

Exhibit No. _____ (LLS-3)

Historical Directory Information, from California State Archives,
Folder 3725:2855;S-390, *Review of Telephone Directory
Practices of the Associated Telephone Company, 1943-1945.*

Source: *Public Utilities Commission Records, Part 1, 1979*
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Utilities Division - Special Studies -
S-390 - Telephone Directory Practices.
1943-1945

File - 2nd Copy

S-390

ASSOCIATED TELEPHONE COMPANY, LTD.
MEMORANDUM RE
TELEPHONE DIRECTORY PUBLISHING CONTRACT
BETWEEN
ASSOCIATED TELEPHONE COMPANY, LTD.
AND THE
GENERAL TELEPHONE DIRECTORY COMPANY

July 2, 1943

CONFIDENTIAL

The Department of Communications, of the State of New York
Telephone Directory Publishing Contract

The revenues from telephone directory advertising are an important part of the operation of a telephone company. In the General Telephone System for the year 1942 directory advertising revenues contributed \$31,137 out of \$1,306,000 total operating revenues, or 2.4%.

ASSOCIATED TELEPHONE COMPANY, LTD.

MEMORANDUM RE

TELEPHONE DIRECTORY PUBLISHING CONTRACT

BETWEEN

ASSOCIATED TELEPHONE COMPANY, LTD.

AND THE

GENERAL TELEPHONE DIRECTORY COMPANY

The difficulties in securing telephone directory advertising revenues from telephone company are complicated by a combination of factors. In some instances, telephone companies have been reluctant to sell advertising space to the public voluntarily—telephone directory advertising, in particular, is one that must be sold to the public as aggressively as life insurance, and that the fear and of the possible value of directory advertising, beyond that of a directory, is not fully appreciated. The fact that the sale of directory advertising is a business which is primarily contrary to the basic point of view of selling in a telephone company, the sale of advertising has always offered a troublesome problem for management in every telephone organization. The problem, obviously, is to secure reasonable amounts of revenues from advertising while maintaining the quality of directory and advertising service to the public, but at the same time to exclude any unnecessary and side-line activity in such a way as not to interfere with the essential requirements of the telephone business.

July 2, 1943

Part I

The Development of Specialized Telephone Directory

Publishing Companies in the Telephone Industry

The revenues from telephone directory advertising are insignificant in the operation of a telephone company. In the General Telephone System for the year 1942 directory advertising revenues contributed \$681,150 out of \$24,368,907 total operating revenues, or 2.8%. In the Associated Telephone Company, Ltd. for the same period the directory advertising billing was \$269,830, or 4% of the total operating revenues of \$6,802,217.

The difficulties in securing telephone directory advertising revenues in any telephone company are complicated by a contradiction which is inherent in the industry: In round numbers, 95 per cent of all telephone services are bought by the public voluntarily—telephone directory advertising, in contrast, is an item that must be sold to the public as aggressively as life insurance, and less than 5 per cent of the present volume of directory advertising revenues would, in all probability, be bought in absence of direct solicitation by telephone users. Inasmuch as telephone directory advertising revenues are relatively inconsequential, and since the sale of directory advertising is a function which is peculiarly contrary to the basic point of view of selling in a telephone company, the sale of advertising has always offered a troublesome problem for management in every telephone organization. The problem, obviously, is to secure reasonable amounts of revenue from this source; to give a satisfactory grade of directory and advertising service to the public, but at the same time to conduct this inconsequential and side-line activity in such a way that it interferes to the least extent with the essential requirements of the telephone business.

In the independent field, the practice of having directories published* by someone outside of the Telephone Company is probably as old as the practice of publishing telephone directories. Many companies enter into an arrangement with the local newspaper (with job printing shop attached) to furnish the telephone directories to the Telephone Company without charge, such a newspaper job shop securing its compensation by having the advertising man on the newspaper sell the advertising in the directory. Although there are no statistics available on the subject, we would make a guess that a third of all independent telephone directories in the country (particularly in the very small companies) are published on some such arrangement.

Under this plan, the full revenue advantages from the directory are not realized by anyone, because the newspaper man is naturally most concerned with his newspaper advertising revenues, and to keep those intact, he usually follows a practice of just selling enough advertisers for the telephone directory to pay a profit on the printing job.

There is also another directory publishing arrangement which is quite prevalent in the independent telephone industry. In normal times, a large group of migratory advertising and novelty salesmen move in and out of every town in America. They subsist on selling all sorts of advertising: Restaurant menus, special editions of newspapers, novelties of one kind and another, advertising slides in motion picture theaters, and helping the local sign painter extend his billboard activities. In addition, these floating advertising men approach

*The term "published" or "publishing" as used generally in speaking of telephone directories and as used herein, does not include within its meaning either the control over the content of the directory or the issuance of the directory to the customers of the telephone company. The term as so used is confined to the sale of advertising and the doing of the mechanical work of printing the directories.

the local telephone company and offer a plan whereby the telephone company buys the directory printing job from the local printer and bills and collects for the advertising which the floating salesmen agree to sell on a commission basis - such commission being from 25% to 40%, possibly, of the billing value of the signed advertising contracts.

