

Subsequently, on February 20, 1905, Fish made the refusal definite, in a letter to J.  
425

P. Morgan and Company, saying:

R  
Our Executive Committee has given careful consideration to the proposition which you and your associates made to us a week ago last Saturday for the purchase from our Company of certain securities to be issued by it.

The committee has decided that at the present time it is not expedient for the Company to enter into such a comprehensive scheme of financing as that suggested, on the lines proposed.

That Baker was one of Morgan's "associates," mentioned in this letter is indicated by Fish's letter to Baker, the same day, in which he said:  
426

After most careful consideration our Executive Committee has determined that we can not take up at present negotiations on the lines suggested by Messrs. J. P. Morgan & Company and Messrs. Kidder, Peabody & Company at our recent interview. There are practical and legal difficulties in the way which seem to us, for a time at least, to be controlling.

I enclose a copy of a memorandum that we are submitting to a number of banking houses which have intimated a desire to consider any issue of securities that we might make about this time.

Fish also felt called upon to communicate this decision directly to Waterbury, who, as has been shown, was the liaison agent for Fish and the Baker-Morgan group. Fish wrote Waterbury the same day saying:  
427

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

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

We are submitting to a number of banking houses which have expressed and interest in our securities a memorandum copy of which I enclose.

Thus it appears that the Baker-Morgan plan apparently had been broached in the presence

- 
425. Ibid., letter, F. P. Fish to J. P. Morgan & Co., dated February 20, 1905.  
426. Ibid., letter, F. P. Fish to George F. Baker, dated February 20, 1905.  
427. Ibid., letter, F. P. Fish to John I. Waterbury, dated February 20, 1905.

← Kidder Pea.  
↓

of Waterbury and Baker and representatives of J. P. Morgan and Company and Kidder, Peabody and Company.

At this critical juncture Fish suddenly decided to call a special meeting of the directorate, and telegraphed George Bradley and other directors, saying:

It is of very great importance that you should attend a special meeting of the Directors in Boston on Saturday of this week, as without you we should probably not get a quorum. Will you come?

But on the same day, Fish arranged urgent consultations with other persons. In a telegram written that day to Coolidge, Fish said:

Can I see you at breakfast or early Thursday morning in New York?

To Baker he telegraphed:

Shall hope to see you and Mr. Waterbury in New York Thursday morning.

And to Waterbury:

Shall hope to see you and Mr. Baker in New York Thursday morning.

At this point in the negotiations (February 24, 1905) occurred the request by Coolidge for a list of Bell stockholders holding 100 shares or more, to which Mackay referred in his letter to Coolidge, the significance of which will be shown later.

The special meeting for that Saturday was postponed as the result of an "understanding" as indicated by Fish in a letter to several directors, including Coolidge, saying:

The meeting of the Directors of the American Telephone and Telegraph Company called for tomorrow, Saturday, at twelve o'clock, will be held, but

- 
428. Ibid., telegram, F. P. Fish to Geo. L. Bradley, dated February 21, 1905.  
429. Ibid., telegram, F. P. Fish to T. J. Coolidge, Jr., dated February 21, 1905.  
430. Ibid., telegram, F. P. Fish to George F. Baker, dated February 21, 1905.  
431. Ibid., telegram, F. P. Fish to John I. Waterbury, dated February 24, 1905.  
432. See p. 83.  
433. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to T. J. Coolidge, Jr., dated February 24, 1905.

Coolidge  
shall in



no quorum is expected at that time. The meeting will be adjourned until Monday, February 27, at twelve o'clock noon, at which hour it will be held.

This is in accordance with the understanding with you. Please be present on Monday next at twelve o'clock noon.

The meeting apparently was definitely to be held that Monday, and Fish, after his previous conferences with Baker, Coolidge, Vail and Waterbury, wanted Waterbury to be sure to be present, as was indicated in his letter to the latter, saying:

Directors' meeting will be held twelve o'clock Monday. I rely upon your being present.

Purchase of Non-Convertible Bonds by Baker-Morgan Group. The Baker-Morgan group had been outbid in 1904 by the Higginson-Speyer firms. In 1905 their ambitious plan of financing appeared to the Bell counsel so audacious that it was rejected, and the financing again was to be open to competitive bidding. That the Baker-Morgan group was determined not to let another lot of securities fall to others was indicated by their bid, in relation to those of others, for the 1905 offer, consisting of \$25,000,000 collateral 4's due in 1929. The bids were as follows:

1. Kidder, Peabody and Baring Bros. (of London)	94.190
2. Seligman	92.510
3. Lee, Higginson and Speyer	91.390
4. Pickering & Moseley	91.000
5. Gay	(For \$100,000 only) 90.130
	(For \$100,000 only) 90.410
6. Doucette	(For \$25,000 only) 89.000
	(For \$25,000 only) 89.500
7. Poor	87.777

434. Ibid., letter, F. P. Fish to John I. Waterbury, dated February 24, 1905.

435. Cf. Ibid., letter, F. P. Fish to Messrs. Kidder, Peabody & Company, dated March 1, 1905; American Telephone and Telegraph Company, President's Letter File No. 17614, letter, J. & W. Seligman & Co. to Frederick P. Fish, dated March 1, 1905; letter, Lee, Higginson & Company to Frederick P. Fish, dated March 1, 1905; letter, John Pickering & Moseley to the American Tel. Co., dated March 1, 1905; letter, W. O. Gay & Company to Frederick P. Fish, dated March 1, 1905; letter, J. E. Doucette & Co. to The Executive Committee, Amer. Tel. & Tel. Co., dated March 1, 1905; letter, H. W. Poor & Co. to Frederick P. Fish, dated March 1, 1905.

On Wednesday, March 1, 1905, Fish wired Crane, <sup>436</sup> to call him by telephone at twelve o'clock. That day the outcome of the bidding was announced by Fish to the Higginson firm in a letter stating: <sup>437</sup>

The bonds to the amount of \$25,000,000 offered for sale today have been awarded to Messrs. Kidder, Peabody & Company and Baring Bros. & Company.

We thank you and Messrs. Speyer & Company for the interest you have taken in this matter and regret that your bid was not such as to enable us to make the sale to you and Messrs. Speyer & Company.

Mackay Companies Abandoned by Baker-Morgan Group. This letter was dated March 1, 1905, just six days after Coolidge had asked for a list of Bell stockholders, <sup>438</sup> to which Mackay referred in a letter to Coolidge, saying, in part:

Finally, the fact that several weeks ago, you agreed to obtain for me a list of the shareholders in the American Telephone and Telegraph Company holding 100 shares or more, shows that we all had expected to acquire Bell stock, and in further proof, you will remember when we were all present, Mr. Waterbury told us that he had had a talk with Mr. Baker with a view to acquiring Mr. Baker's Bell stock.

It will be recalled that The Mackay Companies had been asked to underwrite \$37,500,000 in a "syndicate which was to acquire stocks and bonds in financing the Telephone Company" to the amount of \$150,000,000. As has been shown, Mackay refused this plan, and the Baker-Morgan group, through Kidder, Peabody and the Barings of London, failing to get Bell's acceptance of their ambitious convertible bond plan, did buy \$25,000,000 of Telephone bonds on March 1, 1905. It was later in this same month that Coolidge had written to Mackay, in discussing their plans to gain control of the Bell company, saying: <sup>439</sup>

The first step in financing has since been carried out successfully and without the Mackay Companies participating in it.

- 
436. American Telephone and Telegraph Company, President's Private Letter Book No. IV, telegram, F. P. Fish to W. Murray Crane, dated March 1, 1905.  
437. Ibid., letter, F. P. Fish to Messrs. Lee, Higginson & Co., Boston, dated March 1, 1905.  
438. See footnote 323.  
439. See footnote 322.

Coolidge

These circumstances reveal clearly, in the words of Coolidge himself, that the financing of the Bell system by the Baker-Morgan group, beginning in 1905, was a definite part of the larger plan to obtain control of the Bell company.

Thereafter, the Baker-Morgan group apparently abandoned the Mackay Companies as a part of its plan to gain control of the telephone-telegraph field and, as will appear later, eventually took over Gould's Western Union in 1909 when Gould had been cornered by the financial difficulties following the 1907 panic.

Reversal of Bell Opinion on Baker-Morgan Convertible Bond Proposal.

The first relevant move after this financing, on March 1, 1905, was a plan to make possible the concentration of managerial control of the Bell Company in the hands of six persons.

On March 20, 1905, Fish wrote the directors identical letters, saying, in  
440  
part:

It is desirable that the by-laws of the Company should be amended in some particulars, and in the notice of the annual meeting the amendment of the by-laws has been referred to as a question to be brought before the stockholders at that meeting.

Most of the changes proposed are simply matters of phraseology, to adapt the by-laws to the language of the statutes of New York, or for clearness. There are, however, four changes of substance that are suggested:

1. Under the authority of a statute passed last May, it is proposed to make the number of Directors required to constitute a quorum one-third of the whole number, instead of a majority as heretofore. This change will give a much needed relief in the transaction of the business of the Company, as at times it has been difficult to secure the presence of a majority of the full Board.

2. It is proposed to amend the by-law in regard to the powers of the Executive Committee, so that this committee will have, except as otherwise provided by law, the powers of the Board of Directors during the interval between the meetings of the Board. This is important as quick action of a binding character is sometimes necessary.

---

440. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letters, F. P. Fish to Theodore N. Vail, John I. Waterbury, George L. Bradley, W. Murray Crane, George F. Baker, Charles Eustis Hubbard, Thomas Sanders, Moses Williams, W. L. Putnam, T. Jefferson Coolidge, Jr., Henry S. Howe, and Charles W. Amory, each dated March 20, 1905.

The proposed changes subsequently were adopted.<sup>441</sup> At that time there were  
 eighteen directors, of whom five served on the Executive Committee.<sup>442</sup> Thus the Ex-  
 ecutive Committee and one additional Director could exercise the full power of the en-  
 tire Directorate. The Executive Committee consisted of Amory, Cochrane, Crane, Fish  
 and Howe,<sup>443</sup> while among the full directorate were included Baker, Waterbury, Coolidge  
 and Vail, all of whom had been elected after the Baker-Morgan purchase of 50,000 shares  
 of stock, in March, 1902.<sup>444</sup>

Fish and Waterbury also were concerning themselves with the problem of edu-  
 cating public opinion, for this was in the midst of Theodore Roosevelt's "Trust Bust"  
 era to which previous reference has been made.<sup>445</sup> On April 1, 1905, Fish wrote Water-  
 bury, saing in part:<sup>446</sup>

I find that people all over the United States are coming around to the  
 position that something must be done to meet intelligently and effectively  
 this wave of public sentiment against property, and particularly corporate  
 property. I firmly believe that in a comparatively short time there will be  
 a large number of movements in the direction of educating the public; most  
 of them perhaps based upon an earnest desire to do what is right in the mat-  
 ter, but some of them founded upon unreasonable propositions, and others of  
 them merely plans by which some particular individual will hope to get money.

Upon further reflection, I am still firmly of the opinion that if we can  
 start such an informal committee as we discussed the other evening we can  
 take hold of and shape all these movements. Of course, as we talked it, that  
 committee would be in the background; but it might have to the front any num-  
 ber of definite organizations, if it seemed desirable to work in that among  
 other directions.

Subsequently the company contributed \$5,000<sup>447</sup> to this fund and obtained similar

- 
- 441. Ibid., letter, F. P. Fish to George L. Bradley, dated March 27, 1905.
  - 442. Cf. American Telephone and Telegraph Company, Office of the Secretary, list of American Telephone and Telegraph Company Directors and Executive Committee Members, dated November 1, 1934.
  - 443. Idem.
  - 444. Idem.
  - 445. See footnote 28.
  - 446. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to John I. Waterbury, dated April 1, 1905.
  - 447. The voucher described the expenditure as: "Contribution towards a fund for use in the investigation and discussion of the relations of public service corporations with the Government, National, State and municipal." (American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to Wm. R. Driver, dated June 20, 1905, and letter, F. P. Fish to Gordon Abbott, dated June 14, 1905).

public  
 education  
 campaign

contributions from President C. L. Edgar for the Edison Electric Illuminating Company of Boston, President Lucius Tuttle for the Boston and Maine Railroad Company, the Boston Consolidated Gas Company, Mr. Goodspeed of the Massachusetts Electric Company, and the "Elevated Company".

Financial discussions again were resumed on Saturday, June 10, 1905, when a Sunday conference between Waterbury and Fish was revealed after its postponement became necessary, as indicated in Fish's telegram and letter to Waterbury on Saturday, saying:

I was very sorry to be obliged to telegraph you today as follows:

"Regret to say I must be in Boston tomorrow. Will see you early Monday morning at your office in New York."

One of my important Western men has come on today and I must spend tomorrow with him. I will be at your office in New York early Monday morning.

On Tuesday of the week following this conference Waterbury resigned from The Mackay Companies, and on Wednesday he sailed for Europe.

On May 13, 1905, Fish also had arranged a conference on a "matter of great importance" with Coolidge, in a letter to him, saying:

Will you do me the great favor of sending for Mr. Leverett, asking him to submit to you a matter of great importance to the telephone company that is now under consideration.

Before the conference was held, Fish concluded to see Coolidge personally, as indicated

- 
- 448. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to Robert Winsor, dated June 14, 1905; letter, F. P. Fish to C. L. Edgar, President, Edison Electric Ill. Co., dated June 5, 1905; letter, F. P. Fish to Lucius Tuttle, President, B. & M. R. R. Co., dated June 14, 1905; letters, F.P.Fish to Gordon Abbott, dated June 14, 1905 and August 7, 1905.
  - 449. American Telephone and Telegraph Company, President's Letter Book No. 39, letter, F. P. Fish to John I. Waterbury, dated June 10, 1905.
  - 450. See letter, John I. Waterbury to Clarence H. Mackay, dated June 20, 1905 (previously cited in footnote 326).
  - 451. Idem.
  - 452. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated May 13, 1905.

453

in a wire to him dated May 15, 1905, saying:

R  
Have concluded that it is better for me to take up with you matter about which I wrote you rather than Mr. Leverett. Shall try to see you next Monday.

454

To this wire Coolidge replied:

I received your wire just in time. I shall be glad to see you next Monday.

Subsequently, Waterbury resigned from The Mackay Companies on June 20, 1905, just before his departure for Europe. Within two weeks Coolidge also resigned from The Mackay Companies (on July 3, 1905),<sup>455</sup> and sailed for Europe a week later.<sup>456</sup>

Fish likewise made preparations to go abroad, as indicated in a letter to Mr. Arthur G. Fuller, % Hardy and Page, London, England, in which Fish said:<sup>457</sup>

I thank you for your letter of August 1 and wish that I might see you while abroad but my plans are absolutely uncertain and I do not know where I shall be at any particular time. I sail from New York on the 26th of August and return from Liverpool on the 26th of September. It may be that I shall have an opportunity to communicate with you while abroad and arrange to see you.

Shortly before he sailed, Fish was discussing the financing plans with Winsor of Kidder Peabody. This company, it will be recalled, was one of those represented at the conference of Baker-Morgan representatives with Fish at the time the original Baker-Morgan plan for convertible bonds had been proposed to the Bell Company and refused.<sup>458</sup>

- 
453. American Telephone and Telegraph Company, President's Letter Book No. 39, telegram, F. P. Fish to T. Jefferson Coolidge, Jr., dated May 15, 1905.
454. American Telephone and Telegraph Company, President's Letter File No. 15597, letter, T. Jefferson Coolidge, Jr., to F. P. Fish, dated May 15, 1905.
455. See personal correspondence file of Clarence H. Mackay, letter, T. Jefferson Coolidge, Jr., to Clarence H. Mackay, dated July 3, 1905 (facsimile transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, to C. L. Terrel, Engineer of the Federal Communications Commission, by letter dated April 16, 1937, filed in Federal Communications Commission, Engineering Binder No. 201).
456. Idem.
457. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to Arthur G. Fuller, dated August 9, 1905.
458. See footnote 384.

Coolidge  
resigns  
fr Mackay



in February, 1905. It was the firm which subsequently (March 1, 1905) joined with Bar-  
ing Brothers of London, England, in purchasing \$25,000,000 of Bell's bonds, <sup>459</sup> after  
Mackay had refused the Coolidge-Waterbury plan to participate in a syndicate to purchase  
\$150,000,000 of Bell securities. <sup>460</sup> Winsor, of Kidder Peabody, apparently discussed  
the subject at the "Exchange Club," as in indicated by Fish's letter to him, in which  
<sup>461</sup>  
he said:

In view of my understanding with my Executive Committee that the entire financial question should go over until fall, I am not sure that I am at liberty to go so far into the facts and figures with you as you would like, as per your suggestion at the Exchange Club today. At any rate, I shall have to bring the question before my Committee.

You will remember that I said, after my return from California, that I saw no reason why you and I should not talk over your general plan or thought on the subject (provided we could do so without prejudice or any danger of incurring the slightest obligation) for such preliminary consideration would make the work in the fall, if we take it up, more easy. Dealing with "facts and figures" as you suggest would go far towards instituting negotiations and a possible approach to a committal. This, of course, must be avoided.

