

Annual Report of the Directors
of
Radio Corporation
of America

to the

Stockholders for the year ended
December 31, 1926



New York, 1927

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RADIO CORPORATION OF AMERICA

BOARD OF DIRECTORS

OWEN D. YOUNG, CHAIRMAN

GORDON ABBOTT	JAMES G. HARBORD
ARTHUR E. BRAUN	EDWARD W. HARDEN
ALBERT G. DAVIS	EDWIN M. HERR
HARRY P. DAVIS	EDWARD J. NALLY
JOHN W. GRIGGS	EDWIN W. RICE, JR.
JOHN HAYS HAMMOND, JR.	GERARD SWOPE
GUY E. TRIPP	

OFFICERS

JAMES G. HARBORD, President	JOHN W. GRIGGS, General Counsel
DAVID SARNOFF, Vice-President and General Manager	GEORGE S. DE SOUSA, Treasurer
WILLIAM BROWN, Vice-President and General Attorney	LEWIS MACCONNACH, Secretary
	CHARLES J. ROSS, Comptroller
	ALEXANDER NICOL, Assistant Treasurer

**Report of the Directors
of
Radio Corporation of America
New York, March 1, 1927**

TO THE STOCKHOLDERS :

The Directors of the Radio Corporation of America submit the following review of operations for the year ended December 31st, 1926 :

INTERNATIONAL RADIO COMMUNICATION

Direct radio services were opened with Brazil on May 3rd; with French Indo-China on September 15th; and with Holland on November 1st.

The following direct international radio communication circuits are now operated :

Transatlantic

Great Britain	Norway
France	Sweden
Germany	Poland
Italy	Argentina
Holland	Brazil

Transpacific

Hawaii	Dutch East Indies
Japan	French Indo-China
Hawaii-Japan	

Additional circuits to Belgium, Chile and Colombia are projected for the near future.

A station is being erected near Manila and will be ready for operation early in 1927. It will be operated by the Radio

Corporation of the Philippines, a subsidiary of the Radio Corporation of America, and will communicate with the United States, Japan, Hawaii, French-Indo China and the Dutch East Indies. The station will also be utilized for marine radio communication and radio broadcasting in the Philippine Islands.

Commercial photoradiogram service was inaugurated between San Francisco and Hawaii and between New York and London. News pictures, fashion sketches, cartoons, advertisements, documents and other facsimile matter are transmitted.

The study of short wave low power transmission has proceeded steadily. The Marconi "Beam" system of directive, high speed transmission, recently demonstrated so effectively between Great Britain and Canada, is being installed on the Radio Corporation's New York-London circuit.

Conditions in China continue to prevent the erection in that country of radio stations in which this Corporation is interested.

The stations in South America in which the Radio Corporation is a part owner have been operated with increasing efficiency.

MARINE RADIO SERVICE

As the result of improved facilities and equipment at marine coastal stations and on shipboard, radiogram service to ships at sea and on the Great Lakes increased in volume. The marine coastal stations are located at

Chatham, Mass.
New York, N. Y.
Tuckerton, N. J.
Galveston, Texas.
San Francisco, Calif.
Los Angeles, Calif.
Chicago, Ill.
Cleveland, Ohio.

The Chatham station maintained its position as the most powerful marine radio station in the world and communicated regularly with ships thousands of miles distant. The practicality of long distance communication with ships throughout world cruises was demonstrated recently when RCA stations followed the S. S. Carinthia through the Panama Canal and continued to exchange radiograms with her even into antipodean seas.

Radio stations on 822 ships are controlled by the Radio Corporation. The program of modernizing these shipboard stations will be completed in 1927. The use of continuous wave tube transmitters for this service has placed the Radio Corporation in the position of leadership in this field. This type of apparatus has been adopted by the Government and others desiring the most reliable means of radio communication.

The RCA radio direction finder has proved a great aid to navigation. The largest order ever placed for apparatus of this kind, involving the equipment of 100 vessels of one ownership, was secured in 1926.

The marine coastal stations continued to be a factor in the saving of life and property at sea. Free medical emergency service furnished to vessels lacking professional medical personnel was of great value to mariners.

A nightly press service was furnished to a large number of subscribing vessels.

