ALEX
Request Item Report

Request Number: 59249

Status: Open **Request Completion Date:** **Reason Cancelled/Denied:**

Requestor Name:	Neff, Jackie	**Date Needed:**	
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Requestor Method:	E-Mail	**Approval Result Date:**	

Requested Material: Exhibits 2096A through F from "Investigation of the Telephone Industry in the United States"

Notes: 2/14/2007: Emailed client informing her that the Archives has all but the D exhibit.

Resolution: 2/15/2007: Mailed copies of documents to client. Completed.

Items Selected

ItemNumber	Title	Format	Amt	Notes
DOC-0114-002346	FCC Telephone Investigation 1935 - 1937, Exhibits: 2096E, 2096F, 2096G, 2104, 2105	Physical	1	

Jackie,
All but "D"
exhibit. Good luck.
George

Exhibit No. 1096A

Federal Communications Commission

Telephone Investigation

Special Investigation Docket No. 1

Report on

CONTROL OF TELEPHONE COMMUNICATIONS

(Pursuant to Public Resolution No. 8, 74th Congress)

VOLUME I

Control of American Telephone and Telegraph Company

June 15, 1937

Federal Communications Commission

Telephone Investigation

Special Investigation Docket No. 1

Report on

CONTROL OF TELEPHONE COMMUNICATIONS

(Pursuant to Public Resolution No. 8, 74th Congress)

VOLUME I

Control of American Telephone and Telegraph Company

June 15, 1937

VOLUME IV

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CHAPTER I

INTRODUCTION

1. The Problem and Method.

In other reports by the staff of the Federal Communications Commission's Telephone Investigation, it has been established that the Bell System controls between 80 and 90 per cent of telephone operations and manufacturing in the United States, 1/ as well as other types of communication, 2/ and considerable portions of certain non-telephonic industries. 3/ It has also been established that American Telephone and Telegraph Company directs practically all aspects of Bell System operations from its headquarters at 195 Broadway, New York City. 4/ It is pertinent, therefore, to this Investigation, as well as of interest to the Congress and the Commission, to know who controls American Telephone and Telegraph Company, or, to put it otherwise, who controls the major part of telephone communication in the United States. This question must be answered in order to place responsibility for the policies of the Bell System. It is the purpose of this report to discuss this question.

A brief investigation of the ultimate source of control in the American Company during recent years does not yield an answer to this query, because the situation is enshrouded in legalism. The

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1/ Federal Communications Commission, Special Telephone Investigation Docket No. 1, Exhibit 50, "The Scope and Structure of the Bell System." Hereinafter the exhibits in this Investigation will be referred to by number and title.

2/ F. C. C. Exhibit 289, "Bell System Policies and Practices in Radio Broadcasting."

3/ F. C. C. Exhibit 1946 A, B, and C, Report on "Electrical Research Products Inc."

4/ See report on "Administrative Control of the Associated Bell Telephone Companies," Vol. II of the series on "Control of Telephone Communications."

board of directors selects a proxy committee composed of directors who are also usually members of the executive committee, including the president; proxy slips are sent to stockholders with those names on them, which are signed and returned by the stockholders; the proxy committee thus obtains a necessary majority and a quorum at the so-called annual stockholders' meeting; then the committee proceeds to vote on a ballot prepared and printed long before the proxy committee is legally constituted. This ballot is prepared by the secretary under the direction and approval of the president and contains the names of the directors to be voted on. It includes, of course, the names of the proxy committee as well as other incumbent directors. Thus, the committee votes upon its own members and other directors who organized the proxy committee, to continue as members of the board for the succeeding year.

This machinery will be more fully described in the latter part of this report. Here it is mentioned to show that it does not give a final answer to the question, who controls American Telephone and Telegraph Company. Indeed, this procedure begs the question. To say, under such circumstances, that the stockholders elect the board of directors, which in turn appoints the officers, is to be blind to the circumlocutory elements in the legal formalism which has created a perfect machinery for self-perpetuation of management. By such means both the directorate and the management of the company have been self-perpetuating for a period of at least 18 years. 1/ It was found necessary, therefore, to study the genesis of control historically.

In making this historical study of the genesis of control,

1/ See Chapter VI.

information was obtained, with few exceptions, 1/ exclusive from the records and files of American Telephone and Telegraph Company and its predecessors. A large part of the supporting documentary material is presented in appendices attached to this report. Certified photostatic reproductions of these documents are placed on file with the Commission.

For the early period, the files of the American Company are not complete, so that some episodes described in this report are not as rounded as would be desirable. Similarly, the more recent period of President Gifford's administration has not yielded as rich a series of explanatory correspondence as some other administrations. In spite of these limitations, however, there has been gathered sufficient supporting data to establish an accurate picture of the development of the control of American Telephone and Telegraph Company.

2. Summary of Conclusions.

Before presenting the evidence in detail, it will be helpful to a general understanding of the text to summarize here the general outlines of development of control in the parent organization of the Bell System. Briefly, this control has gone through five stages. First, from the inception of telephone communication in 1876 to about 1881, the control of the telephone was in the hands of the original promoters and other investors in Boston and environs. In this period, control and ownership went hand in hand. Those who put large sums of money into the development of the telephone were connected with the predecessors of American Telephone and Telegraph Company as directors and officers.

1/ Some information has been obtained from Postal Telegraph-Cable Company, and J. P. Morgan & Company.

The second stage of the development of control came with the wider distribution of securities necessitated by the expansion of business. This period, beginning about 1882-1883, found the original large investors still holding directorships, though their proportion of the voting stock was a minority of the total; officers, on the other hand, were appointees of the board of directors and selected by them. This stage, when the directors were supreme, though owning a minority of the shares, lasted until about 1906.

The third stage began in 1907 and continued to 1918, when the Federal Government took over control of the Bell System as a War measure. During this period, certain banking interests, particularly J. P. Morgan & Company, and Kidder, Peabody & Company, had great influence over T. N. Vail, the President of the American Company, by virtue of their ownership of large amounts of convertible bonds and common stock. This, definitely, is a period of banking control.

The fourth stage is a brief interlude of Government control from August 1, 1918 to July 31, 1919, when the Bell System was under the supervision of the Postmaster General of the United States pursuant to a Congressional Resolution and a Proclamation of President Wilson. But the de facto control of the System remained with the then existing officers. In spite of the legal transfer of control to the Federal Government, there was really no change in the continuity of control when the Government control was lifted.

The fifth stage came during the latter part of the presidency of T. N. Vail, who established a scheme of continuity of management independently of the directors, but, of course, with their advice. Since 1919, the outgoing president has groomed and selected his successor. There has been, during this fifth stage, an inbreeding of management; at the same time, the directorate has been self-perpetuating, through the operation of the proxy machinery.

3. Summary of Facts.

(1) From the inception of telephony by A. G. Bell and his associates in 1875-6 to the year 1881, the owners of majority equity securities in Bell Companies were also part of the management as directors or officers. Thus, during this period, there was ownership control of Bell telephone properties. G. G. Hubbard, financial supporter of Bell, controlled the Bell Patent Association and the Bell Telephone Company (association) through ownership of majority interest by himself, his associates and his relatives. In addition, the Bell Patent Association had made Hubbard trustee of four of Bell's patents. By these means G. G. Hubbard was in complete control of Bell telephone interests in 1878. In that year, at the organization of New England Telephone Company and Bell Telephone Company (corporation), other investors, particularly C. S. Bradley, G. L. Bradley, and W. H. Forbes, put new money into the Bell enterprises. This did not change the principle of ownership control, however, because Forbes and the Bradleys became part of the management, G. L. Bradley soon becoming Treasurer, and Forbes, President, of Bell Telephone Company. This situation prevailed through 1879, when National Bell Telephone Company was incorporated to take over the predecessors' assets; and through 1880, when American Bell Telephone Company was organized to continue the expanding business. Thus, although there was some change in the leadership of the management, still the management consisted principally of the owners of the majority equity.

(2) Even in this early period, the management used devices other than ownership of stock to insure its retention of control. As mentioned above, Hubbard was trustee of four of the Bell patents, as well as the stock owned by his associates. When Bradley and Forbes put money into Bell Telephone Company in 1878, the by-laws stated that the

holders of one-third of the stock, which consisted of the shares acquired by these new interests, would have for the space of two years "an equal right and power with the holders of two-thirds reserved to the patentees," including two votes for the former as against one vote for the latter per share of stock held. Again, in April, 1879, a group of 18 large stockholders, representing a majority of the shares in National Bell Telephone Company, agreed that they would not sell the stock except by common agreement, or give a proxy to anyone but the other subscribers of the agreement involved. In 1880, at the organization of American Bell Telephone Company, Forbes and Fay of the management were designated as trustees for the shares of National Bell Telephone Company exchanged for those of the new company, and also for 14,000 additional shares of American Bell treasury stock. It appears that even at this early date, the sponsors of telephony were conscious of the necessity of control and insured their position with legal devices, in addition to equity ownership, to prevent the stock from getting into the hands of others.

(3) After 1881, the proportion of the stock controlled by those within the management and their families declined below 50 per cent, reaching little over 11 per cent of the total outstanding in 1890, and as low as 5 per cent on March 31, 1900. But as late as 1889, the 20 largest stockholders still owned 26.4 per cent of the stock outstanding. It would seem that these 20 large stockholders, some of whom were members of the management, could make themselves heard by the management. From 1890 on, the interests of the 20 large stockholders also dwindled, until in 1900 they had 13.5 per cent of the outstanding amount. In this period, it may be said that the board of directors was supreme in the management, with the support, of course, of the large stockholders, many of whom were on the board of directors.

(4) Until 1902, the board of directors of American Bell Telephone Company, and later American Telephone and Telegraph Company, consisted principally of New Englanders, representing the Hubbard, Forbes, and Bradley groups.

(5) In 1902, George F. Baker, Sr. and associates, acquired 50,000 shares of American Telephone and Telegraph Company stock, and as a condition of this purchase George F. Baker, Sr., President of First National Bank of New York, and J. I. Waterbury, President of Manhattan Trust Company, were elected members of the Board of Directors of American Telephone and Telegraph Company.

(6) In 1907, 271,000 shares of treasury stock of the American Company were voted by the President of the American Company.

(7) During the period 1905-1907, there was a contest for representation on the American Company board of directors and, thereby, control over the activities of the American Company, among (a) the original sponsors and their successors from New England, (b) First National-Manhattan Trust-J. P. Morgan & Company group of New York bankers, and (c) Clarence Mackay, Jr. of the Mackay Companies, representing the Postal Telegraph System.

(8) Clarence Mackay, Jr., attempted to obtain three representations on the Board of Directors of American Telephone and Telegraph Company in 1906 and was rebuffed by the entrenched New England members of the Board, in spite of the fact that Mackay had almost ten million dollars invested in the American Company, owning over 70,000 shares — by far the largest single stockholder of the company. Later, in 1910, T. N. Vail, the new President, bought Mackay's holdings, nearly 83,000 shares, at cost, through Atlantic and Pacific Telephone and Telegraph Company, an affiliate of the American Company.

(9) During 1906-1908, the New York banking interests, at the initiative or through the intermediacy of J. I. Waterbury, caused the American Company to sell to them a hundred million dollars of convertible bonds with an option on fifty million dollars more, all convertible from 1909 to 1918, at 140. The bankers could not sell but a small part of this in 1907. They pooled these bonds into a syndicate, agreeing not to sell until June, 1908.

(10) F. P. Fish, President of the American Company since 1901, was reelected on March 26, 1907, but suddenly resigned four weeks later, effective May 1, 1907. T. N. Vail was elected by the Directors, ostensibly with the support of the bankers, to succeed Fish.

(11) Mr. Vail showed his obligation to the bankers who were instrumental in his re-elevation to the presidency of the parent organization of the Bell System in various ways. He transferred business from the Guaranty Trust to Waterbury's bank. He offered to elect two members of the firm of J. P. Morgan & Company to the directorate of the American Company. He caused common stock to be issued at par, which reduced the conversion rate of the bonds from 140 to 133. The American Company began to sell bonds to J. P. Morgan & Company as sole bidder, not allowing competitive bids. Vail loaned 20 million dollars to the British Government through J. P. Morgan & Company in 1916, even though the General Counsel of the American Company had previously advised him that the charter of the Company did not permit it to act as a lending agency.

(12) As a result of the change of management effectuated by the New York banking interests in 1907, the complexion of the board of directors of the American Company changed radically to include a good many bankers from New York or from other sections of the country affiliated with New York bankers.

(13) The board of directors may be said to have been supreme in the management of the American Company until the year 1906, since up to that time the selection of the president seems to have been at the complete discretion of the board. In 1907, however, the board of directors was subject to the influence of George F. Baker, Sr., J. I. Waterbury, J. P. Morgan & Company, Kidder, Peabody & Company, and Kuhn, Loeb & Company.

(14) On July 16, 1918, Congress passed a Joint Resolution, authorizing the President of the United States to take possession and assume control of the telegraph, telephone, cable or radio systems. President Wilson issued a proclamation on July 22, 1918, directing Postmaster General Albert S. Burleson to take possession of each and every telegraph and telephone system. This control was put into nominal operation as of August 1, 1918. The Postmaster General appointed a Wire Control Board, consisting of First Assistant Postmaster General Koons, United States Tariff Commissioner Lewis, and Solicitor Lamar of the Post Office Department. In December, the Postmaster General also appointed an Operating Board, functioning as the United States Telegraph and Telephone Administration. The membership consisted of operating executives of wire companies. By this means the actual control remained with the respective companies, with few exceptions, although legal control and responsibility was with the Post Office Department. Federal control of the Bell System was relinquished officially as of August 1, 1919. This episode made no change in the management of the American Company.

(15) The use of the proxy machinery as an instrumentality of management control came into systematic operation in 1905 on the occasion of a special meeting to approve the convertible bond issue later sold to J. P. Morgan & Company, Kuhn, Loeb and Company, Kidder, Peabody and Company and Baring Brothers & Company, Limited. Prior to that date,

stockholders had been given the option to designate an officer of the company, usually the treasurer, as proxy, if they did not have an attorney of their own. Since 1905, the proxy machinery has been highly developed, until in the last decade and a half it has, with few exceptions, consisted principally of the executive committee, and has from year to year voted between 55 and 75 per cent of the stock outstanding and in most cases over 95 per cent of the shares voted at the annual meetings.

(16) By the use of the proxy machinery, the board of directors has become a self-perpetuating body. New members of the board may be said to represent the agreed choice of the president and other members of the board of directors.

(17) The last two presidents of the American Company have been the selection of the outgoing presidents. Vail caused a reorganization of management in 1919 whereby U. N. Bethell, then First Vice President, was forced to take a leave of absence to make way for H. B. Thayer, Vail's choice to become President. At the same time, W. S. Gifford was selected Vice President, and soon thereafter -- more definitely in 1922 -- was substituting for Thayer in his absence on the Executive Committee. In 1923, Gifford was made First Vice President, and in 1924, Thayer arranged for Gifford's succession to the presidency. In January, 1925, Gifford was made President, as Thayer became Chairman of the company. Thus, there has developed a self-continuation of management apart from the self-perpetuation of the directorate.

(18) The role of the board of directors has become advisory. The selection of directors is the result of consultation of the president with the various members of the directorate. Vail introduced the policy of geographical representation on the board of directors, and Gifford has continued the established policy of preponderant

representation by financial interests. In the case of some institutions, like the First National Bank of New York, the First National Bank of Boston, and the Old Colony Trust interests, as well as Mutual Life Company of New York, United States Steel Corporation, and General Electric Company, there is a continuity of interlocking directorships, which indicates a definite policy of having such relationships with these concerns. It will be noticed that most of these institutions have been identified with the First National Bank and J. P. Morgan & Company interests of New York.

CHAPTER II

OWNERSHIP CONTROL

1. Control during 1875-1878.

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The first organization which may be termed a predecessor of American Telephone and Telegraph Company was the "Bell Patent Association." 1/ This early organization was nothing more than an agreement dated February 27, 1875, signed by Thomas Sanders, Gardiner G. Hubbard, and Alexander Graham Bell. The agreement provided, among other things, that these three were to own the patents resulting from Bell's inventions. 2/ Later, Thomas A. Watson, in return for his services, was given a 10 per cent interest in the patents when a joint stock company was formed. 3/

The "Bell Patent Association" was terminated, and the Bell Telephone Company (a Massachusetts association) was formed on July 9, 1877, to exploit the patents. The patents of the "Bell Patent Association" were turned over to the Bell Telephone Company (the association), under the trusteeship of G. G. Hubbard, for 5,000 shares of stock of the company. 4/

This stock was issued by Gardiner G. Hubbard, Trustee, to the following:

Alexander Graham Bell	10	shares
Mabel G. Bell	1,497	"
Gardiner G. Hubbard	1,387	"
Gertrude McC. Hubbard	100	"
Thomas Sanders	1,497	"
Thomas A. Watson	499	"
Charles E. Hubbard	10	"

1/ The predecessors of American Telephone and Telegraph Company, with dates of active existence and amount of outstanding stock, are indicated in Chart I, p. 13.

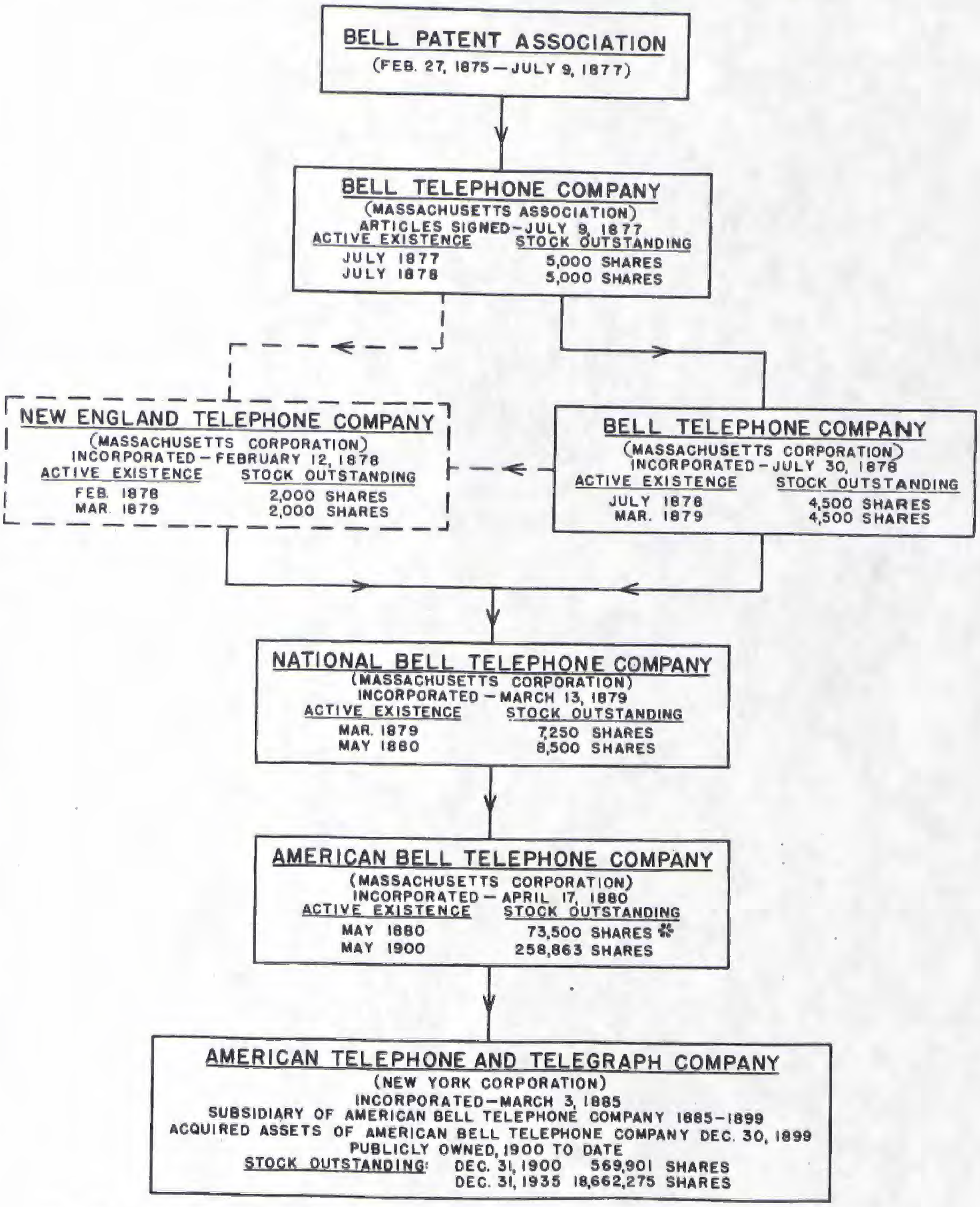
2/ This agreement is reproduced in F.C.C. Exhibit 1360C, "American Telephone and Telegraph Company, Corporate and Financial History," Appendix 1.

3/ Id., Appendix 2.

4/ Id., Appendix 3.

HISTORICAL CHART OF THE PARENT ORGANIZATIONS OF THE BELL SYSTEM

CHART I



LEGEND: ——> TRANSFER OF ASSETS
— -> — LICENSEE COMPANY

NOTE: ALL STOCK IS $100 PAR.
✤ INCLUDES 14,000 SHARES OF TRUSTEE STOCK HELD BY NATIONAL BELL TELEPHONE COMPANY

The stock held by Mabel G. Bell had been turned over to her by A. G. Bell, and was under the trusteeship of G. G. Hubbard, her father. Considering that Mabel G. Bell, wife of the inventor, was the daughter of G. G. Hubbard, and that Gertrude McC. Hubbard and Charles E. Hubbard were wife and brother, respectively, and that their shares were part of the total assigned to G. G. Hubbard, it follows that the original telephone pioneers owned or controlled the entire stock of the first company. In addition to that, the members of the "Bell Patent Association" had made an assignment of all their rights under four of Bell's patents to G. G. Hubbard, Trustee. Thus, Hubbard, who in effect was the management, had complete control of the affairs of the telephone company.

2. Control during 1878-1879.

The 100 per cent ownership or control of the equity stock by the management persisted in the licensee company, New England Telephone Company, which was organized in February, 1878. Of the 2,000 shares of capital stock, 1,000 shares were turned over to the Bell Telephone Company, the association, in trust for the stockholders of the association; and 1,000 shares were sold to G. L. Bradley for $50,000, who in turn sold them to friends and associates. The new investors took places on the directorate. Although all the stock was thus held by the management, the group comprising the Board of Directors was not identical with that of the Bell Telephone Company, the association. In addition to C. E. Hubbard, G. G. Hubbard, T. Sanders, and T. A. Watson, there were C. S. Bradley, A. Cochrane, W. G. Saltonstall, and G. Z. Silsbee. 1/

In July, 1878, the 1,000 shares which the Bell Telephone Company (the association) held were distributed pro rata among its stockholders, and in February, 1879, most of Bradley's stock was transferred

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1/ See Schedule 1a.

to various individuals, so that when New England Telephone Company was consolidated with Bell Telephone Company, the corporation, on March 10, 1879, the total stockholdings of the directors, other officers, and their family relations were only 41.65 per cent of the outstanding stock, a minority. 1/

The Bell Telephone Company was incorporated in Massachusetts on July 30, 1878, 2/ to take over the assets of Bell Telephone Company, the association. The new company was capitalized at $450,000, with 4,500 shares of $100 par value stock. Of this, 3,000 shares were given to the association in exchange for its assets. Thomas Sanders took 1,000 shares for $25,000, and the remaining 500 shares were sold to others for another $25,000. Thus, one-third of the shares brought in $50,000 of new capital.

At the organization of the company, G. G. Hubbard was designated as President; Thomas Sanders, Treasurer; C. E. Hubbard, Clerk; and T. N. Vail, General Manager. The Executive Committee consisted of C. S. Bradley, T. Sanders, and G. L. Bradley. The latter two had put a considerable amount of new money into the business. On July 20, the Board of Directors passed a resolution as follows: 3/

> That the Executive Committee shall, until further orders, have all such powers as may be necessary for the management of the Company.

At a meeting of stockholders of Bell Telephone Company on July 27, 1878, a by-law was passed which tended to give greater voice for the new investors in the management of the Bell interests than the magnitude of their holdings would warrant. The by-law provided: 4/

1/ See Schedule 2.

2/ For act of incorporation, see F.C.C. Exhibit 1360C, Appendix 5.

3/ F.C.C. Exhibit 1360A, "Report on American Telephone and Telegraph Company, Corporate and Financial History," p. 20. The management of Bell Telephone Company apparently transacted business even before the act of incorporation was passed on July 30, 1878.

4/ Id., p. 21.

> The holders of one-third of the stock for which money has been paid and subscribed shall, for the space of two years, have an equal right and power with the holders of the two-thirds reserved to the patentees; and any holders of such originally subscribed stock shall cast two votes at each meeting upon each of such shares, and the holders of the stock originally issued to the patentees shall cast one vote on each of such shares during said two years.

These changes put T. Sanders, G. L. Bradley, and particularly W. H. Forbes, in the ascendancy of the Bell Telephone Company. On July 20, 1878, directors, officers, and their nominal family relations held 96.82 per cent of the stock. Less than a year later, in March, 1879, they held 75 per cent. 1/

3. National Bell Telephone Company, 1879-1880.

On March 13, 1879, National Bell Telephone Company was incorporated with the following officers and directors:

W. H. Forbes	President and Director
G. L. Bradley	Treasurer and Director
C. E. Hubbard	Clerk (Secretary) and Director
G. G. Hubbard	Director
R. S. Fay	Director
C. S. Bradley	Director
G. Z. Silsbee	Director
A. Cochrane	Director
F. Blake, Jr.	Director
T. Sanders	Director
T. B. Bailey	Director
T. N. Vail	General Manager
A. G. Bell	Electrician

The capitalization of this company is reported in Federal Communications Commission report on "American Telephone and Telegraph Company, Corporate and Financial History," Volume I, page 22, as follows:

> 750 shares to the money-subscribing stockholders of the Bell Telephone Company on a two-votes-for-a-share basis at $50 per share.
>
> 750 shares at an average of about $123.11 per share.
>
> 500 shares sold in December 1879, and January 1880, to stockholders pro rata at $600 per share.

1/ See Schedule 2.

From Schedule 1a, it may be seen that all of these men, with the exception of R. S. Fay, were connected with the predecessor companies. G. G. Hubbard, A. G. Bell's supporter in the experimental stages of telephony, appeared in a secondary role, and W. H. Forbes presided over the management. T. N. Vail, although not a director, had been connected with the Bell Telephone Company, the corporation, as General Manager. The management controlled in March, 1879, 65 per cent of the stock of National Bell Telephone Company. 1/

In order to insure the continuance of control of this new company to the incumbents, an agreement was signed on April 2, 1879, by 18 large stockholders, representing 3,828 shares, a majority, 2/ which provided in part that --

> They will not sell any part of said stock except to the subscribers of this paper unless all of said subscribers agree to sell all of said subscribed stock and have the opportunity to do so, at a price satisfactory to each: they will not agree to give proxies to vote upon said stock to any other than some of the said subscribers. 3/

This agreement was to remain in force until April 1, 1880, but on December 15, 1879, it was mutually agreed to terminate the compact. 4/

1/ See Schedule 2.

2/ In March, 1879, 7,250 shares were actually outstanding. The remainder of the total capitalization, 1,250 shares, were sold late in 1879 and early 1880.

3/ The signatories of this agreement were the members of the management and their friends. They were: W. H. Forbes, J. Malcolm Forbes, H. L. Higginson, J. L. Gardiner, Jr., C. E. Perkins (per W. H. F(orbes)), Thomas Sanders, Thomas A. Watson, George L. Bradley, W. G. Saltonstall, Arthur W. Blake, C. S. Bradley, Francis Blake, Jr., R. S. Fay, A. Cochrane, Jr., J. N. A. Griswold (by W. H. Forbes), H. S. Russell (by W. H. Forbes), C. C. Jackson, and C. Williams, Jr. This agreement is reproduced in Appendix 1, Sheet 1.

4/ See Appendix 1, Sheet 2.

Soon thereafter, on March 29, 1880, the stockholders of National Bell Telephone Company voted to sell its assets to the American Bell Telephone Company. 1/

ch

4. American Bell Telephone Company, 1880-1881.

The authorized capital stock of American Bell Telephone Company consisted of 100,000 shares of $100 par value. Of this, 73,500 were issued at the beginning. Six shares of American Bell Telephone Company stock were exchanged for one share of National Bell Telephone Company stock. The distribution was brought about as follows: 2/

> Sixty-five thousand (65000) shares ($6,500,000) of the stock of said American Bell Telephone Company shall be issued to Wm. H. Forbes and Richard S. Fay as Trustees for the following purposes, viz: Fifty-one thousand (51000) of said shares ($5,100,000) shall be at once distributed by them ratably to the stockholders of this Company, to wit: six (6) new shares for every present share; but no stockholder shall receive his proportion of said new shares until he has assigned all his shares in the National Bell Telephone Company to Wm. H. Forbes and Richard S. Fay as Trustees to be by them held subject to the direction and control of the Directors of the National Bell Telephone Company * * *. Fourteen thousand (14000) of said new shares, ($1,400,000) shall be held by said Wm. H. Forbes and Richard S. Fay, Trustees, subject to the direction and disposal of the Directors of the National Bell Telephone Company.

In addition, 8,500 shares were sold to stockholders of National Bell Telephone Company at par.

Placing the stock of National Bell Telephone Company with the Trustees "subject to the direction and disposal of the Directors of the National Bell Telephone Company" naturally insured the continuance of management of that company as long as necessary for any purpose. Of course, the remaining 14,000 shares of American Bell Telephone Company

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1/ Minutes of stockholders' meeting, March 29, 1880, National Bell Telephone Company.

2/ Ibid.

were also held by the two Trustees and could thus be voted by the Directors of National Bell Telephone Company. In March and May, 1880, Forbes, Bradley, Bailey, Hubbard, et al., had themselves elected to the directorship of American Bell. On December 8, the official family of American Bell controlled 56 per cent of the stock, not including the 14,000 shares of treasury stock. 1/

On February 25, 1881, the Directors of National Bell released all right to the 14,000 shares, directing the Trustees to hold them "for the benefit of and subject to the direction and disposal of said American Bell Telephone Company." 2/ As a result, it appears that the Directors of American Bell Telephone Company could have directed the Trustees to vote this stock, amounting to about 19 per cent of the total of 73,500 shares outstanding in 1880 to 1882, inclusive, for the election of said Directors. The record of votes at the meetings of American Bell Telephone Company unfortunately is not available, and hence it is not known whether this was done. In any event, it was a weapon for control to supplement the shares that the directors and officers controlled in their own right or as trustees for other individuals. It should be pointed out that American Bell Telephone Company stock held by National Bell gradually decreased in importance as more stock was issued in 1883, and disappeared entirely during 1888 when the stock was finally distributed to the public. 3/

In 1881, the number of stockholders of American Bell Telephone Company increased sharply. Just as sharply as the stockholders

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1/ See Schedule 2.

2/ Minutes of meeting of Board of Directors, February 25, 1881, National Bell Telephone Company.

3/ American Telephone and Telegraph Company Comptroller's Annual Report, 1929, Part II, Statement 145.

increased, the average shares per stockholder decreased. Chart 2, presenting the number of stockholders, the shares outstanding, excluding trustee stock, and the average shares per stockholder, during the active existence of American Bell Telephone Company, is a historical record of the diffusion of American Bell Company stock into the hands of many holders instead of a few identified with the management.

Control through majority ownership of stock lasted but a short time, through the active existence of Bell Telephone Company (corporation), National Bell Telephone Company, and less than one year of the life of American Bell Telephone Company, as shown by the following percentages for equity ownership by directors, other officers, and family relations: 1/

July 20, 1878	Bell Telephone Company, (corporation)	96.82%
March 10, 1879	Bell Telephone Company, (corporation)	75.02
March 10, 1879	National Bell Telephone Company	76.40
December 8, 1880	American Bell Telephone Company	56.40

Although these statistics indicate the interest of directors, other officers, and their family relations in the business, they do not show that the personnel of the management of Bell Telephone Company, incorporated, had changed considerably by the accession of a new group of people who had provided funds. 2/ In spite of this change, however, the management owned a majority of the stock.

1/ See Schedule 2.

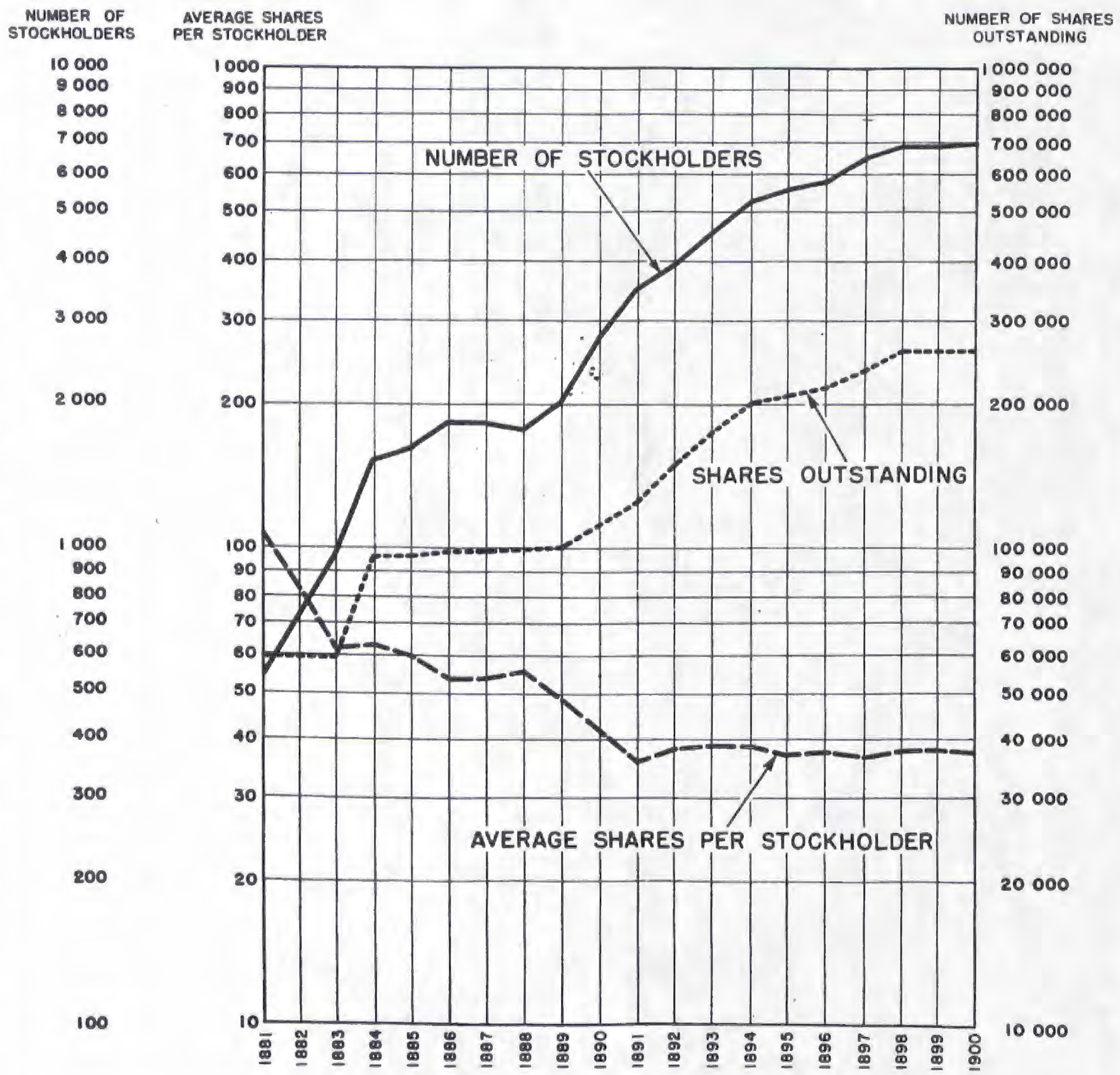
2/ See p. 16.

