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Decision No. 13369.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
THE PACIFIC TELEPHONE AND TELEGRAPH )  
COMPANY, a corporation, for an order )  
authorizing the issuance of preferred ) Application Number 9863  
stock of the par value of \$25,000,000.)

ORIGINAL

Pillsbury, Madison and Sutro,  
by H.D. Pillsbury, for Applicant.

BY THE COMMISSION:

O P I N I O N

In this application The Pacific Telephone and Telegraph Company asks permission to issue and sell at \$87.50 per share 250,000 shares of its six percent. preferred capital stock of the aggregate par value of \$25,000,000.00 and to use the proceeds to reimburse its treasury for amounts paid into the sinking funds of its several bond issues and for its uncapitalized expenditures for fixed capital and investment accounts since October 31, 1922.

The Pacific Telephone and Telegraph Company owns and operates directly or through subsidiary corporations, a general telephone system in the States of California, Nevada, Oregon, Washington and Idaho. The system is composed of local and long distance telephone lines and exchanges and the buildings, rights of way, franchises and equipment therefor. The company reports that it has an authorized capital stock of \$100,000,000.00 divided into \$18,000,000.00 of common stock and \$82,000,000.00 of six percent. preferred stock. As of December 31, 1923 the company reports all of the common stock and

\$57,000,000.00 of the preferred stock outstanding. As of the same date it reports \$62,152,200.00 of bonds outstanding. Its bonded debt consists of \$31,247,000.00 of first mortgage collateral trust five percent. bonds due January 2, 1937; \$6,314,000.00 of first mortgage bonds of the Home Long Distance Telephone and Telegraph Company due January 2, 1932; \$24,591,200.00 of refunding mortgage five percent. bonds due May 1, 1952.

In addition to its outstanding bonded indebtedness the company reports as of December 31, 1923 advances from system corporations aggregating \$31,425,000.00, notes payable of \$10,000.00, accounts payable of \$3,382,516.84 and accrued liabilities not due of \$2,708,395.51. The company reports its revenues and expenses for the years ending December 31st as follows:-

	1922	1923
<b>I. INCOME ACCOUNT:</b>		
Telephone Operating Revenues	\$36,512,530.98	\$40,072,225.97
Telephone Operating Expenses	25,932,735.92	28,183,524.94
Net Telephone Operating Revenues	10,579,795.06	11,888,701.03
<b>LESS:</b> Taxes assignable to operations	2,550,581.94	2,864,226.42
Uncollectible Operating Revenue	151,100.00	166,100.00
Deductions from Net Operating Revenue	2,701,681.94	3,030,326.42
Operating Income	7,878,113.12	8,858,374.61
<b>II. NONOPERATING REVENUES:</b>		
Rent	20,798.99	14,070.37
Dividend Revenues	19,898.40	254,228.40
Interest revenues	1,750,905.08	2,408,277.15
Miscellaneous	1,517.25	-
Total Nonoperating Revenues	1,793,119.72	2,676,575.92
<b>III. NONOPERATING REVENUE DEDUCTIONS</b>		
Rent expenses	2,840.00	1,045.00
Nonoperating taxes	2,354.56	1,583.88
Uncollectible Nonoperating Revenues	288.32	849,880.25
Total	5,482.88	852,509.13
Nonoperating income	1,787,636.84	1,824,066.79
Gross income	9,665,749.96	10,682,441.40
<b>IV. DEDUCTIONS FROM GROSS INCOME:</b>		
Rent	372,166.99	439,912.35
Interest on funded debt	2,712,894.31	3,126,511.83
Other interest	735,311.18	920,471.20
Amortization of debt discount and expense	142,977.55	166,985.79
Amortization of landed capital	22,325.00	24,150.00
Miscellaneous deductions	31,544.70	36,711.96
Total Deductions	4,017,219.73	4,714,743.13
Net Income	5,648,530.23	5,967,698.27
Dividends paid	2,670,000.00	3,420,000.00
Carried to Surplus	\$ 2,978,530.23	\$ 2,547,698.27

The operating expenses for 1922 include \$5,665,650.00 for depreciation of plant and equipment, and those for 1923 the sum of \$6,228,500.00. During both 1922 and 1923 the company paid six percent. dividends on its outstanding preferred stock. The increase in the amount of dividends paid is caused by the issue of additional preferred stock. The company paid no dividends on its common stock.

In its Exhibit "A" applicant reports the increase in fixed capital accounts from October 31, 1922 to December 31, 1923 at \$21,115,323.29.

This amount is made up as follows:-

Intangible capital .....	\$325.00
Right of Way .....	66,252.11
Land and Buildings .....	1,507,147.64
Central Office Equipment...	7,576,295.63
Station Equipment .....	2,330,510.75
Exchange Lines .....	4,448,047.12
Toll Lines .....	3,871,431.28
Other Plant .....	507,262.39
General Equipment .....	<u>808,051.37</u>

TOTAL..... \$21,115,323.29

The net increase of other asset accounts is reported at \$17,272,500.37, most of which represents directly or indirectly advances to system corporations. Exhibit "A" also shows that applicant has from October 31, 1922 to December 31, 1923 decreased its funded debt by the sum of \$1,045,800.00.

On December 31, 1923 applicant had \$31,435,000. of six percent. notes outstanding. These notes were payable to the following corporations or persons:-

American Telephone and Telegraph Company .....	\$31,400,000.
The Home Telephone and Telegraph Co. of Spokane .....	25,000.
W.W.Eden and L.B.Eden .....	<u>10,000.</u>
TOTAL.....	\$31,435,000.

The remainder of the money necessary to finance the above construction expenditures, advances, and purchase of bonds is represented by accounts payable, or earnings invested.

Applicant asks permission to use the proceeds from the sale of the \$25,000,000. of stock it is now proposed to issue to reimburse its treasury to the extent that such proceeds are sufficient for amounts paid into its various sinking funds and for its uncapitalized expenditure for fixed capital and investment accounts prior to December 31, 1923.

It is of record, however, that the company intends to use the proceeds from the sale of its stock to liquidate its outstanding indebtedness which was incurred to acquire the properties to which reference has been made.

### ORDER

The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for permission to issue and sell \$25,000,000. of its six percent. cumulative preferred stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that The Pacific Telephone and Telegraph Company be, and it is hereby, authorized to issue and sell at not less than \$87.50 per share 250,000 shares of its six percent. cumulative preferred stock of the aggregate par value of \$25,000,000.00 and to use the proceeds to pay in part the outstanding indebtedness to which reference is made in the foregoing opinion and through the payment of such indebtedness to finance in part the cost of the additions and betterments and of the investments acquired prior to December 31, 1923.

The authority herein granted is subject to further conditions as follows:-

1. The Pacific Telephone and Telegraph Company shall keep such record of the issue and sale of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order in so far as applicable is made a part

of this order.

2. The authority herein granted to issue stock will become effective upon the date hereof. No stock may be issued after October 1, 1924.

DATED at San Francisco, California, this 2d day of April, 1924.

C. A. Seaver

Gerton Shore

J. H. Whittney  
Commissioners