

ANNUAL REPORT

OF

THE DIRECTORS

OF

AMERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1901.

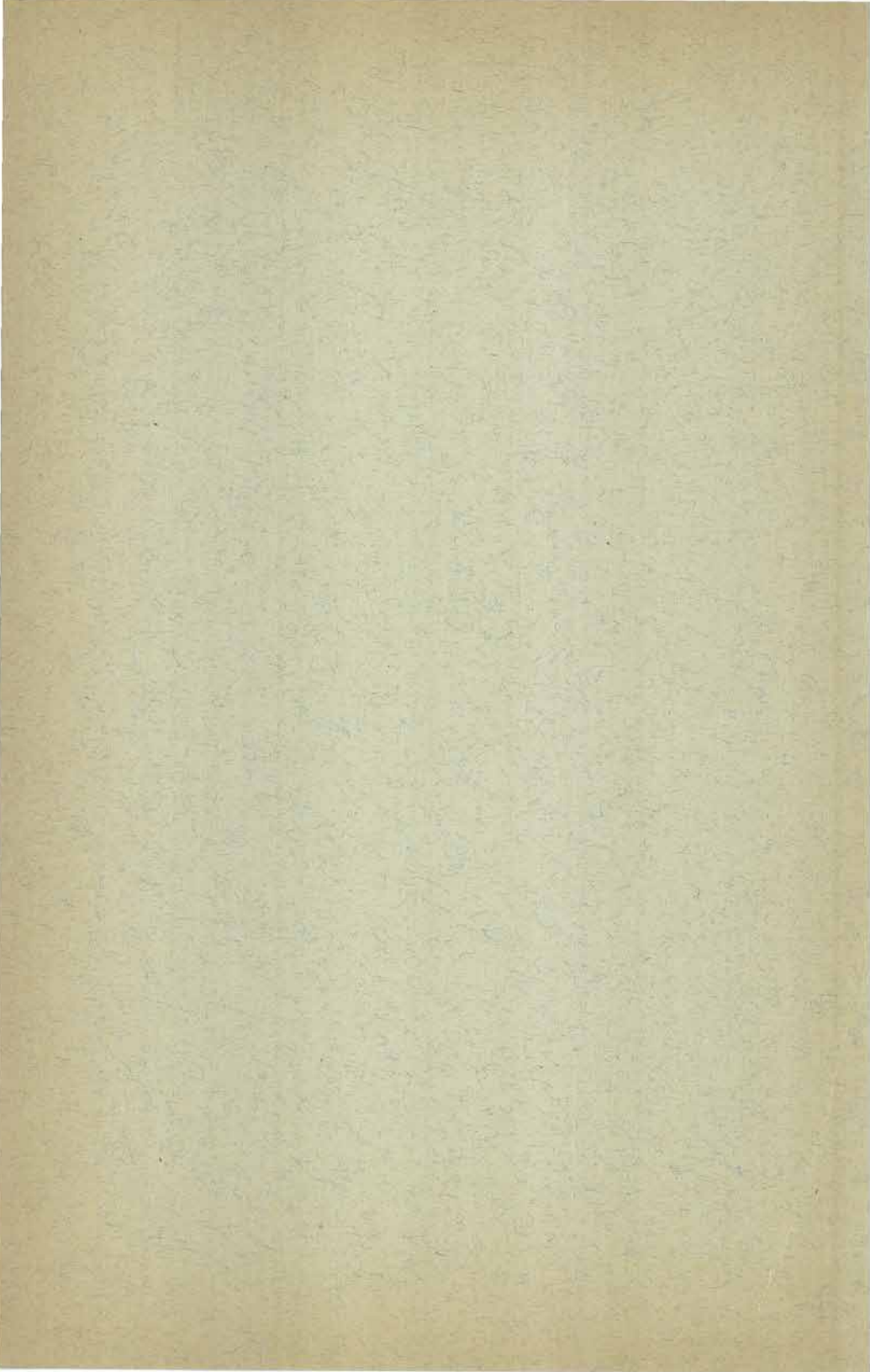


BOSTON:

ALFRED MUDGE & SON, PRINTERS,

24 FRANKLIN STREET.

1902.