If you feel that you cannot tell me the general nature of your plan, without going into the figures, it seems to me most probable that everything will have to go over until fall, as I doubt if my Committee would support me in taking action now, which might be inconsistent with our conclusion to do nothing at present. I should have said all this to you this noon but my mind did not work quickly enough.

A week later (August 22, 1905) Fish arranged another interview with Winsor, in a letter  
<sup>462</sup>  
to him stating:

I should be glad to have you come to the office tomorrow, if convenient. I have a great many things to do tomorrow and suggest that you telephone before you come.

President Fish's Trip to Europe in 1905. Fish sailed for Europe August 26,

---

459. See pp. 129 and 130.

460. See pp. 80 to 84.

461. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to Robert Winsor, dated August 14, 1905.

462. American Telephone and Telegraph Company, President's Letter Book No. 40, letter, F. P. Fish to Robert Winsor, dated August 22, 1905.

1905, returning on October 5, 1905. <sup>463</sup> This trip abroad marks an abrupt and unexplained change in Fish's previous reluctance to accept the Baker-Morgan proposal to finance Bell with convertible bonds in a plan against which the Bell legal counsel, that <sup>464</sup> spring, had warned Fish, saying:

To our minds there is another risk in the proposed plan which should be had in mind. If a bankers syndicate should be formed, under the proposed plan, who should pool their bonds or place them in trust, the trust so formed, by exercising the option given for the conversion of bonds, would have the power to acquire so near an absolute controlling interest in this company as practically to control the whole assets of the company, which they could use for any schemes of financing that they saw fit. In short, having nearly one-half of the entire issued capital stock of the company, they could consolidate this company with other companies, or make any other arrangement in regard to its future financing that they saw fit. This is a great and extremely valuable option and is equivalent, until the bonds are distributed or sold to the public, to a surrender of the powers of management by the present officers and stockholders to a body of bankers who may work to the disadvantage of the present stockholders in the promotion of other schemes of consolidation.

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

As will appear subsequently, such a convertible bond issue subsequently was offered to the Baker-Morgan group without competitive bids, and was not distributed to the public by that group until after the Bell Company had been reorganized by a committee first suggested by Waterbury, consisting of himself, Baker, Coolidge, Crane, and Vail. <sup>465</sup>

Immediately upon his return from abroad, Fish's attention was directed to an estimate of the Bell Company's legal powers and practical abilities to engage in the telegraph business as well as the telephone business, as is indicated in a letter from their legal counsel, Leverett, to Fish, dated October 5, 1905, in which was stated, in <sup>466</sup> part:

- 
- 463. Cf. American Telephone and Telegraph Company, President's Letter Book No. 40, letter, F. P. Fish to Clarence H. Mackay, dated August 17, 1905. See also, President's Private Letter Book No. V, letter, F. P. Fish to H. J. Gonden, dated October 5, 1905, and letters, F. P. Fish to Fred DeLand, dated August 23, 1905, and October 5, 1905, respectively.
  - 464. See pp. 124 to 126, and footnote No. 423.
  - 465. See p. 163 and footnote No. 551.
  - 466. American Telephone and Telegraph Company, Boston File, "Hall and French" papers, Folder No. 157, letter, Geo. V. Leverett to Frederick P. Fish, dated October 5, 1905, entitled "Leased Wire and General Telegraph Business of Licensees; Mr. Leverett's Opinion, October 5, 1905."

Coolidge present



R

You desire me to state what, in my opinion, are the powers of our Licensees to carry on

I. A leased wire business, and

II. A general telegraph business

\*\*\* \* \* \* \*

As stated above the standard forms of contracts were adopted after the execution of the contract of November 10, 1879 and were drafted with a view to enforce the obligations which The American Bell Telephone Company had assumed in that contract in regard to the use of telephones for business in competition with the business of the Western Union Telegraph Company and its allied companies.

\*\*\* \* \* \* \*

There is nothing whatever in the contracts prohibiting in direct terms the Licensee from doing either a general telegraph business or a leased wire business.

\*\*\* \* \* \* \*

It is to be noted, however, in this connection, that these contracts were designed to discharge the obligations under the Western Union contract of November 10, 1879, and received the approval of the counsel of that Company. The Western Union Company now claims that the contract of November 10, 1879 is broad enough to prohibit the American Bell Telephone Company from using Morse instruments upon extra-territorial connecting lines and has brought suit to enjoin such use. But while this suit was brought in 1890 it has never been pressed and the contract of November 10, 1879 was allowed to expire while the suit was pending in court. I do not think the Western Union can maintain its contention, and it is doubtful if the suit will ever be revived, but if it should, it would only be upon a question of damages as the right to an injunction has now expired.

Four days later Fish showed his tendency to checkmate the Postal Telegraph in favor of Western Union (of which Clowry was President) in a letter to one of his operating company presidents, Yost, in which he said:

It is undoubtedly Clowry's intention to retaliate if favors are shown the Postal, and I am inclined to believe that Wallace will lose money because he helped the Postal out in his territory.

I doubt if you should do what the Postal asks, and if I were in your place I should tell the Postal frankly exactly what your reason is for not complying with their request.

That day, also, Fish resumed his conferences with Coolidge, as shown by his letter to the latter, stating:

- 
467. American Telephone and Telegraph Company, President's Letter Book No. 40, letter, F. P. Fish to C. E. Yost, dated October 9, 1905.  
468. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated October 9, 1905.

I am glad to hear from you and it will give me pleasure to see you at any time today. I will call on you if you prefer.

Acceptance of Baker-Morgan Convertible Bond Plan. After Fish's return from Europe, the Company's correspondence shows no further discussion of the advisability of accepting the Baker-Morgan convertible bond plan, which had been so summarily rejected that spring. However, there apparently was knowledge that some plans for financing were under way, for H. W. Poor and Company, one of the unsuccessful bidders for the Company's bonds that spring, wrote Fish on October 19, 1905, saying:

If you are contemplating putting out any new issues of bonds of the American Tel. & Tel. Company or the Western Tel. & Tel. Co. in the near future, I hope you will not forget us.

The first indication in the Company's correspondence of Fish's attitude on the convertible bond issue after his return from Europe, occurred about two weeks later (November 1, 1905) when the Bell legal counsel received an opinion on the steps necessary to authorize the convertible bond issue, as shown in a letter from John C. Gray, of the firm of Ropes, Gray and Gorham, to Leverett, in which was stated, in part:

On behalf of the American Telephone & Telegraph Company, you have asked my opinion on two questions:

I. What vote must be passed by the Stockholders of the Company in order to authorize an issue of convertible bonds by the Directors?  
\* \* \* \* \*

II. What vote must be passed by the Stockholders of the Company to authorize an issue of preferred stock by the Directors?

Six days later, the plans apparently had progressed to the point where Fish wished the advice of Waterbury and Baker on the method of informing the stockholders of the convertible bond issue, as shown by a letter from Fish to Waterbury, dated November 7, 1905, in which he said:

- 
469. American Telephone and Telegraph Company, President's Letter File No. 15827, letter, H. W. Poor & Company to F. P. Fish, dated October 19, 1905.  
470. American Telephone and Telegraph Company, President's Letter File No. 15851, letter, Ropes, Gray & Gorham to George V. Leverett, dated November 1, 1905.  
471. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to John I. Waterbury, dated November 7, 1905.

*His correspond  
does not show  
why Fish  
had abruptly  
turn around  
re convertible  
bond issue*

By Monday of next week I shall have the final word from the lawyers as to our financial plan. On that day I hope to call on you in New York. Meanwhile, will you look over the enclosed, which is my first suggestion for the form of circular to the stockholders.

Please also consider whether it is wise to ask for the right to issue preferred stock at the same time that we ask for the right to issue convertible bonds.

I go west this afternoon and shall be at the Auditorium Annex Thursday, Friday and Saturday of this week.

Perhaps you will talk with Mr. Baker.

Two days later a circular had been prepared to send to the stockholders, asking them to give their proxies to vote the requisite power to issue convertible bonds. The circular read, in part:

472

In view of the necessity of securing further capital for the constantly increasing business of the Company on as favorable terms as possible, it is clear that the Company should not be limited in its financing to the forms of security which it has heretofore issued. After careful consideration, your Directors have come to the definite conclusion that the interests of the stockholders and of the Company would be promoted if the Company were in a position to negotiate for the issue and sale of bonds convertible into the stock of the Company on some proper basis. In accordance with the laws of the State of New York, under which your Company is organized, such bonds may be issued if authorized by the stockholders. It is the opinion of your Directors that if, in addition to the right to procure capital by the further issue of stock and of four per cent collateral bonds, the Directors should be authorized to negotiate for the issue and sale of convertible bonds, the money necessary for the development of the business could be obtained more advantageously than if the Company were confined to the forms of financing to which it has heretofore been restricted.

\*\*\*

\*\*\*

\*\*\*

Enclosed herewith is a notice calling a special meeting of the stockholders for Thursday, the twenty-first day of December, 1905, at which a vote will be presented, giving to the Directors authority to issue from time to time convertible bonds of such a character and on such terms as may seem to them most advantageous to the Company, to an aggregate amount which will be adequate for financial needs of the Company for several years.

\*\*\*

\*\*\*

\*\*\*

Enclosed herewith will be found a form of proxy running to .....  
.....  
.....  
which, if executed and forwarded to William R. Driver, Treasurer, 125 Milk Street, Boston, Massachusetts, will, at the meeting, be exercised in favor of the plan indicated in the form of vote above set forth.

---

472. American Telephone and Telegraph Company, President's Letter File No. 15887, Circular from American Telephone and Telegraph Company to its stockholders, dated November 9, 1905.

The approved form was delivered to Fish by Leverett on November 11, 1905,<sup>473</sup> and four  
474  
days later Fish wrote Coolidge for a conference; saying:

R  
I should like very much to see you for half an hour at some convenient time. Much as I dislike to add to your burdens, some of our matters are so important that I desire to discuss them with you.

Financial data apparently had been submitted to Kidder, Peabody, as indicated in their  
475  
letter to Fish dated November 15, 1905, saying:

I return herewith the documents which you gave me yesterday afternoon. Both Mr. Winsor and I have read them, although I think that perhaps Winsor has not studied the figures as closely as I wish he might have done. It certainly is a most satisfactory showing.

The next day Fish asked Baker and Waterbury for an interview, in a letter to the latter,  
476  
stating:

Would it be possible for you and Mr. Baker to give me an hour on Monday to talk over the matter about which we had an interview last Monday? If so, I will come over to New York and keep any appointment you may make.

I am very anxious indeed to make progress, and should regard it as a great favor if you and Mr. Baker could see me on Monday rather than at any later date.

Waterbury and Baker (neither of whom was a member of the Executive Committee) then advised Fish in detail on the way to present the convertible bond plan to the stockholders, as was indicated in a letter from Waterbury to Fish, dated November 21,  
477  
1905, saying, in part:

If you will pardon a running comment which occurs to Mr. Baker and myself after reading over the proposed circular to the stockholders, you will,

- 
473. American Telephone and Telegraph Company, President's Letter File No. 15881, letter, George V. Leverett to F. P. Fish, dated November 11, 1905.  
474. American Telephone and Telegraph Company, President's Private Letter Book No. 5, letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated November 15, 1905.  
475. American Telephone and Telegraph Company, President's Letter File No. 15883, letter, Kidder, Peabody & Co. to F. P. Fish, dated November 15, 1905.  
476. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to John I. Waterbury, dated November 16, 1905.  
477. American Telephone and Telegraph Company, President's Letter File No. 15941, letter, John I. Waterbury to F. P. Fish, dated November 21, 1905.

I think, have a better notion as to how we are impressed in our efforts to judge of the draft from the point of view of the stockholder, who, after all, is the person we desire to reach.

R The statement as to the business and operations of the Company might, we think, be followed by the further statement that the companies are gaining in those portions of the country in which they have continuously prospered, etc. etc., omitting any reference to conditions which are generally known to exist.

This followed by a description of the company's investments and advances, and by the statement that in order to meet the continual increasing demands for a comprehensive and national service such as only this company can give, requires constant development of facilities and further outlay.

A statement of the present amount of the issued capital upon which dividends are paid, and a short table which will show at a glance the outstanding bonds and debenture notes of all kinds, including The American Bell Telephone Company's bonds. The increased requirements of the company have heretofore been met by issues of stock or of debentures, or by the issue of debenture notes.

The development of the company has now reached a stage when the Directors believe that the interests of the stockholders will be best conserved by authorizing another form of security that will enable the company to negotiate advantageously for additional moneys that are required to meet the enormously increasing business of the company, so that it may be prepared to meet market conditions as they occur, and provide for financing the Company for an extended period should it be found practicable to do so.

The Directors believe that in addition to the right to secure money by the further issue of stock and of its four per cent. collateral bonds, they should be authorized to negotiate for the issue and sale of convertible bonds as the money for the necessary development of the business could probably be obtained at a better rate than if the Company was confined to the forms of financing to which it has heretofore been limited.

While the present financial condition of the Company is sufficient for all its purposes until well into 1906, the Directors nevertheless are of the opinion that action should be taken upon the recommendation in order that the stockholders may derive every advantage in securing money for the future purposes of the Company.

Waterbury gave Fish additional "suggestions" which he and Baker had "concluded" upon, in  
478  
a letter to Fish dated November 23, 1905, stating:

I have gone over the proposed circular with Mr. Baker, and have taken the liberty of noting on the copy the suggestions which occur to us.

---

478. American Telephone and Telegraph Company, President's Letter File No. 15932, letter, John I. Waterbury to F. P. Fish, dated November 23, 1905.

The slip attached is submitted as an alternative, statement of stock and bonds.

We also concluded that the lines pencilled on page 3 might be omitted with the effect of strengthening the circular.

I wish to add that Mr. Mitchell and Mr. Insull, of Chicago are to be in town next week, Monday, and that I shall try to get our people together that day. Will you kindly let me know if you can arrange to meet with us.

The last paragraph of this letter is an interesting commentary, as it associated Messrs. Mitchell and Insull with "our people." It will be recalled that at the time Baker purchased 50,000 shares of American Telephone and Telegraph Company stock, one of those who received a 1,000-share block was J. J. Mitchell, of Chicago, then President of the Illinois Trust and Savings Bank, later a director of Baker's First National Bank.  
479

Fish's reply, the next day, gave some indication of the community of interest which might warrant the Chicago and New York bankers bringing together Messrs. Insull and Fish. The reply stated:  
480

I thank you for your suggestions as to the circular. I have adopted them all except one. It seemed to me better not to change the description of the stock and bonds as you suggested. I hope that you will be satisfied with my conclusion on this point.

I regret that I cannot possibly be in New York on Monday. I shall however, be there on Tuesday, unless I am forced again to change my plans, when I shall certainly see you.

It seems to me that our campaign against municipal ownership should be started now if ever.

By the end of the month, the circular form apparently was agreed upon, though one of the members of the Executive Committee, Howe, ventured a suggestion, in a letter to Fish,  
481  
stating:

---

479. See p. 106, footnote 379.

480. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to John I. Waterbury, dated November 24, 1905.

481. American Telephone and Telegraph Company, President's Letter File No. 15900, letter, Henry S. Howe to F. P. Fish, dated November 27, 1905.



I have read the proposed circular to the Stockholders A. T. & T. Co. and have no suggestions or criticisms - its seems to me first-rate -

I think it would be much better that Mr. Baker should be one of those who should hold the proxies - rather than Mr. Waterbury -

482

The suggestion was not adopted.

Stockholders' Objections to the Proposed Plan of Financing.

483

The circular went out dated November 29, 1905, and Fish immediately was deluged with stockholders' objections. The following excerpts from these letters will show the trend of thought among the objecting stockholders:

I cannot see my way clear to consent to give such an enormous power to the Directors, a power which might seriously impair if not destroy the value of the stock.... I regret, therefore, that I do not see that I could sign the proxies you sent me, and must protest against the proposed action. (484)

The mere proposition, alone, has already depressed the stock materially, and I wish to know whether this large proposed issue of Bonds coming ahead of the stock will be likely to cause a reduction of dividends. (485)

I quite appreciate the possible desirability and the market conditions which would enable the Company to sell the convertible bonds at a higher price to a syndicate of bankers, than they might be able to get direct from the Company's stockholders. On the other hand, a convertible bond when converted into stock changes the proportionate interest of each stockholder in the Company, unless such bonds are held by the stockholder himself. This you fully appreciate. (486)

I have disposed of my holdings in your company as I did not approve of your convertible bond issue without the right to stock holders to subscribe for same. (487)

- 
482. American Telephone and Telegraph Company, President's Letter File No. 15986; attached copy of proxy shows those named are Alexander Cochrane, Nathaniel Thayer, John I. Waterbury and William R. Driver. Thayer was Director of the Old Colony Trust Company (see footnote 207) and Driver was a Bell employee (see American Telephone and Telegraph Company, President's Letter Book No. 40, p. 1).
483. American Telephone and Telegraph Company, President's Letter File No. 15908, letter, Henry Lewis Morris to F. P. Fish, dated December 4, 1905.
484. American Telephone and Telegraph Company, President's Letter File No. 15908, letter, Henry Lewis Morris to F. P. Fish, dated December 4, 1905.
485. American Telephone and Telegraph Company, President's Letter File No. 15909, letter, Henry C. Ward to F. P. Fish, dated December 5, 1905.
486. American Telephone and Telegraph Company, President's Letter File No. 15923, letter, Charles Henry Davis to F. P. Fish, dated December 5, 1905.
487. American Telephone and Telegraph Company, President's Letter File No. 15959, letter, Clarence S. McClellan to F. P. Fish, dated December 8, 1905.

