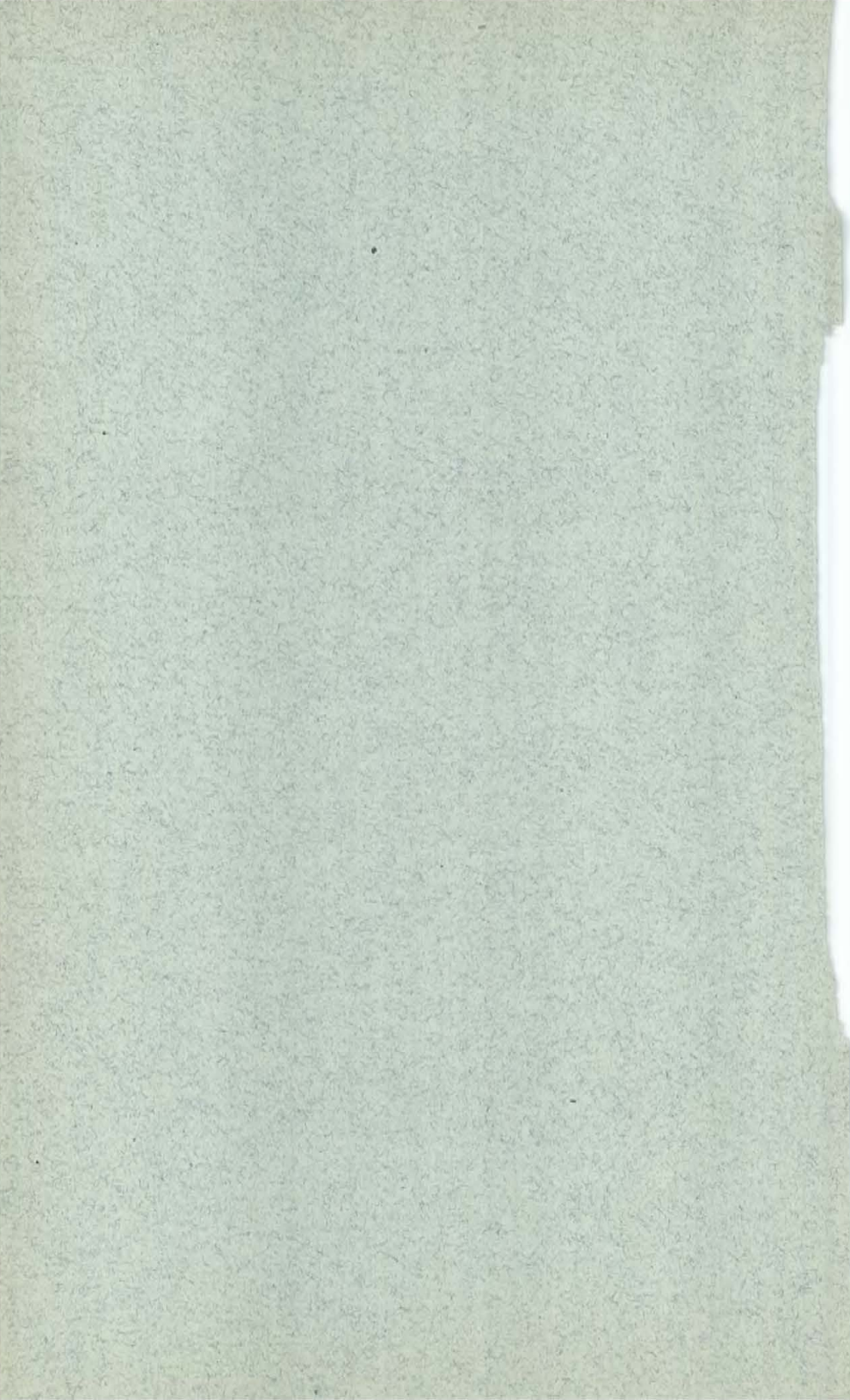


SIXTH
ANNUAL REPORT
OF
THE DIRECTORS
OF
THE AMERICAN BELL TELEPHONE CO.
TO THE STOCKHOLDERS,
YEAR ENDING DECEMBER 31, 1885.

BOSTON:
ALFRED MUDGE & SON, PRINTERS,
24 FRANKLIN STREET,
1886.



OFFICE OF THE AMERICAN BELL TELEPHONE COMPANY,
BOSTON, March 30, 1886.

TO THE STOCKHOLDERS :

The year ending Dec. 31, 1885, has not been marked by the increase in business of previous years ; but although there has been a loss of subscribers in exchanges at certain points, on the whole, the licensed companies have more than held their own, the total number of subscribers showing an increase of 2,969, and of telephones in use of 4,466, during the year.

The comparative statistics which follow are substantially accurate ; but as usual, we are prevented from giving figures with the precision which would be possible, if the entire telephone system were managed by us directly : —

EXCHANGES.

	1883.	1884.	1885.	1886.	Decrease from 1885.	Increase over 1885.
Exchanges.....	725	906	764	752	12	.....
Branch offices	345	419	481	432	49	.....
Miles of wire on poles....	.....	.....	88,481	100,630	.....	12,149
do. on buildings .....	.....	.....	11,886	10,049	1,837	.....
do. underground .....	.....	.....	1,225	3,428	.....	2,203
do. submarine ..	.....	.....	.....	264	.....	264
Total miles of wire.....	68,571	85,896	101,592	114,371	.....	12,779
Total circuits.....	74,484	97,422	107,268	110,967	.....	3,699
Total subscribers	97,728	123,625	134,601	137,570	.....	2,969
Total employees.....	3,716	4,762	5,162	5,344	.....	182

UNDERGROUND WIRES.