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REPORT OF THE DIRECTORS
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AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

TO THE STOCKHOLDERS:

The increase in the number of subscribers to the exchanges of the Companies which are Licensees of this Company was, for the year 1901, 219,767, exceeding by more than 50,000 the increase for the year 1900. The increase in the net output of instruments, including instruments for toll stations, was 573,194 or about 30 per cent as against an increase of 372,311 or 23 per cent for the year 1900, the gain for 1901 being greater by more than 100,000 than that of any previous year. The increase in toll lines in 1901 was 9,372 miles of pole line and 108,666 miles of wire, the miles of toll line having more than doubled in six years, and the miles of toll line wire having nearly doubled in three years.

The increase in the use of the Bell telephone is shown by the fact that, while in 1900 the daily average of toll connections was about 148,528, and that of exchange connections about 5,668,986, the daily average in 1901 of toll connections was about 187,378, and of exchange connections about 7,531,761, the total of both toll and exchange connections in the latter year reaching 7,719,139 per day.

In these latter figures are included the toll connections of the Long Distance system owned and directly operated by this Company. At the close of 1901 the Long Distance system comprised 14,886.35 miles of pole line and cable, and 198,684.26 miles of wire, a gain during the year of 2,458.72 miles of pole line and cable and 31,273.87 miles of wire.

The Long Distance lines extend from nearly all the important cities on the Atlantic seaboard throughout the country as far west as St. Paul, Minneapolis, Omaha, Kansas City, Little Rock and New Orleans, forming main lines over which telephonic communication between practically all of the exchange stations within the territorial limits above defined may be established.

The efficiency of these lines will be largely increased by the use of "loading coils," a new invention which has been acquired by this Company, and which has already been put into use on overhead lines with satisfactory results. These loading coils are also likely to be of substantial value for the longer stretches of underground cable, and careful experiments in this direction are now under way.

The investment in line construction, equipment and supplies for the Long Distance system up to December 31, 1901, was \$19,116,209.40, an increase over the previous year of \$2,964,188.68, while the gross revenue for 1901 shows an increase of 16.72 per cent over that of 1900, the increase for that year over 1899 having been 13.45 per cent. In considering this increase in gross revenue, it should be borne in mind that on July 1, 1901, a reduction of the initial message period from five minutes

to three minutes was extended over the whole system with, of course, a proportionate reduction in rates.

The extensions of this Long Distance system during the year 1901 were materially greater than in any previous year. This development must be continued to supply, so far as possible, the public demand for service of this character.

The high standard of construction which has been set by this Company and its Licensees has been fully maintained, and more underground conduit and cable and more aerial cable have been installed during the year 1901 than ever before in a like period.

More than half of the mileage of the exchange wires throughout the country is now underground.

The erection of new buildings, specially designed for telephone purposes, and the replacement of the old type of multiple switch boards by relay boards equipped with electric lamp signals and central battery plant, to which reference was made in the last report, has continued throughout the year. At the present time practically all the principal exchanges, and many of those of minor importance, are furnished with the new equipment. This places them structurally on a permanent basis, enabling them to give proper service at a reasonable cost.

To meet the growth of business, and to provide for the necessary improvement and development of the plant, a corresponding outlay has been required. In new construction and in real estate this Company and its Licensees, during the year 1901, expended

upwards of \$31,000,000, of which about \$22,000,000 was upon exchanges, more than \$7,250,000 upon toll lines, and about \$1,750,000 upon real estate. The funds contributed by this Company for this growth have, for the most part, been obtained by an issue during 1901 of \$15,550,100 of new stock and of \$5,000,000 of its collateral trust four per cent bonds. The investment is of a permanent character, is required for the assured future development of the business, and is one which brings in an immediate return. It is believed that there can be no question as to the wisdom of such expenditures, which must be continued as may be necessary to meet the demand of the public for telephone service.

That the system may be complete and of the greatest utility, it is necessary that as many persons as possible should be so connected to it as to be able to talk or be talked to by telephone. This is not only in the interest of the small user, but even more in that of the large user, whose advantage as a telephone subscriber is largely measured by the number of persons with whom he may be put into communication. It is the duty as well as for the interest of this Company, that proper facilities be supplied to the constantly increasing number seeking connection with the Bell System.

As a consequence of these outlays and of the great development of the plant, the value of the telephone service to the subscriber is largely increased. His service is better, and will continue to improve, and the number of those to whom he may talk, and the extent of territory over which he may talk, are substantially greater from year to year. At the end of 1901 there were nearly 900,000 telephone stations which could be connected to

the Long-Distance system, and consequently to each other; a gain of about 180,000 for the year. At the end of 1898 there were only about 400,000 which could be so connected.

