1907

ANNUAL REPORT

OF

THE DIRECTORS

OF

AMERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1907.

PRESS OF
ALFRED MUDGE & SON,
BOSTON.
1908.

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American Telephone & Telegraph Company

OFFICERS FOR THE YEAR 1907.

THEODORE N. VAIL,	*President.*
EDWARD J. HALL,	*Vice-President.*
THOMAS SHERWIN,	*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.
ALEXANDER COCHRANE.
T. JEFFERSON COOLIDGE, Jr.
W. MURRAY CRANE.
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 10, 1908.

TO THE STOCKHOLDERS:

The results of the business for the year 1907, as shown by the Comptroller's statement appended, were as follows:—

Profits	$23,479,290.10
Interest	7,209,902.16
Balance	16,269,387.94
Dividends paid	10,943,644.00
Carried to Reserve	3,500,000.00
Carried to Surplus	1,825,743.94

The following were the corresponding figures for the year 1906:—

Profits	$17,857,687.37
Interest	4,886,750.61
Balance	12,970,936.76
Dividends paid	10,195,233.50
Carried to Reserve	1,773,736.62
Carried to Surplus	1,001,966.64

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 3,035,533,

an increase of 308,244. In addition to this number there were 755,316 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 3,839,000 stations connected to the Bell system as against 3,070,660 stations at the close of the previous year, an increase of 768,340 stations.

The increase in the number of subscriber stations operated directly by our associated companies was less than last year, due to more rigid collection of bills and more careful scrutiny of applicants. As the average cost of connecting subscribers far exceeds the average annual income per station, permanency is more desirable than numbers. The result has been an improvement in the class of subscribers, so that, notwithstanding this smaller increase in subscriber stations, the increase in gross revenue is fully equal to that of former years.

Wire Mileage.

The total mileage of wire in use for exchange and toll service was 8,610,592 miles, of which 1,141,687 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 excluding sub-licensees, the daily average of toll connections was about 494,000, and of exchange connections

about 18,130,000, as against corresponding figures in 1906, of 462,000 and 16,478,000; the total daily average for 1907 reaching 18,624,000, or at the rate of about 5,997,000,000 per year.

Construction.

In the early part of the past year there were signs of a coming change in general business conditions, and steps were taken to stop all construction not necessary either for immediate demand or to put the plant in condition to economically meet future demand. The result of this action has been satisfactory. The construction expenditures during the latter part of the year were largely reduced.

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 1907 was :—

For exchanges	$44,184,800
For toll lines	4,426,400
For land and buildings	4,310,200
	$52,921,400

Construction 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, $50,780,906; and in 1906, $79,366,949, making the grand total of expenditure upon these properties during the eight years $351,835,655.

Maintenance and Reconstruction.

During the year $36,626,667 was applied out of revenue to maintenance and reconstruction purposes.

The total amount of maintenance and reconstruction charged against revenue for the last five years was over $147,000,000. This expenditure is reflected in the superior condition of the plant, the theory and practice being that the plant must be kept in standard condition at the expense of revenue.

American Telephone and Telegraph Company Investment.

The amount contributed by the American Telephone and Telegraph Company in 1907 by way of investment in its own long-distance plant ($1,285,000), in real estate ($585,485), and in the purchase of stock and bonds and in advances to its operating companies ($29,952,000), was in all $31,822,485, an addition of about ten per cent. to its entire investment up to January 1, 1907.

Associated Companies.

financial condition.

The associated operating companies of the United States (not including the American Telephone and Telegraph Company) commenced the year with rather an abnormal indebtedness. Measures were at once taken to bring this within the normal limits of current operations. This has been done and the obligations of those

companies to other than the American Telephone and Telegraph Company decreased for the year $21,000,000, while the cash on hand increased at the same time $1,500,000 — a net improvement in such liabilities of $22,500,000.

During the year the Western Electric Company decreased its indebtedness $9,400,000 and increased its cash $1,150,000, making a net improvement of $10,550,000 for that company.

The total improvement of our associate operating and manufacturing companies in the United States was $33,050,000, bringing the current and floating indebtedness of all the associated companies well within the limits of current operations.

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 1908 have been prepared, thoroughly studied and considered in connection with available resources. Maximum expenditure in each case has been agreed upon, which is well within the available resources. 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 well within the limits fixed.

WESTERN ELECTRIC COMPANY.

The Western Electric Company desired to extend its relations with our company and the associated companies, and to cover with its operations the entire

telephonic field, whether connected with the Bell system or not. At the same time it was thought that the management, which would remain the same, if brought into closer touch with the general organization of the Bell system, could avoid duplication of effort in electrical and mechanical development and in this way and by the concentration of the purchase and distribution of supplies effect greater efficiency and economy.