	Miles of Wire Underground, 1885.	Miles of Wire Underground, 1886.	Increase over 1885.
Washington	770	992	222
Chicago .....	....	760	760
New York.....	....	627	627
Pittsburgh	223	614	391
Boston	232	289	57
Brooklyn .....	....	134	134
Baltimore .....	....	11	11
Milwaukee .....	....	1	1
	1,225	3,428	2,203

EXTRA-TERRITORIAL LINES.

	Jan. 1, 1883.	Jan. 1, 1884.	Jan. 1, 1885.	Jan. 1, 1886.	Increase during 1885.
Number of lines.....	247	598	826	931	105
Miles of pole lines.....	6,154	20,592	25,766	31,395	5,629
Miles of wire	13,653	29,359	35,631	42,461	6 830

INSTRUMENTS.

	Dec. 20, 1882.	Dec. 20, 1883.	Dec. 20, 1884.	Dec. 20, 1885.	Increase during the year.
In hands of Licensees, under rental	237,728	298,580	325,574	330,040	4,466

EXCHANGE CONNECTIONS.

The estimated average number of exchange connections daily in the United States is . 746,517

Or a total per year of 272,478,705

The number of calls per subscriber varies in different exchanges from 2 to 10 daily, the average throughout the United States being as compared with the number reported last year, an increase of about 5 per cent.

$$5\frac{4.8}{100}$$

$$5\frac{1.8}{100}$$

The average cost to the subscriber varies according to the size of the exchange and the character of the service, from 2 to 7 cents per connection.

EXTRA-TERRITORIAL BUSINESS.

The average daily number of extra-territorial connections is 6,663

or a total number per year of 2,431,995

The extra-territorial earnings, as reported, amounted to \$538,740 43
of which this Company's share is \$72,677 28
an increase over 1884 of \$5,411 63

Last year's statement included the connections between exchanges of the New York and New Jersey, and the Pacific Bell and Sunset Companies, on the receipts from which we receive no percentage. These do not appear this year, which will account for the apparent decrease in the number of connections.

The removal of open wires from house-tops to overhead cables and to underground conduits has continued, the prog-

ress in the latter respect being especially encouraging. The system must always be a mixed one, as the final distribution of wires to the customers, and the method of reaching places where underground work would be too costly, must still be overhead; but we think that, within a few years, in all large cities the open wires will be placed in cables above or under ground to such an extent, at least so far as telephone companies are concerned, that the overhead wire nuisance will no longer be serious.

In New York an amendment to the law which ordered all wires in New York City and Brooklyn under ground before last November, was adopted, establishing a Commission for each of these cities with power to supervise the execution of the law, and to arrange for placing the wires under ground to such an extent as might be found practicable.

In Brooklyn the Commission has permitted the wire companies to begin their work, and one hundred and thirty-four miles of underground wire have been placed there by the Telephone Company. In New York the Metropolitan Company in August, 1885, filed with the Commission [the necessary plans and statements for an underground system, and applied for permission to prosecute the work, but so far without success, and this work in that city is at present at a standstill.

The Treasurer's statement to December 31,

1885, shows gross earnings for the year,	
from all sources, of	\$2,765,884 93
Expenses	972,688 45
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Net earnings	\$1,793,196 48
Miscellaneous credits	16,800 00
<hr/>	
Total	\$1,809,996 48

Regular dividends paid	.	\$1,170,192	00
Extra dividends paid	.	392,044	00
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Total	.	\$1,562,236	00
Reserve written off for depreciation of instruments	.	100,752	90
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			\$1,662,988 90
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Balance to surplus account	.	\$147,007	58
Total surplus to date	.	\$1,204,120	01

We have received during the year in stock of licensed companies, \$516,316.67, of which \$207,200 was for licenses, and the rest for cash, and have sold \$29,631. We have received during the year in dividends from licensed companies, \$597,469.99, an increase of about \$122,000 over the previous year.

With longer experience the telephone companies have learned that the cost of maintaining and reconstructing their plant has been generally underestimated, and many of them have in consequence been forced to recognize that the profits upon telephone business are less than they had expected and believed. For this reason they have appealed to us to make certain concessions in their contract relations, and we have given this subject careful consideration.

We think that our licensed companies should be led to feel that it is for our interest as much as their own that they should be successful. The agreements, speaking broadly, between our licensees and ourselves, are that they shall furnish capital for establishing and developing the business, and that we shall supply the patents, which for a time are expected to give exclusive rights, and returns large enough to invite capital to an industry involving unusual risks.

We have met our licensees ; *first*, by agreeing when desired, that our share of net earnings, jointly with theirs, may be

used for construction purposes, so that we in these cases are sharing the cost of developing the business; *second*, we have made a reduction in the royalties on telephones used in small places where the rates are low. This reduction involves a loss of royalty amounting to about \$200,000 per annum on our present business, offset, as we believe, by keeping more telephones in use than would be out under the old rates, and it gives relief where it is most needed.

