

1905

ANNUAL REPORT

OF

THE DIRECTORS

OF

AMERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1905.

PRESS OF
ALFRED MUDGE & SON,
BOSTON.
1906.

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AMERICAN TELEPHONE & TELEGRAPH COMPANY

OFFICERS FOR THE YEAR 1905.

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.	HENRY S. HOWE.
GEORGE F. BAKER.	CHARLES EUSTIS HUBBARD.
FRANCIS BLAKE.	CHARLES E. PERKINS.
CHARLES P. BOWDITCH.	WILLIAM LOWELL PUTNAM.
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.

NEW YORK, March 27, 1906.

TO THE STOCKHOLDERS:

The results of the business for the year 1905, as shown by the Treasurer's statement appended, were as follows:—

Gross Revenue	\$21,712,831.29
Expenses, including interest and taxes	8,678,792.90
Net Revenue	13,034,038.39
Dividends paid	9,866,355.00
Carried to Reserve	1,743,295.16
Carried to Surplus	1,424,388.23

The following were the corresponding figures for the year 1904:—

Gross Revenue	\$18,546,659.21
Expenses, including interest and taxes	7,270,957.46
Net Revenue	11,275,701.75
Dividends paid	9,799,117.50
Carried to Reserve	586,149.20
Carried to Surplus	890,435.05

The net output of telephones during the year 1905 was 1,217,694, making the total number in the hands of the operating companies 5,698,258.

The number of exchange stations at the end of the year operated by the companies which constitute our system in the United States was 2,241,367, an increase of 441,734. In addition to this number there were 246,337 exchange and toll stations operated by so-called sub-licensees, namely, independent companies or associations under sub-license or connection contracts and making use of our telephones. Adding also our telephones employed for private-line purposes, our companies had a total of 2,528,715 stations as against 2,003,213 stations at the close of the previous year.

The total mileage of wire in use for exchange and toll service was 6,043,518 miles, of which 1,372,480 miles were added during the year. These figures do not include the mileage of wire operated by sub-licensees.

Including the traffic over the Long Distance lines, but excluding sub-licensees, the daily average of toll connections was about 368,000, and of exchange connections about 13,543,000, as against corresponding figures in 1904 of 301,000 and 11,149,000; the total daily average for 1905 reaching 13,911,000, or at the rate of about 4,479,500,000 per year, being 54 telephone calls for each man, woman and child in the United States.

The amount added to construction and real estate by all the companies, excluding sub-licensees, constituting our system in the United States during the year 1905, was:—

For Exchanges	\$36,771,312
For Toll Lines	9,832,204
For Land and Buildings	4,177,390
	<hr/>
	\$50,780,906

The amount added in 1900 was \$31,619,100; in 1901, \$31,005,400; in 1902, \$37,336,500; in 1903, \$35,368,700; and in 1904, \$33,436,700; making the grand total of expenditure upon these properties during the six years \$219,547,306.

The amount expended by this Company in 1905 for the construction, equipment and supplies required for its own Long Distance lines was \$3,805,053, making the total investment in Long Distance lines and equipment, up to the close of the year, \$34,694,763.

The growth of the business during the past year has been greater than ever before. There is no doubt that the business will continue to increase. The use of the telephone is extending more and more in every section of the country and in every class of the community. It is revolutionizing business methods and social relations to a substantial extent.

The added experience of each year shows more clearly what are the specific requirements which must be met in order to make our telephone system as useful as possible. It is the effort of the Bell companies to adapt the service to the demands of large and small users, business and residence, in large and small cities, rural towns and country districts of various kinds, and to devise and introduce rate schemes that will fit the many and diverse conditions with which the companies are confronted. In pursuance of this policy, combinations of individual and party lines have been introduced; special equipment has been devised for hotel, department store, apartment house, and private branch exchange service; prepayment coin boxes, public pay stations and special farmer and ranch line service have

been provided, in each case with suitable rates adapted to the user and to the service. The enormous growth of the system during the past few years would have been impossible if the utmost attention had not been given to the differentiation required for such varied uses. Every year it becomes more clear how best to meet the needs of the public, and it is in large part because we are better able to fit the service to the varying requirements and thus broaden the field of use, that the demand for telephone service and the extent to which the service is used is increasing far beyond any increase that is due to the development of population or the expansion of business and social activity. Everything that makes the service of greater value, in and of itself accelerates the rate at which the business will grow, and outside of improvements in the service itself, which have been and are constantly effected, there is nothing which adds so much to the value of the service to those who employ it, as the increase in the number of subscribers and the extension of the service into every field.

