

To the Stockholders and Directors of the
Bell Telephone Company.

The association called the Bell Telephone Co. was
organized on the day of 1877.

On the first day of February ensuing, the
New England Telephone Co. was organized.

In July the present Bell Telephone Company.

The only capital of the association was its patents.

Its receipts for the year ended 1st August 1878,
exclusive of New England were \$34,400. Its
expenses \$9,500, leaving a net profit on the years
business of \$25,000. At the organization of the

new Bell Telephone Co. the Association sold all
its property & assets to the new Company for \$

This was much less than the actual cost of the property
as from \$12,000 to \$5,000 less than cost was lost on the bells.

The Bell Telephone Co. reserved \$150,000 of its stock
as working capital. This has been sold for \$75,000 in
cash. It was believed at the time of the organization
that this sum would be sufficient to carry on
the company & that no further call would be made
upon the Stockholders or any considerable debt
incurred. (As I write from memory I can only give
approximate statements of the expenditure and debts).

1. Instead of which, at the expiration of six months
from its organization, we find the entire capital
expended and the company liable for debt amounting

to \$40,000.- This has naturally led to a feeling of distrust on the part of the new stockholders as to the management of the Company. I was at first much disturbed and annoyed at the action of the directors in revoking the power of the Executive Com.^{ee} but on further reflection, I am not certain that under similar circumstances I should not have felt and acted as they did. It is therefore proper to show how this result has been brought about.

The business of the Company has been managed by an Executive Com.^{ee} of three, who had all the powers of the directors. The Treasurer has had entire control of the finances, while the president is responsible for the general conduct of the rest of the business, as it has been carried on either by him or Mr. Vail, who has acted in entire harmony with the president. The president therefore holds himself responsible for the general conduct & management of the business excepting the finances.

The \$75,000. has been expended as follows; —

In payment of debt of Bell Tel. Co.	\$30,000
For Chicago	\$30,000
For other purposes	<u>\$15,000</u>
	\$75,000.

We owe for Chicago about	\$10,000
Required for extensions in Chicago	\$10,000
Other debts	\$12,000
Notes due in 6 months	<u>\$12,500</u>
	\$44,500.

This statement is sufficient to show that if

we had not embarked in the Chicago enterprise, the Company would have been at the present time free from debt and enabled to go on without any further calls upon the stockholders.

The Executive Com.^{ee} adopted as a rule of action that they would not invest in District Companies, in any city, believing that the work could be more efficiently done by parties on the ground.

This rule they have deviated from in Chicago.

The work at Chicago was commenced before the organization of the present company but without any intention that it should be prosecuted by this Company. Our old agent, at Chicago Genl. Stager, commenced canvassing for a District Telegraph Co. in opposition to us, and we immediately sent our western agent, Mr. Eldred to canvass for subscribers for our Company.

At the same time, we made an arrangement with a gentleman, acquainted with the telegraph business, to organize a company, he started with strong expectation of success, but he was discouraged and driven from the field by the opposition of Genl. Stager, in whose employ he had been for several years. We then made an arrangement with other parties, the person on whom they relied died, & that fell through. Two other attempts were made, but failed. In November a gentleman agreed to furnish the money required on condition

that the affairs of the Company were substantially in accordance with our representations. Mr. Vail & myself went to Chicago with the money in his possession, but on examining the accounts I felt that we could not keep it, and that arrangement fell through. On the first of September I received a proposition from parties interested in the Western Union at Chicago, to take our business, paying us a royalty of three and four dollars on all telephones used by them. In November, a second proposition from the same parties to take the property off our hands at cost & pay a royalty on the telephones as before proposed. The Executive Committee did not think it desirable to accept of either of these offers as we felt it would be a substantial surrender of the north-west to the Western Union. We have been greatly disappointed at the cost of the works in Chicago. The only other District Company in operation, when they were commenced was in St. Louis. We knew the cost there was less than \$4,000, & did not expect one entire plant would exceed \$5,000. In Sept. I had a careful estimate made by Mr. Eldred & submitted to Mr. Durant the Supt. of the St. Louis Co. and to Mr. Watson our own Supt. It showed a cost of from \$12,000 to \$15,000 & a net annual revenue of about \$10,000, and in this statement

