

Decision No. 18864

OFFICIAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 MACKAY RADIO AND TELEGRAPH COMPANY,)
 for an order authorizing the issue)
 of capital stock.)

Application No. 14059.

In the Matter of the Application of)
 FEDERAL TELEGRAPH COMPANY)
 and)
 MACKAY RADIO AND TELEGRAPH COMPANY)
 for an order authorizing the sale)
 and purchase of certain property.)

Application No. 14060.

Willard P. Smith and Max Thelen,
 for Mackay Radio and Telegraph Company.

Pillsbury, Madison and Sutro,
 by Alfred Sutro, for Federal Telegraph
 Company.

BY THE COMMISSION:

O P I N I O N

The above numbered applications have been consolidated for the purpose of receiving evidence and for decision.

In Application No. 14060, Federal Telegraph Company asks permission to sell its radio and/or wire communication business and system in California to Mackay Radio and Telegraph Company. The latter company joins in the application.

In Application No. 14059, Mackay Radio and Telegraph Company asks permission to issue and sell, at par for cash,

\$1,350,000.00 of its common capital stock for the purpose of acquiring the radio and/or wire communication business and system of Federal Telegraph Company and \$500.00 for the purpose of making extensions and improvements to its facilities. The \$500.00 of stock will be issued to directors.

The applications show that Federal Telegraph Company maintains and operates a radio and/or wire communication system between the cities of San Diego, Los Angeles, San Francisco and Oakland, in the State of California, Portland, in the State of Oregon, and Seattle and Tacoma, in the State of Washington, and between such points, or some of them and vessels at sea, and that it also has extensive manufacturing and engineering facilities, a research laboratory and other experimental facilities for the development of improvements in electrical communication, systems and apparatus.

The company now reports that it desires to devote its energies to the extension of its manufacturing business and to the development of apparatus and equipment for electrical communication, and to that end desires to dispose of its existing radio and telegraph system. The properties which it desires permission to sell are described in Exhibits 1, 2, 3, 4, 5, 6 and 7 attached to the petition in Application No. 14060.

The Mackay Radio and Telegraph Company desires to acquire said properties situate in the State of California, together with the other properties of Federal Telegraph Company situate in Oregon, Washington and elsewhere and used or useful in the transmission of messages by radio or wire. The additional properties are described in Exhibits 8, 9, 10, 11 and 12 attached to the petition in Application No. 14059.

The physical properties to be transferred, together with the reported cost, are set forth in Exhibit 1, as follows:-

Property located near Palo Alto and known as Marsh Station:		
Land	\$23,741.19	
Equipment.	<u>269,524.06</u>	\$293,265.25
Property at Daly City known as San Francisco Receiving Station:		
Equipment.		28,365.64
Property at Hillsboro, Oregon, known as Hillsboro Station:		
Land	50,060.50	
Equipment.	<u>199,577.16</u>	249,637.66
Property at Council Crest, Oregon, known as Portland Receiving Station:		
Land	598.10	
Equipment.	<u>16,693.95</u>	20,292.05
Property at Clearwater, Los Angeles, known as Clearwater Station:		
Land	7,947.10	
Equipment.	<u>93,689.96</u>	101,637.06
Property at Reposa St., Los Angeles, known as Los Angeles Receiving Station:		
Land	900.00	
Equipment.	<u>20,026.16</u>	20,926.16
Total transmission and receiving stations		<u>714,123.82</u>
Commercial stations - furniture and fixtures.		25,257.32
Call box system at Portland		4,626.00
Radio apparatus installed on ships.		152,442.45
Inventories		<u>8,965.76</u>
Total for telegraph system		<u>\$905,415.35</u>

In addition to these properties there will be transferred to the purchasing corporation certain leasehold interests in properties used in the operation of the telegraph system, contracts for the use of certain circuits belonging to The Pacific Telephone and Telegraph Company, and contracts for the rental and service of radio equipment and other apparatus on ships and vessels and other contracts, all as fully set forth in the application. In the total of \$905,415.35 shown in the foregoing tabulation there is no allowance for any of these items or for any other intangible items such as going concern, organization, etc.

The revenues and expenses of the telegraph business have been reported to the Commission for the last three calendar years as follows:-

ITEM	1924	1925	1926
Revenues:			
Telegraph tolls	\$598,884.56	\$599,086.84	\$637,525.95
Rental and operation of apparatus on ships.	54,824.58	37,221.49	54,588.99
Other Revenues	1,920.90	-	-
Total Revenues.....	\$655,630.04	\$636,308.33	\$692,114.94
Operating expenses.	491,968.45	492,617.24	519,065.23
Net Operating Revenue	163,661.59	143,691.09	173,049.71
Uncollectible bills	1,538.45	2,437.88	2,275.29
Taxes.	24,181.70	26,628.27	25,152.23
Operating Income	\$137,941.44	\$114,623.94	\$145,622.19
DEDUCTIONS:			
Rentals	\$ 52,926.12	\$ 55,623.17	\$ 57,832.66
Interests	30,666.68	22,666.66	13,333.34
Amortization discount	4,728.12	3,440.63	1,814.30
Miscellaneous	8,190.29	-	-
Total.....	\$96,511.21	\$81,730.46	\$ 72,980.30
Profit for year.....	\$41,430.23	\$32,893.48	\$ 72,641.89

