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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 II

Administrative Control of the
Associated Bell Telephone Companies

June 15, 1937

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CHAPTER I
INTRODUCTION

1. Purpose of Report.

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The purpose of this report is to give evidence of the character and degree of domination and control which the American Telephone and Telegraph Company, ^{1/} the parent organization of the Bell System, exerts over the Associated Telephone Companies. The evidence, gathered from the files of the American Company, seems clearly to indicate that the American Company takes a large part in the internal affairs and the local management of the Associated Companies, and dominates and controls the activities of those companies.

This study supplements others submitted to the Commission in response to Public Resolution No. 8, 74th Congress, First Session, which calls, among other things, for information on the relationship of the American Telephone and Telegraph Company and of its subsidiary, affiliated, associated, and holding companies, and on the extent and character of intercompany service contracts and all transactions between the telephone companies and their subsidiaries, in aid of legislation by the Congress and for the use of governmental agencies, including state regulatory commissions, for the information of the general public, as an aid in providing more effective rate regulation, and for other purposes in the public interests. ^{2/}

^{1/} Hereinafter, for brevity, referred to as the American Company.

^{2/} See Public Resolution No. 8, 74th Congress, 1st Session, Sec. 1, and Sec. 2 (a) and (b).

I The manner in which the Bell interests developed the telephone business ^{1/} indicates that it is in effect "one institution and one company," as stated by Walter S. Gifford in 1923. ^{2/} Controlling the Bell patents, the founders of the Bell System set out to develop the telephone business along lines which would enable them to obtain control of the business as a permanent thing. To do this, they at first did not have the capital necessary. With the necessary capital, it would have been possible, in the promotion and exploitation of the business, to form one company to cover the whole country. The alternative adopted was to use licensees (the predecessors in interest of the Associated Companies) to "cover the field and develop the business." ^{3/} However, control of these licensees was considered important, among other reasons, because it gave "all the advantages of having one general company operate the whole business without the disadvantage of losing our local influence, local interests, and such things as that." ^{4/} Control over the original licensees was exercised through provisions inserted in the license contracts. In addition, special agents were employed by the Bell interests to visit the licensees and report upon the general management of the business. ^{5/} The original license contracts were limited to

^{1/} For full discussion, see Federal Communications Commission, Special Investigation Docket No. 1, Exhibit 1360A, "American Telephone and Telegraph Company, Corporate and Financial History," Vol. I, pp. 202 et seq. (Hereinafter reference to exhibits submitted in this Investigation will be made by exhibit number and title of report.)

^{2/} See p. 6.

^{3/} See Annual Report to Stockholders, American Telephone and Telegraph Company, 1909, p. 20.

^{4/} See testimony of Theodore N. Vail in 1889 in Western Union Telegraph Co. v. American Bell Telephone Co., 105 Fed. 684 (C. C. D. Mass.), Vol. I of "Record on Exceptions to Master's Report," pp. 234-235.

^{5/} See letter from O. E. Madden, Sup't. Agencies, to F. B. Knight, Esq., March 30, 1881, General Manager's letterbooks, Vol. 81, p. 315.

I short terms, usually five to ten years, the stated purpose of which was to get the business developed so that, at the expiration of the license contract periods, the Bell interests could take the business over. These short-term contracts, however, did not expire in accordance with their time limitations. Permanent contracts were issued to the licensee companies, in return for so-called "franchise stock," in varying amounts from 30 to 50 per cent of their capital stock. In addition to the acquisition of this franchise stock, the Bell interests inserted provisions in the permanent license contracts which assured control over the activities of the licensee companies. Control over the long distance business and the sale of telephone equipment was provided for in both the short-term and permanent contracts. Aside from the acquisition of franchise stock, the Bell interests, during, as well as before and after the period of such acquisition, purchased stock interests in the licensee companies necessary to give them control.

In the annual report of the American Company for the year 1920 (page 7), the situation which existed by the year 1890 was described as follows:

Thus by 1890, the organization described was in existence and functioning, with a total number of telephones in the United States one-fifth of the number in New York City to-day. It embodied the essential elements of the organization of the Bell System of the present, that is: central control--a central advisory staff--a central laboratory of development and research--a central department to promote progress in operating technique--a central source of supply of standardized material--local operating companies and a national network of lines connecting them. Neither results nor efficiency nor economy in nation-wide service could have been achieved by unrelated local agencies.

* * *

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With all of the complications of varying state legislation and supervision it has made possible the operation of the System through scores of companies as a homogeneous whole. * * *

The Associated Companies of the Bell System, of course, are successors to the early licensee companies, having generally been formed by consolidation, or by division, or by a combination of such changes among the early licensees.

Reports previously submitted have dealt with the extent to which the American Company controls the telephone industry of the country, through stock ownership of its various associated and subsidiary companies. As of December 31, 1934, the percentage of total outstanding voting stock held by the American Company in the Associated Companies was as follows: 1/

New England Telephone and Telegraph Company	65.31%
The Southern New England Telephone Company	33.34
New York Telephone Company	100.00
New Jersey Bell Telephone Company	100.00
The Bell Telephone Company of Pennsylvania	100.00
The Diamond State Telephone Company	100.00
The Chesapeake and Potomac Telephone Company (New York)	100.00
The Chesapeake and Potomac Telephone Company of Baltimore City	100.00
The Chesapeake and Potomac Telephone Company of Virginia	100.00
The Chesapeake and Potomac Telephone Company of West Virginia	100.00
Southern Bell Telephone and Telegraph Company (New York)	99.99
The Ohio Bell Telephone Company	99.99
The Cincinnati and Suburban Bell Telephone Company	29.72
Michigan Bell Telephone Company	99.99
Indiana Bell Telephone Company	99.99
Wisconsin Telephone Company	100.00
Illinois Bell Telephone Company	99.30
Northwestern Bell Telephone Company	100.00
Southwestern Bell Telephone Company	99.99
The Mountain States Telephone and Telegraph Company	72.82
The Pacific Telephone and Telegraph Company <u>2/</u>	83.05

Notwithstanding stock ownership of the Associated Companies, however, both the American Company and the Associated Companies have controverted and attempted to refute the fact that the American Company interferes

1/ F. C. C. Exhibit 50, "The Scope and Structure of the Bell System," Schedule A2.

2/ As of December 31, 1934, there were three associated telephone companies which were sublicensees and 100 per cent subsidiaries of The Pacific Telephone and Telegraph Company. These companies were: Southern California Telephone Company; The Home Telephone & Telegraph Company of Spokane; and Bell Telephone Company of Nevada.

in the internal affairs or the local management of the Associated Companies, or seeks to dominate the activities of those companies. ^{1/} For example, in the brief filed on behalf of the Illinois Bell Telephone Company in the case of Smith et al. v. Illinois Bell Telephone Company, 282 U. S. 151, in the Supreme Court of the United States, it was asserted that

I * * * no such interference or control has ever been exercised by the American Company, nor contemplated by the officers of either Company. [p. 8]

* * * the distinction between the corporations is as clearly marked as to property, money, records, accounts, and other details of corporate affairs, as if the American Company were not a stockholder at all. [p. 20]

* * * the corporate management of the Illinois Company is entirely separate from that of the American Company, nor does the latter, in fact, direct the affairs of the former, either by contract or interlocking directorships, or otherwise. [p. 28]

The American Company, in its annual reports to stockholders, has endeavored, from time to time, to set forth the organizational structure of the Bell System, and the relationship of the American Company to the Associated Companies. Some of these reports are enlightening on the subject of domination and control, because they refer to the fact that the Bell System "operates practically as a single organization" or "as a homogeneous whole" ^{2/} or "as one organic whole." For example, in the Annual Report for the year 1923 (page 7), the following appears:

By virtue of stock ownership and contracts and the relations which grow out of them, the Bell System operates practically as a single organization offering telephone service to the people of

^{1/} See also the following cases: William A. Read et al. v. Central Union Company et al., Superior Court of Cook County, Illinois, General No. 299,689, Chancery (1917), referred to in Exhibit 1360A, "American Telephone and Telegraph Company, Corporate and Financial History," Volume 1, p. 238, Brief on behalf of Michigan Bell Telephone Company, pp. 27-28 and 44-45, in People ex rel. Potter, Attorney General v. Michigan Bell Telephone Company, Superior Court of Michigan, decided March 29, 1929, 246 Mich. 198, 224 N.W. 438. Brief on behalf of Chesapeake and Potomac Telephone Company, p. 158 et seq. in Chesapeake and Potomac Telephone Company of Virginia v. Commonwealth of Virginia, Supreme Court of Appeals of Virginia, decided January 20, 1927, 136 S.E. 575.

^{2/} See Annual Report for 1920, quoted on page 3 hereof.

this country without limitation of distance or property ownership. By its leadership in the art of telephony all that science and invention have made possible is available for use throughout the Bell System. Underscoring supplied.

In the Annual Report for the year 1935 (page 6), it was stated:

I
Intercommunication by telephone on a nation-wide scale can be accomplished to the satisfaction of telephone users only through an integrated system national in scope. The Bell System is one organic whole--research, engineering, manufacture, supply and operation. It is a highly developed relationship in which all functions operate to make a universal nation-wide interconnected service. The thousands of telephone companies and rural telephone lines which are neither owned nor controlled by the Bell System are coordinated for this nation-wide service by connection with the System.

When statements from American Company's annual reports have been introduced in evidence in cases before courts and commissions on the question of domination and control, Bell System Companies have contested the competency of such statements as evidence, and have asserted that such statements do not bind the Associated Companies. ^{1/}

The fact that the Bell System is, in effect, one institution and one company was stated by Walter S. Gifford, now President, but at the time Executive Vice President of the American Company, in an address before the Bell System Educational Conference in New York on August 18, 1924, ^{2/} in the following language:

The Bell System is made up of a number of associated telephone companies. In effect, you might consider it as one institution and one company. Due, however, to state laws and different local conditions in the United States, the business is carried on through corporate organizations comprising a parent company, which is the American Telephone and Telegraph Company, a number of associated companies, which do the telephone operating in different sections of the country, and the Western Electric Company,

^{1/} See Brief for Defendant in People v. Michigan Bell Telephone Company, (246 Mich. 198, 224 N. W. 438), p. 59; Brief for Illinois Bell Telephone Company in Smith v. Illinois Bell Telephone Company (282 U. S. 151), p. 32.

^{2/} Walter S. Gifford, "Addresses, Papers and Interviews, 1913-1928," p.111.

which manufactures telephone equipment and is the supply department of the entire system.

I
It appears, therefore, that this question of centralization of management in the Bell System has been a controversial matter. The officers of the parent company have asserted that the Bell Telephone System is operated as a single unit, and yet the Associated Companies have found it desirable for their particular purposes to assert autonomy of management. An attempt is made in this report to give evidence discovered in a brief examination of the American Company's files which indicates centralization of the management of the Bell System in the officers of this company. The prerogatives of autonomous management in a corporation are manifested in such essential activities as selection of personnel, discretionary decisions as to expenditures of money and expansion of business, determination of time and method of financing, selection of type of equipment, and other administrative policies. Evidence will be presented in the following chapters indicating that in most essential aspects of management the local boards of directors discharge primarily a formal duty in ratifying directions and suggestions received from the American Company, and that the presidents and other high officers of the Associated Companies are the local representatives of the officers of the American Company.

This report describes a condition of centralized management of the Bell System from the New York offices of the American Company. As this study attempts to depict conditions in the functional relations of individuals and companies, the proper understanding of the nature of those relations can be obtained only by showing them in operation in specific situations. For this reason particular episodes are given, with detailed presentation of correspondence relating thereto. Although the individual episode may not be important in itself, the totality of evidence gives a clear indication of the sources of authority, the degree and nature of the allegiance of Associated Companies' officers to the officers of the

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American Company, and the methods in which the functional relations so depicted operate. No attempt is made in this report to evaluate the results that flow from the condition of centralized administration described in these pages. This must be obtained by a study of other reports submitted in this Investigation. The present report forms a background to be kept in mind in evaluating disclosures in other reports dealing with license contracts, sale of telephone instruments, relations of Long Lines with Associated Companies, and the policies of the Bell System in the choice of particular types of equipment such as panel machine switching.

2. Sources of Material.

Most of the material upon which this report is based results from an examination of the correspondence files of two of the principal officers of the American Company, Walter S. Gifford, President, and Charles P. Cooper, Vice President. Mr. Gifford's files were examined for the period from 1920 to date, while he has been successively Vice President, Executive Vice President and President of the American Company. Mr. Cooper's files were examined for the years he has been Vice President of the American Company, from 1926 to date. Examination has also been made of the annual reports of the American Company; briefs and other documents in several court and commission cases; and, in addition, reference is made herein to examples of domination and control of the Associated Companies given in certain reports heretofore presented in this Investigation.

Although the subjects and the evidence presented in this report are fairly comprehensive, they are not intended to be exhaustive. Various functional relations have not been investigated for evidence on centralization of control. For example, the very important fields of technical advice by the American Company to Associated Companies, and of accounting

auditing, have not been considered. It is a fact that the minutest phases of technical equipment and operations have been made the subject of tests and specifications by Bell Laboratories, which are transmitted to the operating companies by the American Company. This phase of centralization is partially treated in another report. ^{1/}

H Although the treatment is not exhaustive in this report, there is sufficient evidence to establish complete centralization of Bell System management in the hands of American Company officials.

3. Summary of Findings.

Domination of the activities of the Associated Companies by the American Company is indicated by the following summary of the facts given in greater detail in later chapters.

(1) The Associated Telephone Companies of the Bell System have maintained in rate cases that they are independent autonomous corporate entities. Although American Company officers in annual reports and in speeches have asserted that the Bell System is an integrated, organic whole with centralized administration, counsel for Associated Companies have insisted that such statements are not binding upon them.

(2) Ever since 1900, the president of the American Company has had blanket authority to vote the stock of subsidiaries. In 1925, similar authority was conferred upon one of the vice presidents.

(3) The selection of presidents for the various Associated Companies is a personal responsibility and privilege of the president of the American Company, and Bell System officials so recognize it. Promotion is considered a Bell System matter without regard to company limits.

(4) American Company officers keep in close touch with the careers of promising men in the Bell System. A record is kept in New York

^{1/} See F. C. C. report on "Effect of Monopolistic Control on Telephone Rates and Services."

of all employees in the System receiving over \$3,600 a year. The presidents of the Associated Companies also keep the president of the American Company informed concerning officers and employees in their respective organizations.

I (5) On the personnel records kept by the American Company, a change of position from one Associated Company to another is considered a "transfer;" and an accounting bulletin promulgated by the American Company clearly defines the fact that shifts from company to company are in effect considered equivalent to transfers from department to department within a given company.

(6) The salaries of officers of Associated Companies are determined by the president of the American Company. That question also appears to be considered a Bell System matter, rather than a matter for each individual company. The American Company's officers have controlled the matter of salaries to be paid even to officials receiving \$4,000 per annum.

(7) The American Company's officers are often consulted, and determine the selection and appointment of officials of the Associated Companies other than presidents, such as general auditor, secretary, secretary and treasurer, and vice presidents. When changes are contemplated in the organization of Associated Companies with reference to personnel, officers of the American Company indicate what those changes shall be through suggestions.

(8) Changes in the wage schedules of Associated Company employees have sometimes been subject to the approval of the administrative officers of the American Company. In one instance, an Associated Company asked the American Company to approve an increase in operators' wage schedule amounting to \$900 per annum. At wage conferences held under the auspices of the American Company, wage principles have been formulated to be applied throughout the Bell System.

H (9) Uniformity and control in personnel matters is indicated by the Plan for Employees' Pensions, Disability Benefits and Death Benefits. With one exception, action of all of the companies in the Bell System has been uniform, with respect to both the original adoption of the plan and the modifications thereof. During the years when Employees' Benefit Fund Reserves were maintained by the Associated Companies, the American Company's officers exercised control over the amounts to be set up in such reserves, and sent out a form of vote to be adopted by the Associated Companies. Since the establishment of trust funds with Bankers Trust Company, certain officers of the American Company have directed the Associated Companies in the matter of the investment of their trust funds.

(10) The employees of the Associated Companies are instructed and trained under standard rules and regulations emanating from New York.

(11) Contacts between Associated Companies and the American Company are maintained primarily by correspondence, circulars, bulletins, field visits, individual conferences, group conferences, and communication by telephone. A discussion at one of these conferences shows that officials of Associated Companies consider letters sent to them by the parent organization as tantamount to "instructions;" and that subordinate officials of Associated Companies who attend group conferences sometimes put into effect instructions received at such conferences, fostered by the American Company, without consultation with their superior officers in the Associated Companies.

(12) The Associated Companies are required to submit annually to the American Company "provisional estimates," or budgets, containing proposed expenditures for new construction and related matters. The American Company is enabled to control, and to exercise a veto power over the expenditures of the Associated Companies. The veto power of the American Company over expenditures of Associated Companies has been exercised in such matters as the purchase of new office buildings. An accounting instruction of the American Company prescribes the form of resolution to be adopted by the Associated Companies when they obtain advances.

I (13) In connection with the issuance of securities, the Associated Companies act under instructions from American Company officers. The latter determine the amount of securities which the Associated Companies shall issue in liquidation of advances, and indicate the price for which securities shall be issued and sold by the Associated Companies. When bonds of Associated Companies are sold to bankers, control by the American Company of the transactions extends to the point of signing correspondence and agreements in the name of Associated Company officials. Before an Associated Company sells or disposes of securities held by it in a sinking fund, approval of the American Company to the transaction is required.

(14) The Associated Companies act under instructions from American Company officers as to whether dividends shall be declared, and if so, as to the amount thereof.

(15) With respect to relations of the Associated Companies with their connecting companies in the matter of acquisitions, the Associated Companies must seek the approval of the American Company officers to enter into negotiations for the purchase of properties and to consummate such purchases, similarly, when stock interest is acquired in an independent telephone company.

(16) In instances, the Associated Companies seek the approval of American Company officers for proposed rate changes. The American Company has supplied the Associated Companies an outline of procedure and many samples for rate case publicity campaigns to be used prior to, during, and after a rate increase is applied for with the appropriate state authorities. When any Associated Company has a major rate case pending before a regulatory commission or court, American Company counsel supervises the procedure to be following and arguments to be made by local counsel.

(17) The American Company and the Associated Companies maintain information departments, which deal with public relations, advertising and publicity; and the American Company "checks up" on the public relations activities of the Associated Companies.

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(18) It appears that as a matter of practice, the Associated Companies submit drafts of their annual reports to the American Company, and changes are suggested and made therein by the latter company before such reports are made public.

(19) From the very beginning of radio broadcasting in the United States, the Associated Companies were subject to the control of the American Company in the matter of the use of their wires for radio broadcasting. All activities of Associated Companies have been subject to regulation by American Company officials.

(20) The officers of the American Telephone and Telegraph Company and Bell Telephone Securities Company directed the employees of Associated Companies in the sale of American Company common stock as if they were really employees of the former.

CHAPTER II
DOMINATION WITH REFERENCE
TO PERSONNEL MATTERS

1. General Background.

Consideration will be given, in this chapter, to the matter of domination and control exerted by the American Company over the Associated Companies in personnel matters.

The pivotal problem in the relations of the American Company to the Associated Companies is the selection of executive officers. If we assume that the selection of the chief officers of the Associated Companies follows regular business procedure and conforms to legal requirements, these officers would be selected by the boards of directors of the respective companies. By virtue of controlling stock ownership in twenty-two of the twenty-four Associated Companies, again following the ordinary line of reasoning, the board of directors would be selected by the stockholders. As the controlling stockholder, therefore, the American Company must select, through the action of the board of directors, the executive officers of every one of the twenty-two controlled Associated Companies. These general officers include, ordinarily, the president, vice presidents, general counsel, comptroller, secretary, and treasurer, and, often, the assistant secretary and assistant treasurer. These officers, therefore, are the direct representatives of the American Telephone and Telegraph Company. Indeed, the procedure in selecting the executive officers of the Associated Companies is such that they are in fact picked by the president of the American Company sometimes even contrary to local sentiment.

The American Company keeps informed on Bell System personnel.-
The officers of the American Company keep in close touch with the careers of promising men in the Bell System. There is a record in the New York

I office of all employees in the System receiving over \$3,600 a year (Form SN-49), indicating name, date of birth, education, previous employment, and the complete record of all positions, by dates and salaries, held in the various companies of the Bell System. This record for men receiving salaries between \$3,600 and \$7,500 is kept in the office of the comptroller of the American Company, and the same information for employees and officers receiving over \$7,500 is kept in the office of the president. In addition to this record, there is also a file of biographical information on several hundred of the chosen and promising men in the Bell System, kept in the office of the assistant to the president. On the question of personnel, there is evidence indicating that the presidents of the Associated Companies keep the president of the American Company informed concerning officers and employees in their respective organizations. For example, in a letter dated August 31, 1925, marked "PERSONAL AND CONFIDENTIAL," President Gifford stated to President Ben S. Read of Southern Bell Telephone and Telegraph Company:

Thank you for the folder in regard to three of your men, which you sent me on August 29th.

This is just what I wanted.

In another letter, to President Pillsbury, of The Pacific Telephone and Telegraph Company, under date of September 8, 1925, also marked "PERSONAL AND CONFIDENTIAL," President Gifford stated:

Thank you for your letter of September 2nd and also the survey of the male personnel of the Pacific System which arrived under separate cover.

I am very glad to have this information and shall study it with much interest. I note that there are only two copies of this report, and shall keep the copy you have sent me confidential.

Again, on December 21, 1925, in a letter to President E. D. Nims of Southwestern Bell Telephone Company, marked "PERSONAL," President Gifford stated:

± Thank you for your report regarding certain members of your official family, which you sent me with your personal note of December 17.

It is just what I wanted, and I shall be glad to talk with you about it the next time I see you.

Request was made of the American Company by the Commission's investigators for copies of the reports referred to in the foregoing correspondence, but they were not produced. Mr. Gifford's secretary explained that "records show that they were retained by Mr. Gifford and undoubtedly destroyed by him as was quite frequently done in such cases."

By these means and through personal contacts effectuated by visits to the field or in group conferences, the officers of the American Company keep informed of the performance of men in the System.

Change of position from one Associated Company to another considered a "transfer".- In the SN-49 records above mentioned, the records of some individual officers indicate their progress has proceeded from company to company regardless of corporate limits. Furthermore, these shifts are recorded as "transfers," and it must be assumed they are so considered by the American Company. For example, Charles P. Cooper, who is Vice President of American Company today, his position being equivalent to that of First Vice President, started in the New York Telephone Company in 1908, was transferred to The Chesapeake and Potomac Telephone Company of Baltimore City in 1918 (shown as transfer from New York Telephone Company on SN-49), then two years later became General Superintendent of Cleveland Telephone Company

(again shown as transfer from the Chesapeake and Potomac Company on SN-49), then became Vice President and General Manager of The Ohio Bell Telephone Company in 1921, and in 1926 was again transferred from Ohio Bell to the American Company as Vice President. Between August, 1926 and April, 1927, he served as President of Central Union Telephone Company, finally came back as Vice President of American Company, and has been there since. Similarly, the SN-49 record of Mr. E. F. Carter, another Vice President of American Company, indicates that he has been transferred, over a period of 35 years, among a group of seven Bell System Companies. In connection with many of these transfers, his SN-49 card indicates "Trans. T. C. & Inc.," which stands for "transfer, title change, and increase." The same conditions of progression and transfer regardless of company boundaries are found in the case of many of the chief officers of Bell System companies.

Accounting Bulletin 16E of the American Company, dated April 11, 1930, entitled, "Standard Routine Record of Officers and Certain Employees of Bell Telephone System" ^{1/} clearly defines the fact that shifts from company to company are in effect considered equivalent to transfers from department to department within a given company. The following is quoted therefrom:

I. EMPLOYEES' RECORDS.

1. Form S. N. 49, Employee's Record--Bell Telephone is recommended for use in recording certain data with respect to;

(a) Each new employee whose initial rate is \$4,000.00 or more per annum.

(b) Each employee whose salary is increased from a lower rate to \$4,000.00 or more per annum. * * *

^{1/} Although this accounting bulletin refers to employees receiving \$4,000.00 or more per annum, and is still in effect, it has been modified by letter to the Associated Companies to the extent of revising the stated rate of salary to \$3,600.00 per annum.

2. It is intended that all positions held by an employee since entering the Bell Telephone System be shown on Form S. N. 49, * * *.

II. CHANGES IN EMPLOYEES' RECORDS.

H 1. Form S. N. 139E, Changes in Employees' Records, is recommended for use in summarizing all transfers, discontinuances and changes in position or rate of pay affecting the records maintained /maintained/ on Forms S. N. 49, * * *.

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3. In order that changes may be made currently in a central file of personnel data maintained in New York, relating to employees whose annual compensation is \$4,000 or more, a copy of Form S. N. 139E and a copy of Form S. N. 49 for each employee engaged at a rate of \$4,000 or more per annum, and for each employee whose rate is increased to \$4,000 or more per annum, should be forwarded under personal cover to the Comptroller of the American Telephone and Telegraph Company, New York, not later than the 20th of each month.

2. Selection of Presidents of Associated Companies.

Gifford's administration.- There is evidence that the selection of presidents for the various Associated Companies has been in the nature of a personal responsibility and privilege of the presidents of the American Company. This impression is supported by the tenor of the following statement made by President Walter S. Gifford of the American Company in a letter to Vice President Arthur W. Page, dated April 9, 1930:

Yesterday I asked Carter if he would come on and take Hall's job and he is thinking it over. I expect him to accept. If he does, I have decided to make Eide President of the Ohio Bell and Carroll President of the Indiana Company.

That President Gifford's decision in this particular matter was carried out in every respect is evidenced by the fact that two weeks after he wrote the letter referred to, -- on April 24, 1930, -- all of the changes mentioned were made. On that date, at a meeting of the Board of Directors of the Ohio Bell Telephone Company, Randolph Eide,

I who had theretofore been Vice President of The Ohio Bell Telephone Company, was elected President of that company. On the same date, at a meeting of the Board of Directors of the Indiana Bell Telephone Company, James F. Carroll, who had theretofore been a Vice President of The Ohio Bell Telephone Company, was elected President of the Indiana Bell Telephone Company. Also on the same date, E. F. Carter, who had theretofore been President of The Ohio Bell Telephone Company, became a Vice President of the American Company.

It appears that President Gifford was at the time a Director of the Indiana Bell Telephone Company, and that he attended the meeting of April 24, 1930, at which James F. Carroll was elected President of that company. President Gifford was also at the time on the Board of Directors of The Ohio Bell Telephone Company; but the minutes of the meeting of that company of April 24, 1930, at which Randolph Eide was elected President, disclose that President Gifford was not present. Accordingly, it appears evident that whether or not the president of the American Company attends, as a director, a meeting of the Board of Directors of an Associated Company, his decision as to the election of an official at such a meeting prevails.

Another comparatively recent illustration of the dominant voice which the president of the American Company has in the selection of the presidents of the Associated Companies, is found in correspondence passing between President W. R. Abbott of the Illinois Bell Telephone Company and President Gifford of the American Company in 1930. It appears that President Abbott desired to be relieved of his duties as President of the Illinois Bell Telephone Company, but he was to remain with the company as Chairman of the Board of Directors. It further appears that F. O. Hale, at that time a Vice President of the Illinois Bell Telephone Company, was under consideration as President Abbott's successor. The following is

quoted from a letter from Abbott to President Gifford of the American Company, dated February 2, 1930:

The only reason for suggesting July 1st was that Mr. Sunny retires on that date also Messrs. Garvey and Boyd, so it would appear logical to our own people and the Public, if my change were to be made at the same time, however since your talks with Mr. Hale in Chicago in December and in New York about ten days ago, he seems reassured and to await your decision as to himself when you feel the time is proper to act, this of course with reservations upon his part there is a possibility he may not be selected.

Mr. Hale's attitude is fine.

In the meanwhile as orally understood between us I am placing more of my responsibilities upon him, that the results of his management may help you to a decision at the proper time, feeling confident that he will fully measure up to what we both expect of him.

As recited in the foregoing quotation, President Gifford had talked with Mr. Hale in Chicago and New York, and the latter seemed "reassured and to await your [President Gifford's] decision as to himself when you [Gifford] feel the time is proper to act;" also additional responsibility had been placed upon Mr. Hale in an endeavor to "help you [Gifford] to a decision." It appears, accordingly, that decision as to the choice of a successor to President Abbott of Illinois Bell Telephone Company rested with President Gifford of the American Company.

Under date of February 7, 1930, President Gifford responded to President Abbott's letter as follows:

My present inclination is that we should go forward with the change as of July 1, making Hale President at that time and you becoming Chairman of the Board.

I have been very much pleased at Hale's attitude since our talk in Chicago and I feel confident that we will make no mistake in electing him President. * * *

I President Gifford's inclination, as outlined in his letter above quoted, was consummated in full, on July 1, 1930. F. O. Hale was elected President of the Illinois Bell Telephone Company, and on the same date W. R. Abbott became Chairman of the Board of Directors of the Illinois Bell Telephone Company.

Bell System officials recognize that the president of the American Company has the dominant voice in the selection of presidents for the Associated Companies. In a letter written on July 20, 1926, B. E. Sunny, Chairman of the Board of the Illinois Bell Telephone Company, recommended to Gifford the advancement of George M. Welch, at that time Vice President and General Manager of the Michigan Company, to the position of President of the same company, made vacant by the death of Judge Kuhn. Sunny, who had formerly been associated with Michigan Company as President, expressed himself as interested in the matter because of his "long association with the Michigan Company" and because he felt that he "owe[d] it to the service."