To this end contracts have been made with most of the Bell companies, and the contract between our company and the Western Electric Company has been modified in respect to the sale of telephones and telephonic apparatus.

The business of the year 1907, considering the unusual conditions and the large contraction in business, was fairly satisfactory, if taken alone by itself. When taken in connection with the overstock from 1906, and the amount of merchandise and material on hand or in process at the beginning of the year, it shows very small profit.

Marketable goods and merchandise on hand at the end of the year 1907 were inventoried at $2,000,000 less than cost, and concessions in prices to the amount of $335,000 were made.

These items, in addition to the high rates and unusual amount of interest paid, made it necessary to pay substantially all of the dividend of 1907 out of surplus.

At the end of the year cash and cash assets exceeded the payables by about eighteen per cent. The quick assets including merchandise exceeded the payables more than two to one. The plant stands on the books

at about $12,000,000, which is fifty-one per cent. of the actual cost.

During the year an issue of bonds to the amount of $15,000,000 was authorized which will be used when conditions are favorable to provide additional working capital if needed.

A proposition was made by our company to purchase the outstanding share capital of the Western Electric Company at a price agreed upon with some representative shareholders as fair and equitable. Over 30,000 shares have accepted the offer, making the total holdings of our company over 120,000 out of 150,000 shares.

Gross Revenue and Expenses — Operating Companies.

Attention has been given to the operating expenses with a view to bringing them down to the lowest economy consistent with the highest efficiency.

In spite of increase in wages and the continuance of the same high standard of maintenance which has always prevailed, the ratio of expense to gross revenue has decreased so that the net revenue shows a gratifying improvement.

It is expected and believed that the continuation of the present policy through the coming year will produce equally satisfactory results.

The following table shows the year's results of all the telephone operating companies associated with the Bell system, not including the long-distance business and the Bell Telephone Company of Canada, for the year 1907, compared with 1906.

COMPARATIVE CONSOLIDATED STATEMENT OF BELL TELEPHONE COMPANIES IN UNITED STATES. AMERICAN TELEPHONE AND TELEGRAPH COMPANY NOT INCLUDED.

(EXCLUDING DUPLICATIONS.)

	1906.	1907.	Increase.
Gross Earnings	$105,441,600.	$120,753,200.	$15,311,600.
Expenses:			
Operating and General	47,206,400.	53,242,300.	6,035,900.
Maintenance	30,639,200.	34,665,700.	4,026,500.
Total Expenses	77,845,600.	87,908,000.	10,062,400.
Balance, Net Earnings	27,596,000.	32,845,200.	5,249,200.
Deduct Interest	5,197,800.	7,025,500.	1,827,700.
Balance	22,398,200.	25,819,700.	3,421,500.
Dividends Declared	16,682,000.	19,206,100.	2,524,100.
Undivided Profits	5,716,200.	6,613,600.	897,400.

ISSUE OF NEW SHARE CAPITAL.

Early in the year, anticipating the possibility of an uncertain financial condition, your Directors authorized an offer of 219,252 shares of capital stock to the existing shareholders, at the ratio of one share to each six shares then held. Of this issue all but 9,486 shares were subscribed for and taken. The money realized placed our company in such condition that it was enabled to fully protect all of its associated and allied interests during the exceedingly critical financial period just passed, and left it in a position to meet all an-

ticipated demands of the current year based on a complete discussion of and agreement on the requirements and resources of our company, and of the associated and controlled companies.

With this issue there are now outstanding 1,525,280 shares of capital stock distributed among 23,469 shareholders, an increase of 5,275 over January 1, 1907, being an average of sixty-five shares each.

It will be interesting to note that 1,312,502 of these shares are held by 23,453 shareholders, an average of less than fifty-six each, the balance, 212,778, being held by sixteen shareholders of 5,000 or over shares each —an average of 13,298 each. More than three-quarters of the entire share capital is held in New England.

Selling Telephones.

The policy of our company in the past has been to lease telephones, and to allow the Western Electric Company to sell only apparatus to our licensees. Believing that the best interests of all would be advanced by the general use of standard telephonic apparatus, after consultation with and with the approval of our associated and licensed companies, we authorized the Western Electric Company to sell both telephones and telephonic apparatus to all applicants. While the time has been too short to show positively the effect of this policy, the indications are that the benefits direct and indirect will be large, particularly in the development of unoccupied territory in connection with the Bell system.

Exaggeration of Telephone Profits for Speculative Purposes.

Much of the agitation against legitimate telephone business is founded on false and exaggerated statements of the profits originally made by the early Bell companies.

