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ASSOCIATED GAS AND ELECTRIC CORPORATION

2nd / Annual Report of Trustees
1941

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FOR YEAR ENDED
DECEMBER 31, 1941

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It is the purpose of this Annual Report to inform the Court, creditors, stockholders, and other persons interested in the Estate of Associated Gas and Electric Corporation, of the results of operation of the business and management of the property of the Debtor during the year 1941. To be informative any such report must not limit itself merely to the activities of the Trustees as managers of the property of Associated Gas and Electric Corporation itself, but must describe the net results of operations of the various subsidiary companies in the Associated System.

As a technical matter the Trustees, upon their appointment, succeeded, as Trustees, to the ownership of all the assets of Associated Gas and Electric Corporation, thereby acquiring control of its immediate subsidiaries. However, in the interest of clarity, this Report is, for the most part, written as if Associated Gas and Electric Corporation had retained title to its assets.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In the Matter
of
ASSOCIATED GAS AND ELECTRIC
CORPORATION,

Debtor

In Proceedings for
the Reorganization
of a Corporation
Pursuant to Chap-
ter X of the Bank-
ruptcy Act.

No. 75635

Second Annual Report of Trustees

DENIS J. DRISCOLL and WILLARD L. THORP, Trustees of Associated Gas and Electric Corporation, Debtor, submit their Second Annual Report on the operation of the business and management of the property of that Corporation, covering the year 1941 and such more recent information as may be pertinent.

I. INTRODUCTION

The record of 1941 for the Associated System has been dominated less by actual developments in its immediate affairs than by outside events. While the reorganization aspects of the task of your Trustees are proceeding without delay, the conservation and administration of the assets themselves have become increasingly difficult. The Trustees are having to readjust their plans to war exigencies like everyone else. Various developments, particularly those of recent months, are clearly tending to reduce net earnings, despite mounting gross revenues, and consequently to diminish the value of the Estate, whereas other developments have made many of the possibilities of strengthening the System more difficult to achieve. While this situation relates to all types of enterprise, it is especially true of public utility holding companies, and is definitely reflected in the lower market prices for all securities, and the drastic decline in holding company securities in particular.

The strengthening of the position of the creditors of the Estate by reducing interest and other charges of subsidiaries and by building up the Estate's equity has been one of the major objectives of the Trusteeship. In March, 1940, there was a serious shortage of cash and a tremendous amount of debt obligations throughout most of the System. There were substantial short-term bank loans, accumulated unpaid back taxes, deferred maintenance and construction, and even one subsidiary reorganization proceeding. There was extensive debt in the General Gas & Electric Corporation group at the operating company level, in the Associated Electric Company group at the holding company level, and in the NY PA NJ Utilities Company group at both levels. Consequently, most of the net income at the operating company level was diverted to meet various fixed charges, taxes, and the like, and the substantial earnings from sales of electricity and other products to the public were greatly reduced before they reached Associated Gas and Electric Corporation (frequently called AGECorp) and Associated Gas and Electric Company (frequently called AGECo) at the top of the corporate pyramid.

The exaggeration of the effect of changes in operating company income is one of the fundamental characteristics of holding companies. A fluctuation of a small percentage in income at the operating company level results in much wider fluctuations in that part which can be credited finally to the top company. In the case of the Associated System, a decrease in revenues of 3% or an increase of expenses of 4% would result approximately in a 10% reduction in the gross income of the operating companies. This in turn would reduce AGECorp's income by one-third. At present increased expenses and taxes have more than offset the increased revenues for many of the operating companies, and the small declines at the operating level are being translated into an appreciable decline in holding company earnings. This condition is not peculiar to the Associated System, but is clearly reflected by the fact

that holding company common stocks, on the average, are selling today at less than one-third of their prices two years ago, and about one-twentieth of the peak prices of 1929.

Actually, the basic debt situation in the System has improved substantially during the last two years. Bank debts have been paid off or reduced; most of the accumulated back taxes, with their 6% interest cost, have been cleared away; and a hundred and fifty million dollars of debt securities have been refunded at lower rates of interest. Properties have been sold and the proceeds used to strengthen the remaining properties or to reduce debt. However, even when the many direct economies which have been accomplished are added to these capital gains, the net earnings situation did not improve in 1941 over 1940, because of the offsetting effect of rising costs and taxes, and the loss of revenue from subsidiaries in the Philippine Islands. And the requirements for new construction have absorbed cash which might otherwise have been applied to debt reduction.

Recent developments make this underlying problem even more troublesome. It is increasingly difficult to sell properties at anything resembling fair prices. Common stocks are selling at very low prices and preferred stocks have followed the downward trend. Plans for further strengthening various capital structures and reducing debt, which had been well advanced, have had to be abandoned, and new programs developed to meet the changing situations. Furthermore, costs are still mounting, though more slowly. Revenue increases tend to be in the relatively low-rate category and the tax load is certain to be heavier. All in all, the elimination of a substantial part of the debt which lies between the properties and the Estate can no longer be accomplished exactly along the lines proposed by the Trustees in their Report of November 7, 1941 under Section 167(5) of Chapter X of the Bankruptcy Act.

To add to this general comment, two specific adverse developments are important enough to warrant special mention—the occupation of Manila by the Japanese with the subsequent loss of income from the Philippine subsidiaries, and the decision of the South Carolina Supreme Court that the South Carolina Public Service Authority does not have the requisite authority to carry out the contract which it had entered into for the purchase of South Carolina Electric & Gas Company and Lexington Water Power Company. Both of these are situations in which the holding company equity is substantial, and the adverse developments have interfered seriously with the solution of the basic problems of Associated Electric Company and General Gas & Electric Corporation.

Despite this picture, reflecting as it does the generally adverse situation with respect to a public utility holding company such as this, a great deal has been accomplished during the last year. The System had come into being over many years. Its affairs cannot be straightened out by a few dramatic gestures. The puzzle is much too complicated and must be solved bit by bit. The war has not made this puzzle any less complicated or the solution easier; rather the reverse has been true. Even an apparently simple step all too often has turned out to become incredibly complicated in terms of surrounding considerations such as indenture provisions, cash requirements, tax factors, incomplete data, lack of similarity between government, company and holding company records, past accounting practices, etc., etc. Nevertheless, problem after problem has been solved, and the reorganization proceedings are well on their way to a conclusion. It is obvious that the general holding company problem would have been present, whether or not AGE Corp was in reorganization. This Report demonstrates that a very substantial amount of highly important work has been completed and indicates rather definitely the nature of the solutions still required. The presence of various external difficulties in the System does not necessarily greatly affect the length of time required to consummate a plan of reorganization, although it may limit the accomplishment of the Trustees in reaching all the objectives set forth in their Report of November 7, 1941.

II. THE INCOME RECORD OF 1941

The financial record for 1941 is presented in considerable detail in the exhibits and Auditors' report at the end of this Report. We wish to concur in the qualifications expressed by the Auditors, raising questions as to the accuracy of the stated amount of the assets of the System. The achievement of a satisfactory statement of assets needing no qualifications is one of our goals which is somewhat distant.

Fewer problems are involved in presenting the income statements except with respect to the depreciation charges, which need further study.

The Income Pyramid

The Associated System rests basically on four different levels—the operating companies, the subholding companies, and the top holding companies, Associated Gas and Electric Corporation and its parent, Associated Gas and Electric Company. The relationship of the 1941 income in the three lower levels is shown by the following table (the figures have been rounded off to the nearest tenth and therefore do not check exactly when added or subtracted):

	Millions of Dollars
Operating Companies (a)	
Operating revenues	144.6
Less: Expenses and taxes	106.8
Plus: Non-operating income (net)	0.3
Gross income	38.1
Less: Interest and dividends to public	21.3
Holding and investing companies' theoretical share in consolidated net income of operating companies	16.7
Subholding and Investing Companies	
Theoretical share of consolidated net income of operating companies	16.7
Less: Expenses and taxes	2.5
Plus: Other income (a)	1.2
Gross income	15.5
Less: Interest and dividends to public	4.2
AGECorp's Theoretical share in consolidated net income of its subsidiaries	11.3
AGECorp's Theoretical share in consolidated net income of its subsidiaries	11.3
Less: Expenses and taxes .....	.8
Plus: Other income	0.0(b)
Gross income	10.5
Less: Interest paid on Trustees' Certificate of Indebtedness	0.0(b)
AGECorp's consolidated net income before interest on its obligations (other than Trustees' Certificate of Indebtedness)	10.5

(a) The figures for "Operating Companies" exclude Manila Electric Company and Escudero Electric Service Company from the operating company group, and include the income actually received from them under subholding company other income.

(b) Less than \$5,000.

To be more exact, the consolidated net income of AGECorp was \$10,514,171.07 in 1941 before interest on its obligations other than the Trustees' Certificate. The net revenues of the operating companies of about \$38 millions are first reduced to \$16.7 millions by their own interest and dividend requirements payable to public holders. This figure in turn is reduced to \$11.3 millions by similar payments plus expenses and taxes while passing through the subholding companies. Of every dollar of gross operating revenue, about 12 cents is theoretically available to the subholding companies, and about 7 cents finally appears as the above-indicated consolidated net income of AGECorp.

Only a small part of this theoretical balance of income actually reached AGECorp. In fact, most of it remained as a sort of increased investment in the operating companies, where it was used primarily for new construction and to provide working capital. However, even when these needs are met, it is doubtful if all the earnings can ever be brought up to the parent company. This is because certain proportions of the income included in the consolidation do not and will not accrue in fact directly to AGECorp's benefit. In other words, when the books show, for example, that all the common stock of a certain company is owned by AGECorp, then all the income attributable to the common stock is

accredited to AGECorp. But the books do not show that some unknown portion of that equity will be lost to AGECorp in the future in the process of the improvement of capital structures which may be faulty according to regulatory standards, and for other reasons. An excellent illustration of this situation is Virginia Public Service Company. At the present time, all the common stock of Virginia is held by General Gas & Electric Corporation. However, proceedings are under way before the Securities and Exchange Commission which would reduce these holdings to some percentage of a new common stock that would replace the present preferred and common stocks. The exact percentage of these reduced holdings is one of the issues in the proceedings. The range will probably be between 5% and 20%. This would eliminate the earnings of Virginia from the consolidated income statement except to the extent that earnings actually were received. Under present conditions, none of Virginia's earnings can possibly reach AGECorp because of various restrictions, but nevertheless they appear in the consolidated return on the same basis as earnings of companies which can flow freely upward. Because of these many hurdles and barriers, it is not possible at this time to estimate the realizable income of AGECorp.

1941 and 1940

For the purpose of comparing the earnings record of 1941 and 1940, a consolidated statement of income and expenses of the System is presented in detail on Page 50. In general, this accounting picture treats the System as though its many companies were one great corporation dealing with the public. Thus, transactions strictly within the System, like intercorporate sales of power and interest and dividend payments on intercorporate-held debt, are all cancelled out.

Owing to the invasion of the Philippine Islands, the income of Manila Electric Company and Escudero Electric Service Company is not treated like that of other subsidiaries, but the actual receipts from these companies are included under "other income" in both years. In the case of properties sold, the consolidated statement includes them up to the date of sale.

The significant items are as follows (the figures have been rounded off to the nearest tenth and therefore do not exactly check when added or subtracted):

	1941	1940	Effect of Change on Income
		(Millions of Dollars)	
Operating revenues	144.6	135.6	Gain 9.1
Other income	1.6	2.2	Loss .6
Total revenues	146.2	137.7	Gain 8.5
Operating expenses	61.1	55.4	Loss 5.7
Maintenance	9.8	9.2	Loss 0.6
Depreciation	14.2	13.2	Loss 1.0
Taxes	24.2	21.7	Loss 2.5
Cost of capital.....	25.5	25.8	Gain 0.2
Total deductions	134.9	125.3	Loss 9.6
AGECorp consolidated net income before expenses of Trustees.....	11.3	12.4	Loss 1.1
Trustees expenses, taxes and interest	0.8	0.5	Loss 0.4
AGECorp consolidated net income before in- terest on its obligations (other than Trus- tees' Certificate of Indebtedness).....	10.5	11.9	Loss 1.4

The picture is clear. Operating revenues increased 6.7%, a gain appreciably greater than the 4.9% increase recorded a year ago. This increase is still greater than last year, even after the reduction in "other income", reflecting Manila, is taken into consideration. Unfortunately, operating expenses have increased even faster, and the maintenance and depreciation charges have increased somewhat. However, all these increased costs could still have been absorbed had there not been the increase in taxes.

The final result is a decline in the above-indicated AGECorp consolidated net income of \$1,428,000, or nearly 12%.

The record, for the purpose of forecasting the future, is somewhat obscured by certain events in 1941. There were substantial savings in taxes resulting from tax deductions based on refunding operations and sales of property. On the other hand, the settling of accumulated back taxes served to increase the apparent tax burden. Neither of these elements is recurrent unless other similar events may occur in the future. The full effect of savings in cost of capital, a permanent matter, is not reflected in the above table since several refundings were accomplished late in 1941 and in 1942.

Nevertheless, the present outlook is that a further decrease in System consolidated income can be expected for the year 1942. Whereas nearly one million dollars of income was received in 1941 from the Philippine subsidiaries, none can be anticipated in 1942. It is not probable that continuing rising costs can be much more than matched by increased revenues. While there should be further reductions in the cost of capital, the load of taxes is certain to be substantially higher.

Moreover, there will be apparent reductions as the figures for consolidated income gradually approach those for realizable income. For example, as set out elsewhere in this report, pending proceedings in the case of Virginia Public Service Company make it appear that AGECorp's interest in the earnings of that company will be substantially reduced.

Revenues and Rates

The year's record of the System can also be measured in terms of the actual goods and services which it produced.

In the following information, Manila Electric Company has not been included. The coach figures include the Staten Island Coach Company and Triple Cities Traction Corporation figures, since both of these companies were in the System as of December 31, 1941:

	1941	1940	% Change
<i>Electricity</i>			
Kilowatt hours sold.....	5,487,628,818	4,565,834,144	20.2
Number of customers.....	1,341,728	1,292,750	3.8
Dollars of revenue.....	117,867,033	109,125,865	7.4
<i>Gas</i>			
Cubic feet of gas sold.....	14,757,666,800	14,927,784,900	1.1*
Number of customers.....	315,877	304,541	3.7
Dollars of revenue.....	13,973,015	14,751,649	5.2*
<i>Water</i>			
Gallons of water sold.....	10,752,996,300	9,930,430,600	8.3
Number of customers.....	105,617	101,122	4.4
Dollars of revenue.....	3,235,382	3,073,198	6.5
<i>Steam Heating</i>			
Pounds of steam sold.....	2,293,843,200	2,375,309,200	3.4*
Number of customers.....	2,107	2,149	2. *
Dollars of revenue.....	1,654,191	1,701,106	2.7*
<i>Transportation—Coach</i>			
Passengers carried	97,439,959	83,042,442	17.3
Dollars of revenue.....	5,686,444	4,896,436	17.1
<i>Transportation—Railway</i>			
Passengers carried	19,699,804	18,072,363	9.
Dollars of revenue.....	1,140,563	1,021,081	11.7
<i>Ice</i>			
Tons of ice sold.....	174,378.57	145,259.12	20.4
Dollars of revenue.....	1,089,865	984,856	10.6

* Denotes red figure.

In the various groups, it is apparent that revenues from gas and steam-heating are less, while ice, transportation and electricity show clear gains. In the field of electricity, which constitutes 81% of the System revenues, the major gain was in the industrial load. It is probable that increases will continue in this type of usage, although it must be remembered that industrial rates are usually relatively low and that therefore increases in this type of load do not contribute so substantially to gross revenues as do similar percentage increases by commercial and domestic customers. Commercial usage is showing a definite curtailment in many cases, and domestic revenues will undoubtedly suffer from dimouts and blackouts, as well as the wartime stoppage of appliance sales and new business activities. Up to the present time, the Associated System has been able to meet the demands upon it without the necessity of adopting a system of priorities or even voluntary curtailment.

New business, often involving difficult technical problems, has developed at a number of special points. Service for army cantonments and war production centers, as well as shipbuilding areas, with their attendant influx of new population, has presented knotty problems. However, some way has always been found to give the service required.

Quite as important as volume in determining revenues is the matter of rates. When the Trustees assumed office, there were 20 active rate cases involving System companies. It was clear that rates in many System companies were out of line with prevailing rates of similarly situated companies in other systems. The previous policy appears to have been to contest and delay all rate reductions.

The Trustees decided that the problem should be boldly confronted, and they recommended to the operating subsidiaries that they endeavor to reach appropriate settlements. The result has been that there remained only one formal rate proceeding at the beginning of 1942, and there is every evidence that the regulatory bodies concerned are now convinced of the desire of the companies to handle these matters in a businesslike way. No new cases during 1941 reached a formal stage, being solved by negotiation based on special studies of each situation made by qualified experts. During the Trusteeship some form of major rate adjustment has taken place in 21 companies, and there have been many minor adjustments of inequitable specific rates. The Trustees have continued actively with long range planning to simplify and reorganize the rate structures of individual companies or System groups.

The year 1942 has seen a marked reduction in the pressure for rate reductions. In fact, the economic pressures are now in the other direction and steps have been taken in some cases looking towards the maintenance of return at levels necessary to fulfill obligations to serve the public.

Expenses

Increases in expenses have moved along not only with increase in volume but also with higher material and labor prices. For 1941, operating expenses and maintenance were 49.0% of total operating revenues, as compared with 47.7% in 1940. These ratios include all the types of operation of the System. However, it should be noted that the specific ratio for electric operation is about 47%. This is somewhat above the general industry average, but that is accounted for in part by the amount of purchased power, and the absence of metropolitan centers in the areas served by the System.

Concurrently with the rising trend of living costs, it has been necessary for the operating companies to revise wages generally. In addition, several companies have installed contributing pension plans. There was one strike in the System during 1941 in a transportation company. Otherwise, adjustments in labor contracts have been made by the process of negotiation.

One substantial increase in expense has been the added expenditure for plant and property protection against sabotage. The Trustees have undertaken the direct supervision of an adequate program in this direction. The overall cost of the protective operations is likely to amount to about \$1,000,000 in 1942, including certain special construction required for the protection of especially vulnerable spots.

Maintenance and Depreciation

Until the latter part of 1941, operating companies were able to obtain practically all materials for maintenance, repairs and operating purposes. Since the first of the year, it has become increasingly difficult to obtain items containing copper, rubber, steel, aluminum, zinc and various other essential materials. The present trend indicates that the restriction of deliveries of materials and equipment for construction and maintenance, unless associated directly with the war effort, will be progressively extended. This situation, plus the probable decline in the number and use of appliances, makes maintenance of the domestic load much more difficult.

Automotive equipment is important to utility companies. Special attention has been given by the operating companies to reduction in the number of cars and trucks in active service, operation and maintenance expenses, speed, inspection, care of tires, mileage and general driving practices. A number of the companies (where territory permits) are now using bicycles in cities and rural areas for meter readers, collectors and other employees; reductions in car mileage have been actually accomplished of from 20% to 25%. Experiments have been made in bi-monthly and tri-monthly meter readings. Contacts are being made by letter and telephone rather than personally by company representatives. A greater number of collection points are being established in rural and small town territories.

The increased expenditure for maintenance in 1941 is a definite step in the general program of rehabilitation. Although every effort will be made to continue this trend in the future, it is likely that limitations on supplies may lead eventually to a deferment of much normal maintenance. In such case, plans will be prepared so that, whenever the opportunity presents itself, there need be no delay in proceeding with the postponed requirements.

As to depreciation, the charges are greater than last year. However, there is no uniform basis of computing depreciation for accounting purposes throughout the System, and studies are in process which will lead to the adoption of a basis consonant with sound accounting requirements. This project is clearly related to the studies of original cost, discussed later in this report.

Taxes

The System's taxes in 1940 and 1941 were distributed as follows:

	1941	1940
	(Millions of Dollars)	
Federal income and declared value excess profits	8.2	7.4
Excess profits (Revenue Act of 1940) .....	.7	.0
Federal energy, and state and local.....	15.2	14.3
	\$24.2	\$21.7

The corporate income tax rate was 24% in 1940, 31% in 1941, and reserves are being accrued at 40% in 1942, except in the case of Rochester Gas and Electric Corporation, which is accruing at 45%. As previously stated, sales of property and certain refunding operations have held the tax cost down in 1941 by providing certain substantial deductions. On the other hand, the settlement of many of the accumulated back taxes increased the 1941 figure. The latter statement is likewise applicable to the state and local tax field.

The System files consolidated excess profits tax returns so far as possible. For those companies in the consolidation, there was no excess profits tax in 1941. The payment under that heading is made up chiefly of the tax of Virginia Public Service Company, a company where the control by the System is not sufficient to permit consolidation for tax purposes.

Current taxes are only one phase of the tax problems of the System. The Trustees found the System companies burdened with a mass of past-due unpaid taxes. The evidence indicates that the necessities of the former management for revenue to maintain the holding company debt structure led it to resist

and delay payment of taxes, particularly federal income taxes. And so, to a substantial extent, the System financed itself with money "borrowed" from the Government at 6%. This again was simply a matter of putting off the evil day—in this case, moving it ahead to the Trustees' calendar.

Between the appointment of the Trustees and June 30, 1942, 296 federal tax cases involving income, excess profits, capital stock and miscellaneous taxes have been settled. A tabulation of the settlements by years in which the tax liability arose follows:

Year	Number of Cases	
	Settled	Pending
1934.....	10	0
1935.....	27	1
1936.....	52	4
1937.....	68	9
1938.....	62	8
1939.....	58	10
1940.....	19	10
Total.....	296	42

At the time of the Trustees' appointment there were 24 cases pending before the Board of Tax Appeals. There are only four cases now before that body.

A certain number of tax cases arising in connection with transactions where precedent is not clear are unavoidable. At the present time, the number of cases outstanding is not excessive, and the Trustees, although still seeking improvement, believe the situation may now be regarded as fairly normal. State and local prior years' taxes have been so reduced that only a few small claims are pending.

Of particular importance in 1941 was the closing out of the Offer in Compromise of 1939, in which the former management had settled taxes for the years 1927-1933, inclusive, for \$8,700,000. \$3,000,000 had been paid under this Offer. This matter was consolidated with the settlement of the claims against Howard C. Hopson and affiliated interests whose assets were being sought by the Federal Government and by the Trustees. Both matters were settled by agreement on December 18, 1941.

Cost of Capital

Since the appointment of the Trustees, additional capital has been brought into the System and interest rates have been lowered in several cases of new security issues, including the following:

Jersey Central Power & Light Company (NY PA NJ Utilities Company Group)—

June 24, 1940, issued \$38,000,000 First Mortgage 3½% Bonds, due 1965, and \$5,300,000 of 3% 10-year serial notes to banks.

Rochester Gas and Electric Corporation (NY PA NJ Utilities Company Group)—

June 28, 1940, issued \$15,000,000 Series "K" General Mortgage 3¾% Bonds, due 1970.

Florida Public Service Company (General Gas & Electric Corporation Group)—

July 26, 1940, issued \$2,750,000 of 4½% Serial Debentures, due 1943 to 1955.

Glen Rock Electric Light and Power Company (NY PA NJ Utilities Company Group)—

March 20, 1941, issued \$325,000 First Mortgage Bonds, 3½% Series due 1966.

Northeastern Water and Electric Corporation Group—

May 1, 1941, four subsidiaries of this direct holding company subsidiary of AGECorp issued \$1,691,000 3¼% and 3½% new mortgage bonds.

Florida Power Corporation (General Gas & Electric Corporation Group)—

May 6, 1941, issued \$1,000,000 First Mortgage 4% Bonds, Series C, due 1966, and \$2,000,000 3½% Serial Debentures, due 1941 to 1956.

New York State Electric & Gas Corporation (NY P A N J Utilities Company Group)—

July 8, 1941, issued \$35,393,000 First Mortgage Bonds, 3¾% Series, due 1971, and 120,000 shares, par value \$100, of 5.10% Cumulative Preferred Stock.

Trustees of AGECorp—

December 18, 1941, issued \$5,000,000 2¼% Trustees' Certificate of Indebtedness (see Page 22).

Pennsylvania Electric Company (Associated Electric Company Group)—

March 2, 1942, issued \$32,500,000 First Mortgage Bonds, 3¾% Series, due 1972, and 34,000 shares of 5.1% Cumulative Preferred Stock, \$100 par value.

Virginia Public Service Company (General Gas & Electric Corporation Group)—

June 8, 1942, issued \$26,000,000 First Mortgage 3¾% Bonds, Series due 1972, and \$10,500,000 5% Sinking Fund Debentures, due 1957.

The total of all such security sales, but not including Jersey Central Power & Light Company (in which the System has approximately a 90% interest, directly or indirectly, but which it does not control), was \$149,806,000 in principal amount, and provided gross proceeds of \$154,296,467, not including accrued interest or dividends.

The annual savings in interest and dividend charges as a result of the refunding operations included in the above totals (excluding Jersey Central) were more than \$1,450,000 on a System basis. This is the most significant figure from AGECorp's standpoint, representing, as it does, a definite improvement in the condition of its subsidiaries. From the standpoint of interest and dividend payments by the separate and individual operating subsidiaries themselves, the annual savings were more than \$2,180,000. Consideration of additional permanent financing is under way, and it is hoped that further progress in refundings can be made during 1942 subject, of course, to market conditions.

The total gross proceeds, not including the refinancing of Jersey Central Power & Light Company were or are to be applied as follows:

For the retirement of \$129,794,300 of outstanding securities bearing higher interest or dividend rates.....	\$134,156,985
For construction and additional facilities	10,856,303
For payment of bank loans	2,565,000
For other purposes (net).....	6,718,179
	<hr/>
	\$154,296,467
	<hr/>

Substantial progress also has been made by subsidiaries in the reduction of bank loans and similar obligations since the reorganization proceedings began. At that time such loans totaled \$14,534,627.97. At December 31, 1941, the comparable figure was \$4,650,000, nearly \$10,000,000 less. Of the \$4,650,000 of loans outstanding at December 31, 1941, \$1,790,000 represented borrowings made subsequent to January 10, 1940, to finance required construction and for other purposes.

Interest rates on these borrowings also have been substantially improved. The average interest rate of loans outstanding at December 31, 1941 was about one-half the average interest rate on loans outstanding at January 10, 1940. Annual interest charges on loans outstanding at the end of December, 1941 were over \$550,000 less than the annual interest charges on loans outstanding at the time of the filing of the petition for reorganization. About 45 transactions were required to handle these matters.

III. THE SUBHOLDING COMPANIES

Management

One of the significant developments of the year was the giving of independence to the subholding companies through the creation of separate officers and staffs. In the past, the System had been directed in its major policies, except in the case of Northeastern Water and Electric Corporation, primarily through a network of service companies. When the Trustees were appointed, this function had been consolidated in the hands of The Utility Management Corporation. That company was financed largely by fees from the operating companies. It provided engineering and other services to the operating companies, and acted on behalf of the holding company superstructure in a management capacity. In fact, it even performed most of the services, corporate and otherwise, which were required by the holding companies themselves other than Northeastern.

This arrangement had long been the target of criticism by various regulatory agencies. The Trustees likewise believed this management technique was unwise for several reasons, particularly because it failed to build up self-reliant management in the operating properties, looking toward the time when integration would require them to operate independently or with a minimum of supervision. Solution of the problem, difficult because of attempts to meet the varying requests of various regulatory agencies, has been on an evolutionary basis, and the following developments have been accompanied by extensive hearings before regulatory bodies:

In the spring and summer of 1941, the Trustees placed their own designees in the key positions in the holding companies and in the service company.

During this period, the service company revised its methods of billing, so that services were more clearly provided at cost, charged to those receiving the services.

In January 1941, the base contracts were revised so that services were provided only on request of the companies which desired such service.

In September 1941, service and management functions were separated, so that the service company no longer acted in a managerial capacity. In the course of this development, the company was reorganized and its name changed to Atlantic Utility Service Corporation. Employees who had been active in managerial functions ceased to have any affiliation with the service company, and became officers of or were transferred to the holding companies' payrolls or the Trustees' staff.

In the early summer of 1942, steps were begun to divorce the service company completely.

When the management functions of the service company for the System were abandoned, the Trustees reorganized the subholding companies, other than Northeastern, whose functions had previously been performed in large part by the service company acting as their agent. At present, the responsibilities of the subholding companies as owners of the common stocks of the operating subsidiaries are carried largely by their own officers and employees at the expense of the subholding companies.

Earnings Restrictions

It should always be borne in mind that the income which will eventually flow to the security holders and other claimants of the Estate derives primarily from the ownership by AGE Corp of the common stocks and obligations of the subholding companies. The subholding companies in turn derive their income from their holdings of the common stocks and obligations of the operating subsidiaries.

Therefore, to take advantage of the earning power of the operating subsidiaries, it is necessary to strengthen the investment position of the Estate and to clarify the accounts of subsidiaries by removing restrictions upon the flow of income between the operating subsidiaries and the subholding companies, and between the subholding companies and AGE Corp or its successor or successors after the reorganization.

Of basic significance has been the policy of the Trusteeship relative to the retention of earnings by the operating companies. Whatever the condition of the operating company, and whatever the proportion of its equity which the holding company superstructure holds, these retentions increase that equity to a substantial degree when wisely used for earnings-producing purposes, and thus enhance the potential realization of AGECorp's security holders and other claimants.

The following table shows the retentions of AGECorp's consolidated balance of income during the last two years:

	1941	1940
Associated Electric Company Group.....	\$ 1,161,474 (a)	\$ 1,819,677 (a)
General Gas & Electric Corporation Group.....	1,420,020	1,026,963
NY PA NJ Utilities Company Group.....	7,466,053	7,411,960
The United Coach Company Group and The Railway and Bus Associates.....	303,949	109,918
Northeastern Water and Electric Corporation Group....	159,306	55,273
Total.....	<u>\$10,510,802</u>	<u>\$10,423,791</u>

(a) Excluding Manila.

These sums make their tangible appearance in new power plants, new lines and adequate supplies of cash, as well as in the reduction of indebtedness. In addition to these retentions, capital structures have been improved, and the accounts of the companies made more realistic in a number of ways. A listing of all the different transactions involving such steps would be too lengthy, but in general they involved the following kinds of activity:

1. Elimination or reduction of open account or other indebtedness of subsidiaries to their parents.
2. Capital contributions of cash or its equivalent.
3. Elimination or reduction of earned surplus deficits.
4. Elimination or reduction of inter-company holdings of System securities.
5. Accounting reorganizations.
6. More adequate provisions for depreciation.

It should not be assumed that there was always a clear option as to the leaving of these funds in the operating companies, or the moving of them along to the subholding companies, and then to the Trustees. Some detail as to the nature and extent of the restrictions in question is given in the Tables on Pages 51 to 56. Since each group has its special problems, they are discussed in some detail below.

Associated Electric Company Group

Approximately 11% (\$1,161,474.09) of AGECorp's consolidated balance of income was retained by companies in the Associated Electric Company group. The major retention of 1941 earnings at the operating company level was with respect to Pennsylvania Electric Company and subsidiaries, where \$1,138,976.15 was retained. The financial reorganization of Pennsylvania Electric Company and subsidiaries, completed early in 1942, operated permanently to freeze with Pennsylvania Electric Company its 1941 earnings thus retained. Conversely, however, the result of this reorganization is to make the earnings of Pennsylvania Electric Company for 1942 and subsequent years available to Associated Electric Company.

Upon the assumption that no income can be anticipated in 1942 from the Philippine subsidiaries (Associated Electric received net earnings of \$924,480.10 from that source in 1941), and in view of the fact that Associated Electric Company had an income in 1941 of \$295,969.74 less than its expenses, taxes and interest, it would appear that the voluntary retention of earnings in the operating companies

of the group in 1942 will necessarily be reduced. Fortunately, the result of the reconstruction of Pennsylvania Electric will be to make more cash earnings available from that source.

At the beginning of the Trusteeship, Associated Electric Company held many scattered properties, and a vigorous effort has been made to sell as many as possible outside of western Pennsylvania. Despite increasing difficulty, substantial progress has been made. To June 1, 1942, the proceeds from sales which have been used to retire debt have been utilized at a rate which resulted in interest savings greater than income curtailments. Also, exchanges of securities have been made with other System companies, bringing about the recapture of Associated Electric Company bonds, while reducing its holdings in other holding company securities. The final outcome of Associated Electric Company would appear to be the distribution of such of its assets, securities and cash to its security holders as may be required to provide them appropriate treatment.

General Gas & Electric Corporation Group

Approximately 13.5% (\$1,420,019.76) of AGECorp's consolidated balance of income was retained by companies in the General Gas & Electric Corporation group. Under the terms of an order by the Securities and Exchange Commission, Florida Power Corporation is required annually to retain \$300,000 of its earnings applicable to common stock, and that Corporation during 1941 retained \$372,790.71 after payment of \$78,000 as common stock dividends. Florida Public Service Company retained \$138,622.38, which could not be distributed because, at December 31, 1941, that Company still had an earned surplus deficit of \$24,520.34. South Carolina Electric & Gas Company retained \$584,715.78. Cash requirements for construction purposes were the practical barrier preventing the payment of these earnings to General Gas & Electric Corporation. Virginia Public Service Company and subsidiaries retained \$549,226.06. This sum is unavailable because of the Company's requirement for cash, preferred dividend arrearages, and restrictions imposed by the Virginia State Corporation Commission and the Securities and Exchange Commission. Virginia's debt securities have recently been refunded but none of its earnings available for stock can reach General Gas, at least until the proceedings, referred to above on Page 4, are terminated and existing dividend restrictions removed. In view of the amounts retained by the companies in the General Gas & Electric Corporation group and the reasons for such retention, it is apparent that such companies cannot greatly increase their flow of earnings up to their parent. As a matter of fact, General Gas & Electric Corporation itself, despite the substantial asset value of its holdings, has experienced difficulty in realizing sufficient earnings from its operating subsidiaries to pay its expenses, taxes and preferred dividend requirements on stock held by the public.

One of the most difficult problems confronting this subholding company involves its own capital structure. As now constituted, the earning power, actual or potential, of the company, based on the real flow of income to it, is less than its total present preferred dividend requirements (most of which preferred stock is held by the Estate). The Corporation filed a plan on March 5, 1941 with the Securities and Exchange Commission, designed to correct its present unwieldy capital structure and also to re-state its assets in the light of current conditions. This plan has been the subject of extended conferences with the staff of the Commission, security holders and others, prolonged hearings have been held, and definite progress is expected this year.

The principal issue in the plan involves the rights of the public holders of the Class A Stock. If strict priorities were followed, holders of this stock would not be entitled to share under a plan, but for various reasons, stemming from acts of the former management and current judicial decisions, it has seemed appropriate that they be afforded some participation in the proposed new securities. The root of the problem is the amount of such participation.

This issue has been before the Securities and Exchange Commission in connection with the plan above mentioned, but it has recently been complicated by an action brought in behalf of the Corporation in the Supreme Court of New York by certain Class A holders on March 12, 1942. In essence, these holders allege that in 1929 the former management of AGECo consummated a deal whereby General Gas & Electric Corporation exchanged the common stocks of certain subsidiaries it then owned

(now included in the NY PA NJ group) for securities of AGECO in such a way that General Gas & Electric Corporation was substantially defrauded. These holders demand that the transaction which led to the exchange be rescinded, so that General Gas & Electric Corporation would again hold the common stocks of the subsidiaries. These stocks have a greater value than the AGECO securities. The course and length of this litigation cannot be predicted.

Northeastern Water and Electric Corporation Group

Of the \$159,305.91 retained, at December 31, 1941, by Northeastern Water and Electric Corporation and subsidiaries, the sum of \$101,235.55 was paid to the AGECorp Trustees as a common stock dividend early in 1942.

In the case of Northeastern, a contract for sale to John H. Ware, Jr. and Penn-Jersey Water Company for a base price of \$3,800,000 has been approved by the Securities and Exchange Commission and the Court. Since one of the requirements of the purchaser was that Northeastern should no longer be subject to the Public Utility Holding Company Act of 1935 by reason of ownership of electric properties, it was agreed with Northeastern that the Trustees would purchase four small electric properties in Ohio now owned by Northeastern. Although the contract was signed on June 20, 1941, it has not yet been consummated, and the date of termination has been extended.

NY PA NJ Utilities Company Group

Approximately 71% (\$7,466,053.04) of AGECorp's consolidated balance of income for 1941 was retained at December 31, 1941 by companies in the NY PA NJ Utilities Company group. During and at the end of the year 1941 there were three channels through which earnings of NY PA NJ Utilities Company might reach the Trustees. The first of these, dividends by NY PA NJ Utilities Company, was effectively blocked, because NY PA NJ had an earned surplus deficit throughout the year. The second avenue was utilized—interest to Associated Utilities Corporation (a subsidiary of AGECorp) on open account advances, followed by payment by Associated Utilities Corporation to the Trustees of the major portion of the amounts thus received. The remaining channel, 1% annual interest on the interest-bearing Convertible Obligations owing by NY PA NJ to the Trustees, has an annual limitation of \$1,967,250.00. No distribution of 1941 earnings was made by this latter means. Indeed, an undistributed amount of \$1,147,562.50 of 1940 earnings remained as unpaid interest on these Convertible Obligations throughout 1941. NY PA NJ Utilities Company had sufficient cash at December 31, 1941 to liquidate the unpaid 1940 interest, and it would not have been impossible for NY PA NJ's subsidiaries to have paid up to it \$2,000,000 more than it realized from them, in which event NY PA NJ might have paid the complete 1941 accrual of Convertible Obligation interest to the Trustees. However, if such additional amounts had been paid by NY PA NJ and its subsidiaries, the rehabilitation program undertaken by the Trustees would have been considerably jeopardized.

Obviously, one of the major objectives of the Trustees' program is to make ultimately available to AGECorp's creditors the larger portion of earnings of subsidiaries of NY PA NJ. To achieve this goal it will, of course, be necessary to eliminate the earned surplus deficit on the books of NY PA NJ. In the meantime, the current retention of earnings by NY PA NJ's subsidiaries is intended to restore their financial structures to the point where their future earnings will be available to flow freely through the channel thus cleared.

As in the other groups, there are a number of restrictions which block the flow of earnings from the subsidiaries to NY PA NJ. In the case of New York State Electric & Gas Corporation, a sum of \$1,380,000 per annum must be set aside from earnings before common dividends can be paid. In 1941 this restriction was \$1,140,000. In the case of Metropolitan Edison Company, a Securities and Exchange Commission order required the freezing into surplus of a sum which required all but \$440,110 of the 1941 earnings of \$1,944,795, after preferred dividends. York Railways Company, being in reorganization under Section 77B of the Bankruptcy Act, is unable to make any distribution. Other restrictions are identified in the Table on Page 54.

The basic difficulties in the NY PA NJ group arise from the extent of debt of the holding company itself, the fact that substantial amounts of this debt are held within the System, and the further fact that two of NY PA NJ's major subsidiaries, Metropolitan Edison Company and New Jersey Power & Light Company, both have substantial investment portfolios of NY PA NJ securities which must be acquired by NY PA NJ as a prerequisite to their refunding. In addition, NY PA NJ's holdings of National Public Service Corporation debentures (through which is represented a large portion of NY PA NJ's interest in Jersey Central Power & Light Company) complicate the situation, as does the reorganization proceeding of York Railways.

Various programs have been developed to deal with this situation, but either regulatory requirements or developments in the securities markets have prevented their fruition. Among these programs have been:

1. Sale of Trustees' Certificate of Indebtedness.
2. Borrowing by NY PA NJ itself through public sale of debt in various forms.
3. Sale of holdings in Rochester Gas & Electric Corporation and Staten Island Edison Corporation.
4. Borrowing from Reconstruction Finance Corporation through a liquidating corporation which would hold properties scheduled for ultimate sale.

In each of these instances, much work was done. For example, in the case of the proposed sale of Rochester Gas & Electric Corporation, a registration statement was in the final stage of completion for filing with the Securities and Exchange Commission under the Securities Act, when the common stock market collapsed after Pearl Harbor.

All solutions to the NY PA NJ problem require that a considerable sum of cash be placed in the NY PA NJ picture to generate a series of transactions which will rehabilitate the capital structures of several of its subsidiaries. Furthermore, the rearrangement of properties, proposed in the broad integration program, requires at least a rearrangement of the various NY PA NJ debt issues, which now rest upon these properties as security.

The United Coach Company

Less than 3% (\$303,949.16) of AGECorp's consolidated balance of income for 1941 was retained at December 31, 1941 by companies in The United Coach Company and The Railway and Bus Associates groups. Of this amount, \$111,408.35 was retained by Staten Island Coach Company, Inc. and Triple Cities Traction Corporation, which companies have subsequently been sold. The only other noteworthy retention of earnings is the 100% retention (\$135,046.36) by Reading Street Railway Company. This Company cannot pay dividends because of what appears to be large earned surplus deficit on its books.

Increased Strength of the System

The following conclusions may be drawn from the foregoing. If the Trustees had realized approximately \$2,000,000 more than they did realize from the earnings of NY PA NJ's subsidiaries for 1941 and if they had received an additional \$1,000,000 from NY PA NJ relating to 1940 earnings, the cash position of AGECorp itself would have been substantially improved. However, the effect of such action would have been to retard—even to reverse the financial reconstruction of the Associated System which has been undertaken by the Trustees. The Trustees do not anticipate realizing any earnings in the near future from either the Associated Electric Company or General Gas & Electric Corporation groups, and Northeastern Water and Electric Corporation is under contract for sale. Earnings in The United Coach Company group are relatively minor. Between \$100,000 and \$200,000 may continue to be realized as income of a miscellaneous nature from assets now owned by Associated Utilities Corporation.

In order to realize fully from the potential earning power of AGECorp's subsidiaries, it is necessary not only to correct the capital structures of a number of subsidiaries, but also to consummate the

General Gas & Electric Corporation plan and to accomplish a thoroughgoing financial reorganization of the NY PA NJ group.

An illustration of the increased strength of the underlying companies is shown in the following table of consolidated cash position, including working funds at the year end:

1936.....	\$ 8,220,000
1937.....	9,000,000
1938.....	9,760,000
1939.....	11,180,000
1940.....	18,500,000
1941.....	21,120,000

The application of funds for construction is likewise one of the tangible evidences of strengthening of the operating subsidiaries. During 1940 and 1941 the companies expended about \$51,000,000 cash. Another \$22,000,000 cash probably will be required in 1942. The companies were able to provide much of these requirements out of their own reserves with some assistance from the subholding companies. About \$11,000,000 was supplied by bank loans and refundings previously mentioned in this Report.

The System appears to have stopped planning much construction in about 1936 or 1937. Early in 1940 it became evident that at certain points System capacity was too low for safety and that there was an urgent need for transmission lines. The operating companies thereafter took vigorous steps to overcome these deficiencies. It should be remembered that power plant construction frequently takes as long as two years from the conception to the completion of a project.

Here is the record of electric generating capacity (excluding Manila Electric Company):

1937.....	1,280,524 KW	
1938.....	1,324,146 KW	Plus 3.4%
1939.....	1,319,307 KW	Minus 0.4%
1940.....	1,331,913 KW	Plus 0.9%
1941.....	1,408,448 KW	Plus 5.7%

The increase of 5.7% in 1941 compares with a percentage increase for all power plants in the country contributing to the public supply also of 5.7%, and a figure for the private utilities of 4.6%.

The major installations completed during 1941 were the following:

7,500 KW Turbo Generator Unit	June 1941	The Delmarva Power Company
15,000 KW Turbo Generator Unit	October 1941	Rochester Gas and Electric Corporation
20,000 KW Turbo Generator Unit	December 1941	Metropolitan Edison Company
35,000 KW Turbo Generator Unit	December 1941	Pennsylvania Electric Company

There are at this date definitely scheduled total increases of generating capacity of about 245,500 KW in ten plants, or over 17% more than the total capacity available in the System during 1941. The location and capacity of these projects are as follows:

20,000 KW Turbo Generator Unit	June 1942	New York State Electric & Gas Corporation
8,000 KW through boiler addition	October 1942	Pennsylvania Electric Company
15,000 KW Turbo Generator Unit	November 1942	Virginia Public Service Generating Company
25,000 KW Turbo Generator Unit	April 1943	Rochester Gas and Electric Corporation
40,000 KW Turbo Generator Unit	May 1943	New York State Electric & Gas Corporation
40,000 KW Turbo Generator Unit	June 1943	Metropolitan Edison Company
7,500 KW Turbo Generator Unit	October 1943	Delmarva Power Company
40,000 KW Turbo Generator Unit	October 1943	New Jersey Power & Light Company
25,000 KW Turbo Generator Unit	November 1943	Pennsylvania Electric Company
25,000 KW Turbo Generator Unit	December 1943	Pennsylvania Edison Company

Studies are in progress for an additional 85,000 KW in four generating stations. Because of priorities and the uncertainty of deliveries of material and equipment, it is likely that some of these projects listed above may not be completed until the war is concluded.

Gross construction expenditures for plant, transmission lines and so on, part of which was financed by depreciation funds (excluding Manila Electric Company), were:

1937.....	\$25,893,039
1938.....	14,175,513
1939.....	17,125,013
1940.....	24,044,463
1941.....	33,918,181
1942 (est.)	39,000,000

At the present time, construction programs are no longer a matter of individual choice or discretion, but must be coordinated as part of a national program to provide maximum power needs with a minimum of materials and supplies. Committees have been established in various regions to consider the problems of power supply. The Associated System is cooperating fully in this program.

IV. RECONSTRUCTION OF THE SYSTEM

Integration

On November 7, 1941, pursuant to Section 167(5) of the Bankruptcy Act, the Trustees distributed widely a Report which outlined in general a program for the reconstruction of the Associated System. One fundamental of major importance was the belief on the part of the Trustees that a system with such sprawling and diversified characteristics could not possibly realize the full potentialities of its subsidiaries in terms of earnings to investors in the top company. This general point of view had already been established in public policy in the Public Utility Holding Company Act of 1935.

In that Report it was proposed to meet these requirements by setting up four simplified integrated utility systems in place of the existing single system with its scattered properties, variety of interests, and complicated corporate structures. The four systems proposed in the Report would combine certain properties in the following areas:

1. New York State-Northern Pennsylvania.
2. Eastern Pennsylvania-New Jersey.
3. Western Pennsylvania.
4. Florida-Georgia.

Other properties were to be disposed of by sale or otherwise. In general, the securities of the new systems were, as a part of the ultimate reorganization plan for AGE Corp, to be appropriately distributed to the creditors of the Estate.

On September 4, 1941, the Securities and Exchange Commission instituted a proceeding against the Trustees under Section 11(b)(1) of the Public Utility Holding Company Act of 1935, requiring them to indicate their conclusions as to conformity with the Act. The Trustees filed an answer, following the lines laid down in their Report. Hearings were commenced on December 13, 1941, before an Examiner of the Commission, and elaborate evidence was presented to show that each of the four proposed systems met the requirements of the Act. About 284 exhibits were prepared and placed in evidence, 204 of them by the Trustees and the remainder at the request of the Commission; and over 2,800 pages of testimony were recorded. Witnesses included many officials from the particular properties involved. The record is now closed and the proceeding is following the usual steps required for determination by the Commission in such matters. The position of the staff of the Securities and Exchange Commission has been indicated in its proposed findings and brief. While the staff does not oppose the broad pattern proposed, it finds various points at which it disagrees. It objects to any retention of gas properties by companies or groups primarily electric in nature. Its chief criticism is levelled at the New York State-Northern Pennsylvania group, where it opposes the inclusion in the "system" of Bradford Electric Company, and of certain divisions of New York State Electric & Gas Corporation, which do not immediately touch the main territory of the Company.

The greatest progress in actually establishing the suggested systems has been made in the case of western Pennsylvania. For many years nine separate corporate entities, in the Associated Electric Company group, were maintained in western Pennsylvania and the adjacent territory in Maryland.

Not only did this add to the cost of operations, but it presented complications which in the future could have materially interfered with the flow of earnings from these subsidiaries to Associated Electric Company. The normal expansion of the western Pennsylvania system was impeded by such artificial internal boundaries.

Accordingly, plans were formulated in the latter part of 1941 to combine all but three of these companies, which were relatively small water and gas companies and to place the resulting capital structure on a sound basis. Pennsylvania Electric Company, as now constituted, is the survivor of the combination, which was carried out in March 1942. The program also included the acquisition of the assets of Logan Light, Heat & Power Company, a small adjacent property owned by NY PA NJ.

In setting up the new capital structure, provision was made for additional funds required for expansion with the result that, from present indications, Pennsylvania Electric Company will not need any additional capital for several years. Attention was also given to strengthening the position of the investment of Associated Electric Company in the western Pennsylvania companies. Certain revaluations and other items were eliminated from the balance sheet, reserves were provided pending determination of certain other items, and in general Pennsylvania Electric Company was placed in a sound financial position.

It is hoped that two additional steps can be taken to strengthen Pennsylvania Electric Company, the acquisition of Keystone Public Service Company from NY PA NJ Utilities Company, and the acquisition by Pennsylvania Electric Company of substantially all the assets of Penelec Water Company, which supplies condensing water to the Seward Plant.

Sales of Property

The basic program of System reconstruction requires not only the rearrangement of certain properties into systems, but the disposition of others. Such sales have an added purpose in that they provide cash which is sorely needed to reduce debt or to strengthen the remaining subsidiaries.

Since the appointment of the Trustees, the following properties have been sold (not including inter-system sales), the prices (before taxes) being approximate:

Associated Electric Company Group

Sioux Falls Gas Company (South Dakota).....	\$1,559,000
Hopkinsville Water Company (Kentucky).....	550,000
Indiana Gas Utilities Company (this sale is being challenged in the courts).....	1,685,000
Associated Maryland Electric Power Corporation (only partially sold).....	85,000
Ohio River Power Company (Ohio).....	600,000
Arkansas General Utilities Company	325,000
Texas General Utilities Company (only partially sold).....	30,000
Kentucky-Tennessee Light and Power Company	
Southwestern electric properties	3,535,000
City of Mayfield Water Distribution System	400,000
City of Frankfort Gas Distribution System.....	35,000
Miscellaneous	102,000

General Gas & Electric Corporation Group

Florida Power Corporation	
Electric Distribution System in Gadsden and Leon Counties.....	128,000

NY PA NJ Utilities Company Group

Electric Distribution and Street Lighting System of New York State Electric & Gas Corporation in City of Plattsburg.....	180,000
Electric facilities in Sullivan and Orange Counties of New York State Electric & Gas Corporation	26,000
York Bus Company (Pennsylvania)	220,000
Maryland Public Service Company	15,000

Miscellaneous

Staten Island Coach Company, Inc. (New York).....	\$ 100,000
Triple Cities Traction Corporation (New York).....	276,000
Presque Isle Water Company (Maine)	293,000

In addition, since the appointment of the Trustees, contracts have been signed, or definite agreements reached and are still extant, for the sale of the following, the prices being approximate:

Associated Electric Company Group

Kentucky-Tennessee Light and Power Company	
Sale and exchange of Middle Division electric properties(1).....	\$ 375,000
Ohio River Division	195,000
Panhandle Public Service Company (Texas).....	170,000
Missouri Southern Public Service Company.....	175,000
Louisiana Public Utilities Co., Inc. Farmerville District	90,000
Northeastern Water and Electric Corporation, less the following electric properties which are to be sold elsewhere.....	2,300,000
The General Utilities Company (Ohio)	1,100,000
The Western Reserve Power and Light Company (Ohio).....	
The New London Power Company (Ohio).....	

General Gas & Electric Corporation Group

South Carolina Electric & Gas Company and Lexington Water Power Company(2)	\$40,000,000
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- (1) Includes \$200,000 estimated resale value of properties to be received upon exchange.
 (2) The Supreme Court of the State of South Carolina has held that the South Carolina Public Service Authority lacks power, under its organic act, to consummate the purchase of these properties.

As might be expected, many negotiations have been carried on which have not materialized into final sales. In the case of the sale of Staten Island Coach Company, Inc., for example, over 40 different prospective purchasers appeared at one time or another before the sale was finally consummated. And even after contracts are signed, they are not always consummated. One contract involving the sale of the various southwestern properties of Associated Electric Company for a consideration of about \$3,340,000 was not approved by the Securities and Exchange Commission. Another contract was signed by Associated Electric Company for the sale of Union Gas & Electric Company. This sale was approved by the Securities and Exchange Commission, upon certain conditions, but the purchasers have demanded cancellation of the contract on grounds, the validity of which is not conceded by Associated Electric. In another case a contract was signed for the sale of The Dover Gas Light Company, in the General Gas & Electric Corporation group, for about \$80,000, but this contract could not be closed because of changed conditions. A contract was signed to sell Arizona General Utilities Company to the City of Safford, Arizona, but the proposal was defeated in a municipal election. A similar situation existed in Owensboro, Ky., with respect to Owensboro Gas Company. In another case a contract was signed for the sale of the electric and water distribution system serving the City of Frankfort, Kentucky, and environs for a base price of \$1,350,000. This contract expired by its terms on July 1, 1942. The inability to consummate this agreement was brought about by the reluctance and failure of the Kentucky Public Service Commission to approve the sale during the pendency of the hearings on the question of rates for electric service in Frankfort.

While efforts are being continued to develop other sales, such opportunities are severely limited at the present time. It should be emphasized that while the proceeds so far received have strengthened AGECorp's underlying situation, the funds have not been directly available to AGECorp for various legal and business reasons, generally similar to the conditions preventing the flow of income described elsewhere in this Report.

The sales program has involved extremely complicated negotiations, each situation usually requiring many months of time. Work on the sale of the South Carolina Companies, for instance, has been virtually continuous since the middle of 1940. In that case, consideration is being given to meeting the situation created by the decision of the South Carolina Supreme Court, referred to above.

Corporate Simplification

Substantial progress has been made in the elimination of useless corporate entities, some as the result of the above sales and others by merger, dissolution or liquidation. The following lists these eliminations:

NY PA NJ Utilities Company Group

The Reno Bridge Company
General Utility Investors Corporation
Central Broadheads Power Company
Associated Power Corporation
Oswayo Township Electric Company
Logan Light, Heat & Power Company
York Bus Company
Tracy Development Company

General Gas & Electric Corporation Group

Southeastern Investing Corporation
Eastern Power Company
Southeastern Electric and Gas Company
East Carolina Power Company
Florida West Coast Towing Company
Virginia Public Service Generating Company
Middle Virginia Power Company
The Hampton Towing Corporation

Associated Electric Company Group

Hopkinsville Water Company
Sioux Falls Gas Company
Pennsylvania Investing Corporation
Central U. S. Utilities Company
The Clarion River Power Company
Erie Lighting Company
Solar Electric Company
Southland Public Service Company

Shinn & Co. Group

Triple Cities Coach Company, Inc.
Triple Cities Traction Corporation
Staten Island Coach Company, Inc.
Metropolitan Investing Company
The General Finance Corporation

Miscellaneous

Associated Investing Corporation
Northeastern Water Companies, Inc.

There are other more or less minor eliminations which will be accomplished, but except for the final task in connection with arranging the companies in appropriate integrated form in the ultimate systems, there is very little of major importance in this area which is not accomplished or well on its way to completion. No corporate chart is included in this Report since charts were included in the last Annual Report and the 167 Report. A recent chart will be sent upon request.

Inter-corporate Simplification

Certain inter-System property transactions have also contributed to the corporate simplification program. The investment of Associated Electric Company in Clarion Water Company was sold to Northeastern Water and Electric Corporation for a base price of \$75,600. Logan Light, Heat & Power Company, subsidiary of NY PA NJ Utilities Company, sold its properties to Pennsylvania Electric Company, subsidiary of Associated Electric Company, for \$24,000 as part of the program for establishing the western Pennsylvania System referred to above.

The program for corporate simplification has also been developed by the recapture of inter-system cross-holdings of securities by their issuers. NY PA NJ Utilities Company has exchanged its holdings of \$3,015,000 of Associated Electric Company 4½% Gold Bonds, Refunding Series, due 1956, with Associated Electric Company, receiving in exchange \$1,356,700 of The Mohawk Valley Company 6% Consolidated Refunding Gold Bonds, due 1981, which are obligations of a predecessor of NY PA NJ Utilities Company. NY PA NJ Utilities Company also has acquired additional securities of The Mohawk Valley Company and of The Metropolitan Edison Corporation (also obligations of predecessor companies) from The General Finance Corporation, a subsidiary in the Shinn & Co. subholding group, in consideration of cancellation of indebtedness owed by The General Finance Corporation to NY PA NJ Utilities Company and the assumption of certain liabilities.

General Gas & Electric Corporation has purchased from Northeastern Water and Electric Corporation 4,200 shares of Georgia Power and Light Company's \$6 Preferred Stock. Georgia Power is a subsidiary of General Gas.

Fixed Capital Accounts

One of the more troublesome aspects of the corporate picture relates to the valuations at which fixed capital is carried in the corporate records. The balance sheets of various companies in the Associated System include property valuations which have been substantially written up. Depreciation reserves were frequently inadequate; and various accounting entries made in the past, particularly in the surplus accounts, were not in accord with presently acceptable accounting practices.

Accounting regulations adopted by federal and state regulatory bodies have for several years required the reclassification of plant accounts on the basis of **original cost of the property to the person first devoting it to the public service**. These regulations, affecting about 45 System operating companies, require each of these utility companies to make detailed studies of the cost of its utility property and to reclassify such cost under the headings of original cost, acquisition cost in excess of original cost, and all other book costs.

Since correct statements of book costs are essential for many determinations of facts in reorganizations and otherwise, it is necessary and important not only to endeavor to classify correctly the book costs of plant as rapidly as possible, but also to dispose appropriately of amounts in excess of corporate cost. Thus, as part of the Pennsylvania Electric Company merger and refinancing, \$7,000,000 of estimated property revaluation was removed from the books of the companies involved. However, final accomplishments in this area depend upon the completion of the original cost studies for the various properties.

If the former System management had pursued this task expeditiously and in accordance with the lawful requirements of the regulatory bodies, the work would now have been completed and the results would have been available for use by the Trustees. The organization of the basic data required was begun about July, 1938, and was still generally in process at the inception of the Trusteeship. At that time the accumulated expenditures on original cost work of the companies affected on this task were approximately \$2,600,000, and practically all the companies contemplated completing the work during the year 1940.

The Trustees made a thorough review of the methods which had been used, and found that the studies not only were inadequate and incomplete, but generally had been misdirected. This review also disclosed that full responsibility for the studies had been assumed by the System's management company. To correct this situation, the Trustees on November 1, 1940 placed the responsibility for the propriety of the original cost studies upon the immediate officers of the operating companies affected, and undertook to give those companies direct supervisory assistance and advice in the direction of revising the studies so that they would be on a sound basis. Arrangements with outside firms to carry on the work were terminated.

During 1941 approximately \$830,000 was expended by the System companies on these studies, and at the close of the year 368 temporary employees were being employed by the various companies to supplement their own staffs engaged in this work. Since the revised studies were instituted, eight companies have filed revised reports with the regulatory bodies. It is believed that they will meet the lawful requirements of those bodies. It is hoped that substantially all the companies will have completed the work and filed proper reports during the first quarter of 1943. Expenditures during 1942 are continuing at about the same rate as in 1941.

V. THE REORGANIZATION PROCEEDINGS

On January 10, 1940, the former management of Associated Gas and Electric Corporation filed a petition under Chapter X of the Bankruptcy Act for reorganization under the direction of a federal court. On January 30, 1940, the proceedings were removed to the United States District Court for the Southern District of New York where they are now going forward before Judge Vincent L. Leibell. On March 2, 1940, Judge Leibell appointed the undersigned Trustees, and they have since devoted their full time to the working out of the problems discussed in this Report.

Recap Litigation

An essential requirement of a reorganization is the determination of the identity and position of various claimants with regard to the assets. In this particular reorganization case, all such issues are dwarfed when compared with the basic problem of the relative rights of AGECorp and AGECorp security holders. While both AGECorp and AGECo have interest-bearing issues in the hands of the public, the AGECorp debt securities now purport to possess a claim to the earnings and assets of the System prior to those of the AGECo debt securities.

When these reorganization proceedings were instituted, AGECo's principal assets consisted of all the common stock of AGECorp and two notes of AGECorp which were subordinated by their terms to the outstanding AGECorp debt securities. AGECo's major prospect of revenue would thus be the dividends which might be declared by AGECorp on its common stock and any interest paid on the two notes. If the terms of AGECorp's outstanding debt securities and of the notes held by AGECo were given full effect, it would follow that such dividends and interest could not be paid until interest had first been paid on AGECorp's debt securities.

In an effort to bring the AGECo security holders and other creditors into a position equal or superior to that occupied by AGECorp security holders, the AGECo Trustee, on February 28, 1941, filed a petition which initiated the so-called Recap litigation. In addition to other claims, this petition, among other things, alleged: (1) that various transactions by which stock in subholding companies was purchased by AGECorp, and AGECo's interest in AGECorp took on its present form of stock, were fraudulent, and in violation of certain provisions of AGECo's debt securities; (2) that the Recap Plan, initially proposed in 1933, which gave the AGECorp debentures their purported present seniority relative to AGECo security holders, was illegal and unfair; and (3) that the entire Associated System was treated by the former management as a single entity and that, therefore, the apparent priorities of creditors dependent upon the recognition of the separate existence of AGECo and AGECorp should be disregarded. Petitions, also challenging the priority of the AGECorp debt securities, were filed by the General Protective Committee for the fixed interest securities of AGECo, by a group of individual AGECo debenture holders, and by the indenture trustees for the various AGECo bond issues.

After an examination of these petitions, the AGECorp Trustees, in May and June 1941, filed answers thereto. These answers in no way involved condonation of all the acts of the former management of the Associated System. The position of the AGECorp Trustees was that the bondholders of both the Corporation and the Company may have been injured by some of the activities of Hopson and his associates, but that this was a controversy between two sets of security holders, and on both equitable and legal grounds the apparent priority of the AGECorp creditors over the AGECo debenture holders should be preserved. The reply of the Trustees pointed out that the holders of AGECorp debentures made substantial sacrifices of interest when they exchanged their old AGECo bonds under the Recap Plan, and that such exchanges were directly induced by representations that AGECorp debentures would thereafter possess a prior claim to the assets and income of the System. The AGECorp Trustees further maintained that the unreasonable delay of AGECo, its indenture trustees and security holders, in that they had failed to seek relief long prior to the initiation of the reorganization proceedings, barred them from now asserting their present claims. The AGECorp Trustees also contended that certain of the AGECo causes of action were outlawed by the New York statute of limitations. Answers have also been filed by the indenture trustees for the various AGECorp security issues and by committees representing groups of AGECorp security holders.

On September 24, 1941, hearings on the AGECo petition began before Hon. Frederick E. Crane, formerly Chief Judge of the New York Court of Appeals, who had been designated as Special Master by the Court in the reorganization proceedings. These hearings have continued to date and, at May 15, 1942, the record consisted of more than 8,000 pages of testimony and 400 exhibits.

When the hearings are closed (estimated to be about September 15) normal procedure would require both sides to file briefs and make oral arguments before Judge Crane. The litigation will not terminate, however, with the subsequent rendition of the Special Master's report, for this report must be

considered by the Court. At that time, all parties concerned will have the opportunity to present arguments and briefs on the Special Master's report. After the Court renders his decision, any dissatisfied party may appeal to the United States Circuit Court of Appeals, and, subsequently, may seek review by the United States Supreme Court.

If one assumes that all possibilities of appeal are utilized by one or another of the parties, it is unlikely that the Recap litigation will be finally determined prior to 1944. The only alternative to this extended and costly course of litigation is a compromise settlement. That alternative has always been present in the Trustees' minds, and, now that the record of facts and arguments is fairly complete, serious efforts are being made to find a satisfactory basis of settlement.

Investigations and Recovery Litigation

One of the major tasks in the reorganization has been the investigation of the conduct of the former management, and the endeavor to recover from those found liable for fraud, mismanagement, negligence or other actionable conduct. The chief accomplishment in this field, and one of the biggest jobs of the Trustees of both AGECo and AGECorp, has been the recovery of assets from Howard C. Hopson, his personal corporations and trusts, and members of his family.