I felt entire confidence as made by the only parties who had experience in work of this kind. In October the estimate of total expenditure had risen to about \$20000. In the last of November to about \$30000. The actual cost if over \$40000. I think the Directors will see that while the Executive Com.^{ee} have been unfortunate in incurring so large a debt yet under the circumstances there was no other course for them to pursue. I do not believe it is possible to sell out the Chicago property at the present time. It requires more money to develop it the current receipts are not much in excess of the current expenditures, while we have a strong & vigorous opposition on the part of the Western Union Co. The profits from our Chicago business will be about \$200. in January, \$400. in February, & with the further expenditure recommended it will pay a fair profit on the investment & when we obtain an injunction against the Western Union Tel. Co. it will be the most profitable of any of the District Companies in my opinion. I am not satisfied with the management of Chicago. Mr. Eldred is a man of remarkable executive ability, but I think he does not realize the necessity of rigid economy to ensure success. And that

5- it is necessary for us to find a person to take

the entire charge of all the receipts & expenditures & make monthly statements to be submitted to the Executive Com.^{ee} & approved by them before any payment is made on such accounts.

A short statement of the work accomplished in other places will show the success that has attended the Executive Com.^{ee} in the rest of its operations. We have made arrangements in Michigan, Wisconsin, Minnesota & the North west which control the telephonic business of those states. We have established district companies in Albany, Troy, St. Louis, New Orleans, Louisville, Cincinnati, Washington, & Baltimore, with practically no opposition & have complete possession of the field. In Philadelphia, New York, & Buffalo, we have established our district companies with more or less competition from the Western Union.

In Utica, Syracuse, Columbus Ohio, and Cleveland Ohio, Nashville Tenn, Indianapolis & Richmond Va. and various other places arrangements have been made consummated for the establishment of District systems & in these places, little or no opposition is apprehended. We have accomplished these results in spite of the determined opposition of the Western Union with its capital of over
6. \$40,000,000. & controlling the best electric

talent in the country, with agencies in every place who wage a bitter & determined opposition to all our efforts, It has been an absolute necessity to start these companies at all these places, for the Co. that first occupies the field in any city must hold it against any new comer & the failure of the Western Union is due to this fact. Our future success therefore seems assured. We have not collected as much money during the last six months as we expected. The reason will appear by taking Phila. as an instance. The business in that city in July, August, & September, was very small owing to the general stagnation of business the success of the Edison Carbon Telephone and the opposition of Mr. Bentley acting for himself and the Western Union. It was generally believed that the competition of the Western Union with a better telephone & reduced prices would succeed, Customers were therefore unwilling to take our telephone or renew their leases.

Early in Sept. I induced Mr. Cornish to start his district Co. charging \$3. a month for each customer. He spent Sept. & Oct. in canvassing. Commenced the construction of his works in Nov. and early in January had over two hundred connections made with his central office. His work has been greatly delayed

7.

by his inability to obtain the apparatus necessary for his office; by experiments in deciding upon the best plan to be adopted and by the bitter opposition he encountered. He has recently raised his price to \$5.- a month & finds less difficulty in obtaining customers at that rate than at \$3. when he first began. He has overcome all difficulties and expects little further opposition from the Western Union. He has made scarcely any collections for the past three or four months, but will commence the first of next month and we shall thereafter be in receipt of a large income from that city. A similar state of things exists in the other large cities. We have now outstanding about 12000. telephones at a net rental of about \$5.00 a year. The business is scarcely yet in its infancy, for the district system is sure to be introduced into every considerable city & town in the country. We shall soon have over 100000. telephone in actual use and our expectations of the success of the Bell Tel. Co. will be fully realized. In my opinion it is absolutely essential for the success of the business that we now desire some well settled plan for its future conduct & then raise sufficient means. I think there should be an executive com^{ee}. consisting of President,

8.

