

Decision No. 28567

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 it to issue, sell and deliver  
\$30,000,000. par value of its bonds  
to be known as Refunding Mortgage  
3½% Bonds, Series B, and authorizing  
it to execute and deliver an indenture  
supplemental to its Refunding Mort-  
gage dated May 1, 1922.

Application No. 20370

Pillsbury, Madison and Sutro, for applicant.

BY THE COMMISSION:

O P I N I O N

The Pacific Telephone and Telegraph Company in this proceeding asks the Commission to enter its order authorizing it to issue and sell at not less than their face value and accrued interest, \$30,000,000.00 of its Series B refunding mortgage 30-year 3½% bonds to be dated April 1, 1936, and use the proceeds for the purposes hereinafter stated. It also asks the Commission to execute a supplemental trust indenture substantially in the same form as the supplemental trust indenture filed in this proceeding as Exhibit C, to amend its trust indenture (refunding mortgage) dated May 1, 1922.

The Pacific Telephone and Telegraph Company has outstanding \$180,500,000.00 of common stock and \$82,000,000.00 of 6% cumulative preferred stock. It also has outstanding in the hands of the public the following bonds:-

The Pacific Telephone and Telegraph Company first mortgage and collateral trust 5% bonds due January 2, 1937	....\$24,948,000.00
The Pacific Telephone and Telegraph Company refunding mortgage Series A 5% bonds due May 1, 1952	..... 23,890,000.00
Home Telephone and Telegraph Company of Spokane first mortgage 5% bonds due May 15, 1936	..... <u>2,999,900.00</u>
Total bonds	..... <u>\$51,837,900.00</u>

In addition it reports outstanding 4% demand notes held by Bankers Trust Company of New York, Pension Fund, Trustee, in the amount of \$8,824,947.59.

Applicant in Exhibit A reports its assets and liabilities as of December 31, 1935 as follows:-

#### A S S E T S

Right of Way .....	\$1,675,216.56
Land .....	3,560,179.89
Buildings .....	23,975,452.31
Central office equipment .....	63,899,315.64
Station apparatus .....	16,389,392.45
Station installations, drop and block wires...	13,504,686.36
Other station equipment .....	8,266,772.79
Pole lines .....	29,515,808.95
Cable .....	54,592,716.51
Aerial wire .....	16,902,551.09
Underground conduit .....	19,458,337.46
Furniture and office equipment .....	2,752,472.43
Vehicles and other work equipment .....	2,227,110.96
Undistributed cost of property .....	434,019.56
Construction work in progress .....	1,461,328.04
Total telephone plant.....	\$258,615,361.00
Investments in affiliated companies .....	130,068,302.39
Other investments .....	1,916,272.76
Miscellaneous physical property .....	811,330.69
Sinking funds .....	344,118.01
Total investments(Includes telephone plant) .....	\$391,755,384.85
Cash and special cash deposits .....	1,572,170.81
Material and supplies .....	2,288,985.38
Other current assets .....	5,763,594.90
Total current assets .....	\$ 9,624,751.09
Discount on funded debt .....	\$ 1,281,832.82
Other deferred debit items .....	6,467,396.70
Total deferred debits .....	\$ 7,749,229.52
Total assets.....	<u>\$409,129,365.46</u>

#### L I A B I L I T I E S

Capital stock, Common .....	\$180,500,000.00
"    "    Preferred .....	82,000,000.00
Total capital stock .....	\$262,500,000.00
Funded debt .....	51,837,900.00
Other long term debt .....	8,824,947.59
Total long term debt .....	\$ 60,662,847.59
Total current liabilities....	\$ 4,001,168.59
Accrued liabilities not due .....	\$ 6,265,061.33
Total deferred credits.....	\$ 134,697.53
Insurance reserve .....	\$ 615.27
Provident reserve .....	40,000.00
Depreciation reserve .....	\$ 70,531,867.11
Total reserve .....	\$ 70,572,482.38
Surplus reserved .....	\$ 475,100.00
Unappropriated surplus .....	\$ 4,518,008.04
Total surplus .....	\$ 4,993,108.04
Total liabilities.....	<u>\$409,129,365.46</u>

Under its refunding mortgage, applicant may, at its option, on May 1, 1932, or on any interest payment date thereafter, redeem all, but not less than all, of its refunding mortgage Series A bonds, upon giving sixty days notice and paying the redemption prices specified in the trust indenture securing the payment of such bonds. If the bonds are redeemed on or before May 1, 1942 the redemption price is 107 $\frac{1}{2}$  and accrued interest. There are now \$23,890,000. of said Series A bonds outstanding. Applicant intends to redeem such bonds on May 1, 1936. To obtain funds necessary to redeem the \$23,890,000. of refunding mortgage Series A bonds, to reimburse its treasury on account of income expended heretofore for the redemption of bonds, and provide itself with funds necessary to redeem in the future, bonds issued by The Home Telephone and Telegraph Company of Spokane and Southern California Telephone Company, applicant asks permission to issue and sell \$30,000,000. of its refunding mortgage Series B 3 $\frac{1}{2}$ % bonds. The Series B bonds are dated April 1, 1936 and are to mature on April 1, 1966.