Sunny wrote at length about Welch's qualifications, and concluded:

In my judgment, he is in the class with Rufus Abbott and McGovern. They have all been through the crucial test and have proven themselves worthy. Welch, at the head of the Michigan Company will, I am confident, be successful in all respects, and a splendid addition to your long list of strong and able men.

Acknowledging Sunny's letter, President Gifford stated:

I am glad to have your views about Welch and I can assure you that in considering the proper successor to Judge Kuhn, his qualifications will be given careful weight.

Welch was not advanced to the position of President of the Michigan Company. An official of another Associated Company, Burch Foraker,

General Manager, Up-State Division of the New York Telephone Company, was elected President of the Michigan Bell Telephone Company on July 30, 1926. Gifford wired Bell System officials on the same date:

H FOR YOUR INFORMATION, BURCH FORAKER, GENERAL MANAGER, UP-STATE DIVISION NEW YORK TELEPHONE COMPANY, WAS ELECTED PRESIDENT OF MICHIGAN BELL TELEPHONE COMPANY TODAY.

Thayer's administration.- Correspondence relating to another instance, which occurred during the term of office of H. B. Thayer as President of the American Company, reveals (1) that promotion in the telephone business is considered a "Bell System matter and not a Company matter;" and (2) that a recommendation made by an official of an Associated Company for the promotion of a person within the Associated Company's own organization will be disregarded when the President of the American Company has decided to fill the position by transfer from another Associated Company. In similar letters to Hunt Chipley and J. M. B. Hoxsey, Vice Presidents of Southern Bell Telephone and Telegraph Company, dated May 29, 1924, at which time consideration was being given to the selection of a successor to J. Epps Brown as President of Southern Bell Telephone and Telegraph Company, President Thayer stated:

Mr. Brown will tell you on his return that he has decided that the load of carrying the full responsibility for the Southern Group is more than he wants to feel in his present condition of health. I can see that he is very much better but he is not strong enough for the physical activity which is necessary, to keep in touch with such a wide spread of responsibility. Since it was necessary for him to take the prolonged leave of absence, I have had doubts whether he would ever be strong enough again to carry the full load, so that I was prepared for this decision upon his part.

Naturally, I have had in mind the question as to the best way to carry on in the Southern Group. Promotion in the telephone business I consider a Bell System matter and not a Company matter and that the man best qualified for a position, providing it is a promotion, in the Bell System, is the man who should receive it and with that in mind, it has seemed to me that Mr. B. S. Read was the logical candidate to succeed Mr. Brown as President. He

is a President now of a smaller company and as you know, has spent a good deal of his life in the Southern Group and knows in a general way the conditions and the habits of the people.

Mr. Brown has made a strong plea for his Vice Presidents and I want to be sure that you understand that my conclusion is not the result of any lack of appreciation of their accomplishments, but I really have the feeling that, looking at it as I do, (as a Bell System matter), the selection of either one of them to this position would be going over the heads of all of the Presidents of the smaller companies in the System.

You will be glad to know, I am sure, that Mr. Brown feels capable of retaining a connection with the Company, so that I am expecting to recommend to the Board of Directors that he be made Chairman of the Board and that Mr. Read be made President. I am sending a similar letter to this to Mr. Chipley. You both know Mr. Read and I am sure will be glad to work with him.

Mr. Brown will undoubtedly talk with you about this and tell you when this change is to be made public and in the meantime I will ask you to consider it as confidential.

President Thayer further advised one of the aspirants to the presidency on June 2, 1924:

This program, of which I informed you, had been a subject of very careful consideration from all the points of view from which I could consider it and excepting for the necessary action of the Directors, is an accomplished fact. By that I mean that Mr. Ben Read has been informed that this is the action expected and will offer his resignation as President of the Mountain States Telephone and Telegraph, if he has not already done so.

As to the future, I should be sorry to have you or anyone else in the Bell System feel that there was a closed end to his possibilities. This action, to which we have committed ourselves, does not mean that you were weighed in the balance and found wanting. It means, as I tried to make clear in my letter, that with Mr. Brown's physical condition in mind, I have been for some time thinking over the question as to who should be his successor and in going all through the Bell Telephone System I arrived at the conclusion that Mr. B. S. Read was the best qualified for that position. He has demonstrated his ability in the administration of a telephone company and

has the additional qualifications of a considerable knowledge of the history and conditions of the Southern Group through having been employed there.

I shall be very glad indeed to discuss this whole subject with you but as it could not affect this particular action I am not wiring you to come, but hope that you will make it a part of your program to see and talk with me about it the next time you come to New York.

I

It will be noted that President Thayer personally selected Mr. Ben S. Read for the presidency of Southern Bell Company, and that such selection made the matter an "accomplished fact," except for the formal action of the Board of Directors of the Southern Company. Mr. Read was elected President of Southern Bell Company at a meeting of the Board of Directors of that company held on June 10, 1924. On the same day, President Thayer advised Mr. Read of his election, and that his salary had been fixed at \$32,000 a year. In response to this letter from President Thayer, Mr. Read, on June 16, 1924, stated:

I hope you will have a good time in July and August, and so far as I can tell from the quick survey of the situation here, there is nothing that need disturb you in any way while you are gone. It is my hope and it will be my constant effort to do the things here that will cause you to have no uneasiness about the Southern Group at any time in the future. Thank you for the compensation fixed; this is a matter that I have and will always leave entirely in your hands.

In another instance, when Mr. H. D. Pillsbury was selected for the presidency of the Pacific Telephone and Telegraph Company, in a letter of appreciation to President Thayer of the American Company, dated December 30, 1924, he stated:

The directors at their meeting to-day elected Mac G. E. McFarland chairman of the executive committee and me president. After the meeting Mac called in our operating people and told them about the changes in the organization. They all seemed pleased when they found

out that Mac was not retiring and were good enough to congratulate me. With Mac to advise me and our crowd to back me up I ought to be successful and hope to be. To you who made it possible I want to express my deep appreciation and thanks. It has long been my ambition and I can hardly realize that it is actually being fulfilled. You may be sure that I shall try in every way to deserve the confidence you have shown in me.

Earlier examples.- The practice of personal selection by the president of the American Company of presidents for the subsidiary companies in the Bell System has been one of long standing. A few examples from the earlier history of the Bell System support this statement.

In a letter dated December 19, 1904, President F. P. Fish of the American Company advised the General Manager of the Northwestern Telephone Exchange Company that

* * * we have decided to make Mr. Pettingill President of the Northwestern Company. I trust and believe that this will be entirely agreeable to you. * * *

In accordance with the foregoing, Heman Judson Pettingill was elected President of the Northwestern Telephone Exchange Company, effective January 1, 1905.

At about the same time, it was desired that Alonso Burt should resign as President of the Missouri and Kansas Telephone Company and devote his time exclusively to the Wisconsin Telephone Company. According to correspondence, President Fish of the American Company selected Charles S. Gleed, of Topeka, Kansas, to succeed Burt as President of the Missouri and Kansas Telephone Company. President Fish, in a letter to J. R. Mulvane, Topeka, Kansas, dated December 20, 1904, stated:

We need Mr. Burt exclusively in Wisconsin, and he therefore proposes to resign as President of the Missouri and Kansas Telephone Company.

After very careful consideration, I have determined that the best man to succeed him is Charles S. Gleed, of Topeka.

I trust that this selection will meet with your approval. It seems to me that in every way Mr. Gleed has the qualifications required for the position.

I
That the submission of Gleed's name to the Board of Directors of the Missouri and Kansas Telephone Company was a mere formality, his election already having been determined upon by President Fish, is indicated in the following excerpt from a letter dated January 17, 1905, from President Fish to General Manager Durant of the Bell Telephone Company of Missouri:

I am writing Mr. Walbridge today that I should like to have Mr. Gleed of Topeka elected on the Board of Directors of the Bell Telephone Company of Missouri in the place of Mr. Burt.

Confidentially I say to you that Mr. Gleed will be elected President of the Missouri & Kansas Company at the annual meeting which occurs January 25. As such he should be on your board.

I have no doubt that you and your associates will give him a hearty welcome.

In accordance with the foregoing, it appears that Charles S. Gleed was elected President of the Missouri and Kansas Telephone Company, effective January 25, 1905.

Cyrus P. Walbridge, referred to in the preceding quotation, had been elected President of the Bell Telephone Company of Missouri at the instance of President Fish of the American Company. In a memorandum under date of November 28, 1903, to General Manager French of the American Company, President Fish stated:

I want to elect Cyrus P. Walbridge President of the Bell Telephone Company of Missouri. Which director can resign most conveniently to make the vacancy for Mr. Walbridge's election?

Cyrus P. Walbridge was elected President of the Bell Telephone Company of Missouri on February 23, 1904.

There is sufficient evidence to show that the presidents of Associated Companies are, and have been, the personal selection of the president of the American Company. Promotion is considered on a System-wide basis, the corporate limits being disregarded, and shifts from one company to another are in the nature of "transfers."

3. Determination of Salaries of Associated Company Officers.

There is abundant evidence that the question of salaries to be paid to officials of the Associated Companies has been within the control of the officers of the American Company. As much of this evidence as will give a representative picture will be commented upon herein.

President Thayer of the American Company, in a letter written in October, 1920, to the president of a large Associated Company, who apparently at that time was seeking approval of the American Company to an increase in his salary, stated:

As one of your Directors representing a large proportion of your Company's stock, I have felt that the responsibility was on me to see that your salary was fixed at the right rate and I have not neglected that responsibility. I have been studying the question both before and since your meeting.

It has seemed to me that we ought to take into consideration several things; the value of the property for which one is responsible; the character of the business and the results of the operation; the strength and spirit of the organization and the character of its personnel and then, of course, the strength and character of the man involved.

There isn't any subject to which I have given more thought since I have been President of this Company than such questions relating to our Vice Presidents and the Presidents of the Associated Companies, because they are the men for whom I feel most directly responsible and to whom I look to keep this business successful.

In reference to increases in the salaries of other presidents, President Thayer stated:

I am sorry if Mr. --'s and Mr. --'s increases seemed to be rewards for rate increases. That was not the intention. Nor should salaries be cut when rates are cut. The intention is that salaries shall accurately represent the value of a man's work and the measure of his responsibilities. An adequate return is an important factor but it depends not only upon the President but upon the others in his organization and you can see that if a Company should follow up a rate increase by a general distribution to officers and employees, it would have to make a general reduction in case of a rate reduction and that would be hardly practicable. No- salaries, particularly for Presidents, must depend upon more things than that and upon records over a period.

Mr. -- was a new man to me when he took up the --- work. Considering the way he took it up, I made up my mind that he had not been started at the right figure and I made it nearer right.

In Mr. --'s case it was represented to me that there was something like a crisis to be met and it was met.

I have noted what you say about the salaries of the Presidents of the two --- Companies. That information is helpful, although no comparison can be conclusive. The range of your Company's operation and its investment are greater, but on the other hand, your responsibilities are divided with us probably to a greater extent than theirs are with their Directors.

* * * Now, as to your case specifically: I looked it up the other day and found that your last increase in salary was on January 1st of this year and I thought that I could probably take the time to come to a conclusion as to a proportioned scale of salaries for the positions and then see what the variation from scale ought to be for the different men, with the feeling that an attempt had been made to apply my best mental processes to arriving at least at a just conclusion and then, having arrived at a conclusion, I proposed to have action taken without delay. I would like to feel that all of you had been treated equally well so far as I could work it out, without reference to whether or not you had asked for an increase.

In instances, officers of the American Company have indicated disapproval of salary increases recommended by officials of Associated Companies. This is shown by a letter written by Mr. Gifford, then Vice President of the American Company, to F. C. Kuhn, at that time President of Michigan State Telephone Company, dated March 22, 1921, reading in part as follows:

* * * with reference to certain recommendations for increases in salary made by your General Auditor: We have considered these carefully and believe that the increases proposed would place these men on a higher salary basis than men in similar positions in companies which are larger than the Michigan Company.

We plan to make a general review of the salaries paid for the supervisory positions in the Accounting Departments in all Companies and it may be that some readjustments upward in several of the Companies will be desirable in the near future. There is a general feeling among the Accounting Department people in the field that men of the supervisory type are on a lower salary basis than men having similar responsibilities in other departments. This we plan to check soon and it may be that we will then discover that Mr. Booth's recommendations in respect to the three men are not out of line but rather that the salaries paid by the other companies are out of line.

In view of the fact that the three men in question have had fairly substantial increases in the last few years, I should not expect it would be a hardship on them to postpone consideration of their cases for, say, six months. This, however, is a matter that of course you can determine better than we. If the work of these men is entirely satisfactory, I should not think you would have any difficulty in justifying the increases, although at present writing they would seem to put them out of line with salaries generally paid throughout the System for similar positions in the Accounting Department.

Another instance of the review of salary increases of subordinate officers of Associated Companies is given by a letter which Mr. Gifford wrote to J. M. B. Hoxsey, then First Vice President of Southern Bell Telephone and Telegraph Company, dated February 27, 1923, from which the following is quoted:

I find that our Legal Department think very highly of Mr. Smith as a lawyer and would consider that on his merits he might be paid \$15,000 a year. In view of this, therefore, and the fact that there has been a misunderstanding and that Mr. Smith has been told by his superior that his pay would be raised, I am inclined to think it would be worth while not to disappoint Mr. Smith and destroy his morale to some extent for the sake of delaying action a few months. In other words, unless you see some objection, I would suggest that at the next Executive Committee meeting in March, his pay be increased to \$15,000 effective March 1st.

Will you let us hear from you regarding this before the meeting? The organization meeting was held last Friday, although we had expected to wait until this week. It is therefore not possible to take any action at that meeting.

I think Mr. Chipley's attention should be called to the fact that it was highly improper for him to have told his subordinate about an increase in salary, prior to action by the Board on such increase.

E. D. Smith, referred to in the letter quoted, was at the time General Solicitor of Southern Bell Company, and is at the present time Vice President and General Counsel of the same company. Hunt Chipley, also referred to, was formerly Vice President and General Counsel of Southern Bell Company. Mr. Smith's Employee's Record Card shows that he was increased in salary from \$13,500 to \$15,000 per annum, effective March 1, 1923.

Approval of the board of directors of an Associated Company of a particular salary increase is sometimes perfunctory, if the salary increase meets with the approval of the American Company. This is indicated in a letter written by H. T. Scott, Chairman of the Board of The Pacific Telephone and Telegraph Company, to H. B. Thayer, while he was President of the American Company, dated August 2, 1923, reading as follows:

The meeting of the Board of Directors was held yesterday and Mr. McFarland's salary was unanimously made \$35,000.00 per year.

The only question asked was whether it would meet with your approval. That was assured.

On February 9, 1924, President Kinnard of The Bell Telephone Company of Pennsylvania advised Executive Vice President Gifford of the American Company as follows:

H If agreeable to you, when recommending to the Board that Mr. C. L. Ritchie be elected Treasurer of these Companies, I should like to indicate that his salary be \$10,000 a year.

Executive Vice President Gifford gave his approval to the salary increase, in a letter to President Kinnard dated February 11, 1924.

In another letter written a few months later, on April 17, 1924, President Kinnard of The Bell Telephone Company of Pennsylvania recommended to Mr. Gifford that the salary of General Commercial Manager Downing of the Pennsylvania Company be increased to \$15,700 per year. In this connection, President Kinnard stated:

Subject to your approval, and that of Mr. Gherardi, I should like therefore to move on this case at this time, putting him through for the above amount. I appreciate this amount is close to what we have all discussed from time to time as a tentative maximum for this kind of position, but in view of its importance in its relation to the other positions of the Company I do not feel the above figure is as yet out of line.

If possible, I should like to secure this change for approval at the next meeting.

Mr. Gifford, in response to the foregoing letter, advised that "this proposed increase is not out of line and we see no reason why you should not put it up for approval at the next meeting."

Other specific examples illustrating the extent to which the matter of salaries paid to Associated Company officials is subject to the domination and control of the officers of the American Company follow:

In a letter dated March 5, 1924, President Franz C. Kuhn of Michigan Bell Telephone Company wrote to Vice President Gifford of the American Company as follows:

As I advised you over the telephone on Tuesday, we have decided to hold the Annual Meeting of the Company and the directors' meeting for election of officers on Thursday, March 13th, as provided in our by-laws.

At this meeting it will be necessary to fix the salaries of the officers for the ensuing year and as I suggested to you while you were in Detroit, I should like to make certain suggestions as to this matter.

Mr. George M. Welch, Operating Vice President has been with the Bell System, I understand, now twenty years. The last increase in salary was given him on March 1, 1921. I feel that Mr. Welch has been giving me the very best of cooperation during the past year and I should like to see this rewarded by an increase in his salary. I should be glad to leave the amount of such an increase to you but as I suggested I know a \$1000.00 increase would be appreciated.

Mr. Harry J. Booth is now receiving a salary of \$8400.00 which has, also, been paid to him since March 1, 1921. In a talk which I had with Mr. Heiss with reference to the situation in the auditor's department, he thought that I might well bring the general auditor up to \$9000.00. Mr. Heiss is quite familiar with Mr. Booth's work and the way in which the work in his department has been carried on.

The salary of Mr. W. I. Mizner was fixed at \$8400.00 on April 1, 1920 and he has no increase since. As I understood you when you were here you did not think any increase in his salary should be recommended. I do wish to say, however, that Mr. Mizner has shown himself very faithful to the interests of the company and has done his work in a most acceptable way.

His assistant, Mr. F. L. Curtis, is also a very competent young man, capable and equipped in every way to succeed Mr. Mizner in his position. His present salary of \$4800.00 was fixed on May 1, 1922. I should recommend an increase of \$600.00 in his salary.

In response to this letter from President Kuhn of the Michigan Company, Executive Vice President Gifford advised as follows:

We are in accordance with your suggestions that Mr. Welch should be increased \$1,000. and Mr. Booth \$600. After further consideration, it seems to me that if you wish to do so, it would be entirely satisfactory to raise Mr. Mizner \$600. also. The increase proposed for Mr. Curtis of \$600. seems entirely reasonable.

In some instances, it appears that the American Company takes the initiative in suggesting salary increases. In a letter dated

December 17, 1924, Executive Vice President Gifford of the American Company wrote to President W. R. McGovern of Wisconsin Telephone Company as follows:

H
Replying to your note of December 12th, we think the salary changes which you suggested and which I return herewith are consistent and proper. May I suggest that effective January 1, 1925, you arrange to increase your own salary from \$24,000 to \$26,000.

This suggestion was followed by President McGovern. His Employee's Record Card shows that, effective January 1, 1925, his salary was increased from \$24,000 to \$26,000 per annum.

Another such example is contained in a letter written by President Gifford of the American Company to C. H. Rottger, President of Indiana Bell Telephone Company, under date of December 3, 1926, from which the following is quoted:

There is a matter which I would bring up in person at an early meeting of your Board but it does not seem likely that I shall be able to attend a meeting in the near future. I am therefore writing to ask if you will state my recommendation to the Board that your salary be made at the rate of \$25,000 a year.

According to Mr. Rottger's Employee's Record Card, his salary was increased from \$23,000 to \$25,000 per annum, effective January 1, 1927.

Most of the illustrative examples heretofore given refer to salaries of officers of Associated Companies in what may be termed the upper brackets. There is also evidence that the approval of the American Company has been required for salary increases in what may be termed the lower brackets. For example, with a letter dated July 12, 1921, H. F. Thurber, then President of New York Telephone Company, submitted to Mr. Gifford, then Vice President of the American Company, a list of proposed salary increases affecting employees receiving over \$4,800 per annum. In his letter Mr. Thurber stated:

I forward with this, list of proposed increases affecting people receiving over \$4800. per annum. The men recommended have done and are doing excellent work. The increases recommended for the Accounting Department are somewhat higher than for the other departments due to the fact that three of the men have recently been promoted to more important positions.

I wish to make these increases effective July 1, 1921, if possible.

It appears that some investigation of this matter was made by the American Company and its approval was not given perfunctorily, as indicated by a notation on Mr. Thurber's letter reading as follows:

Mr. Gherardi:

I am having the Accounting Dep't. item checked up.

WBG

After this checkup, Mr. Gifford advised Mr. Thurber, under date of July 19, 1921, that "We have gone over these and have no comments to make."

Under date of June 21, 1921, A. E. Berry, at the time President of The Chesapeake and Potomac Telephone Company, submitted two proposed payroll changes affecting employees whose rates of pay were in excess of \$4,000 per annum, to Mr. Gifford of the American Company:

Attached herewith are two proposed payroll changes affecting employees whose rates are in excess of \$4,000.00 per annum. Will you kindly consider them and advise me if they have your approval?

As to one of the employees, Mr. Berry stated:

* * * On the whole, I consider him a very valuable employee to the Accounting Department and to the Company, and respectfully recommend your favorable consideration of the increase proposed.

Mr. Gifford replied, under date of June 22, 1921, as follows:

* * * I see nothing inconsistent in your proposed recommendations with the general practices followed elsewhere.

I As late as 1925, there is evidence that salaries of Associated Company employees were submitted to American Company officers for approval. President J. S. McCulloh of New York Telephone Company submitted lists of proposed salary increases for employees receiving over \$4,800 per annum to W. S. Gifford, by letters dated February 2, 1925 and March 6, 1925, for "comments and suggestions."

4. Control over Activities of Associated Company Presidents.

Approval of selection of officers of Associated Companies other than presidents.- Correspondence between officials of the American Company and the Associated Companies discloses that the former company also plays an important role in the selection and appointment of officials of the Associated Companies other than presidents. Examples of approval given by the American Company to such appointments, in specific instances, follow:

In a letter dated November 17, 1919, First Vice President Kingsbury of the American Company advised President A. E. Berry of The Chesapeake and Potomac Telephone Company as follows:

I have your favor of the 14th instant, and in confirmation of our telephone conversation of this morning will state your selection of Mr. P. O. Coffin of the New York Company for the position of General Auditor of the Chesapeake and Potomac Company is approved.

President W. B. T. Belt of Northwestern Bell Telephone Company, in a telegram dated June 23, 1924, asked Vice President Gifford of the American Company for his approval of the election of a secretary for his company as follows:

J. W. CHRISTIE OUR SECRETARY RETIRES EARLY IN JULY ON COMPLETION OF FORTY YEARS SERVICE STOP I WISH TO ELECT CHAS. E. HALL SECRETARY TO FILL CHRISTIES PLACE AT OUR DIRECTORS MEETING JUNE 27, IF YOU APPROVE STOP.

Vice President Gifford indicated his approval in a telegram to President Belt, under date of June 24, 1924, reading as follows:

Approve of your suggestion to elect Charles E. Hall as Secretary at Directors' Meeting on June 27th.

Another example is contained in correspondence between H. D. Pillsbury, President of The Pacific Telephone and Telegraph Company, and Vice President Cooper of the American Company, in 1929. On June 20, 1929, Mr. Pillsbury stated in a letter to Mr. Cooper:

On my last trip to New York in discussing our Accounting Department with Mr. Heiss, he called my attention to the fact that in some of the companies the general auditor is also a vice president. You know, I think, the fine record Mr. Cassassa has made. It seems to me that it would be a fitting recognition of what he has done, to make him a vice president and I would like to know how it appeals to you as a director of the Pacific Company. 1/

Mr. Fleager, at the time Mr. Shaw left, was put in charge of all Commission matters. He is one of Mr. Powley's right hand men and I am sure that under his administration our relations with the various Commissions will be greatly simplified and be more satisfactory. Mr. Fleager, as you know, was chief engineer for the Central Area before being made assistant vice president. Mr. Powley feels with me that it would not only be a recognition of his success in various positions which he has held but would be of material assistance to him in handling Commission matters if he too were made a vice president. Will you please give me your views on this as in the case of Mr. Casassa so that I can have them in presenting the matter to the other directors?

Vice President Cooper replied on June 25, 1929 as follows:

This is in reply to your letter of June 20th about making Mr. Casassa and Mr. Fleager Vice Presidents of your Company.

I see no objection to what you have in mind and agree with you that the change in both cases would be desirable.

1/ Mr. Cooper at this time had authority to vote all of the stock of the American Company; see p. 129 of this report.

A more recent example is contained in correspondence between President F. H. Reid of The Mountain States Telephone and Telegraph Company and President Gifford of the American Company, in 1934. President Reid advised that he intended to promote A. R. Grosheider, then Assistant Secretary and Assistant Treasurer of the Mountain States Company, to the position of Secretary and Treasurer of the same company. Mr. Reid's letter was as follows:

Mr. J. E. Macdonald, Secretary and Treasurer, and also a director, desires to retire in the month of February, and I have agreed to make it possible. Mr. A. R. Grosheider, now Assistant Secretary and Assistant Treasurer, will satisfactorily handle Mr. Macdonald's work as Secretary and Treasurer and I intend to promote him to this position.

The matter of personnel supervision, which has been under Mr. Macdonald, will be handled by one of the department heads, and this will be determined shortly.

It is my desire to fill the vacancy on the Board of Directors by suggesting the name of Frederick M. Hunter, Chancellor of Denver University, a man who is outstanding in educational circles and well liked for his ability as well as for his personality. I discussed the matter of Dr. Hunter becoming a director with Arthur Page about two years ago. This enables us to have a director relieved from bank and other affiliations.

I am sending this along to you for any comment you may care to make.

To this Gifford replied:

Replying to your letter of December 28, your suggestion of appointing Mr. A. R. Grosheider Secretary and Treasurer and filling the vacancy on your Board with Mr. Frederick M. Hunter meets with my full approval.

I suggest that you might, at your convenience, talk with Mr. Carter on the telephone regarding the matter of personnel supervision. I spoke to Mr. Carter and, in fact, it is quite possible that he will have talked with you about it before you get this letter.

Changes in internal organization of Associated Companies.-

It appears that when changes are contemplated in the organization of Associated Companies, at least so far as executive officers are concerned,

I the American Company indicates, in the form of suggestions, what those changes shall be. A representative illustration of this point is contained in a letter from President Thayer of the American Company to President Thurber of New York Telephone Company, under date of July 30, 1923, reading as follows:

I have been giving a good deal of thought to the matter of your reorganization after Mr. Stewart leaves and to my mind, it shapes itself up about like this; that is, I offer this suggestion for you to be thinking about this week. I am going away to-day and will not be back at the office until a week from to-day and that will give plenty of time for you to think it over and then we can discuss it.

The suggestion is, that your organization chart should be about like this:

J. A. Stewart, First Vice President - on leave
of absence.

J. S. McCulloh, Vice President - and reporting
to him
Mr. Woodbury
Mr. Sylvan
and the work that he is
already doing on Publicity
and Commercial Policy

but letting the routine part of the commercial organization which, as I assume, is the part reporting to Mr. Welch, go to the General Manager.

Another suggestion would be in the line of good organization, but whether now is the time to do it is a question, and that would be to let the accounting and financial work be combined under a Vice President who, I presume, would be Mr. Huntington, so that there would be reporting to you actively:

Mr. McCulloh, Mr. Huntington, the Secretary and the General Counsel, as well as the General Manager,

and that you make Mr. Cooper, General Manager, instead of Chief Engineer.

What I have in mind is this: Two very important things to which a President should give his attention and support are the study and establishment of public relations and personnel relations. In the New York Company something has been done on personnel relations and more on public relations. Before committing ourselves to your successor, I would like an opportunity to see what can be added along those lines, and particularly on personnel relations, by the man you have in mind. /Under-scoring supplied/

This is a pretty sketchy suggestion, which I can elaborate on when I see you but it will give you the idea.

I J. S. McCulloh, who was then a Vice President of the New York Company, became Operating Vice President two weeks after the date of President Thayer's letter -- on August 16, 1923. Slightly over a year thereafter, on September 24, 1924, he was made President of New York Telephone Company. It would seem that Mr. McCulloh was given a trial period as Operating Vice President in order that President Thayer might determine his capabilities along the lines of public relations and personnel relations before committing himself to his appointment as President of New York Telephone Company. Mr. McCulloh continued in his capacity as President of the New York Company until 1933, and he is at the present time Chairman of the Executive Committee of the New York Company.

Another illustration concerns a change in the organization of The Pacific Telephone and Telegraph Company. G. E. McFarland, who had been President of the Pacific Company, was Chairman of the Executive Committee in 1925 when he died. Upon Mr. McFarland's death, President Pillsbury of the Pacific Company wrote to President Gifford of the American Company asking for "suggestions" from the latter as to appointment of successors to Mr. McFarland as Chairman of the Executive Committee and on the Board of Directors, and also as to "what, if anything, we should do for Mrs. McFarland."

Pillsbury wrote to Gifford on July 21, 1925:

Please give me the benefit of your suggestion as to the filling of the vacancy of the office of Chairman of the Executive Committee which was held, as you know, by Mr. McFarland. The by-laws were amended at the time I became president so as to provide for this office as well as the office of Chairman of the Board of Directors held by Mr. Scott. The by-laws provide that the office of Chairman of the Board and Chairman of the Executive Committee may be held by one person. Under these circumstances do you think it better to have Mr. Scott made Chairman of the Executive Committee as well as Chairman of the Board or shall we simply let the office of Chairman of the Executive Committee remain vacant.

I would also like the benefit of your ideas as to what, if anything, we should do for Mrs. McFarland. I expect to see her in a few days and from what I know of Mac's affairs I think he left little except his house and possibly some life insurance. The probabilities are that they will have to give up the house as it will take about everything to keep the family going. The Benefit Fund Committee, at my suggestion, today authorized the payment to her of \$2,000., the amount she was entitled to receive under the Plan, and the check which I had delivered to her at once I know came in very handy. I have not talked with any of the directors about this matter but am sure that they will all feel that something should be done.