Treasurer & one director, that they should have full power to act in all cases where they are united. All cases of disagreement to be referred to the full Board. That the president should have general oversight of the law business & in connection with the treasurer, the business of the general manager.

The method of carrying on the district business and the apparatus to be employed are entirely new & different devices are used in each city many of these ~~crude~~ all require to be

in some places the work is a stand still for want of such information as he can give.

The general superintendent should spend nearly half of his time with the different companies to see that the best instruments are adopted by each company. The instruments are now made by Mr. Williams who has sixty or seventy hands employed solely on telephonic business. by Davis & Watts of Baltimore who have about twenty hands solely employed on this business; by Partrick & Carter of Phila. & Post & Co. of Cincinnati.

The supt. should inspect the operations of these different establishments and see that each one produces the best possible work.

The general manager should as soon as possible & at regular intervals visit all the

principal agencies and keep himself personally acquainted with their managers and with their general methods of doing business).

We already have a travelling agent in western New York & another for the South; both of whom are temporarily employed, with the understanding that if they give satisfaction, the position will be permanent.

The agencies are required for the purpose of introducing this system into the cities of the second & third classes.

We need now an agent for central and western Penn. for Ohio & Illinois. In all these districts we have telephones leased. Many of these leases will not be renewed unless such agents are appointed. They must be good and experienced men, for we find as the practical result of our business, that good agents generally secure renewals and have comparatively little trouble from the Western Union. Poor agents lose custom & throw the blame on the W. U. Tel. Co. such agents cannot be secured unless they are guaranteed their expenses & a salary or commission of from \$1,000 to \$2,500 a year. Some plans like this must be adopted to secure the early adoption of the district system in the small cities & towns. There are many parties infringing our rights besides the Western Union Tel. Co. Suits against such parties have been commenced in Boston, New York, Cincinnati, Louisville & Milwaukee. Injunctions obtained in Boston & Cincinnati. These infringers must be constantly watched, for
10. unless restrained, our agents become distrustful of our ability

to protect them and fail to press their business
mergetically, while the manufactures are encouraged to
renewed efforts to sell their inferior and pirated
instruments. The annual rental fixed for telephones
on their first introductions was ten dollars, a commission
was allowed to the agents, from 20 to 50% according to the
duties performed, to genl. agts, who employed sub, agents
the usual com. was 50% with the understanding that
one half of this amount was to be used for payment of
their sub agents - Ordinary repairs are made by the agts.
others by the Co. The telephones up to number D 3000 or
4000. are inferior to those subsequently made & will
undoubtedly be returned, these were the first made
and were generally leased in New England, and the
larger part were sold to the New England Tel. Co.
Those manufactured since, will undoubtedly last
for many years & where returned the expenses of renewing
them will be very small as the most expensive part of
the materials can be used a second time. It has
been said that improvident contracts have been made
we think that an examination of these contracts, and
the circumstances under which they were made will
show the necessity of each one. I believe it would
be almost impossible with our present experience
to select better or more efficient agents, or to make
more satisfactory contracts. Most of our agents were
formerly associated with the Am. Dist. Tel. Co. an
ally of the W. U. Co. and obtained terms from that

Company before concluding their agreement with us. With a few exceptions our agts have not made any money, but have incurred large expenditures, relying upon future profits for their repayment with a less commission the inducement would have been insufficient. When the telephone was introduced in 1877, the district system was unknown; it has rapidly sprung into existence & will soon become our principal business.

The district companies make a monthly charge to their customers, varying from two to ten dollars, according to the service rendered. In small towns & for social purposes the usual charge will be two dollars a month. Where there are not more than 100 to 200 subscribers, the business will not pay unless the companies are allowed a com. of 60% or \$4. per tel. net. to the Co. As the business increases, the expense per customer rapidly decreases, but if two telephones at a station are used they cannot pay any more, even if there are 200 to 300 subscribers. With a larger business & higher prices, the Dist. Co. do not require so large a com. This Company has reserved the right excepting in one or two cases, to raise the annual rental, such increase & the same percentage of com. will increase the net rentals to the company. I believe that for the next year our average net rental will be \$5.00 & subsequently \$6.00 to \$7. or \$8.