P  
.... the amount is appalling, and it seems to me that in the present drift of opinion and feeling in regard to great corporations; (See President's message, for instance), it would be safer to propose one fourth or perhaps one third of the amount named, and then repeat when necessary and judicious. How it strikes the public is shown in the slump of \$5,000,000 in the market value of the stock on the first announcement. (488)

While they will presumably represent a further increase of plant to an equal amount, the actual effect upon the stock will probably be to lessen its value. (489)

It certainly was not my intention to impute any improper motives or want of good faith on the part of the Managers of the Am. Tel. Tel. Co. in formulating the plan set forth in the Circular of Nov. 29th, but rather, it seemed to me, that because of their consciousness of perfect rectitude that they failed to perceive how fraught with dangerous possibilities their proposition was.

In that Circular the stockholders are asked to authorize the Director to raise by the issue of convertible bonds the vast sum of one hundred and fifty millions of dollars, which sum is to be expended by them absolutely at their discretion, for such purposes, and at such times, and under such conditions as they may determine. We are told in a general way that the Directors believe that this will be to the advantage of the Company. The resolution is however so drawn that, if passed, it practically puts this vast sum into the hands of the present Board, and its successors to do with it as they will provided that it cannot be shown that the use to which they put it is unlawful.

This is certainly an exceptional act of confidence, but perhaps permissible, if we could be assured that the present management would remain unchanged to the end. It is however possible, if not probable, that through the changes brought about by Death and other causes, that when this resolution becomes operative other persons may be in control of the Company of whose wisdom and integrity we can at this time have no knowledge.

\* \* \*

\* \* \*

\* \* \*

Only one word more as to my allusion to the exceeding insignificance of the individual stockholder. I have attended annual meetings where the Directors have heard with smiling and almost contemptuous indifference the most just and reasonable criticism of their actions simply because under their hands were proxies enough to re-elect themselves. It is the essence of Tweedism - "What are you going to do about it?" and it is to be found everywhere. (490)

A plan of finance so dangerous and so vicious in its character To authorize the Directors or the few who are active in the management to issue bonds, and to control the expenditure of the enormous sum of one hundred and fifty millions without giving the stockholders any opportunity to say how, or when or for what

- 
488. American Telephone and Telegraph Company, President's Letter File No. 15944, letter, Isaac D. Blodgett to F. P. Fish, dated December 8, 1905.  
489. American Telephone and Telegraph Company, President's Letter File No. 15943, letter, Timothy W. Sprague to the American Telephone and Telegraph Company, dated December 8, 1905.  
490. American Telephone and Telegraph Company, President's Letter File No. 15945, letter, Francis Goodwin to F. P. Fish, dated December 11, 1905.

purpose this money is to be expended would be to betray one's own interest and that of the other stockholders. (491)

The thing that bothers me is that the stock which I paid 160 for is dropping in a rising market and has reached 136. Also that some people seem to think that the dividend must be reduced before long from  $7\frac{1}{2}\%$  to  $6\%$ . (492)

It seems to me that it is not to the benefit of the stockholders to issue the bonds which have precedence of the stock and deprive the stockholders of the stock rights they have had before. (493)

Your's of the 16th is rec'd. We do not approve of the issue of convertible bonds. If more capital be needed, we see no reason to depart from the custom of our Co. of issuing more stock. It has been one of the charms of the Co., to give the stockholders these advantages instead of to outsiders.

Ill Central stocks pay  $6\%$  and sells at 180;

Penna R " "  $6\%$  " " " 140.

Why this difference? Ill Central issues new stock at par and Penna charges a price of  $40\%$  or  $50\%$  and sells to bankers at  $2\frac{1}{2}\%$  less than it does to its own stockholders.

We shall vote against a convertible bond. (494)

In response to yours of yesterday I mailed you proxies on 150 shares of Am Tel & Tel Co., though I must say you did not say anything that convinced me of any advantage to be gained by the stock holders as a consequence of your anticipated action. Thinking that your time might be valuable at this period, I would not trouble you by any interview. Trusting that you will keep my application for official employment by your company constantly in mind, I remain (495)

Referring to our conversation on Saturday concerning the proposed issue of Convertible Bonds by the American Telephone & Telegraph Co., I have since conferred at length with several of the large stockholders, whom we represent, and find everywhere a genuine appreciation of all that you have done for the company, but the feeling prevails that their stock interests will, in the end, be best advanced by withholding their proxies at the coming meeting, and they have instructed me accordingly. (496)

Your favor of the 19th inst. received and contents noted. It would afford me very great pleasure to talk with you at any time, but the die seems to be cast in favor of the convertible bond proposition, and I know how tenacious your Directors are of their own opinions. Perhaps a step in the right direction would be to enlarge your Board of Directors somewhat and make it a little more cosmopolitan. (497)

Being altogether opposed to the further increase of capital by the proposed issue of bonds, I return no proxy (498)

- 
- 491. Idem, (attachment).
  - 492. American Telephone and Telegraph Company, President's Letter File No. 15951, letter, Philip W. Davis to F. P. Fish, dated December 18, 1905.
  - 493. American Telephone and Telegraph Company, President's Letter File No. 15956, letter, Henry S. Rowe to F. P. Fish, dated December 18, 1905.
  - 494. American Telephone and Telegraph Company, President's Letter File No. 15989, letter, Emery Brothers to F. P. Fish, dated December 19, 1905.
  - 495. American Telephone and Telegraph Company, President's Letter File No. 15966, letter, Alfred Ashenden to F. P. Fish, dated December 19, 1905.
  - 496. American Telephone and Telegraph Company, President's Letter File No. 15961, letter, George B. Moffat to W. Murray Crane, dated December 19, 1905.
  - 497. American Telephone and Telegraph Company, President's Letter File No. 15990, letter, John M. Graham to F. P. Fish, dated December 20, 1905.
  - 498. American Telephone and Telegraph Company, President's Letter File No. 15986, letter, J. Hull to the American Telephone and Telegraph Company, dated December 20, 1905.

Consummation of Convertible Bond Financing Plan.

Despite the evidently wide-spread dissatisfaction among stockholders, and the unfavorable market reaction exhibited in falling quotations on the Company's stock, the plan was approved at the special stockholders meeting of December 21, 1905, although the officers of the Company felt called upon to vote 271,104 shares of treasury stock in favor of the resolution.

After Fish returned from Europe, and after the previously rejected convertible bond issue was so promptly proposed to the stockholders, Fish maintained that there were no plans for financing under consideration. On December 6, 1905, he wrote to an objecting stockholder, saying, in part:

It does not seem to me wise at the present time that we should commit ourselves to offering to the stockholders any convertible bonds that may be issued, for the market conditions might be such that the most desirable trade possible for the Company and the stockholders would be one that could not give the stockholders the opportunity to subscribe for the bonds.

\* \* \* \* \*

Of course you understand that we have no plans for financing at the present time and there are no negotiations whatever looking to the sale or issue of such bonds.

On December 8, 1905, Speyer cabled Fish from Europe, suggesting that a combination of "two important banking groups" to underwrite the "fresh bond issue" which he understood the company intended making.

Fish's reply indicated that his recent trip abroad had not been entirely divorced from considerations affecting the Bell company's financing. The reply stated, in part:

- 
- 499. See letters from stockholders, quoted in previous section.
  - 500. American Telephone and Telegraph Company, Annual Report for the Year, 1905, p. 19.
  - 501. Special Investigation Docket No. 1, Report on "Control of Telephone Communications," Vol. I, "Control of American Telephone and Telegraph Company," pp. 28, 29.
  - 502. See p. 138.
  - 503. American Telephone and Telegraph Company, President's Letter Book No. 41, letter, F. P. Fish to Charles H. Davis, dated December 6, 1905.
  - 504. For the full text of this cablegram, see p. 109 and footnote 386.
  - 505. American Telephone and Telegraph, President's Letter Book No. 41, letter, F.P.Fish to Edgar Speyer, dated December 16, 1905.

I was very glad to receive your cablegram and to know that you are of the same mind as when I had the pleasure of talking with you last September.

R

Nothing can be or will be done in the way of financing, at any rate for a few weeks. I should be only too glad if, when the time came, it were possible to take the matter up on exactly the lines referred to in your cablegram. You will understand, however, that it may not be in our power to do this.

Fish gave the first intimation, in his last sentence, that he might already have committed himself to refuse competitive bidding for the company's financing needs. The accuracy of this indication will appear more clearly as the later events transpire.

Fish left Boston on December 25, 1905 for a trip to the West coast, and returned January 20th. Upon his return to the office, he was informed of the further financing plans which were under discussion between the bankers and Crane, in a letter from the latter to him, dated January 17, 1906, stating, in part:

I understand that you will return the latter part of this week. I have given considerable thought to the convertible bond question and am of the opinion that we should make them four per cent., convertible into stock at say 160 at any time after two years and before ten years, and we should issue \$100,000,000. I am satisfied that a four per cent. bond convertible at 150 would sell for par and possibly convertible at 160 would bring par or very near it. .... Mr. Winsor called on me last Saturday and informed me that all the large financial interests would enter into a syndicate to take the bonds.

In New York a day or two ago I met Mr. Waterbury and from what he said I concluded that he had made no plan and in fact had not given the matter any particular thought. We ought to take immediate action not only on account of the present condition of the market but for fear of hostile legislation.

Immediately after his return, Fish telephoned Crane to discuss the financing, and arranged to go to New York the following Friday, as was indicated in Crane's letter to him, dated January 20, 1906, saying:

506. Ibid., letter, F. P. Fish to J. E. Fondsworth, dated December 23, 1905.  
507. Ibid., letter, F. P. Fish to George B. Harris, dated January 20, 1906.  
508. American Telephone and Telegraph Company, President's Letter File No. 17615, letter, W. Murray Crane to F. P. Fish, dated January 17, 1906.  
509. American Telephone and Telegraph Company, President's Letter File No. 17615, letter, W. Murray Crane to F. P. Fish, dated January 20, 1906.

R Referring to our talk on the telephone today I am satisfied that the four per cent. convertible bond would be much preferable to the four and a half, and that it would sell at par if made convertible at 150 and might possibly bring that figure if made convertible at 160 but of the latter I do not feel so positive. Four and a half would be a sign of weakness I fear and might possibly hurt the standing of the company in financial quarters.

I shall be glad to meet you in New York Friday, and hope that you will be prepared to take this subject up as I feel, as I am sure you do also, that we ought to take some action as quickly as possible.

The first letter appearing in Fish's Private Letter Book following his re-  
510  
turn from the West was addressed to Coolidge, dated January 23, 1906, saying:

Will you give me the privilege of an interview with you the next time you are in Boston? I am quite anxious to have a fairly long talk with you.

Fish also arranged with Crane to meet him in New York the following Friday,  
511  
in a letter to him, saying:

I shall not write you at length, for I hope to see you on Friday. I shall go the first thing Friday morning to Mr. Cutler's office, where I shall be for an hour or two. You can find me there, or later at my own office.

I am very anxious to go ahead with the financing at the earliest possible date, but do not think that I should take any active step until I have talked with you.

The impending Friday conference on financing apparently became known, for  
512  
on that day William Salomon of William Salomon and Company, wired Fish, saying:

Would you kindly let me know whether it is still time to make a bid for the new convertible bonds? I think I shall be in a position to make a competitive bid if you will consider one. Please answer.

The Friday conference in New York must have included some effort on the part of the Baker-Morgan group to placate Lee Higginson and Company, and to avoid their

- 
510. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated January 23, 1906.  
511. Ibid., letter, F. P. Fish to W. M. Crane, dated January 23, 1906.  
512. American Telephone and Telegraph Company, President's Letter File No. 16022, telegram, William Salomon to F. P. Fish, dated January 26, 1906.

condemnation of the refusal to allow competitive bidding, as will be shown. Crane apparently did not leave his New York hotel until late Friday for on Saturday, after he had arrived back in Washington, he wrote Fish, saying:

513

Mr. Storrow called on me at the hotel last evening. From what he said I judged that he and his friends would be quite well satisfied with a two-thirds interest in the proposed syndicate providing Mr. Morgan would withdraw his objections to Mr. Speyer. I presume that he will make this known to you when he sees you. That being the case, Mr. Winsor ought to be able to induce Mr. Morgan to withdraw his objections.

514

Storrow was a member of the Higginson firm, which had been associated with Speyer in the company's previous financing. Morgan appears to have participated in the Friday conferences, to the extent of refusing to compromise on Higginson's desire to have Speyer admitted to the non-competitive financing. After the Friday conference on the proposed syndicate, Fish returned to his Boston office and wired Salomon:

515

Was absent yesterday. Nothing up as yet. Will write.

The doubtful accuracy of this wire was reinforced by Fish's letter to Salomon, written the same day in which he said:

516

I was out of town when your telegram was received.

Nothing has been done as yet, but the conditions are such that I must be very careful in all cases not to give any encouragement to any parties in the matter referred to.

I very much appreciate your continued interest in our financial affairs, and it would give me great pleasure to be in a position to utilize your very efficient organization and capacity; but there are innumerable considerations that must be taken into account, and it is entirely impossible for me to say what can or can not be done.

Fish gave additional evidence of the apparent obligations he found himself

- 
513. American Telephone and Telegraph Company, President's Letter File No. 17615, letter, W. Murray Crane to F. P. Fish, dated January 27, 1906.  
514. See p. 113 ff.  
515. American Telephone and Telegraph Company, President's Letter Book No. 42, telegram, F. P. Fish to William Salomon, dated January 27, 1906.  
516. Ibid., letter, F. P. Fish to William Salomon, dated January 27, 1906.

517  
under. He wrote Salomon again the next Tuesday (January 30th), getting a little  
518  
closer to the point where he could refuse Salomon's offer outright, saying, in part:

2  
I shall be in New York early next week - probably Tuesday - and should  
of course be glad to see you, or any representative of yours at any time.

As you assume, the matter is still open, but I am not at present in a  
position to state whether or not we shall be in a position to allow competi-  
tive tenders, as has been the case heretofore.

In former years I should have given the same answer up to the time when  
our policy was determined for the particular case, for I am satisfied that  
each time you must deal with the existing situation on its merits.

While, therefore, I should be very glad to talk the matter over with  
your representative, I should feel bound to refrain from committing myself  
in the slightest degree to any policy, until the time comes for action, when  
I shall be forced to adopt and adhere to some definite position.

I greatly appreciate your willingness to participate in our financial  
arrangements, and it would give me great pleasure to deal with your firm if  
matters took such a turn as to make it possible so to do. You undoubtedly  
recognize the complexities of my position, and I trust that you understand  
that all that I am saying is said in the most friendly spirit, but in view  
of the necessities of our business situation.

Meanwhile, Fish continued giving information to the Baker-Morgan representatives,  
as indicated by his letter to Winsor (of Kidder, Peabody), dated the following  
519  
Wednesday, saying:

Enclosed is the schedule that I showed you this morning.

The next day Fish wrote Thayer (though not on the Bell Executive Committee, Thayer  
520  
was a Bell Director and also a director in Coolidge's Old Colony Trust), saying:

I should like very much indeed to have the privilege of half an hour's  
talk with you today or tomorrow, if you are accessible. I shall keep any  
appointment that you may make.

- 
517. For previous evidence, see p. 147.  
518. Ibid., letter, F. P. Fish to William Salomon, dated January 30, 1906.  
519. Ibid., letter, F. P. Fish to Robert Winsor, dated January 31, 1906.  
520. American Telephone and Telegraph Company, President's Private Letter Book No. V,  
letter, F. P. Fish to Nathaniel Thayer, dated February 1, 1906.



(2) Morgan's objection to Speyer's participation with Higginson must have continued, for the next day (Thursday), Higginson wrote Fish formally, stating their position precisely, leaving Fish no alternative but to be placed on notice that he could get competitive offers, if he were inclined to do so. The Higginson letter to Fish stated:

In order that there may be no misunderstanding about our position, I beg to say that, representing a syndicate formed by Messrs. Speyer & Co. of New York and ourselves, we would be glad to have an opportunity to bid on such new securities as the Telephone Company may contemplate issuing.

At present, we do not know sufficient details as to the character of the securities and the amount to be issued, to formulate an offer.

If the Company should desire us to consider the characteristics to be given the new securities, and to advise the Company as to our opinion, either with or without a bid, we shall be glad to do this.

If we should purchase an issue of securities from you, we should make an especial effort to interest European investors; and perhaps it may be of interest to you to know that we should have directly associated with us, and prepared to join with us in offering the securities abroad, among others, the following banking interests:

England (London): Speyer Brothers  
Holland (Amsterdam): Teixeira de Mattos Brothers  
North Germany (Berlin): Deutsche Bank  
South German (Frankfort-on-Main): Lazard Speyer-Elissen

We are ready to make an offer for these securities on short notice, if we are put in a position by the Company to do so.