It was apparent at the outset of the proceedings that the most important claims available to the Trustees were those against Howard C. Hopson and John I. Mange. Control of the System was acquired by them in March 1922 and so continued virtually up to the appointment of the Trustees. Mange devoted himself primarily to operating policy and problems, leaving to Hopson all corporate, legal, tax, financial and accounting matters. Losses aggregating upwards of \$20,000,000 were suffered by System companies from the various practices and transactions of Hopson.

After a long trial Hopson was convicted of using the mails in connection with a scheme to defraud and was sentenced in January 1941 to serve five years in a federal penitentiary. In November 1941 Hopson pleaded guilty to an indictment charging tax frauds. He is now serving the sentences in both cases.

Inquiries were made into the resources of Hopson and Mange, members of their families and their corporations, partnerships and trusts. The Hopson group held substantial resources, the Mange group comparatively few. Their assets were subject to Federal liens for taxes aggregating substantially more than the total value of such assets. In addition, the State of New York had asserted large claims for taxes constituting a lien on certain of the same assets. Also, New England Gas and Electric Association and its subsidiaries (which also had been controlled by Hopson) asserted claims against Hopson similar to those of the Trustees.

In view of the priority accorded by law to taxes, it was necessary either to defeat the tax claims or to avoid their priority. Investigation revealed no hope of reducing the Hopson tax liability below the maximum value of the assets. In January 1941, litigation was instituted against Hopson, Mange, members of their families and their corporations, partnerships and trusts and certain others, for the purpose of impressing their assets with a constructive trust in favor of the Estates of AGECo and AGECorp and their subsidiaries.

As a result of this litigation and of extended negotiations, an agreement for the settlement of all conflicting claims was reached between the Trustee of AGECo, the Trustees of AGECorp, New England Gas and Electric Association, and the Hopson group, dated August 4, 1941, and approved by the Court on August 25, 1941. Concurrently separate settlements of the tax claims against the Hopson assets were arranged between the Trustees, the Hopson interests and the Federal and State Governments. When the Trustees were appointed, \$5,700,000 was owing to the Federal Government upon an Offer in Compromise of System taxes, made in 1939, for the years 1927 through 1933. Interest from July 5, 1939, was running at 6% per annum. The settlement of this liability was also provided for in the agreement. All the settlements were closed simultaneously on December 18, 1941.

To accomplish the closing of the Agreement and the contemporaneous closings was a difficult and intricate legal undertaking. In addition to hundreds of other important details, it was necessary to

secure certificates of discharge of 275 Federal tax liens filed against the assets of the Hopson group, to procure the dismissal of 72 cases pending before the Board of Tax Appeals, and to procure the authorization, execution and delivery of some 250 covenants not to sue from System and New England companies in favor of the Hopson group. Separate proceedings were conducted by the Trustees before the Securities and Exchange Commission with respect to the settlement itself and also with respect to the borrowing of \$5,000,000 by the Trustees of the Corporation on Trustees' Certificate of Indebtedness with which to make the payment to the Federal Government. This loan was arranged at 2¼% with Guaranty Trust Company of New York, and an additional \$700,000, required for payment to the Federal Government, was supplied from AGECorp's funds available for the purpose.

The positive benefits realized by the Estates of AGECo and AGECorp include:

(1) Final disposition of all claims against the Hopson interests without pursuing litigation which would have been complicated, protracted, expensive and of uncertain outcome;

(2) The certain recovery for the Estates and subsidiary companies of assets having a market value, at the time of the settlement agreement, of approximately \$2,500,000, including approximately \$13,500,000 in principal amount of System securities (not including stock of AGECo);

(3) The elimination of the Federal and New York State Governments and of New England Gas and Electric Association as contestants for the Hopson assets;

(4) The discharge of all obligation for \$828,850 interest accrued to the date of closing on the \$5,700,000 owing under the 1939 Offer in Compromise, and the funding of \$5,000,000 thereof at 2¼%, as against the 6% rate accruing to the Government;

(5) The discharge of the largest tax liability of the System, carrying with it a contingent liability of most of the System companies, in the amount of several million dollars; and

(6) The discharge of a direct lien upon securities of the NY PA NJ group of a value exceeding \$25,000,000 which secured the Federal Government's tax claims. As a result of the settlement the NY PA NJ securities were released and made available for essential refinancing and refunding operations.

It remains for the Trustee of AGECo and the Trustees of AGECorp, who are holding the so-called Hopson assets in trust, to distribute them as provided for in the order of August 25, 1941. A definite program for distribution has been developed and, after appropriate notice has been given to all concerned, will be presented to the Court for consideration on August 7, 1942.

Stockholders' Derivative Actions

During the years 1932-1939 numerous stockholders' derivative actions were brought and others were threatened by security holders of corporations within the System. The primary purpose of these actions as alleged in the complaints was ordinarily to compel company officers and directors and others to account for alleged improper profits obtained by them and for losses and damage sustained by AGECo and its subsidiaries from alleged acts of misfeasance and nonfeasance on the part of the officers and directors. Most of these suits and threatened suits were settled by the former management, each such settlement taking the form of a purchase of the plaintiffs' securities by a System company at prices far in excess of the market values, large portions of the purchase price going as fees to the attorneys for the plaintiffs therein.

Perhaps the most important of these suits was **Manufacturers Mutual Fire Insurance Co., et al. v. Hopson, et al.** At the time of the Trustees' appointment there was pending in the Supreme Court, New York County, a motion by certain stockholders of AGECo to intervene in this action. Investigation revealed that this case had been contested on behalf of AGECo, Hopson and certain other individual defendants, by the attorneys for AGECo, at the expense of the System, and that a stipulation of discontinuance had been made on October 1, 1936, based upon a settlement effected by the purchase of the plaintiffs' stock by a System Company at approximately seven times its then market value. The Trustee of AGECo moved to be substituted for AGECo in the action, to have the stipulation of discontinuance declared void, and in effect for leave to reopen and prosecute the action.

His motion was denied, and, after successive appeals, the action in the lower court has very recently been affirmed by the New York Court of Appeals. As a result, a number of separate independent suits will be brought to attack the settlement of such of these stockholders' derivative actions as seem to be vulnerable. One such suit has already been instituted to set aside a similar settlement in the case of *Bardem Realty Co., Inc. v. John M. Daly, et al.*, which was settled on May 5, 1936, upon payment by the former management out of AGE Corp funds of \$9,301.13 to the plaintiffs and their attorneys.

New England Gas and Electric Association

New England Gas and Electric Association was launched early in 1927 at the instance of Howard C. Hopson, and the equity interest therein was held directly or indirectly by him and John I. Mange. From its inception New England and its subsidiaries were controlled by Hopson, who caused System companies directly or indirectly to advance large sums to New England. All the common shares and all of the second preferred shares of New England are held by Utilities Investing Trust. This trust has no other assets of value. System companies hold its income notes (its only obligations) in the principal sum of \$37,300,000. Subsidiaries of AGE Corp also directly hold approximately 23% of the \$5.50 Preferred Stock of New England (NY PA NJ Utilities Corporation, 17,744 shares, and Associated Utilities Corporation, 6,000 shares). The Securities and Exchange Commission has instituted proceedings under Section 11(b)(2) of the Public Utility Holding Company Act against New England, looking to the simplification of its capital structure and the equitable distribution of voting power among its security holders.

As a result of the Hopson Settlement, the Trustees acquired an indirect half interest in UIT, and, on its behalf and on behalf of NY PA NJ and Associated Utilities Corporation, counsel selected with approval of the Trustees and the Court have in collaboration with the Trustees' legal staff participated in the proceedings before the Commission in protection of the Estate's interest. This interest is worth very much less than the investment.

Claims on behalf of System companies against New England and claims by New England against System companies have received extended attention. Some of them have been adjusted with the Court's approval, but it now seems that others will have to be litigated.

Other Recovery Litigation

Early in 1940 actions were instituted in Kentucky by Kentucky-Tennessee Light and Power Company, a subsidiary of Associated Electric Company, against its former President, Henry D. Fitch, his brother, Roland Fitch, and others, for the recovery of losses sustained through secret rebates on coal purchases and other irregularities. In 1941 Nashville Coal Company and its president, co-defendants in one of the actions, settled their liability by the payment of \$75,000 to Kentucky-Tennessee. In the same action a judgment was entered against Henry D. Fitch on March 9, 1942 for \$176,364.03, upon which the Court has recently allowed the \$75,000 as a credit. Other actions are still pending.

A separate action was brought by Kentucky-Tennessee against National Surety Corporation upon a blanket fidelity bond protecting all System companies, upon which the liability of the Surety company was, as a practical matter, limited to \$250,000. This action was settled in December 1940 by the payment of \$175,000 in settlement of all claims of all System companies arising prior to the appointment of the Trustees. Distribution of the \$175,000 among the companies entitled to share therein, was recently effected pursuant to an order of the Court.

An action was brought by the Trustees and certain System companies against the Estate of Frederick S. Burroughs, deceased, and others. The purpose of this action is to recover for losses due to the alleged negligence and fraud of Burroughs, a former officer and director of System companies, in connection with the settlement of stockholders' derivative actions and for other irregularities. The case is now awaiting trial. Another action has also been brought against the Burroughs Estate for the recovery of 150 shares of stock of The Chase National Bank of the City of New York, loaned by Hopson

to Burroughs several years ago, and now held by his administratrix. The claim to these shares was acquired by the Trustees pursuant to the Hopson Settlement.

In January 1942 an action was instituted by the Trustees of AGECorp against The Public National Bank and Trust Company of New York and the Escrow Agents under the Recap Plan, to recover damages for their failure to present for payment, on their maturity date on November 15, 1938, approximately \$10,000,000 principal amount of Convertible Investment Certificates of AGECo held by the Escrow Agents and The Public National Bank, as their Depositary, for the protection of all holders of both AGECo and AGECorp Debentures. Recovery is also sought for the fees paid since November 15, 1938 to the Bank as Trustee under certain indentures pursuant to which debentures of AGECorp were issued. A similar action has also been instituted by the Trustee of AGECo against the Bank and the Escrow Agents.

At the time of the Hopson Settlement all actions against the Hopson group were terminated. However, the proceedings in the State and Federal Courts brought against Hopson also named John I. Mange and Daniel Starch as co-defendants, against whom they are still pending. Other actions have also been brought against Mange and Starch, and complaints have been prepared against certain others who were connected with the System under the former management.

One of the many claims against Hopson arose out of the fact that he shared in the net profits of the engineering business of Edward J. Cheney under an arrangement made between Hopson and Cheney in 1920 and continuing down through 1938. The bulk of Cheney's business was derived from System companies. Although Cheney denied any liability, negotiations respecting claims against him have resulted in an offer of \$51,150 to be paid System companies in settlement of their claims and \$3,850 to New England Gas and Electric Association and its subsidiaries in settlement of their claims. The Court has set this proposal down for hearing on July 15, 1942.

Several other negotiations for settlement are pending and other discussions looking to the possibility of settlement are in progress. In most instances the resources of the defendants or prospective defendants are limited. In several cases where investigation revealed that prospective defendants were without resources or prospective resources of any substantial value, upon applications to the Court for instructions, the Trustees have been authorized not to bring suits where in their judgment the expense of litigation would exceed any probable recovery.

VI. AGECORP TRUSTEES' INCOME AND EXPENSES

Associated Gas and Electric Corporation is a holding company not engaged in utility operations. Its sources of income are the securities it owns in subsidiary holding companies which also are not engaged in utility operations. These subsidiaries principally derive their income from securities issued by operating utility companies.

During 1941, the Trustees actually realized a cash income of \$454,859.82. The net cost of conducting the affairs of AGECorp under the direction of the Trustees, including current taxes, amounted to \$830,360.98. AGECorp also recorded as income \$681,617.24 interest on obligations of its subsidiaries, which amount is reflected on the books as a part of its cost of acquiring 90% of the common stock of Northeastern Water and Electric Corporation, and thus making possible the elimination of Northeastern Water Companies, Inc. The foregoing items of income and expense indicate a net income to AGECorp in 1941 of \$306,116.08.

On the expense side of the ledger, no allowance has been made for expenses paid which are subject to future allocation by the Court between AGECorp and AGECo, or between AGECorp and the Hopson assets. Neither does the income record as given above consider as expense \$11,223,901.80 representing 1941 memorandum accruals of interest on the outstanding 8% bonds, convertible debentures and income debentures of AGECorp, on AGECorp's income note to AGECo, and on sundry unpaid tax items. On a going concern basis \$84,066.12, representing amortization of debt discount and expense, would also be considered as a 1941 expense.

The expense figure above does not make any provision for such allowances to, or reimbursement of, the various protective committees ultimately to be charged to the Estate. Nor does the figure take into account various other fees which will presumably be paid upon completion of reorganization. Neither does it reflect the time spent by System company officials in connection with reorganization matters.

The expense payments and accrued interest on the Certificate of Indebtedness of the Trustees of AGECorp in 1941 were stated above to be \$830,360.98. About 65% of this total consists of direct payments of wages, salaries and allowances. Such payments, however, are not confined to reorganization expense which will cease when the proceedings are completed. In an attempt to get a basis for judgment on this matter, the Trustees have made an inspection of their expenses. It appears that no more than 30% of expenses are costs arising because of reorganization. In other words, not less than 70% would have had to be expended even had there been no reorganization proceeding during the year.

For example, expenses of proceedings before the Securities and Exchange Commission on integration problems would have been incurred in any event. On the other hand, the expense of the reorganization proceedings before the Court will cease upon termination of the proceeding. It is, of course, not possible accurately to predict whether non-reorganization expense (for instance, appearances before regulatory bodies) will become smaller after reorganization. It certainly should decrease as compliance with various regulatory requirements is achieved. More than 140 formal proceedings involving the Estate and the System's subsidiaries before Federal and State regulatory bodies have been concluded to date during the Trusteeship, and about 80 such cases are still in process. Such figures, of course, do not indicate the amount of time spent in conference, preparation, and hearings on such matters, and they do not include at all the large number of matters which are conducted without formal proceedings. There had been approximately 250 orders signed by the Court in the AGECorp proceeding up to June 30, 1942.

Financial Statements

The accounts of Associated Gas and Electric Corporation, Debtor, for the year 1941 were examined by Lybrand, Ross Bros. & Montgomery. A copy of the audit certificate, together with financial statements of the Corporation on both parent company and consolidated bases, are presented on the following pages.

As indicated in the Auditors' report and more fully set out in the notes to the financial statements, the values ascribed to the investments of AGECorp do not purport to represent either realizable or replacement values. The amounts shown are as carried in the accounts of AGECorp at January 10, 1940 (the date of entry of the order approving the petition filed by AGECorp for reorganization under Chapter X of the Bankruptcy Act); and the liabilities of AGECorp, except with respect to current trade accounts payable of the Trusteeship, are also shown as carried in the accounts of AGECorp at January 10, 1940, both as affected by transactions occurring between that date and December 31, 1941.

The valuations ascribed to the consolidated fixed capital and investments are subject to later determination. The recorded debts are subject to a legal determination of their validity and rank as claims against the Estate. All financial statements must be viewed in the light of the notes on Pages 32, 33, 42, 49 and 58 to 65.

Dated, New York, N. Y.
July 8, 1942.

ALLEN E. THROOP,
Attorney for Trustees,
21 West Street,
New York, N. Y.

Respectfully submitted,

DENIS J. DRISCOLL,
WILLARD L. THORP,
Trustees of Associated Gas and
Electric Corporation.

AUDITORS' REPORT

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

To MESSRS. DENIS J. DRISCOLL and
WILLARD L. THORP, Trustees of
Associated Gas and Electric Corporation, Debtor,
New York, N. Y.

We have made an examination of the financial statements of Associated Gas and Electric Corporation, Debtor, and of the consolidated financial statements of the Debtor and subsidiary companies, which appear on pages 28 to 65 of the Annual Report for 1941 of the Trustees of Associated Gas and Electric Corporation, Debtor. In connection therewith, we have made a detailed audit of the accounts of Associated Gas and Electric Corporation, Debtor (not including the records of cash receipts and disbursements of the Trustees of the Debtor), for the year 1941 and have been furnished with a report of other public accountants upon the cash receipts and disbursements of the Trustees for the year 1941. We have also made examinations of the financial statements for 1941 of certain of the subsidiaries of Associated Gas and Electric Corporation, Debtor, in the course of which examinations we reviewed the systems of internal control and the accounting procedures of such companies and, without making a detailed audit of the transactions, examined or tested accounting records of such companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examinations were made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We have also been furnished with the financial statements for 1941, together with reports thereon of other public accountants, of all consolidated subsidiaries of the Debtor which were not examined by us. Approximately 35 per cent of the amount shown in the accompanying consolidated statements as total assets and other debits of the group at December 31, 1941 and approximately 40 per cent of the total consolidated operating revenues for 1941 represent, respectively, assets and other debits and operating revenues of these last-mentioned companies.

Similar examinations previously had been made for the year 1940.

Reference is made to Note (2) (c), page 58, regarding changes made during 1941 in the basis of stating property accounts of certain of the operating subsidiaries and the resulting adjustments, in consolidation, of the net excess of the respective amounts at which the investments in operating subsidiaries are carried over the related net assets of such subsidiaries as at December 31, 1937; also to Note 2 (a), page 58, regarding the exclusion from the consolidation for 1941 of previously consolidated subsidiaries located in the Philippine Islands. We approve such adjustments and such exclusion from consolidation. In all other material respects, the principles of accounting followed by the companies, in our opinion, have been applied during 1941 on a basis consistent with that of the preceding year.

The accompanying financial statements are subject to:

1. the determination of values of investments of the Debtor and its subsidiary holding companies and such related or other adjustments as may result from the reorganization proceedings,
2. the effect of such adjustments of property and retirement reserve accounts as may be required by regulatory authorities upon completion of "original cost" and related studies,
3. the adequacy of the current provisions and accumulated reserves for retirements of depreciable property, plant and equipment,
4. the completeness and reasonableness of the retroactive revaluations as at December 31, 1937 referred to in Notes 2 (c) and 2 (d), pages 58 and 59,
5. the adequacy of the reserves for Federal income taxes of prior years with respect to the contingencies set forth in Note 15 (b), page 63, and provision for such expenses (referred to in Note 15 (e), on page 64), as may be approved by the Court as being applicable prior to January 1, 1942,
6. the result and effect of the litigation referred to in Note 14, page 62, and
7. the reflection of unrecorded rights of the Debtor and/or its subsidiaries upon the determination of the matters referred to in Notes 15 (a) and 17, pages 63 and 65.

Based on our examination and the aforesaid reports of other public accountants, in our opinion, the accompanying financial statements (pages 28 to 65):

- (a) set forth the assets, liabilities and reserves of the Debtor and of the consolidated group at December 31, 1941 on the bases indicated in such statements, including notes thereto, and
- (b) subject to the applicable reservations expressed in the immediately preceding paragraph, present fairly, in conformity with generally accepted accounting principles, the income and expenses of the Debtor and of the consolidated group for the year 1941, exclusive of deductions for interest on indebtedness, other than Trustees' certificate, of the Debtor.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.,
June 19, 1942.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1941, and liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, and designating no amount as capital liability to sole stockholder, Associated Gas and Electric Company)

December 31, 1941

ASSETS AND OTHER DEBITS:

INVESTMENTS (see Note 1, Page 32) (details on Page 30):

Securities of, and advances to, subsidiary (sub-holding) companies:

Common stocks	\$153,856,800.78
Preferred stocks	9,338,974.36
Convertible obligations	272,194,994.39
Interest-bearing scrip	959,120.30
Note receivable	1,000,000.00
Advances on open account.....	2,546,786.08

\$439,896,675.91

Common stock of Jersey Central Power & Light Company.....

10.00

\$439,896,685.91

ACCRUED INTEREST RECEIVABLE (through January 10, 1940) on investments in subsidiaries—non-current

81,346.27

CURRENT AND ACCRUED ASSETS:

Cash	\$ 206,538.29
Special deposits	162,440.64
Miscellaneous receivables, including \$129.94 from Trustee of Associated Gas and Electric Company	468.60
Prepayments	302.38

369,749.91

OFFICE FURNITURE AND LIBRARY, at cost.....

35,127.60

Less, Reserve for depreciation.....

6,548.95

28,578.65

DEFERRED DEBITS:

Deposits for payment of matured bond interest (see Note 2, Page 32).....

200,538.01

\$440,576,898.75

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1941, and liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, and designating no amount as capital liability to sole stockholder, Associated Gas and Electric Company)

December 31, 1941

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS INCURRED PRIOR TO JANUARY 10, 1940, (exclusive of indebtedness, other than for convertible debentures, to Associated Gas and Electric Company, parent company, in pro- ceedings for reorganization—see Notes 1 and 12, Pages 58 and 62):			
Long-term debt:			
8% eight year bonds, matured March 15, 1940 (less \$5,000 in treasury)	\$ 8,589,980.00		
Convertible (fixed interest) debentures, due 1973 (see Note 8, Page 62)	25,237,980.00		
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest deben- tures and \$1,706,415 in treasury)	144,723,915.00	\$178,551,875.00	
Other indebtedness:			
Accrued interest on long-term debt (including \$205,212.11 matured)	\$ 2,213,826.31		
Taxes payable and accrued:			
Federal income and declared value excess-profits for 1939	49,459.53		
Other	59,239.81		
Accounts payable:			
Associated company	52,946.94		
Other	42,872.10		
Uncompleted instalment bond-subscription accounts and in- terest thereon	69,084.96	2,487,429.65	\$181,039,304.65
TRUSTEES' CERTIFICATE OF INDEBTEDNESS—to Guaranty Trust Company of New York, bearing interest at 2¼%, portion due December 18, 1943 (see Note 10, Page 62)			
			4,000,000.00
CURRENT AND ACCRUED LIABILITIES (incurred by Trustees):			
Trustees' certificate of indebtedness to Guaranty Trust Company of New York, bearing interest at 2¼%, portion due December 18, 1942 (see Note 10, Page 62)	\$ 1,000,000.00		
Accounts payable:			
Associated companies	\$131,010.13		
Other	8,963.91	139,974.04	
Accrued interest on Trustees' certificate of indebtedness		3,750.00	
Accrued taxes, miscellaneous		4,821.93	
Accrued salaries, wages, Trustees' fees, etc. (see Note 15-e, Page 64)		24,226.43	1,172,772.40
DEFERRED CREDITS:			
Deposit received in connection with proposed sale of investment (see Note 1-d, Page 32)	\$ 50,000.00		
Other deferred credits (see Note 3, Page 32)	185,250.00	235,250.00	
RESERVE FOR CONVERSION OF DEBENTURES (see Note 8, Page 62)			
			25,237,980.00
TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of (a) liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, (b) indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of investments upon final determination of values			
			\$211,685,307.05
INDEBTEDNESS (other than for convertible debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY, parent company, in proceedings for reorganization (see Notes 1 and 12, Pages 58 and 62):			
5% cumulative income note, due 1980	\$ 71,805,120.00		
Non-interest bearing note, due 1983	1,250,000.00		
Advances on open account	568,122.14		
Dividend payable	90,000.00		
Accrued interest on 5% cumulative income note through January 10, 1940	568,457.20	74,281,699.34	
EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940), treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying state- ment, Page 57)			
			154,609,892.36
			<u>\$440,576,898.75</u>

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INVESTMENTS

December 31, 1941

	Number of Shares or Principal Amount	Amount at Which Carried
SECURITIES OF AND ADVANCES TO SUBSIDIARY (SUB-HOLDING) COMPANIES:		
Common stocks:		
The Associated Corporation, no par value.....	1,000 shs.	\$ 100,000.00
Associated Electric Company, par value \$1 per share.....	650,000 do	38,022,081.93
Associated Utilities Corporation, no par value.....	1,200 do	1.00
General Gas & Electric Corporation:		
Class A, no par value.....	2,621,912.123 do	2,845.28
Class B, par value 25 cents per share.....	3,036,985.225 do	235.53
Northeastern Water and Electric Corporation, par value \$1 per share (see Note 1-d, Page 32).....	155,747 do	3,402,478.31
NY PA NJ Utilities Company, par value \$1 per share.....	458,000 do	112,323,667.73
The United Coach Company, par value \$1 per share.....	4,500 do	5,491.00
		<u>\$153,856,800.78</u>
Preferred stocks:		
General Gas & Electric Corporation:		
\$5 prior preferred, cumulative, no par value (see Note 7, Page 33).....	27,889.1 shs.	\$ 976,130.40
\$6 cumulative convertible, series A, no par value.....	325,351 do	4,283,156.37
\$6 cumulative convertible, series B, no par value.....	277,021 do	3,631,194.68
\$7 cumulative, Class A, no par value.....	13 do }	277,826.52
\$7 cumulative, no par value.....	20,269.5 do }	170,666.39
\$8 cumulative, no par value.....	12,314.5 do	
		<u>\$ 9,338,974.36</u>
Convertible obligations (see Note 1-b and c, Page 32):		
NY PA NJ Utilities Company:		
Interest-bearing (1% if earned)		\$196,725,000.00
Non-interest-bearing		5,275,000.00
Total obligation, due March 1, 1963.....	\$202,000,000.00	202,000,000.00
Associated Utilities Corporation interest-bearing (2% if earned), due March 1, 1963	83,747,814.66	69,457,494.39
General Gas & Electric Corporation, interest-bearing (6% if earned), due March 1, 1963	737,500.00	737,500.00
		<u>\$272,194,994.39</u>
Interest-bearing scrip:		
General Gas & Electric Corporation, interest-bearing (4%), due December 30, 1942	959,324.82	\$ 959,120.30
Note receivable (see Note 1-e, Page 32):		
The Associated Corporation, interest-bearing (5%), due October 11, 1938.....	1,000,000.00	\$ 1,000,000.00
Advances on open account:		
The Associated Corporation	689,651.86	\$ 689,651.86
Associated Utilities Corporation	415,073.36	415,073.36
NY PA NJ Utilities Company	956,234.04	956,234.04
General Gas & Electric Corporation	485,826.82	485,826.82
		<u>\$ 2,546,786.08</u>
COMMON STOCK of Jersey Central Power & Light Company	1 sh.	\$ 10.00
TOTAL INVESTMENTS		<u>\$439,896,685.91</u>

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1941 and 1940

(on the basis of recording interest and dividends on investments in subsidiary companies, accrued or declared subsequent to January 10, 1940, only as and when received; and before deduction for interest on indebtedness other than Trustees' certificate)

	Year 1941	Year 1940
INCOME (see Note 18, Page 65):		
From investments in subsidiary companies:		
Dividends on:		
Northeastern Water and Electric Corporation common stock.....	\$ 132,384.95	—
General Gas & Electric Corporation \$5 prior preferred stock (see Note 7, Page 33)	—	\$ 139,440.00
Interest on:		
Convertible obligations:		
Associated Utilities Corporation	884,880.07	666,935.68
NY PA NJ Utilities Company	—	819,687.50
Southeastern Electric and Gas Company	—	1,229.17
Notes	32,814.86	1,416.67
Open accounts	86,397.18	9,190.37
Scrip	—	1,065.92
	<u>\$1,136,477.06</u>	<u>\$1,638,965.31</u>
EXPENSES AND TAXES:		
General expenses (including \$83,938.03 in 1941 and \$79,480.56 in 1940, charged by a subsidiary service company)	\$ 811,839.07	\$ 450,362.98
Taxes, other than Federal income taxes	14,771.91	11,166.31
	<u>\$ 826,610.98</u>	<u>\$ 461,529.29</u>
INTEREST ON TRUSTEES' CERTIFICATE OF INDEBTEDNESS.....	3,750.00	—
	<u>\$ 830,360.98</u>	<u>\$ 461,529.29</u>
BALANCE OF INCOME, before deductions for interest on indebtedness (see Note below)	<u>\$ 306,116.08</u>	<u>\$1,177,436.02</u>

NOTE: The maximum amounts of interest that could ordinarily accrue on the indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation for each of the years covered by this statement are as follows:

8% eight year bonds, matured 1940	\$ 687,198.40
Convertible (fixed interest) debentures, due 1973	1,215,729.53
Income debentures, due 1978	5,724,108.18
5% cumulative income note, due 1980, to Associated Gas and Electric Company.....	3,590,256.00

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

(1) INVESTMENTS:

- (a) Investments of Associated Gas and Electric Corporation in subsidiary companies are stated (except for changes occasioned by subsequent transactions, principally the acquisition by the Corporation during 1941 of the common stock of Northeastern Water and Electric Corporation incident to the liquidation and dissolution of Northeastern Water Companies, Inc.) at the amounts at which they were carried on the accounts of the Corporation as at January 10, 1940, the date of entry of the order approving the petition filed by the Corporation for reorganization under Chapter X of the Bankruptcy Act. In the case of certain of these securities, the amounts represent cost to the Corporation or companies merged therewith and, in the case of others, substantially written-up or written-down amounts in relation to cost on the basis of cash paid, par value of securities issued or indebtedness incurred therefor. Based on unaudited reports filed with the Securities and Exchange Commission through December 31, 1939, the amounts at which the above-mentioned investments are stated are, in the aggregate, approximately \$200,000,000 less than the cost thereof (on the basis stated above) to the Associated Gas and Electric Corporation System.

The amounts at which the investments are stated do not purport to represent present realizable or replacement values.

- (b) The convertible obligations receivable are subordinated, by the terms of the instruments, to all other liabilities of the respective makers in the event of bankruptcy or insolvency of such makers.

These obligations are convertible, by the terms of the instruments, in whole or in part, at the option of either the maker or the holder into presently unauthorized non-voting preferred stock, par value \$100 per share and entitled to non-cumulative dividends at stipulated rates per share, on the basis of one share of stock for each \$100 of principal amount of the respective obligations.

Interest on the convertible obligations is payable, by the terms of the instruments, only out of, and (not exceeding the stated interest rates) to the extent of, the "available net income" for any calendar year.

- (c) Pursuant to an order of the Securities and Exchange Commission, the convertible obligation of NY PA NJ Utilities Company may not be reduced below \$202,000,000.
- (d) Under date of March 3, 1942, the Securities and Exchange Commission approved the proposed sale by the Trustees of the Corporation of 155,747 shares of common stock of Northeastern Water and Electric Corporation to non-affiliated interests, pursuant to the terms of a contract dated June 20, 1941, for a cash consideration of \$3,805,197, subject to adjustments for changes in the financial position of that company subsequent to February 28, 1941. The contract of sale is conditioned to the effect that, at the time of consummation of the contract, Northeastern Water and Electric Corporation shall have been exempted from the provisions of the Public Utility Holding Company Act of 1935 as a registered holding company. In order to meet this condition, the Trustees of the Corporation propose, and have obtained approval of the Securities and Exchange Commission of their proposal, to acquire Northeastern Water and Electric Corporation's direct ownership of electric subsidiaries located in Ohio for a consideration of \$1,500,000, subject to adjustments with respect to earnings and changes in debt subsequent to February 28, 1941.
- (e) Pursuant to a stipulation entered into on April 10, 1940 between the Trustees of Associated Gas and Electric Corporation, NY PA NJ Utilities Company, Metropolitan Investing Company and The Associated Corporation, the note of The Associated Corporation dated July 11, 1938, matured October 11, 1938, payable to The Public National Bank and Trust Company of New York in the amount of \$1,000,000, included under Investments, is held by said Trustees for the benefit of the parties to the aforesaid stipulation as their interest or interests may be determined.

(2) DEFERRED DEBITS:

Deposits for payment of matured bond interest include \$2,686.31 on deposit with The Public National Bank and Trust Company of New York and \$197,776.70 held by the Trustees of the Corporation as assignees of Transfer and Paying Agency. These amounts had been deposited with Transfer and Paying Agency before the appointment of the Trustees of the Corporation, for the payment of interest which had become due prior to the institution of the reorganization proceedings. A proceeding is pending to determine the legal status of said \$197,776.70.

(3) OTHER DEFERRED CREDITS:

This item includes \$175,750 recorded at January 10, 1940 as interest accrued through that date on the instalments payable under the compromise settlement of Federal income taxes referred to in Note 15 (a), Page 63, the status of which amount is subject to legal determination.

(4) LIABILITIES—GENERAL:

The amounts at which the liabilities are stated do not purport to represent proved obligations of Associated Gas and Electric Corporation, Debtor, for such amounts, but are those reflected by the books of the Corporation as at January 10, 1940, as affected by transactions occurring between that date and December 31, 1941. Certain

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

proofs of claim which include items involving relatively minor amounts, as yet unallowed, other than those shown as liabilities on the books of the Corporation, have been filed, pursuant to orders of the Court dated January 30, 1941 and September 10, 1941. A petition was filed on June 17, 1942 seeking a further order requiring the filing of certain additional proofs of claim against the Corporation.

(5) CONTINGENT LIABILITIES:

See Note 15, Pages 63 and 64.

(6) PROCEEDINGS UNDER SECTION 11(b) OF THE PUBLIC UTILITY HOLDING COMPANY ACT:

See Note 16, Pages 64 and 65.

(7) WAIVER OF RECEIPT OF DIVIDENDS:

In connection with orders of the Securities and Exchange Commission permitting payments of dividends for the quarters ended March 15, June 15 and September 15, 1941 on 32,110.9 shares of General Gas & Electric Corporation \$5 Prior Preferred Stock publicly held, the Trustees of Associated Gas and Electric Corporation agreed to waive, until further order of the Commission, receipt of similar dividends for such quarters on the 27,889.1 shares of such stock held by them.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7—and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1941

ASSETS AND OTHER DEBITS:

COMBINED FIXED CAPITAL of Associated Electric Company, General Gas & Electric Corporation, Northeastern Water and Electric Corporation, NY PA NJ Utilities Company and The United Coach Company and their respective subsidiaries (see Notes 2 and 3):

Property, plant and equipment, (including going value and other intangibles) of operating subsidiaries.....	\$738,655,434.29	
Net excess of the respective amounts at which the investments in operating subsidiaries are carried by parent companies within the respective groups over the related net assets of such subsidiaries as shown by their books, as adjusted, as at December 31, 1937.....	117,738,523.27	\$ 856,393,957.56

INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company—parent company, in proceedings for reorganization) (see Notes 2(a) and 5) (details on Page 38):

Securities of, and non-current receivables from, non-consolidated majority-owned companies, statutory subsidiaries and associated companies:		
Manila Electric Company and Escudero Electric Service Company (located in the Philippine Islands).....	21,658,764.12	
New England Gas and Electric Association.....	2,368,379.66	
Paul Smith's Electric Light and Power and Railroad Company and Paul Smith's Hotel Company.....	1,152,376.19	
Other (less reserves of \$35,072,991.12).....	534,214.94	
Securities of Jersey Central Power & Light Company and National Public Service Corporation (see Note 5-d).....	9,297,155.44	
Miscellaneous investments, including real estate (less reserves of \$87,630.45) (see Note 5-e).....	1,353,054.57	36,363,944.92

SPECIAL FUNDS:

For new construction and/or, in part, for subsidiary company bond acquisitions.....	5,466,140.52	
Other, principally sinking funds.....	673,012.91	6,139,153.43

CURRENT AND ACCRUED ASSETS:

Cash in banks and on hand.....	21,258,407.16	
Miscellaneous special deposits.....	567,651.85	
United States Treasury tax notes, Series B.....	200,320.00	
Notes and warrants receivable.....	50,171.46	
Accounts receivable:		
Customers.....	\$ 9,979,427.94	
Appliances, principally instalment accounts (including \$314,464.80 pledged, principally as collateral against notes payable).....	1,655,667.93	
Other (including \$9,045.76 from associated companies).....	676,846.88	
	12,311,942.75	
Less, Reserve for uncollectible accounts.....	1,015,657.51	11,296,285.24

Materials and supplies (including construction materials) and merchandise, at cost or less.....	8,215,106.91	
Prepayments.....	773,010.90	
Other current and accrued assets.....	318,989.23	42,679,942.75

DEFERRED DEBITS:

Unamortized debt discount and expense of subsidiaries (including approximately \$5,800,000 applicable to refunded issues) (see Note 6).....	17,821,761.05	
Fixed capital in suspense and abandoned railway fixed capital being amortized pursuant to orders of State regulatory bodies.....	1,820,282.32	
Fixed capital in suspense, the disposition of which has not yet been determined.....	415,447.51	
New York State canal dam rebuilding costs, being amortized.....	333,007.23	
Cost of subsidiary company refinancing, unallocated pending approval of State regulatory body.....	402,158.59	
Other deferred debits.....	1,739,956.61	22,532,613.31

NET EXCESS of amounts at which Associated Gas and Electric Corporation (and Northeastern Water Companies, Inc., dissolved during 1941) carried investments in capital stocks of Associated Electric Company, General Gas & Electric Corporation, Northeastern Water and Electric Corporation, NY PA NJ Utilities Company and The United Coach Company at January 10, 1940 (effective date of petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939 as shown by their consolidated financial statements (see Note 2-d).....	74,909,027.80
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TOTAL ASSETS AND OTHER DEBITS, exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company.....	1,039,018,639.77
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INVESTMENTS IN SECURITIES OF, AND RECEIVABLES FROM, ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (see Notes 1 and 5-b):

	Principal amount or shares	
Convertible investment certificates.....	\$ 839,340.00	683,948.03
Convertible obligations, Series A.....	64,300.00	482.25
Sinking fund income debentures.....	6,927,150.00	3,370,353.88
Interest-bearing scrip.....	185,100.00	82,913.30
	<u>\$8,015,890.00</u>	<u>4,137,697.46</u>
Preferred and preference stocks.....	<u>1,316,886 shs</u>	—
Sundry Class A and common stocks, warrants and non-interest bearing scrip.....		209.80
Accounts receivable.....		169,136.90
		<u>4,307,044.16</u>
		<u>\$1,043,325,683.93</u>

The Notes on Pages 58 to 65 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7—and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1941

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS OF ASSOCIATED GAS AND ELECTRIC CORPORATION AT JANUARY 10, 1940
(exclusive of indebtedness, other than for certain convertible debentures, to Associated Gas and Electric Company—parent company, in proceedings for reorganization—see Note 12):

Long-term debt (details on Page 43):

8% eight year bonds, matured March 15, 1940 (less \$2,390,210 owned intercorporately and \$5,000 in treasury).....	\$ 6,199,770.00	
Convertible (fixed interest) debentures, due 1973 (less \$377,300 owned intercorporately) (see Note 8)....	24,860,680.00	
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures, \$29,359,015 owned intercorporately and \$1,706,415 in treasury).....	115,364,900.00	\$146,425,350.00

Other indebtedness:

Accrued interest on long-term debt (including \$205,205.86 matured).....	2,171,876.50	
Taxes payable and accrued	108,699.34	
Uncompleted instalment bond-subscription accounts and interest thereon	69,084.96	
Accounts payable	42,872.10	2,392,532.90 \$148,817,882.90

MINORITY INTEREST IN COMMON AND PARTICIPATING STOCKS AND SURPLUSES OF SUBSIDIARY COMPANIES (details on Page 39).....

1,206,132.78

PREFERRED STOCKS OF SUBSIDIARY COMPANIES (details on Pages 40 to 42):

Preferred stocks, stated at preferences in involuntary liquidation.....	90,779,448.33	
Premiums on preferred stocks	182,000.00	
Provision for cumulative dividends in arrears	3,410,284.50	94,371,732.83
(stocks stated at \$90,598,648.33 are callable at the aggregate amount of \$95,509,698.10 plus accrued dividends; the remainder is not callable)		

LONG-TERM DEBT OF SUBSIDIARIES (less \$38,984,700 authenticated and held by the Trustees under certain indentures; \$22,619,920 in treasury and in sinking funds; \$67,430,824.82 owned intercorporately of which aggregate amount \$2,382,500 are pledged as collateral for various obligations—see Note 9; and less \$2,159,177.01 due during 1942) (details on Pages 43 to 49).....

394,127,668.64

TRUSTEES' CERTIFICATE OF INDEBTEDNESS—to Guaranty Trust Company of New York, bearing interest at 2½%, portion due December 18, 1943 (see Note 10).....

4,000,000.00

CURRENT AND ACCRUED LIABILITIES:			
Long-term debt of subsidiaries maturing during 1942		2,159,177.01	
Trustees' certificate of indebtedness to Guaranty Trust Company of New York, bearing interest at 2¼%, portion due December 18, 1942 (see Note 10)		1,000,000.00	
Notes payable:			
Banks (including \$2,593,111.62 against which securities and appliance accounts receivable are pledged as collateral)	3,021,269.62		
Other (including \$350,000.00 against which securities are pledged as collateral)	474,388.31	3,495,657.93	
Accounts payable		7,057,247.01	
Dividends on preferred stocks of subsidiary companies (including \$276,242.63 accrued but not declared)		705,980.88	
Customers' deposits		4,977,275.13	
Taxes accrued		14,393,447.24	
Interest accrued (see Note 7)		4,424,912.84	
Other current and accrued liabilities		857,646.33	39,071,344.37
DEFERRED CREDITS:			
Customers' advances for construction		1,138,214.87	
Unamortized premium on debt of subsidiaries		2,363,006.79	
Other deferred credits		595,080.28	4,096,301.94
RESERVES:			
Retirement (depreciation) of property, plant and equipment (see Note 4)		88,315,702.52	
Conversion of debentures (see Note 8)		24,860,680.00	
Possible additional minority participations (see Note 11)		4,754,709.75	
Estimated losses on sales of fixed assets of subsidiaries (see Note 3-d)		2,291,828.95	
Taxes (principally Federal income) for years 1934 to 1940, inclusive, subject to final determination (see Note 15-b)		1,602,631.51	
Other reserves		1,371,282.06	123,196,834.79
CONTRIBUTIONS IN AID OF CONSTRUCTION (non-refundable)			4,129,773.60
TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of (a) liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7, (b) that company's indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of fixed assets and investments upon final determination of values			813,017,671.85
INDEBTEDNESS (other than for certain debentures) TO ASSOCIATED GAS AND ELECTRIC COM- PANY—parent company, in proceedings for reorganization (see Note 12):			
5% cumulative income note, due 1980		71,805,120.00	
Non-interest bearing note, due 1983		1,250,000.00	
Advances on open account		568,122.14	
Dividend payable		90,000.00	
Accrued interest on 5% cumulative income note through January 10, 1940		568,457.20	74,281,699.34
EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subse- quent to January 10, 1940), treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 57)			156,026,312.74
			<u>\$1,043,325,683.93</u>

The Notes on Pages 58 to 65 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR.

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INVESTMENTS

(exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, Parent Company, in proceedings for reorganization—see Note 1)

December 31, 1941

SECURITIES OF, AND NON-CURRENT RECEIVABLES FROM, NON-CONSOLIDATED MAJORITY-OWNED COMPANIES, STATUTORY SUBSIDIARIES AND ASSOCIATED COMPANIES:	Principal Amount or Number of Shares	Amount at Which Carried
Subsidiaries located in the Philippine Islands:		
Common stocks:		
Manila Electric Company	97,220 shs	\$11,447,534.55
Escudero Electric Service Company	2,000 shs	198,376.91
Bonds:		
Manila Electric Company, first refunding mortgage bonds, 5% series due 1946	\$ 17,000	14,591.01
Manila Electric Railroad and Lighting Corporation, 5% 50 year first lien and collateral trust sinking fund bonds due March 1, 1953	495,000	429,578.30
Accounts receivable, net (interest at 10%)		9,568,683.35
		<u>\$21,658,764.12</u>
New England Gas and Electric Association:		
\$5.50 cumulative preferred shares, no par value (entitled to \$100 a share in liquidation)	23,744 shs	\$ 2,045,509.09
Convertible debenture 5's, series due 1948	\$ 118,000	71,101.37
Convertible debenture 5's, series due 1950	401,000	251,769.20
		<u>\$ 2,368,379.66</u>
Paul Smith's Electric Light and Power and Railroad Company:		
Common stock	6,227.5 shs	\$ 1,067,265.99
First refunding 5% bonds, due November 1, 1966	\$ 66,000	66,602.50
Paul Smith's Hotel Company, common stock	496 shs	18,507.70
		<u>\$ 1,152,376.19</u>
Others:		
Associated General Utilities Company, Income debentures 4's 1961	\$ 3,400	\$ 1,531.20
Massachusetts Northeastern Transportation Company, common stock voting trust certificate	2,856 shs	34,849.63
The Reading and Southwestern Street Railway Company, common stock	1,058 shs	98,190.00
Rochester Transit Corporation, capital stock	133,930 shs	
Syracuse Transit Corporation:		
Common stock	7,845 shs	
Income note due September 1, 1969	\$ 211,300	
Non-interest bearing scrip	30	
Albany Railway Company, Consolidated 5's 1930 (A)	52,000	
Albany Railway Company, general 5's 1947 (A)	65,000	
New York State Railways, Inc., first consolidated 6½'s 1962 (stamped twice) (A)	720,000	399,641.11
New York State Railways, Inc., first consolidated 4½'s 1962 (stamped twice) (A)	3,890,000	
Schenectady Railway Company, first 5's, series A, due 1946 (A)	732,000	
Troy City Railway Company, first consolidated 5's 1942 (A)	81,000	
United Traction Company, consolidated 4½'s 2004 (A)	1,463,000	
Utica Belt Line Street Railway Company, second 5's 1931 (A)	4,000	
Utica Belt Line Street Railway Company, first 5's 1939 (A)	50,000	
Utica & Mohawk Valley Railway Company, first 4½'s 1941 (A)	223,000	
Schenectady Railway Company, 6% demand note (A)	915,150	
Utilities Investing Trust:		
Income Notes (8%)	37,300,000.00	\$34,958,083.27
Advance on Open Account (6%)	114,908.85	114,908.85
		<u>\$35,072,992.12</u>
Less, Reserve		1.00
Keuka Lake Power Corporation, common stock	2,450 shs	1.00
Keuka Lake Power Corporation, 6's 1960	\$ 245,000	1.00
		<u>\$ 534,214.94</u>
SECURITIES OF JERSEY CENTRAL POWER & LIGHT COMPANY AND NATIONAL PUBLIC SERVICE COMPANY (see Note 5-d, Page 61):		
Jersey Central Power & Light Company, common stock	341,351 shs.	\$ 2,484,956.42
National Public Service Corporation (in bankruptcy), secured debentures, 5%, series of 1978 (including certificates of deposit for \$12,744,000 principal amount)	\$17,079,000	6,812,199.02
		<u>\$ 9,297,155.44</u>
MISCELLANEOUS INVESTMENTS, including real estate (less reserve of \$87,630.45) (see Note 5-e, Page 61)		<u>\$ 1,353,054.57</u>
TOTAL INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company)		<u>\$36,363,944.92</u>

Note A: Company in process of reorganization.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1941

	Shares Authorized	Shares Held Intercorporately (Eliminated in Consolidation)	Shares Outstanding		
			Shares	Held by Others	
				Par or Stated Value	Surplus or Deficit* Applicable
COMMON AND PARTICIPATING STOCKS:					
ASSOCIATED ELECTRIC COMPANY AND SUBSIDIARIES:					
Clarion River Power Company, The, participating (6% non-cumulative), par value \$100 per share.....	50,000	40,262.3	4,267.7	\$426,770.00	\$426,770.00*
Ohio-Midland Light and Power Company, Class A (voting) no par value	3,778	3,773.9166 $\frac{2}{3}$	4.6833 $\frac{1}{3}$	117.08	—
ASSOCIATED UTILITIES CORPORATION AND SUBSIDIARIES:					
Utilities Employees Securities Company, Class A, par value \$1 per share (A)	100,000	82,000	18,000(a)	376,866.00	470,062.58
GENERAL GAS & ELECTRIC CORPORATION:					
Class A, no par value (less 782.8 shares held in treasury).....	5,000,000(B)	2,621,912.123(B)(C)	2,289,053.987(B)(b)	—	—
Class B, par value 25 cents a share.....	4,000,000(B)	3,036,985.225(B)	10,014.775(B)	—	—
NORTHEASTERN WATER AND ELECTRIC CORPORATION AND SUBSIDIARIES:					
Northeastern Water and Electric Corporation, common, par value \$1 per share.....	173,362	155,747	16,488	16,488.00	213,221.84
Eastport Water Company, capital, par value \$100 per share.....	2,000	855	145	14,500.00	7,409.81*
Grafton Water Company, The, capital, par value \$100 per share...	800	799	1	100.00	18.91
Hampton Water-Works Company, The, common, par value \$100 per share	2,000	498	2	200.00	116.96
Hartland Water Company, The, common, par value \$100 per share	600	524	2	200.00	29.65
Limestone Water and Sewer Company, common, par value \$100 per share	500	97	83	8,300.00	8,300.00*
Mystic Valley Water Company, capital, par value \$100 per share...	5,000	2,499	1	100.00	47.98
Norway Water Company, capital, par value \$50 per share.....	1,200	1,189	9	450.00	51.48
Waldoboro Water Company, The, capital, par value \$10 per share.	5,000	2,535	1	10.00	1.56
NY PA NJ UTILITIES COMPANY AND SUBSIDIARIES:					
York Railways Company (in proceedings for reorganization under Section 77B of the Bankruptcy Act), common, par value \$50 per share	50,000	{ 510 49,119(E)	371	18,550.00	18,550.00*
ATLANTIC UTILITY SERVICE CORPORATION, common, par value \$1 per share.....					
	200,000	81,930	20,160	20,160.00	100,800.55
Total common and participating stocks of subsidiary companies				<u>\$882,811.08</u>	<u>\$323,321.70</u>

(Continued)

STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES IN WHICH THERE IS A PUBLIC INTEREST (Continued)

	Callable at			Shares Outstanding (†)				
	Shares Authorized	Per Share	Amount Applicable to Shares Held by Others	Shares Held Intercorporately (Eliminated in Consolidation)	Held by Others			
					Shares	Preferences in Involuntary Liquidation	Cumulative Dividends in Arrears	
PREFERRED STOCKS:								
ASSOCIATED ELECTRIC COMPANY AND SUBSIDIARIES:								
Ohio-Midland Light and Power Company, \$5.00 series, cumulative, no par value....	2,978	\$105.00	\$ 355.25	1,975.22	3,383¾	\$ 338.33	\$ 143.75	
ASSOCIATED UTILITIES CORPORATION AND SUBSIDIARIES:								
Utilities Employees Securities Company, \$5 non-cumulative, no par value (A)....	18,500	100.00	329,900.00	13,441	3,299 (c)	329,900.00	—	
GENERAL GAS & ELECTRIC CORPORATION AND SUBSIDIARIES:								
General Gas & Electric Corporation (B):								
Prior \$5 cumulative, no par value.....	100,000	105.00	3,371,644.50	27,889.1	32,110.9	3,211,090.00	46,812.50	
Cumulative, no par value:								
\$6 convertible, series A.....	660,000	102.00	1,067,226.00	325.351	10,463	1,046,300.00	551,923.25	
\$6 convertible, series B.....		105.00	731,745.00	277.021	6,969	696,900.00	367,614.75	
\$7		110.00	215,204.00	20,282.5	1,956.4	195,640.00	119,829.50	
\$7 class B		110.00	3,080.00		28	2,800.00	1,715.00	
\$8		125.00	153,668.75	12,314.5	1,229.35	122,935.00	86,054.50	
Eastern Shore Public Service Company (Delaware):								
\$6 cumulative, no par value (less 43 shares held in treasury).....	50,000 (All series)	106.00	1,258,114.00	8,308	11,869	1,186,900.00	—	
\$6.50 cumulative, no par value (less 644 shares held in treasury).....		106.50	1,478,433.00	656	13,882 ½	1,388,200.00	—	
Florida Power Corporation:								
7% cumulative, par value \$50 per share (less 60 shares held in treasury).....	6,000	52.50	261,345.00	962	4,978	248,900.00	—	
Series A, 7% cumulative, par value \$100 per share (less 142 shares held in treasury)	50,000	110.00 (D)	1,433,630.00	15,729	13,033	1,303,300.00	—	
Georgia Power and Light Company, \$6.00 series, cumulative, no par value (less 466 shares held in treasury).....	15,000	105.00	664,335.00	4,200	6,327	632,700.00	298,950.75	
South Carolina Electric & Gas Company:								
\$6.00 prior cumulative, no par value.....	60,000	105.00	64,890.00	24,382	618	61,800.00	—	
7% cumulative, par value \$100 per share	40,000	110.00	64,680.00	12,517	588	58,800.00	39,788.00	
Tide Water Power Company, \$6.00 series, cumulative, no par value (less 142 shares held in treasury).....	100,000 (One or more series)	110.00	1,414,380.00	11,000	12,858	1,285,800.00	295,734.00	
Virginia Public Service Company:								
6% series, cumulative, par value \$100 per share	150,000 (All series)	106.00	3,807,732.00	17,842	35,922	3,592,200.00	700,479.00	
7% series, cumulative, par value \$100 per share		107.00	4,048,666.00	2,602	37,838	3,783,800.00	860,814.50	

NORTHEASTERN WATER AND ELECTRIC CORPORATION AND SUBSIDIARIES:

Northeastern Water and Electric Corporation, \$4 cumulative if earned, no par value	95,000	100.00	9,157,930.00	—	91,579.3	9,157,930.00	—
Guilford Water Company, The, 6% cumulative, par value \$100 per share.....	300	Non-callable	—	292	8	800.00	—
Hampton Water-Works Company, The, 6% cumulative, par value \$100 per share.....	800	Non-callable	—	488	134	13,400.00	—
Mars Hill & Blaine Water Company, 6% cumulative, par value \$100 per share.....	650	Non-callable	—	170	40	4,000.00	600.00
Salisbury Water Supply Company, The, 6% cumulative, par value \$100 per share.	450	Non-callable	—	417	33	3,300.00	—

NY PA NJ UTILITIES COMPANY AND SUBSIDIARIES:

NY PA NJ Utilities Company, \$3 non-cumulative preferred, no par value.....	10,000	26.00	148,059.60	—	5,694.6(d)	142,365.00	—
Keystone Public Service Company, \$2.80 series, cumulative, no par value (less 106 shares held in treasury).....	100,000	52.50	486,885.00	{ 1,257 1,408(E)	9,274	463,700.00	—
Metropolitan Edison Company:							
Prior, cumulative, no par value:							
\$6	112,890	105.00	9,605,085.00	325	91,477	9,147,700.00	—
\$7	6,532	105.00	602,070.00	—	5,734	573,400.00	—
Cumulative, no par value:							
\$5	430,391	110.00(D)	63,360.00	5,110	576	57,600.00	—
\$6	400,000	110.00(D)	1,493,800.00	82,306	13,580	1,358,000.00	—
\$7	50,000	110.00(D)	206,250.00	9,643	1,875	187,500.00	—
New Jersey Power & Light Company, \$6 cumulative, no par value.....	98,959	110.00	2,263,140.00	{ 11,000(F) 1,486	20,574	2,057,400.00	—
(All series)							
New York State Electric & Gas Corporation, serial, 5.10% cumulative, par value \$100 per share	120,000	107.00(G)	12,840,000.00	—	120,000	12,000,000.00	—
Pennsylvania Edison Company, cumulative, no par value:							
\$5 (less 3,117 shares held in treasury) ..	150,000	80.00	9,862,560.00	184	123,282	9,246,150.00	—
\$2.80 (less 2,140 shares held in treasury)	150,000	52.50	4,405,905.00	107	83,922	4,196,100.00	—
Rochester Gas and Electric Corporation, cumulative, par value \$100 per share:							
6% series C, full voting rights.....	30,000	105.00	1,867,215.00	{ 8,450(F) 767	17,783	1,778,300.00	—
6% series D, limited voting rights.....	171,893	105.00	17,938,410.00	1,029	170,842	17,084,200.00	—
5% series E, limited voting rights.....	40,000	105.00	4,200,000.00	—	40,000	4,000,000.00	—
York Railways Company (in proceedings for reorganization under Section 77B of the Bankruptcy Act) 5% cumulative voting, par value \$50 per share.....	40,000	Non-callable	—	28,814	3,186	159,300.00	39,825.00
Total preferred stocks of subsidiary companies			\$95,509,698.10			\$90,779,448.33	\$3,410,284.50

(†) Includes outstanding scrip.

(a) Includes 3,000 shares (stated value \$62,811, surplus applicable \$78,343.76) held by Associated Trustees.

(b) Includes 35 shares held by Associated Trustees.

(c) Includes 486 shares (redemption value \$48,600, preference in involuntary liquidation \$48,600) held by Associated Trustees.

(d) Includes 289 shares (redemption value \$7,514, preference in involuntary liquidation \$7,225) held by Associated Trustees.

See Note 17, Page 65.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES IN WHICH THERE IS A PUBLIC INTEREST

- (A) The consolidated Statement of Assets, Liabilities and Reserves includes all assets (consisting entirely of securities) and all liabilities of Utilities Employees Securities Company, other than assets and liabilities arising since December 31, 1938. Under the certificate of incorporation of Utilities Employees Securities Company (as amended, November 16, 1938), in the event of liquidation or dissolution of the company the holders of Class A stock are entitled to any assets held at December 31, 1938, or any assets substituted in place thereof, that may remain after the liquidation of all indebtedness existing at December 31, 1938 and after liquidation (at \$100 per share) of all \$5 non-cumulative preferred stock outstanding at that date; and the holders of common stock are entitled to receive all net assets arising since December 31, 1938, not required for the liquidation or retirement of the aforesaid debt obligations and preferred stock.

The provisions of the certificate of incorporation with reference to the rights, upon liquidation, of the holders of the company's various classes of stock may be subject to other provisions of the certificate of incorporation giving to the Board of Directors power, upon certain conditions, to apply certain assets of the company for welfare work among employees of companies and organizations in the Associated System.

- (B) There is no stated value for each of the respective classes and shares of capital stock of General Gas & Electric Corporation; all capital stocks of the corporation are stated at an aggregate amount of \$16,069,500.91.

After payment in full of liquidation value (including accumulated dividends) of all preferred stocks, the holders of common stock, Class A, are entitled to \$5 a share in liquidation before any payment is made to holders of common stock, Class B. After the distribution of \$5 a share on common stock, Class A, the holders of common stock, Class B, are entitled to receive in liquidation up to \$5 a share after which the remaining assets shall be distributed equally among the holders of common stock, Class A and Class B.

The aggregate amount to which the 715,614.75 shares of preferred stocks of General Gas & Electric Corporation outstanding at December 31, 1941, are preferred in liquidation (exclusive of accumulated dividends) is \$71,561,475 which is approximately \$55,492,000 more than the stated value for all outstanding stocks of the corporation. Cumulative dividends in arrears on preferred stocks of General Gas & Electric Corporation not provided for in the accounts of that corporation amounted to \$35,094,061, of which arrearage approximately \$33,920,000 applies to preferred stock held by the parent company. The cumulative dividends on preferred stocks not provided for in the accounts of that corporation and the preference of the preferred stocks in liquidation amount to \$106,655,536 which is \$79,908,634 in excess of the aggregate of the stated value for all capital stocks and the surplus accounts of the corporation. In the opinion of the corporation's counsel, there is no restriction upon surplus resulting from the excess of the preference of the preferred stocks in liquidation over their stated value.