CHART 2

AMERICAN BELL TELEPHONE COMPANY

NUMBER OF STOCKHOLDERS, SHARES OUTSTANDING AND AVERAGE SHARES PER STOCKHOLDER

FROM 1881 TO 1900



CHAPTER III

DIRECTORAL CONTROL

1. Distribution of Stock, 1882-1902.

The ownership of American Bell Telephone Company stock by directors and officers had dwindled on March 31, 1900 to about 5 per cent of the total outstanding. 1/ Yet there was clear continuity of control by the early Bell interests as evidenced by the personnel of the management from the date of the resignation of William H. Forbes on September 1, 1887, as President of American Bell Telephone Company, to the end of the active existence of this company in 1900. 2/

Although the stock was being distributed to a larger number of shareholders concurrently with the increase in the number of American Bell Telephone Company shares outstanding, at the same time large stockholders still retained a considerable proportion of the total. 3/ Thus, as late as 1889, the 20 largest stockholders owned 26.4 per cent of the outstanding stock of American Bell Telephone Company, not including any indirect control these same stockholders may have had over additional shares as trustees, or through nominees and family relations. In 1890, the corresponding figure for the 20 largest holders was 20.9 per cent. In the same year, the management controlled directly or through family relations over 11 per cent of the stock. The holdings of the management and the 20 largest holders overlap, as some of the management group were among the 20 largest holders. In this situation it is safe to assume that although the management did not control a majority of the

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1/ See Schedule 2.

2/ See Schedules 1a and 1b.

3/ See Appendix 2, Sheets 5 and 6.

stock, the interest of the largest holders was so concentrated that the board of directors of American Bell Telephone Company was responsive to their wishes.

The attenuation of ownership control proceeded still further in the next decade to 1900. The 20 largest stockholders had 13.5 per cent of outstanding capital stock, 1/ whereas the management and family relations owned or controlled only 5 per cent. 2/ In 1901, the 20 largest holders of stock in American Telephone and Telegraph Company held 13.9 per cent of the outstanding and 47.5 per cent of stock voted at the annual meeting. In 1902, the corresponding figures were 17.1 and 51 per cent. 3/

2. Continuity of Directorate.

The tabulation on page 24, which compares the officers and directors of American Bell Telephone Company in 1887 with those in 1900, indicates the continuity of the directorate. 4/

1/ See Appendix 2, sheet 6.

2/ See Schedule 2.

3/ The increase in the percentages from 1901 to 1902 is due to acquisition of 50,000 shares by G. F. Baker, Sr., and associates. G. F. Baker and J. I. Waterbury were then elected to directorships. See infra., p. 38. In 1907, the 20 largest holders owned 14.6 per cent of outstanding and 37.4 per cent of stock voted at annual meeting. But these facts do not in themselves create a presumption of responsiveness of management to large holders in 1907 as they did in 1902 and prior years. The 1907 figures include some 70,000 shares owned by Mackay interests. This block of stock, slightly more than 5 per cent of the total, was not considered friendly to the management, as the Mackay interests were refused representation on the Board (cf. pp. 29-37). There were other large holders who did not support the Board of Directors in connection with convertible bond issues in 1906. By 1906 and 1907, therefore, the directorate had become autonomous from direct influence by individual large stockholders.

4/ From the Minutes of American Bell Telephone Company stockholders' meetings on March 29, 1887 and March 27, 1900. See also Schedules 1a and 1b.

Position	Name of Individual As of March 27, 1900	As of March 29, 1887
President and Director	J. E. Hudson	W. H. Forbes
Clerk (Secretary) and Director	C. E. Hubbard	C. E. Hubbard
Treasurer	W. R. Driver	W. R. Driver
Vice President and Director	-	J. E. Hudson
Director	F. Blake	F. Blake
Director	-	C. P. Bowditch
Director	G. L. Bradley	G. L. Bradley
Director	-	C. Clapp
Director	A. Cochrane	A. Cochrane
Director	-	G. G. Hubbard
Director	-	R. E. Minturn
Director	C. E. Perkins	C. E. Perkins
Director	T. Sanders	T. Sanders
Director	C. W. Amory	-
Director	J. M. Forbes	-
Director	T. B. Bailey	-
Director	T. J. Coolidge, Jr.	-
Director	H. S. Howe	-
Director	M. Williams	-

It must be observed that the Board of Directors in 1900 had seven directors who had served 13 years previously. Some of the other six directors were either employees or men related by family ties or business interests to the management of American Bell Telephone Company. Continuity of control appears to be clearly indicated. Undoubtedly, the more widely scattered stock ownership, as discussed previously, with a considerable concentration of shares in the hands of the 20 largest stockholders, some of whom were on the Board of Directors, aided the incumbents to continue control of the corporation.

3. Selection of Presidents.

During this period, the election of the president of American Bell Telephone Company and American Telephone and Telegraph Company seems to have been a prerogative of the board of directors in fact as well as in law. In 1885, T. N. Vail, originally brought in from the Post Office Department in Washington by G. G. Hubbard in 1878, was elected President of American Telephone and Telegraph Company, from the general managership of American Bell

Telephone Company. In 1887, when Vail resigned, J. E. Hudson, then Vice President of American Bell, was elected to succeed Vail.

In 1887, W. H. Forbes resigned as President of American Bell Telephone Company. 1/ To find a successor for Forbes, a committee of Directors was appointed for this express purpose. An excerpt from the minutes of the meeting of the Board of Directors on July 13, 1887, regarding their choice follows:

> Voted. That the report of Messrs. Cochrane, Bowditch and Clapp recommending the name of Mr. Howard Stockton as a successor to the presidency in the place of Mr. W. H. Forbes be and the same is hereby accepted -- and that the election of Mr. Stockton as President be deferred until he can name a date on which he can assume the duties of the office.

Mr. Stockton served less than two years. 2/ The minutes of the Directors' meeting of April 1, 1889 state that "Mr. Stockton not being a candidate for reelection, all the ballots were for John E. Hudson and he was declared duly elected." 3/ Hudson was at the time Vice President and General Manager of American Bell Telephone Company and had been President of American Telephone and Telegraph Company since the resignation of T. N. Vail in September, 1887.

Hudson died on October 1, 1900. At a Directors' meeting held on October 5, 1900, A. Cochrane, a Director for several years, was elected President of American Bell Telephone Company and American Telephone and Telegraph Company, pro tem. On July 1, 1901, Frederick P. Fish was elected President of both American Bell and American Telephone and Telegraph Company. Fish had held no official capacity before. He was a patent attorney from Boston. On occasion he had been engaged by Bell interests to do legal work. Fish was an outsider brought in by the Directors.

1/ Forbes continued to serve as Director until October 11, 1897.

2/ Howard Stockton was the father of Philip Stockton, President of First National Bank of Boston, and Director of American Telephone and Telegraph Company since 1914.

3/ Howard Stockton served as a Director after his retirement from the presidency until May 14, 1890.

4. Change of Corporate Structure, 1900.

Although the stock of American Bell Telephone Company in 1900 was widely distributed, with nearly 7,000 stockholders, most of it was held in New England, particularly in Massachusetts. 1/ This fact made the securities of American Bell Telephone Company so local that few investors outside of New England were interested in them. This is well illustrated in a letter to J. E. Hudson from Kuhn, Loeb & Company dated June 2, 1898, which stated, in part:

> * * * as the bonds which your company proposed to issue will be both short-term and currency bonds, we think they are likely to find a better market in New England than here in New York. We regret, therefore, not to be able to submit a bid, but thanking you for the opportunity, we are, etc. * * *

American Bell Telephone Company needed more money. Massachusetts laws did not permit of expansion of capitalization such as the management desired. Consequently, it was decided to sell all the assets of American Bell to American Telephone and Telegraph Company, which was a New York corporation. 2/ In 1900, American Telephone and Telegraph Company stock was exchanged for American Bell Telephone Company stock on a two-for-one basis, which gave further impetus to a wider distribution of the stock. Control by the management was naturally strengthened by placing twice as much stock in the hands of the public, for the usual tendency is towards a partial sale of the holdings, thus increasing the number of stockholders. 3/

1/ As late as 1909, Massachusetts contained holders of over 55 per cent of American Telephone and Telegraph Company stock. See F. C. C. Exhibit 230, "Ownership of American Telephone and Telegraph Company," Table 16, p. 46.

2/ For details of this transaction see F. C. C. Exhibit 1360A, "American Telephone and Telegraph Company, Corporate and Financial History," pp. 41-42.

3/ See Appendix 2, Sheet 5.

At this time, the total number of shares owned by individuals connected with the management and their families was about 5 per cent of the total outstanding. 1/ This was reinformed, however, by another device brought into play as a result of the purchase of the assets of American Bell Telephone Company by American Telephone and Telegraph Company at the end of 1899.

Up to 1899, American Telephone and Telegraph Company had 258,863 shares of stock issued, which were all held by American Bell Telephone Company. In 1900, 579,967 additional shares were issued in exchange for all of the assets of American Bell with the exception of American Telephone and Telegraph Company stock. Of the total shares in the hands of American Bell Telephone Company, namely 838,830 shares, 517,726 were issued in exchange for shares of American Bell Telephone Company on a two-for-one basis. The remaining 321,104 shares were held by American Bell Telephone Company for the benefit of American Telephone and Telegraph Company, subject to the discharge of the American Company's indebtedness to American Bell of $12,907,500 which would be met by issuing 129,075 shares for cash at par.

The remainder of the stock, 321,104 shares, after discharging all the debts and corporate obligations of American Bell, was considered treasury stock of the American Company. An agreement dated March 23, 1900, between American Bell and American Telephone and Telegraph Company, stated: 2/

> WHEREAS in the opinion of the Directors of the Bell Company it is desirable for the purposes of administration that a certain part of said stock, to-wit 321,104 shares should be transferred to the treasury of said Long Distance Company as surplus assets of said Company, leaving in the treasury of the Bell Company 517,726 shares, that is to say, two (2) shares of

1/ See Schedule 2.

2/ Agreement reproduced in full, F. C. C. Exhibit 1360C, "American Telephone and Telegraph Company, Corporate and Financial History," Appendix 13.

the stock of the Long Distance Company for each one (1) share of the stock of the Bell Company, and

WHEREAS such transfer would have been made if the Bell Company had been free from debt,

NOW THEREFORE in consideration of Five Dollars to the Bell Company paid by the Long Distance Company, the receipt whereof is hereby acknowledged, and in consideration of the execution hereof by the Long Distance Company, the Bell Company hereby agrees with said Long Distance Company and declares that it will and does hold certain property, to-wit, what may remain of said 321,104 shares, and the dividends thereon, after discharging all the debts and corporate obligations of said Bell Company and the expenses of administration, as and for surplus assets of the Long Distance Company to be at the control and order of the Directors of the Long Distance Company. The said property shall be only what remains after the payment of all debts and obligations of the Bell Company now existing or hereafter accruing and this statement of trust shall in no way prevent the Bell Company, or its Directors, from selling, pledging, transferring or otherwise dealing with the said shares for the purpose and the purpose only of discharging all its debts and obligations and the expenses of administration, nor shall it in any way affect the liability of said 321,104 shares or any of them to attachment, execution or any other legal or equitable process by the creditors of said Bell Company, and no purchaser from the Bell Company of said shares or any of them shall be bound to see to the application of the purchase money.

So far as such dividends are not needed for the payment of such debts and obligations and interest thereon, and so long as any of said 321,104 shares have not been sold or pledged, transferred or otherwise disposed of by the Bell Company in any way or for any purpose or have not in any way been attached, levied upon or sold by or for creditors of the Bell Company but remain in the treasury of the Bell Company free from any lien or charge the Bell Company hereby waives its right to any and all dividends from net earnings that may be declared on said shares from time to time, but such waiver shall not in any way impair the right of the Bell Company to deal with any of said shares, or affect such shares in the hands or possession of any other person or corporation.

Thus, the 321,104 shares of stock left after the two-for-one exchange was surplus or treasury stock of American Telephone and Telegraph Company, on which dividends were waived, held in trust by American Bell Telephone Company as a protection of its creditors. A part of this treasury stock was voted at the annual stockholders' meeting as late as 1907. A proxy signed by F. P. Fish, President of both American Bell and American Telephone and Telegraph Company, for 271,104 shares 1/ as voted in the 1907 stockholders' meeting is reproduced as Appendix 3, Sheet 10.

As if this were not enough security for the exercise of voting power of this treasury stock, a memorandum of an agreement and declaration of trust dated May 15, 1900, was signed, which put the stock of American Bell Telephone Company turned in in exchange for American Telephone and Telegraph Company stock, in trust with trustees to be held for the benefit of the American Company. The memorandum of agreement states: 2/

> NOW THEREFORE, we, the said John E. Hudson, Charles W. Amory, Alexander Cochrane and Henry S. Howe, in consideration of the premises, do hereby covenant with the Telephone Company and declare that we will hold all shares transferred to us as Trustees as aforesaid for the uses and purposes following, that is to say:-
>
> 1. To exercise the voting power of said shares to promote the best interests of the Telephone Company.
>
> 2. To collect any and all dividends, if any, that may be declared and paid on said shares: to pay thereout any necessary expenses of this trust, if any, and forthwith to pay the balance thereof to the Telephone Company.
>
> 3. To sell, assign or transfer said shares to such persons, in such amounts, at such times and in such manner as the Telephone Company, by the vote of its Directors or stockholders may at any time, and from time to time, direct: and in case of sale of said shares, or any of them, forthwith to pay the net proceeds of such sale to the Telephone Company.
>
> 4. In the management of this trust to follow such directions and rules as said Company or its Board of Directors may from time to time make and give.
>
> 5. In case of the death, resignation or inability to act of any Trustee hereunder, and as often as the same shall occur, a new Trustee shall be appointed in the place of the one so dying, resigning or being unable to act, by vote of the Board of Directors of the Telephone Company and thereupon such instruments of transfer shall be made and executed as the counsel of the Telephone Company may advise to be necessary

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1/ This is the remainder of 321,104 shares of treasury stock after the sale of 50,000 shares for cash to G. F. Baker, Sr., and associates in 1902. See <u>infra</u>., pp. 51-52.

2/ Memorandum of agreement reproduced in full in Appendix 4 of this report.

or proper to vest the title to all shares so held in trust in such new Trustee jointly with the surviving or other Trustees.

A certified copy of the vote of the Directors of the Telephone Company, reciting such death, resignation or inability to act and appointing such new Trustee shall be conclusive evidence of the fact so recited therein and of such appointment.

To make the circle complete, it should be noted that directors and officers of American Bell and American Telephone and Telegraph Company were practically identical. 1/ Thus, a relationship was established whereby the directors of American Telephone and Telegraph Company could, and did, vote the remaining stock for themselves. At the end of 1900, the stock held by American Bell Telephone Company, 321,104 shares, which was known as American Telephone and Telegraph Company treasury stock, amounted to 36 per cent of the total outstanding. It was a part of this stock, though nominally in the portfolio of American Bell, that was voted in 1907 by President Fish of American Telephone and Telegraph Company for the reelection of directors. As time went on, however, this treasury stock became decreasingly less important due to new issues of stock and gradual disposal of the treasury stock. In 1908, it was only about 13 per cent of the total outstanding. During 1909, about 200,000 shares were turned over to Diamond State Company, a subsidiary of New York Telephone Company, and disposed of for cash or in exchange for other securities. 2/

5. Use of Proxies.

In addition to stock owned and controlled by the management through various devices, there was the instrumentality of proxies. It

1/ See Schedule 1a.

2/ F. C. C. Exhibit 1362E, "American Telephone and Telegraph Company, Security Investments," Ch. XXVI, pp. 1293-1294.

appears that prior to 1905, stockholders used proxy forms to select attorneys to vote for them at the stockholders' meetings. 1/ Blank proxy forms from 1901 to 1903, inclusive, indicate that no proxy committee existed at that date, 2/ although in a notice to stockholders dated March 12, 1901 the company suggested that if no one was available having the confidence of the individual stockholders, William R. Driver, Treasurer of the American Company, be designated as proxy. In 1905, at a special election held for the purpose of empowering the Directors to sell up to $150,000,000 of convertible bonds, 3/ the management apparently deviated from its practice of sending blank proxies to stockholders by using a proxy form on which no opportunity was given for substitution of attorneys by the stockholders. Alexander Cochrane, Nathaniel Thayer, John I. Waterbury, and William R. Driver were designated by the management as proxies. 4/ This radical change in policy can only be ascribed to the fact that it was considered difficult to obtain the consent of two-thirds of the stockholders to the issue of the bonds, and as a consequence the management, wishing to insure against failure, appointed attorneys who would vote favorably. The company's concern over the outcome of the stockholders' voting is well illustrated by the personal appeals made to large stockholders for proxies. 5/

1/ See Appendix 3, Sheets 1, 2 and 3.

2/ Ibid.

3/ For a discussion of this bond issue, see infra., pp. 52-60.

4/ See Appendix 3, Sheet 3.

5/ Samples of such letters are given in Appendix 6, Sheets 1 to 4.

Although a proxy form for the annual meeting in 1907 is not available, a record of the votes cast indicates that a proxy committee existed at that time, consisting of a Director, Henry S. Howe, and the Treasurer of the company, William R. Driver. 1/

With the aid of wide distribution of stock, the control and voting of the treasury stock mentioned above, and the control of the proxy machinery, the position of the management would seem to be impregnable. This is well illustrated in the way F. P. Fish and the Executive Committee of American Telephone and Telegraph Company, consisting of Massachusetts men, refused representation on the Board to the largest stockholder of the company, who had an investment of nearly $10,000,000 in American Telephone and Telegraph Company stock. This episode took place in 1906-1908 and is here described in some detail because it illustrates how an autonomous board of directors can oppose any single stockholder, however large his investment. It has wider implications also, because the outcome of this episode can be said to have sealed the fate of the Postal Telegraph System, since the large stockholder in question that was denied representation by Fish and his Executive Committee in spite of a large investment was none other than The Mackay Companies.

6. The Mackay Episode, 1905-1910. 2/

The Mackay Companies was the parent company which controlled the Commercial Cable Company and the Postal System during this period, 1905-1910. The Postal System, which operated a domestic telegraph

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1/ See Appendix 3, Sheet 11.

2/ Correspondence relating to this episode is reproduced in Appendix 7.

business in the United States, acted as an outlet for Commercial Cable, which operated a number of international cables.

Mackay's plan to control the American Company.- The Mackay Companies acquired a considerable block of American Telephone and Telegraph Company stock during 1905, 1906, and 1907. Apparently Clarence Mackay, Jr. wanted to control American Telephone and Telegraph Company, as his idea was to offer an exchange of fifteen shares of Mackay preferred for eight shares of American Company common. T. Jefferson Coolidge and J. I. Waterbury, who were Trustees of Mackay Companies as well as Directors of American Telephone and Telegraph Company, did not accede to this plan. On March 27, 1905, Mackay wrote to Coolidge:

> Both Mr. Cook 1/ and myself have given a great deal of thought to the work which has been done and which should now be done, in connection with The Mackay Companies, and I think it will throw light upon the situation to state the facts as I understand them.
>
> Originally, as you know, we started to get all the stock of the Commercial Cable Company, and for the time being we postponed our efforts towards obtaining control of the American Telephone and Telegraph Company. The task of acquiring the Commercial Cable Company stock naturally fell to Mr. Cook and myself. None of us believed that we would be able to gather in all of the Commercial Cable Company stock for a long time to come, but by indefatigable work we succeeded, and the result speaks for itself. That part of the work of the organization that Mr. Cook and myself started to accomplish, has now been completed.
>
> To come now to that part of the work which you and Mr. Waterbury undertook to accomplish, namely, the getting in of the Bell Telephone stock, the first thing to be considered was the formulation of a plan which would be fair to all parties and which would bring about the result. You and Mr. Waterbury did not suggest any plan that seemed workable, and finally Mr. Cook and I devised the plan of issuing 15 Mackay preferred shares for 8 Bell Telephone shares. That

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1/ Cook was counsel for Mackay Companies.

plan was submitted to all four of the trustees, and approved. I recommended, as you are aware, that exchange to my mother for her holdings of Bell Telephone stock, and I also accepted it in behalf of my holdings. She and I turned in, week before last, over $800,000. of Bell Telephone stock on that basis.

That immediately raises the question as to what you and your father and Mr. Waterbury are willing to do in regard to your holdings of Bell Telephone stock. It certainly seems to me that if you and he approved the plan and voted for it, and were quite willing that my mother and I should turn in our Bell Telephone shares on that basis, you should also turn in yours on the same basis, especially as the getting in of the Bell Telephone stock was yours and Mr. Waterbury's part of the purpose of The Mackay Companies. I accordingly would like to know how you stand in regard to the matter. Are you and your father and Mr. Waterbury willing to do the same as I and my mother did, namely, turn in your Bell Telephone stock for Mackay preferred on the same basis mentioned above?

After you and your father and Mr. Waterbury have turned in your holdings, we can then start in to persuade other Bell Telephone stockholders to do the same, and I think that I can be of assistance in that direction.

I have within the past few days talked this matter over with Mr. Waterbury. Accordingly I am also writing you on the same subject, as I feel very keenly in regard to the whole situation, and I am strongly of the opinion that, as the great body of Commercial Cable stockholders expected that something would be accomplished in the way of The Mackay Companies acquiring stock in the American Telephone and Telegraph Company, and as you know, many of them turned in their holdings on that expectation, we should proceed at once without further delay towards bending all our energies in bringing about the second part of the original scheme.

T. J. Coolidge's reply was that he had not accepted the plan previously, as imputed by Mackay, and did not consider it feasible now. Coolidge wrote under date of March 30, 1905:

Your letter of March 27th I have read with great care, and note that your understanding of the situation seems to me, if you will pardon me for saying so, confused by the rapid progress of events, in which the original purpose of the creation of The Mackay Companies is overlooked.

The form of organization of the Companies was suggested by me to you, Mr. Cook, Mr. Waterbury, and, I think, Mr. Ward, at one of our early meetings, and after careful consideration we decided to form The Mackay Companies, for the protection of your interests and the interests of the other stockholders of the Commercial Cable Company against possible loss of control by purchase of a bare majority by the Gould, or Rockefeller, or any adverse interest. This was repeatedly and clearly laid down by you and our friends at our meetings, and was the reason why the form of Massachusetts trust suggested by me was favorably received and adopted, after discussion as to its scope and bearings with the gentlemen named above, and by us with Mr. Olney.

A collateral consideration to the holding together of the control of The Commercial Cable Company was that it would permit, and probably facilitate, opportunities of entering into closer relationship with the American Telephone & Telegraph Company. What form this closer relationship might take was never decided, nor even seriously considered, but the theory upon which we progressed was that we should show the advantage of cooperation and the joint use of poles and offices to the Telephone Company, and by joint use demonstrate that large savings would be made to both companies, naturally resulting in increased value of The Commercial Cable shares, and the result of such working together along these lines would be a more intimate and correspondingly valuable relationship. It was suggested that the relationship might become so close that some form of amalgamation might eventually become possible, and in that case that you might become a factor of importance in the larger field.

Mr. Waterbury and I, in the full belief that it is desirable for The Commercial Cable Company and the Telephone Company to work more closely together, have discussed the matter many times, and, as you have been frequently advised, always with the favorable appreciation of the Telephone people, who, however, properly declined to take affirmative action, appreciating the inadvisability of antagonizing the Western Union interests. There has, however, been a substantial advance on the lines of relationship indicated, both in the West and South, through the joint use of pole lines and otherwise, to our advantage, and everything has been satisfactory.

* * *   * * *   * * *

I was surprised some time ago when Mr. Cook raised the question seriously of an exchange of Mackay Companies shares for American Telephone & Telegraph shares, as it showed that he did not appreciate that the Telephone stockholders had not been previously prepared to consider any such proposition. I did not see any object in controverting the suggestion at the time it was made, as it was merely a suggestion.

When Mr. Cook suggested an exchange of your mother's shares as a means of getting an interest in the Telephone Company, and you stated that your mother would be satisfied with the fixed income of the Mackay preferred shares, I very gladly voted to authorize the exchange on behalf of The Mackay Companies up to 10,000 shares of Telephone stock. I thought then that it was desirable for The Mackay Companies to get in ten thousand shares of stock in this way, if they could be obtained, and therefore voted for it, but without expressing my opinion as to the feasibility or desirability of getting in any large amount of stock on these terms. You suggest that I "approved the plan and voted for it". I do not understand that any formal plan was before the trustees. The question before them was whether it was for the interests of The Mackay Companies to exchange on the basis of fifteen Mackay preferred for eight shares of Telephone a limited amount of stock. This I voted for and approved, but I did not seriously consider anything beyond this actual vote. We might pick up from time to time a certain amount of Telephone stock on these lines, but as for making any campaign, it is in my judgment entirely unfeasible at this time. From the point of view of The Mackay Companies, if it were possible to exchange any very large amount of preferred stock for Telephone stock which it is not in my opinion at this time we should have to carefully consider the effect on our Companies of even a temporary reduction in the Telephone dividend. On a small purchase I felt that this could be disregarded.

At the risk of repeating, perhaps, what I have already said above, I must say that as the plan presented to you and Mr. Cook by Mr. Waterbury and myself at Mr. Waterbury's house was not accepted, and we failed to acquire an interest in the Telephone Company under circumstances which would have made us a real factor in the general situation, I am decidedly of the opinion that we cannot now approach the subject and present it in a way which will be favorably received and which can succeed. In other words, in view of existing conditions it seems to me that it is not now feasible to take any steps looking towards securing a substantial financial interest in the Telephone Company or looking towards closer financial relationship, but I think we should follow the original plans outlined, and try, through the business management of our company, (The Commercial Cable Co) to secure continually closer and closer working arrangement.

Mackay reiterated, in a letter to Coolidge dated April 3, 1905, his understanding that Coolidge and Waterbury had given reason to believe that they were in agreement with the plan of acquiring American Telephone and Telegraph Company shares by The Mackay Companies. If they declined the offer for themselves, however, he stated that the shareholders of The Mackay Companies, of whom he represented five-sixths, should be asked to elect a new Board of Trustees. Mackay wrote as follows:

I have yours of the 30th, and the tone of your letter as well as the statements contained therein are, frankly speaking, nothing short of amazing to me.

Let me at once begin by stating that my mind has not been confused in any way by any events that have transpired since my first meeting with you, and the subsequent formation of The Mackay Companies, and that I have a very clear understanding of everything that has taken place; and further, as you have mentioned Mr. Ward's name in connection with our first meetings, when he was present together with Mr. Waterbury and Mr. Cook, I find that he has identically the same understanding of the situation as I have.

In order that I may refresh your memory, let me begin by stating the different events that have occurred. Mr. Waterbury, at his own solicitation, when my father was alive, had several interviews with him with a view of bringing together the Commercial Cable Company and the American Telephone and Telegraph Company. That was before I knew anything that was going on and before you entered the situation. After my father's death, and on my return to New York, I met Mr. Waterbury through Mr. Ward, and the matter was again broached. He suggested that he would like you to join, and discuss the general situation. I told him I would be very pleased to meet you any time, and one day, you may remember, Mr. Waterbury, yourself and Mr. Ward lunched with me down-town, in the Postal Telegraph Building. The question of bringing these properties together was discussed in an informal way. Both you and Mr. Waterbury were very strongly of the opinion that this should take place and that some plan should be devised. At the very outset both Mr. Ward and I stated that it would be almost impossible to outline a general form of contract between the two companies, and the most feasible way of attaining the end was by obtaining control of the American Telephone & Telegraph Company. You may remember my obtaining for you and Mr. Waterbury a mass of figures showing how savings could be made. Both of you concurred, after seeing these statements, as to the desirability of bringing both these properties together: and while no definite plan could then be formulated as to how and when the control of the American Telephone and Telegraph Company could be obtained, the idea was firmly fixed in all our minds that the control of that company was the essential feature of the success of our plans. Permit me to state that the fundamental basis of The Mackay Companies, with its broad powers, was for bringing your and Mr. Waterbury's influence to bear on the American Telephone & Telegraph Company situation; otherwise, I would never have considered its inception for one moment. I could very easily and with very little trouble have placed my companies in trustees' hands, composed entirely of my own people. You and Mr. Waterbury were practically strangers to me at that time, and it was you who came to me.

The control of the Commercial Cable Company was only a part of the scheme, and your statement that this was the basis of the plan formulated under the name of The Mackay Companies I cannot agree with. The plan of The Mackay Companies following certain laws of the State of Massachusetts was suggested by Mr. Cook, who I remember distinctly telling you that we ought to take the plan that had been followed by the Massachusetts Electric Companies, and you may recollect sending both Mr. Cook and myself copies of their organization. When this form was finally decided upon, Mr. Olney and Mr. Cook, after several meetings, drew up the deed of trust under which we are at present operating. The main object was the giving of broad powers to the Trustees so that they might acquire not only Commercial Cable stock, but also as much as possible of the $130,000,000 Bell stock without losing control of our own organization. As further proof of the intent to acquire Bell stock you will remember we at once prepared a Trust Agreement to secure bonds to be issued to buy Bell stock. The first draft of that document was sent to you January 7, 1904, and recited on its face that Bell stock and Commercial Cable Company stock were deposited under it as security. You will recollect that you at that time wrote several letters to Mr. Cook making changes and elaborating that Agreement. This Agreement was prepared in four languages and was intended for use on a large scale.

* * * * * * * * *

I think I represent over five-sixths of the preferred and common shares of The Mackay Companies, and it seems to me that if those five-sixths are willing to take the chances on a reduction of the Bell dividend your people can afford to do so. Finally, the fact that several weeks ago, you agreed to obtain for me a list of the shareholders in the American Telephone and Telegraph Company holding 100 shares or more, shows that we all have expected to acquire Bell stock; and in further proof, you will remember when we were all present, Mr. Waterbury told us that he had had a talk with Mr. Baker with a view to acquiring Mr. Baker's Bell stock.

I note your conclusion that inasmuch as your plan for The Mackay Companies underwriting $37,500,000. of bonds and stock was not accepted, you do not think we can now approach the subject and present it to the Bell shareholders in any way in which it can succeed. This certainly is true, if you and your father and Mr. Waterbury refuse to turn in your own stock. You cannot expect the other Bell stockholders to do what you refuse to do. Your suggestion that we confine our arrangements to securing a closer working arrangement with the American Telephone and Telegraph Company would accomplish nothing, judging from the experience of the past year; because, as stated above, we get nothing out of the Bell Company except what we pay for at a high price. In other words, your conclusion practically is that The Mackay Companies stop operations, excepting the routine of receiving dividends on its holdings of stock in other companies and paying dividends on its shares. I cannot acquiesce in any such policy.

This brings us back to the original question as to whether you and your father and Mr. Waterbury are willing or decline to turn in your Bell shares on the same basis on which my mother and I turned in ours. If you decline to do so, it seems to me that, in view of the disinclination on the part of the Trustees to even make an effort to acquire Bell stock, the shareholders in The Mackay Companies should be asked to elect a new board of Trustees.

I should be obliged for an answer at your earliest convenience.

Instead of acquiescing, Coolidge resigned as Trustee of The Mackay Companies on April 11, and as Director of Commercial Cable Company on July 3, 1905. 1/ Waterbury also dissociated himself from these concerns.

Mackay, however, continued to acquire American Telephone and Telegraph Company common stock. By March, 1906, 25,000 shares had been acquired; and by February 1, 1907, about 70,000 shares, slightly over 5 per cent of 1,315,514 shares outstanding in the hands of the public at that date, were held by The Mackay Companies and allied interests. Later, more shares were purchased. At one time, the holdings of Mackay interests were over 82,000 shares. Mackay holdings were more than twice the number of shares owned by members of the management and directors, not including the 271,104 shares of treasury stock which the management voted in 1907.

Mackay's demand for representation on the American Company directorate.- In 1906, Clarence Mackay asked F. P. Fish to substitute his man, George M. Cumming, formerly a Vice President of American Telephone and Telegraph Company for T. N. Vail, who, Mackay said, was

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1/ See Appendix 7, Sheets 7 to 11.

no longer in a position to represent the Mackay interests. [1] Mackay wrote to Fish on March 1, 1906:

> As you are aware, Mr. Vail for several years has represented our holdings of stock in the American Telephone & Telegraph Company, but owing to his absence, he has not been able to take much interest in the company, and I understand that he is quite willing to retire whenever desired. In view of the large amount of stock which I own and represent, I would suggest, if agreeable to you, that Mr. George M. Cumming, President of the United States Mortgage & Trust Company, who was formerly a Vice-President in your company, should be substituted for Mr. Vail at the coming annual meeting of your stockholders. I have been a director in the United States Mortgage & Trust Company for some time past, and have become well acquainted with Mr. Cumming. I have the highest opinion of his ability, as well as integrity and I think that he not only would be a fit representative of my people's interests, but would also be an additional source of strength to the Telephone Company itself.