12.

It has been our earnest endeavor to secure good and responsible agents & then to make them feel that their and our interests are inseparable & that we shall in every case act fairly & honorably towards them. We require regular returns from our agents to the officers of the Co. and from the officers of the Company to the Directors. It has been impossible either to obtain returns of any great value on account of the great delay incident on starting the District Cos. or to make large collections. These difficulties will soon be overcome. I have referred to the W. U. Tel. Co. its great wealth, numerous agents, bitter opposition and to the fact that excepting in Chicago and New York they have had but limited success; this is due to our good instruments & efficient management.

We were first on the ground & had several months start of that company; our instruments were proved and were in good working order when first introduced, theirs were untried, poor & have been exchanged again & again, until they number on their catalogue nearly thirty different kinds. We have only had five or seven, including the different forms of hand telephones. We were the first to introduce the district system & had three months start in that. Our agents have been stimulated by a large com. and have made this their sole or chief business. The agents of the
13. W. U. have had only a small com. & their regular

business was sufficient to occupy all their time. In New York, the home of the W. U. and in Chicago the home of Genl. Stager, its vice President, its general agent, & the largest private stockholder in the Gold & Stock Co. we have had vigorous opposition & have not succeeded as well as in other cities, but we believe that in each of these cities we shall soon have large rentals. Last summer and fall we were met by the Edison Carbon Telephone, this was temporarily a great obstacle, but fortunately we have in the Blake Transmitter a better, cheaper and more useful instrument and to it we are greatly indebted. Our suit against the West. Union Tel. Co. has been successfully commenced & our counsel hope in May or June to obtain an Injunction against them. We move through the examination of our case the stronger it appears & we believe that Mr. Bell will soon receive the honorable recognition to which he is entitled as the original inventor of the speaking telephone & the Co. in which he is interested as our largest stockholder, the fruits of his invention. I have purposely refrained from the referring to the means of raising money, as I know if stockholders & friends are satisfied that the company will be properly managed and that its future is assured, there will be no difficulty in obtaining all the money we desire. I have also had nothing to do with the

14. finances of the Company; the other parts of the business

having occupied every moment of my time until I went to Washington the 1st. Dec.

I claim that no company was ever started for the introduction of a new invention which has so quickly attained so great success or been opposed by such bitter & powerful enemies.

The policy which I have advocated for this company is the establishment of a district Co. in every large city to act as our agent in that city & its immediate vicinity.

2^d. to appoint travelling agents, who shall occupy the territory not occupied by the large Dist. Co. And establish in the smaller cities agencies & companies for such compensation as may be agreed upon.

These agts shall also supervise the general business & returns of sub agents in their territory.

3^d. That this Company shall not advance any funds towards the establishment of Dist. Del. Cos. but may allow temporarily to any small Dist. Del. Co. the com. over and above the advance, if the Co. cannot be organized in any other way.

4th The annual rental to be \$10.00 a year for the present, to be advanced to \$12.00 or \$15.00 as soon as is practicable, without increasing the price to general customers.

5. To adopt such a course that the Company may eventually obtain a substantial interest in all the district

15.

companies and to continue our business after the expiration of our patent.

6th The prosecution of all Infringers as rapidly as possible & in the most economical manner practicable with due regard to the interests involved.

7th To require punctuality in the rendering of accounts by the officers of the Cos. to the directors.

8th Efficient personal supervision by our General Manager & Superintendent of every agency.

9th Strict accountability from every officer to the Ex. Com.^{ee} & directors for the manner in which the duties of these offices are severally performed.

10 - To conduct all our business in such a manner that when the opportunity arises we may be ready to furnish telephones for carrying on a large part of the telegraphic business now performed by the Western Union Tel. Co. & enable any one to converse with any other person in any part of the country.

