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THE INDEPENDENT TELEPHONE COLLAPSE

The Logical Result of Overcapitalization, Insufficient Maintenance and Loss of Financial Credit.

BOSTON.—The strenuous efforts made of late to float the securities of several independent telephone companies, either those of more recent construction, or those which are in process of reorganization, are attracting attention and call for comment on the part of those interested in financial matters.

At no time in the last eight years has it been so clear as in the last twelve or fifteen months, particularly the last eight, that the independent telephone movement throughout the country was suffering from general collapse.

Undoubtedly precipitated by the panic, the independent breakdown has been inevitable from the first. It is, in short, nothing but the logical working out of the radical and incurable defects under which the majority of independents were organized. Seeking to serve two masters, the independents secured their franchises from the municipality through promises of low rates; induced capital to subscribe through promise of huge profits. By the first move they hoped to gain popular support; by the second, the money of the small local investor.

In the early days of independent telephony the name of the Bell Company was used for conjuring purposes. Absurd statements were set forth of the fabulous profits which had accrued to the original Bell shareholders. But the alluring promises as to what could and would be done, the broad allegations of overcharges and unreasonable profits of the old Bell companies, so freely circulated in the prospectuses of the independents, have been discarded, and the truth is now coming out, when, in the effort to escape inevitable disaster, the independents admit that, under the rates promised at organization, actual operation demonstrates that it is impossible to pay expenses and care for plant, let alone showing any profit.

The record of "foreclosures," "passed dividends" and "receiverships" of the independent companies, now so large and fast increasing, emphasizes

the fact that between "promise" and "performance" lay many obstacles not disclosed in a promoters' prospectus.

The record of independents' disaster has only been hastened by the financial crisis which cut the nerve of their credit and destroyed the ability to raise new capital,—a result necessitating the closing of construction account. With an "open construction account" the net profits of the independents were limited only by gross revenue.

This record as shown by current press reports includes in one phase or another the most prominent companies in the United States, while 50 per cent at least of the independent companies have either raised rates or failed in the attempt to do so.

Had all the independents with their tempting rates and popular favor begun life with fair capitalization, the success of the problem would have been difficult enough, but success was impossible from the start under their methods of promotion and construction.

With very few exceptions the prospectuses which have been or are now being circulated disclose the fact, if they disclose any fact, that the plant was, as a rule, built by a construction company, paid for with bonds at 85 or 90, with a bonus of say 50 per cent and upwards of preferred stock, or common stock, or both. The whereabouts of the balance of the stock is not stated, but presumably it is in the hands of the promoters or franchise vendors.

Overcapitalization of the independents is more emphatically shown from actual figures. The average capital of all the Bell companies per station is \$114, or, including the general toll system, \$149 per station, as shown in the annual report. Ten of the largest independents show an average capitalization of about \$270 per station, while if floating debt and other obligations were included, it would be much larger.

Burdened by overcapitalization, it has been inevitable that the independents should show an utter disregard for maintenance and reconstruction. The operating ratio of the average independent company is about 50 per cent. of gross,—many much less,—inclusive of maintenance and reconstruction. The average of all the Bell companies is about 75 per cent., of which about one-half is maintenance and reconstruction.

The difference is the margin between adequate and inadequate maintenance. With a suspended or contracted construction account, property like a telephone plant soon becomes dilapidated and antiquated.

The main factors which have combined to produce the collapse of independent telephony are overcapitalization, ruinously low rates, inadequate maintenance or reconstruction and lack of general intercommunication or long-distance telephone facilities.