PLANT AND EQUIPMENT

Continuous service was given during the year on international radio communication circuits and at marine coastal stations. All stations and equipment were maintained at a high standard of efficiency.

The receiving station at Belfast, Maine, was adopted as a permanent alternative route for the reception of transatlantic signals and has increased and improved the receiving facilities.

Improvements were made in equipment at high power stations at Marion, Mass., Tuckerton, N. J., New Brunswick, N. J., Kahuku, T. H., Bolinas, Calif., and Marshall, Calif., and in the marine installations at Marion and Chatham, Mass. These improvements have reduced maintenance costs and increased efficiency.

NEW YORK-LONDON TELEPHONE SERVICE

During the past two years, the Radio Corporation cooperated with the American Telephone and Telegraph Company in experiments concerning transatlantic radio telephony. These experiments have succeeded and a New York-London telephone service has been established by the Telephone Company. Transmission across the ocean uses certain facilities of the Radio Corporation, leased to the Telephone Company.

Two-way telephone communication is the Telephone Company's peculiar field. Its highly developed system provides the

wire facilities necessary for feeding transoceanic telephone circuits. This service is therefore maintained by the Telephone Company. Their use of our facilities will not interfere with the Radio Corporation's regular wireless telegraph service and the rentals accruing will provide additional revenue.

MERCHANDISE SALES

The decision having been reached early in 1926 to continue the sale of the new line of Radiolas which were introduced to the market in September, 1925, the Corporation was in a position to fill orders from its trade channels immediately upon receipt. Sales for 1926 showed a substantial increase over the prior year, not only in units but in dollar value.

The introduction of the type of broadcast receiver which operates from the lighting socket, in the form of Radiola 30 and Radiola 28 with the 104 Loud Speaker—a new development pioneered by the Radio Corporation and its associated manufacturers—strengthened its position in the field of set sales. These instruments, together with the other Radiola models, continue to be the leaders in tone quality, selectivity, sensitivity and ease of manipulation.

Several new types of Radiotrons, having special application in broadcast receivers, were put on the market during the year. Through improved manufacturing methods and increased quantity production, the prices on the standard types of Radiotrons were reduced twice during the year. Wholesale distribution and retail coverage for vacuum tubes were materially increased in 1926 and this was reflected in increased sales to consumers.

The business resulting from the contracts with the Victor Talking Machine Company and the Brunswick-Balke-Collender Company was entirely satisfactory, the purchases of both companies having materially exceeded their orders for 1925. The Corporation not only supplies these companies with its standard Radiolas for installation in cabinets with phonographs, but it also provides the component parts of the electrically reproducing phonograph—a technical development of the Radio Corporation and its manufacturing associates.

To keep pace with the rapidly expanding business of the Radio Corporation, its sales staff has been augmented; warehouse facilities have been increased; service facilities have been expanded; and advertising coverage has been increased as the circumstances warranted.

1926 saw the successful inauguration of the RCA Authorized Dealer Plan for the distribution of Radiolas. Under this plan

retailers best fitted to render service to the public in their respective communities were selected. Although the plan has been in operation for but a year, it has brought about a marked improvement in the Corporation's retail representation.

BROADCASTING

Broadcasting stations WJZ at Bound Brook, N. J. and WRC at Washington were operated continuously and efficiently.

Station WEAF was purchased from the American Telephone and Telegraph Company and was transferred to the National Broadcasting Company, Inc., in which the Radio Corporation of America has a substantial stock interest.

The National Broadcasting Company commenced the operation of Station WEAF on November 15th. A notable opening program was furnished by eminent artists of the musical and theatrical professions.

The announcement made by the Radio Corporation on September 15th relative to the formation of the National Broadcasting Company stated that the purpose of the company would be to provide the best programs available for broadcasting in the United States; that the National Broadcasting Company will not only broadcast these programs through Station WEAF but will make them available to other broadcasting stations throughout the country so far as it may be practicable to do so and they may desire to take them. In joining in the formation of the National Broadcasting Company, Inc., the Radio Corporation has sought to provide the machinery which will insure a national distribution of programs of the highest quality.

The ownership of Stations WJZ and WRC remains in the Radio Corporation, but a contract has been made with the National Broadcasting Company under which it will manage and operate those stations.