These statements have been used by the promoters of both good and bad enterprises.

As a matter of fact, the shareholders of The American Bell Telephone Company and its predecessors paid into the treasuries of those companies more actual cash than was represented by the capitalization at par value.

The only shares of The American Bell Telephone Company not issued for cash at par or at a premium were the shares amounting to $5,100,000 issued in exchange for the shares and property of the National Bell Telephone Company. The premiums received by the company on further issues of stock amounted to more than this sum.

The substitution of the American Telephone and Telegraph Company for The American Bell Telephone Company was, in effect, the purchase of the property of The American Bell Telephone Company for cash at somewhat less than the average market price prevailing prior to the purchase. None of the American Telephone and Telegraph shares now stand on any other basis than cash at par value.

In view of the enterprise shown and the risk incurred by the original investors, who received no interest or dividends for years, the return was certainly not large to those who created an enterprise which has probably

done more to bring about a new and advantageous condition in the affairs of mankind than any other industry in the history of the world.

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 was made at the close of the year. The valuation was based on the replacement cost of the existing plant, and does not include any "unearned increment" or allowance for franchises, but assumes a clear field and free franchise. When to this valuation is added the value of rights of way now unobtainable, patents, franchises, and other valuable considerations, it will be conceded that the Bell system is unique. This showing is interesting and should serve to correct some popular but erroneous impressions.

January 1, 1908, all obligations of the American Telephone and Telegraph Company and its associated operating companies in the United States, including capital stock at par, held by the public were $554,939,000.

Cash on hand, quick receivables, working assets, and sundry investments were . . . . . $101,074,000.

Balance, Capital representing plants, $453,865,000.

The plants are carried on the books of the various companies at . . $492,496,000.

Appraised value by Engineers (copper at 15 cents) . . . . . $488,296,000.

Outstanding obligations against plant, $453,865,000.

Appraised value in excess of outstanding obligations	$34,431,000.
Book value exchange construction only, per exchange station . .	$114.
Book value all plant (toll line and exchange) of Bell operating companies in United States (not including long-distance) per exchange station . .	$149.
Book value all plants in the United States, including long-distance, per exchange station	$162.

Promotion and Competition — Independent Companies.

The unusual production and prices, during the past few years, of those commodities which this country sells to the whole world, with accompanying very general distribution of wealth, resulted in an almost phenomenal financial and industrial activity, stimulating new enterprises and promotions of all kinds, among them independent telephone companies.

The exaggerated stories of the fortunes made by original telephone investors, together with misleading statements of probable profits, made it possible to launch many of these companies pledged to *low rates for exchange service and high dividends to investors.* At these low rates, with "maintenance" and "reconstruction" expenses either intentionally or ignorantly disregarded, these companies for a time had an appearance of prosperity.

The result has been unfortunate in nearly every case.

The promises and pledges as to rates and profits, made as an excuse for their coming, as a basis for their franchise, and as an incentive to attract capital, are now admitted to be impossible. Most, if not all, of these companies, which have had an existence long enough to force attention to the items of "maintenance" or "reconstruction," are now asking for increased rates, and to be absolved from onerous conditions freely accepted and assumed at the beginning. Reorganizations are now in progress.

It would seem, as a whole, that the gain of the public through competition based on low rates has not compensated for the loss of capital invested in these enterprises.

During this period of strife and rush for development and extension, many subscribers were connected to exchange systems with little or no benefit to themselves or advantage to others, and much was done that under ordinary conditions would not have been done.

Rates and Rate Regulation.

The result of these conditions has been to create in the minds of the public, and of public bodies, misleading and mistaken ideas of the telephone business. It has encouraged attempts at regulation of rates and business on lines that if obligatory or persisted in would be ruinous. In controversies as to rates, the policy of our associated companies has been to make a complete and absolute showing of the condition, cost and value of plant, cost and value of service, cost and necessity of proper maintenance, and the broad position is taken

that neither our company nor the associated companies have anything to conceal or anything to apologize for. That the capitalization of all the companies is conservative, far within justifiable limits, and in the relation between the replacement value of the properties and the capitalization of the companies, unique. Fair rates, therefore, should be authorized or acquiesced in, for it is only by fair rates that good service to the public and permanent, healthy conditions can be created or maintained. With a full knowledge of all surrounding circumstances and conditions, it is believed that this would be fully acquiesced in by the public.

Fair rates would insure high-class plant and equipment maintained at a high state of efficiency, and would provide fair wages to employees, the highest paid for similar class of employment. Both of these are necessary to good service.