In the case of the New England Company, we have made substantial concessions to the licensees, and have agreed to amend their contract so as to provide for future construction, and at the same time to enable dividends to be paid from the net earnings, which have necessarily been used for some time past for the purposes of construction; and we are now carefully maturing plans by which those companies which are not receiving a fair return upon the cash actually invested in the business may no longer be deprived of an income upon their property.

During the year a pole line has been built between New York and Philadelphia, with a capacity of seventy wires, and twenty-four copper wires placed upon them, various sizes being taken for purposes of experiment. Some difficulty has been found in securing rights of way for this line. Sufficient facilities are not yet secured in Philadelphia for reaching customers there, but it is expected that this will soon be accomplished, so that the question of commercial demand between two large cities a hundred miles apart will presently have a fair test. The Metropolitan Company, of New York, pays for and owns over one half of this line, and will divide the expenses and receipts with us. The line is practically completed, and, with twenty-five wires, will cost about \$215,000.

In our report last year it was mentioned that additional capital would be needed for this business; and that we had

applied to the Massachusetts Legislature to authorize an increase in our stock. As this was refused, and the volume of the business, if successful, will need capital far beyond the amount of our unsold stock, we have been obliged to make other provision for developing this important branch, and have organized a company under the laws of New York for this purpose, called the American Telephone and Telegraph Company. Mr. Vail has been made President of the company, and has general supervision of its work. Mr. E. J. Hall, Jr., is the general manager, with immediate charge. As soon as sufficient encouragement is received to continue building these long lines, the above company is prepared to build between Boston and New York, and other important points.

The Canada Company has had a year of prosperity, in spite of the adverse action of the government in annulling the Bell patents. Their subscribers have increased from 7,418 to 9,614, in fact more than in any previous year. The company gives good service, is not discouraged by threatening legislation from extending facilities as fast as needed, and has increased its net earnings from \$119,000, in 1884, to \$158,000, in 1885.

To meet its necessary construction, this company increased its capital stock, in 1885, \$250,000, of which \$200,000 has been issued, and which was sold at par. Of this increase we took our *pro rata* share, namely, \$117,500. Its stock of \$1,200,000 is worth par, and its Montreal directors, who are also considerable stockholders, feel much encouraged about the future of the company. In December, 1885, a decision was rendered by the Department of Agriculture, to the effect that the Edison patents owned by the Canadian Company had not been forfeited under the provisions of their Patent Act.

During the year a number of our cases have been argued

and decisions reached or injunctions granted. A short statement of the most important is as follows :—

The case against the Molecular Telephone Company, which has been pending since July, 1883, was argued before Judge Wallace on the 30th of March, and on the 24th of June a final decree was given for the complainants, and an injunction issued.

The Rogers Telegraph and Telephone Company, a licensee of the Pan Electric Company in Pennsylvania, suffered default, and an injunction issued on the 26th of June; and in the same State a preliminary injunction was granted, after full hearing before Judges McKennan and Atcheson, on the 8th of July, in the case of the Western Pennsylvania Telephone and Telegraph Company, a licensee of the National Improved Company, and final decree was made and injunction issued in December following.

On July 16, a bill was filed in Baltimore against the Pan Electric Company and its licensees in that city and in Washington, and on Sept. 15 the Court refused to grant delay, and issued a restraining order until the case could be heard.

The case against the Peoples' Telephone and Telegraph Company, using the Hopkins instruments, was finally argued before Judge Wallace in December, and an injunction was granted the same day. At the same time he heard arguments in the parent Overland case, and at once granted the injunction.

Depending on this last case were suits against various of the Overland sub-companies, and injunctions issued against all of these. This includes the following companies :—

Overland Company, of New Jersey; Penn Overland Company; Baxter Overland Company, of Philadelphia; Maryland Overland Company; Indiana Overland Company; Baxter Overland Company, of Central New York; and Michigan Overland Company.

In the suit against the Overland Telephone Company of Lexington, Ky., begun Aug. 31, 1885, arguments were heard on Oct. 6, and a preliminary injunction was granted Oct. 8.

The Drawbaugh case was reopened in October by consent, to allow the defendants to put in what they claimed to be newly discovered evidence, and arguments on this were heard by Judge Wallace, at Syracuse in December, but the Judge decided that there was nothing in the new matter to alter the views already expressed by him, and he reaffirmed his former decree.

Other injunctions granted during the year were against the McDonough Company on February 14, 1885; New Jersey Telephone Company, using the McDonough claims, on July 10; and the Citizens' Telephone and Telegraph Company (Cleveland, Ohio), on August 18.

The Dolbear, Drawbaugh, Molecular, Overland, and West. Pennsylvania cases are either in, or on their way to, the Supreme Court, and the Dolbear case is expected to be reached at the October term.

Regarding the proceedings of the Pan Electric Company and the proposed government suit, the stockholders will naturally feel much interest and the facts will be stated somewhat in detail:

The Pan Electric Telephone Company was organized in 1883, with a capital of \$5,000,000, the ostensible basis of value for which was a group of patents, some of which related to telephones, of one Rogers. Its headquarters are in Memphis, Tennessee, which is also the home of Senator Harris, and others of its promoters.

These patents are perhaps the most palpable infringements upon the Bell patents that any one has yet attempted to rely upon; there is not even the pretence of any invention prior to Bell, and the inventions are of no importance whatever.

The company had apparently so little to offer, that it was for a time difficult to see what they expected to accomplish, either in the establishment of a telephone business, or in starting a legal contest.