President Pillsbury made certain suggestions of his own with reference to these vacancies in another letter of the same date:

With reference to the vacancies in the Board of Directors and Executive Committee of the Pacific Company resulting from Mr. McFarland's death, I have the following to suggest:

So far as the Executive Committee is concerned, I think Mr. Frank B. King should be elected to fill the vacancy. Mr. King has been on the Board of Directors for a long time and represents, through stock which he owns and that owned by his family, a substantial stock holding. He has always taken a great interest in the affairs of the company and I think will be a valuable addition to the Executive Committee.

With reference to the vacancy in the Board, I would like to suggest that that vacancy be filled by the election of Mr. Atholl McBean of this city. Mr. McBean is at the head of Gladding, McBean & Company, which operates big pottery and tile works both here and in Los Angeles. He has been president of the Chamber of Commerce of San Francisco and has always been active in civic affairs. He is a director of the Crocker National Bank of this city and of the Pacific Mutual Life Insurance Company, whose headquarters are in Los Angeles. You may remember my telling you while in New York of the subscription for the last offering of our common stock made by the Mercantile Securities Company amounting in par value to \$2,600,000. This stock is gradually being distributed by the Securities Corporation and Mr. McBean has recently taken 250 shares. Putting him on the Board would give representation to this block of stock. We have done a great deal of business with him, as he has furnished the tile for most of our buildings. Only a short while ago Mr. McFarland suggested to me that we should get Mr. McBean on our Board when the opportunity offered, so I know that this would have met with his approval. Needless to say, I have not mentioned this to McBean or to any of our directors and will not do so until I hear from you.

I
These suggestions were apparently overruled by President Gifford, in that the latter suggested that the position of chairman of the executive committee be abolished and that a person other than the one recommended by President Pillsbury be appointed to the board of directors. In a memorandum dated July 28, 1925, of a telephone conversation he had with Pillsbury, Mr. Gifford recorded that he had "suggested:"

1. That the Pacific Company Board of Directors vote Mr. McFarland's pay for the balance of this year (up to December 31st), to Mrs. McFarland.
2. That they abolish the position of Chairman of the Executive Committee and, at the same time that the By-laws are changed in this particular, they change the By-laws with reference to the authority of the Treasurer to designate other persons to sign checks.
3. That Mr. Griswold be appointed to fill the vacancy on the Board.
4. That Mr. Griswold be made a member of the Executive Committee; or, if Mr. King is made a member, then provision be made for Mr. Griswold to act as a member of the Committee in Mr. Pillsbury's absence.

A letter written the same day, July 28, 1925, by Gifford to H. B. Thayer, Chairman of the Board of the American Company, indicates that President Pillsbury carried out the suggestions. Mr. Gifford stated that he had:

* * * just talked on the telephone with Mr. Pillsbury and he will abolish the office of Chairman of the Executive Committee, and put Mr. Griswold in to fill the vacancy on the Board. * * * I agreed with his suggestion that, * * * it would be proper for the Board to vote his [McFarland's] salary for the balance of this year to be paid to Mrs. McFarland.

The president of the American Company also intervenes in the internal affairs of an Associated Company when a dispute arises between the president of such a company and one of his subordinates. This is gleaned from a letter written by President Thayer of the American Company

to the president of one of the Associated Companies, under date of October 21, 1921, from which the following is quoted:

Since my return to New York I have taken some time to consider this --- matter because Mr. Gifford has told me that you are anxious for a very prompt outcome. * * *

* * * The testimony seems to be unanimous that, so far as the quality of Mr. --'s work is concerned, there can be nothing but favorable criticism. * * *

On the other side are some indiscretions in loose talk and gossip. In view of the good work that he has done, it seems to me that this matter should not have been allowed to get to a point where his removal became a personal issue between you and him. It is part of the duty of the head of an organization to hold that organization with a firm grasp and not permit personal considerations to get into its operations. While I can see that Mr. --- has been indiscreet, his removal, in view of the reasons for some other removals, if attended with any reflection on him, would be too severe a punishment.

On the other hand, I don't feel like saying that the President of any one of our organizations, with his responsibility for the operation of the business, must or must not take such action as he finds advisable as to the personnel.

I find a very strongly rooted opinion that in many ways Mr. --- has been of exceptional value to your organization and on your statements made during your talk with Mr. Gifford, as I told you, there is evidence of too much gossip and too much consideration of personality pervading your organization. Whoever may be responsible for that condition, it is, of course, your responsibility when it continues.

It is the duty of both of us to consider what the effect of any action would be upon the business. If Mr. --- is removed at this time, the impression is bound to obtain that a man who has done an exceptionally good job of work has been removed for personal reasons and that a man in your organization doing exceptionally good work has been removed for a fault in which others in the organization share and go unpunished.

* * *

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* * *

I am told that when you discussed this matter with Mr. Heiss it was understood that nothing was to be said to anyone in --- about any prospect of a change.

I cannot help feeling, in view of all the facts as I have set them forth, that you should in justice give this matter reconsideration.

H
The individual referred to in the preceding letter was transferred to another company in the Bell System a few months later.

Other activities.- As indicating the extent of control which American Company officials have over Associated Company officers, mention is made here of several instances where presidents of Associated Companies, in effect, asked for leave to take vacations. For example, President Frederick H. Reid of The Mountain States Telephone and Telegraph Company, in a letter to President Gifford of the American Company, dated July 20, 1925, stated:

If not in conflict with any plans which you might have for me, I expect to leave next Sunday night, July 26th, on my vacation. * * *

Another such example is contained in correspondence between President L. H. Kinnard of The Bell Telephone Company of Pennsylvania and President Thayer of the American Company in 1923. In a letter dated June 4, 1923, Mr. Kinnard stated:

Subject to your convenience, I am planning to be away on vacation the month of July.

This letter was acknowledged for President Thayer by Vice President Gifford, who responded as follows:

Mr. Thayer has noted your letter of June 4th in reference to your being away during the month of July.

So far as we are concerned, this is entirely agreeable.

I On at least one occasion, an official of an Associated Company was not allowed to give a talk concerning the Bell System without an opportunity on the part of that company to review and approve in advance what was to be said. This appears in correspondence between Mr. Gifford of the American Company and B. E. Sunny, at that time Chairman of the Board of Illinois Bell Telephone Company. On May 21, 1923, Mr. Sunny wrote to Mr. Gifford as follows:

I am asked to talk at a luncheon of the Bond Men's Club early in June, and the suggestion is made that I tell them something about the plans of the Telephone Companies with respect to growth.

The totals from the provisional estimates of the several companies in the Bell System of gross and net additions with expectation of growth in station revenue, etc., would probably be too long and not especially interesting, but if there is no objection to telling about these plans, and it seems to me there are none, I might give the information with respect to the larger exchanges like New York, Boston, Philadelphia, Chicago, etc.

Will you please have sent to me as soon as possible information along the above line? If you have any suggestions as to anything that might be said on the utility situation for the Bell System on an occasion of the kind, please let me have them.

On May 23, 1923, Mr. Gifford responded:

I have given careful consideration to your letter of May 21st.

We should not like to have any talk regarding Bell System plans made to a financial organization such as the Bond Men's Club which was not written out and which we did not have a chance to go over in advance of presentation.

Furthermore, we feel that the present time is very inopportune and ask that you put the matter off until next fall. In the meantime, we will have time to talk about it with you and help you in preparing an interesting paper for the occasion.

5. Control of Wage Standards.

I There is evidence indicating that changes in the wage schedules of Associated Company employees have sometimes been subject to the approval of the administrative officers of the American Company in New York. The following letters, passing between A. E. Berry, President of The Chesapeake and Potomac Telephone Company, and N. C. Kingsbury, First Vice President of the American Company, in 1919, indicate the practice.

In a letter dated December 3, 1919, Mr. Berry advised Mr. Kingsbury as follows:

The Minimum Wage Board of the District of Columbia by their Order No. 3 for Mercantile Establishments, effective October 28th, 1919, has set up a schedule of wages for Mercantile Establishments which we find will interfere with the employment of telephone operators at Washington.

In order to meet the situation we feel it to be necessary to have your approval of a wage scale which may be described as "Schedule C", as explained in the attached report of General Superintendent of Traffic Stannard. I believe Mr. Stannard's study and Mr. Stryker's letter attached, will give you all of the information which you will need in considering the matter; also we have set the proposed changes up in the form that was recently given us with a letter from Mr. Thayer. The form accompanies these papers.

Mr. Kingsbury replied to the foregoing letter on December 5, 1919, as follows:

Replying to your favor of December 3rd in regard to schedule of wages for Washington, D. C., will state the same is hereby approved.

In a letter written several weeks later, on December 24, 1919, Mr. Kingsbury advised Mr. Berry as follows:

I have your favor of the 19th instant offering for consideration certain payroll increases of various classes. I should like to talk to you about this when you are next in New York, as I am not able to write concerning it at this time.

In 1924, The Bell Telephone Company of Pennsylvania desired to increase the operators' wage schedule in effect at Stroudsburg, Pennsylvania. In a letter to Vice President Gherardi of the American Company, President Kinnard of The Bell Telephone Company of Pennsylvania stated:

I
We propose modification of the Stroudsburg operators' wage schedule of \$1.00 at the start and \$2.00 at the maximum affecting ten employees and involving an annual increased expenditure of about \$900.00. It is not believed that the changes will have any reactive effect on the situations in nearby towns.

If you concur, we desire to present this proposal to our Board of Directors for approval and make the changes effective as soon as maybe thereafter.

In a letter dated September 11, 1924, Vice President Gherardi of the American Company stated:

* * * We will concur in the schedule proposed in your letter if you think that it best meets the needs of the situation.

Accordingly, at a meeting of the Board of Directors of The Bell Telephone Company of Pennsylvania a vote was adopted as follows:

The President presented a proposed schedule of operators' wages for Stroudsburg, Penna., involving an annual increased expenditure of \$884.00.

The proposed schedule and the reasons for modification are covered in a letter dated September 3, 1924 from the President to Mr. B. Gherardi, Vice President, A. T. & T. Co.

On motion it was

Voted that said schedule be, and it hereby is, adopted, to take effect as of September 28, 1924.

For a later example of this practice, reference is made to a letter from C. I. Barnard, then Vice President of The Bell Telephone Company of Pennsylvania, to Vice President and Chief Engineer Gherardi of the American Company, marked "CONFIDENTIAL," dated February 16, 1927, from which the following is quoted:

We have been announcing changes in plant wage scales during this week. The general intention was discussed with you when I last saw you, and also with Mr. Cooper [Vice President Cooper, American Company], as you suggested; but I was unable to see Mr. Burcher [Plant Operation Engineer, American Company], as I should have liked, to discuss the matter in more detail. I believe, however, that we have not taken any action which would make desirable undue reversal in the light of his point of view on the development of more definite wage scale technique.

I am sending you, herewith, a rather complete set of papers covering the action we have taken. * * *

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I think this letter and the attached papers may give you the story in as much detail as you want. However, I shall be glad to give you anything more that you may wish, or to have any of your people canvass the situation on the ground; and I should, of course, be delighted to have an opportunity to discuss this subject broadly with you and Mr. Burcher.

The following is quoted from a statement made by General Commercial Manager Bare of Southern Bell Telephone and Telegraph Company, in 1931, with respect to compensation for directory advertising salesmen: 1/

The A. T. and T. Co. was consulted first, realizing that its broad experience and observation would be helpful in finding an answer to the wage problem.

The wage standards of the Bell System as a whole also conform to general rules and principles formulated by or with the help of the American Company staff officers. In a memorandum dated January 8, 1926, W. S. Gifford stated that he had "in mind for some time the advisability of a thorough study of the salary question in the Bell System." He, accordingly, appointed a committee composed entirely of Bell System officials located in New York, "to study the question and report to me as soon as you have definite suggestions or recommendations to make." President Gifford set forth what he believed should be the scope of the committee's study, as follows:

1/ General Commercial Conference Notes, 1931, p. 113.

- I
- (1) Is the general salary level in the Bell System consistent with the ability required and the responsibilities involved in the respective positions? Also, all things considered, is it consistent with salaries paid for similar positions in other industries? If not, I should like a recommendation from the Committee, supported by such evidence as the Committee can furnish.
 - (2) What changes, if any, would the Committee recommend in the present method of handling salary increases? This involves the plan, which is largely in effect, of periodic consideration of salaries and also such machinery as we here at headquarters now have for advising on salary increases, particularly with reference to salaries in one company being consistent with salaries in other parts of the System, etc.
 - (3) Would some such scheme as the establishment of maximum and minimum pay for a given position be of advantage?

The committee appointed by President Gifford made its report about a year and a half later, in a memorandum dated June 30, 1927. The findings of the committee were set forth in its report as follows:

1. Taking the Bell System as a whole, we find that there is more consistency and equity in the compensations paid to persons of similar grades and responsibilities than one might have expected. The Committee believes that the machinery in the various companies which has heretofore operated in studying individual cases and classes of individuals has been and is adequate to continue to secure in reasonable measure the recognition of individuals and to see that equity results.
2. In comparing the companies of the Bell System with the Western Electric Company, it appears that the compensation of supervisory officers receiving salaries of \$5000. and above, and especially of the higher supervisory officers, is on a lower level than that of similar officers in the Western Electric.
3. The compensation in the Western Electric is on a somewhat lower level than that in comparable outside businesses.
4. The compensation in the companies of the Bell System proper is on even a lower comparative level than that in somewhat similar outside businesses.

The committee stated that in its judgment there was:

* * * need for an upward adjustment as occasion warrants from time to time of the salaries of the officers referred to.

The Committee believes that special considerations should be given to the salaries of Presidents of Associated Companies, to those of General Managers, Commercial, Plant and Traffic Superintendents, and Chief Engineers. The Committee does not suggest immediate action in any of these cases necessarily, but that these suggestions should be borne in mind and should be followed as soon and as rapidly as circumstances warrant.

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Among other reasons assigned for failure to give salary increases to the supervisory officials in the Associated Companies was the following:

First, lack of pressure on the part of supervisors themselves for increases in salary. This is due in no small part to the fact that a man trained as a telephone man and having adopted the telephone business as his life's work has to a certain extent automatically removed himself from the field of competitive employment and is not in a position to readily seek employment elsewhere if the compensation offered him by the telephone company is not satisfactory. To put it in another way, the Associated Companies do not "have to compete with the market" in order to hold men who have been with the company from ten to fifteen years.

In 1929, there was a wage conference held under the auspices of the American Company, at Absecon, New Jersey, where certain fundamental wage principles were formulated to be applied throughout the Bell System. A special committee at this conference recommended the following in respect to intra-System variations: 1/

The System should place maximum and minimum limits beyond which the Associated Companies should not go in introducing new things affecting whole System.

All changes should clear through the A. T. & T. and the O. and E. Departments should concur in all variations between above limits.

There should be a System Committee on wages and working conditions to whom any requests by an Associate Company to extend its limits should be referred.

We should have a definite understanding of where we are heading and the limits beyond which we dare not go.

1/ American Telephone and Telegraph Company binder G1, Vol. II, Special Wage Conference -- Working Papers.

There was also another special wage conference held in April, 1929. At this conference the basic principles of wage schedules in the Bell System were defined. ^{1/} In the "Tentative Summary of Conclusions of Conference on Wage Principles," prepared by conference committees and sent to all presidents of the Associated Companies by letter of August 26, 1929, the general principles to be followed by the Bell System Companies were stated as follows:

1. The companies constituting the Bell System should continue to devote their efforts in cooperation with their employees to the end that the wage earners of the Bell System may have adequate opportunity to enjoy the community standard of living and through the exercise of prudence and thrift to make provision for old age.

2. Wage practices to be sound must be designed and administered to:-

- a. attract and retain an adequate number of employees of the types and qualifications required for the effective conduct of the business.
- b. give full recognition and encouragement to employees with respect to their progressive development in skill and their general effectiveness in all the requirements and opportunities of the job.
- c. aid in developing and maintaining right attitude and good morale.

3. The Bell System carries on its business under a policy that would seem to make profit-sharing features as an element in its wage schedules impracticable and unadvisable. It follows that an employee should not be penalized in respect to merited wage progress by reason of the fact that the financial results of his company are at the moment unsatisfactory.

Under the caption "Wage Schedules," the "Tentative Summary of Conclusions" continues:

Among the important considerations in the design and administration of wage schedules is the need for maintaining a proper relation between wage progression and the general development of the wage earner in vocational skill, business

^{1/} American Telephone and Telegraph Company binder G1, Vol. I, Special Wage Conference -- Correspondence.

capabilities and other aspects of the job, and also between the over-all period from the starting rate to the top rate and the time required for employees to attain proficiency in all aspects of the job.

In the early stages of the schedules, wage progress should be sufficiently rapid to stimulate and hold the employee's interest through a period of orientation and learning.

A period of developing skill and technique follows, and wage schedules should give adequate recognition to demonstrated improvement in the quantity and quality of production and progress in business capabilities and other requirements of the job.

Then there is a period of seasoning in the broader aspects of the job - a period in which the factors underlying wage progress should include more consideration of the employee's attitude and activities in connection with public relations, personnel relations, and the other policies and ideals of the business.

These same conclusions were reached at the Yama (Presidents') Conference held in 1929, and were incorporated in a document entitled "Fundamental Principles To Be Considered in the Development and Supervision of Wage Practices." This document was transmitted by President Gifford of the American Company to the presidents of the Associated Companies with a letter dated November 12, 1929, as "a memorandum setting forth the conclusions we reached at the Yama Conference following our discussion of the general principles which might properly guide us in dealing with the question of wages."

6. Employees' Pension and Benefit Plans.

As a further example of uniformity and control in personnel matters, brief reference will be made herein to the Plan for Employees' Pensions, Disability Benefits and Death Benefits. ^{1/} This plan was adopted by the American Company and all of the various Associated Companies of the Bell System, effective January 1, 1913. Modifications of

^{1/} For a full discussion, see F. C. C. Exhibit 136, "Report on Bell Telephone System Pension Plan -- Service Pension Payments."

1 the plan have been put into effect since that date. Effective January 1, 1914, the various Bell Companies uniformly adopted resolutions relating to automatic retirement of superannuated employees upon attaining the age of 70 years. This rule was suspended in 1917. New resolutions, effective as of July 1, 1930, fixing the age of automatic retirement at 65 years, were subsequently adopted by all of the Bell System Companies, except The Cincinnati and Suburban Bell Telephone Company, ^{1/} the latter company instead adopting a resolution fixing the age of retirement at 65 years, effective January 1, 1938. It will be seen, accordingly, that, with the exception noted, action of all of the companies in the Bell System has been uniform, with respect to both the original adoption of the plan and the modifications thereof.

As an illustration of the dominant part which the American Company has had in this uniformity of action, reference is made to a letter which President Gifford wrote to all of the presidents of the Associated Companies on July 8, 1925, at the time it was determined to fix the age of automatic retirement at 65 years, effective July 1, 1930. It appears from this letter that this subject had been discussed at the Yama Farms Conference in 1925. With this letter, President Gifford sent to the presidents of the Associated Companies a form of resolution to be adopted by their boards of directors and also a notice to department heads informing them of the action of their boards of directors. The belief was expressed that these enclosures were "in line with the conclusions which were reached at Yama." In this letter Mr. Gifford said:

Supplementing the discussion at the recent Yama Conference with reference to the establishment of an automatic retirement rule, we are enclosing

- (a) Draft of proposed resolutions providing for automatic retirement at age sixty-five on and after July 1, 1930,

^{1/} The American Company had a stock interest of 29.72 per cent in The Cincinnati and Suburban Bell Telephone Company as of December 31, 1936.

except in cases in which retirement is postponed from year to year by specific action of the Board.

- (b) A suggested notice to the Departments in reference to the rule.

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In about three years, that is, well before a routine for the application of this rule need be issued, we probably shall offer some suggestions with respect to a few points which it may be desirable to cover when the Benefit Committee makes definite arrangements with the departments for carrying the rule into effect. It would seem that no instructions need be given by you to the Benefit Committee at the time the rule is adopted, but that copies of the resolutions and of the notice to departments should be sent to its Chairman for the information of the Committee.

We believe that the enclosures are in line with the conclusions which were reached at Yama, but before recommending them for general adoption we should like to receive any suggestions or comment which you may care to make.

The draft of resolution sent by Mr. Gifford read as follows:

RESOLVED: That on July 1, 1930 every officer or other employee of this Company who at that time is 65 years of age or more shall be retired from active service and thereafter every officer or other employee becoming 65 years of age shall be retired at the end of the month in which he reaches such age, provided, however, that by action of this Board the operation of this resolution may be delayed from year to year with respect to any employee who is performing such services for the Company that his continuation as an active employee is deemed for the best interests of the telephone service.

RESOLVED: That the establishment of this retirement rule shall not restrict either the right of any employee to retire from active service prior to July 1, 1930 or the right of the Company to require the retirement of any employee prior to such date, nor shall it restrict the right of any employee to receive a pension upon retirement if entitled thereto under the "Plan for Employees' Pensions, Disability Benefits and Death Benefits."

RESOLVED: That the President be and he hereby is empowered and directed to take such action from time to time, either personally or through Officers or other employees of the Company designated by him, as shall be necessary or appropriate to carry into effect the foregoing resolutions.

The notice to departments referred to in Mr. Gifford's letter assumed that action on the proposal would necessarily be taken by the

boards of directors of the Associated Companies. The notice in full read as follows:

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By action of the Board of Directors a rule has been adopted which requires that on July 1, 1930 every employee of the company who at that time is 65 years of age or more shall retire from active service and that thereafter every employee becoming 65 years of age shall retire at the end of the month in which he reaches that age. Provision is made, however, that by special action of the Directors the operation of this rule may be delayed from year to year with respect to any individual employee who is performing such services for the company that his continuation in active service is deemed desirable.

It will be noted that this does not involve any change in the Plan for Employees' Pensions, Disability Benefits and Death Benefits and therefore the retirement rule will not restrict the right of any employee to receive a pension upon retirement if entitled thereto under the Benefit Plan.

It will be noted, also, that the date of the automatic application of this rule to all cases has been set nearly five years ahead. This, of course, does not mean that employees who are unable to perform useful, active service will be retained on the active payroll until July 1, 1930, nor does it mean that any employee who is eligible to retire on pension under the Plan at his own request is to be required to remain in active service until that date.

The rule is not intended to force retirement upon an employee who is performing useful, active service and the supervision is expected to recommend suspension of the rule, from year to year, in such an individual case.

It, of course, must be recognized that, in general, productive efficiency declines with increasing age and that in practically all cases there comes a time when active employment must cease. While the age at which this occurs varies in different cases, it is thought that the fact that a definite retirement age is set as a matter of routine will be of value both to the employees and to the telephone service.

The Benefit Committee, some time prior to July 1, 1930, will make with the departments whatever arrangements are necessary or desirable in order to carry the rule into effect and to secure its consistent application.

In years prior to July 1, 1928, during the period when Employees' Benefit Fund Reserves ^{1/} were maintained by the Associated Companies,

^{1/} See F. C. C. Exhibit 582, "Report on Investments of Bell Telephone System Pension Funds," pp. 4-5, for discussion of benefit fund reserves.

it appears that the American Company exercised control over the amounts to be set up in such reserves. For example, in a letter to President Abbott of Illinois Bell Telephone Company, dated December 12, 1924, (similar letters were sent to the presidents of all Associated Companies) I Mr. Gifford of the American Company stated:

In reference to the Employees' Benefit Reserve of your Company, I would suggest for your consideration the matter of increasing this Reserve before closing the accounts for 1924 - this in addition to the usual restoration of the Reserve to the amount at the beginning of the year.

We have given considerable study to the development of a program for keeping the Reserve in a consistent relationship with the growing personnel but are not yet ready to make definite suggestions to that end. In the meantime, however, we believe that you might well consider the matter of taking action to increase this Reserve by an appropriation of Surplus or Net Income of, say, \$600,000, bringing the total amount reserved to \$2,000,000.

If action is taken in this matter, your vote, in our opinion, should include a proviso that, in respect of this additional appropriation, your Board of Directors reserves the right to take subsequent action to withdraw said amount from the Reserve and to make specific application thereof as a reserve for death benefits and pensions if subsequently it should be thought wise so to modify the Plan as to make such a separate reserve advisable.

We enclose a form of vote which we believe will accomplish this object.

It will be noted that Mr. Gifford indicated the amount by which the reserve should be increased and also enclosed a form of vote to be adopted by the Illinois Company.

President Abbott of Illinois Bell Telephone Company, in a letter dated December 29, 1924, advised Mr. Gifford that:

* * * a resolution was passed at the meeting of the Board of Directors December 24th providing that \$600,000.00 be appropriated from Surplus and added to Employees' Benefit Reserve * * *

Effective July 1, 1928, the amounts which the several companies had in their benefit fund reserves were transferred to the Bankers Trust Company, trustee, at the time pension trust funds were established by all Bell System Companies.

The American Company, from the outset of the establishment of the trust funds with Bankers Trust Company, trustee, outlined the procedure which the Associated Companies were to follow in investing the respective companies' trust funds in their unsecured demand and time notes. 1/ Since 1933, the American Company has virtually directed the Associated Companies in the matter of the investment of a part of their trust funds in bonds of Bell Companies. In this connection, the American Company has sent to Associated Companies forms of resolutions to be adopted by them and drafts of undated letters to be sent to the trustee authorizing the purchase of Bell System bonds. 2/ The practice has been brought about whereby a copy of the instructions issued by the American Company to Bankers Trust Company, trustee, in connection with the American Company's pension fund investments, has been forwarded to the Associated Companies investing part of their pension funds in bonds, as a guide for those companies in submitting their instructions to the trustee. 3/ The American Company has received authority from the Associated Companies to supervise bond purchases made with their pension funds; the Associated Companies have asked permission of the American Company to make advance payments to the trustee of their pension funds; and the American Company decides the manner in which the income of the pension trust funds of all the Bell System Companies should be invested. 4/

1/ F. C. C. Exhibit 582, "Report on Investments of Bell Telephone System Pension Funds," p. 32.

2/ Id., pp. 32-34.

3/ Id., p. 25.

4/ Id., pp. 35-37.

7. Uniformity of Employee Instruction.

I The Associated Companies of the Bell System have approximately 250,000 employees throughout the United States. These employees are engaged in the various activities in running the telephone business, such as traffic, accounting, auditing, commercial relations, public relations, information, publicity, etc. In each gradation of these various occupations, the employees are trained under standard rules and regulations emanating from the headquarters at 195 Broadway. It will obviously be impossible and redundant to make exhaustive mention of all the various courses of instruction that are outlined by the organization in New York for the use of Bell System employees, or to give a complete list of all the various pamphlets and booklets that are sent out to the Associated Companies to be used in the guidance and instruction of employees. Suffice it to point out that the employees in the smallest towns served by the Bell System are instructed by the New York organization to use words and express ideas which have been coined and formulated for them by masters of the art of salesmanship and public relations, who write voluminous books of instruction in their New York offices.

When a young and aspiring salesman, say, in Dubuque, Iowa, calls to make a telephone sale, he is instructed by his New York superiors to follow the seven steps of approach religiously. Step number one is preparation for the contact with the prospective customer. Step number two is getting the prospect to answer the door. Here he is instructed by his New York superiors: "The salesman will not leave the door too soon after ringing or knocking. Ring or knock three or four times. * * * The salesman will try the back door if no one answers the front door. When no one answers the front or back door, the salesman will look to see if there is anyone in the back yard, garage, etc."

And so on down the line until the salesman, after examining furniture, cradles, baby carriages, and other devices indicating the economic status of the resident, finally succeeds in landing a sale by appeal to all the competitive or social instincts of the neighborhood.

I All these instructions, step by step, with every word and every sentence to be used, which the salesman must memorize, are definitely and irrevocably formulated by the New York office. This rather simple case is used to point out in what great detail and with what inexhaustible diligence the central office in New York has tried to standardize the behavior of Bell System employees throughout the country. Incidentally, this standardization of sales practices, which is one of the subjects most thoroughly discussed in training manuals shipped out of New York, is an additional indication of the predominance of the ownership interest of American Telephone and Telegraph Company. ^{1/}

One essential part of the education of employees in the various courses is the inculcation of Bell System ideas. This includes the well-known catch phrase that the Bell System endeavors to give the best service at the lowest cost consistent with good treatment of labor and security for investors.

^{1/} "Training Manual for Salesmen, Business Exchange Sales;" "Memorandum Business Exchange Sales," August, 1932; "Training Manual for Supervisors, Business Exchange Sales," July, 1933; "Crew Managers' Training Manual, Non-User Canvassing," 1933; "Training Manual for Salesmen, Non-User Canvassing," August, 1932; and three volumes of "Manhattan Training Manual," issued by New York Telephone Company, which American Telephone and Telegraph Company circularized among all the Bell System Companies in 1930.

