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ANNUAL REPORT

OF

THE DIRECTORS

OF

AMERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1903.

PRESS OF
ALFRED MUDGE & SON,
BOSTON.

1904.



AMERICAN TELEPHONE & TELEGRAPH COMPANY

OFFICERS FOR THE YEAR 1903.

FREDERICK P. FISH,	. . . . .	<i>President.</i>
EDWARD J. HALL,	. . . . .	<i>Vice-President.</i>
THOMAS SHERWIN,	. . . . .	<i>Vice-President.</i>
C. JAY FRENCH,	. . . . .	<i>Vice-President.</i>
WILLIAM R. DRIVER,	. . . . .	<i>Treasurer.</i>
CHARLES EUSTIS HUBBARD,	. . . . .	<i>Secretary.</i>

DIRECTORS

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.
ALEXANDER COCHRANE.	NATHANIEL THAYER.
T. JEFFERSON COOLIDGE, JR.	THEODORE N. VAIL.
W. MURRAY CRANE.	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 the year 1903, as shown by the Treasurer's statement appended, were as follows:—

Gross Revenue	\$16,545,632.39
Expenses, including interest and taxes	5,980,967.30
Net revenue	10,564,665.09
Dividends paid	8,619,150.75
Carried to Reserve	728,139.97
Carried to Surplus	1,217,374.37

The following were the corresponding figures for the year 1902:—

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 1903

was 629,197, making the total number in the hands of licensees 3,779,517.

The number of exchange stations at the end of the year was 1,525,167, an increase of 247,184.

The total mileage of wire for exchange and toll service was 3,958,891 miles, of which 677,229 miles were added during the year.

Including the traffic over the Long Distance lines, the daily average of toll connections was about 258,000, and of exchange connections about 9,876,000, as against corresponding figures in 1902 of 239,700 and 9,323,000; the total daily average for 1903 of connections both toll and exchange reaching 10,134,000, or at the rate of about 3,263,000,000 per year.

The total amount added to construction and real estate by all the companies constituting our system in the United States, during the year 1903, was:—

For Exchanges	\$24,060,900
For Toll Lines	8,866,000
For Land and Buildings	2,441,800
	<hr/>
	\$35,368,700

The amount added in 1900 was \$31,619,100; in 1901, \$31,005,400; and in 1902, \$37,336,500.

The expenditure by this Company in 1903 for the construction, equipment and supplies required for its Long Distance lines was \$4,365,614, making the total investment in Long Distance lines and equipment up to the close of the year \$26,861,805.

The development and course of the business of the Company during the year have been satisfactory and

the returns, as indicated by the foregoing figures, clearly such as to meet all reasonable expectations. In view of the general business conditions of the country, the increase in the number of subscribers and in the amount of telephone business done, shows that the efforts of your Company and of the companies associated with it to give a service of substantial value, are appreciated by the public. The increase in gross and net revenue and in the amount carried to reserve and to surplus after the payment of interest and dividends, is a satisfactory indication that the investment that has been and should be made from year to year to build up a comprehensive telephone system that is adequate to the needs of the community will receive a proper return.

In former reports to the stockholders the necessity for developing and extending the facilities of your Company to meet the demands of the public throughout the United States has been recognized and asserted. The history of each year emphasizes the soundness of this policy. Not only have the specific returns from such extensions proved to be adequate, but the strength and earning capacity of the Company in all parts of the country are definitely increased by such development. No new toll lines are built, exchanges established, or telephones installed, without bringing in additional revenue from the construction already existing, as well as from the new construction. The conditions of modern business require communication over such large areas, and with so many people, that the public immediately responds when it has the opportunity of telephonic communication with new territory or with new subscribers; for the value of the service to users gen-

the returns, as indicated by the foregoing figures, clearly such as to meet all reasonable expectations. In view of the general business conditions of the country, the increase in the number of subscribers and in the amount of telephone business done, shows that the efforts of your Company and of the companies associated with it to give a service of substantial value, are appreciated by the public. The increase in gross and net revenue and in the amount carried to reserve and to surplus after the payment of interest and dividends, is a satisfactory indication that the investment that has been and should be made from year to year to build up a comprehensive telephone system that is adequate to the needs of the community will receive a proper return.

