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1902

# ANNUAL REPORT

OF

THE DIRECTORS

OF

## AMERICAN TELEPHONE & TELEGRAPH COMPANY

### TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1902.

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PRESS OF  
ALFRED MUDGE & SON INC.  
BOSTON.  
1903.



# AMERICAN TELEPHONE & TELEGRAPH COMPANY

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## OFFICERS FOR THE YEAR 1902.

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FREDERICK P. FISH	. . . . .	<i>President</i>
EDWARD J. HALL	. . . . .	{ <i>Vice-President and General Manager</i>
WILLIAM R. DRIVER	. . . . .	
CHARLES EUSTIS HUBBARD	. . . . .	<i>Treasurer</i>
		<i>Secretary</i>

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## DIRECTORS.

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CHARLES W. AMORY.	J. MALCOLM FORBES.
GEORGE F. BAKER.	HENRY S. HOWE.
FRANCIS BLAKE.	CHARLES EUSTIS HUBBARD.
CHARLES P. BOWDITCH.	CHARLES E. PERKINS.
GEORGE L. BRADLEY.	THOMAS SANDERS.
JOHN H. CAHILL.	NATHANIEL THAYER.
ALEXANDER COCHRANE.	THEODORE N. VAIL.
T. JEFFERSON COOLIDGE, JR.	JOHN I. WATERBURY.
FREDERICK P. FISH.	MOSES WILLIAMS.

REPORT OF THE DIRECTORS  
OF  
AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

TO THE STOCKHOLDERS :

The results of the business for 1902, as shown by the Treasurer's statement appended, were as follows:—

Gross Revenue . . . . .	\$13,277,457.33
Expenses, including interest and taxes . . . . .	5,442,185.14
Net Revenue . . . . .	7,835,272.19
Dividends paid . . . . .	6,584,403.75
Carried to Reserve . . . . .	522,246.71
Carried to Surplus . . . . .	728,621.73

The net output of telephones during the year was 624,714, making the total number in the hands of licensees 3,150,320.

The number of exchange stations at the end of the year was 1,277,983, an increase of 257,336.

The total mileage of wire for exchange and toll service was 3,281,662 miles, of which 336,378 miles were added during the year.

Including the traffic over the Long Distance lines, the daily average of toll connections was about 239,700, and of exchange connections about 9,323,000, as against corresponding figures in 1901 of 187,378 and 7,531,761;

the total daily average for 1902 of connections both toll and exchange reaching 9,562,700, or at the rate of about 3,079,000,000 per year.

The expenditure for new construction, to supply the increasing demand of the public for telephone service, was larger than that of previous years, the proportion of increase bearing a close relation to that of the business before recited.

The total amount added to construction and real estate by all the companies constituting our system in the United States during the year 1902, was:—

For Exchanges . . . . .	\$26,014,800
For Toll Lines . . . . .	8,282,900
For Land and Buildings . . . . .	3,038,800
	<hr/>
	\$37,336,500

The amount added in 1900 was \$31,619,100; in 1901, \$31,005,400.

The expenditure by this Company in 1902 for the construction, equipment, and supplies required for its Long Distance lines was \$3,379,982, making the total investment in Long Distance lines and equipment to the close of the year \$22,496,191.

These figures show that the active development of the business which has been characteristic of recent years still continues, nor are there any signs of a diminution of the demands upon this company and its operating companies for increased construction to meet the call for telephone service throughout the United States. There is hardly a section of the country in which it can be said that the point has been reached at which the supply of telephone facilities equals the

demand. During the past year the operating companies have made larger gains in their lists of subscribers than in any previous year, and, almost without exception, they look forward to a still greater increase in the near future.

The demand for additional toll lines, and the use of those already constructed, are greater than ever before. A striking illustration of the growth of the toll line business after it is established appears in the fact that the estimate for the coming year, merely for new circuits on the now existing long distance lines which are operated directly by this company, calls for an amount equal to about ten per cent of the entire investment made to date by this company in its long distance plant.

