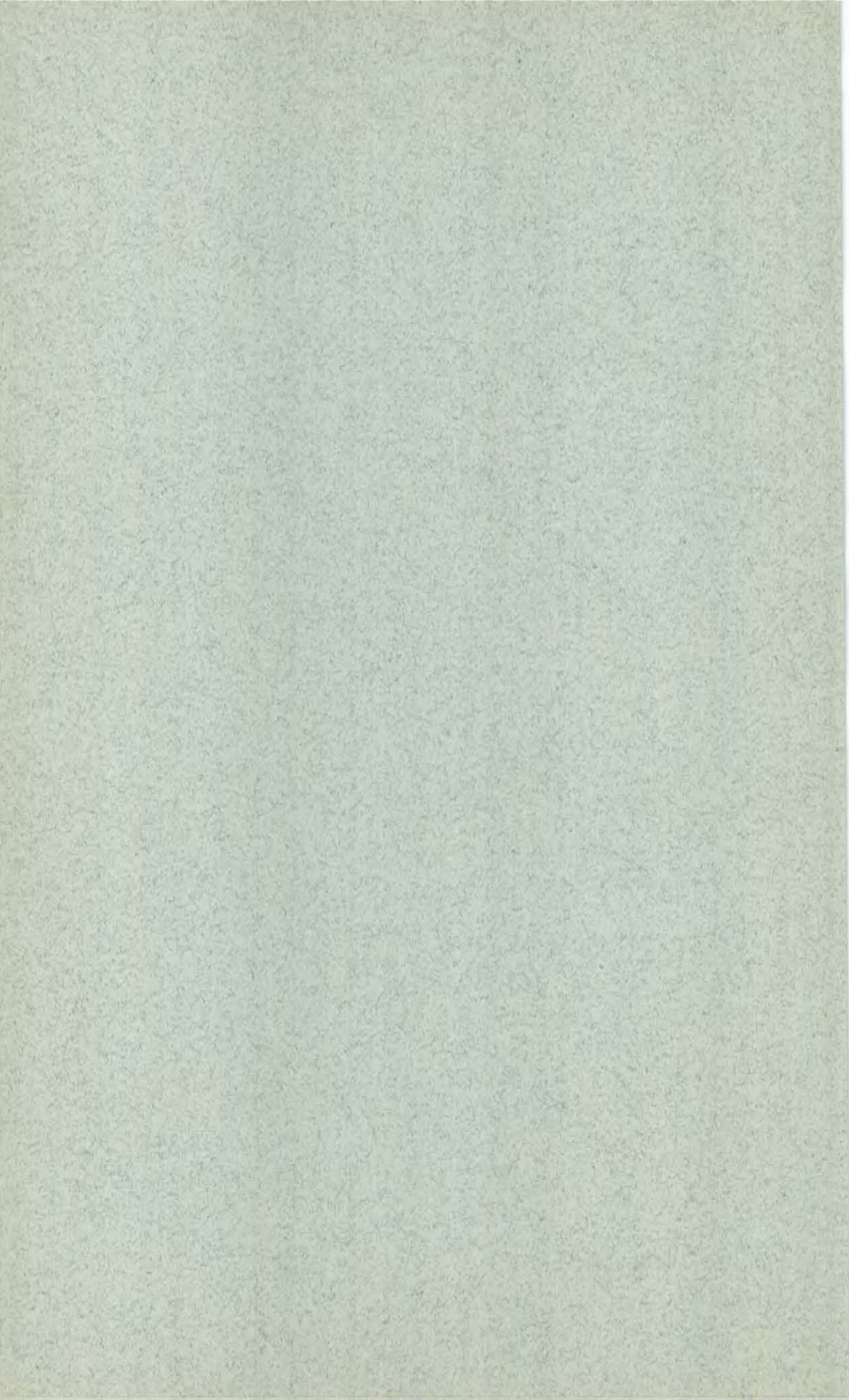


REPORT
OF
THE DIRECTORS
OF
THE AMERICAN BELL TELEPHONE CO.
TO THE STOCKHOLDERS,

MARCH 25, 1884.

BOSTON :
ALFRED MUDGE & SON, PRINTERS,
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OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,
BOSTON, March 25, 1884.