Fair rates should give fair return on the investment, and promise fair return on new money needed. This is necessary to maintain the interest of the existing shareholders in the proper administration of the business, as well as to provide for the continually increasing public demand.

Any revenue produced over and above such requirements and the proper reserve to provide for contingencies could be used for the benefit of the public, allowing the company to retain a part sufficient to stimulate the most efficient and economical management. It would be difficult, if not impossible, to get effective and economical management, such as would produce the best results for both the public and the shareholders, without recognizing this principle.

It does not seem possible that there can be any question of the justice of this position. That being granted, the facts to be settled are :—

Is the management honest and competent ?

What is the investment?

Is the property represented by that investment maintained at a high standard?

What percentage of return does it show?

Is that a fair return?

Is it obtained by a reasonable distribution of gross charges?

If these questions are answered satisfactorily, there can be no basis for conflict between the company and the public, and the less the working conditions are made inflexible by legislative proscription, the better will be the solution of the constantly changing problems incident to a growing business.

The question of maintenance is of the greatest importance and will be referred to more at length later.

Competition.

The value of any exchange system is measured by the number of the members of any community that are connected with it. If there are two systems, neither of them serving all, important users must be connected with both systems. Connection with only one is of but partial value and cannot be satisfactory. 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.

The advantages claimed for competition are lower rates and improved service. Exhaustive competition may temporarily produce either or both of these results, but, as before stated, this temporary gain is purchased by an excessive waste. Duplication of plant and operation cannot produce either result without exhaustive competition. Given the same management, the public must pay double rates for service, to meet double charges, on double capital, double operating expenses and double maintenance. In most cases of proposed competition an examination of the prospectus will show that, by some process, it is expected to make good a capitalization equal to at least two or three times the actual cost of the construction. The only benefits are to the promoter.

Public Control.

It is contended that if there is to be no competition, there should be public control.

It is not believed that there is any serious objection to such control, provided it is independent, intelligent, considerate, thorough and just, recognizing, as does the Interstate Commerce Commission in its report recently issued, that capital is entitled to its fair return, and good management or enterprise to its reward.

What is Fair Return on Capital?

With guaranteed or reasonably certain income, money can be obtained for any enterprise at moderate rates.

With uncertainty—owing to competition and oppo-

sition, possible or actual, or possible regulation of rates without proper investigation or consideration — a more or less speculative price must be paid.

Subject to these general rules, "locality" and existing general conditions will establish the rate.

Fair Charges. Upon What Based. Exchange Service.

An exchange system is made up of circuits (each consisting of two wires) radiating from a central office, or from central offices connected by trunk lines, so arranged that each circuit can be connected directly or through trunk lines with the others. There are in these circuits of the Bell system about 7,000,000 miles of wire — over two miles of wire to each subscriber — one-half in underground conduits. The system of radiating circuits is the most expensive part of the exchange system to build, it is least durable, therefore most expensive to maintain, calls for the largest part of the total investment, and consequently must bear the largest part of the cost of capital.

The real value of a telephone exchange system depends entirely on the distribution and number of other members of the same or other communities connected with the same or connecting systems, with whom any subscriber can have prompt and satisfactory communication.

Any member of a community connected with an exchange system can be reached as well, but not as conveniently, from a central or public office as from a subscriber's station.

To reach any member of a community not connected with any exchange system, whether from public station

or subscriber's station, is too inconvenient and impractical to be considered for ordinary use.

Therefore, the particular circuit connecting any subscriber with the exchange is what might be termed a *convenience to that particular subscriber, but a necessity to all other subscribers.*

It is not merely the maintenance of the individual circuit connecting with the exchange that is paid for by any subscriber; *it is in a greater measure the use from time to time of the circuits, trunks and facilities which make communication possible with all other subscribers.*

It is the ability to communicate with others that makes the exchange valuable; it is the use of other circuits than your own.

The cost and value of the system to any subscriber do not depend so much on the number of communications had as on the number and extent of other circuits and facilities necessary to give the communications desired.

It is plain, therefore, that the character of the circuit connecting any subscriber with the exchange does not determine either the cost or value to that subscriber of the exchange connections.

The many and complicated systems of charges prevailing indicate the struggles experts have had in their efforts to establish consistent and reasonable rates.

As the value of the exchange to the subscriber depends upon the number of subscribers within reach — rates must be so established that the maximum number of subscribers can be obtained, so that the greatest number of those with whom communication may be wanted will be connected with the exchange. The cost of any

circuit, therefore, must be largely distributed between those who may desire to communicate with the particular subscriber connected by that circuit.

The cost or value cannot be exactly distributed — an approximation is reached by measured service charges, or by a classification of service between business houses and residences with a sub-classification of plant between "direct" and "party" line.