In former reports to the stockholders the necessity for developing and extending the facilities of your Company to meet the demands of the public throughout the United States has been recognized and asserted. The history of each year emphasizes the soundness of this policy. Not only have the specific returns from such extensions proved to be adequate, but the strength and earning capacity of the Company in all parts of the country are definitely increased by such development. No new toll lines are built, exchanges established, or telephones installed, without bringing in additional revenue from the construction already existing, as well as from the new construction. The conditions of modern business require communication over such large areas, and with so many people, that the public immediately responds when it has the opportunity of telephonic communication with new territory or with new subscribers; for the value of the service to users gen-

erally, largely increases with the extent of territory covered and the number with whom connections may be made. Your Company and its associated companies are in a position to supply the comprehensive service required, and a proper return for the investment will surely reward their efforts to meet the demand that is made upon them. The extent of development required will vary from time to time with general business conditions. But even when those conditions are least favorable, extension of telephone facilities will still be called for, in as much as each year a larger proportion of the community recognizes the importance of the telephone in social and business life, as is shown by the constantly increasing number of Bell telephones in proportion to population.

Equally important is the matter of good service. Our companies are thoroughly impressed with the necessity of maintaining the Bell service at the highest practicable standard, and every effort is made to produce this result. The constant and intelligent study of operating methods that has been going on from the beginning and the many successive improvements in apparatus, have resulted in a definite control of this problem, the effect of which is everywhere shown in improved service. The complicated equipment required to make it possible to establish intercommunication between any two of hundreds of thousands of telephone users has now been standardized to a large extent. Standard methods of operating have been devised and put into practice. The result is not only an increased efficiency and better service, but also marked economy in maintenance and operation. Improvements in cables and devices to be

used in connection therewith, and greater engineering knowledge, have made it possible to develop underground construction to a constantly increasing extent, and the field for underground work is now believed to be capable of an ultimate extension beyond anything that seemed possible to the engineers of a few years ago. This results in economy of operation and also, by reducing to a minimum the danger of accident to the outside construction, in an improvement in the service. It is safe to say that there is an element of permanency in the apparatus and equipment of to-day which did not characterize that in use a few years ago. The time will never come when further improvements may not be expected, both in methods of operating and in apparatus. There is no doubt, however, that the telephone service has now been so far standardized in these respects as to be on a par with many industries that are much older and which have had the intelligent and careful study of experts for a far greater period of time.

The work of perfecting the Bell service is not complete ; but in view of the zeal and intelligence with which it is being pushed throughout the country, there is every reason to expect that the high standard now definitely established, and already attained in many places, will characterize the service generally.

In the report to the stockholders for the year 1902, reference was made to the significant fact that many of the competing telephone companies were beginning to realize that the rates adopted by them were too low and were seeking to raise those rates. This movement has continued with added force during the year 1903. The competing companies, in almost every city of any size

in the country in which they have established exchanges, have found, sometimes as the result of a bitter experience, that the cost of doing the business was far greater than they anticipated. This has resulted in an increasing number of efforts on their part to raise their rates to a point nearer the Bell standard.

In particular they have learned that charges for maintenance and depreciation, which were lost sight of during the promotion stage of their business, were necessary expenses which must be taken care of before there was any question of earnings applicable to interest on bonds or dividends on stock.

The lesson has not even now been thoroughly learned, and not unfrequently the prospectuses of competing companies practically ignore those expenses. It is common for them to present figures showing that the entire cost of carrying on the business is from forty-five to sixty per cent. of the gross receipts that may be expected. The history of the business shows conclusively that an attempt to operate a telephone plant on any such basis is doomed to failure.

This matter of maintenance and depreciation is constantly before the eyes of our companies. The system of accounts, which is practically uniform for all the Bell organizations, forces them fairly to face this expense from month to month and from year to year. Before there is any question of profits, each company recognizes the necessity of reserving from its earnings such amounts as experience has shown to be adequate to keep its property in repair and replace it when worn out or destroyed. The sum properly to be charged varies to some extent in different parts of the country, on account of

climatic conditions and the character of the plant employed, but the average allowance for maintenance of the Bell companies for the year 1903 was over thirty per cent. of their gross revenue.

As was stated in the report to the stockholders for the year 1902, the competition to which our companies are subjected is embarrassing chiefly to the extent to which it leads the public to believe that service can be given at rates that are too low to permit good service and a reasonable profit. The situation is now more favorable than ever before in this regard, and will continue to improve as the competing companies and the public become more correctly informed as to the conditions of the business. On the whole, it seems every year less probable that competition will have any substantial effect upon the prosperity of the Bell companies.