TO THE STOCKHOLDERS :

The growth of our business for the past year has been healthy, and in some directions very active. The demand for new telephones fell off during the winter months, but the net output for the year was 57,299, against 60,337 for the previous year. This falling off seems to be partly due to dulness in general business, and partly perhaps to the fact that in some parts of the country telephone managers have put their strength into the connection of towns with each other, which, though adding to the value of each exchange, does not increase the number of instruments in use as much as if the work was done on the exchanges themselves. The increase in this branch is very marked, the number of miles of wire in use having increased during the year from 13,653 to 29,359.

The following tables give a comparative statement of the statistics of the business :—

EXCHANGE STATISTICS.

	JAN. 1, 1883.	JAN. 1, 1884.	INCREASE FOR THE YEAR.
<i>Exchanges</i> in operation . .	735	890	165
Miles of wire on poles . .	54,146	70,171	
“ “ “ buildings .	15,306	12,708	
Total miles of wire . . .	69,452	82,879	13,427
Number of circuits . . .	74,737	97,184	22,447
“ subscribers . .	97,735	123,533	25,798
“ branch offices .	345	419	74
“ employés . .	3,704	4,777	1,073

EXTRA-TERRITORIAL LINES.

	JAN. 1, 1883.	JAN. 1, 1884.	INCREASE FOR THE YEAR.
Licenses issued	256	432	176
Miles of pole lines . . .	6,154	20,592	14,438
“ wires	13,653	29,359	15,706

INSTRUMENTS.

	FEB. 20, 1883.	FEB. 20, 1884.	INCREASE FOR THE YEAR.
In hands of licensees under rental	249,711	307,010	57,299

Since the last report, one hundred and sixty-five new exchanges have been built, 13,417 miles of new wire added in the exchanges, and 25,798 new subscribers connected.

The Treasurer's statement for the year ending Feb. 29, 1884, and the report of the Auditing Committee are appended. The former shows that the gross earnings of the year were \$2,295,594.07, and the net earnings \$1,475,431.37, as against \$972,044.28 the year before, an increase of \$503,000. Adding balance of income from previous year, and miscellaneous credit items, we have a total of \$1,734,804.78, out of which dividends have been paid of \$1,051,479.00; \$334,441.61 carried to surplus account, leaving balance to our income account \$348,884.17.

Our chief source of revenue is still from rental of telephones, the receipts from which were \$1,695,678.58.

The dividends upon our stock in licensed companies amounted to \$440,923.00, an increase of over \$200,000. The income from extra-territorial lines was \$45,819.68, and this item should be largely increased in the coming year.

The amount received from the increase of capital stock has been used in the payment of the notes of the company and in the further purchase of interests in licensed companies.

In addition to the cash purchases of interests in local companies, \$9,998,850 has been received in the stock of those companies for licenses issued, and our holdings in those companies now amount to about \$19,000,000.

The business of nearly all the licensed companies is reported in prosperous condition, and these companies are generally earning and paying fair dividends. The demand for new lines continues, and as it would be unwise to fail to meet the same promptly, it will be important for most of the companies to provide for considerable construction expenses during the present year. The same is true in Canada, where the Bell Telephone Company's affairs are in good condition, and seven per cent. dividends are paid upon its capital of \$1,000,000. Construction expenditures to the extent of some \$100,000 must be provided for there, and the managers in Canada are making arrangements for this in Montreal at the present time.

A consolidation of the companies operating in Maine, New Hampshire, Vermont, and all of Massachusetts except the portion licensed to the Southern Massachusetts Telephone Company, was arranged in the autumn, a new company being formed, called the "New England Telephone and Telegraph Company," which took over the business on the first of October. For the stock interests held by us in these companies, and for our property in Boston, with a permanent license for the whole territory, we are paid a majority of the stock of the new company, upon which we waive dividends to an amount corresponding to the conditions existing in the old companies.

The business of the New England Company is increasing and promising; there is a steady demand for new connec-

tions with its exchanges, and also a demand for lines between many of the towns, which ought in all the more urgent cases to be met. The company has met with losses, by the fire in January in its principal exchange, and the repeated sleet storms in February; while the weather has been such as to render work on construction and maintenance all over New England unusually slow and expensive. The net earnings will not be sufficient to provide funds for necessary construction as well as for dividends, and the question of providing for these needs is before the directors of that company at the present time.