Such a plan occasionally appeals to an independent telephone owner because of the attractive picture of profits which can be painted in advance, but these floating advertising men are notorious as an unstable and unscrupulous group, and all sorts of undesirable situations arise from their activities.

The L. M. Berry Company which, beginning in 1910, pioneered organized directory advertising selling in the independent field found its place in the industry because Mr. Berry was in a position to offer a more profitable arrangement to the Telephone Company than the local newspaper men and a job of higher quality than that offered by the floating advertising salesmen. Mr. Berry also found a field for his services because a majority of independent telephone managers and employees traditionally view the job of selling advertising as a disagreeable task. This condition is even a consideration in the Associated Company where a difficult force adjustment problem would be presented in assigning sufficient man hours during one month to issue the large Long Beach directory, and then reassigning such a force to other functions during periods when much smaller directories, or no directories, are issued.

In general, and with the exceptions noted below, Mr. Berry's company offers practically the same service as the floating advertising salesman, but with most of the objections removed by means of more or less fixed plans of procedure, rules of conduct, and supervision. However, since Mr. Berry's organization is, in effect, an association of floating advertising salesmen with a code of ethics,

his plan results in but a partial improvement over the floater rather than a complete correction of the objectionable conditions. Actually, it was the factor of the quality of the service to be given customers, in the sense under discussion in this paragraph, that was one of the principal considerations in the development of a system-owned directory publishing company, as will be seen later.

Meanwhile, in the Bell Companies another plan was evolving wherein telephone directories were handled by organizations outside of the Telephone Company. It is necessary, we believe, to trace briefly the development of telephone directory publishing in order to show the general theory underlying contracts between Telephone Companies and outside Directory Publishers.

The directory job involves the functions of selling advertising, compiling the directory, printing, distribution, and billing and collecting for advertising. The Reuben H. Donnelley Corporation of Chicago, beginning about 1900, pioneered specialized directory publishing in the Bell System in the same way that Mr. Berry did it in the independent field. The Donnelley Company, however, starting as printers, were in a position to offer companies a complete directory publishing job, including selling, compiling, printing, distributing, and collecting.

Under this arrangement, the Donnelley Company was in a position to more or less take control over the design of directories, advertising rate schedules, etc. Consequently, early in the history of the business, Donnelley was in a position to sell directory advertising on a plane that would compare favorably with the policies of the very best newspaper and periodical publishers. Its directories were designed and produced essentially with the view of carrying advertising and making it salable. Its directories offered an effective advertising medium in which results to the advertiser could be proven. This

was quite in contrast to Mr. Berry's early day procedure of selling the odds and ends of blank space that the Telephone Company happened to leave open in the book after the listings were in place. In effect in the larger cities and the generally greater need for volume of sales. Also, advertising agencies may be able to

As time has passed, Mr. Berry has swung over to the Donnelley process to some extent and has indicated that he believes a publishing type of contract is the best. It is interesting to note that in 1934 the Berry Company began to handle the Louisville, Ky. directory for the Southern Bell Telephone and Tele-

graph Company. Recently, on the basis of eight years' experience at Louisville,

(2) Comparison of directory issues - Obviously, a directory is the Southern Bell Company employed the Berry Company to handle other of its larger directories in Kentucky and Tennessee.

These two methods of handling directories have resulted in two different

types of contracts being written for directory functions. One type of contract is a sales contract under which the directory organization does nothing but sell the advertising. The sales organization usually receives a per cent of the revenues derived from sale of advertising as its compensation.

The other type of contract is a publishing contract under which the directory organization performs all or many of the directory publishing functions. In some cases the only material compensation to the Telephone Company is that it is provided with telephone directories at no cost, while in others the Tele-

phone Company is paid some amount by the directory publishers for the directory publishing privilege or concession. Sometimes this is an agreed upon division of the net - at other times a percentage of the billing or collections. If settlement is predicated on a percentage of billing or collections, the percentage is controlled by certain variable cost factors, principal among which are

As time has passed, all sorts of publishing and sales contracts have grown up in the industry, and, generally, the contracts fall into two

(1) Size of exchange - The cost per dollar of advertising revenue is usually slightly less expensive to sell in a large place than a small place because of the higher rate schedule usually in effect in the larger cities and the generally greater need for advertising in such places, which results in a greater volume of sales. Also, advertising salesmen may be able to live at a larger place the year around, which means they do not have expense accounts and this, of course, makes selling costs less. On the other hand, a salesman can cover fewer advertising accounts per day in a large town than in a small town by reason of the larger area to be covered, traffic conditions, etc. Also, competition for the advertising dollar is keener in a larger place than in a small town.

