1908

ANNUAL REPORT

OF

THE DIRECTORS

OF

AMERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1908

BOSTON
GEO. H. ELLIS CO., PRINTERS, 272 CONGRESS STREET
1909

1908

ANNUAL REPORT

OF

THE DIRECTORS

OF

AMERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1908

BOSTON
GEO. H. ELLIS CO., PRINTERS, 272 CONGRESS STREET
1909

American Telephone & Telegraph Company

OFFICERS FOR THE YEAR 1908

THEODORE N. VAIL, ...	*President*
EDWARD J. HALL, ...	*Vice-President*
BERNARD E. SUNNY, ...	*Vice-President*
CHARLES P. WARE, ...	*Vice-President*
WILLIAM R. DRIVER, ...	*Treasurer*
CHARLES EUSTIS HUBBARD, ...	*Secretary*

DIRECTORS

CHARLES W. AMORY.
THOMAS B. BAILEY.
GEORGE F. BAKER.
FRANCIS BLAKE.
HARRY H. BRIGHAM.
ALEXANDER COCHRANE.
T. JEFFERSON COOLIDGE, JR.
W. MURRAY CRANE.
GEORGE L. GREEN.
HENRY S. HOWE.
CHARLES EUSTIS HUBBARD.
WILLIAM LOWELL PUTNAM.
THOMAS SANDERS.
SYLVANUS L. SCHOONMAKER.
NATHANIEL THAYER.
THEODORE N. VAIL.
JOHN I. WATERBURY.
MOSES WILLIAMS.

REPORT OF THE DIRECTORS

OF

AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

NEW YORK, March 16, 1909.

TO THE STOCKHOLDERS:

Herewith is respectfully submitted a general statement covering the business of the Bell system as a whole, in addition to the report of the American Telephone and Telegraph Company, for the year 1908.

BELL SYSTEM IN THE UNITED STATES.

SUBSCRIBER STATIONS.

The number of stations at the end of the year operated directly by the associated companies which constitute our system in the United States was 3,215,245, an increase of 179,712. In addition to this number, there were 1,103,144 exchange and toll stations connected to our system by our toll and long-distance lines, but operated by local, co-operative and rural independent companies or associations having sub-license or connection contracts. Adding also our telephones employed for private line purposes, there was a total of 4,364,629 stations connected to the Bell system as against 3,839,000 stations at the close of the previous year, an increase of 525,629 stations.

WIRE MILEAGE.

The total mileage of wire in use for exchange and toll service was 9,830,718 miles, of which 1,220,126 were added during the year. These figures do not include the mileage of wire operated by sub-licensees.

TRAFFIC.

Including the traffic over the long-distance lines, but not including sub-licensees, the daily average of toll connections was about 463,000, and of exchange connections about 18,500,000, as against corresponding figures in 1907 of 494,000 and 18,130,000; the total daily average for 1908 reaching 18,963,000, or at the rate of about 6,106,000,000 per year.

PLANT ADDITIONS.

The amount added to plant and real estate by all the companies, excluding sub-licensees, constituting our system in the United States during the year 1908 was:—

For exchanges	$15,824,000.
For toll lines	8,812,600.
For land and buildings*	2,000,600.
	$26,637,200.

*Not including a large amount of real estate purchased from the American Telephone and Telegraph Company during the year.

PLANT ADDITIONS OF PREVIOUS YEARS.

The amount added in 1900 was $31,619,100; in 1901, $31,005,400; in 1902, $37,336,500; in 1903, $35,368,700; in 1904, $33,436,700; in 1905, $50,780,900; in 1906, $79,366,900; and in 1907 $52,921,400, making the grand total of expenditure upon these properties during the nine years $378,472,800.

MAINTENANCE AND RECONSTRUCTION.

During the year $39,736,700 were applied out of revenue to maintenance and reconstruction purposes.

The total amount of maintenance and reconstruction charged against revenue for the last six years was over $186,700,000.

The result of the appraisements and studies on depreciation given below establishes the fact that our charges against revenue for maintenance and reconstruction are conservative and on the right side.

It would not be wise or good policy to reduce our maintenance until we have accumulated enough surplus to provide for and make possible any change of plant or equipment made desirable, if not necessary, by the evolution and development of the business.

In the meantime the public is getting the use of the surplus and reserve without being called on to meet charges on securities issued against it.

PERMANENCY OF PLANT.

There exists much misunderstanding as to the permanent value of a modern telephone plant. Originally exchange plants were open wire construction, largely on house-top fixtures and to a certain extent on poles. The central offices were in leased buildings, seldom fire-proof, the equipment was of various types and standards due to the rapid improvement or development then taking place.

Now the central offices in all the principal centres and in many of the less important are in fire-proof buildings built for the purpose and owned by the companies.

From these offices radiate the underground conduits connecting the central offices with each other and the various districts of the exchange territory. Through these subways the wires are run in cables of copper wire, sheathed with lead covering. The extensions of these lines are open wire, generally copper, or aërial cables strung on pole lines of substantial construction. The various cities and exchange territories are connected by means of pole lines of substantial construction, on which are strung for the most part copper wires. As fast as improvements in transmission methods make it possible, underground construction for long-distance trunk lines is being done. There are now underground conduits and cables between New York and Philadelphia, Chicago and Milwaukee, and a substantial part of the way between New York and Boston.

