

The year ending Dec. 31, 1885, has not been marked by the increase in business of previous years ; but although there has been a loss of subscribers in exchanges at certain points, on the whole, the licensed companies have more than held their own, the total number of subscribers showing an increase of 2,969, and of telephones in use of 4,466, during the year.

The comparative statistics which follow are substantially accurate ; but as usual, we are prevented from giving figures with the precision which would be possible, if the entire telephone system were managed by us directly : —

EXCHANGES.

	1883.	1884.	1885.	1886.	Decrease from 1885.	Increase over 1885.
Exchanges.....	725	906	764	752	12	.....
Branch offices .....	345	419	481	432	49	.....
Miles of wire on poles....	.....	.....	88,481	100,630	.....	12,149
do. on buildings .....	.....	.....	11,886	10,049	1,837	.....
do. underground .....	.....	.....	1,225	3,428	.....	2,203
do. submarine ..	.....	.....	.....	264	.....	264
Total miles of wire.....	68,571	85,896	101,592	114,371	.....	12,779
Total circuits.....	74,484	97,422	107,268	110,967	.....	3,699
Total subscribers .....	97,728	123,625	134,601	137,570	.....	2,969
Total employees.....	3,716	4,762	5,162	5,344	.....	182



## UNDERGROUND WIRES.

	Miles of Wire Underground, 1885.	Miles of Wire Underground, 1886.	Increase over 1885.
Washington .....	770	992	222
Chicago .....	....	760	760
New York.....	....	627	627
Pittsburgh .....	223	614	391
Boston .....	232	289	57
Brooklyn .....	....	134	134
Baltimore .....	....	11	11
Milwaukee .....	....	1	1
	1,225	3,428	2,203

## EXTRA-TERRITORIAL LINES.

	Jan. 1, 1883.	Jan. 1, 1884.	Jan. 1, 1885.	Jan. 1, 1886.	Increase during 1885.
Number of lines.....	247	598	826	931	105
Miles of pole lines.....	6,154	20,592	25,766	31,395	5,629
Miles of wire .....	13,653	29,359	35,631	42,461	6 830

## INSTRUMENTS.

	Dec. 20, 1882.	Dec. 20, 1883.	Dec. 20, 1884.	Dec. 20, 1885.	Increase during the year.
In hands of Licensees, under rental .....	237,728	298,580	325,574	330,040	4,466



## EXCHANGE CONNECTIONS.

The estimated average number of exchange connections daily in the United States is . 746,517

Or a total per year of . . . . . 272,478,705

The number of calls per subscriber varies in different exchanges from 2 to 10 daily, the average throughout the United States being . . . . . as compared with . . . . . the number reported last year, an increase of about 5 per cent.

$$5\frac{4.8}{100}$$

$$5\frac{1.8}{100}$$

The average cost to the subscriber varies according to the size of the exchange and the character of the service, from 2 to 7 cents per connection.

## EXTRA-TERRITORIAL BUSINESS.

The average daily number of extra-territorial connections is . . . . . 6,663

or a total number per year of . . . . . 2,431,995

The extra-territorial earnings, as reported, amounted to . . . . . \$538,740 43  
of which this Company's share is . . . . \$72,677 28  
an increase over 1884 of . . . . . \$5,411 63

Last year's statement included the connections between exchanges of the New York and New Jersey, and the Pacific Bell and Sunset Companies, on the receipts from which we receive no percentage. These do not appear this year, which will account for the apparent decrease in the number of connections.

The removal of open wires from house-tops to overhead cables and to underground conduits has continued, the prog-

ress in the latter respect being especially encouraging. The system must always be a mixed one, as the final distribution of wires to the customers, and the method of reaching places where underground work would be too costly, must still be overhead; but we think that, within a few years, in all large cities the open wires will be placed in cables above or under ground to such an extent, at least so far as telephone companies are concerned, that the overhead wire nuisance will no longer be serious.

In New York an amendment to the law which ordered all wires in New York City and Brooklyn under ground before last November, was adopted, establishing a Commission for each of these cities with power to supervise the execution of the law, and to arrange for placing the wires under ground to such an extent as might be found practicable.

In Brooklyn the Commission has permitted the wire companies to begin their work, and one hundred and thirty-four miles of underground wire have been placed there by the Telephone Company. In New York the Metropolitan Company in August, 1885, filed with the Commission [the necessary plans and statements for an underground system, and applied for permission to prosecute the work, but so far without success, and this work in that city is at present at a standstill.

The Treasurer's statement to December 31,

1885, shows gross earnings for the year,	
from all sources, of . . . . .	\$2,765,884 93
Expenses . . . . .	972,688 45
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Net earnings . . . . .	\$1,793,196 48
Miscellaneous credits . . . . .	16,800 00
<hr/>	
Total . . . . .	\$1,809,996 48

Regular dividends paid	.	\$1,170,192	00
Extra dividends paid	.	392,044	00
<hr/>			
Total	.	\$1,562,236	00
Reserve written off for depreciation of instruments	.	100,752	90
<hr/>			
			\$1,662,988 90
<hr/>			
Balance to surplus account	.	.	\$147,007 58
Total surplus to date	.	.	\$1,204,120 01

We have received during the year in stock of licensed companies, \$516,316.67, of which \$207,200 was for licenses, and the rest for cash, and have sold \$29,631. We have received during the year in dividends from licensed companies, \$597,469.99, an increase of about \$122,000 over the previous year.

With longer experience the telephone companies have learned that the cost of maintaining and reconstructing their plant has been generally underestimated, and many of them have in consequence been forced to recognize that the profits upon telephone business are less than they had expected and believed. For this reason they have appealed to us to make certain concessions in their contract relations, and we have given this subject careful consideration.

We think that our licensed companies should be led to feel that it is for our interest as much as their own that they should be successful. The agreements, speaking broadly, between our licensees and ourselves, are that they shall furnish capital for establishing and developing the business, and that we shall supply the patents, which for a time are expected to give exclusive rights, and returns large enough to invite capital to an industry involving unusual risks.

We have met our licensees ; *first*, by agreeing when desired, that our share of net earnings, jointly with theirs, may be



used for construction purposes, so that we in these cases are sharing the cost of developing the business; *second*, we have made a reduction in the royalties on telephones used in small places where the rates are low. This reduction involves a loss of royalty amounting to about \$200,000 per annum on our present business, offset, as we believe, by keeping more telephones in use than would be out under the old rates, and it gives relief where it is most needed.

In the case of the New England Company, we have made substantial concessions to the licensees, and have agreed to amend their contract so as to provide for future construction, and at the same time to enable dividends to be paid from the net earnings, which have necessarily been used for some time past for the purposes of construction; and we are now carefully maturing plans by which those companies which are not receiving a fair return upon the cash actually invested in the business may no longer be deprived of an income upon their property.

During the year a pole line has been built between New York and Philadelphia, with a capacity of seventy wires, and twenty-four copper wires placed upon them, various sizes being taken for purposes of experiment. Some difficulty has been found in securing rights of way for this line. Sufficient facilities are not yet secured in Philadelphia for reaching customers there, but it is expected that this will soon be accomplished, so that the question of commercial demand between two large cities a hundred miles apart will presently have a fair test. The Metropolitan Company, of New York, pays for and owns over one half of this line, and will divide the expenses and receipts with us. The line is practically completed, and, with twenty-five wires, will cost about \$215,000.

In our report last year it was mentioned that additional capital would be needed for this business; and that we had

applied to the Massachusetts Legislature to authorize an increase in our stock. As this was refused, and the volume of the business, if successful, will need capital far beyond the amount of our unsold stock, we have been obliged to make other provision for developing this important branch, and have organized a company under the laws of New York for this purpose, called the American Telephone and Telegraph Company. Mr. Vail has been made President of the company, and has general supervision of its work. Mr. E. J. Hall, Jr., is the general manager, with immediate charge. As soon as sufficient encouragement is received to continue building these long lines, the above company is prepared to build between Boston and New York, and other important points.

The Canada Company has had a year of prosperity, in spite of the adverse action of the government in annulling the Bell patents. Their subscribers have increased from 7,418 to 9,614, in fact more than in any previous year. The company gives good service, is not discouraged by threatening legislation from extending facilities as fast as needed, and has increased its net earnings from \$119,000, in 1884, to \$158,000, in 1885.

To meet its necessary construction, this company increased its capital stock, in 1885, \$250,000, of which \$200,000 has been issued, and which was sold at par. Of this increase we took our *pro rata* share, namely, \$117,500. Its stock of \$1,200,000 is worth par, and its Montreal directors, who are also considerable stockholders, feel much encouraged about the future of the company. In December, 1885, a decision was rendered by the Department of Agriculture, to the effect that the Edison patents owned by the Canadian Company had not been forfeited under the provisions of their Patent Act.

During the year a number of our cases have been argued

and decisions reached or injunctions granted. A short statement of the most important is as follows :—

The case against the Molecular Telephone Company, which has been pending since July, 1883, was argued before Judge Wallace on the 30th of March, and on the 24th of June a final decree was given for the complainants, and an injunction issued.

The Rogers Telegraph and Telephone Company, a licensee of the Pan Electric Company in Pennsylvania, suffered default, and an injunction issued on the 26th of June; and in the same State a preliminary injunction was granted, after full hearing before Judges McKennan and Atcheson, on the 8th of July, in the case of the Western Pennsylvania Telephone and Telegraph Company, a licensee of the National Improved Company, and final decree was made and injunction issued in December following.

On July 16, a bill was filed in Baltimore against the Pan Electric Company and its licensees in that city and in Washington, and on Sept. 15 the Court refused to grant delay, and issued a restraining order until the case could be heard.

The case against the Peoples' Telephone and Telegraph Company, using the Hopkins instruments, was finally argued before Judge Wallace in December, and an injunction was granted the same day. At the same time he heard arguments in the parent Overland case, and at once granted the injunction.

Depending on this last case were suits against various of the Overland sub-companies, and injunctions issued against all of these. This includes the following companies :—

Overland Company, of New Jersey; Penn Overland Company; Baxter Overland Company, of Philadelphia; Maryland Overland Company; Indiana Overland Company; Baxter Overland Company, of Central New York; and Michigan Overland Company.



In the suit against the Overland Telephone Company of Lexington, Ky., begun Aug. 31, 1885, arguments were heard on Oct. 6, and a preliminary injunction was granted Oct. 8.

The Drawbaugh case was reopened in October by consent, to allow the defendants to put in what they claimed to be newly discovered evidence, and arguments on this were heard by Judge Wallace, at Syracuse in December, but the Judge decided that there was nothing in the new matter to alter the views already expressed by him, and he reaffirmed his former decree.

Other injunctions granted during the year were against the McDonough Company on February 14, 1885; New Jersey Telephone Company, using the McDonough claims, on July 10; and the Citizens' Telephone and Telegraph Company (Cleveland, Ohio), on August 18.

The Dolbear, Drawbaugh, Molecular, Overland, and West. Pennsylvania cases are either in, or on their way to, the Supreme Court, and the Dolbear case is expected to be reached at the October term.

Regarding the proceedings of the Pan Electric Company and the proposed government suit, the stockholders will naturally feel much interest and the facts will be stated somewhat in detail:

The Pan Electric Telephone Company was organized in 1883, with a capital of \$5,000,000, the ostensible basis of value for which was a group of patents, some of which related to telephones, of one Rogers. Its headquarters are in Memphis, Tennessee, which is also the home of Senator Harris, and others of its promoters.

These patents are perhaps the most palpable infringements upon the Bell patents that any one has yet attempted to rely upon; there is not even the pretence of any invention prior to Bell, and the inventions are of no importance whatever.

The company had apparently so little to offer, that it was for a time difficult to see what they expected to accomplish, either in the establishment of a telephone business, or in starting a legal contest.

The principal stockholders were leading politicians in the Southern States, and their operations, so far as the telephone business goes, have been mostly confined to that part of the country.

General Joseph E. Johnston, of Virginia, was made president of the company, Senator A. H. Garland, of Arkansas, its attorney, and Senator Harris, of Tennessee, General Johnston, Senator Garland, Casey Young, J. D. C. Atkins, of Tennessee, J. H. Rogers, formerly of Tennessee, now of Washington, D. C., and Robert F. Looney, of Tennessee, its directors.