The Series B bonds are redeemable, as a whole or in part, at the option of the company, on any interest payment date, upon not less than sixty (60) days notice at the following redemption prices, together with accrued interest, said redemption prices being as follows:- to and including April 1, 1941, 108 $\frac{1}{2}$ %; thereafter to and including April 1, 1946, 107%; thereafter to and including April 1, 1951, 105%; thereafter to and including April 1, 1958, 102 $\frac{1}{2}$ %; thereafter to and including April 1, 1962, 101%; and thereafter 100%.

Upon the redemption of its refunding mortgage Series A bonds in the amount of \$23,890,000. applicant will have to pay a premium of \$1,791,750. It proposes to charge this premium, together with the unamortized discount and expense on the bonds redeemed, to its surplus.

The expense incident to the issue of the Series B bonds will be amortized during the life of the bonds. If the company is successful in selling its Series B bonds at a premium, the amount of expense that will be amortized will be reduced by the amount of such premium. Through the refunding mortgage Series A bonds applicant will effect a substantial saving in its annual interest charges.

Applicant requests authority to execute a supplemental trust indenture substantially in the same form as that filed in this proceeding as Exhibit C. The supplemental trust indenture amends and modifies the company's trust indenture of May 1, 1922. The Commission has been advised that applicant will eliminate from said supplemental trust indenture Section 13 of Article Fifth which reads as follows:-

" That it (The Pacific Telephone and Telegraph Company) will at all times duly observe and comply with the terms and conditions of the license agreement between it and American Telephone and Telegraph Company, covering licenses, services, privileges, and other relations; and also all agreements in modification thereof or any substitution therefor; provided, however, that nothing in this indenture contained shall prevent The Telephone Company from assenting from time to time to such changes in said agreement as may be deemed by The Telephone Company necessary or advisable to make the contractual relations between the parties conform to prevailing business methods and practises or to be in the interest of successful operation of its properties or business."

#### O R D E R

The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for permission to execute a supplemental trust indenture and to issue and sell \$30,000,000. of bonds, the Commission having considered applicant's request and being of the opinion that this is not a matter in which a public hearing is necessary, that the applicant's requests should be granted as herein provided, that the money, property or labor to be procured or paid for through the issue of said \$30,000,000. of bonds 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 expenses or to

to income, therefore,

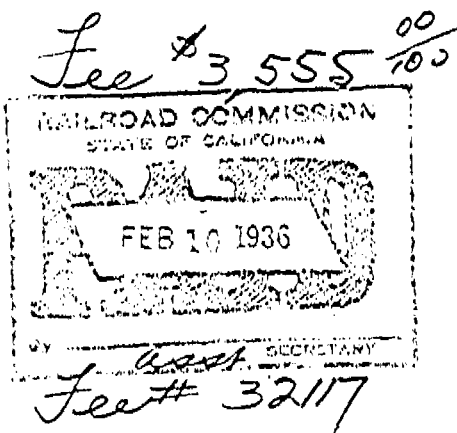
IT IS HEREBY ORDERED as follows:-

1. The Pacific Telephone and Telegraph Company may, after the effective date hereof and prior to May 31, 1936, execute a supplemental trust indenture substantially in the same form as the supplemental trust indenture filed in this proceeding as Exhibit C, except that Section 13 of Article Fifth of said supplemental trust indenture should be eliminated, and provided that the authority herein granted is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said supplemental trust indenture as to such other legal requirements to which said supplemental trust indenture may be subject.
2. The Pacific Telephone and Telegraph Company may, after the effective date hereof and prior to May 31, 1936, issue and sell for not less than their face value and accrued interest, \$30,000,000. of its refunding mortgage Series B  $3\frac{1}{2}\%$  bonds due April 1, 1966, and use the proceeds, other than accrued interest which may be used for general corporate purposes, to pay its outstanding refunding mortgage Series A bonds, to reimburse its treasury on account of income expended for the retirement of first mortgage 5% sinking fund gold bonds of Home Long Distance Telephone Company, and to pay at maturity on May 15, 1936, bonds of The Home Telephone and Telegraph Company of Spokane.
3. The authority herein granted will become effective when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Three Thousand Five Hundred and Fifty-five(\$3,555.) Dollars and when said The Pacific Telephone and Telegraph

Company has filed with the Commission a complete copy of the registration statement filed with the Securities and Exchange Commission.

4. The Pacific Telephone and Telegraph Company shall file with the Commission on or before May 31, 1936 two copies, as executed, of the supplemental trust indenture herein authorized to be executed.
5. The Pacific Telephone and Telegraph Company shall file with the Railroad Commission on or before October 31, 1936 a statement showing in detail the expenses incurred by it because of the issue and sale of said \$30,000,000. of bonds.
6. The Pacific Telephone and Telegraph Company shall keep such record of the issue, sale and delivery of the bonds 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 10<sup>th</sup> day of February, 1936.



*M. B. Harris*  
*Leon C. Whiteley*  
*W. J. Lee*  
*W. H. [Signature]*  
*Frank R. [Signature]*  
Commissioners