- (C) Includes due bill for 720,136.9063 shares.
- (D) After redemption of senior preferred issues.
- (E) Pledged, together with other securities, as collateral with trustee of NY PA NJ Utilities Company secured 5% debentures due 1956.
- (F) Pledged as collateral under bank loan to NY PA NJ Utilities Company.
- (G) Callable at 105 after May 31, 1946.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF LONG-TERM DEBT SECURITIES IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1941

				Outstanding		
	Authorized	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Associated Trustees (See Note 17, Page 65)	Held by Others	Total
LONG-TERM DEBT SECURITIES OF PARENT COMPANY IN WHICH THERE IS A PUBLIC INTEREST:						
8% eight year bonds, due 1940.....	\$100,000,000.00	\$ 5,000.00	\$ 2,390,210.00	\$ 252,470.00	\$ 5,947,300.00	\$ 6,199,770.00
4% debentures, due 1973.....	(A)	—	35,700.00	—	457,450.00	457,450.00
4½% debentures, due 1973.....	(A)	—	169,100.00	477,600.00	9,107,515.00	9,585,115.00
5% debentures, due 1973.....	(A)	—	163,150.00	286,885.00	13,033,960.00	13,320,845.00
5½% debentures, due 1973.....	(A)	—	9,350.00	50,000.00	1,447,270.00	1,497,270.00
3½% income debentures, due 1978.....	(A)	608,740.00	1,562,160.00	—	10,001,530.00	10,001,530.00
3¾% income debentures, due 1978.....	(A)	8,850.00	10,755,905.00	664,500.00	30,006,265.00	30,670,765.00
4% income debentures, due 1978.....	(A)	1,013,235.00	10,013,810.00	1,148,080.00	61,264,325.00	62,412,405.00
4½% income debentures, due 1978.....	(A)	75,590.00	7,027,140.00	1,986,680.00	10,293,520.00	12,280,200.00
Total bonds and debentures of parent company (including \$6,199,770 matured).....				\$4,866,215.00	\$141,559,135.00	\$146,425,350.00

				Held Intercorporately (Eliminated in Consoli- dation)	
	Authorized	Maturing Within One Year	Held in Treasury		Held by Others
LONG-TERM DEBT SECURITIES OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST:					
Associated Electric Company and Subsidiaries:					
Associated Electric Company:					
4½% bonds, due 1953.....	(A)	—	\$1,560,700.00	{ \$ 33,000.00(B) 4,414,900.00	\$ 23,991,400.00
5% bonds, refunding series, due 1961.....	(A)	—	251,700.00	363,600.00	34,384,700.00
Erie Lighting Company, first mortgage 50 year 5% sinking fund bonds, due 1967.....	\$ 6,000,000.00	—	—	17,000.00	4,529,000.00(a)
Kentucky-Tennessee Light and Power Company, City of Murray, Kentucky, 4% purchase money obligations, due 1946.....	100,000.00	—	—	—	100,000.00
The Lake Shore Gas Company, first mortgage bonds, 5½% series, due 1950.....	(A)	—	34,000.00	244,000.00	360,000.00(b)
Missouri General Utilities Company, 2.77% note payable to Rural Electrification Administration, due serially to 1957(C).....	97,547.64	\$ 4,953.18	—	—	97,547.64
Ohio-Midland Light and Power Company (formerly The Scioto Valley Railway and Power Company) first mortgage 6% twenty year bonds, due 1943(U).....	2,500,000.00	—	—	530,500.00	344,500.00
(Continued)					

STATEMENT OF LONG-TERM DEBT SECURITIES IN WHICH THERE IS A PUBLIC INTEREST (Continued)

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consoli- dation)	Held by Others
LONG-TERM DEBT SECURITIES OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST, Continued:					
Pennsylvania Electric Company, first and refunding mortgage bonds:					
Series F, 4%, due 1971.....	(A)	—	—	\$ 149,000.00	\$ 6,508,000.00(c)
Series H, 5%, due 1962.....	(A)	—	—	{ 2,661,700.00	14,153,800.00
				{ 498,000.00(D)	
Penn Public Service Corporation, first and refunding mortgage bonds:					
Series C, 6%, due 1947.....	(A)	—	—	20,000.00	4,529,000.00(d)
Series D, 5%, due 1954.....	(A)	—	—	32,000.00	2,403,000.00
Associated Utilities Corporation and Subsidiaries:					
Utilities Employees Securities Company:					
Income notes, due 1981.....	(A)	—	—	100,000.00	6,077,270.00(e)
Income bonds, due 1981.....	(A)	—	—	—	1,667,960.00
New England Capital Corporation, 6% debentures, due 1964 (assumed)	\$10,000,000.00	—	—	—	848,050.00(f)
Associated Real Properties, Inc., real estate mortgages.....	15,500.00	—	—	—	15,500.00
General Gas & Electric Corporation and Subsidiaries:					
General Gas & Electric Corporation, 4% interest bearing scrip, due 1942	999,311.79	\$ 46,389.32	—	959,324.82	46,389.32(E)
Eastern Shore Public Service Company (Delaware):					
First mortgage and first lien bonds (F):					
Twenty-year, series A, 5½%, due 1947.....	(A)	—	—	20,000.00 (D)	4,780,000.00
Twenty-five year, series B, 5%, due 1955.....	(A)	—	—	107,500.00 (D)	2,142,500.00
3% collateral note, due 1942 (G).....	1,000,000.00	1,000,000.00	—	—	1,000,000.00
Florida Power Corporation:					
First mortgage 4% bonds, series C, due 1966.....	(A)	—	—	95,000.00	10,905,000.00
3½% serial debentures, due serially to 1956.....	2,000,000.00	126,000.00	—	—	1,937,000.00
3% note payable to Rural Electrification Administration, due serially to 1955.....	121,210.50	8,657.90	—	—	121,210.50
Florida Public Service Company:					
First mortgage 4% bonds, series C, due 1955.....	(A)	—	—	{ 47,000.00(D)	5,788,700.00
				{ 119,700.00	
4½% serial debentures, due serially to 1955.....	2,750,000.00	—	—	—	2,750,000.00
2.77% note payable to Rural Electrification Administration, due serially to 1956 (H).....	36,203.12	2,552.64	—	—	36,203.12
Georgia Power and Light Company:					
First mortgage bonds, 5% series, due 1978.....	(A)	—	—	50,000.00	3,060,500.00
Town of Climax, Georgia, 6% bonds, due 1943.....	9,500.00	—	—	—	9,500.00
3% note payable to Rural Electrification Administration, due serially to 1955.....	78,669.67	5,747.36	—	—	78,669.67
Lexington Water Power Company:					
First mortgage 5% bonds, series, due 1968.....	(A)	—	—	{ 650,000.00(D)	8,698,400.00
				{ 1,580,700.00	
5½% convertible sinking fund debentures, due 1953.....	5,000,000.00	—	—	2,555,400.00	193,200.00

series A, due 1950.....	(A)	—	—	{ 97,000.00 (D) 16,000.00	876,000.00
South Carolina Electric & Gas Company (formerly Broad River Power Company):					
First and refunding mortgage 5% bonds, series A, due 1954.....	(A)	—	—	{ 391,000.00 (D) 1,888,900.00	6,982,000.00
3½% note payable, due serially to 1943.....	525,000.00	300,000.00	—	—	525,000.00
Divisional lien—the Parr Shoals Power Company first mortgage 5% sinking fund bonds, due 1952 (less \$1,421,000 held in sinking fund)	3,000,000.00	—	90,000.00 (I)	—	1,489,000.00
Tide Water Power Company:					
First mortgage 5% bonds, series A, due 1979.....	(A)	—	38,500.00	30,000.00	6,231,500.00
3% note payable to Rural Electrification Administration, due serially to 1955.....	98,297.39	7,486.84	—	—	98,297.39
Virginia Public Service Company:					
First mortgage and refunding twenty-year bonds:					
Series A, 5½%, due 1946 (J).....	(A)	—	—	—	14,118,500.00
Series B, 5%, due 1950.....	(A)	—	—	1,311,000.00	7,389,000.00
Series C, 6%, due 1952.....	(A)	—	—	3,000.00	2,997,000.00
20 year 6% sinking fund debentures, due 1946.....	5,000,000.00	—	—	—	3,197,000.00
Divisional liens:					
Newport News and Hampton Railway, Gas and Electric Company, first and refunding mortgage 5% bonds, due 1944 (K)	7,500,000.00	—	—	—	3,996,500.00
Southside Virginia Power Company, first mortgage 5% bonds, series A, due 1956 (L).....	2,000,000.00	—	—	—	2,000,000.00
Town of Farmville, Virginia, purchase money obligations:					
5½%, due 1944.....	100,000.00	—	—	—	100,000.00
5%, due 1947.....	75,000.00	—	—	—	75,000.00
5%, due 1948.....	35,000.00	—	—	—	35,000.00
5%, due 1961.....	19,500.00	—	—	—	19,500.00
Virginia Public Service Generating Company:					
First mortgage 4% sinking fund bonds, due 1959.....	1,400,000.00	109,000.00	—	—	1,293,000.00
Serial notes 4%, due serially to 1943.....	158,000.00	77,000.00	—	—	158,000.00
NY PA NJ Utilities Company and Subsidiaries:					
NY PA NJ Utilities Company, secured 5% debentures, due 1956 (M)	3,926,500.00	—	—	725,400.00	3,178,200.00 (G)
The Metropolitan Edison Corporation, secured consolidated, refunding bonds, 6% series, due 1961 (\$6,998,100 authenticated and held by indenture trustee) (N).....	10,000,000.00	—	1,000.00	2,474,600.00	526,300.00
The Mohawk Valley Company:					
6% consolidated refunding bonds, due 1991 (O).....	(A)	—	{ 1,000,000.00 (P) 431,500.00	499,000.00	805,900.00
6% debentures, due 2031.....	10,000,000.00	—	98,100.00	24,000.00	120,800.00
Rochester Central Power Corporation, 5% debentures, series A, due 1953	(A)	—	219,500.00	98,500.00	897,000.00
Bradford Electric Company:					
4% note payable, due 1949.....	550,000.00	—	—	—	550,000.00
4% contractual obligation, due serially to 1949.....	7,331.13	923.57	—	—	7,331.13
Canadea Power Corporation, first mortgage 5% bonds, due 1958...	2,000,000.00	—	—	—	2,000,000.00
Citizens Transit Company, 6% contractual obligation, due serially to 1942	10,460.00	10,460.00	—	—	10,460.00
Glen Rock Electric Light and Power Company first mortgage 3½% bonds, due 1966.....	(A)	—	—	—	325,000.00

(Continued)

STATEMENT OF LONG-TERM DEBT SECURITIES IN WHICH THERE IS A PUBLIC INTEREST (Continued)

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consoli- dation)	Held by Others
LONG-TERM DEBT SECURITIES OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST, Continued:					
NY PA NJ Utilities Company and Subsidiaries, Continued:					
Keystone Public Service Company:					
5% first mortgage bonds, due 1978.....	\$10,000,000.00	—	—	—	\$ 4,000,000.00
Contractual obligation, due serially to 1951.....	71,500.00	\$ 7,800.00	—	—	71,500.00
Litchfield Electric Light and Power Company, The, first mortgage bonds, 4% series, due 1964.....	(A)	—	—	—	450,000.00
Long Island Water Corporation:					
First mortgage 4% bonds, series A, due 1964.....	(A)	—	—	—	2,144,000.00
Roosevelt Water, Power and Light Company, first mortgage 6% bonds, due 1943 and 1944 (Closed Mortgage).....	100,000.00	—	—	—	8,000.00
Metropolitan Edison Company:					
First mortgage bonds:					
Series D, 4½%, due 1968.....	(A)	—	—	\$ 58,000.00	22,772,500.00
Series E, 4%, due 1971.....	(A)	—	—	3,000.00	4,681,000.00
Series G, 4%, due 1965.....	(A)	—	\$ 548,900.00	—	11,710,900.00
Divisional lien, York Haven Water and Power Company, fifty year bonds, 5%, due 1951.....	1,500,000.00	—	198,500.00 (Q)	—	1,247,500.00
New Jersey Power & Light Company:					
First mortgage bonds, 4½% series, due 1960.....	(A)	—	—	6,000.00	13,914,000.00 (h)
New Jersey Northern Gas Company, first mortgage 5% bonds, due 1952.....	1,000,000.00	—	—	100,000.00	155,000.00
New York State Electric & Gas Corporation:					
First mortgage bonds:					
3¾% series, due 1964 (R).....	(A)	—	—	33,000.00	12,967,000.00
3¾% series, due 1971.....	(A)	—	—	—	35,393,000.00
Notes payable to Rural Electrification Administration (20 year notes, due serially) (3¾% series bonds nominally issued pledged as collateral):					
2.88%, due serially to 1958.....	204,438.61	12,820.52	—	—	204,438.61
2.73%, due serially to 1959.....	393,294.18	25,641.02	—	—	393,294.18
2.73%, due serially to 1959.....	252,410.89	16,666.67	—	—	252,410.89
2.73%, due serially to 1959.....	259,070.15	15,384.62	—	—	259,070.15
2.69%, due serially to 1960.....	360,512.82	35,262.05	—	—	360,512.82
2.46%, due serially to 1961.....	450,000.00	12,820.51	—	—	450,000.00
6% office building bonds, due serially to 1953 (dated January 10, 1939) (secured by purchase money mortgage).....	155,000.00	7,935.48	—	—	132,461.46
Divisional lien, Elmira Water, Light and Railroad Company, first consolidated mortgage, 5%, fifty year bonds, due 1956.....	5,000,000.00	—	—	72,000.00	4,928,000.00 (i)
Northern Pennsylvania Power Company:					
First and refunding mortgage bonds:					
Series A, 5%, due 1956.....	(A)	—	—	26,000.00	1,343,900.00
5% series, due 1962.....	(A)	—	588,000.00	5,000.00 (D)	1,984,300.00
				100,300.00	

Divisional lien, Sayre Electric Company, first mortgage, forty year 5% bonds, due 1947 (less \$291,000 held by Trustee in sinking fund)	750,000.00	—	19,500.00 (S)	—	240,000.00
Pennsylvania Edison Company:					
Penn Central Light and Power Company:					
First mortgage bonds:					
4½%, due 1977	(A)	—	—	{ 265,000.00 (D)	25,400,000.00
				{ 35,000.00	
5%, due 1979	(A)	—	—	—	2,175,000.00
Rochester Gas and Electric Corporation:					
General mortgage bonds:					
Series D, 4½%, due 1977	6,000,000.00	—	—	—	6,000,000.00
Series G, 3¾%, due 1966	3,000,000.00	—	—	—	3,000,000.00
Series H, 3¾%, due 1967	3,000,000.00	—	—	—	3,000,000.00
Series I, 3¾%, due 1967	1,657,000.00	—	—	—	1,657,000.00
Series J, 3¾%, due 1969	8,323,000.00	—	—	—	8,323,000.00
Series K, 3¾%, due 1970	15,000,000.00	—	—	—	15,000,000.00
Divisional lien, Genesee Valley Power Company, Inc., 6% first mortgage bonds, due serially to 1953 (closed mortgage)	200,000.00	2,000.00	—	—	18,000.00
Staten Island Edison Corporation:					
Richmond Light and Railroad Company, first and collateral trust purchase money mortgage 4% fifty year bonds, due 1952 (not assumed) (closed mortgage)	2,500,000.00	—	875,000.00 (T)	—	1,000,000.00
York Railways Company (in proceedings for reorganization under section 77B of the Bankruptcy Act), 5% first mortgage thirty year bonds due 1937 (all bonds held intercorporate, \$65,000 held by Associated Trustees, and \$3,013,000 held by others have been extended to 1947)	10,000,000.00	—	—	537,000.00	4,453,000.00 (j)
Northeastern Water and Electric Corporation and Subsidiaries:					
Caribou Water, Light and Power Company, first mortgage bonds, series A, 3½%, due 1964	(A)	—	—	—	270,000.00
City Water Company, The, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	130,000.00
Eastport Water Company, first mortgage, 5% bonds, due 1944	100,000.00	—	—	2,000.00	98,000.00
Edwardsville Water Company, first mortgage bonds, series A, 3½%, due 1965	500,000.00	—	—	—	150,000.00
Ellwood Consolidated Water Company, first mortgage bonds, series B, 3¾%, due 1966	(A)	—	—	—	250,000.00
Everett Water Company, first mortgage bonds, series A, 4%, due 1965	500,000.00	—	—	—	50,000.00
Gettysburg Water Company, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	55,000.00
Grafton Water Company, The, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	48,000.00
Guilford Water Company, The, first mortgage bonds, series A, 4½%, due 1964	(A)	—	—	—	38,000.00
Hampton Water-Works Company, The, first mortgage bonds, series A, 3¾%, due 1964	(A)	—	—	—	260,000.00
Hazleton Water Company, first mortgage bonds, series A, 4%, due 1958	2,000,000.00	—	—	—	936,000.00
Latrobe Water Company, The, first mortgage bonds, series B, 3¾%, due 1966	(A)	—	—	—	600,000.00

(Continued)

STATEMENT OF LONG-TERM DEBT SECURITIES IN WHICH THERE IS A PUBLIC INTEREST (Continued)

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consoli- dation)	Held by Others
LONG-TERM DEBT SECURITIES OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST, Continued:					
Northeastern Water and Electric Corporation and Subsidiaries, Continued:					
Louisa Water Company, first mortgage bonds, series A, 4¼%, due 1964	(A)	—	—	—	\$ 48,000.00
Mars Hill & Blaine Water Company, first mortgage bonds, series A, 4¼%, due 1964	(A)	—	—	—	48,000.00
Maryland Water Works Company, The:					
First and refunding mortgage bonds, series A, 4¼%, due 1964...	(A)	—	—	—	160,000.00
First and refunding mortgage bonds, series B, 3¾%, due 1964...	(A)	—	—	—	31,000.00
Bel Air Water and Light Company, first mortgage bonds, 5%, due 1944 (less \$3,600.00 held by Trustee in sinking fund)	\$ 60,000.00	—	—	\$ 3,500.00	17,900.00
Massachusetts Water Works Company, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	115,000.00
Mystic Valley Water Company, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	250,000.00
Norway Water Company, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	40,000.00
Oxford Water Company, The, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	35,000.00
Penobscot County Water Company, first mortgage bonds, series B, 3½%, due 1966	(A)	—	—	—	316,000.00
Fresque Isle Water Company, The, first mortgage bonds, series A, 4¼%, due 1964	(A)	—	—	—	80,000.00
Riverton Consolidated Water Company, first mortgage bonds, series B, 3¾%, due 1966	(A)	—	—	—	525,000.00
Salisbury Water Supply Company, The, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	67,500.00
Skowhegan Water Company, first mortgage bonds, series A, 4%, due 1964	(A)	—	—	—	116,000.00
Southwest Harbor Water Company, The, first mortgage bonds, 5%, due 1942	40,000.00	\$ 36,000.00	—	—	36,000.00
Stockton Springs Water Company, The, first mortgage bonds, 6%, due 1946	40,000.00	—	—	32,500.00	1,000.00
West Penn Water Company, first mortgage bonds, series A, 4¼%, due 1964	(A)	—	—	—	265,000.00
United Coach Company, The, and Subsidiaries:					
Staten Island Coach Company, Inc., instalment notes payable for equipment	258,752.00	258,752.00	—	—	258,752.00
Triple Cities Traction Corporation, instalment note payable for equipment	144,616.77	28,923.33	—	—	144,616.77
		<u>\$2,159,177.01</u>			
Total long-term debt of subsidiary companies (including \$1,375,000 matured and \$2,159,177.01 maturing within one year)					<u>\$396,286,845.65</u>

- | | |
|--|---|
| (a) Includes \$4,000 principal amount held by Associated Trustees. | (f) Includes \$12,600 principal amount held by Associated Trustees. |
| (b) Includes \$5,000 principal amount held by Associated Trustees. | (g) Includes \$44,000 principal amount held by Associated Trustees. |
| (c) Includes \$45,000 principal amount held by Associated Trustees. | (h) Includes \$15,000 principal amount held by Associated Trustees. |
| (d) Includes \$11,000 principal amount held by Associated Trustees. | (i) Includes \$6,000 principal amount held by Associated Trustees. |
| (e) Includes \$864,470 principal amount held by Associated Trustees. | (j) Includes \$66,000 principal amount held by Associated Trustees. |

See Note 17, Page 65.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

**NOTES TO STATEMENT OF LONG-TERM DEBT SECURITIES
IN WHICH THERE IS A PUBLIC INTEREST**

- (A) Additional bonds issuable upon compliance with statutory and mortgage indenture requirements.
- (B) Pledged with a surety company as a guaranty of the payment of compensation awards against Staten Island Edison Corporation.
- (C) Missouri General Utilities Company, first mortgage bonds, series A, 6's of 1946 in the principal amount of \$194,000 pledged as collateral to this note.
- (D) Pledged as collateral to notes payable.
- (E) Includes matured interest payable at maturity of scrip.
- (F) A first mortgage on all properties and a first lien on all outstanding stocks and bonds of The Eastern Shore Public Service Company of Maryland, Eastern Shore Public Service Company of Virginia and The Delmarva Power Company, consolidated subsidiaries, pledged as collateral to these bonds.
- (G) The entire issue of Eastern Shore Public Service Company (Del.) 5% bonds, due 1946, series C (\$1,100,000 principal amount) pledged as collateral to this note.
- (H) Florida Public Service Company first mortgage bonds in the principal amount of \$47,000 (held intercorporate) pledged as collateral to this note.
- (I) Pledged as collateral to South Carolina Electric & Gas Company (formerly Broad River Power Company) 5's of 1954.
- (J) The entire outstanding common stocks of Virginia Northern Ice Corporation and Virginia Public Service Generating Company, wholly-owned consolidated subsidiary companies of Virginia Public Service Company, pledged as collateral to these bonds.
- (K) The entire outstanding common stock of Citizens Rapid Transit Corporation, a wholly-owned consolidated subsidiary company of Virginia Public Service Company, pledged as collateral to these bonds.
- (L) The entire outstanding common stock of Middle Virginia Power Company, a wholly-owned consolidated subsidiary company of Virginia Public Service Company, pledged as collateral to these bonds.
- (M) Securities pledged with trustee as collateral under these debentures:
- | | |
|---|----------------|
| Glen Rock Electric Light and Power Company: | |
| Common stock | 2,000 shares |
| 6% cumulative preferred stock | 1,000 shares |
| Keystone Public Service Company: | |
| Common stock | 115,000 shares |
| \$2.80 preferred stock | 1,408 shares |
| York Railways Company, Common stock | 49,119 shares |
| Scranton Transit Company: | |
| 3% cumulative income bonds due 1959 | \$498,200 |
| 4% series B bonds due 1959 | \$ 60,300 |
- (N) Securities pledged with trustee as collateral under indenture dated September 1, 1931:
- | | |
|---|----------------|
| Metropolitan Edison Company, Common stock | 343,396 shares |
| New Jersey Power and Light Company, Common stock | 87,500 shares |
| Northern Pennsylvania Power Company, Common stock | 22,130 shares |
- (O) Securities pledged with trustee as collateral under indenture dated November 1, 1931:
- | | |
|---|----------------|
| New York State Electric & Gas Corporation, Common stock | 46,484 shares |
| Rochester Gas and Electric Corporation, Common V.T.C. | 775,914 shares |
- (P) Deposited together with \$1,000,000 principal amount of The Mohawk Valley Company 6's of 1981, in escrow under agreement in connection with the purchase of Jersey Central Power & Light Company Common stock by New Jersey Power & Light Company.
- (Q) Pledged as collateral with trustee under indenture dated November 1, 1920 of Metropolitan Edison Company.
- (R) Not including \$2,481,000 nominally issued, of which \$2,452,000 are pledged as collateral under 20-year notes payable to Rural Electrification Administration and \$29,000 released from similar pledge and held by trustee under indenture for the account of New York State Electric & Gas Corporation.
- (S) Pledged as collateral with trustee under mortgage of Northern Pennsylvania Power Company.
- (T) On deposit with trustee of Staten Island Edison Corporation bonds, all of which bonds have been redeemed.
- (U) Securities pledged with trustee as collateral under indenture dated June 1, 1923:
- | | |
|--------------------------------------|------------|
| Valley Public Service Company: | |
| Common stock | 990 shares |
| \$7 Cumulative preferred stock | 220 shares |

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1941 and December 31, 1940

(before deductions for interest on indebtedness, other than Trustees' certificate, of

Associated Gas and Electric Corporation—see Note 7)

	1941	1940
OPERATING REVENUES:		
Electric	\$117,867,033.90	\$109,125,865.98
Gas	13,973,015.81	14,751,649.61
Transportation—coach	5,686,444.77	4,896,436.70
Transportation—railway	1,140,563.51	1,021,081.37
Water	3,235,352.51	3,073,198.48
Steam heating	1,654,191.61	1,701,106.81
Ice	1,089,865.86	984,856.42
Total	\$144,646,467.97	\$135,554,195.37
OPERATING REVENUE DEDUCTIONS (exclusive of expenses and taxes of Associated Gas and Electric Corporation):		
Operating expenses	61,149,397.77	55,417,924.28
Maintenance	9,789,554.72	9,216,543.05
Provision for retirement (depreciation) of property, plant and equipment (see Note 4)	14,217,866.66	13,213,860.09
Provision for taxes (including adjustments for prior years) (see Note 15-c):		
Federal income and declared values excess-profits	8,217,161.66	7,443,988.02
Excess profits (Revenue Act of 1940, as amended)	737,863.11	5,494.27
Other	15,217,549.49	14,257,419.93
Total	109,329,393.41	99,555,229.64
OPERATING INCOME	35,317,074.56	35,998,965.73
OTHER INCOME (net) (including interest and dividends of \$927,713.42 in 1941 and \$1,434,798.31 in 1940 from subsidiaries in the Philippine Islands—not consolidated, see Note 2-a)	1,557,865.02	2,157,534.00
GROSS INCOME	36,874,939.58	38,156,499.73
INCOME DEDUCTIONS—SUBSIDIARY COMPANIES:		
Interest on long-term debt	17,894,899.20	18,029,637.50
Amortization of debt discount and expense, less premium	1,052,307.97	1,200,809.79
Taxes assumed on interest	264,311.15	225,145.57
Other interest charges	823,057.80	874,037.65
Interest charged to construction (credit)	(338,315.58)	(163,160.93)
Miscellaneous amortization	457,699.24	371,229.24
Miscellaneous income deductions	259,525.99	229,527.52
Dividends on preferred stocks, including \$782,734.10 accrued in 1941 and \$759,851.60 accrued in 1940, not being paid currently	5,062,320.32	4,941,224.88
Minority interest in net earnings	54,601.44	41,577.13
Total income deductions—subsidiary companies	25,530,407.53	25,750,028.35
BALANCE OF INCOME , before deductions for expenses and taxes of Associated Gas and Electric Corporation and for interest on that company's indebtedness (see Note 18)	11,344,532.05	12,406,471.38
INCOME DEDUCTIONS—ASSOCIATED GAS AND ELECTRIC CORPORATION:		
Expenses and taxes	826,610.98	464,495.29
Interest on Trustees' Certificate of Indebtedness	3,750.00	
	830,360.98	
BALANCE OF INCOME , before deductions for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation (see Notes 7 and 18)	\$ 10,514,171.07	\$ 11,941,976.09

The Notes on Pages 58 to 65 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY, BY CONSTITUENT MAJOR GROUPS OF COMPANIES, OF DISPOSITION OF
CONSOLIDATED "BALANCE OF EARNINGS" AND NET CHANGE IN CONSOLIDATED
"EXCESS OF ASSETS OVER LIABILITIES"**

(both before provision for interest on indebtedness, other than Trustees' certificate, of
AGECORP subsequent to January 10, 1940)

For the Year 1941

	Distributions of Interest and Dividends on Securities Held by AGECORP and its Subsidiary Investing Companies	Undistributed Net Earnings of Group on AGECORP Consolidation Basis	Net Direct Charges to Earned Surplus or Deficit of Group on AGECORP Consolidation Basis	Net Change in Earned Surplus or Deficit of Group on AGECORP Consolidation Basis
CONSTITUENT MAJOR GROUPS:				
Associated Electric Company group (Page 52).....	\$ 12,049.98	\$ 1,161,474.09	\$1,645,676.97	\$ (484,202.88)
General Gas & Electric Corporation group (Page 53)....	22,758.02	1,420,019.76	1,151,232.76	268,787.00
NY PA NJ Utilities Company group (Page 54).....	730,470.82	7,466,053.04	5,317,296.59	2,148,756.45
The United Coach Company group (Page 56).....	37,921.92	303,949.16	381,854.96	(77,905.80)
Northeastern Water and Electric Corporation group (A) .	132,384.95	159,305.91	426.79	158,879.12
Total constituent major groups.....	<u>\$ 935,585.69</u>	<u>\$10,510,801.96</u>	<u>\$8,496,488.07</u>	<u>\$2,014,313.89</u>
AGECORP AND ITS SUBSIDIARY INVESTING COMPANIES:				
Income from major groups of subsidiaries, as above.....	\$ 935,585.69	—	—	—
Other income	189,296.75	—	—	—
Total income (B).....	<u>\$1,124,882.44</u>	—	—	—
Expenses; taxes; and interest, including interest on Trustees' certificate but before interest on other indebtedness of AGECORP.....	1,121,513.33	—	—	—
Total AGECORP and its subsidiary investing companies (C)	<u>\$ 3,369.11</u>	<u>3,369.11</u>	<u>31,979.62</u>	<u>(28,610.51)</u>
Distributions to AGECORP by its subsidiary investing companies in excess of their combined earnings for 1941	302,746.97	—	—	—
Balance of income of AGECORP alone (C).....	<u>\$ 306,116.08</u>	—	—	—
Consolidated balance of income (D).....		<u>\$10,514,171.07</u>	—	—
Consolidated net direct charges to "Excess of assets over liabilities"			<u>\$8,528,467.69</u>	—
Net increase in consolidated "Excess of assets over liabilities" (D)				<u>\$1,985,703.38</u>

() Indicates red figure.

NOTES:

- (A) Since the Trustees of AGECORP have agreed to sell (see Note 1 (d), Page 32) and the Securities and Exchange Commission has approved the proposed sale, subject to compliance with certain conditions, of AGECORP'S entire interest in Northeastern Water and Electric Corporation and its 45 subsidiaries, no details by companies of the amounts shown for this group are submitted herewith.
- (B) Exclusive of interest receivable accrued to AGECORP but not received by it at December 31, 1941.
- (C) Exclusive of interest receivable accrued to AGECORP but not received by it at December 31, 1941, and before deductions for interest on indebtedness of AGECORP other than on Trustees' certificate.
- (D) Before deductions for interest on indebtedness of AGECORP other than on Trustees' certificate.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 58 to 65.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1941 OF THE ASSOCIATED ELECTRIC COMPANY GROUP**

			Distributions of or Provisions for Interest and Dividends for 1941 on Securities Held by			Undistributed Net Earnings for 1941 after Provision for Minority Interests	Net Direct Charges for 1941 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1941 Unavailable to Parent as Reason of (a) Accumulated Deficits or (b) Specific Orders of Regulatory Bodies
	Associated Electric Company and its Subsidiary Investing Companies	AGECORP and its Subsidiary Investing Companies						
ASSOCIATED ELECTRIC COMPANY GROUP OPERATING COMPANIES:								
Arizona General Utilities Company.....	\$ 27,875.63	\$ —	\$ 1,949.87	\$ —	\$ —			
Arkansas General Utilities Company.....	39,810.00	—	(22,289.67)	—	—			
Associated Maryland Electric Power Corporation..	—	—	(5,357.44)	—	41,629.85			
Clarion Water Company	4,700.83	—	—	—	—			
Eastern Land Corporation	—	—	(4,348.76)	—	—			
Indiana Gas Utilities Company	2,875.00	1,025.00	1,438.16	—	2,737,678.07			1,438.16(a)
Kentucky-Tennessee Light and Power Company..	516,707.38	—	42,215.87	—	7,732.70			—
The Lake Shore Gas Company.....	38,415.59	2,310.00	—	—	—			—
Louisiana Public Utilities Co., Inc.	259,433.04	—	63,470.97	—	—			63,470.97(a)
Missouri General Utilities Company.....	56,887.32	—	34,023.70	—	3,751.87			—
Missouri Southern Public Service Company.....	11,182.92	—	3,015.02	—	20,857.15			3,015.02(a)
The New Matamoras Electric Company.....	2,946.24	—	398.72	—	—			398.72(a)
Ohio-Midland Light and Power Company.....	84,243.65	—	72,554.88	—	4,173.11			—
Ohio River Power Company.....	32,557.82	—	(27,521.42)	—	331,122.43			—
Owensboro Gas Company	16,998.25	—	—	—	—			—
Panhandle Public Service Company.....	10,410.00	—	(121.90)	—	—			—
Penelec Water Company	22,150.00	—	5,899.25	—	—			5,899.25(a)
Pennsylvania Electric Company and subsidiaries..	1,119,999.51	6,129.98	1,138,976.15	—	2,288,989.73			1,138,976.15(b)
The Portsmouth Gas Company	35,350.17	—	—	—	—			—
Solar Electric Company	1,386.44	—	14,324.90	—	(21.00)			(21.00)
Southland Public Service Company	—	—	(21.00)	—	—			—
Texas General Utilities Company	3,345.00	—	(3,195.19)	—	25,713.16			—
Union Gas & Electric Company.....	43,919.78	—	5,679.40	—	—			—
West Virginia Light, Heat and Power Company...	61,608.00	—	(29,302.00)	—	—			—
Youghiogheny Hydro-Electric Corporation	212,186.51	—	—	—	4,694,952.88			—
Total Associated Electric Company group operating companies	\$2,624,989.08	\$ 9,464.98	\$1,291,789.51	\$10,156,579.95				
ASSOCIATED ELECTRIC COMPANY AND ITS SUBSIDIARY INVESTING COMPANIES:								
Other income	1,281,288.05	—	—	—	—			—
Total income	\$3,906,277.13	—	—	—	—			—
Expenses; taxes; and interest, other than on indebtedness to subsidiary investing company of AGECORP	\$4,199,661.87	—	—	—	—			—
Interest on indebtedness to sub- sidiary investing company of AGECORP	2,585.00	—	2,585.00	—	—			—
	4,202,246.87	—	—	—	—			—
Total Associated Electric Company and its subsidiary investing companies	—	—	(295,969.74)	3,397,791.25				—
Adjustments arising in Associated Electric Company group consolidation	—	—	112,418.04	(8,835,346.83) (A)				—
Associated Electric Company group consolidated....	\$12,049.98	\$1,108,237.81	\$ 4,719,024.37					—
Adjustments arising in AGECORP system consoli- dation	—	—	53,236.28	(3,073,347.40) (B)				—
Associated Electric Company group, adjusted as above, forwarded to Page 51.....	\$12,049.98	\$1,161,474.09	\$ 1,645,676.97					—

() Indicates red figure.

NOTES:

- (A) Represents principally the elimination of charges to earned surplus by subsidiaries to reduce property, plant and equipment accounts to the basis of "original cost"; in consolidation such charges have been considered as applicable to the period prior to December 31, 1937 with the effect of increasing consolidated excess of recorded amounts of investments in subsidiaries over the related net assets of such subsidiaries as of December 31, 1937.
- (B) Represents the elimination of a charge of \$2,964,857.15 during 1941 to earned surplus of Associated Electric Company, pursuant to an order of the Securities and Exchange Commission, writing off the excess of that company's recorded investment in a subsidiary merged in 1941 over the related net assets of such subsidiary at December 31, 1937, provision for which adjustment had been reflected in AGECORP's consolidated statements as at December 31, 1940, and other intercompany adjustments of \$108,490.25.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 58 to 65.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR DEFICIT FOR THE YEAR 1941 OF THE GENERAL GAS & ELECTRIC CORPORATION GROUP

	Distributions of or Provisions for Interest and Dividends for 1941 on Securities Held by			Net Direct Charges for 1941 to Earned Surplus or Deficit (Other Than Dividend Appropriations)		Undistributed Net Earnings for 1941 Unavailable to Parent at December 31, 1941 by Reason of (a) Accumulated Deficits or (b) Specific Orders of Regulatory Bodies
	General Gas & Electric Corporation and its Subsidiary Investing Companies	AGECORP and its Subsidiary Investing Companies	Undistributed Net Earnings for 1941 after Provision for Minority Interests			
GENERAL GAS & ELECTRIC CORPORATION GROUP OPERATING COMPANIES:						
The Dover Gas Light Company	\$ 10,290.00	\$ —	\$ (6,633.49)	\$ —	\$ —	
Eastern Shore Public Service Company and subsidiaries	18,200.10	—	93,079.41	245.08	93,079.41 (b)	
Florida Power Corporation and subsidiaries	79,470.00	2,000.00	372,790.71	332,237.18	300,000.00 (b)	
Florida Public Service Company	2,960.01	3,708.00	138,622.38	61,634.09	138,622.38 (a)	
Georgia Power and Light Company	—	250.00	(402.81)	10,707.59	—	
Lexington Water Power Company	239,638.57	—	25,598.19	97,918.22	25,598.19 (a)	
Sanford Gas Company	700.73	—	—	—	—	
South Carolina Electric & Gas Company	238,174.08	16,800.02	584,715.78	8,557.41	—	
Tide Water Power Company	—	—	(137,265.13)	—	—	
Virginia Public Service Company and subsidiaries	60,000.00	—	549,226.06	668,115.48	549,226.06 (b)	
Total General Gas & Electric Corporation group operating companies	\$649,433.49	\$ 22,758.02	\$1,619,731.10	\$1,179,415.05		
GENERAL GAS & ELECTRIC CORPORATION AND ITS SUBSIDIARY INVESTING COMPANIES:						
Expenses; taxes; and interest, other than on indebtedness to AGECORP	\$812,107.03					
Interest on indebtedness to AGECORP	111,772.56	111,772.56	—	—	—	
	923,879.59	—	—	—	—	
Total General Gas & Electric Corporation and its subsidiary investing companies		—	(274,446.10)	3,366,986.47		
Adjustments arising in General Gas & Electric Corporation group consolidation		—	17,639.04	211,301.05		
General Gas & Electric Corporation group consolidated						
		\$134,530.58	\$1,362,924.04	\$4,757,702.57		
Adjustments arising in AGECORP system consolidation		(111,772.56) (A)	57,095.72	(3,606,469.81) (B)		
General Gas & Electric Corporation group, adjusted as above, forwarded to Page 51		\$ 22,758.02	\$1,420,019.76	\$1,151,232.76		

() Indicates red figure.

NOTES:

- (A) Elimination of provision for interest accrued, but not paid during 1941, on indebtedness to AGECORP (with contra adjustment of "undistributed net earnings for 1941"), the Corporation not recording such items as income until received.
- (B) Represents the elimination of a charge of \$3,834,712.56 during 1941 to earned surplus of General Gas & Electric Corporation, pursuant to an order of the Securities and Exchange Commission, writing off the excess of that company's recorded investment in a subsidiary merged in 1941 over the related net assets of such subsidiary at December 31, 1937, provision for which adjustment had been reflected in AGECORP'S consolidated statements as at December 31, 1940, less other intercompany adjustments of \$228,242.75.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 58 to 65.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR DEFICIT FOR THE YEAR 1941 OF THE NY PA NJ UTILITIES COMPANY GROUP

	Distributions of or Provisions for Interest and Dividends for 1941 on Securities Held by			Net Direct Charges for 1941 to Earned Surplus or Deficit (Other Than Dividend Appropriations)		Undistributed Net Earnings for 1941 Unavailable to Parent at December 31, 1941 by Reason of (a) Accumulated Deficits or (b) Specific Orders of Regulatory Bodies
	NY PA NJ Utilities Company and its Subsidiary Investing Companies	AGECORP and its Subsidiary Investing Companies	Undistributed Net Earnings for 1941 after Provision for Minority Interests			
NY PA NJ UTILITIES COMPANY GROUP						
OPERATING COMPANIES:						
Bradford Electric Company	\$ 65,000.00	\$ —	\$ 70,145.98	\$ —	\$ —	
Canada Power Corporation	60,000.00	—	17,233.44	(1,870.00)	—	
Glen Rock Electric Light and Power Company..	2,250.00	—	32,067.16	750.00	—	
Granville Electric Company	1,727.71	—	6,765.00	—	—	6,765.00 (a)
Keystone Public Service Company and Subsidiary	4,401.60	2,800.00	223,138.43	—	—	223,138.43 (b)
Litchfield Electric Light and Power Company, The	5,000.00	—	41,625.62	—	—	
Logan Light, Heat & Power Company	2,500.00	—	1,179.00	—	—	
Long Island Water Corporation	18,007.44	—	136,542.14	3,782.08	—	{ 76,542.14 (a)
Metropolitan Edison Company	526,380.00	4,880.00	1,944,795.81	—	—	{ 60,000.00 (b)
New Jersey Power & Light Company	677,408.00	270.00	385,955.99	—	—	{ 1,504,685.41 (b)
New Jersey Northern Gas Company	—	—	—	—	—	—
New York State Electric & Gas Corporation....	1,500,000.00	9,141.78	2,555,630.81	1,214,371.43 (A)	—	1,140,000.00 (b)
Patchogue Electric Light Company, The.....	20,177.64	—	77,128.31	—	2,057.07	—
Staten Island Edison Corporation	468,000.00	—	532,144.72	1,387,935.50	—	—
Northern Pennsylvania Edison Company	406,750.50	6,315.03	(100,319.66)	1,254.21	—	—
Pennsylvania Edison Company and Subsidiary..	12,303.00	855.00	238,555.59	—	—	—
Rochester Gas and Electric Corporation.....	326,213.85	4,782.00	402,882.09	741,163.98	—	—
Spring Brook Water Company	15,733.32	—	343.03	—	—	343.03 (a)
Tracy Development Company	—	—	(3,444.97)	289,006.04	—	—
York Railways Company and Subsidiaries.....	—	—	219,059.35	154,565.20	—	219,059.35 (a)
Total NY PA NJ Utilities Company group operating companies	\$4,111,853.06	\$ 29,043.81	\$6,781,427.84	\$3,793,015.51	—	
NY PA NJ UTILITIES COMPANY AND ITS SUBSIDIARY INVESTING COMPANIES:						
Other income	73,485.27	—	—	—	—	
Total income	\$4,185,338.33	—	—	—	—	
Expenses; taxes; and interest, other than on indebtedness to AGECORP and its subsidiary investing companies....	\$2,877,083.29 (B)	—	—	—	—	
Interest on indebtedness to AGECORP and its subsidiary investing companies....	1,309,170.04	—	1,309,170.04	—	—	
	4,186,253.33	—	—	—	—	
Total NY PA NJ Utilities Company and its subsidiary investing companies.....	—	—	(915.00)	637,814.52	—	
Adjustments arising in NY PA NJ Utilities Company group consolidation	—	—	18,887.04	2,290,715.16	—	
NY PA NJ Utilities Company group consolidated.	—	\$1,338,213.85	\$6,799,399.88	\$6,721,545.19	—	
Adjustments arising in AGECORP system consolidation	—	(607,743.03) (C)	666,653.16	(1,404,248.60) (D)	—	
NY PA NJ Utilities Company group, adjusted as above, forwarded to Page 51.....	—	\$ 730,470.82	\$7,466,053.04	\$5,317,296.59	—	

() Indicates red figure.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 58 to 65.

See notes on following page.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**NOTES TO SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED
SURPLUS OR DEFICIT FOR THE YEAR 1941 OF THE NY PA NJ UTILITIES
COMPANY GROUP**

- (A) After credit of \$2,728,754.44 (eliminated in group consolidation) representing transfer of \$2,477,212.58 from stated capital for common stock and \$251,541.86 of earned surplus at December 31, 1937 used to absorb charges in connection with recapitalization of the company during 1941.
- (B) Includes interest on securities of NY PA NJ Utilities Company held by the following subsidiaries:
- | | |
|---|----------------|
| Canadea Power Corporation | \$ 2,820.00 |
| Keystone Public Service Company | 42,800.00 |
| Metropolitan Edison Company | 966,585.00 |
| Staten Island Edison Corporation | 31,200.00 |
| Northern Pennsylvania Power Company | 27,564.00 |
| York Railways Company | 11,625.00 |
| | <hr/> |
| Total | \$1,082,594.00 |
| | <hr/> |
- (C) Elimination of provision for interest accrued, but not paid during 1941, on indebtedness to AGECORP (with contra adjustment of "undistributed net earnings for 1941"), the Corporation not recording such items as income until received.
- (D) Elimination of loss of \$1,381,440.60 resulting from intercompany sale of securities of associated company and miscellaneous consolidating adjustments of \$22,808.00.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1941 OF THE UNITED COACH COMPANY GROUP**

		Distributions of or Provisions for Interest and Dividends for 1941 on Securities Held by		Net Direct Charges for 1941 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1941 after Provision for Minority Interests	Undistributed Net Earnings for 1941 Unavailable to Parent at December 31, 1941 by Reason of Accumulated Deficits
	The United Coach Company	AGECORP and its Subsidiary Investing Companies				
THE UNITED COACH COMPANY GROUP OPERATING COMPANIES:						
New Jersey and Staten Island Ferry Company....	\$ 5,250.00	\$ —	\$ —	\$ —	\$ —	\$ —
Reading Street Railway Company	—	—	135,046.36	—	—	135,046.36
Reading Traction Company	60.00	—	22,896.20	—	—	—
Richmond Railways, Inc.	—	—	(266.73)	307,099.72	—	—
Schenectady Rapid Transit, Inc.	9,664.20	—	11,866.90	—	—	11,866.90
Staten Island Coach Company, Inc.	2,370.00	—	56,909.04	700.00	—	—
Triple Cities Traction Corporation	459.25	—	54,499.31	—	—	—
The Valley Public Service Company	31,000.00	—	23,310.61	—	—	—
Total The United Coach Company group operating companies	\$48,803.45	—	\$304,261.69	\$ 307,799.72	—	—
THE UNITED COACH COMPANY AND THE RAILWAY AND BUS ASSOCIATES:						
Other income	25,910.92	—	—	—	—	—
Total income	\$74,714.37	—	—	—	—	—
Expenses; taxes; and interest, other than on indebtedness to subsidiary invest- ing company of AGECORP	\$37,541.80	—	—	—	—	—
Interest on indebtedness to subsidiary investing company of AGECORP....	37,921.92	—	37,921.92	—	—	—
	<u>75,463.72</u>	—	—	—	—	—
Total The United Coach Company and The Railway and Bus Associates	—	—	(749.35)	1,563,757.76	—	—
Adjustments arising in The United Coach Company group consolidation	—	—	—	(1,489,702.52) (A)	—	—
The United Coach Company group consolidated.....	—	\$37,921.92	\$303,512.34	\$ 381,854.96	—	—
Adjustments arising in AGECORP system consoli- dation	—	—	436.82	—	—	—
The United Coach Company group, adjusted as above, forwarded to Page 51.....	—	\$37,921.92	\$303,949.16	\$ 381,854.96	—	—

() Indicates red figure.

NOTE:

- (A) Represents principally the elimination of provisions by The Railway and Bus Associates and its subsidiary, Richmond Railways, Inc., for loss on sale in 1942 of Staten Island Coach Company, Inc., and Triple Cities Traction Corporation, provision for such loss having previously been made by The United Coach Company.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 58 to 65.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
and

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES DURING 1941 IN THE AMOUNT DESCRIBED AS "EXCESS
OF ASSETS OVER LIABILITIES" AND TREATED AS RESERVE FOR ADJUSTMENT
OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON
FINAL DETERMINATION OF VALUES

for the year ended December 31, 1941

	Parent company alone	Group, on consolidated basis
BALANCES, DECEMBER 31, 1940.....	\$154,304,593.12	\$154,040,609.36
CHANGES DURING 1941:		
Additions:		
Income (before deduction for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation) for the year ended December 31, 1941, per accompanying statements (Pages 31 and 50)...	306,116.08	\$10,514,171.07 25,986.19
Net profit on sales of securities.....		71,174.33
Miscellaneous credits		10,611,331.59
	<u>\$154,610,709.20</u>	<u>\$164,651,940.95</u>
Deductions:		
Write-downs, and provisions for losses on sales, of prop- erty, plant and equipment of subsidiary companies.....		4,230,677.42
Write-offs of discount and expense and acquisition pre- miums applicable to reacquired and/or refunded long- term debt of subsidiary companies.....		3,454,369.04
Write-off of capital stock expense and redemption pre- mium applicable to reacquired preferred stock of a sub- sidiary company		399,861.01
Provision for estimated cost of track removal and repairing Adjustment arising from the exclusion of Philippine Island subsidiaries from the consolidation.....		240,000.00 170,683.26
Miscellaneous charges	816.84	130,037.48
	<u>\$154,609,892.36</u>	<u>8,625,628.21</u> <u>\$156,026,312.74</u>
BALANCES, DECEMBER 31, 1941.....		

The Notes on Pages 58 to 65 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) *Reorganization proceedings pursuant to Chapter X of the Bankruptcy Act:*

On January 10, 1940, Associated Gas and Electric Corporation and its parent, Associated Gas and Electric Company, filed petitions for reorganization under Chapter X of the Bankruptcy Act in the United States District Court for the Northern District of New York. The petitions were approved by the Court on that day. On January 30, 1940, the proceedings were removed to the Southern District of New York.

(2) *Basis of consolidation:*

- (a) The consolidated statements of Associated Gas and Electric Corporation and subsidiary companies include, except as stated below, all companies the majority of the voting stock of which is owned directly or indirectly by the Corporation or which are in effect controlled by the Corporation or one or more of its majority-owned subsidiaries by reason of ownership of all of their long-term indebtedness.

The exceptions referred to above are:

(1) Rochester Transit Corporation and its subsidiaries:

East Avenue Bus Company, Inc.
Railway Properties Corporation
The Rochester Electric Railway Company
Rochester Interurban Bus Company, Inc.

which have not been included in the consolidation because control of Rochester Transit Corporation by its parent within the Associated Gas and Electric Corporation group is limited by agreements entered into at the termination of bankruptcy proceedings of the Transit Corporation, and

- (2) Manila Electric Company and Escudero Electric Service Company, both of which are located in the Philippine Islands. These companies have heretofore been included in the consolidation, but for purposes of comparison the accompanying consolidated statement of income for the year 1940 has been adjusted to exclude revenues and expenses of such companies and to include as income, as in the case of the statement for 1941, only the interest and dividends actually received from them.

Included among the majority-owned companies consolidated are Rochester Gas and Electric Corporation, the common stock of which is subject to a voting trust agreement, expiring July 14, 1942, under which only a minority of the directors are elected by its parent company, and York Railways Company, which is in proceedings for reorganization under Section 77B of the Bankruptcy Act, and its subsidiaries.

- (b) There have also been taken into the consolidation all assets (consisting entirely of securities) and all liabilities of Utilities Employees Securities Company, other than assets and liabilities arising since December 31, 1938. Under the certificate of incorporation of Utilities Employees Securities Company (as purportedly amended November 16, 1938), in the event of liquidation or dissolution of the company the holders of its Class A stock are entitled to any assets held by the company at December 31, 1938, or any assets substituted in place thereof, that may remain after the liquidation of all indebtedness existing at December 31, 1938 and after the liquidation (at \$100 per share) of all \$5 noncumulative preferred stock outstanding at that date; and the holders of common stock are entitled to receive all net assets arising since December 31, 1938, not required for the liquidation or retirement of the aforesaid debt obligations and preferred stock. A subsidiary company of Associated Gas and Electric Corporation holds 82 per cent of the Class A stock and no common stock, of Utilities Employees Securities Company.

On November 15, 1938, such subsidiary of Associated Gas and Electric Corporation was the owner of voting trust certificates representing 820 of the 1,000 outstanding shares of common capital stock of Utilities Employees Securities Company, which common stock possessed sole voting powers. On November 16, 1938, Utilities Employees Securities Company purported to amend its charter, to reclassify its capital stock, and to issue 100 shares of Class A stock in lieu of each share of old common stock then outstanding. Said subsidiary of Associated Gas and Electric Corporation has asserted that the action of Utilities Employees Securities Company in purporting to amend its charter, to reclassify its capital stock and to issue Class A stock for its former common stock was invalid and has demanded that Utilities Employees Securities Company return 820 shares of such common stock.

The provisions of the certificate of incorporation with reference to the rights, upon liquidation, of the holders of the company's various classes of stock may be subject to other provisions of the certificate of incorporation giving to the Board of Directors power, upon certain conditions, to apply certain assets of the company for welfare work among employees of companies and organizations in the Associated System.

- (c) The net excess of the amounts at which investments in operating utility subsidiaries are carried by the subholding parents of such utility groups over the related net assets of such subsidiaries has been computed as at December 31, 1937 (after giving effect to certain adjustments referred to below), and has been shown separately in the consolidated statement of assets, liabilities and reserves under the item of Combined Fixed Capital of these utility company groups.

As at December 31, 1937, Associated Gas and Electric Corporation and most of its subsidiary holding companies underwent what they considered to be "accounting reorganizations" and, pursuant to authorizations of their Boards of Directors, transferred to their respective capital surplus accounts the recorded balances in their earned surplus accounts, and in the consolidations of individual groups, the balances appearing in the surplus accounts of the subsidiary companies were treated as if such subsidiaries had been acquired at December 31, 1937. While for each consolidated group as a whole the amount so transferred to capital surplus was a credit balance, the group consolidations would have reflected deficits in the consolidated earned surplus,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

before such transfer, had the companies previously not charged to capital surplus certain items which, under now generally accepted accounting principles, would be required to be charged to earned surplus.

Since December 31, 1937, there have been net charges to capital surpluses of sub-holding company parents of the operating utility companies, which charges have been reflected as being applicable to periods prior to that date and consequently which have had the effect of reducing the amount of the "net excess" referred to above. These items aggregated approximately \$41,000,000. In addition, such "net excess" has been further written down subsequent to December 31, 1937 by charges of approximately \$11,500,000 to earned surpluses or deficits of the sub-holding parent companies, in connection with various mergers within the respective groups and pursuant to orders of the Securities and Exchange Commission. On the other hand, changes made during 1941 in the basis of stating the property accounts of certain of the operating subsidiaries had the effect of increasing the "net excess" referred to above by approximately \$83,000,000. The principal portion (approximately \$72,000,000) of such increase resulted from the elimination from the books of the operating subsidiaries of memorandum accounts reflecting the effect of upward revaluations prior to 1938 of plant and other property. The remainder of such increase was occasioned by the restatement of certain of the properties of other operating subsidiaries to their "original cost" as found by, or reported to, regulatory bodies having jurisdiction.

- (d) Pursuant to authorizations of its Board of Directors, Associated Gas and Electric Corporation prior to January 10, 1940 wrote down, since December 31, 1937 but as at that date, the carrying amounts of its investments in certain subsidiaries by approximately \$173,000,000. Of this amount, approximately \$147,000,000 applied to investments in sub-holding parents of operating utility groups and approximately \$26,000,000 to investments in an investing company subsidiary.

The net excess of the amounts at which Associated Gas and Electric Corporation (and Northeastern Water Companies, Inc., dissolved during 1941) carried investments in capital stocks of sub-holding parents of operating utility groups at January 10, 1940 (the effective date of the petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939, as shown by their consolidated financial statements, appears as a separate item in the consolidated statement of assets, liabilities and reserves pending the final determination of values of such investments. Such net excess was arrived at as follows:

	Amount at which investments were carried by parents	Underlying consolidated net assets	Net excess
NY PA NJ Utilities Company.....	\$112,323,667.73	\$23,260,438.45	\$89,063,229.28
Associated Electric Company.....	38,022,081.93	37,433,428.72	588,653.21
General Gas & Electric Corporation.....	9,342,055.17	21,243,996.27	(11,901,941.10)
Northeastern Water and Electric Corporation.....	3,224,665.77	4,931,322.16	(1,706,656.39)
The United Coach Company.....	5,491.00	1,139,748.20	(1,134,257.20)
Total.....	<u>\$162,917,961.60</u>	<u>\$88,008,933.80</u>	<u>\$74,909,027.80</u>

The excess of the aggregate amount at which investments in non-utility subsidiaries (other than sub-holding parents of utility company groups) were carried by Associated Gas and Electric Corporation at January 10, 1940, over the total recorded amount of underlying net assets of such subsidiaries as of that date, after adjustments of differences between principal and carrying amounts of debt securities and preferred stocks of associated companies held by the non-utility company group and of unamortized discount applicable thereto, which adjusted excess amounted to \$12,701,303.12, has been written off in consolidation.

- (3) Combined property, plant and equipment (including going value and other intangibles) of operating subsidiaries of Associated Electric Company, General Gas & Electric Corporation, Northeastern Water and Electric Corporation, NY PA NJ Utilities Company and The United Coach Company:

- (a) The amount at which these assets are stated does not purport to represent their present realizable or replacement value, but is the aggregate of the amounts at which such assets were carried as at December 31, 1941 in the books of the several operating companies less, in the case of certain street railway properties, reductions to estimated salvage recognized in the accounts of the immediate parent. These amounts represent, in part, estimated reproduction cost new (as appraised, excluding overheads and intangibles, at various dates within the years 1922 to 1930 by Edward J. Cheney, Engineer, plus additional amounts for overheads and for intangibles, such as going value, financing and organization expenses, computed by the respective companies on the basis of percentages allowed for such items in the case of Brooklyn Borough Gas Company before the Special Statutory Court for the Eastern District of New York in 1926); in part, estimated reproduction cost new, including intangibles, as appraised by independent engineers at various dates; in part, acquisition or construction cost to the owning companies; and, to a relatively minor extent, "original cost" as found by or reported to regulatory bodies.

Based upon reports through December 31, 1941, submitted or to be presently submitted to the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, recorded revaluations since January 1, 1915, including those arising out of transactions between associated companies, have had the effect of increasing the combined property, plant and equipment accounts by approximately \$62,000,000, less a presently undetermined amount of reductions effected in connection with the recording of property retirements.

- (b) The reduction in the amount shown for the combined property, plant and equipment, including going value and intangibles, (from \$828,679,047.20 as reported at December 31, 1940 to \$738,655,434.29 as stated in the consolidated statement of assets, liabilities and reserves at December 31, 1941) results from the eliminations of memorandum revaluation accounts and the write-downs to the basis of "original cost," referred to in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2(c), and from the exclusion from the consolidation of the accounts of the Philippine Island subsidiaries referred to in Notes 2(a) (2) and 5(a).

- (c) The presently effective uniform systems of accounts for electric, gas and water utilities prescribed by the Federal Power Commission and by the state regulatory commissions having jurisdiction over the principal operating subsidiaries require, among other things, that properties be stated at original cost (i.e., cost when first devoted to public service), that the difference between such original cost and the amount at which the properties are now being carried be transferred to "plant adjustment accounts", and that such difference be depreciated, amortized or otherwise disposed of as the commission having jurisdiction may approve or direct.

Studies relating to the reclassification of the property accounts have been completed by certain of the operating subsidiaries in respect of property carried at approximately \$155,570,000 and tentative or final reports thereon have been filed with the regulatory bodies. These reports indicate the book amount of such property to be approximately \$16,200,000 in excess of the original cost and, in the case of one company, the tentative report of field auditors of the Federal Power Commission indicates a finding of original cost in an amount which is approximately \$6,500,000 less than the amount determined by the company.

In the case of other subsidiaries carrying electric and gas properties at approximately \$79,150,000, while the original cost studies have not been completed, a reclassification based on latest estimates has been reflected in the accounts subsequent to December 31, 1941. The estimates upon which the reclassification was based indicated that the aggregate book amount of such properties exceeded the original cost thereof by approximately \$18,000,000. Of this amount, approximately \$10,100,000 has been segregated since December 31, 1941 in "plant acquisition adjustments (100.5) account" for future disposition, and the remainder, approximately \$7,900,000, reclassified under "plant adjustments (107) account", has been written off by the companies since December 31, 1941, as follows: approximately \$7,750,000 to capital surplus arising from revaluation of fixed capital, and the remainder, approximately \$150,000, to deficit in earned surplus.

A relatively small portion of the amount shown for electric, gas and water properties is not required to be reclassified or is already stated on the basis of original cost as found or approved by the regulatory bodies. Studies in respect of the remaining portion of the properties are now in process and pending their completion and the approval thereof by the commissions having jurisdiction, it is not known to what extent the accounts will be affected, but the changes therein will probably be very material.

All findings of the companies in respect of the properties covered by the tentative reports filed with the commissions are subject to the review and approval of the latter.

- (d) At December 31, 1941, the Securities and Exchange Commission had approved the sale of certain of the properties of, or investments of sub-holding company parents in, operating subsidiary companies. A reserve, appearing separately in the consolidated statement of assets, liabilities and reserves, has been provided for the full amount of the loss that is expected to be incurred as the result of these transactions.

Subsequent to December 31, 1941, certain of the companies included in the consolidation have entered into agreements and are engaged in negotiations looking towards the execution of other agreements for the sale of investments of sub-holding company parents in, or all or part of the properties of, certain operating subsidiaries to non-affiliated interests. It is not possible at this time to estimate the amount of the profit or loss that will arise if the various disposals are effected, but it is expected that as a whole such transactions, when and if consummated, will result in substantial book losses.

- (e) The amount shown for property, plant and equipment includes approximately \$1,005,000, representing the cost of certain motor coaches purchased under instalment promissory notes, title to which will not be vested in the acquiring companies until the presently outstanding notes of approximately \$403,000 are paid in full.

(4) Retirement (depreciation) and maintenance policies:

- (a) The greater number of the operating subsidiaries follow the general policy of providing for retirement (depreciation) of property (other than automotive equipment) in amounts which, when added to maintenance expenditures, equal fixed percentages of gross operating revenues, less in the case of electric and gas utilities the cost of power and/or gas purchased. Of the remainder, some make provisions in amounts fixed by the respective managements, some in amounts which approximate the deductions for depreciation claimed for income tax purposes, and one on the basis of rates prescribed by the state regulatory body having jurisdiction. Provisions for retirement (depreciation) of automotive equipment are based, generally, on estimated service lives.

- (b) The aggregate of the amounts provided for retirements (and depreciation and depletion where provision is made as such) by the operating subsidiaries was less by approximately \$1,044,000 in 1941 and \$1,817,000 in 1940 than the combined depreciation deductions claimed or to be claimed on federal income tax returns of the several companies, which deductions are based on a straight-line method.

- (c) No specific provisions are made for amortization of intangibles included in property, plant and equipment except in the case of one major subsidiary which is writing off certain intangibles at the rate of \$200,000 per annum under an agreement with a regulatory commission.

- (d) It is the general policy of the operating subsidiaries, in conformity with the requirements of the systems of accounts prescribed by the state regulatory commissions having jurisdiction, to charge the cost of current repairs and minor replacements to appropriate operating expense accounts and clearing accounts and to capitalize the cost of renewals and betterments. In recording retirements of plant, the companies charge the cost thereof, or other amounts at which carried (estimated where not known) and the cost of removal, less salvage, to the retirement reserves.

- (e) The systems of accounts (referred to in Note 3-(c)) prescribed by the Federal Power Commission and state regulatory commissions having jurisdiction require that provision be made for loss in service value of electric, gas and water plants which is not restored by current maintenance, and mention various causes of depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tion which are to be considered. Pending completion by the companies and review by the commissions of the data pertaining to the original cost of plant, it cannot be presently foreseen what changes in the companies' accounts or depreciation policies may be necessitated, but they may be material.

(5) Investments:

- (a) Investments in securities of Manila Electric Company and Escudero Electric Service Company (both located in the Philippine Islands), Jersey Central Power & Light Company, National Public Service Corporation, Paul Smith's Electric Light and Power and Railroad Company, Paul Smith's Hotel Company and New England Gas and Electric Association are stated at amounts which represent, for the most part, cost or less to the consolidation. Investments in securities of the non-consolidated majority-owned companies, statutory subsidiaries and other associated companies are stated at written-down amounts, less the reserves indicated. Miscellaneous investments appear at cost or less, and are after deducting related reserves.

The investment in subsidiaries in the Philippine Islands, amounting to \$21,658,764.12, is \$1,227,317.79 less than related assets of such companies based on the latest reports (unaudited) received from such companies as of October 31, 1941. The related net assets of such subsidiaries, expressed in dollars on the basis of \$1 for 2 pesos of Philippine currency, as shown by such reports, are summarized hereunder:

Fixed capital		\$24,645,523.51
Current assets		1,229,445.64
Investments and special funds.....		112,976.86
Deferred debits		276,528.85
		<hr/>
		\$26,264,474.86
Long-term debt	\$ 530,000.00	
Current liabilities	829,206.64	
Retirement reserves	1,915,060.14	
Other reserves and deferred credits.....	104,126.17	3,378,392.95
		<hr/>
Net.....		\$22,886,081.91

No provision has been made for possible loss on this investment.

- (b) Investments in securities of, and receivables from, Associated Gas and Electric Company are stated at cost to the consolidation, except for preferred and preference stocks which are shown at no amount after deducting a reserve of \$82,701,500 carried on the books of a subsidiary owning 1,183,522 of such shares; and except that the subsidiary owning the remaining 133,364 shares has written off the cost thereof.
- (c) The amounts at which investments in securities of, and receivables from, associated and non-associated companies are carried do not purport to represent realizable values.
- (d) Certain subsidiary companies own approximately one-third of the common stock of Jersey Central Power & Light Company and approximately 85 per cent of the outstanding debentures or certificates of deposit therefor of National Public Service Corporation, under which the remaining two-thirds of the aforementioned common stock is pledged. National Public Service Corporation has been declared bankrupt, and the indenture trustee who holds the pledged common stock proposes to sell such stock at public auction. The net income of Jersey Central Power & Light Company and its subsidiaries for the year 1941, after provision for dividends on preferred stocks, as shown by that company's report, was \$788,277.95. No dividends were paid on the common stock during the year. Under the terms of the indenture securing the funded debt of such company, there are certain restrictions as to the availability of earned surplus for dividends on the common stock. The investment in Jersey Central Power & Light Company Common Stock is held by an operating subsidiary of NY PA NJ Utilities Company. On May 25, 1942, the Circuit Court of Appeals for the Third Circuit affirmed a determination of the Federal Power Commission which had held that the acquisition of the stock by the subsidiary without its approval was in violation of the Federal Power Act. The subsidiary and Jersey Central Power & Light Company had taken the position that the latter, at the time of the acquisition, did not sell or transmit electric energy in interstate commerce and, therefore, was not subject to the jurisdiction of the Federal Power Commission.
- (e) A portion of the miscellaneous investments which was carried at \$53,775 was pledged under a subsidiary company's indenture.

(6) Unamortized debt discount and expense:

The unamortized debt discount and expense applicable to indebtedness of Associated Gas and Electric Corporation, which amounted to \$3,209,541.06 at January 10, 1940, has been closed to the Reserve for Adjustment of Presently Stated Amounts of Investments Upon Final Determination of Values.

(7) Interest on indebtedness of Associated Gas and Electric Corporation:

No provision has been made in the consolidated statement of assets, liabilities and reserves at December 31, 1941 for interest on (a) the outstanding bonds and debentures of Associated Gas and Electric Corporation, or (b) the income note owing by said Corporation to its parent, subsequent to January 10, 1940, the effective date of its petition for reorganization under Chapter X of the Bankruptcy Act. The maximum amounts that could ordinarily accrue on a consolidated basis for the period from January 11, 1940 to December 31, 1941,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and for each of the years 1940 and 1941 (none of which is reflected in the consolidated statement of income and expenses), are as follows:

	Jan. 11, 1940 to Dec. 31, 1941	Each of the years 1940 and 1941
Bonds and debentures.....	\$14,806,262.15	\$ 7,507,443.86
Indebtedness to Associated Gas and Electric Company on income note	7,080,782.67	3,590,256.00
Total.....	<u>\$21,887,044.82</u>	<u>\$11,097,699.86</u>

(8) *Convertible debentures, due 1973 and reserve for conversion of debentures:*

The convertible (fixed interest) debentures, due 1973, are convertible, by the terms of the indenture, at the option of the holder into income debentures, due 1978, equal in principal amount to twice the principal amount of convertible debentures surrendered for such conversion.

The reserve for conversion of debentures represents the balance of the provision made in 1933 by appropriation from capital surplus for the above conversions.

(9) *Bonds and debentures of subsidiaries, held intercorporately, which are pledged:*

These are comprised of \$2,274,500 principal amount of bonds and debentures which are pledged as collateral to certain notes payable to banks and others, \$33,000 as guarantee of payment of compensation awards and \$75,000 under the indenture of an associated company.

In addition to the foregoing, various securities of subsidiaries which are held as treasury securities or held intercorporately were pledged, restricted or subordinated as shown on pages 43 to 49.

(10) *Trustees' Certificate of Indebtedness:*

Except as to certain special assets and funds held by the Trustees, the certificate of indebtedness of the Trustees, issued December 18, 1941, constitutes a first charge and claim upon all assets then held, and all proceeds and earnings thereafter received, by the Trustees or their successors, and upon assets, proceeds and earnings of the Estate of the Corporation as then or thereafter constituted, junior only to (1) the costs and expenses of the administration of the Estate of the Corporation; (2) the costs and expenses of the administration of the Estate of Associated Gas and Electric Company and certain certificates of indebtedness issued by the Trustee of such estate (insofar as such costs, expenses and certificates of indebtedness of the Trustee of the Company may become a charge upon the assets then or hereafter held by the Trustees or upon the Estate of the Corporation as then or hereafter constituted); provided, however, that the total amount of such costs and expenses and certificates of indebtedness referred to in (2) to which the certificate is junior shall not, without the consent of the holder of the certificate, exceed in the aggregate the sum of \$500,000; and (3) claims, to the extent allowed, of the United States of America, against the Estate of the Corporation for additional unpaid Federal income and excess-profits taxes accrued prior to January 10, 1940.