These gentlemen received large blocks of the capital stock, paying nominal sums in money for the same. Sub-companies were formed, from whom bonuses in cash were taken for the right to practise the Rogers inventions in different places, and additional blocks of the stock of these sub-companies appear to have come to the promoters. On Jan. 4, 1884, Mr. Garland was asked for an opinion on the Rogers patents. One D. E. Myers, who said that his attention had been drawn to the stock of the Pan Electric Company, wrote as if for information upon a matter of investment, but it appears that Myers was himself in the service of the Pan Electric Company, and was therefore not interested in buying its stock, but in selling it.

Mr. Garland replied upon the following day, giving what from its tone purports to be a professional opinion, to the effect that he had carefully examined the Rogers patents, and that he was clear that they in no way infringed the Bell patent. Nothing contained in his letter indicated that he was interested deeply, as a stockholder, in the market

value of the Pan Electric stock. Upon this opinion largely, it appears, the bonuses were obtained from sub-companies and efforts were made to sell Pan Electric stock.

Yet it is clear that the right to practise the Rogers inventions could have no substantial value under any circumstances. If the patents now controlling the telephone business could be declared void, the Pan Electric would only share the telephone field with all comers, and the rights for which the bonuses and stock were taken are of wholly imaginary value, while Mr. Garland's opinion about the Rogers patents was not shared even by his associates, since it was renounced by them at the hearing before Secretary Lamar, when they squarely stated that if Bell's patents were valid, the Rogers patents infringed them, and they did not propose to contest that point.

The first way in which the influential names were to be used was, therefore, in getting money for supposed rights which had no value. The second was perhaps equally ingenious, but so far not as successful. It was a plan to get the suits of the Bell Company against the Pan Electric Company and associates stopped. The programme for accomplishing this was as follows: In 1884 an attempt was made to get a statute through Congress, authorizing the government to bring suit to have patents vacated under certain circumstances. This measure was got through the House almost unnoticed, but it did not pass the Senate Committee on Patents.

This move failed, but after Mr. Garland became Attorney General, and the other Pan Electric leaders received important positions under the government, it was decided without the aid of any statute to ask Attorney General Garland to order a suit brought to annul Bell's patents, on the ground that he obtained them by fraud, and that he was not the first inventor.



Mr. Garland declined to act, but left Washington for Arkansas, and his next in office, Mr. Goode of Virginia, within a day or two of his departure, received a similar request from an associate company of the Pan Electric, called the National Improved Telephone Company of New Orleans, and upon one day's examination decided that there was reason and authority for consenting, and he ordered the suit brought, not in Massachusetts where our company exists, but in Memphis, Tennessee. He further placed in charge of this suit, with authority to proceed in the name of the government, the very man who is the most active manager in the Pan Electric enterprise, namely, Casey Young, its secretary and treasurer, and Geo. B. Gantt, also a stockholder, and Luke E. Wright, of Memphis, and J. R. Beckwith, of New Orleans. For some reason these men were so confident that the suit would be ordered, that they had a bill all ready (printed beforehand in New Orleans), which was immediately filed in Memphis.

As soon as Mr. Goode ordered this government suit, counsel for the Pan Electric appeared in Baltimore before Judge Bond, who was about to hear our application for injunction against that company, and asked for a postponement of proceedings, for the reason that the government suit was a valid objection to a preliminary injunction, thus exposing the motive of the whole movement. This request was not granted, a restraining order against the Pan Electric Company was issued, and the Court will hear the case in due course.

The President, finding that Mr. Goode's action had been taken without reference for information to the Department of the Interior, suggested to the Department of Justice that it would be better to conform to usage in such matters; and the suit was withdrawn. A new request was then preferred and sent to the Department of the Interior for information. The Secretary of the Interior, Mr. Lamar, of Mississippi,

gave a hearing, lasting a week, on the question of the government suit, at which Messrs. Dickerson, Smith, and Storrow appeared for us. Without considering the merits of the questions involved, he advised that the government had a right to bring such a suit, and also that it should do so, apparently because there was an allegation of fraud involving officers of one of the departments, which, for some reason not explained, he thought could alone effectually be investigated in a suit by the government itself; but he advised that the government should conduct its own case and at its own expense.

On the 1st of February our suit for injunction against the National Improved Company in New Orleans, the associate of the Pan Electric Company, was reached. Once more the counsel for our opponents appeared, with the request that the case be postponed because the Secretary of the Interior had advised the government to bring suit against us, and that other cases ought not to be heard until that was decided.

It is easy to understand the injury to the Bell interests that would follow if the United States courts should refuse us all protection against infringement until the government could try over again and determine all the questions relating to the priority of the telephone invention, which it has taken us eight years of arduous litigation to bring to their present condition of readiness for the Supreme Court.

The Court at New Orleans refused to stay proceedings, the arguments have just been heard and we hope for an early injunction in this case.

Here then the whole programme lies exposed: a plan to sell rights that had no value on the strength of prominent names; — a plan to wreck our property by stopping our suits, pending years of wholly unnecessary litigation; — a plan to deceive the public into the belief that the defeat of the Bell patent would confer value upon Pan Electric stock; — a plan

to inveigle Mr. Cleveland's administration into support of this scheme.

If such a plan can succeed, what interest in this wide country is safe from an infamous attack? If any doubts have existed as to the expediency of a statute permitting such action on the part of the government, the proceedings of the Pan Electric associates, and the fact that they could secure the aid of such men as Mr. Garland, Mr. Harris, and General Johnston, ought to put an end to them. If there is any reason to believe that such power is already within the reach of the government, without a statute, can any one doubt that it should be removed by immediate prohibition from Congress?

If the government, upon a simple allegation of fraud in the obtaining of patents or other government grants, made by interested parties, can be called upon to bring suits either at its own expense, or under the management of the interested party, to annul its own agreements, any poor inventor may have his fortune wrecked by powerful competitors; any owner of property based upon government agreements or land or other grants may find the government, on whose faith he has expended his money, appearing before its own courts, in favor of some irresponsible or dishonest claimant.

It has been urged that nothing but the annulling of our patent in suit, by the government itself, would suffice to enable others to enter the telephone field. There is no weight in this, for with every decision in our favor, we have barely been able to keep the field free from serious infringement, and it is certain that one decision by the United States Court, invalidating our patent would be enough to flood the country with competing companies.

It seemed inconceivable, that upon this state of facts, the essential parts of which were already public, the government should lend any countenance to such an enterprise.



We felt entire confidence that Mr. Lamar would advise that, at least under such circumstances, the two parties interested should be left to fight their battles before the courts in the usual way, and his decision took us wholly by surprise.

When he made it public, it seemed proper to place the facts in the case before the President; and the president of your company went to Washington, and had an interview with Mr. Cleveland. The latter was told that the present owners of the Bell patents had bought them in good faith, in the belief, which they still entertained, that they were properly obtained, and were valid; that on the strength of United States patents, and repeated decisions of the United States courts in their favor, the parent company and its licensees had invested vast sums of money in putting this invention into use throughout the country; that the sum of fifty or sixty millions of dollars was now at stake in the business; that every issue which the government was asked to raise, was already in the records of several cases that had been argued and passed upon by the United States courts, which were already far on their way to the Supreme Court, on appeal, and that the first of these cases was expected to come up in October; that we had expended eight years of litigation, involving over fifty days of argument by the ablest counsel we could procure, the taking of over five thousand pages of testimony, and the expenditure of half a million of dollars; that our licensees could not but view with alarm the prospect of going once more over this expensive and tedious road, in the face of a suit brought by the government, at the instance of a company which they believed to be wholly speculative and irresponsible.

It was shown that the programme of the Pan Electric Company was to get our suits stopped, and not tried, and to avail of official influence to get this accomplished, and it was explained how thoroughly our property could be destroyed

without trial, could the existing suits be suspended while the government suit was slowly making its way to a decision.

But the government adheres to the advice of Mr. Lamar, and on the twenty-third day of March, filed a bill against this company and our licensees in Ohio, at Columbus, Ohio, before Judge Baxter, who would also have heard the case had it been brought at Memphis. Messrs. Thurman, of Columbus, and Lowery, of New York, with several others, have been selected as counsel, and it is not our belief that the management of the suit is to be left within the control of the Pan Electric Company, or that the government intends to allow any unnecessary delay to be interposed in its prosecution. It is to be noted, however, that it has taken this distinguished group of counsel over two months to decide the questions which Mr. Goode disposed of in a single day.

While there has undoubtedly been a widespread feeling of anxiety among our stockholders and licensees, at finding the power of the government thrown into the scale before its own courts, under the circumstances just described, our counsel and the directors feel no uneasiness as to the result of such a suit, as all the matters involved have been the subject of repeated decisions.

Regarding the question of locality of a government suit, we are advised by counsel that jurisdiction can only be had over us in Massachusetts.

It is said that government seeks to find a place where no telephone cases have yet been heard, but if this be true its attitude is not easy to understand.

If the subject has already been passed upon, it cannot under established usage be again considered by the Circuit Courts, and if it is new, a court which has already made itself familiar with matters relating to telephone inventions



would seem to be the one most likely to give quick and intelligent despatch to the business.

To assume that there is any prejudice in our favor in the various courts before whom our suits have been heard, would be an indictment of a large part of the judiciary by the Executive, for which there can be no justification.

Regarding the newspaper agitation that has attended this Pan Electric exposure, it is proper to say that we have taken no part in it, directly or indirectly. While it would have been wholly within our right to place all the information within our reach in the possession of the press, we felt that having adopted the course of going directly to the government with the facts as we understood them, it was the proper course, at least under the then existing circumstances, to take no part in any discussion in the newspapers.

Yet it has been impossible to avoid a sense of outrage at the whole transaction, and the support it has received in official circles, which made it difficult to maintain silence, and we feel that this full statement of the matter is due to the stockholders.

Last summer, Mr. Vail, feeling that a due regard for his health required relief from the arduous duties of General Manager, resigned that position, which he had held with great benefit to the company since its formation. Being desirous of availing ourselves of his energy and wide knowledge of the telephone business, we made arrangement with him by which he undertook the general supervision of the American Telephone and Telegraph Company, as president, and the more immediate supervision of the affairs of the New York Company. He will also give such attention to any other of our interests as we may, from time to time, desire.

Mr. John E. Hudson, who has been with us as counsel for years, accepted the position of General Manager and Soli-



citor, and his familiarity with our affairs has enabled us to make a change in management with the least possible inconvenience.

Mr. C. J. French, who formerly represented our interests in various of the important Western companies, has been elected Assistant General Manager in place of Mr. Madden, who also resigned during the year.

Mr. Hudson has, since last September, performed the duties both of General Manager and Attorney, but this involved altogether too much labor, and Mr. Geo. V. Leverett has lately been retained as Attorney, and will relieve Mr. Hudson of a large part of the legal work of the office.

The Western Electric Company has been brought into a much better condition than it was in a year ago, the company being free from debt, and possessed of a substantial surplus after paying regular dividends of one and a half per cent per quarter during the year. This condition is due in a great degree to the careful management of Mr. W. S. Smoot, who assumed the presidency of the company in January, 1885, and whose recent death has deprived us of a most faithful, upright, and efficient officer.

The laboratory has conducted a large number of experiments in connection with patent litigation. In addition to this, further examination has been made into the matter of underground work, and cable systems, and a series of experiments is in progress. Further experiments are also in progress in reference to underground work, in connection with overhead systems.

The Patent Division has proceeded with its work of digesting and indexing, for easy reference, patents of the United States and Great Britain relating to electricity, and in bringing forward the history of the development of the telephone system, and in examining and reporting upon the novelty and value of various inventions submitted to the

Company. This division has also, during the year, prepared specifications and applications for patents for inventions made by employees of the Company and others, which have been thought of sufficient value to patent.

Mr. Gilliland resigned his charge of the Mechanical Division about Nov. 1, 1885, and Mr. H. V. Hayes has assumed the position.

The Mechanical Department and Testing Department, heretofore in separate buildings, have been combined and have recently been moved to new quarters, with great gain in the matter of convenience, but without additional expense.

In April, 1885, the State of Indiana passed a law restricting the price of rental of a telephone to \$3.00 per month and \$2.50 each, where two are used. This was done against the almost unanimous report of the committee which had examined the subject, and before whom careful testimony had been placed as to the cost of telephone service.