The entire history of the electrical transmission of human speech is contained within the thirty years that have elapsed since 1876, when the telephone was invented.

The telephone itself, although it has been improved from time to time, was an extremely satisfactory instrument from a comparatively early date.

The great difficulty on the technical side of the business resided in the development of apparatus and methods which would render efficient that general intercommunication among telephone subscribers which

characterizes the business. The improvements in apparatus and methods designed to bring about this vitally important result have been extraordinary in quality and number. By reason of them, not only is a service given, the extent and character of which could hardly have been deemed possible in the early days of the business, but there have been attained a permanency of equipment and a relative economy in construction and operation which are in striking contrast to the earlier conditions.

Only a comparatively few years ago the bulk of the exchange plant throughout the country was of a character which telephone experts now recognize to have been extremely crude as compared with present standards. From the beginning the business grew beyond expectation, but it was only when it had attained a substantial growth that the real nature of the problems to be solved became so clear as to permit of the general application of what we know now to be sound and permanent methods of construction and development.

Since the very rapid increase in the business, which began in the last year of the nineteenth century, the art has so far developed as to create, to a large extent, conditions of definite stability. Apparatus of a permanent type has been devised and put into use; to a constantly greater degree, uniform and standard methods of engineering have been applied in all new work and in the reconstruction of old work; more effective methods of operation have been employed. Moreover, great progress has been made in the direction of systematic organization, proper inspection and supervision, and in the adoption of methods of accounting adapted to the

complicated requirements of a business dealing with an infinite number of small units of service.

On the executive and business side there has been a development equally on right lines. It was and is a definite advantage that the control of an enterprise extending throughout the United States was not so definitely centralized as to prevent local initiative and an obligation on the part of competent men in each section of the country to grapple on the spot with the peculiar problems which each locality has developed. The country is covered by our associated operating companies, nearly forty in number, each having its own trained officials in every department, and its own Board of Directors, made up of men of standing in their respective communities who know and sympathize with the needs of those communities. In this way many of the great problems of the business, including the greatest of all problems, that of rates, which was discussed to some extent in our last annual report, have been studied and dealt with practically, by a large number of organizations, each in touch with the peculiar conditions of its own locality, but all so related as to give to each the benefit of the views and experience of the others. While many problems are still unsettled and new ones arise every year, great progress has been made toward the establishment of sound views as to the way in which the business should be handled so as to give satisfactory service everywhere and to all classes in the community, at as reasonable rates as are consistent with the maintenance of good service and with the development of the business on safe lines. There is, every year, a better understanding on the

part of our companies with the communities in which they respectively work, the companies appreciating more clearly the needs of those communities and the people recognizing that the companies are endeavoring to conduct a difficult public service on sound, fair, and honest lines.

Speaking generally, the business of our organization throughout the country is at the present time on as permanent a basis as that of any large business enterprise serving the public. It is protected by the grant from the proper authorities of rights in cities and towns and rights of way for toll lines that, in almost every instance, afford the necessary assurance of business permanency; and the necessity of the service is so thoroughly recognized that additional rights of this character are, as a rule, readily secured by a fair and reasonable understanding with those from whom such rights must be obtained.

The plant is to a large extent stable and standard. Fifty-four and one-tenth per cent., in miles, of all the exchange wire in the country is now in cables underground; and in the very many places where for technical or economical reasons it is impossible to go underground with exchange circuits, overhead cable construction has taken the place of the open wires formerly in use, to the great advantage of the telephone companies and their subscribers, inasmuch as liability to injury by storms is reduced and the service greatly improved.

At the end of the year 1905, all except about twenty per cent. of the exchange wire in the Bell system was in cables, overhead or underground.