(11) *Reserve for possible additional minority participations:*

This represents a provision for possible additional minority participations in the net assets of certain subsidiaries consolidated (principally Utilities Employees Securities Company) in the event of realization of par or stated values (in excess of cost) of investments in securities of associated companies eliminated in consolidation.

(12) *Indebtedness to Associated Gas and Electric Company:*

The Trustees of Associated Gas and Electric Corporation are informed that in addition to the items shown under the above caption, the Trustee of Associated Gas and Electric Company holds \$115,730 principal amount of convertible debentures, due 1973, of Associated Gas and Electric Corporation.

The 5% cumulative income note, due 1980, and the non-interest-bearing note, due 1983, are both subordinated by the terms of the respective notes to all other indebtedness of the Corporation.

(13) *Liabilities of Associated Gas and Electric Corporation—General:*

See Note 4, Page 32.

(14) *Litigation pertaining to recapitalization plan of 1933:*

On February 28, 1941 a petition was filed with the United States District Court for the Southern District of New York by the Trustee of Associated Gas and Electric Company, parent company, and soon thereafter other trustees acting under indentures pursuant to which various classes of debentures of the Company were issued also filed petitions, asserting various claims of the Company with respect to the ownership of assets now held by the Trustees of Associated Gas and Electric Corporation and seeking to establish the rights of the Company and of holders of securities issued by the Company to share in these assets. Said petitions challenged the validity of a number of transactions, including certain transfers of assets from the Company to the Corporation and of the Recapitalization Plan of 1933, pursuant to which many security holders of the Company exchanged their holdings for Corporation debentures. On or about May 7, 1941, the General Protective Committee for Security Holders of Associated Gas and Electric Company (limited to the fixed-interest obligations of the Company) and individual holders of fixed-interest obligations of the Company filed petitions in amplification and support of the above-mentioned petition filed by the Trustee of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Trustees of the Corporation filed their answers and objections to the various petitions and urged that such petitions be dismissed. Answers and objections were also filed by Committees and indenture trustees for various issues of debt securities issued by the Corporation. On July 26, 1941 Hon. Frederick E. Crane was appointed Special Master to take evidence in the matter and submit findings thereon to the United States District Court for the Southern District of New York. Hearings in this proceeding were commenced in September, 1941 and have not yet been concluded.

Pending the decision of the Court, it is impossible to determine the effect upon the statements of Associated Gas and Electric Corporation of the outcome of these proceedings.

(15) Other contingent liabilities:

- (a) On July 5, 1939 the Commissioner of Internal Revenue accepted an Offer in Compromise made by Associated Gas and Electric Company, Associated Gas and Electric Corporation and General Gas & Electric Corporation covering the settlement of all income and excess-profits taxes of Associated Gas and Electric Company and certain affiliated and associated companies for the years 1927 to 1933 inclusive, for the sum of \$8,700,000 with 6% interest thereon from July 5, 1939 on deferred installments. Of such sum of \$8,700,000, \$3,000,000 was paid on July 5, 1939.

An agreement, dated as of August 4, 1941, was entered into among Stanley Clarke, as Trustee of Associated Gas and Electric Company, Debtor, Denis J. Driscoll and Willard L. Thorp, as Trustees of Associated Gas and Electric Corporation, Debtor (hereinafter collectively called the "Associated Trustees"), and New England Gas and Electric Association and Howard C. Hopson, et al. This agreement provided, among other things, for the submission of an Offer in Compromise in the amount of \$6,887,897.53 in settlement of: (a) all Federal taxes of Howard C. Hopson and a number of related and affiliated interests (hereinafter called the "Hopson Interests") for the years 1915 through 1940; (b) all unpaid principal and interest under the July 5, 1939 Offer in Compromise; and (c) certain Federal tax liabilities which may arise out of consummation of the new Offer in Compromise or of transactions relating to carrying out the agreement of August 4, 1941. On December 18, 1941, said new Offer in Compromise was accepted by the Commissioner of Internal Revenue and, of said amount offered thereunder, as provided in the agreement of August 4, 1941, the Hopson Interests paid \$1,187,897.53 and the Associated Trustees paid \$5,700,000 (less \$268,560.38 representing certain credits for overpayments of taxes, with interest thereon, made by or on behalf of Metropolitan Edison Company, General Gas & Electric Corporation and Erie Lighting Company). Certificates of Discharge of tax liens on Form 669 of the Treasury Department of the United States have been received and filed. The Trustees have been advised by counsel that this acceptance and payment relieve Associated Gas and Electric Corporation and those companies affiliated and associated with it of any liability to the Federal Government under the 1939 Offer in Compromise or with respect to the tax liabilities settled thereby.

Questions pertaining to the allocation and reallocation, if any, among the respective taxpayers (including the Trustees of Associated Gas and Electric Corporation) of all payments or credits under or with respect to the 1939 Offer in Compromise or the new Offer in Compromise have not yet been determined, except that pursuant to order of the United States District Court for the Southern District of New York the sum of \$166,044.74 which was segregated by the Trustees of Associated Gas and Electric Corporation in respect of the credit made on account of overpayments made by or on behalf of Erie Lighting Company, less \$9,500 reserved for possible tax liabilities and expenses, has been paid over by the Trustees of Associated Gas and Electric Corporation to the Trustee of Associated Gas and Electric Company. Such questions pertaining to allocation and reallocation are reserved by order dated December 29, 1941 for future determination by agreement, judicial proceeding, arbitration or other method, subject to the approval of the United States District Court for the Southern District of New York and such regulatory bodies as have jurisdiction.

- (b) Separate Federal income and declared-value excess profits tax returns were filed by this Corporation and its subsidiaries for the years beginning with 1934. The Bureau of Internal Revenue has examined the Federal income and declared-value excess profits tax returns of the Corporation to and including 1939 and of the Corporation's subsidiaries to and including 1939 and in some instances through 1940. Based upon such examinations, deficiencies have been proposed in the aggregate amounts of approximately \$1,100,000 for the Corporation and of approximately \$6,800,000 for the Corporation and its subsidiaries as a group. These proposed deficiencies are being contested.
- (c) The Trustees of Associated Gas and Electric Corporation and most of its subsidiaries, being all those considered eligible, have joined with their parent, Associated Gas and Electric Company, in a consolidated excess profits tax return for the year 1940 and plan at the present time to join in a consolidated return for the year 1941. Upon the assumption that said consolidated excess profits tax return for 1940 is accepted as filed, and the consolidated excess profits tax return for 1941 is accepted in the form expected to be filed, the Trustees are advised by counsel that the Corporation and its subsidiaries referred to above have no liability for excess profits tax for the year 1940 and will have no liability for excess profits tax for the year 1941.

Under the consolidated excess profits tax regulations, the companies joining in a consolidated return are jointly and severally liable to the Federal Government for the full amount of any excess profits tax, including any deficiencies, penalties or interest, which may be assessed against an affiliated group. An agreement has been made among the companies which joined in the above-mentioned consolidated return for the year 1940 (other than the Trustees of Associated Gas and Electric Company), which provides that any liability which may hereafter be determined against the affiliated group for the year 1940, or with respect to any consolidated excess profits tax return made for the group for any subsequent taxable year, shall be allocated to the respective companies in the group based upon the liability of the respective companies on a separate return basis, including any interest or penalties, but not to exceed the amount of each company's excess profits tax computed on the basis of a separate return.

On the basis of the returns filed for 1940 by companies not eligible to join in the consolidated return referred to above, such ineligible companies have no tax for the year 1940. Full provision has been made in the consolidated statements for the estimated aggregate amount of excess profits taxes for the year 1941 for which, it is expected, the last mentioned group of subsidiaries will be subject.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (d) No provision has been made for claims asserted against the Trustees of Associated Gas and Electric Corporation (approximately \$32,000) and Associated Gas and Electric Corporation (approximately \$238,000) to January 10, 1941, and against certain of its subsidiaries (approximately \$330,000) by the City of New York for taxes, and penalties and interest thereon, said to be due under various local laws for varying periods between January 1, 1933 and June 30, 1939. Such claims are being contested.
 - (e) No provision has been made for the fees and expenses (including counsel fees) of the Successor Trustees under the several bond and debenture indentures created by Associated Gas and Electric Corporation, all of which are undetermined in amount, and are subject to the approval of the United States District Court, Southern District of New York, in the Corporation's proceedings for reorganization under Chapter X of the Bankruptcy Act. For the same reason, no provision has been made for any additional compensation which may be allowed by the Court to the Trustees of Associated Gas and Electric Corporation, or their counsel, or for compensation, expenses, counsel fees, etc. of the various security holders' protective committees or other persons who, under the applicable provisions of Chapter X of the Bankruptcy Act, may be entitled to the allowance of compensation for services or reimbursement for costs and expenses incurred.
 - (f) At December 31, 1941, there was pending in the New Jersey Supreme Court disposition of certain matters involving writs of certiorari concerning petitions of the Town of Dover, New Jersey, claiming that the assessed valuations of a subsidiary company's intangible personal property for the years 1939 and 1940 should be substantially greater than those used in the computation of the tax paid for those years. Based on such proposed increased valuations the amount of disputed tax involved would be approximately \$500,000 for each year. On February 19, 1942, the Court ordered the dismissal of the petitions. Argument has been had before the New Jersey Court of Errors and Appeals upon appeal from the Supreme Court's order, but as of June 19, 1942 no decision had been rendered.
 - (g) There are other claims and proceedings pending in respect of which certain subsidiary companies are contingently liable to the extent of approximately \$385,000.
 - (h) Certain of the subsidiary operating companies had contingent liabilities aggregating approximately \$2,480,000 at December 31, 1941 on appliance instalment contracts sold. Associated Gas and Electric Corporation was contingently liable at that date to the extent of approximately \$58,000 in respect of such contracts, under an agreement which provides that the Corporation repurchase from a certain bank any contracts which the sellers may be obligated to, and fail to, repurchase.
 - (i) On or about March 11, 1942, certain persons, claiming to be holders of common stock, Class A, of General Gas & Electric Corporation, a major subsidiary holding company, brought suit in the Supreme Court of the State of New York against General Gas & Electric Corporation and NY PA NJ Utilities Company, another major subsidiary holding company. The plaintiffs in said action, among other things, demand judgment that NY PA NJ Utilities Company be directed to transfer and return to General Gas & Electric Corporation all the shares of stock of certain operating subsidiaries of NY PA NJ Utilities Company and a portion of the shares of stock of another operating subsidiary of NY PA NJ Utilities Company, and that NY PA NJ Utilities Company account to General Gas & Electric Corporation for all securities, monies and property received by it as a result of transactions alleged in the complaint to have occurred in 1929, as well as all dividends and profits received by NY PA NJ Utilities Company from certain of its operating subsidiaries. Motions have been made by the defendants to dismiss the complaint on various legal grounds. Should these motions be finally denied, NY PA NJ Utilities Company proposes to contest the action in its entirety. Pending the conclusion of this litigation it is impossible to determine its effect, if any, upon the financial statements of Associated Gas and Electric Corporation, Debtor.
- (16) *Proceedings under Section 11(b) of the Public Utility Holding Company Act:*
- (a) The Securities and Exchange Commission has instituted proceedings against the Trustees of the Corporation under Section 11(b)(1) of the Public Utility Holding Company Act of 1935. This section requires a holding company system to limit its operations to a "single integrated public utility system" plus (a) such other businesses as are "reasonably incidental" or "economically necessary" to the integrated system, and (b) such additional integrated systems as can be justified under standards set forth in the Act. It is impossible at this time to determine the ultimate effect of this proceeding on the Corporation and its subsidiaries.
 - (b) The Securities and Exchange Commission has instituted proceedings against General Gas & Electric Corporation, a major subsidiary holding company, under Section 11(b)(2) of the Public Utility Holding Company Act of 1935. This section, among other things, directs the Commission to require "that each registered holding company and each subsidiary company thereof shall take such steps as the Commission shall find necessary to insure that the corporate structure or continued existence of any company in the holding company's system does not unduly or unnecessarily complicate the structure, or unfairly or unequitably distribute voting power among security holders, of such holding company system". On March 5, 1941, General Gas & Electric Corporation filed with the Securities and Exchange Commission a plan of corporate simplification and equitable distribution of voting power, pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935. This Plan proposes, among other things, the issuance of "new common stock" and \$5 cumulative preferred stock, \$100 par value, in exchange for various classes of capital stock of General Gas & Electric Corporation now outstanding. Pending the conclusion of the proceedings before the Commission, the effect thereof upon the accounts of the Corporation cannot be determined.
 - (c) The Securities and Exchange Commission has instituted proceedings against Virginia Public Service Company, one of the important operating subsidiaries of General Gas & Electric Corporation, and certain affiliated companies, under Section 11(b)(2) of the Public Utility Holding Company Act of 1935. That proceeding was later consolidated with a proceeding instituted by Virginia Public Service Company (pursuant to action of the majority of its Board of Directors, which, pursuant to order of the Virginia State Corporation Commission consists of residents of the State of Virginia, not in the full time employment of Virginia Public Service

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company or any of its affiliates) under Section 11(e) of said Act calling for reclassification of the present preferred stocks and the common stock of Virginia Public Service Company into a single class of common, 95% of which is proposed to be allocated to the present holders of the preferred stocks, and 5% to General Gas & Electric Corporation, sole holder of the present common stock. Northeastern Water and Electric Corporation, another major subsidiary holding company of Associated Gas and Electric Corporation, owns beneficially and of record 2,602 shares of 7% preferred stock out of a total of 40,440 shares outstanding and 17,842 shares of 6% preferred stock out of a total of 53,764 shares outstanding of Virginia Public Service Company. The staff of the Commission has, in addition, raised the issue that the sum of \$1,165,166.67, representing the proceeds of \$1,200,000 principal amount of First and Refunding Bonds of Virginia Public Service Company formerly held by General Gas & Electric Corporation, is required to be subordinated to the interests of the holders of the present preferred stocks of Virginia Public Service Company. Both the proposed allocation of new common stock and the subordination issue are being contested by General Gas & Electric Corporation and the Trustees of Associated Gas and Electric Corporation. Northeastern Water and Electric Corporation, through independent counsel, is challenging the jurisdiction of the Commission in this proceeding, is opposing the plan on various grounds, and is taking the further position that the present common stock is not entitled to participate in any reorganization of Virginia Public Service Company. Pending the conclusion of the proceedings before the Commission, and possibly of appeals from the Commission's decisions made therein, the effect thereof upon the accounts of the Corporation cannot be determined.

(17) *Assets held by Associated Trustees:*

Pursuant to the agreement, dated as of August 4, 1941, referred to in Note 15(a), the persons named in such note as the Associated Trustees hold certain assets received from the Hopson Interests (after the payment, referred to in such note, of \$1,187,897.53 on account of Federal taxes), on their own behalf and on behalf of certain corporations and associations, including Associated Gas and Electric Corporation and its affiliated and subsidiary companies, which assets amounted to \$2,411,241.79 at December 31, 1941 based on estimated values at May 31, 1941, as set forth in said agreement. Questions pertaining to the division of such assets after providing for expenses have not yet been determined. Such questions are reserved by order dated August 25, 1941 for future determination by agreement, judicial proceeding, arbitration or other method, subject to the approval of the United States District Court for the Southern District of New York and such regulatory bodies as have jurisdiction.

The major portion (\$1,605,426.34) of the \$2,411,241.79 referred to above represents obligations of Associated Gas and Electric Corporation and/or its subsidiary companies and preference stocks of latter for which provisions aggregating \$6,186,264.76 have been made in the consolidated statement of assets, liabilities and reserves. Of such provisions, \$50,000 is for an unsecured note (paid since December 31, 1941) of Long Island Water Corporation. Particulars as to the remainder are set forth in the statements appearing on Pages 39 to 48.

(18) *Unavailability to Corporation of major portion of consolidated net income:*

Because of the deficiencies in earned surpluses of certain subsidiaries, and the restrictions under specific orders of regulatory bodies having jurisdiction, as set forth in the statements appearing on Pages 52 to 56, the major portion of consolidated net income, before expenses, taxes and interest of the Corporation, for 1941, could not have been made available to the Corporation at December 31, 1941.

FRAUDULENT PURCHASES FROM SYSTEM SECURITY HOLDERS

Numerous complaints have been received from holders of Associated System securities (particularly those issued by AGECo or AGECorp) to the effect that they had been solicited by different individuals to sell their securities without being offered adequate consideration. The security holders report that the persons approaching them have made various representations in order to induce them to make the sale, even claiming to be the representatives of the Trustees themselves. This, of course, is false, and the Trustees cannot urge security holders too strongly to investigate thoroughly any person or firm soliciting them to make any sale of their securities.

The complaints which have been received by the Trustees have been referred to the proper authorities. To date four individuals have been apprehended, three of whom have been convicted in United States courts and sentenced to federal prison.

ASSOCIATED GAS AND ELECTRIC CORPORATION

3rd Annual Report of Trustees

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FOR YEAR ENDED
DECEMBER 31, 1942

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It is the purpose of this Annual Report to inform the Court, creditors, stockholders, and other persons interested in the Estate of Associated Gas and Electric Corporation, of the results of operation of the business and management of the property of the Debtor during the year 1942. To be informative any such report must not limit itself merely to the activities of the Trustees as managers of the property of Associated Gas and Electric Corporation itself, but must describe the net results of operations of the various subsidiary companies in the Associated System.

As a technical matter the Trustees, upon their appointment, succeeded, as Trustees, to the ownership of all the assets of Associated Gas and Electric Corporation, thereby acquiring control of its immediate subsidiaries. However, in the interest of clarity, this Report is, for the most part, written as if Associated Gas and Electric Corporation had retained title to its assets.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In the Matter
of
ASSOCIATED GAS AND ELECTRIC
CORPORATION,

Debtor

In Proceedings for
the Reorganization
of a Corporation
Pursuant to Chapter
X of the Bank-
ruptcy Act.
No. 75635

Third Annual Report of Trustees

DENIS J. DRISCOLL and WILLARD L. THORP, Trustees of Associated Gas and Electric Corporation, Debtor, submit their Third Annual Report on the operation of the business and management of the property of Associated Gas and Electric Corporation.

I. INTRODUCTION

This Report reaches you at this late date because the report on the accounts was not received from the auditors until September 7. The delay in the auditing process was caused by unusual demands upon the limited accounting staffs of both the Associated System and the auditors. In view of the date of the Report, it reviews not only the year 1942 but also includes information for 1943, so far as it is available. In large measure, the progress that has been made during 1942 has already been reported, particularly in the January 8, 1943 Report of the Trustees pursuant to Section 167(5) of the Bankruptcy Act and the several quarterly reports, all of which are available upon request.

The year 1942 and 1943 to date recorded marked progress for the Associated System. With respect to the reorganization itself, a number of major steps have been taken culminating in the filing by the Trustees of Associated Gas and Electric Corporation (Agecorp) and the Trustee of Associated Gas and Electric Company (Ageco) of a joint Plan of Reorganization with the Securities and Exchange Commission on June 14, 1943. With respect to the general operating problems of the System, the obligations resting upon a public utility to supply service have been met and many current difficulties have been surmounted satisfactorily. For a number of months the income of the System has been increasing. Furthermore, a vast number of problems of one sort or another have been solved, looking in the direction of cleaning up the mistakes in judgment or performance of the past, strengthening the financial position of the various companies and simplifying the corporate structure. In its fundamental characteristics the System is in a stronger position today than it has been at any time since the beginning of the Trusteeship.

All these activities are more or less directly connected with the process of reorganization. However, certain important steps have been taken recently which have greatly cleared the way toward the ultimate objective of completing the reorganization proceedings and placing the assets in a corporation which can proceed in the usual manner of a going concern. The more important matters are briefly summarized below:

On April 24, 1942 the hearings before the Securities and Exchange Commission with reference to the integration program proposed by the Trustees were closed. On August 13, 1942 the Securities and Exchange Commission issued an interim order which specified various properties to be disposed of in accordance with the requirements of Section 11 of the Public Utility Holding Company Act of 1935. In general this order followed the position taken by the Trustees in such proceeding. Up

to the present time no order has been issued with respect to the propriety of the public utility holding company systems proposed by the Trustees.

On November 9, 1942 the Ageco and Agecorp Trustees proposed a Plan for Compromise covering issues in the so-called Recap litigation and related controversies; on November 13, 1942 the Court referred the proposal to Judge Frederick E. Crane, the Special Master who has been hearing the Recap litigation; on March 29, 1943 hearings on the fairness of the proposed Plan for Compromise were begun before the Special Master; on July 2 such hearings were concluded; and on September 3 Judge Crane filed his Report to the Court finding the settlement to be fair. Such Report is to come before the Court for consideration on October 8, 1943.

On January 8, 1943 a Report was filed pursuant to Section 167 (5) and (6) of the Bankruptcy Act, copies of which were sent to securityholders, which described the proposed Recap settlement, discussed the problem of reorganization, presented relevant data, and invited suggestions looking toward the development of a Plan of Reorganization. Thereafter, the Trustees received and studied various suggestions.

On May 8, 1943 the Trustees filed with the Securities and Exchange Commission a new Plan of Divestment of Assets, Simplification of Corporate Structure and Equitable Distribution of Voting Power of General Gas & Electric Corporation; hearings before the Securities and Exchange Commission on this Plan began August 9, 1943 and appear to be nearing their conclusion.

On May 25, 1943 the Court authorized the Ageco and Agecorp Trustees to submit a joint proposal to the Bureau of Internal Revenue for the settlement for \$750,000 of all federal tax claims against Ageco and Agecorp for the years 1934-39 inclusive, and to include such proposal in a plan of reorganization.

On June 4, 1943 an agreement was signed with Utilities Employees Securities Company, the largest single creditor of Ageco and Agecorp, and various other parties, settling various complicated litigations and controversies. After hearings, the agreement was approved by the Securities and Exchange Commission on August 12, 1943 and by the Court on August 13, 1943.

On June 4, 1943 the Securities and Exchange Commission modified its order restricting dividends of Metropolitan Edison Company, thereby removing the stoppage of income from that company to NY PA NJ Utilities Company.

On June 14, 1943, the Ageco and Agecorp Trustees filed a joint Plan of Reorganization with the Securities and Exchange Commission. Notice was mailed to persons interested in the Ageco and Agecorp Estates that hearings on the Plan before the Commission would begin August 23, 1943. These hearings, which are now being held, are expected shortly to be concluded.

The basic purpose of the Plan is to substitute for claims against the two Estates, securities in a solvent reorganized company which, acting under the control of its securityholders, will continue to work out the necessary broad program of System reconstruction, but which should in the meantime be able to pay some income currently to securityholders.

In connection with the reorganization, certain changes have developed in the Plan and the supporting program. Definitive amendments have not yet been filed with respect to these modifications. It is the present thought of the Trustees that the reorganized company will borrow \$15,000,000, a sum which, together with funds otherwise provided in the System, should be sufficient to pay such claims as it may be determined shall be paid in cash including, to the extent allowed under the Recap Compromise, claims upon Agecorp's Eight Year 8% Gold Bonds Due 1940, to carry out a specific financial program in connection with the chief asset of the Estate, namely, NY PA NJ Utilities Company (NY PA NJ), and to meet the various expenses incidental to the reorganization. This program would accomplish the following results:

1. The underlying debt and preferred stock of NY PA NJ subsidiaries in the hands of the public would be reduced by \$16,805,600;
2. Cross-holdings of securities of NY PA NJ and its subsidiaries would be eliminated;

3. The outstanding debt and preferred stock of Metropolitan Edison Company and New Jersey Power & Light Company will be so reduced as to provide them with strong capital structures;

4. System control of the common stock of Jersey Central Power & Light Company would be established and concentrated in NY PA NJ;

5. York Railways Company, Edison Light and Power Company, York Steam Heating Company and Glen Rock Electric Light and Power Company, or their properties, would be merged into a new company which would have a strong capital structure and would be a subsidiary of Metropolitan Edison Company; and

6. NY PA NJ itself would pay off its debentures (aggregating \$24,324,100 principal amount at August 31, 1943) held by the public and by associate companies and would retire all its outstanding preferred stock (5,405.6 shares), and its remaining debt (held by Agecorp and its subsidiary, Associated Utilities Corporation) would be eliminated.

The Trustees' Plan would give to most creditors of the Estates varying amounts of common stock in a reorganized company in accordance with the terms of the Recap Compromise. The financial estimates indicate that dividends could be paid on this stock even though substantial parts of the earnings of the System continue to be devoted to strengthening the underlying properties and enhancing their value. The Trustees have proposed this Plan of Reorganization at the earliest moment at which they felt that the System was prepared for such a step. The actual consummation of the Plan is dependent, of course, on the successful accomplishment of a program consisting of many separate items, and upon the review and approval of the provisions of the Plan by the Securities and Exchange Commission, the Court, and the creditors.

Much that would come under the heading of a "reconstruction program" will remain to be accomplished. It is still the thought of the Trustees that the System will eventually be broken up into several systems, each of which will constitute a permissible public utility holding company system, and that at a later date ownership in these various parts of the System will be distributed to the holders of the new common stock. In the meantime, however, it is the belief of the Trustees that it would be better to have a solvent reorganized company acting under the control of its securityholders, rather than to continue the existing Trusteeship.

The specific steps dealing with the various problems that have been taken during the period covered by this Report are exceedingly numerous. The net result, however, has been (a) to eliminate 64 companies out of a total of 116, of which the Securities and Exchange Commission in August 1942 ordered the Trustees to divest themselves, (b) substantially to reduce the debt of the companies remaining in the System, (c) to clear away a substantial amount of cross-holdings of securities within the System, and (d) to move ahead in resolving various claims whose uncertainty made financial operations difficult, such as the claims of Atlantic Utility Service Corporation against Associated Utilities Corporation, the claims of Utilities Employees Securities Company and the extent of General Gas & Electric Corporation's equity in Virginia Public Service Company. The effect on net income of many of these steps is necessarily delayed but is reflected in part by substantial improvement in the early months of 1943 over the record for the corresponding months of 1942.

The basic task of the System with respect to the war has, of course, been to assure power to the consumers in its territory, particularly military and naval establishments and war industries. This has been done despite the material reduction in construction expenditures during 1942 and in the amount budgeted for expenditures in 1943. Generally speaking, the demands of war industries have been met adequately, chiefly by displacement of capacity normally used in civilian goods industries, savings in capacity effected by dimout regulations and "war time", the utilization of present production equipment more hours per day, and additional power plant capacity. Furthermore, when there appeared to be a general threat to the power supply in the Southeast, the capacity of various Associated companies, particularly in Florida and South Carolina, was tied in with a power pool and assisted in averting the threatened power shortage.

The war created many new management problems. These problems pertain especially to meeting wartime demands for service in view of restrictions upon the procurement of material and equipment and the increasing manpower stringency. In addition, although primarily a function of the operating company managements, provisions for the protection of property in the event of sabotage or other war hazards, required attention on the part of the Trustees and the managements of the subholding companies.

During the latter part of 1942 and thus far in 1943 both the operating companies and the subholding companies have lost an increasing number of persons to the armed services or to other war plants. This has required the elimination or combination of many functions, especially by the operating companies.

II. THE INCOME RECORD

After a prolonged period of declining figures, when compared with those of the previous year, the consolidated net income of the Associated System as presently constituted turned upward for the twelve months ended December 31, 1942 as compared with the year 1941. This improvement has continued into 1943, and the twelve months ended June 30, 1943 show a substantial gain over the comparable previous twelve months' period.

For the purpose of comparing the income records of 1942 and 1941, a consolidated statement of income and expenses of the System is presented in detail on page 19. In general, this statement treats the System as though its many companies were one great corporation dealing with the public. Thus, transactions strictly within the System, such as intercorporate sales of power and interest and dividend payments on intercorporate held debt and stock, are cancelled by offset. Because this statement excludes the results of operations of properties sold prior to December 31, 1942, and certain other properties not properly subject to consolidation, the balance of income for 1941 stated in this Report is less by approximately \$1,100,000 than the balance of income for that year stated in the Report for 1941. The most important factor in this difference is the exclusion of the operations of Virginia Public Service Company and Northeastern Water and Electric Corporation from the consolidated figures.

The significant items in the comparable statements for the two periods are as follows:

	Audited Statements* for twelve months ended December 31		
	1942	1941	Effect of Change on Income
	(Millions of Dollars)		
Operating revenues	131.8	123.8	Gain 8.0
Other income .....	.9	2.2	Loss 1.3
Total revenues	132.8	126.0	Gain 6.8
Operating expenses	57.0	52.3	Loss 4.7
Maintenance	8.7	8.4	Loss .3
Depreciation	13.1	11.9	Loss 1.2
Taxes	21.3	20.7	Loss .6
Cost of capital	22.9	23.4	Gain .5
Total deductions	122.9	116.8	Loss 6.1
Agecorp consolidated net income before ex- penses of Trustees	9.9	9.2	Gain .7
Trustees' expenses and taxes (other than federal in- come taxes) .....	.8	.8	—
Trustees' federal income taxes and interest .....	.4	—	Loss .4
Agecorp consolidated net income before in- terest on its obligations (other than Trustees' Certificate of Indebtedness)	8.7	8.4	Gain .3

* The figures have been rounded to the nearest tenth and therefore do not check exactly when added or subtracted.

More recent data, although unaudited, are available to show the current trend of financial operations. Quarterly reports containing consolidated statements of income are regularly submitted to the Court and are available on request. These statements are prepared on the basis of the same principles of accounting followed in the preparation of the annual statement for the year 1942, although the figures are not strictly comparable due to the exclusion from the latest statements of the results of the operations of the properties of Louisiana Public Utilities Company and Eastern Shore Public Service Company and subsidiaries, which companies were sold during 1943. Therefore, it should be noted that in the sections which follow, all data pertaining to operations for the periods ended June 30 exclude the data relating to these companies, whereas the data pertaining to 1942 and 1941 include the data relating to these companies.

	Unaudited Statements* for twelve months ended June 30		
	1943	1942	Effect of Change on Income
	(Millions of Dollars)		
Operating revenues	131.7	123.7	Gain 8.0
Other income .....	.9	1.8	Loss .9
Total revenues	132.6	125.4	Gain 7.2
Operating expenses	56.9	52.9	Loss 3.9
Maintenance	8.4	8.7	Gain .3
Depreciation	12.9	11.8	Loss 1.1
Taxes	21.6	21.0	Loss .6
Cost of capital	20.9	22.7	Gain 1.8
Total deductions	120.6	117.1	Loss 3.5
Agecorp consolidated net income before expenses of Trustees.....	12.0	8.4	Gain 3.6
Trustees' expenses and taxes (other than federal income) taxes .....	.8	.9	Gain .1
Trustees' federal income taxes and interest .....	.3	.2	Loss .1
Agecorp consolidated net income before interest on its obligations (other than Trustees' Certificate of Indebtedness).....	11.0	7.4	Gain 3.6

*The figures have been rounded to the nearest tenth and therefore do not check exactly when added or subtracted.

The improvement in net income shown in these statements is even more significant when it is realized that there has been a loss of income from operations in the Philippine Islands (such income as was received being reflected in other income) and that there has been an increase in current depreciation charges because of the carrying out of the policy of bringing current depreciation charges up to the level used in tax returns. On the other hand, it is obvious that the various improvements in capital structures and debt schedules are beginning to make themselves felt in the marked reduction in the so-called cost of capital.

An accurate presentation of the financial position of the Associated System is still a goal not fully reached. The statement of assets continues to reflect for the most part the carrying values which were shown on the books of Agecorp and its subsidiaries at the date of inception of the Trusteeship, and hence the auditors have again found it necessary to express qualifications in their report. The income statement, reflecting the earning power of the assets, is more important than the statement of carrying values of the assets. In regard to the income statement, qualifications are present, particularly with respect to provision for depreciation and taxes. In considering the income statement for the several periods presented herein, it should be remembered that during emergency and wartime periods, revenues and costs may change sharply and that the effect of such changes, together with the effect of the curtailment of manpower and material, upon the earning power of the assets may not be fully reflected in the accounting statements.

Revenues

Although its construction program has been limited by stringent war-time restrictions on the procurement of essential equipment, the System has met the unprecedented demands for its services throughout the past year. In contrast to many other commodities, the supply of electricity in general, and by the System operating companies in particular, has continued to be adequate for both the civilian and war-industrial needs without the initiation of direct rationing or curtailment orders to restrict its use, excepting only such lighting regulations as were necessary to effect the dimout required in coastal areas.

The comparative record of service rendered in 1942 and 1941 and the record of service rendered in the twelve months ended June 30, 1943 and June 30, 1942 by the System operating companies included in the consolidated income statements appearing in this report as of December 31, 1942 and June 30, 1943, respectively, are as follows:

	1942	1941	1942-1941 % Increase	12 months ended June 30, 1943	12 months ended June 30, 1942	1943-1942 % Increase
<i>Electricity</i>						
Kilowatt hours of elec. sold	5,372,007,573	4,937,906,582	8.8	5,558,315,903	5,112,123,587	8.7
Number of customers.....	1,185,521	1,174,182	1.0	1,137,984	1,135,269	0.2
Dollars of gross operating revenue	109,392,692	104,264,352	4.9	108,544,480	103,853,915	4.5
<i>Gas</i>						
Cubic feet of gas sold.....	15,332,639,700	14,055,708,500	9.1	15,373,733,700	14,274,551,200	7.7
Number of customers.....	302,568	295,899	2.3	295,061	290,599	1.5
Dollars of gross operating revenue	14,031,549	13,061,187	7.4	14,142,263	13,265,233	6.6
<i>Coach and Railway Department</i>						
Number of passengers carried	73,217,470	48,573,921	50.7	87,630,140	58,086,784	50.9
Dollars of gross operating revenue	4,746,899	3,093,607	53.4	5,754,811	3,706,888	55.2

Use of all types of utility service increased during 1942 over 1941. Revenues from sales of electricity constituted approximately 84 per cent of the total revenues of System companies in 1942 and 82.5 per cent of the total revenues of System companies in the twelve months ended June 30, 1943. An analysis of electric sales data by classes of customers indicates that residential and commercial sales during 1942, as during 1941, reflected the adverse effects of dimout regulations and "war-time", the depletion of stocks of electric appliances and the restrictions on new rural extensions. Retardation in the rate of growth is reflected as follows: residential sales for 1942 were about 22,000,000 kilowatt hours or 1.73% less, and commercial sales for 1942 were 112,000,000 kilowatt hours or 12.9% less, than if the past trend had continued. The continuance of the adverse effect of war conditions on small business and commercial customers is indicated by a decline in both the number of commercial customers served and the total commercial electric revenues received. Although the number of industrial electric customers served by the System declined during 1942 and during the first six months in 1943, both industrial sales volume and revenues have continued the upward trend started in 1941.

Increased costs of operation due to increased payroll and cost of materials, and the necessity for providing adequate measures to protect the major plants, together with the elimination of appliance manufacture, rigid dimout regulations and other restrictions have tended to retard residential and commercial load-building development and thereby to postpone rate reductions. As a result, rate reductions announced in 1942 amounted to approximately \$215,000 on an annual basis. In addition, residential and commercial customers in one area saved approximately \$275,000 in 1942 through the granting of billing credits and the institution of a prompt payment discount plan.

Numerous revisions have been made throughout the System to clarify and improve rate structures and service rules. Wherever possible, reading of meters has been changed from monthly to bi-monthly or quarterly periods, with appreciable savings in manpower, gasoline and rubber.

Construction and Capacity

The effect of the prior claims of the war program on all essential materials is reflected in the curtailed expenditures of System companies for construction in 1942, and will undoubtedly continue to prevent completion of the major part of projected construction for the duration of the war. Gross construction expenditures for 1942 amounted to approximately \$19,500,000 compared to the original program of \$39,000,000.

Gross construction expenditures for the past six years for plant, transmission lines, et cetera, part of which was financed by cash made available by depreciation reservations, were:

1937	\$23,273,789
1938	11,758,893
1939	14,913,621
1940	20,111,562
1941	30,500,616
1942	19,449,169
1943 (budgeted)	19,000,000

Actual gross construction expenditures to July 31, 1943 will be about 29% less than the original budget estimate. If this rate of expenditure continues during the balance of the year, the actual expenditures will be about \$13,500,000.

A record of electric generating capacity follows for the System companies included in this report:

December 31, 1937.....	1,166,226 Kilowatts
December 31, 1938.....	1,209,848 Kilowatts
December 31, 1939.....	1,205,009 Kilowatts
December 31, 1940.....	1,202,615 Kilowatts
December 31, 1941.....	1,277,682 Kilowatts
December 31, 1942.....	1,302,802 Kilowatts

As of December 31, 1942, the electric generating capacities of Virginia Public Service Company and Jersey Central Power & Light Company (neither of which is included in the above tabulation) were 112,800 kw and 137,600 kw respectively. Jersey Central Power & Light Company increased its capacity 15,000 kw during 1942 by installing additional boiler capacity at its Raritan River station.

A 20,000 kw turbo-generator unit of New York State Electric & Gas Corporation was placed in service in June, 1942, and a 25,000 kw turbo-generator unit of the Rochester Gas and Electric Corporation was placed in service in May, 1943. 98,000 kw of additional generating capacity are scheduled for completion by January 1944 as follows:

Sept. 1943	8,000 kw through boiler addition	Pennsylvania Electric Company
Oct. 1943	40,000 kw Turbo-Generator Unit	New York State Electric & Gas Corp.
Dec. 1943	25,000 kw Turbo-Generator Unit	Pennsylvania Electric Company
Jan. 1944	25,000 kw Turbo-Generator Unit	Pennsylvania Edison Company

Virginia Public Service Company increased the capacity of its Alexandria station by 15,000 kw in May, 1943 and the addition of a 6,000 kw topping unit and new boiler now under construction at Hampton will add 13,000 kw to the capacity of that station when completed.

The 40,000 kw unit which had been scheduled for 1943 installation on the Metropolitan Edison Company's system has been ordered diverted to meet urgent requirements outside of the System's territory and due to priority requirements and the uncertainty of deliveries of material and equipment, the completion schedule of the above projects may have to be altered. Studies are in progress for an additional 75,000 kw in three stations.

The transportation companies included in the System at the time of this report added seventy-five coaches to their systems during 1942, increasing the total from 266 to 341.

Expenses

In line with the increase in requirements for services from System companies, particularly low-priced industrial electric power, and the increases in the costs of material and labor, operating and maintenance expenses for the twelve months ended June 30, 1943 were 6% higher than for the corresponding period ended June 30, 1942, and these expenses were 8.16% higher in 1942 than in 1941. For the twelve months ended June 30, 1943, operating and maintenance expenses amounted to 49.57% of total operating revenues, as compared with 49.79% in 1942, and 49.02% in 1941. These ratios, which seem high, when compared with the general industry average, result primarily from the comparatively large purchases of power by one of the principal operating companies and the high proportion of rural territory within the System.

The necessity for providing adequate protection of property against sabotage and other war hazards continues to increase operating expenses substantially. The annual expenditure for guarding operating properties now approximates \$700,000.

Maintenance and Depreciation

System companies spent \$8,427,591 during the twelve months ended June 30, 1943 for maintenance of equipment compared to \$8,702,327 expended in the corresponding period ended June 30, 1942. Maintenance expenditures by System companies for the years 1938-1942 inclusive, and the budget estimate for 1943, follow:

1938	\$6,401,523
1939	6,971,275
1940	7,822,561
1941	8,392,307
1942	8,695,276
1943 (budget estimate).....	9,225,163

In spite of the increasing restrictions on deliveries of materials for maintenance and decreased numbers of employees due to war requirements, all companies anticipate substantial continuance of maintenance standards sufficient at least to assure adequate and efficient service.

The increase of 10.03% over 1941 in the provision for retirement (depreciation) of property during 1942 reflects a continuation of the policy of the System's subsidiaries initiated more than two years ago to set aside increasingly larger amounts for currently accruing depreciation. As a result of the continuation of this policy into 1943, the amount provided for retirement (depreciation) during the twelve-month period ended June 30, 1943 is only \$200,000 less than the total amount taken by the subsidiary companies for depreciation in their federal income tax returns for the year 1942.

The amount of depreciation deductible in the calculation of taxable income is based principally upon estimates of service lives of property made in accordance with practices of the Bureau of Internal Revenue. It is believed that the effective accounting requirements of regulatory authorities do not contemplate depreciation rates that are substantially in excess of the rates used in calculation of federal income tax and may contemplate depreciation rates that are less than the rates used in calculations of such tax. Therefore, although the dollar base on which the depreciation provision shall be computed under effective accounting requirements will probably differ from the dollar base for tax purposes, it is believed that any further increases which might be required in the depreciation provision beyond that reflected in the statement for the twelve months ended June 30, 1943 would largely relate to increases in plant and property rather than to further changes in depreciation policy. Depreciation studies, deemed to be required as a basis for setting up provision for depreciation in accordance with the above-mentioned accounting requirements, cannot be concluded until the studies of original cost of plant and property now in progress are completed. Upon completion of these depreciation studies it may be possible to reduce the present rate of provision for retirement (depreciation).

Taxes

The financial statements indicate tax provisions in 1941 and 1942 as follows:

	1942	1941
	(Millions of Dollars)	
Federal income and declared value excess profits.....	8.1	7.4
Excess profits (Revenue Act of 1940).....	.5	.1
Federal energy, State and local.....	12.8	13.3
	<u>21.4</u>	<u>20.8</u>

The Trustees and most of their subsidiaries, being all those considered eligible, joined with the Ageco Trustee in filing consolidated federal excess profits tax returns for 1940 to 1942, inclusive, and a consolidated federal income tax return for 1942. The consolidated excess profits tax returns have shown no liability in any year, and the amount listed above relates to subsidiaries not eligible for consolidation. These same companies are responsible for \$1,150,000 of the total federal income tax recorded in 1942. The reserve for federal income tax for companies in the consolidated return represents an estimate of the maximum amount of liability without recognition of substantial deductions claimed in the consolidated return for (1) interest and related amortization charges (approximately \$14,400,000) on debt securities of Ageco and Agecorp, and (2) "War Loss" (approximately \$8,400,000) upon Associated Electric Company's investments in the Philippine Islands. If both deductions are allowed, the 1942 federal income tax will be reduced by about \$7,000,000. If the interest and related deductions were to be disallowed, the "War Loss" deduction alone would reduce the total tax by about \$3,520,000. However, the "War Loss" deduction results in a future liability contingent upon the degree of loss actually realized when the properties are recovered.

In the Annual Report for 1941, a tabulation of the settlements of federal tax claims, between the time of the appointment of the Trustees and June 30, 1942, was set forth showing that 296 claims involving the years 1934-1940 inclusive had been disposed of. During the period beginning June 30, 1942 and ended August 31, 1943, 66 claims against subsidiary companies for the years 1934-1940 inclusive were settled. With the exception of asserted deficiencies against four subsidiaries for 1940, all claims against subsidiary companies for the years 1934-1940 inclusive have now been settled.

All the 24 cases pending before the Tax Court of the United States (formerly the Board of Tax Appeals) at the time of the Trustees' appointment have been finally determined.

The Bureau of Internal Revenue has determined, assessed or proposed for assessment, income, declared value excess-profits and other taxes for the years 1934-1939 inclusive against Ageco in the sum of \$7,108,128.96 and against Agecorp in the sum of \$1,357,657.42. As a result of negotiations the Ageco and Agecorp Trustees have proposed that the liability of the Estates for federal taxes for the years 1934-1939 inclusive (other than liability under Titles VIII and IX of the Social Security Act) be settled for the total sum of \$750,000, payable as provided in the Plan of Reorganization. Such proposal is incorporated in the Plan.

Cost of Capital

A number of refundings which were reported in the last Annual Report were consummated before the unfavorable security markets of 1942 developed. In recent months it has been possible to resume the program of reducing the cost of capital. Two major transactions are:

On July 28, 1943, South Carolina Electric & Gas Company issued \$20,000,000 First Mortgage Bonds due July 1, 1973, at a coupon rate of 3½% and a cost to the Company of 3.4587%, replacing bonds with coupon rates of 5% and 5½%.

On August 30, 1943, Pennsylvania Electric Company issued \$4,000,000 First Mortgage Bonds due September 1, 1973 at a coupon rate of 3½% and a cost to the Company of 2.80%. An issue of Keystone

Public Service Company 5% bonds of the same amount was retired. Pennsylvania Electric Company also issued 35,000 shares of Cumulative Preferred Stock, Series B, \$100 par value, with a dividend rate of \$4.40 per share and a cost to the Company of \$4.3137, relating to the acquisition of Erie County Lighting Company.

There has been a marked reduction in the short-term indebtedness of the System since January 1, 1942. Bank loans at that time had been reduced to \$4,650,000. On September 1, 1943 there were no bank loans outstanding throughout the System.

A number of companies have purchased or called securities previously in the hands of the public. Major acquisitions from the public during the period January 1, 1942 to August 31, 1943, have been as follows, in approximate amounts:

	Principal amount of debt	
NY PA NJ Utilities Company.....	\$1,050,000	
Metropolitan Edison Company.....	2,450,000	
Staten Island Edison Corporation (Richmond Light and Railroad Company)	1,000,000	
New Jersey Power & Light Company (New Jersey Northern Gas Company)	100,000	
Associated Electric Company.....	2,650,000	
Tide Water Power Company.....	200,000	
Florida Public Service Company.....	1,150,000	
		Number of shares of preferred stock
Rochester Gas and Electric Corporation.....	28,625 (par value \$100)	

A number of minor acquisitions from public holders are not included in the above tabulation, nor does it include cross-holdings of securities that have been eliminated within the System, although such elimination has reduced the obligations of the individual companies.

III. EARNINGS RESTRICTIONS

The undistributed consolidated net earnings by major subholding company groups for the calendar year 1942 were as follows:

Associated Electric Company group	\$ 40,132
General Gas & Electric Corporation group.....	853,381
NY PA NJ Utilities Company group.....	7,544,276
United Coach Company group.....	521,211
Total	<u>\$8,959,000</u>

The earnings discussed above have not been paid to the Trustees but have been employed by the operating companies or the subholding companies. These sums make their tangible appearance in new power plants, new lines and adequate supplies of cash. In some cases, they appear in the form of a reduction of indebtedness or of outstanding preferred stock. They may remain in cash or United States Government bonds as a reserve fund or serve to strengthen its current position.

In some instances, it was not possible to move these earnings along to the subholding companies and thence to the Trustees, because of various restrictions upon dividend payments. Some detail as to the nature and the extent of these dividend restrictions for the calendar year 1942 is given on pp. 20 to 25. Brief comments on special problems involved in such restrictions and upon the conditions in the first eight months of 1943 are given in the paragraphs below.

Associated Electric Company group: In 1941 the major retention of earnings at the operating company level was by Pennsylvania Electric Company and its subsidiaries. However, early in 1942 the financial reorganization of Pennsylvania Electric Company and subsidiaries made the earnings of Pennsylvania Electric Company for 1942 and subsequent years available to Associated Electric Company. With the absence of receipts from the Philippine subsidiaries in 1942, the earnings derived

particularly from Pennsylvania Electric Company have been used to meet interest requirements on Associated Electric Company debt, and any available balance, together with proceeds from property sales have been used to retire debt and thus reduce interest requirements, or to acquire properties.

General Gas & Electric Corporation group: Florida Public Service Company retains its earnings because it still has an earned surplus deficit. Under the terms of an order of the Securities and Exchange Commission, Florida Power Corporation is required annually to retain \$300,000 of its earnings applicable to common stock. In connection with an order of the Securities and Exchange Commission dated September 7, 1943, authorizing the merger of Florida Public Service Company, Sanford Gas Company and Sante Fe Land Company into Florida Power Corporation, the Commission reserved for further consideration the requested removal of this restriction until the contemplated refunding of certain security issues of Florida Power Corporation was submitted. In connection with consummating this financing, efforts will be made to secure removal of this restriction. A sale of the System's interest in the common stock of Eastern Shore Public Service Company (Del.), the earnings of which were restricted, was consummated on August 27, 1943.

NY PA NJ Utilities Company group: Several restrictions blocking the flow of earnings from the subsidiaries to NY PA NJ, as summarized in the table on p. 23, have been removed during the first eight months of 1943. On June 4, 1943, the Securities and Exchange Commission issued an order which had the effect of freeing from dividend restrictions Metropolitan Edison Company earnings in excess of an earned surplus balance of \$6,229,917.73 which balance may be reduced by charges other than for dividends. Since the present earned surplus of Metropolitan Edison Company is in excess of this figure, its current earnings are now available for dividends. Similarly, the present earned surplus of Northern Pennsylvania Power Company is far in excess of an earned surplus balance of \$387,000, the amount which the Securities and Exchange Commission restricted in its order of December 30, 1941, and hence earned surplus in excess of such amount and current earnings of Northern Pennsylvania Power Company are now available for dividends. On August 20, 1943, there was consummated the sale of the interests of NY PA NJ in Keystone Public Service Company and its subsidiary to Associated Electric Company and thence to Pennsylvania Electric Company. In connection with this transaction the restriction on the earnings of Keystone Public Service Company by reason of a prior Securities and Exchange Commission order was removed.

Even if the various operating companies were free to pass their earnings up to the subholding companies, there are serious difficulties in the way of their flow on up to Agecorp. In the case of Associated Electric Company, it is doubtful whether any dividends can be paid, at least until the extent of the loss of the Philippine properties has been determined. In the case of NY PA NJ, an accounting reorganization is necessary in order to eliminate a deficit in its earned surplus account and to straighten out its capital structure. Such action is planned prior to, and certainly not later than, the consummation of the Reorganization Plan.

In the case of General Gas & Electric Corporation (Gengas) another type of situation is involved which is described in some detail in the last Annual Report. Since Gengas filed its plan, additional studies of the facts and the law indicated that a substantial modification was necessary. On May 5, 1943, the Trustees filed with the Securities and Exchange Commission a new plan to supersede the plan filed by Gengas. The new plan provides for a distribution of certain assets of Gengas among its public securityholders, both preferred and common, after which the Estate of Agecorp is to turn in all its securities of, and claims against, Gengas for a single new issue of common stock, all of which will be owned by the Estate. The plan states that it is proposed as a compromise of the conflicting interests of the public holders of Gengas securities on the one hand and the creditors of Ageco and Agecorp on the other and provides that upon its consummation Gengas shall deliver to Ageco and Agecorp and their subsidiaries a general release of any and all claims that may exist. The new plan deals, among other things, with certain problems that were raised in the action of J. C. F. Holding Corporation, et al, against Gengas, et al, which action was dismissed by the Supreme Court of the State of New York on June 19, 1943, from which dismissal J. C. F. Holding Corporation, et al, are now appealing to the Appellate Division of the Supreme Court.

In summary, with respect to the income record, it can be said that earnings have improved and the obstacles that have restricted their flow to Agecorp have been and are being removed as rapidly as possible. Furthermore, the retention of income within the System during the last three years permitted needed construction in the pre-war years and has strengthened the general structure since then. In fact, there is even some reserve strength being created which may be needed in view of the uncertainties of the post-war period. At any rate, the Associated System should be able at that time to join the national effort to provide full employment and purchasing power.

IV. COMPLIANCE WITH SECTION 11 OF THE PUBLIC UTILITY HOLDING COMPANY ACT

The Trustees proposed to meet the so-called integration requirements of the Public Utility Holding Company Act of 1935 by setting up four simplified integrated utility systems in place of the existing single system with its scattered properties and complicated corporate structures. After extended hearings and filing of briefs during the first half of 1942, oral argument was held before the Securities and Exchange Commission on July 10, 1942.

On July 2, 1943, the Trustees filed with the Securities and Exchange Commission an amended answer and a petition for opportunity to present evidence on the following changes from the original integration program:

1. The retention of the properties of Rochester Gas and Electric Corporation and Canadea Power Corporation with the other properties proposed to be included in the New York-Northern Pennsylvania System.
2. The transfer of Bradford Electric Company from the proposed New York-Northern Pennsylvania System to the proposed Western Pennsylvania System and the inclusion of the properties of Bradford Electric Company with those of the other companies proposed to be included in the Western Pennsylvania System.
3. The retention of the properties of Jersey Central Power & Light Company with those of other companies proposed to be included in the Eastern Pennsylvania-New Jersey System.
4. The retention by Florida Power Corporation of its electric operations in the Appalachicola-Port St. Joe area.

Substantial progress has been made in establishing the Western Pennsylvania System through the refinancing and merger program of Pennsylvania Electric Company, subsidiary of Associated Electric Company. Erie Lighting Company, The Clarion River Power Company, Youghiogheny Hydro-Electric Corporation, and Logan Light, Heat and Power Company have been acquired, the properties merged into Pennsylvania Electric Company and such corporations dissolved. These transactions were consummated in March, 1942.

Pennsylvania Electric Company has acquired Keystone Public Service Company and Bradford Electric Company, both subsidiaries of NY PA NJ, and Erie County Electric Company, a subsidiary of The United Gas Improvement Company.

With respect to the proposed Florida-Georgia System, a program has been approved by the Securities and Exchange Commission for the merger of Florida Public Service Company into Florida Power Corporation. The Georgia property is to be dealt with as a second step in this program.

Sales of Property

As noted in the 1941 Report, the basic program of System reconstruction requires the rearrangement of certain properties in the System and the disposition of others. On August 13, 1942 the Securities and Exchange Commission issued an order directing the Trustees to divest themselves of all interests

and companies listed in its order. Such sales have an added purpose in that they provide cash for the reduction of debt and the strengthening of the remaining subsidiaries.

In addition to the properties the sale of which was listed in the 1941 Report, the following properties have been sold, the base prices (before taxes) being approximate:

<i>Associated Electric Company Group:</i>	Base Price
Lake Shore Gas Company, The (Ohio)	
Van Wert plant and property only	\$ 43,000
Tri-City Utilities Company (Kentucky)	
Murray, Kentucky, water system	175,000
Ohio River division	195,000
Cash over and above properties exchanged with Kentucky Utilities Company	175,870
Jellico, Tennessee, and Jellico, Kentucky, electric generation and distribution systems	60,000
Frankfort, Kentucky, electric and water systems.....	1,200,000
Louisiana Public Utilities Co., Inc.	
Farmerville, La., property only	90,000
Capital stock of company	3,000,000
Panhandle Public Service Company	175,000
<i>General Gas & Electric Corporation Group:</i>	
Dover Gas Light Company, The (Delaware).....	80,000
Eastern Shore Public Service Company (Delaware) and operating subsidiaries in Maryland and Virginia.....	850,000*
Florida Public Service Company	
Various central Florida water properties	795,000
Newport News Distilled Ice Company (Virginia)	250,000
Virginia Northern Ice Corporation (Virginia)	
Ice plants and properties	35,000
<i>NY PA NJ Utilities Company Group:</i>	
New York State Electric & Gas Corporation	
Acreage, to Defense Plant Corporation, for Remington Rand propeller plant	40,295
<i>Northeastern Water & Electric Corporation Group:</i>	
Northeastern Water & Electric Corporation and subsidiaries operating water plants in various northeastern states (including purchase and resale of Ohio Electric subsidiaries)	3,309,666
<i>Miscellaneous Group:</i>	
Associated Real Properties, Inc.	
Miscellaneous real estate	\$ 61,552
Railway and Bus Associates	
Rochester Transit Corporation and subsidiaries.....	803,580
Syracuse Transit Corporation (New York)	271,025

In addition to the sales completed listed above, the following sales are pending:

<i>Associated Electric Company Group:</i>	
Arizona General Utilities Company.....	455,000
Lake Shore Gas Company, The (Ohio)	720,000
Missouri Southern Public Service Company.....	170,000
Ohio Midland Light & Power Company.....	1,885,000
Owensboro Gas Company.....	
Tri-City Utilities Company	
Frankfort electric and water distributors systems.....	

* One-third of this amount was paid to Virginia Public Service Company.

General Gas & Electric Corporation Group:

Florida Public Service Company	
Balance of contract for sale of water properties.....	\$ 10,000
Harpers Ferry Paper Company (Virginia)	
Hydro-electric plant	150,000

NY PA NJ Utilities Company Group:

Granville Electric Company (Vermont)	24,500
Litchfield Electric Light & Power Company	485,000

The sale contract for the disposition of South Carolina Electric & Gas Company and Lexington Water Power Company to the South Carolina Public Service Authority, reported in the 1941 Report, has expired by its own terms and has not been renewed; the efforts of the South Carolina Public Service Authority to secure power, under its organic act, to consummate these purchases, having thus far been fruitless. The sale of the System interests in Eastern Shore Public Service Company (Del.) and subsidiaries was effected in connection with the acquisition by Pennsylvania Electric Company of Erie County Electric Company, a subsidiary in The United Gas Improvement Company system. Erie County Electric Company served the same area served by Pennsylvania Electric Company, in and around Erie, Pennsylvania.

Corporate Simplification

Further progress has been made in the elimination of corporate entities, some as the result since the 1941 Report of the above sales and others by merger, dissolution or liquidation. The following lists the eliminations:

General Gas & Electric Corporation Group:

Dover Gas Light Company, The
Delmarva Power Company
Eastern Shore Public Service Company
and subsidiaries
Newport News Distilled Ice Company
Southern Electric Utilities Company
Virginia Northern Ice Corporation

Associated Electric Company Group:

Arkansas General Utilities Company
Associated Maryland Electric Power
Corporation
Bradford Electric Company
Clarion Water Company
Kentucky-Tennessee Light and Power
Company
Keystone Public Service Company
Lexington Water Power Company

Louisiana Public Utilities Co., Inc.
Ohio River Power Company
Southern Electric Utilities Company
Texas General Utilities Company
Tri-City Utilities Company
Youghiogheny Hydro-Electric Corporation

Shinn & Co. Group:

Rochester Transit Corporation and
subsidiaries
Syracuse Transit Corporation
Syracuse and Valley Land Company

Miscellaneous Group:

Associated Corporation, The
E. M. Gilbert Engineering Corporation
Lockport Light, Heat and Power Company
Northeastern Water and Electric Corpo-
ration and subsidiaries

No corporate chart is included in this report since charts were included in the Reorganization Plan, dated June 14, 1943. A recent chart is available upon request.

V. SETTLEMENTS

Claims of the Ageco and Agecorp Estates and of various System companies against the following have been settled and the settlements approved by the Court and the following amounts in cash, securities and withdrawal of claims have been received: Edward J. Cheney, \$51,500; Haskins & Sells, \$228,691 and withdrawal of claims for services aggregating \$22,521.55; Travis, Brownback & Paxson, \$36,322.62, withdrawal of claims for services aggregating \$159,055.62 and surrender of Agecorp Debentures of \$26,300, principal amount; Moses & Singer, \$15,000 and withdrawal of claims for services aggregating \$17,757.38; Wright, Gordon, Zachry, Parlin & Cahill, \$18,750; Daniel Starch, \$5,000, assignment of accounts receivable aggregating \$9,423.34 and surrender of various System securities aggregating approximately \$31,000 in principal amount; Sanford J. Magee, \$10,000.

Settlements of claims against John I. Mange and related interests, Samuel Ungerleider and Selma Ungerleider and the Estate of Frederick S. Burroughs have been approved by the Court but not yet consummated. In a number of cases where investigation revealed that possible claims were of doubtful validity or that the defendants' resources were insubstantial, the Trustees have been authorized by the Court not to bring suits.

There are pending actions to set aside the settlements of a number of stockholders' derivative actions.

Litigation has been instituted by the Trustees and certain subsidiaries against New England Gas and Electric Association seeking to set aside certain transfers of securities and New England Gas and Electric Association has also instituted suit against NY PA NJ Utilities Company and Associated Utilities Corporation, seeking to rescind the purchase by it of \$1,214,500 principal amount of National Public Service Corporation Debentures. Many hearings have also been held before the Securities and Exchange Commission in a proceeding instituted by it involving the entire relationship of New England Gas and Electric Association with the Associated System.

Other litigations with which the legal staff of the Trustees has been engaged are: Kentucky-Tennessee Light & Power Company against Henry D. Fitch and Roland Fitch, and the Agecorp Trustees against The Public National Bank and Trust Company of New York.

Several other matters which threatened litigation have been settled or disposed of, the most important of these being claims of Utilities Employees Securities Company and claims and counterclaims of Atlantic Utility Service Corporation against Associated Utilities Corporation.

VI. AGECORP TRUSTEES' INCOME AND EXPENSES

During the year 1942 the Trustees received \$3,917,552.88, of which \$2,577,629.14 represented realization on investments, \$1,133,025.99 represented income, \$197,776.70 represented funds (held in trust pursuant to order of the Court) the status of which is still in litigation, and the balance of \$9,121.05 constituted other receipts.

Total cash disbursements for the same period amounted to \$2,270,669.96. These disbursements may be summarized as follows:

Expenses of Trusteeship.....	\$ 777,186.69
Corporate expenses	146,103.75
Capital and other disbursements.....	1,347,379.52
Total.....	<u>\$2,270,669.96</u>

The cash balance at the end of the year was approximately \$2,000,000. Of this amount \$1,125,000, received in December in connection with the sale of the common stock of Northeastern Water and Electric Corporation and related sales of certain electric properties in Ohio, was applied in January, 1943 to the reduction of the principal amount of the Trustees' Certificate of Indebtedness, in accordance with the terms of the Certificate.

Details concerning the disbursements during 1942 are as follows:

Expenses of Trusteeship:

Allowances of Trustees and Counsel	\$129,000.00
Salaries and wages (including legal and accounting staffs)	430,680.76
Expenses—Trustees, Counsel and staff	24,216.36
Payments to service companies	51,982.47
Auditing, tax and engineering services	15,416.69
Rent	42,455.72
Telephone and telegraph	13,277.45
Office expense, stationery, supplies, postage, and other expenses	35,239.84
Printing	20,308.61
Taxes (other than income taxes)	14,608.79
Total	<u>\$777,186.69</u>

Corporate expenses:

Interest on Trustees' Certificate of Indebtedness	\$112,578.62
Transfer, registrar and fiscal agency fees	23,365.05
Auditing (including certification of System consolidated statements for 1941)	10,160.08
Total	<u>\$146,103.75</u>

Capital and other disbursements:

Payment on account principal of Trustees' Certificate of Indebtedness ..	\$1,209,665.00
Payment to Associated Trustees on account collateral note	17,177.57
Payment made in acquiring debt securities and Hopson residual assets ..	115,152.77
Expenses of property sales	2,660.54
Furniture, fixtures and other disbursements	2,723.64
Total	<u>\$1,347,379.52</u>

Expenses of the Trusteeship for the year 1942 amounting to \$777,186.69 represent a decrease of approximately \$6,500.00 when compared with the year 1941. This decrease has become more marked in recent months. For the six months ended June 30, 1943, the expenses of the Trusteeship amounted to \$352,811.75 as compared with a total of \$415,964.40 for the same period in 1942, or a decrease of \$63,152.65.

The following is a more detailed comparison of the various expense categories:

	Six Months Ended June 30	
	1942	1943
Allowances—Trustees and Counsel	\$ 64,500.00	\$ 62,350.00
Salaries and wages (including legal and accounting staffs) ..	226,756.64	179,197.65
Expenses—Trustees, Counsel and staff	14,794.62	6,736.67
Payments to service companies	36,730.92	1,261.36
Auditing, tax services and engineering services	8,246.74	6,988.17
Rent	21,596.70	19,485.06
Telephone and telegraph	7,033.38	5,225.14
Office expense, stationery, supplies, postage, and other expense	19,412.22	18,639.17
Printing and photostats	7,819.16	45,435.25
Taxes	9,074.02	7,493.28
Total	<u>\$415,964.40</u>	<u>\$352,811.75</u>

In addition to the ordinary running expenses of the Trusteeship of \$352,811.75, the following disbursements of an extraordinary nature were made during the six months ended June 30, 1943:

Partial allowance to Ageco Trustee for services rendered and expenses incurred in the Recap litigation	\$50,000.00
Payments made to Special Masters	20,072.58

Trustees' Certificate of Indebtedness

On December 31, 1942, the balance of principal due on the Trustees' Certificate of Indebtedness amounted to \$3,790,335.00. Subsequent to that date further payments were made on account of principal, and on September 21, 1943 the balance of unpaid principal, together with interest, was with the approval of the Court paid in full to the Guaranty Trust Company of New York.