Report from Gardiner Greene Hubbard to the Stockholders and Directors of the Bell Telephone Company, 1879

Transcription of the manuscript held by the Library of Congress (Alexander Graham Bell Papers, magbell.27100114). Original spelling, punctuation, and abbreviations preserved; "[blank]" = a space left blank, "[?]" = uncertain reading, bracketed notes are editorial.

To the Stockholders and Directors of the Bell Telephone Company.

The association called the Bell Telephone Co. was organized on the [blank] day of [blank] 1877. On the first day of February ensuing, the New England Telephone Co. was organized. In July the present Bell Telephone Company. The only capital of the association was its patents. Its receipts for the year ended 1st August 1878, exclusive of New England were \$34,400. Its expenses \$9,500, leaving a net profit on the year's business of \$25,000. At the organization of the new Bell Telephone Co. the Association sold all its property & assets to the new Company for \$[blank]. This was much less than the actual cost of the property as from \$12,000 to \$15,000 less than cost was lost on the [bell?]. The Bell Telephone Co. reserved \$150,000 of its stock as working capital. This has been sold for \$75,000 in cash. It was believed at the time of the organization that this sum would be sufficient to carry on the company & that no further call would be made upon the Stockholders or any considerable debt incurred. (As I write from memory I can only give approximate statements of the expenditure and debts.) Instead of which, at the expiration of six months from its organization, we find the entire capital expended and the company liable for debt amounting to \$40,000. This has naturally led to a feeling of distrust on the part of the new stockholders as to the management of the Company. I was at first much disturbed and annoyed at the action of the directors in revoking the power of the Executive Com.tee but on further reflection, I am not certain that under similar circumstances I should not have felt and acted as they did. It is therefore proper to show how this result has been brought about.

The business of the Company has been managed by an Executive Com.tee of three, who had all the powers of the directors. The Treasurer has had entire control of the finances, while the president is responsible for the general conduct of the rest of the business as it has been carried on either by him or Mr. Vail, who has acted in entire harmony with the president. The president therefore holds himself responsible for the general conduct & management of the business excepting the finances.

The \$75,000 has been expended as follows:

In payment of debt of Bell Tel. Co.	\$30,000
In Chicago	\$30,000
For other purposes	\$15,000

	\$75,000
We owe for Chicago about	\$20,000
Required for extensions in Chicago	\$20,000
Other debts	\$12,000
notes due in 6 months	\$12,500

	\$44,500

This statement is sufficient to show that if we had not embarked in the Chicago enterprise, the Company would have been at the present time free from debt and enabled to go on without any further calls upon the stockholders.

The Executive com.tee adopted as a rule of action that they would not invest in District Companies, in any city, believing that the work could be more efficiently done by parties on the ground. This rule they have deviated from in Chicago.

The work at Chicago was commenced before the organization of the present company but without any intention that it should be prosecuted by this Company. Our old agent, at Chicago Genl. Stager, commenced canvassing for a District Telegraph Co. in opposition to us, and we immediately sent our western agent, Mr. Eldred to canvass for subscribers for our Company.

At the same time, we made an arrangement with a gentleman, acquainted with the telegraph business, to organize a company, he started with strong expectation of success, but he was discouraged and driven from the field by the opposition of Genl. Stager, in whose employ he had been for several years. We then made an arrangement with other parties. the person on whom they relied died, & that fell through. Two other attempts were made, but failed. In November a gentleman agreed to furnish the money required on condition that the affairs of the Company were substantially in accordance with our representations. Mr. Vail & myself went to Chicago with the money in his possession, but on examining the accounts I felt that we could not keep it, and that arrangement fell through.

On the first of September I received a proposition from parties interested in the Western Union at Chicago, to take our business, paying us a royalty of three and four dollars on all telephones used by them. In November, a second proposition from the same parties to take the property off our hands at cost & pay a royalty on the telephones as before proposed. The Executive Committee did not think it desirable to accept of either of these offers as we felt it would be a substantial surrender of the north-west to the Western Union.