Of the total mileage of exchange wires over 57 per cent. is underground. Of the total value 84 per cent. is copper and 16 per cent. iron. Of toll wires 91 per cent. is copper and only 9 per cent. iron.

All the subways and pole lines are built, with few exceptions, under franchises which are actually or in effect permanent; the larger pole lines for a considerable part are built over rights of way actually owned by the companies, which were acquired at a cost of some $8,000,000, and could not now be acquired at many times that outlay, if at all.

The central office and sub-station equipment are uniform, and all of the highest standard. Each year shows a marked improvement in both durability and permanency of standard.

DEPRECIATION.

Studies have been made during the year to determine the actual rate of depreciation which should be provided for.

Figures from actual experience could be made for pole lines, iron wires and most of the central office and sub-station equipment, but underground conduits, copper wires, and cables must still be ascertained from experience.

Of the total value of the telephone plants owned by the American Telephone and Telegraph Company and associated companies:—

REAL ESTATE constitutes	9%
UNDERGROUND CONDUITS AND CABLES	20%
COPPER WIRES AND AËRIAL CABLES ON POLES	18%
POLE LINES NOT INCLUDING WIRES	26%

$8,000,000 of this represents ownership of rights of way over private property.

IRON WIRES	4%
CENTRAL OFFICE AND SUB-STATION EQUIPMENT	23%

As to the depreciation of property, REAL ESTATE is standard and established.

UNDERGROUND CONDUITS can be classed with REAL ESTATE, or rather with permanent construction on long-term ground rents.

CABLES AND COPPER WIRES have shown very small depreciation, and experience has not yet established a definite rate; there is, however, a net scrap value of 40 per cent.

IRON WIRES have a life of from eight to fifteen years.

POLE LINES have a life of from ten to sixteen years.

CENTRAL OFFICE AND SUB-STATION EQUIPMENT have a depreciation dependent on their character, the condition in which they are maintained, and on the policy of renewal or replacement by new or improved apparatus.

CONSTRUCTION FOR THE CURRENT YEAR.

Estimates of all the associated operating companies and of the American Telephone and Telegraph Company for all anticipated requirements for 1909 have been prepared. Maximum expenditure in each case has been agreed upon, and all who are responsible for the expenditures are working in entire accord with these agreements and understandings, and it is believed that the results will be, as they were in 1908, well within the limits fixed.

Associated Companies.

FINANCIAL CONDITION.

The associated operating companies of the United States (not including the American Telephone and Telegraph Company) commenced the year with a reasonable indebtedness, which has however been substantially reduced. The obligations of those companies to other than the American Telephone and Telegraph Company decreased for the year $2,709,000, while the cash on hand increased at the same time $2,295,000,—a net improvement in condition of $5,004,000.

During the year the Western Electric Company decreased its indebtedness $6,225,000 and decreased its cash $1,194,000, making a net improvement of $5,031,000 for that company.

The total improvement of our associate operating and manufacturing companies in the United States was thus over $10,000,000, bringing the current and floating indebtedness of all the associated companies well within the limits of current operations.

PHYSICAL VALUATION OF TELEPHONE PLANTS.

For the purpose of determining the relation between the physical plant and the capitalization, a valuation of the exchange, toll and long-distance line plant included in the Bell system in the United States was made in 1907. The valuation was based on the replacement cost of the existing plant. This appraisement gave our plants a value $35,000,000 in excess of the obligations outstanding against them.

No new valuation as a whole has been made, but several valuations of all or parts of the plants of several of the associated companies have been made either by or under the direction of public authorities.

In every case has the valuation so made exceeded the valuation as carried on the books.

If to this valuation be added the value of patents, franchises and rights of way, the position and strength of the business must be conceded.

The following statements will show the book value of plant, outstanding obligations existing against it, and the growth and financial condition of the associated companies.

BELL TELEPHONE COMPANIES IN UNITED STATES.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY NOT INCLUDED.

COMPARISON OF EARNINGS AND EXPENSES, 1907 AND 1908.

(DUPLICATIONS EXCLUDED.)

	1907.	1908.	Increase.
Gross Earnings	$120,753,200.	$127,117,200.	$6,364,000.
Expenses: Operation .	48,731,600.	49,083,800.	352,200.
Maintenance,	34,665,700.	37,204,200.	2,538,500.
Taxes . . .	4,510,700.	5,173,600.	662,900.
Total Expenses . .	87,908,000.	91,461,600.	3,553,600.
Balance Net Earnings .	32,845,200.	35,655,600.	2,810,400.
Deduct Interest	7,025,500.	6,973,700.	51,800.*
Balance	25,819,700.	28,681,900.	2,862,200.
Deduct Dividends . . .	19,206,100.	21,605,300.	2,399,200.
Undivided Profits . . .	6,613,600.	7,076,600.	463,000.

* Decrease.

COMBINED BALANCE SHEET, 1907 AND 1908.

(DUPLICATIONS EXCLUDED.)