The advantage possessed by the Baker-Morgan group could, of course, be somewhat diluted if the forthcoming convertible bond issue were followed by large issues of voting stock before the bonds became convertible into stock. That some demands were made for protection on this score is indicated by a letter dated the following Tuesday (February 6) to Fish from one of his legal advisers, George V. Leverett, in which Leverett said, in part:

- 
521. American Telephone and Telegraph Company, President's Letter File No. 17615, letter, Lee Higginson & Company to F. P. Fish, dated February 1, 1906.  
522. American Telephone and Telegraph Company, President's Letter File No. 16143, letter, Geo. V. Leverett to F. P. Fish, dated February 6, 1906.

Since my talk with you by telephone I have been thinking of the question which I then raised, in regard to the power of the directors to bind, by covenant, a corporation not to issue, within a limited period, any new stock.

\* \* \*

\* \* \*

\* \* \*

It is clear, however, that the directors have not the power to make any change in the character of the business which the corporation is authorized by its charter to do, and any attempt by a board of directors to make any such change, or even to accept an act authorizing such a change, would be a nullity. The power in question seems to lie pretty close to the line. No new stock can be issued without the express authority of the stockholders and it can be argued that the power lies with the stockholders to say when the issue shall be made.

\* \* \*

\* \* \*

\* \* \*

In our present case the directors have been authorized by the stockholders to issue convertible bonds. Assuming for the moment that it is essential or extremely important that no stock should be issued during a limited period, while these bonds remain unconvertible, it would seem by analogy with the case above mentioned of the mortgage bonds, that the directors ought to have the power to make their issue of convertible bonds effective by covenanting that the corporation shall do nothing to impair seriously the value of these bonds.

I am inclined to think that such power exists in the directors, although in the absence of decisions, and so far as I am aware there are none, the question cannot be conclusively determined. As I stated above, it lies close to the line.

I presume, as a practical matter, a covenant authorized by the directors would be effective, as no board of directors, in the face of such a covenant, would attempt to make an issue of stock.

Of course the wisdom of making such a covenant is an entirely different question, and if made, it should be carefully limited. (Underscoring added)

The last paragraph was particularly significant, for within a year Fish was to find himself in an uncomfortable position facing limitations which prevented him from getting needed money, and was followed by his resignation from the Presidency.

As will appear later, the agreement which actually bound the Company to sell \$150,000,000 of convertible bonds to the bankers was dated two days later, on Thursday, February 8, 1906. The negotiations, at the last moment, apparently brought discussions with Jacob Schiff, of Kuhn, Loeb and Company, as indicated by the earliest correspondence, a telegram from Fish to Schiff, (dated the next Monday, February 523  
12) saying:

---

523. American Telephone and Telegraph Company, President's Letter Book No. 42, Telegram, F. P. Fish to Jacob H. Schiff, dated February 12, 1906. On the same day, Fish wired Kuhn, Loeb: "Special delivery letter came about noon yesterday." (Ibid., telegram, F.P.Fish to Kuhn, Loeb & Company, dated February 12, 1906).

Thank you for telegram. There will be no difficulty in matter to which you refer in last clause.

Special delivery letter came about noon yesterday.

R  
During the previous week, from Tuesday, February 6, to Monday, February 12, the negotiations were being completed, for on the same day as this letter to Schiff acknowledging receipt of a special delivery letter from Schiff in New York, Fish wrote  
524  
Kidder, Peabody in Boston, saying:

I enclose an original of the contract between our Company and the Bankers, dated February 8, duly executed by all parties. A duplicate of this, likewise duly executed, I have retained. These, of course, are now delivered and effective.

Please acknowledge receipt.

Two days later, on Wednesday, the agreement was made public, as evidenced by F. P. Fish's letter to a stockholder asking for the right to purchase bonds, in which Fish  
525  
said:

Letter received. You have undoubtedly seen in the newspapers what we have done. In confidence, underwriting price will be ninety-four and a half. While I control nothing, shall be glad to put up suggestion for any amount you may want.

The full text of the agreement, between the American Telephone and Telegraph Company and J. P. Morgan and Company, Kuhn, Loeb & Company, Kidder Peabody & Company and Bar-  
526  
ing Brothers & Company, Limited, dated February 8, 1906, is given in another report.

The formal contract was supplemented by an informal memorandum, initialed by F. P. Fish and W. M. Crane, as indicated by F. P. Fish in his letter to Robert

- 
524. *ibid.*, letter, F. P. Fish to Kidder, Peabody & Company, dated February 12, 1906.  
525. American Telephone and Telegraph Company, President's Letter Book No. 42, telegram, F. P. Fish to James B. Speed, dated February 14, 1906.  
526. Special Investigation Docket No. 1, Report on "Control of Telephone Communications", Vol. I, "Control of American Telephone and Telegraph Company", Appendix 10.

527

Winsor, dated February 19th, saying:

I enclose herewith a copy of the initialed paper, which has been initialed by Senator Crane and myself.

R  
This initialed paper dated February 8, 1937, was an informal commitment by

Fish and Crane to follow the Bankers' suggestions in the use of the borrowed money,

528

and read:

In investing, caring for and depositing the money received from the sale of bonds the company shall exercise all reasonable precaution, in consultation with the bankers and with their cooperation to deposit and use so much of it as it shall from time to time not require for the current purposes of its business, in such a way and in such places as not to disturb or disarrange money market conditions and the Company will seek to meet the reasonable suggestions of the Bankers in respect to the employment of the funds. It is understood that the bankers will not suggest deposits unless such deposits will receive interest at the rate of three per cent. per annum.

J. P. M

K L & Co

R. W.

F. P. F.

W. M. C

This arrangement, though probably not unusual in large bank loans, merits some consideration. The funds affected by this agreement were borrowed funds, not owners' capital. As such, they presumably were protected as to principal by adequate security, and their use by the management was recompensed by payment of interest. For these considerations, protection of principal and payment for use, the management legally assumed responsibility for their employment so as to benefit the owners of the business, and not to advance the merger plans of the loaners of capital to the business. The owners subordinated the entire amount of their investment to safeguard

---

527. American Telephone and Telegraph Company, President's Private Letter Book No.V, letter, F. P. Fish to Robert Winsor, dated February 19, 1906.

528. American Telephone and Telegraph Company, Legal Department, File No. 257, agreement dated February 8, 1906, between American Telephone and Telegraph Company and J. P. Morgan & Company, Kuhn, Loeb & Company, Kidder, Peabody & Company and Baring Brothers & Company, Limited.

the borrowed capital, and their dividends depended upon the prior payment of interest on borrowed capital.

R  
When borrowed capital, which is protected both in principal and interest before owners' investment is considered, receives the opportunity to direct the employment of the borrowed funds, it deprives the owners of the right for which they have sacrificed their security of both principal and dividends — the right to manage their business enterprise. The power to direct the use of a large block of a company's funds is the power to direct the company's major policies. If ownership rights are desired by bankers who advance capital, the question properly may be raised as to whether the bankers' investment should not be placed on a par with the class of securities whose rights are encroached upon. In this instance, the advance of funds was followed by a substantial surrender, by the real owners, of the power to manage their company. In effect, this resulted in management control being placed with that class of invested capital which already had prior protection in security of principal and payment of interest. The stockholders thus continued to assume the risk of loss of their capital or dividends, without having the concomitant right completely to direct management policies. The legal right to elect directors existed, but, as is shown elsewhere, the proxy voting mechanism, in a large corporation with holdings scattered among many small shareholders, effectively ensured continuation of the then existing Board of Directors.

Morgan's Insistence upon a New York Trust Company to Replace the Old Colony Trust Company as Trustee.

Immediately after the agreement became binding, and the Baker-Morgan group in New York appeared in control of the negotiations, T. Jefferson Coolidge, Jr. of Boston appears to have been elbowed to one side, as indicated in J. H. Schiff's letter to F. P. Fish, dated on Saturday of that week, in which he said:

529. See pp. 125 and 168.

530. Cf. Special Investigation Docket No. 1, Report on "Control of Telephone Communications", Vol. 1, "Control of American Telephone and Telegraph Company," pp. 30 to

531. American Telephone and Telegraph Company, President's Letter File No. 16167, letter, Jacob H. Schiff to F. P. Fish, dated February 17th, 1906.

↑  
Coolidge

When the negotiations for your Convertible Bond issue were progressing, I said to Mr. Winsor that we hoped the Old Colony Trust Company would be made Trustee of the Indenture, under which the bonds were to be issued. Mr. Winsor replied that this, no doubt, was the understanding, and though I have little doubt that this intention exists, as I am going away within a few days, I thought it but proper that I should express to you personally our earnest hope that the Old Colony Trust Company will be determined upon.

It is proper to say that Mr. Coolidge and Mr. Abbott first brought to our notice the negotiation in which we have had the advantage to join, and that, because of this, aside of our friendship for these gentlemen, we are much desirous of seeing this done.

I expect to start on my contemplated journey to Japan next Thursday, and I hope by the time I return, in the early summer, considerable progress will have been made in advancing the further stages of the convertible bond negotiation. In my opinion, you have been most fortunate in the selection of the time to bring the negotiation, as far as your company is concerned, to a close, for I think, you would not even now find another opportunity, as good, as the one which you have so intelligently embraced. The further success of this business must now depend upon the showing the American Telephone & Telegraph Company will be able to make hereafter, but as to this, we have every faith in its management.

532

Three days later Robert Winsor of Kidder, Peabody & Company wrote F. P. Fish, saying:

Thank you for your note of today, enclosing Mr. Schiff's letter, which I return herewith as requested.

I will take the matter up with Mr. Steele, in New York, on Friday.

Charles Steele was one of J. P. Morgan's partners. F. P. Fish also wanted T. Jefferson Coolidge's Old Colony Trust as trustee, as indicated in his reply to J. H. Schiff, saying, in part:

533

I thank you for your letter of February 17, which comes to hand today.

It would be entirely satisfactory to us to have the Old Colony Trust Company selected as the Trust Company with which to deal in connection with the convertible bonds. It is almost essential that we should have a Boston Trust Company, and of course the Old Colony is the one which we should naturally select. I am very glad that you express yourself so cordially in favor of that company.

Steele insisted upon a New York trustee as shown in his letter to Fish, dated March

---

532. American Telephone and Telegraph Company, President's Letter File No. 16168, letter, Robert Winsor to F. P. Fish, dated February 20th, 1906.

533. American Telephone and Telegraph Company, President's Letter Book No. 42, letter, F. P. Fish to Jacob H. Schiff, dated February 20, 1906.

534

19, 1906, saying:

R  
In looking over the proposed indenture to secure the issue of convertible bonds, I notice that the Trustee named is the Old Colony Trust Company which is also Trustee under the previous mortgage of the Company securing collateral trust bonds. I write to suggest that in view of the requirements of the Stock Exchange here in New York, I hope you will ascertain from them beforehand whether the fact that the same trustee represents different sets of creditors will be an objection to listing the bonds. I do not think the objection applies except where different liens are created on the same property by different mortgages, but I have always found it much easier to have it understood beforehand with the Stock Exchange that there is no objection to the proposed trustee, than if you wait until the bonds are actually issued.

I cannot help expressing my regret that you see fit to use a Boston trust company as trustee for this issue of bonds. One of the principal things to be accomplished, as I understood it, was to broaden the market for the Company's securities and to remove the impression very generally prevailing that it was merely a local Company in New England and not a company whose operations extended all over the country, I cannot avoid the feeling that it would help the issue of the bonds and the Company generally if being a New York corporation it should avail of a New York trust company, thus indicating that its operations were not confined entirely to New England.

However, Fish did not at once acquiesce, as indicated in his letter to  
535

Winsor, saying, in part:

I enclose a letter from Mr. Schiff, which please return. From this letter it appears that he is strongly in favor of the Old Colony Trust Company, which, as you know would be distinctly satisfactory to us.

Mr. Steele intimated to me over the telephone last week that he thought we should have a New York Trust Company, and said that the Standard Company, suggested by Mr. Nathaniel Thayer, would meet with his approval.

I sincerely hope that the bankers will be unanimous in favor of the Old Colony Trust Company. It seems to me that we should do the work with a Boston company, and the Old Colony is the company which naturally would be selected.

536

Fish subsequently wrote Steele on March 20th, reviewing the subject, saying:

Your letter of March 19 comes to hand this morning.

- 
534. American Telephone and Telegraph Company, President's Letter File 17615, letter, Charles Steele to F. P. Fish, dated March 19, 1906.  
535. Ibid., letter, F. P. Fish to Robert Winsor, dated February 20, 1906.  
536. Ibid., letter, F. P. Fish to Charles Steele, dated March 20, 1906.

I am extremely sorry that you are not cordially in favor of the Old Colony Trust Company as Trustee, and I supposed that this matter was definitely settled, with your full concurrence.

R  
Personally, I have felt from the beginning that it would be enormously more convenient for us to have a Trust Company in Boston act as Trustee; not only during the process of the issue of the bonds, but at all stages of their existence; and that if we were to have a Trust Company in Boston, there could be no question that the Old Colony Trust Company was the one which, from its standing, prestige, affiliations in various parts of the world and familiarity with telephone conditions, was that best fitted to serve.

From the beginning, however, I have recognized the fact that the matter was one in which the Bankers were intimately interested, and if it had been their view that there should be a New York Trust Company in the interest of the bonds and of our Company I should undoubtedly have yielded my own inclinations in favor of their conclusion. I had no reason to suppose, however, that such was the case.

After you telephoned to me suggesting the Standard Trust Company, I spoke to Mr. Winsor on the subject when next I saw him, and found that he was distinctly in favor of the Old Colony Trust Company.

Incidentally, I also spoke to Mr. Thayer, who seemed to be of the opinion that there should be a Boston Trust Company.

On the seventeenth day of February, Mr. Schiff personally wrote me a letter, of which I enclose all that portion that relates to the selection of a Trustee.

In view of Mr. Schiff's letter and of Mr. Winsor's views, I assumed that all the Bankers had definitely agreed that the Old Colony Trust Company, should serve, and was confirmed in that assumption by the fact that no objection was made to the appearance of the name of the Old Colony Trust Company in the proof of the Indenture.

I very much regret if you do not agree with Mr. Schiff and Mr. Winsor as to the advisability of this selection.

My own views were quite definitely stated in a letter I wrote Mr. Winsor February 20, a copy of which I also enclose.

These negotiations may be summarized, in so far as they were reported to the stockholders, by quoting from the Company's annual report, which stated, 537  
in part:

At a special meeting of the stockholders held December 21, 1905, authority was given to issue convertible bonds of the Company to the amount in the aggregate of \$150,000,000.

---

537. American Telephone and Telegraph Company, Annual Report for the Year, 1905, p. 19.



R

By the terms of a contract dated February 8, 1906, convertible bonds to the amount of \$100,000,000. were sold to Messrs. J. P. Morgan & Company, Kuhn, Loeb & Company, Kidder, Peabody & Company, and Baring Brothers & Company, Limited. The terms of the sale were favorable to the Company, and your Directors believe that the transaction was of distinct advantage to the Company and to each individual shareholder.

It is expected that the funds provided by this sale will supply the money required for the development of the business until well into the year 1908, including the payment of \$20,000,000 of notes of the company due May 1, 1907.

#### Reorganization of Bell System Management Personnel

By the middle of 1906 the Bell Company was again feeling the financial strain of its rapid construction program to compete with the Independents, as is indicated in a letter Fish wrote to his associated company presidents, on July 28, 1906, saying:

Please write me at your earliest convenience giving me the best idea you can of the amounts of money you will have to have between now and the first of January with the dates.

Every day the necessity for retrenchment in expenditures becomes more and more apparent and I must ask you to do everything you can to help us in this matter.

I should suppose that you could also reduce your expenses. For example, so large a canvassing force will not be required, for you will probably seek new subscribers only among those who are willing to take the higher grade of service, which pays. We should not seek to canvass for low priced subscribers, excepting in places where there is an exigency.

I hope to sail for Europe on August 8, and shall expect to hear from you by the end of next week, if I can.

539

Fish sailed for Europe on August 8 and returned October 1st. Immediately upon his return he was informed by Coolidge that the financial situation was so changed that the Directors were considering increasing the Company's dividend rate, as is shown in Coolidge's letter to Fish, dated October 2, 1906, stating:

- 540
- 
538. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to C. E. Yost, dated July 28, 1906. Identical or similar letters were sent by Fish, the same day, to Charles S. Gleed, L. G. Richardson, H. J. Pettingill, U. N. Bethell, W. T. Gentry, E. B. Field, A. Burt, E. D. Nims and George Y. Wallace.
539. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter F. P. Fish to Hopkins J. Hanford, dated August 7, 1906.
540. American Telephone and Telegraph Company, President's Letter File No. 17620, letter, T. Jefferson Coolidge, Jr., to F. P. Fish, dated October 2, 1906.

R  
I enclose copy of my cable to Mr. Waterbury under date of September 19th, and his reply of September 27th, which I thought you might like to have for your files as indicating the views of absent directors on a matter which I regard as the most important question which has been up for action by the board of directors of the American Telephone & Telegraph Company during the five or more years that I have been a member of the board.