At the present time, the companies making up the Bell system have in use not less than three hundred and twenty million pounds of copper wire, much of it in cables of a permanent type, the value of which, as copper, if removed and sold, it is easy to estimate; not less than 8,000,000 poles and 95,000,000 duct feet of underground conduit are installed and in use to support or contain this wire; but the actual value of this aerial and underground plant is no more to be measured by the value of the raw materials than is the value of a first-class railway in actual service to be based upon what could be realized from the rails and sleepers if they were to be removed and sold as junk.

The real estate owned by the companies making up the Bell system, at the end of the year 1899, amounted to \$12,997,458; at the end of the year 1905 it was \$29,763,741.

The requirements of the telephone business are such that in the larger cities it is a distinct economy and great advantage to the service that the companies should own their own buildings. Even in the smaller places, it is often impossible to find proper quarters that may be leased, and an intelligent and conservative investment in real estate is as essential an element of a proper and well organized telephone system as poles and wires and central office equipment.

Since January, 1900, the number of telephones in the hands of our companies increased from 1,580,101 to 5,698,258; the total number of stations using Bell telephones, from 675,761 to 2,528,715; the miles of wire in toll and exchange use, from 1,518,609 to 6,043,518; the

number of officers and employees of all classes, from 29,599 to 87,212; the number of yearly conversations, from 1,708,800,000 to 4,479,500,000. The American Bell system of the United States now exceeds, in the number of subscribers, mileage of wire and extent of traffic, the telephone systems of Great Britain and all of continental Europe combined.

The American Telephone and Telegraph Company is the central company of a great organization which is giving telephone service throughout the country. Much of the operation, namely, all that which is local in its character, is done through its associated companies, each of which controls a definite territory within which it supplies telephone service. The American company itself owns and operates a comprehensive system of long distance lines extending through and interconnecting the territories of the associated operating companies, which covers the United States from the Atlantic seaboard to and beyond Minneapolis, Omaha, Kansas City and the eastern portion of the Indian Territory. Its investment in these long distance lines is about \$35,000,000. Aside from the long distance lines, its telephones which are leased to operating companies, and its real estate to the value of about \$2,500,000, substantially all of its assets consist of securities of the associated companies.* These securities are carried on the company's books at a valuation that is distinctly

* In addition to its interests in the associated telephone companies, the American company holds stock in the Western Electric Company, which is a large manufacturer of telephone and other electrical apparatus and supplies. Outside of the United States, it is a holder of stocks and bonds in the Bell Telephone Company of Canada.

conservative. To do its proportionate part, in the development of the business of those companies, the American Telephone and Telegraph Company sells and issues its own stock and bonds, investing the proceeds in stock, bonds and notes of the associated companies.

The funds thus paid by this company into the treasuries of the associated companies, together with those derived from issues of stock to the other stockholders and from other purchasers of the securities of those companies, furnish the means to enable the associated companies to extend their properties, to construct and enlarge their exchanges, connect hundreds of thousands of new subscribers, and to build toll lines and erect buildings for the operation of central offices.

Briefly stated, practically all of the money paid into the treasury of this company by subscribers to our issues of stock or bonds, with the exception of that expended from year to year for our own long lines and telephones, passes into the treasuries of our associated companies, in exchange for their securities, and is by them expended exclusively upon construction and additions to the plant.

Through this process, the issues of securities by the associated companies, to the extent of our purchase of those securities, reappear in the capitalization of this company, that is to say, each \$1000 realized from the securities of the American Telephone and Telegraph Company which is paid over by it into the treasury of one of its associated companies appears again in the form of \$1000 of the securities of the company into whose treasury it is paid, and by which it is invested in plant.

In like manner the dividends of the associated companies, that are paid to our company, reappear in the dividends paid by our company to its stockholders.

Dealing with the capitalization of the companies in view of what has just been stated, that is to say, presenting the fact exactly as it exists, the aggregate capitalization of the American Telephone and Telegraph Company and its associated companies in the United States, including capital stock, and bonded and floating debt, was on January 1, 1906, as shown in the following table, which also shows certain other details of capitalization:—

Entire capitalization (stock, bonds and all obligations as above) of all the companies, including this company	\$334,524,583
Number of Stations (excluding sub-licensee and private line stations)	2,241,367
Average capitalization per Station	\$149
Deducting cost Toll Lines	\$99,293,987
Balance, Cost of Exchanges*	\$235,230,596
Average capitalization per Station (excluding toll line investment)*	\$105
Miles of Toll Wire	1,265,236
Average investment per mile of Toll Wire	\$78

It is only upon the aggregate capitalization above stated, that our companies, including the American Telephone and Telegraph Company have to earn and pay dividends and interest.