As the business has increased, and as economies made possible by improvements in apparatus and in methods of operating have been introduced, it has become practicable to offer telephone service at varying rates, some of them far below the maximum, thus satisfactorily accommodating those needing and desiring a telephone, but whose use of it is so small that they could not be expected to pay the rates which must be charged, and properly, to the larger users whose substantially greater demand for service can be complied with only at a greater cost to the telephone company. During the ten years last past, the average price per telephone to the Bell exchange subscribers throughout the country has been reduced so that at the present time the subscriber on the average pays but two thirds as much as ten years ago, although he has the advantage of much greater facilities and much improved service.

The introduction of schedules of measured service rates, enabling the user to secure the service which he requires at rates determined by the number of messages for which he contracts, has been distinctly effective in enlarging the field for the telephone. This measured service rate system, which is primarily based upon the extent of use of each particular telephone, distributes the charges and cost of service among the subscribers according to the amount of service in each case; a principle analogous to that upon which the charges for postal, express, and telegraphic service are distributed.

There can be no question as to the fairness and logical character of the principle. This method of charging is satisfactory to the subscribers, as well as to the telephone companies, and it is believed that it will ultimately become the standard method, at least in the larger exchanges. It is already very extensively employed.

Competition from telephone companies not associated with this Company has existed for several years, and is likely to continue in some places for some time to come. While it has in some localities affected the Licensees of this Company disadvantageously, by reducing, for a time at least, the number of their subscribers and forcing them to meet competitive rates that are not based upon a proper recognition of the cost of doing the business or an adequate appreciation of the amount that should be set aside from earnings for maintenance, reconstruction and depreciation, the consequences of the competition to the business as a whole, have not been of serious moment. The public in each community will determine for itself whether it is for its advantage that there should be two telephone exchanges serving one body of people. It would seem as if but one conclusion on this point was possible.

In any event, the comprehensive character of the system of this Company and its Licensees, organized as the system is to afford uniform and adequate telephonic intercommunication throughout the country, and the intention and ability of the Company and its Licensees to give good service at fair rates, must insure the permanency and prosperity of their business in the future as in the past.

Although not falling within the year 1901, it may be proper to say that, since the opening of the current year, the Western Telephone and Telegraph Company has been organized, and has taken over from the Erie Telegraph and Telephone Company the controlling interest in The Cleveland Telephone Company, the Wisconsin Telephone Company, The Northwestern Telephone Exchange Company, the Michigan Telephone Company and The Southwestern Telegraph and Telephone Company; and that a controlling interest in the Western Company has been acquired by this Company.

Appended hereto are a series of comparative statistics showing the development of the business of the Company and its Licensees ; also a statement of the Ledger Balances of the Company as of December 31, 1901, and a comparative statement of the earnings and expenses of the Company for the years 1900 and 1901 ; also copies of the reports of the Committee on Treasurer's Accounts of May 23, September 11, and November 30, 1901, and March 10, 1902.

For the Directors,

FREDERICK P. FISH,
President.

INSTRUMENTS IN THE HANDS OF LICENSEES, UNDER RENTAL.

THE FIGURES IN LOWER LINE SHOW INCREASE FROM YEAR TO YEAR.

Dec. 20, 1892.	Dec. 20, 1893.	Dec. 20, 1894.	Dec. 20, 1895.	Dec. 20, 1896.
552,720	566,491	582,506	674,976	772,627
40,313	13,771	16,015	92,470	97,651

Dec. 20, 1897.	Dec. 20, 1898.	Dec. 20, 1899.	Dec. 20, 1900.	Dec. 20, 1901.
919,121	1,124,846	1,580,101	1,352,412	2,525,606
146,494	205,725	455,255	372,311	573,194

TOLL LINES OF THIS COMPANY AND ITS LICENSEE COMPANIES.

	Jan. 1, 1893.	Jan. 1, 1894.	Jan. 1, 1895.	Jan. 1, 1896.	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	In- crease.
Miles of Pole											
Lines	42,894	46,727	49,324	52,873	60,453	67,791	75,718	89,292	101,087	110,459	9,372
Miles of Wire,	133,002	154,106	180,557	215,687	268,866	324,883	385,911	501,832	607,599	716,265	108,666

11

TOLL CONNECTIONS.