541

The attached cables read:

Waterbury Scribanus Paris

Telephone meeting adjourned today to October second. Declaration dividend awaits return President. Financial condition much changed since President and executive committee agreed to recommend continuance old dividend stop. In my opinion most important make dividend regular quarterly two per cent. Majority directors and bankers now clearly favor this if President agrees. President sails from Cherbourg Saturday by American Line. Hope you will discuss matter with him. Have you heard from Baker.

Coolidge.

Cottier Boston

Unable to meet Fish. Wrote him urging advance and immediate action authorized him to so record me if desired. Baker favourable. Trust you are well. Regards.

Waterbury.

The change in the company's financial condition is of interest, for it apparently was a change for the worse, upon which was based this consideration of an actual increase in the dividend rate from 7 $\frac{1}{2}$ % to 8%. The difficulty of financing the company's cash requirements was indicated by Fish in his correspondence with the Associated Companies, in which he urged reduction of expenditures and rigid economizing of cash assets. On December 4, Fish telegraphed Wheeler, President of the Chicago Telephone Company, saying:

Should declare ten percent. with the expectation, to be announced or not as the Directors may determine, that the next dividend will be on eight percent. basis. Believe it wise for you to get money on year's notes and to largely suspend construction. Matters will move fast in the next few months.

---

541. Idem.

542. American Telephone and Telegraph Company, President's Letter Book No. 46, telegram, F. P. Fish to Arthur D. Wheeler, dated December 4, 1906.

Fish followed this up with a significant afterthought, the same day, in a telegram,  
543  
saying:

R  
I wish to add to my former telegram that we should prefer not to be called upon to take new stock in your Company at the present time but shall undoubtedly be in a position to do so when the conditions are such that it is wise for you to issue stock

Fish telegraphed Field, President of the Colorado Telephone Company, stating: 544

Telegram received this morning. Please do not commit yourself to further expenditures until you hear from me.

To Pickernell at the Northwest Telephone Exchange Company, Fish wired: 545

Missouri and Kansas open account with Western Electric Company increased two hundred and ten thousand dollars in month of November. Can you not discreetly get at this matter and stop it?

To President Barton of the Western Electric Company, Fish wrote: 546

I get from Mr. Glead a statement that you expect to have the note for \$195,000, maturing December 26, paid by the Missouri & Kansas Company; and you also ask that Company to pay you \$400,000 on their open account, that being the balance for September, October and November.

I think that I can promise you the money for the note, which certainly should be paid. What is the least that you can reasonably take of the \$400,000 you want on open account?

Fish wrote President Durant of the Bell Telephone Company of Missouri, stating: 547

Please go as slowly as possible with your new work. We simply cannot make the investment for next year as laid out in your preliminary plan.

By the latter part of December Fish was beginning to feel the pinch of the limita-

- 
543. Ibid., second telegram, F. P. Fish to Arthur D. Wheeler, also dated December 4, 1906.  
544. Ibid., telegram, F. P. Fish to E. B. Field, dated December 8, 1906.  
545. Ibid., telegram F. P. Fish to F. A. Pickernell, dated December 10, 1906.  
546. Ibid., letter, F. P. Fish to E. M. Barton, dated December 10, 1906.  
547. Ibid. letter, F. P. Fish to George F. Durant, dated December 15, 1906.

tions in his ability to effect new financing, as indicated in a letter to him dated  
548  
December 24, 1906 from George V. Leverett, Counsel, saying in part:

R  
You ask me what limitations have been imposed upon the power of this  
Company to finance its business.

The most important limitations are to be found in the agreement with  
the Bankers for the issue of our convertible four per cent. gold bonds,  
and are expressed in the Trust Indenture with the Old Colony Trust Company,  
dated March 1, 1906, under which these bonds are issued.

\* \* \* \* \*

.... This, of course, is a substantial limit on the power of the Company,  
but is not so embarrassing as it would be did not these alleviating provi-  
sions, above mentioned, exist.

To sum up, if we do not wish to execute a new mortgage or a new col-  
lateral trust indenture, we may finance the Company as follows:

1. Issue new stock. The security or property obtained with  
the proceeds of this new stock we may use without limitation.
2. When our five per cent notes, due May 1, 1907, are paid,  
there will be returned into the treasury of the Company \$25,000,000.  
four per cent collateral trust bonds.

When The American Bell Telephone Company's four per cent bonds, due  
July 1, 1908, are paid, we shall have authority to issue \$10,000,000. of  
these collateral trust four per cent bonds.

With the slight excess of collateral now in the possession of the Old  
Colony Trust Company we may issue a few more bonds.

New financing plans were concluded on Monday, January 7, 1907, as indicated by  
549  
Fish in a letter to Coolidge, written the previous Saturday, in which he said:

I should like it very much if you could arrange to be at my office at  
11.30 next Monday, January 7, for a final conference on the matter which  
we have been discussing.

Very important.

The new financing, and the reason therefor, were summarized in the Company's Annual  
550  
Report which stated, in part:

- 
548. American Telephone and Telegraph Company, "Hall and French Papers", Folder 177,  
letter, Geo. V. Leverett to F. P. Fish, dated December 24, 1906.
  549. American Telephone and Telegraph Company, President's Letter Book No. 46,  
letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated January 5, 1907.
  550. American Telephone and Telegraph Company, Annual Report for the Year, 1906, p.15.

R  
As stated in the last Annual Report, convertible four per cent. bonds of the company, to the amount of \$100,000,000. were sold in February, 1906. By the terms of the contract, bonds to the amount of \$30,000,000 were taken and paid for during that year. Construction work proceeded so rapidly throughout the country that, during the year, it became necessary for the company to obtain money on short-time notes to secure the funds required, in anticipation of the payments on the bonds. On the first of January, 1907, its short-time obligations amounted to about \$21,000,000. It also became evident that if the great commercial development throughout the country which was taxing the resources of practically every public service company, and the telephone companies almost more than any other, was to continue, the proceeds from the bonds would not be sufficient to meet the necessary expenditures of the company to the end of the year 1907, as had been expected.

In January, 1907, therefore, the company sold three-year five per cent. notes to the amount of \$25,000,000. These notes were readily placed at a price that was reasonable in view of the abnormal financial conditions that have characterized the past year. From the proceeds of the securities sold, the floating indebtedness of the company will be paid when due, and on May 1, 1907, the \$20,000,000. three-year five per cent. notes of the company, due that day, will be paid.

Subsequently, Crane indicated the trend which affairs were taking, in a  
551  
letter to Fish, saying:

Your letter of the 15th instant is received with enclosed copy of one from Mr. Waterbury which I have read with interest. I agree with him that it would be well to have such a committee appointed and I further think that Mr. Baker and Mr. Coolidge would be excellent selections for two members of such committee. Mr. Vail should in my opinion be made a member of that Committee also, and I hope that he will be chosen. I presume that you will call this matter to the attention of the Executive Committee today so that prompt action can be taken.

552  
On January 21, 1907, Crane wrote Fish, saying, in part:

I shall appreciate it very much if the Committee will, at its meeting Wednesday, take favorable action on the letter that you received from Mr. Waterbury, recommending the appointment of a Committee on Organization, etc., and I suggest that that committee be composed of Messrs. Coolidge, Baker, Waterbury and Vail. I am sure that they could make suggestions that would be of value to the Committee and of assistance to you.

Again it is noted that Waterbury had taken the initiative, in proposing the reorgani-

---

551. American Telephone and Telegraph Company, President's Letter File No. 16825, letter, W. Murray Crane to F. P. Fish, dated January 16, 1907.

552. Idem, (attachment).

zation committee, thus climaxing, with Coolidge, the long period of their service to the Baker-Morgan group which began in 1902 with the original purchase of 50,000 shares of Bell stock.

R  
A week later, on January 23, 1907, the Executive Committee passed the following resolution:  
553

Resolved: that Messrs. Crane, Baker, Coolidge, Vail and Waterbury be requested to serve as a special committee to consider the organization of the Company and its relation to the associated companies and to report to the Executive Committee with recommendations, said special committee to have authority to employ experts.

The experience and advice which was brought immediately to the attention of the new committee, is indicated in a letter from Fish to Coolidge, dated January 28 1907, in which he said:  
554

Perhaps you would like to look over the enclosed report made by Mr. Filbert, the Comptroller of the Steel Company, at the request of J. P. Morgan & Co. I send this to you as interesting to the new committee. It must be treated as confidential.

The next indication of progress of the reorganization committee is given in a letter from Vail to Fish, dated February 21, 1907, saying:  
555

I send you the dft or skeleton as suggested.  
Will you kindly criticise it for us.  
Am off for Vermont

"Com. on organization"

It will be recalled that the Higginson-Speyer group in 1904 had advanced the Company \$20,000,000 on notes which were to mature on May 1, 1907. Events developed rapidly by which the Baker-Morgan group secured a complete reorganization  
556

- 
553. American Telephone and Telegraph Company, Executive Committee Records, June 8, 1904 to August 27, 1907, Volume No. 4, p. 220, minutes of a regular meeting of the Executive Committee, held January 23, 1907.
554. American Telephone and Telegraph Company, President's Letter Book No. 46, letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated January 29, 1907.
555. American Telephone and Telegraph Company, President's Letter File No. 16936, letter, Theodore N. Vail to F. P. Fish, dated February 20, 1907.
556. See footnote 407.

of the Company, just prior to the maturity of these notes.

Up until as late as March 6th, Fish apparently had no intimation of what  
557  
was in store for him. On that date he wrote Waterbury, saying, in part:

R  
At its meeting this morning, the Executive Committee resolved informally to ask Mr. Nathaniel Thayer, yourself and myself to consider the question of Directors. Mr. Thayer will be glad to help in the matter and plans to call on you at eleven-thirty Friday morning.

\* \* \* \* \*

The general feeling of the Executive Committee was that it would be better not to have bankers selected but first class commercial men of high standing, if we can get them; also that preference should be given to those who are active in New York rather than in Boston.

On the twenty-sixth of that month, Fish was re-elected President for the coming year and the Executive Committee members (Fish, Amory, Howe, Cochrane and  
558  
Crane) were re-elected.

Three days after his re-election as President, Fish presented "important suggestions" on the plan of reorganization, of which Vail had given him a draft, on February 21st. The copy of this original plan of organization, with which Fish apparently disagreed, has not been found among the Company's records. In the absence of any records showing Fish's position on the unknown proposed plan, it is of interest to note the candid expression of Fish's "very strict notions about the duties and responsibilities of an officer of a large corporation," as expressed a year before by C. A. Stone, of Stone and Webster, in writing to J. W. Castles, President of the Guaranty Trust Company of New York. In this letter, Stone stated, in part:  
559

I have just written you in reference to the Staten Island matter, but I thought it better to put what I had to say about Mr. Fish in a separate letter.

\* \* \* \* \*

I had a talk with Mr. Fish about the Guaranty Trust Company and the various matters which you and I discussed. He was very much interested and

- 
557. American Telephone and Telegraph Company, President's Private Letter Book No. V, letter, F. P. Fish to John I. Waterbury, dated March 6, 1907.  
558. American Telephone and Telegraph Company, Directors' Records, May 11, 1900 to March 31, 1908, Vol. 3, pp. 237 and 238, minutes of a special meeting of the Directors held March 26, 1907.  
559. American Telephone and Telegraph Company, President's Letter File No. 17615, letter, C. A. Stone to J. W. Castles, dated March 6, 1906.

R  
would be glad to meet you when it is convenient. If you wish I can make an appointment for him to meet you some time, or you can write him directly and refer to my conversation with him about you and your Company. He has very strict notions about the duties and responsibilities of an officer of a large corporation, and he feels that he would not be inclined to take any interest in a Trust Company, or other institution of that sort, which might possibly have business relations with the Telephone Company. He is, and always has been, most punctilious in matters of this sort; in fact has for many years maintained an attitude quite the opposite from some of our New York friends. It think it quite probable, if you were to know him, that you could, when occasion arose, establish most satisfactory business relations with the parent Telephone Company, and besides that I should suppose that the sub companies with their vast interests in different sections of the United States would find it desirable to be closely allied with some large financial institution in New York.

I have talked with him about our plan of establishing Trust Companies in different cities, and I think if it seems wise he would be glad to cooperate with us as far as possible, but probably not by making any personal investments in the undertaking.

Subsequent events, as will be shown, indicated that Fish's "important suggestions" on the proposed plan were not acceptable. The immediately following step of the reorganization committee appeared to be to gain a controlling voice on the Executive Committee by adding Vail and Waterbury to the committee, in which Crane already was included. The first action in this direction was indicated in the reorganization committee's reply, on April 2d, to Fish's letter of March 26th, in which was  
560  
stated:

Referring to the outline organization submitted by the undersigned, and acknowledging your favour of the 29th ult., presenting important suggestions with respect thereto, the Committee desires to say that they have given the subject further consideration and are of the opinion that the subject should be dealt with by the Executive Committee directly.

That Committee is in close contact with the affairs and administration of the Company, with opportunities for observation, and prompt consideration of all matters affecting the organization which may not be enjoyed by the special committee.

To facilitate consideration of the subject by the Executive Committee, and enable it to meet the increased labour imposed, the undersigned recommend that the said Committee be increased in number not to exceed seven

---

560. American Telephone and Telegraph Company, President's Letter File No. 16851, letter, Geo. F. Baker, John I. Waterbury, W. M. Crane, Theo. N. Vail and T. Jefferson Coolidge, Jr., to F. P. Fish, dated April 2, 1907.



including the President, and, as the subject, as so clearly set forth in your letter, demands consideration in every particular and from every point of view, the Committee may appoint a Chairman in order that the organization may be formulated without interfering with the regular business of the Company.

Inasmuch as the By Laws will have to be amended to permit such increase of number the undersigned recommend, pending an amendment to the By Laws, that the Board appoint one or more Associate Members of the Executive Committee to attend its meetings and assist in determining a plan of organization and in the consideration of any other matters concerning the interests of the Company, and to unite with the Executive Committee in reporting to the Board.

Yours very truly,  
Geo. F. Baker  
John I. Waterbury  
W. M. Crane  
Theo N. Vail  
T. Jefferson Coolidge, Jr.

Fish apparently believed himself still in full command of the situation, on April 4th, as is indicated by the tenor of his letter of instruction on "principles of organization" to Vail, which read:  
561

Mr. Waterbury sends me the enclosed copy of By-laws of the United States Steel Corporation, which I should like to have you read as throwing light upon principles of organization.

The Executive Committee then consisted of Fish, Cochrane, Howe, Crane and Amory. Crane has been noted as working closely in touch with Waterbury and Coolidge. Subsequent events indicated that Amory was more in agreement with Crane than were Cochrane and Howe. Assuming the remaining three, Fish, Cochrane and Howe, might not have been so favorably disposed toward the Baker-Morgan group, the addition of two favorable members would have changed Fish's three-to-two majority to a three-to-four minority.

The day after the April 2nd report of the Reorganization Committee, the Executive Committee accepted the report. At the following meeting of the full  
562

- 
561. American Telephone and Telegraph Company, President's Private Letter Book No. VI, letter, F. P. Fish to Theodore N. Vail, dated April 4, 1907.  
562. American Telephone and Telegraph Company, Executive Committee Records, June 8, 1904 to August 27, 1907, Vol. No. 4, p. 240, minutes of a regular meeting of the Executive Committee, held April 3, 1907.

board, April 9th, the handwriting on the wall apparently was revealed, for Cochrane and Howe resigned from the Executive Committee, and were immediately replaced by Waterbury and Vail. <sup>563</sup> At the next meeting of the board (April 30, 1907) Fish likewise resigned from the Presidency, from the Executive Committee, and from the Board of Directors although he had just been re-elected to these positions a month before. Vail was elected promptly to his place as President. The vacancy on the Executive Committee was not filled, so that Vail had Crane, Howe and Waterbury with him on the Committee. <sup>564</sup> The representatives of the Baker-Morgan group thus attained control over the management policies of the American Telephone and Telegraph Company.

The Higginson-Speyer notes matured the next day and were paid from the proceeds of funds from the bonds sold to the Baker-Morgan group. At the next meeting of the Board, Waterbury's Manhattan Trust was appointed New York agent for registration of the Company's stock, <sup>565</sup> whereupon Vail wrote the former agent, the Guaranty Trust, saying: <sup>566</sup>

By virtue of a vote of the Board of Directors of the American Telephone and Telegraph Company, passed May 14, 1907, I beg to notify you that I have appointed the Manhattan Trust Company as the New York agent for the registration of the stock of the American Telephone and Telegraph Company, such appointment to take effect June 1, 1907, your duties in that regard ceasing on May 31st.