ASSETS:	Dec. 31, 1907.	Dec. 31, 1908.	Increase.
Contracts and Licenses,	$8,800,200.	$8,107,600.	$692,600.*
Telephone Plant . . .	447,284,600.	475,034,600.	27,750,000.
Supplies, Tools, etc. .	16,238,700.	14,858,500.	1,380,200.*
Receivables	39,961,200.	36,359,400.	3,601,800.*
Cash	6,435,300.	8,730,400.	2,295,100.
Stocks and Bonds . .	22,642,300.	23,450,400.	808,100.
Total.	$541,362,300.	$566,540,900.	$25,178,600.
LIABILITIES:			
Capital Stock	$348,129,400.	$375,891,600.	$27,762,200.
Funded Debts . . .	37,115,300.	39,649,800.	2,534,500.
Bills Payable	92,615,100.	85,179,300.	7,435,800.*
Accounts Payable .	19,415,500.	17,205,500.	2,210,000.*
Total Outstanding Obligations . . .	497,275,300.	517,926,200.	20,650,900.
Surplus.	35,125,200.	34,491,500.	633,700.*
Depreciation Reserves,	8,961,800.	14,123,200.	5,161,400.
Total	$541,362,300.	$566,540,900.	$25,178,600.

*Decrease.

The decrease in "Surplus" account is due to a change in the dividend dates of several companies—bringing them within the quarter and year in which the earnings are made; and also to charging off all uncollectible and a large amount of doubtful accounts.

ENTIRE BELL SYSTEM, INCLUDING CANADA.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ASSOCIATED HOLDING AND OPERATING COMPANIES IN THE UNITED STATES AND CANADA, NOT INCLUDING CONNECTED INDEPENDENT OR SUB-LICENSEE COMPANIES.

We submit a balance sheet and earnings and expense statement of the Bell Telephone business as a whole, eliminating all duplications and showing the figures and results as if operated by a single company.

In addition to the above, there are associated or connected with and forming a part of the system for all purposes of communication, some 7,700 independent or sub-licensee companies operating over 1,100,000 stations, and representing an aggregate investment of capital which a few years since would have been considered ample for the whole country, probably over $100,000,000 in all.

COMPARISON OF EARNINGS AND EXPENSES, 1907 AND 1908. (ALL DUPLICATIONS, INCLUDING INTEREST, DIVIDENDS AND OTHER PAYMENTS TO AMERICAN TELEPHONE AND TELEGRAPH COMPANY BY ASSOCIATED HOLDING AND OPERATING COMPANIES, EXCLUDED.)

EARNINGS:	1907.	1908.	Increase.
From Exchange Service,	$90,782,300.	$95,847,700.	$5,065,400.
From Toll Service . . .	36,291,600.	37,600,100.	1,308,500.
From Other Sources . .	5,933,000.	6,568,600.	635,600.
Total Earnings . . .	$133,006,900.	$140,016,400.	$7,009,500.
EXPENSES:			
Operation	$47,554,800.	$47,329,300.	$225,500.*
Maintenance	38,372,800.	41,027,200.	2,654,400.
Taxes	5,013,700.	5,685,900.	672,200.
Total Expenses . . .	$90,941,300.	$94,042,400.	$3,101,100.
Balance Net Earnings . .	$42,065,600.	$45,974,000.	$3,908,400.
Deduct Interest	10,654,100.	11,034,500.	380,400.
Balance	$31,411,500.	$34,939,500.	$3,528,000.
Deduct Dividends	18,714,100.	21,338,100.	2,624,000.
Undivided Profits	$12,697,400.	$13,601,400.	$904,000

* Decrease.

COMBINED BALANCE SHEET, 1906, 1907 AND 1908.

(DUPLICATIONS EXCLUDED)

ASSETS:	Dec. 31, 1906.	Dec. 31, 1907.	Dec. 31, 1908.	2 Years' Increase.
Contracts and Licenses .	$ 9,162,000.	$ 9,078,000.	$ 8,107,600.	$ 1,054,400.*
Telephone Plant . . .	465,411,900.	521,514,500.	545,045,600.	79,633,700.
Supplies, Tools, etc. . .	18,588,100.	17,702,200.	16,130,700.	2,457,400.*
Accounts Receivable . .	23,653,100.	24,490,100.	20,689,900.	2,963,200.*
Securities and Loans .	24,374,000.	28,672,300.	35,154,400.	10,780,400.
Cash and Cash Assets .	8,444,800.	25,440,700.	54,916,000.	46,471,200.
Total . . .	$549,633,900.	$626,897,800.	$680,044,200.	$130,410,300.

LIABILITIES:				
Capital Stock . . .	$263,762,700.	$299,014,100.	$311,837,300.	$ 48,074,600.
Funded Debts . .	131,966,800.	198,776,700.	238,680,500.	106,713,700.
Bills Payable . . .	69,613,900.	45,175,700.	35,680,800.	33,933,100.*
Accounts Payable . .	25,190,000.	20,386,200.	21,605,700.	3,584,300.*
Total Outstanding Obligations . . .	490,533,400.	563,352,700.	607,804,300.	117,270,900.
Surplus	24,473,700.	32,737,600.	31,759,600.	7,285,900.
Depreciation Reserves, Plant	11,839,900.	15,227,800.	20,728,500.	8,888,600.
" " General	22,786,900.	15,579,700.	19,751,800.	3,035,100.*
Total	$549,633,900.	$626,897,800.	$680,044,200.	$130,410,300.