The developments of the past year also show that the feeling that it is better for the community that there should be one comprehensive system of telephonic communication instead of several, which was referred to in former reports, is clearly growing in all parts of the country.

It is an interesting and significant fact that many telephone companies which have started exchanges and to some extent toll lines in various parts of the country, independently of the Bell companies but in territory which the Bell companies did not occupy, have by contract with our operating companies taken the Bell telephones and become connected with our system on terms favorable to both parties. There are now over one hundred and twenty thousand of such sub-

licensee stations connected with the lines and exchanges of the Bell companies, and the movement in that direction is gaining.

Generally speaking, the business of your Company and of the companies associated with it is on a sound basis and, with good management and a proper development to meet the demand, the continued prosperity of the Bell organization seems secured.

The suit of the Western Union Telegraph Company against this Company, which has been pending since the year 1884, and which was decided in favor of this Company by Judge Lowell, sitting as Master, and by Judge Colt in the Circuit Court of the United States, has been decided adversely to this Company by the United States Court of Appeals for the First Circuit.

The decision is to the effect that, under a technical reading of the contract made by the predecessor of this Company with the Western Union Telegraph Company and its associated companies in the year 1879, this Company may have to account to the Western Union Company for a certain percentage of some of the stocks and bonds which it received from its licensee companies prior to 1896, when the contract expired.

That the validity of this decision is doubtful is shown by the fact that Judge Lowell and Judge Colt took a contrary view, and at the proper time every effort will be made to secure a revision of the decision of the Court of Appeals. Meanwhile the matter has been referred to a master, who will report as to the amount, if any, which this Company should pay the Western Union Company under the decision of the Court of Appeals, and his report, when made, will be subject to revision by

the courts. Even if there should be any ultimate recovery against us — which, as we are advised by counsel, is by no means certain — it is not believed that the amount recovered will be relatively large. It certainly will not be large enough to impose any appreciable burden upon the Company. Certain classes of the stocks in question are expressly excluded from the accounting by the opinion of the Court of Appeals, and there are many considerations which, in the opinion of our counsel, will reduce substantially the amount, if any, that may be recovered in the case of the remaining stocks.

Your Directors desire to express their appreciation of the zeal and intelligence with which the employees of this Company and the officers and employees of the operating companies are co-operating to bring about the best results in our business. There is an excellent spirit throughout the organization and everywhere a harmony of effort and aspiration which is most satisfactory.

Appended hereto as usual are a series of comparative statistics showing certain phases of the development of the business of the Company and its associated companies; a statement of the ledger balances of the Company as of December 31, 1903; also a comparative statement of the earnings and expenses for the years 1902 and 1903, and copies of the reports of the Committee on Treasurer's Accounts of May 25, October 10 and November 28, 1903, and March 5, 1904.

For the Directors,

FREDERICK P. FISH,

President.

INSTRUMENTS IN THE HANDS OF BELL LICENSEES,
UNDER RENTAL.

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

Dec. 20, 1894.	Dec. 20, 1895.	Dec. 20, 1896.	Dec. 20, 1897.	Dec. 20, 1898.
582,506	674,976	772,627	919,121	1,124,846
16,015	92,470	97,651	146,494	205,725

Dec. 20, 1899.	Dec. 20, 1900.	Dec. 20, 1901.	Dec. 20, 1902.	Dec. 31, 1903.
1,580,101	1,352,412	2,525,606	3,150,320	3,779,517
455,255	372,811	573,194	624,714	629,197

TOLL LINES IN THE UNITED STATES OF THIS COMPANY AND THE COMPANIES ASSOCIATED
WITH IT.

	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.	Jan. 1, 1904.	In- crease.
Miles of Pole											
Lines.....	49,324	52,873	60,453	67,791	75,718	89,292	101,087	110,459	122,409	130,178	7,769
Miles of Wire	180,557	215,687	263,866	324,883	385,911	501,832	607,599	716,265	837,912	975,702	137,790

TOLL CONNECTIONS.

The average daily number of toll connections is	.	.	.	.	.	257,618
Or a total per year of about	.	.	.	.	.	82,953,000

EXCHANGES OF THE BELL COMPANIES IN THE UNITED STATES.