The purchasing company, Mackay Radio and Telegraph Company, is a corporation organized, on or about September 1, 1927, under and by virtue of the laws of the State of California. It is intended that the new corporation will be controlled, through stock ownership, by The Mackay Companies, an organization which at present controls the Postal Telegraph-Cable Company, of California, which operates a telegraph business in California, and other corporations operating telegraph businesses elsewhere throughout the United States and in other parts of the world. It is urged, in support of the applications, that the transfer of properties, as herein proposed, is in the public interest because such properties will be operated in conjunction with the present Mackay System and will supplement and enlarge its present communication facilities. Attention is called to the fact that Federal Telegraph Company now serves but four cities in California and it is alleged that its inability to expand geographically has been caused, in part, by the fact that it had no organization for the pick-up and delivery of

messages in other points. The present Mackay System is said to have branch offices in every large city in the state which thus will be made available for use in connection with the operation of the Federal Telegraph System.

Mackay Radio and Telegraph Company proposes to issue and sell, at par for cash, \$1,350,000.00 of its common capital stock in payment for the telegraph system referred to. The testimony offered in support of the request to issue \$1,350,000.00 of stock in payment for the properties shows that such a request is based primarily upon the capitalization of the net earnings of Federal Telegraph Company at a rate of eight or nine percent. This Commission has repeatedly held that it would not capitalize a public utility property on the basis of earnings. In Decision No. 605, dated April 25, 1913, (Vol. 2, Opinions and Orders of the Railroad Commission of California, page 693) the Commission referring to a capitalization based on earnings said:

"It is obvious that the earning basis is not a proper one upon which to base capitalization for the reason that public utilities being subject to rate fixing, capitalization based on earnings today, would have entirely different security and probability of payment were these rates changed by a rate fixing body to-morrow."

In this instance W. J. Herdman, a witness for Mackay Radio and Telegraph Company testified that in his opinion the tangible properties had a value of \$877,000.00. However, to justify the issue of \$1,350,000.00 resort was had to the capitalization of earnings on the basis stated. The request of the Mackay Radio and Telegraph Company to issue \$1,350,000.00 of stock will not be granted. The order herein will authorize that company to issue at par \$1,000,000.00 of common stock to acquire the properties of

Federal Telegraph Company referred to above.

ORDER

Applications having been made to the Railroad Commission for authority to transfer properties and to issue stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the applications should be granted, only as herein provided, and that the issue of \$1,000,500.00 of stock 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 Federal Telegraph Company be, and it hereby is, authorized to transfer to Mackay Radio and Telegraph Company all of its radio and/or wire communication properties and business located in California and described in Exhibits 1, 2, 3, 4, 5, 6 and 7, attached to Application No. 14060.

IT IS HEREBY FURTHER ORDERED that Mackay Radio and Telegraph Company be, and it hereby is, authorized to issue and sell for cash, on or before December 31, 1927, at not less than par, \$1,000,500.00 of its common capital stock and to use \$1,000,000.00 of the proceeds to pay the cost of acquiring the properties described in Exhibits 1, 2, 3, 4, 5, 6 and 7 in Application No. 14060, and Exhibits 8, 9, 10 and 11 in Application No. 14059, and other properties described in said applications, provided that said properties are acquired free and clear of all incumbrances and for the sum of not exceeding said \$1,000,000.00 and to use \$500.00 of the

proceeds to pay for improvements and betterments and to provide working capital.

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

1. The prices to be paid by Mackay Radio and Telegraph Company for the properties to be acquired from Federal Telegraph Company and the amount of stock which Mackay Radio and Telegraph Company is herein authorized to issue in payment for such properties shall not be urged before this Commission or any other public body or court as a measure of the value of said properties for any purpose other than the transfer and stock issue herein authorized.
2. Mackay Radio and Telegraph Company shall keep such record of the issue 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.
3. The authority herein granted shall become effective upon the date hereof.

IT IS HEREBY FURTHER ORDERED that the application, No. 14059, insofar as it involves the issue of \$350,000.00 of stock be, and it hereby is, dismissed without prejudice.

IT IS HEREBY FURTHER ORDERED that Mackay Radio and Telegraph Company shall file with the Railroad Commission a certified copy of the deed or deeds and other instruments under which

it acquires and holds title to the aforesaid properties, said copy or copies to be filed within thirty (30) days after their execution.

DATED at San Francisco, California, this 3d
day of October, 1927.

Ernest L. ...

Chas. ...

Leon ...

Thos. ...

M. ...

Commissioners.