

Decision No. 22111.**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)
 authorizing the issuance of common) Application No. 16249
 capital stock of the par value of)
 \$87,500,000.00.)

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

BY THE COMMISSION:

OPINION

The Pacific Telephone and Telegraph Company has applied to the Railroad Commission for an order authorizing it to issue and sell at par \$87,500,000.00 of its common capital stock and to use the proceeds, insofar as adequate, to reimburse 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. 13369, dated April 2, 1924, Decision No. 14418, dated December 30, 1924, and Decision No. 18023, dated February 23, 1927.

The record shows that at a meeting held on January 30, 1930, applicant's Board of Directors approved a proposition to amend its Articles of Incorporation so as to increase its capital stock from \$185,000,000.00, divided into 1,850,000 shares of the par value of \$100.00 each, consisting of 820,000 shares of preferred stock and

1,030,000 shares of common stock, to \$262,500,000.00, divided into 2,625,000 shares of the par value of \$100.00 each, consisting of 820,000 shares of preferred stock and 1,805,000 shares of common stock. Thereafter, it appears, the holders of more than two thirds of the issued and outstanding stock gave them written assent to the increase.

It appears that at present applicant has outstanding \$93,000,000.00 of common stock and \$82,000,000.00 of preferred. In making this petition to issue an additional \$87,500,000.00 of stock to finance in part expenditures made since October 31, 1922, applicant has filed, as Exhibit "B", a comparative balance sheet showing changes in its assets and liabilities from October 31, 1922 to December 31, 1929, as follows:-

<u>ASSETS:</u>	<u>Oct. 31, 1922</u>	<u>Dec. 31, 1929</u>
Intangible capital	\$ 11,619,089.49:	\$ 513,986.47
Right of way	885,996.26:	1,975,697.85
Land and buildings	9,087,712.49:	27,613,164.22
Central office	17,258,800.00:	59,663,923.49
Station equipment	12,679,266.36:	31,807,455.22
Exchange lines	40,559,562.05:	81,013,246.81
Toll lines	23,844,547.90:	54,863,513.31
Other plant	898,598.22:	2,612,824.58
General equipment	2,293,777.80:	7,121,431.57
Total fixed capital	\$ 119,127,350.57:	\$ 267,185,243.52
Construction work in progress	6,384,661.64:	6,956,325.43
Investment securities	14,073,857.26:	87,817,419.01
Advances to system corporations for construction, etc.	20,379,245.88:	8,205,435.60
Miscellaneous investments	197,152.85:	532,278.52
Cash and deposits	499,991.95:	1,394,812.69
Bills receivable	141,613.85:	1,052,431.32
Accounts receivable	6,630,043.30:	6,216,713.74
Materials and supplies	1,490,225.28:	4,154,378.80
Accrued income not due	111,871.33:	47,982.53
Sinking fund assets	126,176.68:	704,387.24
Prepayments	436,724.76:	713,301.36
Unamortized debt discount and expense	3,561,868.38:	2,240,051.63
Unextinguished discount on capital stock	3,750,000.00:	4,820,944.75
Other deferred debits	55,364.78:	99,744.54
Total assets	\$ 176,968,248.51:	\$ 392,141,450.68

<u>LIABILITIES</u>	<u>Oct.31,1922</u>	<u>Dec.31,1929</u>
Capital stock, Common	\$ 18,000,000.00:	\$ 93,000,000.00
Capital stock, Preferred	57,000,000.00:	82,000,000.00
Total capital stock.....	<u>\$ 75,000,000.00:</u>	<u>\$ 175,000,000.00</u>
Funded debt	63,198,000.00:	57,759,400.00
Advances from system corporations for construction, etc.	:	87,451,880.48
Bills payable	20,000.00:	3,814,257.38
Accounts payable	1,982,559.09:	7,291,659.85
Accrued liabilities not due	1,866,478.71:	4,927,061.79
Insurance and casualty reserves	:	596.11
Liability for employees' benefit fund	495,954.63:	:
Liability on account of provident funds	:	40,000.00
Other deferred credit items	285,144.35:	178,890.57
Reserve for accrued depreciation	28,882,141.78:	48,133,274.25
Reserve for amortization of intan- gible capital	70,450.82:	217,052.42
Surplus and undivided profits	5,165,519.13:	7,327,377.85
Total liabilities.....	<u>\$ 176,966,248.51:</u>	<u>\$ 392,141,450.68</u>