This raised at once two questions of the highest importance to our licensees :

*First.* The question of the right of the Legislature to make such restrictions.

*Second.* The question of public policy in respect to such legislation.

A case testing the validity of the law was brought, and carried up to the Supreme Court of Indiana, and the Central Union Company, doing the telephone business of Indiana, gave testimony beyond dispute that telephone service in Indianapolis and other cities actually cost that company more than \$3.00 per month per subscriber. That Court has recently decided that the law is valid, but has accompanied this decision by language which implies a doubt whether the law is either wise or just. The Court based its opinion largely upon the so-called police power of the State, which is said to confer the right to control matters affecting the safety

and convenience of the public, and quoted the case of a restriction enforced against the patent owners of a dangerous oil in behalf of its position.

But there is no question as to public safety involved in the telephone law; and as the telephone is certainly a convenience to the public, of less consequence than the supply of food and clothing, it does not seem probable that the right to regulate the telephone business, even without considering the question of patent right, exists, unless the State has the power to regulate prices of all other commodities. If this general power does exist, surely the patent right must give some protection to a business which wholly depends for its peculiar value upon patented inventions.

The Court made the distinction that the price for the right to practise the invention could not be interfered with, but that as soon as the invention was embodied in a tangible article like the telephone, the State possessed the right to limit the price for the use of it. This is to assert that the State has only to take one step round, in order to practically accomplish that which the Court itself says it must not do, and this whole ground is so opposed to the generally accepted theory upon which patented articles have been bought and put into use, and to the whole theory of the patent law, which purports to insure full protection for the exclusive use of the invention during the life of the patent, that it seems incomprehensible that the view of the Indiana court can be correct.

In consequence of this decision the Central Union Company is obliged to close its exchanges in the principal cities and large towns; there seems to be no other course, unless the company is willing to do business at a heavy loss, until the rate law can be repealed. The public will necessarily be put to serious inconvenience, and the Telephone Company is helpless to give relief. In Ohio and New Jersey, similar



bills which were before the Legislatures of those States have been rejected or postponed, and we have every confidence that the same result will be reached in several other States, including Massachusetts, where the same legislation has been attempted.

The Indiana case is to be appealed to the United States Supreme Court, and the result will be awaited with anxiety by many others than those interested in telephone property. If the States possess such right as is claimed by the Indiana Court, the motive of public policy should still operate against its exercise. Why should the telephone business be regulated as to price more than other industries? The reasons offered are that telephone companies are monopolies, and that they have been granted certain privileges of location; but as they are monopolies only by virtue of the patent system, which is everywhere accepted as a part of our public policy to which all the States are committed, no State in fairness ought to destroy that which this patent system has created, and the privileges of location which have been granted them are so precarious, that sufficient obstacles are already placed in the way of conducting their business, by their being obliged to put their money into plant of such uncertain tenure. Sound public policy is surely against the regulation of the price of any class of commodities by law. If it is admitted with telephones, it may presently be proposed for anything else which the public wants.

In the discussion of this matter, the circumstances that these patents are property bought and paid for, seem often to be wholly overlooked by those who are proposing to distribute the benefits of the telephone to the public. It is the buyer using his majority vote to fix prices, without reference to the rights of the seller. It is often asserted that telephone rates are too high, but the assertions are unaccompanied by any proofs, and those who make them do so without that

knowledge of the business which is necessary to a fair judgment.

As the stockholders generally have not been able to acquaint themselves with these matters, it may not be out of place to say a few words about this question.

Had an offer been made in the first place to put a wire, a switch apparatus and operators, day and night, at the service of each subscriber, and to charge not over five cents per connection within usual exchange limits, can it be doubted that such a charge would everywhere have been accepted as moderate? In fact the cost to the subscriber for exchange service varies from two to seven cents per connection, according to amount of use and quality of service required, and the average is not far from four cents. The price of connections from one exchange to another is from ten cents upwards, according to distance, which compares most favorably with telegraph messages, since immediate response is secured and a conversation of three minutes or even more, allowing the exchange of several hundred words, instead of the ten-word message of common use in telegraphy, with considerable delay in getting replies. A telephone subscriber's wire, too, is used on an average but about five times a day, and must be maintained in idleness the rest of the time, while a telegraph company only maintains as many wires as it expects to keep busy. In Boston and its branch offices alone, for example, the Telephone Company maintains 4,565 miles of wire, which are mostly in idleness nine tenths of the time.

Different qualities of telephone service are just as necessary as different qualities of clothing, food, or railroad service, and prices of telephone exchange service must vary as surely as prices of other commodities, unless cities are willing to content themselves with the kind of equipment and service which answers in a village, which they are not. In a small town one can only reach perhaps one to two hundred persons,



in a city as many thousand; this is worth the difference, especially since the apparatus must be much more costly throughout.

It is natural that the fact that the price of telephone service increases with the number of subscribers, instead of decreasing, should not be understood by those outside of the business; and perhaps if the practice of charging in proportion to the number of persons reached, in other words, in proportion to the facilities placed at the disposal of a subscriber, had been adopted, the reason for the increase in price would have been easier to comprehend.

The calls increase very rapidly with the increase of subscribers, and this means more operators in proportion, and the operators are a large part of the expense.

If those who are interested in this problem would study it out with the assistance of practical telephone men, instead of assuming that all telephone managers are trying to deceive, the matter would become much better understood.

Regarding this whole attempt to restrict or harass telephone companies by attacks, such as have been common in State legislatures of late, it may be said that there is probably in the public mind a general misunderstanding of the questions involved.

The facts that control telephone expense are as yet imperfectly understood by even the best telephone men, and they are constantly perverted by persons who have adverse interests, or who for improper purposes have instigated legislative attacks upon telephone companies.

The telephone situation is worthy of more careful attention than it has received at the hands of the public. Its features are peculiar, and the development of telephone facilities is certainly of high importance to our people. Although in the ten years that have passed since the invention became public, 156,000 miles of telephone wire have been built,



over which 275,000,000 communications now pass annually, we are in reality only at the threshold of the business. It is possible already to talk with ease between Boston and Philadelphia over our experimental wire, yet the connection of our principal cities and large towns by thoroughly practicable telephone systems has, in fact, only been begun.

With the improvements which are rapidly coming into use, the aim must be nothing less than to provide a complete working system throughout the United States, which will give facilities for instant conversation between all points within many hundred miles of each other, such as is now possible within the limits of a single exchange. This cannot be accomplished by competing companies, each reaching only part of the persons wishing to become subscribers to such a system. The service is divested of half its value the moment half the people retire to a second system, and of much more should there be still further subdivision. In other words, the value of the thing consists in placing each person in the same system with each other one, and this can only be done under one general plan.

The contracts which we have made with our licensees are all shaped with this complete general telephone service in view. For purposes of intercommunication between existing smaller systems, it is arranged that all shall work together, and the fact that the telephone companies throughout the land have been held under such a general plan by the force of a government patent, has been and is of the highest importance to the public, for in no other way could even the present condition of telephone development have been reached so soon, or without great confusion among competing companies and the multiplication of the wire nuisance, which would have been intolerable.

To any one who will think what it would mean if instant verbal communication could be had by any person here with

every city and town in New England, and as far as Philadelphia, perhaps even Washington and Chicago, with similar facilities in all parts of the country, it must be clear that this is something well worth the risk of money, thought, and labor by the companies; well worth encouragement from the people. The work that has been done is at least some guaranty of what will follow, if the protection promised by our patents is not interfered with. The public is ripe for the use of such a convenience, the inventive talent of the country is providing new methods for making it available; will the legislatures interpose to prevent all progress, through misconception of the problem, or because misled by interested parties?

What has already been accomplished has been under every discouragement that can be thrown upon a property resting on patent rights. But a small percentage of patented inventions prove valuable, and all such are usually compelled to run the gauntlet of lawsuits from pretenders, so long as their patents live. Capital, therefore, is timid about such investments, and nothing but the expectation of large temporary returns will bring it out for the development of a business like this.

While it is true considerable returns have been received upon our property since 1883, it is equally true that for years we were without dividends or other income from our investment; our patents have but seven years more to run, and we are still working, as always before, under a heavy fire and an expenditure for defence which nothing but a prospect of liberal returns would, for a moment, justify.

To undertake such a work as has just been outlined, large sums are required for construction. It is within the power of State legislatures to so alarm capital that might be attracted to such a business, that it would be wholly useless for a time to attempt any important work of the kind sug-

gested. The attack upon rates is one of the most direct methods of removing all inducement to extend telephone facilities; but, even if the right to absolutely regulate this matter were conceded, the question whether the few thousand persons, who now are connected with telephone exchanges, shall have telephone service a little cheaper than at present, is of trifling importance to the country, compared to the completion of a telephone system adequate to the needs of the whole people.

The directors feel that the outlook ahead is promising, that there is good prospect of an early favorable termination of our most important suits, and strong reason to hope that further unjust legislation will not be seriously attempted, so that we may look forward to an opportunity to devote ourselves to the extension and completion of our telephone work.

For the Directors,

W. H. FORBES,  
*President.*





## LEDGER BALANCES, DEC. 31, 1885.

### DEBTORS.

Telephones . . . .	\$590,722 20
Stocks . . . . .	22,611,859 03
Merchandise and Machinery . .	18,962 56
Bills and Accounts Receivable .	450,131 90
Cash and Deposits . . . .	997,728 52

### CREDITORS.

Capital Stock . . . . .	\$9,802,100 00
Bills and Accounts Payable* .	522,985 65
Patent Account (Profit and Loss)	9,593,755 18
Profit and Loss . . . . .	3,337,895 56
Reserves . . . . .	208,547 81
Surplus . . . . .	1,204,120 01
	<hr/>
	\$24,669,404 21
	<hr/> <hr/>
	\$24,669,404 21
	<hr/> <hr/>

\* Of this amount, \$294,063 is the dividend payable Jan. 15, 1886, to stockholders of record Dec. 31, 1885.

WM. R. DRIVER, *Treasurer.*

Boston, March 30, 1886.

# Comparative Statement of Earnings and Expenses.

## EARNINGS.

	1884. (12 MONTHS.)	1885. (12 MONTHS.)
Rental of Telephones . . . . .	\$1,956,413 28	\$2,026,398 33
Sales of Instruments and Supplies . . . . .	7,232 91	2,676 18
Dividends . . . . .	475,401 95	597,469 99
Commission from Extra-territorial and Branch Lines . . . . .	69,136 90	75,878 96
Com's'n from Telegraph Business . . . . .	13,236 82	15,388 05
Interest . . . . .	48,503 46	39,812 79
Miscellaneous . . . . .	355 97	8,260 63
	<u>\$2,570,281 29</u>	<u>\$2,765,884 93</u>

## EXPENSES.

Expenses of Operation . . . . .	\$226,210 79	\$220,726 25
Legal Expenses . . . . .	153,795 18	210,614 32
Interest and Taxes . . . . .	40,922 63	33,377 42
Depreciation . . . . .	4,098 24	
Commission . . . . .	401,204 83	396,650 72
Royalty . . . . .	15,000 00	12,523 74
Rental Concessions (6 mos.) . . . . .		98,796 00
	<u>\$841,231 67</u>	<u>\$972,688 45</u>

Net earnings . . . . .	\$1,729,049 62	\$1,793,196 48
Misc. Items to Surplus Account . . . . .	58,560 32	16,800 00
	<u>\$1,787,609 84</u>	<u>\$1,809,996 48</u>

Surplus Account, Dec. 31, 1884 . . . . .	\$1,057,112 43	
Net Earnings of 1885 . . . . .	1,793,196 48	
Miscellaneous Items . . . . .	16,800 00	\$2,867,108 91

Regular Dividends in 1885 . . . . .	\$1,170,192 00	
Extra Dividends in 1885 . . . . .	392,044 00	
Reserved for Depreciation of In- struments . . . . .	100,752 90	1,662,988 90
Surplus Account, Dec. 31, 1885 . . . . .		<u>\$1,204,120 01</u>



## REPORT OF AUDITING COMMITTEE.

---

Boston, July 24, 1885.

W. H. FORBES, Esq.

*President, etc.*

Dear Sir,—I herewith enclose the report of the Accountant employed to examine the books & acs. of the American Bell Tel. Co., to July 1st.

Resp'ly yours,

W. G. SALTONSTALL,

*Com'tee on Ac's.*

Boston, July 23, 1885.

