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Decision No. 10334.

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)
capital stock of the par value of)
\$25,000,000.00.)

ORIGINAL

Application No. 7657.

Pillsbury, Madison & Sutro, by H.D. Pillsbury, for
applicant.

BENEDICT, Commissioner.

O P I N I O N.

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY asks permission to issue and sell at not less than \$85.00 per share 250,000 shares (\$25,000,000.00 par value) of 6 per cent. cumulative preferred stock and use the proceeds to reimburse its treasury and pay indebtedness incurred for the purpose of acquiring properties.

The Pacific Telephone and Telegraph Company was organized on or about December 31, 1906. It has an authorized capital stock issue of \$50,000,000.00 divided into \$18,000,000.00 of common and \$32,000,000.00 of 6 per cent. preferred. All of the stock is outstanding. At a stockholder's meeting held on April 19, 1922, the stockholders of The Pacific Telephone and Telegraph Company approved the proposition of increasing the capital stock of the corporation from \$50,000,000. to \$100,000,000. divided into 1,000,000 shares of the par value of \$100.00 each, of which 820,000 shares are preferred and 180,000 shares are common. The preferred stock is cumulative, and preferred, both as to dividends and assets.

Applicant reports \$38,646,000.00 of bonds outstanding. This bonded debt consists of \$32,030,000.00 of The Pacific Telephone and Telegraph Company first mortgage and collateral trust 5 per cent. sinking fund gold bonds due January 2, 1937, and \$6,616,000.00 of Home Long Distance Telephone Company first mortgage 5 per cent. sinking fund gold bonds due January 2, 1932. The company reports the following notes outstanding:-

Notes payable to American Telephone & Telegraph Company,	\$22,010,000.00
Notes payable to the Crocker National Bank of San Francisco,	300,000.00
Notes payable to W.E. Eden and L.B. Eden,	30,000.00
Total,	\$22,340,000.00

Applicant further reports open account indebtedness of \$2,338,700.54 and liabilities accrued but not due in the sum of \$1,884,424.48.

Applicant owns and operates directly or through subsidiary corporations a general telephone system in the states of California, Nevada, Oregon, Washington and part of Idaho. The system is composed of local and long distance telephone lines and exchanges and the buildings, rights of way, franchises and equipment therefor. As of December 31, 1921, applicant reports its assets and liabilities as follows:-

<u>ASSET ACCOUNTS</u>	
Total Fixed Capital,	\$110,374,891.42
Less Reserve for Accrued Depreciation, \$25,177,106.09	
Less Reserve for amortization of Intangible Capital,	55,265.00
Total Credit,	26,232,371.09
Net Investment in Fixed Capital,	\$ 84,142,520.33
Construction Work in Progress,	3,276,042.77
Investment Securities,	14,076,791.36
Advances to System Corporations,	8,669,245.88
Miscellaneous Investments,	179,060.58
Cash and Deposits,	824,669.52
Employee's Working Funds,	230,054.29
Bills Receivable,	92,221.47
Due from Subscribers and Agents,	1,930,417.85
Accounts receivable from System Corporation,	547,833.35
Miscellaneous Accounts Receivable,	69,607.28
Matured Interest and Dividends Receivable,	36,923.92
Materials and Supplies,	2,135,318.22
Unmatured interest, dividends and rents receivable,	90,946.92
Sinking Fund Assets,	302,973.43
Prepayments,	291,364.97
Unamortized Debt Discount and Expense,	1,384,836.61
Other Suspense,	6,435.38
Total ASSETS,	\$118,287,264.13

LIABILITY ACCOUNTS

Capital Stock,	\$50,000,000.00
Funded Debt,	38,646,000.00
Advances from System Corporations,	22,010,000.00
Bills Payable,	330,000.00
Audited Vouchers and Wages Unpaid,	800,103.79
Subscribers Deposits,	53,541.44
Accounts payable to System Corporations,	1,365,660.79
Miscellaneous Accounts Payable,	69,399.81
Service billed in advance,	49,994.71
Taxes accrued,	1,149,525.92
Other accrued liabilities not due,	734,898.56
Other deferred credit items,	75,287.42
Liability on account of Provident Funds,	500,000.00
Corporate Surplus Unappropriated,	<u>2,502,851.69</u>
Total LIABILITIES,	\$118,287,264.13

In Exhibit "A" filed in this proceeding, applicant reports that its assets on December 31, 1921, were \$39,888,419.43 more than on January 1, 1914. Of this increase, \$19,165,235.67 is said to represent an increase in fixed capital, \$2,512,149.50 an increase in construction work in progress and \$18,211,034.26 an increase in investment securities, advances to system corporations and current assets. The record also shows that from January 1, 1914 to December 31, 1921, applicant reduced its bonded debt by the sum of \$3,018,000.