We have been greatly disappointed at the cost of the works in Chicago. The only other District Company in operation, when they were commenced was in St. Louis. We knew the cost there was less than \$4,000 & did not expect one entire plant would exceed \$5,000. In Sept. I had a careful estimate made by Mr. Eldred & submitted to Mr. Durant the Supt. of the St. Louis Co. and to Mr. Watson our own Supt. It showed a cost of from \$12,000 to \$15,000 & a net annual revenue of about \$10,000, and in this statement I felt entire confidence as made by the only parties who had experience in work of this kind. In October the estimate of total expenditure had risen to about \$20,000. In the last of November to about \$30,000. The actual cost is over \$40,000.

I think the Directors will see that while the Executive Com.tee have been unfortunate in incurring so large a debt yet under the circumstances there was no other course for them to pursue. I do not believe it is possible to sell out the Chicago property at the present time. It requires more money to develop it the current receipts are not much in excess of the current expenditures, while we have a strong & vigorous opposition on the part of the Western Union Co. The profits from our Chicago business will be about \$200 in January, \$700 in February, & with the further expenditure recommended it will pay a fair profit on the investment & when we obtain an injunction against the Western Union Tel. Co. it will be the most profitable of any of the District Companies in my opinion.

I am not satisfied with the management of Chicago. Mr. Eldred is a man of remarkable executive ability, but I think he does not realize the necessity of rigid economy to ensure success. And that it is necessary for us to find a person to take the entire charge of all the receipts & expenditures & make monthly statements to be submitted to the Executive Com.tee & approved by them before any payment is made on such accounts.

A short statement of the work accomplished in other places will show the success that has attended the

Executive Com. in the rest of its operations. We have made arrangements in Michigan, Wisconsin, Minnesota & the North west which control the telephonic business of those states. We have established district companies in Albany, Troy, St. Louis, New Orleans, Louisville, Cincinnati, Washington, & Baltimore, with practically no opposition & have complete possession of the field. In Philadelphia, New York, & Buffalo, we have established our district companies with more or less competition from the Western Union. In Utica, Syracuse, Columbus Ohio, and Cleveland Ohio, Nashville Tenn, Indianapolis & Richmond Va. and various other places arrangements have been made / consummated for the establishment of District systems & in these places, little or no opposition is apprehended. We have accomplished these results in spite of the determined opposition of the Western Union with its capital of over \$40,000,000. & controlling the best electric talent in the country, with agencies in every place who wage a better & determined opposition to all our efforts. It has been an absolute necessity to start these companies at all these places, for the Co. that first occupies the field in any city must hold it against any new comer & the failure of the Western Union is due to this fact. Our future success therefore seems assured.

We have not collected as much money during the last six months as we expected. The reason will appear by taking Phila as an instance. The business in that city in July, August, & September, was very small owing to the general stagnation of business the success of the Edison Carbon Telephone and the opposition of Mr. Bentley acting for himself and the Western Union. It was generally believed that the competition of the Western Union with a better telephone & reduced prices would succeed. Customers were therefore unwilling to take our telephone or renew their leases.

Early in Sept. I induced Mr. Cornish to start his district Co. charging \$3 a month for each customer. He spent Sept. & Oct. in canvassing. Commenced the construction of his works in Nov. and early in January had over two hundred connections made with his central office. His work has been greatly delayed by his inability to obtain the apparatus necessary for his office, by experiments in deciding upon the best plan to be adopted and by the bitter opposition he encountered. He has recently raised his price to \$5 a month & finds less difficulty in obtaining customers at that rate than at \$3 when he first began. He has overcome all difficulties and expects little further opposition from the Western Union. He has made scarcely any collections for the past three or four months, but will commence the first of next month and we shall thereafter be in receipt of a large income from that city.

A similar state of things exists in the other large cities. We have now outstanding about 12,000 telephones at a net rental of about \$5.00 a year. The business is scarcely yet in its infancy, for the district system is sure to be introduced into every considerable city & town in the country. We shall soon have over 100,000 telephones in actual use and our expectations of the success of the Bell Tel. Co. will be fully realized.