The original borrowing was for \$5,000,000.00. Of this amount, \$3,393,925.16 was paid as the result of the sale of the common stock of Northeastern Water and Electric Corporation and the related sales of the Ohio electric properties. The balance of \$1,606,074.84 was paid out of the general funds of the Estate.

Financial Statements

The accounts of Associated Gas and Electric Corporation, Debtor, for the year 1942 were examined by Lybrand, Ross Bros. & Montgomery. A copy of the audit report and financial statements of Agecorp on both parent company and consolidated bases, are presented on the following pages.

As indicated in the auditors' report and more fully set out in the notes to the financial statements, the values ascribed to the investments of Agecorp do not purport to represent either realizable or replacement values. The amounts shown are as carried in the accounts of Agecorp at January 10, 1940 (the date of entry of the order approving the petition filed by Agecorp for reorganization under Chapter X of the Bankruptcy Act); and the liabilities of Agecorp, except with respect to current trade accounts payable of the Trusteeship, are also shown as carried in the accounts of Agecorp at January 10, 1940, both as affected by transactions occurring between that date and December 31, 1942.

The valuations ascribed to the consolidated fixed capital and investments are subject to later determination. The recorded debts are subject to a legal determination of their validity and rank as claims against the Estate. All financial statements must be viewed in the light of the notes on Pages 31 to 40, 46, 52, 56 and 57.

Respectfully submitted,

Dated, New York, N. Y.
September 25, 1943.

ALLEN E. THROOP,
Attorney for Trustees,
21 West Street,
New York, N. Y.

DENIS J. DRISCOLL,
WILLARD L. THORP,
Trustees of Associated Gas and
Electric Corporation.

AUDITORS' REPORT

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

To Messrs. DENIS J. DRISCOLL and
WILLARD L. THORP, Trustees of
Associated Gas and Electric Corporation, Debtor,
New York, N. Y.

We have made an examination of the financial statements of Associated Gas and Electric Corporation, Debtor, and of the consolidated financial statements of the Debtor and subsidiary companies, which appear on pages 19 to 59 of the Annual Report for 1942 of the Trustees of Associated Gas and Electric Corporation, Debtor. In connection therewith, we have made a detailed audit of the accounts of Associated Gas and Electric Corporation, Debtor, for the year 1942, and have also made examinations of the financial statements for 1942 of certain of the subsidiaries of Associated Gas and Electric Corporation, Debtor, in the course of which examinations we reviewed the systems of internal control and the accounting procedures of such companies and, without making a detailed audit of the transactions, examined or tested accounting records of such companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examinations were made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We have also been furnished with the financial statements for 1942, together with reports thereon of other public accountants, of all consolidated subsidiaries of the Debtor which were not examined by us. Approximately 28 per cent of the amount shown in the accompanying consolidated statements as total assets and other debits of the group at December 31, 1942 and approximately 33 per cent of the total consolidated operating revenues for 1942 represent, respectively, assets and other debits and operating revenues of these last-mentioned companies.

Similar examinations previously had been made for the year 1941.

Reference is made to Note 2(a)(2), page 31, regarding the exclusion from the consolidation for 1942 of previously consolidated subsidiaries; also to Note 2(c), page 32, regarding changes made during 1942 in the basis of stating property accounts of certain of the operating subsidiaries and the resulting adjustments, in consolidation, of the net excess of the respective amounts at which the investments in operating subsidiaries are carried over the related net assets of such subsidiaries as at December 31, 1937. We approve such exclusions, changes and adjustments in consolidation. In all other material respects, the principles of accounting followed by the companies, in our opinion, have been applied during 1942 on a basis consistent with that of the preceding year.

Based upon our examination and the aforesaid reports of other public accountants, in our opinion, the accompanying financial statements (pages 19 to 59):

(a) set forth, subject to

- (1) the determination of fair values of investments of the Debtor and its subsidiary holding companies and such related or other adjustments as may result from the reorganization proceedings,
- (2) the effect of such adjustments of property and related reserve accounts as may be required by regulatory authorities upon completion of "original cost" and related studies,
- (3) the adequacy of the current provisions and accumulated reserves for retirement (depreciation) of depreciable property, plant and equipment,
- (4) the possible adjustment of the provision for Federal income taxes for 1942, referred to in Note 13, page 36, and such additional provisions for Federal income taxes of prior years as may be required in respect of the contingencies set forth in Note 15(b), page 38,
- (5) provision for such expenses referred to in Note 15(d), on page 38, as may be approved by the Court as being applicable prior to January 1, 1943,
- (6) the result and effect of the litigation referred to in Note 14, page 36, and
- (7) the effect of the consummation of the agreement between the Trustees of the Debtor, Utilities Employees' Securities Company and others, referred to in Note 2(a)(2), page 31, and the reflection of unrecorded rights of the Debtor and/or its subsidiaries upon the determination of matters referred to in Note 17, page 40,

the assets, liabilities and reserves of the Debtor and of the consolidated group at December 31, 1942, on the basis indicated in such statements including the notes thereto, and

- (b) present fairly and in conformity with generally accepted accounting principles, subject to the reservations (3), (4) and (5) above insofar as they apply to the year 1942, the income and expenses of the Debtor and of the consolidated group for the year 1942, exclusive of deductions for interest on indebtedness, other than Trustees' certificate, of the Debtor.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.
September 7, 1943.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1942 and December 31, 1941

(before deductions for interest on indebtedness, other than Trustees' certificate,
of Associated Gas and Electric Corporation — see Note 7)

	1942	1941 (See Note 2-b)	
OPERATING REVENUES:			
Electric	\$109,392,691.77	\$104,264,351.92	
Gas	14,031,548.63	13,061,187.40	
Transportation—coach	3,708,231.84	2,251,438.30	
Transportation—railway	1,038,667.48	842,168.94	
Water	1,085,013.39	1,067,418.11	
Steam heating	1,894,249.50	1,654,191.61	
Ice	685,084.29	664,262.52	
Total	\$131,835,486.90	\$123,805,018.80	
OPERATING REVENUE DEDUCTIONS (ex- clusive of expenses and taxes of Associated Gas and Electric Corporation):			
Operating expenses	56,951,892.57	52,300,223.41	
Maintenance	8,695,276.14	8,392,307.00	
Provision for retirement (depreciation) of prop- erty, plant and equipment (see Note 4).....	13,130,426.06	11,933,324.27	
Provision for taxes (including adjustments for prior years) (see Notes 13 and 15-a):			
Federal income and declared value excess profits	8,066,752.66	7,397,187.78	
Excess profits, less debt retirement and post-war credits of \$50,117 in 1942.....	455,860.84	57,000.00	
Other	12,764,534.49	13,260,148.16	
Total	100,064,742.76	93,340,190.62	
OPERATING INCOME	31,770,744.14	30,464,828.18	
OTHER INCOME:			
Interest and dividends from subsidiaries sold or not consolidated (see Note 2-a).....	483,289.54	1,699,620.99	
Other income (net)	462,882.96	497,137.10	
GROSS INCOME	32,716,916.64	32,661,586.27	
INCOME DEDUCTIONS—SUBSIDIARY COMPANIES:			
Interest on long-term debt.....	15,045,194.69	15,754,103.87	
Unamortized debt discount and expense on bonds redeemed—portion equal to tax savings re- sulting from refinancing.....	1,148,198.39	992,000.00	
Amortization of debt discount and expense, less premium	801,347.45	904,231.98	
Taxes assumed on interest.....	166,306.45	229,515.25	
Other interest charges	709,473.05	753,912.46	
Interest charged to construction (credit).....	(333,118.36)	(312,170.83)	
Miscellaneous amortization	364,464.25	457,699.24	
Miscellaneous income deductions	245,982.47	165,463.60	
Dividends on preferred stocks, including \$482,018.60 accrued in 1942 and \$368,336.10 accrued in 1941 not being paid currently.....	4,705,459.04	4,445,860.12	
Minority interest in net earnings or (net losses).....	(852.20)	40,044.34	
Total income deductions—subsidiary companies	22,852,455.23	23,430,660.03	
BALANCE OF INCOME , before deductions for expenses and taxes of Associated Gas and Elec- tric Corporation and for interest on that com- pany's indebtedness (see Note 18).....	9,864,461.41	9,230,926.24	
INCOME DEDUCTIONS—ASSOCIATED GAS AND ELECTRIC CORPORATION:			
Expenses and taxes	1,061,198.28	826,610.98	
Interest on Trustees' certificate of indebtedness.....	111,671.37	3,750.00	
	1,172,869.65	830,360.98	
BALANCE OF INCOME , before deductions for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Cor- poration (see Notes 7, 13 and 18).....	\$ 8,691,591.76	\$ 8,400,565.26	

The Notes on Pages 31 to 40 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY, BY CONSTITUENT MAJOR GROUPS OF COMPANIES, OF DISPOSITION OF
CONSOLIDATED "BALANCE OF EARNINGS" AND NET CHANGE IN CONSOLIDATED
"EXCESS OF ASSETS OVER LIABILITIES"**

(both before provision for interest on indebtedness, other than Trustees' certificate, of
AGECORP subsequent to January 10, 1940)

For the Year 1942

	Distributions of Interest and Dividends on Securities Held by AGECORP and its Subsidiary Investing Companies	Undistributed Net Earnings of Group on AGECORP Consolidation Basis	Net Direct Charges to Earned Surplus or Deficit of Group on AGECORP Consolidation Basis	Net Charge to Earned Surplus or Deficit of Group on AGECORP Consolidation Basis
CONSTITUENT MAJOR GROUPS:				
Associated Electric Company group (Page 21).....	\$ 6,277.14	\$ 40,131.64	\$16,350,220.57	\$16,310,088.93
General Gas & Electric Corporation group (Page 22)....	19,849.55	853,381.06	580,521.56	272,859.50*
NY PA NJ Utilities Company group (Page 23).....	706,672.07	7,544,276.03	1,996,724.27	5,547,551.76*
The United Coach Company group (Page 25).....	31,408.01	521,211.36	263,006.34	258,205.02*
Total constituent major groups	<u>\$ 764,206.77</u>	<u>8,959,000.09</u>	<u>19,190,472.74</u>	<u>10,231,472.65</u>
AGECORP AND ITS SUBSIDIARY INVESTING COMPANIES:				
Income from major groups of subsidiaries, as above....	\$ 764,206.77	—	—	—
Other income	541,608.38	—	—	—
Total income (A)	<u>1,305,815.15</u>	—	—	—
Expenses; taxes; and interest, including interest on Trustees' certificate but before interest on other in- debtedness of AGECORP	<u>1,573,223.48</u>	—	—	—
Total AGECORP and its subsidiary investing companies (B)	<u>267,408.33*</u>	<u>267,408.33*</u>	<u>18,879,494.60</u>	<u>19,146,902.93</u>
Distributions to AGECORP by its subsidiary investing companies in excess of their combined earnings for 1942	<u>235,138.05</u>	—	—	—
Balance of income of AGECORP alone (B).....	<u>\$ 32,270.28*</u>	—	—	—
Consolidated balance of income (C)		<u>\$8,691,591.76</u>	—	—
Consolidated net direct charges to "Excess of assets over liabilities"			<u>\$38,069,967.34</u>	—
Net decrease in consolidated "Excess of assets over lia- bilities" (C)				<u>\$29,378,375.58</u>

* Indicates red figure.

NOTES:

- (A) Exclusive of interest receivable accrued to AGECORP but not received by it at December 31, 1942.
- (B) Exclusive of interest receivable accrued to AGECORP but not received by it at December 31, 1942, and before deductions for interest on indebtedness of AGECORP other than on Trustees' certificate.
- (C) Before deductions for interest on indebtedness of AGECORP other than on Trustees' certificate.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 31 to 40.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1942 OF THE ASSOCIATED ELECTRIC COMPANY GROUP**

	Distributions of or Provisions for Interest and Dividends for 1942 on Securities Held by	AGECORP and its Subsidiary Investing Companies	Associated Electric Company	Undistributed Net Earnings for 1942 after Provision for Minority Interests	Net Direct Charges for 1942 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1942 Unavailable to Parent at December 31, 1942 by Reason of (a) Accumulated Deficits or (b) Specific Orders of Regulatory Bodies
ASSOCIATED ELECTRIC COMPANY GROUP OPERATING COMPANIES:						
Arizona General Utilities Company.....	\$ 29,635.00	—	\$	1,345.84	\$ 539.24*	—
Eastern Land Corporation.....	—	—	—	2,038.50*	141.85*	—
Indiana Gas Utilities Company.....	—	—	—	5,145.30*	—	—
Lake Shore Gas Company, The.....	89,426.80	\$2,310.00	—	5,712.75*	334,783.67	—
Louisiana Public Utilities Co., Inc.....	258,933.04	—	—	85,259.01	521,985.00	\$85,259.01(a)
Missouri General Utilities Company.....	56,887.32	—	—	76,735.50	2,014.22*	—
Missouri Southern Public Service Company.....	11,182.92	—	—	3,946.68	335.67*	3,946.68(a)
New Matamoras Electric Company, The.....	2,946.24	—	—	360.80	118.17*	360.80(a)
Ohio-Midland Light and Power Company.....	82,441.32	—	—	66,421.73	264,824.83	—
Ohio River Power Company.....	28,986.46	—	—	866.62*	1,562.47	—
Owensboro Gas Company.....	11,009.07	—	—	699.36*	699.36*	—
Panhandle Public Service Company.....	21,600.00	—	—	336.40*	336.40*	—
Penelec Water Company.....	—	—	—	1,144.62	225.38*	1,144.62(a)
Pennsylvania Electric Company, including com- panies merged during 1942.....	1,852,095.84	1,766.58	—	631,651.25	1,005,294.10(A)	—
Johnstown Fuel Supply Company.....	—	—	—	10,106.03*	106,843.21	—
Portsmouth Gas Company, The.....	49,729.93	—	—	19,837.43*	3,849.41	—
Texas General Utilities Company.....	615.00	—	—	3,612.37*	3,257.66*	—
Union Gas & Electric Company.....	43,919.77	—	—	7,588.01	921.37*	—
West Virginia Light, Heat and Power Company	10,936.24	—	—	29,838.43*	493,504.08	—
Total Associated Electric Company group operating companies.....	2,550,344.95	4,076.58	—	796,260.25	2,724,057.45	—
ASSOCIATED ELECTRIC COMPANY:						
Other income	471,232.40	—	—	—	—	—
Total income	3,021,577.35	—	—	—	—	—
Expenses; taxes; and interest, other than on indebtedness to subsidiary investing company of AGE- CORP	\$3,607,472.02	—	—	—	—	—
Interest on indebtedness to subsidi- ary investing company of AGE- CORP	2,200.56	—	2,200.56	—	—	—
	3,609,672.58	—	—	—	—	—
Total Associated Electric Company.....	—	—	—	588,095.23*	25,488,946.93	—
Adjustments arising in Associated Electric Company group consolidation	—	—	—	74,440.02	413,854.82	—
Associated Electric Company group consolidated.....	—	—	—	282,605.04	28,626,859.20	—
Adjustments arising in AGECORP system consoli- dation	—	—	—	242,473.40*	12,276,638.63*(B)	—
Associated Electric Company group, adjusted as above, forwarded to Page 20.....	—	—	—	\$6,277.14	\$ 40,131.64	\$16,350,220.57

* Indicates red figure.

NOTES:

(A) Before credit of \$9,530,527.18 (eliminated in group consolidation) representing transfer of deficit in earned surplus at December 31, 1941 to capital surplus.

(B) Represents principally the balance in reserve for loss on investments of domestic subsidiaries provided by Associated Electric Company transferred to "Excess of assets over liabilities" in AGECORP consolidation.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 31 to 40.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1942 OF THE GENERAL GAS & ELECTRIC CORPORATION GROUP**

	General Gas & Electric Corporation and its Subsidiary Investing Companies	Distributions of or Provisions for Interest and Dividends for 1942 on Securities Held by AGECORP and its Subsidiary Investing Companies	Undistributed Net Earnings for 1942 after Provision for Minority Interests	Net Direct Charges for 1942 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1942 Unavailable to Parent at December 31, 1942 by Reason of (a) Accumulated Deficits or (b) Specific Orders of Regulatory Bodies
GENERAL GAS & ELECTRIC CORPORATION GROUP OPERATING COMPANIES:					
Eastern Shore Public Service Company and sub- sidiaries			\$ 1,442.38	\$ 196.00	\$ 1,442.38 (b)
Florida Power Corporation and subsidiaries.....	\$131,470.00	\$ 2,000.00	328,990.73	2,337.84*	300,000.00 (b)
Florida Public Service Company.....	2,960.00	1,005.80	129,528.80	115,358.12	129,528.80 (a)
Georgia Power and Light Company.....	—	43.75	8,971.23*	69,432.56*	—
Lexington Water Power Company.....	227,162.22	—	180,493.51*	58,776.34	—
Sanford Gas Company	—	—	6,477.15*	286.43*	—
South Carolina Electric & Gas Company.....	413,412.07	16,800.00	565,304.40	48,899.35*	—
Tide Water Power Company.....	—	—	78,104.83*	25,455.58*	—
Total General Gas & Electric Corporation group operating companies.....	775,004.29	19,849.55	751,219.59	27,918.70	
GENERAL GAS & ELECTRIC CORPORATION AND ITS SUBSIDIARY INVESTING COM- PANY:					
Other income	35,903.44	—	—	—	
Total income	810,907.73	—	—	—	
Expenses; taxes; and interest, other than on indebtedness to AGE- CORP	\$281,633.67	—	—	—	
Interest on indebtedness to AGE- CORP	111,665.95	—	111,665.95	—	
Provision for dividends in arrears on preferred stock held by the public	288,827.60	682,127.22	—	—	
Total General Gas & Electric Corporation and its subsidiary investing company...	—	—	128,780.51	177,643.51	
Adjustments arising in General Gas & Electric Cor- poration group consolidation	—	—	20,470.83	1,077,542.21	
General Gas & Electric Corporation group con- solidated	—	131,515.50	900,470.93	1,283,104.42	
Adjustments arising in AGECORP system consoli- dation	—	111,665.95*(A)	47,089.87*	702,582.86*	
General Gas & Electric Corporation group, adjusted as above, forwarded to Page 20.....	—	\$ 19,849.55	\$853,381.06	\$ 580,521.56	

* Indicates red figure.

NOTE:

(A) Elimination of provision for interest accrued, but not paid during 1942, on indebtedness to AGECORP (with contra ad-
justment of "undistributed net earnings for 1942"), the Corporation not recording such items as income until received.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on
Pages 31 to 40.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1942 OF THE NY PA NJ UTILITIES COMPANY GROUP**

	Distributions of or Provisions for Interest and Dividends for 1942 on Securities Held by		Net Direct Charges for 1942 to Earned Surplus or Deficit (Other Than Dividend Appropriations)		Undistributed Net Earnings for 1942 after Provision for Minority Interests	Undistributed Net Earnings for 1942 Unavailable to Parent at December 31, 1942 by Reason of (a) Accumulated Deficits or (b) Specific Orders of Regulatory Bodies
	NY PA NJ Utilities Company and its Subsidiary Investing Companies	AGECORP and its Subsidiary Investing Companies				
NY PA NJ UTILITIES COMPANY GROUP						
OPERATING COMPANIES:						
Bradford Electric Company.....	\$ 57,000.00	—	\$ 75,389.18	\$ 77,332.95		—
Canada Power Corporation.....	77,000.00	—	1,743.49*	6,050.86*		—
Glen Rock Electric Light and Power Company	24,750.00	—	13,779.27	870.08*		—
Granville Electric Company.....	—	—	3,050.11*	6,055.04*		—
Keystone Public Service Company and Sub- sidiary.....	4,401.60	\$ 2,800.00	312,818.94	725.30*		\$ 312,818.94 (b)
Litchfield Electric Light and Power Company, The.....	—	—	32,336.48	2,346.51*		—
Logan Light, Heat & Power Company.....	—	—	131.56	4,501.10		—
Long Island Water Corporation.....	16,228.62	—	115,859.99	53,150.29*		{ 60,000.00 (b) 10,385.97 (a)
Metropolitan Edison Company.....	526,380.00	4,880.00	2,575,864.41	29,912.78		1,540,158.44 (b)
New Jersey Power & Light Company and Subsidiary.....	475,741.33	270.00	350,747.15	28,395.87*		—
New York State Electric & Gas Corporation... Patchogue Electric Light Company, The...	1,250,000.00 16,260.83	3,600.00	1,745,760.29 56,924.76	169,988.77* 4,413.92*		1,380,000.00 (b)
Staten Island Edison Corporation.....	—	—	446,332.92	895,953.61		446,332.92 (a)
Northern Pennsylvania Power Company.....	250.00	6,303.20	314,845.16	9,583.28*		—
Pennsylvania Edison Company and Subsidiary	12,303.00	180.50	484,939.21	7,246.53*		—
Rochester Gas and Electric Corporation.....	675,181.20	4,782.00	467,954.66	34,153.98*		—
Spring Brook Water Company.....	12,000.00	—	1,326.55*	825.52*		—
Tracy Development Company.....	—	—	1,592.06	288,972.61*		1,592.06 (a)
York Railways Company and Subsidiaries....	—	—	169,471.27	22,129.41*		169,471.27 (a)
Total NY PA NJ Utilities Company group operating companies.....	3,147,496.58	22,815.70	7,158,627.16	372,792.47		
NY PA NJ UTILITIES COMPANY AND ITS SUBSIDIARY INVESTING COMPANIES:						
Other income.....	99,636.77	—	—	—		
Total income.....	3,247,133.35	—	—	—		
Expenses; taxes; and interest, other than on indebtedness to AGECORP and its subsidiaries investing companies.....	\$2,256,011.02 (A)	—	—	—		
Interest on indebtedness to AGECORP and its sub- sidiary investing companies.....	1,218,816.69	—	1,218,816.69	—		
	3,474,827.71	—	—	—		
Total NY PA NJ Utilities Company and its subsidiary investing companies.....	—	—	227,694.36*	219,982.23*		
Adjustments arising in NY PA NJ Utilities Com- pany group consolidation.....	—	—	21,217.16	2,792,842.03		
NY PA NJ Utilities Company group consolidated. Adjustments arising in AGECORP system con- solidation.....	—	1,241,632.39	6,952,149.96	2,945,652.27		
	—	534,960.32* (B)	592,126.07	948,928.00* (C)		
NY PA NJ Utilities Company group, adjusted as above, forwarded to Page 20.....	—	\$ 706,672.07	\$7,544,276.03	\$1,996,724.27		

* Indicates red figure.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 31 to 40.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**NOTES TO SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED
SURPLUS OR DEFICIT FOR THE YEAR 1942 OF THE NY PA NJ UTILITIES
COMPANY GROUP**

- (A) Includes interest on securities of NY PA NJ Utilities Company held by the following subsidiaries:

Canadea Power Corporation	\$ 691.83
Keystone Public Service Company.....	42,800.00
Metropolitan Edison Company.....	966,157.23
Staten Island Edison Corporation.....	31,200.00
York Railways Company	11,625.00
Total	<u>\$1,052,474.06</u>

- (B) Elimination of provision for interest accrued, but not paid during 1942, on indebtedness to AGECORP (with contra adjustment of "undistributed net earnings for 1942"), the Corporation not recording such items as income until received.
- (C) Elimination of \$1,012,211.11, representing write-down, and net loss arising from intercompany sales, of securities of associated companies, less miscellaneous consolidating adjustments of \$63,283.11.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1942 OF THE UNITED COACH COMPANY GROUP**

	Distributions of or Provisions for Interest and Dividends for 1942 on Securities Held by			Undistributed Net Earnings for 1942	Net Direct Charges for 1942 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1942 Unavailable to Parent at December 31, 1942 by Reason of Accumulated Deficits
	The United Coach Company	AGECORP and its Subsidiary Investing Companies		after Provision for Minority Interests		
THE UNITED COACH COMPANY GROUP OPERATING COMPANIES:						
Broome Electric Corporation	—	—		—	\$ 3,263.72*	—
Lockport Light, Heat and Power Company	—	—		—	389,623.10	—
New Jersey and Staten Island Ferry Company...	\$ 5,250.00	—		\$ 227.32*	227.32*	—
Reading Street Railway Company	—	—		284,609.70	595,661.57*	—
Reading Traction Company	60.00	—		25,041.98	166.95*	—
Richmond Railways, Inc.	—	—		336.96*	1,512.58*	—
Schenectady Rapid Transit, Inc.	10,481.54	—		24,507.58	125.91*	\$24,507.58
The Valley Public Service Company	58,500.00	—		117,760.67	311.13*	—
Total The United Coach Company group operating companies	74,291.54	—		451,355.65	211,646.08*	
THE UNITED COACH COMPANY AND THE RAILWAY AND BUS ASSOCIATES:						
Other income	27,007.22	—		—	—	
Total income	101,298.76	—		—	—	
Expenses; taxes; and interest, other than on indebtedness to subsidiary investing company of AGE CORP..	\$43,764.55	—		—	—	
Interest on indebtedness to subsidiary investing company of AGE CORP..	31,408.01	—	\$31,408.01	—	—	
	75,172.56	—		—	—	
Total The United Coach Company and The Railway and Bus Associates.....	—	—		26,126.20	381,562.74	
Adjustments arising in The United Coach Company group consolidation	—	—		817.34*	160,369.93	
The United Coach Company group consolidated.....	—	31,408.01		476,664.51	330,286.59	
Adjustments arising in AGE CORP system consoli- dation	—	—		44,546.85	67,280.25*	
The United Coach Company group, adjusted as above, forwarded to Page 20.....	—	\$31,408.01		\$521,211.36	\$263,006.34	

* Indicates red figure.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 31 to 40.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7—and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1942

ASSETS AND OTHER DEBITS:

COMBINED FIXED CAPITAL of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company and their respective subsidiaries (see Notes 2 and 3):

Property, plant and equipment, (including going value and other intangibles) of operating subsidiaries.....	\$647,440,105.54	
Net excess of the respective amounts at which the investments in operating subsidiaries are carried (without deduction of reserves) by parent companies within the respective groups over the related net assets of such subsidiaries as shown by their books, as adjusted, as at December 31, 1937	130,342,378.09	\$777,782,483.63

INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company—parent company, in proceedings for reorganization) (see Notes 2-a and 5) (details on Pages 42 to 43):

Securities of, and noncurrent receivables from, nonconsolidated majority-owned companies, statutory subsidiaries and associated companies:

Manila Electric Company and Escudero Electric Service Company (located in the Philippine Islands) (less reserve of \$10,000,000)	11,646,288.32
Virginia Public Service Company.....	3,825,454.40
Tri-City Utilities Company	2,324,017.00
Paul Smith's Electric Light and Power and Railroad Company and Paul Smith's Hotel Company.....	1,152,376.19
Other (less reserves of \$36,463,091.12).....	1,122,450.69

Securities of:

Jersey Central Power & Light Company and National Public Service Corporation (see Note 5-d).....	6,754,706.42	
New England Gas and Electric Association.....	2,045,509.09	
Miscellaneous investments, including real estate (less reserve of \$16,044.95)	577,018.06	29,447,820.17

SPECIAL FUNDS:

For new construction and/or, in part, for subsidiary company bond acquisitions	2,901,876.87	
Other (see Note 3, Page 56).....	624,313.63	3,526,190.50

CURRENT AND ACCRUED ASSETS:

Cash in banks and on hand	28,985,473.79	
Miscellaneous special deposits	1,202,641.47	
United States Government obligations (including \$1,858,000 Treasury notes, tax series B and C)	3,482,035.33	
Notes and warrants receivable	2,049,557.07	
Accounts receivable:		
Customers	\$ 8,891,232.68	
Appliances, principally instalment accounts (including \$150,338 pledged as collateral against notes payable)	1,076,998.14	
Other	1,261,762.19	
	11,229,993.01	
Less, Reserve for uncollectible accounts	822,819.01	10,407,174.00
Materials and supplies (including construction materials) and merchandise, at cost or less	6,627,860.35	
Prepayments	907,351.50	
Other current and accrued assets	69,532.08	53,731,625.59

DEFERRED DEBITS:

Unamortized debt discount and expense of subsidiaries (including approximately \$5,415,000 applicable to refunded issues) (see Note 6)	15,241,713.34	
Fixed capital in suspense and abandoned railway fixed capital being amortized pursuant to orders of state regulatory bodies	1,640,618.07	
Fixed capital in suspense, the disposition of which has not yet been determined	415,447.51	
New York State canal dam rebuilding costs, being amortized	309,638.30	
Other deferred debits	1,248,000.14	18,855,417.36

NET EXCESS of amounts at which Associated Gas and Electric Corporation carried investments in capital stocks of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company at January 10, 1940 (effective date of petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939 as shown by their consolidated financial statements (see Note 2-d)

76,615,684.19

TOTAL ASSETS AND OTHER DEBITS, exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company

959,959,221.44

INVESTMENTS IN SECURITIES OF, AND RECEIVABLES FROM, ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (see Notes 1 and 5-b):

Sinking fund income debentures (\$1,740,860 principal amount)	814,123.65	
Preferred and preference stocks (1,316,886 shares)	—	
Sundry Class A and common stocks, warrants and noninterest bearing scrip	—	
Accounts receivable	169,508.32	983,631.97
		<u>\$960,942,853.41</u>

The Notes on Pages 31 to 40 are an integral part of this statement.

(Continued)

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES, Continued
(exclusive of liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7—and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1942

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS OF ASSOCIATED GAS AND ELECTRIC CORPORATION AT JANUARY 10, 1940
(exclusive of indebtedness, other than for certain convertible debentures, to Associated Gas and Electric Company—parent company, in proceedings for reorganization—see Note 11):

Long-term debt (details on Page 48):

8% eight year bonds, matured March 15, 1940 (less \$599,000 owned intercorporately and \$5,000 in treasury)	\$ 7,738,510.00	
Convertible (fixed interest) debentures, due 1973 (see Note 8)	24,423,495.00	
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures, \$1,683,900 owned intercorporately and \$1,706,415 in treasury)	139,240,755.00	\$171,402,760.00

Other indebtedness:

Accrued interest on long-term debt (including \$205,205.86 matured)	2,102,888.44	
Taxes payable and accrued	108,649.74	
Uncompleted instalment bond-subscription accounts and certain interest thereon	69,084.96	
Accounts payable	31,353.79	2,311,976.93
		\$173,714,736.93

MINORITY INTEREST IN COMMON STOCKS AND SURPLUSES OF SUBSIDIARY COMPANIES
(details on Page 44)

722,320.51

PREFERRED STOCKS OF SUBSIDIARY COMPANIES (details on Pages 44 and 45):

Preferred stocks, stated at preferences in involuntary liquidation	81,094,255.00	
(stocks stated at \$80,934,955.00 are callable at the aggregate amount of \$86,004,040.35 plus accrued dividends; the remainder is not callable)		
Premiums on preferred stocks	194,882.62	
Provision for cumulative dividends in arrears	2,534,909.27	
		83,824,046.89

LONG-TERM DEBT OF SUBSIDIARIES (less \$29,432,500.00 in treasury and in sinking funds; \$38,231,400.00 owned intercorporately of which aggregate amount \$2,086,500.00 are pledged as collateral for various obligations)

CURRENT AND ACCRUED LIABILITIES:

Long-term debt of subsidiaries maturing during 1943.....	780,632.45	
Trustees' certificate of indebtedness to Guaranty Trust Company of New York, bearing interest at 2¼%, due December 18, 1943 (see Note 10).....	3,790,335.00	

Notes payable:

Banks (including \$2,206,874.11 against which securities and appliance accounts receivable are pledged as collateral)	2,331,874.11	
Other (including \$424,882.83 payable to Associated Trustees of Hopson Settlement Fund) (see Note 2-d, Page 56)	473,189.43	2,805,063.54

Accounts payable	3,790,175.09	
Dividends on preferred stocks of subsidiary companies (including \$198,442.25 accrued but not declared)	666,451.10	
Customers' deposits	4,000,784.06	
Taxes accrued (see Note 13)	13,530,917.49	
Interest accrued (see Note 7)	3,427,146.27	
Other current and accrued liabilities	775,723.99	33,567,228.99

DEFERRED CREDITS:

Customers' advances for construction.....	2,190,364.81	
Unamortized premium on debt of subsidiaries.....	2,425,481.94	
Other deferred credits	326,158.18	4,942,004.93

RESERVES:

Retirement (depreciation) of property, plant and equipment (see Note 4)	84,884,593.98	
Conversion of debentures (see Note 8)	24,423,495.00	
Estimated loss on property of a nonoperating subsidiary	169,693.97	
Taxes (principally Federal income) for years 1934 to 1941, inclusive, subject to final determination.....	671,294.54	
Other reserves	1,568,633.16	111,717,710.65

CONTRIBUTIONS IN AID OF CONSTRUCTION (nonrefundable)

3,969,080.90

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of (a) liability for interest on indebtedness other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7, (b) that company's indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of fixed assets and investments upon final determination of values

760,013,216.91

INDEBTEDNESS (other than for certain debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (see Note 11):

5% cumulative income note, due 1980	71,805,120.00	
Noninterest bearing note, due 1983.....	1,250,000.00	
Advances on open account	568,122.14	
Dividend payable	90,000.00	
Accrued interest on 5% cumulative income note through January 10, 1940.....	568,457.20	74,281,699.34

EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940), treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 30).....

126,647,937.16

\$960,942,853.41

The Notes on Pages 31 to 40 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
and
ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
AND SUBSIDIARY COMPANIES

**STATEMENT OF CHANGES DURING 1942 IN THE AMOUNT DESCRIBED AS "EXCESS
OF ASSETS OVER LIABILITIES" AND TREATED AS RESERVE FOR ADJUSTMENT
OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON
FINAL DETERMINATION OF VALUES**

for the year ended December 31, 1942

	Parent Company Alone	Group, on Consolidated Basis
BALANCES, December 31, 1941	\$154,609,892.36	\$156,026,312.74
ADJUSTMENTS, arising from exclusion of companies from the consolidation (see Note 2-a):		
Utilities Employees Securities Company		\$23,278,105.44
Virginia Public Service Company		1,189,428.04
Subsidiary companies sold during 1942	109,375.03	5,485,219.98
	154,500,517.33	29,952,753.46
OTHER CHANGES DURING 1942:		126,073,559.28
Additions:		
Income (before deduction for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation) for the year ended December 31, 1942, per accompanying statements (Pages 19 and 53)	32,270.28*	8,691,591.76
Recovery under agreement dated August 4, 1941 relative to distribution of assets of H. C. Hopson, et al, and related adjustments:		
Securities of the Corporation and subsidiaries consoli- dated, on the basis of par or stated values	4,866,215.00	5,019,440.00
Accrued interest on long-term debt of Corporation	68,991.39	68,991.39
Cash and other items	12,509.00	932,388.78
Reduction in reserve for conversion of debentures (see Note 8)	814,485.00	814,485.00
Reversal of unused portion of reserve for losses on sales of fixed assets of subsidiaries		1,039,732.02
Portion of collection in 1942 on convertible obligation of Asso- ciated Utilities Corporation, subsidiary company, considered as partial recovery of amount written off in prior years	170,635.00	
Difference between preference in liquidation and cost of re- acquired preferred stock of a subsidiary, plus accumulated dividends in arrears thereon		542,850.00
Reversal of interest accrued on prior years Federal income taxes, previously carried in suspense	175,750.00	175,750.00
Net profit on sales of miscellaneous investments		96,635.50
Miscellaneous credits		194,964.04
	160,576,832.44	17,576,828.49
Deductions:		143,650,387.77
Write-down and provisions for losses on investments in the following:		
Subsidiaries which are located in the Philippine Islands (see Note 5-a)		10,000,000.00
National Public Service Corporation		2,542,449.02
Utilities Employees Securities Company (see Note 2-a) ..		1,426,100.00
Write-downs, and losses on sales, of property, plant and equip- ment of subsidiary companies		866,509.39
Write-down of the net excess of the carrying amount of invest- ments in operating subsidiaries as result of merger of certain subsidiaries		1,754,932.86
Premium and discount and expense on long-term debt of subsidiaries refunded or redeemed, less discount on bonds reacquired (after deducting \$1,148,198.39 equivalent to tax savings from refinancing, charged to income)		172,032.93
Miscellaneous charges		240,426.41
BALANCES, December 31, 1942	\$160,576,832.44	\$126,647,937.16

* Indicates red figure.

The Notes on Pages 31 to 40 and 56 to 57 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Reorganization proceedings pursuant to Chapter X of the Bankruptcy Act:

On January 10, 1940, Associated Gas and Electric Corporation and its parent, Associated Gas and Electric Company, filed petitions for reorganization under Chapter X of the Bankruptcy Act in the United States District Court for the Northern District of New York. The petitions were approved by the Court on that day. On January 30, 1940, the proceedings were removed to the Southern District of New York.

On June 14, 1943, a joint plan of reorganization of Associated Gas and Electric Company and Associated Gas and Electric Corporation was filed by the Trustees of the respective companies with the Court and the Securities and Exchange Commission. This plan contemplates, among other things, material recapitalizations, mergers and/or dispositions of companies now constituting the Associated Gas and Electric System and, in the event of consummation, would involve very substantial reductions, either directly or by the creation of appropriate reserves, of the amounts at which the principal assets of Associated Gas and Electric Corporation and its subsidiaries consolidated are now carried.

(2) Basis of consolidation:

- (a) The consolidated statements of Associated Gas and Electric Corporation and subsidiary companies include, except as stated below, all companies the majority of the voting stock of which is owned directly or indirectly by the Corporation and those which are not subsidiaries through stock ownership but substantially all the outstanding indebtedness of which is owned within such group of companies and such indebtedness exceeds all recorded assets of such companies.

Included among the majority-owned companies consolidated are York Railways Company, which is in proceedings for reorganization under Section 77B of the Bankruptcy Act, and its subsidiaries.

The exceptions referred to above are:

(1) Previously excluded from consolidation:

Rochester Transit Corporation and its subsidiaries. Control of Rochester Transit Corporation by its parent within the Associated Gas and Electric Corporation group was limited until July, 1942, by agreements entered into at the termination of bankruptcy proceedings of the Transit Corporation, and such parent's investment in the Transit Corporation was sold in 1943.

Manila Electric Company and Escudero Electric Service Company, both of which are located in the Philippine Islands.

(2) Previously included in consolidation:

Virginia Public Service Company and its subsidiaries. During 1942, Virginia Public Service Company filed with the Securities and Exchange Commission a proposed plan of recapitalization under Section 11(c) of the Public Utility Holding Company Act of 1935, providing for the reclassification of its presently outstanding preferred and common stocks into a single class of new common stock, to be allocated between such existing issues in the ratio of 95% and 5%, respectively. This proposed allocation is opposed by General Gas & Electric Corporation, owner of all of the common, but none of the preferred stock, which contended that it should receive at least 20% of the new common stock. The matter was argued before and submitted for decision to the Securities and Exchange Commission on July 7, 1942. No findings and opinion have yet been handed down by the Commission. The proceedings indicate that when the recapitalization has been completed General Gas & Electric Corporation's holdings in Virginia Public Service Company will not represent a sufficiently large percentage of ownership to warrant inclusion of that company in the consolidated financial statements and it has, therefore, been excluded from the consolidation for 1942. Although Virginia Public Service Company was included in the consolidated statements for 1941, for comparative purposes, the accompanying consolidated statement of income and expenses for 1941 has been adjusted to exclude revenues and expenses of the company and to include as income, as in the case of the statement for 1942, only the income (interest) actually received from Virginia Public Service Company.

Utilities Employees Securities Company. On June 4, 1943 the Trustees of the Corporation, Utilities Employees Securities Company and others entered into an agreement, subsequently approved by the Court and the Securities and Exchange Commission, providing, among other things, for the ultimate dissolution of Utilities Employees Securities Company. Pursuant to this agreement, Utilities Employees Securities Company is to surrender, for cancellation, bonds, convertible debentures and income debentures issued by the Corporation in the respective principal amounts of not less than \$261,000, \$55,000 and \$4,028,000 and not more than \$300,000, \$63,000 and \$4,642,000, and certain securities issued by Associated Gas and Electric Company in the aggregate principal amount of not less than \$877,000 and not more than \$1,010,000, is to redeem its own outstanding bonds, notes and debentures, and is to receive for cancellation all of its own class A stock and preferred stock now outstanding (approximately 85 per cent and 80 per cent of which stocks, respectively, are now owned by consolidated subsidiaries of the Corporation) as well as all of its own common stock (owned by Trustees under Pension Trust Agreement dated December 14, 1937, as amended). Moreover, pursuant to said agreement, the remaining (approximately \$30,000,000 principal amount) debt securities of the Corporation and Associated Gas and Electric Company now held by Utilities Employees Securities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company, and which, subject to provision for minority interests, were eliminated or treated as assets in previous consolidations, are to be allowed to participate as claims in the respective reorganization proceedings of the Corporation and Associated Gas and Electric Company to the same extent as bona fide publicly held securities. To the extent that said debt securities are not utilized by Utilities Employees Securities Company in the redemption of its outstanding bonds, notes and debentures, they are to be made available to certain named distributee companies (primarily consolidated subsidiaries of the Corporation) for welfare purposes. In view of the aforesaid agreement, the carrying amount of the investments of consolidated subsidiaries of the Corporation in class A and preferred stocks of Utilities Employees Securities Company has been written off or fully reserved for in 1942, and the accounts of Utilities Employees Securities Company have been excluded from the consolidated statements for 1942. No effect has been given, however, to the proposed future surrender to the Corporation for cancellation of not less than \$4,344,000 and not more than \$5,005,000 aggregate principal amount of its own bonds, convertible debentures and income debentures referred to above. For comparative purposes, the accompanying consolidated statement of income and expenses for 1941 has been adjusted to exclude all items of income and expense applicable to the investments in Utilities Employees Securities Company.

Tri-City Utilities Company. This company, which was organized in 1942 for the purpose of acquiring certain properties of an indirect subsidiary of the Corporation (previously included in the consolidation), has been sold to nonaffiliated interests in 1943.

Various subsidiary companies which were sold during 1942. These have been eliminated from the consolidated financial statements as at January 1, 1942, and, for the purposes of comparison, the accompanying consolidated statement of income and expenses for 1941 has been adjusted to exclude revenues and expenses of such companies and to include as income, as in the case of the statements for 1942, only the income actually received from such companies during the year.

- (b) As a result of the exclusion of certain companies, as set forth in (a) above, the consolidated "Balance of Income" for 1941 is less than the amount previously reported for that year by \$1,121,605.81, representing the difference between the net income of the excluded companies on a consolidated basis and the income actually received therefrom by the affiliate companies, as follows:

Virginia Public Service Company and its subsidiaries	\$ 583,578.86
Utilities Employees Securities Company	4,229.37*
Subsidiary companies sold	542,256.32
Total	<u>\$1,121,605.81</u>

*Indicates red figure.

In addition to the foregoing adjustment, the consolidated "Balance of Income" for 1941 has been further reduced from the amount previously reported by \$992,000 for special amortization of debt discount and expense on bonds redeemed equivalent to the estimated Federal income tax saving resulting from refinancing during that year. In 1941 the entire write-off of debt discount and expense on the refunded bonds was treated as a surplus item, but for comparative purposes the portion equivalent to the tax saving has been shown herein as an income deduction.

- (c) The net excess of the amounts at which investments in operating utility subsidiaries are carried (without deduction of reserves) by the sub-holding parents of such utility groups over the related net assets of such subsidiaries has been computed as at December 31, 1937 (after giving effect to certain adjustments referred to below), and has been shown separately in the consolidated statement of assets, liabilities and reserves under the item of Combined Fixed Capital of these utility company groups. During 1942 the sub-holding companies provided reserves amounting to \$15,387,000 at December 31, 1942 against investments in subsidiary operating companies. In consolidation, such reserves have been included in the "Excess of assets over liabilities" since such excess is treated as a reserve for presently stated amounts of fixed assets and investments upon final determination of values.

As at December 31, 1937 Associated Gas and Electric Corporation and most of its subsidiary holding companies underwent what they considered to be "accounting reorganizations" and, pursuant to authorizations of their Boards of Directors, transferred to their respective capital surplus accounts the recorded balances in their earned surplus accounts, and in the consolidations of individual groups, the balances appearing in the surplus accounts of the subsidiary companies were treated as if such subsidiaries had been acquired at December 31, 1937. While for each consolidated group as a whole the amount so transferred to capital surplus was a credit balance, the group consolidations would have reflected deficits in the consolidated earned surplus, before such transfer, had the companies previously not charged to capital surplus certain items which, under now generally accepted accounting principles, would be required to be charged to earned surplus.

Since December 31, 1937 there have been net charges to capital surpluses of sub-holding company parents of the operating utility companies, which charges have been reflected as being applicable to periods prior to that date and which consequently have had the effect of reducing the amount of the "net excess" referred to above. These items aggregated approximately \$41,000,000. In addition, such "net excess" has been further written down subsequent to December 31, 1937 by charges of approximately \$13,300,000 to earned surpluses or deficits of the sub-holding parent companies, in connection with various mergers within the respective groups and pursuant to orders of the Securities and Exchange Commission. On the other hand, changes made during 1941 and 1942 in the basis of stating the property accounts of certain of the operating subsidiaries had the effect of increasing the "net excess" referred to above by approximately \$83,000,000 and \$13,000,000, respectively. The principal portion (approximately \$85,000,000) of such aggregate increase of \$96,000,000 resulted

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

from the elimination from the books of the operating subsidiaries of amounts reflecting the effect of upward revaluations prior to 1938 of plant and other property. The remainder of such increase was occasioned by the restatement of certain of the properties of other operating subsidiaries to their "original cost" as found by, or reported to, regulatory bodies having jurisdiction.

- (d) Pursuant to authorizations of its Board of Directors, Associated Gas and Electric Corporation prior to January 10, 1940 wrote down, since December 31, 1937, but as at that date, the carrying amounts of its investments in certain subsidiaries by approximately \$173,000,000. Of this amount, approximately \$147,000,000 applied to investments in sub-holding parents of operating utility groups and approximately \$26,000,000 to investments in an investing company subsidiary.

The net excess of the amounts at which Associated Gas and Electric Corporation carried investments in capital stocks of presently owned sub-holding parents of operating utility groups at January 10, 1940 (the effective date of the petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939, as shown by their consolidated financial statements, appears as a separate item in the consolidated statement of assets, liabilities and reserves pending the final determination of values of such investments. Such net excess was arrived at as follows:

	Amount at Which Investments Were Carried by Parent	Underlying Consolidated Net Assets	Net Excess
NY PA NJ Utilities Company.....	\$112,323,667.73	\$23,260,438.45	\$89,063,229.28
Associated Electric Company.....	38,022,081.93	37,433,428.72	588,653.21
General Gas & Electric Corporation.....	9,342,055.17	21,243,996.27	11,901,941.10*
The United Coach Company.....	5,491.00	1,139,748.20	1,134,257.20*
Total.....	<u>\$159,693,295.83</u>	<u>\$83,077,611.64</u>	<u>\$76,615,684.19</u>

* Indicates red figure.

The difference of \$1,706,656.39 between the "net excess" figure of \$76,615,684.19 shown above and that of \$74,909,027.80 shown at December 31, 1941, in respect of sub-holding companies then owned, arises from the disposition during 1942 of Northeastern Water and Electric Corporation, the "underlying consolidated net assets" of which at December 31, 1939, exceeded the carrying amount of a subsidiary investing company's investment in such Company by \$1,706,656.39.

The excess of the aggregate amount at which investments in nonutility subsidiaries (other than sub-holding parents of utility company groups) were carried by Associated Gas and Electric Corporation at January 10, 1940 over the total recorded amount of underlying net assets of such subsidiaries as of that date, after adjustments of differences between principal and carrying amounts of debt securities and preferred stocks of associated companies held by the nonutility company group and of unamortized discount applicable thereto, which adjusted excess amounted to \$12,701,303.12, has been written off in consolidation.

- (3) *Combined property, plant and equipment (including going value and other intangibles) of operating subsidiaries of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company:*

- (a) The amount at which these assets are stated does not purport to represent their present realizable or replacement value, but is the aggregate of the amounts at which such assets were carried as at December 31, 1942, in the books of the several operating companies, less relatively minor reductions to estimated salvage recognized in the consolidation of an individual group. These amounts represent, in part, estimated reproduction cost new (as appraised, excluding overheads and intangibles, at various dates within the years 1922 to 1930 by an engineer, plus additional amounts for overheads and for intangibles, such as going value, financing and organization expenses, computed by the respective companies on the basis of percentages allowed for such items in the case of Brooklyn Borough Gas Company before the Special Statutory Court for the Eastern District of New York in 1926); in part, estimated reproduction cost new, including intangibles, as appraised by independent engineers, at various dates; in part, acquisition or construction cost to the owning companies; and, to a relatively minor extent, "original cost" as found by or reported to regulatory bodies. The Securities and Exchange Commission has held in its Release No. 3285A of August 5, 1942, under the Securities Exchange Act of 1934 that the engineer who made the appraisals referred to above lacked independence as an appraiser of the companies' properties and that the application by the companies of the "Brooklyn Borough" overheads was unjustifiable.

Based upon reports through December 31, 1941, submitted to the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, adjusted for items expected to be reported for the year 1942, recorded revaluations since January 1, 1915, including those arising out of transactions between associated companies, have had the effect of increasing the combined property, plant and equipment accounts by approximately \$30,000,000, less a presently undetermined amount of reductions effected in connection with the recording of property retirements.

- (b) The reduction in the amount shown for the combined property, plant and equipment, including going value and intangibles, (from \$738,655,434.29 as reported at December 31, 1941, to \$647,440,105.54 as stated in the con-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

solidated statement of assets, liabilities and reserves at December 31, 1942) results principally from the sales of subsidiary companies and the exclusion of certain other companies from the consolidation as indicated in Note 2(a).

- (c) The presently effective uniform systems of accounts for electric, gas and water utilities prescribed by the Federal Power Commission and by the state regulatory commissions having jurisdiction over the principal operating subsidiaries require, among other things, that properties be stated at original cost (i.e., cost when first devoted to public service), that the difference between such original cost and the amount at which the properties are now being carried be transferred to "plant adjustment accounts," and that such difference be depreciated, amortized or otherwise disposed of as the commission having jurisdiction may approve or direct.

Studies relating to the reclassification of the property accounts have been completed by certain of the operating subsidiaries in respect of property carried at approximately \$217,000,000 and tentative or final reports thereon have been filed with the regulatory bodies. These reports, which are subject to review and approval of the regulatory bodies, indicate the book amount of such property to be approximately \$39,500,000 in excess of the original cost.

Studies with respect to the remaining portion of the properties subject to original cost requirements (carried at approximately \$403,000,000) are now in process. Estimates made recently in connection with the Plan of Reorganization (see Note 1, Page 31) indicate that approximately \$40,000,000 may be classified as plant adjustments, Account 107, and \$17,000,000 as acquisition adjustments, Account 100.5, with respect to properties carried at approximately \$330,000,000. Of the remaining property subject to original cost requirements, approximately \$73,000,000, estimates have not been made of the probable excess of carrying value over original cost. A relatively small portion of the amount shown for property, plant and equipment (approximately \$27,500,000) is not required to be reclassified or is restated on the basis of original cost as found or approved by the regulatory bodies.

- (d) Subsequent to December 31, 1942, certain of the companies included in the consolidation have entered into agreements and are engaged in negotiations looking toward the execution of other agreements for the sale of investments of sub-holding company parents in, or all or part of the properties of, certain operating subsidiaries to non-affiliated interests. It is not possible at this time to estimate the amount of the profit or loss that has arisen or may arise from effecting the various disposals, but it is expected that as a whole such transactions will result in substantial book losses.

(4) Retirement (depreciation) and maintenance policies:

- (a) The greater number of operating subsidiaries follow the general policy of providing for retirement (depreciation) of property in amounts which approximate the deductions for depreciation claimed for income tax purposes. Of the remaining companies, some follow the general policy of providing for retirement (depreciation) of property (other than automotive equipment) in amounts which, when added to maintenance expenditures, equal fixed percentages of gross operating revenues less, in the case of electric and gas utilities, cost of power and gas purchased; others make provisions in amounts fixed by their respective managements, and two on the basis of rates or amounts prescribed by the state regulatory body having jurisdiction. Provisions for retirement (depreciation) of automotive equipment are based, generally, on estimated service lives.
- (b) The aggregate of the amounts provided for retirements (and depreciation and depletion where provision is made as such) by the operating subsidiaries was less by approximately \$500,000 in 1942 and \$1,200,000 in 1941 than the combined depreciation deductions claimed or to be claimed for Federal income tax purposes, which deductions are based on a straight-line method.
- (c) No specific provisions are made for amortization of intangibles included in property, plant and equipment except in the case of one major subsidiary which is writing off certain intangibles at the rate of \$200,000 per annum under an agreement with a regulatory commission.
- (d) The systems of accounts (referred to in Note 3(c)) prescribed by the Federal Power Commission and state regulatory commissions having jurisdiction require that provision be made for loss in service value of electric, gas and water plants which is not restored by current maintenance, and mention various causes of depreciation which are to be considered. Pending completion by the companies and review by the commissions of the data pertaining to the original cost of plant, it cannot be presently foreseen what changes in the companies' accounts or depreciation policies may be necessitated, but they may be material.

(5) Investments:

- (a) Investments in securities of Manila Electric Company and Escudero Electric Service Company (both located in the Philippine Islands), Tri-City Utilities Company, Jersey Central Power & Light Company, National Public Service Corporation, Paul Smith's Electric Light and Power and Railroad Company, Paul Smith's Hotel Company and New England Gas and Electric Association are stated at amounts which represent, for the most part, cost or less to the consolidation, and are after deducting a related reserve. Investments in securities of other nonconsolidated majority-owned companies, statutory subsidiaries and other associated companies are stated at written-down amounts, less the reserves indicated. Miscellaneous investments appear at cost or less, and are after deducting related reserves.

The investment in subsidiaries in the Philippine Islands, amounting to \$21,646,288.32 (before deducting reserve of \$10,000,000), is approximately \$1,200,000 less than related assets of such companies based on the latest reports (unaudited) received from such companies as of October 31, 1941. The company owning such investment retained in 1942 E. M. Gilbert, an engineer of the firm of Gilbert Associates, Inc., who by reason of his former association with that company is familiar with the properties located in the Philippine Islands, to make a review of the situation from the standpoint of the destruction that might be sustained as a result of the war, and, based upon his report which contained estimates of the maximum and minimum damages that might be sustained, created a reserve of \$10,000,000 against such investment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The investment in Virginia Public Service Company consists of (1) common stock carried at cost of \$2,660,287.73 and (2) \$1,163,166.67 representing the proceeds received from \$1,200,000 principal amount of First Mortgage and Refunding bonds of Virginia Public Service Company which were surrendered for cancellation, at 97 and accrued interest, in connection with the refinancing of that company's long-term debt in 1942. As required by an order of the Securities and Exchange Commission, such proceeds were deposited in escrow pending determination whether the sub-holding company owning such bonds was entitled to receive the funds, or whether the funds should revert to Virginia Public Service Company. Attention is directed to Note 2(a) as to certain recapitalization proceedings in respect of Virginia Public Service Company, which proceedings may materially affect this investment.

- (b) Investments in sinking fund income debentures of Associated Gas and Electric Company are stated at cost to the consolidation and other securities of that company are carried at no value.
- (c) The amounts at which investments in securities of, and receivables from, associated and nonassociated companies are carried do not purport to represent realizable values.
- (d) Certain subsidiary companies own approximately one-third of the common stock of Jersey Central Power & Light Company and approximately 85 per cent of the outstanding debentures or certificates of deposit therefor of National Public Service Corporation, under which the remaining two-thirds of the aforementioned common stock is pledged. National Public Service Corporation has been declared bankrupt, and the indenture trustee holds the pledged common stock. The net income of Jersey Central Power & Light Company and its subsidiaries for the year 1942, after provision for dividends on preferred stocks, as shown by that company's report, was \$443,891.27. No dividends were paid on the common stock during the year. Under the terms of the indenture securing the funded debt of such company, there are certain restrictions as to the availability of earned surplus for dividends on the common stock. Moreover, the payment of dividends on the common stock is subject to the approval of the Board of Public Utility Commissioners of the State of New Jersey.

(6) *Unamortized debt discount and expense:*

The unamortized debt discount and expense applicable to indebtedness of Associated Gas and Electric Corporation, which amounted to \$3,209,541.06 at January 10, 1940, has been closed to the "Excess of assets over liabilities."

(7) *Interest on indebtedness of Associated Gas and Electric Corporation:*

No provision has been made in the consolidated statement of assets, liabilities and reserves at December 31, 1942 for interest on (a) the outstanding bonds and debentures of Associated Gas and Electric Corporation, or (b) the income note owing by said Corporation to its parent, subsequent to January 10, 1940, the date of the filing and approval of the Corporation's petition for reorganization under Chapter X of the Bankruptcy Act. Interest on such indebtedness outstanding at December 31, 1942, after eliminating the portion of such indebtedness held within the consolidated group, computed as provided in said securities, for the period from January 11, 1940 to December 31, 1942, and for each of the years 1941 and 1942 (none of which is reflected in the consolidated statement of income and expenses), is as follows:

	Jan. 11, 1940 to Dec. 31, 1942	Each of the Years 1941 and 1942
Bonds and debentures	\$21,662,885.51	\$ 7,288,447.46
Indebtedness to Associated Gas and Electric Company on income note	10,671,038.67	3,590,256.00
Total	\$32,333,924.18	\$10,878,703.46

(8) *Convertible debentures, due 1973 and reserve for conversion of debentures:*

The convertible (fixed interest) debentures, due 1973, are convertible, by the terms of the indentures, at the option of the holder into income debentures, due 1978, equal in principal amount to twice the principal amount of convertible debentures surrendered for such conversion.

The reserve for conversion of debentures represents the balance of the provision made in 1933 by appropriation from capital surplus for the above conversions.

(9) *Bonds and debentures of subsidiaries, held intercorporately, which are pledged:*

These are comprised of \$1,991,500 principal amount of bonds and debentures which are pledged as collateral to certain notes payable to banks and others, \$20,000 pledged to secure surety bond and \$75,000 under the indenture of an associated company.

In addition to the foregoing, various securities of subsidiaries which are held as treasury securities or held intercorporately were pledged, restricted or subordinated as shown on pages 48 to 52.

(10) *Trustees' Certificate of Indebtedness:*

Except as to certain special assets and funds held by the Trustees, the certificate of indebtedness of the Trustees, issued December 18, 1941, constitutes a first charge and claim upon all assets then held, and all proceeds and earnings thereafter received, by the Trustees or their successors, and upon assets, proceeds and earnings of the Estate of the Corporation as then or thereafter constituted, junior only to (1) the costs and expenses of the administration of the Estate of the Corporation; (2) the costs and expenses of the administration of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Estate of Associated Gas and Electric Company and certain certificates of indebtedness issued by the Trustee of such Estate (insofar as such costs, expenses and certificates of indebtedness of the Trustee of the Company may become a charge upon the assets then or hereafter held by the Trustees or upon the Estate of the Corporation as then or hereafter constituted); provided, however, that the total amount of such costs and expenses and certificates of indebtedness referred to in (2) to which the certificate is junior shall not, without the consent of the holder of the certificate, exceed, in the aggregate, the sum of \$500,000; and (3) claims, to the extent allowed, of the United States of America, against the Estate of the Corporation for additional unpaid Federal income and excess profits taxes accrued prior to January 10, 1940. Moreover, said certificate provides that all the net proceeds from the sale of assets of the Estate of the Corporation shall be applied, within thirty days of the receipt thereof, to the payment of the principal represented by the certificate.

(11) *Indebtedness to Associated Gas and Electric Company:*

The Trustees of Associated Gas and Electric Corporation are informed that, in addition to the items shown under the above caption, the Trustee of Associated Gas and Electric Company holds \$115,730 principal amount of convertible debentures, due 1973, of Associated Gas and Electric Corporation.

The 5% cumulative income note, due 1980, and the noninterest bearing note, due 1983, are both subordinated by the terms of the respective notes to all other indebtedness of the Corporation, except the indebtedness represented by such notes.

(12) *Liabilities of Associated Gas and Electric Corporation—General:*

See Note 6, Page 57.

(13) *Provisions for Federal income and excess profits taxes:*

The Trustees of Associated Gas and Electric Corporation and most of its subsidiaries, being all those considered eligible, joined with their parent, Associated Gas and Electric Company, in consolidated excess profits tax returns for the years 1940 to 1942, inclusive, and in a consolidated income tax return for the year 1942. Consolidated income tax returns were not permitted, under the Internal Revenue Code, for the years 1940 and 1941.

The amount provided in the consolidated statements for Federal income taxes for 1942 includes provision for the estimated Federal income tax liability for such year of subsidiary companies not eligible to join in the consolidated returns amounting to approximately \$1,150,000. Full provision has been made also in the consolidated statements for the estimated aggregate amount of excess profits taxes to which such subsidiary companies will be subject. It is believed that the group which joined in the consolidated excess profits tax returns for the years 1940 to 1942, inclusive, has no liability for such taxes for the respective years regardless of the status of the interest and "War Loss" deductions referred to below.

Provision for the liability for Federal income tax for 1942 of the Corporation and those of its subsidiaries which have joined in the consolidated return for that year represents an estimate of the maximum amount of such liability and the contingent liability referred to below. This estimate was computed without recognition of substantial deductions which have been claimed in the return for 1942 for (1) interest and related amortization charges on debt securities of the Corporation and its parent, Associated Gas and Electric Company (approximately \$14,400,000), and (2) "War Losses" allowable to Associated Electric Company on its investments in the Philippine Islands (approximately \$8,400,000). If these deductions are allowed in their entirety, the consolidated group will have no Federal income tax liability for that year but will have a contingent liability as described in Note 15(a), Page 37, which is estimated to be \$1,000,000 as related to the 1942 return. If the interest deductions are disallowed and the claimed "War Losses" are allowed in their entirety, the estimated tax liability for the year 1942 will be less by \$3,500,000 than the amount provided, but said contingent liability will be increased to \$3,500,000.

Regarding the proposed interest deductions, the Commissioner of Internal Revenue has held in a somewhat similar case that interest was not allowable where, in the opinion of the Commissioner, the financial position of the taxpayer was such that there was no reasonable expectancy that the interest would be paid. The Board of Tax Appeals sustained this position. The Circuit Court of Appeals reversed both the Board and the Commissioner upon this question and allowed the deduction of the interest claimed. No appeal was taken from this decision, and it is to be noted that written advice has been received recently from the Internal Revenue Agent in Charge at Baltimore, Md., of his conclusion that the 1940 income tax return of the Corporation (not a consolidated return), which showed no taxable net income because of substantial similar interest deductions, should be accepted as filed. It is believed, however, that these actions do not dispose of the possibility of controversy, since there has been no announcement by the Commissioner of the policy to be followed with respect to similar interest deductions and the advice received from the Internal Revenue Agent in Charge, in accordance with the usual form, directs attention to the possibility of a reversal of the action taken, if subsequent information is received which would materially change the amount of taxable net income reported.

(14) *Litigation pertaining to recapitalization plan of 1933:*

On February 28, 1941 a petition was filed with the United States District Court for the Southern District of New York by the Trustee of Associated Gas and Electric Company, parent company, and soon thereafter other trustees acting under indentures pursuant to which various classes of debentures of the Company were issued also filed petitions, asserting various claims of the Company with respect to the ownership of assets now held by the Trustees of the Corporation and seeking to establish the rights of the Company and of holders of securities issued by the Company to share in these assets. Said petitions challenged the validity of a number of transactions, including certain transfers of assets from the Company to the Corporation, and of the Recapitalization Plan of 1933, pursuant to which many security holders of the Company exchanged their holdings for Corporation debentures. On or about May 7, 1941 the General Protective Committee for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Security Holders of Associated Gas and Electric Company (limited to the fixed interest obligations of the Company) and individual holders of fixed interest obligations of the Company filed petitions in amplification and support of the above-mentioned petition filed by the Trustee of the Company. The Trustees of the Corporation filed their answers and objections to the various petitions and urged that such petitions be dismissed. Answers and objections were also filed by Committees and indenture trustees for various issues of debt securities issued by the Corporation.