I hereby certify that I have examined the books and accounts of the American Bell Telephone Company for the six months ending June 30, 1885, and have to report that I have verified the cash book, its debits and credits, the rentals, pay rolls, journalizings, stock ledger, stock investments, bills receivable, bank accounts and cash on hand.

Have found everything in connection with the above correct; the disbursements as entered in cash book sustained by approved vouchers, the certificates of stock investments and bills receivable which the ledger calls for are on hand or properly accounted for, and the books are accurately kept.

CHARLES T. PLIMPTON,

*Accountant.*

BOSTON, Jan. 13th, /86.

WM. H. FORBES, Esq.

*Pres't Am. Bell. Tel. Co.:*

Dear Sir,— Herewith please find the report of the Auditor employed by me to examine the books and accounts of the Am. Bell Tel. Company, for the six months ending Dec. 31st., 1885.

Respectfully yours,

W. G. SALTONSTALL,

*Com'tte on a/cs.*

Boston, Jan. 13, 1886

I hereby certify that I have examined the books and accounts of the Treasurer of the American Bell Telephone Co. for the six months ending December 31st, 1885, and have to report that I have verified the cash book, its debits and credits, the rentals, commission, concession accounts, pay rolls, journalizings, stock ledger, stock investments, bills receivable, trial balances, bank accounts and cash on hand.

Have found everything in connection with the above correct; all disbursements of cash sustained by approved vouchers, and the certificates of stock investments, and the bills receivable which the ledger calls for are on hand, or properly accounted for and the books accurately kept.

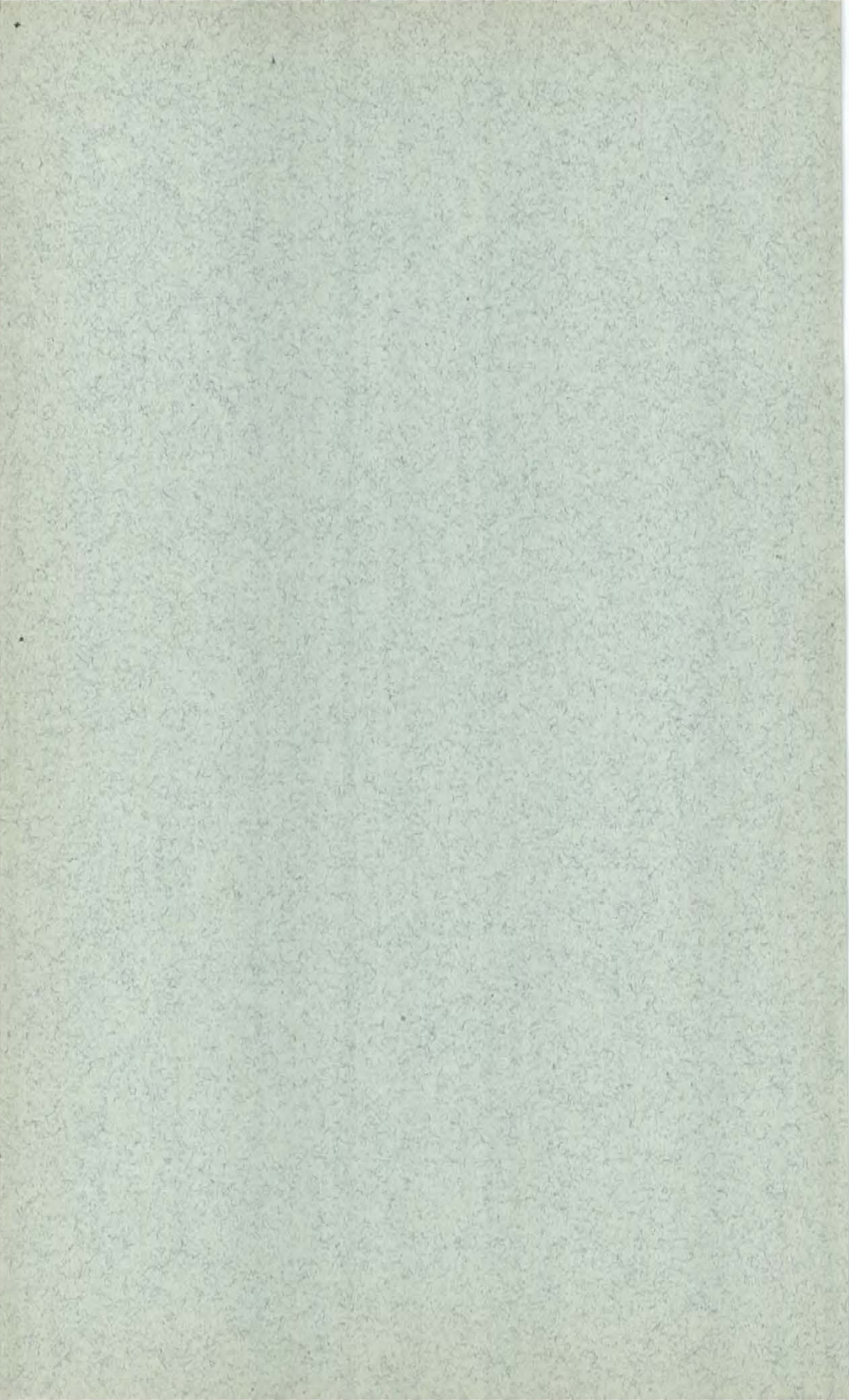
CHARLES T. PLIMPTON,

*Accountant.*











SEVENTH  
ANNUAL REPORT  
OF  
THE DIRECTORS  
OF  
THE AMERICAN BELL TELEPHONE CO.  
TO THE STOCKHOLDERS,  
YEAR ENDING DECEMBER 31, 1886.

---

BOSTON:  
ALFRED MUDGE & SON, PRINTERS,  
24 FRANKLIN STREET.  
1887.





OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,  
BOSTON, March 29, 1887.

TO THE STOCKHOLDERS :

Our business for the year ending December 31, 1886, was marked by an improvement over the previous year, especially in exchange subscribers, — the total number showing an increase of 9,318 as against 2,969 in 1885.

The following comparative statistics will be found of interest :—

EXCHANGES.

	1883.	1884.	1885.	1886.	1887.	Decrease from 1886.	Increase over 1886.
Exchanges.....	725	906	722	747	736	11	
Branch offices.....	345	419	481	428	446	.....	18
Miles of wire on poles.....			88,481	100,332	111,349	.....	11,017
Miles of wire on buildings.....			11,886	10,043	10,587	.....	544
Miles of wire under- ground.....			1,225	3,417	6,030	.....	2,613
Miles of wire sub- marine.....				254	265	.....	11
Total miles of wire	68,571	85,896	101,592	114,046	128,231	.....	14,185
Total circuits.....	74,484	97,422	107,440	112,067	121,260	.....	9,193
Total employees....	3,716	4,762	5,168	5,438	5,843	.....	405
Total subscribers...	97,728	123,625	134,847	137,750	147,068	.....	9,318

## EXTRA-TERRITORIAL LINES.

	Jan. 1, 1883.	Jan. 1, 1884.	Jan. 1, 1885.	Jan. 1, 1886.	Jan. 1, 1887.	Increase during 1886.
Number of lines.....	247	598	826	897	911	14
Miles of pole lines....	6,154	20,592	25,766	30,697	31,143	446
Miles of wire .....	13,653	29,359	35,631	41,745	43,767	2,022

## UNDERGROUND WIRES.

	Jan. 1, 1886. Miles.	Jan. 1, 1887. Miles.	Increase over 1886. Miles.
Albany .....	.....	1	1
Boston .....	289	347	58
Brooklyn.....	134	1,233	1,099
Chicago .....	760	1,462	702
Detroit .....	.....	82	82
Louisville.....	.....	9	6
Milwaukee.....	1	1	.....
New York.....	627	627	.....
Pittsburgh.....	614	966	352
Washington .....	992	1,302	310
	3,417	6,030	2,613



## INSTRUMENTS.

	Dec. 20, 1882.	Dec. 20, 1883.	Dec. 20, 1884.	Dec. 20, 1885.	Dec. 20, 1886.	Increase during the year.
In the hands of Licen- sees, under rental ..	237,728	298,580	325,574	330,040	353,518	23,478

## EXCHANGE CONNECTIONS.

The estimated average number of exchange  
connections daily in the United States is 856,454

Or a total per year of . . . . . 312,605,710

The number of daily calls per subscriber varies  
in different exchanges from 2 to 15, the  
average throughout the United States being 5 82-100

As compared with . . . . . 5 43-100  
the number reported last year, an increase of 7 per cent.

The average cost to the subscriber varies, according to  
the size of the exchange, and character of the service, from  
2 to 7 cents per connection.

## EXTRA-TERRITORIAL BUSINESS.

The average daily number of extra-territorial  
connections is . . . . . 7,402

Or a total per year of . . . . . 2,701,730

The extra-territorial earnings for the year  
amounted to . . . . . \$565,514 85

Of which this company's share is . . . . \$75,617 30

An increase over 1885 of . . . . . \$2,208 02

In the case of six companies which have not reported for the entire twelve months, the statement has been completed from the average for the months reported.

It will be noted that the number of miles of wire underground has materially increased, and we expect further large additions to the underground mileage in the current year, especially in New York, where the Subway Commission has made arrangements for the working of an underground system, which will meet the requirements of the wire companies.

The legality of the plan adopted by them has been questioned in the courts, and further legislation may be needed before the work can be completed; but, as there is a strong public desire for the burying of wires to the greatest practicable extent, the necessary legislation will probably be obtained and the work go forward. This will involve a heavy outlay by the Metropolitan Telephone and Telegraph Company, and the subject has been under careful consideration by the directors of that company and by our Mr. Davis; and they are prepared to put a large part of their wires into subway conduits as soon as the obstacles referred to are removed.

Following the policy outlined in the last report in respect to licensed companies operating in territory of little value where it was found difficult to build up a profitable business, we have modified our contract relations with several of such companies, and have negotiations in progress with several more, which will, in our judgment, place these companies upon a sound footing, will promote friendly relations, and will serve to encourage the proper development of the business.

The concessions made involve yielding a certain share of the profits immediately accruing to these companies, but will, we believe, in the long run prove of mutual advantage to ourselves and the companies interested.

Terminal facilities have finally been secured, within a few

months, in Philadelphia, for the long line service, and arrangements completed for giving facilities for conversation to New York and other important points. Several private lines are already under contract between Philadelphia and New York, and we shall this year be able to go far in ascertaining the value of this class of business.

The delay in getting facilities granted in Philadelphia has prevented us from determining this question in a practical manner; but we consider it of sufficient importance to connect Boston with New York to warrant building that line without waiting for the commercial result in the Philadelphia and New York line, and are taking steps to complete it during the present year.

The Treasurer's statement shows —

Gross earnings for the year from all sources	\$3,097,000 91
Expenses . . . . .	1,149,717 79
Net earnings . . . . .	\$1,947,283 12
Miscellaneous credits . . . . .	26,067 64
Total . . . . .	\$1,973,350 76
Regular dividends paid . . . . .	\$1,176,252 00
Extra dividends paid . . . . .	392,084 00
Total . . . . .	\$1,568,336 00
Reserve for depreciation of instruments . . . . .	117,754 59
	<u>1,686,090 59</u>
Balance to surplus account . . . . .	\$287,260 17
Total surplus . . . . .	\$1,491,380 18

The Canadian company continues to do extremely well; it has increased its subscribers during the year from 9,614 to



11,600, and its net earnings from \$158,000 to \$190,565.83; and although the Blake transmitter patent, as well as the Bell patents, has been declared void, the business of the company seems to be on a most healthy and prosperous footing.

We have to report progress in our lawsuits as follows:—

In the suit at New Orleans against the National Improved Telephone Co., an associate of the Pan Electric Co., an injunction was granted by Judges Pardee and Billings on the 31st of May, after an argument lasting about twenty days. It will be remembered that this case, besides all the old matters, contained everything that had been introduced before the Secretary of the Interior regarding the alleged frauds.

The Court stated in its opinion that while the various decisions that had previously been rendered would be sufficient to entitle the complainants to a decree, still, owing to the importance of the case, they preferred to take it up *de novo*. The opinion was a very strong one, and sustained the company in all its claims.

Suit was soon after begun against the Pan Electric Companies in Texas, and an injunction issued on November 5.