For 1921 and 1920, The Pacific Telephone and Telegraph Company has filed the following income account statements:

(See next page)

I t e m	1 9 2 1	1 9 2 0
A.- INCOME ACCOUNT:		
I: Operating Income:		
Operating Revenue,	\$33,161,587.34	\$29,956,751.60
Operating Expenses,	24,311,064.11	21,972,707.71
Net Operating Revenues,	8,850,523.23	7,984,043.89
Less taxes assignable to operation:	2,206,863.37	1,957,231.41
Less Uncollectible Operating Revenues	111,800.00	120,000.00
Deductions from Net Operating Revenues,	2,318,663.37	2,077,231.41
Operating Income	6,531,859.86	5,906,812.48
II: Non-Operating Revenues:		
Rent,	18,144.52	20,446.56
Dividend Revenues,	260,011.30	9,090.00
Interest Revenues,	666,940.36	449,960.41
Total Non-Operating Revenue,	945,096.18	479,496.97
III: Non Operating Revenue Deductions:		
Rent Expenses	3,225.00	—
Non-Operating Taxes,	2,412.12	—
Uncollectible Non-Operating Revenues	2,750.00	3,000.00
Total,	8,387.12	3,000.00
Non-Operating Income,	936,709.06	476,496.97
Gross Income,	7,468,568.92	6,383,309.45
IV: Deductions from Gross Income:		
Rent,	351,555.23	301,873.74
Interest on Funded Debt,	1,940,872.88	1,968,074.09
Other Interest Deductions,	868,408.64	525,134.94
Amortization of debt discount and expense,	92,599.08	93,721.42
Amortization of landed capital,	21,850.00	21,410.00
Miscellaneous Deductions,	29,581.56	27,245.50
Total Deductions,	3,304,867.39	2,937,459.69
Net Income,	4,163,701.53	3,445,849.76
Dividends Paid,	1,920,000.00	1,920,000.00
Carried to Credit of Surplus Acct.:	\$ 2,243,701.53	\$ 1,525,849.76

The operating expenses for 1921 include an allowance of \$5,157,000.00 for depreciation of plant and equipment, and those for 1920 an allowance of \$4,698,325.00.

Applicant will offer the \$25,000,000.00 of new stock to its present stockholders, giving them the right to subscribe for one share of the new stock for each two shares of the present stock which they hold, whether preferred or common. It is anticipated that the American Telephone and Telegraph Company, which controls applicant's corporation through stock ownership, will take its pro rate share of the new stock.

Applicant asks permission to use the proceeds obtained from the sale of its stock to reimburse its treasury to the extent that they are sufficient therefor, for amounts paid into the sinking funds of its two bond issues and for its uncapitalized expenditures for fixed capital and investment accounts prior to December 31, 1921. It occurs to me that under Section 52 of the Public Utilities Act, a utility can reimburse its treasury through the issue of stock, bonds or other evidences of indebtedness only to the extent that earnings or moneys not obtained from the issue of stock, bonds or other evidences of indebtedness have been expended for the purposes mentioned in said section and in accordance with the provisions of said section. The showing made by applicant does not in my opinion justify the Commission in making an order authorizing the issue of all the stock for the purpose of reimbursing applicant's treasury. Moreover, it does not seem necessary to determine to what extent stock might be issued to reimburse applicant's treasury. While applicant called attention to the increase in its assets, the record shows that it has borrowed \$22,010,000.00 from the American Telephone and Telegraph Company, \$300,000.00 from the Crocker National Bank of San Francisco and has incurred other obligations to acquire such assets. I believe that the Commission should authorize the issue of the \$25,000,000.00 of stock for the purpose of paying indebtedness.

I herewith submit the following form of

Order:

O R D E R

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY having applied to the Railroad Commission for permission to issue and sell 250,000 shares of its 6 per cent. cumulative preferred stock, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant for the purpose or purposes specified in this order and that this application should be granted subject to the conditions of this order;

IT IS HEREBY ORDERED, that THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY be, and it is hereby, authorized to issue and sell, for cash, at not less than \$85.00 per share: 250,000 shares (\$25,000,000.00 par value) of 6 per cent. cumulative preferred stock and apply the proceeds to the payment of indebtedness due the American Telephone and Telegraph Company, the Crocker National Bank of San Francisco and other obligations referred to in the opinion which precedes this order, and through the payment of such indebtedness finance in part the cost of acquiring property on or before December 31, 1921.

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

- 1.--Within thirty days after the date hereof, applicant shall file with the Commission a certified copy of its amended articles of incorporation.
- 2.--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.

3.—The authority herein granted will apply only to such stock as may be issued, sold and delivered on or before December 1, 1922.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 20th day of April, 1922.

H. B. Brindley

Charles H. Rouse
W. O. Benedict

Commissioners.