* Decrease.

The figures represent all the outstanding obligations belonging to the public, and the property which is represented by those outstanding obligations.

Particular attention is called to the decrease in "Supplies" and "Bills and Accounts Payable," which still include the $25,000,000. 1910 notes of the American Telephone and Telegraph Company and the $6,000,000. 1909 notes of the Western Telephone and Telegraph Company,—a total of $31,000,000. less $4,403,000. already purchased.

The "Surplus" account is after charging off patents, all discounts on notes and bonds of the past, and all uncollectible and a large amount of doubtful accounts.

WESTERN ELECTRIC COMPANY.

The business of the Western Electric Company, like that of all other manufacturing companies, has shown a shrinkage for the year—not entirely, however, from the same causes.

The business of the Western Electric Company outside of that with the American Telephone and Telegraph Company and associated companies shows a slight increase over 1906—the year of the largest aggregate business of the company.

The year's business would have shown a manufacturing profit sufficient to have provided for all charges if the company was expected to do only the amount of business equal to that done last year, but under an organization such as is necessary to care for the increasing business of the last five years and for the prospective business of the next five years, and after charging off even more than the usual depreciation, showed a loss.

We, after careful consideration, thought it would be far cheaper to maintain in its entirety the organization than to undertake to reconstruct it, particularly when we take into account the very large surplus of the company on the books, and the much greater actual surplus.

The latter part of the fiscal year ending December 1, 1908, showed a decided improvement and it is expected that the current year will be satisfactory to all.

The work of moving the manufacturing department from Chicago to Hawthorne, Ill., is proceeding as rapidly as possible, and the real estate in Chicago is on the market for sale. This property, which showed on the books of the Company at $2,700,000, has been appraised by the Chicago Real Estate Board at $3,755,000, and offers have been made for part at more than the appraisement.

The financial condition of the company was never better. Quoting from the annual report:—

"The quick assets (cash on hand and accounts and bills receivable) were $16,467,859 at December 1, 1908, or 43.5 per cent. more than all the payables (including current accounts) $11,477,033."

AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

The earnings of the year as shown by the statements on pages 29 and 30 show a decided improvement over last year and every previous year.

The net revenue was $18,121,707.26, out of which dividends of 8% were paid, amounting to $12,459,156.00, leaving a surplus of $5,662,551.26.

With no improvement, our dividend and other charges for the current year, including the increased dividend charges which would be due to the conversion of the outstanding convertible bonds into stock, if all were converted, would be provided for, leaving a handsome surplus. If the returns of the first two months are any indication, the current year will show the continued improvement shown in past years.

SHARE CAPITAL.

There were outstanding in the hands of the public at the close of the year 1,584,766 shares of capital stock. There were 26,370 shareholders with an average holding of 60 each. 26,213 shareholders held less than 1,000 shares each,—an average of 43 each; 153 shareholders from 1,000 to 10,000 each, with an average holding of 2,140 each; and four 10,000 or over each, holding a total of 121,516 shares.

Convertible Bonds.

The balance of the $150,000,000 convertible bonds were taken by the bankers who bought the first $100,000,000. These became convertible beginning March 2, 1909.

With the proceeds, the financing of our company for all current operations, including our financing of the associated companies, is completed for 1909 and 1910. This, of course, includes the payment of the $25,000,000 5 per cent. notes due in 1910, and also provision for the $6,000,000 5 per cent. Western Telephone and Telegraph Company's notes due in 1909.

Future Financing.

As to future financing, it is believed that it will be possible to so organize that a great part, if not all, of our semi-urban and rural expenditures can be financed locally and a considerable part of all other financing. This will reduce the necessary demands on the American Telephone and Telegraph Company for current operations to an amount which can be very easily taken care of.

American Telephone and Telegraph Company's Relations to Associated Companies.

The relations of the American Telephone and Telegraph Company and the associated companies are not generally understood. The American Telephone and Telegraph Company is primarily a holding company, holding stocks of the associated operating and manufacturing companies. As an operating company it owns and operates the long-distance lines, the lines that connect all the systems of the associated operating companies with each other.

In addition to these two functions it assumes what might be termed the centralized general administrative functions of all the associated companies.

The Bell system is one system telephonically inter-connected, inter-communicating and inter-dependent. This is such a system that any one of over 4,000,000 subscribers can talk with any other one within carrying power of the voice over wires, the only exception being that the Pacific Coast and the Middle Rocky Mountain region are not yet connected.

This system was built up under this policy and its continuance as a system depends on the continuance of the policy.

In the telephone business development is continuous. As conditions enlarge and change, new methods develop. The whole business suggests changes and stimulates inventions, and opportunities for improvements are frequent.

If each separate exchange or group of exchanges had not been assisted and directed in the development and introduction of these new ideas, methods and inventions, there would now be as many systems, as many methods of operating as there are separate companies. This would have made impossible the organization which now gives the Bell system that universality and preponderance on account of which no matter how many other systems may exist, every one of any commercial or social importance must have connection with the Bell system.

The same generalization runs through many departments. The companies are so organized, or fast becoming so, that every department continues through the local administration to the central administration of the American Telephone and Telegraph Company.