The principal stockholders were leading politicians in the Southern States, and their operations, so far as the telephone business goes, have been mostly confined to that part of the country.

General Joseph E. Johnston, of Virginia, was made president of the company, Senator A. H. Garland, of Arkansas, its attorney, and Senator Harris, of Tennessee, General Johnston, Senator Garland, Casey Young, J. D. C. Atkins, of Tennessee, J. H. Rogers, formerly of Tennessee, now of Washington, D. C., and Robert F. Looney, of Tennessee, its directors.

These gentlemen received large blocks of the capital stock, paying nominal sums in money for the same. Sub-companies were formed, from whom bonuses in cash were taken for the right to practise the Rogers inventions in different places, and additional blocks of the stock of these sub-companies appear to have come to the promoters. On Jan. 4, 1884, Mr. Garland was asked for an opinion on the Rogers patents. One D. E. Myers, who said that his attention had been drawn to the stock of the Pan Electric Company, wrote as if for information upon a matter of investment, but it appears that Myers was himself in the service of the Pan Electric Company, and was therefore not interested in buying its stock, but in selling it.

Mr. Garland replied upon the following day, giving what from its tone purports to be a professional opinion, to the effect that he had carefully examined the Rogers patents, and that he was clear that they in no way infringed the Bell patent. Nothing contained in his letter indicated that he was interested deeply, as a stockholder, in the market

value of the Pan Electric stock. Upon this opinion largely, it appears, the bonuses were obtained from sub-companies and efforts were made to sell Pan Electric stock.

Yet it is clear that the right to practise the Rogers inventions could have no substantial value under any circumstances. If the patents now controlling the telephone business could be declared void, the Pan Electric would only share the telephone field with all comers, and the rights for which the bonuses and stock were taken are of wholly imaginary value, while Mr. Garland's opinion about the Rogers patents was not shared even by his associates, since it was renounced by them at the hearing before Secretary Lamar, when they squarely stated that if Bell's patents were valid, the Rogers patents infringed them, and they did not propose to contest that point.

The first way in which the influential names were to be used was, therefore, in getting money for supposed rights which had no value. The second was perhaps equally ingenious, but so far not as successful. It was a plan to get the suits of the Bell Company against the Pan Electric Company and associates stopped. The programme for accomplishing this was as follows: In 1884 an attempt was made to get a statute through Congress, authorizing the government to bring suit to have patents vacated under certain circumstances. This measure was got through the House almost unnoticed, but it did not pass the Senate Committee on Patents.

This move failed, but after Mr. Garland became Attorney General, and the other Pan Electric leaders received important positions under the government, it was decided without the aid of any statute to ask Attorney General Garland to order a suit brought to annul Bell's patents, on the ground that he obtained them by fraud, and that he was not the first inventor.

Mr. Garland declined to act, but left Washington for Arkansas, and his next in office, Mr. Goode of Virginia, within a day or two of his departure, received a similar request from an associate company of the Pan Electric, called the National Improved Telephone Company of New Orleans, and upon one day's examination decided that there was reason and authority for consenting, and he ordered the suit brought, not in Massachusetts where our company exists, but in Memphis, Tennessee. He further placed in charge of this suit, with authority to proceed in the name of the government, the very man who is the most active manager in the Pan Electric enterprise, namely, Casey Young, its secretary and treasurer, and Geo. B. Gantt, also a stockholder, and Luke E. Wright, of Memphis, and J. R. Beckwith, of New Orleans. For some reason these men were so confident that the suit would be ordered, that they had a bill all ready (printed beforehand in New Orleans), which was immediately filed in Memphis.

As soon as Mr. Goode ordered this government suit, counsel for the Pan Electric appeared in Baltimore before Judge Bond, who was about to hear our application for injunction against that company, and asked for a postponement of proceedings, for the reason that the government suit was a valid objection to a preliminary injunction, thus exposing the motive of the whole movement. This request was not granted, a restraining order against the Pan Electric Company was issued, and the Court will hear the case in due course.

The President, finding that Mr. Goode's action had been taken without reference for information to the Department of the Interior, suggested to the Department of Justice that it would be better to conform to usage in such matters; and the suit was withdrawn. A new request was then preferred and sent to the Department of the Interior for information. The Secretary of the Interior, Mr. Lamar, of Mississippi,

gave a hearing, lasting a week, on the question of the government suit, at which Messrs. Dickerson, Smith, and Storrow appeared for us. Without considering the merits of the questions involved, he advised that the government had a right to bring such a suit, and also that it should do so, apparently because there was an allegation of fraud involving officers of one of the departments, which, for some reason not explained, he thought could alone effectually be investigated in a suit by the government itself; but he advised that the government should conduct its own case and at its own expense.

On the 1st of February our suit for injunction against the National Improved Company in New Orleans, the associate of the Pan Electric Company, was reached. Once more the counsel for our opponents appeared, with the request that the case be postponed because the Secretary of the Interior had advised the government to bring suit against us, and that other cases ought not to be heard until that was decided.

It is easy to understand the injury to the Bell interests that would follow if the United States courts should refuse us all protection against infringement until the government could try over again and determine all the questions relating to the priority of the telephone invention, which it has taken us eight years of arduous litigation to bring to their present condition of readiness for the Supreme Court.

The Court at New Orleans refused to stay proceedings, the arguments have just been heard and we hope for an early injunction in this case.