Fish replied to Mackay on March 2, 1906:

> Your letter of March 1 comes to hand today.
>
> There are some reasons why it is more difficult than you can imagine to comply with your request at the present time. I will, however, consider the matter and talk it over with my people. You will undoubtedly hear from me again on the subject.
>
> Always wishing to do what we can to meet your views, and with warm regards, I remain, * * *

Apparently Mackay's suggestion was brought to Vail's attention while he was still in London. Vail stated in a letter to Fish, dated April 14, 1906, that "I have always considered myself as a representative of all the shareholders. I do not understand that Mr. Mackay has any interests in the policy of the company -- not common to all shareholders. If he has then certainly I do not represent them." Vail did admit, however,

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[1] Mackay seemed to be under the impression that Vail represented the Mackay estate when he went on the Board of American Telephone and Telegraph Company in 1902. Vail countered that he represented all stockholders, without denying that he had something to do with Mackay holdings of American Company stock.

that "As to the individual interest in certain of the shares standing in my name, that is a personal matter between Mr. Mackay and myself or the Mackay estate which I will not go into." 1/

Again, on February 1, 1907, Clarence Mackay stated that the Trustees of The Mackay Companies desired three representatives on the Board of Directors of American Telephone and Telegraph Company, namely, Dumont Clarke, Pliny Fisk, and Mackay himself. He wrote:

> The Trustees of The Mackay Companies have requested me to write you and call your attention to the fact that The Mackay Companies owns over 70,000 shares of stock in your company and is by far the largest stockholder, its holdings being over four times those of your next largest stockholder. In view of this great interest which The Mackay Companies now has in your company, the Trustees feel that we should have three representatives on your Board, and they have designated Mr. Dumont Clarke, Mr. Pliny Fisk and myself as their choice for such positions.
>
> As you, of course, are aware, not one of your eighteen Directors, excepting Senator Crane, owns over 2,000 shares of your stock in his own right; at least that is what your books show, and we submit that it is proper that a stockholder who owns over 70,000 shares should be given representation on your Board. We would also call your attention to the fact that while your company controls the New York Telephone Company, yet the Western Union Telegraph Company which owns only 20% of the stock of the New York Telephone Company, has five out of the thirteen directors of that company. We submit that The Mackay Companies with its large holdings of stock in your company should have representation. We consider that we are entitled to it and expect that it will be granted.

The reaction of T. Jefferson Coolidge, Jr., member of the Executive Committee, is represented in the following letter to F. P. Fish dated February 10, [1907]:

> The Mackay Co's have nerve.
>
> Their interests are opposed to ours and of course at this time cannot secure representation.

1/ Letter quoted *infra*, pp. 44-46.

I see no reason for more than acknowledging receipt of letter at this time but later on it may be well to record the fact of divergence of interests & actual injury to the shareholders as a whole from any representation of Mackay Cos.

F. P. Fish answered at length, proposing the theory that the board of directors should represent all stockholders, and not any particular large investor. 1/ Mr. Fish wrote to Clarence Mackay under date of February 13, 1907:

> I have just returned from the west and am only now able to answer your letter of February 1.
>
> I have not consulted with any of my Executive Committee or my Directors on the subject of your letter, but take the liberty of expressing at once my own personal views on the subject therein referred to.
>
> Speaking personally, I should be glad to consult with your Company or with any of our large stockholders on the subject of Directors. We have a clear common interest in desiring the best available men for the position, and we cannot get too much help in selecting them. I feel, however, that each and all of the Directors should represent each and all of the stockholders, and that it is unwise to have any stock interest specifically represented on the Board.
>
> If you will allow me to go a little farther, it seems to me that at the present time it would be a very great mistake for one large corporation to have a definite and specific representation on the Board of another large corporation. This probably would be true under any conditions, but is, in my opinion, of special weight in a case like the one we are now considering, where the two companies are to some extent competitors, and where your Company is interested in such a large number of other companies, including some of our most aggressive competitors.
>
> I shall bring the matter before our Executive Committee and shall of course be governed by their views.
>
> I should personally be glad to consult with you with reference to the make-up of the Board, although, as I now look on it, not on the theory that your Company, as a stockholder, is entitled to specific representation.

1/ This was not the case with Baker and Waterbury whose election to the Board was a condition of their purchase of 50 thousand shares of American Telephone and Telegraph Company stock.

> Allow me to add that I should regard it as an honor to have the three gentlemen whom you name on our Board of Directors, in so far as their character, standing and personality are concerned.
>
> I shall later write you again on the subject.

Mr. Mackay countered this theory in a letter of February 19, 1907:

> I am surprised to receive your letter of the 13th instant, because it is a new theory to me that, inasmuch as a director should represent all stockholders, a large stockholder should not, by reason of his large holdings, be entitled to name one or more directors. I gather that such is your reasoning, but it seems to me that that would mean that it would be better if the directors owned no stock whatsoever, which of course, is contrary to the theory on which corporations, as well as copartnerships, are organized.

Despite this and other representations, the directors of American Telephone and Telegraph Company offered a place on the Board to Dumont Clarke only, who declined. Fish finally wrote to Mackay on March 22, 1907:

> It is the opinion of those whom I am obliged to consult that it is not wise to elect upon our board too large a representation of another and to some extent a competing corporation. In this view I am obliged to agree. It seems particularly inexpedient to elect the President of that Company one of our Directors, much as we should regard it as an honor to have him on our board if the conditions of public sentiment were different.
>
> We very much regret that Mr. Dumont Clarke was not inclined to accept our invitation to allow us to elect him as one of our Directors.

<u>Desirability of union between Postal and A. T. & T. Co. considered</u>.- Clarence Mackay, in acquiring American Telephone and Telegraph Company stock, appears to have been motivated by the desire to promote a closer alliance of the telegraph with the telephone. The necessity or wish to accomplish this arose from one of two considerations which are expressed concisely in a letter dated October 10, 1906, by William H. Baker,

then Vice President and General Manager of The Mackay Companies, to the Finance Committee of that concern:

> In reply to your request for my opinion as to what effect a combination of the Western Union Telegraph Company and the American Telephone and Telegraph Company would have upon the telegraph business, I have to say,
>
> The combined influence of the Western Union Company and the American Telephone Company would be very great and would undoubtedly be hurtful to the Postal Company's interest.
>
> * * * * * * * * *
>
> If an arrangement can be brought about by which the telephone company would take the Postal lines on a long term lease and a contract with the Commercial Cable Company for the collection and delivery of cablegrams, it would be to the great advantage of all concerned.
>
> I consider such a combination the salvation of the Postal property and the removal of a possible drag upon The Mackay Companies.
>
> * * * * * * * * *
>
> I strongly recommend that efforts be directed towards obtaining from the telephone company a guarantee of $2,000,000 per annum * * *

T. N. Vail expressed a similar idea six months prior to the above quoted document. Vail, of course, hoped to control the telegraph business, whereas Mackay wanted to control the telephone company. Vail thought the first step was to acquire Postal, and then use it against the independent telephone and Western Union interests. He expressed his views in a letter, written from London on April 14, 1906, which was occasioned by Mackay's first attempts to have one of his men substituted for Vail as Director of American Telephone and Telegraph Company. 1/ Vail wrote:

> I am in receipt of some copies of letters which have passed between yourself and Mr. Mackey [sic]. He thinks I do not represent his interests and wants another person

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1/ See supra., p.40.

in my place on the Board. I have always considered myself as a representative of all the shareholders. I do not understand that Mr. Mackey has any interests in the policy of the company - not common to all shareholders. If he has then certainly I do not represent them. As to my absence, had I considered for one moment that my usefulness to the Co., little as it may be, was only attendance at the Board meetings, I should have retired long ago. As to the individual interest in certain of the shares standing in my name, that is a personal matter between Mr. Mackey and myself or the Mackey estate which I will not go into. Of one thing however you may feel quite sure and that is that I am the absolute owner of a very respectable number of shares, quite enough to qualify me as Director - and far greater than the average holding in the Co.

In view of what has taken place, I will try, briefly, to explain that which has been the subject of some comment, my position as to the telegraph business and the acquisition of the Postal System. From the very beginning of the "Telephone" business, so far as I have had to do with the policy of the Co., it was directed toward the ultimate absorption of the "Telegraph" business - I do not remember that I was alone in this, and as I believe and understand, this policy still exists.

I think Mr. Cochrane will recall a remark made by me - when the Western Union agreement was signed - to the effect, that if we were in the position I hoped we would be at the termination of the contract, that we should ask the W. U. for half of its capital stock for the privilege of continuing in business as one of our subordinate companies. Since that time the "Postal" has come prominently into the field. There is however a marked difference in the position and the business of the two companies.

The purpose of the Western Union is a domestic telegraph business with an international cable business incidental to it.

The purpose of the "Postal" is the collection and distribution of an international cable business - with a domestic telegraph business incidental to it.

Any fight over the domestic telegraph business would result in disaster to the net earnings of the "Western Union" while it is doubtful if it would be particularly noticeable in the makeup of the balance sheet of the "Mackey Cos"

The best time and the best way for the Telephone Co. to enter into the telegraph field once determined - it would have its own way.

From the nature of the business - the Executive Administration of the telegraph business should be distinct from that of the telephone business, although the physical properties might be the same.

To build up an efficient administration takes time and cash money. At the same expense there are many reasons why it would be better policy to buy - particularly if you were getting something that could not be easily reached in any other way. I do not claim to be stating anything new - nor anything in any way differing from the views of many if not all of the principal telephone managers.

ch

For the above reasons I have thought that when the time was decided upon to start in the telegraph field, and if conditions were the same, that it would be good policy to acquire the Postal system, if it could be got as I believed it could at a cost which was fully represented by useful property, utilizing the organization to carry on the telegraph business, and also use it to handle the opposition telephone business.

This done further steps to be determined very largely by the attitude taken by the W.. U.

It seems to me that now the financial position of the Company is settled and secure and the market for its securities is widening, that the time will soon come when this question will come to the front - whether the above plan is now the best or whether it could be carried out on the lines laid down may be a question. Happily it is not the only course open. The conditions at the time must largely determine the course. It may perhaps needless to say that the interests of the Co. must surely be the determining factor.

I am very sorry to have taken up so much of your time - but I wished my position to be fully understood.

Will you kindly show this letter to Mr. Cochrane & to Senator Crane.

This pronouncement of policy is important, since a year later Vail was made President of the American Company and proceeded to carry out his idea of controlling the telegraph business. There was one significant departure from his expressed plan of wedging into this phase of communications. Instead of first acquiring Postal and using it as a weapon against independents and Western Union, the American Company acquired a large minority interest, nearly 30 per cent of Western Union common stock in 1909 through the instrumentality of Diamond State Company, a subsidiary. 1/

1/ For a discussion of this acquisition, see pp.68-72, <u>infra</u>. Also F. C. C. Exhibit 1362E, "American Telephone and Telegraph Company, Security Investments," Ch. XXVI, pp. 1291-1292; F. C. C. report on Atlantic and Pacific Telephone and Telegraph Company, p. 50.

<u>Acquisition of Mackay's A. T. & T. Co. stock by Vail</u>.- When the purchase of Western Union stock by Diamond State Company was consummated, the Trustees of The Mackay Companies decided to sell their holdings of American Company stock. Clarence Mackay expressed the reasons in a letter to Vail, dated November 27, 1909, as follows:

> In view of the still prevailing belief of the public that our holdings of stock in your company really means that we are in the combination, and also for other reasons which you appreciate, and especially the recent decision in the Standard Oil case, our Board of Trustees, at their meeting held this week, unanimously came to the conclusion that we should sell our American Tel. & Tel. Co. stock.
>
> In doing this we of course will proceed quietly and slowly, and if there are any special precautions you may wish us to adopt to avoid injuring your market, we shall be glad to co-operate with you to that end.
>
> I am going south to-morrow, and shall be gone most of next week, and in the meantime if you care to take this matter up with Mr. Dumont Clarke, President American Exchange National Bank, 128 Broadway, one of our Trustees, he will be glad to confer with you, or, if you prefer, I will take it up with you upon my return, if you so desire.

Mr. Vail answered this letter under date of November 30, 1909:

> Your letter of November 27th was forwarded to me in the country, and I have just returned and hasten to answer.
>
> We regret very much that you feel compelled to take this action, but understand your reasons therefor. Any step looking to the protection of your own interests would of course be also to our own favor - therefore I have no suggestions to make. I would, however, like to see you before you make your plans and dispose of the matter, as I think it possible it may result to our mutual advantage.

After some negotiations, Vail purchased Mackay Companies' holdings of American Company stock, 82,906 shares in all, at $143 per share and accrued dividends. This transaction was consummated in

February, 1910, through the instrumentality of Atlantic and Pacific Telephone and Telegraph Company. 1/

It is difficult to fathom why Vail changed his program from acquisition of Postal to that of Western Union. It may have been personal disagreement as a result of Mackay's attempt to have Vail ousted as Director of American Telephone and Telegraph Company in 1906. Or, perhaps under changed conditions it was more profitable to take over Western Union and dissociate completely from Postal.

In writing to J. I. Waterbury under date of July 14, 1908, Vail stated: 2/

> There are a great many statistics and reasons why it would be advantageous to this company to acquire the Western Union Telegraph Company which I think would be rather unwise just at present to put on paper.
>
> As far as the question between acquiring the Western Union and the Postal is concerned, while originally I was very strongly in favor of acquiring the Postal, it was at the time the Postal was capitalized at its true value and could have been acquired at that capitalization. The principal thing that the telephone company wants in acquiring a telegraph company is the organization. If it were not for the difficulty and expense of building up an organization which would extend over the whole country and which is necessarily distinct in certain lines from the telephone company, then the telephone company could probably equip itself for telegraphing as cheaply by building lines as by purchasing. In doing that, however, it would still leave formidable competitors in the field, which it is much better to remove.

1/ See Appendix 7, Sheet 35. See also F. C. C. report on Atlantic and Pacific Telephone and Telegraph Company, p. 21.

2/ For a copy of the complete letter, see Appendix 7, Sheets 29-32.

In any event, Vail bought The Mackay Companies out of the telephone picture. He then began a competitive onslaught through Western Union which left Postal scarred in spite of the relinquishment of Western Union by the American Company in 1914 at the initiative of the Department of Justice. 1/ The downward course of Postal Telegraph history dates from this period, as anticipated by William H. Baker in his memorandum to the Finance Committee of Mackay Companies above quoted. 2/

Returning again to Mackay's attempt to obtain directorships — whether the directors of the American Company were justified in denying Mackay representation on the board of directors is now an academic question. The fact is that they had the power to deny representation. They could do this not by virtue of the ownership interest of the then existing Board of Directors, but by reason of other conditions. The management and family relations owned, or controlled as trustees, less than 2 per cent of the stock in 1905. 3/ If the treasury stock that was voted by Fish is included, the management's control in 1907 was slightly over 18 per cent. But by means of the proxy machinery then established, and this treasury stock, the management voted 1,012,748 shares, or 63.8 per cent of the total of 1,586,618 shares (including treasury stock), or over 98 per cent of the total of 1,028,449 shares voted in 1907. 4/

1/ See Kingsbury Commitment, F. C. C. Exhibit 1360C, "American Telephone and Telegraph Company, Corporate and Financial History," Appendix 18.

2/ See supra., p. 44.

3/ See Schedule 2.

4/ See Appendix 3, Sheets 10 and 11, and Appendix 2, Sheet 9.

It appears from Mackay's experience that during the administration of Fish (1901-1907) the only way to control the management was to obtain control of the Board; and to do this, one would need actual or potential control of a majority of the stock outstanding. Where Mackay failed, New York bankers, headed by J. P. Morgan & Company, succeeded in 1906-1907. Being in a position to acquire $150,000,000 of convertible bonds, J. P. Morgan & Company, Kuhn, Loeb & Company and Kidder, Peabody & Company caused a reorganization of the management of American Telephone and Telegraph Company in 1907. The present management had its genesis in this episode.

CHAPTER IV

BANKING CONTROL

1. Accession of New York Bankers.

The incursion of New York banking interests into the American Company management began in 1902. 1/ One of the most important problems which Fish had to face when he took the presidency in 1901 was to finance the expansion of the company's activities. It became increasingly apparent to him that it was necessary to go out of New England for new capital, as New England, although it may not have reached a point of saturation, could not absorb the constantly increasing flow of securities needed for the financing of this rapidly growing business. Accordingly, in 1902, Fish interested G. F. Baker and J. I. Waterbury in the telephone company. Both of these men were important New York bankers, Baker being President of the First National Bank of New York, a director of a number of important banks, railroads, industrial companies, and a close friend of J. P. Morgan, Sr. Waterbury, although not as prominent as Baker, nevertheless was also an important figure, being President of Manhattan Trust Company, which later merged with Bankers Trust Company. These men and their associates purchased 50,000 shares of American Telephone and Telegraph Company stock at 153-1/2, completing the transaction on March 25, 1902. The confirmation of the agreement to buy the stock contained the following provision: "Also that Mr. Baker and Mr. Waterbury shall be elected as members of the Board of Directors of the American Telephone and Telegraph Company at their meeting to be held on March 25, 1902." Messrs. Baker and Waterbury, as well as Theodore N. Vail, were elected to the Board on that date. 2/

1/ Correspondence and other material relating to the entry of the New York banking interests into the American Company management is reproduced in Appendices 8 and 9.

2/ In addition, the American Company opened deposit accounts at Baker's bank, the First National Bank of New York, on March 12, 1902, and at Waterbury's bank, the Manhattan Trust Company on March 31, 1902.

From the company's point of view the advent of Baker and Waterbury was important for two reasons. The first was that $7,675,000 was added to the cash resources of American Telephone and Telegraph Company; and the second was that the presence of two such important New York bankers on the Board of Directors tended to modify the exclusively New England character of the Board which had existed before this time. This was the first step in a series of events that led to the control of the American Company's management by the banking interests.

The American Company was again in need of money. Fish endeavored to interest other investors in the company. He realized that it was necessary to go outside New England for new funds. His attitude is expressed in an excerpt from a letter from H. L. Higginson to F. P. Fish dated April 8, 1904:

> Of course, we agreed with your views entirely that you need a new market * * *. We know as well as anybody can that the Telephone securities are as good as can be, but they have not interested the public yet, outside of New England, very much, and the company has not got the standing which it deserves and which it will have by and by. The New Yorkers are always shy of new things from this part of the country. * * *

2. J. I. Waterbury's Plan of Financing.

Early negotiations.- During the first part of 1905, Waterbury and associates submitted a plan of financing which was designed to provide for the needs of the business until well into the year 1908. The most important provision of the plan was the proposal to issue $85,000,000 of convertible bonds with an option to the bankers for an additional $50,000,000. No provision was made for offering the bonds to the stockholders.

Just as in the case of the 50,000 shares of stock purchased by G. F. Baker, Sr. and associates, Waterbury actively promoted the negotiations between the bankers and the company with regard to the convertible bonds. He really acted as the principal agent for the bankers, namely, J. P. Morgan & Company, Kuhn, Loeb & Company, and Kidder, Peabody & Company. This plan was referred to as the "Plan of Financing Proposed by Mr. Waterbury and Associates." 1/

The deal did not go through in 1905 because of opposition by officers and some of the Directors of American Telephone and Telegraph Company representing New England interests. One prominent member of the Executive Committee, namely, W. M. Crane, then United States Senator from Massachusetts, stated in a letter to Fish, dated February 15, 1905:

> I am beginning to think that we ought to raise the necessary money by the sale of four per cent collateral bonds without the conversion clause. We surely can find some one who will buy them at a reasonable price. The other proposition is intricate and uncertain, and might lead to a great deal of trouble. I write you about it now, thinking that you might want to intimate to the people in New York that some of your people do not look with favor on their plan, but of course do as you think best about this.

The plan was also condemned in no uncertain terms in a report dated February 16, 1905, submitted by G. V. Leverett, Attorney for the Company, 2/ Thomas Sherwin, Vice President, and William R. Driver, Treasurer. They said, in part: 3/

> To our minds there is another risk in the proposed plan which should be had in mind. If a bankers syndicate should be formed, under the proposed plan, who should pool their bonds or place them in trust, the trust so formed, by exercising the option given for the conversion of bonds, would have the power to acquire so near an absolute controlling interest in this company as practically to control the whole assets of the company, which they could use for any schemes of financing that they saw fit.

1/ See Appendix 9, Sheets 5-7, for outline of this plan.

2/ In 1907, Leverett was General Counsel of the American Company.

3/ See Appendix 9, Sheets 5-7.

In short, having nearly one-half of the entire issued capital stock of the company, they could consolidate this company with other companies, or make any other arrangement in regard to its future financing that they saw fit. This is a great and extremely valuable option and is equivalent, until the bonds are distributed or sold to the public, to a surrender of the powers of management by the present officers and stockholders to a body of bankers who may work to the disadvantage of the present stockholders in the promotion of other schemes of consolidation.

We cannot see in the present condition of the company any urgency which calls for a method of financing so drastic as this plan.

Negotiations with Waterbury and the bankers were suspended for a time. Fish wrote to Waterbury in a letter dated February 20, 1905:

Knowing the deep interest you have in securing an arrangement by which our financial matters may be adjusted for a long time, I regret to say that the Executive Committee has determined that it is not wise for us to consider at present the comprehensive scheme of financing submitted to us by Messrs. J. P. Morgan & Company and Messrs. Kidder, Peabody & Company at our recent interview. I have so notified those two firms.

There are certain practical and legal difficulties in the way of dealing with the matter on broad lines at the present time which may ultimately be eliminated but which now seem to us controlling.

Similar letters were sent to J. P. Morgan & Company and George F. Baker.

Issue of convertible bonds.- In spite of the failure of the first attempt, J. I. Waterbury again approached Fish with the proposition of issuing convertible bonds, 1/ and negotiations were resumed. On February 8, 1906, a purchase agreement was signed by the company and the bankers, J. P. Morgan & Company, Kuhn, Loeb & Company, Kidder, Peabody & Company, and Baring Brothers & Company, Limited. 2/ In brief, this agreement, very similar to the plan criticized by Leverett, Sherwin, and Driver, provided that the company was to sell the bankers $100,000,000 of 4 per

1/ See Appendix 9, Sheets 10 and 11.

2/ This agreement, and letters and other agreements modifying it, are reproduced in Appendix 10.

cent bonds at 95 and accrued interest, less 2-1/2 per cent commission. These bonds were to be convertible into common stock at the rate of one share of stock for $140 of principal amount of bonds. It was provided also that the conversion price of the stock was to be adjusted if any stock was sold below $140. The bonds were dated March 1, 1906, were due March 1, 1936, and were convertible at the option of the holder on and after March 1, 1909 until March 1, 1918, when the conversion privilege expired. The company also gave the bankers an option until October 1, 1908 to purchase $50,000,000 additional bonds at 98-1/2 and accrued interest less 2-1/2 per cent. The bankers were to take and pay for the first block of bonds in accordance with the following schedule:

April 15, 1906	$ 10,000,000
July 15, 1906	10,000,000
October 15, 1906	10,000,000
January 15, 1907	10,000,000
April 15, 1907	30,000,000
July 15, 1907	10,000,000
October 15, 1907	10,000,000
January 15, 1908	10,000,000
Total	$100,000,000

Unlike bond and note issues sold previously, no competitive bids were asked for by the company. The firm of Lee, Higginson & Company, in a letter of February 15, 1905, at the time the plan was first proposed by Waterbury, quite bitterly resented the fact that they and Speyer & Company, the firms which had purchased and sold the $20,000,000 of 5 per cent three-year notes of American Telephone and Telegraph Company in 1904, were not even permitted to make an offer of capital. Lee, Higginson said in part: 1/

1/ The date of this letter indicates that even during the period of initial consideration of Waterbury's proposition early in 1905, which was turned down by Fish, outsiders had knowledge of the fact that the proposed issue was not to be subject to competitive bids. This may have been a condition imposed by the bankers.

As we think we have made it apparent to your Company ever since our firm and Messrs. Speyer & Co. provided for the last capital requirements, we are anxious to be afforded an opportunity to show on what terms we can provide the fresh capital desired by the Company for the coming year. We do not ask or suggest that we should be given the slightest preference over any other banking firms. The Company is in sound financial condition, and we submit that there is no reason, based on the condition of the Company in the present market situation, why the company should not provide for its wants on the best terms available, and we think it a fair statement to say that the Company cannot determine what these are if it permits a single firm only to lay before it a plan to provide for its financial requirements.

The New England market has been of inestimable benefit to the Company in steadily absorbing the larger portion of its securities. In the main, the New England investor is not a speculator or purchaser of securities on a scale which leads to substantial liquidation in times of stock market stress, and if the confidence of the New England investor is retained by a continuation of conservative methods of finance and management it should not be overlooked that in absorbing and holding power he will continue for many years to be the most valuable client which the Company possesses.

* * * * * * * * *

May we say for ourselves, that as a New England firm, we have always taken a great pride in the Company. We have dealt extensively in its securities for many years; we have, with our friends, Messrs. Speyer & Co., provided for its last financial requirements, and inasmuch as there has been no day since the issue of the last securities when we have not made it clear that we were ready and anxious to be considered by the Company when taking up its future capital requirements, we should feel it keenly if we should be kept in our present position of being told that an offer of capital from us could not be considered, and the opportunity should be reserved exclusively for another.

We think we can rightly say that the record of this last year and preceding years shows that Messrs. Speyer & Co. and ourselves are as well fitted as any firm to serve the Company by purchasing and thoroughly distributing a large block of new securities.

William Salomon & Company, investment bankers, also endeavored to enter a competitive bid on the bonds in January, 1906, but this opportunity was not given them. 1/

1/ Letters from Fish to Salomon dated January 27 to 30, 1906. See Appendix 9, Sheets 11-13.

It is possible only to conjecture why competitive offers on the bonds were not permitted. The size of the issue alone would have severely cut down the number of houses which were strong enough to purchase the whole issue. A $100,000,000 or $150,000,000 issue at the present time is considered large, but in 1906 it was thought of as being huge. Another contributing and important cause for the selection of J. P. Morgan & Company et al., was the fact that J. I. Waterbury and G. F. Baker were on the Board of Directors of the company and, of course, were in a position at least to influence the choice of bankers.

After the bankers agreed to purchase the bonds on February 8, 1906, they formed a syndicate under an agreement dated February 15, 1906. 1/ This agreement was made by and between J. P. Morgan & Company, Kuhn, Loeb & Company, Kidder, Peabody & Company, and Baring Brothers & Company, Limited, the bankers, on the one side, and the subscribers, who collectively constituted the syndicate. Articles VIII and IX defined broadly the powers of the bankers. The significant provisions of this contract from the point of view of the control of the American Company are those by which the bankers retained complete control over the bonds, even after they were subscribed and paid for, until the dissolution of the syndicate. As most of the bonds were unsold during the next two years, and the syndicate was not terminated until June, 1908, these provisions obviously gave the bankers sole control over the bonds and any rights that inhered in them. Articles VIII and IX of the agreement are as follows:

> VIII. The Syndicate shall continue until July 1, 1907, unless sooner terminated by the Bankers, and it may be extended thereafter from time to time by the Bankers, in their discretion, but not beyond July 1, 1908. No Subscriber shall be

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1/ For copy of syndicate agreement, see Appendix 10, Sheets 9-14.

entitled to receive any of the convertible bonds or the proceeds thereof, which may be subject to this agreement, until the termination of the Syndicate. In the meantime in their discretion, the Bankers may retain all or any of such convertible bonds or may deliver to any Subscriber his proportionate part thereof. In the latter case such Subscriber shall hold the same subject to sale by the Bankers, and shall return the same upon the call of the Bankers at any time before the termination of the Syndicate. No Subscriber shall, prior to the termination of the Syndicate, sell or contract for the sale of any of the convertible bonds subject hereto. Nothing herein shall be construed to prevent any Subscriber or any of the Bankers from dealing in any manner with bonds not subject to the provisions of this agreement. The Bankers shall be the only and final judges as to whether at any time it is to the interest of the Syndicate to proceed further under this agreement; and, whenever they may deem expedient, they may abandon the objects contemplated by this agreement and all further proceedings hereunder. In such event all cash and convertible bonds by them received and then held for account of the Syndicate, and the proceeds of such bonds, shall remain charged with the payment of all expenses and liabilities by them incurred hereunder, and shall be applied, first, to the payment of any and all expenses incurred by the Bankers under any provision of this agreement, and, secondly, to the repayment to the Subscribers, ratably, of all amounts of such convertible bonds or cash held by the Bankers subject to this agreement (so far as the same may be sufficient for that purpose). After the complete performance of the entire obligation of the Syndicate hereunder, but not before the date set from time to time for the termination of the Syndicate as above provided, unless otherwise determined by the Bankers in the exercise of their unrestricted discretion, and upon surrender of the certificates and receipts issued hereunder by the Bankers, which surrender by any Subscriber shall constitute a final release and satisfaction of all his claims hereunder, the Syndicate shall be entitled to receive the profits of the purchase, use, sale and disposition of the convertible bonds which shall be or become subject to this agreement. The Bankers shall make no charge for their services hereunder, but shall be entitled to retain for themselves, without accountability to the Subscribers, the difference between the aggregate net price at which the Bankers under their said contract are to acquire said bonds from the Company and the aggregate price at which, under this agreement, the Syndicate is to receive bonds or the proceeds of bonds; the Bankers being entitled to retain also any other benefits accruing to them under their said contract with the Company.

IX. The Bankers shall be the sole managers of the Syndicate, and in behalf of the Syndicate they may make any and all arrangements, including the purchase or sale of any of the securities of the Company, and may perform any and all acts, even though not herein provided for, which in their opinion shall be or become necessary or expedient in order to carry out the purposes of this agreement, or to promote or to protect what they shall deem to be the best interests of the Syndicate.

> The enumeration of specific powers elsewhere in this agreement shall not be construed as in any way abridging the general powers by this article conferred upon or reserved to the Bankers. The Bankers shall not be liable under any of the provisions of this agreement nor for any matter connected therewith, except for good faith in performing the obligations by them herein expressly assumed; and no obligation not herein expressly assumed by them shall be deemed to be implied. In consideration of the irrevocable rights in them vested hereunder, and the promises of the several Subscribers, and upon the terms and conditions herein contained, the Bankers have become parties to, and in good faith will endeavor to consummate the purposes of, this agreement.

The bonds were apparently oversubscribed by members of the syndicate. The "Wall Street Journal" of February 17, 1906 stated:

> It is understood that the American Telephone and Telegraph Company convertible 4 per cent bond syndicate is largely over applied for, and that allotments have been made approximately as follows: 25% to Europe, 30% to New England and the balance to New York and other parts of the United States.

3. Difficulty of Distributing Bonds.

Despite this oversubscription by the sundicate, no formal offering of bonds was made to the public. Comments in the "Wall Street Journal" in the latter months of 1906 indicated that they were not publicly offered due to the inability of the bond market, which was glutted with new issues, to absorb large new offerings at favorable prices. It was reported in the July 23, 1906 issue of the Journal: [1]

> There is no present intention of offering the Telephone bonds, and it is safe to assert that no offering will be made until the general tone of the bond market has shown a marked improvement.

The "Commercial and Financial Chronicle" of January 5, 1907, in commenting on conditions in the preceding year, stated:

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[1] See Appendix 10, Sheets 16-18, for other news items on this subject.

> * * * It is to be noted that all through 1906 it was found difficult to place new railroad or other corporate loans, and dealings over the counter of bankers were on exceedingly small scale. Furthermore, a number of bond syndicates organized in previous years were terminated in 1906 with considerable amounts of the bonds still unsold * * *

Although the bankers did not offer the bonds publicly, the fulfilled the contract in 1906 by taking $30,000,000 par value of bonds. On January 8, 1907, however, the original agreement as to the price of the bonds to the syndicate was considerably revised. Whether the company recognized the plight of the bankers and lowered the price of the bonds voluntarily, or the bankers forced the company into a revision of price, is not known. It is a question to which only a partial answer can be given, as the following will indicate.

The revised agreement contained three provisions as follows: 1/

1. The bankers agreed to offer to the public within 60 days a substantial amount of the bonds purchased by them under the agreement of February 8, 1906.

2. The option price on the additional $50,000,000 of convertible bonds was reduced from 98½ less 2½ per cent commission, to 90 less 2½ per cent.

3. The sum of $3,500,000 was allowed to the bankers by the company on the $100,000,000 bonds. Of the $3,500,000, $500,000 was to be furnished by the bankers. In short, the company allowed the bankers another three points, thus lowering the price of the bonds to the syndicate to 89½, as compared with 92½.

At the same time the above revised agreement was signed, two other agreements were made with the bankers. One provided that $25,000,000 of 5 per cent three-year notes was to be sold to the bankers at 93 less a commission of 2 per cent. The other provided that the bankers might postpone payment on the convertible bonds, not exceeding

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1/ This agreement is reproduced in full in Appendix 10, Sheets 4 and 5.

$25,000,000 face value, by purchasing from the company notes maturing in not over one year. 1/ As far as is known, the bankers never made use of this latter option.

In addition to the above agreements, it appears that the Directors were weighing the idea of recommending, if feasible, that a substantial block of stock be offered to the stockholders at par during 1907. 2/ Such a move would aid the company in providing capital, and aid the bankers in cutting the stock conversion price.

The bankers, upon the purchase of the $25,000,000 of three-year 5 per cent notes at 91, immediately resold them, whereupon they were offered to the public at prices ranging from 97 to 97¼. Large subscribers were given a concession up to one point. 3/ At these prices the notes were undoubtedly attractive, for the "Wall Street Journal" of January 16, 1907 stated:

> The avidity with which the investment public recently absorbed $25,000,000 of American Telephone short term notes speaks for itself for the credit of the company. This means much for the success of the flotation of the convertible bonds when the bankers decide to offer them.

Whether the bankers received an excessive profit on the sale of the notes is difficult to say. In any event, an attempt was made to censure the management at the stockholders' meeting of March 26, 1907 for "selling the notes to the Bankers at a price in itself far below the price at which they were afterwards sold to the public." The paper from which this excerpt is taken is known as the Sturgis resolution. 4/

1/ These agreements are reproduced in full in Appendix 10, Sheets 5 and 6.

2/ See Appendix 10, Sheets 6 and 7, for memorandum accompanying the agreements with the bankers.

3/ "Wall Street Journal," January 12, 1907.

4/ See Appendix 10, Sheets 7 and 8, for full text of this resolution.