(2) Frequency of directory issues - Obviously, a directory with twelve months' life is less costly to the publisher than one issued for six months. Inasmuch as advertising is sold at a given rate per month, and usually billed monthly on telephone bills, it follows that revenues are more or less constant, regardless of the frequency of directory issues.

(3) Printing Arrangements - When a directory can be printed by a specialized directory printer on a competitive contract, the overall cost is considerably less than when, for example, it must be given to some local newspaper shop, so that the Telephone Company can retain the newspaper publisher's good will by patronizing his job shop. Printing costs of a directory publisher are not alone governed by the amount of the printer's bill. One printing bill may be higher than another, but the higher bill may include certain added functions performed by the printer, such as proofreading, paging directories, etc. In general, it is the added service, rather than reduced printing bill, that makes the service of a specialized directory printer more desirable to a directory publishing organization.

Succinctly, the difference between a publishing contract and an advertising sales contract is that under the former the Directory Publisher contracts to do the complete directory job for the Telephone Company, whereas under a Sales Contract the Directory Organization serves only as the Directory Advertising Sales Force of the Telephone Company.

As time has passed, all sorts of publishing and sales contracts have grown up in the industry, and, actually, the contracts follow no pattern as to the division of revenues and functions between Telephone Companies and

Directory Companies. Arrangements, which began years back as simple sales contracts, now include one or more publishing functions performed by the

The General Telephone Directory Company is the only telephone directory publishing organization. Conversely, contracts which originated as full publishing contracts years ago have been narrowed down so that the publisher today is only a sales agent.

There are apparently ten generally recognized directory publishing organizations in the United States in addition to the countless local arrangements with newspapers and floating salesmen previously mentioned. The nine such companies, in addition to General Telephone Directory Company, are:

- (1) Anderson Directory Company of Chanute, Kansas, operating in the Independent Companies in Kansas, Oklahoma and Missouri.
- (2) Beatty Directory Company of St. Paul, Minnesota, operating extensively in Minnesota and Iowa.
- (3) Berry, L. M. and Company of Dayton, Ohio, serving about 3,000 cities and towns in twenty-one states in the United States and Canada. The Berry organization has served many large independent companies continuously for 25 years. This organization also handles certain directories for Ohio Bell and the Southern Bell Telephone and Telegraph Company.
- (4) Donnelley Corporation, Reuben H., of Chicago, Illinois, serving principally Bell System Companies in the States of Illinois, New York, Ohio, Pennsylvania and West Virginia. This includes directories for Chicago (largest classified in the world), Manhattan, Philadelphia and many others.
- (5) Loomis Advertising Company of Kansas City, Missouri, handling the directories for Telephone Bond and Share (second largest group of independent telephone properties in the United States) and other independent directories.
- (6) National Telephone Directory Company of Boston, Massachusetts, handling New England Bell directories and many independent directories including the Lincoln Telephone and Telegraph Company of Lincoln, Nebraska and the San Angelo Telephone Company of San Angelo, Texas.
- (7) Stenseth, R. J., of Rock Hill, South Carolina, operating through the Carolinas.
- (8) Telephone Directory Advertising Company of Detroit, Michigan, handling the directories of the Michigan Bell Telephone Company.

(9) Welker, J. H. of Canton, Ohio, working in Independent Companies in Indiana, Michigan, Ohio, Pennsylvania and West Virginia.

The General Telephone Directory Company is the only telephone directory publishing company on the West Coast listed in "Telephony's Directory of the Telephone Industry."

This company handles the directories of its affiliated telephone companies as well as the directories for other companies such as California Water and Telephone Company, Oxnard Home Telephone Company, Sanger Telephone Company, Santa Paula Home Telephone Company, Ellensburg Telephone Company of Ellensburg, Washington and the Douglas Aircraft Company telephone directory which includes approximately 10,000 listings.

In the United States today, the majority of telephone customers of the Bell System are sold advertising by a specialized company and practically every large independent company utilizes the services of such a company,

either to publish its directories or to sell its advertising. As we estimate it, something over 50% of Bell System advertising revenues are so secured, and probably in excess of 90% of the advertising revenues in independent companies are secured by specialized directory publishers.

The reasons why specialized telephone directory publishing organizations have made their place in the telephone industry are these:

(1) Incentive to Sell - A Telephone Company can do a poor job selling directory advertising without an essentially negative effect on its total income because directories are only an incidental part of the business. On the other hand, a directory organization must sell advertising to survive. This survival incentive makes it possible for a directory organization to pay a Telephone Company more profit than the Telephone Company can earn from the same source, and also earn a reasonable return for the directory organization.