* In these items are included all the capitalization and investment of the companies, excepting only the cost of toll lines.

It is to be borne in mind that these figures of capitalization and investment per station and per mile of toll wire are an average of all the stations and toll wire throughout the country. In many instances it is greater and in others less than the figures given, the cost in any particular case depending upon the character of the stations and toll lines, the condition of the plant with which they are associated and the cost of construction, which varies greatly under different conditions, such as the size of the city or town in which our exchange exists and the character of the country through which a toll line runs.

There has been from year to year a constant reduction in the investment per station, which has continued even through the recent years in which the cost of raw material and of labor has been much greater than ever before. This is due in part to economies in other directions, but mainly to two causes: first, the introduction of sound engineering and construction methods, which tend directly to economy of installation; and, second, to the fact that there have been developed to a substantial extent new classes of service, such as party and farmers' lines, private branch and hotel service and extension sets, where the cost per unit is much less than that of a special circuit and central office apparatus for each individual station of a standard exchange.

The average cost of operation per station throughout the system has also been substantially reduced from year to year, in part from the same causes that have brought about a reduction in the investment per station.

It is largely because of this reduction in the cost of construction and of operation, that the Bell companies

have everywhere been enabled to make such a marked reduction in their average rates during the past few years. The value of the service has been greatly increased by the addition to the system of a constantly increasing number of subscribers, many of whom were of the new classes to which the service has been extended and which required a relatively low rate. For a substantially more valuable and efficient service, small users are now actually paying less than ever before and the cost to large users per unit of service has been reduced to at least an equal degree.

At the present time, the reduction in cost of construction and operation is still continuing and the public everywhere is constantly getting the benefit of this reduction in a lowering of the average rate for telephone service throughout the country. It is the policy of all the companies so to adjust their rates from time to time, that, taking all things into consideration, the net earnings will afford only a fair return upon the investment, after providing proper reserves for depreciation and the natural contingencies of the business.

The figures above given show that the investment cost of our companies is reasonable and their basis of capitalization conservative. All the new money which comes into the business is invested, dollar for dollar, in plant, and every effort is made to apply the money as economically and effectively as possible. No stock or securities are issued except for actual capital, necessary to provide adequate facilities for the business.

The active competition which has existed for many years in many portions of the country still continues, in some cases to the detriment of certain of our com-

panies. It seems clear, however, that within the last three years the general situation, in so far as competition is concerned, has become distinctly more favorable to our interests.

In many portions of the country in which our business was unprofitable a few years ago, it is now in satisfactory condition, and there are but few companies of those which have had to face strenuous competition in which there are not definite indications of an improved condition. In some instances the recovery may be slow, but we believe that it is sure to come everywhere in a reasonable time.

That the competition of two telephone companies, operating in the same field, is an economic mistake, from the standpoint both of the investor and the telephone-using public, is coming to be more and more fully recognized.

The subscriber, to derive the greatest value from telephone service, should be enabled to connect with all subscribers in his exchange area. If there are two companies, the subscriber having considerable business interests finds it almost indispensable that he should be connected with both companies, at increased cost and inconvenience. Those who have the service of one company only cannot carry on conversation by telephone with the subscribers of the other company and have therefore no connection with a portion of the telephone using public.

The competing companies, having an erroneous idea of the cost of giving service, for the most part undertook to secure subscribers by offering telephone service at a price that was unremunerative. This has been shown

in many ways, among others by their repeated efforts to raise the low rates originally established. Many of them were and are capitalized at a high rate, from \$200 or \$250 and even above \$350 per station, as compared with a much lower average per station of the Bell companies operating under similar conditions; and their gross revenue, as far as the same is made public, is, as a rule, far below the amount requisite to cover expenses of operation and even a moderate return upon the capitalization. It is hard to find a competing company that in its published figures does not purport to operate at an aggregate expense of not more than sixty per cent. of its gross receipts; and in some cases from the figures and prospectuses of such companies it would appear that from thirty-five to fifty per cent. of the gross receipts are regarded as sufficient to pay all the expenses of carrying on the business, including maintenance and depreciation, to the extent to which, as is not infrequently the case, these essential items of expense are not ignored.