On September 24, 1941 hearings on the questions raised by the various petitions and answers thereto began before the Honorable Frederick E. Crane, who had been designated by the reorganization Court as Special Master. On September 14, 1942 the Special Master finished taking evidence in this so-called "Recap Reference," and the hearings were recessed.

Prior to and during the hearings in the "Recap Reference," representatives of holders of various Associated Gas and Electric Company securities other than its fixed interest debt, including holders of convertible debenture certificates, convertible obligations and scrip, had asserted that these securities constituted general debt of Associated Gas and Electric Company and were entitled to stand on a parity with the fixed interest debt of Associated Gas and Electric Company. (Representatives of holders of the Associated Gas and Electric Company convertible debenture certificates also filed petitions in the Corporation reorganization proceedings.) The determination of the status of holders of these securities as class claimants against Associated Gas and Electric Company was referred to the Honorable Frederick E. Crane, Special Master, by order of reference in the Associated Gas and Electric Company reorganization proceedings, dated October 27, 1942. Hearings in this so-called "CDC reference" commenced on December 7, 1942. On March 31, 1943 the Special Master filed his "Report and Opinion" therein, finding that, with one minor exception, none of the claimants in the "CDC reference" stood, as classes, on a parity with the fixed interest debenture holders and other general creditors of Associated Gas and Electric Company. The Court has not yet passed upon the Special Master's report in its entirety. If the Special Master's finding that the petitioners in the "CDC reference" are subordinated claimants against the Associated Gas and Electric Company Estate were reversed, it would then be necessary to determine their rights against the Corporation.

On November 9, 1942 the Trustees and the Trustee of Associated Gas and Electric Company announced a joint Plan for Compromise of the claims of the debenture holders of the Corporation, of the fixed interest debenture and certificate holders of Associated Gas and Electric Company, and of certain of the claimants in the "CDC reference." The determination of the fairness of the Plan of Compromise was referred to the Honorable Frederick E. Crane, as Special Master, on November 13, 1942. Hearings on the fairness of the Plan, before the Special Master, began on April 29, 1943 and were concluded on July 2, 1943. On July 19, 1943 the Special Master issued an opinion finding the Plan of Compromise fair and reasonable and gave copies of such opinion to the attorneys participating in the proceedings before him. On September 3, 1943, the Special Master filed his report together with his findings of fact and conclusions of law. The Court will have to pass upon the fairness of the Plan of Compromise, either directly or as part of a Plan of Reorganization.

Pending the decision of the Court, it is impossible to determine the effect upon the statements of Associated Gas and Electric Corporation of the outcome of these proceedings.

(15) Other contingent liabilities:

- (a) The Trustees of Associated Gas and Electric Corporation and most of its subsidiaries, being all those considered eligible, joined with their parent, Associated Gas and Electric Company, in consolidated Federal excess profits tax returns for the years 1940 to 1942, inclusive, and in a consolidated income tax return for the year 1942. Consolidated Federal income tax returns were not permitted, under the Internal Revenue Code, for the years 1940 and 1941.

Under the regulations applicable to consolidated returns for the years 1940 to 1942, inclusive, each of the companies which joined in a consolidated return is severally liable to the Federal Government for the full amount of any excess profits tax for the years 1940 to 1942, inclusive, and of any income tax for the year 1942, both including any deficiencies, penalties or interest, which may be assessed against the respective consolidated groups.

Agreements have been made by the companies which joined in the consolidated excess profits tax returns for the years 1940 to 1942, inclusive, and the consolidated income tax return for the year 1942 (other than the Trustee of Associated Gas and Electric Company with respect to the year 1940), which agreements provide that any liability with respect to any consolidated return made by the respective consolidated groups for these years shall be allocated to the respective companies in the group based upon the liability of the respective companies on a separate return basis. These agreements provide that the liability (including interest and penalties for 1940 and excluding interest and penalties for other years) shall not exceed the amount of each company's tax liability computed on the basis of a separate return. However, the 1942 agreement contains an indemnification clause providing for the allocation to the respective companies in the group of the future tax liability which may arise as a result of the deduction in the 1942 returns of the "War Losses" of Associated Electric Company on its investments in the Philippine Islands.

In the event that the deductions claimed for "War Losses" in the 1942 return are allowed, Associated Electric Company, or the consolidated group, may be subject to substantial taxes upon the recovery of the "War Losses" and the agreements made by the respective companies in the consolidated group provide for the establishment of an escrow fund to meet such contingencies. This fund will be created by deposits in escrow on the part of each company in an amount equivalent to its tax liability if the "War Losses" were not allowed as deductions in the consolidated returns. It is expected that the amounts to be deposited in escrow for the year 1942 will be computed, in the first instance, as if the deductions for interest and amortization charges on obligations of Associated Gas and Electric Corporation and Associated Gas and Electric Company are allowable and that the aggregate of the deposits so computed will amount to approximately

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$1,000,000. The ultimate amount of this contingent liability and the corresponding amounts to be deposited in the escrow fund depend upon adjustments which may be made upon audit of the return by the Bureau of Internal Revenue.

- A subsidiary company has agreed to indemnify Staten Island Coach Company, Inc., and Triple Cities Traction Corporation, former associated companies, and to hold them harmless against any excess profits tax for the years 1940 and 1941 for which either may be liable as a result of their inclusion in the consolidated returns for such years.
- (b) Separate Federal income and declared value excess profits tax returns were filed by this Corporation and its subsidiaries for the years 1934 through 1940. The Bureau of Internal Revenue has examined the Federal income and declared value excess profits tax returns of the Corporation to and including 1940 and of the Corporation's subsidiaries to and including 1940 and in some instances through 1941. Based upon such examinations, the Bureau has determined, assessed, or proposed for assessment, deficiencies and interest amounting in the aggregate to approximately \$1,400,000 for the Corporation and \$400,000 for its subsidiaries consolidated. As a result of negotiations had with the Bureau, it is proposed that such claims against the Corporation, together with similar claims aggregating approximately \$7,100,000 against Associated Gas and Electric Company, be settled (in the event of the consummation, and as a part, of the Plan of Reorganization referred to in Note 1) for the sum of \$750,000. The proposed deficiencies against the subsidiaries of the Corporation are being contested.
 - (c) No provision has been made for claims asserted against the Corporation (approximately \$270,000) and against certain of its subsidiaries (approximately \$330,000) by the City of New York for taxes, and penalties and interest thereon, said to be due under various local laws for varying periods between January 1, 1933 and January 1, 1941. Such claims are being contested.
 - (d) No provision has been made for the fees and expenses (including counsel fees) of the Successor Trustees under the several bond and debenture indentures created by the Corporation, all of which are undetermined in amount, and are subject to the approval of the United States District Court, Southern District of New York, in the Corporation's proceedings for reorganization under Chapter X of the Bankruptcy Act. For the same reason, no provision has been made for any additional compensation which may be allowed by the Court to the Trustees of the Corporation, or their counsel, or for compensation, expenses, counsel fees, etc., of the various security holders' protective committees or other persons who, under the applicable provisions of Chapter X of the Bankruptcy Act, may be entitled to the allowance of compensation for services or reimbursement for costs and expenses incurred.
 - (e) Certain of the subsidiary operating companies had contingent liabilities aggregating approximately \$548,000 at December 31, 1942 on appliance instalment contracts sold. The Corporation was contingently liable at that date to the extent of approximately \$18,000 in respect of such contracts, under an agreement which provides that the Corporation will repurchase from a certain bank any contracts which the sellers may be obligated to, and fail to, repurchase.
 - (f) On March 12, 1942 certain stockholders of General Gas & Electric Corporation brought suit in the Supreme Court of the State of New York against General Gas & Electric Corporation and NY PA NJ Utilities Company seeking to set aside the transfer out of General Gas & Electric Corporation in 1929 of the common stock of four of its former subsidiaries, namely: Metropolitan Edison Company, Northern Pennsylvania Power Company, Binghamton Light, Heat & Power Company and New Jersey Power & Light Company. The complaint sought rescission, an accounting, and damages. An amended and supplemental complaint was later filed, joining as additional defendants Associated Electric Company, The United Coach Company, Broome Electric Corporation and New York State Electric & Gas Corporation. All the defendants moved to dismiss upon the ground that the plaintiffs lacked capacity to maintain the action in view of the determination of the directors of General Gas & Electric Corporation in good faith that it would not be in that company's interest that the action be maintained and that the conflicting interests of the public holders of the preferred and common stocks of General Gas & Electric Corporation on the one hand and the creditors of the Estate of Associated Gas and Electric Corporation on the other could be more appropriately disposed of in pending proceedings under Section 11 of the Public Utility Holding Company Act of 1935 (see Note 16-b Page 39). New York State Electric & Gas Corporation and Associated Electric Company also moved to dismiss the amended and supplemental complaint on the ground that the action was barred as to them by the statute of limitations. The motion to dismiss for lack of capacity to sue and the motion of New York State Electric & Gas Corporation to dismiss on the ground of the statute of limitations were granted and judgment in favor of the defendants was entered on June 19, 1943. The plaintiffs in this action filed notices of appeal from said judgment during July, 1943.
 - (g) The following actions or proceedings are pending involving relationships between New England Gas and Electric Association, on the one hand, and the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company, and/or their subsidiaries, on the other hand:
 - (1) Proceedings initially brought pursuant to certain orders of the Securities and Exchange Commission under Sections 11(b) (1) and 11(b) (2) of the Public Utility Holding Company Act of 1935 with respect to New England Gas and Electric Association. These proceedings have been broadened to include as parties thereto the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company, Gas and Electric Associates, and Utilities Investing Trust with a view to a determination of the validity and extent of the claims asserted on behalf of the Corporation and the above-named company and trusts, and of the relative rank of such claims, and with a view to the presentation to the Commission of all relevant relationships and transactions among the parties to such proceedings. Hearings before the Trial Examiner of the Securities and Exchange Commission have not yet been concluded.
 - (2) An action instituted on June 30, 1942 in the Superior Court for the County of Middlesex, Massachusetts, by New England Gas and Electric Association against NY PA NJ Utilities Company and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Associated Utilities Corporation, seeking a decree against the defendants in favor of New England Gas and Electric Association to the effect that the purchase made by a predecessor company of New England Gas and Electric Association in 1938 and 1939 of \$1,214,500 principal amount of National Public Service Corporation 5% Debentures, due 1978, at an alleged cost of \$551,784.30, was originally made by such predecessor company as agent for the account of one of the defendants or both and that the entire transaction should be rescinded and the parties restored to their original positions. The trial has been completed before a Special Master who, on May 18, 1943, submitted to counsel for the parties the first draft of his report in which he absolves Associated Utilities Corporation but holds that NY PA NJ Utilities Company should acquire the aforementioned debentures from New England Gas and Electric Association for an amount equivalent to the cost to the latter of such debentures plus interest from various dates to date of final settlement. According to the Master's report, the aggregate amount payable, including interest to May 15, 1943, is \$711,552.32. Hearings are continuing before the Special Master on this draft of his report.

- (3) An action brought by the Trustees of the Corporation and the Trustee of Associated Gas and Electric Company on October 16, 1942 in the United States District Court for the District of Massachusetts against New England Gas and Electric Association seeking to rescind transactions whereby holdings of companies in the Associated System in Electric Associates, Inc. were transferred to New England Gas and Electric Association for considerations which are claimed to have been grossly inadequate. This case is now at issue.
 - (4) An action brought on behalf of Gas and Electric Associates in the Superior Court for the County of Middlesex, Massachusetts, against New England Gas and Electric Association and Utilities Investing Trust to set aside certain transfers claimed to have been in fraud of creditors. The complaint prays that a decree directing that an indebtedness of \$14,583,290.12 to Utilities Investing Trust from New England Gas and Electric Association be re-established and that 50,000 common and 100,000 first preferred shares of beneficial interest of New England Gas and Electric Association issued in satisfaction of such indebtedness be returned to New England Gas and Electric Association. This case is now at issue.
 - (h) Manila Electric Company, a nonconsolidated subsidiary located in the Philippine Islands (see Note 2-a), suspended as of September 1, 1942 payment of all interest and sinking fund requirements on its bonds as a result of the Japanese occupation of those islands. Under General Ruling No. 10-A issued by the United States Treasury Department on August 12, 1942, unless authorized by a Treasury license no Philippine company shall make any payment or perform any covenant, duty, condition or service within the United States on, or with respect to, any direct or indirect obligation or security of, or claim against any such company; nor shall any person within the United States exercise any right, remedy, power or privilege with respect to, directly or indirectly arising out of or in connection with, any obligation or security of, or claim against, any Philippine company, including any right, remedy, power, or privilege with respect to any guaranty, covenant or agreement that such Philippine company will perform any covenant, duty, condition, or service. The Supreme Court of New York recently decided in a suit for instructions brought on June 23, 1942 by the trustee of one of the issues of said bonds that the moneys now held in the sinking fund by that trustee (\$150,580.82) should not be used in accordance with the provisions of the indentures pending further developments in the Philippines. In the meantime, however, the funds have been invested in U. S. Government securities. As an incident to deciding this case the Court made a finding that Associated Electric Company, a subsidiary holding company, as well as Manila Electric Company, had assumed the obligation of said bonds. The annual interest and sinking fund requirements on this issue amount to \$275,850 exclusive of interest requirements on bonds of that issue held intercorporately. Associated Electric Company is advised that the protection accorded by said General Ruling No. 10-A extends to it to the extent that it may be so obligated.
 - (i) There are other claims and proceedings pending in respect of which certain subsidiary companies are contingently liable to the extent of approximately \$675,000.
- (16) *Proceedings under Section 11(b) of the Public Utility Holding Company Act:*
- (a) The Securities and Exchange Commission on September 4, 1941 instituted proceedings against the Trustees of the Corporation under Section 11(b) (1) of the Public Utility Holding Company Act of 1935, indicating that there was some question as to whether or not said Trustees might retain their direct or indirect interest in certain companies, trusts and partnerships. In an interim order dated August 13, 1942, as supplemented by a supplemental order dated December 30, 1942, the Commission directed the Trustees to dispose of their direct or indirect interest in certain of said companies, trusts and partnerships. The Trustees have disposed of their interests in some of the companies specified in said orders. With respect to certain of such companies, trusts and partnerships, the Trustees have sought an additional period to dispose of their interests, and with respect to others have sought that the Commission modify its order so as to permit retention thereof. The proceedings are still pending before the Commission.
 - (b) The Securities and Exchange Commission has instituted proceedings against General Gas & Electric Corporation, a major subsidiary holding company, under Section 11(b) (2) of the Public Utility Holding Company Act of 1935. This section among other things, directs the Commission to require "that each registered holding company and each subsidiary company thereof shall take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding-company system does not unduly or unnecessarily complicate the structure or unfairly or inequitably distribute voting power among security holders of such holding-company system." On March 5, 1941 General Gas & Electric Corporation filed with the Securities and Exchange Commission a plan of corporate simplification and equitable distribution of voting power under Section 11(e) of the Act. The proceedings were consolidated and hearings were held but no final determination has been made in either proceeding. Under date of May 5, 1943 the Trustees, with the leave of the Court, filed with the Commission, under Section 11(e) of the Act, a plan

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of divestment of assets, simplification of corporate structure and equitable distribution of voting power of General Gas & Electric Corporation. The Commission consolidated the pending proceedings with the proceedings for the approval of the Trustees' plan. The Trustees' plan provides, among other things, for the sale of certain investments of General Gas & Electric Corporation to outside interests, the distribution of certain of that company's holdings of securities in operating subsidiaries to public holders of its capital stock, and the issuance of new common stock in substitution for all its present indebtedness to and its stock held by the Trustees of the Corporation.

(17) *Additional assets recovered subsequent to December 31, 1942:*

During the early part of 1943 the Trustees of the Corporation and the Trustee of Associated Gas and Electric Company, with the approval of the reorganization Court, settled certain claims against various individuals and firms, receiving therefor \$309,750 in cash. In addition, there has been surrendered to said Trustees and Trustee approximately \$300,000 principal amount of System securities and claims against the Corporation, Associated Gas and Electric Company and other System companies. Proceeds from such settlements are to be distributed among the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company and other System companies in such manner, subject to the approval of the Court, as may be determined by agreement or otherwise.

(18) *Unavailability to Corporation of major portion of consolidated net income:*

Because of the deficiencies in earned surpluses of certain subsidiaries, and the restrictions under specific orders of regulatory bodies having jurisdiction, as set forth in the statements appearing on Pages 21 to 25, the major portion of consolidated net income, before expenses, taxes and interest of the Corporation, for 1942, could not have been made available to the Corporation at December 31, 1942.

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ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF INVESTMENTS

(exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company, in proceedings for reorganization—see Note 1)

December 31, 1942

	Principal Amount or Number of Shares	Amount at Which Carried
SECURITIES OF, AND NONCURRENT RECEIVABLES FROM, NONCONSOLIDATED MAJORITY-OWNED COMPANIES STATUTORY SUBSIDIARIES AND ASSOCIATED COMPANIES:		
Subsidiaries located in the Philippine Islands:		
Common stocks:		
Manila Electric Company	97,220 shs	\$11,447,534.55
Escudero Electric Service Company	2,000 shs	198,376.91
Bonds:		
Manila Electric Company, first refunding mortgage bonds, 5% series due 1946	\$ 17,000	14,591.01
Manila Electric Railroad and Lighting Corporation, 5% 50 year first lien and collateral trust sinking fund bonds due March 1, 1953	480,000	416,007.05
Accounts receivable, net (interest at 10%)		9,569,778.80
		21,646,288.32
Less, Reserve		10,000,000.00
		<u>\$11,646,288.32</u>
Virginia Public Service Company, a subsidiary company not consolidated (see Note 2-a, Page 31):		
Common stock, entire issue, at cost		\$ 2,660,287.73
Redemption price of bonds and accrued interest, deposited in escrow (see Note 5-a, Page 34)		1,165,166.67
		<u>\$ 3,825,454.40</u>
Tri-City Utilities Company, a subsidiary company not consolidated (see Note 2-a, Page 31), common stock, par value \$1 per share, entire issue		
	2,324,017 shs	\$ 2,324,017.00
Paul Smith's Electric Light and Power and Railroad Company:		
Common stock	6,227.5 shs	\$ 1,067,265.99
First refunding 5% bonds, due November 1, 1966	\$ 66,000 (A)	66,602.50
Paul Smith's Hotel Company, common stock	496 shs	18,507.70
		<u>\$ 1,152,376.19</u>
Other:		
Utilities Employees Securities Company (see Note 2-a, Page 31):		
Class A stock, par value \$1 per share (less reserve of \$82,000)	82,000 shs	—
Preferred stock, \$5 noncumulative, no par value (less reserve of \$1,308,100)	13,441 shs	—
	\$ 954,320 shs	\$ 420,112.05

Associated General Utilities Company:

Debentures, 5's 1956	421,550 (C)	99,064.25
Income debentures, 4's 1961	87,590 (C)	20,583.65
Massachusetts Northeastern Transportation Company, common stock voting trust certificate	2,856 shs	34,849.63
The Reading and Southwestern Street Railway Company, common stock	1,058 shs	98,190.00
Rochester Transit Corporation, capital stock	133,930 shs	
Syracuse Transit Corporation:		
Common stock	7,845 shs	
Income note due September 1, 1969	\$ 211,300	
Non interest bearing scrip	30	
Albany Railway Company, Consolidated 5's 1930	52,000	
Albany Railway Company, general 5's 1947	65,000	
New York State Railways, Inc., first consolidated 6½'s 1962 (stamped twice) (D)	720,000	399,641.11
New York State Railways, Inc., first consolidated 4½'s 1962 (stamped twice) (D)	3,890,000	
Schenectady Railway Company first 5's, series A, due 1946	732,000	
Troy City Railway Company, first consolidated 5's 1942	81,000	
United Traction Company, consolidated 4½'s 2004	1,463,000	
Utica Belt Line Street Railway Company, second 5's 1931 (D)	4,000	
Utica Belt Line Street Railway Company, first 5's 1939 (D)	50,000	
Utica & Mohawk Valley Railway Company, first 4½'s 1941 (D)	223,000	
Schenectady Railway Company, 6% demand note	915,150	
Utilities Investing Trust:		
Income Notes (8%)	\$37,300,000.00	\$34,958,083.27
Advance on Open Account (6%)	114,908.85	114,908.85
		<u>35,072,992.12</u>
		<u>35,072,991.12</u>
Less, Reserve		1.00
Keuka Lake Power Corporation, common stock	2,450 shs	1.00
Keuka Lake Power Corporation, 6's 1960	\$ 245,000	1.00
		<u>\$ 1,122,450.69</u>

INVESTMENTS IN SECURITIES OF:

Jersey Central Power & Light Company, common stock	341,351 shs	\$ 2,484,956.42
National Public Service Corporation (in bankruptcy), secured debentures, 5%, series due 1978 (including certificates of deposit for \$12,744,000 principal amount)	\$17,079,000	4,269,750.00
		<u>\$ 6,754,706.42</u>
New England Gas and Electric Association, \$5.50 cumulative dividend series preferred (entitled to \$100 a share in liquidation)	23,744 shs	\$ 2,045,509.09
MISCELLANEOUS INVESTMENTS, including real estate (less reserve of \$16,044.95)		<u>\$ 577,018.06</u>
TOTAL INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company)		<u>\$29,447,820.17</u>

NOTES:

- Pledged as collateral to a note payable to bank by a subsidiary company.
- This amount includes \$721,390 principal amount of notes which are stamped to the effect that no interest is or shall become payable thereon and that under no circumstances shall any holder of such notes receive more than 55% of the principal amount upon the payment or redemption thereof.
- These debentures are stamped to the effect that no interest is or shall become payable thereon and that under no circumstances shall any holder of such debentures receive more than 69% of the principal amount upon the payment or redemption thereof.
- Company in process of reorganization.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1942

	Shares Authorized	Shares Held Intercorporately (Eliminated in Consolidation)	Shares Outstanding		
			Shares	Held by Others	
				Par or Stated Value	Surplus or Deficit* Applicable
COMMON STOCKS:					
GENERAL GAS & ELECTRIC CORPORATION AND SUBSIDIARIES:					
General Gas & Electric Corporation:					
Class A, no par value (less 654.25 shares held in treasury)	5,000,000(A)	2,621,912.123(A)(B)	2,289,182.537(A)		
Class B, par value 25 cents per share.....	4,000,000(A)	3,036,985.225(A)	10,014.775(A)		
Eastern Shore Public Service Company (Delaware):					
Common stock, par value \$6 per share..	200,000	121,334	60,666	\$363,996.00	\$312,737.67
NY PA NJ UTILITIES COMPANY AND SUBSIDIARIES:					
York Railways Company (in proceedings for reorganization under Section 77B of the Bankruptcy Act), common, par value \$50 per share	50,000	{ 510 49,119(E)	371	18,550.00	18,550.00*
ATLANTIC UTILITY SERVICE CORPORATION, common, par value \$1 per share...	200,000	78,710	7,860	7,860.00	37,726.84
Total common stocks of subsidiary companies				<u>\$390,406.00</u>	<u>\$331,914.51</u>

	Shares Authorized	Per Share	Amount Applicable to Shares Held by Others	Shares Outstanding		
				Shares Held Intercorporately (Eliminated in Consolidation)	Held by Others	Cumulative Dividends in Arrears
				Shares	Preferences in Involuntary Liquidation	
PREFERRED STOCKS:						
ASSOCIATED ELECTRIC COMPANY AND SUBSIDIARIES:						
Pennsylvania Electric Company 5.10% series, par value \$100 per share.....	250,000 (All series)	\$108.75(C)	\$ 3,697,500.00	—	34,000	\$ 3,400,000.00
GENERAL GAS & ELECTRIC CORPORATION AND SUBSIDIARIES:						
General Gas & Electric Corporation (A):						
Prior \$5 cumulative, no par value.....	100,000	105.00	3,371,644.50	27,889.1	32,110.9	3,211,090.00
Cumulative, no par value:						
\$6 convertible, series A.....	660,000	102.00	1,067,226.00	325.351	10.463	1,046,300.00
\$6 convertible, series B.....		105.00	731,745.00	277.021	6.969	696,900.00
\$7.....		110.00	216,634.00	20,282.5	1,969.4	196,940.00
\$7 class B.....		110.00	1,650.00	—	15	1,500.00
\$8.....		125.00	153,668.75	12,314.5	1,229.35	122,935.00
						95,889.30

Eastern Shore Public Service Company

(Delaware):

\$6 cumulative, no par value (less 43 shares held in treasury)
 \$6.50 cumulative, no par value (less 644 shares held in treasury)

50,000
 All series

106.00
 106.50

2,138,762.00
 1,548,297.00

—
 —
 20,177
 14,538

2,017,700.00
 1,453,800.00

—
 —

Florida Power Corporation:

7% cumulative, par value \$50 per share (less 60 shares held in treasury)
 Series A, 7% cumulative, par value \$100 per share (less 142 shares held in treasury)

6,000
 50,000

52.50
 110.00(D)

289,800.00
 3,163,820.00

420
 —
 5,520
 28,762

276,000.00
 2,876,200.00

—
 —

Georgia Power and Light Company, \$6.00 series, cumulative, no par value (less 466 shares held in treasury)

15,000

105.00

664,335.00

4,200
 6,327

632,700.00

336,912.75

South Carolina Electric & Gas Company:

\$6.00 prior cumulative, no par value
 7% cumulative, par value \$100 per share.

60,000
 40,000

105.00
 110.00

66,045.00
 64,680.00

24,371
 12,517
 629
 588

62,900.00
 58,800.00

—
 35,672.00

Tide Water Power Company, \$6.00 series, cumulative, no par value (less 142 shares held in treasury)

100,000
 (One or more series)

110.00

2,624,380.00

—
 23,858

2,385,800.00

691,882.00

NY PA NJ UTILITIES COMPANY AND SUBSIDIARIES:

NY PA NJ Utilities Company, \$3 noncumulative preferred, no par value (less 289 shares held in treasury)

10,000

26.00

140,545.60

—
 5,405.6

135,140.00

—

Keystone Public Service Company, \$2.80 series, cumulative, no par value (less 106 shares held in treasury)

100,000

52.50

486,885.00

{ 1,257
 1,408(E)

9,274

463,700.00

—

Metropolitan Edison Company:

Prior, cumulative, no par value:

\$6
 \$7

112,890
 6,332

105.00
 105.00

9,626,085.00
 602,070.00

125
 —
 91,677
 5,734

9,167,700.00
 573,400.00

—
 —

Cumulative, no par value:

\$5
 \$6
 \$7

430,391
 400,000
 50,000

110.00(D)
 110.00(D)
 110.00(D)

64,790.00
 1,613,260.00
 209,660.00

5,097
 81,220
 9,612
 589
 14,666
 1,906

58,900.00
 1,466,600.00
 190,600.00

—
 —
 —

New Jersey Power & Light Company, \$6 cumulative, no par value

98,959
 (All series)

110.00

2,309,120.00

{ 11,000(F)
 1,068

20,992

2,099,200.00

—

New York State Electric & Gas Corporation, serial, 5.10% cumulative, par value \$100 per share

120,000

107.00(G)

12,840,000.00

—
 120,000

12,000,000.00

—

Pennsylvania Edison Company, cumulative, no par value:

\$5 (less 3,117 shares held in treasury) ...
 \$2.80 (less 2,140 shares held in treasury)

150,000
 150,000

80.00
 52.50

9,873,920.00
 4,408,372.50

42
 60
 123,424
 83,969

9,256,800.00
 4,198,450.00

—
 —

Rochester Gas and Electric Corporation, cumulative, par value \$100 per share:

6% series C, full voting rights
 6% series D, limited voting rights
 5% series E, limited voting rights

30,000
 171,893
 40,000

105.00
 105.00
 105.00

1,867,215.00
 17,961,930.00
 4,200,000.00

{ 8,450(F)
 767
 805
 —
 17,783
 171,066
 40,000

1,778,300.00
 17,106,600.00
 4,000,000.00

—
 —
 —

York Railways Company (in proceedings for reorganization under Section 77B of the Bankruptcy Act) 5% cumulative voting, par value \$50 per share

40,000

Noncallable

28,814
 3,186

159,300.00

47,790.00

Total preferred stocks of subsidiary companies

\$86,004,040.35

\$81,094,255.00

\$2,534,909.27

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES
IN WHICH THERE IS A PUBLIC INTEREST

- (A) There is no stated value for each of the respective classes and shares of capital stock of General Gas & Electric Corporation; all capital stocks of the corporation are stated at an aggregate amount of \$16,069,500.91.

After payment in full of liquidation value (including accumulated dividends) of all preferred stocks, the holders of common stock, Class A, are entitled to \$5 a share in liquidation before any payment is made to holders of common stock, Class B. After the distribution of \$5 a share on common stock, Class A, the holders of common stock, Class B, are entitled to receive in liquidation up to \$5 a share after which the remaining assets shall be distributed equally among the holders of common stock, Class A and Class B.

The aggregate amount to which the 715,614.75 shares of preferred stocks of General Gas & Electric Corporation outstanding at December 31, 1942, are preferred in liquidation (exclusive of accumulated dividends) is \$71,561,475 which is approximately \$55,492,000 more than the stated value for all outstanding stocks of the corporation. Cumulative dividends in arrears on preferred stocks of General Gas & Electric Corporation not provided for in the accounts of that corporation amounted to \$39,302,069, of which arrearage approximately \$37,879,417 applies to preferred stock held by the parent company. The cumulative dividends on preferred stocks not provided for in the accounts of that corporation and the preference of the preferred stocks in liquidation amount to \$110,863,544 which is \$83,817,912 in excess of the aggregate of the stated value for all capital stocks and the surplus accounts of the corporation. In the opinion of the corporation's counsel, there is no restriction upon surplus resulting from the excess of the preference of the preferred stocks in liquidation over their stated value.

- (B) Includes due bill for 720,136.9063 shares.
- (C) Callable at \$106.75 after January 1, 1947.
- (D) After redemption of senior preferred issues.
- (E) Pledged, together with other securities, as collateral with trustee of NY PA NJ Utilities Company secured 5% debentures due 1956.
- (F) Pledged as collateral under bank loan to NY PA NJ Utilities Company.
- (G) Callable at \$105 after May 31, 1946.

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ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF LONG-TERM DEBT SECURITIES IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1942

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Others
LONG-TERM DEBT SECURITIES OF PARENT COMPANY IN WHICH THERE IS A PUBLIC INTEREST:					
8% eight year bonds, due 1940.....	\$100,000,000.00	—	\$ 5,000.00	\$ 599,000.00	\$ 7,738,510.00
4% debentures, due 1973.....	(A)	—	—	—	493,150.00
4½% debentures, due 1973.....	(A)	—	—	—	9,276,615.00
5% debentures, due 1973.....	(A)	—	—	—	13,197,110.00
5½% debentures, due 1973.....	(A)	—	—	—	1,456,620.00
3½% income debentures, due 1978.....	(A)	—	608,740.00	—	11,563,690.00
3¾% income debentures, due 1978.....	(A)	—	8,850.00	483,900.00	40,278,270.00
4% income debentures, due 1978.....	(A)	—	1,013,235.00	100,800.00	71,177,335.00
4½% income debentures, due 1978.....	(A)	—	75,590.00	1,099,200.00	16,221,460.00
Total bonds and debentures of parent company (including \$7,738,510 matured)					<u>\$171,402,760.00</u>
LONG-TERM DEBT SECURITIES OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST:					
Associated Electric Company and Subsidiaries:					
Associated Electric Company:					
4½% bonds, due 1953.....	(A)	—	2,379,000.00	2,235,000.00	\$ 25,386,000.00
5% bonds, refunding series, due 1961.....	(A)	—	829,000.00	32,000.00	34,139,000.00
The Lake Shore Gas Company, first mortgage bonds, 5½% series, due 1950.....	(A)	—	34,000.00	196,000.00	403,000.00
Missouri General Utilities Company, 2.77% note payable to Rural Electrification Administration, due serially to 1957 (B).	92,594.45	\$ 5,091.33	—	—	92,594.45
Ohio-Midland Light and Power Company (formerly The Scioto Valley Railway and Power Company) first mortgage 6% twenty year bonds, due 1943 (C).....	2,500,000.00	372,500.00	—	471,500.00	372,500.00
Pennsylvania Electric Company, first mortgage bonds, 3¾% series, due 1972.....	(A)	—	—	—	32,500,000.00
Associated Utilities Corporation and Subsidiaries:					
Associated Real Properties, Inc., real estate mortgages.....	14,960.00	—	—	—	14,960.00

Eastern Shore Public Service Company (Delaware):					
First mortgage and first lien bonds (E):					
Twenty-year, series A, 5½%, due 1947.....	(A)	—	—	20,000.00 (D)	4,780,000.00
Twenty-five year, series B, 5%, due 1955.....	(A)	—	—	107,500.00 (D)	2,142,500.00
3% collateral note, due 1944 (F).....	450,000.00	—	—	—	450,000.00
Florida Power Corporation:					
First mortgage 4% bonds, series C, due 1966.....	(A)	—	—	50,000.00	10,950,000.00
3½% serial debentures, due serially to 1956.....	2,000,000.00	\$126,000.00	—	—	1,811,000.00
3% note payable to Rural Electrification Administration, due serially to 1955	112,552.60	8,657.90	—	—	112,552.60
Florida Public Service Company:					
First mortgage 4% bonds, series C, due 1955.....	(A)	—	—	47,000.00 (D) } 37,500.00	} 5,870,900.00
4½% serial debentures, due serially to 1955.....	2,750,000.00	100,000.00	—	—	
2.77% note payable to Rural Electrification Administration, due serially to 1956 (G).....	33,650.48	2,552.64	—	—	33,650.48
Georgia Power and Light Company:					
First mortgage bonds, 5% series, due 1978.....	(A)	—	—	—	3,042,500.00
Town of Climax, Georgia, 6% bonds, due 1943.....	9,500.00	9,500.00	—	—	9,500.00
3% note payable to Rural Electrification Administration, due serially to 1955	72,922.31	5,747.36	—	—	72,922.31
Lexington Water Power Company:					
First mortgage 5% bonds, series due 1968.....	(A)	—	—	800,000.00 (D) } 1,263,400.00	} 8,654,300.00
5½% convertible sinking fund debentures, due 1953.....	5,000,000.00	—	—	2,186,900.00		186,700.00
Maryland Light and Power Company, The, first mortgage 5½% bonds, series A, due 1950	(A)	—	—	97,000.00 (D)	992,000.00
South Carolina Electric & Gas Company (formerly Broad River Power Company):					
First and refunding mortgage 5% bonds, series A, due 1954....	(A)	—	—	456,000.00 (D) } 337,400.00	} 7,568,500.00
Divisional lien—The Parr Shoals Power Company first mortgage 5% sinking fund bonds, due 1952 (less \$1,518,000 held in sinking fund)	3,000,000.00	—	82,000.00 (H)	—		1,400,000.00
Tide Water Power Company:					
First mortgage 5% bonds, series A, due 1979.....	(A)	—	38,500.00	15,000.00	6,171,500.00
3% note payable to Rural Electrification Administration, due serially to 1955	90,810.55	7,486.84	—	—	90,810.55
NY PA NJ Utilities Company and Subsidiaries:					
NY PA NJ Utilities Company, secured 5% debentures, due 1956 (I)	3,926,500.00	—	62,000.00	497,900.00	3,162,200.00
The Metropolitan Edison Corporation secured consolidated, refunding bonds, 6% series, due 1961 (J).....	(A)	—	—	2,073,800.00	713,600.00
The Mohawk Valley Company:					
6% consolidated refunding bonds, due 1991 (K).....	(A)	—	1,000,000.00 (L) } 481,500.00	} 49,900.00	808,400.00
6% debentures, due 2031.....	10,000,000.00	—	98,900.00			—	144,000.00
Rochester Central Power Corporation, 5% debentures, series A, due 1953.....	(A)	—	266,000.00	19,000.00	930,000.00
Bradford Electric Company 4% note payable, due 1949.....	550,000.00	—	—	—	550,000.00
Canada Power Corporation, first mortgage 5% bonds, due 1958..	2,000,000.00	—	—	—	2,000,000.00
Glen Rock Electric Light and Power Company first mortgage 3½% bonds, due 1966.....	(A)	—	—	—	325,000.00

(Continued)

STATEMENT OF LONG-TERM DEBT SECURITIES IN WHICH THERE IS A PUBLIC INTEREST (Continued)

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Others
LONG-TERM DEBT SECURITIES OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST, Continued:					
NY PA NJ Utilities Company and Subsidiaries, Continued:					
Keystone Public Service Company:					
5% first mortgage bonds, due 1978.....	\$ 10,000,000.00	—	—	—	\$ 4,000,000.00
Contractual obligation, due serially to 1951.....	63,700.00	\$ 7,800.00	—	—	63,700.00
Litchfield Electric Light and Power Company, The, first mortgage bonds, 4% series, due 1964.....	(A)	—	—	—	450,000.00
Long Island Water Corporation:					
First mortgage 4% bonds, series A, due 1964.....	(A)	—	—	—	2,144,000.00
Roosevelt Water, Power and Light Company, first mortgage 6% bonds, due 1943 and 1944 (Closed Mortgage).....	100,000.00	5,000.00	—	—	8,000.00
Metropolitan Edison Company:					
First mortgage bonds:					
Series D, 4½%, due 1968.....	(A)	—	—	\$ 58,000.00	22,772,500.00
Series E, 4%, due 1971.....	(A)	—	—	3,000.00	4,681,000.00
Series G, 4%, due 1965.....	(A)	—	\$ 548,900.00	—	11,716,900.00
Divisional lien, York Haven Water and Power Company, fifty-year bonds, 5%, due 1951.....	1,500,000.00	—	198,500.00 (M)	—	1,247,500.00
New Jersey Power & Light Company:					
First mortgage bonds, 4½% series, due 1960.....	(A)	—	—	6,000.00	13,899,000.00
New Jersey Northern Gas Company, first mortgage 5% bonds, due 1952.....	1,000,000.00	—	—	50,000.00	108,000.00
New York State Electric & Gas Corporation:					
First mortgage bonds:					
3¼% series, due 1964 (N).....	(A)	—	—	—	13,000,000.00
3¼% series, due 1971.....	(A)	—	—	—	35,393,000.00
Notes payable to Rural Electrification Administration (20 year notes, due serially) (3¼% series bonds nominally issued pledged as collateral):					
2.88%, due serially to 1958.....	191,618.09	12,820.52	—	—	191,618.09
2.73%, due serially to 1959.....	367,653.16	25,641.02	—	—	367,653.16
2.73%, due serially to 1959.....	235,744.23	16,666.67	—	—	235,744.23
2.73%, due serially to 1959.....	243,685.53	15,384.62	—	—	243,685.53
2.69%, due serially to 1960.....	325,250.77	18,974.36	—	—	325,250.77
2.46%, due serially to 1961.....	250,051.41	25,641.02	—	—	250,051.41
6% office building bonds, due serially to 1953 (dated January 10, 1939) (secured by purchase money mortgage).....	155,000.00	9,168.17	—	—	124,525.98

Northern Pennsylvania Power Company:

First and refunding mortgage bonds:

Series A, 5%, due 1956.....	(A)	—	—	26,000.00	1,343,900.00
5% series, due 1962.....	(A)	—	588,000.00	5,000.00 (D) }	1,984,600.00
				100,000.00 }	
Divisional lien, Sayre Electric Company, first mortgage, forty year 5% bonds, due 1947 (less \$309,500 held by Trustee in sinking Fund)	750,000.00	—	19,500.00 (O)	—	221,500.00

Pennsylvania Edison Company:

Penn Central Light and Power Company:

First mortgage bonds:

4½%, due 1977.....	(A)	—	—	265,000.00 (D)	25,435,000.00
5%, due 1979.....	(A)	—	—	—	2,175,000.00

Rochester Gas and Electric Corporation:

General mortgage bonds:

Series D, 4½%, due 1977	6,000,000.00	—	—	—	6,000,000.00
Series G, 3¾%, due 1966	3,000,000.00	—	—	—	3,000,000.00
Series H, 3¾%, due 1967	3,000,000.00	—	—	—	3,000,000.00
Series I, 3½%, due 1967	1,657,000.00	—	—	—	1,657,000.00
Series J, 3¼%, due 1969	8,323,000.00	—	—	—	8,323,000.00
Series K, 3¾%, due 1970	15,000,000.00	—	—	—	15,000,000.00

Divisional lien, Genesee Valley Power Company, Inc., 6% first mortgage bonds, due serially to 1953 (closed mortgage).....	200,000.00	—	—	—	16,000.00
---	------------	---	---	---	-----------

Staten Island Edison Corporation:

Richmond Light and Railroad Company, first and collateral trust purchase money mortgage 4% fifty-year bonds, due 1952 (not assumed) (closed mortgage)	2,500,000.00	—	875,000.00 (P)	—	999,000.00
---	--------------	---	----------------	---	------------

York Railways Company (in proceedings for reorganization under section 77B of the Bankruptcy Act), 5% first mortgage thirty-year bonds due 1937 (all bonds held intercorporate and \$3,013,000 held by others have been extended to 1947).....	10,000,000.00	—	—	582,000.00	4,387,000.00
--	---------------	---	---	------------	--------------

United Coach Company, The, and Subsidiaries:

Schenectady Rapid Transit, Inc., instalment notes payable for equipment	26,000.00	6,000.00	—	—	26,000.00
---	-----------	----------	---	---	-----------

\$780,632.45

Total long-term debt of subsidiary companies (including \$1,374,000 matured and \$780,632.45 maturing within one year)					<u>\$348,336,719.56</u>
--	--	--	--	--	-------------------------

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

**NOTES TO STATEMENT OF LONG-TERM DEBT SECURITIES
IN WHICH THERE IS A PUBLIC INTEREST**

- (A) Additional bonds issuable upon compliance with statutory and mortgage indenture requirements.
- (B) Missouri General Utilities Company, first mortgage bonds, series A, 6's of 1946 in the principal amount of \$194,000 pledged as collateral to this note.
- (C) Securities pledged with trustee as collateral under indenture dated June 1, 1923:
Valley Public Service Company, The:
- | | |
|-------------------------------------|------------|
| Common stock | 990 shares |
| \$7 cumulative preferred stock..... | 220 shares |
- (D) Pledged as collateral to notes payable.
- (E) A first mortgage on all properties and a first lien on all outstanding stocks and bonds of The Eastern Shore Public Service Company of Maryland, Eastern Shore Public Service Company of Virginia, consolidated subsidiaries, pledged as collateral to these bonds.
- (F) The entire issue of Eastern Shore Public Service Company (Del.) 5% bonds, due 1946, series C (\$900,000 principal amount) pledged as collateral to this note.
- (G) Florida Public Service Company first mortgage bonds in the principal amount of \$47,000 (held intercorporate) pledged as collateral to this note.
- (H) Pledged as collateral to South Carolina Electric & Gas Company (formerly Broad River Power Company) 5's of 1954.
- (I) Securities pledged with trustee as collateral under these debentures:
- | | |
|---|----------------|
| Glen Rock Electric Light and Power Company: | |
| Common stock | 2,000 shares |
| 6% cumulative preferred stock..... | 1,000 shares |
| Keystone Public Service Company: | |
| Common stock | 115,000 shares |
| \$2.80 preferred stock..... | 1,408 shares |
| York Railways Company, common stock..... | 49,119 shares |
- (J) Securities pledged with trustee as collateral under indenture dated September 1, 1931:
- | | |
|--|----------------|
| Metropolitan Edison Company, common stock..... | 343,396 shares |
| New Jersey Power & Light Company, common stock..... | 87,500 shares |
| Northern Pennsylvania Power Company, common stock..... | 22,130 shares |
- (K) Securities pledged with trustee as collateral under indenture dated November 1, 1931:
- | | |
|---|----------------|
| New York State Electric & Gas Corporation, common stock | 46,484 shares |
| Rochester Gas and Electric Corporation, common stock | 775,914 shares |
- (L) Deposited together with \$1,000,000 principal amount of The Mohawk Valley Company 6's of 1981, in escrow under agreement in connection with the purchase of Jersey Central Power & Light Company common stock by New Jersey Power & Light Company.
- (M) Pledged as collateral with trustee under indenture dated November 1, 1920 of Metropolitan Edison Company.
- (N) Not including \$2,481,000 nominally issued, of which \$2,328,000 are pledged as collateral under 20-year notes payable to Rural Electrification Administration and \$153,000 released from similar pledge and held by trustee under indenture for the account of New York State Electric & Gas Corporation.
- (O) Pledged as collateral with trustee under mortgage of Northern Pennsylvania Power Company.
- (P) On deposit with trustee of Staten Island Edison Corporation bonds, all of which bonds have been redeemed.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1942 and 1941

(on the basis of recording interest and dividends on investments in subsidiary companies, accrued or declared subsequent to January 10, 1940, only as and when received; and before deduction for interest on indebtedness other than Trustees' certificate)

	Year 1942	Year 1941
INCOME (see Note 18, Page 40):		
From investments in subsidiary companies:		
Dividends on Northeastern Water and Electric Corporation common stock (disposed of during 1942).....	\$ 179,109.05	\$ 132,384.95
Interest on:		
Convertible obligation, Associated Utilities Corporation.....	940,918.42	884,880.07
Notes	—	32,814.86
Open accounts	10,021.26	86,397.18
Miscellaneous	10,550.64	—
	<u>\$1,140,599.37</u>	<u>\$1,136,477.06</u>
EXPENSES AND TAXES:		
General expenses (including \$27,954.37 in 1942 and \$83,938.03 in 1941, charged by a subsidiary service company).....	\$ 807,179.42	\$ 811,839.07
Taxes, other than Federal income tax.....	14,018.86	14,771.91
Provision for Federal income tax (see Note 5, Page 57).....	240,000.00	—
	<u>1,061,198.28</u>	<u>826,610.98</u>
	<u>111,671.37</u>	<u>3,750.00</u>
INTEREST ON TRUSTEES' CERTIFICATE OF INDEBTEDNESS.....	<u>\$1,172,869.65</u>	<u>\$ 830,360.98</u>
BALANCE OF INCOME OR LOSS*, before deductions for interest on indebtedness (see Note below).....	<u>\$ 32,270.28*</u>	<u>\$ 306,116.08</u>
NOTE: Interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation for the years 1942 and 1941 (computed on the amount of obligations outstanding at the end of each of the respective years) is as follows:		
	1 9 4 2	1 9 4 1
8% eight year bonds, matured 1940.....	\$ 667,000.80	\$ 687,198.40
Convertible (fixed interest) debentures, due 1973.....	1,177,143.28	1,215,729.53
Income debentures, due 1978.....	5,563,865.63	5,724,108.18
5% cumulative income note, due 1980, to Associated Gas and Electric Company	3,590,256.00	3,590,256.00

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1942, and liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, and designating no amount as capital liability to sole stockholder, Associated Gas and Electric Company)

December 31, 1942

ASSETS AND OTHER DEBITS:

INVESTMENTS (see Note 2, Page 56) (details on Pages 58 and 59):

Securities of, and advances to, subsidiary (sub-holding) companies:

Common stocks	\$150,454,322.47
Preferred stocks	9,338,974.36
Convertible obligations	271,365,629.39
Interest bearing scrip.....	959,120.30
Note receivable	1,000,000.00
Advances on open account.....	2,396,520.56

435,514,567.08
532,475.40

436,047,042.48

Other (see Note 2-d, Page 56).....

ACCRUED INTEREST RECEIVABLE (through January 10, 1940) on investments in subsidiaries—non-current

81,346.27

SPECIAL FUNDS (see Note 3, Page 56).....

210,038.01

CURRENT AND ACCRUED ASSETS:

Cash	1,704,835.51
Special deposits	103,749.64
Note receivable	2,000,000.00
Miscellaneous receivables	8,135.37
Prepayments	125.00

3,816,845.52

OFFICE FURNITURE AND LIBRARY, at cost.....

36,387.53

Less, Reserve for depreciation.....

11,514.16

24,873.37

\$440,180,145.65

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1942, and liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, and designating no amount as capital liability to sole stockholder, Associated Gas and Electric Company)

December 31, 1942

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS INCURRED PRIOR TO JANUARY 10, 1940 (exclusive of indebtedness, other than for convertible debentures, to Associated Gas and Electric Company, parent company, in proceedings for reorganization—see Notes 1 and 11, Pages 56 and 36):			
Long-term debt (see Note 4, Page 57):			
8% eight year bonds, matured March 15, 1940 (less \$5,000 in treasury)	\$ 8,337,510.00		
Convertible (fixed interest) debentures, due 1973 (see Note 8, Page 35)	24,423,495.00		
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures and \$1,706,415 in treasury)	140,924,655.00	\$173,685,660.00	
Other indebtedness:			
Accrued interest on long-term debt (including \$205,212.11 matured)	2,144,834.92		
Taxes payable and accrued:			
Federal income and declared value excess profits for 1939....	49,459.53		
Other	59,190.21		
Accounts payable:			
Associated company	52,946.94		
Other	31,353.79		
Uncompleted instalment bond-subscription accounts and certain interest thereon	69,084.96	2,406,870.35	\$176,092,530.35
CURRENT AND ACCRUED LIABILITIES (incurred by Trustees):			
Trustees' certificate of indebtedness to Guaranty Trust Company of New York bearing interest at 2½%, due December 18, 1943 (see Note 10, Page 35)	\$ 3,790,335.00		
Note payable, noninterest bearing, due on demand to Associated Trustees of Hopson Settlement Fund (see Note 2-d, Page 56)	424,882.83		
Accounts payable:			
Associated companies	\$ 103,195.57		
Associated Trustees of Hopson Settlement Fund	6,108.85		
Other	202,875.89	312,180.31	
Accrued taxes (see Note 5, Page 57)	243,396.32		
Accrued interest on Trustees' certificate of indebtedness	2,842.75		
Accrued salaries, wages, Trustees' fees, etc. (see Note 15-d, Page 38)	22,451.31	4,796,088.52	
DEFERRED CREDIT		9,500.00	
RESERVE FOR CONVERSION OF DEBENTURES (see Note 8, Page 35).....		24,423,495.00	
TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of (a) liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, (b) indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of investments upon final determination of values.....			
			\$205,321,613.87
INDEBTEDNESS (other than for convertible debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY, parent company, in proceedings for reorganization (see Notes 1 and 11, Pages 56 and 36):			
5% cumulative income note, due 1980.....	\$ 71,805,120.00		
Noninterest bearing note, due 1983.....	1,250,000.00		
Advances on open account.....	568,122.14		
Dividend payable	90,000.00		
Accrued interest on 5% cumulative income note through January 10, 1940.....	568,457.20	74,281,699.34	
EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness, other than Trustees' certificate, accrued subsequent to January 10, 1940, treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 30)			
		160,576,832.44	
		<u>\$440,180,145.65</u>	

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

(1) REORGANIZATION PROCEEDINGS PURSUANT TO CHAPTER X OF THE BANKRUPTCY ACT AND PROCEEDINGS UNDER SECTION 11(b) OF THE PUBLIC UTILITY HOLDING COMPANY ACT.

See Notes 1 and 16 on Pages 31 and 39, respectively.

(2) INVESTMENTS:

- (a) Investments of Associated Gas and Electric Corporation in subsidiary (sub-holding) companies are stated (except for changes occasioned by subsequent transactions) at the amounts at which they were carried in the accounts of the Corporation as at January 10, 1940, the date of entry of the order approving the petition filed by the Corporation for reorganization under Chapter X of the Bankruptcy Act. In the case of certain of these securities, the amounts represent cost to the Corporation or companies merged therewith and, in the case of others, substantially written-up or written-down amounts in relation to cost on the basis of cash paid, par value of securities issued or indebtedness incurred therefor. Based on unaudited reports filed with the Securities and Exchange Commission through December 31, 1942, the amounts at which the above-mentioned investments are stated are, in the aggregate, approximately \$200,000,000 less than the cost thereof (on the basis stated above) to the Associated Gas and Electric Corporation System.

In the Plan of Reorganization of Associated Gas and Electric Company and Associated Gas and Electric Corporation filed with the Court, the Trustees propose to merge certain subsidiary holding and investment companies, and after estimating the results of original cost studies now in progress by certain subsidiary operating companies, they further propose to write off certain of the investments of the Corporation and its subsidiaries and to provide reserves against the remaining investments. This proposal, if adopted, would reduce the combined net carrying value (after deduction of the reserves) of the investments of the Corporation and those subsidiary companies which plan to join with it in the merger to approximately \$103,000,000.

- (b) Convertible obligations receivable provide, in part, that in the event of bankruptcy or insolvency of the makers thereof, the obligations represented by such convertible obligations shall not be paid until there shall first have been paid or discharged all other obligations of the makers thereof.

These obligations are convertible, by the terms of the instruments, in whole or in part, at the option of either the maker or the holder into presently unauthorized nonvoting preferred stock, par value \$100 per share and entitled to noncumulative dividends at stipulated rates per share, on the basis of one share of stock for each \$100 of principal amount of the respective obligations.

Interest on the convertible obligations is payable, by the terms of the instruments, only out of, and (not exceeding the stated interest rates) to the extent of, the "available net income" for any calendar year.

- (c) By order of the Securities and Exchange Commission, NY PA NJ Utilities Company is prohibited from making any payments which will reduce the principal of its convertible obligations held by Associated Gas and Electric Corporation to less than \$202,000,000 and is further prohibited from increasing the stated rate of interest on said convertible obligations.
- (d) Other investments are stated at cost and represent, with a minor exception, items acquired (pursuant to an order of the United States District Court, Southern District of New York) from Stanley Clarke, Trustee of Associated Gas and Electric Company, and Denis J. Driscoll and Willard L. Thorp, Trustees of Associated Gas and Electric Corporation, as Associated Trustees of assets recovered from the Hopson interests. The investments so acquired were purchased partly through the issuance to the Associated Trustees of a non-negotiable, noninterest bearing demand note dated August 27, 1942, which note constitutes a direct lien upon the investments acquired.
- (e) On June 30, 1943 the Corporation acquired by merger all the assets of its subsidiary, The Associated Corporation, consisting principally of sinking fund income debentures, due 1986, of Associated Gas and Electric Company, and assumed its liabilities. In recording such assets acquired and liabilities assumed and adjusting its investment in The Associated Corporation, the Corporation was required to charge approximately \$1,170,000 to "Excess of assets over liabilities."

(3) SPECIAL FUNDS:

These include \$197,776.70 which have been held by an order, dated December 31, 1942, of the United States District Court, Southern District of New York, to constitute trust funds for the holders of interest checks and coupons payable prior to January 10, 1940, and of claims for related withholding taxes, on certain long-term debt of the Corporation. The Trustees of the Corporation appealed this order with respect to a major portion of such funds and on August 9, 1943 the United States Circuit Court of Appeals for the Second Circuit reversed the holding of the District Court. Under the Circuit Court's decision, \$186,465.87 of such funds are determined to be general funds of the Estate of the Corporation.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

(4) LONG-TERM DEBT:

The outstanding 8% Eight Year Bonds due 1940, Convertible Debentures due 1973 and Income Debentures due 1978, were reduced during 1942 by the respective principal amounts of \$252,470, \$814,485 and \$3,799,260, as a result of the acquisition of such securities, without cost, pursuant to an Order of the Court dated August 13, 1942, covering distribution of assets recovered from H. C. Hopson, et al., under Settlement Agreement dated August 4, 1941.

(5) PROVISION FOR FEDERAL INCOME TAX:

Provision for the liability of the Corporation for Federal income tax for 1942 represents a portion of the estimated tax liability of a consolidated group, the details of which are described in Note 13 on Page 36.

(6) LIABILITIES—GENERAL:

The amounts at which the liabilities are stated do not purport to represent proved obligations of Associated Gas and Electric Corporation, Debtor, for such amounts, but are those reflected by the books of the Corporation as at January 10, 1940, as affected by transactions occurring between that date and December 31, 1942. Certain proofs of claim which include items, as yet unallowed, other than those shown as liabilities on the books of the Corporation, have been filed, pursuant to various orders of the Court.

(7) CONTINGENT LIABILITIES:

See Note 15, Pages 37 to 39.

(8) WAIVER OF RECEIPT OF DIVIDENDS:

In connection with orders of the Securities and Exchange Commission permitting payments of dividends for the quarters ended March 15, 1941 to June 15, 1942, inclusive, on 32,110.9 shares of General Gas & Electric Corporation \$5 Prior Preferred Stock publicly held, the Trustees of Associated Gas and Electric Corporation agreed to waive, until further order of the Commission, receipt of similar dividends for such quarters on the 27,889.1 shares of such stock held by them.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INVESTMENTS

December 31, 1942

	Number of Shares or Principal Amount	Amount at Which Carried
SECURITIES OF AND ADVANCES TO SUBSIDIARY (SUB-HOLDING) COMPANIES:		
Common stocks:		
The Associated Corporation, no par value (see Note 2-e, Page 56).....	1,000 shs.	\$ 100,000.00
Associated Electric Company, par value \$1 per share.....	650,000	38,022,081.93
Associated Utilities Corporation, no par value.....	1,200	100
General Gas & Electric Corporation:		
Class A, no par value.....	2,621,912.123	2,845.28
Class B, par value 25 cents per share.....	3,036,985.225	235.53
NY PA NJ Utilities Company, par value \$1 per share.....	458,000	112,323,667.73
The United Coach Company, par value \$1 per share.....	4,500	5,491.00
		<u>\$150,454,322.47</u>
Preferred stocks:		
General Gas & Electric Corporation:		
\$5 prior preferred, cumulative, no par value (see Note 8, Page 57).....	27,889.1 shs.	\$ 976,130.40
\$6 cumulative, convertible, series A, no par value.....	325,351	4,283,156.37
\$6 cumulative convertible, series B, no par value.....	277,021	3,631,194.68
\$7 cumulative, no par value.....	20,282.5	277,826.52
\$8 cumulative, no par value.....	12,314.5	170,666.39
		<u>\$ 9,338,974.36</u>
Convertible obligations (see Note 2-b and c, Page 56):		
NY PA NJ Utilities Company:		
Interest bearing (1% if earned).....		\$196,725,000.00
Noninterest bearing		5,275,000.00
Total obligation, due March 1, 1963.....	\$202,000,000.00	202,000,000.00
Associated Utilities Corporation, interest bearing (2% if earned), due March 1, 1963	82,747,814.66	68,628,129.39
General Gas & Electric Corporation, interest bearing (6% if earned), due March 1, 1963	737,500.00	737,500.00
		<u>\$271,365,629.39</u>
Interest bearing scrip, General Gas & Electric Corporation, 4%, due December 30, 1942	959,324.82	\$ 959,120.30
Note receivable, The Associated Corporation, interest bearing, 5%, due October 11, 1938 (see Note 2-e, Page 56).....	1,000,000.00	\$ 1,000,000.00
Advances on open account:		
The Associated Corporation (see Note 2-e, Page 56).....	688,446.66	\$ 688,446.66
Associated Utilities Corporation.....	266,013.04	266,013.04
NY PA NJ Utilities Company.....	956,234.04	956,234.04
General Gas & Electric Corporation.....	485,826.82	485,826.82
		<u>\$ 2,396,520.56</u>
Total, securities of and advances to subsidiary (sub-holding) companies		<u>\$435,514,567.08</u>

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INVESTMENTS (Continued)

December 31, 1942

	Number of Shares or Principal Amount	Amount at Which Carried
TOTAL SECURITIES OF AND ADVANCES TO SUBSIDIARY (SUB- HOLDING) COMPANIES:		<u>\$435,514,567.08</u>
OTHER INVESTMENTS:		
Securities of associated companies:		
Utilities Employees Securities Company, 6% income notes due 1981 (see Note B, Page 43).....	\$ 721,390.00	\$ 396,764.50
Associated General Utilities Company:		
4% bonds due 1961 (see Note C, Page 43).....	87,590.00	20,583.65
5% bonds due 1956 (see Note C, Page 43).....	421,550.00	99,064.25
		<u>516,412.40</u>
Miscellaneous		16,063.00
Total other investments.....		<u>\$ 532,475.40</u>
TOTAL INVESTMENTS		<u><u>\$436,047,042.48</u></u>

The Notes referred to herein are an integral part of this statement.

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ASSOCIATED GAS AND ELECTRIC CORPORATION

4th Annual Report of Trustees

1

FOR YEAR ENDED
DECEMBER 31, 1943

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It is the purpose of this Annual Report to inform the Court, creditors, stockholders, and other persons interested in the Estate of Associated Gas and Electric Corporation, of the results of operation of the business and management of the property of the Debtor during the year 1943. To be informative any such report must not limit itself merely to the activities of the Trustees as managers of the property of Associated Gas and Electric Corporation itself, but must describe the net results of operations of the various subsidiary companies in the Associated System.

As a technical matter the Trustees, upon their appointment, succeeded, as Trustees, to the ownership of all the assets of Associated Gas and Electric Corporation, thereby acquiring control of its immediate subsidiaries. However, in the interest of clarity, this Report is, for the most part, written as if Associated Gas and Electric Corporation had retained title to its assets.

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

In the Matter
of
ASSOCIATED GAS AND ELECTRIC
CORPORATION,

Debtor.

In Proceedings for
the Reorganization
of a Corporation
pursuant to Chapter
X of the Bank-
ruptcy Act.

No. 75635

Fourth Annual Report of Trustees

DENIS J. DRISCOLL and WILLARD L. THORP, Trustees of Associated Gas and Electric Corporation, Debtor, submit their Fourth Annual Report on the operation of the business and management of the property of Associated Gas and Electric Corporation.

I. INTRODUCTION

Continued progress has been made on the twin tasks of war operations and reorganization which have again been the chief concerns of the Associated System and the Trustees since their last Annual Report. The Trustees' Report for 1942, because of unavoidable delay in issuance, included a report of the great strides toward reorganization during the first eight months of 1943. The present Report for 1943 records the continuation of that progress during the balance of 1943 and the first six months of 1944, both with respect to the reorganization itself and with respect to the general operations of the System properties.

Barring unforeseen delays, the reorganization proceedings are nearing their last stages. On April 14, 1944 the Securities and Exchange Commission approved the joint Plan of Reorganization which had been filed on June 14, 1943 by the Trustees of Associated Gas and Electric Corporation (Agecorp) and the Trustee of Associated Gas and Electric Company (Ageco). Proceedings before Judge Vincent L. Leibell (in the United States District Court for the Southern District of New York) for the approval of the Plan of Reorganization and of the related Plan for Compromise with respect to the so-called Recap Litigation and certain related controversies, began on June 12, 1944 and are now pending. In addition, a program to settle the complex issues in the litigation between the different groups of security holders of General Gas & Electric Corporation (Gengas) has been agreed upon by the Trustees of Agecorp, Gengas and other interested parties and a plan embodying this agreement is presently being submitted to the appropriate authorities for approval.

In the field of general operations, the System has continued to meet successfully the heavy wartime obligations resting upon a public utility in supplying service. As noted in last year's Report, the income of the System materially increased during the forepart of 1943. However, more recently the increase in operating and maintenance expenses has been accelerated while much of the wartime increase of demands for service has been tapering off so that in the last quarter of 1943 and the first quarter of 1944 net income was less than for the corresponding periods a year ago. Nevertheless the financial position of the various companies has continued to be strengthened by a program of debt retirement. The corporate structure of the System has continued to be simplified by sales of properties and mergers. The securities of several operating companies have been refinanced at material advantage to the System. For example, New Jersey Power & Light Company refinanced its bonds and preferred stock at what is believed to be the lowest average cost to the Company yet attained by any public utility company. This Company also put into effect a noteworthy automatic rate adjustment plan.

Problems arising from the war have continued to beset the management but have been successfully surmounted despite an increasing shortage of manpower and the restrictions upon procurement of materials and equipment, reflected in the reduced amount of construction activities.

This record is set forth in the ensuing pages in somewhat more detail, with appropriate reference to developments during the first six months of 1944.

II. PLAN OF REORGANIZATION

On May 1, 1944 a letter was sent by the Trustees to all creditors describing and giving the text of the proposed joint Plan of Reorganization, which, as stated above, is now before Judge Vincent L. Leibell for his review.

