

Decision No. 18323

ORIGINAL

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 author-  
izing the issuance of common  
capital stock of the par value of  
\$50,000,000.00.

Application No. 15494.

Pillsbury, Madison and Sutro, by  
Alfred Sutro, for applicant.

BY THE COMMISSION:

O P I N I O N

The Pacific Telephone and Telegraph Company asks per-  
mission to issue and sell at not less than par \$50,000,000.00 par  
value of its common capital stock and use the proceeds to reim-  
burse its treasury for amounts paid into the sinking funds under  
its several bond issues and for its uncapitalized expenditures  
for fixed capital and investment accounts since October 31, 1922,  
which have not been capitalized through the proceeds derived from  
the sale of stock authorized by Decision No. 13569, dated April  
2, 1924, and Decision No. 14418, dated December 30, 1924.

The evidence shows that even though applicant requests permission

to reimburse its treasury through the issue of the stock, it will actually use the proceeds to pay indebtedness to which reference will hereafter be made.

Applicant's petition shows that it has an authorized stock issue of \$135,000,000.00 par value divided into \$82,000,000.00 of six percent cumulative preferred and \$53,000,000.00 of common. Stock in the amount of \$125,000,000.00 divided into \$82,000,000.00 of preferred and \$43,000,000.00 of common is now outstanding.

The evidence shows that the Board of Directors of applicant at a special meeting held on December 16, 1926, called a special meeting of its stockholders to be held on February 24, 1927, to consider and act upon the proposition of increasing applicant's authorized stock from \$135,000,000.00 divided into 1,350,000 shares of the par value of \$100.00 each, of which 820,000 shares are preferred stock and 530,000 shares are common stock to \$185,000,000.00 divided into 1,850,000 shares of the par value of \$100.00 each of which 820,000 shares shall be preferred stock and 1,030,000 shares shall be common stock and, further, to consider and act upon the proposition to amend applicant's Articles of Incorporation and its By-laws so that they shall state the amount of the capital stock of applicant as so increased, and the number of shares of preferred and common stock into which the same is divided.

In Decision No. 14418, Application No. 10673, to which reference is hereby made, the Commission called attention to the changes in the company's assets and liabilities from October 31, 1922 to September 30, 1924, both inclusive. The changes in the company's assets and liabilities from September 30, 1924 to December 31, 1926, both inclusive, are shown in applicant's Exhibit "A" annexed to the petition in the

application now before the Commission and are as follows:-

<u>ASSETS</u>	<u>Sept. 30, 1924</u>	<u>Dec. 31, 1926</u>
Intangible . . . . .	\$ 11,631,914.49	\$ 1,119,602.37
Right of Way . . . . .	1,000,033.06	1,215,908.88
Land and Buildings . . . . .	11,537,740.36	22,196,545.52
Central Office Equipment . . . . .	30,327,731.08	43,043,141.68
Station Equipment. . . . .	16,481,686.70	21,339,153.27
Exchange Lines . . . . .	49,044,599.93	63,752,743.92
Toll Lines . . . . .	29,148,603.68	35,496,906.11
Other Plant . . . . .	1,497,416.13	2,100,432.45
General Equipment. . . . .	3,264,337.73	4,373,177.33
<u>Total Fixed Capital . . . . .</u>	<u>\$153,934,063.16</u>	<u>\$194,637,611.53</u>
Construction work in Progress. . . . .	4,735,748.98	3,057,642.82
Investment Securities. . . . .	43,773,753.95	46,165,654.81
Advances to System Corporations for Construction, etc. . . . .	26,611,745.88	46,199,971.22
Miscellaneous Investments. . . . .	267,604.14	456,007.84
Cash and Deposits. . . . .	726,475.73	835,715.71
Bills Receivable . . . . .	204,762.10	371,482.02
Accounts Receivable . . . . .	5,103,385.97	4,937,377.09
Materials and Supplies . . . . .	2,653,430.97	2,038,801.89
Accrued Income Not Due . . . . .	157,506.15	173,372.78
Sinking Fund Assets . . . . .	1,360.83	652,342.79
Prepayments . . . . .	320,174.31	552,323.86
Unamortized Debt Discount and Expense. . . . .	3,177,964.07	2,752,086.30
Unextinguished Discount on Capital Stock . . . . .	6,875,000.00	6,875,000.00
Other Deferred Debits. . . . .	105,027.65	53,447.80
<u>Total Assets.....</u>	<u>\$248,648,003.89</u>	<u>\$309,758,838.46</u>
 <u>LIABILITIES</u> 		
Capital Stock, Common (Authorized 53000000.) . . . . .	\$ 18,000,000.00	\$ 43,000,000.00
Capital Stock, Preferred (Authorized 82000000.) . . . . .	82,000,000.00	82,000,000.00
<u>Total Capital Stock . . . . .</u>	<u>\$100,000,000.00</u>	<u>\$125,000,000.00</u>
Funded Debt . . . . .	61,556,500.00	59,878,000.00
Advances From System Corporations for Construction, etc.. . . . .	35,822,500.00	65,687,500.00
Accounts Payable . . . . .	3,709,354.46	4,241,724.39
Accrued Liabilities Not Due . . . . .	3,222,815.25	4,711,670.69
Liability for Employees' Benefit . . . . .	497,075.89	1,500,000.00
Other Deferred Credit Items . . . . .	1,946,502.75	738,680.53
Reserve for Accrued Depreciation . . . . .	33,098,628.80	38,459,614.96
Reserve for Amortization of In- tangible Capital . . . . .	97,836.04	143,850.41
Surplus and Undivided Profits. . . . .	8,696,790.70	9,397,797.48
<u>Total Liabilities.....</u>	<u>\$248,648,003.89</u>	<u>\$309,758,838.46</u>