We have also secured decrees against the Pan Electric Company operating at Baltimore, and the McDonough Telephone and Telegraph Co., the Globe Telephone Co., the Long Distance Telephone Co., and the Wallace Electric Telephone Manufacturing Co. in New York.

A suit against the American Cushman Telephone Co. was begun in Chicago, on July 20, and testimony is now being taken.

The Dolbear case was finally reached in the United States Supreme Court in January, and by agreement of counsel and consent of the Court, the Drawbaugh case and the Molecular, Clay and Overland cases were advanced and the whole argued as one cause. The arguments continued from January 24 to February 8. The Court has reserved its decision

In the case of the United States against The American Bell Telephone Company, begun at Columbus on March 23, 1886, a motion was filed on May 3 to set aside the marshal's return, and on May 4 a plea to the jurisdiction was entered. These were argued from the 20th to the 23d of September before Judges Jackson and Sage, Judge Welker sitting with them, and on November 11 the Court rendered its decision in our favor; and the bill was finally dismissed on December 7.

The Government took no appeal, but on January 13 filed a bill in the District of Massachusetts, substantially the same as that which has been dismissed in Ohio.

The operation of the Indiana law regulating rates has proved to be as mischievous to the public as was predicted. It of course at once stopped absolutely any extension of business, and checked that steady improvement which is constantly going on towards greater efficiency and convenience to the public in the conduct of the business. The service was so crippled that strong popular feeling showed itself, urging the repeal of the law. The bill for its repeal passed the House by a very large majority, and went to its third reading in the Senate, when the political complications arising out of the questions relating to the lieutenant-governorship arrested all business during the remainder of the term of the session.

Bills for the regulation of telephone rates have during the past winter been introduced into a number of the State Legislatures. In these cases where final action has been had, the measures have been rejected, and a disposition seems to be generally felt against imposing restrictions which it is not customary to place upon other branches of business.

At the present time, when it is becoming necessary for all the large telephone companies to incur heavy outlays for underground wire work, it certainly seems that they should be relieved from the danger of having measures adopted

which would prevent all profitable development of the business.

Our company and our licensees are proposing to make large outlays to give increased facilities for telephone connection, which there would be no temptation to provide if there were much probability that the States could and would place restrictions upon prices for that which we shall have to sell.

By Act of 1886, Chapter 270, a modification was made in the law under which this company is taxed in Massachusetts, the result of which has been to increase our tax very considerably; that laid on the 1st of May, 1886, amounts to \$74,846.98.

The Patent division continues its work of digesting American and British patents relating to electrical subjects, including not only inventions claimed, but inventions described in specifications unclaimed.

It has also prepared during the year and reported on a large number of subjects submitted by the officers of the company.

The Electrical division has been much occupied in experimental work, at the instance of counsel engaged in our various litigations.

It has also begun and made considerable progress in an extended series of experiments on pole lines and on mixed cables and pole lines for calculating the dimensions of pole wires and cables forming the alternate links in any chain of telephonic communication.

The Mechanical department has given much time to studying long-distance transmitters, and to the general question of transmitters of the granular carbon type.

It has also devised a suitable form of instrument for use in mines, and a form for the use of divers.

The books of the company have been examined three



times during the year, and the report of the Auditing Committee is appended.

The business of 1887 has opened well, and the directors look with confidence for a prosperous year.

For the Directors,

W. H. FORBES,

*President.*

## LEDGER BALANCES, DEC. 31, 1886.

### DEBTORS.

Telephones . . . . .	\$597,749 84
Stocks . . . . .	22,605,925 03
Merchandise and Machinery . . . . .	14,159 71
Bills and Accounts Receivable . . . . .	1,007,872 75
Cash and Deposits . . . . .	683,626 55

### CREDITORS.

Capital Stock . . . . .	\$9,802,100 00
Bills and Accounts Payable* . . . . .	638,344 67
Patent Account (Profit and Loss) . . . . .	9,373,836 07
Profit and Loss . . . . .	3,352,445 72
Reserves . . . . .	251,227 24
Surplus . . . . .	1,491,380 18
	<hr/>
	\$24,909,333 88
	<hr/> <hr/>
	\$24,909,333 88
	<hr/> <hr/>

\* Of this amount \$294,063 is the dividend payable Jan. 15, 1887, to Stockholders of record Dec. 31, 1886.

WM. R. DRIVER,  
*Treasurer.*

BOSTON, March 29, 1887.

# Comparative Statement of Earnings and Expenses.

## EARNINGS.

	1885.	1886.
Rental of Telephones . . . . .	\$2,026,398 33	\$2,109,492 44
Sales of Instruments and Supplies, . . . . .	2,676 18	2,200 96
Dividends . . . . .	597,469 99	844,555 76
Extra-territorial and Branch Lines . . . . .	75,878 96	78,109 81
Telegraph Commission . . . . .	15,388 05	16,681 22
Interest . . . . .	39,812 79	34,560 77
Miscellaneous . . . . .	8,260 63	11,399 95
	<u>\$2,765,884 93</u>	<u>\$3,097,000 91</u>

## EXPENSES.

Expenses of Operation . . . . .	\$220,726 25	\$230,968 05
Legal Expenses . . . . .	210,614 32	210,550 20
Interest and Taxes . . . . .	33,377 42	82,458 25
Commission . . . . .	396,650 72	404,111 30
Royalty . . . . .	12,523 74	14,501 36
Rental Concessions . . . . .	*98,796 00	†207,128 63
	<u>\$972,688 45</u>	<u>\$1,149,717 79</u>
Net earnings . . . . .	\$1,793,196 48	\$1,947,283 12
Misc. Items to Surplus Account . . . . .	16,800 00	26,067 64
	<u>\$1,809,996 48</u>	<u>\$1,973,350 76</u>

Surplus Account, Dec. 31, 1885 . . . . .	\$1,204,120 01	
Net Earnings, 1886 . . . . .	1,947,283 12	
Miscellaneous Items . . . . .	26,067 64	\$3,177,470 77
Regular Dividends in 1886 . . . . .	\$1,176,252 00	
Extra Dividends in 1886 . . . . .	392,084 00	
Reserve for Depreciation of Instruments . . . . .	117,754 59	1,686,090 59
Surplus Account, Dec. 31, 1886 . . . . .		<u>\$1,491,380 18</u>

\*Six months.

†Twelve months.



## REPORT OF AUDITING COMMITTEE.

---

BOSTON, Aug. 4, '86.

W. H. FORBES, Esq.,  
*President, etc.*

*Dear Sir,* — I forward herewith the certificate of Mr. C. T. Plimpton, the Auditor employed by me to examine the books and accounts of the American Bell Telephone Co. for six months ending June 30, ulto.

Respectfully yours,

W. G. SALTONSTALL,  
*Com'tee on Acc'ts of Am. Bell Tel. Co.*

BOSTON, August 3, 1886.

I hereby certify that I have examined the books and accounts of the Treasurer of the American Bell Telephone Co. for the six months ending June 30, 1886, and have to report,

That I have verified the Cash book, its debits and credits, the Pay-rolls, Rentals, Commission, Concession, Journalizings, Stock Ledger, Stock investments, Bills Receivable, Bank accounts, and cash on hand.

Everything in connection with the above I have found correct, the cash disbursements are sustained by approved vouchers, the certificates of stock investments, and Bills Receivable, which the ledger calls for, are on hand or properly accounted for, and the books are accurately kept.

CHARLES T. PLIMPTON,  
*Accountant.*

BOSTON, Oct 15, '86.

WM. H. FORBES, Esq.,

*Pres't Am. Bell Tel. Co.*

*Dear Sir,* — Having recently suggested to Mr. Plimpton, the auditor, to make unexpected examination of the books of the Am. Bell Tel. Co., he has just completed one, with the result as seen by his enclosed report.

Yours truly,

W. G. SALTONSTALL,

*Com'tee on Acc'ts.*

BOSTON, October 13, 1886.

WILLIAM G. SALTONSTALL, Esq.,

*Committee on acc'ts Am'n. Bell Telephone Co.*

*Dear Sir,* — In accordance with your written request, I have examined the books and accounts of the treasurer of the American Bell Telephone Co.

Have verified the Cash, Bank, and Notes Receivable, accounts, and the Trial Balance for October 1st, 1886, also the Stock Certificates by taking account of the stubs of the Certificate books of the certificates issued. I found about 10,500 certificates outstanding, issued to 1860 Stockholders, & representing 98,073 shares. Certificates for 52 shares have been issued to parties who alledge to have lost their certificates, but who have given bonds to protect the company from loss, should said certificates appear as against the company. In my examination I have found everything correct.

Very truly yours,

CHAS. T. PLIMPTON,

*Accountant.*

BOSTON, Jan 15, 1887.

WM. H. FORBES, Esq.,  
*Pres't. Am. Bell Tel. Co.,*

DEAR SIR, — Herewith please find the report of the Auditor employed by me to examine the books and accounts of the Am. Bell Tel. Company, for the six months ending Dec. 31st, 1886.

Respectfully yours,

ALEXANDER COCHRANE,  
*Com'ttee on Acc'ts.*

BOSTON, January 15, 1887.

I hereby certify that I have examined the books and accounts of the treasurer of the American Bell Telephone Company, twice for the six months ending December 31st, 1886, and have to report that I have verified the Cash book its debits and credits, the rentals, commission, concession accounts, pay rolls, journalizings, Stock ledger, Stock investments, bills receivable, trial balances, bank accounts, and Cash on hand.

Have found everything in connection with the above correct; the disbursements as entered in Cash book sustained by approved vouchers, the certificates of stock investments and bills receivable which the ledger calls for are on hand or properly accounted for, and the books are accurately kept.

CHARLES T. PLIMPTON,  
*Accountant.*













EIGHTH

ANNUAL REPORT

OF

THE DIRECTORS

OF

THE AMERICAN BELL TELEPHONE CO.

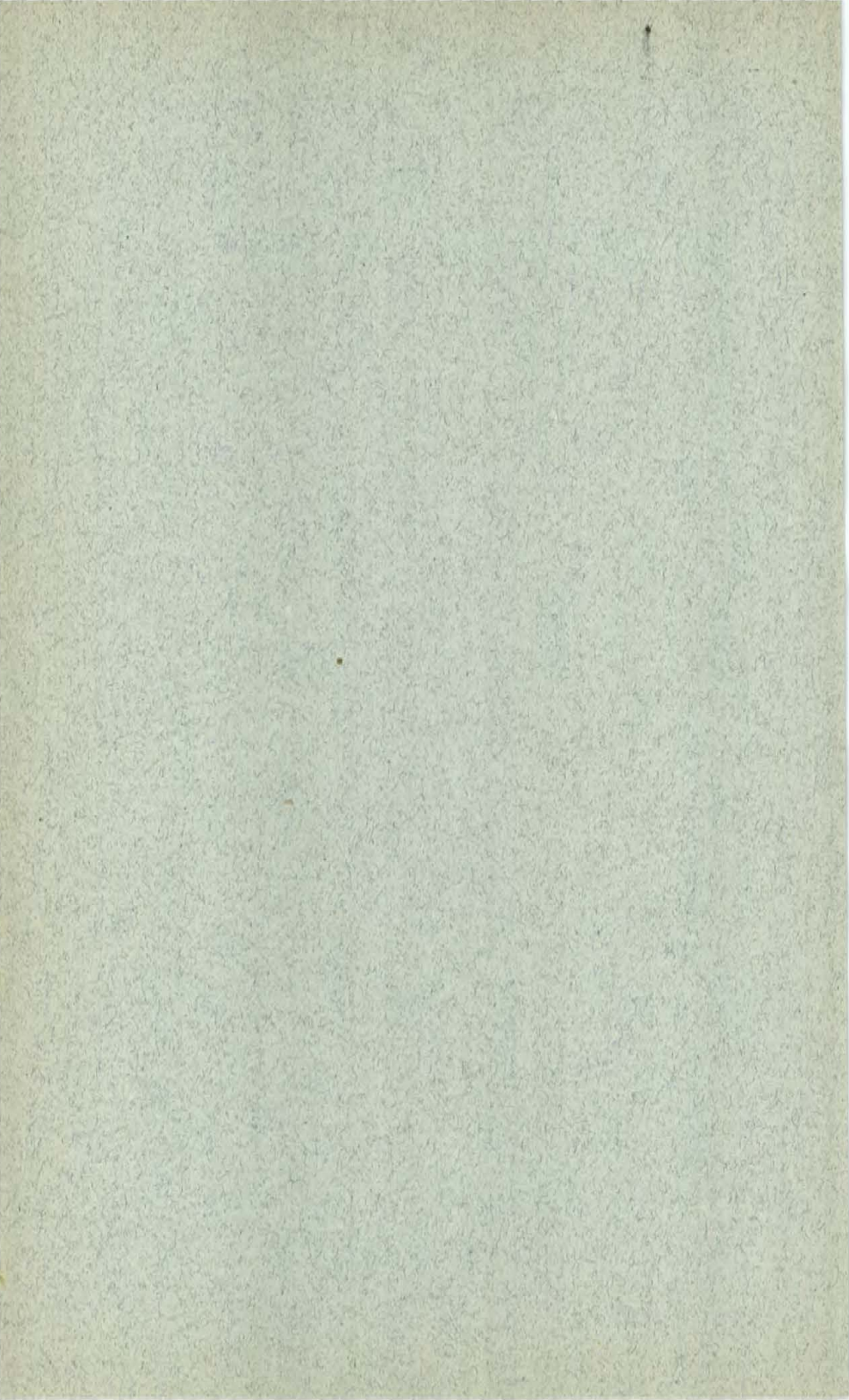
TO THE STOCKHOLDERS,

YEAR ENDING DECEMBER 31, 1887.