Large as has been the investment in the past of this company and the operating companies associated with it, it is clear that to fulfil the duty of giving to the country a complete and comprehensive system of telephonic transmission, there must be a constant extension of facilities, involving a corresponding increase in investment. It is even more true of the telephone business of this company and its associated companies than of any other like business, that the necessary facilities to cover the territory, which in our case is the whole country, must be supplied to the full extent required to meet the reasonable demands of the public. The users of telephones recognize the enormous advantage of a complete service such as is afforded by the Bell companies, and expect to pay a proper compensation for the same. There can be no room for doubt that whatever investment is necessary to enable the business to be done properly will receive an adequate return.

During the past year the company received from the issue of new stock offered at par to its stockholders, the sum of \$21,226,122. \$9,965,550 of this amount was received in January, 1902, from an issue authorized in 1901 and \$11,260,572 in September, 1902, from an issue authorized in 1902. The balance of the proceeds of the latter issue was received in January, 1903.

Further stock issues will undoubtedly be necessary in the future.

An essential obligation on the part of this company and the operating companies with which it is associated is to use every effort to give to their patrons the best possible service. To do this the apparatus must be of the best design and quality, and must be installed under the most favorable conditions. More than that, the working force, including not only the telephone operators who come in direct contact with the public, but all those upon whom is imposed the duty of keeping the apparatus in order and of arranging with the public for its use, must be thoroughly trained, as well in the practical part of their work as in meeting and dealing properly with the public.

There is no apparatus more complicated than that employed in telephony when organized on a large scale, and no conditions exist in which a failure to adopt and act upon a high standard, both of mechanism and of relations to the public is more incompatible with success.

This company and its associated companies are devoting their energies not only to that great development which the public interest requires, and which is so essential to the prosperity of the telephone companies themselves, but also to perfection of apparatus, the discovery

of improved methods of operation, and the training and discipline of employees.

In former reports, reference has been made to the many features of engineering and of mechanism in which constant improvements have been made from year to year.

During the past year there has been even greater progress in the same direction. More of the wires in the larger towns have been placed under ground. At the present time about fifty-five per cent of the entire mileage of wires used for exchange service throughout the country is in underground conduits. To a greater extent every year the operating companies acquire land and erect buildings specially designed to meet the requirements of modern exchange operation, locating them at points from which the distribution of the wires can be most economically and effectively made.

The introduction of the modern form of switchboard in the place of the older forms has progressed steadily. New and more effective cables have been designed and put into use, and in all the details of the work one improvement after another has been adopted as soon as it appeared that the adoption would contribute to the improvement of the service.

During the past year, special efforts have been made to standardize the apparatus used throughout the country by this company and its operating companies, and to ensure that in all parts of the country the most efficient central office equipment, underground and toll lines, and subscribers' station apparatus were employed. Much attention has been given to methods of operating, and while perfection has not yet been attained, and probably can never be attained in so difficult an art as that of

telephony, there is no doubt that the service of the Bell companies, both long distance and local, throughout the country, has very generally improved. Every effort will be made to improve it still further, both by the introduction of better apparatus and by the adoption of better methods of operating, to the intelligent study of which the best men available are devoting constant attention.

In the report of your directors for the year ending December 31, 1901, the following reference was made to the competition of telephone companies not associated with this company:—

“ 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 inter-communication 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.”

The developments of the past year confirm the views then expressed. Since that report was presented to

the stockholders there has developed a recognition on the part of many of the competing telephone companies, particularly those which were in the business in such a way as to be forced to look the situation in the face, that the rates generally adopted by them were much too low. It was very largely because of the belief on the part of these competing companies that they could do business at rates which were in fact below the cost of supplying the service, that they succeeded in making their competition with our companies in some instances effective by offering to give service at abnormally low rates. Moreover, their apparent views as to what rates were remunerative were, as was but natural, accepted to some extent by the public. It is but reasonable to assume that, by reason of the admissions of many of the most prominent of these competing companies, based no longer upon the representations of promoters but upon their actual experience, the public will be educated to a recognition of what are proper and reasonable rates for telephone service; in which event our companies will be in a position to relieve themselves of what is substantially the only ill effect that has followed from competition, namely, the reduction in certain localities of the rates charged to subscribers to a point which allowed no profit, and in some cases involved a loss.