Here then the whole programme lies exposed: a plan to sell rights that had no value on the strength of prominent names; — a plan to wreck our property by stopping our suits, pending years of wholly unnecessary litigation; — a plan to deceive the public into the belief that the defeat of the Bell patent would confer value upon Pan Electric stock; — a plan

to inveigle Mr. Cleveland's administration into support of this scheme.

If such a plan can succeed, what interest in this wide country is safe from an infamous attack? If any doubts have existed as to the expediency of a statute permitting such action on the part of the government, the proceedings of the Pan Electric associates, and the fact that they could secure the aid of such men as Mr. Garland, Mr. Harris, and General Johnston, ought to put an end to them. If there is any reason to believe that such power is already within the reach of the government, without a statute, can any one doubt that it should be removed by immediate prohibition from Congress?

If the government, upon a simple allegation of fraud in the obtaining of patents or other government grants, made by interested parties, can be called upon to bring suits either at its own expense, or under the management of the interested party, to annul its own agreements, any poor inventor may have his fortune wrecked by powerful competitors; any owner of property based upon government agreements or land or other grants may find the government, on whose faith he has expended his money, appearing before its own courts, in favor of some irresponsible or dishonest claimant.

It has been urged that nothing but the annulling of our patent in suit, by the government itself, would suffice to enable others to enter the telephone field. There is no weight in this, for with every decision in our favor, we have barely been able to keep the field free from serious infringement, and it is certain that one decision by the United States Court, invalidating our patent would be enough to flood the country with competing companies.

It seemed inconceivable, that upon this state of facts, the essential parts of which were already public, the government should lend any countenance to such an enterprise.

We felt entire confidence that Mr. Lamar would advise that, at least under such circumstances, the two parties interested should be left to fight their battles before the courts in the usual way, and his decision took us wholly by surprise.

When he made it public, it seemed proper to place the facts in the case before the President; and the president of your company went to Washington, and had an interview with Mr. Cleveland. The latter was told that the present owners of the Bell patents had bought them in good faith, in the belief, which they still entertained, that they were properly obtained, and were valid; that on the strength of United States patents, and repeated decisions of the United States courts in their favor, the parent company and its licensees had invested vast sums of money in putting this invention into use throughout the country; that the sum of fifty or sixty millions of dollars was now at stake in the business; that every issue which the government was asked to raise, was already in the records of several cases that had been argued and passed upon by the United States courts, which were already far on their way to the Supreme Court, on appeal, and that the first of these cases was expected to come up in October; that we had expended eight years of litigation, involving over fifty days of argument by the ablest counsel we could procure, the taking of over five thousand pages of testimony, and the expenditure of half a million of dollars; that our licensees could not but view with alarm the prospect of going once more over this expensive and tedious road, in the face of a suit brought by the government, at the instance of a company which they believed to be wholly speculative and irresponsible.

It was shown that the programme of the Pan Electric Company was to get our suits stopped, and not tried, and to avail of official influence to get this accomplished, and it was explained how thoroughly our property could be destroyed

without trial, could the existing suits be suspended while the government suit was slowly making its way to a decision.

But the government adheres to the advice of Mr. Lamar, and on the twenty-third day of March, filed a bill against this company and our licensees in Ohio, at Columbus, Ohio, before Judge Baxter, who would also have heard the case had it been brought at Memphis. Messrs. Thurman, of Columbus, and Lowery, of New York, with several others, have been selected as counsel, and it is not our belief that the management of the suit is to be left within the control of the Pan Electric Company, or that the government intends to allow any unnecessary delay to be interposed in its prosecution. It is to be noted, however, that it has taken this distinguished group of counsel over two months to decide the questions which Mr. Goode disposed of in a single day.

While there has undoubtedly been a widespread feeling of anxiety among our stockholders and licensees, at finding the power of the government thrown into the scale before its own courts, under the circumstances just described, our counsel and the directors feel no uneasiness as to the result of such a suit, as all the matters involved have been the subject of repeated decisions.

Regarding the question of locality of a government suit, we are advised by counsel that jurisdiction can only be had over us in Massachusetts.

It is said that government seeks to find a place where no telephone cases have yet been heard, but if this be true its attitude is not easy to understand.

If the subject has already been passed upon, it cannot under established usage be again considered by the Circuit Courts, and if it is new, a court which has already made itself familiar with matters relating to telephone inventions

would seem to be the one most likely to give quick and intelligent despatch to the business.

To assume that there is any prejudice in our favor in the various courts before whom our suits have been heard, would be an indictment of a large part of the judiciary by the Executive, for which there can be no justification.

Regarding the newspaper agitation that has attended this Pan Electric exposure, it is proper to say that we have taken no part in it, directly or indirectly. While it would have been wholly within our right to place all the information within our reach in the possession of the press, we felt that having adopted the course of going directly to the government with the facts as we understood them, it was the proper course, at least under the then existing circumstances, to take no part in any discussion in the newspapers.

Yet it has been impossible to avoid a sense of outrage at the whole transaction, and the support it has received in official circles, which made it difficult to maintain silence, and we feel that this full statement of the matter is due to the stockholders.