CHAPTER III

DOMINATION WITH RESPECT TO ADMINISTRATIVE MATTERS

1. General Statement.

I In the preceding chapter, consideration was given to the extent to which the American Company exercises domination and control over the Associated Companies with reference to personnel matters. It was shown, among other things, that the supervisory officials of the Associated Companies are dependent upon the will of officials of the American Company not only in respect to their promotion in the business, but also as to the amount of compensation which they shall receive for their services. Under these circumstances, of course, it seems reasonable to assume that officials of the Associated Companies would not be inclined to do otherwise than to follow directions emanating from the headquarters office in New York, notwithstanding that such directions may be couched in terms of advice or suggestion. In this connection, quotation from a finding of the Superior Court of Cook County, Illinois, in 1917, in the case of Read v. Central Union Telephone Company, 1/ appears pertinent, and should be borne in mind when considering the phraseology used in some of the letters referred to herein:

* * * that the responsible managers of the parent organization had but to indicate their opinion to have such opinion taken by the subsidiary companies' officers as directions; * * *

It is, of course, unquestionably true that some form of control of the Associated Companies is present in practically every function which the American Company performs. It will be the purpose of this chapter to give representative illustrations of the extent of that control, and to show the manner in which control has been exercised.

1/ Final decree entered by Dever, William E., in William A. Read et al., v. Central Union Telephone Company et al., Superior Court of Cook County, Illinois, General No. 299,689, Chancery (1917), p. 33.

Close relations are maintained by the American Company with the Associated Companies through contacts between corresponding departmental organizations.

The General Department of the American Company consists of the following departments, in conformity with accounting classification:

Executive
Development and Research ^{1/}
Operation
Comptroller
Treasury
Legal
Information
General Service Bureau

The following summary of The Pacific Telephone and Telegraph Company's departmental organization is treated as illustrative of the Associated Companies of the Bell System. The Pacific Company's territory is divided into operating areas, namely:

Southern California Telephone Company
Northern California Area
Oregon Area
Washington-Idaho Area

Each operating area has an administrative organization of its own, as follows:

Administration Department
Plant Department
Traffic Department
Commercial Department
Chief Engineer's Department
Accounting Department (except Oregon)

Composing the Pacific Company's "Company Administration," with offices in San Francisco, California, are the following staff departments reporting to the president:

^{1/} This department was staffed with 11 employees as of December 1, 1934, representing a decrease of 493 over the prior year, caused by transfer of employees to Bell Telephone Laboratories on March 1, 1934.

General Counsel or Legal Department
Information and Personnel Department
General Auditor's Department
Operations Department
Secretary and Treasurer's Department

I As stated above, close contact is maintained by the departments of the American Company with the corresponding departments of the Associated Companies. These contacts are maintained primarily by correspondence, circulars, bulletins, field visits, individual conferences, group conferences, and communication by telephone. Among the group conferences which are attended by representatives of the American Company and representatives of the Associated Companies, usually at the invitation of the American Company, are the following:

Chief Engineers' and Plant Superintendents' Conference
Engineers' Conference
General Commercial Conference
General Plant Engineers' Conference
Legal Conference
Management Conference
Operating Vice Presidents' and General Managers' Conference
Operating Conference
Personnel Conference
Plant Engineering Conference
Presidents' Conference
Public Relations Conference
Rate Conference

The Presidents' Conference is held annually, usually at Yama Farms. In connection with one of these conferences, there is a document entitled "Yama Farms Conference, June 4th to 9th" (1921) from the files of Walter S. Gifford, which records, among other things, a discussion by E. D. Nims, at that time President of Southwestern Bell Telephone Company, on "What's Wrong with the A. T. & T.?" This discussion clearly indicates that officials of Associated Companies consider letters sent to them by the parent organization as tantamount to "instructions."

It also refers to the fact that subordinates of Associated Companies who attend group conferences sometimes put into effect instructions received at such conferences without consultation with their superior officers in the Associated Companies, clearly indicating that those subordinates consider policies decided upon at group conferences, fostered by the American Company, as transcending in importance any opinions that their superior officers in the Associated Companies might have on the same subjects. The following is quoted from the document referred to:

What's Wrong with the A. T. & T.?

Mr. Nims acted as spokesman for the Associated Companies and made the following points:-

1. Letters of instruction sent out from A. T. & T. are frequently too general and try to cover all conditions.
2. Conferences. Instructions received by subordinates to the Presidents of Associated Companies are sometimes put into effect without consulting their superior officers. There are perhaps too many conferences and it would be better if more A. T. & T. men visited the field. (Suggestion was made by one Associated Company President that he took care of the matter by having the people see him immediately when they returned from conferences and outline results to him.)
3. Wages are sometimes discussed with representatives of Associated Companies and threats made to take men from jobs and transfer them to other companies unless they are raised, etc. (Mr. Thayer explained what the A. T. & T. Company was trying to do on this matter and its efforts to do it without causing the trouble mentioned.)
4. Tendency in the A. T. & T. Company toward too much paternalism, specific instance given such as automobile insurance for employees, etc.
5. Suggestion is made that perhaps we are getting too many supervisors in the Bell System with the result that we are perhaps reaching a point where we have one supervisor for every workman.
6. Lack of policy on publicity, especially the relation between A. T. & T. Company's publicity and the local companies' publicity.
7. Western Electric Company and Associated Companies are not close enough together and not coordinated.

8. Relations with the Long Lines Department are not entirely satisfactory. Presidents and operating officials of Associated Companies do not understand why some of the things are done and the morale of the Associated Companies forces is frequently injured.

Growing out of the above there were discussions which suggested the following:

H It might be possible to send a statement of the main things accomplished at conferences to the Presidents of Associated Companies.

Associated Companies might well buy some materials direct that they now buy from the Western Electric Company.

Suggested that we put out too much educational literature too fast for supervisory people to absorb. (One Associated Company President suggested that the matter could be remedied by having the pamphlets kept and distributed from time to time by the Associated Company but thought the idea of having them on hand if needed a good one.

Danger brought out of standardizing wages and going too far with standardizing some working conditions.

Question raised as to whether the A. T. & T. Company name should not be left off of the Bell System seal when used by Associated Companies.

Dissatisfaction expressed with the time elements in obtaining P. B. X. equipment.

Recommended that Western Electric Company should establish a special department that would provide small parts promptly when such parts do not arrive when needed, and therefore hold up large construction jobs.

Suggestion made that Western Electric billing should be rounded up quarterly instead of annually.

Request made for information as to the effect of mechanical equipment on party line message rates.

2. Control of Finance.

Provisional estimates and advances.- The Associated Companies are required to submit annually to the American Company "provisional estimates," or budgets, containing proposed expenditures for new construction and related matters. They are also required to secure the funds to finance such projects from the American Company, in the form of advances. Thus, the American Company is enabled to control, and to

exercise a veto power over, the expenditures of the Associated Companies for those purposes. As to the provisional estimates, Vice President and Chief Engineer Gherardi of the American Company, in his testimony in the Illinois rate case, stated: ^{1/}

My department [Operation and Engineering] gives advice in connection with provisional estimates in the Bell System. We have made suggestions to the various Associated Companies as to the most convenient method of approaching the estimate of their departmental expense. In many cases we have also given suggestions as to the methods of preparing a construction program, so as to short-cut much of the detail work that is sometimes done in connection with such planning ahead of construction. Sometimes in connection with that we have sent our advices by way of letters, in the same general manner that I illustrated in connection with some other features of my direct testimony. * * *

After the provisional estimates come from the various licensee companies in the System, we look over each estimate, study the construction program and the departmental expenses provided in the estimate, and if, in any respect, it seems to us that a better or different provision of plant or expenditure of more or less money is desirable, we so advise the Associated Companies. * * *

After consideration has been given to the provisional estimates, the annual financial program for the Bell System is made up, and funds are allotted to the Associated Companies by way of advances. The procedure governing advances to the Associated Companies is outlined in Accounting Instruction No. 12H, issued by the American Company, dated May 1, 1931, from which the following is quoted:

II. AUTHORIZATIONS TO BORROW

Notices of Advances Authorized

1. After the Executive Committee of the American Company approves the current annual financial program, the Comptroller will notify the several companies of the amount of advances authorized for the current year and, within the limits of this amount, the American Company will advance funds on request.

* * *

* * *

* * *

^{1/} Illinois Bell Telephone Company v. Gilbert et al., In Equity No. 3746, in the United States District Court for the Northern District of Illinois, p. 551. (Referred to herein as the "Illinois rate case")

Associated Companies' Votes

2. In advance of requests for funds, the Directors or Executive Committee of Associated Companies should pass resolutions authorizing the officers to borrow amounts sufficient to cover actual or estimated needs. Certified copies of such resolutions should be forwarded to the Comptroller of the American Company.

* * *

* * *

* * *

Form of Resolutions

3. Associated Companies may follow their usual practice as to form for resolutions (if approved by counsel) but all resolutions in respect of borrowings should embody the following data:

- a) The amount officers are authorized to borrow.
- b) The period during which they may borrow; preferably limited to the current year.
- c) A specific statement that borrowings are to be made from the American Company.
- d) That loans are to be on open account or are to be evidenced by demand or time notes.
- e) The titles of officers who are authorized to borrow.
- f) The titles of officers who are authorized to sign notes, if given.
- g) The actual or maximum rate of interest per annum to be paid.

Note: The 2% discount generally allowed for monthly payment of interest or similar special arrangements should not be specifically mentioned in resolutions or embodied in the wording of notes.

- h) Reference to previous resolutions, either rescinding them or summarizing those still in force.

4. The following form of resolution has been found practicable and is acceptable to the American Company:

Resolved: That the officers of this Company be and they are hereby authorized to borrow from the American Telephone and Telegraph Company during the year _____, either on open account, or on demand or time notes, or both, such amounts as the President may deem necessary to meet this Company's requirements from time to time, at a rate of interest not exceeding six per cent. per annum; provided that the total amount of such

borrowings, less any repayments made during said year of any such borrowings and/or of any other borrowings heretofore authorized by this Board, shall not exceed \$ _____, and that any such notes shall be executed on behalf of this Company by the President or Vice President, and the Treasurer or Assistant Treasurer.

I

The evidence makes it clear that officials of the Associated Companies are responsible to the American Company for the expenditures which they desire to make. For example, in a letter dated October 11, 1922, H. B. Thayer, then President of the American Company, wrote to G. E. McFarland, then President of The Pacific Telephone and Telegraph Company:

Expenditures at the rate of \$30,000,000. per year, of course, must be based upon a carefully studied program. I realize that the Los Angeles situation has developed in a way which only a prophet could have foreseen, but with the expenditure of such large sums we must have a chance to put ourselves in sympathy with the program by knowing the picture of the future as you see it.

In order that I may satisfy our Directors that the hundreds of millions are being spent intelligently, I must first be satisfied that the millions spent by each Company are in carrying out carefully studied programs economically. I use "economically" in the larger sense.

As the situation stands, I am not convinced either that they are or that they are not being so spent on the Pacific Coast. I don't know enough about it. I know that you are President and that you haven't made many mistakes, but with the present size of the program that does not seem to me to be enough. On account of the distance from here, I don't see the organization working as I do in some of the nearer companies. I have thought of sending someone out to stay long enough to get a picture of the situation for me but really I do not see how anyone can bring that picture to me but you.

In a subsequent letter, dated October 31, 1922, Mr. Thayer advised that the provisional estimates of Southern California Telephone Company indicated going into the "red" for several months, and said:

* * * It does not indicate careful study and foresight such as ought to be the basis of predictions of this kind. Whether

that is the fault of someone in the Southern California organization or Burkett or of Nowell, I don't know, but somewhere there is a weak link in the chain.

I Mr. Thayer stated that he would send "Mr. Bloom" (presumably Edgar S. Bloom, at that time a Vice President of the American Company) to California to

* * * spend as much time as is necessary in Southern California in going over this with you and try and find out where the Southern California Company is and in which direction it is headed and I hope that in such discussion with you it may develop what has got to be done so that you and I can get a fairly accurate picture of what we have to look forward to.

The American Company exercises veto power over expenditures of the Associated Companies, as illustrated by the refusal of the former to allow the latter to purchase or construct office buildings. For example, in 1920, in a letter to Mr. Thayer, then President of the American Company, E. S. Bloom, then President of Central Union Telephone Company, set forth the need of that company for a new office building in the city of Cleveland, Ohio. Mr. Bloom stated that the office quarters currently used were located in three separate office buildings, several blocks apart, and were obtained on a rental basis; and that he had received an offer on a building "which is well located, and will meet our present and future needs," which could be purchased for \$500,000, probably with a down payment of \$100,000:

A conservative estimate of the annual costs on this building comparable to rental costs equates to about \$1.56 per square foot per annum. By renting the unused space at prevailing rates, our needs will be reduced to, we estimate, at least \$1.35 per foot per annum, which represents a considerable saving over present arrangements, to say nothing of the advantages of concentration and permanency of rates and quarters.

I think the purchase of the building in question, not to exceed the figures above set forth, is highly desirable and provides the most economical solution of our office situation

in Cleveland. However, as the proposed purchase involves \$100,000.00 in cash, I am submitting the matter to you in view of the present money situation.

This proposal, however, was vetoed by the American Company. In a letter dated September 15, 1920, Mr. Gifford advised Mr. Bloom as follows:

* * * On the basis of the information which you have given us the proposition does not appeal to us from a financial standpoint. I have no doubt but there are many considerations which you have not set forth, but unless there are some very controlling ones, we do not care to advance the \$100,000 or \$200,000 as may be needed for this purpose at this time. If you expect to be in New York in the near future, and the matter can wait until then, I suggest that we talk it over.

The following year, in 1921, it appears that The Pacific Telephone and Telegraph Company desired to construct an office building in Los Angeles, California. In a telegram dated July 26, 1921, Vice President Gherardi of the American Company advised Vice President and General Manager Nowell of the Pacific Company as follows:

THIS IS IN REPLY TO YOUR LETTER OF JULY 15 RECEIVED HERE JULY 22. IN VIEW OF HIGH PRICE OF MONEY AND LARGE SIZE OF YOUR PRESENT AND PROSPECTIVE CONSTRUCTION PROGRAM MR. GIFFORD AND I ADVISE STRONGLY AGAINST ADDITIONAL EXPENDITURE OF ONE AND ONE-HALF MILLION DOLLARS FOR OFFICE BUILDING IN LOS ANGELES. FURTHERMORE IF PROSPECTIVE LANDLORD IS WILLING TO ACCEPT SMALL RETURN ON HIS MONEY LETTING HIM CARRY INVESTMENT MAY BE A MORE ECONOMICAL METHOD ALTHOUGH WE REIMBURSE HIM FOR TAXES. WHILE IN LOS ANGELES I DISCUSSED WITH YOU GENERAL CENTRAL OFFICE SITUATION THERE AND MY IMPRESSION THAT PLANT AT THE PRESENT TIME WOULD WITHIN A FEW YEARS NEED COMPREHENSIVE RELIEF AND THAT NO COMPREHENSIVE PLAN SEEMED TO BE IN EVIDENCE. DOES PROPOSED SCHEME FIT IN WITH ANY COMPREHENSIVE PLAN? SHOULD IT BE FOUND NECESSARY TO ENTER IN TO AN ARRANGEMENT TO HAVE SOME ONE ERECT AN OFFICE BUILDING AND TELEPHONE COMPANY LEASE IT FOR A LONG TERM COULD REASONABLE OPTION TO PURCHASE IN THE FUTURE BE INCLUDED IN THE CONTRACT SO THAT WE COULD BUY LATER IF DESIRABLE?

Under date of August 10, 1921, Mr. Nowell replied to Mr. Gherardi's telegram as follows:

We are proceeding in this matter along the lines suggested in your telegram.

I
When Wisconsin Telephone Company desired to purchase land and a building adjoining its Milwaukee Broadway office, in 1924, it appears that consent of the American Company thereto had to be obtained first. The matter was first discussed by the Chief Engineer of Wisconsin Telephone Company with H. P. Charlesworth, at that time Plant Engineer of the American Company. Thereafter, President McGovern of the Wisconsin Company, in a letter dated January 24, 1924, to Mr. Gifford, recited that he understood "Mr. Charlesworth considers it desirable," and added that he "would be glad to have your advice as to whether or not this is entirely agreeable and satisfactory to you."

Mr. Gifford responded, under date of January 29, 1924, to the following effect:

The situation calling for this purchase has been discussed with Vice President Gherardi's office and inasmuch as it appears desirable to proceed in the matter, I see no reason why you should not go ahead with the purchase of the property at this time.

It appears that the consent of the American Company has been required even in such matters as a change of policy with respect to serving lunches to employees without charge, provided for in the provisional estimate. This is reflected in correspondence between Mr. Gifford, then Executive Vice President of the American Company, and W. R. Abbott, then President of Illinois Bell Telephone Company, in 1923. In a letter dated November 15, 1923, Mr. Abbott stated:

Referring to my letter of yesterday, submitting our Provisional Estimate for 1924, and to our conversation concerning Paragraph (e), the adjustment in the Traffic Department lunch system which we had assumed to be made effective January 1, 1924, will be deferred in accordance with your suggestion but kept constantly in mind so that the change may be made when conditions seem favorable. You will appreciate that to make this change it will be necessary to devote several months' time to preliminaries to the change.

About a week after writing the letter quoted above, President Abbott sent to Mr. Gifford letters from several officials of the Illinois Company "which indicate their opinion that the time to make this proposed change would be during the month of December, 1923." He stated to Mr. Gifford:

After you have reviewed this matter I would appreciate an expression from you as to making this effective on the date suggested or postponing the matter for future consideration.

In a letter dated November 30, 1923, Mr. Gifford advised as follows:

I return herewith letters from your Vice President and General Manager and General Traffic Superintendent which you forwarded. In view of the facts set forth therein, we see no reason why you should not go ahead during December with the proposed change in the luncheon system.

Effective December 30, 1923, a change was made in the Traffic Department (of the Illinois Company) in the lunch service policy, in that the practice of serving lunches without charge was abandoned.

Issuance and sale of securities by Associated Companies.- Under the preceding heading, reference was made to advances by the American Company to the Associated Companies. These advances are either made on open account or are evidenced by demand or time notes. In many instances, the Associated Companies subsequently issue securities, usually common stock, which the American Company takes in liquidation of the advances. In addition, the Associated Companies have from time to time issued securities which have been sold to the general public.

It seems clear that the Associated Companies, when issuing securities, act under the instructions of the American Company. A definite statement of this fact is contained in a memorandum

written by Mr. Gifford to Mr. Guernsey in 1920, with reference to a bond issue of The Bell Telephone Company of Pennsylvania. The following is quoted from Mr. Gifford's memorandum:

I
With reference to the Bell Telephone Company of Pennsylvania bond issue, Mr. Kinnard was here Tuesday and stated that he had no instructions as to what further steps he should take or as to the resolutions for the meeting on December 9th. I told him to prepare his resolutions at once and submit them to you for approval, and also asked him to call a Directors' meeting for December 9th immediately following the stockholders' meeting. I presume the bankers' lawyers should approve these resolutions in advance and I understand that J. P. Morgan & Co. will wish the approval of their Philadelphia attorneys. [Underscoring supplied]

I have already passed on the indenture and understand that the matter will be finished directly. I wish to call your attention to the vital importance of having everything go properly on December 9th as it will seriously embarrass us financially not to receive our money on that date. I am assuming that if there is anything further that I should do with reference to the matter, other than to arrange the financial transactions you will let me know.

P. S. Unless there is legal objection I plan to have the Bell of Pennsylvania leave the money on deposit with the A. T. & T. Co. on open account at an interest rate something in excess of 7%, the exact interest rate is still to be agreed upon by Mr. Kinnard and myself.

"Mr. Kinnard," referred to in the letter quoted, unquestionably refers to L. H. Kinnard, who was at the time President of The Bell Telephone Company of Pennsylvania.

In accordance with Mr. Gifford's instructions, at a special meeting of the stockholders of The Bell Telephone Company of Pennsylvania held December 9, 1920, the indebtedness of that company was authorized to be increased to \$150,000,000, and the Directors were authorized to issue bonds evidencing said indebtedness in their discretion from time to time. On the same day, the Board of Directors authorized the issue of bonds in the amount of \$25,000,000. Mr. Gifford was not present.

It appears that the American Company also determines the amount

of securities which the Associated Companies shall issue in liquidation of advances. For example, in a letter dated March 4, 1924, Mr. Gifford, then Executive Vice President of the American Company, stated to Frank C. **H** Kuhn, President of Michigan Bell Telephone Company:

I have been giving further consideration to the matter I spoke to you about on the telephone to-day.

My suggestion is that the Michigan Bell Telephone Company issue, say, as of April 1st, \$10,000,000 additional common stock. This stock, of course, we would take. This would enable you to reduce your indebtedness to this Company by \$10,000,000.

I spoke to you on the telephone about possibly making it \$15,000,000 but from a further study of your figures, it seems to me that \$10,000,000 would leave you more free to adopt in the future such methods of permanent financing, either by Preferred stock or bonds or both, as conditions may make advisable.

In accordance with Mr. Gifford's letter, the stockholders and Board of Directors of Michigan Bell Telephone Company, meeting on the same day, March 13, 1924, authorized the company's common stock to be increased by \$10,000,000. Mr. Gifford was a Director of the Michigan Company, but was not present at the meetings.

Sometimes, it appears, it is more advantageous to the American Company not to convert advances into stock. For example, in a memorandum to E. S. Bloom, then Vice President of the American Company, dated August 8, 1922, Mr. Gifford stated:

I have been considering your suggestion of July 20th for the future financing of the Indiana Bell Telephone Company. If the Rate Hearings should result, as you hope, in the approval of rates which would be sufficient to place the common stock on a five percent. basis, on account of the present deficit of the Indiana Bell Company it is apparent that dividends cannot be paid until 1924 at the earliest and possibly not until 1925. Any further investment therefor in the stock of the Indiana Bell or any conversion of their debt into stock will result in the American Company foregoing any return on its investment in such stock for the next two years.

In view of this situation would it not be better to continue for the present, financing the Indiana Bell by advances from this Company. In this way we will at least get the interest on such advances. We can then take up at some future date the question of increasing the capital stock as you suggest.

Do you see any objection to this?

In some instances, Associated Companies have made recommendations as to the amount of securities which should be issued by their companies, but different amounts have been set by the American Company. In a letter to Mr. Gifford, then Executive Vice President of the American Company, dated September 11, 1924, L. H. Kinnard, President of The Bell Telephone Company of Pennsylvania, stated:

Considering all the various plans and having in mind particularly our present financial condition, it is my recommendation that we take the preliminary steps at the next meeting of the Board, September 25th, to issue either \$20,000,000 or \$25,000,000 of common stock, whichever best meets your views, as of December 1, 1924; and that we arrange for an issue, as of December or January, of 5% bonds-Series C - of not less than \$40,000,000 or more than \$50,000,000. Will you kindly let me have early advice of your wishes.

Mr. Gifford, however, in a letter dated September 18, 1924, to President Kinnard, stated:

Our recommendation is that at your meeting on September 25th arrangements be made to increase the present authorized capital stock, by \$30,000,000, and that plans be made to issue \$20,000,000 thereof as of December 1st, 1924. This will leave \$10,000,000 to be issued later if it should seem wise to do so.

It is our recommendation that consideration of a bond issue be deferred to some date later this year or early next year.

Gifford had received from Comptroller Heiss, prior to writing to Mr. Kinnard, a memorandum in which Mr. Heiss had stated:

I would suggest, therefore, that consideration of a bond issue by the Bell of Pennsylvania be deferred for three or four months, and that no bonds be sold by that Company until the American Company is in need of funds some time early in 1925. * * *

An examination has been made of the minutes of the Board of Directors of The Bell Telephone Company of Pennsylvania from which it appears that, as directed by Mr. Gifford, on September 25, 1924, the Board authorized an increase in capital stock of \$30,000,000, and on December 4, 1924, authorized the issue of \$20,000,000 of such stock. Also as directed by Mr. Gifford, the bond issue was postponed. On September 24, 1925, the Board of Directors of the Pennsylvania Company authorized a bond issue of \$50,000,000. Mr. Gifford was not present at any of these meetings.

The American Company also indicates the price for which securities shall be issued and sold by the Associated Companies in liquidation of advances. An example is contained in a letter written by Mr. Gifford to E. D. Nims, President of Southwestern Bell Telephone Company, dated July 27, 1923, from which the following is quoted.

The indenture is now practically in shape and I think you should go ahead and have the necessary Public Service Commissions approve the issuance of the bonds at a price not less than 90.

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In order to submit these to the Commissions, I understand it will be necessary to have a vote of the Directors or at least the Executive Committee and we are suggesting to Mr. Nowlin that the vote authorize the issue and sale of bonds at not less than 90. * * *

In accordance with this direction from Mr. Gifford, at a meeting of the Board of Directors of Southwestern Bell Telephone Company held on August 2, 1923, an issue of \$50,000,000 of bonds to be sold at not less than 90 was authorized. Mr. Gifford was not present at the meeting.

Another example is given in a letter by Mr. Gifford to G. E. McFarland, then President of The Pacific Telephone and Telegraph Company, dated February 11, 1924, in which Mr. Gifford stated:

In view of these requirements and of the present demand note indebtedness, I should like to suggest for your consideration the issue of \$25,000,000 preferred stock to be offered

as in 1922 at, say, 85 or on a 7% basis. Such an issue would bring the amount of preferred stock outstanding up to the limit of the present authorization.

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President McFarland of the Pacific Company agreed to the amount and the sale price of the preferred stock, as set forth in Mr. Gifford's letter. It appears, however, that the approval of the California State Commission was required, and informal discussion with a department of that commission revealed that it was reluctant to recommend for approval issue of the preferred stock at 85, because the market quotation on the Pacific Company's preferred stock at that time was 95. In this connection, Mr. McFarland, in a telegram to Mr. Gifford, dated March 1, 1924, stated:

INFORMAL DISCUSSION WITH COMMISSION DEPARTMENT INDICATES RELUCTANCE TO RECOMMEND FOR APPROVAL PRICE MENTIONED STOP ATTENTION IS DRAWN TO PRESENT APPROVALS FOR SIMILAR SECURITIES POWER AND OTHER LARGE UTILITIES AT NINETY STOP. MENTION ALSO MADE OF SPREAD OF ABOUT TEN POINTS BETWEEN SUGGESTED PRICE AND PRESENT QUOTATION STOP WOULD YOU BE WILLING TO CONSIDER MAXIMUM OF EIGHTY SEVEN AND A HALF OR EIGHTY EIGHT IF IN OUR JUDGMENT IT WOULD BE BEST NOT TO PRESS FOR ORIGINAL SUGGESTION ON ACCOUNT OF POSSIBLE REACTION.

In reply to this telegram, Mr. Gifford stated:

Referring to your telegram March 1st. The Pacific System did not earn its preferred dividend requirements in January and certainly, with some uncertainty as to whether the dividend will be earned, we shall be paying a good price if we pay 85 for the stock. However, we agree now that we will take our pro rata share, if and when offered, at 85. If you are only authorized to sell at $87\frac{1}{2}$ or 88, we shall give the matter careful consideration and make our decision on the basis of your circumstances and prospects at the time you make the offering. While the present market price of Pacific Preferred is around 95, transactions are few and the price is not at all indicative of what the market would be, were any large amounts offered for sale.

It appears that the California State Commission authorized the issue at $87\frac{1}{2}$. At a meeting of the Executive Committee of the American

Company held on April 15, 1924, purchase of this preferred stock at not exceeding \$90 per share was authorized.

I There is evidence that when bonds of Associated Companies are sold to bankers, control by the American Company of the transaction extends to the point of signing correspondence and agreements in the name of Associated Company officials. For an example of this, reference is made to correspondence between Mr. Gifford, then Vice President of the American Company, and President Belt of Northwestern Bell Telephone Company, in 1921, concerning the sale of \$30,000,000 of bonds to J. P. Morgan & Company. In a letter dated January 8, 1921, Mr. Gifford advised President Belt as follows:

I enclose herewith letter from J. P. M. & Co. [J. P. Morgan & Company] of January 8th, together with a reply thereto which I signed in your name. These, of course, should be kept in your official files.

At your convenience will you please send me a letter addressed to J. P. M. & Co. identical with the carbon attached hereto, signed by yourself, which I will then substitute for the letter that they have on file in order that their records may show that you personally have confirmed the understanding. This, is, of course, not absolutely necessary as I was authorized by you to sign your name to the other letter.

In a later letter, concerning the same transaction, Mr. Gifford advised President Belt as follows:

I enclose herewith a printed copy of your descriptive letter addressed to J. P. Morgan & Company dated January 7th. I signed this in your name, and at your convenience I wish you would have it written on your letterhead and signed by you and sent on to me for transmittal to J. P. Morgan & Company. This is so that their files and records may be in shape.

For a later example of this same practice, reference is made to a telegram from President Gifford of the American Company to President Read of Southern Bell Telephone and Telegraph Company, dated October 17, 1929, wherein President Gifford advised that he had signed President

Read's name to the confirmation of an agreement with J. P. Morgan & Company under which the Southern Bell Company sold to Morgan & Company \$32,000,000 of bonds. The following is quoted from the telegram:

H
I have signed in your name, as authorized by you, an agreement with J. P. Morgan & Company * * *.

Before an Associated Company sells or disposes of securities held by it in a sinking fund, approval of the American Company to the transaction appears to be requisite. For example, in a letter dated November 28, 1933, President Staples of The Bell Telephone Company of Pennsylvania advised Vice President Cooper of the American Company as follows:

In the Sinking Fund created under The Central District Telephone Company mortgage we have now \$1,049,000 of Bell System bonds and \$88,000 cash.

Having in mind the gradual easing in price of high-grade bonds and the possibility that this will continue until there is restored a measure of confidence which is not now in sight, Mr. Ritchie has discussed with Mr. Behan the wisdom of selling certain bonds and allowing the cash to accumulate in the Sinking Fund or temporarily investing it in short-term Governments.