The gross revenue of the Bell Telephone companies throughout the United States for the year 1905 was \$100,440,264; and their total expenses, including a proper allowance for maintenance and depreciation, were \$74,110,795; the ratio of expense to gross income being seventy-four per cent. Eliminating all items of revenue and expense except those relating directly to the telephone business, the ratio of expense to gross revenue was about seventy-three per cent. It seems reasonable to suppose that a proper recognition of the element of depreciation and maintenance would in many, if not in most, cases carry the expenses of the

competing telephone companies to a point so nearly equal to (if not exceeding) their gross receipts as to leave but little, if any, margin of return upon capital investment.

There are a large number of independent telephone companies and associations whose projectors entered into the business and invested their capital in entire good faith, and with the purpose of supplying service in small communities and rural districts which our system had not yet developed.

There has been a growing disposition on the part of organizations of this class, as is evidenced by the large increase of the number of sublicensee stations, to adopt the use of Bell telephones and connect themselves with the systems of our companies. This is true, also, of a considerable number of companies which have operated in direct competition with the Bell exchanges.

It is the duty of our companies to employ the best business methods, to adhere to their conservative capitalization, to continue their efforts to establish and maintain the highest practicable standards of efficiency, both in engineering and in operation, and to give to every portion of the public, as far as possible the class of service that it requires, and at the lowest rates consistent with a proper return upon the investment. It is in the public interest that this return shall be such as will attract the capital that must be furnished from time to time for many years to come, in order to build up what the inhabitants of this country need, namely, a national telephone system in which, within the limits that are physically possible, every subscriber can be connected with every other subscriber throughout the land.

In spite of the great progress that has been made in the past few years our work is not yet completed. We have still much to learn and many improvements to make before our business can be brought to the perfection for which we aim. The zeal and energy with which throughout the country, the executive officers the engineers, the traffic men and others upon whom the future development of the service depends, are working for the results we hope to attain, afford every assurance that there will be continuous progress from year to year in the right direction, and we believe that our efforts to give the country such a telephone service as it requires is appreciated and will be more appreciated as time goes on.

At a special meeting of the stockholders held December 21, 1905, authority was given to issue convertible bonds of the Company to the amount in the aggregate of \$150,000,000.

By the terms of a contract dated February 8, 1906, convertible bonds to the amount of \$100,000,000 were sold to Messrs. J. P. Morgan & Company, Kuhn, Loeb & Company, Kidder, Peabody & Company and Baring Brothers & Company, Limited. The terms of the sale were favorable to the Company, and your Directors believe that the transaction was of distinct advantage to the Company and to each individual shareholder.

It is expected that the funds provided by this sale will supply the money required for the development of the business until well into the year 1908, including the payment of \$20,000,000 of notes of the company due May 1, 1907.

Appended hereto, as usual, are a series of compara-

tive 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, 1905; also a comparative statement of the earnings and expenses for the years 1904 and 1905 and copies of the reports of the Committee on Treasurer's Accounts of May 20, October 13, and December 2, 1905, and March 7, 1906. There is also appended a list of the stocks and bonds of the associated companies, owned by this Company.

On the back of the cover of this report is a diagram illustrating graphically the growth in telephone stations connected with the Bell system throughout the United States, from the beginning to the thirty-first day of December, 1905.

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, 1896.	Dec. 20, 1897.	Dec. 20, 1898.	Dec. 20, 1899.	Dec. 20, 1900.
772,627	919,121	1,124,846	1,580,101	1,952,412
97,651	146,494	205,725	455,255	372,311

Dec. 20, 1901.	Dec. 20, 1902.	Dec. 31, 1903.	Dec. 31, 1904.	Dec. 31, 1905.
2,525,606	3,150,320	3,779,517	4,480,564	5,698,258
573,194	624,714	629,197	701,047	1,217,694

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

	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Jan. 1, 1905.	Jan. 1, 1906.	In- crease.
Miles of Pole Lines	60,453	67,791	75,718	89,292	101,087	110,459	122,409	130,178	136,547	145,535	8,988
Miles of Wire....	268,866	324,888	385,911	501,832	607,599	716,265	837,912	975,702	1,121,228	1,265,236	144,008

TOLL CONNECTIONS.