Last summer, Mr. Vail, feeling that a due regard for his health required relief from the arduous duties of General Manager, resigned that position, which he had held with great benefit to the company since its formation. Being desirous of availing ourselves of his energy and wide knowledge of the telephone business, we made arrangement with him by which he undertook the general supervision of the American Telephone and Telegraph Company, as president, and the more immediate supervision of the affairs of the New York Company. He will also give such attention to any other of our interests as we may, from time to time, desire.

Mr. John E. Hudson, who has been with us as counsel for years, accepted the position of General Manager and Soli-

citor, and his familiarity with our affairs has enabled us to make a change in management with the least possible inconvenience.

Mr. C. J. French, who formerly represented our interests in various of the important Western companies, has been elected Assistant General Manager in place of Mr. Madden, who also resigned during the year.

Mr. Hudson has, since last September, performed the duties both of General Manager and Attorney, but this involved altogether too much labor, and Mr. Geo. V. Leverett has lately been retained as Attorney, and will relieve Mr. Hudson of a large part of the legal work of the office.

The Western Electric Company has been brought into a much better condition than it was in a year ago, the company being free from debt, and possessed of a substantial surplus after paying regular dividends of one and a half per cent per quarter during the year. This condition is due in a great degree to the careful management of Mr. W. S. Smoot, who assumed the presidency of the company in January, 1885, and whose recent death has deprived us of a most faithful, upright, and efficient officer.

The laboratory has conducted a large number of experiments in connection with patent litigation. In addition to this, further examination has been made into the matter of underground work, and cable systems, and a series of experiments is in progress. Further experiments are also in progress in reference to underground work, in connection with overhead systems.

The Patent Division has proceeded with its work of digesting and indexing, for easy reference, patents of the United States and Great Britain relating to electricity, and in bringing forward the history of the development of the telephone system, and in examining and reporting upon the novelty and value of various inventions submitted to the

Company. This division has also, during the year, prepared specifications and applications for patents for inventions made by employees of the Company and others, which have been thought of sufficient value to patent.

Mr. Gilliland resigned his charge of the Mechanical Division about Nov. 1, 1885, and Mr. H. V. Hayes has assumed the position.

The Mechanical Department and Testing Department, heretofore in separate buildings, have been combined and have recently been moved to new quarters, with great gain in the matter of convenience, but without additional expense.

In April, 1885, the State of Indiana passed a law restricting the price of rental of a telephone to \$3.00 per month and \$2.50 each, where two are used. This was done against the almost unanimous report of the committee which had examined the subject, and before whom careful testimony had been placed as to the cost of telephone service.

This raised at once two questions of the highest importance to our licensees :

First. The question of the right of the Legislature to make such restrictions.

Second. The question of public policy in respect to such legislation.

A case testing the validity of the law was brought, and carried up to the Supreme Court of Indiana, and the Central Union Company, doing the telephone business of Indiana, gave testimony beyond dispute that telephone service in Indianapolis and other cities actually cost that company more than \$3.00 per month per subscriber. That Court has recently decided that the law is valid, but has accompanied this decision by language which implies a doubt whether the law is either wise or just. The Court based its opinion largely upon the so-called police power of the State, which is said to confer the right to control matters affecting the safety

and convenience of the public, and quoted the case of a restriction enforced against the patent owners of a dangerous oil in behalf of its position.

But there is no question as to public safety involved in the telephone law; and as the telephone is certainly a convenience to the public, of less consequence than the supply of food and clothing, it does not seem probable that the right to regulate the telephone business, even without considering the question of patent right, exists, unless the State has the power to regulate prices of all other commodities. If this general power does exist, surely the patent right must give some protection to a business which wholly depends for its peculiar value upon patented inventions.

The Court made the distinction that the price for the right to practise the invention could not be interfered with, but that as soon as the invention was embodied in a tangible article like the telephone, the State possessed the right to limit the price for the use of it. This is to assert that the State has only to take one step round, in order to practically accomplish that which the Court itself says it must not do, and this whole ground is so opposed to the generally accepted theory upon which patented articles have been bought and put into use, and to the whole theory of the patent law, which purports to insure full protection for the exclusive use of the invention during the life of the patent, that it seems incomprehensible that the view of the Indiana court can be correct.

In consequence of this decision the Central Union Company is obliged to close its exchanges in the principal cities and large towns; there seems to be no other course, unless the company is willing to do business at a heavy loss, until the rate law can be repealed. The public will necessarily be put to serious inconvenience, and the Telephone Company is helpless to give relief. In Ohio and New Jersey, similar

bills which were before the Legislatures of those States have been rejected or postponed, and we have every confidence that the same result will be reached in several other States, including Massachusetts, where the same legislation has been attempted.

The Indiana case is to be appealed to the United States Supreme Court, and the result will be awaited with anxiety by many others than those interested in telephone property. If the States possess such right as is claimed by the Indiana Court, the motive of public policy should still operate against its exercise. Why should the telephone business be regulated as to price more than other industries? The reasons offered are that telephone companies are monopolies, and that they have been granted certain privileges of location; but as they are monopolies only by virtue of the patent system, which is everywhere accepted as a part of our public policy to which all the States are committed, no State in fairness ought to destroy that which this patent system has created, and the privileges of location which have been granted them are so precarious, that sufficient obstacles are already placed in the way of conducting their business, by their being obliged to put their money into plant of such uncertain tenure. Sound public policy is surely against the regulation of the price of any class of commodities by law. If it is admitted with telephones, it may presently be proposed for anything else which the public wants.