There are two blocks which we have in mind disposing of. * * * in view of the fact that we have a profit in these bonds, it seems to us that it would be wise to sell them immediately.

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It is our thought that eventually the money could be used to better advantage in purchasing and retiring Central District Telephone Company bonds. Up to the present time we have retired \$1,444,500 of these bonds. This issue can be retired only as a whole at the call price of 105. We have never paid above the call price for any of these bonds but in a normal market they are usually not available below 105 and this has necessitated the purchase of the above mentioned list.

However, if high-grade bonds continue to depreciate in value, it is our opinion that Central District bonds will not be immune and consequently a more favorable opportunity will present itself in the future for the purchase and retirement of these bonds.

After all, the Sinking Fund was established for the benefit of the Central District bond issue and by proceeding in the manner outlined above, we believe the fund is being administered to the best advantage of the Central District bondholders.

Another influencing factor in the situation at the present time is that if high grade bonds do not depreciate, the only penalty resulting would be the loss of a certain amount of interest plus the re-purchase of Bell System securities at possibly a few points above the present market price.

In our opinion it would be good policy to hedge to at least a certain extent against a further depreciation in the securities we now hold.

May I have your opinion on this?

A memorandum from Vice President Cooper to J. F. Behan of the American Company, dated November 29, 1933, recites:

I have talked with Mr. Staples about the suggestion outlined in his letter of November 28, which is attached hereto, with reference to the securities now held in the Sinking Fund created under the Central District Telephone Company mortgage. After telling Mr. Staples of my views and reasons for not disposing of any of the securities now held in the Sinking Fund, he has agreed to hold them.

Declaration of dividends by Associated Companies.- The American Company, as sole or principal stockholder of most of the Associated Companies, is, of course, vitally interested in the amount of dividends paid by such companies. The Associated Companies are subject to the dominant will of the American Company in the matter of declaration and payment of dividends. For example, it appears that the earnings of Cumberland Telephone and Telegraph Company (a Bell subsidiary, practically all of the stock of which was owned by Southern Bell Company) during the fourth quarter of the year 1920 fell short of an amount sufficient to pay the usual dividend. J. Epps Brown, President of the Southern Bell, recommended that the dividend for the fourth quarter be passed. However, this recommendation was overruled by Mr. Gifford, who advised that:

H * * * The Cumberland Company has an unbroken record for the payment of dividends quarterly for the past thirty-five years and it seems to us that it would be a serious mistake to break this record, especially in view of the fact that the surplus is more than ample to pay this dividend and probably two or more further dividends. * * *

After receipt of Mr. Gifford's letter, Mr. Brown retracted his former position and advised as follows:

While our feeling in the matter was as expressed in my letter of November 20th to you, it was, to some extent, influenced by the effect we believed would result from passing the Fourth Quarterly Dividend when it was not actually earned - which fact we felt we could use to some advantage in the Louisiana, Mississippi and Tennessee hearings. However, we cheerfully deferred to your better judgment and I will present the usual vote to the Directors at the regular meeting in Nashville on December 9th.

I am sure you realize what a job it is to obtain increased rates and at the same time have to sustain our financial credit. Under the circumstances I was of course not willing for the Board to take action until I could communicate with and hear from you.

For the next quarter, however, the American Company agreed that the dividend should be passed, for a memorandum from Mr. Gifford to Comptroller Heiss, dated February 23, 1921, recited:

I have discussed with Mr. Brown the matter of the Cumberland Company's dividend for the first quarter of 1921. We have agreed that the Cumberland Company would continue to charge depreciation at 6% and that no dividend will be declared for the first quarter.

Another example is contained in a letter from Edgar S. Bloom, then Vice President of the American Company, to President C. H. Rottger of Indiana Bell Telephone Company, dated June 3, 1926, and marked "PERSONAL," which reads as follows:

I would suggest that you arrange for a dividend of 2% to be declared at the July meeting of the Indiana Bell Board, payable September 30th to stockholders of record September 20th. Declare it simply as a 2% dividend and not as a 2% dividend for the quarter ending September 30th.

In accordance with this direction, it appears that at a meeting of the Board of Directors of Indiana Bell Telephone Company held on July 29, 1926, the following resolution was adopted:

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Resolved, That a dividend of two per cent. (2%) upon the outstanding capital stock of this company, be and the same is hereby declared, payable from Income on September 30, 1926 to stockholders of record on September 20, 1926.

3. Acquisition of Independents.

In the relations of the Associated Companies with their connecting companies, including acquisition, the American Company maintains control and supervision. In a letter dated December 29, 1923, to all of the presidents of the Associated Companies, E. K. Hall, then Vice President of the American Company, stated:

Under a recent interdepartmental re-arrangement for handling some of our work here at headquarters, it has been arranged that Mr. Bloom will be responsible for handling with the Associated Companies all matters having to do with the desirability desirability of the purchase of properties and the price and terms upon which such properties are bought or sold, insofar as the Associated Companies desire advice, assistance or approval from headquarters here.

The responsibilities of my department in connection with the Independent Companies will be confined to general relations between the Independent group and the Bell group of companies, and our relations with the State or National Independent Associations.

In this same letter, Mr. Hall related that Mr. MacKinnon, President of the United States Independent Telephone Association, had complained that thirty days' notice by the Bell Companies to the independent companies prior to the acquisitions of properties by them was insufficient. Mr. Hall said:

I made it clear to him Mr. MacKinnon that I could not modify the June 14, 1922, the Hall memorandum In which thirty days' notice had been specified without specific authority from the Presidents of the Associated Companies, but that I

would be willing to request the Presidents of the Associated Companies to notify us of properties being pressed upon them for sale before formal examination or appraisals were made, * * *.

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The purpose of this letter, then, is to request that you, in such cases as you or the parties with whom you are dealing are willing, send us information as to property on which negotiations are starting or pending, not only prior to the 30 days before the negotiations are concluded, as provided in the June 14th memorandum, but prior to any formal examination or appraisal of the property.

The Hall memorandum, ^{1/} referred to in Mr. Hall's letter to the Associated Companies of December 29, 1923, quoted above, stated the general policy of the Bell System Companies not to purchase or consolidate with connecting or duplicating companies except in special cases. The exceptions were stated to be those cases where it was proved that purchase or consolidation seemed to be demanded either:

- (1) For the convenience of the public as evidenced by the wishes of State authorities or by local public sentiment in or adjoining the territory served; or
- (2) By special reasons which made the transaction seem desirable and essential from the point of view of the protection of our own property or the general public service.

Subsequent to the Hall memorandum, in 1924, Vice President Bloom of the American Company sent a questionnaire to the Associated Companies requesting (a) lists of the independent and interest companies which, in the judgment of officials of the Associated Companies, should become part of the Bell System; (b) a statement of the character and extent of these properties; and (c) the reasons why they should be acquired by the Bell interests. In 1927, Vice President Cooper of the

^{1/} For full discussion, see F. C. C. Exhibit 1360A, "American Telephone and Telegraph Company, Corporate and Financial History," Vol. I, p. 258.

American Company, who succeeded Bloom, sent a follow-up questionnaire to the Associated Companies in order to bring these data up to date. In response to these questionnaires, the various Associated Companies reported 1,056 companies, owning 1,718,413 stations, as desirable additions to the Bell System. During the ten years from 1925 to 1934, 470 of these companies, representing 411,638 stations, were acquired by Bell Companies. ^{1/} A limited study of Bell System activities in the acquisition of ownership or control of independent telephone companies disclosed that, at least in certain cases, the Bell System apparently did not adhere strictly to the policy publicly proclaimed in the Hall memorandum. ^{2/} Instead, there was a policy of planned acquisition of independents fostered and supervised by the American Company.

Charles P. Cooper succeeded Mr. Bloom as Vice President of the American Company in 1926, and took over the duties which Mr. Bloom had performed in connection with transactions between Associated Companies and connecting companies.

Vice President Cooper's files are replete with letters to the Associated Companies on this subject, from which it appears that the Associated Companies as a matter of practice seek the approval of the American Company to enter into negotiations with connecting companies for the purchase of properties or stock and to consummate such purchases. A few typical examples will be given herein, to indicate in some measure the extent of the control which the American Company exercises in this field. The evidence indicates that approval of the American Company is not a perfunctory matter. The American Company is the controlling factor in matters involved in the relationship of the Associated Companies with their connecting companies.

^{1/} Id., p. 260.

^{2/} Id., p. 264.

I For the acquisition of shares of stock of controlled or connecting companies, the Associated Companies are obliged to secure the approval of the American Company. For example, in a letter dated October 17, 1921, to Mr. Gifford, then Vice President of the American Company, President Sunny of Wisconsin Telephone Company advised that his company desired to purchase the remaining minority shares of the Citizens Telephone Exchange, Sheboygan, Wisconsin, and to pay therefor \$150 per share. He asked Mr. Gifford whether he had any objection to the plan. Mr. Gifford advised that he could "see no objection to your plan to have Mr. McGovern negotiate for this stock at \$150. a share or less."

Again, in 1923, Wisconsin Telephone Company, through President McGovern, advised Mr. Gifford of the American Company that there were outstanding \$7,000 of bonds of the Citizens Telephone Company of Racine, Wisconsin, in the hands of Mr. Burt, formerly President of the Wisconsin Telephone Company, which the company desired to take up at par. President McGovern stated:

* * * it would seem to me to be all right to take up these bonds, but I would appreciate receiving your views on the matter.

Mr. Gifford responded, on November 12, 1923:

I see no objection to your purchasing the \$7,000 worth of bonds of the Citizens Telephone Company of Racine, Wisconsin from Mr. Burt. I understand that the market is approximately par and that this is what you intend to pay Mr. Burt.

In the same year, 1923, Northwestern Bell Telephone Company desired to purchase the outstanding preferred stock of the North Dakota Independent Telephone Company, in which it already owned all of the common stock, "and consolidate it with the Northwestern property in North Dakota." President Belt of the Northwestern Company, in a letter to Mr. Gifford, dated October 6, 1923, stated:

If you see no objection to this, we will take the necessary steps to wind up this Company's affairs.

Mr. Gifford responded on October 8, 1923:

We see no objection to your going ahead with the necessary steps to wind up the company's affairs.

Just as a suggestion, perhaps it would be possible for you to interest some of the preferred stockholders who will be paid off, in re-investing their money in A.T. & T. stock at the market. They will get about the same return that they are now getting, in fact, a little more.

As to this suggestion, President Belt stated:

* * * we have already been working on this plan. Fourteen stockholders of the N. D. I. Company, holding 6233 shares, par value \$10.00, have purchased 449 shares of A. T. & T. stock. This for your information.

Detailed consideration has been given by the American Company to proposals made by the Associated Companies to purchase properties of connecting companies, and the Associated Companies act only with the consent of the American Company. This is indicated in correspondence between E. S. Bloom, Vice President of the American Company, and officials of Michigan Bell Telephone Company, relating to the purchase by the latter company of the property of the Anchor Bay Telephone Company, a connecting company operating an exchange at New Baltimore, Michigan. On April 4, 1924, G. M. Welch, Vice President and General Manager of the Michigan Company, advised Mr. Bloom as follows:

The Anchor Bay Telephone Company, a Connecting Company of the Michigan Company, operates an exchange at New Baltimore, Michigan, with approximately 340 stations, of which approximately 200 are rural and service stations.

The Connecting Company is not making money and its plant is not only inadequate to care for the demands of the territory, which is developing as a resort community, but is also in a run down condition.

The public are demanding that additional facilities be provided and that the existing plant be put in better shape, and the Connecting Company finds itself finally unable to meet these demands.

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The Connecting Company, therefore, suggests that we take the property off its hands.

While it is probably true that it would be possible for our Company to have higher rates authorized than are now being charged, the increase in revenue will, in all probability, still not make the property self-supporting.

The indications are that the property can be purchased for approximately \$2500.00. It would immediately be necessary, however, for us to increase our investment approximately \$13,000.00 for replacements and additions.

The Anchor Bay Telephone Company uses Western Electric Company equipment and has no association or connection with any independent competing company.

As many Detroit business men own summer homes at this point, it being located on the shore of Lake St. Clair about 35 miles from Detroit, we may conclude that, in the interests of the telephone using public, we should purchase the property.

Will you kindly advise me as to whether we may proceed to negotiate for the purchase?

Considerable correspondence ensued between officers of the Michigan Company and Mr. Bloom of the American Company concerning the acquisition by the former of the property of the Anchor Bay Telephone Company. From this correspondence it appears that the American Company gave detailed consideration to the matter, requiring information from the Michigan Company as to the rates charged by the Anchor Bay Telephone Company, the financial results the property would produce for the Michigan Company after rehabilitation of the plant, whether the property was so strategically located with respect to the balance of the Michigan Company's property that it should be owned by it, and other matters. Finally, after the lapse of several years, approval of the Interstate Commerce Commission was sought and obtained for the purchase.

In the matter of the making of loans to connecting companies, it appears that the approval of the American Company is also required. For example, in a letter to President McGovern of Wisconsin Telephone Company, dated August 4, 1926, Vice President Cooper stated:

Replying to your letter of August 2nd regarding a probable loan to the Antigo Telephone Corporation:

There will be no objection to making a loan to that company in a reasonable amount and with proper security. I wish, however, when you are ready to make a specific loan, you would advise me as to the details of the loan and the collateral security.

Have you any stock interest in the company in question? If not, would you think it desirable to have a minority non-controlling interest of, say, 20 or 25 per cent.?

It appears that when an Associated Company acquires stock in an independent company without previously securing the approval of the American Company, it will be reminded of its dereliction in that respect. On this point, the following is quoted from a letter from Vice President Cooper to First Vice President Elias of Southwestern Bell Telephone Company, dated June 5, 1928:

Thank you for your letter of June 1st, with reference to the purchase of 100 shares of Common Stock of the Inter-County Telephone Company, Maysville, Missouri. As I understand it, this purchase increases the Southwestern Company's holdings from 38-3/4% to 43-3/4. It has been the desire of our people here to have an opportunity to consider all cases of this character before holdings were increased and it was on this account that I wrote to you about this case. It would be helpful to us if you would let us know about transactions of this kind before your commitments have been made.

In this connection, it would appear that E. K. Hall's letter to the presidents of the Associated Companies, heretofore quoted, wherein he used the terminology "in so far as the Associated Companies desire advice, assistance or approval from headquarters here" was tantamount to an edict that such advice, assistance and approval should be obtained.

That the American Company has indicated its disapproval of the purchase of properties of connecting companies by Associated Companies seems clear from a memorandum dated July 13, 1928, from Vice President Cooper to Vice President E. K. Hall of the American Company, which recites:

I have been unable to reach Mr. Foraker ^{1/} today as he had left for the week-end and am sending the attached papers back to you with the suggestion that you call him either Monday or Tuesday.

It seems rather undesirable for the Michigan Company to attempt to acquire these properties under the competitive conditions with Condon.

If Foraker feels that they are of great importance to the Michigan Company, I see no particular objection to his proceeding with one of the two cases, letting the other rest until we can see what the developments are in connection with the first one.

The following additional examples indicate that the Associated Companies have been required to secure the approval of the American Company for the purchase of, or the acquisition of stock interests in, connecting companies.

A letter dated December 31, 1930 from Vice President Cooper of the American Company to President Jones of New England Telephone and Telegraph Company, follows:

We have no objection to your acquiring the additional shares of Connecticut Valley Telephone Company, referred to in your letter of December 29th, and agree with you in the opinion that it would be desirable for your Company to obtain the control you have in mind.

Mr. Cole will send the customary notice to the United States Independent Telephone Association and will also advise you as to the necessity of obtaining the approval of the Interstate Commerce Commission.

^{1/} Burch Foraker, President, Michigan Bell Telephone Company.

Again, in a letter dated February 18, 1928, to Vice President E. K. Hall, Mr. Cooper stated:

I
Mr. Elias of the Southwestern Bell Company told me yesterday that the Southwestern Long Distance Telephone Company, in which the Southwestern now owns 23% of the stock, had offered new stock to the stockholders and that the Southwestern Company would like to acquire the stock unsubscribed for by other holders which would bring their interest up to 28%.

After talking with Mr. John Ray, I told Mr. Elias that we had no objection to this purchase.

On April 25, 1930, Mr. Pillsbury, President of the Pacific Company, advised Mr. Cooper that his company had under consideration the purchase of the Telephone property of the Valley Telephone Company, operating in a rural section of the Imperial Valley. Mr. Pillsbury set forth in detail the property owned by the Valley Company, number of subscribers, rates, etc., adding:

Due to the impaired condition of the present plant, the Valley Telephone Company is not able to render a proper service to its subscribers, nor do they feel justified in making expenditures to remedy this situation. This prevents the present subscribers and future development which may be expected in this territory from receiving the benefit of a complete and adequate telephone service. The people residing in this district are desirous of improved service, and we feel it incumbent that the Pacific Company should purchase the property and negotiations have been conducted for the purchase of the property at a price of \$24,000.

* * * In the event that the Pacific Company purchases this property, it will be necessary for that company to expend approximately \$73,550 to reconstruct the plant.

* * *

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* * *

I shall appreciate your advice and comments in connection with this matter.

Mr. Cooper replied, under date of May 2, 1930, as follows:

I have your letter of April 25 with reference to the consideration you have been giving to the purchase of the telephone property of the Valley Telephone Company which

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serves a rural section of the Imperial Valley included in the exchange areas of the Brawley and Holtville exchanges. It is not likely that anyone else would be interested in providing adequate telephone service in this section, and it seems clear to me that it is part of the Pacific Company's obligation to take over the existing property and see that the service requirements are provided for. I should think, however, that you would want to study rather carefully the expenditures to be made in reconstructing the plant in order that the taking over of this territory may not prove too expensive for the Pacific Company.

I am assuming that you will want to proceed with your negotiations for the purchase of the Valley Telephone Company's property and am asking Mr. Cole to send the customary notice to the Independent Association and to forward a copy of it direct to you.

In another case, Mr. Kilpatrick, President of New York Telephone Company, advised Mr. Cooper, on July 1, 1930, that the New York Company had taken an option to purchase the Easton & South Cambridge Telephone Company's physical property for the sum of \$6,000, subject to the approval of the Public Service Commission and, if necessary, the Interstate Commerce Commission. He stated:

If you concur, will you kindly send the customary notice of intention to purchase to the United States Independent Telephone Association. * * * Also, will you kindly let me know whether you consider it necessary to refer this case to the Interstate Commerce Commission. * * *

Mr. Cooper replied on July 7, 1930 as follows:

We have no objection to your purchasing the property of the Easton and South Cambridge Telephone Company, as proposed in your letter to me of July 1st.

I am referring your letter to Mr. C. D. M. Cole with the request that he send the customary notice to the United States Independent Telephone Association and also that he advise you whether or not it will be necessary to present this case to the Interstate Commerce Commission for its approval.

4. Control of Associated Company Rate Policies.

The American Company takes a hand in local rate matters to a greater degree than is apparent to local regulatory commissions, and to a greater extent than seems consistent with the local nature of the problem. There is evidence that in the determination of specific rate schedules, in the pursuit of rate cases, and in the publicity campaigns attending rate cases, the dominating and unifying hand of the American Company is manifested.

Supervision of Associated Company rate changes.- There is evidence that the Associated Companies seek the approval of the American Company for proposed rate changes before putting the same into effect.

In 1926, there appears to have been a special reason for requiring the approval of the American Company to proposed rate changes. Edgar S. Bloom, then Vice President of the American Company, in a letter to all presidents of the Associated Companies, dated January 12, 1926, stated:

As you know, we are facing a possible investigation by the Interstate Commerce Commission as the result of the complaint filed by former Mayor Curley of Boston following the decision of the Massachusetts Commission in the Massachusetts rate case last summer. There is also the possibility of a Congressional investigation due principally to the activities of a New York Congressman. For this reason, we think it important that proposed rate adjustments should be very carefully considered from the standpoint of possible unfavorable reactions in Washington; for example, a rate adjustment in some relatively small community might stir up the local Congressman to take an attitude unfavorable to us when he might otherwise remain neutral.

I would therefore suggest that you advise me at an early date as to each specific rate adjustment which you propose to initiate within the next six months showing briefly the present and proposed rates for the main classes of service, i.e., business, residence, extension, private branch exchange switchboards, trunks and stations, and the dates you propose to take action; also a general statement as to the chances of putting through a rate adjustment without unfavorable reactions.

Upon receipt of your reply, we will consider the same in connection with replies from other Associated Companies and advise you further in the matter. In the meantime, it might be just as well to defer taking definite action in new cases.

H In response to Mr. Bloom's letter, Associated Companies advised of their rate programs. To take a typical example of the correspondence that ensued this central supervision of rate changes, the several letters written to The Ohio Bell Telephone Company by Mr. Bloom are here reproduced. In a letter dated April 10, 1926, to President Cooper of the Ohio Company, Mr. Bloom stated:

Referring to your letter of January 19th, forwarding a statement dated January 18th covering contemplated rate adjustments by the Ohio Bell Company up to and including August 1, 1926:

I would suggest that you file some of the proposed increases on April 30th, to be effective June 1st. In making these filings I think it would be well to select the exchanges in which you only propose to increase the business rates as changes in those rates are not so liable to result in complaints to the Commission.

I would include in this class - Nelsonville, Washington Court House, Cochocton and New Carlisle. In all of these cases, with the exception of Nelsonville, you also propose certain changes in the residence rates. In these latter exchanges you do not propose any increase in the minimum residence rate. It seems to me that the adjustment of these residence rates can be well left until the final decision of the Commission; in Washington Church House, for example, the proposed rates would probably be more attractive to the subscribers as a whole than the present rates in that you will introduce a new rate - two-party, 25 cents per month less than the present individual rate, at the same time increasing the latter rate 25 cents.

I have gone over the list hurriedly and there may be some other exchanges that you may wish to include in your April 30th filing to cover the increase in business rates. After you have decided on your program, please send me a copy of Form S.N. 386 showing the present and proposed rates. Further consideration could then be given to the question of filings for May 31st, considering also for that filing such residence adjustments as you may think it advisable to make. In cases where your proposed standard rates involve a reduction in certain existing rates I would not make the reduction at this time as it would be well to leave those reductions to be ordered by the Commission.

In a later letter, dated June 21, 1926, to President Cooper of the Ohio Bell Company, Mr. Bloom stated:

* * * Referring specifically to your questions -

1. Shall we proceed with filing individual exchange rate schedules, omitting the service connection charges in those areas where the company is free to file rates?

I feel that you should proceed with filing in individual cases where you are free to file. * * *

2. Shall we proceed immediately in an effort to obtain some satisfactory rates for the Canton area, where the present rates have been collected under Federal Court bond since December 1923?

It seems to me that you should proceed in the Canton case.

3. If the necessity of the Federal Court action develops later on in our company wide case, should we anticipate proceeding on a company wide basis or on a case involving only the 32 exchanges referred to by Mr. Tolles?

Unquestionably you should proceed on the basis of a company wide Federal Court case in the event that confiscation proceedings become necessary.

The letters from the Ohio Company referred to in the foregoing correspondence were requested by the Commission, but the American Company advised that they were unable to locate the same.

President Pillsbury of The Pacific Telephone and Telegraph Company, in response to Vice President Bloom's letter, advised of the rate adjustments which his company proposed to initiate in San Francisco, the East Bay Area, and Idaho. In a letter dated January 19, 1926, Mr. Pillsbury stated:

It is our present plan to start on Idaho as soon as we get a clearance from you. * * * Through our local people we will find out if there will be any possible unfavorable reaction through any Congressmen from that particular territory.

In San Francisco and the East Bay Area we are planning to begin work informally very shortly with the California Commission and its Engineers, working somewhat as we did

in Los Angeles, * * *. By handling the situation in this way we hope to avoid any concerted public opposition and any unfavorable reaction as far as any people in Washington are concerned.

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I wrote Mr. Bracelen on December 14th about San Francisco and the East Bay Area, and in his telegram to me of last Saturday, the 16th inst., he gave me a clearance provided we were satisfied with our local situation. I talked with him the same evening and explained more fully our plan of procedure, and understand that he is in agreement with us. We are actively at work on San Francisco and the East Bay Area situation, but as already explained, applications will not actually be filed for some considerable time.

I shall be glad to know from you whether you think it is in order for us to go ahead as planned, provided our local investigation in Idaho does not indicate the danger of any unfavorable reaction from that territory in Washington.

This System-wide centralization of rate policy does not seem to have been sporadic and occasioned only by a particular circumstance, such as the O'Connor Resolution of 1926. There are more recent instances which give evidence that this is a continuing policy. For example, from a letter written by President Chester I. Barnard of New Jersey Bell Telephone Company to President Gifford of the American Company, dated January 13, 1928, it appears that it was desired by the New Jersey Company to adopt a schedule of new rates for application in northern New Jersey, to be optional with the subscribers, the effect of the new schedule being to provide that the local service area for each exchange should include the points to which a five-cent toll had theretofore been charged. It was stated that the decrease in revenue to the New Jersey Company under the new schedule would be offset by the saving to the company in accounting and operating expense incident to toll tickets which would be eliminated. So far as can be gathered from the correspondence, the toll lines of the American Company were in no way involved in the matter. Barnard stated in his letter to Gifford:

Subject to your advice, I should like to go ahead with this change of rates and to present it to the Board for its approval at the next meeting on January 26th, so that announcements could be made on February 1st and the new rates go into effect on March 1st. * * *

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Gifford considered the matter and gave his approval thereto, as indicated by a notation appearing on the letter, which reads as follows:

1/18 - Telephone Mr. Barnard OK-
WSG

That the proposal had also been discussed with other officers of the American Company is indicated by the following additional statement in President Barnard's letter:

* * * Mr. McRae has discussed this matter on several occasions with Mr. Gherardi and his people, who have given it, as I understand, a good deal of study and see no objection to our following the course proposed. 1/

Another illustrative example of this same practice is contained in correspondence between Vice President Cooper of the American Company and President Belt of Northwestern Bell Telephone Company in 1930. On April 16, 1930, President Belt wrote to Vice President Cooper as follows:

We are thinking of resuming our activities with reference to various miscellaneous rate adjustments that were abandoned last fall. You will recall that I discussed with you three of the principal items in this program, Fort Madison, Iowa, Des Moines, Iowa, and Sioux Falls, South Dakota. Before resuming this activity, we would be glad to have your comments on the matter.

Mr. Cooper replied on April 18, 1930 as follows:

In reply to your note of April 16th, about resuming activities with reference to miscellaneous rate adjustments in Fort Madison and Des Moines, Iowa, and Sioux Falls, South

1/ "Mr. McRae" refers to George N. McRae, at that time Vice President and General Manager of the New Jersey Company.

Dakota, it seems desirable to go over the situation with either you or Mr. Lowman before any definite plans are made. Perhaps when Mr. Lowman is East for the Operating Conference, he might be prepared to discuss these questions either here or at Seaview. I expect to be at Seaview for at least two or three days.^{1/}

A notation on Mr. Cooper's letter reads:

MR. GHERARDI -

Will you please ask Mr. McHugh to get together any data he may have as to the plans of the Northwestern Company in these exchange areas so I may go over them with him in advance of the Seaview Conference.

Again, in 1930, when The Bell Telephone Company of Pennsylvania desired to revise its rates for Foreign Exchange Service, the matter was discussed with the American Company, and revised rates and regulations were agreed upon for application if and when conditions warranted the change. Vice President Cooper of the American Company had indicated that he did not consider it opportune for the Pennsylvania Company to take any steps which would have the appearance of a rate increase, and the matter had been held in abeyance. On December 8, 1930, President Kinnard of the Pennsylvania Company wrote to Vice President Cooper of the American Company in part as follows:

This matter of Foreign Exchange Service in the suburbs adjacent to Philadelphia and Pittsburgh, is an increasingly serious serious problem to us, both as to proper development of the service and plant layout, and we think that revised rates and regulations should be made effective at the earliest possible moment in order to correct present unsatisfactory conditions. The increased revenue involved, not more than \$60,000 a year, is of minor importance compared to service and plant layout considerations.

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We should like very much to make the revised rates effective just as soon as practicable. Have you any objections to our now doing so?

^{1/} "Mr. Lowman" refers to Arthur A. Lowman, at that time Vice President of Northwestern Bell Telephone Company.

Vice President Cooper responded on December 16, 1930 as follows:

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This is just a line to confirm our conversation about the proposal to readjust your rates covering Foreign Exchange Service in the suburban areas abutting Philadelphia and Pittsburgh, as outlined in your letter to me of December 8th.

Your people have had this change in mind for some time but have been withholding the filing of the new rates because of our feeling that it is undesirable to take any steps which would have the appearance of rate increases. I still feel that it is desirable to withhold the filing of your new schedule.

You understand, I am sure, that we agree with you in the opinion that your revised rates and regulations for the service referred to above are desirable and that the changes ought to be made as soon as general conditions are favorable.

Rate case publicity.- In connection with rate case publicity campaigns, E. S. Wilson, Vice President of the American Company, testified in this Investigation ^{1/} that when he came to the American Company as Vice President in the year 1920, a part of his duties consisted in advising and assisting Associated Companies in connection with the large number of rate cases which were then pending before state commissions. Mr. Wilson stated that he was convinced that the work of the Associated Companies in rate cases could be made much easier by a thorough, extensive and sincere campaign of education of the public, so that public sentiment would form a background for an order of a state commission granting such relief as might be necessary. Accordingly, recommendations were made to the Associated Companies as to what would be helpful in educating the public and the users as to the facts, and the American Company had a regular routine for sending information to the Associated Companies that was thought would benefit them. In this connection, on August 28, 1920, a memorandum was prepared and sent out to the Bell

^{1/} Testimony of Vice President E. S. Wilson, Transcript of Record, pp. 1731-1863, 1990-2023.

