

Decision No. 1034

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA.

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ORIGINAL

In the Matter of the Application of  
THE PACIFIC TELEPHONE AND TELEGRAPH  
COMPANY for authority to issue bonds  
of the face value of \$3,000,000.

Application No. 763.

Decision No. 1034

Pillsbury, Madison & Sutro and Oscar Sutro for applicant.

THELEN, Commissioner.

O P I N I O N .

This is an application for authority to issue bonds of the face value of \$3,000,000 for the purposes hereinafter specified. Applicant is a California corporation engaged in the operation of a general telephone system in the States of California, Nevada, Oregon, Washington and part of Idaho embracing local and toll service.

Applicant's authorized common stock amounts to a total of \$18,000,000, par value, all of which has been issued. Applicant's authorized preferred stock amounts to \$32,000,000, all of which has likewise been issued. The American Telephone and Telegraph Company owns \$21,707,200 of the preferred stock and \$9,017,200 of the common stock.

Applicant lists its outstanding bonded indebtedness as follows:

1. Bonds of Sunset Telephone and Telegraph Company,  
dated July 15, 1900, and due October 1, 1929,  
5%, ----- \$1,812,000
  2. Bonds of The Pacific Telephone and Telegraph  
Company, dated 1907, due 1937, 5%--  
authorized \$35,000,000, outstanding----- 32,000,000
  3. Bonds of Home Long Distance Telephone Company,  
dated March 15, 1912, due January 12, 1932,  
outstanding----- 7,080,000
- Total bonded indebtedness-----\$ 40,892,000

On page 5 of its application, applicant lists its notes and accounts payable, totalling \$1,279,838.31.

Applicant's assets and liabilities as claimed by it as of July 31, 1913, amount to \$102,040,070.62. It is not necessary in this proceeding to examine the items entering into the assets or the liabilities for the reason that it appears that there is a sufficient margin between the value of the property and the amount of bonds which will be outstanding if the bonds now applied for are issued.

Referring to the revenues and operating expenses, applicant reports a net income for the eight months ending August 31, 1913, amounting to \$1,453,454.

Applicant now asks authority to issue the remaining \$3,000,000, face value, of its bond issue secured by deed of trust to Mercantile Trust Company of San Francisco, dated January 2, 1907. Applicant has entered into a contract with Lee, Higginson & Company of Boston to sell these bonds at 96.3% of their face value if delivered by October 31, 1913, in Boston. Lee, Higginson & Company has already paid 60% on the amount to be paid by it under this contract. If these bonds are sold for this price the sum of \$2,889,000 will be realized from their sale. Applicant desires to use these proceeds as follows:

1. To redeem bonds of the Sunset Telephone & Telegraph Company, secured by mortgage or deed of trust to Old Colony Trust Company, dated February 2, 1900, the sum of----- \$1,850,000
  2. To take up note given for expenditures incurred on capital account during July and August, 1913,----- 242,100
  3. To apply on extensions and improvements chargeable to capital account which applicant estimates will be necessary during the remainder of the year 1913,----- 1,026,100
- Total----- \$3,118,200

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As it is evident that the amount thus to be expended is in excess of the proceeds to be realized from the sale of the bonds, it seem clear that a portion of the money estimated to be necessary for the extensions and improvements during the balance of the year 1913 will have to be derived from some other source.

I shall now refer somewhat more in detail to each of the three purposes for which applicant desires to use the proceeds from the sale of these bonds.

Referring first to the bonds of the Sunset Telephone & Telegraph Company, it appears that the bonds which applicant now desires to issue were reserved for the purpose of paying off bonds of the face value of \$2,250,000 of the Sunset Telephone & Telegraph Company's issue. Of these bonds \$1,812,000 were outstanding prior to October 1, 1913. The remaining bonds of the total of \$2,250,000 were in the sinking fund. In accordance with an agreement between the applicant and the Sunset Telephone & Telegraph Company, entered into at the time when the applicant acquired the Sunset's property, it was made the duty of the applicant to call in the outstanding Sunset bonds on October 1, 1913. Applicant did so, paying 105% of the face value. In order to retire these bonds applicant borrowed \$160,000 on its one day promissory notes and secured from Lee, Higginson & Company on their contract to purchase the bonds for which authorization is now requested, the sum of \$1,755,400, which sum includes some accrued interest. Applicant has already paid from other sources something over \$52,000 of the total amount necessary to redeem the Sunset bonds and now asks authority to use the proceeds of the bonds now to be issued up to \$1,850,000 to refund indebtedness incurred in taking up the Sunset bonds. X

While recommending, on the facts of this case, that this portion of the application be granted, I do not desire to be understood as passing on the question whether it is proper to capitalize the premium of 5% which was paid to call in the Sunset bonds.