The average daily number of toll connections is 368,088
 Or a total per year of about 118,522,000

EXCHANGES OF THE BELL COMPANIES IN THE UNITED STATES.

	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Jan. 1, 1905.	Jan. 1, 1906.	Increase.
Exchanges .	967	1,025	1,126	1,239	1,348	1,411	1,514	1,609	} 4,080	4,532	452
Branch Offices	832	937	1,008	1,187	1,427	1,594	1,861	2,131			
Miles of wire on poles and buildings .	299,226	341,091	411,832	524,123	644,730	841,140	1,109,017	1,358,140	1,654,379	2,183,167	528,788
Miles of wire underground	234,801	282,634	358,184	489,250	705,269	883,679	1,328,685	1,618,691	1,888,760	2,585,742	696,982
Miles of wire submarine .	2,818	2,675	2,973	3,404	4,203	4,200	6,048	6,358	6,671	9,373	2,702
Total miles of wire . . .	536,845	626,400	772,989	1,016,777	1,354,202	1,729,019	2,443,750	2,983,189	3,549,810	4,778,282	1,228,472

4,514,682

See next annual report

EXCHANGES OF THE BELL COMPANIES—Continued.

	Jan. 1, 1897.	Jan. 1, 1898.	Jan. 1, 1899.	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Jan. 1, 1905.	Jan. 1, 1906.	In- crease.
Total Circuits .	264,645	295,904	338,293	422,620	508,262	592,467	742,654	798,901	930,251	1,185,449	205,198
Total Employees	14,425	16,682	19,668	25,741	32,837	40,864	50,350	53,795	59,451	74,718	15,267
Total Stations .	325,244	384,230	465,180	632,946	800,880	1,020,647	1,277,983	1,525,167	1,799,633	2,241,367	441,734

EXCHANGE CONNECTIONS.

The estimated number of exchange connections daily in the United States, made up from actual count in most of the exchanges, is 13,543,468

Or a total per year of about 4,360,996,000

The number of daily calls per station varies in different exchanges, the average throughout the United States being about 6.

LEDGER BALANCES, DEC. 31, 1905.

DEBTORS.

Construction, Equipment and	
Supplies	\$34,694,763 91
Telephones	8,507,144 98
Real Estate	2,577,869 87
Stocks and Bonds	161,554,277 28
Patent Account	248,884 35
Machinery and Tools	96,168 81
Cash and Deposits	4,841,992 57
Notes and Accounts Receivable,	36,676,200 14
American Bell Telephone Co.,	22,110,400 00
Old Colony Trust Co., Trustee,	25,000,000 00

CREDITORS.

Capital Stock	\$158,661,800 00
Surplus	7,025,487 88
Bonds	48,000,000 00
Bonds (Collateral)	25,000,000 00
Notes	20,000,000 00
Reserves	9,208,834 68
*Accounts Payable	9,760,869 05
Contingent	18,645,210 25
	\$296,302,201 86
	\$296,302,201 86

WM. R. DRIVER, *Treasurer.*

* Of this amount, \$2,950,906.50 is for the dividends payable January 15, 1906, to stockholders of record December 30, 1905.

Comparative Statement of Earnings and Expenses.

EARNINGS.

	1904.	1905.
Dividends	\$8,400,301 18	\$8,897,879 95
Rental of Instruments	3,488,605 54	3,896,151 27
Telephone Traffic	5,575,447 90	6,529,556 82
Real Estate	76,782 49	82,384 46
Interest	1,055,522 10	2,306,858 79
	\$18,546,659 21	\$21,712,831 29

EXPENSES.

Expenses of Administration	\$1,187,023 37	\$1,318,586 32
(including Legal 1904, \$83,530 42)		
1905, 93,126 68)		
Interest and Taxes	2,670,083 61	3,578,681 86
Telephone Traffic	3,413,850 48	3,786,524 72
	\$7,270,957 46	\$8,678,792 90
Net Revenue	\$11,275,701 75	\$13,034,038 39
Dividends Paid	9,799,117 50	9,866,355 00
Balance	\$1,476,584 25	\$3,167,683 39
Carried to Reserves	\$586,149 20	\$1,743,295 16
Carried to Surplus	890,435 05	1,424,388 23
	\$1,476,584 25	\$3,167,683 39

WM. R. DRIVER, *Treasurer.*

BOSTON, MASSACHUSETTS, 20 May, 1905.