By referring to the company's balance sheet of December 31, 1926, it will be observed that it reports as of that date Investment Securities of \$46,165,654.81 and Advances to System Corporations for Construction, etc. \$46,199,971.22. The investment securities include, among others, \$56,086,900.00 of stock of Southern California Telephone Company carried on the books of applicant at \$55,941,827.59.

As of December 31, 1926, applicant <sup>had</sup> advanced to system corporations \$46,199,971.22 as follows:-

Bell Telephone Company of Nevada . . . . .	\$ 177,000.00
Southern California Telephone Company. . . . .	40,015,000.00
The Home Telephone & Telegraph Company of Spokane . . . . .	1,300,000.00
Home Telephone & Telegraph Company of Pasadena . . . . .	2,924,472.16
The Home Tel. and Tel. Co. of Southern Oregon . . . . .	18,500.00
Ontario and Upland Telephone Company . . . . .	491,999.06
Sacramento Valley Telephone Company . . . . .	262,000.00
United States Long Distance Tel.&Tel.Co.. . . . .	<u>1,011,000.00</u>
Total. . . . .	<u>\$46,199,971.22</u>

In Exhibit No. 11 applicant shows that from October 31, 1922 to December 31, 1926, it invested in fixed capital, in the redemption of bonds, in securities of other corporations and because of advances to other corporations, the sum of \$87,498,262.68 not obtained from the sale of bonds and stock. This amount is arrived at as follows:

Fixed Capital (excluding Intangible Capital) . . . . .	\$86,009,748.08
Construction work in Progress - Credit . . . . .	3,327,018.82
Payments for Sinking Fund . . . . .	3,779,010.53
Investment Securities. . . . .	32,091,797.55
Advances to System Corporations . . . . .	25,820,725.34
Total. . . . .	<u>\$144,874,262.68</u>
<b>LESS:</b>	
Proceeds from sale of stock . . . . .	56,875,000.00
From preferred stock(Dec.13369) \$21,875,000.	
" common " (Dec.14418) <u>35,000,000.</u>	
Balance . . . . .	<u>\$87,499,262.68</u>

The \$87,499,262.68 has been temporarily financed through loans from the American Telephone and Telegraph Company in the amount of \$65,687,500.00, by moneys or assets offset by accounts payable, by accrued liabilities, depreciation reserve and surplus. The evidence shows that the proceeds obtained from the sale of the \$50,000,000.00 of stock will be used by applicant to pay indebtedness.

Applicant asks permission to offer its common stock to its stockholders at par and states that it will sell on the best terms possible any of the stock which may not be subscribed for by them. It is the belief of applicant's officers, however, that its stockholders will subscribe for all of the \$50,000,000.00 of common stock. While we are willing to permit applicant to offer and sell the \$50,000,000.00 of stock to its stockholders at par, we do not by such action concede that we have no authority to require a public utility to sell its stock for more than par. The facts of this case, aside from any legal consideration, warrant the sale of the stock to applicant's stockholders at par.

#### ORDER

The Pacific Telephone and Telegraph Company having asked permission to issue \$50,000,000.00 of common capital 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 the issue of such stock is reasonably required by applicant and that the expenditures herein

authorized are not in whole or in part reasonably chargeable to operating expenses or to income and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:-

1. The Pacific Telephone and Telegraph Company may, on and after the effective date of this order issue and sell for cash on or before December 1, 1927, \$50,000,000.00 par value of its common capital stock and use the proceeds to pay indebtedness set forth in its balance sheet as of December 31, 1926, and through the payment of such indebtedness finance <sup>in part</sup> the acquisition and construction of the properties described in its Exhibit No. 11.
2. The authority herein granted will become effective when The Pacific Telephone and Telegraph Company has filed with the Commission a certified copy of its amended Articles of Incorporation providing for an authorized stock issue of \$185,000,000.00 divided into \$82,000,000.00 of six percent cumulative preferred and \$ 103,000,000.00 of common.

5. The 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 No. 24, which order insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 23<sup>rd</sup>  
day of February, 1927.

Ernest J. ...  
H. B. ...  
C. ...  
Leon ...  
Thos. ...

Commissioners.