(2) Specialized Training - By its nature a Telephone Company does not ordinarily employ or develop men of the temperament necessary to successfully handle an advertising business. Salary levels and methods of payment in a Telephone Company have an influence on this factor.

- (3) Periodic Peak Loads - The force adjustment problem confronting a Telephone Company in building up a skilled and accurate force to issue large directories, and then reassigning such a force to other essential functions during the period between directory issues.

It is worth noting that this practice of specialization is not unlike a method followed in American business outside of the telephone field, namely, creating a specialized company to do a specialized function. This practice has brought about the Fred Harvey Company, (dining car, restaurant and hotel operators for the Santa Fe); Standard Stations, Inc., (service station operators for the Standard Oil Company of California); the Railway Express Agency; General Foods Sales Corporation; General Motors Sales Corporation, and many more that could be named.

Furthermore, to some degree the same basic problem as is offered to Telephone Companies in issuing telephone directories has caused the development of advertising agencies to handle the advertising of practically every large corporation in the United States. The Lord and Thomas Advertising Agency, for example, is employed by American Tobacco Company to spend \$3,000,000 annually to advertise Lucky Strike cigarettes. A long list of similar examples could be named, which would serve to further illustrate that American business organizations, even the largest, have apparently not been as successful in handling advertising internally, as it can be done by a specialized agency; otherwise the large number of advertising agencies would not exist.

Part II

The Development of a Specialized Telephone Directory Publishing Company in the General Telephone System

By 1928 all of the companies in the System were in search of additional revenues, motivated principally by the losses in earnings sustained during the Depression. Telephone directory advertising revenues were analyzed and considered in all of the companies, and these companies agreed to let the same time the Santa Monica Bay Telephone Company was purchased. The Tel-Ad Company had, since 1926, published telephone directories for the exchanges at Santa Monica and Redondo Beach.

With the formation of the Associated Telephone Company, Ltd. during 1929 the Tel-Ad Company assumed the directory publishing functions in the component exchanges. All of these exchanges, under prior ownership, had contracted the directory publishing function to outside publishers. The Long Beach Directory Publishers, an organization wholly owned by Mr. Welch Hanberry (now deceased) published the Long Beach and San Bernardino directories without cost to the Telephone Company except that the Telephone Company was required to furnish lists of subscribers. The Telephone Company, on the other hand, did not participate in any way in directory revenues. A similar arrangement existed with Mr. Hanberry for the publication of the Huntington Beach and Laguna Beach directories. Likewise, one William Amberson had a similar arrangement for the publishing of the Pomona and Ontario-Upland directories.

At Covina, Mr. Hanberry's Long Beach Directory Publishers handled the directory but paid the Telephone Company 20 per cent of the gross billing for the privilege.

It was this group of directories, therefore, which the System-owned Tel-Ad Company acquired during 1929 and 1930 when it began its functions as the

Telephone Directory Company for the Associated Telephone Company, Ltd. It is significant that Tel-Ad began its work by taking over functions previously performed by outside publishers, and consequently the Associated Company has never in its history had its directory work done internally.

By 1934 all of the companies in the System were in search of additional revenues, motivated principally by the losses in earnings sustained during the depression. Telephone directory advertising revenues were analyzed and compared in all of the companies, and these comparisons seemed to indicate that the methods followed by the specialized Tel-Ad Company were the most effective in securing net returns from directories. In 1936 all companies in the System other than Associated and San Joaquin had an average income from telephone directories of 5.3 cents per telephone per year. Whereas in Associated - where Tel-Ad was then confining its efforts - the comparable figure was 66.9 cents per telephone per year. It was the wide-spread difference between these figures, that gave impetus to the idea of establishing a Directory Company to serve the System as a whole, and many months during 1935 were given to analyzing, discussing and testing the practicability of such a project.

As a means of testing the feasibility of a System-wide directory company, the Tel-Ad Company published the Wenatchee, Washington directory in the fall of 1934 and the directories at Lexington, Kentucky and Muskegon, Michigan during the spring of 1935. These tests gave further indication of the desirability and practicability of assigning the function of publishing telephone directories to a specialized, affiliated company.

On the basis of these tests, the General Telephone Directory Company was formed to take over the business of the Tel-Ad Company and to publish

all directories in the System. At the time the Directory Company thus came into existence, the status of directory publishing in the various companies in the System was as follows:

Eastern Group

Directories in New York, Ohio and Pennsylvania were handled by a Directory Department located at Erie under the Supervision of a Directory Supervisor reporting to the Commercial Superintendent. The only exception was the Lowville (New York) directory which included 22 exchanges of the Upstate Company for which the advertising was sold by the L. M. Berry Company. If our information is correct, the Berry Company had handled all of the directories in the Eastern Group under a number of different contracts covering the various exchanges. These contracts were cancelled on their expiration beginning in 1932, and the cancellation became complete for all areas (except Lowville) by the end of 1934.