The public has also in some instances during the past year seriously considered the question whether or not there should be two telephone exchanges serving one community, and has come to the conclusion that a duplication of telephone service was undesirable. We believe that this sentiment will grow, in which event it will be the fault of the Bell companies if their facilities,

their service and their relations to the public are not such as to secure for them proper recognition.

The most important single transaction concluded during the year was that briefly referred to in the last annual report, by which the controlling interest in the capital stock of the Western Telephone and Telegraph Company was acquired by this company. The Western company purchased the majority interests in the stocks of The Cleveland Telephone Company, the Michigan Telephone Company, The Northwestern Telephone Exchange Company, The Southwestern Telegraph and Telephone Company and the Wisconsin Telephone Company, before held by The Erie Telegraph and Telephone Company.

The revenue of the Western Company, derived from its holdings of stocks and other securities of the above-named companies, during the first year of its organization, has been sufficient to provide for two dividends of two per cent each upon its preferred stock, which were paid in August, 1902, and February, 1903, respectively. The second dividend does not appear in the accounts of the company for 1902.

During the past year, by agreement between this company and the operating companies with which it has contracts, a new and simpler plan for determining the amounts to be paid this company as rental for telephones has been adopted, which plan involved a substantial reduction in the rentals paid to this company from and after January 1, 1902. This modification of the rental arrangement was clearly justified by the existing conditions. It is believed that it will work to the advantage, not only of the operating companies, but of this company.

If this reduction in rentals had not been made, the amount carried to surplus on the books of this company for the year 1902 would have been substantially greater.

Appended hereto are a series of comparative statistics showing the development of the business of the company and its licensees; a statement of the ledger balances of the company as of December 31, 1902, and a comparative statement of the earnings and expenses for the years 1901 and 1902; also copies of the reports of the Committee on Treasurer's Accounts of May 31, September 30 and December 5, 1902, and March 10, 1903.

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, 1893.	Dec. 20, 1894.	Dec. 20, 1895.	Dec. 20, 1896.	Dec. 20, 1897.
566,491	582,506	674,976	772,627	919,121
13,771	16,015	92,470	97,651	146,494

Dec. 20, 1898.	Dec. 20, 1899.	Dec. 20, 1900.	Dec. 20, 1901.	Dec. 20, 1902.
1,124,846	1,580,101	1,952,412	2,525,606	3,150,320
205,725	455,255	372,311	573,194	624,714

# TOLL LINES OF THIS COMPANY AND ITS LICENSEE COMPANIES.

	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.	Jan. 1, 1903.	In- crease.
Miles of Pole Lines.....	46,727	49,324	52,873	60,453	67,791	75,718	89,292	101,087	110,459	122,409	11,950
Miles of Wire,	154,106	180,557	215,687	268,866	324,883	385,911	501,832	607,599	716,265	837,912	121,647

## TOLL CONNECTIONS.

The average daily number of toll connections is	.	.	.	.	.	.	.	.	.	.	239,689
Or a total per year of about	.	.	.	.	.	.	.	.	.	.	77,180,000

## EXCHANGES OF THE LICENSEE COMPANIES.

	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.	Jan. 1, 1903.	Increase
Exchanges .	838	867	927	967	1,025	1,126	1,239	1,348	1,411	1,514	103
Branch Offices											
Miles of wire on poles and buildings .	571	572	686	832	937	1,008	1,187	1,427	1,594	1,861	267
Miles of wire underground	231,168	246,533	273,185	299,226	341,091	411,832	524,123	644,730	841,140	1,109,017	267,877
Miles of wire submarine .	120,675	148,285	184,515	234,801	282,634	358,184	489,250	705,269	883,679	1,328,685	445,006
Total miles of wire . . .	1,637	1,856	2,028	2,818	2,675	2,973	3,404	4,203	4,200	6,048	1,848
	353,480	396,674	459,728	536,845	626,400	772,989	1,016,777	1,354,202	1,729,019	2,443,750	714,731