In the discussion of this matter, the circumstances that these patents are property bought and paid for, seem often to be wholly overlooked by those who are proposing to distribute the benefits of the telephone to the public. It is the buyer using his majority vote to fix prices, without reference to the rights of the seller. It is often asserted that telephone rates are too high, but the assertions are unaccompanied by any proofs, and those who make them do so without that

knowledge of the business which is necessary to a fair judgment.

As the stockholders generally have not been able to acquaint themselves with these matters, it may not be out of place to say a few words about this question.

Had an offer been made in the first place to put a wire, a switch apparatus and operators, day and night, at the service of each subscriber, and to charge not over five cents per connection within usual exchange limits, can it be doubted that such a charge would everywhere have been accepted as moderate? In fact the cost to the subscriber for exchange service varies from two to seven cents per connection, according to amount of use and quality of service required, and the average is not far from four cents. The price of connections from one exchange to another is from ten cents upwards, according to distance, which compares most favorably with telegraph messages, since immediate response is secured and a conversation of three minutes or even more, allowing the exchange of several hundred words, instead of the ten-word message of common use in telegraphy, with considerable delay in getting replies. A telephone subscriber's wire, too, is used on an average but about five times a day, and must be maintained in idleness the rest of the time, while a telegraph company only maintains as many wires as it expects to keep busy. In Boston and its branch offices alone, for example, the Telephone Company maintains 4,565 miles of wire, which are mostly in idleness nine tenths of the time.

Different qualities of telephone service are just as necessary as different qualities of clothing, food, or railroad service, and prices of telephone exchange service must vary as surely as prices of other commodities, unless cities are willing to content themselves with the kind of equipment and service which answers in a village, which they are not. In a small town one can only reach perhaps one to two hundred persons,

in a city as many thousand; this is worth the difference, especially since the apparatus must be much more costly throughout.

It is natural that the fact that the price of telephone service increases with the number of subscribers, instead of decreasing, should not be understood by those outside of the business; and perhaps if the practice of charging in proportion to the number of persons reached, in other words, in proportion to the facilities placed at the disposal of a subscriber, had been adopted, the reason for the increase in price would have been easier to comprehend.

The calls increase very rapidly with the increase of subscribers, and this means more operators in proportion, and the operators are a large part of the expense.

If those who are interested in this problem would study it out with the assistance of practical telephone men, instead of assuming that all telephone managers are trying to deceive, the matter would become much better understood.

Regarding this whole attempt to restrict or harass telephone companies by attacks, such as have been common in State legislatures of late, it may be said that there is probably in the public mind a general misunderstanding of the questions involved.

The facts that control telephone expense are as yet imperfectly understood by even the best telephone men, and they are constantly perverted by persons who have adverse interests, or who for improper purposes have instigated legislative attacks upon telephone companies.

The telephone situation is worthy of more careful attention than it has received at the hands of the public. Its features are peculiar, and the development of telephone facilities is certainly of high importance to our people. Although in the ten years that have passed since the invention became public, 156,000 miles of telephone wire have been built,

over which 275,000,000 communications now pass annually, we are in reality only at the threshold of the business. It is possible already to talk with ease between Boston and Philadelphia over our experimental wire, yet the connection of our principal cities and large towns by thoroughly practicable telephone systems has, in fact, only been begun.

With the improvements which are rapidly coming into use, the aim must be nothing less than to provide a complete working system throughout the United States, which will give facilities for instant conversation between all points within many hundred miles of each other, such as is now possible within the limits of a single exchange. This cannot be accomplished by competing companies, each reaching only part of the persons wishing to become subscribers to such a system. The service is divested of half its value the moment half the people retire to a second system, and of much more should there be still further subdivision. In other words, the value of the thing consists in placing each person in the same system with each other one, and this can only be done under one general plan.

The contracts which we have made with our licensees are all shaped with this complete general telephone service in view. For purposes of intercommunication between existing smaller systems, it is arranged that all shall work together, and the fact that the telephone companies throughout the land have been held under such a general plan by the force of a government patent, has been and is of the highest importance to the public, for in no other way could even the present condition of telephone development have been reached so soon, or without great confusion among competing companies and the multiplication of the wire nuisance, which would have been intolerable.

To any one who will think what it would mean if instant verbal communication could be had by any person here with

every city and town in New England, and as far as Philadelphia, perhaps even Washington and Chicago, with similar facilities in all parts of the country, it must be clear that this is something well worth the risk of money, thought, and labor by the companies; well worth encouragement from the people. The work that has been done is at least some guaranty of what will follow, if the protection promised by our patents is not interfered with. The public is ripe for the use of such a convenience, the inventive talent of the country is providing new methods for making it available; will the legislatures interpose to prevent all progress, through misconception of the problem, or because misled by interested parties?

What has already been accomplished has been under every discouragement that can be thrown upon a property resting on patent rights. But a small percentage of patented inventions prove valuable, and all such are usually compelled to run the gauntlet of lawsuits from pretenders, so long as their patents live. Capital, therefore, is timid about such investments, and nothing but the expectation of large temporary returns will bring it out for the development of a business like this.

While it is true considerable returns have been received upon our property since 1883, it is equally true that for years we were without dividends or other income from our investment; our patents have but seven years more to run, and we are still working, as always before, under a heavy fire and an expenditure for defence which nothing but a prospect of liberal returns would, for a moment, justify.