Business rates are higher for the reason that presumably the business subscriber connects with the greatest number of other subscribers, and consequently makes use of the greatest number of circuits and operating facilities in an exchange.

Residence rates are lower because the residence subscriber connects with a limited number of other subscribers, and because he makes more limited demands on the central office.

It being established that the measure of value is not in the particular class of line connecting any subscriber to an exchange, but in the use of the exchange system as a whole, and that the value of any exchange depends on the area covered and the maximum number of desired individuals that can be reached, rates must be so adjusted that no rate shall bear unjustly on particular individuals or classes; that, at some rate, connection with the exchange is within reach of anyone who can add to the value, to others, of the exchange, and that, as a whole, the revenue will be sufficient to maintain the plant, pay fair wages, make enough return on capital and enterprise to insure good economical management and sufficient capital to meet the increasing demands of the public.

"Toll" Line and "Long-Distance" Service.

Toll line and long-distance communications require, as in exchange connections, the exclusive use of a circuit, two wires, between two points for an interval of time, varying with the conditions; over the whole system the average "time interval" consumed in the completion of each communication is about seven and one-half minutes.

Direct service between two points with large demands for service is the least complicated; the average "time interval" of each communication lasts about three and one-half to five minutes. Between points of small demand, or between intermediate points on local lines, both complications and cost increase, and the average "time interval" is not less than five minutes each. Between points on side or branch lines, or distant points requiring combinations of circuits, or complicated and delicate auxiliary apparatus with many attendant operators, complications and cost increase rapidly, and the "time interval" taken for each communication varies from five or seven and one-half minutes to an indefinite period.

Cost is determined by the capital and maintenance charges of the plant and operating costs, divided by the average number of communications.

Cheap rates for service depend upon high average use of facilities.

High average is obtained ordinarily in public service by putting on higher pressure — crowding — or in some way rendering more than normal service through or

over any given facilities during the limited periods of great demand.

It is by this means, and by this means only, that cheap service is rendered to the public.

Whatever inconvenience or discomfort there may be caused on one hand is compensated for by the reduced price charged for service.

In this particular, toll line or long-distance service is unique. In whatever way the circuit is made up, a certain "time interval" must be given exclusively to each communication, and to the communicating parties. No other communication can be crowded on that circuit during that "time interval."

Any "time interval" passed without being utilized is lost beyond recovery. A good average cannot be made by crowding two or more communications into the "time interval" of one, nor by putting on higher pressure to get more "time intervals" over the same circuit.

There are only a certain number of five-minute "time intervals" in each hour, or five-minute "spaces" on each clock. If you want more "time intervals" or more "spaces," you must take more hours or more clocks. In toll line business anything above the normal capacity of each circuit must be provided for by additional circuits.

Toll line or long-distance business requires the presence of the communicating parties; for that reason it is confined to the business or working hours of the day; and further, the greater part of this business is not only limited to those few hours when parties are most likely to be located at some particular place, but to that part of those few hours immediately after the

general business of the day has developed. For this reason the greater part of the toll line or long-distance business is crowded into an exceedingly small part of the business day. The periods of great demand are short. The facilities provided are idle a great part of even the business hours.

The diagrams following illustrate this most graphically — one taken at Washington, where the business hours, due to the newspaper correspondence, extend well into the night, the other at a city which shows better than the average.

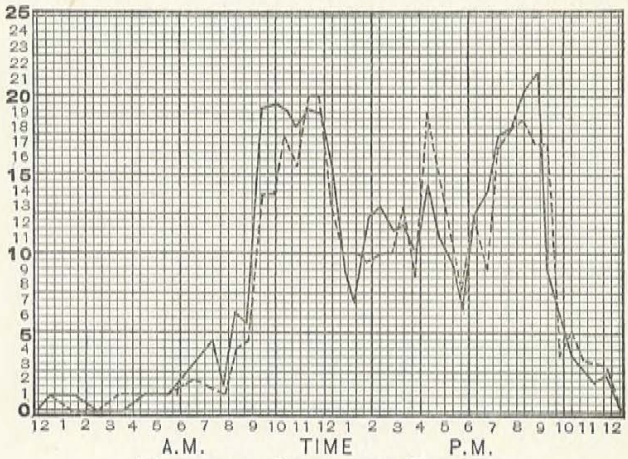
Examination shows that about half the facilities are utilized to a fair part of the capacity during business hours only. All the rest are utilized only to a fractional part of the capacity at any time. If during certain hours the business as shown on these diagrams could be subjected to a half hour's delay, the facilities required could be reduced one-third at least.

