

the capital stock of this corporation may be increased in the manner provided by law, but any such increase shall be only of preferred stock carrying the same rights and preferences as herein provided and designated for preferred stock to be issued under these articles

has been amended so as to read

the capital stock of this corporation may be increased in the manner provided by law, but any issue of preferred stock shall carry the same rights and preferences as herein provided and designated for preferred stock to be issued under these articles

By the amendment applicant's stockholders have voted to eliminate from the Articles of Incorporation the prohibition against the increase in the common stock of the company. The petition shows that at a special meeting held on November 26, 1924 the Board of Directors called a special meeting of applicant's stockholders to be held February 4, 1925 to consider and act upon the proposal of increasing applicant's authorized stock from \$100,000,000.00 to \$135,000,000.00 divided into \$82,000,000.00 (820,000 shares) of 6 per cent. cumulative preferred and \$53,000,000.00 (530,000 shares) of common stock.

The testimony shows that the American Telephone and Telegraph Company owns approximately 90 per cent. of the outstanding common stock of The Pacific Telephone and Telegraph Company. The American Telephone and Telegraph Company has agreed that contingent upon applicant arranging to modify its financial structure so as to permit of the issue of additional common stock as advisable from time to time, it will, upon the offer for subscription of \$35,000,000.00 of common stock at par, subscribe for and pay for in cash its pro rata part thereof and furthermore, that it will, when such common stock is issued to it, surrender for cancellation to the treasurer of the company \$10,000,000.00 par value of its present common stock holdings. The testimony further shows that when this stock is surrendered applicant will reduce its intangible capital account now carried at \$11,631,914.49 by the sum of \$10,000,000.00 or by such other amount

as may represent the stock surrendered to applicant.

At the present time, as stated above, applicant has outstanding \$18,000,000.00 of common and \$82,000,000.00 of 6 per cent. cumulative preferred stock. Its funded debt consists of \$61,556,500.00 while its advances from system corporations amounts to \$35,822,500.00. Applicant's officers are of the opinion that the present form of its capitalization is not satisfactory. They believe that it will be able to get a better price for its bonds or preferred stock if it obtains some of its capital funds through the issue of common stock. In this connection attention might be called to the fact that the unamortized debt discount and expense is reported at \$3,177,964.07 and the unextinguished discount on capital stock at \$6,875,000.00, making a total of \$10,052,964.07, an amount which is more than one half of the company's outstanding common stock. We believe that from a financial standpoint the issue at this time of additional common stock by applicant is desirable.

The company asks permission to use the proceeds obtained from the sale of its stock to the extent that such proceeds are sufficient to reimburse its treasury for amounts paid into sinking funds of its several bonds issues and for its uncapitalized expenditures for fixed capital and investment account since October 31, 1922, which have not already been capitalized through the proceeds obtained from the sale of stock authorized by Decision Number 13369, dated April 2, 1924. In that decision the Commission authorized the company to issue \$25,000,000.00 of 6 per cent. cumulative preferred stock and sell the same for not less than \$87.50 per share. The company by the order of the Commission was permitted to use the proceeds to reimburse its treasury for amounts paid in the sinking funds of its several bond issues and for its uncapitalized expenditures for fixed capital and investment accounts since October 31, 1922.

The changes in the company's assets and liabilities from October 31, 1922 to September 30, 1924, both inclusive, are shown by the following balance sheets :-