Central Group

Directories in Commonwealth, Illinois and Michigan were handled by Directory Salesmen who reported to the General Commercial Superintendent in Madison. Directories in Indiana were published by the L. M. Berry Company, and the directories in Kentucky were issued by the business office employees of the Telephone Company.

Western Group

Directories in Associated, Ltd. and San Joaquin Associated were published by Tel-Ad. Advertising in directories in Interstate and Southwestern was sold by the district managers, and the production and printing supervised by various staff members in the respective General Offices.

Out of the background from which the present directory company originated, we believe that the following considerations are most significant:

(1) The Tel-Ad Company in California grew up concurrently with its affiliate, Associated Telephone Company, Ltd., and in so doing it assumed functions which had previously been handled by outside publishers. The Directory Company has not assumed functions handled previously by the Telephone Company, nor has it been paid revenues which were at any time considered as revenues of the Telephone Company. On the contrary, the amount of directory revenues retained by the Associated Telephone Company, Ltd., has consistently increased year by year throughout its period of relationship with a system-owned Directory Company. Following are the figures:

Year	Revenues Retained By Telephone Co.		Year	Revenues Retained By Telephone Co.		Year	Revenues Retained By Telephone Co.	
	Amount	Pct.		Amount	Pct.		Amount	Pct.
1930	\$ 8,338	4.4	1934	\$19,682	18.0	1939	\$65,519	31.8
1931	17,619	9.9	1935	31,304	28.6	1940	77,183	30.5
1932	17,594	11.9	1936	34,756	23.5	1941	84,948	30.7
1933	10,304	8.6	1937	53,951	31.2	1942	84,052	31.2
			1938	64,241	32.3			

(2) At the time the present Directory Company was formed, there was at hand the actual experience of publishing directories under practically every conceivable method in one company or another, namely (a) Having the job done by the Commercial Department Staff with specialized employees of the Telephone Company doing the selling; (b) Having telephone employees do the selling; (c) Having an outside company do the publishing; (d) Having an outside agency do the selling; (e) Having a system-owned directory company do the publishing.

Directory results in the system compared as follows for the year 1936:

Area and Condition	Per Telephone Per Year		
	Directory Revenues	Directory Expenses	Directory Income
Associated - using Services of System-owned Directory Company	\$1.75	\$1.08	\$.67
Average for all other Companies in System using Various Other Methods	.40	.35	.05

It was therefore in the light of actual experience with all of these different methods that the system-owned Directory Company was recommended as offering the most desirable method of publishing telephone directories in the General Telephone System. That the recommendation was a fortunate one is shown by comparing the above results for 1936 with the following results for 1942, when the directories for the entire system were handled by the Directory Company:

Area and Condition	Per Telephone Per Year		
	Directory Revenues	Directory Expenses	Directory Income
Associated	\$1.573	\$.782	\$.791
Average for all other Companies in System	.878	.558	.32

Table 1, following page 14, shows the net effect on directory advertising revenues resulting from the Directory Company having been established to publish all telephone directories in the System. By using per station figures in this computation economic increases or decreases have been more or less neutralized. This figure indicates that the Telephone Company level of advertising revenues is 54.06 per cent under that of the Directory Company level.

(3) In endeavoring to solve the problem of how best to publish directories in the General Telephone System there was major concern and interest in the quality of the job to be done, probably more than in the financial results to be obtained. Consequently, the expanded company was designed to have a Board of Directors including representatives of the Commercial Department of each of the three operating groups. The purpose of such an organization of the board was principally to mold the policies of the Directory Company to meet all of the requirements of the Telephone Companies as to public relations; adequate directory service; regulation, etc. We believe that this method of organization has been reasonably effective in giving the Directory Company personnel something of a telephone man's sense of obligation as a public servant without materially compromising the essential obligation of the company; namely, securing as much directory advertising revenue as reasonably possible consistent with other objectives.

At the time the System-wide Directory Company was formed in 1936, the following brief summary of all considerations was particularly influential in the decision that resulted in the expanded directory organization:

(1) Earning Considerations

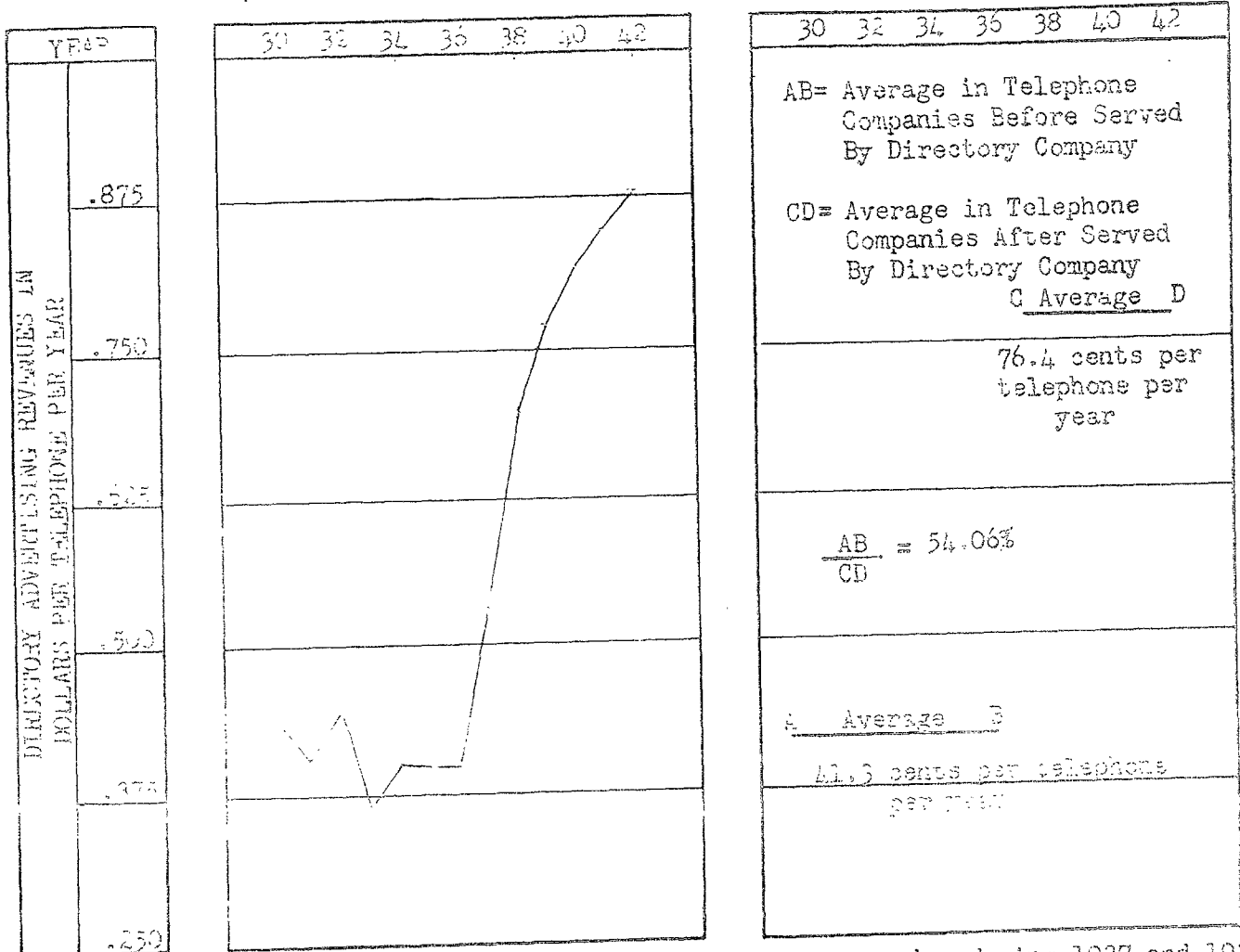
- A. A specialized Directory Company would sell more advertising than the Telephone Companies would sell themselves. To accomplish this end, however, it was apparent that the Directory Company had to be a profit earning subsidiary because it was recognized that without this fundamental motive, the specialized Directory Company would be nothing more than the Directory Department of the various Telephone Companies, and the specific purpose for which the specialized company had been created would be destroyed.
- B. A specialized Directory Company could perform certain functions for all of the Telephone Companies in the System relative to printing directories, less expensively than the individual Telephone Companies could do the work internally.
- C. The net result of A. and B. above would be more net earnings from directory operations for the telephone companies and a small profit for the Directory Company.

(2) Quality of the Job

Through representation on the Board of Directors of the Directory Company, and through the influence that a Telephone Company inherently bears on a specialized affiliated company, the quality of the work performed in issuing telephone directories would be more satisfactory than it was believed could be secured from an outside directory publishing organization.

TREND OF DIRECTORY ADVERTISING REVENUES IN ALL COMPANIES OF
GENERAL TELEPHONE SYSTEM EXCEPT ASSOCIATED TELEPHONE COMPANY, LTD.

NOTE: The purpose of this calculation is to evaluate the net effect on Directory Advertising Revenues, resulting from an affiliated Directory Company being established to publish all telephone directories.



General Telephone Directory Company began serving all companies during 1937 and 1938.