Toll line or long-distance business is in the minds of the public similar to telegraphic message business. There is no comparison. Telegraphic circuits between points are at most one wire, on all trunk lines two to four circuits over one wire.

Telegrams are handed in, filed before an operator and despatched in order. In this way the business is distributed more uniformly over working hours, and during the night hours the lines are used for press messages, night messages, or for long-distance messages in transit.

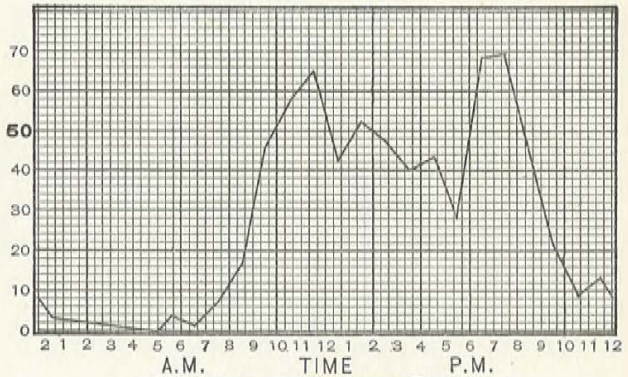
Maintenance.

Utter disregard for repairs and reconstruction, usually comprised under the head of "maintenance," has been



TYPICAL SERVICE CHART
OF
LONG DISTANCE TOLL CALLS

Full Line —— represents Orders received
Dash Line - - - represents Completed Connections



TYPICAL SERVICE CHART
SHOWING VARIATION IN
IN AND OUT LONG DISTANCE TOLL CALLS
HANDLED HOURLY IN
WASHINGTON, D.C.

the cause of more misunderstanding on the part of the public and public bodies having to do with rates, of more self — or selfish — deceit on the part of promoters of telephone enterprises, and of more mistakes on the part of the investing public than any one factor in the telephone business.

With a new plant, " current repair " is at a minimum, and can be for a time disregarded; with a growing plant, it is too easy to lose it in construction; but sooner or later, if not provided out of current revenue, where it belongs, it will be found either in increased construction — that is, capital charges — or in a depreciated plant.

Any company paying dividends and fixed charges, particularly dividends, without first providing for proper maintenance, can have but one end — disaster.

In any consideration of this question the leaning should be towards liberal rather than inadequate maintenance. In any properly administered company any excess would be found in betterments or construction, and consequently in reduced capital investment, while inadequate maintenance would soon show in quality of service and in reconstruction requirements. In other words, surplus maintenance would be offset by decrease of capital charges, while inadequate maintenance requiring new construction in time would increase capital charges.

Attention is called to the facts shown above that during the past five years there has been expended out of revenue for maintenance and reconstruction about $150,000,000 on plant, which now has a replacement value of $488,000,000.

Comparative Statistics and Statements.

Appended hereto, as usual, are a series of comparative statistics showing certain phases of the development of the business of the company and its associated companies; the balance sheet of the company as of January 1, 1908; also a comparative statement of the earnings and expenses for the years 1906 and 1907, and a statement showing the net revenue and the dividends paid 1900-1907.

In connection with the improvement shown in the year's business, it may not be amiss to call attention to the fact that each year in the past has shown an improvement over the previous year, whatever may have been the general business conditions.

Everything indicates that the current year will be no exception to this.

It is only in times like the present that the true economy and value of the telephone service with its varied relations to the dispatch and conduct of business and to social relations can be realized. This only emphasizes the fact that of all services the telephone service is the last to be dispensed with.

General.

The past year completes what may be called the thirtieth year of corporate organized work in the development of the Bell Telephone System. In the mind of Mr. Bell, the invention and its application had simultaneous growth. During the first year, such of the many "imaginations" and ideas as to development as were demonstrably practical were assimilated and the

business was established on the lines now followed which make our company with its associated companies a national system with millions of subscribers connected by millions of miles of circuit with local exchange systems, all bound into one large comprehensive system by the toll and long-distance lines with their 163,000 miles of poles and 1,664,000 miles of wire, the whole inter-dependent and inter-communicating, an aggregation or union impossible to destroy in detail, and impossible to reproduce as a whole.

Each year has seen some progress in annihilating distance and bringing people closer to each other. Thirty years more may bring about results which will be almost as astonishing as those of the past thirty years. To the public, this "Bell System" furnishes facilities, in its "universality" of service and connection, of infinite value to the business world, a service which could not be furnished by disassociated companies.