In reply to a protest from the replaced agent, Vail again wrote them, saying: <sup>567</sup>

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

- 
- 563. American Telephone and Telegraph Company, Directors' Records, May 11, 1900 to March 31, 1908, Vol. 3, p. 241, minutes of a special meeting of the Board of Directors, held April 9, 1907.
  - 564. These four served continuously on the Executive Committee for the remainder of their lives; Vail died April 16, 1920; Crane on October 2, 1920; Waterbury on March 4, 1929; and, Howe on March 2, 1931 (American Telephone and Telegraph Company, Secretary's Office, list of Directors dated November 1, 1934.)
  - 565. American Telephone and Telegraph Company, Directors' Records, May 11, 1900 to March 31, 1908, Vol. 3, p. 241, minutes of a special meeting of the Board of Directors, held May 14, 1907.
  - 566. American Telephone and Telegraph Company, President's Letter Book No. 48, letter, Theo. N. Vail to Guaranty Trust Company of New York, dated May 16, 1907.
  - 567. Ibid., letter, Theo. N. Vail to J. W. Castles, President, Guaranty Trust Company of New York, dated May 29, 1907.

CHAPTER VII

REDUCTION OF TELEPHONE COMPETITION THROUGH  
FINANCIAL PRESSURE UPON INDEPENDENTS

R The continuance of financial control over the management of the American Telephone and Telegraph Company after 1907 is treated in detail in another report,<sup>568</sup> and need not be repeated here. The proxy mechanism served to move effective management control from the stockholders into the hands of the directors, while the executive committee members, plus any other two members, constituted a quorum (six), with the complete powers of the full board.

Another report shows that the American Telephone and Telegraph Company controlled the associated Bell companies,<sup>569</sup> and still another report indicates that the remaining independent companies eventually became amenable to, if not actually a practical co-operating part of the Baker-Morgan controlled Bell System.<sup>570</sup>

Baker-Morgan Association With Telephone-Telegraph Combination.

Control of the Western Union Company was purchased from Gould late in 1909,<sup>571</sup> and a telephone-telegraph combination under control of the Baker-Morgan group became an accomplished fact. Some review may now be made of the relation of the Morgan firm to this combination plan in brief perspective.

On March 4, 1903, within a year after Waterbury had arranged for the Baker-Morgan purchase of 50,000 Bell shares,<sup>572</sup> Steele, a Morgan partner, wrote Fish, saying:<sup>573</sup>

I enclose a copy of a letter which we have received from some one who is quite unknown to us. My only reason for submitting it to you is to ask your

- 
568. Special Investigation Docket No. 1, Report on "Control of Telephone Communications," Vol. I: "Control of American Telephone and Telegraph Company."  
569. Ibid., Vol. II: "Administrative Control of the Associated Bell Telephone Companies."  
570. Ibid., Vol. III: "Control of Independent Telephone Companies."  
571. Ibid., Vol. I: "Control of American Telephone and Telegraph Company," pp. 71 to 75.  
572. See p. 101.  
573. American Telephone and Telegraph Company, President's Letter File No. 13277, letter, Charles Steele to F. P. Fish, dated March 4, 1903.

view as to the practicability and advisability of endeavoring to do anything with independent telephone lines. The suggestion of the writer as to any plans which we might have in regard to the telephone and telegraph companies is of course purely imaginary.

The attached memorandum, with no signature, was an ambitious plan to consolidate the independent telephone companies, and stated, in part:

If, as is reported the firm of J. P. Morgan & Co. and certain of its members individually have large stockholdings in the American Telephone & Telegraph Company, I hope that the within suggestion will prove of interest in that it shows a manner in which such interests may be protected, and, if the report is erroneous, I trust that the said suggestion contains sufficient merit to warrant your consideration.

Independent telephone companies, those opposing the Bell Telephone System, are to be found in all parts of the United States, except in Southeastern New York, certain New England States and in a few cities in other parts widely separated from each other.

\* \* \*

\* \* \*

\* \* \*

It is estimated that the investment in independent telephone enterprises is about one hundred million dollars and as new capital is constantly being added to the new system, more rapidly than to the Bell System, it is fair to presume that the investment in the former will soon equal that in the latter. Viewed as a whole the independent telephone movement has met with success, and success has been won notwithstanding the fact that the business of the opposition telephone is conducted by thousands of separate companies, each of which is absolutely independent of the others, and while opposing a system that is under the control and direction of the American and Telegraph Company. If these independent companies, or a majority of them, were placed under the control of a company having power to direct their business, as is done today by the American Telephone and Telegraph Company in the interest of its licensees, then indeed would the Bell Telephone System have a rival equal to any circumstance. And the consolidation of the numerous independent telephone companies is not only possible, but is thoroughly feasible, besides being a most attractive business investment.

\* \* \*

\* \* \*

\* \* \*

Some time ago it was the practice of financiers to secure numerous short and, when individually considered, unimportant railways and then to consolidate these various railways into a great trunk line system. The railway situation of a few years ago is that of the independent telephone movement of today; the material, the conditions for a splendid business enterprise are to be found in these numerous telephone properties now successfully competing for their share of the telephone business.

Experience, sometimes costly, has shown the American Telephone & Telegraph Company that the competition which its licensees are meeting cannot be crushed; that the opposition is in just as good condition as the older system

for the struggle for supremacy. What the Bell System is to do is, no doubt, a problem giving its management much concern; it cannot acquire these rival companies because, in place of a majority of the enterprises so absorbed, others would immediately spring into existence, and it cannot crush them. But one course seems to be open to the Bell System, if it hopes ever to regain control of, or be the prime factor in the telephone situation of the country, and that is to foster the project of consolidating these numerous independent telephone companies; and when that is accomplished, that system, as well as the combined independents, to be merged into one great telephone enterprise. If the Bell System does follow this course and the consolidation of these independent enterprises is accomplished by interests not in touch with the Bell System the combined independents will probably be the prime factor in the great consolidation that is inevitable.

Elimination of Competition in Ohio and Indiana.

When Vail came into the presidency after the reorganization in 1907, he hinted at the action which would be taken in Ohio and Indiana, the territory of the Central Union Telephone Company, in a letter to President Richardson of that company, in which Vail stated:

We have been pouring funds into the Central Union territory for years with some results, but nothing very tangible, and now we must have recourse to some other efforts and exert them as freely as we did our spending efforts. While the firing line does not see all that is going on, yet they have pretty close touch with the situation from their standpoint which must be considered in giving them directions.

The actual subsequent activity of the Morgan firm, in connection with the acquisition of independent telephone companies, is shown in the report of an agent of the United States Attorney General's Office, which read, in part, as follows:

At conferences held in the latter part of 1910 between President Vail of the American Telephone and Telegraph Company, Mr. Davison of Morgan & Company, and representatives of the independents, Mr. Vail said that he wanted to bring about a merger of all telephone companies of the United States and thus do away with ruinous competition.

- 
575. American Telephone and Telegraph Company, President's Private Letter Book No. VI, letter, Theo. N. Vail to L. G. Richardson, President of Central Union Telephone Company, Indianapolis, Indiana, dated February 25, 1908.
576. Office of the Attorney General, File 60-1-0, Volume 4, report dated July 24, 1912.

R

At first the Bell companies, considering themselves well entrenched, ignored the independent companies, then feeling the competition keen, to cut rates, in some cases actually giving their services for some period. Independent infringement suits were also brought both against the operating company and the manufacturer but by far the great number of these were decided in favor of the defendants, though their defense cost the independents heavily. The Western Electric Company refused to sell appliances to the independents and in some instances the Bell Company would try to buy the right of way which had been selected by the independents for their lines. When Mr. Vail became President of the American Telephone and Telegraph Company in 1907, a radical change of policy was made by that company: (1) The Western Electric Company would sell equipment to the independents; (2) Competition was to be limited through mergers in strategic localities. The Bell would either buy or sell the local exchanges and lines but must take over the toll lines and control the long distance service. A merger usually resulted in increased local rates. Pursuant to this policy, many mergers were made. On purchasing a line, the Bell Company would either physically merge the two exchanges or continue them both. In the latter event, it would either refuse to make connections with independent lines, sometimes in violation of existing contracts or would nominally make the connections but let the system go to ruin, fail to keep up repairs and delay connections so that its service was practically worthless and finally the plant would be wrecked. So long as it lasted the company would buy its supplies from the Western Electric Company.

A few of the important mergers, actual or contemplated, were then mentioned and described, for illustration:

(1) The Keystone system in Philadelphia. This company in Philadelphia connected with the Maryland Telephone Company in Baltimore, which was acquired in 1907 by the Bell Company, permitted to deteriorate and its subscribers repeatedly went over to the Bell and finally when the connecting line was partly destroyed by storm the Maryland Company refused to repair, cutting off Keystone from the south and destroying its investment with the Wilmington line. Keystone sought connections with independent lines at Jersey City but those lines were bought by Bell. Keystone's only remaining outlet, the Western Maryland Company at Cumberland, was then purchased by Bell and Keystone was hemmed in on all sides.

#### The Ohio-Indiana Companies

The United States Long Distance Telephone Company at Cleveland, an independent company, connects 400 independent exchanges in Ohio, and through contracts, furnishes long distance service into adjoining states. In 1909, this company, together with a number of local companies, including the Cuyahoga Company of Cleveland, the Columbus Citizens Company, the Home Company of Detroit, the Toledo Home Company, and the Long Distance Company of Indianapolis, and the Indianapolis Telephone Company were sold to, and are now held, by Morgan and Company. The attempt was first made to sell them to the American Telephone and Telegraph Company; that company refused but procured R. L. Day and Company of New York to buy the companies for some seven million dollars and immediately loaned to that firm a sum equal to the purchase price, guaranteed them against loss, and took an option to buy the properties; suits were then filed in Ohio to stop the sales to them whereupon Morgan and Company bought the securities.

Davison, a member of the Morgan firm, is a director of the Bell Company and it is generally believed that these securities are held for that company and will ultimately be turned over to it.

\*\*\*

\*\*\*

\*\*\*

Several companies so acquired, or about to be acquired, have assets easily running over twenty-five million dollars. They are the larger and stronger of the independent companies and, if the acquisition of the Bell companies is permitted, a decisive blow will be dealt to the hope of the Independents of furnishing a permanent long distance service....These mergers are apparently the result of negotiations above mentioned which were opened in 1910 between the Bell interests and the independents. Meetings were held both in New York and in Chicago and were attended by Mr. Vail of the American Telephone and Telegraph Company and Mr. Davison of Morgan and Company, and representatives of the independents. At one meeting Mr. Vail said his company was ready to merge its properties with those of the independent companies whenever there were competing exchanges as soon as such mergers could legally be made and Mr. Davison announced that his firm was ready to purchase for cash such independent companies as soon as the mergers could legally take place. Vail asked that pending these negotiations all litigation be stopped and that everybody cooperate to secure legislation to permit the mergers. The independent manufacturers, who also attended these meetings, naturally wanted to know what was to become of them. Vail replied that he could not legally buy their plants but he gave them the impression that some plan would be arranged to take care of them; he said that he did not want any "sore spots" and would willingly pay twenty-five million dollars or more to have his plans succeed, with the support and good will of all the independent interests, rather than have the present destructive competition continue.

While the independents were suspicious of the Bell interests, they appointed a committee of seven to continue the negotiations. The negotiations were finally dropped but the result as might have been expected was that most of the individuals composing the committee of seven agreed to sell their own properties which are among those above mentioned. A list (Exhibit T) attached to the Special Agent's report shows 128 independent companies situated in twelve states which have in the last few years been sold to the Bell company, and this is by no means a complete list.

Further substantiation of the Morgan firm's efforts to eliminate competition is found in a letter written by that firm to Vail, reviewing their efforts in the Ohio-  
577  
Indiana case, and stating, in part:

It seems desirable that we present to you in this form a brief statement of the transactions relating to telephone properties which have been the subject of many interviews with yourself and Mr. Kingsbury, as a result of which transactions we believe we are entitled to receive from your Company the payments to be mentioned later herein.

---

577. American Telephone and Telegraph Company, Executive Department Files, letter, J. P. Morgan & Co. to Theodore N. Vail, dated August 9, 1915.

R  
In December, 1909, our financial assistance was solicited by your Company in carrying out a plan which one of your officials presented to us, having reference to fifteen or more telephone companies operating in Ohio and Indiana, the control of which companies had shortly before been acquired by R. L. Day & Co. under some arrangement with your Company, the particulars of which were unknown to us.

\*\*\*

\*\*\*

\*\*\*

Under these circumstances, being advised by our counsel that there was no legal objection to our purchase of the securities from R. L. Day & Co., and desiring to be helpful in the matter, and relying on the statements made to us, as before mentioned, respecting the value of the securities and the income from the same, we promptly bought them from R. L. Day & Co. at a cost of approximately \$7,300,000, in the belief that such action on our part was in the interest of the general telephone situation from the standpoint of the public, and in the mistaken belief, based on the information previously received from the officials of your Company, that so long as we retained the securities - which we were willing and prepared to do at least until existing conditions changed - we would have a profitable investment.

Subsequently, in 1910, on account of the relation of these companies to the general telephone situation, in pursuance of a plan agreed upon by the telephone interests generally, including those you represent, your Company agreed with us that when it could lawfully do so it would purchase the securities from us at cost to us, plus interest and plus \$1,000,000.

In 1911 the laws of Ohio on the subject of telephone mergers were amended, so that since that time it has been lawful for your Company to acquire the securities of the Ohio companies, as for some time it has been also with respect to the securities of the Indiana companies.

In the meantime, however, conditions had arisen which compelled a change in your policy, and rendered it impracticable or inadvisable for your Company to purchase these securities.

\*\*\*

\*\*\*

\*\*\*

We call your attention also to the agreement of your Company with us, evidenced by our letter to you of November 17th, 1910, and your reply thereto, to which we refer, whereby we undertook to render financial and other assistance in connection with the proposed acquisition by your Company or its allied companies of other telephone properties in the United States, for which undertaking we were to receive from your Company  $\frac{5}{8}$  of the value of the physical properties which it acquired. As is well known to you, we fully performed our undertaking in that connection and rendered assistance of great value to your Company.

The effectiveness of the "Ohio deal" in breaking the competition of independent telephone companies, was gleefully reported to Vail by the president of his subsidiary company, in Illinois, in a letter stating, in part:

578

---

578. American Telephone and Telegraph Company, President's Letter File No. 18090, letter, B. E. Sunny to Theodore N. Vail, dated November 19, 1909.



One of the signs of the times was a call last Monday from Mr. Kenfield, who has made a good deal of money out of the publication of electrical trade journals the past twenty years, and who wanted my views as to the future of Independent Companies.

\* \* \*

\* \* \*

\* \* \*

R I saw him at lunch today, and he thought that things looked decidedly blue. No money is to be had in any direction for opposition telephone enterprises, and there was a generally discouraged feeling throughout the ranks of the Independents. The Ohio deal and the Western Union coup were surely body blows.

I think that you found the "key piece" that you were looking for.

Vail agreed with Sunny's analysis, and appeared well satisfied with himself, as is indicated in his reply to Sunny, in which he said, in part: <sup>579</sup>

Yours of the 19th inst. is received, and the information contained therein is rather gratifying.

I certainly believe that the effect could not but be more or less disconcerting. Although the talk around here is that the combination have plenty of money, I have seen no evidence of it, except I think it is pretty well established that among them they managed to secure the control of about \$2,000,000., but what is \$2,000,000 in this business.

This evidence of the efforts of investment capital representatives to control the entire field of investment and exclude competition, may now be compared with the background data presented in Chapter III, which pointed out this tendency in other fields. The telephone industry is shown to be no exception to this general condition.

#### Prevention of the Financing of Competition.

One of the methods by which investment capital may attain a monopoly in its field of investment is to prevent or hinder the flow of capital and credit into the hands of those in opposition to its plans. Evidence of such action on the part of the Baker-Morgan group will be given.

G. M. Cumming, who had been recommended to Fish by partners of the Morgan firm and became a Vice President of the Bell Company, wrote Fish on April 7, 1907.

---

579. American Telephone and Telegraph Company, President's Letter Book No. 9, letter, Theo. N. Vail to B. E. Sunny, President, Chicago Telephone Company, dated November 23, 1909.

580  
saying:

R  
This morning Mr. E. E. Machette of Kansas City, Mo., Traffic Manager of the beef packing company known as the Schwarzschild & Sulzberger Company, called to see me in regard to obtaining a private telephone wire for his company from New York to Chicago and from Chicago to Kansas City; also in regard to relations between the large packing companies in Kansas City and the local telephone company at that point.

He said that his company was willing to pay \$22,000. for the line desired and that your people demanded \$26,000. if my memory serves me, and he of course desires to obtain a reduction to about the amount which he offers.

He also said that the opposition company at Kansas City had approached the packers with the view to making an alliance with them and for that purpose had offered the packers a considerable interest in the new telephone company's stock amounting, I believe, to \$100,000 - of nominal par value. He added, however, that the packing companies, including his own, would naturally favor the Bell Company and suggested that an arrangement should be made between the large packing companies and the local Bell people, or the American Telephone and Telegraph Co., by which the owners of the packing companies could become interested in the securities of the Bell companies and consequently favor the Bell companies in every way in opposition to the new local company.

His idea of course is that the packing companies should be enabled to purchase the securities at advantageous prices, in order that they might benefit by the transaction and he thinks that if the packers adhere to the Bell company, the grain men will naturally follow their lead and as a result the new opposition company would not be able to make much headway against the Bell Co. in Kansas City.