Quite naturally, the attempted censure of the management was defeated by the votes held by the proxy committee representing the management. 1/

On January 30, 1907, $40,000,000 of convertible bonds were offered to the public at $92\frac{1}{2}$, 2/ subscription lists being opened on February 5. Even at this lowered price, only about $10,000,000 of the bonds were sold by the syndicate. 3/ Later, with the further decline in the price of American Telephone and Telegraph stock, the underwriters apparently found it impossible to sell the bonds. The "Wall Street Journal" of December 18, 1907 stated:

> There have been more or less persistent rumors for the last two weeks that some of the American Telephone syndicate convertible bonds were being quietly marketed. General market conditions and the offering of several good sized lots have tended to lend color to this report.
>
> It is understood that none of the bonds held by the syndicate have been or will be sold except by general participation. The bonds have been pooled in such a way that no syndicate member even were he so disposed could safely offer any portion of his holdings.
>
> There has undoubtedly been trading in the bonds which were sold to investors in the early part of the year, about $10,000,000 having been disposed of at that time. It is also possible that there has been some selling by syndicate members who paid for their bonds in full in the first few installments and who have had the right at all times to sell their holdings as these bonds were not included in the pool agreement.

According to the "Wall Street Journal," the embargo on selling the bonds was lifted in June, 1908. Comments regarding that appeared in the June 2, 1908 issue of the Journal. It said in part:

> According to the terms of the syndicate agreement the syndicate was to expire on July 1, 1907, with the privilege of renewal for one year thereafter, but under no conditiens

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1/ See Appendix 3, Sheet 12, for vote by Proxy Committee on the Sturgis resolution.

2/ "Wall Street Journal," January 31, 1907.

3/ "Commercial and Financial Chronicle," March 30, 1907, and "Wall Street Journal," June 1, 1907. See Appendix 10, Sheet 18.

could the syndicate's life be extended beyond July 1, next. Notice extending the syndicate to July 1, 1908 was sent to the underwriters on June 17, 1907.

It is doubtful if in the recent history of American finance an important bond syndicate has ever been dissolved with so large a proportion of its bonds undistributed to the public. Of the entire $100,000,000 bonds but a trifle over $10,000,000 have been placed among investors. The remaining $90,000,000 are still in the hands either of the primary or junior underwriters, and the embargo against the sale of these bonds is now removed by the breaking up of the syndicate.

During this period the bankers took the original issue of $100,000,000 from the American Company as agreed. In addition, they took their option of $50,000,000 more of the convertible bonds as follows:

December 1, 1908	$25,000,000
December 2, 1908	5,000,000
December 8, 1908	6,000,000
January 8, 1909	1,000,000
January 15, 1909	13,000,000

4. Reorganization of Management by Bankers, 1907.

It is not unnatural that the bankers with such a large stake in the company should be vitally concerned with its welfare. Accordingly, it appears that Waterbury, on or about January 14, 1907, wrote to Fish and suggested that a committee on organization be appointed to consider a number of the problems facing the company at that time. 1/ It has been impossible to locate Waterbury's letter, but one from W. M. Crane to F. P. Fish, dated January 21, 1907, gives an inkling as to its contents. 2/ It seems that the main function of the committee was to make suggestions to the President and Executive Committee, as well as to assist the President in actually performing some duties which the

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1/ See reference to Waterbury's letter in a letter from W. M. Crane to F. P. Fish, dated January 16, 1907, Appendix 11, Sheet 1.

2/ See Appendix 11, Sheet 2.

President did not have time to do. In accordance with Waterbury's suggestion -- which was heartily approved by W. M. Crane -- G. F. Baker, W. M. Crane, T. J. Coolidge, Jr., Theo. N. Vail, and J. I. Waterbury were requested on January 23, 1907 by the Executive Committee "to serve as a special committee to consider the organization of the Company and its relations to the associated Companies and to report to the Executive Committee with recommendations, said special committee to have authority to employ experts." 1/

During the period while the committee was preparing its report, conditions within the company, particularly the administrative control, appear to have remained unchanged. For example, on March 6, 1907, the Executive Committee selected Waterbury, N. Thayer, and Fish "to consider the question of Directors." 2/ At the same time the committee expressed itself as looking unfavorably on the selection of bankers as directors. On March 11, the Directors asked Messrs. Fish, Waterbury, Thayer, and Crane to take the responsibility of selecting new directors. 3/ Of the number of men considered, only one, Sylvanus L. Schoonmaker, was elected at the annual meeting held on March 26, 1907. At that same time, Fish was reelected President, and the Executive Committee, consisting of Messrs. Fish, Amory, Cochrane, Crane, and Howe, all New Englanders, also was reelected.

In a letter to F. P. Fish, dated April 2, 1907, by the committee on organization, it is stated that said committee was in favor of turning over the task of organization to the Executive Committee,

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1/ See Appendix 11, Sheet 2.

2/ See Appendix 7, Sheet 26.

3/ *Id.*, Sheets 27-28.

which was in closer contact with the affairs of the company. 1/ It was also recommended that the latter committee be increased to not above seven, but inasmuch as this could be done only after the by-laws had been amended, it was suggested "that the Board appoint one or more Associate Members of the Executive Committee to attend its meetings and assist in determining a plan of organization and in the consideration of any other matters concerning the interests of the Company, and to unite with the Executive Committee in reporting to the Board." As far as can be ascertained, this action was never taken, but on April 9, 1907, A. Cochrane and C. W. Amory resigned from the Executive Committee and were replaced by J. I. Waterbury and T. N. Vail. Within two weeks, on April 23, F. P. Fish resigned the presidencies and directorships of American Telephone and Telegraph Company and American Bell Telephone Company, to be effective not later than May 1, 1907. Thus, Fish resigned four weeks after his reelection as President and two weeks after the reorganization of the Executive Committee. T. N. Vail, one of the original telephone men in the United States, was selected to be President commencing May 1.

Shortly after Vail became President, on May 8, the bankers wrote the following to him: 2/

> Our interest in the success and prosperity of your Company induces us to repeat to you what we have already said, verbally, to your predecessor, Mr. Fish.
>
> We consider it of vital consequence to the financial welfare of the Company that no expenditures should be entered upon in the near future, except such as are absolutely necessary, no matter what the prospective profits on other expenditures may be,- the credit of the Company being of paramount importance.

1/ See Appendix 11, Sheets 4 and 5.

2/ See Appendix 13, Sheet 1.

Vail apparently heeded this advice of the bankers who were instrumental in his election as President of the American Company. The "Wall Street Journal" of March 13, 1908 reported:

> The new construction completed by the operating companies of the American Telephone and Telegraph Company in 1907 will fall many millions below the high mark of 1906, when $79,366,949 of new work was finished.

5. Vail's Relations with the Bankers.

Changes pertaining to stock.- Vail effected certain changes soon after his accession, which indicate a desire to please the banking firms that were represented on the Board of the American Company or which had participated in the recent financing. On May 16, Guaranty Trust Company of New York was notified that the Board of Directors of American Telephone and Telegraph Company had selected Manhattan Trust Company, Waterbury's bank, to replace Guaranty Trust as the New York agent for the registration of American Telephone and Telegraph Company stock. Apparently, this change was made not because of dissatisfaction with the service by Guaranty Trust, as these services were considered in every way satisfactory. J. W. Castles, President of Guaranty Trust, wrote to Vail on May 21, 1907:

> We have your letter of the 16th of May, saying that your Board of Directors had changed the registration of your stock from this Company to another in this city.
>
> As you also state that our services have been satisfactory in every way, would you be good enough to tell us why this change was made? We at all times have done everything we could to cement friendly relations, and as it is so seldom that changes of this kind have been made from us, naturally, we would like to find out the reason for it, if consistent for you to say.

Mr. Vail's answer was quite non-committal:

> Replying to yours of May 21, I can only say that conditions sometimes arise in the business world which result in change, even with the most pleasant and cordial relations, without in the least possible way implying or indicating anything that is disparaging or unfriendly.

On June 5, stockholders were offered rights to purchase 219,252 shares of American Telephone and Telegraph Company stock at par on a one-for-six basis. This move, which had been considered earlier in the year, netted the company $21,925,200, thus increasing its cash resources, and lowered the conversion price of the stock from $140 to approximately $133 par value of convertible bonds for each share of American Company stock.

Changes in directorate.- Within a year after Vail's elevation to the presidency of American Telephone and Telegraph Company, he suggested in a letter dated February 4, 1908 to the Executive Committee, which consisted of W. M. Crane, H. S. Howe, and J. I. Waterbury:

> It seems to me that we must, if any change is to be made, consider soon the names of some possible additions to our directory. Personally, I think that it would be an exceedingly good plan if Mr. Winsor or some other of the leading members of the firm of Kidder, Peabody & Co., Mr. Henry L. Higginson, of Lee, Higginson & Co., Mr. N. W. Harris of the firm of N. W. Harris & Co.-Brokers, and possibly Mr. J. P. Morgan, Jr., or Mr. Steele, of the firm of J. P. Morgan & Co.,- could be induced to join.

A number of other names were suggested to Vail by various stockholders, but he said concerning these: "I merely submit the latter names as I have been requested to by others." 1/ All of the men suggested by

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1/ See Appendix 13, Sheet 3.

Vail were bankers, and three were representatives of Kidder, Peabody & Company and J. P. Morgan & Company, two of the three banking firms which headed the $150,000,000 convertible bond syndicate.

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On January 20, 1909, Vail wrote Senator Crane:

> I was talking last night with Mr. Howe in regard to the coming election, and the filling of the vacancy in the Directory. I think if we could get a good Chicago man, a good Philadelphia man, and some good New York man outside of the present group, that it would be a good plan. Mr. Herbert Terrell seems to me to be as good a man as we could get from New York and I think he would be willing to serve. If we could get Mitchell of Chicago, it would be a good thing, * * * In Philadelphia, I am not so well posted, and do not know the groups of people sufficiently to suggest. Have you any idea or suggestions to make in respect to that?

As a result of these deliberations, H. P. Davison of J. P. Morgan & Company, J. J. Mitchell of Chicago, and R. Ellis of Philadelphia were elected to the Board during 1909.

J. J. Mitchell, who was President of the Illinois Trust & Savings Bank of Chicago, was also a Director of the Manhattan Trust Company of which Waterbury was President, and the First National Bank of New York, George F. Baker's bank. The Pujo Committee Investigation conducted in 1913 disclosed that the Illinois Trust & Savings Bank was very often associated in syndicates with New York and Boston banks. 1/ Rudulph Ellis was President of the Fidelity Trust Company in Philadelphia and was a Director of the Manhattan Trust Company in New York. Robert Winsor, a partner of Kidder, Peabody & Company, although not a Director of American Telephone and Telegraph Company at the time,

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1/ "Report of the Committee Appointed Pursuant to House Resolutions 429 and 504 to Investigate the Concentration of Control of Money and Credit," House Report No. 1593, 62d Congress, 3d Session, 1913, p. 131.

seemed to be quite eager to have Ellis serve on the Board of Directors of American Telephone and Telegraph Company, as indicated in a letter of his to Ellis dated March 19, 1909, as follows: 1/

> I am writing this, after a conversation with Mr. Vail, President of the American Telephone & Telegraph Company.
>
> * * * * * * * * *
>
> We all of us sincerely hope that you can see your way to signifying your willingness to giving this concern the value of your judgment and of your name. It is of national importance that the character of this Directorship should be of the highest possible grade, and, from the other point of view, I believe that the connection would be not only a profitable, but a creditable one to yourself.

Robert Winsor, of Kidder, Peabody & Company, seemed to be in consultation with Vail about selection of directors even before he was a member of the official family of the American Company. 2/ It was not until April 12, 1910 that he himself was elected to the Board.

Apparently, the firm of J. P. Morgan & Company desired two representatives on the Board of Directors of American Telephone and Telegraph Company, for in a letter dated November 19, 1909 to G. F. Baker, who seems to have been an intermediary between the American Company and J. P. Morgan & Company, Vail wrote as follows:

> Referring to your conversation with Senator Crane, I wish to say that it would relieve us of some embarrassment and produce unanimous action on the part of our Board if I should recommend the election of one of the members of Mr. Morgan's firm at the December meeting, and the remaining one at the annual meeting in March.

1/ See Appendix 13, Sheets 4 and 5.

2/ Id., Sheet 5.

There are but two vacancies on the Board, and no increase can be made except by the shareholders.

A long time ago with the consent of our Board I asked Mr. J. J. Mitchell of Chicago to join our Directorate, and he some time since signified his willingness to serve, and our Board think that he should be elected to fill the other vacancy.

I would appreciate it if you would consult with Mr. Morgan and advise me if this course meets with his approval, and if it does, I will see that it is carried out.

As stated previously, J. J. Mitchell of Chicago, and H. P. Davison of the firm of J. P. Morgan & Company, were elected to the Board in December, 1909. Davison was also immediately elected a member of the Executive Committee.

In order to find room for an additional director from J. P. Morgan & Company and others who had already been suggested, the number of directors was increased from 18 to 25 at the stockholders' annual meeting on March 30, 1910. On April 12, 1910, the following seven additional directors were elected: Thomas B. Bailey, Harry W. Brigham, George L. Green, Henry L. Higginson, George M. Pierce, Frank E. Warner, and Robert Winsor. Of these seven, five, namely, Bailey, Brigham, Green, Pierce, and Warner, were employees of American Telephone and Telegraph Company, and hence temporary or dummy directors to make room for others as the management saw fit. 1/ Vail wrote to H. P. Davison, of J. P. Morgan & Company, in a letter dated April 19, 1910:

1/ These men held the following positions at the time of their selection as Directors: T. B. Bailey, Supply Clerk; H. H. Brigham, Counsel's Clerk, Legal Department; G. L. Green, Chief Clerk, Records Department; G. W. Pierce, Chief Clerk and Draftsman, Legal "P" Department; F. E. Warner, Special Agent, Accounting Department. See Appendix 18, Sheet 1.

> * * * Everything seems to be going smoothly and apparently with less friction. In regard to the directorship, I acted as you suggested. I did not propose Mr. Morgan's name, but instead put in dummy Director to await his pleasure, all of which I trust will be satisfactory. Whenever, in the opinion of Mr. Morgan, Jr., it will be wise for him to take the position of Director, we should be very glad to appoint him.

Evidently, Mr. Morgan, Jr., did not think it wise for him to take the directorship awaiting him at American Telephone and Telegraph Company, as he was never a director of the company.

That New York interests were well represented on the board of directors after these changes is evident by the comparison of Charts 3 and 4, pages 72 and 73, which show "Interlocking Directorships of A. T. & T. Co. Directors with Certain Interests" for the years ending December 31, 1905 and 1911, respectively.

Acquisition of Western Union stock.- In a previously quoted letter of T. N. Vail, written from London in 1906, 1/ Vail had expressed the opinion that it would be a good policy for the telephone company to buy the Postal Telegraph System, "utilizing the organization to carry on the telegraph business and also use it to handle the opposition telephone business. This done further steps to be determined very largely by the attitude taken by W. U. /Western Union/." Mr. Vail, indeed, hoped to be in a position sometime later to ask the Western Union for half of its capital stock for the privilege of continuing in business as one of American Telephone and Telegraph Company's subordinate companies.

After Mr. Vail came into the presidency of the American Company in May, 1907, he apparently gave up the idea of purchasing the Postal Telegraph System. On the contrary, as has been previously shown in this report, Vail bought Mackay Companies' investments in American Telephone

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1/ See supra., pp. 44-46.

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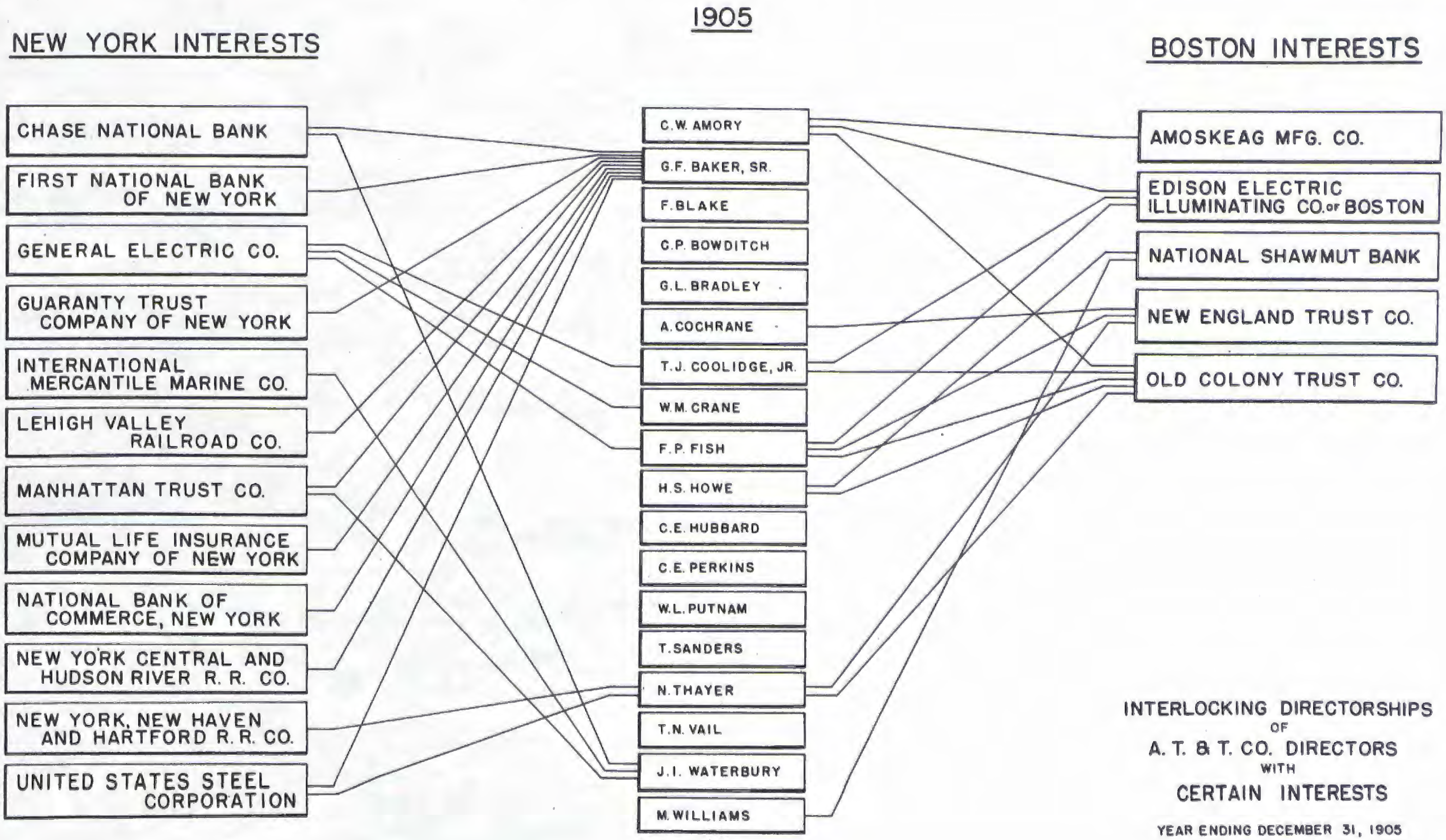
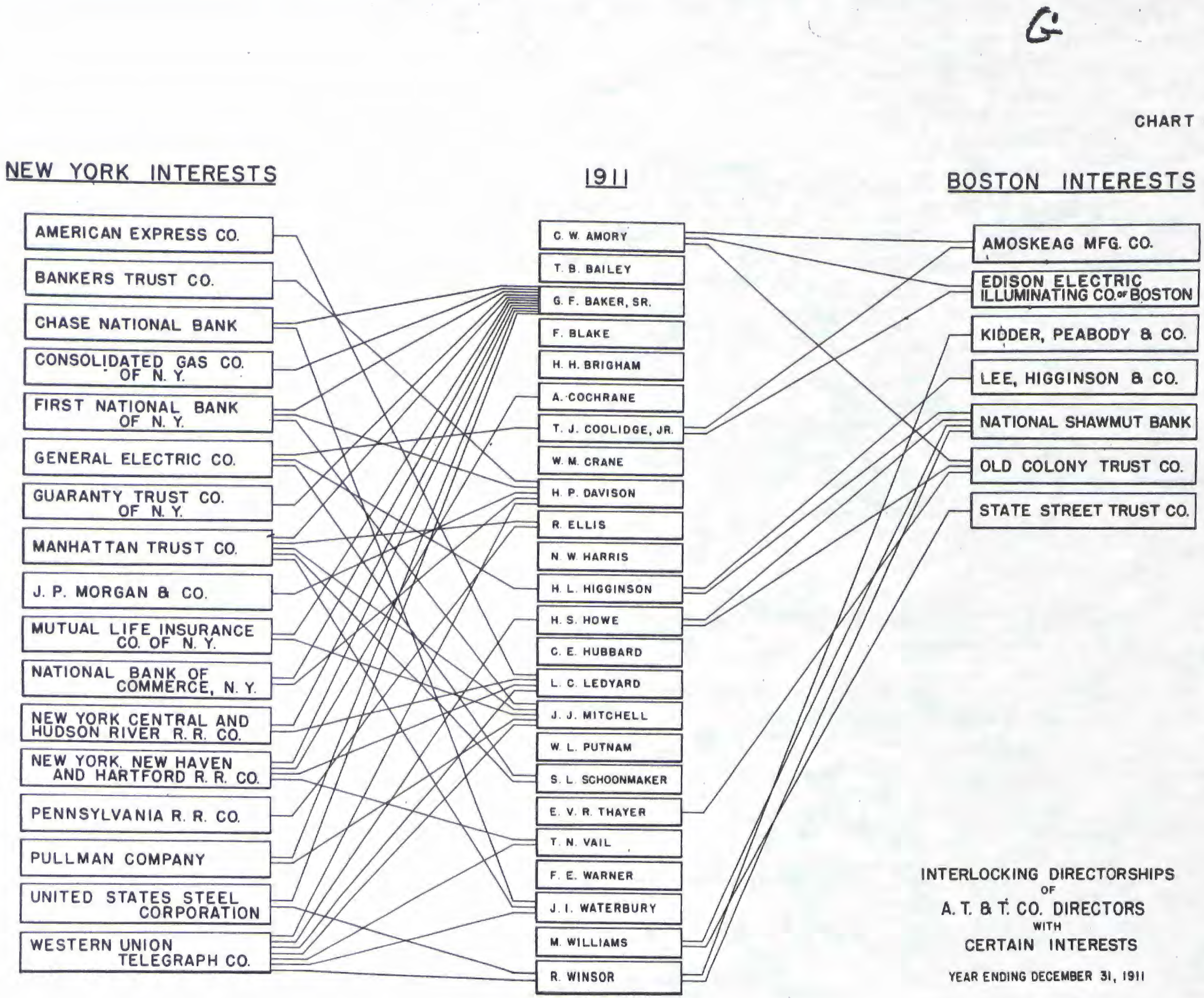
CHART 3



INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

YEAR ENDING DECEMBER 31, 1905

CHART 4



INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

YEAR ENDING DECEMBER 31, 1911

and Telegraph Company in 1910 at a price of nearly 12 million dollars. 1/ In 1909, in spite of Vail's expressed preference for the Postal properties, he had caused the acquisition of about 30 per cent of Western Union Telegraph Company stock through Diamond State Company, a Bell System affiliate. The Western Union shares so acquired at a cost of about 25 million dollars to the American Company were purchased from Kidder, Peabody & Company and Robert Winsor, a partner in that concern. 2/ Kidder, Peabody & Company, it will be recalled, was one of the banking firms that underwrote the convertible bond issue in 1906, and, therefore, was instrumental in the reorganization of the American Company management and the installation of T. N. Vail as President. The price paid for about 266,000 shares so acquired was approximately $85 per share, whereas the market price during May, June and July, 1907, when a large part of this was purchased, varied between a low of 71-3/8 and a high of 78-1/2. On 100,000 of these shares Vail allowed $5 per share commission to Robert Winsor, who in turn had an agreement with a broker to split the difference between price paid and $80 per share. 3/

In consequence of the objection of the Department of Justice and the resultant Kingsbury Commitment of 1913, the American Company sold 296,572 shares of Western Union stock to Kuhn, Loeb & Company, another one of the bond underwriters, on March 14, 1914, at $60 per share. The market

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1/ See supra., pp. 47-48.

2/ For details of the known facts about this acquisition, see F. C. C. Exhibit 1362E, "American Telephone and Telegraph Company, Security Investments," pp. 1291-1292, 1399-1401; also F. C. C. report on "Atlantic and Pacific Telephone and Telegraph Company," pp. 50-51; and Appendix 14 of this report.

3/ Some of the shares were apparently acquired by Vail during this period at $80. (See Appendix 14, Sheets 1 and 2.) The total number of Western Union shares acquired by the end of the year amounted to 295,572 shares, or nearly 30 per cent of the telegraph companies' outstanding shares. If Kidder, Peabody cleared an average commission of $2.50 per share for itself, this transaction would have netted the firm nearly $750,000.

price on that day ranged between 63-1/2 and 63-5/8. The American Company took a loss of $7,414,300 on its investment in Western Union stock.

Mr. Vail stated in 1908 that "There are a great many statistics and reasons why it would be advantageous to this company to acquire the Western Union Telegraph Company which I think would be rather unwise just at present to put on paper." 1/ Whatever his reasons for his change of objective from the acquisition of Postal to that of Western Union, the fact is that both Kidder, Peabody & Company and Kuhn, Loeb & Company profited handsomely.

CA

Underwriting of Bell System bonds.- The close relations of the American Telephone and Telegraph Company with the underwriters of the $150,000,000 convertible bonds are further evidenced by the exclusive offer of other issues of Bell System bonds and notes to the same firms. In January, 1907, there was, as previously mentioned, an issue of $25,000,000 of American Telephone and Telegraph Company five per cent notes which were taken by J. P. Morgan & Company ($13,000,000) and Kidder, Peabody & Company ($12,000,000). 2/ In March, 1909, J. P. Morgan took an issue of $16,500,000 five per cent bonds, giving Kidder, Peabody & Company a participation of 22.22 per cent. 3/ In December of the same year, $12,500,000 of New York Telephone Company four and a half per cent bonds were underwritten by the four members of the American Company convertible bond syndicate. 4/ In March of the next year, another $10,000,000 of bonds of the same company were taken by the same firms. 5/

It is needless to multiply individual examples. Ever since the convertible bond issue of 1906, practically all important issues

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1/ See Appendix 7, Sheets 29-32.

2/ Pujo Committee Report, H. R. No. 1593, 62d Cong., 3d Sess., p. 2073.

3/ Id., p. 2082.

4/ Id., p. 2081.

5/ Id., p. 2083.

of Bell System bonds have been sold in part or in whole, to the same firms, collectively or individually. This condition prevailed not only during Vail's administration, but during Thayer's and Gifford's administrations as well. J. P. Morgan & Company since 1906, and Morgan, Stanley & Company since 1936, have been the principal underwriters of the Bell System, having associated with them Kidder, Peabody & Company, Kuhn, Loeb & Company, and others, as principal or participating underwriters.

From 1913 to 1936, J. P. Morgan & Company and associates, among whom Kidder, Peabody & Company, Kuhn, Loeb & Company and First Securities Company were almost always present, bought or underwrote a total of $950,000,000 in American Telephone and Telegraph Company bonds, notes and debentures, with a gross spread between purchase price and the price at which the securities were offered to the public of $26,000,000. 1/ In addition to this, the bankers have also benefited from the underwriting of Associated Company securities. 2/

Loan to British Government, 1916.- 3/ Reciprocally, Mr. Vail obliged J. P. Morgan & Company by advancing $20,000,000 to the British Government in 1916. As early as September, 1915, the bankers approached American Telephone and Telegraph Company to interest the management in a proposed loan to Great Britain and France. T. N. Vail submitted the matter to N. T. Guernsey, General Counsel, for his opinion. Vail wrote:

1/ See Schedule 3.

2/ For the period 1925 to 1936, the total amount of security issues of the Associated Bell Companies sold through J. P. Morgan & Company, Morgan, Stanley and Company and associates was $274,700,000. The Morgan interests participated in the underwritings of all Associated Companies except Southern New England Telephone Company, which was not controlled by American Telephone and Telegraph Company. The gross commissions on this amount were $6,684,000. See Schedule 4.

3/ The pertinent data on this episode are reproduced in Appendix 15.

> This Company has been requested to participate in the proposed loan to Great Britain and France, which is now being placed in this country, on the grounds that this loan is necessary to the continuance of the present industrial conditions created by the state of affairs in Europe.
>
> It is urged that our interest in this situation should warrant our serious consideration, and if no objection is found, to a possible participation.
>
> Please consider this seriously from a legal standpoint whether or not we are warranted should we desire to participate in this loan.

Mr. Guernsey replied on October 1, 1915 to the effect that the company did not have the right to engage in the business of loaning money, but could, from time to time, temporarily invest surplus funds. The question was then one of fact, did the company have surplus funds? Guernsey's letter is as follows:

> I have before me your note of the 29th ultimo, with reference to the participation of this company in the proposed loan to Great Britain and France, and have carefully considered the question from the legal point of view.
>
> Under its charter, this company has not the right to engage in the business of loaning money. As incidental to its general powers, it, however, has the right from time to time to temporarily invest such surplus funds as it may have on hand. Under this incidental power the company, if it had an idle surplus, might invest in the securities to be issued in furtherance of this loan. The question becomes then one of fact, viz., has the company idle surplus funds for which it is in good faith seeking a temporary investment, and is this such an investment as the company would week [seek] for such funds?
>
> The assumption that a failure of the loan would affect business conditions here and therefore indirectly affect our business goes hardly to the question whether the company has the power to make investments of this character, but rather, (granting the existence of this power as I have stated it) to the question whether the company should make this particular investment. It may properly be a factor in the determination of that question, just as would be the rate of interest, the term of the loan, the fact that the bonds are to be listed, and other like matters.

This letter was sent by Vail to members of the Executive Committee. Apparently no loan was made in 1915, as such a loan has not been disclosed in the analysis of the company's accounts by this Investigation.

In 1916, the question of advancing funds to the British Government was again broached by J. P. Morgan & Company, and this time Vail finally capitulated, in spite of Guernsey's opinion of 1915, his Comptroller's statement that the company did not have surplus funds, and his own initial refusal of a smaller amount than what he finally advanced.

On August 21, 1916, H. P. Davison, partner of J. P. Morgan, and formerly director of American Telephone and Telegraph Company, wrote the following letter to Vail.

> Aside from being very gratifying to us, it also would be very helpful to the general cause if you could see your way clear to buy say $5,000,000 of the new British Two Year Loan. You know it will net a shade better than 5½% and is as good and refined as gold. Any financing in connection with this will be looked after with pleasure.

Apparently Vail turned the matter over to DuBois, the Comptroller, for his opinion as to whether there were any surplus funds. DuBois wrote a memorandum dated August 22, 1916:

> Our present estimates indicate that without any extraordinary expenditures we shall have cash at Dec. 31, 1916 of $15,000,000 to $18,000,000 of which about $9,000,000 will be immediately required in January for interest and dividend. Any extraordinary expenditures as for British 2 yr. loan or for extensions to 195 Broadway as for Chicago Tunnel property will have to be specially financed and in any case we shall have to finance by next January or February for ordinary requirements.

On August 23, 1916, Vail sent this memorandum to Davison, and stated:

I will take up the matter at our next Executive Committee meeting or so soon as I can personally confer with some of the members. 1/

It appears that Vail did not press the matter. On November 2, 1916, T. W. Lamont of J. P. Morgan & Company wrote to Vail:

Before Mr. Davison left today to be absent until Monday, I understand he had some conversation with you about the possible purchase by the Telephone Company of $5,000,000 of the British Government Three and Five Year 5½% Notes, but that no decision on the matter could be reached until next week.

Inasmuch as we are closing the books on Saturday morning, we are subscribing for $5,000,000 of the bonds, divided equally between the two maturities and will hold these until your meeting next week, when if you wish to make a purchase on the basis of the issue prices we shall be glad to turn the notes over to you. If you decide not to take any action in the matter it will be quite satisfactory to us to keep them for our own account.

To this Vail replied briefly on November 4, 1916:

Yours of November 2d has been received. I told Mr. Davison that it was doubtful if we were in a position to tie up that amount of cash for any period.

Much to my regret, further consideration makes it impossible for me to recommend the matter to our Committee.

In spite of this refusal, five weeks later the American Telephone and Telegraph Company participated for $20,000,000 in a special demand loan which J. P. Morgan & Company was making to the British Government. 2/ This action of Vail was taken on December 14, and approved

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1/ The following note appears at the bottom of this letter under date of September 11, 1916: "Mr. Vail & Mr. Bethell say to file -- matter is past before any meeting is held. AAM /A.A.Marsters, Secretary/."

2/ See Appendix 15, Sheet 7.

by the Executive Committee on December 20, 1916. 1/ The loan bore six per cent interest to January 9, 1917, and five per cent thereafter. 2/ It was repaid by J. P. Morgan on February 5, 1917. 3/ Where did Vail obtain the money in view of DuBois' statement of the company's cash position at the end of the year?

The evidence shows that the money was obtained from the sale of $80,000,000 30-Year Collateral Trust Bonds to J. P. Morgan & Company in November, 1916. The Bell Telephone System provisional estimate for the year 1917, dated December 7, 1916, indicates that exclusive of requirements for maturing obligations expected to pay, the balance of requirements for construction, investment, etc., to be financed, amounted to about $60,000,000. 4/ In anticipation of this need, the American Company sold $80,000,000 par value of 30-Year Collateral Trust 5% Bonds. 5/ The company received a total of $75,733,333.33 from J. P. Morgan & Company on December 13, 1916 in payment for these bonds. 6/ The loan to the British Government through J. P. Morgan & Company was apparently made out of the proceeds of this loan. Checks were drawn by the American Company on seven New York banks totaling $20,000,000, and forwarded to J. P. Morgan & Company on December 14, 1916. The American Company balances in those banks on December 12, the day before the sale of bonds, the balances on December 13, the day of the sale, and the amount of checks drawn on December 14, show clearly that the proceeds of the sale of bonds were used to make the loan. 7/

1/ Id., Sheet 8.

2/ Id., Sheets 9-10 and 17.

3/ Id., Sheet 10.

4/ Company folder, "Provisional Estimate, 1917."

5/ See Appendix 15, Sheet 5.