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BOSTON:  
ALFRED MUDGE & SON, PRINTERS,  
24 FRANKLIN STREET.  
1888.







OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,  
BOSTON, March 27, 1888.

TO THE STOCKHOLDERS :

The business of the company for the year 1887 has been, on the whole, satisfactory.

The receipts for royalties show a reasonable increase ; and the licensed companies, with few exceptions, have improved and extended their plant.

The statistics are given in the following tables : —

EXCHANGES.

	1883	1884	1885	1886	1887	1888	Decrease from 1887.	Increase over 1887.
Exchanges .....	725	906	772	747	736	743	.....	7
Branch offices....	345	419	481	428	446	444	2	
Miles of wire on poles .....			88,481	100,332	111,349	127,902	.....	16,553
Miles of wire on buildings .....			11,886	10,043	10,587	9,458	1,129	
Miles of wire un- derground.....			1,225	3,417	6,030	8,009	.....	1,979
Miles of wire sub- marine .....				254	265	363	.....	98
Total miles of wire .....	68,571	85,896	101,592	114,046	128,231	145,732	.....	17,501
Total circuits....	74,484	97,422	107,440	112,067	121,260	131,896	.....	10,636
Total employees..	3,716	4,762	5,168	5,438	5,843	6,182	.....	339
Total subscribers	97,728	123,625	134,847	137,750	147,068	158,732	.....	11,664

EXTRA-TERRITORIAL LINES.

	Jan. 1, 1883.	Jan. 1, 1884.	Jan. 1, 1885.	Jan. 1, 1886.	Jan. 1, 1887.	Jan. 1, 1888.	Increase during 1887.
Number of lines...	247	598	826	897	911	927	16
Miles of pole lines,	6,154	20,592	25,766	30,697	31,143	32,478	1,335
Miles of wire.....	13,653	29,359	35,631	41,745	43,767	56,179	12,412

## UNDERGROUND WIRES.

EXCHANGES.	Jan. 1, 1886. Miles.	Jan. 1, 1887. Miles.	Jan. 1, 1888. Miles.	Increase over 1887. Miles.
Albany .....	....	1	1	....
Boston.....	289	347	736	389
Brooklyn.....	134	1,233	1,443	210
Chicago .....	760	1,462	2,000	538
Detroit.....	....	82	175	93
Louisville .....	....	9	238	229
Milwaukee .....	1	1	....	Loss 1
New York .....	627	627	1,120	493
Pittsburgh .....	614	966	958	Loss 8
Washington.....	992	1,302	1,338	36
	3,417	6,030	8,009	1,979
American Telephone and Tel- egraph Company's long-dis- tance wires.....	....	....	140	140
	....	....	8,149	2,119

## INSTRUMENTS.

	Dec. 20, 1882.	Dec. 20, 1883.	Dec. 20, 1884.	Dec. 20, 1885.	Dec. 20, 1886.	Dec. 20, 1887.	Increase during the year.
In the hands of Li- censees, under rental .....	237,728	298,580	325,574	330,040	353,518	380,277	26,759

## EXCHANGE CONNECTIONS.

The estimated number of exchange connections	
daily in the United States is . . . . .	1,011,517
Or a total per year of . . . . .	369,203,705
The number of daily calls per subscriber varies	
in different exchanges from 3 to 14, the	
average throughout the United States	
being . . . . .	6 37-100
As compared with . . . . .	5 82-100
The number reported last year, an increase of	9 percent.

The average cost to the subscriber varies according to the size of the exchange and character of the service, from 2 to 8 cents per connection.

## EXTRA-TERRITORIAL CONNECTIONS.

The average daily number of Extra-Territorial	
connections is . . . . .	6,796
Or a total per year of . . . . .	2,480,540
The Extra-Territorial earnings for the year	
amounted to . . . . .	\$565,718 46
Of which this company's share is . . . . .	76,076 36
An increase over 1886 of . . . . .	459 06

In the case of five companies which have not reported December earnings, the amount is computed at the average of the previous eleven months.

The Treasurer's statement shows —

Gross earnings from all sources . . . . .	\$3,453,027 70
Expenses . . . . .	1,242,430 89
Net earnings . . . . .	\$2,210,596 81
Miscellaneous credits . . . . .	27,011 31
Total . . . . .	\$2,237,608 12



Regular dividends paid . . .	\$1,176,252 00	
Extra dividend paid . . .	392,084 00	
	<hr/>	
Total dividends . . .	\$1,568,336 00	
Reserve for depreciation of instruments . . . . .	132,616 38	\$1,700,952 38
	<hr/>	
Balance to surplus account . . . .		\$536,655 74
Surplus account Dec. 31, 1886 . . . .		1,491,380 18
		<hr/>
Total surplus . . . . .		\$2,028,035 92

The so-called Government case, begun in January 1887, came up June 13 for argument on our demurrer to the bill of complaint, and on September 26 the Court sustained the demurrer and dismissed the bill. The Government has taken an appeal to the Supreme Court, and a motion to advance the case for speedy hearing was made in October, upon which there has as yet been no decision.

The Globe Telephone Company, owning the Meucci claim, was finally enjoined in July. This case has also been appealed to the Supreme Court.

The case against the American Cushman Company is now ready for final hearing, and the Directors have every reason to expect a favorable result.

In the cases before the United States Supreme Court on appeal (Dolbear case, Drawbaugh case, Molecular, Clay and Overland cases, which, it will be remembered, were argued the latter part of January and first of February, last year) a decision was rendered on the 19th March current. The opinion was by Waite, Chief Justice. All the cases on all points are determined in favor of the Company.

The scope of the patent for which we have contended was sustained by the Court. Mr. Justice Bradley, in behalf of himself and Justices Field and Harlan, expressed an oral dissent on the question of fact concerning Drawbaugh's pri-

ority of invention. Otherwise the opinion of the Court expresses the unanimous opinion of all the members of it.

Bills for the regulation of telephone rates have been again introduced in a number of State Legislatures, but the result of the Indiana legislation has been so unsatisfactory to the subscribers, and the inexpediency of so crippling the companies that they would not be able to give the best possible service is so obvious, that we may hope that no such measures will be adopted.

The committee appointed by the Legislature of the State of New York to investigate telephone charges has reported a bill limiting rates for combination line service in cities of over one million inhabitants, but the report of the committee itself furnishes the best arguments against the passage of such a bill, recognizing, as it does, the great cost of underground work, and the frequent changes in switch-boards, cables, etc., made necessary by the rapid strides in electrical inventions.

The long-line service has been extended from New York to Albany, and to Boston, making a total of 550 miles of pole lines and about 10,000 miles of wire.

The success electrically, as well as commercially, has been beyond our expectations.

The income from the long lines is now more than sufficient to meet the current expenses, and there is every reason to expect that before next year it will pay a moderate profit. The great cost of the plant is to be borne in mind in considering the direct profit from the long-line service, but the importance of the system as a safeguard to our business cannot be overestimated.

It is intended to complete this year the lines between New York and Boston, to extend from Albany towards Buffalo, and to build a line from Chicago to Milwaukee. The estimated cost is about \$1,000,000.

The Patent division has continued its work of collecting, digesting and studying information upon electrical matters,



and preparing reports upon questions submitted to it by officers of the Company.

It has also during the year considered and passed upon specifications for inventions for which the Western Electric Company intend applying for patents.

The Electrical division has been mainly occupied in investigation for the accumulation of technical information for the use of our counsel. It has also begun, and is now pursuing, a series of experiments on multiplex telephony and on simultaneous telephony and telegraphy.

The Mechanical department has experimented with a large number of instruments sent to it for examination, and it has also given much time to experimentation with a view to the improvement of our standard instruments, and to the solution of the problems which have been brought out by the long-line service.

Considerable time has also been spent in the study of magneto transmitters and in devising different forms for local uses.

On the first of September the Company suffered a serious loss in the resignation of the President, Mr. Forbes. At a subsequent meeting of the Board of Directors the following resolutions, reported by Messrs. G. G. Hubbard, Cochrane and Sanders, a committee of the Directors, were unanimously adopted, and ordered to be presented to the stockholders:—

“ *Whereas* our associate, Mr. Forbes, was chosen President of the National Bell Telephone Company at its organization on the 11th of March, 1879, and continued in that office until the merging of that Company into this The American Bell Telephone Company, and has been the President of this Company since its organization in April, 1880, to the date of his resignation, in September, 1887; and

“ *Whereas* during this long service the telephone business has grown in a most remarkable manner, the net income having increased from less than two thousand dollars per annum to about two million two hundred thousand dollars, and the number of instruments in use from about twenty-one thousand to three hundred and seventy-five thousand; and



"Whereas the vast and unparalleled litigation which this Company has been forced to undertake, and the many and various interests occasioned by the system of licensing persons and corporations in every part of the country, and the intricate relations with the Western Union Telegraph Company and others have demanded qualities of an unusual character ; and

"Whereas, Mr. Forbes has given constant attention to the interests of this Company, and has displayed eminent ability, great dignity, uniform fairness, courtesy, and great tact in grasping the main points of the questions that have come before him, and has thereby won the confidence of his associates, of the licensees of this Company, and of those with whom he has been brought officially in contact ; and

"Whereas, Mr. Forbes, by these qualities, as well as by the marked moral courage and pluck exhibited on several trying occasions, and by his excellent judgment, has largely contributed to the success of this Company ;

"Therefore resolved, That the thanks of the Directors be and they hereby are given to Mr. Forbes ; and that this preamble and resolution be recorded in full in the minutes of the Board, and a copy be presented to the stockholders at the annual meeting of this Company.

" GARDINER G. HUBBARD.  
ALEXANDER COCHRANE.  
THOMAS SANDERS.  
FRANCIS BLAKE.  
GEO. L. BRADLEY.  
CHARLES P. BOWDITCH.  
CHANNING CLAPP.  
CHAS. EUSTIS HUBBARD.  
JOHN E. HUDSON.  
CHARLES E. PERKINS.  
H. STOCKTON."

The books of the Company have been examined four times during the year, and the reports of the Auditing Committee are appended.

For the Directors,

HOWARD STOCKTON,

*President.*

## LEDGER BALANCES, DEC. 31, 1887.

### DEBTORS.

Telephones . . . . .	\$663,081 93
Stocks and Notes . . . . .	23,233,975 03
Merchandise and Machinery . . . . .	8,730 11
Bills and Accounts Receivable . . . . .	640,615 48
Cash and Deposits . . . . .	59,211 25

### CREDITORS.

Capital Stock . . . . .	\$9,802,100 00
Bills and Accounts Payable* . . . . .	470,402 71
Patent Account (Profit and Loss) . . . . .	8,554,752 18
Profit and Loss . . . . .	3,365,018 63
Reserves . . . . .	385,304 36
Surplus . . . . .	2,028,035 92
	<hr/>
	\$24,605,613 80
	<hr/>
	\$24,605,613 80
	<hr/>

\*Of this amount, \$294,063 is the dividend payable Jan. 14, 1888, to stockholders of record Dec. 31, 1887.