H System Companies entitled "Suggestions for Rate Revision Publicity," ^{1/} which contained suggestions for preparatory canvass for public endorsement of rate projects, newspaper advertisements, publicity for employees, publicity for subscribers and the general public, publicity for the press, talks to commercial clubs and similar organizations, general publicity for specific territory, publicity for window posters, samples of resolutions adopted by commercial clubs, etc., samples of publicity used by other utility companies, and a specimen synopsis of an advertising campaign. Mr. Wilson advised the Associated Companies that:

An intensive, coordinated effort to convince present and prospective subscribers, civic organizations and the press that a rate revision is equitable to all concerned would probably call for the use of most of these publicity channels and perhaps of all of them. There may be other media, such as slides in motion picture theatres, that would prove useful under certain conditions.

Exhibits covering these subjects were printed and sent to the Associated Companies in a binder with specific examples of each type of exhibit. ^{2/} Other binders were sent out in later years. ^{3/}

The Associated Companies also sent in monthly reports to the American Company on the progress of their rate cases, and the matter of rate case publicity was discussed at annual conferences attended by representatives of the American Company and the Associated Companies.

Conduct of rate cases.- When the Associated Companies have major rate cases pending before state regulatory commissions, it appears that they act therein under the supervision of the American Company. Examples of this supervision have been noted in an examination of the

^{1/} F. C. C. Exhibit 141.

^{2/} F. C. C. Exhibit 142..

^{3/} F. C. C. Exhibits 143 and 144.

I files of General Counsel Bracelen of the American Company on the Wisconsin state-wide rate case. A few of such examples, relating principally to the preparation of testimony and affidavits and to the position to be taken on controverted questions, will be mentioned herein.

The Wisconsin state-wide rate case was instituted on July 29, 1931. Temporary orders making rate reductions were issued by the Wisconsin Commission on June 30, 1932, July 3, 1933, and July 5, 1934. The final decision of the Commission was rendered on March 24, 1936. Wisconsin Telephone Company has taken each order of the Commission to the courts, either federal or state, where proceedings are now pending.

At the hearings before it, the Wisconsin Commission heard testimony from seven well-known economists and statisticians. J. F. Krizek, General Attorney for Wisconsin Telephone Company, advised General Counsel Bracelen of the American Company of this testimony in a telegram under date of May 27, 1932, which he stated "had the general trend of strongly urging reduction of utility rates." He stated that these witnesses "generally stood by their views inconsistent as they appeared in the light of the real facts." He urged that arrangements be made "for testimony of other nationally known economists and also business leaders to offset the impressions reflected in the record and also in the press as a result of the evidence given."

The American Company did later arrange for the testimony of an economist and prepared the testimony itself. General Counsel Bracelen, in a letter dated May 26, 1933, to Edwin S. Mack, of Miller, Mack & Fairchild, Milwaukee, Counsel for Wisconsin Telephone Company, advised that Mr. David Friday had been in conference with Mr. Andrew (presumably S. L. Andrew, Chief Statistician of the American Company) and himself discussing the testimony that Dr. Friday would give in the Wisconsin case;

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that Andrew had worked up a line of testimony which Mr. Bracelen thought "sound and satisfactory" for use; that Dr. Friday had reviewed the testimony and agreed with it; and that it was important for Dr. Friday "to revise and restate it in his own way and to add his own contributions, which he will do." Dr. Friday testified in the case, and was paid \$2,000 and expenses. As appears from this correspondence, Dr. Friday's testimony was prepared by the American Company, but he was given an opportunity "to revise and restate it in his own way and to add his own contributions."

It appears that the use of Allen G. Hoyt, Vice President of The City Bank Farmers Trust Company, New York City, as a witness in both the Wisconsin and Illinois cases on the subject of rate of return, was early contemplated, Hoyt having testified in the New York case on that subject. On October 5, 1931, General Counsel Bracelen sent to Mr. Mack a transcript of the testimony of Mr. Hoyt in the New York case. Mr. Hoyt later testified in the Illinois case.

It appears that an affidavit was drawn for Mr. Hoyt, for use in the Wisconsin federal court case, and submitted to Mr. Mack for revision, without Hoyt having previously seen it. Hoyt signed the affidavit, after making certain "minor" changes. It appears that this affidavit was prepared by General Counsel Bracelen in collaboration with R. H. Strahan of the American Company, was submitted to Mr. Mack, who suggested that certain statements be excluded, which suggestions were complied with, and was signed by Hoyt after he had made some "minor changes in the text" which were "entirely satisfactory to Mr. Bracelen." General Counsel Bracelen, in his letter of August 24, 1932 to Mr. Mack, transmitting copies of the affidavit for Mack's suggestions and comments, stated that:

* * * Mr. Hoyt has not seen the affidavit, but since it is based upon his recent testimony as a witness for the Illinois Company in the Chicago case, I have no doubt that he will be prepared to subscribe to it as drawn in the main, although he may wish to make some changes. * * *

Mr. Hoyt's affidavit was filed in the Wisconsin federal court case and bore date of August 30, 1932. ^{1/}

For the hearing before the federal court, it was also desired that affidavits be prepared and filed, among others, by B. E. Sunny, previously an officer of a Bell Telephone Company, and at the time of making the affidavit a Director of Wisconsin Telephone Company, on the subject of rate of return. It appears that Sunny's affidavit was prepared in two forms, one containing allegations concerning the American Company, and the other omitting such allegations. Mr. Mack, with a letter to General Counsel Bracelen, dated August 16, 1932, sent a copy of each affidavit, and stated that he "felt that in view of other cases pending, this should be submitted to you before being used." He added that it seemed wise to him to include the allegations, in view of the language used by the Supreme Court of the United States in the Illinois case. On this he was overruled by General Counsel Bracelen, however, who responded on August 24, 1932, that the averments concerning the American Company should be omitted, "in view of other cases pending and in view of the general situation."

The proposed language concerning the American Company which was omitted from the affidavit, recited that for many years Wisconsin Telephone Company and the American Company had paid on their common stock dividends of 8 per cent and 9 per cent, respectively, despite the fact that recent payments had been supplied by drawing upon surplus; that the American Company's ability to finance the Wisconsin Company had been due to the fact that the Associated Companies, in addition to earning surpluses themselves, had paid dividends that enabled the American Company to earn a

^{1/} Affidavit of Allen G. Hoyt, p. 145, "Bill of Complaint and Affidavits of Complainants on Application for Interlocutory Injunction", Wisconsin Telephone Company v. Public Service Commission of Wisconsin, in the District Court of the United States for the Western District of Wisconsin, in Equity No. 2118.

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surplus; that the assurance of a 9 per cent dividend by American Company was necessary so that it could raise new capital; that it was necessary that a company have a substantial surplus as well as steady earnings, so that the stock would remain above par; and that the American Company had been able to obtain subscriptions to new stock issues only because the stock was worth substantially in excess of par, and that stock subscription rights were valuable.

Also omitted was language which recited that if Wisconsin Telephone Company were forced to reduce its dividend rate "its stock would no longer be worth par to the American Telephone & Telegraph Company and the Wisconsin Telephone Company would be forced to seek its new capital as required elsewhere at a higher cost than in the past."

Sunny had stated in his affidavit that he had considered the fact that in the past an 8 per cent return on "property" of a telephone utility had resulted in only a moderate surplus. General Counsel Bracelen said that this should be omitted, stating that he supposed that Sunny had in mind the Wisconsin Company, that he had not examined the figures, but would be "surprised" to learn that it had earned 8 per cent even on cost, let alone property value. He added that, assuming the dividend the Wisconsin Company had been paying to be deemed reasonable, he would "expect you to be confronted by the commission with a showing that the standard of fair return implied in this paragraph, as measured by dividend and surplus, has been realized from earnings substantially under 8 per cent on the property."

Also, Sunny had stated that he considered the fact "that a minimum rate of return for telephone utilities should be sufficiently large to permit fluctuation in the volume of business resulting from general business conditions and to supply a surplus over and above the

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dividend requirements." Bracelen questioned whether it was advisable to make that form of statement on the ground that the court might feel "that the company might be required to forego additions to surplus temporarily." He stated that emphasis should be put "upon the right to a fair rate of return upon the fair value of the property."

General Counsel Bracelen's final observation related to Sunny's statement that he had given consideration "to the fact that the capital of the Wisconsin Telephone Company, exclusive of its capital which is provided by the issue of preferred stock, has been supplied to a large extent through the sale of common stock to American Telephone & Telegraph Company and that the said capital is supplied in turn by said American Telephone & Telegraph Company, largely through the sale of its own common stock to the investing public." Bracelen stated that the foregoing language should be omitted, and "general language," based on the opinion in the Chicago case, that the company "is part of a large system organized for the purpose of maintaining the credit of the constituent companies and securing their efficient and economical management" should be substituted therefor.

All of the suggestions made by Bracelen as to the omission and rephrasing of language were carried out. ^{1/}

The examination of General Counsel Bracelen's files on the Wisconsin state-wide rate case leaves the unmistakable impression that no major step is taken by counsel for an Associated Company in connection with matters arising in an important rate case without consultation with and approval of the American Company. Also, it is clear that the American

^{1/} See affidavit of Bernard E. Sunny, p. 133, "Bill of Complaints and Affidavits of Complainants on Application for Interlocutory Injunction, Wisconsin Telephone Company v. Public Service Commission of Wisconsin, in the District Court of the United States for the Western District of Wisconsin, in Equity No. 2118.

Company, through suggestion of arguments and positions to be taken, takes an important part in such cases. Examples of the foregoing will be given herein.

Under date of August 11, 1932, General Counsel Bracelen sent to Mr. Mack a memorandum citing cases intended to show that reproduction cost appraisals should not be based upon abnormally high or abnormally low prices. He also attempted to fortify Mr. Mack, with what he termed "a persuasive additional argument," that is, that low prices should not be used as the basis of an appraisal in the Wisconsin case, because, it was asserted, during the years preceding the depression Western Electric prices were reduced several times; that, granted that prices of manufacturing companies in general had undergone sharp reductions, it did not follow that Western Electric prices should be reduced; and that Western Electric Company had an enormous volume of business during the boom years, and in consequence had a large output with minimum overhead and carrying charges, with resultant low manufacturing costs which it passed on to the Bell Companies in reduced prices.

It appears that General Counsel Bracelen made a trip to Milwaukee in September, 1934, to discuss the Wisconsin rate case with the officials of Wisconsin Telephone Company. Under date of September 10, 1934, Mr. Mack forwarded to Mr. Bracelen a memorandum of conclusions at a conference held September 7, 1934 between Bracelen, Mack and President McGovern of the Wisconsin Company. It was concluded that the company would be obliged to present evidence of value and present condition by testimony as to actual existing depreciation determined by physical inspection; that, because "the courts are coming more and more to the view of the depreciation reserve as a measure of accrued depreciation for valuation * * * we should prepare to present as exhibits, results of earnings on the basis of deducting the entire depreciation reserve, as well as on the

basis of observed depreciation." The reluctance with which this evidence was to be given, and the strategy to be adopted in presenting it, is indicated by the following:

It might perhaps make our position stronger if, instead of presenting such exhibits in evidence, we were merely to use them in our brief, but in view of the Supreme Court's insistence on strict proof and its inclination not to examine the record * * * the only safe practice will be to put these computations definitely in the record. However, this should be done with a statement of record that the company believes and maintains that the correct valuation is made by deducting only the observed depreciation and that the presentation of the computations deducting the entire depreciation reserve is in order to have before the court the results on the Commission's own theory of deducting the depreciation reserve, without admitting that that theory is correct.

The difference between the real reason the company intended to present this testimony, that is, because "the courts are coming more and more to the view of the depreciation reserve as a measure of accrued depreciation for valuation", and the reason to be stated to the court, that is, "in order to have before the court the results on the Commission's own theory of deducting the depreciation reserve", will be particularly noted.

The memorandum further comments on the conclusions as to going value, interest during construction, and valuation.

In a later letter, dated November 23, 1934, Mr. Mack reported to Mr. Bracelen that he was still much troubled on the subject of depreciation. He reported that Mr. Sammond (of his law firm) "has a feeling that it will be more advantageous if our computations of earnings based on deduction of depreciation reserve be used merely in argument and not formally introduced as exhibits in the case", but that his "own inclination is toward making these computations a part of the record so

that they unmistakably shall be before the court." He asked for Mr. Bracelen's advice. On December 7, 1934, he wrote again, calling attention particularly to the decision in the District of Columbia case.

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Mr. Bracelen responded on December 13, 1934. He stated that it had been settled by the Chicago case "that we cannot have the benefit of both the low 'observed depreciation' * * * and adequate annual charges on the straight line basis." He stated further:

* * * We might try to maintain the higher valuation (that is, the lesser deduction of observed depreciation) which would inevitably result in sharply cutting the depreciation expense; or we might take the reverse position. The former would give us a higher base for earnings and reduced expenses. It would result also in lesser reserves in the future, but the reserves are less important if the company is to have no earnings on them. On the other hand our present straight line depreciation rates and reserves are substantially correct and afford an important and proper protection to the service, equally in the interest of the public and the investors. This is true even though the reserve is deducted. And reduced depreciation charges would undoubtedly invite reductions in telephone rates. The preponderance of advantage system-wide is in favor of maintaining our depreciation rates.

Mr. Bracelen wrote again the next day, stating that:

I do not think we should concede the deduction of the entire reserve. Some part of it, a fairly substantial amount, is actually in the nature of an insurance fund against hazards that experience shows are bound to recur.* * *

Mr. Mack, under date of December 28, 1934, advised Mr. Bracelen of the conclusions arrived at on the subject of depreciation, and the arguments which would be made before the court, stating that:

We plan to state frankly that we believe that the portion of the Illinois Bell decision interpreted to call for a deduction of future inadequacy and obsolescence is misinterpreted or is in error but that, in order to prove our case on every theory, we are presenting the data on that theory.

Mr. Bracelen, in his response, dated January 9, 1935, offered a "word of caution" against making that statement, stating:

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* * * you interpret the decision as holding that inadequacy and obsolescence accrue ratably, by which I understand you to mean that "future inadequacy and obsolescence" are elements of depreciation which must be deducted. I see no escape from this interpretation of the Illinois decision, but I am wondering whether, if you argue to the trial court that this is not what the decision means, there is not some danger that the court may agree with you and then do just as the Supreme Court did in the Illinois case, namely, deduct only the actual observed depreciation and scale down the annual charges. * * *

5. Public Relations.

The American Company and the Associated Companies maintain information departments which deal with public relations, advertising and publicity. However, that public relations activities permeate every department of the organization was expressed by President Gifford of the American Company in a letter dated June 20, 1929, as follows:

We have always considered that public relations permeate every Department and are the function of all the members of the organization. In so far as the activity can be specialized, it is in charge of a Vice-President and the advertising is part of his Department which, in this Company, is called the Information Department.

The functions of the Information Department of the American Company were described by Vice President Arthur W. Page of that company in testimony given in the Illinois rate case in the following language:

* * * I have direction of the Information Department of that Company which means charge of the advertising and publicity which the American Company does for the Bell System and also to advise with the Associated Companies of the Bell System on their public relations. That is, I advise the Associated Companies as to how to conduct

their own publicity and I conduct general publicity in their interest. * * * [p. 745]

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* * * We take care of this national advertising in national magazines for the Long Lines and for all Associated Companies. * * * [p. 746]

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* * * Our relationship to those departments [Public Relations Departments of the Associated Companies] is a counsel to help do that [carry on public relations work] and in doing so we have the usual annual conferences and also people from our department travel about from time to time and keep in touch with them constantly by telephone, etc. * * * [p. 2264]

It appears that, in instances at least, when representatives of the American Company's Information Department visit the Associated Companies, such visits are not alone for the purpose of giving "counsel" or "advice", as stated by Vice President Page, but for the purpose of "checking-up" on the public relations work of those companies. This appears in the following excerpt from a letter written by Mr. Gifford of the American Company to H. B. Thayer of the same company, dated July 11, 1924:

Ellsworth is going out to Indiana next week. From the newspapers and also from the action taken by the Attorney General I do not feel confident that the best possible job from a public relation standpoint is being done. Bloom thinks that it is, but I do not see any harm in having Ellsworth go out and sort of check matters up. The Attorney General has brought a suit in the state court to enjoin us from putting in the rates which we have really been authorized to put in by the Federal Court. From a legal standpoint Mr. Bracelen tells me that there is nothing to be concerned about in this suit.

Edgar S. Bloom was at the time President of the Central Union Company, and J. D. Ellsworth was connected with the Information Department of the American Company.

Some intimation of the degree of supervision which the American Company exercises over the advertising and public relations activities of the Associated Companies was given in a letter written by Mr. Gifford of the American Company to Franz C. Kuhn, President of the Michigan Company, on April 17, 1924, from which the following is quoted:

Mr. Ellsworth has just shown me the series of advertisements on the license contract which I understand you are contemplating using as soon as your rate case is decided in the courts.

In looking them over, it seems to me that they perhaps miss the point we are all anxious to get across. As payment is made to the American Telephone and Telegraph Company, it would seem that your case would be materially strengthened if you call attention to the work done by the American Telephone and Telegraph Company rather than by the Bell System for the benefit of the Michigan Company. I question whether the subscribers in Michigan will identify the Bell System with the American Telephone and Telegraph Company.

I have asked Mr. Ellsworth to send Mr. Hungerford some further suggestions and I hope that, perhaps before you start the series, you and I can talk the matter over. It seems to me particularly important as this will be the first time that any of the companies has tried this sort of advertising.

For an example of preparation by the American Company of literature to be used by the Associated Companies, reference is made to a letter which Mr. Gifford of the American Company wrote to the Presidents of the Associated Companies on June 25, 1924, reading in part as follows:

In accordance with the discussion at the Yama Conference we are having prepared brief and simple explanations of certain matters upon which we are attacked, such as the Western Electric Company relationship, the 4% contract and the 9% dividend.

It was suggested that such articles be used for talks with employees and possibly should be distributed to all employees. We are sending herewith the manuscript of the first of these papers, and will be glad

to get your comments. If it seems available to you as it stands, there is no reason why you should not make immediate use of it, through employee associations and such other means as you have available.

It will be noted that Mr. Gifford asked for comments from the presidents of the Associated Companies. However, that these comments were not permitted to cause any change in the documents as prepared by the American Company, appears from a letter dated August 27, 1924 by Mr. Gifford, from which the following is quoted:

We have received comments from practically all of the companies with reference to the memoranda which we have sent * * *. From a study of these comments it appears advisable to us to recommend that the following policy be adopted.

Rather than attempt to compile a single pamphlet or booklet designed to meet the conditions of each and every company, it is our plan to do nothing further with reference to these articles but leave it to each Associated Company to adopt its own plan in getting the ideas set forth in the articles understood by the employees. In this way the articles which we have sent out from here may be used merely as background for such revised memoranda, either amplified or abbreviated, as you feel will best meet your conditions. We would suggest, however, that if the articles are changed substantially from those which we have sent out and it is intended to distribute them in any general way to the employees, that you send on the amended article which you suggest using and let us read it through and notify you promptly of our comments, if any.

We would call your attention to the undesirable reactions if all the Associated Companies should publish simultaneously these articles for the information of the general public or in their company magazines. Such simultaneous publication of statements which have been modified to meet particular situations and which may be inapplicable in some respects elsewhere, will only tend to confuse. Furthermore, it might be hurtful rather than helpful to have our efforts to educate our employees about our business interpreted as a nation-wide campaign on the part of the Bell System to defend itself.

President McGovern of Wisconsin Telephone Company, acknowledging receipt of Mr. Gifford's letter, stated, as to his company:

It is our plan to have each article discussed by a Management Representative at Joint Conference Committee meetings of all departments and, after this has been done, to have them printed separately in pamphlet form and distributed to all employees with the pay checks. Considering the care and thoroughness with which the articles have been prepared, we favor printing them as submitted, as we do not believe there is really any opportunity for improvement on them.

If the procedure described herein for disseminating this information to employees does not sound all right, I will be pleased to hear from you further about it.

Mr. Gifford advised President McGovern, in a letter dated September 16, 1924, as follows:

Replying to your letter of September 10th with reference to the series of articles on subjects discussed at the Yama Farms Conference about which you are planning to fully inform all of your employees, in issuing the articles as submitted I suggest that you have someone go over them to be sure that they are worded so as to apply to the Wisconsin Company; that is, I think some of them refer to "your company" when, if you are going to use them perhaps it might be better to change it to "our company."

As to your plans for disseminating this information to employees, we are in accord with your suggestion that they be discussed at Joint Conference Committee meetings. There is some question in our minds as to whether the plan of distributing them to all employees with the pay checks will be the most effective one. I understand from Mr. Hall that they intend to discuss this rather fully at the Personnel Conference which is called for October. Perhaps, therefore, it would be better to go ahead with the Joint Conference Committee discussions but delay printing the articles for distribution to all employees until after the discussion at the Personnel Conference.

6. Annual Reports of Associated Companies.

There is a great deal of evidence indicating that as a matter of practice the Associated Companies submit drafts of their annual reports to the American Company, and that changes are suggested and

made therein by the latter company before such reports are published. There are many examples of this practice, a few of which will be mentioned herein.

On January 29, 1921, Mr. Gifford, then Vice President of the American Company, advised J. Epps Brown, then President of Southern Bell Telephone and Telegraph Company and Cumberland Telephone and Telegraph Company, as follows:

I return herewith draft of the proposed annual report to the stockholders of the Cumberland Telephone and Telegraph Company, which you sent me on January 25th.

Mr. Heiss has made some pencil notations thereon, which seem to me improvements. Otherwise, I have no suggestions.

Later, on February 11, 1921, Mr. Gifford, in a letter to Mr. Brown, stated:

I return herewith the proposed Annual Report of the Southern Bell Company which you forwarded to me on February 8th. Mr. Thayer and I have both been over this and you will note on page 2 some suggestions by Mr. Thayer as to changes.

On December 24, 1921, Mr. Gifford, in a letter to G. E. McFarland, then President of The Pacific Telephone and Telegraph Company, stated:

With reference to the statement of policy which you are planning to make in the annual report to the stockholders, we are as you know in entire sympathy with your program in this matter. Merely as a suggestion, however, we would suggest that the wording of the statement which you left with us when you were here be changed as noted on the attached.

In a letter dated January 23, 1923, to President McGovern of Wisconsin Telephone Company, Mr. Gifford, then Vice President of the

American Company stated:

We have gone over the draft of your 1923 report to stockholders and have a few changes to suggest, as indicated on the attached draft.

All the changes are minor, except in the case of the Sleet Storm Section. This we have revised with two ideas in mind. In the first place, it seems undesirable to emphasize too much in a report to stockholders the danger to the plan from such storms. Secondly, we have tried to eliminate any suggestion that the depreciation reserve is money available to make good losses. The position which we have taken is that the reserve is a book account against which we clear credits which must be made against our plant accounts when retirements occur.

On January 3, 1924, in a letter to President Belt of Northwestern Bell Telephone Company, Mr. Gifford, then Executive Vice President of the American Company, stated:

I am returning herewith your proposed report to the stockholders.

I have made some suggestions thereon in pencil. My principal point is with reference to the phrase "Relations between the employees and the management." Somehow, I do not like the idea of classifying ourselves into two classes, in this way. We are all employees and what, of course, you really mean are the relations between those who supervise and those who are supervised. With that in mind, you may find a better way of stating what you want to say.

In a letter to President Kinnard of the Bell Telephone Company of Pennsylvania, dated February 4, 1924, Mr. Gifford stated:

I have read your very interesting proposed Annual Report which you sent me on February 1st and which I am returning herewith.

In addition to a few suggestions noted in pencil for your consideration, I have the following comments to make:

(1) Isn't it possible to think up some better title for Mr. Richie? Somehow the title seems to me to mislead in that it implies that you are partly a company engaged in the purchase and sale of securities.

(2) On page 4, where you speak of the errors made in local service, would there be some advantage in referring to the fact that a great many errors which the subscribers note are due to the subscribers themselves and not to the company?

(3) On page 10, under "Radio Telephony", it seems to me that your outline of the limitations of it is incomplete but at the same time may lead to dispute because we have had at least private, if not secret, radio tried out successfully between Catalina Island and the mainland, etc. I therefore suggest the omission of the words, "of selectivity, secrecy and reliability."

In a letter to J. Epps Brown, then President of the Southern Bell Company, dated February 7, 1924, Mr. Gifford stated:

I am returning herewith the proposed Annual Report of the Southern Bell Telephone and Telegraph Company which you forwarded me with your letter of January 30th.

The only suggestions I have are that perhaps the word "substantial" might be omitted in referring to reductions in rates, although it may be that you have some definite idea in mind which makes it advisable to use the word; also, due to the fact that the Increase column of the Benefit Payments shows such a large decrease in Accident and Disability Benefits which, I understand, is due to a reclassification of certain 1922 items, I suggest omitting the Increase column.

Mr. Heiss has suggested the possible rearrangement of paragraphs so as not to make such a feature of the rate reduction.

All of this is submitted merely for your consideration.

With respect to a draft of an annual report for Michigan Bell Telephone Company, President Gifford, in a letter to President Kuhn of that company, dated February 16, 1925, stated:

The report has been gone over fully, and portions thereof have been reviewed by Vice Presidents Bracelen and Gherardi, and such comments as we have are indicated in pencil, for your consideration, on the draft - which I am returning herewith.

In a telegram to President Reid of The Mountain States Telephone and Telegraph Company, dated January 28, 1928, President Gifford stated:

Entirely agreeable to us for you to mention license contract change in your annual report.

Vice President C. P. Cooper of the American Company, in a letter to President Abbott of Illinois Bell Telephone Company, dated January 16, 1930, stated:

The draft of your Annual Report sent to me with your letter of January 13th is returned herewith.

I have indicated some minor changes, none of which however are of any real importance. In the statement at the end of the paragraph referring to the Employees' Benefit Plan, I suggest, however, that you make the change I have indicated or re-word the statement so that it will be quite clear that you are referring to the total amount of the funds in the hands of the Trustees rather than the amount paid over at the end of 1929 for that one year alone.

In a letter to President Foraker of The Michigan Bell Telephone Company, dated February 18, 1930, Vice President Cooper said:

At the bottom of page 2 and at the top of page 3 of the draft of Annual Report, under the heading "Earnings and Expenses," I suggest that you substitute the following -

"In 1926 the Michigan Public Utilities Commission materially reduced the rates charged by the Michigan Bell Telephone Company. Believing that the rates imposed were confiscatory, the Company appealed to the Federal Court for relief. The Master appointed by the Federal Court has made his report which is favorable to the Company and which will shortly be considered by the Court.

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During 1929 the net revenues of the Company were insufficient to meet the dividends for the year and the difference had to be taken from surplus earnings of prior periods."

I suggest that you omit entirely the paragraph which I have crossed out at the bottom of page 3. In the paragraph at the bottom of page 5, I suggest that you insert the phrase, "at a reasonable cost," in order to tie this feature into the general policy of your Company and the aim of your personnel.

If you will call me on the telephone, I shall be glad to discuss these points with you.

In a letter dated February 2, 1931, to President Belt of the Northwestern Bell Telephone Company, Vice President Cooper said:

I have indicated a few suggested changes in the wording on the draft of your annual report and am returning it to you herewith.

Under the heading "Financing," it seems to me that your proposed statement might be somewhat misleading and that if you are to include anything under this heading it would be better to say, "Such financing as was necessary during the year was cared for through the sale of demand notes to the American Telephone and Telegraph Company."

On January 27, 1931, in a letter to President Foraker of the Michigan Bell Telephone Company, Mr. Cooper stated:

The copy of your proposed annual report for 1930, which was sent to Mr. Gifford with your letter of January 22nd is returned herewith.

We have been over it together and have indicated, in pencil, the changes which seemed to us desirable.

Mr. Bracelen has rearranged the material in the fourth paragraph on page 1, with reference to your pending rate proceeding and asks me to suggest that you give Mr. Long an opportunity to consider these paragraphs in order to be certain that they are entirely satisfactory to him.

If you have any questions about the suggestions we have indicated, I will be glad to discuss them with you.

On February 9, 1931, Vice President Cooper, in a letter written to President Eide of The Ohio Bell Telephone Company, stated:

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Mr. Carter and I have gone over the draft of your 1930 annual report, a copy of which was sent to me with your letter of February 5th, and have indicated on the copy which I am returning herewith some minor changes in wording.

On the first page, it seems to us desirable to leave out entirely the paragraph referring to service connection charges. Just ahead of that paragraph we suggest that you start a new one with the sentence, "At the close of the year there were in service 711,615 telephones owned and operated by this company." and that you add to this paragraph the material having to do with connecting companies at the bottom of page 12 and top of page 13. With this rearrangement you might want to add another sentence which would give the total number of telephones in service at the end of the year in the territory of the Ohio Bell Company. We notice that in your statistics you show for the connecting companies only the owned stations, 339,734. We assume that the 400,000 figure used on page 12 includes connecting companies, service stations, etc.

On page 3 we suggest that you omit the column of figures headed "Probable Average Annual Expenditures 1931-1933" on the basis that it is unnecessary for you to make this commitment now.

On page 6 we have changed the figures as to the number of telephones to agree with those that will be used in the annual report of the American Company.

On page 9 it seems desirable to us to condense somewhat the material referring to the Vail medal awards and Mr. Carter will give you our suggestions regarding this by telephone.