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, 1905.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, May 20, 1905.

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, 1905, 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, 13 October, 1905.

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 June 30, 1905.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, October 12, 1905.

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, 1905, 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, 2 December, 1905.

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 September 30, 1905.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, November 28, 1905.

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, 1905, 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, 7 March, 1906.

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, 1905.

Respectfully yours,

FRANCIS BLAKE,

Committee on Treasurer's Accounts.

BOSTON, February 28, 1906.

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, 1905, 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.

LIST OF STOCKS AND BONDS OWNED BY
AMERICAN TELEPHONE & TELEGRAPH COMPANY

DECEMBER 31, 1905.

	Shares	Per cent of Whole Stock
Bell Tel. Co. of Buffalo - - -	30,890	50.23
Canada, Ltd. - - -	34,721	38.58
Missouri - - -	34,508	66.27
Philadelphia - - -	*258,351	80.81
Cent. Dist. & Ptg. T. Co. - - -	66,940	66.94
Cent. New York T. & T. Co. - - -	6,603	68.67
Cent. Union Telephone Co. - - -	41,839	76.76
Ches. & Potomac T. Co. - - -	15,121	57.06
Chicago Telephone Co. - - -	72,850	52.04
Cincinnati & Sub'n Bell T. Co - - -	*27,163	30.00
Cleveland Telephone Co. - - -	7,000	22.58
Colorado Telephone Co. - - -	*57,501	52.81
Cumberland T. & T. Co. - - -	70,056	52.09
Empire State T. & T. Co. - - -	1,378	68.94
Hudson River Telephone Co. - - -	20,831	52.00
Iowa Telephone Co., Pref. - - -	†36,996	99.19
Common - - -	†12,780	25.29
Missouri & Kansas T. Co. - - -	19,442	53.72
Nebraska Telephone Co. - - -	15,372	58.33
New England T. & T. Co. - - -	161,839	58.27
New York Telephone Co. - - -	322,157	64.43
New York & N. J. Tel. C. - - -	15,115	8.78
New York & Pa. T. & T. Co. - - -	5,007	50.07
Northwestern Tel. Exchange Co. - - -	*21,496	17.91
Pacific States T. & T. Co. - - -	85,172	50.10
Pennsylvania Tel. Co. - - -	*40,173	61.88
Pioneer T. & T. Co. - - -	5,060	57.62
Providence Telephone Co. - - -	*12,000	30.00
Rocky Mountain Bell T. Co. - - -	11,759	51.04
So. Bell T. & T. Co. - - -	147,945	99.96
So. New England Tel. Co. - - -	16,590	33.18
Southwestern T. & T. Co. - - -	16,402	16.40

* Par, \$50.

†Par, \$25.

Western Electric Co. †	-	-	-	72,099	60.08
Western T. & T. Co., Pref. §	-	-	-	121,876	76.17
			Common	91,435	57.15
Wisconsin Telephone Co.	-	-	-	5,051	16.77
Miscellaneous	-	-	-	5,662	

BONDS

Bell Telephone Co. of Canada, Ltd.	-	\$301,000
Cent. Union Tel. Co.	-	1,000,000
Duluth Telephone Co.	-	210,000
Iowa Telephone Co.	-	750,000
New England T. & T. Co.	-	581,000
Miscellaneous	-	138,000

The par value of the above-named stocks is \$100, except when otherwise stated.

† The Western Electric Company is a large Manufacturing Corporation having factories in New York and Chicago.