ASSETS

	Sept. 30, 1924	Oct. 31, 1922
Intangible capital	\$ 11,631,914.49	\$ 11,619,089.49
Right of way	1,000,033.06	885,996.26
Land and buildings	11,537,740.36	9,087,712.49
Central office equipment	30,327,731.08	17,258,800.00
Station equipment	16,481,686.70	12,679,266.36
Exchange lines	49,044,599.93	40,559,562.05
Toll lines	29,148,603.68	23,844,547.90
Other plant	1,497,416.13	898,598.22
General equipment	3,264,337.73	2,293,777.80
Total Fixed Capital	153,934,063.16	119,127,350.57
Construction work in progress	4,735,748.98	6,384,661.64
Investment securities	43,773,753.95	14,073,857.26
Advances to system corporations for constr. etc.	26,611,745.88	20,379,245.88
Miscellaneous investments	267,604.14	197,152.85
Cash and deposits	726,475.73	499,991.95
Marketable securities	-	-
Bills receivable	204,762.10	141,613.85
Accounts receivable	5,103,385.97	6,630,043.30
Materials and supplies	2,653,430.97	1,490,225.28
Accrued income not due	157,506.15	111,871.33
Sinking fund assets	1,360.83	126,176.68
Prepayments	320,174.31	436,724.76
Unamortized debt discount and ex- pense	3,177,964.07	3,561,968.38
Unextinguished discount on capital stock	6,875,000.00	3,750,000.00
Other deferred debits	105,027.65	55,364.78
TOTAL ASSETS	248,648,003.89	176,966,248.51

LIABILITIES

	Sept. 30, 1924	Oct. 31, 1922
Capital stock, common	18,000,000.00	18,000,000.00
Capital stock, preferred	82,000,000.00	57,000,000.00
Total Capital Stock	100,000,000.00	75,000,000.00
Funded debt	61,556,500.00	63,198,000.00
Advances from system corporations for constr. etc.	35,822,500.00	-
Bills payable	-	20,000.00
Accounts payable	3,709,354.46	1,982,559.09
Accrued liabilities not due	3,222,815.25	1,866,478.71
Liability for employees' benefit fund	497,075.89	495,954.63
Other deferred credit items	1,946,502.75	285,144.35
Reserve for accrued depreciation	33,098,628.80	28,882,141.78
Reserve for amortization of intang- ible capital	97,836.04	70,450.82
Surplus and undivided profits	8,696,790.70	5,165,519.13
TOTAL LIABILITIES	248,648,003.89	176,966,248.51

Applicant's balance sheet shows an increase in fixed capital from October 31, 1922 to September 30, 1924 of \$34,806,712.59. The increase in "investment securities" and "advances to system corporations for construction etc." is reported at \$35,932,396.69. During the interim the funded debt was decreased by the sum of \$1,641,500.00.

The testimony shows that the \$35,000,000.00 of common stock which the company asks permission to issue will be offered to applicant's stockholders at par. The American Telephone and Telegraph Company, which owns more than two thirds of all of applicant's outstanding capital stock, will subscribe its pro rata part of the stock. Applicant has no assurance from the American Telephone and Telegraph Company that it will purchase stock in excess of its pro rata part. Heretofore the company has purchased stock not subscribed by other stockholders and it is possible that it will do the same in this instance. While applicant asks permission to use the proceeds from the sale of the stock for the purposes mentioned we believe that such proceeds should after the reimbursement of applicant's treasury, be used to pay indebtedness.

ORDER

The Pacific Telephone and Telegraph Company, having applied to the Railroad Commission for permission to issue \$35,000,000.00 of common 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 expenses 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 par for cash, on or before July 1, 1925, 350,000 shares

(\$35,000,000.00) of its common stock and to use the proceeds to reimburse its treasury to the extent that such proceeds are sufficient therefor, for amounts paid into the sinking funds of its several bond issues and for uncapitalized expenditures for fixed capital and investment accounts since October 31, 1922, which have not been already capitalized through the proceeds derived from the sale of stock authorized by Decision Number 13369, dated April 2, 1924, provided that after the reimbursement of applicant's treasury for the purposes indicated the proceeds be used to pay indebtedness.

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

1. Pacific Telephone and Telegraph Company shall keep such record of the issue, sale and delivery 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 Number 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 when applicant has filed with the Railroad Commission a copy of its amended Articles of Incorporation showing that its authorized common stock has been increased from \$18,000,000.00 to \$53,000,000.00.

DATED at San Francisco, California, this 30th day of December, 1924.

Clarence

Dwight Martin

J. J. Whittney

Commissioners.