The tendency toward consolidation of telephone companies noticed in our last report has continued, and is for the most part in the interest of economical and convenient handling of the business. The connection of many towns together, causing large territories to assume the character of great telephone exchanges, made it of importance to bring as large areas as possible under one management to insure simple and convenient arrangements for furnishing rapid intercommunication. As methods are devised for making the telephone commercially useful over long lines, the advantages of this centralization of management will be still more apparent, as well as the importance to the public of having the business done in large territories under one responsible head, with far-reaching connections throughout the whole country. To make this service of the highest value to the people will be complicated enough under one control.

Were it in the hands of many competing companies, the confusion resulting would be very serious, as the value of the telephone will be largely measured by its capacity to give prompt connection with all parts of the country.

The question of bringing this about to the best advantage is the one to which we have now to address ourselves. The task is no light one, and it is one in which we have a com-

mon interest with the public; and in spite of the prevailing opinion that the development of the telephone substantially under one control is against public interest, we believe that an intelligent examination of this question would demonstrate that this is not true and that in no other way could the desired results be obtained and the difficulties be surmounted so rapidly and so well as by the present one.

It is desirable, also, that the difficulties attending any radical change from the present overhead system of wires should be better understood. It is common to see in the public papers round statements that the wires ought to be at once ordered underground. In this matter we and our associates have the strongest motives for wishing to get wires underground as far and as soon as it can be done without destroying the efficiency of the service. The plant would be more permanent and no longer liable to interference from municipal authorities or individuals, or destruction from storms, and its maintenance would be cheaper and easier. But although short trunk lines work fairly well beneath the surface, as shown in Boston and elsewhere, in the present state of the art it is impracticable to put the bulk of the wires underground without interfering seriously with facilities upon which the public are now getting to depend. Conversation over long lines (those reaching the suburbs even) is difficult and often impossible to those who are connected through the underground cables. Were the electrical difficulties overcome, a mixed system would still be needed, as the distribution of the wires would probably have to be overhead as well as the wires in the more sparsely covered parts of a city. Overhead cables are rapidly coming into use, and as they can be taken on small fixtures and carry many wires in a small compass, while attracting far less notice than the open wire system, besides being safer in case of storm or fire, their adoption is a step in the right direction and will go far to remedy the evils of the present overhead system.

Whenever we have had an opportunity to explain the difficulties attending this question to committees of Legislatures who have been called upon to consider it, we have satisfied them that at present no general change to underground wires can be attempted for telephone service.

The question of rates deserves careful consideration. Complaints in this respect are less common than formerly, as the facilities have been increased and the service improved, and it may safely be said that a large majority of those who use the telephone most now feel that they receive full value for the price paid.

The complaints as to rates are often made thoughtlessly, and in ignorance of the expenses and risks which attend the business; but the business is too new to enable us to say what is the fairest system of charges, or to have established with certainty what is the cost of operating the business and maintaining the plant.

A few facts that we do know bear upon this question and are worthy of attention.

The number of connections in the United States is now estimated as at the rate of 215,280,000 per annum, or four and eighty-five one hundredths per subscriber per diem. The cost of these connections varies from two and one half cents to five and one half cents each, and depends partly upon the skill and economy of the exchange management, partly upon the number of calls per diem, and partly upon the kind of service paid for, *i. e.*, some exchanges charge low rates and put a number of persons on a line; the connection is slower and worth less than where each person pays enough to have a separate wire.

It is estimated that 29,000 miles of extra-territorial lines are now giving 5,220 connections per day or 1,905,300 per annum.

The average rate for distances inside of thirty-five miles is

twenty-five cents, for which at least one hundred words each way can be had if desired, with all the advantages of immediate response. The average rate to the public at telephone toll stations for short circuits is fifteen cents.

The average price of telegraph messages in the United States is thirty-eight cents, and for distances inside of thirty-five miles about twenty cents; and the rate for short circuits is about fifteen cents. These rates are for ten words, the reply costing the same, with delay according to circumstances. It is doubtful whether any company except one doing a business of as vast a volume as that of the Western Union Telegraph Company could give telegraph communication as cheaply as this.