WM. R. DRIVER, *Treasurer.*

Boston, March 27, 1888.

# Comparative Statement of Earnings and Expenses.

## EARNINGS.

	1886.	1887.
Rental of Telephones . . . . .	\$2,109,492 44	\$2,264,823 94
Dividends . . . . .	844,555 76	1,013,036 99
Extra-territorial and Branch Lines	78,109 81	80,443 67
Telegraph Commission . . . . .	16,681 22	19,962 31
Interest . . . . .	34,560 77	70,235 68
Miscellaneous . . . . .	13,600 91	4,525 11
	<u>\$3,097,000 91</u>	<u>\$3,453,027 70</u>

## EXPENSES.

Expenses of Operation . . . . .	\$230,968 05	\$242,205 06
Legal Expenses . . . . .	210,550 20	207,679 95
Interest and Taxes . . . . .	82,458 25	139,174 80
Commission . . . . .	404,111 30	433,578 37
Royalty . . . . .	14,501 36	11,000 00
Rental Concessions . . . . .	207,128 63	189,765 38
Miscellaneous . . . . .		19,027 33
	<u>\$1,149,717 79</u>	<u>\$1,242,430 89</u>
Net Earnings . . . . .	\$1,947,283 12	\$2,210,596 81
Misc. Items to Surplus Account . . . . .	26,067 64	27,011 31
	<u>\$1,973,350 76</u>	<u>\$2,237,608 12</u>
Surplus Account, Dec. 31, 1886 . . . . .	\$1,491,380 18	
Net Earnings, 1887 . . . . .	2,210,596 81	
Miscellaneous Items . . . . .	27,011 31	\$3,728,988 30
Regular Dividends in 1887 . . . . .	\$1,176,252 00	
Extra Dividend in 1887 . . . . .	392,084 00	
Reserve for Depreciation of Instruments . . . . .	132,616 38	1,700,952 38
Surplus Account, Dec. 31, 1887 . . . . .		<u>\$2,028,035 92</u>



## REPORT OF AUDITING COMMITTEE.

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BOSTON, April 25, 1887.

W. H. FORBES, Esq.,

*President Am. Bell Tel. Co.:*

*Dear Sir,*—I forward herewith the report of Mr. C. T. Plimpton, the Auditor employed by me to examine the books and accounts of the American Bell Tel. Co. for the quarter ending March 31, 1887.

Respectfully yours,

ALEXANDER COCHRANE,

*Committee on Accts. of A. B. T. Co.*

BOSTON, April 25, 1887.

ALEXANDER COCHRANE, Esq.,

*Committee on Accts. Am. Bell Tel. Co.:*

*Dear Sir,*—I have examined the books and accounts of the Treasurer of the American Bell Telephone Co. from Dec. 31, 1886.

Have verified the balances of Cash, Bank, and Notes Receivable accounts, and the Trial Balance for April 1, 1887, also the outstanding Certificates of Stock issued to Stockholders. In this examination have found everything correct.

Respectfully yours,

CHAS. T. PLIMPTON,

*Accountant.*

BOSTON, July 20, 1887.

WM. H. FORBES, Esq.,

*President Am. Bell Tel. Co.:*

Dear Sir,—I forward herewith the report of the Auditor employed by me to examine the books of the American Bell Telephone Co. covering the period of six months ending June 30th, 1887.

Yours truly,

ALEXANDER COCHRANE,

*Committee on Accounts.*

Boston, July 12, 1887.

I hereby certify that I have audited the books and accounts of the Treasurer of the American Bell Telephone Co. twice for the six months ending June 30th, 1887, and have to report that I have verified the cash book, its debits and credits, the rentals, commission, concession accounts, pay-rolls, journalizings, stock ledger, stock investments, notes receivable, trial balances, and cash on hand.

Have found all disbursements sustained by approved vouchers, have carefully examined the bank accounts, and the balances on hand July 1st agree with the Company's books after making allowances for outstanding checks; the certificates of stock investments and bills receivable which the ledger calls for are on hand or properly accounted for, and the books are accurately kept.

CHAS. T. PLIMPTON,

*Auditor.*

BOSTON, November 9, 1887.

HOWARD STOCKTON, Esq.,  
*President Am. Bell Tel. Co.:*

*Dear Sir,* — I enclose herewith the report of Mr. Plimpton, whom I requested to make an examination of the books of the Company up to the first of November.

Yours truly,

ALEXANDER COCHRANE,  
*Committee on Acc'ts.*

BOSTON, November 5, 1887.

ALEXANDER COCHRANE, Esq.,  
*Com'tee on Acc'ts Am. Bell Tel. Co.:*

*Dear Sir,* — I have examined the books and accounts of the Treasurer of the American Bell Telephone Co. from July 1st to November 1st, 1887.

Have verified the Cash, Bank, and Notes Receivable accounts, and Trial Balance for November 1st, 1887; also the outstanding certificates of Stock issued to Stockholders. In this examination have found everything correct. I make no formal report at this time, inasmuch as I shall give you a report covering the six months when the books are examined in January next.

Respectfully yours,

CHAS. T. PLIMPTON.



Boston, January 14, 1888.

I hereby certify that I have examined the books and accounts of the Treasurer of the American Bell Telephone Company twice for the six months ending December 31st, 1887, and have to report that I have verified the Cash book, its debits and credits, the rentals, commission, concession accounts, pay-rolls, the journalizings, Stock ledger, Stock investments, bills receivable, trial balances, bank accounts and Cash on hand.

Have found everything in connection with the above correct; the disbursements as entered in Cash book sustained by approved vouchers.

Have examined the Certificates of Stock investments, also bills receivable, and find all which the ledger calls for on hand, and the books accurately kept.

CHAS. T. PLIMPTON,

*Accountant.*

Approved and forwarded.

ALEXANDER COCHRANE,

*Committee on Accts.*

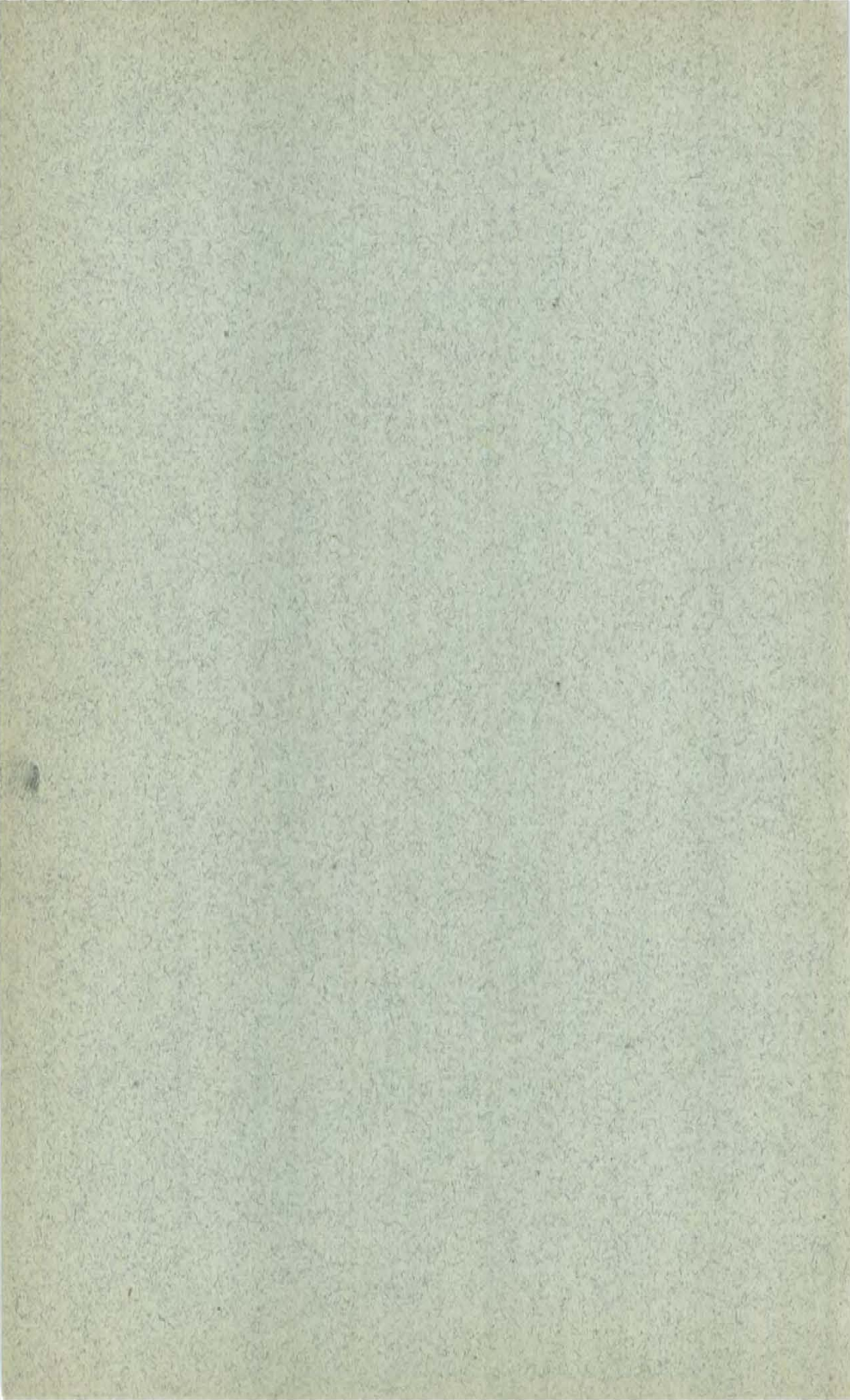














TENTH ANNUAL REPORT

OF

THE DIRECTORS

OF

THE AMERICAN BELL TELEPHONE COMPANY

TO THE STOCKHOLDERS,

YEAR ENDING DECEMBER 31, 1889.



BOSTON:

ALFRED MUDGE & SON, PRINTERS,

24 FRANKLIN STREET.

1890.



TENTH ANNUAL REPORT  
OF  
THE DIRECTORS  
OF  
THE AMERICAN BELL TELEPHONE COMPANY  
TO THE STOCKHOLDERS,  
YEAR ENDING DECEMBER 31, 1889.

---

BOSTON:  
ALFRED MUDGE & SON, PRINTERS,  
24 FRANKLIN STREET.  
1890.





OFFICE OF  
THE AMERICAN BELL TELEPHONE COMPANY,  
BOSTON, MARCH 25, 1890.

TO THE STOCKHOLDERS :

The reports for the past year of the telephone companies operating under license from The American Bell Telephone Company show a continuing increase of business, and a continued extension and improvement of their plant.

The following tables present the statistics in tabulated form : —

INSTRUMENTS.

	Dec. 20, 1884.	Dec. 20, 1885.	Dec. 20, 1886.	Dec. 20, 1887.	Dec. 20, 1888.	Dec. 20, 1889.
In the hands of Licensees, under rental.....	325,574	330,040	353,518	380,277	411,511	444,861
Increase over previous year ....	.....	4,466	23,478	26,759	31,234	33,350

EXCHANGES.

	1884.	1885.	1886.	1887.	1888.	1889.	1890.	Increase over 1889.
Exchanges....	906	772	747	736	739	742	757	15
Branch Offices,	419	481	428	446	452	452	471	19
Miles of Wire on poles.....	88,481	100,332	111,349	127,839	142,631	154,009	11,378	
Miles of Wire on buildings.....	11,886	10,043	10,587	10,225	10,266	11,484	1,218	
Miles of Wire underground.....	1,225	3,417	6,030	8,009	17,038	27,117	10,079	
Miles of Wire submarine ..	.....	.....	254	265	365	536	603	67
Total Miles of Wire. ....	85,896	101,592	114,046	128,231	146,438	170,471	193,213	22,742
Total circuits	97,422	107,440	112,067	121,260	132,004	143,687	156,780	13,093
“ employees..	4,762	5,168	5,438	5,843	6,183	6,310	6,758	448
“ subscribers	123,625	134,847	137,750	147,068	158,712	171,454	185,003	13,549

## EXCHANGE CONNECTIONS.

The estimated number of exchange connections

daily in the United States is . . . . . 1,240,147

Or a total per year of more than . . . . . 400,000,000

The number of daily calls, per subscriber,

varies in different exchanges from 2 to

15, the average throughout the United

States being . . . . .  $6\frac{7}{10}$

The average cost to the subscriber varies, according to the size of the exchange and character of the service, from 2 to 13 cents per connection.