He suggested also, that this alliance would tend to discourage or perhaps prevent the construction of the new long distance line from Kansas City to Chicago via St. Louis and further, that it would place the very powerful local political influence of the packing companies at the service of the Bell company at Kansas City and thus enable the Bell company to protect its own interests more completely than has heretofore been the case.

I know nothing whatever about the telephone situation in Kansas City but am of course very familiar with the strength of the packing interests and think it would be desirable to form an alliance with them at that point, if it can be done on a proper and advantageous basis.

Subsequently, December 23, 1902, Fish wrote George F. Durant, General Manager  
581  
of the Bell Telephone Company of Missouri, saying:

- 
580. American Telephone and Telegraph Company, President's Letter File No. 13363, letter, G. M. Cumming to American Telephone and Telegraph Company, dated April 7, 1902.  
581. American Telephone and Telegraph Company, President's Private Letter Book No. II, letter, F. P. Fish to Geo. F. Durant, dated December 23, 1902.

I am informed from a reliable source that even now it may be possible to block the Kansas City financing if we can find some way to pull out A. W. Lambert, Treasurer of the Lambert Pharmacal Company who has subscribed or underwritten to the amount of \$100,000....

I am also informed that E. L. Benoist, of the Germania Trust Company, is the man who had the most to do with the financing of the Kansas City enterprise....

Can you make any suggestions as to how to approach these men, either in St. Louis or from Boston or New York?

I wish something could be done to block the Kansas City deal.

An independent telephone company was started in Milwaukee, and as will later appear, gained the financial support of one George R. Sheldon before he had learned the identity of the protectors of his adversary, the Bell Company. The correspondence on this subject begins rather abruptly in the middle of the series of events, but the subsequent letters afford a clear insight into the methods by which possible sources of capital for competing companies may be induced to retire.

On June 18, 1902, less than three months after his purchase of 50,000 shares  
582  
of Bell stock, Baker wrote Fish, saying:

I could not see Mr. Sheldon till this afternoon, & I shall be glad to arrange for you to meet him any time you are in N. Y. I do not think he is much interested in promoting this Co. & will be very willing to see it dropped rather than be in opposition to his friends here - the others, except Mr. Hanford, are I judge as you said equally or more lukewarm. If Mr. Hanford can be gotten out of the situation I am sure the rest of the way will be easy sailing.

583

Fish replied:

Your note of June 18 came duly to hand this morning. I am under great obligations to you for the interest you have taken in this matter.

- 
582. American Telephone and Telegraph Company, "Hall and French" papers, Folder No. 133, letter, Geo. F. Baker to F. P. Fish, dated June 18, 1902.
583. American Telephone and Telegraph Company, President's Private Letter Book No. I, letter, F. P. Fish to George F. Baker, dated June 19, 1902.

I shall call on you sometime tomorrow but will take no more of your valuable time than is absolutely necessary.

Fish also asked the Morgan firm to bring pressure to bear upon Sheldon, as is indicated in Fish's letter to Steele, stating:<sup>584</sup>

I am under great obligation to you for seeing Mr. Sheldon and for accomplishing so much with him.

If the matter had not been one of substantial importance I should not have troubled you with it.

Fish announced the success of his efforts in a letter to Charles F. Pfister, at Milwaukee, in which he said, in part:<sup>585</sup>

I have good reason to believe that Mr. Sheldon is not inclined to persist in the Milwaukee enterprise with reference to which you and I talked last week.

A more complete explanation of these events was given in a letter from Alonzo Burt, a Bell company manager in the middle west, to Fish, in which he said, in part:<sup>586</sup>

I wired you from Milwaukee that Mr. Pfister had received a letter from Mr. Sheldon. Mr. Pfister sent me word on Thursday that he would like to see me, and when I met him he gave me Mr. Sheldon's letter to read.

The substance of the letter is that Mr. Sheldon had been called upon by one of the partners of Mr. J. P. Morgan, and another banker friend, who insisted that he not engage in the telephone business as to do so would interfere with their interests, also that you had called upon him but he missed seeing you. Mr. Sheldon asked Mr. Pfister to adjust the matter with Hanford in some way, and he thought that Hanford should be at least reimbursed for the outlay he had made in exploiting the Milwaukee matter. The letter ended by wishing Pfister success politically and asking him to call when he came to New York.

Pfister expressed great satisfaction that Mr. Sheldon had expressed a willingness to "lie down" as Pfister termed it. Pfister referred to your conversation with him and said: "I would a good deal rather be hitched up with

---

584. Ibid., letter, F. P. Fish to Charles Steele, dated June 19, 1902.  
585. Ibid., letter, F. P. Fish to Chas. F. Pfister, dated June 21, 1902.  
586. American Telephone and Telegraph Company, President's Letter File No. 12610, letter, A. Burt to F. P. Fish, dated June 28, 1902.

a man who controls one hundred and fifty millions than with a little fellow like Hanford." So that you will see that your talk with Pfister made a distinct impression. Mr. Pfister said that he would fix up matters with Hanford in some way and would report, and that he would take care of the situation at Milwaukee. As a precaution, however, Mr. Morgan\* has arranged with Pfister's first lieutenant to keep an eye on the situation in detail and report at any time that there is any indication of further effort from Hanford or other parties.

\* \* \* \* \*

Mr. Morgan and myself saw Pfister together, and we arranged that Mr. Morgan should send him a contribution to his campaign fund in the same amount contributed by the Milwaukee Gas Company. This pleased Pfister, and his lieutenant told us afterwards that the "old man" thought we were all right.

\* \* \* \* \*

Without opposition in Milwaukee I am confident that we can make inroads on the opposition throughout the state.

\* \* \* \* \*

Altogether I am encouraged over the situation and congratulate you on the success of your talk with Pfister and your efforts with Sheldon.

\* Not J. P. Morgan, but probably D. F. Morgan, of the Bell subsidiary, Northwestern Telephone Exchange Company.

The value of this financial pressure upon those who were inclined to finance competition was indicated in Burt's letter to Fish, in which he said, in part: 587

You may know that your telegram, saying that the New York party had agreed to withdraw from the Milwaukee situation, was welcome news.

I have talked by telephone with Mr. Morgan, and he is quite sanguine that if these parties will do as they have agreed we will be able to hold the situation at Milwaukee during the life of the present administration.

Sheldon gave a history of the independent telephone company's effort to get a franchise, and showed that the intervention of Messrs. Baker and Morgan was the direct cause of the reversal of those plans, in a letter to Fish, stating, in part: 588

I was very sorry to have been out when you called at my office some weeks ago in regard to the telephone situation in Milwaukee. The history of that concern is as follows:

---

587. American Telephone and Telegraph Company, President's Letter File No. 12576, letter, A. Burt to F. P. Fish, dated June 20, 1905.  
588. American Telephone and Telegraph Company, "Hall and French" papers, Folder No. 133, letter, George R. Sheldon to F. P. Fish, dated July 30, 1902.

More than a year ago Mr. Hanford came to me bringing letters of introduction from friends of mine. He had been successful with individual telephone companies in other cities and was confident that Milwaukee was a most promising field. After consultation with Mr. Pfister, I agreed to back up the enterprise and deposited in Milwaukee, \$50,000. and we then started in our efforts to get a franchise. This franchise would have been unanimously passed had not Mr. George F. Baker and Mr. Perkins of Messrs. J. P. Morgan & Company seen me at the time they did. As they probably told you, my relations with the First National Bank and Messrs. J. P. Morgan & Company are such that I could not be in the position of actively pushing an opposition to their interests in Milwaukee and I, therefore, withdrew.

We have spent in organization, expenses, etc. about \$4,000. This, I think the Bell Telephone Company should refund to us. Of course, Mr. Baker, Messrs. J. P. Morgan & Company or the Bell Telephone Company can not pay Mr. Pfister or me anything for withdrawing from the situation and for using our influence in opposing any individual telephone company franchise in Milwaukee. I am under no legal obligations to Mr. Hanford but I feel a very strong moral obligation from the fact that I agreed to back him in his enterprise and he has spent a year in active work in his efforts to gain the franchise and now by my action all his time and work have been given for nothing.

I feel that something ought to be done by your people for Mr. Hanford.

I have just had a conversation with Mr. Perkins on this subject and he agrees with me.

Sheldon later wrote Fish a letter professing willingness to dissociate himself completely from the "enemies" of the potently backed Bell company, saying: <sup>589</sup>

I have just returned to New York and shall be happy to see you any time that you may be in the City. Will you kindly give me a day's notice so that I will be sure to be on hand. While I feel under obligations to Mr. Hanford, I certainly do not expect you to do anything for him if he is to continue as an enemy to the interests of your Company. I shall be very glad if we can find some means of letting me out of my obligations to him.

Subsequently, the Bell people turned this episode to their advantage by enlisting Hanford and Sheldon in their aid, as "informers" in the ranks of the independents, as will appear. On September 9, 1902, Sheldon wrote Fish, saying: <sup>590</sup>

- 
589. American Telephone and Telegraph Company, President's Letter File No. 12676, letter, George R. Sheldon to F. P. Fish, dated August 19, 1902.  
590. American Telephone and Telegraph Company, President's Letter File No. 12816, letter, George R. Sheldon to F. P. Fish, dated September 9, 1902.

This will introduce to you Mr. H. J. Hanford whom you know by reputation and towards whom as you know I consider myself under obligations in regard to the Milwaukee matter.

The subsequent work of Hanford and Sheldon in New York City independent telephone efforts is indicated in a letter from Fish to Charles F. Cutler (President of the New York Telephone Company), in which he said:

I get the following letter as to a report that Mr. Hanford made to the Kellogg Company with reference to New York:

"Mr. Hanford talked with Messrs. (James B.) Dill, (George R.) Sheldon and (C.N.) Morse, and went over the conduit layout with them. He became very enthusiastic over the underground work which is being done in New York and over the wonderful opportunity for independent extension which would be given as soon as the franchise was secured from the city, the franchise being assured under the next city administration, provided that Tamany rules.

Mr. Hanford reports that the Stromberg-Carlson people and the Automatic Electric Company are already working tooth and nail for the apparatus contract. They are entertaining lavishly, and at least getting the good will of some of the principals. He says, however, that if the Kellogg Company will place in his hands fifty shares of their stock, with permission to distribute it as he sees fit, he will guarantee that the question of granting the contract to anyone but Kellogg will never arise."

This, of course, is strictly confidential.

A way was found to "help" Sheldon out of the Milwaukee situation, as is indicated in Sheldon's letter to Fish, saying:

The expenses incurred in the effort to gain the franchise for the Independent Telephone Company in Milwaukee amounted to \$5223.79 made up as follows:

Lawyers fees of all kinds in obtaining charter organizing the Company and arguing the case before the Common Council	\$3,000.
Miscellaneous expenses	<u>2,223.79</u>
	\$5,223.79

As usual the people interested with me deducted the entire amount from

- 
591. American Telephone and Telegraph Company, President's Private Letter Book No. II. letter, F. P. Fish to Chas. F. Cutler, dated December 18, 1902.  
592. American Telephone and Telegraph Company, President's Letter File No. 13106, letter, George R. Sheldon to F. P. Fish, dated January 19, 1903.

my advance of \$30,000. which I made as evidence of good faith. I have not charged in the expenses any interest on this \$30,000. as I did not consider it a proper charge against you for expenses incurred.

R A few days later, Sheldon indicated how the matter was arranged in his letter to Fish, stating, in part:  
593

I beg to acknowledge receipt of check of the Wisconsin Telephone Company for \$5223.79 for which I enclose voucher and receipt. Thank you very much.

Hanford's complete conversion to service to the Bell, as well as the shifting to other scenes of efforts to prevent financing of independent companies, is shown in Fish's letter to Hanford, dated January 19, 1903, in which he stated:  
594

I return Mr. Aldrich's note which you sent me.

Do not forget that we want to defeat the opposition in every case, and that it is only when we have exhausted every effort in that direction that any question of selling Kellogg equipment comes up.

I should like to have you keep in touch with Hammer, for I want to prevent his financing Salt Lake if possible. It may be that he will get so discouraged as to sell his franchise for a small sum.

Further work by Hanford, indicating the disposition to use the financial power of the Morgan firm to stifle competition, is shown in Fish's letter to E. P. Meany, a special agent of the Bell Company, in which Fish said:  
595

Hanford writes me as follows:

"The Hyde Park scheme is being killed. Your friend J. P. Morgan has control of the City Council in Chicago in the street railway fight. It appears that he is to be the man to defeat Harrison's control of the Council and thereby give public properties a chance to exist, and the old Cosmopolitan gang will help Morgan because they want Harrison downed."

I have no doubt that any of Mr. Morgan's friends could be induced to work in our interest, if it were desirable for us to approach them.

- 
593. Ibid., letter, George R. Sheldon to F. P. Fish, dated January 23, 1903.  
594. American Telephone and Telegraph Company, President's Private Letter Book No. II, letter, F. P. Fish to Hopkins J. Hanford, dated January 19, 1903.  
595. Ibid., letter, F. P. Fish to General E. P. Meany, dated February 7, 1903.



Fish showed no hesitancy in asking Baker to intercede again, as is indicated in his letter to Baker dated May 9, 1903, saying:

596

R  
General William J. Palmer, of Colorado Springs, is in a position to be very helpful to our Colorado Telephone Company in its fight with the opposition company in Colorado Springs, if he is inclined so to do. He is a stockholder in the American Telephone and Telegraph Company, and it is quite probable that he would be willing to exert himself a little on our behalf if he were asked so to do in a proper way.

Are your relations with him such that you could write him a letter invoking his assistance, or can you tell me how we can best get in touch with him?

Again Fish exhibited this tendency, in a letter to Arthur D. Wheeler, President of the Chicago (Bell) Telephone Company, in which he said:

597

Can you find out whether or not the Orthwein people, of the Chicago and Milwaukee Telegraph Company, propose to use the Alley L structure in coming down to Chicago? Also whether or not it is worth while for us to try to get Mr. George F. Baker, our Director, to interfere with any such use of the Alley L structure?

Continuance of Hanford's use of his position of confidence among the independent telephone people is indicated in Fish's letter to Wheeler, dated October 1, 1903, saying, in part:

598

As to the telegraph line from St. Louis to Chicago, we certainly want to kill that enterprise if we can - or at any rate to limit it to telegraphy. If Hanford could take hold of the matter and develop it in such a way that it never could go into the telephone business, it would be comparatively harmless to our interests. I doubt, however, if he can do this.

Your suggestion that Hanford meet the alleged capitalists and see what is the real situation, is a good one. He should, however, be very careful not to commit himself in the slightest degree, but be ready to take such action as our interests may require.

Again, Fish turned for protection to Baker, and wrote him a description of

---

596. Ibid., letter, F. P. Fish to Geo. F. Baker, dated May 9, 1903.

597. Ibid., letter, F. P. Fish to Arthur D. Wheeler, dated May 18, 1903.

598. Ibid., letter, F. P. Fish to Arthur D. Wheeler, dated October 1, 1903.

the severe competition the Bell company was experiencing, asking for influence to be  
599  
brought to bear upon a railroad, saying, in part:

R  
As you know, very small matters are sometimes important in the tele-  
phone business. I am going to take the liberty of troubling you with one.

The St. Louis & San Francisco Railroad, a part of the Rock Island sys-  
tem is, I think, treating our Southwestern Telegraph & Telephone Company  
rather badly in Texas. We have opposition at Denison, Sherman and Paris  
in that state. As in all such cases, the opposition companies in those  
cities seem to care but little for revenue and in accordance with a some-  
what common custom of such companies, they are in each place giving the  
Railroad Company telephone service without charge or at an absurdly low  
rate....The St. Louis & San Francisco Railroad Company has, however, in  
each of those places, Denison, Sherman and Paris, ordered out our telephones  
on the sole ground that we will not give the Railroad Company free service  
or a discriminating low rate which is improper from any reasonable stand-  
point....This seems unfair and unfriendly although in Texas all established  
corporations should surely stand together in the general interest and be  
friendly against the common enemies....

....I cannot believe that the responsible men of the Rock Island Sys-  
tem would approve the course of their local people.

Unless you regard this matter as of too little consequence to receive  
any attention, you may be willing to bring it before the Rock Island people  
for their consideration, and I hope for action which will relieve us of an  
embarrassment out of all proportion to the money involved.

In another instance, the Kansas City Journal was attacking the Bell's meth-  
600  
ods in that city, whereupon Fish wrote Coolidge, saying, in part:

I should like very much to have the papers of Kansas City adopt that  
friendly attitude toward our corporation which the better class of papers  
intend, as I believe, to adopt generally toward public service corporations  
if they are satisfied that those corporations are endeavoring to give the  
community in which they operate proper service.

I am informed that Mr. B. P. Cheney is interested in the Kansas City  
Journal. I was introduced to Mr. Cheney a number of years ago on the cars,  
but do not feel that I know him well enough to rely at all upon my casual  
acquaintance with him.

\*\*\* \* \* \* \*  
Would you be willing to say a word to Mr. Cheney on this subject? I  
am very sure that if he cared to exercise a little personal influence on  
our behalf he could be most helpful to the Company, and thereby to all of

---

599. American Telephone and Telegraph Company, President's Private Letter Book No.  
III, letter, F. P. Fish to George F. Baker, dated October 2, 1903.