YEAR	TOTAL ALL TELEPHONES	DIRECTORY ADVERTISING REVENUES	DIRECTORY ADVERTISING REVENUES PER TELEPHONE
1930	399,300	\$171,737	\$.430
1931	390,992	158,719	.406
1932	329,103	151,944	.448
1933*	277,775	115,475*	.363*
1934	323,834	128,920	.398
1935	334,736	131,903	.394
1936	358,166	142,609	.398
TOTAL	2,146,681	\$835,832	\$.413
1937	383,113	\$203,019	\$.530
1938	392,203	272,123	.694
1939	405,345	310,322	.765
1940	476,812	333,015	.819
1941	436,334	374,950	.859
1942	451,990	399,653	.878
TOTAL	2,179,017	\$1,893,092	\$.764

*Excluded from totals as abnormal year.

Part III

The Contract Between Associated Telephone Company, Ltd.
and General Telephone Directory Company

Since the contract was first negotiated, it was necessary that revenue

A telephone directory contract between the Telephone Company and the

Publishing Company has two essential considerations: (1) The assignment of

the work which the Directory Company is to do, and (2) the basis for com-

pensating the Directory Company for its work. In the instance of the con-

tract between Associated Telephone Company, Ltd. and General Telephone Di-

rectory Company, the Directory Company has performed the following functions:

- (1) Sale of advertising including both the actual sales work and all work incidental thereto such as assisting customers in making up their advertising copy, etc.,
- (2) General supervision of the printing and payment of all printing bills,
- (3) Delivery of the directory to the Telephone Company offices.

The Telephone Company has always maintained complete control over the rates at which advertising is to be sold, the persons to whom advertising is to be sold, the form and make-up of the directory, and issuance of the directory to its customers.

At the time of the formation of General Telephone Directory Company a policy was established to negotiate a contract which would be more favorable

to the telephone companies than they could secure from an outside publisher.

The contract negotiated when the expanded company was formed in 1936 was

more favorable to the respective telephone companies than the Berry con-

tracts in Indiana and New York, the Berry proposal to the Eastern Group (made late in 1934) or the Tel-Ad contract then in effect with the California

Companies. Inasmuch as the purpose of the expanded Directory Company was principally to secure increased revenues and since the Directory Company had no record of experience in most of the companies it was about to begin to serve when the contract was first negotiated, it was necessary that revenue results from the relationship had to be predicated upon estimates of revenues which the Directory Company believed it could secure.

Although the Associated Company's annual revenues from its directories continued to increase each year after the initial contract was entered into in 1936, that contract was re-negotiated in 1940 to provide a smaller amount of compensation in terms of percentage to the Directory Company.

Under the present contract the Associated Company retains $27\frac{1}{2}$ per cent of the directory advertising charges billed, plus an amount equal to $\frac{1}{4}$ per telephone per month. The present contract has been in course of re-negotiation for the past several months and we are sure that even more favorable terms will be obtained in the new contract now being negotiated. As pointed out above, the General Telephone Directory Company publishes other telephone directories upon the Pacific Coast for companies which are not affiliated with the Associated Company. We believe that the Associated contract with the Directory Company is more favorable to the Telephone Company than are any of the contracts which have been negotiated by the Directory Company in the open market with non-affiliated concerns.

In the course of the current re-negotiation of the contract, efforts have been made to compare the results of the existing contract both with the results that could be obtained by the Associated Company publishing its own directories and the results that could be obtained by having the directories published by a non-affiliated directory company. We have found that such

comparisons can only be premised upon sheer speculation. Insofar as what results could be obtained by the Telephone Company publishing its own directories are concerned, the Associated Company has never published its own directories. Any estimate as to the results of the Company publishing its own directories would have to be premised upon artificial estimates of extent of revenues, man power needed, costs thereof and allocation of costs within the present organization of the Company. The only tangible facts which would serve as a basis of comparison are set forth upon Pages 13 and 14 hereinabove. As is there pointed out, the experience in other affiliated companies was that their revenues from publishing their directories in other manners were but 54.06 per cent of what their revenues have been from having their directories published by the Directory Company. Furthermore, such an inquiry is at the present time academic because it would be impossible under the present wartime conditions for this Company to obtain either the man power or the facilities which it would have to have in order to publish its own directories.

Insofar as a comparison of results with the results of having the directories published by non-affiliated publishing companies is concerned, again answers can be obtained only by making high speculative assumptions relative to the similarity of other telephone exchanges and areas being served by other directory companies, and as to the functions performed under the various contracts of other telephone companies with their directory publishing companies. We have been forced to the conclusion that it is impossible to establish assumptions which are firm enough to make an intelligent comparison possible. However, Mr. L. M. Berry, the President of the Berry Company, after being fully informed of the nature of the Associated Company's

territories and the amount of its directory revenues, has stated that his company would not give the Associated Company a contract for the publishing of its directories for less than 70 per cent of the gross revenues obtained from the directories. This would be slightly less favorable to the Associated Company than its present arrangement with the General Telephone Directory Company. In this connection it is to be noted that while the Associated Company has very lucrative directory territory in Long Beach and in the Santa Monica-West Los Angeles directory areas from the viewpoint of directory revenues, it also has numerous small exchanges which are much less lucrative and some such as Lancaster where the publishing of a directory results in a net loss.