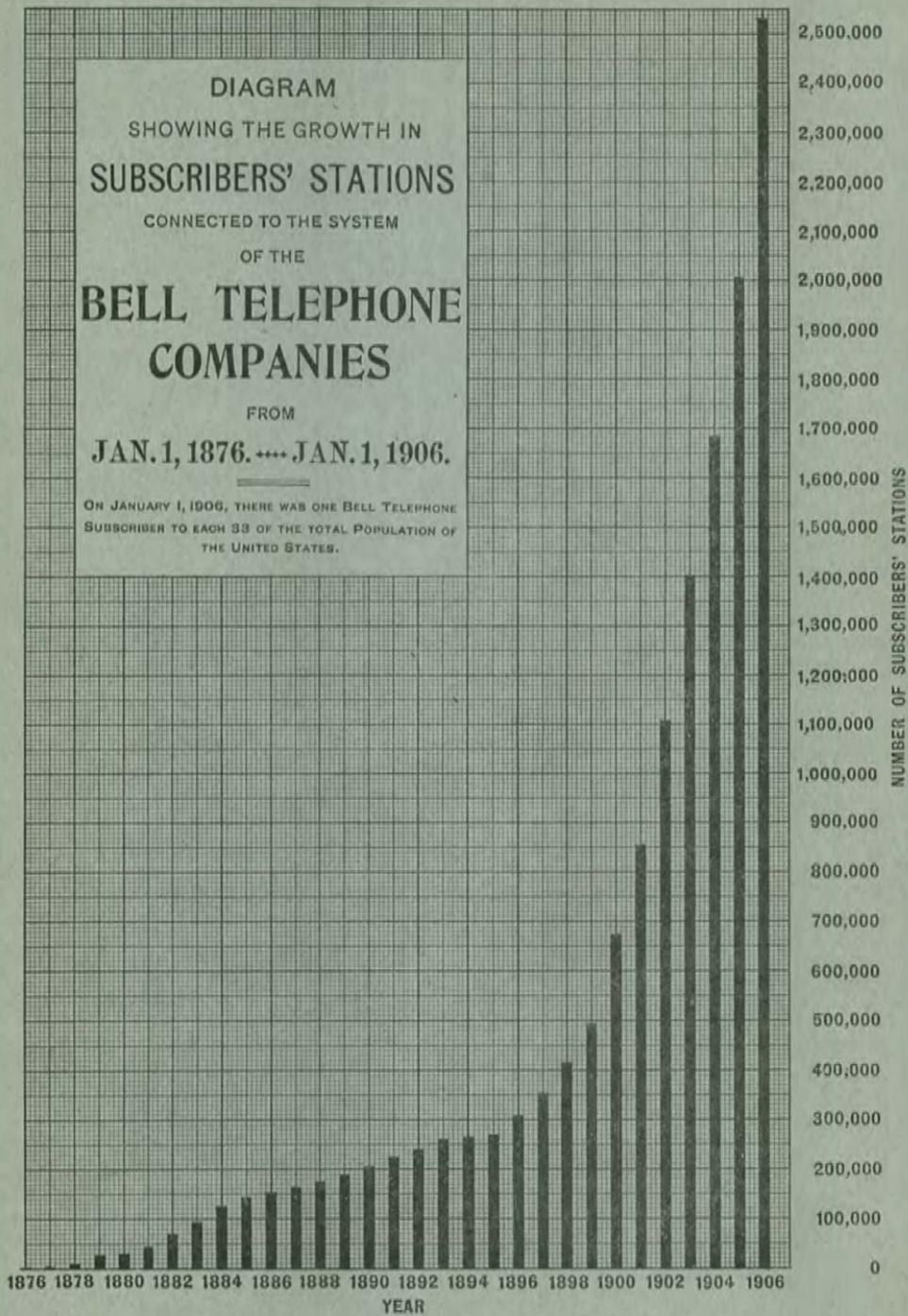
§ The Western Telephone & Telegraph Company owns:

Cleveland Telephone Co.	-	-	24,000	77.42
Northwestern Teleph. Exch. Co.	-	-	98,504	82.09
Southwestern T. & T. Co.	-	-	83,598	83.60
Wisconsin Telephone Co.	-	-	24,746	82.19

DIAGRAM
 SHOWING THE GROWTH IN
 SUBSCRIBERS' STATIONS
 CONNECTED TO THE SYSTEM
 OF THE
**BELL TELEPHONE
 COMPANIES**

FROM
JAN. 1, 1876. JAN. 1, 1906.

ON JANUARY 1, 1906, THERE WAS ONE BELL TELEPHONE
 SUBSCRIBER TO EACH 33 OF THE TOTAL POPULATION OF
 THE UNITED STATES.



NUMBER OF SUBSCRIBERS' STATIONS

YEAR