## EXTRA-TERRITORIAL LINES.

	Jan. 1, 1884.	Jan. 1, 1885.	Jan. 1, 1886.	Jan. 1, 1887.	Jan. 1, 1888.	Jan. 1, 1889.	Jan. 1, 1890.	Increase during 1889.
Number of lines.....	598	826	897	911	927	947	969	22
Miles of pole lines....	20,592	25,766	30,697	31,143	32,478	34,010	35,254	1,244
Miles of wire.....	29,359	35,631	41,745	43,767	56,179	73,293	86,728	13,435

## EXTRA-TERRITORIAL CONNECTIONS.

The average daily number of extra-territorial

connections is . . . . . 8,289

Or a total per year of about . . . . . 2,700,000

The extra-territorial earnings for the year

amounted to\* . . . . . \$943,854 88

Of which this Company's share is . . . . . 84,233 18

An increase over 1888 of . . . . . 4,440 51

It is seen that the output of telephones was 33,350 — 2,116 more than the large output for last year. Fifteen new exchanges and nineteen branch offices have been opened.

\* In case of four companies, which failed to report their extra-territorial earnings for November and December, the average earnings for the earlier months have been used to complete the above statement.



The mileage of wire is 193,213 against 170,471 at the close of the year 1889. A very material increase has been made in mileage of underground wire, something over one third of the whole amount in use having been put down during the last year.

## UNDERGROUND WIRES IN USE.

	Jan. 1, 1886. Miles.	Jan. 1, 1887. Miles.	Jan. 1, 1888. Miles.	Jan. 1, 1889. Miles.	Jan. 1, 1890. Miles.	Increase over 1889. Miles.
Albany.....	....	1	1	1	1	....
Boston.....	289	347	736	1,580	3,599	2,019
Brooklyn.....	134	1,233	1,443	2,197	2,254	57
Buffalo.....	....	....	....	....	1,170	1,170
Chicago.....	760	1,462	2,000	3,127	3,255	128
Detroit.....	....	82	175	500	871	371
Louisville.....	....	9	238	469	780	311
Lowell.....	....	....	....	....	4	4
Milwaukee.....	1	1	....	....	....	....
New Haven.....	....	....	....	....	300	300
New York.....	627	627	1,120	5,203	10,900	5,697
Pittsburgh.....	614	966	958	2,370	2,394	24
Washington.....	992	1,302	1,338	1,591	1,589	* 2
	3,417	6,030	8,009	17,038	27,117	10,079
American Telephone and Telegraph Co.'s long distance wires,	....	....	140	327	559	232
Total.....	3,417	6,030	8,149	17,365	27,676	10,311

\* Decrease.

During the year the American Telephone and Telegraph Company—the long line company—has continued the extension and development of its scheme of lines. It has extended its work from Philadelphia to Baltimore and Washington. It has also completed a second line from New York to Boston, building in 1889 the part from New Haven to Boston, and has entered eastern Pennsylvania, building lines connecting Philadelphia with Reading, Easton and Scranton. It has connected with its eastern lines Newport, R. I., and Fall River and New Bedford, Mass.

On January 1, 1890, it had  $1918\frac{93}{100}$  miles of pole line and  $34,799\frac{40}{100}$  miles of wire on poles, together with  $805\frac{36}{100}$  miles of wire in cables, — aerial, underground and submarine, — a gain during the year of 700 miles of pole line, and 9588 miles of wire.

The application to the Legislature to which reference was made in the last report, for authority to increase the capital stock of the Company, was favorably entertained and by Chap. 385, Acts of 1889, approved May 29, 1889, it was enacted that the Company might from time to time increase its capital, provided the total capital should never exceed \$20,000,000. At a special meeting of the stockholders, held September 12, 1889, this amendment was accepted and at the same meeting an actual increase of the capital was made of \$2,500,000. This was offered to the stockholders under circular of September 12, 1889 and was all subscribed for, one half being payable October 19, 1889 and one half April 19, 1890.

Very satisfactory progress has been made on the new building at the corner of Milk and Oliver Streets. It is expected that the roof will be on by the first of April, and that the New England Company can be put in possession of the new switchboard room by about the first of May. It is hoped that the whole building may be completed for general occupation by the first of next year.

The mechanical department, with its other work, has continued its study of transmitters, designing new forms of transmitters and telephones, as well as instruments for special purposes. It has also been much occupied with general questions relating to subways and cables and with the problems suggested as the underground work progresses.

The patent division has continued its work of collecting, digesting and arranging information upon electrical subjects and preparing reports based thereon. It has also prepared the applications for patents upon such inventions as have been made by our own people, or bought by us before patenting. It has advised with the Western Electric Company upon its electrical matters and has aided it in the preparation of the defence in certain litigations. It has also to some extent assisted the Bell Telephone Company of Canada.

The electrical division is continuing its conduct of a series of experiments on different forms of telephonic instruments and apparatus.

The Treasurer's statements, showing the ledger balances December 31, 1889 and comparative statement of earnings and expenses for the years 1888 and 1889, are appended, as are also reports of the Auditing Committee of April 16, July 13, October 29, 1889, and January 14, 1890.

For the Directors,

JOHN E. HUDSON,

*President.*



## LEDGER BALANCES, DEC. 31, 1889.

### DEBTORS.

Telephones . . . . .	\$827,212 29
Real Estate . . . . .	472,761 71
Stocks . . . . .	28,149,361 03
Merchandise and Machinery . . . . .	12,949 56
Bills and Accounts Receivable, . . . . .	1,488,710 27
Cash and Deposits . . . . .	1,053,788 15

### CREDITORS.

Capital Stock . . . . .	\$11,303,900 00
Debenture Bonds, 1888 . . . . .	2,000,000 00
Bills and Accounts Payable* . . . . .	553,513 60
Patent Account (Profit and Loss) . . . . .	10,432,362 36
Profit and Loss . . . . .	3,743,762 93
Reserve . . . . .	1,820,232 51
Surplus . . . . .	2,151,011 61
	<hr/>
	\$32,004,783,01
	<hr/>
	\$32,004,783 01
	<hr/>

\* Of this amount, \$338,913 is the dividend payable Jan. 15, 1890, to stockholders of record Dec. 31, 1889.

## Comparative Statement of Earnings and Expenses.

EARNINGS.			
	1888.	1889.	
Rental of Telephones . . . . .	\$2,453,279 34	\$2,657,361 90	
Dividends . . . . .	1,213,856 58	1,230,500 53	
Extra-territorial and Branch Lines,	78,711 18	82,556 63	
Telegraph Commission . . . . .	21,164 92	22,367 02	
Interest . . . . .	90,466 65	43,964 44	
Miscellaneous . . . . .	7,639 81	7,954 19	
	<u>\$3,865,118 48</u>	<u>\$4,044,704 71</u>	
EXPENSES.			
Expenses of Operation . . . . .	\$274,442 00	\$269,493 37	
Legal Expenses . . . . .	222,257 75	144,566 62	
Interest and Taxes . . . . .	207,212 68	225,199 97	
Commission . . . . .	467,471 10	511,215 31	
Royalty . . . . .	10,000 00	10,500 00	
Concessions . . . . .	207,790 27	221,288 11	
Miscellaneous . . . . .	61,739 46	3,702 64	
	<u>\$1,450,913 26</u>	<u>\$1,385,966 02</u>	
Net Earnings . . . . .	\$2,414,205 22	\$2,658,738 69	
Misc. Items to Surplus Account . . . . .	22,258 34	3,150 00	
	<u>\$2,436,463 56</u>	<u>\$2,661,888 69</u>	
Surplus Account, Dec. 31, 1888 . . . . .	\$2,028,035 92		
Net Earnings, 1889 . . . . .	2,658,738 69		
Miscellaneous Items . . . . .	3,150 00		
		\$4,689,924 61	
Regular Dividends in 1889 . . . . .	\$1,238,913 00		
Extra Dividend in 1889 . . . . .	600,000 00		
Reserve for General Depreciation, . . . . .	600,000 00		
Reserve for Depreciation of Insts. . . . .	100,000 00		
		2,538,913 00	
Surplus Account, Dec. 31, 1889 . . . . .		<u>\$2,151,011 61</u>	

## REPORT OF AUDITING COMMITTEE.

---

BOSTON, MASSACHUSETTS, 16 April, 1889.

JOHN E. HUDSON, Esq.,

*President Am'n Bell Tel. Co. :*

*Dear Sir,* — With this I enclose the report of Mr. Chas. T. Plimpton, an expert accountant employed by me to examine the books of our Company for the three months ending March 30th, 1889.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Acc'ts of A. B. Tel. Co.*

BOSTON, April 16, 1889.

*Dear Sir,* — I have examined the books of the Treasurer of Am'n Bell Telephone Co. for three months ending March 30, 1889, all of which have found correct and satisfactory.

Yours truly,

C. T. PLIMPTON.

TO FRANCIS BLAKE, Esq.,

*Committee on Acc'ts. A. B. T. Co.*



BOSTON, MASSACHUSETTS, 13 July, 1889.

JOHN E. HUDSON, Esq.,

*President Am'n Bell. Tel. Co.:*

Sir, — With this I enclose the report of Mr. Chas. T. Plimpton, an expert accountant employed by me to examine the books of our Company for the six months ending June 29th, 1889.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Acc'ts A. B. Tel. Co.*

BOSTON, July 11, 1889.

I hereby certify that I have audited the books and accounts of the Treasurer of the American Bell Telephone Co., for the six months ending June 29, 1889, and have to report that I find the cash book correctly footed, and the disbursements supported by approved vouchers; have verified the rental, commission, and concession accounts, the pay-rolls, journalizings, stock ledger, trial balances, and cash on hand.

I find also that the bank accounts agree with the pass books of the several banks, after making allowances for outstanding checks, also that the bills receivable, and certificates of stock investments which the ledger calls for, are on hand, or properly accounted for.

CHAS. T. PLIMPTON,

*Auditor.*

BOSTON, MASSACHUSETTS, 29 October, 1889.

JOHN E. HUDSON, Esq.,

*President Am'n Bell Tel. Co.:*

*Dear Sir,*— With this I enclose the report of Mr. Chas. T. Plimpton, an expert accountant employed by me to examine the books of our Company for the three months ending September 30th, 1889.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Acc'ts of A. B. Tel. Co.*

BOSTON, October, 24, 1889.

Having examined the books and accounts of the Treasurer of the American Bell Telephone Co. for three months ending September 30, 1889, have to report, that I found the footings of the cash book correctly made, and the disbursements sustained by approved vouchers, have verified the balance of cash on hand, and proved the bank accounts.

Have examined the rentals, commission and concession accounts and pay-rolls, also the stock ledgers, the accounts of which having been transferred to new ledgers find the same to represent 100,000 shares to 2,297 stockholders; also examined the footings of the ledgers proving the trial balance of October 1st, 1889, and hereby certify to the accuracy of the same.

CHAS. T. PLIMPTON,

*Auditor.*

BOSTON, MASSACHUSETTS, 14 January, 1890.

JOHN E. HUDSON, Esq.,

*President Am'n Bell Telephone Co.:*

*Dear Sir,*—With this I enclose the report of Mr. Chas. T. Plimpton, an expert accountant employed by me to examine the books of our Company for the three months ending December 31st, 1889.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Acc'ts of A. B. Tel. Co.*

BOSTON, January 14, 1890.

I have audited the books and accounts of the Treasurer of the American Bell Telephone Co., for three months ending December 31st, 1889, and have to report, that I find the cash book correctly footed, and the disbursements sustained by approved vouchers. Have examined the stubs of certificate books, verifying the amount of certificates outstanding to stockholders, have also examined rental, commission, and concession accounts, and pay-rolls, proving the trial balances, and cash on hand.

Have examined the bank accounts, and the balances on hand in the several banks, at the close of business, Dec'r 31st, 1889, agree with the Company's books after allowing for outstanding checks. Have seen that the notes receivable and certificates of stock investments which the ledger calls for are on hand or properly accounted for.

CHAS. T. PLIMPTON,

*Auditor.*