6/ Id., Sheets 6 and 7.

7/ Id., Sheets 6-7 and 8.

The balances in those banks on December 12 and 13, and the amount of checks drawn to make the loan to the British Government through J. P. Morgan & Company were as follows: 1/

Bank	Balance at Close of Business on December 12, 1916	Balance at Close of Business on December 13, 1916	Amount of Checks Drawn, December 14, 1916
J. P. Morgan & Company	$1,296,200.57	$22,014,817.21	$ 3,000,000
Bankers Trust Company	1,696,895.26	5,373,031.92	3,000,000
First National Bank of New York	1,312,186.48	5,012,186.48	3,000,000
National Bank of Commerce	1,503,666.79	5,303,666.79	3,000,000
Columbia Trust Company	1,014,964.20	3,014,964.20	2,000,000
Guaranty Trust Company	1,458,142.67	4,958,142.67	3,000,000
National City Bank	1,024,030.05	4,624,030.05	3,000,000
Total	$9,306,086.02	$50,300,839.32	$20,000,000

In spite of the opinion of American Company's General Counsel that the company had no right to engage in the business of loaning money, except the temporary placement of surplus funds, and the Comptroller's opinion that there would be no surplus funds at the end of 1916, and in spite of Vail's own decision to refuse a participation in British Government notes in the amount of $5,000,000 as late as November 4, 1916, Vail turned around and loaned $20,000,000 even before authorization by his Executive Committee, using, presumably, the proceeds of a new bond issue. What pressure J. P. Morgan & Company brought to bear upon Mr. Vail is not known. It is clear, however, that J. P. Morgan & Company obtained what it desired.

The preceding evidence seems to indicate that Vail represented the bankers when he assumed the presidency of American Telephone and Telegraph Company in 1907. Albert Bigelow Paine, in his biography of T. N. Vail, corroborates this statement. 2/

1/ See Appendix 15, Sheets 6-7 and 8.

2/ Albert Bigelow Paine, "In One Man's Life," 1921, pp. 229-230. Paine, in writing this biography, spent considerable time at Lyndonville, Vail's estate in Vermont, and traveled with him during the latter part of Vail's life.

CHAPTER V

FEDERAL CONTROL

1. Organization.

During a brief interval of one year, from August 1, 1918 to July 31, 1919, the telephone and telegraph systems of the United States were legally controlled by the Government of the United States as a War measure. This brief interlude of Federal control, though it did not affect the continuity of the developments in private control of the Bell System, constituted a sufficient departure from the normal organization to deserve, for completeness, a brief description of the mechanism of control established by the Federal Government. It is not intended here to give an exhaustive statement of the organization, operation and results of Government control. 1/ That in itself is a proper subject for a separate study. Only a brief description of the organization and extent of Government supervision will be given here. It will be seen from the following pages that Government control was nominal and that the operation and de facto control of the Bell System actually remained in the hands of the officers of American Telephone and Telegraph Company.

The Joint Resolution of Congress.- On July 16, 1918, the Congress passed the following Joint Resolution authorizing the President of the United States "to supervise or take possession and assume control of any telegraph, telephone, marine cable, or radio system or systems or any part thereof and to operate the same in such manner as may be needful or

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1/ Detailed data pertaining to the organization, operation and results of the period of Federal control are given in a separate volume, designated as Appendix A, included as a part of this series of reports on "Control of Telephone Communications," and entitled "Data Relating to Federal Control of the Bell Telephone System, August 1, 1918, to July 31, 1919."

desirable for the duration of the war, and to provide just compensation therefor:" 1/

> RESOLVED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the President during the continuance of the present war is authorized and empowered, whenever he shall deem it necessary for the national security or defense, to supervise or to take possession and assume control of any telegraph, telephone, marine cable, or radio system or systems, or any part thereof, and to operate the same in such manner as may be needful or desirable for the duration of the war, which supervision, possession, control, or operation shall not extend beyond the date of the proclamation by the President of the exchange of ratifications of the treaty of peace: PROVIDED, That just compensation shall be made for such supervision, possession, control, or operation, to be determined by the President; and if the amount thereof, so determined by the President, is unsatisfactory to the person entitled to receive the same, such person shall be paid seventy-five per centum of the amount so determined by the President and shall be entitled to sue the United States to recover such further sum as, added to said seventy-five per centum, will make up such amount as will be just compensation therefor, in the manner provided for by section twenty-four, paragraph twenty, and section one hundred and forty-five of the Judicial Code: PROVIDED FURTHER, That nothing in this act shall be construed to amend, repeal, impair, or affect existing laws or powers of the States in relation to taxation or the lawful police regulations of the several States, except wherein such laws, powers, or regulations may affect the transmission of Government communications, or the issue of stocks and bonds by such system or systems.

Wilson's proclamation.- Pursuant to this act, President Wilson took legal possession of the telegraph and telephone systems in the United States by a proclamation issued on July 22, 1918, whereby he appointed Postmaster General Burleson to perform the duties imposed by the Congressional resolution:

> And whereas it is deemed necessary for the national security and defense to supervise and to take possession and assume control of all telegraph and telephone systems and to operate the same in such manner as may be needful or desirable:

1/ Public Resolution No. 38 (65th Congress) reprinted in "Government Control and Operation of Telegraph, Telephone and Marine Cable Systems, August 1, 1918, to July 31, 1919," Washington, Government Printing Office, 1921, p. 45. All official documents quoted in subsequent pages have been taken from this publication.

Now, therefore, I, Woodrow Wilson, President of the United States, under and by virtue of the powers vested in me by the foregoing resolution, and by virtue of all other powers thereto me enabling, do hereby take possession and assume control and supervision of each and every telegraph and telephone system, and every part thereof, within the jurisdiction of the United States, including all equipment thereof and appurtenances thereto whatsoever and all materials and supplies.

It is hereby directed that the supervision, possession, control, and operation of such telegraph and telephone systems hereby by me undertaken shall be exercised by and through the Postmaster General, Albert S. Burleson. Said Postmaster General may perform the duties hereby and hereunder imposed upon him, so long and to such extent and in such manner as he shall determine, through the owners, managers, boards of directors, receivers, officers, and employees of said telegraph and telephone systems.

Until and except so far as said Postmaster General shall from time to time by general or special orders otherwise provide, the owners, managers, boards of directors, receivers, officers, and employees of the various telegraph and telephone systems shall continue the operation thereof in the usual and ordinary course of the business of said systems, in the names of their respective companies, associations, organizations, owners, or managers, as the case may be.

Regular dividends hitherto declared, and maturing interest upon bonds, debentures, and other obligations, may be paid in due course; and such regular dividends and interest may continue to be paid until and unless the said Postmaster General shall, from time to time, otherwise by general or special orders determine; and, subject to the approval of said Postmaster General, the various telegraph and telephone systems may determine upon and arrange for the renewal and extension of maturing obligations.

By subsequent order of said Postmaster General supervision, possession, control, or operation, may be relinquished in whole or in part to the owners thereof of any telegraph or telephone system or any part thereof supervision, possession, control, or operation of which is hereby assumed or which may be subsequently assumed in whole or in part hereunder.

From and after 12 o'clock midnight on the 31st day of July, 1918, all telegraph and telephone systems included in this order and proclamation shall conclusively be deemed within the possession and control and under the supervision of said Postmaster General without further act or notice.

In witness whereof, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done by the President, in the District of Columbia, this 22d day of July, in the year of our Lord one thousand nine hundred and eighteen and of the independence of the United States the one hundred and forty-third.

Postmaster General's organization for control.- Postmaster General Burleson assumed the duties and powers vested in him by the President. The day after the President's proclamation, on July 23, 1918, Postmaster General Burleson issued the following order: 1/

> John C. Koons, First Assistant Postmaster General; David J. Lewis, commissioner, United States Tariff Commission; and William H. Lamar, Solicitor for the Post Office Department, are hereby appointed a committee for the governmental management, operation, and control of the telegraph and telephone systems covered by the proclamation of the President dated July 22, 1918, of which committee the Postmaster General shall be chairman.

Messrs. Koons, Lewis and Lamar constituted the Wire Control Board. In announcing the appointment of this committee, the Postmaster General stated that Mr. Koons and the Postmaster General would have charge of the administration and organization of the service; Mr. Lewis and the Postmaster General, of its operation; and Mr. Lamar and the Postmaster General, of the finances.

On August 1, 1918, the Postmaster General issued the following order, assuming possession and control of the telegraph and telephone systems in the United States: 2/

> Pursuant to the proclamation of the President of the United States, I have assumed possession, control, and supervision of the telegraph and telephone systems of the United States. This proclamation has already been published and the officers, operators, and employees of the various telegraph and telephone companies are acquainted with its terms.
>
> Until further notice the telegraph and telephone companies shall continue operation in the ordinary course of

1/ Order No. 1744.

2/ Order No. 1783.

business through regular channels. Regular dividends heretofore declared and maturing interest on bonds, debentures, and other obligations may be paid in due course, and the companies may renew or extend their maturing obligations unless otherwise ordered by the Postmaster General. All officers, operators, and employees of the telegraph and telephone companies will continue in the performance of their present duties, reporting to the same officers as heretofore and on the same terms of employment. Should any officer, operator, or employee desire to leave the service, he should give notice as heretofore to the proper officer, so that there may be no interruption or impairment of the service to the public.

I earnestly request the loyal cooperation of all officers, operators, and employees and the public, in order that the service rendered shall not only be maintained at a high standard but improved wherever possible. It is the purpose to coordinate and unify these services so that they may be operated as a national system with due regard to the interests of the public and the owners of the properties.

No changes will be made until after the most careful consideration of all the facts. When deemed advisable to make changes, due announcement will be made.

The conditions established by this order, particularly the continuity of private management, remained in effect throughout the period of Government control. The semblance of official control by the Government was preserved, however, by the appointment, on December 13, 1918, of an Operating Board for the operation of the telephone and telegraph service under Government control. 1/ This board was known as the United States Telegraph and Telephone Administration. Union N. Bethell, then First Vice President of American Telephone and Telegraph Company, was made Chairman of this Operating Board. F. A Stevenson, who was then made Director of Long Lines by Bethell, was another member. G. M. Yorke and A. F. Adams represented Western Union Telegraph and independent telephone interests. Concurrently, Mr. Bethell was made Vice President in Charge of Operations, by resolution of the Board of Directors of American Telephone and Telegraph Company dated December 27, 1918.

1/ Order No. 2479.

The Operating Board was directed by the Postmaster General on December 23, 1918 "to assume the operation of the telephone and telegraph systems under Government control." 1/ The Operating Board began to function on January 1, 1919. The membership of this Board consisted of officials of wire companies, although theoretically they were the representatives of the Post Office Department in charge of wire systems. The Board in turn wrote to telegraph and telephone companies to continue their operation in the usual course as theretofore. With respect to the Bell System, the minutes of a meeting of the United States Telegraph and Telephone Administration Operating Board on January 10 state:

> Mr. Bethell reported that on January 2nd, 1919, he had notified the Associate Bell Companies that they should follow the methods heretofore established in regard to purchases, and that except when it is desired to change to a type of equipment which cannot be furnished by the usual suppliers, the Companies should buy, as far as possible, where they have theretofore bought. Except as otherwise provided by existing orders, the Associate Bell Companies should conduct their operations in the usual and ordinary course, taking up with the Operating Board, unusual and extraordinary matters, and those of a general character.
>
> VOTED - That the actions of Mr. Adams and Mr. Bethell, as above reported, be, and the same hereby are, ratified, approved and confirmed.

The Operating Board functioned until June 13, 1919. 2/ The Postmaster General dissolved it by an order issued on June 5, 1919: 3/

> (4) Orders Nos. 2479 and 2534 are hereby revoked and the Operating Board created thereby is hereby relieved of its operating duties and ordered to complete or refer to the proper persons all matters now pending before it and is directed to prepare and submit a full report of all its proceedings in connection with a comprehensive statement of all expense of said Board incurred during its existence, and thereupon to dissolve not later than June 14, 1919.

1/ Order No. 2534.

2/ Minutes of Operating Board, June 13, 1919.

3/ Order No. 3178.

Return of properties.- Telephone and telegraph properties were legally transferred back to their original managements on August 1, 1919. Congress passed the following act, approved on July 11, 1919 by the President, to repeal Public Resolution No. 38 of July 16, 1918:

> BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That chapter 154 of the Acts of the second session of the Sixty-fifth Congress, being the joint resolution entitled "Joint resolution to authorize the President in time of war to supervise or take possession and assume control of any telegraph, telephone, marine cable, or radio system or systems, or any part thereof and to operate the same in such manner as may be needful or desirable for the duration of the war and to provide just compensation therefor," approved on the 16th day of July, 1918, be, and the same is hereby, repealed to take effect at midnight on the last day of the calendar month in which this act is approved:
>
> PROVIDED, HOWEVER, That the existing toll and exchange telephone rates as established or approved by the Postmaster General on or prior to June 6, 1919, shall continue in force for a period not to exceed four months after this act takes effect, unless sooner modified or changed by the public authorities -- State, municipal, or otherwise -- having control or jurisdiction of tolls, charges, and rates or by contract or by voluntary reduction.
>
> SEC. 2. That the President be, and he is hereby authorized and directed, at midnight on the last day of the calendar month in which this act is approved, to return and deliver to the respective owners thereof all of the systems, lines, and property taken possession of or received, operated, supervised, or controlled by him under authority of said joint resolution.
>
> SEC. 3. That the first proviso of said joint resolution prescribing the just compensation to be paid for and on account of said supervision, possession, control, or operation therein specified shall continue in full force and effect until such just compensation shall be fully adjusted and paid in the manner and according to the terms and conditions therein set forth.
>
> SEC. 4. That within ninety days after this act shall take effect the President shall cause to be made to the Congress a detailed account and report of all his acts and proceedings in connection with the supervision, possession, control, and operation of the telephone, telegraph, and marine cable systems of the United States, and of all moneys received and expended, and all property and assets acquired or held, and all liabilities or obligations incurred, including contracts relative to compensation awards, such report to show in detail the financial results of the operation of each separate wire system from August 1, 1918, up to the date when the said systems shall have been returned.

The Postmaster General effectuated this act as far as it pertained to the return of the properties by order dated July 30, 1919. 1/

2. Operation.

De facto control.- All during this period of Government control, the properties of the Bell System were operated under the direct supervision of the President and First Vice President of American Telephone and Telegraph Company. The nature of the organization adopted by the Postmaster General to effectuate Government control was succinctly described in his own words when reporting on the supervision and operation of the telegraph, telephone and cable properties to the President of the United States on October 31, 1919: 2/

> * * * Nothing during the year of Federal control was done which changed the relation of the operating officials of the respective corporations to the properties under their management.

Briefly, the condition of control may be described as follows: The President of the United States took possession of the Bell System along with other telephone and telegraph companies, pursuant to Joint Resolution of Congress. The Postmaster General, through the Wire Control Board and the Operating Board, was in legal charge of the administration, operation and finances of the wire systems; but the actual control and operation of the systems remained in the hands of the officers of the companies. With the exception of limitations on the

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1/ Order No. 3380.

2/ "Government Control and Operation of Telegraph, Telephone and Marine Cable Systems, August 1, 1918, to July 31, 1919," Washington, Government Printing Office, 1921, p. 11.

extension of service, 1/ which indeed had been instituted by Vail himself even before Government control, there was little action taken by the Postmaster General and the Wire Control Board to regulate the ordinary activities of the Bell System as they existed before Government control, except to institute and approve new, and higher, toll and exchange rates.

Changed legal relationships.- Although this was the actual system, there was naturally a change in legal responsibility. The properties were legally in the possession of the United States Government; Mr. Bethell was the legal appointee in charge of the operations of the Postmaster General; all acts of the telephone company and its employees were acts of the representatives of the United States; all revenues of the Bell Telephone System belonged to the United States; all expenditures were ostensibly paid by the Government; and any obligations and damages incurred by the Bell System during Government control were the responsibility of the United States Government. The changes in the legal relationships resulting from Government control of the Bell System are described clearly in the following memorandum apparently prepared by H. B. Thayer, Vice President of American Telephone and Telegraph Company, in January, 1919:

> Before federal control, the functions of the Company's organization grouped themselves into three classes:
>
> 1: Those pertaining to the care of the Company's property investments and to the general interests of the stockholders.
>
> 2: Those pertaining to advice and assistance to be rendered to Associated Companies under contract (that is, the 4 1/2% function.
>
> 3: Directly operating telephone property owned by the Company (the Long Lines).

1/ Postmaster General's Order No. 1858.

With the Act of Congress and the Proclamation of the President going into effect, the Postmaster General became responsible for the operation of the telephone property of the Bell System. Whatever was done after that by this Company's organization in the line of operation was done for him and temporarily until he could create his own operating organization.

With the signing of the compensation contract, the Company entered into an obligation to continue the exercise of the 4 1/2% function for the benefit of the telephone properties of the Associated Companies.

The Postmaster General has now appointed an Operating Board, which he has instructed "To assume the operation of the Telephone and Telegraph systems under governmental control" and therefore, the general direction of operations which we have to a certain extent carried on in the Bell System for the Postmaster General now becomes a function of the Operating Board. The situation then for this Company is that the first class of functions referred to above remain in the Company's organization, the second class of functions are a duty and responsibility of the Company and an obligation under the contract with the Postmaster General and therefore, cannot be delegated to the Postmaster General or any part of his organization and must remain with the Company's organization. The third class of functions, that is, operating the Long Lines, have gone to the organization of the Postmaster General and this Company has no responsibility or authority in such operations.

The Associated Companies had two classes of functions, one similar to those in the first class described above for this Company and the other similar to those described as the third class of functions of this Company; that is, operating the property.

With the appointment of the Operating Board, any relation between the American Telephone and Telegraph Company and the Associated Companies in the way of direction of operations has ceased, the Operating Board now assuming that authority and responsibility for the Postmaster General. The Company organizations of the Associated Companies, however, are the medium through which the Operating Board is operating their properties, so that they are still exercising two classes of functions, but their relation is directly with this Company in the first class of functions and directly with the Operating Board on the other class of functions.

The relations of the American Telephone and Telegraph Company's organization with the Postmaster General are those of a party to a contract with him and the duties of the organization in this relation are to see that the obligations of both parties are performed.

The relation of the American Telephone and Telegraph Company's organization in the 4 1/2% function with the Operating Board is similar to the relations of a chief engineer to a general manager of coordinate rank. The advice and assistance which we are under obligation to render (4-1/2% function) may be rendered through advisory relations with the Operating Board, or with the officials of the associated companies direct, as in the past, as the Operating Board may elect.

The relations of the American Telephone and Telegraph Company's organization with the associated companies are the same as in the past in all matters of the first class in which we either exercise the rights of a stockholder, or protect our rights as a stockholder. This covers such matters as

The make-up of the Board of Directors.
Personnel of elective officers.
Financing.
Such actions as may be necessary to safeguard the interests of the company under the compensation contract.
Subjects referring to investment not in property which the company operates.
Assistance to the associated companies in their relations with subsidiary companies, particularly in the matter of getting compensation contracts.
Final approval of purchases of property, and similar matters not directly connected with the operation of the company's plant.

<u>Compensation contract</u>.- The "just compensation" stipulated in the Joint Resolution of Congress was taken care of as far as the Bell System was concerned by a contract proposed by the American Company on October 4, 1918 and accepted by Postmaster General Burleson by direction of President Wilson on October 5, 1918. 1/ This contract specified the property and other assets turned over by the Bell System, the conditions under which it was to be operated, and the compensation that was to be received by the owners of the System from the United States Government in consideration of the possession and operation of its properties. The basis of compensation as proposed by American Telephone and Telegraph Company for itself and its constituent companies, and accepted by the Postmaster General, is conveniently described in the following statement of T. N. Vail, President of the American Company:

1/ For copy of compensation contract, see separate appendix entitled "Data Relating to Federal Control of the Bell Telephone System, August 1, 1918, to July 31, 1919."

After extended conferences between the representatives of the Postmaster General and of the Bell System, covering - that there might be no misunderstanding - painstaking and exhaustive discussion and a frank exchange of views, what constitutes a just compensation for the supervision, possession, control and operation of the Bell System taken over under the proclamation of the President of the United States, has been agreed upon.

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The representatives of the Bell System throughout the negotiations found nothing but helpfulness; asking no more than they thought ought to be paid by the Government, they found an intent and desire to pay all that ought to be paid, and for the protection of the property to do all that ought to be done and all that has been done in the past. In taking over the property, the Postmaster General also desires to give continuity to the service, and as far as consistent with Government operation, to the personnel which has brought this property to its present degree of efficiency.

From the first exchange of views until the close, the Bell representatives were met by the Postmaster General and his representatives in a spirit of absolute fairness and with an earnest desire to preserve the service to the public, and preserve the property for the proprietors as well as to give them established returns on their securities.

The principles adopted as a basis of compensation were:

First: Any compensation fixed for the period of control was to be considered as compensation for an emergency period and not in any way considered as establishing a value for the property.

Second: The operation of the property is to be continued on a basis of efficiency relatively equal to that of the past.

Third: The property is to be fully maintained so as to be turned back to the Company as good as when received.

Fourth: Appropriation from current revenue for maintenance, depreciation and obsolescence to be the same as the past - an average of 5.72% on the fixed capital - amortization of intangible capital to be relatively equal to the past. All unexpended balances from both to be invested in the plant of the System. Charges against the depreciation reserve to be in accordance with the rules of the Interstate Commerce Commission.

Fifth: Employees' pensions, disability benefits and death benefits now in operation to be continued.

Sixth: All taxes, municipal, state or federal, to be paid, or reimbursed if paid by the companies, by the Government.

Seventh: The license and rental contracts between the American Telephone and Telegraph Company and the licensee companies to be continued, and the American Telephone and Telegraph Company is to give such advice and assistance as the Postmaster General may require, is to maintain its scientific technical and engineering departments, its patent protection for the benefit of the property in the same manner as heretofore. The Postmaster General to have the benefit during the period of control, in the operation of the wire system, of all inventions, discoveries, and ideas, which may now or hereafter be controlled by the Bell System.

These provisions are for the protection of the property, the service and the art, and provide for the continuation of the service and for the continual development of the art, as well as the protection of the developed situation, and are for the full protection of the public in its service and the proprietors in the property and development.

For the security holders is provided -

(a) Payment of the interest and existing amortization charges on all outstanding securities or obligations of the Bell System in the hands of the public, including the 6% convertible bonds issued August 1, 1918.

(b) Payment of dividends at the existing rate upon the share capital of the Bell System outstanding in the hands of the public.

(c) Payment of any charges, interest, dividends or other costs on new securities or share capital issued in discharge, conversion or renewal or extension of present obligations.

For extensions to property -

As provided above, unexpended depreciation shall be invested in property of the System.

American Telephone and Telegraph Company surplus shall be invested in its property.

Surplus profits from operation may be invested by the Postmaster General.

If securities or capital can be issued at fair terms the Bell System will issue its securities if desired, but the nominal value of the securities shall not exceed 80% of the amount expended in the property.

Extensions to its property made with the approval of the Bell System by money furnished by the Postmaster General shall be paid for in installments of 5% per annum after the period of control ceases.

Extensions by the Postmaster General to meet abnormal conditions and made without the approval of the System shall be appraised by the Interstate Commerce Commission at the end of the period of control and their value to the System as appraised shall be paid for in installments of 5% per annum.

The whole basis of the negotiation on both sides was to ask no more than was right, to grant all that was right, and to protect a great property and a great service to the public in every possible way.

In closing: The public should bear in mind that we are in the midst of very abnormal times. Scarcity of labor, high costs of living and great increases in demands on the service which are congested and not well distributed, will create conditions which it will be difficult for the telephone systems to meet no matter how much charges and wages are increased, and some consideration must be given before criticism is indulged in.

This contractual arrangement with the Post Office Department was apparently eminently satisfactory to the Bell System. A characteristic reaction of Bell System officials is given in the following letter from Hunt Chipley, General Counsel of Southern Bell Telephone Company, dated October 7, 1918:

The newspapers this morning carry a resume of the contract between the American Tel. and Tel. Company and the Postmaster General, which I have read with the greatest interest and pleasure.

It seems to me that this is a magnificent piece of work and a distinct triumph for Mr. Vail.

It occurs to me that it would be helpful both to the Alabama Commission and ourselves as well, to have the Commission refer to the Federal Government's approval of the 4-1/2% payment in their decision in the Birmingham Rate Case, which will be handed down some time this month. If you think well of this and can do so, I should be obliged if you would send me a copy of the contract as signed, so that I may show it to the members of the Commission.

This also applies to the clause of the contract relating to depreciation, which the papers state is to be figured at the rate of 5.72. We are claiming in the Birmingham Rate Case depreciation at the rate of 5.75%, while the City is claiming it should not be quite 4%, so you can see how helpful this contract would be.

Mr. Guernsey, General Counsel of the American Company, replied as follows on October 10, 1918:

I have your personal letter of the 7th instant.

I entirely agree with you that the negotiation of this contract is a great achievement on the part of Mr. Vail.

I think it would be a good thing for the Alabama commission to refer to the government's approval of the 4-1/2% payment when it comes to write the decision in the Birmingham rate case.

Your company has already received a copy of the proposal in my letter to Mr. Gentry. The acceptance is by order of the Postmaster General No. 2085, of which a copy has gone to your company and I presume is available for you. I am enclosing a copy, however, herewith for your information. I am having the contract printed, and will send you a proof of it with this letter, if possible. This is substantially accurate, but I do not think it will do to say that it is absolute.

Both the depreciation rate of 5.72 and the 4-1/2 per cent license contract fee specified in the compensation contract with the Postmaster General were widely used by Bell Telephone Companies with commissions throughout the country in defense of their established policies. 1/

3. Results.

Although this discussion is not intended to be a study of the results of Government control, it is of interest to point out briefly some of the important developments during this one year of Federal control.

First, by order of the Postmaster General dated August 28, 1918, service connection charges were established to conserve labor and material and to eliminate a cost which was borne by the permanent user of the telephone. 2/ The installation charges initially established were as follows:

1/ For other evidence of approbation of compensation contract and uses made of it, see separate appendix entitled "Data Relating to Federal Control of the Bell Telephone System, August 1, 1918 to July 31, 1919."

2/ Order No. 1931.

Where the rate was $2 a month or less	$ 5.00
Where the rate was more than $2 but not exceeding $4 a month	10.00
Where the rate was more than $4 a month	15.00

These charges were modified and amplified by instructions of the Postmaster General issued on September 14, 1918, 1/ and reduced by order of November 18, 1918, in part as follows: 2/

For individual and party line service	$3.50
For each extension station connected with any class of telephone service	3.50
For private branch exchange service:	
For each trunk line connecting the private branch exchange with a central office	3.50
For each telephone connected to the private branch exchange, except operators' telephone sets	3.50
Reconnection service	1.50
For moving a telephone set from one location to another on the same premises	3.00
For changing type or style of telephone set	3.00

The estimated annual revenue value of the initial service connection charge was $7,539,945, and of the revised charges, $4,257,375. A small amount was involved in injunctions, so that on May 1, 1919, service connection charges with an estimated annual value of $4,147,375 were still in force. The principle of the service connection charge as introduced by the Postmaster General of the United States has remained in force ever since, although there have been modifications of the actual rates from time to time.

A second important contribution of Government control was the increase in the long distance rates established by order of Postmaster General dated December 13, 1918. 3/ The Postmaster General's justification of these increases was that they were needed to obtain enough revenue to meet the obligation of the Government assumed in the contract for compensation. The annual value of the rate increases that went into effect

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1/ Bulletin No. 8.
2/ Order No. 2352.
3/ Order No. 2495.

on January 21, 1919 was $10,175,000. A portion of these increases was enjoined, so that on May 1, 1919, the estimated annual value of toll rate increases in effect was $8,563,000, of which $2,650,000 was in Long Lines business. The effect of these increases upon the revenues of Long Lines is shown by the following rates of return on gross and net book cost of plant of the Long Lines Department of the American Company: 1/

	Per Cent Return on	
Year (a)	Gross Book Cost (b)	Net Book Cost (c)
1914	11.30%	12.78%
1915	13.25	15.18
1916	16.10	18.73
1917	14.12	16.68
1918	12.08	14.38
1919	16.36	19.74
1920	18.26	22.29
1921	15.78	19.21

A third result achieved through Federal control was the introduction of increased exchange rates throughout the country under the aegis of the Postmaster General. The approach to be adopted in effectuating these increases was the subject of much thought and planning by Bell officers, who wished to introduce new schedules with the approval of the Postmaster General and without admitting the jurisdiction of local regulatory commissions, upon the theory that the telephone properties were being operated by the United States Government under the war powers bestowed upon it by the Constitution, and that, therefore, state commissions did not have jurisdiction over the wire systems and their rates. Counsel for Bell companies were authorized by the Solicitor of the Post Office Department to represent the Government in rate litigation, in case injunctions were obtained against the new rates. The exact procedure to

1/ F. C. C. Exhibit 135, "American Telephone and Telegraph Company, Long Lines Department, Financial and Operating Summary," Table 1, p. 14.

be adopted in rate adjustments was outlined by Postmaster General Burleson in a letter to U. N. Bethell, Chairman of the United States Telegraph and Telephone Operating Board, dated February 18, 1919:

> In order to have a uniform procedure and the advice and co-operation of the state commissions wherever possible, it is my desire that, in the matter of adjustments of rates for telegraph and telephone service, companies operating the systems for Government account should observe the following routine:
>
> 1. Changes in rates and service regulations, such as were made prior to Federal Control, in the usual and ordinary course of business, by the Boards of Directors, Receivers, and officials of the several companies, without the prior approval of any public authority, may hereafter be made by such Boards of Directors, Receivers, and officials and submitted to the Operating Board.
>
> 2. All other proposed changes in rates and service regulations shall be submitted by the Companies, through the regular channels, to the Operating Board or be originated by the Operating Board on its own motion. The Operating Board, after considering the proposed changes, shall submit them to the Postmaster General with its recommendation. If approved by the Postmaster General, the Operating Board will advise the Company concerned, and the changes will be put in effect at the date specified by the Postmaster General, or, if no date is specified, at such time and in such manner as the Operating Board or the officials of such Company may, in their discretion, determine.
>
> Where it has been customary to file such changes in rates with a state public service commission, they should be so filed for such action as the commission may see fit in the premises, and such proceedings before commissions shall be reported promptly through the regular channels to the Operating Board and by it to the Postmaster General.
>
> 3. When the proposed changes do not involve any departure from established principles and are local in scope, the Operating Board, after reviewing the proposals, may in its discretion, approve them, but in such cases the Board, in due course, shall report its action to the Postmaster General.
>
> 4. Each letter from the Operating Board transmitting applications for changes in rates or transmitting a report as to the action of the Operating Board relative to rates, rules or regulations shall state whether the recommendation made or the action taken by the Operating Board

relative thereto, is unanimous, or if there is a division of opinion, the minority as well as the majority views should be given. If any member of the board does not participate in the action taken, it shall be so stated. Such letter or report shall also show the following facts:

(a) Value of property used and useful in service of the public.
(b) Earnings.
(c) Expenses.
(d) Return on value of property.
(e) Franchise condition or rate regulatory situation in territory involved.
(f) Reasons for recommendations.

The Operating Board should be prepared to supply upon request the underlying detailed data showing how each of the above items was derived.

Pursuant to these instructions, the Operating Board approved many rate increases involving smaller exchanges and limited amounts, and reported its action to the Postmaster General. Increases for Bell System Companies were asked for by the presidents of the Associated Companies, who submitted detailed schedules of proposed rates to the Operating Board for its approval. At its meeting of March 17, 1919, the Operating Board unanimously voted "that the proposed rate changes be referred to the Postmaster General with the recommendation that they be approved." 1/

These recommendations involved exchange rate increases throughout the Bell System with an estimated annual value of $19,059,304. The Postmaster General approved the new rate schedules on March 19, 1919, when he wrote to U. N. Bethell:

> I have duly considered and hereby approve the unanimous report of your Board dated March 17, 1919, recommending a comprehensive scheme of changes in the local exchange rates for the properties of the various operating companies of the Bell System, which said changes are set forth in voluminous detail in specific rate schedules for each of said operating companies and attached to the said report of your Board.

1/ Minutes of a Special Meeting of Operating Board, March 17, 1919.

> In this connection I desire to call your particular attention to the fact that, owing to the prevailing high costs of labor and material, the deficit from operation is growing daily, and to meet this condition every effort should be taken to insure the Government against loss from operation during the period of Federal control. To this end, your Board is hereby authorized and directed to make these new schedules effective in the order and at the earliest practicable dates which your Board may deem consistent with the exercise of good judgment.

In the states where commissions existed with jurisdiction over telephone companies, these rates were filed by company counsel, still technically representing the Post Office Department, for the commissions' information, expressing the hope that they approved of them. In many states the commission, or the state or some municipality, attempted to prevent the increased rates from going into effect by obtaining injunctions against the Postmaster General's schedule of rates. 1/ One of these cases went to the U. S. Supreme Court and was decided on June 2, 1919. 2/ The brief for the telephone company was prepared by C. M. Bracelen, General Solicitor of American Telephone and Telegraph Company, who at that time was Special Assistant Solicitor for the Post Office Department. The Supreme Court sustained the power of the Postmaster General to establish local exchange rates. As the Bell System officially reverted to private control on August 1, 1919, the benefits of rate increases went to the companies, instead of reducing the deficit that became the liability of the U. S. Government under the compensation contract.

The Act of Congress covering return of wires, as quoted previously, had the following provision with respect to continuance of rates after the termination of Federal control:

1/ Increases in exchange rates with an estimated annual value of $11,040,396 were subject to injunctions on May 1, 1919. Other increases involving $473,000 had been deferred, leaving increases in effect on that date involving $7,545,908. The decision of the U. S. Supreme Court in the Dakota Central case on June 2, 1919, must have put the increases subject to injunctions into effect.

2/ Dakota Central Telephone Company v. State of South Dakota, 250 U. S. 163.

> * * * That the existing toll and exchange telephone rates as established or approved by the Postmaster General on or prior to June 6, 1919, shall continue in force for a period not to exceed four months after this act takes effect, unless sooner modified or changed by the public authorities - State, municipal, or otherwise - having control or jurisdiction of tolls, charges, and rates or by contract or by voluntary reduction.