	Jan. 1, 1896.	Jan. 1, 1896.	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Increase.
Exchanges .	867	927	967	1,025	1,126	1,239	1,848	1,411	1,514	1,609	95
Branch Offices											
Miles of wire	572	686	832	937	1,008	1,187	1,427	1,594	1,861	2,131	270
on poles and											
buildings .	246,533	273,185	299,226	341,091	411,832	524,123	644,730	841,140	1,109,017	1,358,140	249,123
Miles of wire											
underground	148,285	184,515	234,801	282,634	358,184	489,250	705,269	883,679	1,328,685	1,618,691	290,006
Miles of wire											
submarine .	1,856	2,028	2,818	2,675	2,973	3,404	4,203	4,200	6,048	6,358	310
Total miles of											
wire . . .	396,674	459,728	536,845	626,400	772,989	1,016,777	1,354,202	1,729,019	2,443,750	2,983,189	539,439

EXCHANGES OF THE BELL COMPANIES—Continued.

	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.	Jan. 1, 1904.	In- crease.
Total Circuits .	212,074	237,837	264,645	295,904	338,293	422,620	508,262	592,467	742,654	798,901	56,247
Total Employees	11,094	11,930	14,425	16,682	19,668	25,741	32,337	40,864	50,350	53,795	3,445
Total Stations .	243,432	281,695	325,244	384,230	465,180	632,946	800,880	1,020,647	1,277,983	1,525,167	247,184

EXCHANGE CONNECTIONS.

The estimated number of exchange connections daily in the United States, made up from actual count in most of the exchanges, is 9,876,402
 Or a total per year of about 3,180,200,000
 The number of daily calls per station varies in different exchanges, the average throughout the United States being $6\frac{5}{10}$.

LEDGER BALANCES, DEC. 31, 1903.

DEBTORS.

Construction, Equipment and			
Supplies	\$26,876,805	50	
Telephones	6,767,189	75	
Real Estate	2,009,749	21	
Stocks and Bonds	130,678,449	28	
Patent Account	173,864	35	
Machinery and Tools	48,126	58	
Cash and Deposits	13,319,533	13	
Bills and Accounts Receivable,	22,397,407	09	
American Bell Telephone Co.,	22,110,400	00	

CREDITORS.

Capital Stock	\$154,179,300	00	
Capital Stock Instalments	1,972,380	00	
Surplus	4,710,664	60	
Bonds	28,000,000	00	
Reserves	7,942,075	07	
*Accounts Payable	8,931,894	97	
Contingent	18,645,210	25	
	<u>\$224,381,524</u>	<u>89</u>	<u>\$224,381,524 89</u>

WM. R. DRIVER, *Treasurer.*

* Of this amount, \$2,359,050.25 is for the dividends payable Jan. 15, 1904, to stockholders of record Dec. 31, 1903.

Comparative Statement of Earnings and Expenses.

EARNINGS.

	1902.	1903.
Dividends	\$6,023,523 20	\$7,802,833 63
Rental of Instruments	2,299,378 52	3,047,088 35
Telephone Traffic	4,199,708 59	4,888,158 34
Real Estate	56,030 54	73,332 15
Interest	698,816 48	734,219 92
	<u>\$13,277,457 33</u>	<u>\$16,545,632 39</u>

EXPENSES.

Expenses of Administration	\$964,827 30	\$962,297 84
Legal Expenses	124,645 57	95,564 60
Interest and Taxes	1,970,947 99	1,993,680 08
Telephone Traffic	2,381,764 28	2,929,424 78
	<u>\$5,442,185 14</u>	<u>\$5,980,967 30</u>
Net Revenue	\$7,835,272 19	\$10,564,665 09
Dividends Paid	6,584,403 75	8,619,150 75
Balance	<u>\$1,250,868 44</u>	<u>\$1,945,514 34</u>
Carried to Reserves	\$522,246 71	\$728,139 97
Carried to Surplus	728,621 73	1,217,374 37
	<u>\$1,250,868 44</u>	<u>\$1,945,514 34</u>

WM. R. DRIVER, *Treasurer.*

BOSTON, MASSACHUSETTS, 25 May, 1903.

FREDERICK P. FISH, Esquire,

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 March 31, 1903.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, May 25, 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 March 31, 1903, 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 October, 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 June 30, 1903.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, October 10, 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 June 30, 1903, 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, 28 November, 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 September 30, 1903.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, November 28, 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 September 30, 1903, 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.

BOSTON, MASSACHUSETTS, 28 November, 1903.

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President American Telephone and Telegraph Co.,

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Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, November 28, 1903.

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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.

BOSTON, MASSACHUSETTS, 5 March, 1904.

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 December 31, 1903.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, March 5, 1904.

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, 1903, 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.