## EXCHANGES OF THE LICENSEE COMPANIES — Continued.

	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.	Jan. 1, 1903.	Increase
Total Circuits .	205,891	212,074	237,887	264,645	295,904	338,293	422,620	508,262	592,467	742,654	150,187
Total Employés,	10,421	11,094	11,980	14,425	16,682	19,668	25,741	32,837	40,864	50,350	9,486
Total Stations .	237,186	243,432	281,695	325,244	384,230	465,180	632,946	800,880	1,020,647	1,277,983	257,336

## EXCHANGE CONNECTIONS.

The estimated number of exchange connections daily in the United States, made up from actual count in most of the exchanges, is . . . . . 9,322,951  
 Or a total per year of about . . . . . 3,002,000,000  
 The number of daily calls per station varies in different exchanges, the average throughout the United States being  $7\frac{3}{10}$ .

## LEDGER BALANCES, DEC. 31, 1902.

### DEBTORS.

Construction, Equipment and	
Supplies . . . . .	\$22,496,191 76
Telephones . . . . .	6,522,106 35
Real Estate . . . . .	1,745,280 15
Stocks and Bonds . . . . .	114,864,798 77
Patent Account . . . . .	166,014 35
Machinery and Tools . . . . .	48,126 58
Cash and Deposits . . . . .	6,933,364 35
Bills and Accounts Receivable,	15,528,621 24
American Bell Telephone Co.,	22,110,400 00

### CREDITORS.

Capital Stock . . . . .	\$114,946,500 00
Capital Instalments . . . . .	11,172,472 00
Surplus . . . . .	3,493,290 23
Bonds . . . . .	28,000,000 00
Reserves . . . . .	6,079,262 23
*Accounts Payable . . . . .	8,078,168 84
Contingent . . . . .	18,645,210 25
	<hr/>
	\$190,414,903 55
	<hr/>
	\$190,414,903 55
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WM. R. DRIVER, *Treasurer.*

\* Of this amount, \$1,976,312.25 is for the dividends payable Jan. 15, 1903, to stockholders of record Dec. 31, 1902.

## Comparative Statement of Earnings and Expenses.

EARNINGS.			
	1901.	1902.	
Dividends . . . .	\$4,988,207 63	\$6,023,523 20	
Rental of Instruments . .	2,647,907 64	2,299,378 52	
Telephone Traffic . . .	3,533,446 74	4,199,708 59	
Real Estate . . . .	36,680 16	56,030 54	
Interest . . . . .	399,579 26	698,816 48	
Miscellaneous . . . .	995 51		
	<u>\$11,606,816 94</u>	<u>\$13,277,457 33</u>	
EXPENSES.			
Expenses of Administration .	\$772,424 30	\$964,827 30	
Legal Expenses . . . .	99,188 04	124,645 57	
Interest and Taxes . . .	1,276,559 20	1,970,947 99	
Telephone Traffic . . . .	2,060,409 54	2,381,764 28	
	<u>\$4,208,531 08</u>	<u>\$5,442,185 14</u>	
Net Revenue . . . . .	\$7,898,285 86	\$7,835,272 19	
Dividends Paid . . . . .	5,050,023 75	6,584,403 75	
Balance . . . . .	<u>\$2,348,262 11</u>	<u>\$1,250,868 44</u>	
Carried to Reserves . . .	\$1,377,650 74	\$522,246 71	
Carried to Surplus . . . .	970,611 37	728,621 73	
	<u>\$2,348,262 11</u>	<u>\$1,250,868 44</u>	

WM. R. DRIVER, *Treasurer.*

BOSTON, MASSACHUSETTS, 31 May, 1902.

FREDERICK P. FISH, Esquire,

*President American Telephone and Telegraph Company.*

*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 March 31, 1902.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Treasurer's Accounts.*

BOSTON, May 29, 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 March 31, 1902, 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 September, 1902.

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, 1902.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Treasurer's Accounts.*

BOSTON, September 23, 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 June 30, 1902, 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, 5 December, 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 September 30, 1902.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Treasurer's Accounts.*

Boston, December 4, 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 September 30, 1902, 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, 10 March, 1903.

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, 1902.

Respectfully yours,

FRANCIS BLAKE,

*Committee on Treasurer's Accounts.*

BOSTON, March 6th, 1903.

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, 1902, 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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Yours very truly,

HENRY A. PIPER.