In my opinion it is absolutely essential for the success of the business that we now devise some well-settled plan for its future conduct & then raise sufficient means. I think there should be an executive com. consisting of President, Treasurer & one director, that they should have full power to act in all cases where they are united. All cases of disagreement to be referred to the full Board. That the president should have general oversight of the law business & in connection with the treasurer, the business of the general manager.

The method of carrying on the district business and the apparatus to be employed are entirely new & different devices are used in each city [many of these would all require to be ... in some places the work is a stand still for want of such information as he can give]. The general superintendent should spend nearly half of his time with the different companies to see that the best instruments are adopted by each company. The instruments are now made by Mr. Williams who has sixty or seventy hands employed solely on telephonic

business: by Davis & Watts of Baltimore who have about twenty hands solely employed on this business; by Partrick & Carter of Phila. & Post & Co. of Cincinnati. The supt. should inspect the operations of these different establishments and see that each one produces the best possible work.

The general manager should as soon as possible & at regular intervals visit all the principal agencies and keep himself personally acquainted with their managers and with their general methods of doing business. We already have a travelling agent in western New York & another for the South: both of whom are temporarily employed, with the understanding that if they give satisfaction, the position will be permanent.

The agencies are required for the purpose of introducing this system into the cities of the second & third classes. We need now an agent for central and western Penn. for Ohio & Illinois. In all these districts we have telephones leased. Many of these leases will not be renewed unless such agents are appointed. They must be good and experienced men, for we find as the practical result of our business, that good agents generally secure renewals and have comparatively little trouble from the Western Union, poor agents lose custom & throw the blame on the W. U. Tel. Co. such agents cannot be secured unless they are guaranteed their expenses & a salary or commission of from \$1,000 to \$2,500 a year. Some plan like this must be adopted to secure the early adoption of the district system in the small cities & towns.

There are many parties infringing our rights besides the Western Union Tel. Co. Suits against such parties have been commenced in Boston, New York, Cincinnati, Louisville & Milwaukee. Injunctions obtained in Boston & Cincinnati. These Infringers must be constantly watched, for unless restrained, our agents become distrustful of our ability to protect them and fail to push their business energetically, while the manufacturers are encouraged to renewed efforts to sell their inferior and pirated instruments.

The annual rental fixed for telephones on their first introduction was ten dollars, a commission was allowed to the agents, from 20 to 50% according to the duties performed, to genl. agts, who employed sub agents the usual com. was 50% with the understanding that one half of this amount was to be used for payment of their subagents. Ordinary repairs are made by the agts. others by the co. The telephones up to number 3000 or 4000 are inferior to those subsequently made & will undoubtedly be returned, these were the first made and were generally leased in New England, and the larger part were sold to the New England Tel. Co. Those manufactured since, will undoubtedly last for many years & where returned the expenses of renewing them will be very small as the most expensive part of the materials can be used a second time.

It has been said that improvident contracts have been made we think that an examination of these contracts, and the circumstances under which they were made will show the necessity of each one. I believe it would be almost impossible with our present experience to select better or more efficient agents, or to make more satisfactory contracts. Most of our agents were formerly associated with the Am. Dist. Tel. Co. an ally of the W. U. Co. and obtained terms from that Company before concluding their agreement with us. With a few exceptions our agts have not made any money, but have incurred large expenditures, relying upon future profits for their repayment with a less commission the inducement would have been insufficient. When the telephone was introduced in 1877, the district system was unknown; it has rapidly sprung into existence & will soon become our principal business.

The district companies make a monthly charge to their customers, varying from two to ten dollars, according to the service rendered. In small towns & for social purposes the usual charge will be two dollars a month. Where there are not more than 100 to 200 subscribers, the business will not pay unless the companies are allowed a com. of 60% or \$4 per tel. net to the Co. As the business increases, the expense per customer rapidly decreases, but if two telephones at a station are used they cannot pay any more, even if there are 200 to 300 subscribers. With a larger business & higher prices, the Dist. Cos. do not require so

large a com. This Company has reserved the right excepting in one or two cases, to raise the annual rental, such increase & the same percentage of com. will increase the net rentals to the company. I believe that for the next year our average net rental will be \$5.00 & subsequently \$6.00 \$7. or \$8.