A fourth and final important result of Federal control of the Bell System was the payment of approximately $9,290,000 1/ by the United States Treasury to American Telephone and Telegraph Company and other Bell System Companies which were parties to the compensation contract, being the difference between net telephone earnings and the compensation that resulted from the agreement of October 5, 1918. This payment to the Bell System was 70.1 per cent of the $13,212,000 disbursed by the Treasury to telegraph and telephone companies in the United States as a cost and supplemental compensation for their operation by the Government.

To sum up the conditions existing during this one year of Government control, it may be said that the United States Government, through the Postmaster General, had legal control and responsibility for the operation of the Bell System, and a legal liability fortified by a contract to pay a certain stipulated compensation; whereas the officers of the Bell System retained actual control of the properties, had a guaranty of a compensation that was eminently satisfactory to them, receiving nearly $9,300,000 from the United States Treasury over their net revenues, and obtained certain rate adjustments involving in total annual value over $40,000,000 which accrued to their benefit even after the legal transfer of the properties on August 1, 1919. 2/

1/ "Government Control and Operation of Telegraph, Telephone and Marine Cable Systems, August 1, 1918, to July 31, 1919," p. 21.

2/ For more extensive documentary evidence relating to Government control of the Bell Telephone System, particularly with reference to the means employed in increasing rates and obtaining the return of wires by the Congress, see Appendix A, entitled "Data Relating to Federal Control of the Bell Telephone System," which is presented as a separate volume in this series of reports on "Control of Telephone Communications."

CHAPTER VI

MANAGEMENT CONTROL

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All through the period of Federal control, T. N. Vail remained as President of American Telephone and Telegraph Company. It will be recalled that the Operating Board dissolved on June 13, 1919. The act to return the wire systems was approved by President Wilson on July 11, 1919, and the telephone companies were officially returned to their owners after midnight of July 31, 1919.

On June 18, 1919, in the midst of this transition period, significant changes took place in the management of the American Company. These changes, and those that followed, indicate that the management of the company had, by this time, become largely self-continuing, with the tutelage of the banking interests represented on the board of directors. In this chapter this condition will be traced from 1919 to date.

1. Selection of Presidents, 1919 and 1925.

Accession of Thayer, 1919.- On June 18, 1919, at a meeting of the Board of Directors of the American Company, Vail became Chairman of the Board. H. B. Thayer, who had been Vice President of the American Company from 1909 to 1915, and then again since May, 1918, and for a while President of Western Electric Company, was made President of the American Company.

Other significant, indeed violent changes took place in the management which could not be explained for lack of direct evidence, but which may be better understood as a part of the general circumstances surrounding them. U. N. Bethell had been Vice President since February, 1910, and Senior Vice President from November 19, 1912 to May 21, 1918, at which time he was made First Vice President.[1] During the period of Federal control of communications, Bethell was Chairman of the Operating Board of

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[1] See Appendix 5.

the United States Telegraph and Telephone Administration and Vice President in charge of operations of the American Company. Bethell was also President of New York Telephone Company. He was generally hailed as one of the few men in the country well versed in all phases of communications, particularly telephone. This man, who had been promoted to the position of First Vice President as late as May, 1918, and who had had direct charge of wire communications during Federal control, was given a forced leave of absence in June, 1919, for one year, with full pay, and retired on an annual pension of over $25,000 for life from July 1, 1920. 1/ At the same time Thayer was made President, N. C. Kingsbury was made First Vice President, and W. S. Gifford, Comptroller and Vice President. The following pages will make it clear that these changes were effected by Mr. T. N. Vail, the President of the company.

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Accession of Gifford, 1925.- In 1916, W. S. Gifford had been a statistician in the American Company, at a salary of $10,200, when he was picked as Director of the Council of National Defense. This organization, as is well known, was charged with the coordination of industrial resources of the country for war mobilization. In 1918, Vail asked the Secretary of War to release him because he was needed by the telephone company. 2/ Vail wrote to Newton D. Baker, then Secretary of War, on October 21, 1918:

> Some two years ago, at your request, we gave Mr. Walter S. Gifford a leave of absence from his duties here in order that he might serve for a time as Director of the Council of National Defence.
>
> The changes in our organization made necessary by war service of many of our people and the carrying out of our obligations under our agreement with the Post Office Department with respect to Federal control of the telephone service make it necessary that we strengthen our force along lines in which Mr. Gifford is particularly qualified by his past experience with us to take an important part.

1/ See Appendix 16 for evidence on Bethell's retirement. In a letter to stockholders dated July 15, 1919, (Appendix 17, Sheets 1 and 2), Vail, in explaining the changes in the organization of the company, stated: "Mr. Bethell, who has been so prominently identified with the company in the past and has been Chairman of the Operating Board, wishes to take a rest, and so declined a place in the new organization." This is not borne out by the tenor of the agreement between Bethell and American Telephone and Telegraph Company which clearly indicates forced resignation. Bethell was a year younger than Thayer, who became President.

2/ See Appendix 17, Sheet 1.

> If it is possible for him to be spared from his present work for the Government, I would respectfully request that he be released so that he can return to us at as early a date as your convenience will permit.

Ch

Gifford was released from his duties with the Council in November, 1918. On his return to American Telephone and Telegraph Company he was made Comptroller, and on June 19, 1919, Comptroller and Vice President. Kingsbury died on January 24, 1920, and the position of First Vice President was not filled until October 16, 1923, when Gifford, at the age of 38, was made Executive Vice President. Even as early as April, 1922, however, he held the corresponding position in the company, since he substituted for Thayer on the Executive Committee in Thayer's absence, having been a Director since February, 1922. On January 20, 1925, Gifford was elected President, and Thayer became Chairman of the company.

In 1919, Vail picked Thayer to succeed him as President, and later Thayer picked Gifford to take over the administration. These two facts are clear from the following letter, written by Thayer to Henry S. Howe, Director, dated December 19, 1924: 1/

> With reference to the problem before the Committee which was appointed at the Tuesday meeting, I think it may be worth while to tell you in some detail what I have had in mind, which led me to suggest the present consideration of the subject and the appointment of a Committee.
>
> Considering it first as an organization problem. This business of ours is in a class by itself. I will not release figures with which the Committee is entirely familiar, but will emphasize one or two things.
>
> Among the 180 odd corporations which the Company directly and indirectly controls are, of course, large and small operating companies. There is a manufacturing company with sales, I think, equalling or exceeding any other electrical manufacturing company in 1924. There are foreign manufacturing companies employing about 15,000 people and producing merchandise this year to the value of about $40,000,000. There are other kinds of business, including realty corporations and even a small railroad. It is a very large and somewhat complicated business. The whole nation is interested in the efficiency of its operation as well as about 350,000 stockholders and as many employees. The business has history and policies and character and morale which would be jeopardized if you ever again had to

1/ Underscoring supplied.

go outside of the organization for a President. We have, I believe, a very efficient and effective organization with all of the elements of self-continuation. Since the election of Mr. Jewett on Tuesday, I can say that in our headquarters' organization there is either a younger or an older man technically qualified and experienced, who could carry on, at least temporarily, the work of any department if that department's chief were removed.

cb

That is true as to the position of chief responsibility assuming that either Mr. Gifford or I could carry the load without the other. However, it seems reasonable to me that, before I lose the ability to carry the load, to avoid a situation where our dependence would be solely upon him, Mr. Gifford should be put in a position to be thinking about and finally establishing in position, someone to take over the responsibility in the event of anything happening to him.

You will see that I am greatly impressed with the responsibilities of the position and the desirability of providing for a succession from within the organization.

Then there is the question of finances and public relations. Because Mr. Vail had arranged for the election of a President when he was supposed to be well and vigorous, there was hardly a ripple of anxiety about the administration of the business when he died. It seems to me that we should try to avoid anything like a change in administration. It should be a continuous administration and the transfer of authority and responsibility should be made at the right time and in the right way as well as to the right man. I have always believed that for the benefit of this business, the change should be gradual - that the President should become Chairman of the Board at the summit of his powers and then as he becomes less necessary to the business, should gradually fade from the picture while his successor is as gradually filling it.

Finally, there is the personal side of the subject and that is the side which prompted me particularly to ask special study of it by a Committee. There is no more important question can come before the Directors than the administration and it seems to me that it demands impersonal consideration. I am personally interested and being personally interested, it seems proper that I should avoid making an official recommendation, but should put the Directors in the way of coming to an independent conclusion. Mr. Gifford and I will be glad to be questioned. I have asked Mr. Houston to answer any questions without reserve.

I would suggest the consideration of the following questions but, of course, without the suggestion of limiting the Committee to them:

Is the plan of a gradual change desirable?

Should we take some action soon?

If so, when should we change the By-laws so as to provide for a Chairman of the Board?

When should we elect him?

Should there be any division of authority and responsibility and if so, what should it be?

What, if any, readjustment of salaries should be made?

I am sending a copy of this letter to Messrs. Adams and Alexander.

The following letter to Howe, dated December 29, 1924, also indicates that Thayer took it almost for granted that Gifford was to be the selection of the Board:

> I have arranged for the dinner at the University Club for Tuesday evening, January 6th and have spoken to Mr. Alexander about it and find that he is free for that evening. I assume that you have similarly arranged with Mr. Adams about it. I will put the time for the dinner at 7:15 P. M. so that you would not have to hurry from your train. Mr. Alexander has since told me that he has heard from you and that that hour is satisfactory.
>
> I think it can be arranged very easily so that you will have an opportunity to talk with Mr. Gifford and Mr. Houston by themselves. If Mr. Gifford is to take a larger part of the responsibility, it seems to me that his views as to how things should be set up should be given a good deal of weight and I am sure that he would be embarrassed in discussing such a subject in my presence and that is why I suggested and why I think it is really important that you should have some discussion of the matter with him.
>
> As I mentioned in the meeting, Mr. Houston, besides being a Director of the Company, is, although not directly a part of the American Telephone and Telegraph Company's organization, in such close connection with it that he has an opportunity to see the workings of the machine and would be able to consider the whole subject quite impersonally, so, looking forward to seeing you and Mr. Adams at dinner Tuesday evening, January 6th, at the University Club at 7:15 P.M. and counting on your passing my invitation to dinner along to Mr. Adams, I am, * * *

A month later, in January, 1925, Gifford was elected President of the American Company.

The changes in management in 1919 and succeeding years indicate that the administrative management of American Telephone and Telegraph Company had become self-perpetuating. Vail selected Thayer. He even went as far as to eliminate Bethell, the First Vice President, to do this. Vail moved Gifford up with unprecedented rapidity, and Thayer pushed him forward after Vail's death. In all this, different members of the board of directors acted in an advisory capacity. The board itself carried out what the president then in office decided upon. Thayer admitted that the American Telephone and Telegraph organization has "all the elements of self-continuation." 1/

Contrast between elections of 1919 and 1925 with previous cases.- The difference in the manner Hudson, Cochrane, Fish and Vail were selected as presidents of the parent companies of the Bell System, and the way Thayer and Gifford were selected, is clear from the foregoing recital. In the former cases, the board of directors took the initiative, in the case of Vail with outside influence; in the latter cases, the president in office took the initiative in selecting his successor, with the advice of members of the executive committee. Gifford, it is probable, was the mutual choice of both Vail and Thayer, since Vail started him on his way as early as 1918. Whether there was any outside influence on either Vail or Thayer in the selection of their successors is difficult to say. The least that can be said is that their choice met with the approval of the board of directors, since they are officially responsible for the formal act of appointment. Furthermore, it is not improbable that Vail was in close consultation with G. F. Baker, Sr., who, with Waterbury, represented the New York banking interests and as such was responsible for the election of Vail as President in 1907. Thus, it may be said that

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1/ See supra., pp.105-107, letter from H. B. Thayer to H. S. Howe, dated December 19, 1924; also letter written by H. B. Thayer on June 11, 1923 for G. F. Baker's signature, addressed to D. F. Houston, Appendix 17, Sheet 5.

the present administration of the Bell System traces its genesis, through Vail, to the banking control of the American Company established by J. P. Morgan and associates as the result of the financial stringency of 1907 and the actual and potential control over $150,000,000 of convertible bonds underwritten in 1906.

2. Selection of Directors.

Methods of selection.- In addition to "self-continuation" of administrative management, there is self-perpetuation of the board of directors. It is needless to say that with the growth of the outstanding stock from 258,863 shares in 1900 to nearly 19,000,000 in 1936, and the increase of the number of stockholders from 6,961 to nearly 650,000 in the same period, officers and directors control a very small part of voting stock. 1/

As of December 31, 1935, the Securities and Exchange Commission reports direct and indirect holdings of American Telephone and Telegraph Company stock by Directors and officers, of 13,667 shares. The Directors' holdings were 11,742 shares. Their ownership of stock is apparently not a consideration in their election as directors. 2/

Directors are elected in one of two ways. In the interim period between stockholders' meetings, the board of directors has the power to fill vacancies. Article IV, Section 2, of the by-laws of the American Telephone and Telegraph Company states that "Vacancies in the Board may be filled by the remaining directors." The by-laws of the company also provide, however, that the board of directors shall be elected by the

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1/ See Schedule 2.

2/ Securities and Exchange Commission, "Official Summary of Holdings of Officers, Directors and Principal Stockholders, as of December 31, 1935," pp. 12-13.

stockholders at the annual meeting. Thus, an appointee to the board of directors by the directors in office can serve only to the next annual meeting after his appointment, whereupon he must be elected by the stockholders. This, then, is the second and the more fundamental way of electing directors. This would seem to place control of the management, and hence of the corporation's affairs, in the hands of the stockholders, who may cast one vote for each share of stock held. But this potential control is exercised indirectly through a proxy committee which represents the management and hence has become an instrumentality of perpetuating the position of insiders.

<u>Operation of proxy machinery</u>.- The annual stockholders' meeting is a pure formality where the board of directors votes itself back into office. The membership of the proxy committees since 1924, as given in Schedule 5, indicates that, with but one exception, the proxy committees have been constituted of directors and members of the executive committee. These proxy committees have voted between 55.30 and 72.66 per cent of the stock outstanding during the period 1924 to 1935, as shown in Schedule 6. Until 1935, the members of the proxy committees were selected informally by the president of the company, in consultation with members of the board of directors. In 1935, the Board of Directors designated the proxy committee by resolution. This procedure is described by R. H. Strahan, Secretary of American Telephone and Telegraph Company, in a memorandum given to Commission staff in November, 1935. In answer to the question "Who selects the proxy committee?" Mr. Strahan writes: 1/

> For the annual meeting of stockholders of the American Telephone and Telegraph Company, held on April 17, 1935, the

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1/ See Appendix 18, Sheets 14-16.

Board of Directors by resolution adopted at a regular meeting held on February 20, 1935, directed the Secretary to mail to each stockholder of record at the close of business on Friday, March 15, 1935, a form of proxy which named Messrs. Houston, Gardner, Gifford, Stockton and Willard as the proxy committee.

The rules regarding the solicitation of proxies, consents and authorizations in respect of securities listed on a national securities exchange adopted by the Federal Securities and Exchange Commission on September 24, 1935 provide (Rule LA3 (a) (1)) that "if the solicitation is initiated by the directors of the issuer * * * " (the following information shall be presented) " * * * a statement whether the proxy is being solicited by or on behalf of the management of the issuer". In order to comply with this provision of the rules the Board of Directors will hereafter approve the form of proxy and select the proxy committee.

In 1934, and in each year prior thereto within the recollection of the present officers of the company, selection of the proxy committee for annual or special meetings of the Company has been discussed informally at regular meetings of the Executive Committee. It has been the custom to select such proxy committee from the membership of the Executive Committee, the only exceptions going back to 1919, being that Mr. George D. Milne, Treasurer of the Company to March 29, 1921 and after that date retired, but who was not then a director or member of the Executive Committee, served on the proxy committee at all meetings from 1919 to 1924 inclusive and Mr. Houston, a director but not then a member of the Executive Committee, served on the proxy committee for the special meeting of stockholders held in 1929. Members of the proxy committee have been requested to serve as such in each successive year, vacancies occurring by resignation or death being filled by the selection of other members of the Executive Committee. The usual practice has been for the President of the Company at a regular meeting of the Executive Committee, to request members present who had served in the previous year to act as members of the proxy committee for the next ensuing annual meeting, and in the event of a vacancy occurring in such membership, to request another member of the Executive Committee to serve. If a member of the previous year's proxy committee was not available so that a verbal request could be made, the President extended the invitation to serve in writing. Copies of an exchange of telegrams between Mr. Gifford and Mr. Willard, dated February 5 and 6, 1931, relating to service of the latter on the proxy committee for the annual meeting of that year are hereto attached.

Selection of the proxy committee and willingness of the members to serve thereon, was reported informally by the President to the Board of Directors at the regular meeting in each year when the Board by resolution pursuant to the By-laws of the Company (Article I, Section 2) fixed the record date for voting at the annual meeting.

<u>Voting of proxies</u>.- The proxy slips are mailed out to the stockholders several weeks before the date of meeting. As the signed proxies come into the company, they are checked against the stock records and tabulated in batches. This process continues until the morning of the stockholders' meeting, when the Inspectors of Election, who are usually employees of the company, report to the meeting the number of votes represented by proxy. The proxy committee then votes on a prepared ballot on which are printed the names of the directors who are to be voted on to serve during the ensuing year. The next question therefore is, who selects the directors on whom the proxy committee votes? This question was put to Mr. Strahan, and his answer, given in November, 1935, is as follows: 1/

> Directors of this company are elected annually by the stockholders pursuant to Section 55 of the Stock Corporation Law of New York and Article IV, Section 1 of the By-Laws. It has been the customary practice in this company for directors to continue to serve, subject to their annual election by the stockholders, until their death or resignation. Under the provisions of Article IV, Section 2, of the By-Laws, vacancies in the Board may be filled by the remaining directors, the person elected to fill any such vacancy serving until the next annual meeting. When such vacancy occurs the individual members of the Board of Directors consider the availability of possible candidates who may be suggested by one or more of them, such names are informally discussed at regular meetings of the Board, and when a person has been informally agreed upon to fill such vacancy, a formal nomination is made at a regular Board meeting; and the person nominated is elected by the members of the Board present at the meeting.
>
> In advance of the annual meeting of stockholders, none of the members of the Board of Directors in office having expressed unwillingness to continue to serve, a ballot is prepared in printer's proof form by the Secretary listing the members of the Board of Directors then in office, which is submitted to the President of the Company for approval. When approved, the ballot is printed for distribution to the stockholders present in person at the annual meeting who desire to vote the same. A ballot in this form is signed by the members of the proxy committee present at the annual

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1/ See Appendix 18, Sheets 14-16.

meeting, and also separate ballots are signed by individual members of the proxy committee when such individuals are designated by stockholders as proxy holders, the names of other members of the committee having been stricken out by the stockholder.

Cb

If a vacancy should exist in the membership of the existing Board of Directors which had not been filled by the remaining directors prior to the annual meeting, the Board of Directors or the proxy committee would instruct the Secretary to fill in the name of some person to fill such vacancy.

The names of the prospective directors on the ballot are therefore selected by the president and members of the board, the proof of the ballot is approved by the president, and it is printed several weeks before the annual meeting. 1/ This really is the stage where directors are selected -- by the existing management. The proxy committee cannot be said to represent the stockholders until the proxies are counted and verified, and that is not completed until the morning of the day when the stockholders' meeting is held.

This is only an academic problem, however, since the proxy committee consists largely of members of the executive committee and would

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1/ With regard to the dates when the ballot was prepared, Mr. Strahan informed the Commission staff as follows (Appendix 18, Sheets 17-19):

"* * * the records of the Publishers Printing Company (which have printed the ballots since I have been Secretary of the company) show that the order for the ballot to be used at the last annual meeting of the stockholders of the company (April 15, 1936) was given to its representative on April 6, 1936. My recollection is that the copy of the ballot was given to the printer on that day. I am also advised by Publishers Printing Company that it submitted the first proof of the ballot to me on April 7, 1936 and also submitted a revised proof on April 10, 1936, and that final delivery of the printed ballots was made to the Secretary's office on April 14, 1936, the day before the annual meeting. I am also advised by the printer that on March 28, 1935 it received the order for the ballot to be used at the annual meeting to be held on April 17, 1935. A first proof and also a revised proof were submitted by the printer on March 28, 1935. Final approval was received by it on April 11, 1935 and the final delivery of the printed ballots was made on April 12, 1935.

"The records show that on April 2, 1934 the printer received the order for the ballot to be used at the annual meeting to be held on April 18, 1934. A first proof was delivered on April 3, 1934 and a revised proof on April 4, 1934. Final approval was received on April 9, 1934 and final delivery of the printed ballots was made to the Secretary's office on April 10, 1934."

be expected to vote on their choices in their capacity as directors. It is significant, however, that the pretense of nomination of directors by the proxy committee as representatives of stockholders is not maintained. Instead, the committee votes on selections previously made by the management.

If there was any outward appearance of election of directors by the stockholders at the annual meeting, it disappeared in 1936. At the meeting of the Board of Directors on February 17, 1936 the Board directed the Secretary to mail a form of proxy to stockholders, including the names of the proxy committee, and also instructed this committee as follows: 1/

> It being the understanding of the Board that the said proxy holders will vote the stock represented by such proxies for the reelection of the Board of Directors and Inspectors of election then in office.

The "Notice of Annual Meeting" contained also the following paragraph in addition to the date of meeting and business to be transacted: 2/

> It is important that your stock be represented at the meeting in order that the presence of a quorum may be ensured. Enclosed is a form of proxy, which if you cannot be present in person you are requested to sign and forward to the undersigned. This proxy is solicited by the Board of Directors. The matters to be acted upon are above stated, and it is intended that the proxy holders whose names are printed therein will vote the same for the re-election of Directors and Inspectors of Election then in office.

The second sentence, that the proxy is solicited by the board of directors, is an addition to the notice that appeared for the first time in 1935 in conformity with the rules of the Securities and Exchange

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1/ See statement of R. H. Strahan, Appendix 18, Sheets 17 to 19.

2/ *Id.*, Sheets 19 and 20.

Commission. The last sentence, committing the proxy committee to vote for the directors who have selected the proxy committee, appeared in 1936, to make, it would seem, the self-appointment of the directors subject to the automatic approval of the stockholders.

This makes the self-perpetuation of the management a fact fully proved. The election of directors to fill vacancies in the interim period is, as shown before, a prerogative of the board of directors, the actual selection taking place by consultation of the president with members of the board, as stated by Mr. Strahan and as indicated by correspondence relative to selection of directors given in Appendix 18. This correspondence also shows that, on occasion, clerks in the company are selected by the management as dummy directors who are made to resign when suitable candidates are found for the positions.

3. Where Is Ultimate Control?

There remain two problems. The first involves the relations of the president, or more broadly, the administrative management of the company, with the board of directors. The second question is whether there is an outside influence bearing upon the management and the directorate. Both of these are difficult to solve for lack of definitive evidence pertaining to the period since 1919.

Relations of president to directorate.- To take the first problem: Of course the appointment of officers is made official by action of the board of directors. On the other hand, it does not exercise the power of initiative in the matter. Evidence has been introduced above that the outgoing president has groomed and prepared a successor, the board of directors approving the choice. As for the vice presidents, it is to be assumed that they are selected, according to the usual procedure in a corporation, by the president, with the approval of the board of directors. Thus, in the selection of officers the board has acted, since the time of Vail, in an advisory capacity, taking the necessary formal action in making appointments suggested by the president then in office.

In this connection, there is also the question of the selection of directors. The president of the company takes an active role in scouting for possible candidates. Other members of the board also make suggestions. Then the president discusses these candidates with various members of the board. When there is common agreement on a candidate, then he is approached to determine whether he would accept the position. On receiving an affirmative answer, the necessary formal action is taken, and the president sends a letter informing the new incumbent of his election as director. 1/

In considering candidates for directorships, certain general policies seem to have been followed. Until 1902, New England had almost exclusive possession of the board. Then New York banking interests came in through acquisition of stock and convertible bonds. Vail introduced the policy of geographical distribution of directorships, 2/ which Thayer and Gifford have followed. There has been a tendency in the last decade to give directorships to men with important financial connections. 3/

To sum up the condition in selecting directors: The president of the company seems to be instrumental in determining the type of new candidates for directorships subject to the advice of his close advisers on the board of directors, acceptability to the other directors then in office, and availability of the individuals selected.

1/ See Appendix 18 for examples of this procedure.

2/ Id., Sheets 9 and 10.

3/ F. C. C. Exhibit 228, "Outside Contacts of the Bell System," Chapter I, Tables 2, 3 and 4.

<u>Outside relations of directorate</u>.- The second problem is whether there is any outside influence bearing upon the president or individual members of the board which affects the selection of directors, causing certain interests to be represented. There has been found no direct evidence of such outside pressure since Thayer's accession to the presidency. There is, of course, the fact that through "self-continuation" the present management had its origin in the banking control of 1907. Furthermore, certain banking interests, then allied with the investment bankers who caused the reorganization, have continued to be represented on the board. For example, the First National Bank of New York has been continously represented on the board of directors of the American Company since 1902. A good part of the time it has had two directors. In 1921, in addition to G. F. Baker, Sr., C. D. Norton, a Director and formerly Vice President of the First National Bank of New York, was a Director of the American Company. In 1923, Norton died. On this occasion Thayer arranged with Baker for a successor. At first he had a dummy director elected, who was later replaced by G. F. Baker, Jr. Thayer wrote to Baker on March 9, 1923:

> I was greatly shocked to hear of Mr. Norton's death.
>
> At the Annual Meeting we shall, I assume, fill the place temporarily but I would like to talk with you after your return North before it is filled permanently. There is, of course, no hurry.

C. L. Langbridge, a clerk of the American Telephone and Telegraph Company, was elected to succeed C. D. Norton on March 27, 1923. On the same day, H. B. Thayer wrote to George F. Baker, Jr.:

> On my return from your office, I found that the transfer books were closed. I believe that they are now open, after our Annual Meeting, and if you will have a share or two put in your name so as to qualify you, you will be elected at the April meeting.

On April 17, 1923, G. F. Baker, Jr., who at that time was Vice Chairman of the Board of Directors of the First National Bank of New York, was elected a Director of the American Company. 1/

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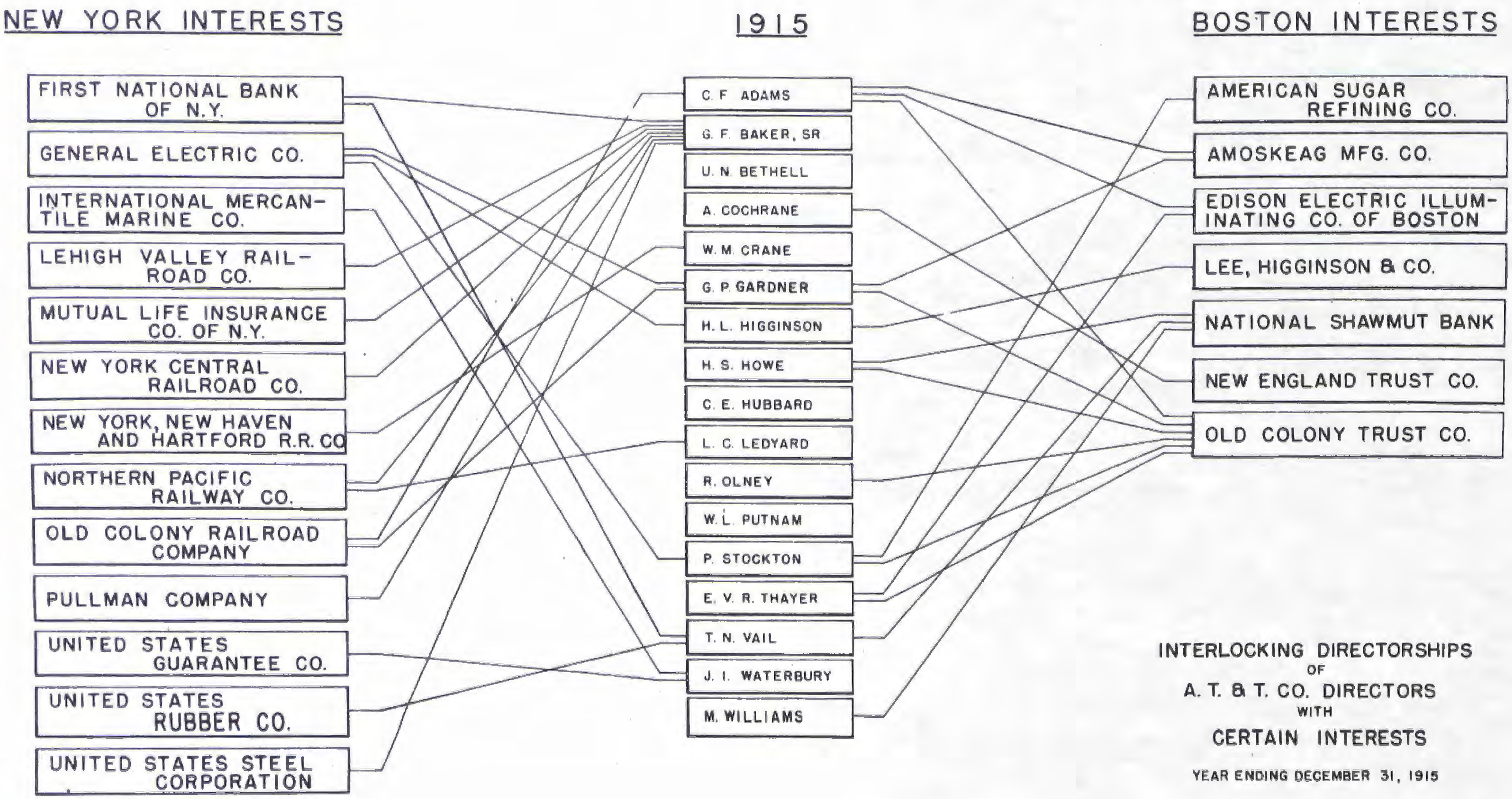
On May 2, 1931, George F. Baker, Sr., who had been an important figure in the affairs of the American Company, passed away. He was succeeded on June 10, 1931 by S. A. Welldon, a Vice President and Director of First National Bank of New York. Reciprocally, W. S. Gifford has been a member of the board of directors of First National Bank of New York since 1924.

There have been similar relationships with some other large corporations commonly considered to be within the orbit of influence of J. P. Morgan & Company, First National Bank of New York, and the First National Bank of Boston. General Electric Company have had three or four interlocking directorships with the American Company during the past 30 years. Similarly, United States Steel Corporation has had two, and in the last ten years, three, four, or five interlocking directorships. There has been an increase in such relationships with United States Steel Corporation during Gifford's administration. There is, also, a very close interlocking directorate relationship between American Telephone and Telegraph Company and Mutual Life Insurance Company. There have been, in the past ten years, seven or eight individuals who are both members of American Telephone and Telegraph Company's board of directors and trustees of Mutual Life. In addition to these, institutions like Old Colony Trust and National Shawmut Bank of Boston, have continued to be represented from the earliest days of the company's history. Lately, Chase National Bank has come into the picture. The development of these relationships can be observed from Charts 5 to 9, inclusive, pages 119 to 123, inclusive.

1/ Mr. G. F. Baker, Jr. was a Director and a member of the Executive Committee (since March 31, 1931) at the time of his death, May 30, 1937.