As noted in the last Annual Report, with the Plan of Reorganization there was proposed a specific financial program in connection with the chief asset of the Estates, namely, NY PA NJ Utilities Company (Nypanj) which, with other transactions, would provide for certain substantial tax obligations and the various expenses incidental to reorganization and would remove the more serious impediments to the free flow of earnings to Agecorp (discussed on pages 12, 13 and 14 of this Report). This so-called Nypanj Reconstruction Program has been changed in its details from time to time but the major goals have remained the same. In the form presented to the Court at hearings on the Plan of Reorganization, the program would accomplish the following principal results:

1. The underlying debt and preferred stock of Nypanj subsidiaries in the hands of the public would be reduced by approximately \$20,500,000, the major factor being the reduction of the outstanding debt and preferred stock of Metropolitan Edison Company so as to provide it with a strong capital structure;
2. Nypanj itself would pay off all its debentures held by the public (\$4,687,300, included in the call of June 15, 1944) and by associate companies and would retire all its outstanding preferred stock (5,405.6 shares);
3. Cross-holdings of securities of Nypanj and of its subsidiaries would be eliminated;
4. Metropolitan Edison Company would acquire York Edison Company (now Glen Rock Electric Light and Power Company), which Company will have acquired the assets of Edison Light and Power Company and York Steam Heating Company (present subsidiaries of York Railways Company, in reorganization under Section 77B of the Bankruptcy Act), and the bonds and publicly held preferred stock of the York Railways Company would be paid in full, thereby making available the earnings of the present York Railways Company group; and
5. Direct System control of the common stock of Jersey Central Power & Light Company would be effected and a material amount of Jersey Central preferred stock retired.

The Trustees have proposed this Plan of Reorganization at the earliest moment at which they felt that the System was prepared for such a step. Although the amended Plan has been approved by the Securities and Exchange Commission and hearings have been substantially completed before the Court, the actual consummation of the Plan is dependent upon approval thereof by the Court and by the major portion of the creditors of Ageco and Agecorp.

While it now appears feasible to accomplish many of the steps included in the Nypanj Reconstruction Program, some parts of that program may remain to be accomplished by the Surviving Company. Moreover, the Surviving Company must complete the program for compliance with Section 11 of the Public Utility Holding Company Act (discussed on pages 14, 15 and 16 of this Report). It is still the thought of the Trustees that the System eventually will be split into two or more principal systems, each of which will constitute a permissible public utility holding company system with permitted additional systems and incidental businesses, and that at a later date ownership of each of these principal systems will be distributed to the holders of the new common stock of the Surviving Company.

At hearings on the Plan of Reorganization the Trustees of Agecorp and the Trustee of Ageco submitted pro forma financial statements reflecting consummation of the Plan of Reorganization and the above-described Nypanj Reconstruction Program. These statements, summaries of which follow, were predicated upon operations for the year 1943, balance sheets of operating companies at December 31, 1943, and balance sheets of subholding companies at April 30, 1944, and were projected as indicated therein. This is an effort to picture the financial position of the Surviving Company at an assumed date of consummation of reorganization and the consolidated income after the reorganization is consummated and also after accomplishment of the various steps in the Nypanj Reconstruction Program.

It is emphasized that these are pro forma statements and should not be confused with the audited statements at the end of this Report. The income statement is based upon the Nypanj subsidiaries, other than Pennsylvania Edison Company and certain other smaller companies where contracts for sale have been signed. Associated Electric Company, Gengas and Pennsylvania Edison Company are treated as investments. They appear as such in the pro forma balance sheet, and an assumed cash income of \$750,000 from the Gengas group is included in the pro forma consolidated earnings figures. The figures have been rounded to the nearest \$1,000, and the notes to the statements have not been reproduced.

**CONDENSED PRO FORMA CONSOLIDATED INCOME STATEMENT
OF SURVIVING COMPANY AND SUBSIDIARIES,
REFLECTING ADJUSTED 1943 OPERATING RESULTS PROJECTED TO
12 MONTHS AFTER CONSUMMATION OF PLAN OF REORGANIZATION,
AS AMENDED.**

GROSS OPERATING REVENUES	\$94,744,000
Operating revenue deductions:	
Operating expenses	\$41,176,000
Maintenance expenses	6,031,000
Depreciation	9,529,000
Taxes (other than Federal income taxes)	10,136,000
Federal income taxes	6,993,000
Total expenses and taxes	<u>73,865,000</u>
Operating income	\$20,879,000
Other income	117,000
GROSS INCOME	\$20,996,000
Income deductions at subsidiary level (including dividends paid or accrued on preferred stocks)	<u>10,251,000</u>
Balance of income of consolidated subsidiaries applicable to Surviving Company	\$10,745,000
Dividend Income from non-consolidated subsidiary	<u>750,000</u>
Balance	\$11,495,000
Expenses and taxes of Surviving Company	1,078,000
Balance	\$10,417,000
Interest on debt of Surviving Company	<u>502,000</u>
CONSOLIDATED NET INCOME (subject to restrictions pursuant to orders of regulatory bodies)	<u><u>\$ 9,915,000*</u></u>

* On basis of estimated issue of 7,500,000 shares, these earnings are equivalent to approximately \$1.32 per share, inclusive of restricted earnings of approximately 17.5 cents per share.

**CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEET
OF SURVIVING COMPANY AND SUBSIDIARIES,
REFLECTING CONSUMMATION OF THE PLAN OF REORGANIZATION,
AS AMENDED AS AT SEPTEMBER 30, 1944**

ASSETS AND OTHER DEBITS

Combined property, plant and equipment (at substantially "corporate cost" of subsidiaries' assets <i>plus</i> \$14,570,340 of net excess of carrying value on parent company books less \$56,000,000 proposed reserve against investments).....	\$397,852,000	
Reserve for depreciation (including \$2,255,000 for amounts in excess of original cost).....	70,459,000	
Net property and plant.....		\$327,393,000
Investments:		
Associated Electric Company, General Gas & Electric Corporation, and Pennsylvania Edison Company.....	\$ 52,510,000	
Other miscellaneous investments	4,644,000	
	\$ 57,154,000	
Less reserves	42,722,000	14,432,000
Special funds		1,810,000
Deposits for matured bond interest, etc. (contra).....		94,000
Current and accrued assets.....		24,139,000
Deferred debits		8,201,000
Contingent assets in recovery claims.....		—
TOTAL ASSETS AND OTHER DEBITS....		<u>\$376,069,000</u>

LIABILITIES AND OTHER CREDITS

Securities of subsidiaries in hands of public:		
Long-term debt	\$182,777,000	
Preferred stocks (including premium)	53,074,000	
Total—subsidiary companies		\$235,851,000
New senior debt—Surviving Company.....	\$ 7,500,000	
Debentures issued for Agecorp 8s of '40.....	7,400,000	
Equity interest:		
Common stock	\$37,500,000	
Capital surplus	63,871,000	101,371,000
Total—Surviving Company		116,271,000
Contributions in aid of construction.....		3,746,000
Matured bond interest, etc. (contra).....		94,000
Current and accrued liabilities.....		13,513,000
Deferred credits		3,356,000
Reserves		3,238,000
Contingent liabilities not provided for.....		—
TOTAL LIABILITIES AND OTHER CREDITS		<u>\$376,069,000</u>

III. CONSTRUCTION AND CAPACITY

Prior claims of the war program on all essential materials, reflected in the curtailed expenditures of System companies for construction in 1942, continued to restrict completion of projected construction throughout 1943. Gross construction expenditures in 1943 amounted to approximately \$16,750,000.

Gross construction expenditures for the past seven years by System companies included in the consolidated statements for December 31, 1943 were:

1937	\$21,963,667
1938	11,407,579
1939	14,058,033
1940	18,321,335
1941	28,083,853
1942	17,626,744
1943	16,747,892
1944 (budgeted)	20,500,000

Actual gross construction expenditures to May 31, 1944 were about 24% less than the original budget estimate as of that date.

The electric generating capacity of the System companies included in this Report follows:

End of year	Kilowatts*
1937	1,152,920
1938	1,197,920
1939	1,199,553
1940	1,190,303
1941	1,259,210
1942	1,274,010
1943	1,311,660

* Name plate ratings.

As of December 31, 1943, the electric generating capacity of Jersey Central Power & Light Company, not included in the above tabulation and not included in the consolidated financial statements, was 140,300 kilowatts.

Changes in generating capacity during 1943, as reflected in the above tabulation, resulted principally from the new 25,000 kw. turbo-generator unit of Rochester Gas and Electric Corporation placed in service in May and Pennsylvania Electric Company's additional boiler installation at its Seward station, increasing its capacity by 8,000 kw. in September.

Increased generating capacity installed or scheduled for completion during 1944 will constitute the greatest expansion in the System in recent years. The main additions are as follows:

<i>Pennsylvania Electric Company</i>	25,000 kilowatts
(Front Street, Erie, plant addition in service January 18, 1944)	
<i>New York State Electric & Gas Corporation</i>	35,000 kilowatts
(Westover plant addition at Binghamton, in service January 15, 1944)	
<i>Pennsylvania Edison Company</i>	25,000 kilowatts
(Williamsburg plant estimated to be in service in August, 1944)	
<i>Florida Power Corporation</i>	25,000 kilowatts
(Bayboro plant addition at St. Petersburg, estimated to be in service in December 1944)	

After obtaining all necessary priorities New York State Electric & Gas Corporation has started construction of a new generating station near Bainbridge, New York. The first unit of 30,000 kw. capacity has been ordered and is expected to be in operation by the summer of 1945. Seven miles of 114,000 volt transmission line will be constructed to tie the plant in with the existing 114,000 volt transmission system.

During 1943 New York State Electric & Gas Corporation, in order to supplement the supply of natural gas in a critical area, rehabilitated its manufactured gas plant at Elmira to produce high B.t.u. gas. This company abandoned and dismantled its coke oven plant at Geneva during the year.

Although restrictions on materials, shortage of manpower, and other factors arising from war activity limited farm line construction in 1943, the System's principal operating companies have

initiated measures assuring an extensive development of rural business when restrictions are removed. These measures include (1) filing revised liberal extension rules which make electric service more generally available at lower minimum monthly cost to farm customers, (2) extensively surveying and soliciting unserved areas to develop comprehensive plans for post-war construction, and (3) cooperating with agricultural agencies interested in farm electrification. Notwithstanding the current restrictions on rural electrification, New York State Electric & Gas Corporation, the System operating company having the largest rural population in its service area, expects to construct and energize more miles of rural line in 1944 than it did during the three preceding years.

IV. THE INCOME RECORD

The consolidated net income of the Associated System for the year 1943 was \$10,401,358.48 and reflects a continuation of the upward trend which began in 1942. However, this improvement appears to be due largely to increased income during the first six months of 1943. The net income of the last quarter of 1943 and the first quarter of 1944 was less than the income for the corresponding periods of the preceding years although some improvement in net income is indicated by preliminary figures for the second quarter of 1944.

A comparative consolidated statement of income and expenses of the System for the years ended December 31, 1943 and December 31, 1942 is presented in detail on page 27. This statement reflects the gross revenues, expenses, taxes and other costs of the companies in the System after eliminating intra-System transactions, such as sales and purchases of power and the inter-corporate payment and receipt of interest and dividends. It excludes results of operations of properties sold prior to December 31, 1943 and certain other properties not properly subject to consolidation. For this reason, the balance of income for 1942, stated in this Report, is less by approximately \$440,000 than the balance of income for that year stated in the Report for 1942. The most important factor in this difference is the exclusion of the operations of Reading Street Railway Company and Reading Traction Company which were sold on December 31, 1943.

The significant items in the comparative statements for the two periods are as follows:

	Twelve Months Ended December 31*		
	1943	1942	Effect of Change on Income
	(Millions of Dollars)		
Operating revenues	\$128.7	\$120.4	Gain \$8.3
Other income	0.9	1.2	Loss 0.3
Total revenues	129.6	121.6	Gain 8.0
Operating expenses	56.4	51.5	Loss 4.9
Maintenance	8.5	7.9	Loss 0.6
Depreciation	12.4	12.0	Loss 0.4
Taxes	20.6	19.3	Loss 1.3
Cost of Capital	19.8	21.5	Gain 1.7
Total deductions	117.7	112.2	Loss 5.5
Agecorp consolidated net income before expenses of Trustees	11.9	9.4	Gain 2.5
Trustees' expenses and taxes (other than Federal income taxes and interest)	0.7	0.8	Gain 0.1
Trustees' Federal income taxes and interest	0.8	0.4	Loss 0.4
Agecorp consolidated net income before interest on its obligations (other than Trustees' Certificate of Indebtedness) ...	\$ 10.4	\$ 8.2	Gain \$2.2

* The figures have been rounded to the nearest tenth.

Although the improvement in net income shown in these statements for the year 1943, as compared with 1942, may not be further extended due to the accelerating rate of increase of operating expenses and maintenance, there are gains in some of the items which are of a permanent nature. Thus the cost of capital in 1943 was reduced by the amount of \$1,700,000, as compared with the year 1942. In 1942 this cost had been decreased \$500,000, as compared with the year 1941. Provision for depreciation, which reflected substantial increases in previous years increased only \$400,000 in 1943, and should be more stable in the future. The Trustees' Certificate of Indebtedness has been paid, with the resulting elimination of interest thereon, and the Trustees' running expenses show a definite downward trend.

(a) Services and Revenues

The comparative record of principal services rendered in 1943 and 1942 by the System operating companies included in the consolidated income statements appearing in this Report, is as follows:

	1943	1942	% Increase
<i>Electricity</i>			
Kilowatt hours sold	5,685,060,666	5,183,178,840	9.7
Number of customers	1,132,701	1,124,800	.7
Dollars of gross operating revenue...	108,447,693	101,991,034	6.3
<i>Gas</i>			
Cubic feet sold	15,602,691,300	14,678,474,600	6.3
Number of customers	296,673	291,681	1.7
Dollars of gross operating revenue...	13,849,522	13,132,834	5.5
<i>Transportation</i>			
Number of passengers carried	41,329,130	32,115,708	28.6
Dollars of gross operating revenue...	3,164,506	2,355,433	34.3
<i>Steam Heating</i>			
Thousands of pounds sold	3,087,213	2,588,721	19.3
Number of customers	2,217	2,147	3.2
Dollars of gross operating revenue...	2,293,973	1,894,250	21.1

Use of each of the above classes of utility service increased during 1943 over 1942. Electric revenues constituted approximately 85% of the total revenues in 1943 and 1942. An analysis of electric sales shows increases for all classes of customers except the commercial and street lighting classifications. Kilowatt-hour sales to, and revenues received from, domestic customers during 1943 increased 6.1% and 3.5%, respectively, over 1942. Sales to commercial customers in 1943 were approximately the same as in 1942, indicating that the full effect of war conditions, dim-out regulations, and "war-time" on commercial usage has been experienced, and commercial sales so far in 1944 indicate a slight upward trend from 1943 levels.

Sales to industrial customers account for more than half the increase in total sales and total revenues in 1943 over 1942. Industrial kilowatt-hour sales and revenues in 1943 increased 12.5% and 12.4%, respectively, over 1942; however, analyses of monthly sales and revenue data indicate a decline in the rate of increase over the corresponding month of the prior year and the probable leveling off of the industrial load during 1944.

Electric rate reductions made effective as a result of regulatory procedure during 1943 amounted to approximately \$465,000 on an annual basis. Included in this amount is a reduction in Staten Island Edison Corporation's rates amounting to \$230,000 ordered in a temporary rate proceeding by the New York State Public Service Commission, effective August 1, 1943. In addition, incidental to the adoption on March 30, 1944 by the Board of Public Utility Commissioners of the State of New Jersey of a Rate Adjustment Plan, New Jersey Power & Light Company applied a credit of 50% (estimated at between \$125,000 and \$130,000) of the monthly bill for April 1944 of each residential and certain commercial electric customers.

The Rate Adjustment Plan is applicable only to electric operations and provides for (1) an established rate base subject to annual adjustment; (2) the adoption of a rate of return, determined by formula, directly related to the actual annual cost of debt and preferred stock capital plus an allowance for return on equity capital; and (3) the establishment of a stabilizing reserve to equalize earnings for regulatory purposes over years of varying economic conditions. From these basic facts and the application of the formulas provided, automatic determination of the measure of electric rate increases or decreases will be made, with rate increases which may be permitted under the formula actually to be made solely at the Company's discretion.

As the first step in filing modified rates which will result in a total annual reduction in revenues amounting to \$350,000, New York State Electric & Gas Corporation filed revised residential and general rates which provided for an estimated annual reduction of \$225,000 to these classifications of customers effective June 19, 1944.

The program of clarifying and improving rate structures and service rules was advanced during the year. An instance of the effectiveness of this program is the reduction in number of applicable rate schedules of Pennsylvania Edison Company from twenty-six in 1940 to six at the present time.

(b) Expenses

Increased unit cost of labor and material (particularly cost of fuel for generating plants), increased purchases of power, and increased volume of output resulted in an increase of 9.23% in operating and maintenance expenses for 1943 over similar expenses experienced in 1942. Operating and maintenance expenses amounted to 50.37% of operating revenues in 1943, as compared with 49.29% in 1942. These ratios, which seem high when compared with the general industry average, are due principally to comparatively large purchases of power (15.5% of total output) and gas (43.5% of total output) by the System and the high proportion of rural territory in its service area.

(c) Maintenance and Depreciation

The expense of the System companies for maintenance in 1943 was \$8,506,652 compared with \$7,894,733 expended by the same companies in 1942. Maintenance expense of System companies for the years 1938 to 1943, inclusive, and the budget estimate for 1944, follow:

1938	\$5,869,611
1939	6,411,717
1940	7,163,031
1941	7,658,307
1942	7,894,733
1943	8,506,652
1944 (budget estimate)	8,874,369

System companies anticipate continuance of maintenance standards required to assure adequate and efficient service.

The increase of 3.4% in the 1943 provision for retirement (depreciation) of property over 1942 reflects a continuation of the policy of the System's subsidiaries initiated in 1940 to assure adequate annual depreciation charges.

Depreciation studies, which might provide a revised basis for setting up provision for depreciation in accordance with appropriate accounting requirements, cannot be concluded until the studies of original cost of plant and property now in progress are completed. Upon completion of these depreciation studies it may be possible to reduce the present rate of provision for retirement (depreciation).

(d) Taxes

The Trustees and most of their subsidiaries, being all those considered eligible, joined or propose to join with the Ageco Trustee in consolidated federal excess profits tax returns for the years 1940 to

1944, inclusive, and in consolidated federal income tax returns for the years 1942, 1943 and 1944. The financial statements indicate tax provisions in 1942 and 1943 as follows:

	1943	1942
Federal income	\$ 8,144,008.94	\$ 7,607,715.84
Federal energy, State, local and miscellaneous.....	12,443,592.42	11,748,321.47

Between the time of the appointment of the Trustees and July 15, 1944, 374 claims involving the years 1934-1940, inclusive, have been disposed of. With the exception of asserted deficiencies against four subsidiary companies for 1940, all claims against subsidiary companies for the years 1934-1941, inclusive, have been settled.

The Bureau of Internal Revenue has asserted claims for income, declared value excess-profits and other taxes for the years 1934-1939, inclusive, against Ageco in the sum of \$7,108,128.96 and against Agecorp in the sum of \$1,357,657.42. As a result of negotiations the Ageco and Agecorp Trustees have proposed that the liability of the Estates for federal taxes for the years 1934-1939 inclusive (other than liability under Titles VIII and IX of the Social Security Act) be settled (in the event of the consummation, and as a part, of the Plan of Reorganization) for the total sum of \$750,000. This proposal has received the tentative acceptance of the Acting Secretary of the Treasury, contingent upon, among other things, the Court's approval of the Plan in 1944.

V. THE FINANCIAL POSITION

The consolidated balance sheet for the System, which is presented on pages 34 to 37, was prepared on a basis consistent with that of previous balance sheets published by the Agecorp Trustees. Thus the investments in subsidiary companies are stated generally at the carrying values which were shown on the books of Agecorp at the date of inception of the Trusteeship, subject, of course, to adjustments reflecting transactions executed, such as sales of property, acquisition of additional assets, etc. An indication of the probable adjustment to be made in the carrying value of the fixed assets and the liability for long-term debt was presented in the pro forma consolidated balance sheet submitted in hearings before the Court on the Plan of Reorganization, a summary of which pro forma balance sheet is submitted on page 4 of this Report. The change in the current assets position since the inception of the Trusteeship, January 10, 1940, is worthy of note. The System consolidated balance sheet at January 10, 1940 showed an excess of current and accrued liabilities over current and accrued assets of approximately \$10,000,000, not including a vast number of unsettled tax liabilities. Although a number of properties have been disposed of by the Trustees through sales of complete companies, the current assets shown herein exceed the current assets at January 10, 1940, by approximately \$25,900,000, and the current position now shows a ratio of current assets to current liabilities of 2.6 to 1. This improvement is due to the retention of earnings which the subsidiaries accomplished under the dividend restrictions described on pages 12 to 14, inclusive, and the Trustees' policy of strengthening the operating companies. There follows a condensed summary of consolidated current position of the System at January 10, 1940, and December 31, 1943:

	December 31, 1943	January 10, 1940	Increase or Decrease*
<i>Current and Accrued Assets</i>			
Cash and liquid investments.....	\$39,603,808	\$11,004,512	\$28,599,296
Notes and accounts receivable (less reserve)	8,584,829	11,416,118	2,831,289*
Materials and supplies	5,703,302	5,513,511	189,791
Prepayments	938,027	940,704	2,677*
Other current and accrued assets.....	133,212	153,252	20,040*
Total Current and Accrued Assets...	\$54,963,178	\$29,028,097	\$25,935,081
<i>Current and Accrued Liabilities</i>			
Long-term debt (Current) and notes payable	\$ 1,254,638	\$12,068,940	\$10,814,302*
Accounts payable and preferred dividends..	4,526,567	6,428,939	1,902,372*
Taxes and interest accrued.....	10,821,996	14,209,233	3,387,237*
Customers' deposits	2,789,319	5,228,939	2,439,620*
Other current and accrued liabilities.....	1,101,202	1,028,533	72,669
Total Current and Accrued Liabilities	\$20,493,722	\$38,964,584	\$18,470,862*

(a) Cost of Capital

(1) Refunding operations

Since January 1, 1943 five major refunding operations have been consummated. In each instance a favorable market permitted a substantial reduction in interest rates. Further details regarding these transactions are given below:

South Carolina Electric & Gas Company (General Gas & Electric Corporation Group)

On August 2, 1943 this Company sold \$20,000,000 principal amount of its First Mortgage Bonds, 3½% Series, due 1973 at a cost to the Company of 3.4587%. The funds were used to retire bonds having coupon rates of 5% and 5½%.

Pennsylvania Electric Company (Associated Electric Company Group)

On August 30, 1943 Pennsylvania Electric Company sold \$4,000,000 principal amount of its 3½% First Mortgage Bonds, due 1973, at a cost to the Company of 2.8473%, the proceeds being used to retire a like principal amount of Keystone Public Service Company First Mortgage 5% Bonds due 1978. On that date Pennsylvania Electric Company, in connection with its acquisition of Erie County Electric Company, sold 35,000 shares of its 4.40% Cumulative Preferred Stock, Series B, \$100 par value, at a cost to the Company of 4.2506%.

On November 22, 1943 Pennsylvania Electric Company offered to exchange for each share of 5.10% Cumulative Preferred Stock, Series A, one share of its 4.40% Cumulative Preferred Stock, Series B, plus \$1.00 in cash. This offer was closed at noon November 27, 1943. 30,968 shares were thus exchanged. Subsequently the remaining 3,032 shares were called at 108¾ with funds obtained by the sale of 3,032 shares of 4.40% Cumulative Preferred Stock, Series B, at a price to the underwriters of 108¾, which provides a yield of 4.0460%.

Florida Power Corporation (General Gas & Electric Corporation Group)

On February 29, 1944 Florida Power Corporation sold \$16,500,000 principal amount of its 3½% First Mortgage Bonds due 1974 at a cost to the Company of 3.18% and likewise sold \$4,000,000 principal amount of its 3¼% Serial Debentures at par. The funds obtained by the above sales were used to retire the outstanding 3½% debentures of Florida Power Corporation and the outstanding 4½% debentures and 4% First Mortgage Bonds of Florida Public Service Company and to provide funds for future construction.

New Jersey Power & Light Company (NY PA NJ Utilities Company Group)

On May 19, 1944 New Jersey Power & Light Company sold \$9,000,000, 3% First Mortgage Bonds due 1974 at a cost to the Company of 2.8165% and 30,000 shares of 4% Cumulative Preferred Stock at 100.279 per share or a cost to the Company of 3.9889%. The proceeds of this sale were used to redeem all the Company's outstanding First Mortgage Gold Bonds, 4½% Series, due 1960, and all the Company's outstanding \$6 Cumulative Preferred Stock, including 12,068 shares held by Nypanj.

(2) Short-Term Debt Retired

On December 31, 1942 the following companies had short-term debt outstanding as indicated below:

General Gas & Electric Corporation	\$ 300,000
Lexington Water Power Company	30,000
NY PA NJ Utilities Company.....	1,750,000
Total	<u>\$2,080,000</u>

These short-term obligations were paid off during 1943. On October 20, 1943 Nypanj borrowed \$2,000,000 at 1½% per annum on a six month collateral note. The proceeds from this note, together with additional cash on hand, were used by Nypanj to finance the acquisition of investments from

its subsidiary, New Jersey Power & Light Company. This loan was reduced to \$1,000,000 by December 31, 1943 and the final payment thereon was made April 20, 1944. On the same day Nypanj borrowed \$250,000 on a three month 1½% collateral note which was paid off in May, 1944. In June, 1944 Nypanj borrowed \$5,000,000 on a nine month, 1½% collateral note in connection with the call of its debt obligations referred to below.

On January 1, 1943 the balance of principal due on the Trustees' Certificate of Indebtedness amounted to \$3,790,335. In the first six months of 1943 further payments were made on account of principal and interest, and on September 21, 1943 the balance of unpaid principal, together with interest, was paid in full.

(3) Long-Term Debt Retired

The following tabulation gives the name of the company and the principal amount of publicly held (except as noted) long-term debt obligations retired or called for retirement during 1943 and the first six months of 1944, except for the refunding operations previously noted.

	1943	Jan. 1, 1944 to June 30, 1944
<i>NY PA NJ Utilities Company Group:</i>		
Jersey Central Power & Light Company.....	\$ 1,325,000	
Long Island Water Corporation.....	5,000	
Metropolitan Edison Company.....	2,500,000	
New Jersey Northern Gas Company.....	47,000	\$ 61,000
New Jersey Power & Light Company.....	4,905,000	
New York State Electric & Gas Corporation.....	1,738,529	
Northern Pennsylvania Power Company.....	19,500	19,000
Sayre Electric Company.....		
NY PA NJ Utilities Company.....	1,013,700	57,200
NY PA NJ Utilities Company (June 15, 1944 call)...		5,346,700*
Richmond Light and Railroad Company.....	999,000	
* \$639,400 held intercorporate, the balance of \$4,687,300 being held by the public, including holdings of the Pension Trust and Associated General Utilities Company.		
<i>General Gas & Electric Corporation Group:</i>		
General Gas & Electric Corporation.....	55,469*	22,617*
Georgia Power and Light Company.....	24,500	
South Carolina Electric & Gas Company.....		300,000
Tide Water Power Company.....	121,000	
* Past matured scrip certificates.		
<i>Associated Electric Company Group:</i>		
Associated Electric Company.....	2,781,700	1,135,000
Bradford Electric Company.....	550,000	
Missouri General Utilities Company.....	5,091	2,671
Ohio-Midland Light and Power Company.....	372,500	
Pennsylvania Electric Company.....		50,000
TOTAL (All Groups)	<u>\$16,462,989</u>	<u>\$ 6,994,188</u>

(4) Preferred Stock Retired

During 1943 Rochester Gas and Electric Corporation called and retired 29,654 shares of its publicly held Series C and Series D 6% Cumulative Preferred Stock in addition to 9,217 shares of Preferred Stock held by Nypanj and New Jersey Power & Light Company. On July 1, 1944 Rochester Gas and Electric Corporation called for redemption, by lot, 40,000 shares of its Series D Cumulative Preferred Stock at a call price of \$105 per share plus accrued dividends to September 1, 1944.

During 1943 South Carolina Electric & Gas Company retired 519 shares of \$6 Prior Preferred Stock and 581 shares of 7% Cumulative Preferred Stock, all formerly held by the public.

On August 27, 1943 Pennsylvania Electric Company borrowed \$500,000 on its promissory note bearing interest at the rate of $2\frac{1}{2}\%$ per annum and payable in ten annual installments of \$50,000 each commencing February 27, 1944. This loan provided the major part of the funds required to redeem 10,367 publicly held shares of \$2.80 Cumulative Preferred Stock of Keystone Public Service Company which were called for redemption on October 1, 1943.

VI. EARNINGS RESTRICTIONS

The undistributed consolidated net earnings by major subholding company groups for the calendar year 1943 were as follows:

Associated Electric Company group.....	\$ 1,209,936
General Gas & Electric Corporation group.....	1,474,541
NY PA NJ Utilities Company group.....	8,029,591
The United Coach Company group.....	326,523
Total	<u>\$11,040,591</u>

These undistributed earnings which have not been paid to the Trustees have been employed by the operating companies or the subholding companies. These sums make their tangible appearance in new power plants, new transmission or distribution lines, adequate supplies of cash, liquid reserve funds in the form of United States Government Obligations; or in the reduction of indebtedness or preferred stock.

In some instances, various restrictions upon dividend payments prevent moving these earnings to the subholding companies and thence to the Trustees. Reference is made to the nature and extent of these dividend restrictions for the calendar year 1943 on pp. 28 to 33, inclusive. Progress was made during 1943 in lifting such restrictions. Brief comments on these developments and on any special problems involved as to remaining restrictions as well as conditions for the first six months of 1944, are given below:

Associated Electric Company Group: As noted in the 1942 Report, the financial reorganization of Pennsylvania Electric Company and its subsidiaries in 1942 and the acquisition and refinancing of Keystone Public Service Company in 1943 have made the earnings of Pennsylvania Electric Company and constituent companies available to Associated Electric Company without restriction, other than the dictates of good business judgment. Despite the complete stoppage of any flow of earnings from the Philippine subsidiaries as a result of the war, the earnings derived from other subsidiaries, particularly from Pennsylvania Electric Company, have been more than adequate to meet interest requirements of the Associated Electric Company debt. The balance, together with proceeds from property sales, has been used to retire debt and thus reduce interest requirements or to acquire properties or United States Government Obligations. The acquisition during 1943 of the Erie County Electric Company and its merger into Pennsylvania Electric Company further augmented the earning power of this group.

General Gas & Electric Corporation Group: In this group, the principal restrictions effective in 1943 resulted from accumulated deficits since December 31, 1937, which have been, or are expected to be eliminated in 1944. However, additional restrictions, described below, continue in effect. Under the terms of an order of the Securities and Exchange Commission, Florida Power Corporation is required to retain annually \$300,000 of its earnings applicable to common stock. By the terms of this order, this restriction is to remain in effect until such time as the ratio of the Corporation's debt (excluding current obligations) to its net property is not greater than 50 per cent and until such restriction is terminated by order of the Commission. In connection with the merger of Florida Public Service Company into Florida Power Corporation effective in December 1943, the deficit in earned surplus of Florida Public Service Company was removed and its earnings, hitherto restricted on that account, were made available. With respect to Georgia Power and Light Company, applications are pending before the Securities and Exchange Commission whereby the Company's preferred stock would be retired, preferred dividend arrearages discharged and the common stock of Georgia Power and Light Company would be transferred

to Florida Power Corporation. This program when approved and consummated will eliminate the existing deficit in the earned surplus account of the Georgia Company and make its earnings available, without restriction, to Florida Power Corporation. Plans are also under way for refunding the outstanding bonds of Georgia Power and Light Company.

In 1943 a temporary restriction upon the earnings of South Carolina Electric & Gas Company was imposed by an order of the Securities and Exchange Commission authorizing the Company to sell \$20,000,000 3½% First Mortgage Bonds due 1973 for purposes of refunding. By the terms of this order the Company was required to retain \$200,000 annually of its earnings until such time as the earned surplus of the Company reached \$1,575,000. At June 30, 1944 the amount of surplus was \$1,417,425.

The sale of the System's interest in common stock of Eastern Shore Public Service Company (Del.), the earnings of which were restricted, was consummated on August 27, 1943.

NY PA NJ Utilities Company Group: As noted in the 1942 Report, several restrictions blocking the flow of earnings from the subsidiaries of Nyanj were removed during the first eight months of 1943. Of these the most important was the issuance on June 4, 1943 by the Securities and Exchange Commission of an order which had the effect of freeing from dividend restrictions Metropolitan Edison Company's earnings in excess of an earned surplus balance of \$6,229,917.73. This balance was, however, available for surplus charges other than dividends. Certain such surplus charges have been made so that the balance of restricted earned surplus at December 31, 1943 was \$2,118,205.05. The unrestricted earned surplus was \$975,714.02 at December 31, 1943 and \$1,348,885.93 at June 30, 1944.

The present earned surplus of Northern Pennsylvania Power Company is materially in excess of the amount of \$387,000 which the Securities and Exchange Commission restricted by its order of December 30, 1941; and hence its earnings are available for dividends without restrictions.

The restrictions applicable to New York State Electric & Gas Corporation, in the aggregate amount of \$1,380,000 annually, and the similarly imposed restriction of \$60,000 annually, applicable to Long Island Water Corporation (now sold), are still in effect.

With respect to Rochester Gas and Electric Corporation the New York Public Service Commission issued an order on October 21, 1943 directing that miscellaneous intangibles and water rights in the aggregate remaining amount at December 31, 1943 of \$4,682,544.39 be charged to earned surplus. The Corporation is appealing from this order. The Corporation's earned surplus balance at December 31, 1943 was \$4,702,790.86.

Subholding Companies: Even if the various operating companies were free to pass their earnings up to the subholding companies, there are serious difficulties in the way of the transmission of these earnings to Agecorp. In the case of Associated Electric Company it is doubtful whether any dividends can be paid until the extent of the loss of the Philippine properties has been determined, or the Associated Electric bonds outstanding are materially reduced and the stipulated dividend restrictions lifted.

In the case of Nyanj an accounting reorganization is necessary in order to eliminate a deficit in the earned surplus account and to straighten out its capital structure. Such action is planned not later than the consummation of the Reorganization Plan. An important step in this direction was taken in June, 1944 when Nyanj borrowed \$5,000,000 at 1½ per cent on its promissory note, which funds, together with treasury funds, were used to retire debt obligations aggregating \$5,346,700 (including all its publicly held obligations) the call for which was issued as of June 15, 1944.

In the case of Gengas another type of situation is involved which was described in some detail in the last two Annual Reports. This situation had been complicated by the action of J. C. F. Holding Corporation et al. against Gengas et al., which action was dismissed by the Supreme Court of the State of New York on June 19, 1943. On appeal, the Appellate Division of the Supreme Court affirmed this dismissal, and leave to appeal to the Court of Appeals was denied by that Court on May 25, 1944.

On May 5, 1943 the Trustees filed with the Securities and Exchange Commission a new plan to supersede the plan filed by Gengas in 1941. Extensive hearings on the Trustees' plan were held before

the Commission in the summer and autumn of 1943. Prior to the issuance of findings by the Commission, prolonged discussion and negotiations among the interested parties and the Commission's representatives took place in the spring of 1944 and resulted in a compromise settlement which was announced on June 8, 1944. On July 31, 1944 the Court authorized the Trustees to propose this compromise plan jointly with Gengas. The plan provides that:

(1) Public holders of Gengas prior preferred stock shall receive for each share held, \$100 per share plus unpaid dividends at the rate of 5 per cent per annum to the effective date of the plan, in cash or in shares of 5% preferred stock \$50 par value of South Carolina Electric & Gas Company at par, at the option of Gengas;

(2) Public holders of Gengas cumulative preferred stock shall receive for each share held, \$100 per share plus unpaid dividends at contract rates from September 15, 1936 to the effective date of the plan, in cash or in 5 per cent preferred stock \$50 par value of South Carolina Electric & Gas Company at par, at the option of Gengas;

(3) Public holders of Gengas Common Stock Class A or B presently held shall receive for each five shares held, Eight Dollars and twenty-five cents (\$8.25) in cash and one share of Florida Power Corporation common stock, out of a total of 857,143 shares of that stock to be outstanding; and

(4) Gengas shall deliver to Ageco and Agecorp and their subsidiaries a general release of any and all claims that may exist against them, and the remaining assets of Gengas, or the entire issue of a single issue of the new common stock of Gengas, shall be distributable to the Agecorp Estate.

The compromise plan must be submitted to the Commission and to a court of competent jurisdiction for approval and confirmation. Upon consummation of the plan the present stoppages in the flow of income from Gengas will be entirely removed.

In summary, with respect to the income record, it can be said that earnings have reached probably their highest level during the war period and that the obstacles that have restricted the flow of such earnings to Agecorp have been and are being removed as rapidly as possible. Retention of income within the System during the past four years not only permitted needed construction in pre-war years but has greatly strengthened the general financial structure since then, including retirement of a substantial amount of publicly-held debt and preferred stock of subsidiaries. At the same time the retention of income within the System has enabled the building up of some reserve strength which may be needed in view of the uncertainties of the post-war period.

VII. COMPLIANCE WITH SECTION 11 OF THE PUBLIC UTILITY HOLDING COMPANY ACT

In 1941 the Trustees proposed to meet the so-called integration requirements of the Public Utility Holding Company Act of 1935 by setting up four simplified integrated utility systems in place of the existing single System with its scattered properties and complicated capital structure. As noted in last year's Report, the original integration program was submitted to the Securities and Exchange Commission in 1942. However, in July 1943 and January 1944 the Trustees filed with the Commission amended answers and petitions for leave to present evidence on four principal changes from the original program. These changes were:

1. The retention of the properties of Rochester Gas and Electric Corporation and Canadae Power Corporation with the other properties proposed to be included in the New York-Northern Pennsylvania System.

2. The transfer of Bradford Electric Company from the proposed New York-Northern Pennsylvania System to the proposed Western Pennsylvania System and the inclusion of the properties of Bradford Electric Company with those of the other companies proposed to be included in the Western Pennsylvania System.

3. The retention of the properties of Jersey Central Power & Light Company with those of other companies proposed to be included in the Eastern Pennsylvania-New Jersey System.

4. The retention by Florida Power Corporation of its electric properties in the Appalachicola-Port St. Joe area.

The inclusion of Bradford in the Western Pennsylvania System was approved in a collateral proceeding. Extensive hearings in support of the first and fourth of these proposed changes were held during the latter part of 1943 and the early part of 1944.

The proposed Western Pennsylvania System has been substantially established through the refinancing and merger program of Pennsylvania Electric Company, a subsidiary of Associated Electric Company. In 1943 Pennsylvania Electric Company completed the acquisition of Keystone Public Service Company and Bradford Electric Company, both subsidiaries of Nyanj, and Erie County Electric Company, subsidiary of The United Gas Improvement Company, and the merger of these acquired companies into Pennsylvania Electric Company. In 1943 the proposed sale by Penelec Water Company of that portion of its property used in the sale of water to the public was disapproved by the Pennsylvania Commission. Penelec Water Company early in 1944 was renamed Nineveh Water Company and became a direct subsidiary of Pennsylvania Electric Company and continues an incidental business, retention of which by Pennsylvania Electric is deemed permissible under Section 11. The transfer of Pennsylvania Edison Company, a subsidiary of Nyanj, to Associated Electric Company or its subsidiary, Pennsylvania Electric Company, as contemplated in the integration program has not yet been consummated.

With respect to the proposed Florida-Georgia System, as noted elsewhere in this Report, the merger of Florida Public Service Company, Sanford Gas Company and Sante Fe Land Company into Florida Power Corporation has been consummated and applications are pending before the Securities and Exchange Commission for approval of a program whereby Georgia Power and Light Company will become a subsidiary of Florida Power Corporation.

Sales of Property

The 1942 Report gave the sales since the 1941 Report and included sales consummated or contracted for during the first 8 months of 1943. Additional sales in 1943 and the first 7 months of 1944 are given in the following tabulation. The asterisk indicates that the sale took place in 1943.

	Base Price
<i>Associated Electric Company group:</i>	
Ohio-Midland Light and Power Company	
Paint Township, New Washington and Wyandot Divisions.....	\$ 110,000
Union Gas & Electric Company.....	750,000
K-T Electric and Water Company.....	{ 203,001*
	{ 85,000
<i>General Gas & Electric Corporation group:</i>	
Virginia Public Service Company.....	2,500,000
Georgia Power and Light Company	
Ice and meat storage buildings.....	10,000
<i>NY PA NJ Utilities Company group:</i>	
Long Island Water Corporation.....	825,000
<i>Miscellaneous group:</i>	
Real estate and tax liens.....	5,000
Reading Street Railway Company.....	} 750,000
Reading Traction Company.....	
Reading and Southwestern Street Railway Company.....	
Massachusetts Northeastern Transportation Company.....	71,400

In the 1942 Report the following pending sales contracts and their base prices were listed:

<i>Associated Electric Company group:</i>	
Arizona General Utilities Company.....	\$ 455,000
The Lake Shore Gas Company (Ohio).....	720,000
Missouri Southern Public Service Company.....	170,000
Ohio-Midland Light and Power Company (remaining investment).....	1,885,000

Sales contracts for the last mentioned properties are still pending, waiting approval or consummation. To this list may be added the following (to July 17, 1944):

Associated Electric Company group:

The Portsmouth Gas Company.....	100,000
Eastern Land Corporation.....	60,000
Ohio-Midland Light and Power Company (additional base price).....	230,000(a)

NY PA NJ Utilities Company group:

Spring Brook Water Company.....	242,500
The Patchogue Electric Light Company.....	850,000

General Gas & Electric Corporation group:

Tide Water Power Company.....	55,000
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Miscellaneous group:

The Valley Public Service Company.....	413,000
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- (a) On March 4, 1944 the Securities and Exchange Commission denied the request of Associated Electric Company for exemption from the competitive bidding requirements of Rule U-50. This decision terminated the agreement previously entered into for the sale of this property at \$1,885,000. Later two bids were received and the higher, indicated by this additional amount, was accepted and a contract was entered on April 27, 1944.

Corporate Simplification

Following the established policy of eliminating by sale, merger, consolidation or dissolution those companies whose corporate entities are no longer of use to the System, the following companies ceased to exist some time during the period indicated:

January 1, 1943 to December 31, 1943:

The Associated Corporation	Dissolved
Bradford Electric Company.....	Merged
Erie County Electric Company.....	Merged
E. M. Gilbert Engineering Corporation.....	Merged
Keystone Public Service Company.....	Merged
Lexington Water Power Company.....	Merged
Lockport Light, Heat and Power Company.....	Dissolved
Ohio River Power Company.....	Dissolved
Panhandle Public Service Company.....	Dissolved
Richmond Light and Railroad Company.....	Dissolved
Texas General Utilities Company.....	Dissolved
Virginia Northern Ice Corporation.....	Dissolved

January 1, 1944 to June 30, 1944:

Agincourt Land Corporation.....	Merged*
Florida Public Service Company.....	Merged*
The Harpers Ferry Paper Company.....	Dissolved
Sanford Gas Company.....	Merged*
Sante Fe Land Company.....	Merged*

* Effective December 31, 1943.

VIII. CLAIMS AND SETTLEMENTS

Utilities Employees Securities Company

On June 4, 1943, after extended negotiations, the Trustee of Ageco and the Trustees of Agecorp entered into an agreement with Utilities Employees Securities Company (Uesco) and various other parties, to settle certain complicated litigations and controversies. Uesco, the largest single creditor of Ageco and Agecorp, held in excess of \$36,000,000 principal amount of bonds of the two companies.

The agreement was approved by the Securities and Exchange Commission on August 12, 1943 and by the Court on August 13, 1943 and became effective on October 12, 1943. In accordance with its terms, Uesco surrendered for cancellation, without payment, the following principal amounts of Agecorp securities: \$300,000 8% Eight-Year Gold Bonds due March 15, 1940, \$63,000 Convertible Debentures due 1973 and \$4,642,000 Income Debentures due 1978, and also surrendered for cancellation, without payment, \$1,010,000 principal amount of various Ageco securities.

Carrying out another provision of the agreement, Uesco on December 1, 1943 redeemed all its outstanding Income Bonds and Income Notes due 1981 by payment of interest in cash and by payment on account of principal of approximately 55% in cash, and of approximately 45% through distribution in kind, on the basis of current market value, of Agecorp Income Debentures due 1978. On the same date Uesco redeemed for cash all outstanding New England Capital Corporation Debentures due 1964 which it had assumed. At the completion of these transactions, there remained in the Uesco portfolio \$8,484,555 principal amount of Agecorp Income Debentures due 1978 and \$4,317,290 principal amount of Ageco Sinking Fund Income Debentures due 1986.

On December 2, 1943 the various parties to the agreement of June 4, 1943 and Noel T. Dowling, as Welfare Trustee, executed a Welfare Trust Agreement which was approved by the Securities and Exchange Commission on March 23, 1944 and by the Court on May 25, 1944. Pursuant to the conditions of the agreement of June 4, 1943 and the Welfare Trust Agreement of December 2, 1943, Uesco delivered to Noel T. Dowling as Trustee, the remaining Agecorp and Ageco securities shown above. Uesco was dissolved on June 30, 1944 and its other remaining assets (except for certain reserves against final liabilities) are in process of being transferred to the Welfare Trustee.

Noel T. Dowling, as Welfare Trustee, is to hold such assets for pension and other welfare purposes of the employees of various System operating companies pursuant to the provisions of the agreement of June 4, 1943 and the Welfare Trust agreement of December 2, 1943.

New England Gas and Electric Association

As a result of settlements with Howard C. Hopson and John I. Mange, the Trustees acquired ownership of the common-law Trust, set up as of June 1, 1924, that owns all the common stock of Utilities Investing Trust (UIT). The latter trust owns all the Common Shares and all the Second Preferred Shares of New England Gas and Electric Association (Negas). Certain System companies hold \$37,300,000 principal amount of its Income Notes and \$114,909 of open account indebtedness which are its only obligations, and certain System companies also hold approximately 23% of the \$5.50 Preferred Shares of Negas, which ranks senior to its Second Preferred Shares.

In September 1941 the Securities and Exchange Commission instituted a proceeding against Negas under Section 11(b)(2) of the Public Utility Holding Company Act, looking to the simplification of its capital structure and the equitable distribution of voting power among its security holders. In 1942 actions were instituted by the Trustees and certain System companies against Negas in the United States District Court for the District of Massachusetts and in the Massachusetts Superior Court, based upon various major pre-trusteeship transactions. Negas applied to the Commission for a stay of the Section 11(b)(2) proceeding pending the outcome of these actions. In February 1943 the Commission denied the application and directed that the proceeding under Section 11(b)(2) be consolidated with another proceeding instituted by it against Negas under Section 11(b)(1) and other sections of the Public Utility Holding Company Act. The Commission also directed that Gas and Electric Associates, UIT and the Trustees of Ageco and Agecorp, plaintiffs in the actions referred to above, be made parties to the consolidated proceeding and that hearings be held with a view to determining the validity and extent of the claims asserted in these actions and the relative rank of such claims. The Trustees by appropriate Court action questioned the jurisdiction of the Commission to make this order and have preserved their position on the jurisdictional question.

In May 1943 the Commission granted the application of the Trustees of Ageco and Agecorp to broaden the scope of the hearings so that all relevant relationships and transactions between the

parties be presented to the Commission. Numerous hearings have been held before the Commission, and briefs and requests for findings have been submitted by all interested parties. The decision of the Commission is now awaited. The three major claims which the Trustee of Ageco, the Trustees of Agecorp and Gas and Electric Associates have advanced against Negas are bottomed upon the proposition that Howard C. Hopson, being in control of the property and assets of the Associated System, held them in trust for its security holders to whom he owed a high fiduciary duty; that in the exercise of his control he caused the diversion of large amounts of valuable assets from the Associated System to Negas for grossly inadequate consideration through a long series of transactions which he dictated and directed; that these transactions resulted in substantial profits to Negas and equally great losses to the Associated security holders; and that the latter are equitably entitled to an accounting from Negas for the profits which it has received.

More specifically, these claims involve:

(a) A claim for an accounting by Negas for the sum of \$5,910,847.14, representing the profit to Negas as the direct result of its acquisition of Electric Associates, Inc., a former subsidiary of Agecorp, for a grossly inadequate consideration. A lien is claimed upon certain securities remaining in Negas' hands representing the directly traceable proceeds of this transaction.

(b) A claim by Gas and Electric Associates as a substantial holder of income notes of UIT to set aside as a fraudulent conveyance a series of transactions by which \$14,583,290.12 of open account indebtedness owed by Negas to UIT was subordinated and eventually translated into Second Preferred and Common Shares of Negas.

(c) A claim for a general accounting by Negas for the net sum of \$25,104,292.99, representing the net diversions of Associated System assets to Negas, exclusive of the Electric Associates transaction above referred to. This claim is subject to reduction by the sum of \$14,583,290.12 in the event that the fraudulent conveyance and release of this amount of open account indebtedness due from Negas to UIT above referred to is set aside.

Other Claims and Settlements

Certain claims of the Ageco and Agecorp Estates and of various System companies have been settled since those reported in the 1942 Report, and the settlements have been approved by the Court. The settlements that were effected and the cash and other proceeds received on each settlement were with respect to claims against the following:

John I. Mange and related interests: \$2,238.44, Ageco debentures of \$17,000 principal amount, and other securities and assets of \$14,891;

Samuel Ungerleider and Selma Ungerleider: \$5,500;

Estate of Frederick S. Burroughs: \$3,837.99, Agecorp debentures of \$12,260 principal amount, and other securities and assets of \$24,770.

A complaint of the Agecorp Trustees against The Public National Bank and Trust Company of New York seeking to hold the bank, as trustee under various Ageco and Agecorp indentures and as depository for certain escrow agents, responsible for the failure of the escrow agents to present certain Ageco 5½% Convertible Investment Certificates for payment on November 15, 1938, the maturity date of such certificates, was dismissed in April 1943 by the District Court, which dismissal was affirmed by the United States Circuit Court of Appeals for the Second Circuit on November 22, 1943, thereby disposing of the claim asserted in such complaint.

In the actions brought to set aside the settlements of several stockholders' derivative actions, the New York Supreme Court dismissed the complaints as to certain individual defendants and, in one action, stayed further proceedings until other defendants had been brought in as parties defendant. An appeal from this latter order has been taken but has not yet been argued. Recently, several other actions based upon a theory different from the previous actions have been instituted to recover from plaintiffs and their attorneys in several stockholders' derivative actions the amounts paid in settlement.

IX. AGECORP TRUSTEES' CASH RECEIPTS AND DISBURSEMENTS

During the year 1943, the Trustees received \$3,822,040.04, of which \$2,572,553.92 represented realization on investments, \$1,106,055.03 represented income, \$114,780.96 represented receipts from Recovery Litigation, including reimbursement for expenses, and \$28,650.13 constituted a refund of documentary stamp taxes and miscellaneous items.

Cash disbursements for the year 1943 amounted to \$5,306,746.92, as compared with \$2,270,669.96 for the year 1942. These disbursements were as follows:

	1943	1942
Expenses of the Trusteeship	\$ 734,272.67	\$ 777,186.69
Corporate expenses	75,382.67	146,103.75
Capital and other disbursements	4,507,091.58	1,347,379.52
Total	<u>\$5,306,746.92</u>	<u>\$2,270,669.96</u>

A comparative summary of the disbursements for 1942 and 1943, in detail, is as follows:

	1943	1942
<i>Expenses of the Trusteeship:</i>		
Allowances of Trustees and Counsel	\$ 121,050.00	\$ 129,000.00
Salaries and wages (including legal and accounting staffs)	373,553.23	430,680.76
Expenses—Trustees, Counsel and Staff	16,823.14	24,216.36
Payment to service companies	13,913.45	51,982.47
Tax and other consultant services	10,323.35	15,416.69
Compensation paid to Special Masters pursuant to Court orders	20,072.58	—
Office rent and safe custody charges	33,836.65	42,455.72
Telephone and telegraph	9,966.89	13,277.45
Printing	70,452.07	20,308.61
Court reporting and related disbursements	10,785.06	9,073.97
Office expense, stationery, supplies, postage and other expenses	40,084.22	26,165.87
Taxes (other than income taxes)	13,412.03	14,608.79
Total Expenses of the Trusteeship	<u>\$ 734,272.67</u>	<u>\$ 777,186.69</u>
<i>Corporate Expenses:</i>		
Auditing (including certification of System consolidated statements for year 1941)	\$ —*	\$ 10,160.08
Transfer, registrar and fiscal agency fees	23,146.31	23,365.05
Interest on Trustees' Certificate of Indebtedness	42,236.36	112,578.62
Total Corporate Expenses	<u>\$ 65,382.67</u>	<u>\$ 146,103.75</u>
<i>Capital and Other Disbursements:</i>		
Payment of principal of Trustees' Certificate of Indebtedness	\$3,790,335.00	\$1,209,665.00
Payment to Associated Trustees on account of collateral note	424,882.83	17,177.57
Payments on liabilities assumed and expenses incurred in connection with property sales	88,407.30	2,660.54
Repayment to subsidiary companies of tax refunds pursuant to Court order	102,515.64	—
Payment to Ageco Trustee on account of expenses of Recap Litigation	50,000.00	—
Purchase of Ageco Trustee's interest in Hopson distribution and taxes and other expenses in regard to Hopson assets	43,367.51	115,152.77
Payments out of trust funds pursuant to Court order	6,594.44	—
Furniture and fixtures and other disbursements	988.86	2,723.64
Total Capital and Other Disbursements	<u>\$4,507,091.58</u>	<u>\$1,347,379.52</u>
Total Cash Disbursements	<u>\$5,306,746.92</u>	<u>\$2,270,669.96</u>

* Auditing service for year 1942 in the amount of \$10,318.89 was paid in 1944.

The cash balance at the end of the year was approximately \$530,000, of which approximately \$200,000 was segregated in special funds to be disbursed only on Court order. Such segregated funds had, prior to the inception on January 10, 1940, of reorganization proceedings, been deposited by Agecorp for the payment of unclaimed matured interest on its bonds and debentures. In a proceeding instituted by the Trustees before the Court to determine the status of such funds it was determined that funds that had been deposited for the payment of interest on Agecorp 8% Eight Year Gold Bonds were trust funds and that funds that had been deposited for the payment of interest on Agecorp Income Debentures due 1978 and Convertible Debentures due 1973 were general assets of the Estate. The termination of such proceeding on January 31, 1944 made available to the Trustees for general purposes the major portion of such segregated funds.

Holders of coupons and interest checks representing interest that became due prior to January 10, 1940 on Agecorp Income Debentures due 1978 and Convertible Debentures due 1973 will be recognized as holders of general claims against the Estate. Holders of coupons and interest checks that became due prior to January 10, 1940 on Agecorp 8% Eight-Year Gold Bonds will, upon determination by the Court of certain pending applications for allowances and expenses, be entitled to receive payment of such coupons and checks less such allowances and expenses as may be determined by the Court.

Expenses of the Trusteeship for the year 1943, amounting to \$734,272.67, represented a decrease of approximately \$43,000 when compared with the year 1942. This downward trend in expenses has been accelerated in recent months. The expenses for the last quarter of 1943 amounted to \$174,463.81, as compared with \$154,844.52 for the first quarter of 1944 and approximately \$158,000 (excluding approximately \$30,000 of fees representing extraordinary non-recurring expenses) for the second quarter of 1944.

It should be noted that the Trustees' Certificate of Indebtedness was completely paid off in 1943, as well as the collateral note in favor of the Associated Trustees which was created in taking over certain assets in connection with the Hopson Settlement. As a result, the Trustees have no outstanding obligations as such. As of June 30, 1944 their cash on hand was \$405,373.93 of which \$9,318.48 represented special funds, to be disbursed only on Court order.

Financial Statements

The accounts of Associated Gas and Electric Corporation, Debtor, for the year 1943 were examined by Lybrand, Ross Bros. & Montgomery. A copy of the audit report and financial statements of Agecorp on both parent company and consolidated bases, are presented on the following pages.

As indicated in the auditors' report and more fully set out in the notes to the financial statements, the values ascribed to the investments of Agecorp do not purport to represent either realizable or replacement values. The amounts shown are as carried in the accounts of Agecorp at January 10, 1940 (the date of entry of the order approving the petition filed by Agecorp for reorganization under Chapter X of the Bankruptcy Act); and the liabilities of Agecorp, except with respect to current trade accounts payable of the Trusteeship, are also shown as carried in the accounts of Agecorp at January 10, 1940, both as affected by transactions occurring between that date and December 31, 1943.

The valuations ascribed to the consolidated fixed capital and investments are subject to later determination. The recorded debts are subject to a legal determination of their validity and rank as claims against the Estate. All financial statements must be viewed in the light of the notes on Pages 25, 40 to 49, inclusive, 54 and 60.

Respectfully submitted,

DENIS J. DRISCOLL,
WILLARD L. THORP,

Trustees of Associated Gas and
Electric Corporation.

ALLEN E. THROOP,
Attorney for Trustees.

July 31, 1944
21 West Street
New York 6, N. Y.

AUDITORS' REPORT

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

To MESSRS. DENIS J. DRISCOLL and
WILLARD L. THORP, Trustees of
Associated Gas and Electric Corporation, Debtor,
New York, N. Y.

We have made an examination of the financial statements of Associated Gas and Electric Corporation, Debtor, and of the consolidated financial statements of the Debtor and subsidiary companies, which appear on pages 22 to 60 of the Annual Report for 1943 of the Trustees of Associated Gas and Electric Corporation, Debtor. In connection therewith, we reviewed the systems of internal control of Associated Gas and Electric Corporation, Debtor, and of certain of its subsidiaries and, without making a detailed audit of the transactions, examined or tested accounting records of such companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examinations were made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We have also been furnished with the financial statements for 1943, together with reports thereon of other public accountants, of all consolidated subsidiaries of the Debtor which were not examined by us. Approximately 27 per cent of the amount shown in the accompanying consolidated statements as total assets and other debits of the group at December 31, 1943 and approximately 30 per cent of the total consolidated operating revenues for 1943 represent, respectively, assets and other debits and operating revenues of these last-mentioned companies.

Similar examinations previously had been made for the year 1942. In all material respects, the principles of accounting applied during 1943, in our opinion, have been on a basis consistent with that of the preceding year.

Based upon our examination and the aforesaid reports of other public accountants, in our opinion, the accompanying financial statements (pages 22 to 60):

(a) set forth, subject to

- (1) the determination of fair values of investments of the Debtor and its subsidiary holding companies and such related or other adjustments as may result from the reorganization proceedings,
- (2) the effect of such adjustments of property and related reserve accounts as may be required by regulatory authorities upon completion of "original cost" and related studies,
- (3) the adequacy of the accumulated reserves for retirement (depreciation) of depreciable property, plant and equipment,
- (4) the possible adjustment of the provisions for Federal income taxes for 1942 and 1943, referred to in Note 13, page 45, a substantial portion of which provisions may ultimately prove to be not required, and such additional provisions for Federal income taxes of prior years as may be required in respect of the contingencies set forth in Note 13, page 46,
- (5) provision for such expenses referred to in Note 15(c) on page 47, as may be approved by the Court as being applicable prior to January 1, 1944, and
- (6) the result and effect of the litigation referred to in Note 14, page 46,

the assets, liabilities and reserves of the Debtor and of the consolidated group at December 31, 1943, on the basis indicated in such statements including the notes thereto, and

- (b) present fairly and in conformity with generally accepted accounting principles, subject to the reservations (4) and (5) above insofar as they apply to the year 1943, the income and expenses of the Debtor and of the consolidated group for the year 1943, exclusive of deductions for interest on indebtedness, other than Trustees' certificate, of the Debtor.

While the adjustments, mentioned in the preceding paragraph, to which the present carrying amounts of investments and fixed property and the related reserves are subject, are dependent upon future determinations and actions, it is expected that such adjustments will prove to be very material in amount and the accompanying financial statements are not to be read as a presentation of the financial position of the Debtor or of the consolidated group.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.
July 24, 1944.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1943, and liability for interest on indebtedness accrued subsequent to January 10, 1940, and designating no amounts as capital liability to sole stockholder,

Associated Gas and Electric Company)

December 31, 1943

ASSETS AND OTHER DEBITS:

INVESTMENTS (exclusive of investment in securities of Associated Gas and Electric Company, parent company, in proceedings for reorganization) (see Note 2, Page 25):

Securities of, and advances to, subsidiary (sub-holding) companies (details on Page 26):

Common stocks	\$150,354,322.47
Preferred stocks	9,338,974.36
Convertible obligations	271,365,629.39
Interest bearing scrip	959,120.30
Advances on open account.....	1,442,060.86

\$433,460,107.38

Miscellaneous (see Note 2-d, Page 25)..... 123,332.90

Office furniture and library, at cost (less reserve for depreciation of \$15,455.53).... 19,581.90 \$433,603,022.18

ACCRUED INTEREST RECEIVABLE (through January 10, 1940) on investments in subsidiaries—noncurrent

79,957.38

SPECIAL FUNDS

17,114.91

CURRENT ASSETS:

Cash	\$ 515,455.40
Special deposits	1,480.43
Miscellaneous receivables	4,437.93

521,373.76

DEFERRED DEBITS

1,804.44

INVESTMENT IN SECURITIES OF ASSOCIATED GAS AND ELECTRIC COMPANY, parent company, in proceedings for reorganization (see Note 1, Page 40):

5% sinking fund income debentures, series B, due 1986 (\$1,320,860 principal amount)

617,689.65

TOTAL ASSETS AND OTHER DEBITS

\$434,840,962.32

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1943, and liability for interest on indebtedness accrued subsequent to January 10, 1940, and designating no amounts as capital liability to sole stockholder, Associated Gas and Electric Company)

December 31, 1943

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS INCURRED PRIOR TO JANUARY 10, 1940 (exclusive of indebtedness, other than for convertible debentures, to Associated Gas and Electric Company, parent company, in proceedings for reorganization see Notes 1 and 10, Pages 40 and 45):

Long-term debt (see Note 3, Page 25):

8% eight year bonds, matured March 15, 1940 (less \$5,000 in treasury)	\$ 8,037,510.00	
Convertible (fixed interest) debentures, due 1973 (see Note 8, Page 44)	24,337,195.00	
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures and \$2,331,915 in treasury)	135,474,635.00	\$167,849,340.00

Other indebtedness:

Accrued interest on long-term debt (including \$196,284.37 matured)	\$ 2,067,816.28	
Taxes payable and accrued:		
Federal income and declared value excess-profits for 1939...	49,459.53	
Other	58,834.45	
Accounts payable:		
Subsidiary company	52,946.94	
Other	5,776.69	
Uncompleted instalment bond-subscription accounts and interest thereon	69,084.96	2,303,918.85
		\$170,153,258.85

CURRENT AND ACCRUED LIABILITIES (incurred by Trustees):

Accounts payable	\$ 53,293.80	
Accrued taxes, salaries, wages, Trustees' fees, etc. (see Note 15-c, Page 47)	23,747.36	77,041.16

DEFERRED CREDITS 13,405.72

RESERVE FOR ADDITIONAL FEDERAL INCOME TAXES..... 1,058,625.36

RESERVE FOR CONVERSION OF DEBENTURES (see Note 8, Page 44).... 24,337,195.00

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of

(a) liability for interest on indebtedness accrued subsequent to January 10, 1940, (b) indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of investments upon final determination of values \$195,639,526.09

INDEBTEDNESS (other than for convertible debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY, parent company, in proceedings for reorganization (see Notes 1 and 10, Pages 40 and 45):

5% cumulative income note, due 1980	\$ 71,805,120.00	
Noninterest bearing note, due 1983	1,250,000.00	
Advances on open account	568,122.14	
Dividend payable	90,000.00	
Accrued interest on 5% cumulative income note through January 10, 1940	568,457.20	74,281,699.34

EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness accrued subsequent to January 10, 1940, treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 38))..... 164,919,736.89

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES..... \$434,840,962.32

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INCOME AND EXPENSES
for the years ended December 31, 1943 and 1942

(on the basis of recording interest and dividends on investments in subsidiary companies, accrued or declared subsequent to January 10, 1940, only as and when received; and before deduction for interest on indebtedness other than Trustees' certificate)

	Year 1943	Year 1942
INCOME (see Note 17, Page 49):		
From investments in subsidiary companies:		
Dividends on:		
The United Coach Company common stock.....	\$ 240,000.00	—
Northeastern Water and Electric Corporation common stock (disposed of during 1942).....	—	\$ 179,109.05
Interest on:		
Convertible obligation, Associated Utilities Corporation.....	812,222.08	940,918.42
Open accounts.....	1,344.86	10,021.26
Miscellaneous	51,797.96	10,550.64
	<u>\$1,105,364.90</u>	<u>\$1,140,599.37</u>
EXPENSES AND TAXES:		
General expenses.....	\$ 727,206.45	\$ 807,179.42
Taxes, other than Federal income tax.....	13,073.82	14,018.86
Provision for Federal income tax (see Note 4, Page 25).....	757,333.80	240,000.00
	<u>1,497,614.07</u>	<u>1,061,198.28</u>
INTEREST ON TRUSTEES' CERTIFICATE OF INDEBTEDNESS.....	39,393.61	111,671.37
	<u>\$1,537,007.68</u>	<u>\$1,172,869.65</u>
LOSS, before deductions for interest on indebtedness (see Note below).....	<u>\$ 431,642.78</u>	<u>\$ 32,270.28</u>

NOTE: Interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation for the years 1943 and 1942 (computed on the amount of obligations outstanding at the end of each of the respective years) is as follows:

	1943	1942
8% eight year bonds, matured 1940.....	\$ 643,000.80	\$ 667,000.80
Convertible (fixed interest) debentures, due 1973.....	1,173,103.28	1,177,143.28
Income debentures, due 1978.....	5,348,446.09	5,563,865.63
5% cumulative income note, due 1980, to Associated Gas and Electric Company.	3,590,256.00	3,590,256.00

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

- (1) *Reorganization proceedings pursuant to Chapter X of the Bankruptcy Act and proceedings under Section 11(b) of the Public Utility Holding Company Act:*

See Notes 1 and 16 on Pages 40 and 49, respectively.