The strength of the Bell system lies in this "universality." It affords facilities to the public beyond those possible on any other lines. It carries with it also the obligation to occupy and develop the whole field. The urban field was the first to receive attention and the development keeps pace with the demand. The semi-urban and rural demand came later. This has been met both directly by the operating companies and indirectly through local, co-operative and rural combinations, under license from, and connected by toll lines with, our operating companies. The policy adopted during the year, of selling telephones and telephonic apparatus, has given fresh impetus to this line of development, which is now showing most gratifying results.

This position of our company has been reached only by a large expenditure of capital, which is, however, fully represented by plant and property with an earning power that must be considered satisfactory.

If this expenditure is but considered as the financing of thirty-five distinct companies occupying thirty-five distinct territories and is considered as so distributed, rather than as a whole, the aggregate does not seem formidable. In this focussing of capital there are distinct advantages in that the revenue is derived from so many and such varied sources, and that the success of our company lies not in the success of any one company but in the average of all.

For the Directors,

THEODORE N. VAIL,
President.

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

	Jan. 1, 1899.	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.	Increase.
Miles of Pole Lines	75,718	89,292	101,087	110,459	122,409	130,178	136,547	145,535	154,869	163,218	8,349
Miles of Wire....	385,911	501,832	607,599	716,265	837,912	975,702	1,121,228	1,265,236	1,461,173	1,664,081	202,908

TOLL CONNECTIONS.

The average daily number of toll connections is	493,775
Or a total per year of about	158,996,000

EXCHANGES OF THE BELL COMPANIES IN THE UNITED STATES.

	Jan. 1, 1899.	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.	Increase.
Exchanges .	1,126	1,239	1,348	1,411	1,514	1,609	4,080	4,532	4,889	5,108	219
Branch Offices	1,008	1,187	1,427	1,594	1,861	2,131					
Miles of wire on poles and buildings .	411,832	524,123	644,730	841,140	1,109,017	1,358,140	1,654,379	2,159,567	2,754,571	3,057,138	302,567
Miles of wire underground	358,184	489,250	705,269	883,679	1,328,685	1,618,691	1,888,760	2,345,742	3,241,471	3,883,051	641,580
Miles of wire submarine .	2,973	3,404	4,203	4,200	6,048	6,358	6,671	9,373	11,690	6,322	*5,368
Total miles of wire . . .	772,989	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	938,779

* Decrease by transfer to toll mileage.

EXCHANGES OF THE BELL COMPANIES — Continued.

	Jan. 1, 1899.	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.	Increase.
Total Circuits .	338,293	422,620	508,262	592,467	742,654	798,901	930,251	1,135,449	1,384,175	1,541,727	157,552
Total Employees at Exchanges .	19,668	25,741	32,837	40,864	50,350	53,795	59,451	74,718	90,324	88,274	†2,050
*Total Stations .	465,180	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*	308,244

* Including all companies connected with the Bell system, the number of stations is 3,839,000 against 3,070,660 at January 1, 1907, an increase of 768,340 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 18,130,803

Or a total per year of about 5,838,100,000

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

Balance Sheet, January 1, 1908.

ASSETS.

Stocks of Associated Companies	$202,338,100 95	
Bonds and other obligations of Associated Companies	71,066,696 61	
		$273,404,797 56
Telephones	$10,169,548 52	
Real Estate	3,493,583 25	
Long Distance Telephone Plant	41,621,174 65	
		55,284,306 42
Cash and Deposits	$13,490,602 52	
Temporary Cash Loans	5,285,782 50	
Short Term Notes	11,610,770 02	
		30,387,155 04
Accounts Receivable		9,573,385 84
Patents		277,937 35
Treasury Bonds		320,000 00
Treasury Stock		27,110,400 00
		$396,357,982 21

LIABILITIES.

Capital Stock	$179,595,255 00	
Surplus	12,324,884 89	
		$191,920,139 89
Four Per Cent. Collateral Trust Bonds, 1929	$53,000,000 00	
Four Per Cent. Convertible Bonds, 1936	90,000,000 00	
Four Per Cent. American Bell Bonds, 1908	10,000,000 00	
Five Per Cent. Coupon Notes, 1907	10,000 00	
Five Per Cent. Coupon Notes, 1910	25,000,000 00	
Other Notes Payable	485,000 00	
Dividend Payable January 15,	3,050,560 00	
Interest and Taxes accrued but not due	3,316,160 31	
Accounts Payable	1,162,588 67	
		186,024,308 98
Depreciation Reserve		18,413,533 34
		$396,357,982 21

C. G. DuBOIS, *Comptroller.*

Comparative Statement of Earnings and Expenses.