We do not think that the telephone charges appear unreasonable when it is remembered that a telephone exchange wire that is only used five times in the twenty-four hours has to be maintained in idleness most of the time, with enough operators always on duty to meet the maximum of calls that are liable to be made; whereas a telegraph wire is kept working and earning day and night, only as many being put up as can be kept busy, with some margin for accidents. Moreover, it should not be lost sight of, that short as is the time since our business was started, it has been the fate of most of the telephone companies to reorganize and rebuild their exchanges more than once, as the necessities of the service revealed themselves, and that these companies are by no means at the end of these costly changes yet.

The Electrical Department continues its work of original investigations, of experiments upon apparatus, of examining and testing all new inventions that appear, and of tests and experiments required in the suits. Several inventions which promise to be of great value in the future development of the business have been produced during the year. Especial attention is being given to long-line service, and we have just

built a line between Boston and New York, now almost ready for trial; with this we shall see whether sufficiently good results can be obtained for commercial purposes, and if the result is satisfactory, we propose to have the experiment at once followed by the establishment of lines for public service between these and other points of importance. We have renewed our arrangement with Mr. Bell for his experimental work and that of his associates in the Volta Laboratory, and all telephonic inventions made by these gentlemen belong to the company. They are now at work upon some investigations of importance and we shall hope for valuable results.

Our legal expenses continue large, and this must be expected until several of the suits now in progress are finished.

The stockholders have been annoyed by having pamphlets and newspaper articles repeatedly sent to them in the interest of companies claiming to have valuable telephone rights with which they proposed to take the field, or to destroy the value of the patents of this Company. The purpose of this method of attack is manifestly to alarm our stockholders and create distrust in the public mind as to our property. This seems to us unwarrantable and wholly unusual among business men of repute, a weapon only likely to be used by those who have no confidence in legitimate business methods for their ends, and we have declined to take part in the attempt to carry the contest into the newspapers or to be drawn into negotiations with parties whom we are advised have nothing of value to sell.

As some of our stockholders, unused to litigation and unacquainted with questions of patent law, have made inquiries of us as to the meaning of these frequent attacks, we have thought it proper to send to each stockholder and to our licensees, who are equally interested in all that concerns us, the brief and arguments of our counsel in the recent case

against the Overland Company in Philadelphia, where the story of the principal claimants is made public, as well as an interesting account of Mr. Bell's invention.

As to the litigation during the past year upon Mr. Bell's telephone patents :—

The suit against Dolbear *et al.* was argued on final hearing early in July. The Court rendered a decision confirming its former decision in the case.

The accompanying letter from Messrs. Chauncey Smith and J. J. Storrow gives the present condition of our suits against the People's Telephone Company and the Overland Telephone Company, from which it will be seen that these gentlemen have the same confidence in a satisfactory termination of the Drawbaugh litigation they have always expressed.

BOSTON, March 18, 1884.

WM. H. FORBES, Esq.,

President American Bell Telephone Company:

Dear Sir,—The most important litigation under Mr. Bell's telephone patents during the past year has been the suits which involve the Drawbaugh controversy, now approaching a hearing.

The Drawbaugh story rests upon oral testimony. A very large number of witnesses have been called upon both sides. Your counsel have always felt that this oral testimony for the defence, although at first sight it appears formidable from its mass, does not, when subjected to intelligent scrutiny and compared with indisputable facts, present the character or weight required to meet the positive proof and the documentary evidence introduced by the Bell Company. We have not changed our views in this respect.

In January, 1884, a motion for a preliminary injunction under the Bell patents against the Overland Telephone Company was argued in Philadelphia. The evidence in the Drawbaugh case, so far as taken, was introduced for the defence. Your counsel had expected either that the Court would examine and consider that evidence, or else, if out of deference to the New York Court where the Draw-

baugh case was pending and where the Drawbaugh Company were under injunction, it declined to examine it, would place this Overland Company in the same position as the Drawbaugh Company. But the Court took a middle course and determined to examine nothing and decide nothing, but suspend action until a reasonable time had been afforded for the principal case to come to final hearing. A fortnight after the oral announcement of this determination the Overland Company sought to have a decree entered which by its language seemed to imply that the Court had denied the injunction on its merits. The Court refused to enter the decree so asked for, and, stating that it did not wish to be understood as having denied the injunction, entered an order, Feb. 6, 1884, as follows:—

“After hearing and consideration, it is ordered, in view of the peculiar circumstances of the case, that the motion stand over for the present with leave to either party to call it up hereafter.”