The American Telephone and Telegraph Company owns and maintains all telephones. It also owns either directly or through the Western Electric Company all patents.

It has a department which was organized at the very beginning of the business and has continued since, where is to be found practically everything known about inventions pertaining to the telephone or kindred subjects. Every new idea is there examined, and its value determined so far as the patent features are concerned.

The Engineering Department takes all new ideas, suggestions and inventions, and studies, develops, and passes upon them.

It has under continuous observation and study all traffic methods and troubles, improving or remedying them.

It studies all construction, present and future development or extension schemes, makes plans and specifications for the same, and gives when desired general supervision and advice. It has a corps of experts which, in addition to the above work, is at all times at the service of any or all of the separate companies.

When it is considered that some of these questions involve the permanency, duration and usefulness of a telephone plant costing millions of dollars, and changes costing hundreds of thousands, some idea of its importance can be formed. To give an illustration: one group of patents covering inventions which seemed likely to be useful and economical in the service was purchased by the company. These inventions were developed into operating apparatus and put into use. While this cost hundreds of thousands of dollars, placing it beyond the scope of one operating company, the saving already accomplished to the associated companies runs into the millions.

A large staff has been and is continuously engaged in the consideration of disturbances arising from transmission and other lines carrying heavy currents, and in many cases that any telephone system can even exist in the vicinity of such lines is due to the constant and continued attention given this subject.

Every new trouble, and there are many, comes before this department. When settled there, it is settled for all. This has established a commercial, operating and plant practice not only for our own associated companies, but for others of high standing throughout the world.

All devices or inventions submitted receive the most thorough and painstaking investigation, and it is safe to say that there has as yet been no instance where any invention, system or method, rejected by the Patent and Engineering Departments of the American Telephone and Telegraph Company has ever had any permanent success when used elsewhere.

The Manufacturing Department creates and builds the equipment and apparatus which have been adopted. In this way throughout the whole grand system will be found standardization and uniformity. This is not any handicap on improvement or development of the art, for, on the contrary, every suggestion or idea, and there are many, has abundant opportunity to be tested, which would not be possible otherwise. No one of the companies could by itself maintain such an organization, and it would be fatal to any service to introduce or try out undeveloped ideas in actual service.

In the Legal Department all the big and general questions are looked after. It forms a clearing house in all legal matters for all the legal departments of the separate companies to which assistance and advice are given on all questions of general scope.

In the administration all questions which affect all companies, all questions between the associated companies, and the general policy and the general conduct of the business, are considered and close touch and relationship maintained with all parts of the system. Experts on every subject connected with this business are continually at work on old or new subjects and ready at call to go to the assistance of any of the companies. In short, the great work and substantially all the expense of the American Telephone and Telegraph Company are involved in this "Centralized General Administration," taking care of all those matters which are common to all companies, or which if taken care of by each company would mean multiplication of work, effort, expense without corresponding advantage or efficiency.

To sum up, quoting the words of the representative of a large stockholding interest in one of the associated companies: "The contract relation with the American Telephone and Telegraph Company is the biggest asset this company has."

Criticism of Independents.

We have been criticised to some extent for our policy of publicity so far as it concerns the so-called "Independents." There has not been sufficient distinction between the "Independents" and the "Opposition" in the minds of the public. We have no quarrel with either. With many of the Independents we are working in complete harmony and for all practical purposes our system is part of theirs and their system part of ours. In fact it is expected and believed that a large part of the development in the semi-urban and rural territory can be done much more effectively and satisfactorily through independent local companies operating with us through or under connecting contracts or sub-licenses.

We can be called antagonistic only because we try in the protection of our property to expose and correct the misleading statements and impossible promises put out by would-be franchise vendors or mistaken company organizers, or mistaken associations for public protection, or when we call attention to the fact that what we claimed would happen, has happened.

In view of our preponderating interests in the telephone business of the country, we think it is due to ourselves to at least call attention to misleading statements, to promises in prospectuses impossible of fulfilment, and to advertisements offering to the public securities at large discounts, promising large prospective dividends, issued to build exchanges in which service is to be given at impossible rates.

If all who are interested in honest corporate securities would take the trouble to educate the public and exhibit courage enough to denounce all such misleading efforts, there would be a much more healthy condition.

In all controversies as to rates, franchises, etc., in all hearings before public bodies, our representatives have been confronted with such promises—statements as to what interests other than the Bell were doing—assertions that if it were not for watered stock or other methods of milking the public, rates could be reduced, or the business conducted at a profit on much more favorable terms to the public. All that experience has taught was as nothing before the promises of franchise vendors and manufacturers' agents. Established business and property were put in jeopardy with the result that there are many instances where the public has on its hands a partially duplicate exchange with partially duplicate subscription costs and no one has benefited except the promoters of the schemes.

There is now a decided tendency on the part of the public to favor consolidation wherever there are two exchanges. A great difficulty in the way is that, as a rule, much of the duplication of plant cannot be utilized for many years, if ever.

Gradually the public is becoming convinced that—quoting from last year's report—

"Two exchange systems in the same community, each serving the same members, cannot be conceived of as a permanency, nor can the service in either be furnished at any material reduction because of the competition, if return on investment and proper maintenance are taken into account. Duplication of plant is a waste to the investor. Duplication of charges is a waste to the user."