It has been our earnest endeavor to secure good and responsible agents & then to make them feel that their and our interest are inseparable & that we shall in every case act fairly & honorably towards them. We require regular returns from our agents to the officers of the Co. and from the officers of the Company to the directors. It has been impossible either to obtain returns of any great value on account of the great delay incident on starting the District Cos. or to make large collections. These difficulties will soon be overcome.

I have referred to the W. U. Tel. Co. its great wealth, numerous agents, bitter opposition and to the fact that excepting in Chicago and New York they have had but limited success: this is due to our good instruments & efficient management. We were first on the ground & had several months start of that company; our instruments were proved, and were in good working order when first introduced, theirs were untried, poor & have been exchanged again & again, until they number on their catalogue nearly thirty different kinds. We have only had five or seven, including the different forms of hand telephones. We were the first to introduce the district system & had three months start in that. Our agents have been stimulated by a large com. and have made this their sole or chief business. The agents of the W. U. have had only a small com. & their regular business was sufficient to occupy all their time.

In New York, the home of the W. U. and in Chicago the home of Genl. Stager, its vice President, its general agent & the largest private stockholder in the Gold & Stock Co. we have had vigorous opposition & have not succeeded as well as in other cities, but we believe that in each of these cities we shall soon have large rentals. Last summer and fall we were met by the Edison Carbon Telephone, this was temporarily a great obstacle, but fortunately we have in the Blake Transmitter a better, cheaper and more useful instrument and to it we are greatly indebted.

Our suit against the West. Union Tel. Co. has been successfully commenced & our counsel hope in May or June to obtain an Injunction against them. [The more we go through?] the examination of our case the stronger it appears & we believe that Mr. Bell will soon receive the honorable recognition to which he is entitled as the original inventor of the speaking telephone & the Co. in which he is interested as our largest stockholder, the fruits of his invention.

I have purposely refrained from referring to the means of raising money, as I know if stockholders & friends are satisfied that the company will be properly managed and that its future is assured, there will be no difficulty in obtaining all the money we desire. I have also had nothing to do with the finances of the Company; the other parts of the business having occupied every moment of my time until I went to Washington the 14th Dec.

I claim that no company was ever started for the introduction of a new invention which has so quickly attained so great success or been opposed by such bitter & powerful enemies.

The policy which I have advocated for this company is the establishment of a district Co. in every large city to act as our agent in that city & its immediate vicinity.

2d. To appoint travelling agents, who shall occupy the territory not occupied by the large Dis. Co. And establish in the smaller cities agencies & companies for such compensation as may be agreed upon. These agts shall also supervise the general business & returns of sub agents in their territory.

3d. That this Company shall not advance any funds towards the establishment of Dist. Tel. Cos. but may

allow temporarily to any small Dist. Tel. Co. the com. over and above the advance if the Co. cannot be organized in any other way.

4th. The annual rental to be \$10.00 a year for the present, to be advanced to \$12.00 or \$15.00 as soon as is practicable, without increasing the price to general customers.

5. To adopt such a course that the Company may eventually obtain a substantial interest in all the district companies and to continue our business after the expiration of our patent.

6th. The prosecution of all Infringers as rapidly as possible & in the most economical manner practicable with due regard to the interests involved.

7th. To require punctuality in the rendering of accounts by the officers of the Cos. to the directors.

8th. Efficient personal supervision by our General Manager & Superintendent of every agency.

9th. Strict accountability from every officer to the Ex. Com. & directors for the manner in which the duties of these offices are severally performed.

11. To conduct all our business in such a manner that when the opportunity arises we may be ready to furnish telephones for carrying on a large part of the telegraphic business now performed by the Western Union Tel. Co. & enable any one to converse with any other person in any part of the country.

[The manuscript numbering skips from 9th to 11; no item 10 appears in the original. The document is endorsed on the verso: "1879. Bell Telephone Co. Organization -- Statement of G. G. Hubbard to Stockholders regarding policy he pursued & which he recommended."]