On pages 11 and 12 we suggest striking out the reference to the automatic retirement rule and the number of employees pensioned during the year.

It is our opinion that if you omit the number of employees from your Statistics, at the back of the report, the omission of this item may be misunderstood. We believe that it would be better to include it even though a comparison with the previous year will show a substantial reduction.

If you would like to talk with us about any of these suggestions, Mr. Carter will be glad to have you call him by telephone.

In a letter to Vice President Lowman of Northwestern Bell Telephone Company, dated February 2, 1933, Mr. Cooper stated:

Confirming our telephone conversation, I am returning herewith the draft of your annual report to stockholders for the year 1932. After looking it over with Mr. Carter, I think it perhaps would be better to word the fourth paragraph about as follows:

"The Company has done everything possible to avoid contributing to the unemployment problem. To the extent that the requirements of the service permit, reduced time schedules with proportionate reduction in compensation have been adopted in order to divide the available work among employees. Such of the supervisory and technical forces as are not now needed in these positions have been transferred to other branches of telephone work with corresponding wage adjustments."

In a letter to President McGovern of Wisconsin Telephone Company, dated February 8, 1933, Mr. Cooper stated:

I am returning herewith the draft of your 1932 Annual Report which was enclosed with your letter to me of February 4. On the draft, there are indicated a number of suggestions which I think will be clear to you but, if not, I shall be glad to discuss them with you on the telephone.

Our most important suggestion is that in place of the several paragraphs you had drafted with reference to your state-wide case, you put in one short statement covering briefly the important points and facts in connection with this case. I have not had an opportunity to discuss this portion of the report with Mr. Bracelen, who has been laid up for a few days with a cold, but I have gone over it carefully with John Ray who has drafted for me the suggestion I am passing along to you.

Thus, officers of American Telephone and Telegraph Company, in many cases the sole stockholder, review and suggest changes in the annual report of the Associated Companies which are issued for public perusal.

7. Radio Program Transmission.

The American Company exercises control over policies pertaining to fields other than telephone communications and attendant activities. A good example of this is the centralization of policies in radio program transmission.

The report on Bell System policies and practices in radio broadcasting ^{1/} deals with the manner in which the American Company has exercised control over the Associated Companies in the matter of the use of their wires for radio broadcasting. Evidence was submitted which showed that in 1921, at the very beginning of radio broadcasting in the United States, the Associated Companies were directed by the American Company to: ^{2/}

* * * refrain from making any arrangements permitting either exchange or toll facilities to be directly connected to radio telephone broadcasting apparatus.

The following year, 1922, a modification of this policy was permitted, in that the Associated Companies were allowed to furnish circuits to be used in connection with wireless telephone broadcasting under certain circumstances. ^{3/} In 1923, the American Company promulgated a general rule for the Associated Companies to follow (Radio Bulletin No. 4, dated May 9, 1923) in providing wire telephony as an adjunct to broadcasting. Restrictions were placed upon the Associated Companies in providing facilities to particular groups, and it was provided that, in general, facilities should be refused to stations not

^{1/} Exhibit 289, "Bell System Policies and Practices in Radio Broadcasting."

^{2/} Id., p. 78.

^{3/} Id., pp. 78-87.

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licensed under the American Company's patents or whose equipment was not manufactured by Western Electric Company. These restrictions were later from time to time removed by the American Company. However, the restriction as to refusal of facilities to non-licensed stations or stations whose equipment was not manufactured by Western Electric Company was not removed until August 23, 1928. ^{1/} Accordingly, during the period May 9, 1923 to August 23, 1928, it was the policy of the American Company and its Associated Companies, acting under the direction of the former, to deny the use of their wire facilities to radio broadcasting stations which were not licensed by the American Company, in order to protect the American Company's patent position in the radio industry. ^{2/} Denial of wire services by the Associated Companies was a substitute for infringement suits to protect American Company's patents. ^{3/} The actual negotiations with the broadcasters with regard to licensing were made, in general, by the Associated Companies, which were requested by the American Company to refrain from furnishing facilities not manufactured by Western Electric Company or licensed under American Company patents. This requirement was made by the American Company, although admittedly there was no contractual obligation on the part of the Associated Companies to fulfill such requirement. ^{4/} A memorandum written by an American Company official recited: ^{5/}

* * * It seems, therefore, that the present situation is one in which the American Company is in practical effect directing the Associated Companies not to

^{1/} Id., pp. 88-92.

^{2/} Id., p. 93.

^{3/} Id., p. 103.

^{4/} Id., p. 102.

^{5/} Id., p. 107.

furnish circuits to non-licensed stations. There is no contractual basis for such a direction and it can only have force by reason of the American Company's stock ownership.

In August, 1928, the American Company receded from its position in the matter of forcing so-called infringing stations to obtain licenses, by permitting the Associated Companies to supply wire services to infringing stations, a privilege that they had been denied since May, 1923, except in special cases. ^{1/}

It was further shown in the report that prior to July, 1926, New York Telephone Company, an Associated Company, denied network service to two or more stations, because it was the policy of the American Company not to give such service. The American Company and the Associated Companies were at the same time giving service to the Bell-owned Station WEAJ. The New York Company protested such unequal treatment, but the American Company wished to retain this business for Bell-owned radio stations. Network service was given to non-Bell stations after American Company agreed to sell Station WEAJ to Radio Corporation of America on July 1, 1926. ^{2/}

Evidence was also presented with reference to the policy of refusing to interconnect with wire facilities owned by others than Bell System Companies. ^{3/} It was shown that the American Company formulates the policies, and even directs the practices of the Associated Companies in specific cases. A memorandum written by an American Company official recited: ^{4/}

^{1/} Id., pp. 109-110.

^{2/} Id., pp. 120-127.

^{3/} Id., pp. 131-136.

^{4/} Id., p. 135.

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Since the beginning of radio broadcasting it has been our practice to advise the Associated Companies that special circuits for radio broadcasting should not be furnished in any case for the connection to wire facilities furnished by other wire using companies. The Associated Companies have generally concurred in this practice. Our letter of May 23, 1924 to all the Associated Companies, subject, Changes in Practices Suggested in Bulletin #4, requested that they refer to us any requests for special circuits to privately owned circuits or circuits furnished by other wire using companies.

8. Sale of American Company Stock by Associated Company Employees.

The report on Bell Telephone Securities Company heretofore presented in this Investigation, ^{1/} covered, among other things, the organization and activities of that company, the use of employees of Associated Companies to sell stock of the American Company, and the inadequate compensation paid to those companies for the services performed. The evidence indicates that pressure was brought to bear on the Associated Companies, by both Bell Telephone Securities Company and the American Company, to further the sale of the latter's common stock by American Company employees.

In a letter dated November 23, 1923, to Vice President Devereux of Bell Telephone Securities Company, F. L. Woodruff, General Commercial Manager of Southern Bell Company, stated:

I am informed by one of our executives that, during a recent visit to this territory of Mr. H. B. Thayer, the question of the possibility of the Southern Bell Telephone and Telegraph Company issuing some preferred stock, possibly \$5,000,000 in amount, was discussed and that Mr. Thayer was of the opinion, with which our executives agreed, that prior to attempting to sell Southern Bell preferred stock there should be a greater redistribution of A. T. & T. stock in our territory.

When we began the redistribution of A. T. & T. stock in this territory it was determined that we would proceed under what was spoken of as "a light campaign" and it

^{1/} F. C. C. Exhibit 250, "Bell Telephone Securities Company".

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seems to me that if we are to have a greater re-distribution of A. T. & T. stock, possibly we should inaugurate a heavy or more intensive campaign. Just what the latter is, as compared with the light campaign, I have not been definitely informed but I assume that it means more newspaper advertising and a greater effort on the part of our state and local officers in the soliciting of purchases by the public.

Therefore, I am writing this to suggest for your consideration the inauguration of a more intensive or heavier campaign and should you decide that this should be done at this time please let me have your suggestions as to how we should proceed. I assume that it would involve considerably more newspaper advertising and if so, I am still of the opinion that for our territory, if we could let it be known by this means that the stock may be purchased on the partial payment plan, it would bring more applicants.

Vice President Devereux of Bell Telephone Securities Company, in response to Mr. Woodruff's letter, offered an explanation of the meaning of "light," and "intensive" campaigns, and the "Direct Sales Plan," in a letter dated December 1, 1923, and added:

I have sent you from time to time information indicating how the other Associated Companies were getting their results and I have written you two or three times outlining our views on newspaper advertising. If you will look over these letters, you will find that we have had very good success by depending entirely upon personal contact between the employees and the public and that we have done no newspaper advertising except the special advertising which was authorized in the beginning of the campaign in your territory. The Companies which have been most successful in the operation of the "light" campaign have been those which have set up definite quotas for each department and which have made regular reports of the results compared with the quotas. The Northwestern Company, for example, issues a weekly report showing the comparative results for all departments, while the Illinois Company issues a monthly report.

It seems to me the whole question is one of organization and not of advertising. You have accepted a definite quota for this year and if you distribute this quota to the various departments and arouse sufficient competitive interest, you will no doubt

find that you will obtain satisfactory results.

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Practically all of the Companies, except yours, are reaching their quotas. In most Companies the quota does not average two shares per year per employee and although I have not the number of your employees available, I imagine that your quota is about one and one-half shares per year per employee. For your information I am listing below the quotas for your states and the net gain in shares held in your territory from January 1 to November 17th, 1923:

<u>State</u>	<u>Quota of Year (In shares)</u>	<u>Sales to November 17th (In shares)</u>
North Carolina	2096	649
Georgia	3217	252
Florida	2211	1383
Kentucky	6464	3064
Louisiana	3526	1396

It seems to me that if you desire to obtain satisfactory results, it is essential to have some one man definitely assigned to follow up the whole programme and this man should be in contact with all departments of the business. It might be advisable to have Divisional or District stock committees. These committees could take the responsibility for keeping the interest in their own territories alive and could study the current reports of sales and take steps to increase the sales wherever a District seemed to be lagging.

To my mind the whole question seems to be one of taking the proper steps to arouse the interest of every employee in the Company. It is very easy to see the vast number of contacts which the employees have with the public and as the stock may be bought under the Direct Sales Plan on monthly payments of \$10.00, it would not be difficult for every employee to make four or five sales, especially as the friends of the employees, generally speaking, would welcome an opportunity to invest under such a plan which simplifies the purchase of the stock and its payment.

It will be noted that Southern Bell Company had not been reaching its quotas, and that Vice President Devereux outlined what should be done "to arouse the interest of every employee in the Company."

In addition to the letter quoted above, it appears that intervention of President Thayer of the American Company in the matter was

obtained. Mr. Thayer wrote to Vice President F. H. Reid of Southern Bell Company on November 28, 1923, as follows:

I enclose herewith a copy of a letter from Mr. Woodruff in regard to the distribution of stock and I also enclose a memorandum made up by Mr. Houston of the previous correspondence on this subject.

From what I saw of your people in your state organizations, I am confident that if the campaign can get into the state organizations, it will go through satisfactorily. You will remember in our conversations at various places, the importance of doing it through personal contact was touched upon quite a number of times. To me, it is very important that this campaign should go and go promptly and go well and the purpose of this is to see if you cannot get Mr. Woodruff to take enough interest in it so that he won't repeatedly ask the same question.

Vice President Reid of Southern Bell Company, in a letter to President Thayer, dated December 22, 1923, reported:

Beginning the first of the year we are giving some additional responsibilities to the State Managers and had them in conference the other day for that purpose, at which time we thoroughly discussed the matter of a wider distribution of the American Company's stock in this territory.

Where our campaign for the sale of stock has not been satisfactory is probably due to the fact that it was one of the things we did after everything else was done. To accomplish results in any task that we assign to the field forces it is always necessary to make that particular assignment the most important - in other words, every phase of the work is most important; but in this case an unhappy choice of words like "a light campaign", and then too, a very careful avoidance on our part in not permitting the sale of stock to interfere with anything else; meant that results were in proportion.

I am satisfied now that they are all thoroughly enthusiastic about what they may accomplish, and while our people first thought the allotment of 17,000 shares for this Group for the next year was a pretty large allotment, I have convinced them that if we had to raise in the Southern Group the money necessary to finance our provisional estimate for the next year we ought to sell 80,000 shares. This had the effect of changing the attitude entirely in this matter.

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It will not be necessary, I believe, for Mr. Houston at the present time to make a trip to this territory, but if the results are not very much better than the year just closing I will call on him for a little help.

Southern Bell Company made a "fine record" during the year 1924, but during the following year, 1925, for the period ending August 22, 1925, went slightly under its quota. Vice President Devereux of Bell Telephone Securities Company, in these circumstances, advised Mr. Woodruff, in a letter dated August 28, 1925, as follows:

I am somewhat surprised to learn that your total shares for the period ending August 22nd was slightly under your quota for this period, while your actual shareholders was almost a thousand below your quota. But with the fine record you made last year and with the understanding and appreciation of the Plan your employees have shown, I am sure you can correct this situation and wind up the year with a record which will show that you have exceeded your quota of shareholders.

Mr. Woodruff, in his response to this letter, stated:

We are considerably disappointed with our showing for the number of sales made and shares sold to date, and our people are going to put forth their very best efforts during the remainder of the year to bring our totals up to 100% of this company's quota.

In several other matters also, Southern Bell Company was given instructions. For example, with reference to daily telegraphic sales reports, Vice President Devereux, in a letter to Mr. Woodruff, dated June 12, 1924, stated:

For some little time your daily telegraphic sales reports have been late in reaching us. In several instances we have not received them until the second morning.

Upon investigation I am informed by the Long Lines people that a large part of the delay is caused at the relay points and that if your telegrams were marked "Rush" they would be set ahead of their regular order, and a portion, at least, of the delay would be eliminated.

A word to the wise is sufficient.

Mr. Woodruff responded under date of June 23, 1924:

Immediately upon receipt of your letter of June 12th, advising of delays in the receipt by you of our daily telegraphic reports of sales I took the matter up with Mr. T. N. Lacy, Superintendent of Plant, A. T. & T. Co., Atlanta, who has promised to expedite the delivery of these telegrams in every way possible, and I trust that in the future there will be no unreasonable delays.

It appears that in several instances Southern Bell Company made special sales of American Company's stock, not under the direct sales plan. In a letter to Mr. Woodruff, dated April 19, 1926, Vice President Devereux of the Securities Company stated:

We, of course, prefer not to handle special sales of this kind unless there is a very exceptional reason. Our methods are devised to take care of the Direct Sales Plan and it is this Plan that we are offering to the public if they wish to buy from us and naturally they should buy under the provisions of our Plan. In addition to this, it is expensive to handle sales of this kind involving special long distance calls and special treatment both in your office and in ours. Further it requires us to purchase 100 shares and sometimes forces us to buy at a time of the day which is not advantageous.

I am sure if you understand the situation you will do all you can to curtail it.

In Mr. Woodruff's response, dated April 22, 1926, he stated:

We will do our best to keep these special sales down to a minimum. * * *

f The foregoing correspondence is presented to show that even in matters that were not the direct obligation of the Associated Companies and involved really a service to the American Company, the latter, and its security affiliate, presumed authority over the actions of Associated Company employees.

CHAPTER IV
CONDITIONS OF CONTROL

1. Voting of Stock.

In view of the evidence of administrative control introduced in the foregoing pages, to intimate that the Associated Companies are autonomous legal entities exercising in their own rights and at their independent discretion all the privileges of such corporations, is to give lip service to a legal formalism. The overwhelming evidence indicates that control by the American Company is direct, that company boundaries are meaningless except for administrative, accounting and judicial purposes, and that control from New York permeates practically all phases of the administration of Associated Company property, thus indicating the direct ownership interest of the holding company. Furthermore, this control does not take a circuitous course, except to maintain appearances of legal relationships, from the American Company's board of directors to the selection of local boards of directors and from them to the administrative officers of those companies; on the contrary, takes a direct course from the officers of the American Company to the appropriate officers of the Associated Companies. In this situation those directors of the Associated Companies who are not connected with a Bell System Company in an official capacity participate in very little more than the formal actions necessary for ratification of administrative decisions rendered by the officers of the American Company or by the local representatives.

The direct flow of authority from the officers of the American Company to their representatives in the Associated Companies is strengthened also by the device that has been employed ever since 1900 in the exercise of the voting powers and the other powers of ownership inherent in the holding of securities by the American Company. At a meeting of the Executive Committee of the American Company in Boston

on August 15, 1900, a resolution was passed which gave the president of the American Company the right to vote the stock or execute powers of attorney to someone else to vote the stock of companies whose shares were held by the American Company. The resolution was as follows:

Whereas, this Company is a shareholder in various other corporations,

Resolved: that the President be and he hereby is authorized to represent this Company at any and all meetings of shareholders in such corporations and for it and in its name to vote--or at his option from time to time in the name of this Company to execute revocable powers of attorney to such person or persons as he shall deem suitable therefor, to represent this Company at any such meeting and there for it and in its name to vote.

The power so granted still remains in force. Since 1900, therefore, the president of the American Company has had direct power to exercise the rights inherent in the ownership of those shares.

Similar power was given to Vice President David F. Houston at a meeting of the Board of Directors on February 17, 1925. It was resolved at that meeting as follows:

On motion, it was

RESOLVED: that Vice President Houston have authority at all times to execute, in the name and on behalf of this Company:

1. Proxies for all stockholders' meetings of companies in which this Company is a stockholder;
2. Leases, contracts and other documents required in the ordinary operation and maintenance of the real estate now or hereafter owned by this Company in New York City;
3. Contracts, leases, releases, powers of attorney, assignments and all other documents required in the ordinary business of the Company, and to order the corporate seal of the Company to be affixed to such of the foregoing documents as may require it.

On motion, it was

RESOLVED: that Vice President Houston be and hereby is authorized to execute and acknowledge from time to time any consent in writing by this Company as a stockholder in any other corporation, to any action which may be legally taken on such consent in lieu of by a vote at a meeting of the stockholders of any such corporation.

On motion, it was
RESOLVED: that for the purpose of qualifying a director or directors in any company or companies in which this Company is a stockholder, Vice President Houston be and hereby is authorized to transfer from time to time shares of stock in said companies, not exceeding ten shares to any one person.

This power given to Vice President Houston was transferred by a resolution of the Executive Committee on June 22, 1927 to Vice President C. P. Cooper. The resolution stated:

On motion, it was
RESOLVED: that in addition to the authority heretofore conferred upon him, Vice President Cooper shall have the same authority as now possessed by Vice President Houston by virtue of resolutions adopted by this Committee or by the Board of Directors.

With these resolutions on record, the president of the American Company since 1900, and a particular vice president since 1925, have had the right to exercise directly, ostensibly without further reference to the board of directors, the voting power on the shares owned by the American Company. This condition in itself would make these officers supreme in the affairs of the Associated Companies.

2. Selection of Directors.

Evidence already shown indicates, however, that even in the exercise of this legal right, the formalities involved in the selection of Associated Companies' presidents through their boards of directors are secondary to the direct control which the American Company officers maintain over the activities of Associated Company officials. Indeed, the boards of directors of the Associated Companies have a passive role, to say the least, in the conduct of the affairs of the Associated Companies. As a matter of fact, the selection of Associated Company directors is not based upon the assumption that they know much about the telephone business, or that they are expected to make any important contributions to the management

of the properties. On the contrary, their selection seems to be dictated by assumptions which do not include such a contribution to management. A series of correspondence and biographical information obtained by the American Company through the Associated Companies on various prospective directors, ^{1/} indicates that the principal considerations in selecting outside directors are such things as the standing of the individual in the community, his business connections, his party and political connections, family background, clubs and associations to which he belongs, and various other factors which are perhaps important from a public relations point of view but of questionable significance in conducting the telephone business as an economic enterprise in the strict sense.

In selecting an Associated Company director, ordinarily the president of the local company submits the names of various people, with the type of information given in the appendix, to the president or executive vice president of the American Company for his selection and approval. After agreement is reached between the officer of the American Company and the Associated Company then the local company's president makes the proper arrangements for formal election either by vote of the board of directors or at the annual meeting.

What these directors are expected to do besides formal approval of proposals advanced by the officers of the American Company or of the Associated Company, is a moot question. An examination of the minutes of the meetings of boards of directors of the Associated Companies from January, 1920, to February, 1936, inclusive, indicates that in no instance has there been a disagreement on any action proposed at such meetings. ^{2/} The examination by Commission Staff revealed that

^{1/} See appendix to this report.

^{2/} Minutes were not available in the offices of the American Company for Bell Telephone Company of Nevada, Southern California Telephone Company and The Home Telephone & Telegraph Company of Spokane, 100 per cent owned subsidiaries of The Pacific Telephone and Telegraph Company.

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at no one of the meetings of the boards of directors of Associated Companies during this entire period was there ever a dissenting vote of a director recorded against any proposal voted upon at such meetings. In a few instances, officers of Associated Companies who were also directors did not vote on increases in their own salaries.

An examination was also made of the minutes of the meetings of the executive committees of the Associated Companies, covering the same period, and with a like result. In this connection, there is also evidence that sometimes when a proposal was submitted to the board of directors of an Associated Company, the only question asked was whether it would meet with the approval of the president of the American Company.

This result is not surprising in view of the centralized administration of the Bell System, the method of selecting directors and the qualifications of those directors. The legal framework through which control operates is exactly fitted for the administrative centralization of management which the American Company holds over the Associated Companies.

3. License Contract.

The centralized management of the Bell System is an exercise of the ownership interest of the American Company. It is reinforced by license contracts existing between the parent organization and the Associated Companies and the supply contracts in effect between Western Electric and the operating companies. Most of the interferences with the management of local companies described in the preceding pages are justified under the aegis of the license contract as being in the nature of advice and assistance which the American Company has obligated itself to render. Thus, control of expenditures has become assistance in financing as per license contract; direction of the legal work of local companies

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by the American Company's Legal Department is again considered advice and assistance; and control of accounting and auditing is presumed to be also of the same nature. In view of the ownership interest, however, and the methods of voting Associated Company stock and of selection of officers by the people at headquarters in New York, there has been established inevitably a spirit of allegiance and obedience of the local people to the parent company officers which gives even "suggestions" and "advice" the aspect of commands expected to be obeyed. The spirit in which these suggestions are made by the New York officers, as shown by the evidence, indicates that they are expressive of the exercise of authority rather than counsel. That this is true is indicated by the interference that is exercised by the American Company officers in fields of activities which do not come within the purview of license contract services, such as in the revision effected in annual reports of Associated Companies. In the field of radio transmission by wire the centralization of authority and management control has been stated by John H. Ray, General Solicitor of the American Company, to be based on stock ownership, rather than on a contractual obligation. ^{1/} The control exercised over the activities of Associated Company employees in the sale of American Company stock, which, if anything, is service in the reverse, also falls outside the purview of license contracts, and is another indication that centralized control, with its concomitant of obedience to American Company officers, is an established organizational requirement to which local company officers are expected to adhere.

4. Supply Contract.

The supply contract between Western Electric Company and Associated Companies has also been an instrumentality of centralization in the exercise

^{1/} See F. C. C. Exhibit 289, "Bell System Policies and Practices in Radio Broadcasting," p. 106.

I of managerial discretion in a vast sphere of activities, such as the purchase of supplies and equipment, so important in a large and growing business like the Bell Telephone System. The type, quality, quantity, and price of practically everything purchased by the operating companies, amounting to over four billion dollars' worth of equipment and supplies during the past twenty years, are determined by Western Electric Company and American Telephone and Telegraph Company, and practically all the equipment and supplies needed are manufactured by or acquired through Western Electric Company under specifications and direction of its parent organization, American Telephone and Telegraph Company. 1/

5. Conclusion.

The situation described in this report conforms exactly to the standards set by counsel for Illinois Bell Telephone Company in the brief in Smith v. Illinois Bell Telephone Company, 2/ where it was stated:

In order to justify the disregard of the separate existence of corporations thus related by stock ownership, and to treat the company whose stock is owned as a mere agent, it is essential that the stockholding company must in fact interfere in the regular affairs of the other company, and direct its actions as if they were its own; and this situation must be brought about by the united intention of both companies. * * * No such condition is shown to exist in this case; no such interference or control has ever been exercised by the American Company, nor contemplated by the officers of either Company. 3/

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1/ For a brief description of the coordination of provisional estimates, Western Electric Company manufacturing, and Associated Company purchases, see F. C. C. Exhibit 50, "Scope and Structure of the Bell System," pp. 56-58.

2/ Brief on behalf of Illinois Bell Telephone Company in Smith et al v. Illinois Bell Telephone Company, Supreme Court of the United States, No. 90, October Term, 1930 (282 U.S. 151). Counsel: Charles M. Bracelen, Horace Kent Tenney, and William Dean Bangs.

3/ Id., p. 8.

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In the case at bar there is no such commingling of either property or affairs; and the distinction between the corporations is as clearly marked as to property, money, records, accounts, and other details of corporate affairs, as if the American Company were not a stockholder at all. 1/

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The fundamental difference between the power inherent in a company which holds the majority of the stock of a subsidiary company, and the exercise of control by electing directors, etc., is well stated in the opinion of Judge Hand in Kingston Dry Dock Co. v. Lake Champlain Transportation Co., 31 Fed. (2) 265, decided in 1929. He there clearly points out the necessity of actual interference and management in the affairs of the company whose stock is thus held, and in such a way, by the intention of the parties, as to make the operating company a mere agent. * * *

In the case at bar, the corporate management of the Illinois Company is entirely separate from that of the American Company, nor does the latter, in fact, direct the affairs of the former, either by contract or interlocking directorships, or otherwise. 2/

It is in the light of such relationships as are revealed in this report, which, in the words of counsel for Illinois Bell Telephone Company, might "justify the disregard of the separate existence of corporations thus related by stock ownership," that we should judge certain conditions in the Bell System revealed by the present investigation. What significance and legal validity should be given to contracts such as the License Contract and the Supply Contract of the American Company and Western Electric Company, respectively, with the Associated Companies? What validity should be given to agreements or arrangements between the Long Lines Department of the American Company and the Associated Companies with respect to division of toll revenues, transfer of properties, and rental of properties and equipment? Or, to take a specific example of a transaction, is it justified to accept as fair and reasonable the sale of

1/ Id., p. 20.

2/ Id., pp. 27-28.

telephone instruments in 1927 by the American Company to the Associated Companies, which resulted in a profit of 14 million dollars to the former? ^{1/}

The situation described in this report also focuses attention upon the problem of regulatory technique. With the Bell System organized as an administrative unit operating throughout the United States and conducted by rules and regulations promulgated by the American Company in New York and supervised by the agents of the officers of this company, local regulatory commissions are faced with a magnitude of problems and concentration of power that puts them at a disadvantage in their daily task of regulation. For effective supervision of the activities of Bell System Companies, it will be necessary to have a regulatory organization and resources commensurate with the scope of the telephone system, yet preserving the inviolability of state boundaries.

^{1/} See F. C. C. Exhibit 132, "License Contract Relations, Rental of Telephone Instruments."

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APPENDIX

Data Relating to Selection of Associated Company Directors

	<u>Sheet Number</u>
Letter dated January 4, 1934 from P. C. Staples to C. P. Cooper.	1-4
Letter dated January 5, 1934 from W. B. T. Belt to C. P. Cooper.	5-10
Letter dated January 12, 1924 [1934] from C. P. Cooper to W. B. T. Belt.	11
Letter dated October 18, 1934 from W. B. T. Belt to C. P. Cooper.	12
Letter dated October 24, 1934 from C. P. Cooper to W. B. T. Belt	13
Letter dated October 30, 1934 from P. C. Staples to C. P. Cooper.	14
Letter dated November 19, 1934 from P. C. Staples to C. P. Cooper.	15-17
Letter dated January 24, 1936 from A. A. Lowman to C. P. Cooper.	18-20
Letter dated March 13, 1936 from A. A. Lowman to C. P. Cooper.	21

Source: Binder entitled "Bell Telephone Co. of Pennsylvania, General," from C. P. Cooper's files.

C O P Y

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA

Office of the President

1835 Arch Street, Philadelphia, Pa.

OFFICIAL 0050

Philip C. Staples
President

January 4, 1934

File -- Talked to
(in ink) Staples today.
C.P.C. 1/12

Mr. C. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:

We talked the other day about possible change in the Board of this company.

Our By-Laws provide for a Board of seventeen and a quorum of nine.

My opinion is that we should take the first opportunity to reduce the number to fifteen with a quorum of eight, and introduce some younger men.

Recall that General Trexler died a couple of months ago and that his place has not been filled. Mr. Schiller has been confined to bed for some time and probably will never be about again. Mr. Packard is obviously in failing health although so far he has been regular in attendance. The same may be said for Governor Stuart. Mr. Sewall comes pretty close to the same category. Others are of advanced years.

We might at the annual meeting in February reduce the number from seventeen to fifteen, explaining to Mr. Hazard, General Auditor, that we want him to accommodate us by stepping aside until the Board can be reshaped. Were we to do this, however, our problem of getting a quorum, which is already sizable during mid-winter and mid-summer, would be further increased.

Or we could fill the Trexler vacancy with an intermediate or minor official of the company, with the understanding that he will drop off at some later time when a death or resignation permits us to reduce from seventeen to fifteen.

Of the two alternatives just mentioned, I favor the latter.