To undertake such a work as has just been outlined, large sums are required for construction. It is within the power of State legislatures to so alarm capital that might be attracted to such a business, that it would be wholly useless for a time to attempt any important work of the kind sug-

gested. The attack upon rates is one of the most direct methods of removing all inducement to extend telephone facilities; but, even if the right to absolutely regulate this matter were conceded, the question whether the few thousand persons, who now are connected with telephone exchanges, shall have telephone service a little cheaper than at present, is of trifling importance to the country, compared to the completion of a telephone system adequate to the needs of the whole people.

The directors feel that the outlook ahead is promising, that there is good prospect of an early favorable termination of our most important suits, and strong reason to hope that further unjust legislation will not be seriously attempted, so that we may look forward to an opportunity to devote ourselves to the extension and completion of our telephone work.

For the Directors,

W. H. FORBES,
President.

LEDGER BALANCES, DEC. 31, 1885.

DEBTORS.

Telephones	\$590,722 20
Stocks	22,611,859 03
Merchandise and Machinery . .	18,962 56
Bills and Accounts Receivable .	450,131 90
Cash and Deposits	997,728 52

CREDITORS.

Capital Stock	\$9,802,100 00
Bills and Accounts Payable* .	522,985 65
Patent Account (Profit and Loss)	9,593,755 18
Profit and Loss	3,337,895 56
Reserves	208,547 81
Surplus	1,204,120 01
	<hr/>
	\$24,669,404 21
	<hr/> <hr/>
	\$24,669,404 21
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* Of this amount, \$294,063 is the dividend payable Jan. 15, 1886, to stockholders of record Dec. 31, 1885.

WM. R. DRIVER, *Treasurer.*

Boston, March 30, 1886.

Comparative Statement of Earnings and Expenses.

EARNINGS.

	1884. (12 MONTHS.)	1885. (12 MONTHS.)
Rental of Telephones	\$1,956,413 28	\$2,026,398 33
Sales of Instruments and Supplies	7,232 91	2,676 18
Dividends	475,401 95	597,469 99
Commission from Extra-territorial and Branch Lines	69,136 90	75,878 96
Com's'n from Telegraph Business	13,236 82	15,388 05
Interest	48,503 46	39,812 79
Miscellaneous	355 97	8,260 63
	<u>\$2,570,281 29</u>	<u>\$2,765,884 93</u>

EXPENSES.

Expenses of Operation	\$226,210 79	\$220,726 25
Legal Expenses	153,795 18	210,614 32
Interest and Taxes	40,922 63	33,377 42
Depreciation	4,098 24	
Commission	401,204 83	396,650 72
Royalty	15,000 00	12,523 74
Rental Concessions (6 mos.)		98,796 00
	<u>\$841,231 67</u>	<u>\$972,688 45</u>

Net earnings	\$1,729,049 62	\$1,793,196 48
Misc. Items to Surplus Account	58,560 32	16,800 00
	<u>\$1,787,609 84</u>	<u>\$1,809,996 48</u>

Surplus Account, Dec. 31, 1884	\$1,057,112 43	
Net Earnings of 1885	1,793,196 48	
Miscellaneous Items	16,800 00	\$2,867,108 91

Regular Dividends in 1885	\$1,170,192 00	
Extra Dividends in 1885	392,044 00	
Reserved for Depreciation of In- struments	100,752 90	1,662,988 90
Surplus Account, Dec. 31, 1885		<u>\$1,204,120 01</u>

REPORT OF AUDITING COMMITTEE.

Boston, July 24, 1885.

W. H. FORBES, Esq.

President, etc.

Dear Sir,—I herewith enclose the report of the Accountant employed to examine the books & acs. of the American Bell Tel. Co., to July 1st.

Resp'ly yours,

W. G. SALTONSTALL,

Com'tee on Ac's.

Boston, July 23, 1885.

I hereby certify that I have examined the books and accounts of the American Bell Telephone Company for the six months ending June 30, 1885, and have to report that I have verified the cash book, its debits and credits, the rentals, pay rolls, journalizings, stock ledger, stock investments, bills receivable, bank accounts and cash on hand.

Have found everything in connection with the above correct; the disbursements as entered in cash book sustained by approved vouchers, the certificates of stock investments and bills receivable which the ledger calls for are on hand or properly accounted for, and the books are accurately kept.

CHARLES T. PLIMPTON,

Accountant.

BOSTON, Jan. 13th, /86.

WM. H. FORBES, Esq.

Pres't Am. Bell. Tel. Co.:

Dear Sir,— Herewith please find the report of the Auditor employed by me to examine the books and accounts of the Am. Bell Tel. Company, for the six months ending Dec. 31st., 1885.

Respectfully yours,

W. G. SALTONSTALL,

Com'tte on a/cs.

Boston, Jan. 13, 1886

I hereby certify that I have examined the books and accounts of the Treasurer of the American Bell Telephone Co. for the six months ending December 31st, 1885, and have to report that I have verified the cash book, its debits and credits, the rentals, commission, concession accounts, pay rolls, journalizings, stock ledger, stock investments, bills receivable, trial balances, bank accounts and cash on hand.

Have found everything in connection with the above correct; all disbursements of cash sustained by approved vouchers, and the certificates of stock investments, and the bills receivable which the ledger calls for are on hand, or properly accounted for and the books accurately kept.

CHARLES T. PLIMPTON,

Accountant.