The average daily number of toll connections is 187,378
Or a total per year of about 60,300,000
The toll revenue reported by all companies for the year 1901 was . . . \$10,725,600*

* Not including herein earnings of the American Telephone and Telegraph Company, which will be found in the comparative statement of revenue and expenses appended hereto.

EXCHANGES OF THE LICENSEE COMPANIES.

	Jan. 1, 1893.	Jan. 1, 1894.	Jan. 1, 1895.	Jan. 1, 1896.	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Increase
Exchanges . .	812	838	867	927	967	1,025	1,126	1,239	1,348	1,411	63
Branch Offices	539	571	572	686	832	937	1,008	1,187	1,427	1,594	167
Miles of wire on poles .	201,259	214,676	232,008	260,324	286,632	327,315	396,503	509,036	627,897	823,193	195,296
Miles of wire on buildings	14,980	16,492	14,525	12,861	12,594	13,776	15,329	15,087	16,833	17,947	1,114
Miles of wire underground	90,216	120,675	148,285	184,515	234,801	282,634	358,184	489,250	705,269	883,679	178,410
Miles of wire submarine .	1,336	1,637	1,856	2,028	2,818	2,675	2,973	3,404	4,203	4,200	3 (Decrease)
Total miles of wire . . .	307,791	353,480	396,674	459,728	536,845	626,400	772,989	1,016,777	1,354,202	1,729,019	374,817

EXCHANGES OF THE LICENSEE COMPANIES — Continued.

	Jan. 1, 1893.	Jan. 1, 1894.	Jan. 1, 1895.	Jan. 1, 1896.	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Increase
Total Circuits .	201,322	205,891	212,074	237,837	264,645	295,904	338,293	422,620	508,262	592,467	84,205
Total Employés,	9,970	10,421	11,094	11,930	14,425	16,682	19,668	25,741	32,837	40,864	8,027
Total Stations .	232,140	237,186	243,432	281,695	325,244	384,230	465,180	632,946	800,880	1,020,647	219,767

EXCHANGE CONNECTIONS.

The estimated number of exchange connections daily in the United States, made up from actual count in most of the exchanges, is 7,531,761

Or a total per year of about 2,425,000,000

The number of daily calls per station varies in different exchanges from 1 to 20, the average throughout the United States being $7\frac{4}{5}$.

LEDGER BALANCES, DEC. 31, 1901.

DEBTORS.

Construction, Equipment and	
Supplies	\$19,116,209 40
Telephones	5,113,408 60
Real Estate	1,665,598 39
Stocks and Bonds	84,339,912 43
Patent Account	150,000 00
Machinery and Tools	35,987 92
Cash and Deposits	1,694,342 10
Bills and Accounts Receivable,	10,972,535 41
American Bell Telephone Co.,	22,110,400 00

CREDITORS.

Capital Stock	\$104,650,600 00
Surplus	2,764,668 50
Bonds	15,004,500 00
Reserves	4,047,476 94
*Accounts Payable	2,760,938 56
Contingent	15,970,210 25
	<u>\$145,198,394 25</u>
	<u>\$145,198,394 25</u>

WM. R. DRIVER, *Treasurer.*

*Of this amount, \$1,632,154.50 is for the dividends payable Jan. 15, 1902, to stockholders of record Dec. 31, 1901.

Comparative Statement of Earnings and Expenses.

EARNINGS.

	1900.	1901.
Dividends	\$3,846,821 67	\$4,988,207 63
Rental of Instruments . .	2,427,037 52	2,647,907 64
Telephone Traffic . . .	3,027,171 85	3,533,446 74
Real Estate	31,824 67	36,680 16
Interest	201,643 50	399,579 26
Miscellaneous		995 51
	<u>\$9,534,499 21</u>	<u>\$11,606,816 94</u>

EXPENSES.

Expenses of Administration .	\$746,259 48	\$772,424 30
Legal Expenses	85,134 07	99,138 04
Interest and Taxes . . .	1,376,199 94	1,276,559 20
Telephone Traffic	1,840,847 86	2,060,409 54
	<u>\$4,048,441 35</u>	<u>\$4,208,531 08</u>
Net Revenue	\$5,486,057 86	\$7,398,285 86
Dividends Paid	4,078,601 25	5,050,023 75
Balance	<u>\$1,407,456 61</u>	<u>\$2,348,262 11</u>
Carried to Reserves . . .	\$937,258 22	\$1,377,650 74
Carried to Surplus . . .	470,198 39	970,611 37
	<u>\$1,407,456 61</u>	<u>\$2,348,262 11</u>

WM. R. DRIVER, *Treasurer.*

BOSTON, MASSACHUSETTS, 23 May, 1901.