In conclusion, the Management of Associated Telephone Company, Ltd. is thoroughly convinced that it is to the Company's advantage, both from the viewpoint of financial returns and from the viewpoint of operating its telephone business, to have its telephone directories published by the General Telephone Directory Company, rather than by any other directory publishing company, or by publishing its directories itself.

ASSOCIATED TELEPHONE COMPANY, LTD.

By C. F. Mason
C. F. MASON, President

EXHIBIT A
TELEPHONE DIRECTORY PUBLISHING CONTRACT
BETWEEN
ASSOCIATED TELEPHONE COMPANY, LTD.
AND THE
GENERAL TELEPHONE DIRECTORY COMPANY
DATED AUGUST 19, 1940

TELEPHONE DIRECTORY PUBLISHING CONTRACT

This contract, made in duplicate this 19th day of August, 1940, by and between ASSOCIATED TELEPHONE COMPANY, LTD., a corporation, organized and existing under and by virtue of the laws of the State of California, party of the first part, hereinafter called the "Telephone Company" and GENERAL TELEPHONE DIRECTORY COMPANY, a corporation, organized and existing under and by virtue of the laws of the State of Delaware, party of the second part, hereinafter called the "Directory Company",

W I T N E S S E T H:

In consideration of the sum of One Dollar (\$1.00), paid by each party to the other, and for other good and valuable considerations, the receipt of which is hereby acknowledged by each party, the respective parties hereto do mutually covenant and agree as follows:

1. **GENERAL.**

The Telephone Company grants and conveys to the Directory Company the exclusive right to publish, print, and sell advertising in the telephone directories of the Telephone Company under the covenants, terms, and conditions herein specified. The Directory Company hereby covenants and agrees to publish, print, and sell advertising in the telephone directories of the Telephone Company and to furnish such directories to the Telephone Company under the covenants, terms, and conditions herein specified.

It is further mutually understood and agreed that any or all covenants, terms, and conditions of this contract are subject to cancellation or change on order of any Regulatory Body or because of changed conditions resulting from future orders of any Regulatory Body.

2. **DURATION OF AGREEMENT.**

This contract is effective on all telephone directories published on and after July 1, 1940, and shall continue in force until the thirty-first day of December, 1940, and thereafter for terms of one year each, unless ninety (90) days written notice be previously given by either party to the other of an intention to terminate the same at the end of any such period.

3. **DIRECTORY SCHEDULE.**

Telephone directories will be published at the intervals and on the dates specified in a Directory Schedule which is agreed upon by and between the parties each calendar year in advance. In the event either party wishes to change directory publishing dates from that specified in the Directory Schedule, such action shall be accomplished by negotiation by and between the parties.

4. PUBLISHING SPECIFICATIONS.

The design and content of telephone directories shall be as mutually agreed upon from time to time by and between the parties.

5. NUMBER OF TELEPHONE DIRECTORIES.

The Telephone Company shall specify the number of telephone directories required for each issue on standard forms provided for that purpose by the Directory Company before the closing date of each directory issue.

6. DIRECTORY LISTING PROCEDURE.

The Telephone Company shall furnish the Directory Company with the alphabetical listings and classified listings, in a form as mutually agreed upon. The Telephone Company agrees to make no changes in directory copy after the closing date specified in the Directory Schedule, except to correct errors in standing listing matter. The Telephone Company agrees to maintain a card file of all business accounts in each exchange for the use of the Directory Company.

7. PUBLISHING PROCEDURE.

The Directory Company shall secure bids and make all contracts incident to printing telephone directories, but the specific firm to whom the contract is awarded and the text, form, and terms of such contracts shall meet with the approval of the Telephone Company. The Directory Company shall supervise the printing and publishing of telephone directories and shall pay all printing and publishing bills. The Directory Company shall arrange for directories to be shipped to each exchange by the printer on the date provided in the Directory Schedule and the Directory Company shall pay such shipping charges.

The Telephone Company shall proof read listing matter, handle the delivery of directories to subscribers and shall pay the costs thereof, and shall pay the added cost of special directories, such as directories used for Information Directories, and irregularly scheduled directories issued incident to plant out-overs, or other special conditions.

The Telephone Company shall have telephone directories copyrighted in its name when considered necessary by either of the parties.

8. CREDIT PROCEDURE.

The Telephone Company shall post the credit status of each business account on a card in the file mentioned in paragraph 6. The amount of directory advertising sold by representatives of the Directory Company will be consistent with the credit status of the advertiser. Each advertising order taken by representatives of the Directory Company shall