General.

In submitting this report, we wish to call your attention to two things which indicate the stability of the company and property.

One is the wide dispersion and small average holding of the shares—including the shareholders in the associated and connected companies, there are over 70,000 shareholders in the Bell system. From January 1 to March 2, the date of bond conversion, the shareholders increased about one hundred per week.

Another is the stability of the business, year after year shows an increase, no matter what the prevailing business conditions. There has, it is true, been a slight decline in the rate of increase in exchange earnings, and the toll line business has given some indication that conditions were not normal, but even in that there was an increase in earnings.

This stability and the position that the Bell system holds is due very largely to the policy and conditions under which it was developed, not alone to the telephone.

A telephone—without a connection at the other end of the line—is not even a toy or a scientific instrument. It is one of the most useless things in the world. Its value depends on the connection with the other telephone—and increases with the number of connections.

The Bell system under an intelligent control and broad policy has developed until it has assimilated itself into and in fact become the nervous system of the business and social organization of the country.

This is the result of the centralized general control exercised by the company, the combination of all local systems into one combined system developed as a whole.

Nor could the development have been made in any other way. If the business had been developed by different organizations—each absolutely independent of and unrelated to the others—each little system would have been independent and self-contained without benefit to any other. No one has use for two telephone connections if he can reach all with whom he desires connection through one. Through the development of the Bell system, the relation and benefit as a whole have been considered. The policy has been to bring together all units which contribute to the value of the whole. The demand for facilities is seldom found waiting in these days for the facilities to come. The demand is created by the existence of the facilities. This is particularly true of the telephone service. It took courage to build the first toll line—short as it was—and it took more to build the first long-distance line to Chicago.

If in the early days the immediate and individual profit of the long-distance toll lines had been considered, it is doubtful if any would have been built.

There are no other countries where the telephone service occupies the same relation to the public. Elsewhere narrow control and a policy of restriction have prevented its full development. Whatever is good in those systems has been adopted from the practice in this country.

There has been oftentimes comparison between the rates of this and other countries. The average rate of this country taking all classes of service and conditions into consideration is about the same as the average rate of all other countries. There may be no maximum rates in other countries equal to some in this country, but on the other hand, there is no such maximum value given. Cheapness is relative to value, not to price. Value in telephone service depends on development, extent of system, certainty and promptness. Promptness and certainty mean operators and facilities sufficient to meet the maximum demands. It means constant and close attention on the part of attendants, sufficient in number to immediately care for any of the many troubles inherent in everything connected with the service from both outside and inside, the troubles which seem to develop and multiply with the development and increase of the business. Promptness and certainty in meeting maximum demands mean idle operators when the demand is less; it means a small average use of operators and facilities.

In any given time a certain possible use—number of connections or messages—expressed in units of service can be given by any fixed number of operators with certain given facilities. If in any given time these possible units of service are not availed of, they are lost—they pass away with the time.

Promptness and certainty therefore mean that each message, connection or other unit of actual service availed of must bear the expense of a number of unused possible units not availed of. If, instead of the immediate or prompt service of this country, the service as it exists in most other countries were in vogue, the cost would be reduced, but to a much greater extent would the value be reduced. Delayed service—service which keeps a line of customers waiting, so that there need be no loss of units of service, would reduce to a minimum the number of operators and given facilities, and all that creates cost.

Instead of waiting and idle operators and facilities, there would be waiting, idle and patient, customers.

We do not think the American public desires this kind of service.

During the year we have had many questions before the courts, state commissions and other public bodies. We have met them in a spirit of absolute frankness and candor. The results have been on the whole satisfactory, and the treatment we have received has been fair and considerate, and we have found an evident desire to ascertain the real conditions and to meet them fairly.

While during these discussions the anxiety of the officials of our companies has been keen, their attention distracted from the ordinary operations of business and the work and expense incurred in furnishing information and in attendance have been great, we believe that through this work and through our policy of publicity, our relations with the public are closer, the public mind is better informed, many erroneous impressions and opinions have been corrected, and that the public is beginning to recognize and admit—what the "Bell system" as conducted by the American Telephone and Telegraph Company stands for to the community at large.

For the Directors,

THEODORE N. VAIL,

President.

BELL SYSTEM IN THE UNITED STATES.—TOLL LINES.

	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Jan. 1, 1905.	Jan. 1, 1906.	Jan. 1, 1907.	Jan. 1, 1908.	Jan. 1, 1909.	Increase.
Miles of Pole Lines,	89,292	101,087	110,459	122,409	130,178	136,547	145,535	154,869	163,218	161,452	*1,766
Miles of Wire . .	501,832	607,599	716,265	837,912	975,702	1,121,228	1,265,236	1,461,173	1,664,081	1,732,039	67,958

* Decrease.

TOLL CONNECTIONS.

The average daily number of toll connections is 463,021
Or a total per year of about 149,093,000

BELL SYSTEM IN THE UNITED STATES.—EXCHANGES.