ALEXANDER COCHRANE, Esquire,

President American Telephone and Telegraph Company.

Dear Sir,—With this I enclose the report of Mr. Henry A. Piper, an expert accountant employed by me to examine the accounts of our Treasurer for the three months ending March 30, 1901.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, May 20, 1901.

FRANCIS BLAKE, Esq.,

Dear Sir,—I have examined the accounts of the Treasurer of the American Telephone and Telegraph Company in Boston and New York, for the three months ending March 30, 1901, and have to report as follows :

I have determined the cash in hand and in the banks and trust companies, and find the amount, after allowing for outstanding checks, to agree with the balance of cash on that date.

I have seen approved and receipted vouchers for all disbursements, and have verified the record of cash receipts.

I have seen that all notes and stock certificates owned by the company are in hand, and correctly entered upon the books.

I have found all Cash book and Journal entries duly posted to the Ledger, and the footings correct, and have proved the Balance Sheet.

hereby certify that in all my investigations, as above recited, I have found everything correct.

Yours very truly,

HENRY A. PIPER.

BOSTON, MASSACHUSETTS, 11 September, 1901.

FREDERICK P. FISH, Esq.,

President American Telephone & Telegraph Co.,

Dear Sir,—Herewith I enclose the report of Mr. Henry A Piper, an expert accountant employed by me to examine the accounts of our Treasurer for the three months ending June 30, 1901.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

Boston, September 6, 1901.

FRANCIS BLAKE, Esq.,

Dear Sir,—I have examined the accounts of the Treasurer of the American Telephone and Telegraph Company in Boston and New York, for the three months ending June 30, 1901, and have to report as follows :

I have determined the cash in hand and in the banks and trust companies, and find the amount, after allowing for outstanding checks, to agree with the balance of cash on that date.

I have seen approved and receipted vouchers for all disbursements, and have verified the record of cash receipts.

I have seen that all notes and stock certificates owned by the company are in hand, and correctly entered upon the books.

I have found all Cash book and Journal entries duly posted to the Ledger, and the footings correct, and have proved the Balance Sheet.

I hereby certify that in all my investigations, as above recited, I have found everything correct.

Yours very truly,

HENRY A. PIPER.

BOSTON, MASSACHUSETTS, 30 November, 1901.

FREDERICK P. FISH, Esquire,

President American Telephone and Telegraph Co.,

Dear Sir, — Herewith I enclose the report of Mr. Henry A. Piper, an expert accountant employed by me to examine the accounts of our Treasurer for the three months ending September 30, 1901.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

Boston, November 26th, 1901.

FRANCIS BLAKE, Esq.,

Dear Sir, — I have examined the accounts of the Treasurer of the American Telephone and Telegraph Company in Boston and New York, for the three months ending September 30, 1901, and have to report as follows :

I have determined the cash in hand and in the banks and trust companies, and find the amount, after allowing for outstanding checks, to agree with the balance of cash on that date.

I have seen approved and receipted vouchers for all disbursements, and have verified the record of cash receipts.

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I have found all Cash book and Journal entries duly posted to the Ledger, and the footings correct, and have proved the Balance Sheet.

I hereby certify that in all my investigations, as above recited, I have found everything correct.

Yours very truly,

HENRY A. PIPER.

BOSTON, MASSACHUSETTS, 10 March, 1902.

FREDERICK P. FISH, Esquire,

President American Telephone and Telegraph Co.,

Dear Sir, — Herewith I enclose the report of Mr. Henry A. Piper, an expert accountant employed by me to examine the accounts of our Treasurer for the three months ending December 31, 1901.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, March 7th, 1902.

FRANCIS BLAKE, Esq.,

Dear Sir, — I have examined the accounts of the Treasurer of the American Telephone and Telegraph Company in Boston and New York, for the three months ending December 31, 1901, and have to report as follows :

I have determined the cash in hand and in the banks and trust companies, and find the amount, after allowing for outstanding checks, to agree with the balance of cash on that date.

I have seen approved and receipted vouchers for all disbursements, and have verified the record of cash receipts.

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I hereby certify that in all my investigations, as above recited, I have found everything correct.

Yours very truly,

HENRY A. PIPER.