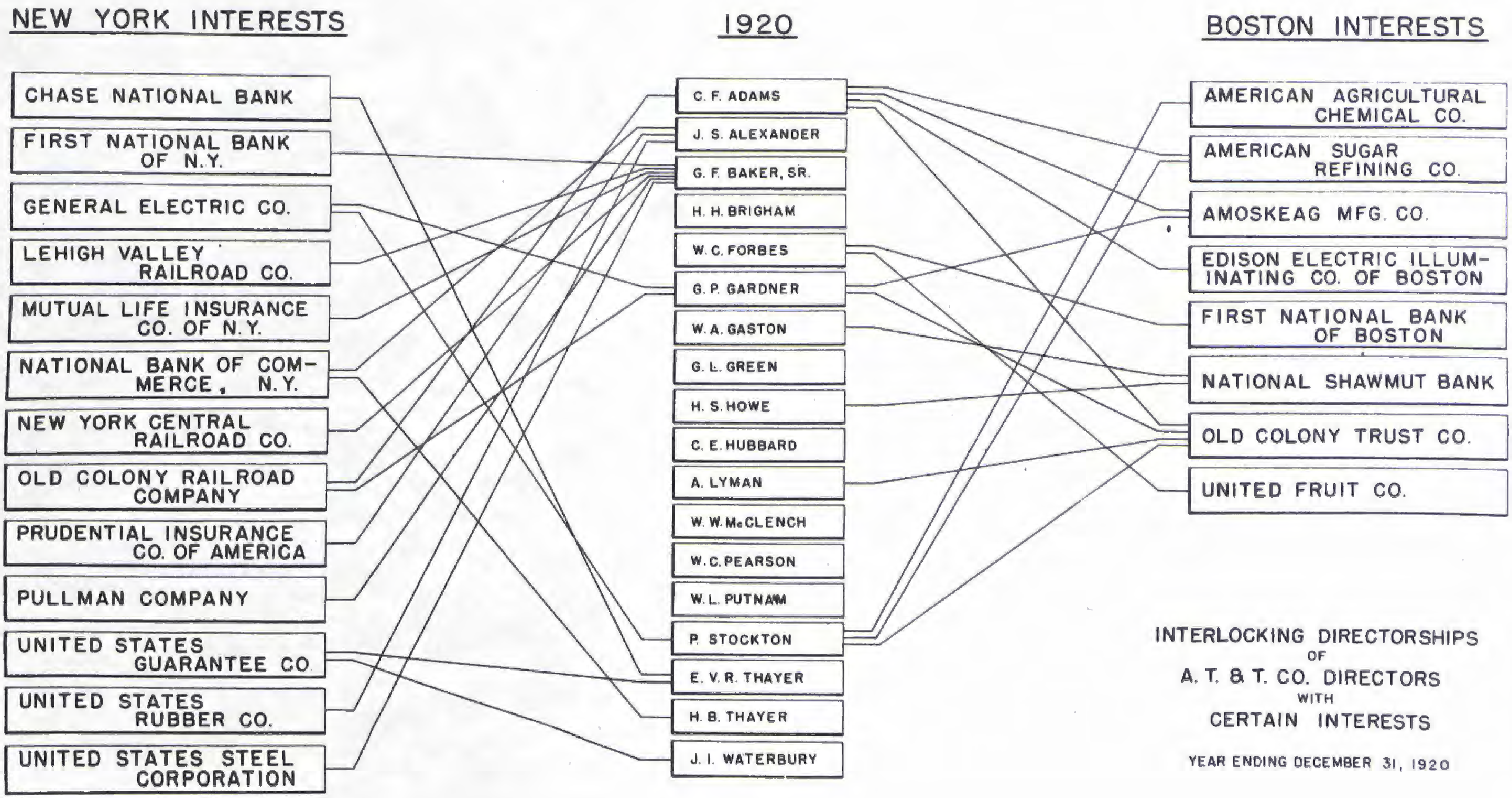
CHART 5



INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

YEAR ENDING DECEMBER 31, 1915

CHART 6

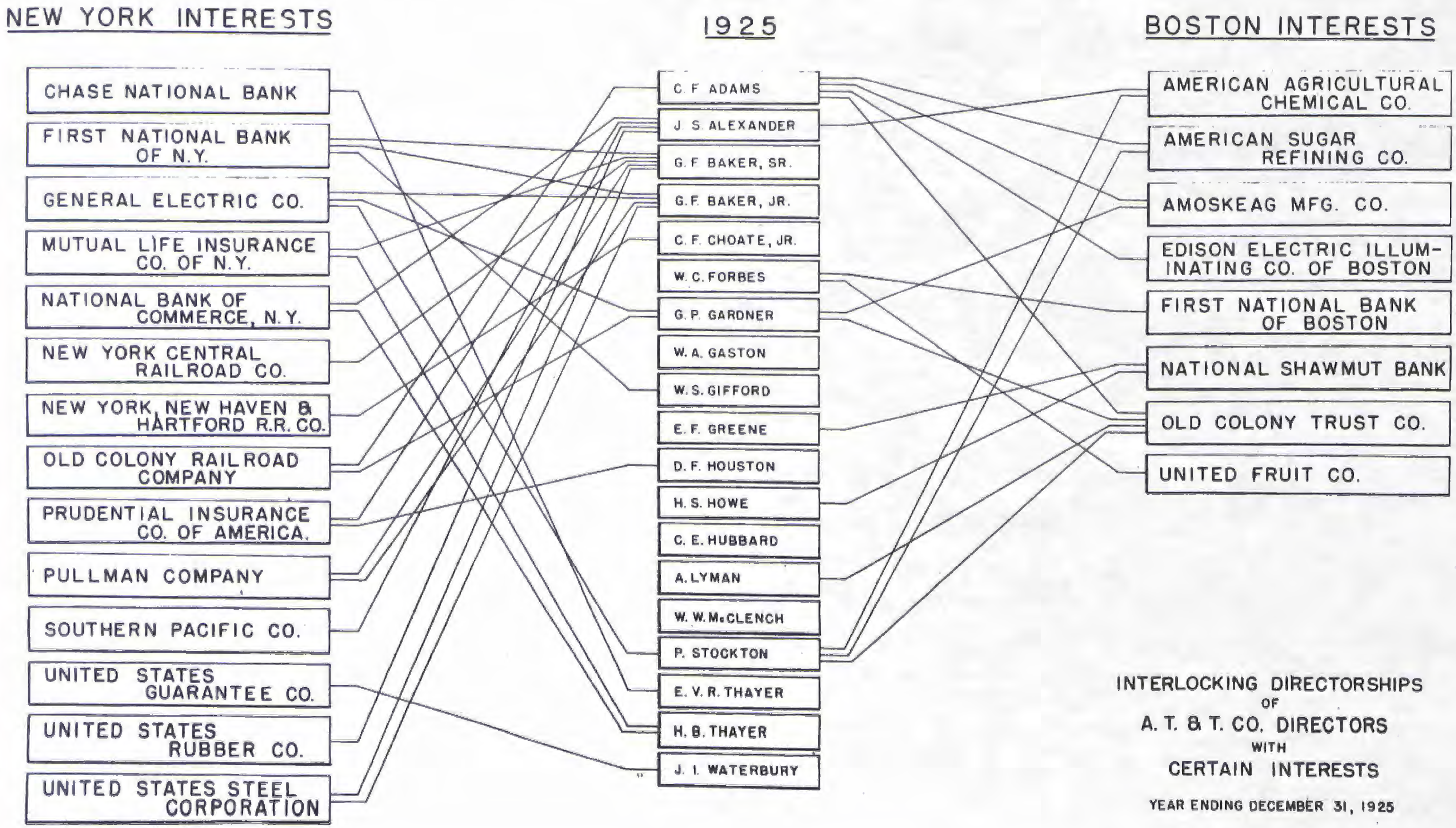


INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

YEAR ENDING DECEMBER 31, 1920

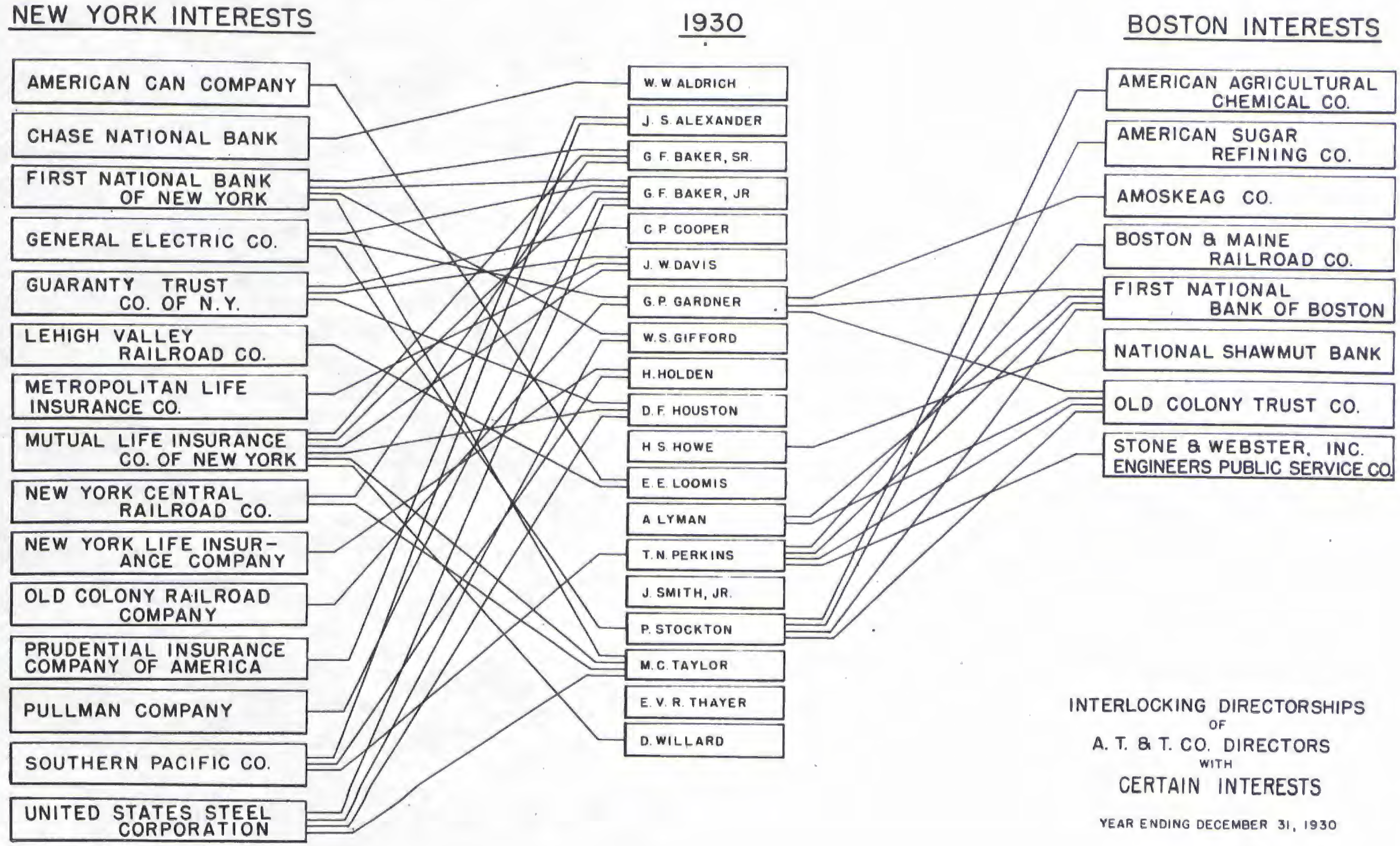
G

CHART 7



INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

YEAR ENDING DECEMBER 31, 1925

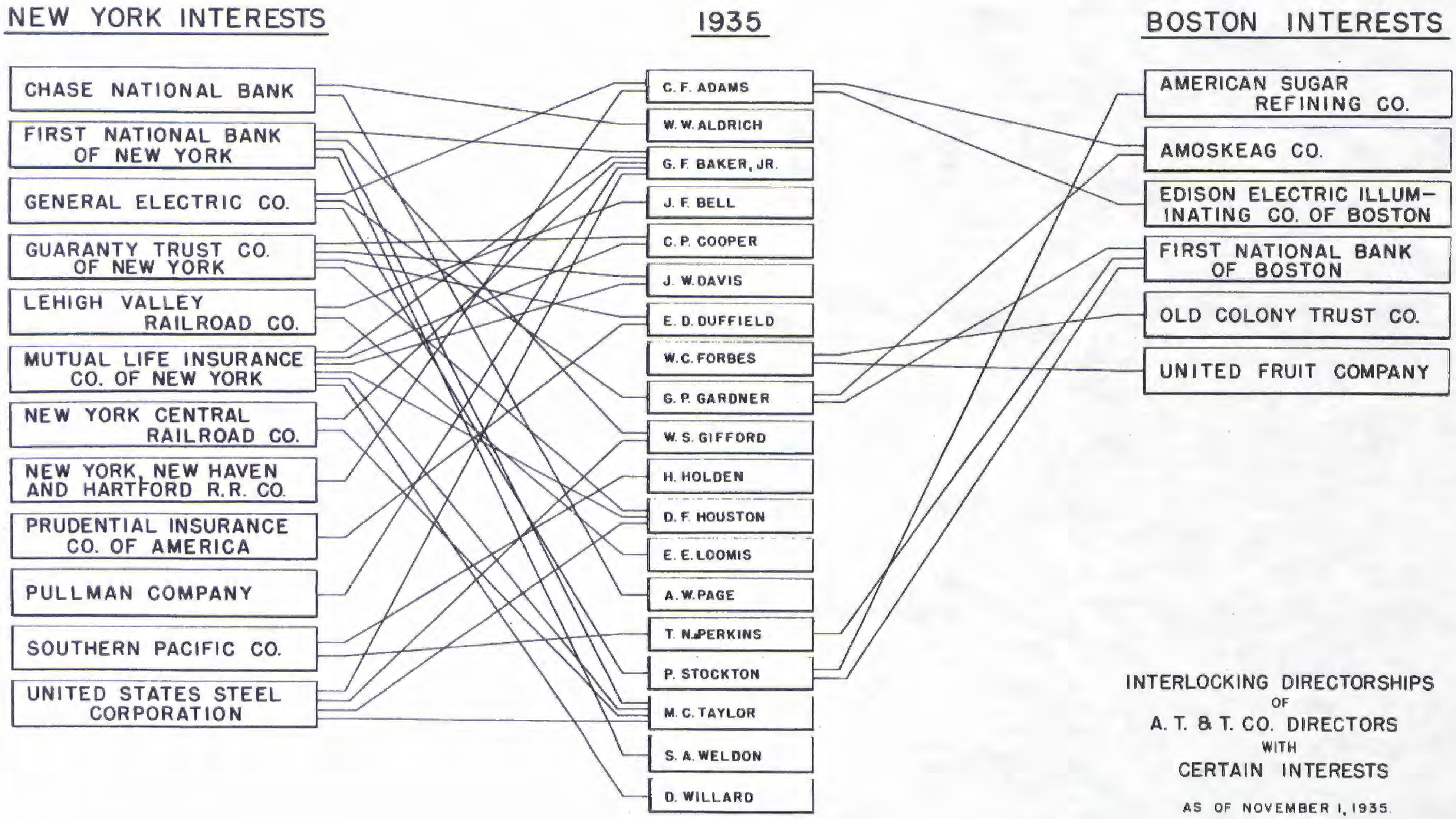


INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

YEAR ENDING DECEMBER 31, 1930

G

CHART 9



INTERLOCKING DIRECTORSHIPS
OF
A. T. & T. CO. DIRECTORS
WITH
CERTAIN INTERESTS

AS OF NOVEMBER 1, 1935.

These banks are related to American Telephone and Telegraph Company in other ways as well. It has already been shown 1/ that they control large blocks of stock as trustees. Their combined holdings do not constitute a controlling factor, if exercised through the voting of stock, but comprise perhaps the only holdings of American Telephone and Telegraph Company stock that could be pooled easily and made the nucleus of a campaign contesting the management if any disagreement arises with the policies of the management. In market value the holdings of stock by 15 or 16 banks would be over a hundred million dollars. If we add to this interest their holdings of bonds, the Bell System deposits, and the underwriting of Bell System bonds, a substantial interest in the affairs of the Bell System is natural.

Mr. Strahan, the Secretary of the American Company, has stated that it is the tradition of the company to reelect the board of directors then in office. To this, it may be added that it is also somewhat of a tradition to have certain interests as described above continuously and amply represented.

Ch

American Telephone and Telegraph Company management today.- It may be said, therefore, that the financial interests of Boston have continued on the directorate by virtue of initial entry into the parent organization of the Bell System during the early history of the business. The New York interests came in as a result of the financing of 1902 and 1906-1908, and the scattered representation of various interests spread geographically and by occupation has been undertaken as a matter of policy by the management since Vail's administration, although finance

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1/ F. C. C. Exhibit 230, "Ownership of American Telephone and Telegraph Company," Appendix 1. Also, Exhibit 229, "Banking Relations of the Bell System," Table 4 and Schedule 7.

predominates. The machinery of self-perpetuation, the personal contacts in the higher spheres of the financial community, and the sense of obligation of the present management due to its genesis in the changes of 1907 and 1919, can be trusted to insure the continuity of autonomous management with a definite allegiance to certain New York and Boston banks. In a word, it may be said that the management of the American Company is autonomous, tempered with understandable respect for these financial interests.

4. Management's Concern with Control.

The management is by no means insensible to the question of control. From time to time, a number of studies have been made on that subject; for example, one is entitled "Analysis of Proxies Received from American Telephone and Telegraph Stockholders for 1934 Annual Meeting," and another, "Participation of American Telephone and Telegraph Stockholders in 1934 Annual Meeting." 1/ There are studies on "Statistics Covering Large Stockholdings in the American Telephone and Telegraph Company and Its Predecessors from 1881 to 1926," which have tables, among others, on "Degree of Control by Large Stockholders," "Potential Control by Directors," and "Estimated Number of Stockholders in Addition to Large Holders and in Addition to Directors Necessary to Control Annual Meeting." 2/

Furthermore, the assistant treasurer of the company receives a daily memorandum known as "Significant Transfers." 3/ Information on this memorandum concerns transfers of stock involving 500 shares or more.

1/ Reproduced as Appendix 19.

2/ Reproduced as Appendix 2.

3/ Examples are reproduced in Appendix 20, Sheets 3 to 5.

The names of those selling and those purchasing the stock are also recorded. If a new large stockholder appears on the books of the company, an effort is made to obtain some biographical material on him. This may take the form of consulting standard references, such as "Who's Who in America" and "Directory of Directors in New York;" or the company may endeavor to obtain such facts through other sources. On October 19, 1925, H. Blair-Smith, Treasurer of American Telephone and Telegraph Company, wrote R. A. Nickerson, Treasurer of Southwestern Bell Telephone Company, the following: 1/

> We like to know something of those who make substantial investments in the stock of this Company, and for this reason I would appreciate it if you could give me some information regarding the following: /three names follow/

The Treasury Department of the American Company constantly endeavors to keep informed of the holdings of banks and trust companies. For this purpose, an attempt is made to find out in various ways the names of nominees through whom banks and trust companies hold stock. 2/ By these means, the management keeps informed of the dealings of banks, as well as of other significant interests, in the stock of the American Company.

This concern about the owners of large blocks of stock, the acquisition of more shares by significant interests, and the studies made on potential control, are natural expressions of interest, if not anxiety, of a self-constituted management interested in its continuation in office. It is the same kind of concern that a political machine in control of the government of a city, state or nation would have in the influences operating among the electorate, with the difference, however, that the one-sided operation of the proxy machinery makes contest of control of the American Company rather remote.

1/ This letter and other related correspondence are reproduced in Appendix 20, Sheets 1 to 3.

2/ See Appendix 20, Sheets 6 and 7, for an example of the type of information obtained. See also F. C. C. Exhibit 229, "Banking Relations of the Bell System," Schedule 7.

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AMERICAN TELEPHONE AND TELEGRAPH COMPANY
AND
PREDECESSORS

Schedule 1a
Sheet 1

LIST OF DIRECTORS OF PREDECESSORS PRIOR TO 1900 WITH THEIR TERMS OF OFFICE
Including Directorships Held by Them in
American Telephone and Telegraph Company

Name of Director (a)	Bell Telephone Company (Association) (b)	New England Telephone Company (c)	Bell Telephone Company (Corporation) (d)	National Bell Telephone Company (e)	American Bell Telephone Company (f)	American Telephone and Telegraph Company (g)
Bell, A.G.	8-1-77 7-2-85				9-9-11 12-16-21	
Hubbard, C.E.	8-1-77 7-2-85	2-2-78 5-26-03	7-20-78 5-26-03	3-10-79 5-26-03	3-31-80 12-16-21	5-9-00 8-24-28
Hubbard, G.G.	8-1-77 7-2-85	2-2-78 1-30-82	7-20-78 6-21-80	3-10-79 4-12-82	5-14-80 12-10-97	
Sanders, T.	8-1-77 7-2-85	2-2-78 5-26-03	7-20-78 5-26-03	3-10-79 5-26-03	5-14-80 8-7-11	5-9-00 8-7-11
Watson, T.A.	8-1-77 7-2-85	2-2-78 1-30-82	7-20-78 1-30-82			
Bradley, C.S.		2-2-78 1-30-82	12-31-78 6-21-80	3-10-79 4-12-82	5-14-80 3-11-85	
Cochrane, A.		2-2-78 1-28-89	1-30-82 5-26-03	3-10-79 3-8-86	5-14-80 3-28-11	1-6-93 4-10-19
Silsbee, G.Z.		2-2-78 1-30-82		3-10-79 4-12-82	3-31-80 5-14-80	
Saltonstall, W.G.		2-2-78 2-2-85	1-30-82 10-8-84	4-7-79 3-10-90	3-31-80 11-29-86	
Goodspeed, J.H.			7-20-78 12-31-78			
Sturgis, J.			7-20-78 12-31-78			
Bradley, G.L.			7-20-78 1-30-82	3-10-79 4-12-82	3-31-80 3-26-06	5-9-00 3-26-06
Bailey, T.B.		1-25-97 5-26-03	7-20-78 12-31-78	3-10-79 4-7-79	3-31-80 3-29-21(A)	5-9-00 3-30-15(
Forbes, W.H.		1-30-82 9-19-87	12-31-78 9-19-87	3-10-79 9-19-87	3-31-80 10-11-97	9-2-85 9-23-97(
Blake, F., Jr.			12-31-78 1-30-82	3-10-79 4-12-82	3-31-80 3-28-11	5-9-00 1-19-13
Fay, R.S.				3-10-79 3-12-82	3-31-80 3-28-82	
Emerson, C.		1-30-82 1-28-84	6-21-80 9-13-82		3-31-80 5-14-80	
Driver, W.R.		1-30-82 5-26-03	6-21-80 5-26-03	4-12-82 5-26-03		
Whitcomb, C.M.		1-16-91 1-28-95		3-10-90 3-11-95	3-31-80 5-14-80	
Devonshire, R.W.		1-27-90 5-26-03	9-10-89 5-26-03	4-12-82 5-26-03	3-31-80 12-16-21(A)	5-8-90 5-7-92
Bowditch, C.P.			10-8-84 5-26-03		5-14-80 3-20-07(A)	11-30-85 3-20-07(

(A) Indicates director was in and out during period.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY
AND
PREDECESSORS

Schedule 1a
Sheet 2

LIST OF DIRECTORS OF PREDECESSORS PRIOR TO 1900 WITH THEIR TERMS OF OFFICE
Including Directorships Held by Them in
American Telephone and Telegraph Company

Name of Director (a)	Bell Telephone Company (Association) (b)	New England Telephone Company (c)	Bell Telephone Company (Corporation) (d)	National Bell Telephone Company (e)	American Bell Telephone Company (f)	American Telephone and Telegraph Company (g)
Minturn, R.B.					3-29-81 7-13-87	
Hudson, J.E.		1-30-82 10-1-00	1-30-82 9-2-00	5-12-82 10-1-00	11-29-86 10-1-00	3-9-86 10-1-00
Clapp, C.					3-28-82 6-20-88	3-9-86 5-24-88
Phillips, G.L.				4-12-82 3-10-84		
Madden, O.E.				4-12-82 3-8-86		
Vail, T.N.				4-12-82 3-9-91		8-14-85 5-7-92
					3-25-02 4-16-20	3-25-02 4-16-20
Stone, P.S.		1-28-84 1-26-91	9-13-82 9-10-89	3-10-84 3-9-91		
Perkins, C.E.					3-11-85 5-14-07	5-9-00 5-14-07
French, C.J.		1-28-89 5-26-03	9-9-91 5-26-03	3-8-86 5-26-03		
Stockton, H.		9-19-87 1-27-90	9-19-87 9-10-90	9-19-87 3-10-90	7-13-87 5-14-90	9-19-87 5-8-90
Blake, S.					3-26-89 5-8-89	
Howe, H.S.					5-8-89 12-16-21	12-24-9[illegible] 3-2-3[illegible]
Sherwin, T.				3-10-90 5-26-03		
Ware, C.P.				3-9-91 5-26-03		
Hutchinson, W.S.		1-28-95 5-26-03	9-2-00 5-26-03	3-11-95 5-26-03		
Amory, C.W.					3-26-95 3-28-11	9-23-9[illegible] 5-20-1[illegible]
Williams, M.					3-26-95 8-21-19	5-9-0[illegible] 8-21-1[illegible]
Milne, G.D.				3-8-97 5-26-03		3-26-1[illegible] 3-25-1[illegible]
Coolidge, T.J., Jr.					3-30-97 3-28-11	5-9-0[illegible] 4-14-1[illegible]
Forbes, J.M.					1-19-98 2-19-04	5-9-0[illegible] 2-19-0[illegible]

Schedule 1b

AMERICAN BELL TELEPHONE COMPANY

OFFICERS AND MEMBERS OF EXECUTIVE COMMITTEE
Years 1885 to 1900, Inclusive

Name (a)	Executive Committee (b)	President (c)	Vice President (d)	Treasurer (e)	Clerk (f)	Auditing Committee (A) (g)
Hubbard, C.E.					3-31-85) 6-28-21) (B)	
Driver, W.R.				3-31-85 3-31-14		
Forbes, W.H.	4-3-85 3-29-98	4-3-85 3-29-88				
Bowditch, C.P.	4-3-85 3-30-87		4-3-85 3-30-87			
Cochrane, A.	3-29-92 3-30-97					
	4-3-85 3-31-86					3-30-87 3-29-88
	3-28-93 3-27-94					
	3-26-95 4-9-07					
Saltonstall, W.G.						4-3-85 3-30-87
Clapp, C.	3-31-86 3-29-88					
Hudson, J.E.	3-30-87 10-1-00	4-1-89 3-28-01	3-30-87 4-1-89			
Stockton, H.	3-29-88 4-1-89	3-29-88 4-1-89				
Blake, F.						3-29-88 3-28-01
Howe, H.S.	3-30-97 4-3-11					
Amory, C.W.	3-29-98 4-9-07					

(A) From April 3, 1885 to March 30, 1887, known as the Standing Committee for Auditing the Accounts, and from March 28, 1899 to March 28, 1901, the Committee on Treasurer's Accounts.

(B) Pensioned between 1914 and 1917.

Schedule :

AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND PREDECESSOR COMPANIES

PER CENT OF EQUITY OWNERSHIP BY DIRECTORS, OTHER OFFICERS AND THEIR FAMILY RELATIONS As of Selected Dates from July 9, 1877 to September 16, 1935(A)

Date	Total Outstanding Shares	Per Cent of Outstanding Shares Held by			
		Directors(B)	Other Officers	Family Relations(C)	Directors, Other Office and Family Relations
(a)	(b)	(c)	(d)	(e)	(f)
BELL TELEPHONE COMPANY (ASSOCIATION)					
July 9, 1877) July 20, 1878)	5,000	68.06%	- %	31.94%	100.00%
NEW ENGLAND TELEPHONE COMPANY					
February 12, 1878	2,000	100.00	-	-	100.00
March 10, 1879	2,000	28.20	8.05	5.40	41.65
BELL TELEPHONE COMPANY (CORPORATION)					
July 20, 1878	4,500	75.24	1.76	19.82	96.82
March 10, 1879	4,500	54.25	1.11	19.66	75.02
NATIONAL BELL TELEPHONE COMPANY					
March 10, 1879	7,250	55.04	.10	21.26	76.40
AMERICAN BELL TELEPHONE COMPANY					
December 8, 1880	73,500	40.13	3.83	12.44	56.40
March 28, 1885	96,021	12.91	.02	8.53	21.46
March 31, 1890	112,971	5.13	-	6.31	11.44
March 30, 1895	205,000	3.95	-	6.45	10.40
March 31, 1900	258,863	1.37	-	3.67	5.04
AMERICAN TELEPHONE AND TELEGRAPH COMPANY					
March 17, 1905	1,315,514	1.88	-	-	-
March 31, 1910	2,592,894	2.31	-	-	-
March 31, 1915	3,579,779	1.30	-	-	-
March 19, 1920	4,420,615	.86	-	-	-
March 17, 1925	8,915,329	.57	-	-	-
March 14, 1930	13,909,697	.73	-	-	-
September 16, 1935	18,662,275	.06	-	-	-

(A) Information as of March 31, 1900 and prior dates was compiled from the stock records of the companies. Data on per cent of outstanding shares held by directors of American Telephone and Telegraph Company were obtained from compilations made by the company.

(B) From July 9, 1877 to March 31, 1900, includes percentage of shares held by directors as trustees or agents. From March 17, 1905 to September 16, 1935, the percentages are for shares owned by directors. However, if 271,104 shares of American Telephone and Telegraph Company common stock, held by American Bell Telephone Company and voted by Frederick P. Fish, President, were included, the percentage for March 17, 1905 would be 18.6

(C) The per cent of outstanding shares held by family relations of directors and other officers of the companies prior to 1900 is computed on the basi of holdings of individuals with the same surname.

/3/

9b

Item

Sold to J. P. Morgan &
1. 30-Year Collateral Tr
2. 3-Year 6% Gold Notes
3. 5-Year 6% Gold Notes
4. 20-Year Sinking Fund
5. 35-Year Sinking Fund
6. 35-Year 5% Gold Deben

Sold to Morgan, Stanley
7. 25-Year 3¼% Debenture
8. 30-Year 3¼% Debenture

Underwritten by J. P. M
9. Convertible 4½% Gold
10. 7-Year 6% Convertible

11. Total

Note: The above list doe

(a) $219,112,700 o
Debenture Bond
this issue was
and was not un
(b) $40,000,000 of
1918, sold to
associates, in
obtained from
no information
to the public

Item	Description of S
	(a)
	Underwritten by J. P. Morg associates:
1.	First Mortgage $4\frac{1}{2}$% Gol B, due 1961
2.	First and Refunding Mo Bonds, Series C, due
3.	30-Year First Mortgage Gold Bonds, due 1941
	Underwritten by Morgan, Sta Incorporated, and associa
4.	First and Refunding Mo Series B, due 1970
5.	First and Refunding Mo Series B
6.	Refunding Mortgage $3\frac{1}{2}$% due 1966
	Refunding Mortgage $3\frac{1}{2}$% due 1966
	Underwritten by Chas. W. S Company:
7.	40-Year 5% Gold Debent
8.	Total

(A) Ba of

(B) To so Fu in

(C) Di

Members (a)	1936 (b)	1927 (l)	1926 (m)	1925 (n)	1924 (o)
Walter S. Gifford	P.D.ExCC.	P.D.ExC.	P.D.ExC.	P.D.ExC.	-
Daniel Willard	D.ExC.	-	-	-	-
David F. Houston	D.ExC.	-	-	-	-
Philip Stockton	D.ExC.	-	-	-	-
George P. Gardner	D.ExC.	-	-	-	-
James S. Alexander	-	-	-	-	-
Henry S. Howe	-	D.ExC.	D.ExC.	D.ExC.	D.ExC.
Charles Francis Adams	-	D.ExC.	D.ExC.	D.ExC.	D.ExC.
Harry B. Thayer	-	Ch.ExC.	Ch.ExC.	Ch.ExC.	P.D.ExC.
John I. Waterbury	-	D.ExC.	D.ExC.	D.ExC.	D.ExC.
George D. Milne	-	-	-	-	(C)
Total number of members	5	5	5	5	5

Record Date (a)	
March 14, 1924	
March 17, 1925	
March 15, 1926	
March 15, 1927	
March 15, 1928	
March 14, 1929	
April 9, 1929(B)	
March 14, 1930	
March 14, 1931	
March 12, 1932	
March 14, 1933	
March 15, 1934	
March 15, 1935	

Record Date (a)	Ou
March 14, 1924	7
March 17, 1925	8
March 15, 1926	9
March 15, 1927	10
March 15, 1928	11
March 14, 1929	12
April 9, 1929(B)	13
March 14, 1930	13
March 14, 1931	18
March 12, 1932	18
March 14, 1933	18
March 15, 1934	18
March 15, 1935	18

(A) Also includes dire
individually as at

(B) Special meeting.