	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Jan. 1, 1905.	Jan. 1, 1906.	Jan. 1, 1907.	Jan. 1, 1908.	Jan. 1, 1909.	Increase.
Exchanges . . .	1,239	1,348	1,411	1,514	1,609	4,080	4,532	4,889	5,108	5,043	*65
Branch Offices . .	1,187	1,427	1,594	1,861	2,131						
Miles of wire on poles and buildings.	524,123	644,730	841,140	1,109,017	1,358,140	1,654,379	2,159,567	2,754,571	3,057,138	3,467,092	409,954
Miles of wire underground . . .	489,250	705,269	883,679	1,328,685	1,618,691	1,888,760	2,345,742	3,241,471	3,883,051	4,625,047	741,996
Miles of wire submarine	3,404	4,203	4,200	6,048	6,358	6,671	9,373	11,690	6,322	6,540	218
Total miles of wire,	1,016,777	1,354,202	1,729,019	2,443,750	2,983,189	3,549,810	4,514,682	6,007,732	6,946,511	8,098,679	1,152,168

* Decrease.

BELL SYSTEM IN THE UNITED STATES.—EXCHANGES. Continued.

	Jan. 1, 1900.	Jan. 1, 1901.	Jan. 1, 1902.	Jan. 1, 1903.	Jan. 1, 1904.	Jan. 1, 1905.	Jan. 1, 1906.	Jan. 1, 1907.	Jan. 1, 1908.	Jan. 1, 1909.	Increase.
Total Circuits . .	422,620	508,262	592,467	742,654	798,901	930,251	1,135,449	1,384,175	1,541,727	1,668,211	126,484
Total Employees	29,818	37,067	45,990	55,403	61,476	67,756	89,661	104,646	100,884	98,533	†2,351
*Total Stations . .	632,946	800,880	1,020,647	1,277,983	1,525,167	1,799,633	2,241,367	2,727,289	3,035,533	*3,215,245	179,712

* Including all companies connected with the Bell system, the number of stations is 4,364,629 against 3,839,000 at January 1, 1908, an increase of 525,629 stations. † Decrease.

EXCHANGE CONNECTIONS.

The estimated number of exchange connections daily in the United States, made up from actual count in most of the exchanges, is 18,499,376

Or a total per year of about 5,956,800,000

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

American Telephone and Telegraph Company.

Balance Sheet, December 31, 1908.

ASSETS.

Stocks of Associated Companies .	$235,729,305.60	
Bonds and other obligations of Associated Companies	73,289,388.92	
		$309,018,694.52
Telephones	$9,599,137.26	
Real Estate	2,181,728.67	
Long Distance Telephone Plant .	42,650,989.97	
		54,431,855.90
Cash and Deposits	$41,137,264.33	
Temporary Cash Loans	7,988,000.00	
Short Term Notes	3,277,466.52	
		52,402,730.85
Accounts Receivable		2,969,140.64
Treasury Stock		22,110,400.00
		$440,932,821.91

LIABILITIES.

Capital Stock	$180,587,000.00	
Surplus	16,225,917.64	
		$196,812,917.64
Four Per Cent. Collateral Trust Bonds, 1929	$53,000,000.00	
Four Per Cent. Convertible Bonds, 1936	136,000,000.00	
Four Per Cent. American Bell Bonds, 1908	48,000.00	
Five Per Cent. Coupon Notes, 1907,	6,000.00	
Five Per Cent. Coupon Notes, 1910,	25,000,000.00	
Dividend Payable January 15 . .	3,169,532.00	
Interest and Taxes accrued but not due	3,709,232.91	
Accounts Payable	1,302,979.83	
		222,235,744.74
Depreciation Reserve		21,884,159.53
		$440,932,821.91

C. G. DuBOIS, *Comptroller.*

American Telephone and Telegraph Company.

Comparative Statement of Earnings and Expenses.

	1907.	1908.
EARNINGS:		
Dividends	$11,805,166.81	$13,280,127.54
Interest and other revenue from associated and licensed companies	9,307,023.72	9,720,466.04
Telephone Traffic (net)	3,901,653.93	3,976,512.07
Real Estate	162,228.49	160,007.95
Other Sources	433,598.31	761,856.45
	$25,609,671.26	$27,898,970.05
EXPENSES	2,130,381.16	2,003,956.06
NET EARNINGS	$23,479,290.10	$25,895,013.99
Deduct Interest	7,209,902.16	7,773,306.73
	$16,269,387.94	$18,121,707.26
Dividends Paid	10,943,644.00	12,459,156.00
Balance	$5,325,743.94	$ 5,662,551.26
Carried to Reserves	$3,500,000.00	$3,000,000.00
Carried to Surplus	1,825,743.94	2,662,551.26
	$5,325,743.94	$ 5,662,551.26

C. G. DuBOIS, *Comptroller.*

American Telephone and Telegraph Company.

Annual Earnings and Dividends.

1900–1908.