If we decide to do neither, but fill the Trexler vacancy at the February meeting of the stockholders, I have several names to suggest. There are included no men of advanced years; consequently the names may not be familiar to you. One lawyer is listed, notwithstanding your possible sharing of Mr. Bracelen's opinion that there is

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some objection to the presence on our Board of a lawyer whom we might not call on for legal assistance in some major situation. Also included are a savings bank vice president and two members of private banking houses. I will refer to these connections specifically in a moment. The suggestions follow:

EDWARD B. LEISENRING, who is in his middle 40's and occupies a growing position locally, is president of the Westmoreland Coal Company and a number of similar operations. He is a member of several of the larger bank boards, but has no public utility connections. Although a resident of Philadelphia, he comes from a well known central Pennsylvania family which was cordial to Bell interests during the long period of competition in the middle part of the state. I know him only slightly.

WILLIAM L. ELKINS is a member of the firm of Elkins, Morris & Company, private bankers. The house is a small one, has very little public following and devotes itself principally to the handling of the investments of the Elkins and Widener families. Mr. Elkins is best known as the president of the Philadelphia Welfare Federation and enjoys great respect and popularity in the city. He is slightly under fifty. Perhaps Mr. Gifford will remember him, as I think they were members of the same class at Cambridge. My personal association with him is close, as we have had several years of work together in the welfare undertakings of the city.

ROBERT T. MCCRACKEN is in his late 40's and is a member of the firm of Montgomery & McCracken, which was formerly the firm of Roberts and Montgomery. You will recall that Mr. Roberts was once on your Board. Mr. McCracken is one of the first ten lawyers in the city, I think it fair to say, and one of the two or three who are under fifty. I have seen much of him and know that he is held in great respect by both the bench and bar. The fact of his previous connection with Mr. Roberts is not unimportant. So far as I know he is on no corporate affiliations.

M. ALBERT LINTON, President of the Provident Mutual Life Insurance Company, is coming along fast in local public estimation. He is in his middle 40's and, although he has not taken any particular part in civic affairs, is rated high by all who have connection with him in the insurance field. I have only met him. There are two insurance men who are, perhaps, better known in Philadelphia, but Benjamin Rush is of advanced age and William A. Law is, in my opinion, not so strong as his position would indicate.

ISAAC W. ROBERTS, Vice President of the Philadelphia Savings Fund Society, is very well regarded in the community. He is under fifty and is the one member of a notable Philadelphia family who is up and coming. The savings bank is the leader in the town, and Roberts is up in the front of the management. I see much of him.

GEORGE H. HOUSTON, President of the Baldwin Locomotive Works, is an important figure in the town. He came here as the Fisher representative in the Baldwin management and appears to be popular and respected by the financial group in which centers most of the local influence. I am inclined to think that he may not stay in Philadelphia very long, particularly if the Fishers find something useful for him to do elsewhere. He is said to be rated high by them. I know him only slightly.

THOMAS S. GATES, President of the University of Pennsylvania, is a name which naturally suggests itself. I am inclined to think that Mr. Gifford has, in the past, given passing thought to him as a member of your Board. He is said to be disinclined to take on further obligations at this time, though an invitation from us might appeal to him. He has not given up certain public utility board connections, which fact, together with his habit of absenting himself from the country for rather long vacation periods, makes his usefulness somewhat questionable. Of course his position in the community is of the highest. I know him very well.

SYDNEY P. CLARK, younger partner of the firm of E. W. Clark & Company, appears to be the coming member of this old and powerful private banking family in Philadelphia. He is in his early 40's and has in the past several years been President of the Bond Club, and a member of the Board of Managers of the United Campaign, indicating that the older men regard him highly. I see much of him.

None of the men before mentioned have political affiliations or aspirations, so far as I know. The selection of any of them as a member of the Bell Board would seem natural to the community. I personally would be happy to have any of them associated with us. If personal friendship is an allowable consideration, I would be particularly pleased to have Mr. Elkins with us.

There follows a list of men whose names may have occurred to you or to Mr. Gifford, about whom I will furnish more information if you wish to have it. I am not inclined at the moment to put them in with the list above given.

Walter M. Schwartz, President, Proctor & Schwartz, (machinery),
 J. Howard Pew, President, Sun Oil Company,
 Alexander Sellers, President, William Sellers & Co., (machine tools),
 Ralph Earle, President, Pennsylvania Warehouse Company,
 Charles E. Brinley, President, American Pulley Company,
 N. Myers Fidler, President, Edwin H. Fidler Company, (cordage),
 Wilfred W. Fry, President, N. W. Ayer & Son, (advertising),
 Roland S. Morris, Attorney,
 Morris E. Leeds, President, Leeds & Northrup Co., (electrical instruments),
 Colonel Robert McClean, Publisher, "The Evening Bulletin".

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It does not seem necessary at the moment to consider anyone outside of Philadelphia. Walter S. Carpenter, Jr., of Wilmington, is on the Board of both companies. Mr. Henderson Gilbert, of Harrisburg, and Mr. Edmund W. Mudge, of Pittsburgh, are on the Pennsylvania Board, as is Mr. Schiller before referred to. There is no one in the Lehigh Valley who would be a natural successor to General Trexler. In the coal regions there is no singularly outstanding man. It seems to me we have reasonable outside representation if men from Harrisburg and Pittsburgh are included, as at present.

I shall appreciate very much your thought on the foregoing. Decision should be made a week or ten days in advance of the stockholders' meeting, February 20th.

Very truly yours,

(Signed) P. C. Staples
(in ink)

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

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C O P Y

NORTHWESTERN BELL TELEPHONE COMPANY
BELL SYSTEM

W. B. T. Belt
President

Omaha, Nebraska
January 5, 1934.

Mr. C. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:-

If you remember, at the Conference in October I submitted several names of prominent business men of St. Paul for consideration as members of our Board of Directors. I have approached two of the gentlemen on that list and both have declined to accept the directorship for various personal reasons.

I am herewith enclosing a new list which we have made. The names on this list you have not seen. I would appreciate your looking over them and letting me have your approval.

With kindest personal regards, I am

Yours very truly,

(in ink)

W. B. T. Belt

President.

H142

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

Sheet 6

C O P Y

No. 1

M E M O R A N D U M

- H142
1. Name - W. J. Dean.
 2. Approximate age - 64.
 3. Business and position - President, Treasurer and Director of Nicols, Dean & Gregg, wholesale heavy hardware institution in St. Paul, allied with Minneapolis Iron Store in like business.
 4. Graduate of what college - Not a college graduate.
 5. Financial responsibility - Rated high - well-to-do.
 6. Positions of leadership, past and present -
Past Director the U. S. Chamber of Commerce.
Past Director, three terms, St. Paul Association of Commerce.
Director of St. Paul Academy (Preparatory school of high standing.)
Director Oakland Cemetary Association (Large Protestant Cemetary Assn.)
 7. Does he have spare time? Yes.
 8. Church affiliations - Presbyterian - House of Hope (Leading Presbyterian Church of the city.)
 9. Family consists of wife and seven children, all grown up.
 10. Moral character - excellent.
 11. Personal habits, including recreation - Personal habits are the best but liberal and not narrow as to habits of others. Chief recreation is golf.
 12. General standing in community - Very good. Well known in business and club circles. Very well liked.
 13. Remarks - Mr. Dean is a man of a family, the name of which has been well-known for years in St. Paul business circles. He is a director of the First National Bank and of the St. Paul Fire and Marine Insurance Company. He is a man who commands respect of all who know him.

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

No. 2

C O P Y

M E M O R A N D U M

1. Name - Walter G. Seeger.
2. Approximate age - 52.
3. Business and position - Vice President of Seeger Refrigerator Company which is one of the larger refrigerator cabinet builders in the country. As Vice President of this company Mr. Seeger concerns himself with sales rather than production.
4. Graduate of what college - University of Minnesota.
5. Financial responsibility - High rated - well-to-do.
6. Positions of leadership, past and present -
 - Past President of Rotary Club.
 - Past Potentate of Shrine.
 - President and Director St. Paul Athletic Club.
7. Does he have spare time? Yes.
8. Church affiliations - Protestant Episcopal - St. Johns Church.
9. Family consists of wife and three children. Children of high school and college age.
10. Moral character - Very good.
11. Personal habits, including recreation - Personal habits very good - not narrow. Mr. Seeger is a man devoted to his family. His chief recreation is golf.
12. General standing in community - Very high; well known; well liked, not only in club and business circles but popularly known and liked.
13. Remarks - Mr. Seeger is what one might refer to as one of our younger business men just entering upon a period in which, because of his past activities, he will reap the reward in public esteem and confidence. In addition to his activities in the Athletic Club he is prominent in Town and Country club circles, and is well thought of by the average man on the street.

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

No. 3

C O P Y

M E M O R A N D U M

- H. 15
1. Name - Frederic Crosby.
 2. Approximate age - 47.
 3. Business and position - Vice President of American Hoist and Derrick Company. This concern puts out various sorts of fabricated iron and steel work, including various kinds of structural steel as for bridges, etc.
 4. Graduate of what college - University of Minnesota.
 5. Financial responsibility - First rate - well-to-do.
 6. Positions of leadership, past and present -
 - Past President of the Minnesota Club.
 - Past Director of St. Paul Association.
 - Past Director of Athletic Club and is on the Board of Governors of the Minnesota Club and the Somerset Club.
 7. Does he have spare time? Yes.
 8. Church affiliations - Episcopalian.
 9. Family consists of wife and two children.
 10. Moral character - Very good.
 11. Personal habits, including recreation - Personal habits very good. Mr. Crosby is an outdoor man and, in particular, is an enthusiastic hunter.
 12. General standing in community - Good. Well known and well liked in business and club circles; also fairly well known and well liked generally.
 13. Remarks - Mr. Crosby is a member of family long and well known in business and club circles in the city of St. Paul. He is a man of high type, good character and one who inspires confidence.

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

No. 4

C O P Y
M E M O R A N D U M

1. Name - Milton W. Griggs.
2. Approximate age - 45.
3. Business and position - President of Griggs, Cooper & Co., the largest wholesale grocery concern in the Twin Cities, which company, within the past few years, took over the Foley Bros, business in that line, and which, for years, has owned and operated the Sanitary Food Company, which company is a large packer of various food products, including the baking of a complete line of crackers and other like confections.
4. Graduate of what college - Yale college.
5. Financial responsibility - High grade - well-to-do.
6. Positions of leadership, past and present -
 Past Director of St. Paul Association.
 President of National Association of American Wholesale Grocers, and has been very active in the preparation of the code for that line of business.
7. Does he have spare time? Yes.
8. Church affiliations - Protestant Episcopal - St. Johns Church.
9. Family consists of wife and four children of high school and approaching college age.
10. Moral character, - Very good.
11. Personal habits, including recreation - Personal habits very good; not narrow in views as to others.
 In addition to golfing he is an enthusiastic hunter of game birds.
12. General standing in community - Very good. Well known and well liked in business and club circles.
13. Remarks - Mr. Griggs is a high grade man, well thought of by all who know him. While his acquaintance is not so wide as to say that he is popularly known, at the same time he has a reasonably wide acquaintance outside of association and club circles in that he is known very widely because of his business to grocers throughout not only St. Paul but elsewhere in this territory. He is a director of the First National Bank, a member of the Minnesota Club and of the Somerset Club.

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

No. 5

C O P Y

M E M O R A N D U M

1. Name - Wm. W. Skinner.
2. Approximate age - 47.
3. Business and position - No active business connection at present. Withdrew within the past two years from Gordon, Ferguson & Co. of which he was Vice President and Treasurer.
4. Graduate of what college - Prepared at St. Paul Academy and graduated at Yale.
5. Financial responsibility - Comfortably well-to-do.
6. Positions of leadership, past and present -
 Director of Amherst H. Wilder Charities. (This is a large charitable organization founded from the will of Amherst H. Wilder, one of the earlier and wealthy outstanding St. Paul citizens.)
7. Does he have spare time? Yes.
8. Church affiliations - Unitarian - Unity Church.
9. Family consists of wife and two children of 9 and 16 years respectively.
10. Moral character - Very good.
11. Personal habits, including recreation - Personal habits very good; not narrow. Enjoys outdoor sports, including golf, horseback riding and fishing.
12. General standing in community - Very good. Well-known and well liked in business and club circles and very well-known and well liked in the older group of families of St. Paul.
13. Remarks - Mr. Skinner is a son of J. H. Skinner, former President of the Merchants Trust Company, now the First Trust Company, and as such has a high standing in the community. He is a director of the St. Paul Fire and Marine Insurance Company. His father was one of the founders of Lanpher, Skinner & Co., which concern later joined with the Gordon and Ferguson Company. Mr. W. W. Skinner was, prior to his retirement, a director of the Lanpher, Skinner Company. Some two or three years ago, due to certain financial difficulties of the firm, banking interests, I believe, took over direction, if not control, of the Gordon, Ferguson Company operations and it was about that time, or shortly after, that Mr. Skinner withdrew from the concern.

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Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

C O P Y

January 12, 1924 [1934]

MR. W. B. T. BELT, President,
Northwestern Bell Telephone Company,
Omaha,
Nebraska.

Dear Mr. Belt:

We have gone over the list attached to your letter of January 5 and think you have selected some very good names from which you might choose to fill the vacancies on your Board.

It seems to me that any of the names you have suggested would be satisfactory unless there is some connection with other business, such as a Directorship, which might in some way be embarrassing to your Company. I have no means of checking this point here and suggest that you look it up before extending invitations to any of these men.

With kind regards, I am,

Yours sincerely,

Vice President.

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

65828

C O P Y

NORTHWESTERN BELL TELEPHONE COMPANY
BELL SYSTEM

Omaha, Nebraska
October 18, 1934.

W. B. T. Belt,
President

Mr. C. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:-

Mr. J. L. Parrish, one of our Directors in Des Moines and also our attorney for Iowa, died recently, and that leaves a vacancy on our Board.

We now have two members of our Board from New York, five from Omaha, two from Minneapolis, one from Mason City, and four from Des Moines. I would like to offer this position on the Board to Mr. H. C. Jewett of Aberdeen, South Dakota. While Mr. Jewett is seventy years of age, he is still extremely active. He established the first wholesale grocery in South Dakota in 1883, and later a wholesale drug house, and the Jewett Investment Company. He is now President of all three of these organizations and was, on September 29th, elected President of the Aberdeen National Bank. He is a Republican, an Episcopalian, and a Thirty-second Degree Mason. We feel he is about the most outstanding man in South Dakota and would like very much to offer this vacancy to him. Of course, I realize his age is somewhat against him, but so long as his health remains as good as it is now, I am quite sure he can attend many of our meetings, and he would add considerably to our standing in South Dakota.

If this is agreeable to you, I would appreciate hearing from you.

With kindest regards, I am

Yours very truly,

(in ink)

W. B. T. Belt

President.

H141

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files

C O P Y

October 24, 1934

65828

Mr. W. B. T. Belt, President,
Northwestern Bell Telephone Company,
Omaha, Nebraska.

Dear Mr. Belt:

It is entirely agreeable to us for you to propose the name of H. C. Jewett of Aberdeen, S. D., for the vacancy on your Board of Directors, as suggested in your letter to me of October 15th.

With kind regards, I am,

Yours sincerely,

HIS

C O P Y

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA

Office of the President

1835 Arch Street, Philadelphia, Pa.

OFFICIAL 0050

Philip C. Staples
President

October 30, 1934.

Talked to
(in pencil) Staples today.
C.P.C. 11/1

Personal (in red)

Mr. C. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:

At the last meeting of the Board of the Diamond State Company, Mr. Lloyd, Governor Stuart, and Mr. Hayward were disposed to present their resignations. They are disinclined to meet the requirements imposed by the F. C. C. on interlocking directors.

I told them that the time elements were such that it was not necessary to take immediate action; although I did not press them to reconsider. My reason was, and I took pains to explain it to them, that I believed we should give a considerably greater local flavor to the Diamond State Board. There is but one Delawarean on it at the present time. Delaware has no State Public Service Commission. The company is managed by the officers of the Bell of Pennsylvania, under a tender-of-service contract which is approved by the substantially identical membership of the two Boards. And in times like these, when there is so much questioning of absentee management, the foregoing facts seem to me to indicate strongly the desirability of getting for the Diamond State Company a Board which has a good round representation of people from that state. I was not surprised that all of the Pennsylvanians on the Diamond Board seemed to respond quickly and cordially to the suggestion.

The Diamond Board now numbers nine. There are two A.T. & T. Co. and two Bell of Pennsylvania representatives on it. The outsiders are Kinnard, Hayward, Lloyd, and Stuart of Pennsylvania, and Carpenter of Delaware. I think that all four of the Pennsylvanians will quite gladly step aside, although I am not sure about Kinnard. It might be well to reduce the Board from nine to eight, or even to seven. If both you and Mr. Gifford wish to continue, the quorum problem would suggest that no reduction be made, at least below eight.

This note does not call for reply from you, unless you believe we are on the wrong track. At some later time I will discuss with you possible Delaware substitutes for the Pennsylvanians who will retire.

Yours very truly,

(Signed) P. C. Staples (in ink)

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Source: Binder entitled "Bell Telephone Co. of Pennsylvania, General," from C. P. Cooper's files.

Sheet 15

C O P Y

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA

Office of the President

1835 Arch Street, Philadelphia, Pa.

OFFICIAL 0050

(in pencil)

File. Told Staples OK
by telephone.
CPC 11/20

Philip C. Staples
President

November 19, 1934.

Mr. C. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:

As you know, we have the resignations of Messrs. Lloyd, Stuart, Kinnard and Hayward from the Diamond State Board. They must be accepted at the forthcoming meeting on November 28th. We propose to have the present Board meet at that meeting and accept one resignation at a time, filling that vacancy before the next resignation is acted on. This will preserve a quorum throughout. If we can't line up the necessary four candidates by the 28th, we will fill in temporarily with officers of the company.

Delaware politically, in the broad sense, has one not uncommon characteristic in that there is intense rivalry between Wilmington, which is industrial, and the balance of the state, which is agricultural. There are three counties, New Castle, Kent and Sussex. Wilmington comprises most of New Castle County. The state is Republican, but the Democratic following is by no means weak.

Messrs. Gifford, Cooper, Staples and Harrison comprise the official representation on the Board. Mr. Carpenter, who will continue, is from Wilmington. We figure it would be best to try to get two men from Wilmington or from suburban points in New Castle County, one from Kent County, and one from Sussex County. We believe that party affiliations are not particularly important but that it would be smart to select one Democrat.

I have leaned very much on the opinions of Mr. Carpenter in casting up the possibilities, checking with our Wilmington and Dover people who know the local flavors. I have also gotten the opinion of the leading lawyer in Wilmington, who is retained by us, as to the standing of Mr. Harmonson, who will be referred to later. I have also checked with a number of Philadelphians who have business contacts in Delaware.

The following list of possibilities is in the order of their preference, as we see them; except that it seems best to take one man from Kent and one from Sussex County.

H 51 H

J. WARREN MARSHALL. Mr. Marshall is 53 years of age. He is President of the National Vulcanized Fibre Co. and several other such enterprises in northern Delaware and southeastern Pennsylvania. He is a Director of the Wilmington Trust Co., the Farmers Mutual Fire Insurance Co., the Liberty Mutual Fire Insurance Co., and several civic bodies in Wilmington. He is a member of all the clubs, has close connections with the principal business people, and is exceptionally well-known and highly regarded. He is a Republican. May I say, parenthetically, that it is pretty hard in Delaware to find anyone who is not intensely interested in politics. None of those mentioned, however holds any political or party office or is regarded to be a "party insider" at this time.

FRANK H. THOMAS. Mr. Thomas is 35 years of age. He is Vice President of the Equitable Trust Co., which is known as Governor Buck's bank. The Governor is a Republican and it is thought that he will be sent to the Senate when his present term expires. Thomas is very highly regarded in Wilmington, sticks pretty close to his knitting, and is not particularly active in civic affairs; but he is well known and universally liked. Of the younger men of the state we think he is just about at the top. He is a Republican.

HENRY T. BUSH. Mr. Bush is 54 years of age. He is of the well known Delaware family which formerly owned and operated the Bush Steamship Co. At present he is President of the Farmers Bank of Wilmington which is controlled by the State of Delaware. He is Director of the Wilmington Savings Fund Society, largest and strongest in the state. Although nominally he is a bank president, his interests are very wide and he seems to have a hand in most everything that goes on in Wilmington. Again parenthetically, it is rather difficult to find, outside of the duPont Co., any man prominent in Delaware who isn't a bank officer. It seems to be the practice down there to find the strongest all-around men available for bank presidents, leaving the banking operations in the hands of vice-presidents who work more intimately at the job. We believe that the company's banking situation would not be at all upset by the selection of either Mr. Thomas or Mr. Bush. Mr. Bush is a Republican.

JOHN K. GARRIGUES. Mr. Garrigues is 42 years of age. He is Vice President and Trust Officer of the Delaware Trust Co., which is completely controlled by William duPont, whose personal fortune is one of the largest in that family. He is in effect Mr. duPont's financial adviser. He is not particularly active in civic affairs but belongs to everything and is extremely well known in New Castle County, and in Philadelphia. He is a Republican.

CHARLES HIGGINS. Mr. Higgins is 44 years of age. He is Vice President of the Hercules Powder Co. (industrial explosives) which is independent of the duPont Co. He is not particularly conspicuous in the affairs of Wilmington but is very influential, and well regarded by all with whom I have talked. He is a Republican.

C. LELAND HARMONSON. Mr. Harmonson is 43 years of age and is from Smyrna, which is in Kent County, the Democratic county of the state. It seems to us that this is the general locality from which to pick a Democrat, if practicable. He is a Director of the Kent County Building and Loan Association and by profession a lawyer. His practice is, however, pretty much limited to matters pertaining to the incorporation of enterprises under the laws of Delaware and to local work for

fiduciaries. The Delaware Bar thinks very highly indeed of him. There are one or two men of perhaps greater prestige in Kent County, but each seems to have some political or other connection which makes them less desirable.

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HARRY L. CANNON. Mr. Cannon is from Bridgeville, Sussex County. He is 56 years of age and President of H. B. Cannon & Sons, Inc, canners of farm products. He is a Director of the Federal Reserve Bank of Philadelphia, a member of the State Board of Agriculture, and Trustee of the University of Delaware and of Dickinson College. He is perhaps as prominent as any man in Sussex County. He is a Republican.

My opinion is that we should seek to fill the vacancies from this list and not consider alternates at the moment. I would rather fill in temporarily with an officer of the company than with any alternate who has so far been presented.

Again, there is no political complication in anyone on this list, as I size things up. While we naturally wish to avoid bankers, in the professional sense, I think that those listed are all eligible for the reasons I have stated, even Mr. Thomas, whose position otherwise is so strong in Wilmington, and whose future seems to be so great, that I think we should try to get him. Although Mr. Harmonson is of the legal profession, the nature of his work is such that I do not think him to be disqualified.

I assume you will call me on this at your convenience.

Very truly yours,

(Signed) P. C. Staples

Source: Binder entitled "Northwestern Bell Telephone Co., General," from C. P. Cooper's files.

Sheet 18

71118

NORTHWESTERN BELL TELEPHONE COMPANY
BELL SYSTEM

C O P Y

H15.
A. A. Lowman,
President

Telephone Atlantic 6000

(in pencil) File
Told Lowman looks ok
to me CPC 1/27

Omaha, Nebraska
January 24, 1936.

Mr. C. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:-

This is to submit for your review and comment a tentative program for the Stockholders' Meeting and the regular Directors' Meeting to be held on March 12, 1936.

I think the present fourteen members of the Board, shown on the attached list, should be re-elected and that we should add Mr. E. H. Mulock of Des Moines, Secretary and Treasurer of Hopkins & Mulock Inc. (general insurance agency), Director of the Central Life Assurance Company, Director of the Iowa-Des Moines National Bank and Trust Company, providing he accepts our invitation. You have already concurred in this.

We also regard it as desirable to elect Frank Bracelin, General Manager of the Northwestern Company in Minnesota and Vice President of the Tri-State Company, a member of the Board as well as change his present title of General Manager to Vice President and General Manager. Mr. Gherardi concurred in this change of title when I discussed the matter with him in the latter part of November.

There is still to be selected a second St. Paul business man as a Director and we have in mind Mr. Milton W. Griggs, President of Griggs Cooper & Company, or Mr. Walter G. Seeger, Vice President of the Seeger Refrigerator Company. In your letter of January 12, 1934 to Mr. Belt you concurred in the selection of either of these men providing their other business connections were not such as to be embarrassing to our Company. We think either of them would be very desirable members of our Board. If you concur in this tentative program, I expect, if I have the opportunity before the March meeting, to consult further with Mr. James F. Bell before extending the invitation to either of these St. Paul men.

Our present By-Laws provide five members of the Executive Committee, and the Board fixed the quorum at three. You will note the present members are indicated on the attached memorandum. We believe Mr. Belt should remain on the Executive Committee and that Mr. Conger should be added and this will necessitate changing the By-Laws providing for six members, and the Board again fixing the quorum at three.

Yours very truly,

A. A. Lowman (in ink)

President.

January 24, 1936.

C O P Y

DIRECTORS OF NORTHWESTERN BELL TELEPHONE COMPANY

(This list shows in part other business connections for the Directors other than those who are Officers of the Telephone Company)

- HIS
- * Mr. W. B. T. Belt of Omaha, Nebraska, is Chairman of the Board of the United States National Bank of Omaha and a Director of the National Security Fire Insurance Company of Omaha.
 - Mr. Clyde E. Brenton of Des Moines, Iowa, is Chairman of the Board of the Iowa-Des Moines National Bank and Trust Company of Des Moines, President of the Jefferson State Bank of Jefferson, Iowa, and President of the Poweshiek County National Bank of Grinnell, Iowa.
 - Mr. H. G. Conger of Omaha, Nebraska.
 - Mr. W. J. Dean of St. Paul, Minnesota, is President and a Director of Nicols, Dean & Gregg of St. Paul, a Director of the St. Paul Fire & Marine Insurance Company of St. Paul, and a Director of the First National Bank of St. Paul.
 - Mr. Karl DeLaittre of Minneapolis, Minnesota, is President and a Director of Bovey-DeLaittre Lumber Company, and Trustee of the Farmers & Mechanics Savings Bank, a Director of the Minneapolis Brewing Company, all of Minneapolis, also a Director of the Western Grocer Company of Marshalltown, Iowa.
 - Mr. C. O. Follett of Fargo, North Dakota, is President and a Director of Smith, Follett & Crowl, a Director and Treasurer of the Fargo Food Products Company, and a Director of the First National Bank & Trust Company, all of Fargo.
 - * Mr. W. D. Hosford of Omaha, Nebraska, is Vice-President and General Manager and a Director of the John Deere Plow Company of Moline, Illinois, a Director of the Federal Reserve Bank of Kansas City, Missouri, a Director of the Union Stock Yards Company of Omaha, Nebraska, and President of the McShane Lumber Company of Omaha, Nebraska.
 - Mr. H. C. Jewett, Sr. of Aberdeen, South Dakota, is President and a Director of Jewett Brothers, Inc. of Aberdeen and President and a Director of the Aberdeen National Bank.
 - Mr. B. F. Kauffman of Des Moines, Iowa, is President and a Director of the Bankers Trust Company of Des Moines and a Director of the Equitable Life Insurance Company of Iowa, Des Moines, Iowa.
 - * Mr. A. A. Lowman of Omaha, Nebraska.
 - Mr. Sumner T. McKnight of Minneapolis, Minnesota, is President and a Director of the S. T. McKnight Company of Minneapolis, a Director

of the First National Bank & Trust Company of Minneapolis, a Director of the Northwestern States Portland Cement Company of Mason City, Iowa, and a Director of the Minneapolis-Moline Power Implement Company of Minneapolis.

- * Mr. F. E. Randall of Omaha, Nebraska.
- * Mr. A. H. Richardson of Omaha, Nebraska, is President and a Director of the Standard Oil Company of Nebraska and a Director of the Omaha Loan and Building Association, both of Omaha.
- Mr. B. C. Way of Mason City, Iowa, is President of the Clear Lake Independent Telephone Company of Clear Lake, Iowa.

- * Designates the present members of the Executive Committee of the Northwestern Bell Telephone Company.

LSH

Source: Binder entitled "Northwestern Bell Telephone Co., General," from G. P. Cooper's Files.

Sheet 21

C O P Y

NORTHWESTERN BELL TELEPHONE COMPANY
BELL SYSTEM

H
A. A. Lowman,
President

Telephone Atlantic 6000

Omaha, Nebraska
March 13, 1936.

Mr. G. P. Cooper, Vice President,
American Telephone and Telegraph Company,
195 Broadway, New York City.

Dear Mr. Cooper:-

This is to advise that yesterday at our Annual Meeting we elected E. H. Mulock of Des Moines, W. L. McKnight of St. Paul and Frank Bracelin of Minneapolis as Directors. Frank Bracelin's election is subject to his acceptance upon qualifying by obtaining the approval of the Federal Communications Commission for the interlocking arrangement. Mr. Bracelin was also elected a Vice President under the same condition.

Mr. W. L. McKnight's election is a deviation from the tentative program covered in my letter of January 24th. Following our telephone conversation of October 25th regarding Mr. Belt's letter proposing Mr. McKnight and after reviewing the St. Paul situation with Mr. J. F. Bell, Mr. Belt and I invited Mr. McKnight to join our Board, and at that time he indicated that he would like to do so but felt that by reason of other activities it was unwise to do so then; but, subsequent to my letter to you of January 24th and, I think, influenced by Mr. Dean's interest in the matter he indicated his desire to accept.

We think that Messrs. Dean and McKnight are the two outstandingly desirable St. Paul men for membership on our Board.

Yours very truly,

(in ink)

A. A. Lowman