EARNINGS:	1906.	1907.
Dividends	$10,281,437 60	$11,805,166 81
Interest and other revenue from associated and licensed companies	6,477,154 78	9,307,023 72
Telephone Traffic (net)	2,705,138 05	3,901,653 93
Real Estate	67,296 29	162,228 49
Other Sources	178,126 84	433,598 31
	$19,709,153 56	$25,609,671 26
EXPENSES	1,851,466 19	2,130,381 16
NET EARNINGS	$17,857,687 37	$23,479,290 10
Deduct Interest	4,886,750 61	7,209,902 16
	$12,970,936 76	$16,269,387 94
Dividends Paid	10,195,233 50	10,943,644 00
Balance	$2,775,703 26	$5,325,743 94
Carried to Reserves	$1,773,736 62	$3,500,000 00
Carried to Surplus	1,001,966 64	1,825,743 94
	$2,775,703 26	$5,325,743 94

C. G. DUBOIS, *Comptroller.*

Annual Earnings and Dividends.

1900-1907.

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.

C. G. DuBOIS, *Comptroller.*

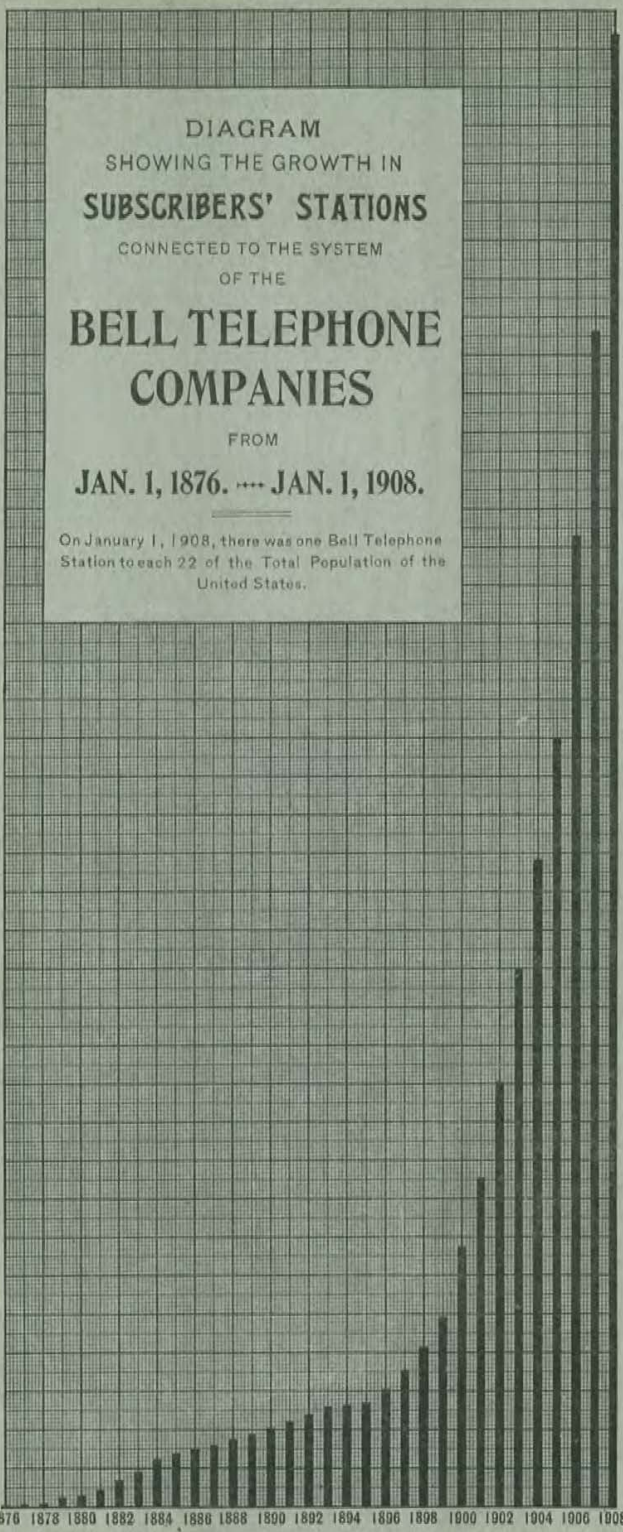


DIAGRAM
SHOWING THE GROWTH IN
SUBSCRIBERS' STATIONS
CONNECTED TO THE SYSTEM
OF THE
BELL TELEPHONE COMPANIES
FROM
JAN. 1, 1876. ···· JAN. 1, 1908.
On January 1, 1908, there was one Bell Telephone Station to each 22 of the Total Population of the United States.
3,900,000
3,800,000
3,700,000
3,600,000
3,500,000
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
JANUARY 1ST OF EACH YEAR