600. Ibid., letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated January 23, 1904.

us in New England who are so much interested in its prosperity. I should be very glad to meet Mr. Cheney myself if opportunity offered, and talk the matter over with him frankly; but it is quite possible that a word from you would be as effective in directing his attention to the subject as if he were troubled with an interview with me.

Fish did not forget to call upon Waterbury also, when the occasion demanded,  
601  
as is indicated in a letter to Waterbury, dated March 16, 1904, stating:

I send you herewith a copy of "Telephony" for February 1904 which, on page 114, gives more complete information as to the United States Trust & Savings Bank of Chicago than I have before seen in print.

It is organized almost altogether for the purpose of disposing of the securities of Independent telephone companies. Overshiner is the promoter and has been working for a long time to get an institution that will help the telephone manufacturers to develop Independent companies and dispose of their securities.

Mr. Reid will find himself in queer company on the Board of this institution.

Again Fish called upon Waterbury for aid in blocking the financing of independents, as indicated by his letter to Waterbury dated April 26, 1904, stating, in  
602  
part:

It is of course of the greatest consequence that we should keep the opposition out of Omaha.

In this connection I take the liberty of sending to you the enclosed letter, which speaks for itself.

I do not know anything about Theodore C. Woodbury but have no doubt that the "J. and W. Seigleman" referred to in the letter should be "J. and W. Seligman."

Mr. Coolidge was again asked "bluntly" to aid in discouraging the financing  
603  
of independents, as shown in Fish's letter to him dated May 10, 1905, stating:

- 
601. Ibid., letter, F. P. Fish to John I. Waterbury, dated March 16, 1904.  
602. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to John I. Waterbury, dated April 26, 1904.  
603. Ibid., letter, F. P. Fish to T. Jefferson Coolidge, dated May 10, 1905.

First. Can you get at the Mississippi Valley Trust Company in St. Louis, and discourage them against putting an opposition plant into Milwaukee?

R  
Second. Could you get at H. T. Scott, of the Union Iron Works at San Francisco, and urge him not to go into the opposition business in San Francisco?

I wish I might say a word to you about these matters, but am about to go away and can only put the questions bluntly.

In this instance, Coolidge gave Fish a copy of the letter he wrote to Breckinridge Jones, Vice President of the Mississippi Valley Trust Company of St. Louis, 604 in which he placed the matter before Jones in significant terms, saying:

I hear that in some way the Mississippi Valley Trust Company has been considering a proposition to assist in putting an opposition telephone plant in Milwaukee. I write to say to you that your friends here would greatly regret any such action, and I can honestly say that I think an opposition plant would prove a disastrous investment. The telephone is a natural monopoly. The public do not want two telephones, and the Bell company has many advantages. Moreover, wherever the Bell has controlled the local company, as they do in Milwaukee, they have fought things to a finish. I did not suppose that your local St. Louis opposition was sufficiently attractive to encourage going into other fights, but of course it takes time to fully get to the bottom of things, and in the end I believe there is no harder work and poorer investment than putting in a second telephone system. I should be much pleased to give you any information in regard to opposition plants, etc., that you would like, and the great difficulty in appreciating at the start why they are doomed to failure. The fact is that the depreciation is greater in telephone work than in almost anything else, and is never sufficiently allowed for.

This enlistment of the bankers' aid was not confined to this country, but, through Winsor of Kidder, Peabody, Baring Brothers, of London, were prevailed upon to obtain and forward information on the European financial backers of the "Keystone" opposition company in Philadelphia. Baring Brothers and Company, Limited, wrote Kidder, Peabody, saying: 605

- 
604. American Telephone and Telegraph Company, President's Letter File No. 15587, letter, T. Jefferson Coolidge, Jr., to Breckinridge Jones, dated May 12, 1905.  
605. American Telephone and Telegraph Company, President's Letter File No. 15868, copy of a letter from G. Farris, Director of Baring Brothers & Co., Limited, of London, England, to Messrs. Kidder, Peabody & Co., dated November 3, 1905; this copy was attached to a letter from Kidder, Peabody & Co. to F. P. Fish, dated November 15, 1905.

We beg to enclose you extract from letter which we have this morning received from our friends with reference to "Keystone" Fives.

606

The enclosure stated, in part:

We are in receipt of your private letter of the 1st inst., and beg to confirm our telegram of today, as per enclosed copy. We would now add that the 5% First Mortgage Gold Bonds of the Keystone Telephone Company of Philadelphia, due July 1st, 1935, have been introduced here by Messrs. Van Marken & Middendorp, for account of Messrs. Oppenheim and van Till, of the Hague.

Messrs. van Marken & Middendorp are an unimportant firm with very little credit and are simply acting on orders from Messrs. Oppenheim and van Till, which latter firm, as you will perhaps be aware of, has during the last few years extended its business considerably. They seem to be on very intimate terms with Messrs. Fisk & Robinson, New York. In the prospectus of the bonds a translation of a letter from Messrs. Fisk & Robinson is published giving details as regards the Keystone Telephone Company.

Messrs. Oppenheim and van Till have a little financial paper of their own, which they distribute extensively in the provinces and we believe that the comparatively high rate of interest of the Keystone Telephone Co. bonds has tempted our provincial investors to subscribe to them to some extent. We know of \$400,000 of these bonds, which have been placed here, as they were attached to a Cheque, which we received for your account through Messrs. Baring Magoun & Co. for collection here, but we are not certain that other bonds of the same description have not come here through other channels. The bonds have been chiefly taken by speculators, who are looking forward to an appreciation of the price of 1 or 2% to resell their holdings. At present there is very little indication that their hope will be fulfilled, the bonds still being offered at 1/16% above the issue-price with no buyers.  
[Underscoring added]

These foreign connections appeared quite willing to scrutinize the customers' documents passing through their hands, in order to give intimate information to the Bell Company. These letters were transmitted to Fish by Winsor, on November 15, 1905. 607

Winsor again indicated the value of this association with London bankers, in connection with an independent telephone representative's attempt to get capital abroad, as indicated in his letter to Fish, saying, in part: 608

---

606. Ibid., enclosure, dated November 2, 1905, attached to above letter copy dated November 3, 1905.

607. Idem.

608. American Telephone and Telegraph Company, President's Letter File No. 17034, letter, Robert Winsor to F. P. Fish, dated April 6, 1907.

I have written to London in regard to the possibility of Conklin getting any money there for the Interstate Company, - and will let you know as soon as I hear.

R I should be inclined to agree with you, that it is hardly worth while to advertise in the London "Statist", whose letter I return herewith.

Vail wrote directly to the Barings in London, seeking to influence them against investments in the independents, in a letter stating, in part: 609

The so-called Independent Companies of the United States are making a determined effort to enlist new capital to carry on their enterprises. Most if not all of them have by the payment of fixed charges on an overloaded property, and the declaration of dividends not earned, allowed their property to get into a bad condition, or have applied capital to the maintenance of the same. By readjustments, reorganizations, consolidations and various manipulations, they have so far succeeded in raising a limited amount of new capital. But the result is there are so many and such a variety of securities that it is in many cases difficult to tell where the ownerships lay.

\* \* \* \* \*  
The independent companies have about exhausted their resources for new capital in the United States, and are now going abroad to get foreign capital. But there will be no danger of loss of any foreign capital which will be invested after a careful examination of any statements of conditions and business which is verified by an accountant of high standing and respectability.

The most casual examination of the accounts, capital obligations and issues of these Independent Companies will satisfy any one of the necessity of great care in investing in their securities.

Significance of Financial Pressure upon Telephone Competition through Financial Control of the Industry.

The significant factor in this program of slow financial strangulation of the independent telephone companies was summarized by Vail himself, in a letter to Winsor, dated August 5, 1909, in which he said: 610

This man Howard is or was in London or in France trying to raise money for this new organization in the West. He has succeeded in buying up or

---

609. American Telephone and Telegraph Company, "Hall and French" papers, letter. Theo. N. Vail to Baring Bros., London, England, dated July 15, 1909.

610. American Telephone and Telegraph Company, President's Letter Book No. 54. letter, Theo. N. Vail to Robert Winsor, Care Messrs. Baring Bros. & Co., London, England, dated August 5, 1909.

rather exchanging his stock for certain decrepit properties in the West and getting up a little agitation out there, but is not doing anything effective nor can he without a large amount of money which it will be impossible for him to raise in this country.

The report I received yesterday was that he had raised some money in France - how and where I do not know - but certainly no one would think of putting in any large amount of money without sending someone to investigate and after an investigation no one would think of doing anything.

I do not know whether or not it would be of any benefit to circulate these papers in England or on the continent, but if you think it would be, I can get you any number that may be desirable.

I am keeping a pretty close watch on this as it seems as though all the Independents in the country were watching Howard, trusting that he would make a success and in some way carry them along with him.

One benefit of the consolidations that he and others are making will be that the capital required will come into larger figures where it will require banking houses to finance them rather than being able to finance themselves through their local credit and local country banks as they have been doing. /Underscoring added/

This put the matter concisely - the large sources of capital in this country were not available to the independents, and the more they grew and combined, the more impossible would it be for them to obtain capital in the large amounts required.

This affords an excellent practical illustration of the conditions which Dr. H. B. Reed so aptly described in his "Morals of Monopoly and Competition," in

611

which he stated, in part:

....the competitive system grew out of ancient conditions of monopoly (guilds and grants by kings) and was approved by the judge of the transition period because it better satisfied the interests of the public.... With reference to traders, the system was a success because they were approximately equal in capital....When, however, a combination is introduced into these conditions, then success depends principally on the single element of capital against which the other elements of success in the small trader (good management, prompt service, considerate treatment of customers, ability to produce and sell goods of a quality and price demanded by the customers) are of little avail....

\* \* \*

---

611. Homer Blosser Reed, "The Morals of Monopoly and Competition," pp. 119 and 120. For a more complete discussion of this aspect of competition, see Chapter I of this report, section entitled "Importance, to Investment Capital, of Non-Competitive Control over the Field of Investment," p. 9.

q An essential conclusion from this approach to the Bell System, from its investment capital aspect, is that the existence of a telephone communications monopoly may have depended not alone upon the much-advertised "natural monopoly" characteristics of the telephone but also upon the less well-known monopolistic nature of its source of investment capital. One of the concomitants of its mere size is that there no longer exists a single source of investment capital of sufficient size to offer competition in the nationalized telephone service. For over a quarter of a century, the Bell System has been financed through, or by, one closely affiliated group of investment bankers, and the present size and financial power of the growing Bell System is such that, outside of the State itself, there exists no source of investment capital of sufficient size to make the chances of profitable telephone competition favorable enough to merit the risk of the grave losses which would follow failure. This situation holds, not only for the field of telephone "operation," in which the argument of "natural monopoly" carries some weight, but also for the field of telephone "manufacturing," in which the "natural monopoly" argument carries little or no conviction.

It may be argued that the present representatives of investment capital in the Bell System would lose that position if and as soon as they no longer justified their policies and results. But since results (for the owner of the investment capital concerned) consist of continuation of dividends at the present rate (9%), and since dividends on capital invested in a monopoly may be placed at any figure so long as it does not invite competition from other capital sources or retribution from an aggrieved body politic, it follows that the only possible source of danger to the status quo in Bell System investment capital lies in the possibility of a reduction of its monopoly profits through public regulation.

From this situation springs the necessity and economic advisability of expending large sums in a public relations policy designed to relieve the popular pressure upon legislative bodies and regulating commissions. Furthermore, since regulation of utilities in the past has concerned itself almost solely with a determination and regulation of the rate of net earnings, the economic urge is for public utility management policy to countenance any expenditure that will influence basic public opinion against further regulation.



LIST OF REFERENCES CITED

(With Publisher and Date of Publication)

R  
  
Adams, Charles Francis

The Interstate Commerce Act; Its Operation and Its Results; Address at the Dinner of the Commercial Club of Boston, December 15, 1888

Rand Avery Supply Company

Adler, Cyrus

Jacob H. Schiff; His Life and Letters

Doubleday, Doran and Company (1928)

Beard, Charles A. and Mary R.

The Rise of American Civilization

The Macmillan Company (1927)

Burns, Arthur Robert

The Decline of Competition

McGraw-Hill Book Company, Inc. (1936)

Casson, Herbert N.

The History of the Telephone

A. C. McClurg & Company (1910)

Coolidge, T. Jefferson

The Autobiography of T. Jefferson Coolidge

Houghton Mifflin Company (1923)

Corey, Lewis

The House of Morgan; A Social Biography of the Masters of Money

G. Howard Watt (1930)

Daggett, Stuart

Railroad Reorganization

Houghton, Mifflin and Company (1908)

Flynn, John T.

God's Gold; The Story of Rockefeller and His Times

Harcourt, Brace and Company (1932)

Harlow, Alvin F.

Old Wires and New Waves; The History of the Telegraph,  
Telephone and Wireless

D. Appleton-Century Company, Inc. (1936)

Hobson, John A.

The Evolution of Modern Capitalism; A Study of Machine  
Production

Charles Scribner's Sons (1910)

Herring, James M.

and

Gross, Gerald C.

Telecommunications; Economics and Regulation

McGraw-Hill Book Company, Inc. (1936)

Hovey, Carl

The Life Story of J. Pierpont Morgan; A Biography

Sturgis & Walton Company (1911)

Josephson, Matthew

The Robber Barons; The Great American Capitalists;  
1861-1901

Harcourt, Brace and Company (1934)

Keenan, George

E. H. Harriman; A Biography

Houghton Mifflin Company (1922)

Larson, Henrietta M.

Jay Cooke, Private Banker

Harvard University Press (1936)

Moody, John

Masters of Capital in America

McClure's Magazine (1910-1911)

Moody, John

The Truth About the Trusts

Noyes, Alexander Dana

Forty Years of American Finance; A Short Financial  
History of the Government and People of the United  
States Since the Civil War, 1865-1907

G. P. Putnam's Sons (1909)

Paine, Albert Bigelow

Theodore N. Vail; A Biography

Harper & Brothers, New York (1921)

Perry, Bliss

Life and Letters of Henry Lee Higginson

The Atlantic Monthly Press (1921)

Pringle, Henry F.

Theodore Roosevelt; A Biography

Harcourt, Brace and Company (1931)

Reed, Homer Blosser

The Morals of Monopoly and Competition

The Collegiate Press, George Banta  
Publishing Company (1916)

Rhodes, Frederick Leland

Beginnings of Telephony

Harper & Brothers (1929)

Ripley, Wm. Z.

Railroads, Finance and Organization

Longmans, Green and Company (1915)

Ripley, Wm. Z.

Railroads, Rates and Regulation

Longmans, Green and Company (1912)

Ripley, Wm. Z.

Railway Problems

Ginn & Company (1907)

Stehman, J. Warren

The Financial History of the American Telephone  
and Telegraph Company

Houghton Mifflin Company (1925)

Tarbell, Ida M.

The History of the Standard Oil Company

The Macmillan Company (1925)

REPORTS

Hearings before the Committee on Banking and Currency, United  
States Senate, Sixty-third Congress, First Session, on H. R.  
7837 (S. 2639), Senate Document No. 232, Vol. II (1913)

Bell Telephone Quarterly; A Medium of Suggestion and A Record  
of Progress, Vol. IV, No. 3 (July, 1925)

Bradstreet's: A Journal of Trade, Finance and Public Economy, Vol. 23 (1895)

Commercial and Financial Chronicle

The International Quarterly, October 1905

The Journal of Political Economy (1907)

McClure's Magazine

The New York Times (May 1923) (November 1915)

New York "Tribune" (February 1893)

Poor's Manual of the Railroads of the United States (1870-1871)

Poor's Manual of the Railroads of the United States (1896)

The Rand-McNally Bankers' Directory and List of Attorneys (1902)

Report of the Armstrong Committee Appointed to Investigate Life Insurance Companies, identified as "State of New York; Assembly Document No. 41; Report of the Joint Committee of the Senate and Assembly Appointed to Investigate the Affairs of Life Insurance Companies; transmitted to the Legislature February 22, 1906

62d Congress, 3d Session, House of Representatives Report No. 1593 of the "Committee Appointed Pursuant to House Resolutions 429 and 504 to Investigate the Concentration of Control of Money and Credit," submitted by Mr. Pujo on February 28, 1913

U. S. Department of Commerce and Labor, Bureau of the Census; Bulletin 17; Telephones and Telegraphs; 1902

U. S. Department of Commerce and Labor, Bureau of the Census; Special Reports; Telephones: 1907

United States Circuit Court, District of Delaware, June term, 1890: The Postal Telegraph-Cable Company vs. The Delaware and Atlantic Telegraph and Telephone Company

United States Industrial Commission Report, 1901, Vol. 13:  
Document No. 182. 57th Congress, 1st Session, House of  
Representatives; Report of the Industrial Commission on Trusts  
and Industrial Combinations; (Second Volume) Including Testimony  
Taken since March 1, 1900. Together with Review and Digest Thereof,  
and Special Reports on Prices and on the Stocks of Industrial  
Corporations; Volume XIII of the Commission's Reports. Submitted  
December 4, 1901

Western Union Telegraph Company, Annual Report for the years:  
1877, 1878, 1879, 1880, 1881 and 1882