In Exhibit "1", applicant shows that between the dates of the two balance sheets it invested in fixed capital, in the redemption of bonds, and in securities of other corporations, the sum of \$120,380,408.18 not obtained from the sale of stock or bonds.

This amount is determined as follows:

Fixed capital(excluding intangibles)	\$159,162,995.97
Construction work in progress	571,663.79
Payments for sinking funds	6,040,452.20
Investment securities	73,743,561.75
Advances to system corporations(credit)	12,173,810.28
Total	<u>\$227,344,863.43</u>
<u>LESS:Proceeds from sale of stock-</u>	
From preferred stock(Dec.13369) \$21,875,000.00	\$21,875,000.00
From common stock(Dec.14418) 35,000,000.00	35,000,000.00
From common stock(Dec.18023) 50,054,055.25	50,054,055.25
Sub-total.....	<u>106,929,055.25</u>
Bonds assumed	35,400.00
Total.....	<u>106,964,455.25</u>
Balance.....	<u>\$120,380,408.18</u>

The \$120,380,408.18, it seems, has been financed temporarily through notes issued to the American Telephone and Telegraph

Company, which aggregated \$37,451,880.48 on December 31, 1929, and other notes aggregating \$3,814,257.36, and through moneys represented by accrued liabilities, reserves and surplus. Although the company asks authority to use the proceeds to be received through the issue of the \$37,500,000.00 of common stock to reimburse its treasury because of such expenditures, it appears from the testimony of N. R. Powley, its vice-president in charge of operations, that such proceeds will be used, actually, to pay outstanding indebtedness. The order herein will so provide.

The company proposes to offer its common stock for subscription to its present stockholders in proportion to their holdings at the rate of \$100.00 per share, and to sell on the best terms possible any of said stock which may not be so subscribed for by them. It is the belief of applicant's officers, however, that the stockholders will subscribe for the entire additional issue of \$37,500,000.00. While we are willing to permit applicant to sell its stock at par, we do not by such action concede that we have no authority to require a utility to sell its stock at more than par, and, further, we do not wish it to be understood that the Commission hereafter, in the event it is called upon to fix rates, will regard the dividends paid on common stock issued at par, when the market price of such stock is above par, as representing the cost of money obtained through such issue.

The authority herein granted is not to be construed as an approval of the entire reported expenditures of \$120,380,408.18. Because of the margin between the total expenditures and the proposed stock issue, we will at this time permit the issue in the amount requested.

O R D E R

The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for permission to issue

\$87,500,000.00 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 is reasonably required by applicant and that the expenditures herein authorized are not, in whole or in part, reasonably chargeable to operating expense or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED that The Pacific Telephone and Telegraph Company be, and it hereby is, authorized to sell for cash, on or before December 31, 1930, \$87,500,000.00 of its common capital stock and use the proceeds to pay indebtedness set forth in its balance sheet as of December 31, 1929 and through the payment of such indebtedness to finance in part the acquisition and construction of the properties described in the application herein.

The authority herein granted is subject to the following conditions:-

(1) Applicant 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.

(2) The authority herein granted will become effective when applicant has filed with the Commission a certified copy of its Articles of Incorporation, amended as indicated in the foregoing opinion.

DATED AT San Francisco, California, this 11th day of February, 1930.

Edmund L. Lundy
Edmund L. Lundy
Thomas D. Lundy
W. J. Lundy

Commissioners.