APPENDICES

APPENDIX 1

Copies of Agreements re Pooling of Stock of National Bell Telephone Company, 1879

	Sheet
Agreement dated April 2, 1879 -- pooling of stock	1
Agreement dated December 15, 1879, releasing members of the pool from obligations of the agreement of April 2, 1879	2

APPENDIX 2

Copy of American Telephone and Telegraph Company Document Entitled "Statistics Covering Large Stockholdings in the American Telephone and Telegraph Company and Its Predecessor from 1881 to 1926"
(12 sheets)

APPENDIX 3

Copies of Proxy Forms and Votes Used in Annual Meetings of Stockholders of American Telephone and Telegraph Company and Its Predecessors, at Intervals from 1880 to 1935

	Sheet
Proxy of stockholder of National Bell Telephone Company used in 1880	1
American Telephone and Telegraph Company -- invitation to stockholders to send proxies, dated March 12, 1901	2
Samples of American Telephone and Telegraph Company proxy forms used in 1901, 1905, 1910, 1915, 1920, 1925, 1930, and 1935 . .	3-9
Vote of F. P. Fish of American Telephone and Telegraph Company treasury stock at annual meeting of stockholders, March 26, 1907	10
Vote of W. A. Driver and H. S. Howe of proxies for various shareholders at annual meeting of stockholders of March 26, 1907	11
Vote of proxy committee on Sturgis Resolution at annual meeting of stockholders of March 26, 1907	12

APPENDIX 4

Memorandum of Agreement and Declaration of Trust, May 15, 1900, re American Bell Telephone Company Stock
(2 sheets)

APPENDIX 5

List of Dates of Incumbency of Incorporators, Directors, Members of Executive Committee, and Officers of American Telephone and Telegraph Company, 1885 to 1934
(1 sheet)

APPENDIX 6

Copies of Correspondence re Proxies for Special Stockholders' Meeting, December, 1905, to Approve Convertible Bond Issue

	Sheet
Solicitation of proxy -- Letter dated December 15, 1905, from F. P. Fish, to W. L. Putnam	1
Solicitation of proxy -- Letter dated December 15, 1905, from F. P. Fish to G. B. Moffat	1-2
Solicitation of proxy -- Letter dated December 15, 1905, from F. P. Fish to M. J. Perry	2
In opposition to plan of financing -- Letter dated December 16, 1905, from F. P. Fish to J. S. Fay, Jr.	3
In opposition to plan of financing -- Memorandum dated December 15, 1905, from G. D. M. (G. D. Milne) to F. P. Fish	3
In opposition to plan of financing -- Letter dated December 18, 1905, from Seth Low to F. P. Fish	4
In favor of plan of financing -- Letter dated December 16, 1905, from M. J. Perry to F. P. Fish	4

APPENDIX 7

Copies of Correspondence re Mackay Companies' Demand for Representation on the Board of Directors of American Telephone and Telegraph Company, 1906-1907, and Correspondence re Sale of Mackay's Investments in American Telephone and Telegraph Company Stock, 1909-1910

	Sheet
Letter dated March 27, 1905 from C. H. Mackay to T. J. Coolidge,Jr.	1-2
Letter dated March 30, 1905 from T. J. Coolidge,Jr. to C. H. Mackay	2-4
Letter dated April 3, 1905 from C. H. Mackay to T. J. Coolidge,Jr.	4-7
Letter dated April 11, 1905 from T. J. Coolidge,Jr. to C. H. Mackay	7-8
Letter dated April 12, 1905 from C. H. Mackay to T. J. Coolidge,Jr.	8
Letter dated June 20, 1905 from J. I. Waterbury to C. H. Mackay . .	8-9
Letter dated June 20, 1905 from C. H. Mackay to J. I. Waterbury . .	9
Letter dated July 3, 1905 from T. J. Coolidge,Jr. to C. H. Mackay .	10
Letter dated July 6, 1905 from C. H. Mackay to T. J. Coolidge,Jr. .	10
Letter dated July 7, 1905 from T. J. Coolidge,Jr. to C. H. Mackay .	11
Letter dated January 2, 1906 from T. J. Coolidge,Jr. to F. P. Fish	11
Letter dated March 1, 1906 from C. H. Mackay to F. P. Fish	12
Letter dated March 2, 1906 from F. P. Fish to C. H. Mackay	12
Letter dated March 3, 1906 from C. H. Mackay to F. P. Fish	13
Letter dated March 5, 1906 from F. P. Fish to C. H. Mackay	13-14
Letter dated March 6, 1906 from C. H. Mackay to F. P. Fish	14
Letter dated March 7, 1906 from F. P. Fish to C. H. Mackay	15
Letter dated April 14, 1906 from T. N. Vail to F. P. Fish	15-17
Letter dated April 23, 1906 from F. P. Fish to W. M. Crane	17
Letter dated April 23, 1906 from F. P. Fish to H. S. Howe	17-18
Letter dated April 26, 1906 from W. M. Crane to F. P. Fish	18
Letter dated July 5, 1906 from C. H. Mackay to F. P. Fish	18
Excerpts from letter dated October 10, 1906 from W. H. Baker to Finance Committee of The Mackay Companies	19

APPENDIX 7 (Continued)

	Sheet
Letter of December 24, 1906 from C. H. Mackay to F. P. Fish	20
Letter dated December 28, 1906 from F. P. Fish to C. H. Mackay . .	20-21
Letter dated December 31, 1906 from C. H. Mackay to F. P. Fish . .	21
Letter dated February 1, 1907 from C. H. Mackay to F. P. Fish . . .	21-22
Letter dated February 10, (1907) from T. J. Coolidge,Jr. to F. P. Fish	22
Letter dated February 13, 1907 from F. P. Fish to C. H. Mackay . .	22-23
Letter dated February 19, 1907 from C. H. Mackay to F. P. Fish . .	23-24
Letter dated February 21, 1907 from J. I. Waterbury to F. P. Fish .	24-25
Letter dated February 21, 1907 from W. M. Crane to F. P. Fish . . .	25
Letter dated February 25, 1907 from F. P. Fish to C. H. Mackay . .	25-26
Letter dated March 6, 1907 from F. P. Fish to J. I. Waterbury . . .	26
Letter dated March 9, 1907 from W. M. Crane to F. P. Fish	26-27
Letter dated March 11, 1907 from F. P. Fish to W. M. Crane	27-28
Letter dated March 22, 1907 from F. P. Fish to C. H. Mackay	28
Letter dated July 14, 1908 from T. N. Vail to J. I. Waterbury . . .	29-32
Letter dated November 24, 1909 from T. N. Vail to C. H. Mackay . .	32-33
Letter dated November 27, 1909 from C. H. Mackay to T. N. Vail . .	33
Letter dated November 30, 1909 from T. N. Vail to C. H. Mackay . .	33-34
Letter dated December 22, 1909 from T. N. Vail to C. H. Mackay . .	34
Letter dated December 23, 1909 from C. H. Mackay to T. N. Vail . .	34
Letter dated February 18, 1910 from C. H. Mackay to T. N. Vail . .	35
Letter dated February 19, 1910 from C. H. Mackay to T. N. Vail . .	35

APPENDIX 8

Copies of Correspondence Relating to Acquisition of Stock by Baker, Waterbury and Associates, March, 1902

	Sheet
Letter dated March 7, 1902 from F. P. Fish to F. L. Hine	1
Letter dated March 8, 1902 from F. L. Hine to F. P. Fish	2
Letter dated March 25, 1902 from G. F. Baker to F. P. Fish	2-3
Letter dated March 25, 1902 from F. P. Fish to A. Cochrane	3
Letter dated March 25, 1902 from F. P. Fish to W. R. Driver . . .	3-4
Telegram dated March 26, (1902) from A. Cochrane and H. S. Howe to F. P. Fish	4
Letter dated March 26, 1902 from F. P. Fish to A. Cochrane	5
Letter dated March 29, 1902 from F. P. Fish to J. I. Waterbury . .	5-6
Letter dated March 31, 1902 from J. I. Waterbury to F. P. Fish . .	6

APPENDIX 9

Copies of Correspondence re American Telephone and Telegraph Company Financing, 1906

	Sheet
Excerpt from letter dated April 8, 1904 from H. L. Higginson to F. P. Fish	1
Letter dated February 15, 1905 from Lee, Higginson & Company to F. P. Fish	1-3
Letter dated February 15, 1905 from W. M. Crane to F. P. Fish . .	3-4
Letter dated February 15, 1905 from F. P. Fish to J. P. Morgan & Company	4
Excerpt from "Proposed Plan of Financing, Report of Messrs. Leverett, Sherwin & Driver, February 16, 1905"	5-7
Letter dated February 20, 1905 from F. P. Fish to J. P. Morgan & Company	7
Letter dated February 20, 1905 from F. P. Fish to J. I. Waterbury.	7-8
Letter dated February 20, 1905 from F. P. Fish to J. P. Morgan & Company	8
Letter dated February 20, 1905 from F. P. Fish to G. F. Baker . .	9

APPENDIX 9 (Continued)

	Sheet
Letter dated August 14, 1905 from F. P. Fish to R. Winsor	9-10
Letter dated November 21, 1905 from J. I. Waterbury to F. P. Fish	10-11
Letter dated January 27, 1906 from F. P. Fish to W. Salomon . . .	11
Letter dated January 29, 1906 from W. Salomon to F. P. Fish . . .	12
Letter dated January 30, 1906 from F. P. Fish to W. Salomon . . .	12-13
Letter dated February 14, 1906 from F. P. Fish to J. B. Speed . .	13
Telegram dated February 14, 1906 from F. P. Fish to J. B. Speed .	14
Letter dated February 16, 1906 from F. P. Fish to C. E. Hubbard .	14
Excerpts from annual reports of American Telephone and Telegraph Company to stockholders, for years ending December 31, 1905 and 1906	14-15

APPENDIX 10

Copies of Contracts, etc., Relating to the Issue of Convertible Bonds in 1906, and Revision of Plan, 1907, and Sale of the Bonds

	Sheet
Agreement dated February 8, 1906 between American Telephone and Telegraph Company and J. P. Morgan & Company, et al., relating to the issue of convertible bonds	1-3
Letter dated February 13, 1906 from J. P. Morgan & Company, et al., to American Telephone and Telegraph Company	3-4
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Appendix 1

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In view of any possible attempt of the opposition to the National Bell Telephone Company or others to buy up a majority interest in said Company, and of the danger to the interests of the minority if this should be accomplished, the undersigned hereby agree in respect to the stock in said National Bell Telephone Co. owned by them, and to the amount ~~set~~ placed opposite their names to as follows:-

They will not sell any part of said stock except to the subscribers of this paper unless all of said subscribers agree to sell all of said subscribed stock and have the opportunity to do so, at a price satisfactory to each: they will not agree to give proxies to vote upon said stock to any other than some of the said subscribers.

This agreement is to remain in force until April 1st 1880, but it may be terminated at any time with the unanimous consent of the subscribers, but not without. It is not to be binding unless at least 3.700 shares are subscrib[ed].

Boston, April 2nd,

W. H. Forbes	300 shares
J. Malcolm Forbes	100 "
H. L. Higginson	635. "
J. Lo. Gardner Jr	75. "
C. E. Perkins for W.H.F.	150 "
Thomas Sanders.	500 "
Thomas A. Watson	500 "
George L. Bradley	525 "
W. G. Saltonstall	25 "
Arthur W. Blake	100 shares
C. S. Bradley	218
Francis Blake Jr.	325
R. S. Fay	100
H. Cochrane Jr.	100 "
E. N. A. Grinnell by W. H. Forbes	100 "
H. S. Russell by W.H. Forbes	150. "
C. C. Jackson	50 "
C. Williams Jr	50

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Boston, Dec. 15th. 1879.

We, the undersigned, mutually agree to release each other from all the obligations of the above written agreement.

W. H. Forbes
H. S. Russell
by W. H. Forbes
J. N. A. Griswold
by W. H. Forbes
C. E. Perkins
by W. H. Forbes
Theo. L. Bradley
P. A. Watson
C. J. Williams Jr
Thomas Sanders.

W. G. Saltonstall
W. L. Higginson
R. S. Fay
A. Hemenway
Francis Blake Jr.
Arthur W. Blake
J. Malcolm Forbes
G. C. Jackson
John L. Gardner Jr.
C. S. Bradley

Appendix 2

Copy of American Telephone and Telegraph Company
Document Entitled "Statistics Covering Large
Stockholdings in the American Telephone and Telegraph
Company and Its Predecessor from 1881 to 1926"

NOTE: In the following tables all shareholdings are as shown on the Company's books, nominee accounts being considered as individual stockholders. Shares held in the name of the American Bell Telephone Company have been considered as treasury stock and excluded from shares outstanding.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Treasury Department

December 31, 1926.

STATISTICS COVERING LARGE STOCKHOLDINGS IN THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND ITS PREDECESSOR FROM 1881 TO 1926.

Attached are eight tables which have been prepared for the general purpose of showing, among other things, the proportion of stock held from year to year by the larger stockholders of the American Telephone and Telegraph Company and its predecessor. These statistics reveal several interesting facts.

1. As shown in Table No. 2, the 20 largest stockholders have not held a majority of the stock outstanding since 1881, and at no time during the last 35 years have they held as much as 22% of the stock outstanding, the amount now being approximately 4%. During the last 15 years, however, as may be seen from the statistics given in Table No. 3, the shares held by 13 of the present 20 largest holders have increased in general conformity with the growth of the Company.

2. Total holdings of the 20 largest holders at the time of the 1926 annual meeting represented an investment at current market prices of approximately $60,000,000, which about equals the entire outstanding common stock capitalization at current market prices of such companies as the American Car & Foundry Company and the United Drug Company, and substantially exceeds that of the U. S. Rubber Company and the International Telephone and Telegraph Company. Nevertheless, to vote a majority of the stock outstanding at that time, the 20 largest holders would have required proxies from, or the support of, almost 23,000 of the next largest holders.

3. From Table No. 2 it will be noted that holders of 1,000 shares and over did not consistently hold more stock than the 20 largest stockholders until after the change in the Parent Company which occurred in 1900. From then until 1919 the number of these holders and their holdings increased with fair consistency, but since 1919 there has been a downward and then an upward trend which resulted in a total of 425 holders at the time of the 1926 annual meeting.

4. During the last 35 years holders of 1,000 shares and over have never had registered in their names as much as 35% of the stock outstanding, and within the last five years the average has been about 13%. As indicated by Table No. 6, at only one annual meeting since 1900 have they owned the equivalent of 100% of the majority of stock voted, and at the time of the 1926 annual meeting it would have been necessary for them to have controlled the votes of about 8,000 of the next largest holders in order to have the equivalent of a majority of the stock voted.

5. On the other hand, the 425 holders of 1,000 shares and over at the time of the 1926 annual meeting owned a total of about $111,400,000 par value of stock, representing an investment at current market prices of over $165,000,000. This exceeds the outstanding common stock capitalization at current market prices of such companies as the Anaconda Copper Mining Company, the Baltimore & Ohio Railroad, the Westinghouse Electric, and the Western Union.

6. Table No. 4 shows that at no time within the last 35 years have the Directors been registered holders of more than 3.7% of the outstanding stock, and during recent years the amount has been 1% or less. On the other hand, it is evident that holdings registered in the names of the present Board have increased during the last 15 years in fairly close relation to the increase in total stock outstanding, thus indicating that their financial interest in the Company not only has been sustained but has grown with the business.

7. An interesting picture is given in Table No. 5 of stock and stockholders voting at annual meetings since 1901, earlier statistics being unavailable. It will be noted that in spite of the very large increase during the last five years in the number of stockholders, the proportion of stock and stockholders represented at the annual meeting compares most favorably with past experience. For instance, the percentage of stock voted at the last annual meeting was larger than for any year since 1909 with only two exceptions, namely in 1917 and in 1925. As revealed in Table No. 6, however, it has been estimated that as early as 1915 not less than 3,300 of the largest stockholders would have been required to make up a majority of the stock outstanding and that it would have taken the holdings of not less than 900 of the largest stockholders to equal a majority of the shares then voted.

All in all, the attached tables make it quite evident that there has been no small cohesive group of stockholders owning a majority or even a strong minority of the outstanding stock of the Parent Company for at least 35 years. Furthermore, it seems safe to say that active participation in the control of the business by holders of a majority of the outstanding stock has been out of the question for more than 15 years. During this decade and a half, however, the Bell System has undoubtedly passed through a most difficult period, yet one of the most vigorous and forward-looking in its history; and the financial status, quality of service, and management personnel of the business is generally recognized as being better than ever.

In an article appearing in the December issue of "World's Work", Professor W. Z. Ripley quotes a statement by the President of General Motors "that there is a point beyond which diffusion of stock ownership must enfeeble the corporation by depriving it of virile interest in management upon the part of some one man or group of men to whom its success is a matter of personal and vital interest". After this Professor Ripley points to the American Company, among others, as having become so loosely and so generally owned that no small knot of people whatsoever have even an appreciable share of total stock ownership, and then goes on to suggest that where this situation has come about some mechanism, such as a special board of trustees, be created to represent the broadly scattered stock ownership and to act as a check upon the management, including the directors.

On the one hand, the statement of the General Motors President is refuted in the case of the American Company by the record for efficient management which it has established, if he had in mind such distribution of stock ownership as we now have. On the other hand, the recommendation of Professor Ripley seems beside the point in our case in view of the common stock investment which certain individuals, bankers, and insurance companies have built up and are maintaining in the Company, the combined amount of which equals the outstanding common stock capitalization of many widely known enterprises. With experienced investors retaining large holdings of common stock in the business for current income purposes, it would seem that a practical trusteeship is thereby provided to safeguard the interests of small stockholders, and that the man in the street not only has proper guarantee of the watchfulness being maintained over actions of the management, but also fitting assurance of the high confidence being placed in the future of the Company.

C. S. Van Cise

Assistant Treasurer.

Appendix 2
Sheet 5

Table No. 1.

STOCK OUTSTANDING AND NUMBER OF STOCKHOLDERS

Nearest Available Record Date to Annual Meeting	Shares Outstanding*	Number of Stock-holders	Average Shares Per Stockholder* Including A.& P. Co., B.T.S.Co., and Trustees for Employees	Average Shares Per Stockholder* Excluding A.& P.Co., B.T.S.Co., and Trustees for Employees
1926	9,234,772	366,525	25.2	25.1
1925	8,915,329	349,191	25.5	25.5
1924	7,472,728	299,498	24.9	24.8
1923	7,088,913	256,041	27.7	27.6
1922	5,601,252	197,825	28.3	27.9
1921	4,435,246	146,490	30.2	29.7
1920	4,420,615	124,172	35.5	34.4
1919	4,419,495	113,860	38.8	38.5
1918	4,358,965	88,851	49.1	47.9
1917	3,958,633	73,600	53.8	52.1
1916	3,848,239	66,938	57.5	55.6
1915	3,579,779	61,512	58.2	56.2
1914	3,446,377	56,946	60.5	60.2
1913	3,440,960	52,080	66.2	63.5
1912	3,243,617	49,064	66.2	66.1
1911	2,682,422	40,686	66.2	62.0
1910	2,592,894	37,594	68.8	66.8
1909	1,909,205	28,545	66.9	66.9
1908	1,525,280	24,189	63.1	63.1
1907	1,315,514	18,549	70.9	70.9
1906	1,315,514	17,542	75.0	75.0
1905	1,315,514	17,055	77.1	77.1
1904	1,270,689	16,121	78.8	78.8
1903	1,097,164	11,887	92.3	92.3
1902	877,480	9,609	91.3	91.3
1901	621,271	7,858	79.1	79.1
1900	258,863	6,961	37.2	37.2
1899	258,863	6,863	37.7	37.7
1898	258,863	6,886	37.6	37.6
1897	236,500	6,474	36.5	36.5
1896	215,000	5,778	37.2	37.2
1895	205,000	5,572	36.8	36.8
1894	200,000	5,247	38.1	38.1
1893	174,995	4,542	38.5	38.5
1892	150,000	3,945	38.0	38.0
1891	125,000	3,501	35.7	35.7
1890	112,971	2,734	41.3	41.3
1889	100,000	2,066	48.4	48.4
1888	98,521	1,770	55.7	55.7
1887	98,021	1,818	53.9	53.9
1886	98,021	1,826	53.7	53.7
1885	96,021	1,607	59.8	59.8
1884	96,021	1,532	62.7	62.7
1883	59,500	973	61.2	61.2
1882	59,500	724	82.2	82.2
1881	59,500	540	110.2	110.2

* Excluding shares held in name of A.B.T.Co. and treasury stock.

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Table No. 2.

FINANCIAL INTEREST OF LARGE STOCKHOLDERS*

Nearest Available Record Date to Annual Meeting	Holders of 1000 Shares and Over			20 Largest Stockholders	
	Number	Shares Held	% of Stock Outstanding	Shares Held	% of Stock Outstanding
1926	425	1,113,926	12.1	400,819	4.3
1925	439	1,136,816	12.8	398,776	4.5
1924	367	902,206	12.1	306,779	4.1
1923	385	980,423	13.8	325,176	4.6
1922	342	769,601	13.7	231,640	4.1
1921	293	617,419	13.9	173,635	3.9
1920	327	749,738	17.0	193,021	4.4
1919	385	906,407	20.5	202,039	4.6
1918	416	978,161	22.4	216,884	5.0
1917	391	877,485	22.2	221,421	5.6
1916	389	906,730	23.6	233,631	6.1
1915	373	877,036	24.5	224,765	6.3
1914	368	904,223	26.2	234,393	6.8
1913	371	958,757	27.9	233,231	6.8
1912	377	981,522	30.3	258,000	8.0
1911	296	698,561	26.0	209,846	7.8
1910	304	740,102	28.5	221,663	8.6
1909	198	577,056	30.2	258,720	13.6
1908	163	458,968	30.0	216,209	14.2
1907	155	403,465	30.7	192,479	14.6
1906	165	398,580	30.3	149,555	11.4
1905	180	411,610	31.3	146,367	11.1
1904	176	402,793	31.7	143,398	11.3
1903	166	375,312	34.2	140,420	12.8
1902	108	284,624	32.4	149,766	17.1
1901	82	167,649	27.0	86,541	13.9
1900	25	40,100	15.5	35,023	13.5
1899	16	28,313	10.9	31,819	12.3
1898	23	39,628	15.3	38,628	14.9
1897	19	36,516	15.4	37,462	15.8
1896	18	45,360	21.1	47,120	21.9
1895	14	25,876	12.6	31,123	15.2
1894	16	28,916	14.5	32,476	16.2
1893	11	22,857	13.1	29,511	16.9
1892	10	19,277	12.9	26,853	17.9
1891	7	11,930	9.5	21,730	17.4
1890	11	17,655	15.6	23,610	20.9
1889	10	18,503	18.5	26,380	26.4
1888	11	23,579	23.9	31,365	31.8
1887	12	22,660	23.1	28,651	29.2
1886	11	19,918	20.3	27,263	27.8
1885	13	23,371	24.3	27,953	29.1
1884	9	23,656	24.6	31,841	33.2
1883	8	14,824	24.9	21,648	36.4
1882	8	16,837	28.3	24,114	40.5
1881	11	27,383	46.0	33,190	55.8

* Excluding A.& P.Co., B.T.S.Co., and trustees for employees. Stock outstanding includes shares carried in these names but excludes holdings of A.B.T.Co. and treasury stock.

Appendix 2
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Table No. 3.

FINANCIAL INTEREST OF CONTINUING LARGE STOCKHOLDERS*

Nearest Available Record Date to Annual Meeting	Present 20 Largest Holders			Shares Held By 13 of the Present 20 Largest Holders 1926-1912		Stock Outstanding as % of That Outstanding in 1926
	Number Remaining	Shares Held	% of Stock Outstanding	Number	% of Holdings in 1926	
1926	20	400,819	4.3	196,838	100.0	100.0
1925	20	396,986	4.5	199,517	101.4	96.5
1924	19	288,139	3.9	185,019	94.0	80.9
1923	18	283,857	4.0	182,853	92.9	76.8
1922	17	179,463	3.2	114,701	58.3	60.7
1921	17	124,428	2.8	71,770	36.5	48.0
1920	17	110,242	2.5	79,878	40.6	47.9
1919	17	111,842	2.5	81,598	41.5	47.9
1918	16	109,985	2.5	79,759	40.5	47.2
1917	14	86,088	2.2	76,088	38.7	42.9
1916	14	74,863	1.9	71,263	36.2	41.7
1915	13	68,068	1.9	68,068	34.6	38.8
1914	13	72,457	2.1	72,457	36.8	37.3
1913	13	70,926	2.1	70,926	36.0	37.3
1912	13	74,318	2.3	74,318	37.8	35.1
1911	13	58,242	2.2			
1910	12	52,972	2.0			
1909	12	42,437	2.2			
1908	10	18,804	1.2			
1907	9	16,674	1.3			
1906	8	17,453	1.3			
1905	8	12,340	.9			
1904	6	11,316	.9			
1903	5	12,953	1.2			
1902	6	7,449	.8			
1901	6	4,332	.7			
1900	6	1,089	.4			
1899	5	1,481	.6			
1898	5	1,412	.5			
1897	6	1,199	.5			
1896	5	1,237	.6			
1895	5	1,697	.8			
1894	6	1,634	.8			
1893	6	1,507	.9			
1892	6	2,131	1.4			
1891	4	2,413	1.9			
1890	4	1,792	1.6			
1889	4	2,325	2.3			
1888	5	2,392	2.4			
1887	5	1,795	1.8			
1886	5	1,721	1.8			
1885	4	2,911	3.0			
1884	2	1,447	1.5			
1883	2	1,870	3.1			
1882	2	1,084	1.8			
1881	2	4,139	7.0			

* Excluding A.& P.Co., B.T.S.Co., and trustees for employees. Stock outstanding includes shares carried in these names but excludes holdings of A.B.T.Co.

J.W.B.
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Table No. 4.

FINANCIAL INTEREST OF THE DIRECTORS

Nearest Available Record Date to Annual Meeting	Board of Directors			Present Board of Directors		
	Number	Shares Held	% of Stock Outstanding *	Number Holding Stock 1926-1912	Shares Held: Number	Shares Held: % of Holdings in 1926
1926	19	50,892	.6	19	50,892	100.0
1925	19	50,894	.6	19	50,894	100.0
1924	19	77,205	1.0	19	77,157	150.6
1923	19	67,132	.9	18	65,992	128.7
1922	19	43,409	.8	18	42,323	82.2
1921	19	27,749	.6	17	27,980	54.0
1920	19	38,036	.9	14	27,580	53.2
1919	17	43,471	1.0	12	26,761	51.6
1918	17	50,507	1.2	11	27,031	52.1
1917	17	47,575	1.2	12	26,654	51.4
1916	17	46,713	1.2	12	26,968	52.0
1915	17	46,451	1.3	10	26,565	51.2
1914	25	45,912	1.3	10	25,286	48.7
1913	25	55,677	1.6	9	26,147	50.4
1912	25	58,571	1.8	9	23,617	45.4
1911	25	55,829	2.1			
1910	18	59,788	2.3			
1909	18	25,511	1.3			
1908	18	31,796	2.1			
1907	18	24,597	1.9			
1906	18	29,193	2.2			
1905	18	24,809	1.9			
1904	18	24,553	1.9			
1903	18	32,456	3.0			
1902	18	12,866	1.5			
1901	15	6,025	1.0			
1900	13	2,198	.9			
1899	13	2,445	.9			
1898	13	2,978	1.2			
1897	13	4,542	1.9			
1896	13	6,007	2.8			
1895	13	5,955	2.9			
1894	12	6,818	3.4			
1893	12	6,073	3.5			
1892	12	5,530	3.7			
1891	12	5,110	4.1			
1890	12	5,615	5.0			
1889	12	7,398	7.4			
1888	12	7,376	7.5			
1887	12	7,556	7.7			
1886	12	8,158	8.3			
1885	12	8,089	8.4			
1884	12	8,158	8.5			
1883	12	7,104	11.9			
1882	12	8,041	13.5			
1881	12	13,181	22.2			
1880	11	9,144				

* Excluding shares held in name of A.B.T.Co. and treasury stock.

Table No. 5.

NUMBER OF STOCKHOLDERS VOTING AT ANNUAL MEETINGS
AND SHARES REPRESENTED *

Nearest Available Record Date to Annual Meeting	Shares Voted Number#	Shares Voted % of Stock Outstanding	Stockholders Voting Number	Stockholders Voting % of Stockholders	Average Shares Per Stockholder Voting	Average Shares Held Per Stockholder
1926	5,947,372	64.8	224,632	61.3	26.5	25.1
1925	5,813,998	65.4	211,679	60.6	27.5	25.5
1924	4,730,208	63.6	184,825	61.6	25.6	24.8
1923	4,473,838	63.3	156,965	61.3	28.5	27.6
1922	3,464,460	62.8	123,110	62.2	28.1	27.9
1921	2,649,295	60.9	88,557	60.5	29.9	29.7
1920	2,698,712	63.2	74,642	60.1	36.2	34.4
1919	2,646,894	60.4	68,759	60.4	38.5	38.5
1918	2,679,244	63.0	53,782	60.5	49.8	47.9
1917	2,524,751	65.9	46,863	63.7	53.9	52.1
1916	2,358,867	63.4	38,137	57.0	61.9	55.6
1915	2,076,576	60.1	34,273	55.7	60.6	56.2
1914	2,082,198	60.8	32,774	57.6	63.5	60.2
1913	2,047,298	61.9	30,923	59.4	66.2	63.5
1912	1,929,007	59.5	27,068	55.2	71.3	66.1
1911	1,443,028	57.4				62.0
1910	1,477,860	58.9				66.8
1909	1,379,655	72.3				66.9
1908	1,177,513	77.2				63.1
1907	1,028,449	78.2				70.9
1906	1,100,942	84.0				75.0
1905	1,066,576	81.1				77.1
1904	1,071,546	84.3				78.8
1903	970,300	88.4				92.3
1902	586,979	66.9				91.3
1901	364,692	58.7				79.1

* Excluding A.B.T.Co., A.& P.Co., B.T.S.Co., and trustees for employees.

\# It has been assumed that shares carried in the name of the A.& P.Co. were not voted from 1910 to 1913, inclusive, since they were not voted from 1914 to 1916.

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Table No. 6.

DEGREE OF CONTROL BY LARGE STOCKHOLDERS*

Nearest Available Record Date to Annual Meeting	Estimated Minimum Number of Stockholders Owning Majority of: Shares Outstandingø	Estimated Minimum Number of Stockholders Owning Majority of: Shares Voted at Annual Meetings#	Shares Held By Holders of 1000 Shares and Over: % of Majority Outstandingø	Shares Held By Holders of 1000 Shares and Over: % of Majority Voted at Annual Meetings#	Shares Held By 20 Largest Stockholders: % of Majority Outstandingø	Shares Held By 20 Largest Stockholders: % of Majority Voted at Annual Meetings#	Shares Held By Board of Directors: % of Majority Outstandingø	Shares Held By Board of Directors: % of Majority Voted at Annual Meetings#
1926	23,000	8,500	24.1	37.1	8.7	13.4	1.2	1.7
1925	21,000	7,500	25.5	39.0	9.0	13.7	1.2	1.7
1924	12,000	3,000	24.1	37.9	8.2	12.9	2.0	3.2
1923	13,000	3,250	27.6	43.6	9.2	14.5	1.8	3.0
1922	11,000	1,800	27.4	43.3	8.3	13.8	1.6	2.4
1921	8,000	2,000	27.9	45.2	7.8	12.7	1.2	2.0
1920	6,800	1,750	33.9	52.6	8.7	13.5	1.8	2.7
1919	5,700	1,750	41.0	67.5	9.1	15.0	2.0	3.2
1918	4,500	1,700	44.8	70.5	9.9	15.6	2.4	3.6
1917	3,600	1,500	44.5	66.2	11.2	16.7	2.4	3.6
1916	3,400	1,500	47.1	72.9	12.1	18.8	2.4	3.8
1915	3,300	900	49.0	79.8	12.5	20.4	2.6	4.2
1914	2,750	900	52.5	86.1	13.6	22.3	2.6	4.4
1913	2,750	850	55.7	87.9	13.5	21.4	3.2	5.1
1912	1,150	375	60.5	101.7	15.9	26.7	3.6	6.1
1911	1,100	380	52.1	86.9	15.6	26.1	4.2	6.9
1910	1,500	325	57.1	94.8	17.1	28.4	4.6	7.7
1909	775	225	60.4	83.7	27.2	37.5	1.6	3.7
1908	775	240	60.2	78.0	28.4	36.7	4.2	5.4
1907	775	250	61.4	78.5	29.2	37.4	3.8	4.9
1906	675	300	60.6	72.4	22.8	27.2	4.4	5.3
1905	675	220	62.6	77.2	22.2	27.4	3.8	4.7
1904	625	225	63.2	75.2	22.6	26.8	3.8	4.6
1903	500	230	68.4	77.4	25.6	28.9	6.0	6.7
1902	400	110	64.8	97.0	34.2	51.0	3.0	4.4
1901	400	108	54.0	91.9	27.8	47.5	2.0	3.3
1900	400		31.0		27.0		1.8	
1899	400		21.9		24.6		1.8	
1898	400		30.6		29.8		2.4	
1897	400		30.9		31.6		3.8	
1896	225		42.2		43.8		5.6	
1895	225		25.2		30.4		5.8	
1894	225		28.9		32.5		6.8	
1893	225		26.1		33.8		7.0	
1892	200		25.7		35.8		7.4	
1891	200		19.0		34.6		8.2	
1890	200		30.3		41.8		10.0	
1889	200		37.0		52.8		14.8	
1888	110		47.9		63.8		15.0	
1887	110		46.2		58.6		15.4	
1886	110		40.6		55.8		16.6	
1885	110		48.7		58.4		16.8	
1884	110		49.3		66.2		17.0	
1883	75		49.8		72.6		23.8	
1882	80		56.6		81.0		27.0	
1881	19		92.0		111.6		44.4	

* Excluding A.B.T.Co., A.& P.Co., B.T.S.Co., and trustees for employees.
\# Including unvoted shares in the name of A.& P.Co., B.T.S.Co., and trustees for employees
ø Excluding shares held in name of A.B.T.Co. and treasury stock.

N.D.V.

Appendix 2
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Table No. 7.

POTENTIAL CONTROL BY DIRECTORS

Nearest Available Record Date to Annual Meeting	Shares Held By: Board of Directors	A.& P.Co., B.T.S.Co., and Trustees for Employees	Total	% of Total to Stock Outstanding*	% of Total to Shares Voted#
1926	50,892	51,538	102,430	1.1	1.7
1925	50,894	20,253	71,147	.8	1.2
1924	77,205	35,858	113,063	1.5	2.4
1923	67,132	23,251	90,383	1.3	2.0
1922	43,409	86,187	129,596	2.3	3.6
1921	27,749	85,288	113,037	2.5	4.1
1920	38,036	152,392	190,428	4.3	6.7
1919	43,471	39,448	82,919	1.9	3.1
1918	50,507	104,911	155,418	3.6	5.6
1917	47,575	126,926	174,501	4.4	6.6
1916	46,713	127,523	174,236	4.5	7.0
1915	46,451	122,336	168,787	4.7	7.7
1914	45,912	19,359	65,271	1.9	3.1
1913	55,677	134,528	190,205	5.5	8.7
1912	58,571	531	59,102	1.8	3.1
1911	55,829	159,832	215,661	8.0	13.4
1910	59,788	82,906	142,694	5.5	9.1
1909	25,511		25,511	1.3	1.8
1908	31,796		31,796	2.1	2.7
1907	24,597		24,597	1.9	2.4
1906	29,193		29,193	2.2	2.7
1905	24,809		24,809	1.9	2.3
1904	24,553		24,553	1.9	2.3
1903	32,456		32,456	3.0	3.3
1902	12,866		12,866	1.5	2.2
1901	6,025		6,025	1.0	1.7
1900	2,198		2,198	.8	
1899	2,445		2,445	.9	
1898	2,978		2,978	1.2	
1897	4,542		4,542	1.9	
1896	6,007		6,007	2.8	
1895	5,955		5,955	2.9	
1894	6,818		6,818	3.4	
1893	6,073		6,073	3.5	
1892	5,530		5,530	3.7	
1891	5,110		5,110	4.1	
1890	5,615		5,615	5.0	
1889	7,398		7,398	7.4	
1888	7,376		7,376	7.5	
1887	7,556		7,556	7.7	
1886	8,158		8,158	8.3	
1885	8,089		8,089	8.4	
1884	8,158		8,158	8.5	
1883	7,104		7,104	11.9	
1882	8,041		8,041	13.5	
1881	13,181		13,181	22.2	
1880	9,144		9,144		

* Excludes holdings of A.B.T.Co. and treasury stock.
\# Includes unvoted shares of A.& P.Co., B.T.S.Co., and trustees for employees.

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Table No. 8.

ESTIMATED NUMBER OF STOCKHOLDERS IN ADDITION TO LARGE HOLDERS AND IN ADDITION TO DIRECTORS NECESSARY TO CONTROL ANNUAL MEETING
Based Upon Residual Average Shareholdings*

Nearest Available Record Date to Annual Meeting	Estimated Number of Holders Necessary to Control Annual Meeting in Addition to: Holders of 1000 Shares and Over#	20 Largest Stock-holders#	Board of Directors	Board of Directors Plus A.& P.Co., B.T.S.Co., and Trustees for Employees
1926	85,706	108,277	118,416	116,346
1925	80,194	103,636	113,290	112,458
1924	67,928	87,238	93,733	92,275
1923	53,282	73,139	79,905	78,765
1922	41,905	57,816	62,524	59,413
1921	29,407	41,883	45,408	42,517
1920	23,796	37,577	46,090	36,221
1919	14,273	31,094	34,113	33,077
1918	11,187	25,885	28,363	26,200
1917	11,098	22,493	24,869	22,400
1916	7,954	19,377	21,794	19,471
1915	5,271	16,629	18,973	16,769
1914	3,286	14,552	16,917	16,592
1913	2,905	14,537	16,590	14,434
1912		11,605	13,963	13,955
1911	2,331	10,441	12,325	9,691
1910	848	9,174	11,052	9,781
1909	2,399	7,446	10,065	10,065
1908	2,923	6,874	9,012	9,012
1907	2,233	5,309	7,025	7,025
1906	2,877	6,029	7,102	7,102
1905	2,270	5,640	6,708	6,708
1904	2,445	5,605	6,605	6,605
1903	1,783	4,277	5,047	5,047
1902	142	1,894	3,115	3,115
1901	252	1,405	2,249	2,249

* In the computations for this table, unvoted shares of the A.& P.Co., B.T.S.Co., and trustees for employees have been included in shares voted at annual meetings, and these holdings as well as those of the A.B.T.Co. have been excluded in determining average holdings outside of the groups of large holders indicated.

\# Excluding A.B.T.Co., A.& P.Co., B.T.S.Co., and trustees for employees.

J.H.B.
K.C.D.