Referring now to the note of \$242,100, which applicant executed to secure a portion of the proceeds for the expenditures

incurred on capital account during July and August, 1913, the details of these expenditures appear on pages 10 and 11 of the application, the total amount being \$258,600. These expenditures were incurred partly for additional telephones, partly for new switchboards, toll boards, trunk sections and other equipment installed in different stations of applicant in California, Oregon and Washington. As the bonds which applicant asks authority to issue will be a lien on California property, it will be necessary for this Commission, under the provisions of Section 52 of the Public Utilities Act, to pass on all of the bonds, including those whose proceeds will be used to take up expenditures incurred in Oregon and Washington.

I recommend that this portion of the application be granted.

Referring now to the extensions and improvements which applicant contemplates installing during the remaining portion of this year, the details of the contemplated expenditures are specified on pages 12, 13 and 14 of the application. These items include the installation of additional central office equipment in Seattle, San Francisco, Los Angeles and Oakland, the partial payment for central office equipment already started in various offices in California, Oregon and Washington, certain underground conduit and cable work in Portland, San Francisco and Los Angeles, and new toll leads and additional toll circuits in Oregon, Washington and California, as stated at the hearing, the sum of \$1,001,600.

I recommend that this portion of the application also be granted.

It is evident that applicant's financial condition is very favorable and that applicant will have no difficulty in meeting the interest and sinking fund obligations in connection with the proposed issue.

I recommend that the application be granted and submit herewith the following form of order:

O R D E R .

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY having applied to the Railroad Commission for authority to issue bonds of the face value of \$3,000,000, to be payable on January 2, 1937, and to bear interest at the rate of 5% per annum, payable semi-annually, and secured by mortgage or deed of trust to Mercantile Trust Company of San Francisco, dated January 2, 1907, and a public hearing having been held upon said application, and the Commission finding that the purposes for which the proceeds of said bonds are to be used 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 is hereby authorized to issue three million (\$3,000,000) dollars, face value, of principal of bonds of said Company, numbered 10,001 to 13,000, both numbers inclusive, maturing on January 2, 1937, bearing interest at the rate of 5% per annum, payable semi-annually on the second day of January and July of each year, under and in pursuance of the terms of the mortgage or deed of trust made and executed by The Pacific Telephone and Telegraph Company to Mercantile Trust Company of San Francisco, trustee, dated January 2, 1907, and supplemental indentures, dated April 1, 1909, and November 2, 1909, on the following conditions and not otherwise, to-wit:

1. Said bonds shall be sold so as to net applicant not less than ninety-six and three-tenths (96.3%) per cent of their face value and accrued interest. at 5% from July 2, 1913.

2. The proceeds from the sale of said bonds shall be used only for the following purposes:

(a) To re-imburse applicant for expenditures incurred in taking up bonds of Sunset Telephone & Telegraph Company under the issue of February 2, 1900, secured by mortgage or deed of trust to Old Colony Trust Company, not to exceed the sum of----- \$1,850,000

(b) To pay applicant's note, the proceeds of which were in part used for capital expenditures during the months of July and August, 1913, which said expenditures are set forth in full on pages 10 and 11 of the application herein, not to exceed the sum of----- \$ 242,100

(c) For the acquisition of property and the construction, completion and extension of facilities for the items specified on pages 12, 13 and 14 of the application herein, not to exceed the sum of----- 796,900

3. The Pacific Telephone and Telegraph Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued and on or before the 25th day of each month the Company shall make verified reports to the Commission stating the sale or sales of said bonds during the previous month, the terms and conditions of sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which Order in so far as applicable is made a part of this order.

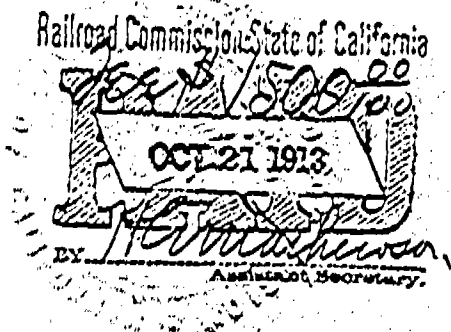
4. The Pacific Telephone and Telegraph Company shall file with this Commission a certified copy of such statement or statements as it may file with Mercantile Trust Company of San Francisco for the purpose of securing the release of the bonds hereby authorized to be issued.

5. This order shall apply only to bonds issued prior to October 1, 1914.

6. The authority hereby given to issue bonds shall not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act as amended.

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 21<sup>st</sup> day of  
October, 1913.



May Thelen  
Edwin O. Edgerton  
Alfred Gordon