Year.	Net Revenue.	Dividends Paid.	Added to Reserves.	Added to Surplus.
1900	$5,486,058	$4,078,601	$937,258	$470,198
1901	7,398,286	5,050,024	1,377,651	970,611
1902	7,835,272	6,584,404	522,247	728,622
1903	10,564,665	8,619,151	728,140	1,217,374
1904	11,275,702	9,799,117	586,149	890,435
1905	13,034,038	9,866,355	1,743,295	1,424,388
1906	12,970,937	10,195,233	1,773,737	1,001,967
1907	16,269,388	10,943,644	3,500,000	1,825,744
1908	18,121,707	12,459,156	3,000,000	2,662,551

C. G. DuBOIS, *Comptroller*.

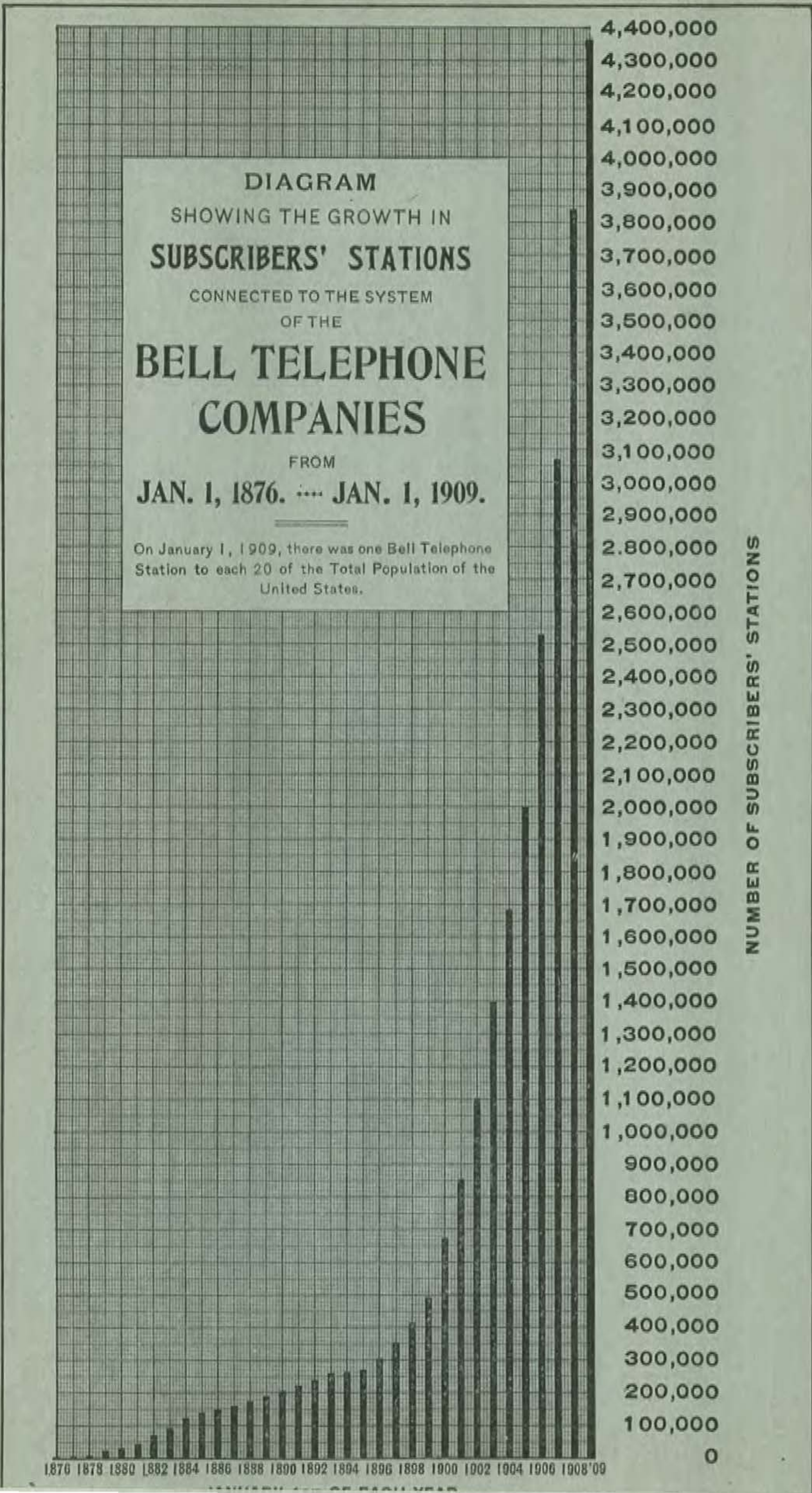
DIAGRAM
SHOWING THE GROWTH IN
SUBSCRIBERS' STATIONS
CONNECTED TO THE SYSTEM
OF THE
BELL TELEPHONE
COMPANIES
FROM
JAN. 1, 1876. ···· JAN. 1, 1909.
On January 1, 1909, there was one Bell Telephone Station to each 20 of the Total Population of the United States.
4,400,000
4,300,000
4,200,000
4,100,000
4,000,000
3,900,000
3,800,000
3,700,000
3,600,000
3,500,000
3,400,000
3,300,000
3,200,000
3,100,000
3,000,000
2,900,000
2.800,000
2,700,000
2,600,000
2,500,000
2,400,000
2,300,000
2,200,000
2,100,000
2,000,000
1,900,000
1,800,000
1,700,000
1,600,000
1,500,000
1,400,000
1,300,000
1,200,000
1,100,000
1,000,000
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
NUMBER OF SUBSCRIBERS' STATIONS
1876 1878 1880 1882 1884 1886 1888 1890 1892 1894 1896 1898 1900 1902 1904 1906 1908 '09