There is reason to expect that the principal case will be argued during the coming term at New York.

Yours truly,

CHAUNCEY SMITH.
JAMES J. STORROW.

With the acquirement of large interests in our licensed companies comes the necessity of more oversight of the business, and, as far as it can be obtained without absolute ownership, an exact comparison of results. The organization of the company should be shaped to meet these requirements, and with proper watchfulness and effort on our part, we may expect steady growth and improvement in the character of our business in all its branches.

For the Directors,

W. H. FORBES,
President.

COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES.

EARNINGS.

	1882-3.	1883-4.
Rental of Telephones . . .	\$1,257,054 58	\$1,695,678 58
Sales of Instruments and Supplies . . .	27,633 37	17,969 59
Royalties from Manufacturers . . .	2 51	4,837 74
Dividends	262,385 56	440,923 00
Commission from Extra-territorial and Branch lines . . .	17,073 61	45,819 68
Commission from Telegraph Business . . .	10,736 97	12,305 81
Miscellaneous Earnings . . .	1,144 97	
Interest		78,059 67
	<u>\$1,576,031 57</u>	<u>\$2,295,594 07</u>

EXPENSES.

Expenses of Operation . . .	\$145,991 31	\$172,909 69
Legal Expenses . . .	112,688 41	129,893 22
Interest and Taxes . . .	72,350 56	125,882 89
Depreciation	24,357 45	24,120 69
Commission (Western Union Tele- graph Company and others, Contract of Nov. 10, 1879) . . .	246,821 76	354,856 21
Royalty	1,777 80	12,500 00
	<u>\$603,987 29</u>	<u>\$820,162 70</u>
Net Earnings for the year . . .	\$972,044 28	\$1,475,431 37
Balance of Income from previous year	126,034 58	168,081 54
Miscellaneous items to Surplus Account		91,291 87
	<u>\$1,098,078 86</u>	<u>\$1,734,804 78</u>
Dividends paid	\$595,000 00	\$1,051,479 00
Carried to Surplus Account . . .	334,997 32	334,441 61
Balance to Income Account . . .	168,081 54	348,884 17
	<u>\$1,098,078 86</u>	<u>\$1,734,804 78</u>

STATEMENT OF ASSETS AND LIABILITIES, FEB. 29, 1884.

ASSETS.

Telephones	\$527,003 53
Stocks and Bonds	19,879,242 09
Merchandise	18,736 59
Lines	49,004 72
Bills and Accounts Receivable	415,994 02
Cash and Deposits	601,035 42

LIABILITIES.

Capital Stock	\$9,602,100 00
Loan of 1882 (Convertible)	645,000 00
Bills and Accounts Payable	267,254 55
Patents	6,591,324 30
Profit and Loss	3,205,393 63
Reserve	97,600 36
Income	348,884 17
Surplus	733,459 36
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	\$21,491,016 37
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	\$21,491 016 37
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WM. R. DRIVER, *Treasurer.*

BOSTON, March 25, 1884.

REPORT OF AUDITING COMMITTEE.

Boston, March 19, 1884.

WM. H. FORBES, Esq.,

President American Bell Telephone Company:

Dear Sir, — I enclose herewith the report of Mr. C. T. Plimpton, the accountant employed by me to examine the books and accounts of the American Bell Telephone Company for the year ending Feb. 29, 1884.

Truly yours,

W. G. SALTONSTALL,

Committee on Accounts.

Boston, March 18, 1884.

I hereby certify that I have examined the books and accounts of the treasurer of the American Bell Telephone Company for the year ending Feb. 29, 1884, as follows: —

The cash book, its debits and credits, and all accounts pertaining thereto, 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 Feb. 29, 1884, is in accordance with the make up of the books on that date.

CHARLES T. PLIMPTON,

Accountant.