PENSION PLAN

To insure stability among the staff, encourage habits of economy, reward long and faithful service and assist deserving employes to provide against old age, the Board of Directors on December 17th adopted a Pension Plan for employes of the Radio Corporation. This Pension Plan became effective on January 1st, 1927 and provides for the retirement of employes who have been twenty or more years continuously in the service on reaching the age of 65 years (males) and 60 years (females).

The plan provides that the amount of each employe's pension

shall be equal to $1\frac{1}{2}\%$ of the annual salary at January 1st, 1927 multiplied by the number of years of service prior to that date, plus 1% of the annual salary for each year of service thereafter to date of retirement. The latter amount of 1% will be increased to $1\frac{1}{2}\%$ in the case of all employes who voluntarily contribute to their old age support by the purchase of additional annuities through the Pension Board.

The Plan also provides for the payment of "disability allowances" to employes who through no fault of their own become permanently and totally disabled. Such "disability allowances" will be paid after ten years' continuous service to disabled employes who have purchased annuities and after fifteen years' continuous service to disabled employes who have not purchased annuities.

PERSONNEL

Mr. George S. Davis, who had been a Director of the Radio Corporation since March 18th, 1921, died on October 10th, 1926. Mr. Davis was a pioneer in the science of radio communication and through his marked ability and sincere devotion to his work contributed much to the advancement of the Radio art.

Mr. Marion H. Payne, who had been the Assistant Treasurer of the Corporation since its organization, died on May 19th, 1926. He was a zealous and efficient official.

FINANCIAL.

Dividends of seven per cent per annum have been paid on the Preferred stock since January 1st, 1924.

No dividends have been declared on the Common stock.

BALANCE SHEET

The Corporation's capital stock consists of 395,597 and four-tenths shares of seven per cent "A" preferred stock, with a par value of \$50.00 per share and 1,155,400 shares of "A" common stock of no par value.

The Corporation's financial position has been further strengthened during 1926. Current Assets have increased \$1,131,124 and exceed the current liabilities by \$19,167,824. The Corporation has no bonded debt or notes outstanding.

The total of plant and equipment stands at \$14,916,863 and the reserve for depreciation and obsolescence of plant amounts to \$3,281,552. The reserve for amortization of patents after charging off patents expired, now stands at \$5,490,745 and represents

the depreciation to December 31, 1926, indicated by the schedule founded on the life of such patents.

The Corporation has now written off out of earnings the entire amount carried on its books in respect to Contracts and Goodwill of \$6,326,699.40; \$1,326,699.40 was charged directly to the operations of 1924 and 1925 and \$5,000,000 to Surplus Account at the end of the years 1925 and 1926.

OPERATIONS

After providing for depreciation of plant and inventory, the operations for the year resulted in a net profit of \$7,367,100. Of this \$1,885,090 has been allocated to reserves for patents and Federal Income Tax, and \$4,632,010 has been credited to Surplus Account. The balance of \$850,000 has been applied to reserve against Foreign Investments and General Reserve Account.

For the Directors:

OWEN D. YOUNG, *Chairman of the Board*
JAMES G. HARBORD, *President*

Printed by order of the Board
LEWIS MACCONNACH,
Secretary

RADIO CORPORATION OF AMERICA
BALANCE SHEET—DECEMBER 31, 1926
ASSETS

PLANT AND EQUIPMENT:

Comprising High Power, Ship, Marine and Broadcasting Stations in Operation with the necessary Equipment, together with Experimental Stations, Construction Work in Progress, Sundry Machinery, Tools, Furniture, etc.	\$14,916,863.20
PATENTS AND PATENT RIGHTS.	12,507,067.53
INVESTMENTS IN AND ADVANCES TO SUBSIDIARY AND ASSOCIATED COMPANIES.	7,191,339.78
DEFERRED CHARGES.	375,628.83
INSTALLATION WORK FOR FOREIGN CUSTOMERS.	200,801.84

CURRENT ASSETS:

Cash in Banks and on Hand.	\$4,235,755.25	
Notes Receivable and Trade Acceptances.	86,489.21	
Accounts Receivable.	7,042,158.37	
INVENTORIES (at cost)—		
Merchandise. \$13,054,748.94		
Ship, Shore and High Power Apparatus. 1,078,581.08		14,133,330.02
Investments in Marketable Securities at Cost (Dec. 31, 1926 Market Value is in Excess of Cost).	1,286,998.18	
TOTAL CURRENT ASSETS.		26,784,731.03
		\$61,976,432.21

LIABILITIES AND CAPITAL

CAPITAL STOCK:

395,597.4 shares 7% "A" Preferred, \$50 Par Value.	\$19,779,870.00
1,155,400 Shares "A" Common (No Par Value).	13,767,263.56
TOTAL CAPITAL STOCK.	\$33,547,133.56

CURRENT LIABILITIES:

Current Accounts Payable.	\$6,326,064.69	
1926 Federal Income Tax Accrued.	940,015.18	
Other Accruals.	8,645.61	
Dividends Declared and Unpaid.	342,181.79	
		7,616,907.27
DEFERRED LIABILITIES.		370,000.00

RESERVES:

For Amortization of Patents After Writing off Patents Expired.	\$5,490,745.21	
For Depreciation and Obsolescence of Plant and Inventories.	5,463,008.69	
For Investments in and Advances to Subsidiary and Associated Companies.	1,653,471.22	
General Reserve.	750,000.00	
Other Reserves.	967,858.07	14,325,083.19

SURPLUS:

January 1, 1926.	\$6,353,563.02
ADD—Amount Transferred from 1926 Earnings.	4,632,009.88
	\$10,985,572.90

DEDUCT— 7% Dividends on Preferred Stock. \$1,368,264.71		
Balance of Goodwill Written Off. 3,500,000.00	4,868,264.71	6,117,308.19
		\$61,976,432.21

RADIO CORPORATION OF AMERICA

SUMMARY OF OPERATIONS YEAR ENDED DECEMBER 31, 1926

(WITH COMPARATIVE FIGURES FOR 1925 AND 1924)

	Year Ended December 31,		
	1926	1925	1924
GROSS INCOME FROM OPERATIONS:			
Gross Sales.....	\$56,009,607.63	\$46,251,785.86	\$50,747,202.24
From Transoceanic Communications.....	3,599,686.36	3,418,179.09	3,358,584.31
From Marine Service.....	828,167.80	735,179.29	742,345.03
	\$60,437,461.79	\$50,405,144.24	\$54,848,131.58
DEDUCT:			
General Operating and Administrative Expenses, Depreciation and Cost of Sales.....	53,568,666.09	45,431,937.11	45,838,398.44
	\$6,868,795.70	\$4,973,207.13	\$9,009,733.14
OTHER INCOME.....	498,304.01	763,999.02	493,708.92
	\$7,367,099.71	\$5,737,206.15	\$9,503,442.06
NET INCOME FOR YEAR.....	\$7,367,099.71	\$5,737,206.15	\$9,503,442.06
APPLIED AS FOLLOWS:			
Reserve for Amortization of Patents.....	\$944,589.83	\$960,145.13	\$989,907.39
Reserve for Federal Income Tax.....	940,500.00	700,000.00	1,100,000.00
Balance of Organization Expenses Written Off..	.....	.....	275,000.00
Amount Written off on Account of Ascertained Losses Sustained on Investments in Associated and Subsidiary Companies Taken Over from Marconi Wireless Telegraph Company of America.....	.....	.....	768,512.50
Reserve Against Foreign Investments.....	100,000.00	524,067.72	414,235.89
Reserve Against Account Due by Marconi Wireless Telegraph Company of America.....	.....	.....	587,844.57
General Reserve.....	750,000.00	.....	.....
Amount Written off Contracts, Good-will, etc....	.....	700,000.00	626,699.40
Transferred to Surplus...	4,632,009.88	2,852,993.30	4,741,242.31
	\$7,367,099.71	\$5,737,206.15	\$9,503,442.06

CERTIFICATE OF AUDITORS

We have examined the books and accounts of the RADIO CORPORATION OF AMERICA for the year 1926, and we certify that, in our opinion, the foregoing Balance Sheet and Summary of Operations correctly set forth the financial position of the Corporation at December 31, 1926 and the operations of the year ended that date.

ARTHUR YOUNG & COMPANY.

New York, February 11, 1927.