- (2) *Investments:*

- (a) Investments of Associated Gas and Electric Corporation in subsidiary (sub-holding) companies are stated (except for changes occasioned by subsequent transactions) at the amounts at which they were carried in the accounts of the Corporation as at January 10, 1940, the date of entry of the order approving the petition filed by the Corporation for reorganization under Chapter X of the Bankruptcy Act. In the case of certain of these securities, the amounts represent cost to the Corporation or companies merged therewith and, in the case of others, substantially written-up or written-down amounts in relation to cost on the basis of cash paid, par value of securities issued or indebtedness incurred therefor. Based on unaudited reports filed with the Securities and Exchange Commission through December 31, 1943, the amounts at which the above-mentioned investments are stated are, in the aggregate, approximately \$200,000,000 less than the cost thereof (on the basis stated above) to the Associated Gas and Electric Corporation System.

- (b) Convertible obligations receivable provide, in part, that in the event of bankruptcy or insolvency of the makers thereof, the obligations represented by such convertible obligations shall not be paid until there shall first have been paid or discharged all other obligations of the makers thereof.

These obligations are convertible, by the terms of the instruments, in whole or in part, at the option of either the maker or the holder into presently unauthorized nonvoting preferred stock, par value \$100 per share and entitled to noncumulative dividends at stipulated rates per share, on the basis of one share of stock for each \$100 of principal amount of the respective obligations.

Interest on the convertible obligations is payable, by the terms of the instruments, only out of, and (not exceeding the stated interest rates) to the extent of, the "available net income" for any calendar year.

- (c) By order of the Securities and Exchange Commission, NY PA NJ Utilities Company is prohibited from making any payments which will reduce the principal of its convertible obligation held by Associated Gas and Electric Corporation to less than \$202,000,000 and is further prohibited from increasing the stated rate of interest on said convertible obligation.

- (d) Other investments are stated at cost and represent, with minor exceptions, items acquired (pursuant to an order of the United States District Court, Southern District of New York) from Stanley Clarke, Trustee of Associated Gas and Electric Company, and Denis J. Driscoll and Willard L. Thorp, Trustees of Associated Gas and Electric Corporation, as Associated Trustees of assets recovered from the Hopson interests.

- (3) *Long-term debt:*

The outstanding 8% Eight Year Bonds due 1940, Convertible Debentures due 1973 and Income Debentures due 1978, were reduced during 1943 by the respective principal amounts of \$300,000, \$86,300 and \$5,450,020, as a result of the acquisition of such securities, principally pursuant to agreement dated June 4, 1943 relative to the distribution of assets of Utilities Employees Securities Company and the compromise of claims.

- (4) *Provision for federal income tax:*

Provision for the liability of the Corporation for Federal income tax for 1943 represents a pro rata portion of the estimated maximum tax liability of the consolidated group. Since such tax liability is computed on the accrual basis, a major portion of the provision for such liability is based on interest accrued in favor of, but not as yet received by, the Corporation and therefore not reflected in the accompanying statement of income and expenses. If the deductions for interest and related amortization charges of the Corporation and Associated Gas and Electric Company (see Note 13, Page 45) are allowed in the consolidated returns as filed or proposed to be filed, the Corporation will have no liability for Federal taxes.

- (5) *Liabilities—General:*

The amounts at which the liabilities are stated do not purport to represent proved obligations of Associated Gas and Electric Corporation, Debtor, for such amounts, but are those reflected by the books of the Corporation as at January 10, 1940, as affected by transactions occurring between that date and December 31, 1943. Certain proofs of claim which include items, as yet unallowed, other than those shown as liabilities on the books of the Corporation have been filed, pursuant to various orders of the Court.

- (6) *Contingent liabilities:*

See Notes 13 to 15, Pages 45 to 49.

- (7) *Waiver or receipt of dividends:*

In connection with orders of the Securities and Exchange Commission permitting payments of dividends for the quarters ended March 15, 1941 to June 15, 1944, inclusive, on 32,110.9 shares of General Gas & Electric Corporation \$5 Prior Preferred Stock publicly held, the Trustees of Associated Gas and Electric Corporation agreed to waive, until further order of the Commission, receipt of similar dividends for such quarters on the 27,889.1 shares of such stock held by them.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INVESTMENTS

December 31, 1943

	Number of Shares or Principal Amount	Amount at Which Carried
SECURITIES OF AND ADVANCES TO SUBSIDIARY (SUB-HOLDING) COMPANIES:		
Common stocks:		
Associated Electric Company, par value \$1 per share	650,000 shs.	\$ 38,022,081.93
Associated Utilities Corporation, no par value	1,200	1.00
General Gas & Electric Corporation:		
Class A, no par value	2,621,912.123	2,845.28
Class B, par value 25 cents per share	3,036,985.225	235.53
NY PA NJ Utilities Company, par value \$1 per share	458,000	112,323,667.73
The United Coach Company, par value \$1 per share	4,500	5,491.00
		<u>\$150,354,322.47</u>
Preferred stocks:		
General Gas & Electric Corporation:		
\$5 prior preferred, cumulative, no par value (see Note 7, Page 25)	27,889.1 shs.	\$ 976,130.40
\$6 cumulative, convertible, series A, no par value	325,351	4,283,156.37
\$6 cumulative convertible, series B, no par value	277,021	3,631,194.68
\$7 cumulative, no par value	20,282.5	277,826.52
\$8 cumulative, no par value	12,314.5	170,666.39
		<u>\$ 9,338,974.36</u>
Convertible obligations (see Note 2-b and c, Page 25):		
NY PA NJ Utilities Company:		
Interest bearing (1% if earned)		\$196,725,000.00
Noninterest bearing		5,275,000.00
Total obligation, due March 1, 1963	\$202,000,000.00	\$202,000,000.00
Associated Utilities Corporation, interest bearing (2% if earned), due March 1, 1963	82,747,814.66	68,628,129.39
General Gas & Electric Corporation, interest bearing (6% if earned), due March 1, 1963	737,500.00	737,500.00
		<u>\$271,365,629.39</u>
Interest bearing scrip, General Gas & Electric Corporation, 4%, due December 30, 1942	959,324.82	\$ 959,120.30
Advances on open account:		
NY PA NJ Utilities Company	956,234.04	\$ 956,234.04
General Gas & Electric Corporation	485,826.82	485,826.82
		<u>\$ 1,442,060.86</u>
Total, securities of and advances to subsidiary (sub-holding) companies		<u>\$433,460,107.38</u>
OTHER INVESTMENTS:		
Securities of associated companies:		
Associated General Utilities Company:		
4% bonds, due 1961 (see Note A, Page 51)	87,590.00	\$ 20,583.65
5% bonds, due 1956 (see Note A, Page 51)	421,550.00	99,064.25
		<u>\$ 119,647.90</u>
Miscellaneous (including office furniture and library, less reserve)		23,266.90
Total other investments		<u>\$ 142,914.80</u>
TOTAL INVESTMENTS		<u>\$433,603,022.18</u>

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1943 and December 31, 1942
(before deductions for interest on indebtedness, other than Trustees' certificate,
of Associated Gas and Electric Corporation — see Note 7)

	1943	1942 (See Note 2-b)	
OPERATING REVENUES:			
Electric	\$108,447,692.85	\$101,991,034.37	
Gas	13,849,522.26	13,132,833.95	
Transportation	3,164,505.71	2,355,432.59	
Steam heating, water and ice.....	3,272,148.88	2,946,979.10	
Total	\$128,733,869.70	\$120,426,280.01	
OPERATING REVENUE DEDUCTIONS (ex- clusive of expenses and taxes of Associated Gas and Electric Corporation):			
Operating expenses	56,334,467.56	51,467,777.82	
Maintenance	8,506,652.32	7,894,733.02	
Provision for retirement (depreciation) of prop- erty, plant and equipment (see Note 4)....	12,420,715.03	12,010,660.03	
Provision for taxes (see Note 13):			
Federal income and declared value excess- profits	8,144,008.94	7,607,715.84	
Other	12,443,592.42	11,748,321.47	
Total	97,849,436.27	90,729,208.18	
OPERATING INCOME	30,884,433.43	29,697,071.83	
OTHER INCOME:			
Interest and dividends from subsidiaries sold or not consolidated (see Note 2-a).....	350,113.32	754,842.58	
Other income (net)	538,384.69	452,895.72	1,207,738.30
GROSS INCOME	31,772,931.44	30,904,810.13	
INCOME DEDUCTIONS—SUBSIDIARY COMPANIES:			
Interest on long-term debt.....	13,760,100.42	14,261,842.16	
Unamortized debt discount and expense and call premium on bonds redeemed—portion equiva- lent to reduction of income taxes of four sub- sidiary companies resulting therefrom.....	770,356.95	1,148,198.39	
Amortization of debt discount and expense, less premium	667,750.18	735,361.03	
Taxes assumed on interest.....	153,825.46	145,521.60	
Other interest charges	200,169.41	681,101.51	
Interest charged to construction (credit).....	(474,740.86)	(330,068.89)	
Miscellaneous amortization.....	261,225.97	264,464.25	
Miscellaneous income deductions.....	131,685.51	230,067.28	
Dividends on preferred stocks, including \$334,754.60 accrued in 1943 and \$338,780.60 accrued in 1942, not being paid currently....	4,364,192.24	4,346,739.39	
Total income deductions—subsidiary companies	19,834,565.28	21,483,226.72	
BALANCE OF INCOME, before deductions for expenses and taxes of Associated Gas and Elec- tric Corporation and for interest on that com- pany's indebtedness (see Note 17).....	11,938,366.16	9,421,583.41	
INCOME DEDUCTIONS—ASSOCIATED GAS AND ELECTRIC CORPORATION:			
Expenses and taxes	1,497,614.07	1,061,198.28	
Interest on Trustees' certificate of indebtedness.	39,393.61	111,671.37	
	1,537,007.68	1,172,869.65	
BALANCE OF INCOME, before deductions for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Cor- poration (see Notes 7, 13 and 17).....	<u>\$ 10,401,358.48</u>	<u>\$ 8,248,713.76</u>	

The Notes on Pages 40 to 49 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY, BY CONSTITUENT MAJOR GROUPS OF COMPANIES, OF DISPOSITION OF
CONSOLIDATED "BALANCE OF INCOME" AND NET CHANGE IN CONSOLIDATED
"EXCESS OF ASSETS OVER LIABILITIES"**

(both before provision for interest on indebtedness, other than Trustees' certificate, of
Associated Gas and Electric Corporation (Agecorp) subsequent to January 10, 1940)
For the Year 1943

	Distributions of Interest and Dividends on Securities Held by Agecorp and its Subsidiary Investing Companies	Undistributed Net Earnings of Group on Agecorp Consolidation Basis	Net Direct Charges to Earned Surplus or Deficit of Group on Agecorp Consolidation Basis	Net Credit to Earned Surplus or Deficit of Group on Agecorp Consolidation Basis
CONSTITUENT MAJOR GROUPS:				
Associated Electric Company group (Page 29).....	\$ 779.86	\$ 1,209,936.22	\$ 2,414,942.68	\$ 1,205,006.46*
General Gas & Electric Corporation group (Page 30)....	7,787.73	1,474,540.67	9,917,143.55	8,442,602.88*
NY PA NJ Utilities Company group (Page 31).....	638,693.71	8,029,590.37	664,162.17	7,365,428.20
The United Coach Company group (Page 33).....	255,757.37	326,523.35	1,127,732.55*	1,454,255.90
Total constituent major groups.....	<u>\$ 903,018.67</u>	<u>11,040,590.61</u>	<u>11,868,515.85</u>	<u>827,925.24*</u>
AGECORP AND ITS SUBSIDIARY INVESTING COMPANIES:				
Income from major groups as above.....	\$ 903,018.67	—	—	—
Other income	128,457.26	—	—	—
Total income (A)	<u>1,031,475.93</u>	—	—	—
Expenses; taxes; and interest including interest on Trustees' certificate but before interest on other in- debtedness of Agecorp	<u>1,670,708.06</u>	—	—	—
Total Agecorp and its subsidiary investing companies (B)	<u>639,232.13*</u>	<u>639,232.13*</u>	<u>5,857,815.98*</u>	<u>5,218,583.85</u>
Distributions to Agecorp by its subsidiary investing companies in excess of their combined earnings for 1943	<u>207,589.35</u>	—	—	—
Balance of income of Agecorp alone (B).....	<u>\$ 431,642.78*</u>	—	—	—
Consolidated balance of income (C).....		<u>\$10,401,358.48</u>	—	—
Consolidated net direct charges to "Excess of assets over liabilities"			<u>\$ 6,010,699.87</u>	—
Net increase in Consolidated "Excess of assets over lia- bilities" (C)				<u>\$4,390,658.61</u>

* Indicates red figure.

NOTES:

- (A) Exclusive of interest receivable accrued to Agecorp but not received by it at December 31, 1943.
 (B) Exclusive of interest receivable accrued to Agecorp but not received by it at December 31, 1943, and before deductions for interest on indebtedness of Agecorp other than on Trustees' certificate.
 (C) Before deductions for interest on indebtedness of Agecorp other than on Trustees' certificate.
 This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 40 to 49.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1943 OF THE ASSOCIATED ELECTRIC COMPANY GROUP**

	Distributions of or Provisions for Interest and Dividends for 1943 on Securities Held by	Undistributed Net Earnings for 1943	Net Direct Charges for 1943 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1943 Unavailable to Parent, as income, at December 31, 1943, by Reason of Accumulated Deficits (since December 31, 1937) (see Note 2-c)
Associated Electric Company	Agecorp and its Subsidiary Investing Companies	after Provision for Minority Interests		
ASSOCIATED ELECTRIC COMPANY GROUP OPERATING COMPANIES:				
Arizona General Utilities Company	\$ 21,555.00	—	\$ 4,486.21	\$ 1,417.88*
Eastern Land Corporation	—	—	2,416.76*	61.52*
Indiana Gas Utilities Company	—	—	3,048.89	744.41*
Lake Shore Gas Company, The	86,620.01	\$391.42	17,199.85	\$ 3,048.89
Missouri General Utilities Company	114,380.00	—	24,254.59	784.21*
Missouri Southern Public Service Company	10,950.00	—	3,333.31	6,286.98*
New Matamoras Electric Company, The	2,946.24	—	816.78	853.46*
Ohio Midland Light and Power Company	92,157.50	—	61,909.59	177.92*
Ohio River Power Company	—	—	—	5,904.94*
Owensboro Gas Company	16,525.30	—	443.14*	390,117.79*
Panhandle Public Service Company	6,766.50	—	3,148.20	443.14*
Penelec Water Company	21,600.00	—	5,421.46	24,972.99*
Pennsylvania Electric Company	2,626,578.00	—	939,599.37	286.32*
Citizens Transit Company	—	—	11,996.25	145,527.31
Johnstown Fuel Supply Company	—	—	19,357.82	80,585.11
Portsmouth Gas Company, The	49,504.37	—	354.67*	495.27*
Texas General Utilities Company	—	—	1,051.40	354.67*
Union Gas & Electric Company	42,055.00	—	14,300.95	35,781.96*
West Virginia Light, Heat and Power Company	33,232.94	—	19,966.80*	887.57*
Total Associated Electric Company group operating companies	3,124,870.86	391.42	1,086,743.30	36,628.10*
ASSOCIATED ELECTRIC COMPANY:				
Other income	221,323.18	—	—	280,086.71*
Total income	3,346,194.04	—	—	—
Expenses; taxes; and interest, other than on indebtedness to subsidiary investing company of Agecorp	\$3,233,338.32	—	—	—
Interest on indebtedness to subsidi- ary investing company of Agecorp	388.44	388.44	—	—
	3,233,726.76	—	—	—
Total Associated Electric Company	—	112,467.28	1,510,149.61*	112,467.28
Adjustments arising in Associated Electric Company group consolidation	—	10,158.86	501,609.04	—
Associated Electric Company group consolidated	779.86	1,209,369.44	1,288,627.28*	—
Adjustments arising in Agecorp system consoli- dation	—	566.78	3,703,569.96(A)	—
Associated Electric Company group, adjusted as above, forwarded to Page 28	\$779.86	\$1,209,936.22	\$2,414,942.68	—

* Indicates red figure.

(A) Represents principally losses on sales of subsidiaries charged to reserve by Associated Electric Company and the elimination of discount on long-term debt reacquired from an associate company.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 40 to 49.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1943 OF THE GENERAL GAS & ELECTRIC
CORPORATION GROUP**

	Distributions of or Provisions for Interest and Dividends for 1943 on Securities Held by		Undistributed Net Earnings for 1943 After Provision for Minority Interests	Net Direct Charges for 1943 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1943 Unavailable to Parent, as income, at December 31, 1943, by Reason of Accumulated Deficits (since December 31, 1937) (see Note 2-c)
General Gas & Electric Corporation	Agecorp and its Subsidiary Investing Companies				
GENERAL GAS & ELECTRIC CORPORATION GROUP OPERATING COMPANIES:					
Florida Power Corporation (merged company) ..	\$ 69,735.09	\$ 450.38	\$ 747,617.86	\$1,302,461.88	\$747,617.86
Georgia Power & Light Company.....	—	—	137,877.68	1,548,180.83	137,877.68
South Carolina Electric & Gas Company (merged company)	798,852.41	7,337.35	322,202.22	1,986,344.42	322,202.22
Total General Gas & Electric Corporation group operating companies.....	868,587.50	7,787.73	1,207,697.76	4,836,987.13	
GENERAL GAS & ELECTRIC CORPORATION:					
Other income	2,203.44				
Total income	870,790.94				
Expenses; taxes; and interest, other than on indebtedness to Agecorp..	\$234,253.82				
Interest on indebtedness to Agecorp..	111,879.11	111,879.11			
Provision for dividends in arrears on preferred stock held by the public..	288,827.60	634,960.53			
Total General Gas & Electric Corporation.		—	235,830.41	1,786,447.36	235,830.41
Adjustments arising in General Gas & Electric Cor- poration group consolidation		—	36,145.91	2,468,492.11*	
General Gas & Electric Corporation group consolidated		119,666.84	1,479,674.08	4,154,942.38	
Adjustments arising in Agecorp system consolidation.		111,879.11*(A)	5,133.41*	5,762,201.17(B)	
General Gas & Electric Corporation group adjusted as above, forwarded to page 28.....	\$ 7,787.73		\$1,474,540.67	\$9,917,143.55	

* Indicates red figure.

NOTE:

- (A) Elimination of provision for interest accrued, but not paid during 1943, on indebtedness to Agecorp (with contra adjustment of "undistributed net earnings for 1943"), the Corporation not recording such items as income until received.
- (B) Represents principally additions to reserve for retirements (depreciation) of property, plant and equipment, charged to Surplus at December 31, 1937 by subsidiary companies of General Gas & Electric Corporation (see Note 2-c) charged to "Excess of assets over liabilities" in Agecorp consolidation.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 40 to 49.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR
DEFICIT FOR THE YEAR 1943 OF THE NY PA NJ UTILITIES COMPANY GROUP**

		Distributions of or Provisions for Interest and Dividends for 1943 on Securities Held by		Undistributed Net Earnings for 1943	Net Direct Charges for 1943 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1943 Unavailable to Parent, as income, at December 31, 1943 by Reason of: (a) Accumulated Deficits (since December 31, 1937) (see Note 2-c) (b) Specific Orders of Regulatory Bodies
	NY PA NJ Utilities Company	Agecorp and its Subsidiary Investing Companies		after Provision for Minority Interests		
NY PA NJ UTILITIES COMPANY GROUP						
OPERATING COMPANIES:						
Bradford Electric Company.....	\$ 90,000.00	—		\$ 10,743.49*	\$ 96,891.89	—
Canadea Power Corporation.....	72,000.00	—		3,384.65	137.29*	—
Glen Rock Electric Light and Power Company	31,000.00	—		13,455.53	3.39*	—
Granville Electric Company.....	—	—		3,312.09*	198.80*	—
Keystone Public Service Company and Sub-						
sidiary	2,798.84	\$ 2,100.00		162,929.16	959,637.10	\$ 162,929.16(a)
Long Island Water Corporation.....	9,481.68	—		102,565.04	2,382.15*	60,000.00(b)
Metropolitan Edison Company.....	2,539,457.25	3,511.25		123,230.61	4,294,935.24	—
New Jersey Power & Light Company.....	472,408.00	197.25		377,390.26	1,368,910.33	350,751.33(a)
New York State Electric & Gas Corporation...	1,500,000.00	3,600.00		2,220,241.06	46,154.41*	1,380,000.00(b)
Pachogue Electric Light Company, The...	11,519.18	—		61,630.87	1,871.84*	—
Staten Island Edison Corporation.....	—	—		470,775.04	46,461.02	443,219.82(a)
Northern Pennsylvania Power Company.....	100,032.64	6,300.00		243,644.98	7,782.23*	—
Pennsylvania Edison Company and Subsidiary	3,910.17	—		226,688.63	96,422.99*	—
Rochester Gas and Electric Corporation.....	894,342.90	3,586.50		741,463.98	181,176.96	—
Spring Brook Water Company.....	12,465.11	—		—	264.19*	—
York Railways Company and Subsidiaries...	3,375.00	—		81,350.62	112,764.41	81,350.62(a)
Total NY PA NJ Utilities Company group operating companies	5,742,790.77	19,295.00		4,814,874.85	6,905,559.66	
NY PA NJ UTILITIES COMPANY:						
Other income	49,589.77	—		—	—	—
Total income	5,792,380.54	—		—	—	—
Expenses; taxes; and interest, other than on indebtedness to Agecorp and its subsidiary investing companies	\$1,992,887.70(A)	—		—	—	—
Interest on indebtedness to Agecorp and its subsidiary investing companies.....	2,586,648.71	2,586,648.71		—	—	—
		4,579,536.41		—	—	—
Total NY PA NJ Utilities Company.....				1,212,844.13	975,551.96	1,212,844.13(a)
Adjustments arising in NY PA NJ Utilities Company group consolidation.....				5,975.30	1,240,042.41*	
NY PA NJ Utilities Company group consolidated		2,605,943.71		6,033,694.28	6,641,069.21	
Adjustments arising in Agecorp system consolidation		1,967,250.00*(B)		1,995,896.09	5,976,907.04*(C)	
NY PA NJ Utilities Company group, adjusted as above, forwarded to page 28.....		\$ 638,693.71		\$8,029,590.37	\$ 664,162.17	

* Indicates red figure.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 40 to 49.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**NOTES TO SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED
SURPLUS OR DEFICIT FOR THE YEAR 1943 OF THE NY PA NJ
UTILITIES COMPANY GROUP**

(A) Includes interest on securities of NY PA NJ Utilities Company held by the following subsidiaries:

Keystone Public Service Company.....	\$ 27,344.43
Metropolitan Edison Company.....	963,085.00
Staten Island Edison Corporation.....	31,200.00
York Railways Company.....	11,625.00
Total.....	<u>\$1,033,254.43</u>

(B) Elimination of provision for interest accrued, but not paid during 1943, on indebtedness to Agecorp (with contra adjustment of "undistributed net earnings for 1943"), the Corporation not recording such items as income until received.

(C) Represents principally the transfer to "Excess of assets over liabilities" in Agecorp consolidation of reserves for estimated amounts in excess of original cost of property, plant and equipment of two subsidiary companies of NY PA NJ Utilities Company (see Note 3-c, Page 43).

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

SUMMARY OF DISPOSITION OF NET EARNINGS AND CHANGES IN EARNED SURPLUS OR DEFICIT FOR THE YEAR 1943 OF THE UNITED COACH COMPANY GROUP

	Distributions of or Provisions for Interest and Dividends for 1943 on Securities Held by				Undistributed Net Earnings for 1943	Net Direct Charges for 1943 to Earned Surplus or Deficit (Other Than Dividend Appropriations)	Undistributed Net Earnings for 1943 Unavailable to Parent, as income, at December 31, 1943, by Reason of Accumulated Deficits (since December 31, 1937) (see Note 2-c)
	The United Coach Company	Agecorp and its Subsidiary Investing Companies			after Provision for Minority Interests		
THE UNITED COACH COMPANY GROUP							
OPERATING COMPANIES:							
Broome Electric Corporation	—	—		\$ 25.00*		—	—
Lockport Light, Heat and Power Company.....	—	—		496.68*		\$ 273,311.84*	—
New Jersey and Staten Island Ferry Company....	\$ 5,250.00	—		115.81*		115.81*	—
Richmond Railways, Inc.	—	—		160.26		54,359.76	\$ 160.26
Schenectady Rapid Transit, Inc.....	9,664.20	—		7,187.96		95.92*	7,187.96
Valley Public Service Company, The.....	338,500.00	—		93,268.75*		155.17*	—
Total The United Coach Company group operating companies	353,414.20	—		86,558.02*		219,318.98*	
THE UNITED COACH COMPANY AND THE							
RAILWAY AND BUS ASSOCIATES:							
Other income	478,725.11						
Total income	832,139.31						
Expenses; taxes; and interest, other than on indebtedness to subsidiary investing company of Agecorp... \$162,501.78							
Interest on indebtedness to subsidiary investing company of Agecorp... 15,757.37		\$ 15,757.37					
Dividend on common stock..... 240,000.00		240,000.00					
	418,259.15						
Total The United Coach Company and The Railway and Bus Associates.....				413,880.16		223,908.88*	
Adjustments arising in The United Coach Company group consolidation				—		768,451.21*	
The United Coach Company group consolidated.....	255,757.37			327,322.14		1,211,679.07*	
Adjustments arising in Agecorp system consolidation	—			798.79*		83,946.52	
The United Coach Company group adjusted as above, forwarded to page 28.....	\$255,757.37			\$326,523.35		\$1,127,732.55*	

* Indicates red figure.

This statement is subject to the explanations and qualifications contained in the notes to consolidated financial statements on Pages 40 to 49.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940 — see Note 7 — and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1943

ASSETS AND OTHER DEBITS:

COMBINED FIXED CAPITAL of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company and their respective subsidiaries (see Notes 2-c and 3):

Property, plant and equipment (including going value and other intangibles) of operating subsidiaries.....	\$624,097,704.80	
Net excess of the respective amounts at which the investments in operating subsidiaries are carried (without deduction of reserves) by parent companies within the respective groups over the related net assets of such subsidiaries as shown by their books, as adjusted, as at December 31, 1937.....	134,577,611.62	\$758,675,316.42

INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company —parent company, in proceedings for reorganization) (see Notes 2-a and 5) (details on Pages 50 and 51):

Securities of, and noncurrent receivables from, nonconsolidated majority-owned companies, statutory subsidiaries and associate companies:

Manila Electric Company and Escudero Electric Service Company (located in the Philippine Islands) (less reserve of \$10,000,000)	11,646,288.32	
Virginia Public Service Company (less reserve of \$1,325,454.40)	2,500,000.00	
K-T Electric Company	302,328.83	
Tide Water Power Company (less reserve of \$280,857.65)	55,000.00	
Jersey Central Power & Light Company (see Note 5-d)	2,484,956.42	
Paul Smith's Electric Light and Power and Railroad Company and Paul Smith's Hotel Company	1,085,773.69	
Other (less reserves of \$35,072,991.12)	365,438.10	

Other investments:

National Public Service Corporation (see Note 5-d)	4,269,750.00	
New England Gas and Electric Association	2,045,509.09	
Miscellaneous, including real estate (less reserve of \$26,544.95)	568,284.55	25,323,329.00

SPECIAL FUNDS:

Deposits in escrow in accordance with consolidated tax liability apportionment agreement (see Note 13)	616,392.93	
Other	351,259.33	967,652.26

CURRENT AND ACCRUED ASSETS:

Cash in banks and on hand.....	25,932,416.23	
Miscellaneous special deposits.....	950,356.25	
United States Government obligations (including \$3,130,000 Treasury notes, tax series B and C).....	12,721,035.33	
Accounts receivable:		
Customers	\$8,573,305.84	
Appliances, principally instalment accounts	245,895.57	
Other	523,024.50	
	<u>9,342,225.91</u>	
Less, Reserve for uncollectible accounts.....	757,396.81	8,584,829.10
Materials and supplies (including construction materials) at cost or less.....	5,703,301.83	
Prepayments	938,026.77	
Other current and accrued assets.....	133,212.40	54,963,177.91

DEFERRED DEBITS:

Unamortized debt discount and expense of subsidiaries (including approximately \$5,999,421 applicable to refunded issues) (see Note 6)	11,847,647.55	
Fixed capital in suspense being amortized pursuant to orders of state regulatory bodies.....	920,891.90	
Fixed capital in suspense, the disposition of which has not yet been determined.....	415,447.51	
New York State canal dam rebuilding costs, being amortized.....	286,269.37	
Other deferred debits	1,471,831.80	14,942,088.13

NET EXCESS of amounts at which Associated Gas and Electric Corporation carried investments in capital stocks of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company at January 10, 1940 (effective date of petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939 as shown by their consolidated financial statements (see Note 2-d).....

76,615,684.19

TOTAL ASSETS AND OTHER DEBITS, exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company.....

931,487,247.91

INVESTMENTS IN SECURITIES OF, AND RECEIVABLES FROM, ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (see Notes 1 and 5-b):

Sinking fund income debentures (\$1,740,860 principal amount).....	814,123.65	
Preferred and preference stocks (1,316,886 shares).....	—	
Sundry Class A and common stocks, warrants and noninterest bearing scrip.....	—	
Accounts receivable	168,148.97	982,272.62
TOTAL ASSETS AND OTHER DEBITS		<u>\$932,469,520.53</u>

The Notes on Pages 40 to 49 are an integral part of this statement.

(Continued)

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES, Continued

(exclusive of liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940 — see Note 7 — and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1943

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS OF ASSOCIATED GAS AND ELECTRIC CORPORATION AT JANUARY 10, 1940
(exclusive of indebtedness, other than for certain convertible debentures, to Associated Gas and Electric Company—parent company, in proceedings for reorganization—see Note 10):

Long-term debt (details on Page 56):

8% eight year bonds, matured March 15, 1940 (less \$599,000 owned intercorporately and \$5,000 in treasury)	\$ 7,438,510.00	
Convertible (fixed interest) debentures, due 1973 (see Note 8)	24,337,195.00	
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures, \$1,883,900 owned intercorporately and \$2,331,915 in treasury)	133,590,735.00	\$165,366,440.00

Other indebtedness:

Accrued interest on long-term debt (including \$196,278.12 matured)	2,024,411.47	
Taxes payable and accrued	108,293.98	
Uncompleted instalment bond-subscription accounts and certain interest thereon	69,084.96	
Accounts payable	5,776.69	2,207,567.10
		\$167,574,007.10

MINORITY INTEREST IN COMMON STOCKS AND SURPLUSES OF SUBSIDIARY COMPANIES
(details on Page 52)

\$9,350.64

PREFERRED STOCKS OF SUBSIDIARY COMPANIES (details on Pages 52 and 53):

Preferred stocks, stated at preferences in involuntary liquidation

(stocks stated at \$75,177,205.00 are callable at the aggregate amount of \$80,028,991.35 plus accrued dividends; the remainder is not callable)

	75,336,505.00	
Premiums on preferred stocks	317,942.62	
Provision for cumulative dividends in arrears	1,981,599.87	77,636,047.49

LONG-TERM DEBT OF SUBSIDIARIES (less \$31,273,000 in treasury and in sinking funds; \$23,308,100 owned intercorporately of which aggregate amount \$2,715,600 are pledged as collateral for various obligations; and less \$254,638.58 due during 1944) (details on Pages 56 to 60)

320,726,914.19

CURRENT AND ACCRUED LIABILITIES:

Long-term debt of subsidiaries maturing during 1944.....	254,638.58	
Notes payable to bank (against which securities are pledged as collateral).....	1,000,000.00	
Accounts payable	3,773,615.19	
Dividends on preferred stocks of subsidiary companies (including \$147,666.67 accrued but not declared).....	752,951.89	
Customers' deposits	2,789,318.96	
Taxes accrued (see Note 12).....	8,390,769.03	
Interest accrued (see Note 7).....	2,431,227.07	
Other current and accrued liabilities.....	1,101,201.76	20,493,722.48

DEFERRED CREDITS:

Customers' advances for construction.....	2,167,596.10	
Unamortized premium on debt of subsidiaries.....	2,996,074.82	
Other deferred credits	338,491.21	5,502,162.13

RESERVES:

Retirement (depreciation) of property, plant and equipment (see Note 4).....	89,777,483.26	
Conversion of debentures (see Note 8).....	24,337,195.00	
Taxes, principally Federal income (including \$616,392.93 deposited in escrow) (see Note 12).....	13,214,562.50	
Stabilizing reserve in connection with a subsidiary company's rate adjustment plan.....	975,000.00	
Other reserves	2,944,058.89	131,248,299.65

37 CONTRIBUTIONS IN AID OF CONSTRUCTION (nonrefundable).....		3,908,721.74
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TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of (a) liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—see Note 7; (b) that company's indebtedness to Associated Gas and Electric Company; and (c) reserve for adjustment of presently stated amounts of fixed assets and investments upon final determination of values

727,149,225.42

INDEBTEDNESS (other than for certain debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (see Note 10):

5% cumulative income note, due 1980.....	71,805,120.00	
Noninterest bearing note, due 1983.....	1,250,000.00	
Advances on open account.....	568,122.14	
Dividend payable	90,000.00	
Accrued interest on 5% cumulative income note through January 10, 1940.....	568,457.20	74,281,699.34

EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940), treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 38)

131,038,595.77

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES.....

\$932,469,520.53

The Notes on Pages 40 to 49 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

and

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES DURING 1943 IN THE AMOUNT DESCRIBED AS "EXCESS
OF ASSETS OVER LIABILITIES" AND TREATED AS RESERVE FOR ADJUSTMENT
OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON
FINAL DETERMINATION OF VALUES

for the year ended December 31, 1943

	Parent Company Alone	Group, on Consolidated Basis
BALANCES, December 31, 1942	\$160,576,832.44	\$126,647,937.16
ADDITIONS:		
Income (before deduction for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation) for the year ended December 31, 1943, per accompanying statements (Pages 24 and 27)	\$ 431,642.78*	\$10,401,358.48
Distributive share of proceeds of settlements between Associated Trustees and various parties:		
Long-term debt of the Corporation, principal amount	26,300.00	26,300.00
Reduction in reserve for conversion of debentures (see Note 8)	23,300.00	23,300.00
Accrued interest on long-term debt of Corporation	141.88	141.88
Cash and other items	125,301.49	304,841.62
Recovery under agreement, dated June 4, 1943 relative to distribution of assets of Utilities Employees Securities Company and the compromise of claims:		
Long-term debt of the Corporation, principal amount	5,798,520.00	5,998,520.00
Reduction in reserve for conversion of debentures (see Note 8)	63,000.00	63,000.00
Accrued interest on long-term debt of the Corporation	67,719.02	69,177.35
Excess of carrying amounts of Utilities Employees Securities Company income notes over cash received in exchange therefor	174,574.44*	191,928.99*
Net profit on sales of investments, principally in statutory subsidiaries	36,386.40	1,243,455.06
Miscellaneous credits	11,730.00	42,316.91
	\$166,123,014.01	\$144,628,419.47

DEDUCTIONS:

Write-downs and losses on sales of property, plant and equipment of and investments in subsidiary companies		\$ 5,444,302.17
Loss on dissolution of a subsidiary company	\$1,158,382.33	
Unamortized debt discount and expense and net premium on bonds reacquired, less \$770,356.95 charged to income, being equivalent to reduction of income taxes of four subsidiary companies resulting from such reacquisition		1,793,932.48
Appropriation to reserve for retirements (depreciation) of property, plant and equipment		4,396,059.85
Appropriation to stabilizing reserve in connection with a subsidiary company's rate adjustment plan		975,000.00
Premiums and expenses on preferred stocks of subsidiary companies called for redemption		183,108.78
Provision for additional taxes for prior years, net	25,105.21*	110,025.78
Reimbursement to Trustee of Associated Gas and Electric Company for proportionate part of "Recap" litigation expenses applicable to prior years	70,000.00	70,000.00
Payment made to National Public Service Corporation debenture holders protective committee upon release of debentures in exchange for certificates of deposit therefor		170,448.00
Dividends declared on preferred stocks of subsidiary companies, applicable to 1944...		113,639.59
Expenses incurred in connection with issue and sale of preferred stocks of subsidiary companies		132,239.51
Payment of arbitration award and expenses of settlement		159,414.62
Miscellaneous charges	1,203,277.12	41,652.92
BALANCES, December 31, 1943	\$164,919,736.89	\$131,038,595.77

* Denotes red figure.

The Notes on Pages 40 to 49 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) *Reorganization proceedings pursuant to Chapter X of the Bankruptcy Act:*

On January 10, 1940, Associated Gas and Electric Corporation and its parent, Associated Gas and Electric Company, filed petitions for reorganization under Chapter X of the Bankruptcy Act in the United States District Court for the Northern District of New York. The petitions were approved by the Court on that day. On January 30, 1940, the proceedings were removed to the Southern District of New York.

On June 14, 1943, a joint plan of reorganization of Associated Gas and Electric Company and Associated Gas and Electric Corporation was filed by the Trustees of the respective companies with the Securities and Exchange Commission. On April 14, 1944, the Securities and Exchange Commission approved the Plan, generally, and subsequently, following the filing of the Plan with the United States District Court for the Southern District of New York, hearings were held thereon. The Plan has not as yet been approved by the Court nor has it been submitted to the security holders and creditors of Associated Gas and Electric Corporation and Associated Gas and Electric Company entitled to vote thereon. A program which it is contemplated will be carried out prior to, or in part simultaneously with, the consummation of the Plan provides, among other things, for material recapitalizations, mergers and/or dispositions of companies now constituting the Associated Gas and Electric System and would involve very substantial reductions, either directly or by the creation of appropriate reserves, of the amounts at which the principal assets of Associated Gas and Electric Corporation and its subsidiaries consolidated are now carried. A condensed summary of the pro forma balance sheet presented at the hearing before the Court as reflecting what, in the opinion of the Trustees of the Debtor, might be expected to be the effect of the transactions proposed in the plan, is submitted on Page 4 hereof.

(2) *Basis of consolidation:*

- (a) The consolidated statements of Associated Gas and Electric Corporation and subsidiary companies include, except as stated below, all companies the majority of the voting stock of which is owned directly or indirectly by the Corporation.

Included among the majority-owned companies consolidated are York Railways Company, which is in proceedings for reorganization under Section 77B of the Bankruptcy Act, and its subsidiaries.

The exceptions referred to above are:

(1) Previously excluded from consolidation:

Manila Electric Company and Escudero Electric Service Company, both of which are located in the Philippine Islands.

Virginia Public Service Company and its subsidiaries. Under a proposed plan of recapitalization under Section 11(e) of the Public Utility Holding Company Act of 1935, the holdings of General Gas & Electric Corporation, in this Company would not have represented a sufficiently large percentage of ownership to warrant inclusion in the consolidated financial statements. Subsequent to December 31, 1943, General Gas & Electric Corporation disposed of its entire interests in Virginia Public Service Company to a non-affiliated company.

Utilities Employees Securities Company. This Company is in process of liquidation in accordance with an agreement dated June 4, 1943 between the Trustees of the Corporation, Utilities Employees Securities Company and others. Pursuant to such agreement, the Company during 1943 delivered to this Corporation, for cancellation, the following securities issued by the Corporation: \$300,000 principal amount of 8% bonds due 1940, \$63,000 principal amount convertible debentures due 1973 and \$5,435,520 principal amount of income debentures due 1978; redeemed its own outstanding bonds, notes and debentures; and is in process of surrendering its remaining assets to a trustee to be held in escrow and later made available, upon compliance with certain conditions, to distribute companies (primarily consolidated subsidiaries of the Corporation) for welfare purposes.

K-T Electric and Water Company. This Company was organized on July 21, 1943, for the purpose of facilitating the sale of Tri-City Utilities Company (formerly an indirect subsidiary of the Corporation, previously excluded from consolidation) by acquiring the portion of the properties of Tri-City Utilities Company that were not sold. Contracts have been made for the sale of the major portion of the physical properties of this Company.

(2) Previously included in consolidation:

Tide Water Power Company. This Company is in proceedings before the Securities and Exchange Commission under Section 11(e) of the Public Utility Holding Company Act of 1935. Since the proceedings indicate that, upon completion of a reorganization of Tide Water Power Company, the investment therein of General Gas & Electric Corporation will not represent a sufficiently large percentage of ownership to warrant inclusion in the consolidated financial statements, the Company has been excluded from the consolidation in 1943. For comparative purposes, the accompanying consolidated statement of income and expenses for 1942 has been adjusted to exclude revenues and expenses of the Company. The income (interest) actually received on the investment is included as other income. General Gas & Electric Corporation has executed a contract to sell its interest in this Company for \$55,000 and applications for approval of such contract are now pending before regulatory commissions.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Various subsidiary companies which were sold during 1943. These companies have been eliminated from the consolidated financial statements as at January 1, 1943, and, for the purposes of comparison, the accompanying consolidated statement of income and expenses for 1942 has been adjusted to exclude the revenues and expenses of such companies and to include as income, as in the case of the statements for 1943, only the income, limited to net income on a consolidated basis, actually received from such companies during the year.

- (b) As a result of the exclusion of certain companies, as set forth in (a) above, the consolidated "Balance of Income" for 1942 is less than the amount previously reported for that year by \$442,878, representing the difference between the net income of the excluded companies on a consolidated basis and the income actually received therefrom by the affiliated companies, as follows:

Tide Water Power Company.....	\$ 48,249.71*
Subsidiary companies sold	491,127.71
Total	<u>\$442,878.00</u>

* Denotes red figure.

- (c) The net excess of the amounts at which investments in operating utility subsidiaries are carried (without deduction of reserves) by the sub-holding parents of such utility groups over the related net assets of such subsidiaries has been computed as at December 31, 1937 (after giving effect to certain adjustments referred to below), and has been shown separately in the consolidated statement of assets, liabilities and reserves under the item of Combined Fixed Capital of these utility company groups. The sub-holding companies provided reserves amounting to \$14,839,721 at December 31, 1943 against investments in subsidiary operating companies. In consolidation, such reserves have been included in the "Excess of assets over liabilities" since such excess is treated as a reserve for presently stated amounts of fixed assets and investments upon final determination of values.

As at December 31, 1937 Associated Gas and Electric Corporation and most of its subsidiary holding companies underwent what they considered to be "accounting reorganizations" and, pursuant to authorizations of their Boards of Directors, transferred to their respective capital surplus accounts the recorded balances in their earned surplus accounts, and in the consolidations of individual groups, the balances appearing in the surplus accounts of the subsidiary companies were treated as if such subsidiaries had been acquired at December 31, 1937. While for each consolidated group as a whole the amount so transferred to capital surplus was a credit balance, the group consolidations would have reflected deficits in the consolidated earned surplus, before such transfer, had the companies in the past not charged to capital surplus certain items which, under now generally accepted accounting principles, would be required to be charged to earned surplus.

Since December 31, 1937 there have been net charges to capital surpluses of sub-holding company parents of the operating utility companies, which charges have been reflected as being applicable to periods prior to that date and which consequently have had the effect of reducing the amount of the "net excess" referred to above. These items aggregated approximately \$41,000,000. In addition, such "net excess" has been further written down subsequent to December 31, 1937 by charges of approximately \$13,300,000 to earned surpluses or deficits of the sub-holding parent companies, in connection with various mergers within the respective groups and pursuant to orders of the Securities and Exchange Commission. On the other hand, changes made during 1941 and 1942 in the basis of stating the property accounts of certain of the operating subsidiaries had the effect of increasing the "net excess" referred to above by approximately \$83,000,000 and \$13,000,000, respectively. The principal portion (approximately \$85,000,000) of such aggregate increase of \$96,000,000 resulted from the elimination from the books of the operating subsidiaries of amounts reflecting the effect of upward revaluations prior to 1938 of plant and other property. The remainder of such increase was occasioned by the restatement of certain of the properties of other operating subsidiaries to their "original cost" as found by, or reported to, regulatory bodies having jurisdiction.

- (d) Pursuant to authorizations of its Board of Directors, Associated Gas and Electric Corporation prior to January 10, 1940 wrote down, since December 31, 1937, but as at that date, the carrying amounts of its investments in certain subsidiaries by approximately \$173,000,000. Of this amount, approximately \$147,000,000 applied to investments in sub-holding parents of operating utility groups and approximately \$26,000,000 to investments in an investing company subsidiary.

The net excess of the amounts at which Associated Gas and Electric Corporation carried investments in capital stocks of presently owned sub-holding parents of operating utility groups at January 10, 1940 (the effective date of the petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939, as shown by their consolidated financial statements, appears as a separate item in the consolidated statement

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of assets, liabilities and reserves pending the final determination of values of such investments. Such net excess was arrived at as follows:

	Amount at Which Investments Were Carried by Parent	Underlying Consolidated Net Assets	Net Excess
NY PA NJ Utilities Company.....	\$112,323,667.73	\$23,260,438.45	\$89,063,229.28
Associated Electric Company.....	38,022,081.93	37,433,428.72	588,653.21
General Gas & Electric Corporation.....	9,342,055.17	21,243,996.27	11,901,941.10*
The United Coach Company.....	5,491.00	1,139,748.20	1,134,257.20*
Total.....	<u>\$159,693,295.83</u>	<u>\$83,077,611.64</u>	<u>\$76,615,684.19</u>

* Denotes red figure.

The excess of the aggregate amount at which investments in nonutility subsidiaries (other than sub-holding parents of utility company groups) were carried by Associated Gas and Electric Corporation at January 10, 1940 over the total recorded amount of underlying net assets of such subsidiaries as of that date, after adjustments of differences between principal and carrying amounts of debt securities and preferred stocks of associated companies held by the nonutility company group and of unamortized discount applicable thereto has been written off in consolidation.

- (3) *Combined property, plant and equipment (including going value and other intangibles) of operating subsidiaries of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company:*

- (a) The amount at which these assets are stated does not purport to represent their present realizable or replacement value, but is the aggregate of the amounts at which such assets were carried as at December 31, 1943, in the books of the several operating companies, less relatively minor reductions to estimated salvage recognized in the consolidation of an individual group. These amounts represent, in part, estimated reproduction cost new (as appraised, excluding overheads and intangibles, at various dates within the years 1922 to 1930 by an engineer, plus additional amounts for overheads and for intangibles, such as going value, financing and organization expenses, computed by the respective companies on the basis of percentages allowed for such items in the case of Brooklyn Borough Gas Company before the Special Statutory Court for the Eastern District of New York in 1926); in part, estimated reproduction cost new, including intangibles, as appraised by independent engineers, at various dates; in part, acquisition or construction cost to the owning companies; and, to a relatively minor extent, "original cost" as found by or reported to regulatory bodies. The Securities and Exchange Commission has held in its Release No. 3285A of August 5, 1942 under the Securities Exchange Act of 1934 that the engineer who made the appraisals referred to above lacked independence as an appraiser of the companies' properties and that the application by the companies of the "Brooklyn Borough" overheads was unjustifiable.
- (b) The presently effective uniform systems of accounts for electric, gas and water utilities prescribed by the Federal Power Commission and by the state regulatory commissions having jurisdiction over the principal operating subsidiaries require, among other things, that properties be stated at original cost (i.e., cost when first devoted to public service), that the difference between such original cost and the amount at which the properties are now being carried be transferred to "plant adjustment accounts," and that such difference be depreciated, amortized or otherwise disposed of as the commission having jurisdiction may approve or direct.

Studies relating to the reclassification of the property accounts have been completed by certain of the operating subsidiaries in respect of property carried at approximately \$192,000,000 and tentative or final reports thereon have been filed with the regulatory bodies. These reports, which are subject to review and approval of the regulatory bodies, indicate that approximately \$12,875,000 and \$12,500,000 will be classified as plant adjustments (Account 107) and plant acquisition adjustments (Account 100.5), respectively. While studies with respect to the remaining portion of the properties subject to original cost requirements (carried at approximately \$417,000,000) have not as yet been completed, estimates made recently in connection with the Plan of Reorganization (see Note 1, Page 40) indicate that of such \$417,000,000, approximately \$48,900,000 may be classified as plant adjustments (Account 107) and \$32,700,000 as plant acquisition adjustments (Account 100.5). A relatively small portion of the amount shown for property, plant and equipment (approximately \$15,000,000) is not required to be reclassified on the basis of original cost.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (c) Certain subsidiary operating companies have provided reserves for amounts in excess of original cost of property, plant and equipment by charges to either earned or capital surplus. In consolidation such reserves amounting to \$32,692,536 at December 31, 1943 have been included in the "Excess of assets over liabilities" since such excess is treated as a reserve for presently stated amounts of fixed assets and investments upon final determination of values.
- (d) Subsequent to December 31, 1943, certain of the companies included in the consolidation have entered into agreements and are engaged in negotiations looking toward the execution of other agreements for the sale of investments of sub-holding company parents in, or all or part of the properties of, certain operating subsidiaries to nonaffiliated interests. It is not possible at this time to estimate the amount of the profit or loss that may arise from effecting the various disposals, but it is expected that as a whole such transactions will result in substantial book losses.

(4) *Retirement (Depreciation) and Maintenance Policies:*

- (a) The greater number of operating subsidiaries follow the general policy of providing for depreciation of property in amounts which approximate the deductions for depreciation claimed for income tax purposes. Of the remaining companies, some follow the general policy of providing for retirement (depreciation) of property (other than automotive equipment) in amounts which, when added to maintenance expenditures, equal fixed percentages of gross operating revenues less, in the case of electric and gas utilities, cost of power and gas purchased; others make provisions in amounts fixed by their respective managements, and one on the basis of rates or amounts prescribed by the state regulatory body having jurisdiction. Provisions for retirement (depreciation) of automotive equipment are based, generally, on estimated service lives.
- (b) The aggregate of the amounts provided for retirements (and depreciation and depletion where provision is made as such) by the operating subsidiaries was less by approximately \$220,000 in 1943 and \$500,000 in 1942 than the combined depreciation deductions claimed or to be claimed for Federal income tax purposes, which deductions are based on a straight-line method.
- (c) No specific provisions are made for amortization of intangibles included in property, plant and equipment except in the case of one major subsidiary which is writing off certain intangibles at the rate of \$200,000 per annum under an agreement with a regulatory commission.
- (d) The systems of accounts (referred to in Note 3-b) prescribed by the Federal Power Commission and state regulatory commissions having jurisdiction require that provision be made for loss in service value of electric, gas and water plants which is not restored by current maintenance, and mention various causes of depreciation which are to be considered. Pending completion by the companies and review by the commissions of the data pertaining to the original cost of plant, it cannot be presently foreseen what changes in the companies' accounts or depreciation policies may be necessitated, but they may be material.

(5) *Investments:*

- (a) Investments in securities of Manila Electric Company and Escudero Electric Service Company (both located in the Philippine Islands), Virginia Public Service Company, K-T Electric and Water Company, Tide Water Power Company, Jersey Central Power & Light Company, National Public Service Corporation, Paul Smith's Electric Light and Power and Railroad Company, Paul Smith's Hotel Company and New England Gas and Electric Association are stated at amounts which represent, for the most part, cost or less to the consolidation, less the related reserves indicated. Investments in securities of other nonconsolidated majority-owned companies, statutory subsidiaries and other associate companies are stated at written-down amounts, less the reserves indicated. Miscellaneous investments appear at cost or less, and are after deducting related reserves.

The investment in subsidiaries in the Philippine Islands, amounting to \$21,646,288.32 (before deducting reserve of \$10,000,000), is approximately \$1,200,000 less than related assets of such companies based on the latest reports (unaudited) received from such companies as of October 31, 1941. The company owning such investment retained in 1942 E. M. Gilbert, an engineer of the firm of Gilbert Associates, Inc., who by reason of his former association with that company is familiar with the properties located in the Philippine Islands, to make a review of the situation from the standpoint of the destruction that might be sustained as a result of the war, and, based upon his report which contained estimates of the maximum and minimum damages that might be sustained, created a reserve of \$10,000,000 against such investment.

The investment in Virginia Public Service Company consisted of (1) common stock carried at a cost of \$2,660,287.73 and (2) a claim of General Gas & Electric Corporation to funds in escrow of \$1,165,166.67 representing the proceeds from \$1,200,000 principal amount of first mortgage and refunding bonds of Virginia Public Service Company which were surrendered for cancellation at 97 and accrued interest, in connection

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with the refinancing of that company's long term debt in 1942. Subsequent to December 31, 1943, General Gas & Electric Corporation sold its interest in the company, together with the afore-mentioned claim. In accordance with the terms of the contract of sale, the gross consideration to be received therefor is not to exceed \$2,500,000, and a reserve has been provided for the difference between the recorded amount for the investment in Virginia Public Service Company and \$2,500,000.

- (b) Investments in sinking fund income debentures of Associated Gas and Electric Company are stated at cost to the consolidation and other securities of that company are carried at no value.
- (c) The amounts at which investments in securities of, and receivables from, associate and nonassociate companies are carried do not purport to represent realizable values.
- (d) Certain subsidiary companies own approximately one-third of the common stock of Jersey Central Power & Light Company and approximately 85 per cent of the outstanding debentures issued by National Public Service Corporation, under which the remaining two-thirds of the afore-mentioned common stock are pledged. National Public Service Corporation has been liquidated and dissolved and the indenture trustee holds the pledged common stock. The net income of Jersey Central Power & Light Company and its subsidiary for the year 1943, after provision for dividends on preferred stocks, as shown by that company's report, was \$393,711.03. No dividends were paid on the common stock during the year. Under the terms of the indenture securing the funded debt of such company, there are certain restrictions as to the availability of earned surplus and payment of dividends on the common stock. Moreover, the payment of dividends on the common stock is subject to the approval of the Board of Public Utility Commissioners of the State of New Jersey.

(6) *Unamortized debt discount and expense:*

The unamortized debt discount and expense applicable to indebtedness of Associated Gas and Electric Corporation, which amounted to \$3,209,541.06 at January 10, 1940, has been closed to the "Excess of assets over liabilities."

(7) *Interest on indebtedness of Associated Gas and Electric Corporation:*

No provision has been made in the consolidated statement of assets, liabilities and reserves at December 31, 1943 for interest on (a) the outstanding bonds and debentures of Associated Gas and Electric Corporation, or (b) the income note owing by said Corporation to its parent, subsequent to January 10, 1940, the date of the filing and approval of the Corporation's petition for reorganization under Chapter X of the Bankruptcy Act. Interest on such indebtedness outstanding at December 31, 1943, after eliminating the portion of such indebtedness held within the consolidated group, computed as provided in said securities, for the period from January 11, 1940 to December 31, 1943, and for each of the years 1942 and 1943 (none of which is reflected in the consolidated statement of income and expenses), is as follows:

	Jan. 11, 1940 to Dec. 31, 1943	Each of the Years 1942 and 1943
Bonds and debentures	\$28,351,648.41	\$ 7,137,477.92
Indebtedness to Associated Gas and Electric Company on income note	14,261,294.67	3,590,256.00
Total	<u>\$42,612,943.08</u>	<u>\$10,727,733.92</u>

(8) *Convertible debentures, due 1973, and reserve for conversion of debentures:*

The convertible (fixed interest) debentures, due 1973, are convertible, by the terms of the indentures, at the option of the holder into income debentures, due 1978, equal in principal amount to twice the principal amount of convertible debentures surrendered for such conversion.

The reserve for conversion of debentures represents the balance of the provision made in 1933 by appropriation from capital surplus for the above conversions.

(9) *Securities held intercorporately and treasury securities, which are pledged:*

Certain securities of subsidiaries which are held intercorporately and eliminated in consolidation and treasury securities were pledged, restricted or subordinated as shown on pages 52 to 60.

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(10) *Indebtedness to Associated Gas and Electric Company:*

The Trustees of Associated Gas and Electric Corporation are informed that, in addition to the items shown under the above caption, the Trustee of Associated Gas and Electric Company holds \$115,730 principal amount of convertible debentures, due 1973, of Associated Gas and Electric Corporation.

The 5% cumulative income note, due 1980, and the noninterest bearing note, due 1983, are both subordinated by the terms of the respective notes to all other indebtedness of the Corporation, except the indebtedness represented by such notes.

(11) *Liabilities of Associated Gas and Electric Corporation—General:*

See Note 5, Page 25.

(12) *Taxes accrued and reserve for additional Federal income taxes:*

The amount shown for taxes accrued includes, on the basis of the provisions made in respect to 1943, approximately \$1,250,000 representing the estimated Federal income tax liability and approximately \$2,300,000 representing the estimated reduction of the tax liability of the consolidated group arising through the net operating loss carry-over attributable to a deduction taken in the 1942 consolidated return for a war loss sustained by a subsidiary company on its investment in properties located in the Philippine Islands (see Note 13). The remainder of the provision for Federal income taxes for the year 1943 made by the companies included in the consolidated balance sheet (\$5,650,000) together with \$5,700,000 with respect to 1942 is included in the reserve for additional Federal income taxes as a provision for the estimated additional consolidated tax liability which may arise if the controversial interest and related amortization of the Corporation and Associated Gas and Electric Company are disallowed as deductions in the returns filed or proposed to be filed.

(13) *Provision for Federal income and excess profits tax:*

The Corporation and its consolidated subsidiary companies, except one which was not considered eligible, joined or propose to join with their parent, Associated Gas and Electric Company, in consolidated Federal excess profits tax returns for the years 1940 to 1943, inclusive, and in consolidated income tax returns for the years 1942 and 1943. Consolidated income tax returns were not permitted, under the Internal Revenue Code, for the years 1940 and 1941.

In the event that the consolidated excess profits tax returns filed for the years 1940, 1941 and 1942 and proposed to be filed for 1943 are accepted as filed, the Corporation and its subsidiary companies will have no liability for such taxes, and no provision therefor has been made in these statements. The only subsidiary company included in the consolidated statements that is not eligible to join in the consolidated excess profits tax return, Georgia Power and Light Company, claims that it is not liable for excess profits tax.

Each of the companies joining in a consolidated return, other than companies in bankruptcy, is severally liable to the Federal Government for the full amount of any income or excess profits tax, including any deficiencies, penalties or interest, which may be assessed against the respective affiliated groups.

Agreements, herein called apportionment agreements, have been made by the companies joining in the consolidated returns which provide that any tax liability of the group shall be allocated to each of the participants therein in the ratio that the liability of each on a separate return basis bears to the sum of the liabilities so computed for each participant, except that the amount (including interest and penalties for 1940 and excluding interest and penalties for subsequent years) allocated to any participant other than the Corporation and Associated Gas and Electric Company shall not exceed the participant's tax liability computed on the basis of a separate return.

The apportionment agreement made by the participants in the 1942 consolidated return contains special provisions relating to the deduction claimed in the return for the war loss (approximately \$8,400,000) suffered by Associated Electric Company, a subsidiary company, on its investment in properties located in the Philippine Islands. In the event that the deduction claimed in the 1942 return for this loss is allowed, Associated Electric Company or the consolidated group may be subject to substantial taxes in subsequent years upon the recovery of the war loss. The special provisions in the apportionment agreement provide for the establishment of an escrow fund to meet such contingent liability. This fund has been or will be created by deposits in escrow on the part of each company in an amount equivalent to the reduction in its tax liability resulting from the deduction of the war loss. On the basis of the return filed for the year 1942 and on the basis of the provisions made in respect to 1943, it is estimated that the reduction of the consolidated tax liabilities for 1942 and 1943 by reason of the deduction of the war loss are approximately \$620,000 and \$2,300,000, respectively.

The provisions for Federal income taxes for the years ended December 31, 1942 and 1943, represent the estimated maximum consolidated income tax and contingent liabilities for these years. The estimated maximum liabilities were computed without taking into account substantial deductions which may be subject to controversy,

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but which were or will be claimed in the returns for interest and related amortization charges on securities of the Corporation and Associated Gas and Electric Company, both of which are in proceedings for reorganization under Chapter X of the Bankruptcy Act.

In regard to the interest deductions claimed, the Commissioner of Internal Revenue has held in one somewhat similar case that interest was not allowable where, in the opinion of the Commissioner, the financial position of the taxpayer was such that there was no reasonable expectancy the interest would be paid. The Board of Tax Appeals sustained this position. The Circuit Court of Appeals reversed both the Board and the Commissioner upon this question and allowed the deduction of the interest claimed. No appeal was taken from this decision. In a recent ruling in another somewhat similar case (Internal Revenue Bulletin, January 25, 1944, I.T. 3635, 1944-2-11612) it is held that the interest on the obligations of the debtor in reorganization continues to accrue as a deduction until the date of the transfer of the corporate assets to the reorganized corporation, and the doubt as to collectibility of such interest is not such a contingency as postpones the accrual of the liability until the contingency is resolved. It is further held therein that the debtor's proposed plan of reorganization under which the obligations are to be replaced by new securities bearing reduced interest rates does not affect the accrual of interest, for Federal income tax purposes, for the years under consideration.

Whether or not there is an overaccrual for income tax and contingent liabilities for the years 1942 and 1943, and the extent of such overaccrual, if any, depend upon (1) a determination of the amount of Federal and other taxes which may be assessed against the consolidated group upon the recovery of the war loss, and (2) the ultimate solution of various problems involved with reference to the interest and related amortization deductions which have been or will be claimed for the years 1942 and 1943. However, if these latter deductions are allowed in their entirety on the basis of the return filed for the year 1942 and on the basis of the provisions made in respect to 1943, the consolidated tax liability for 1942 and 1943 would be decreased by approximately \$5,700,000 and \$5,650,000, respectively, and the consolidated balance of income for each of the respective years would be increased by a corresponding amount.

The provisions for income and other taxes for the years 1942 and 1943, included in the consolidated statements, give effect to the reduction of taxes resulting from the availability of deductions to certain subsidiaries for unamortized debt discount and expense and call premium on long-term debt called for redemption in 1942 and 1943. The applicable tax reductions to these subsidiary companies arising from such deductions were \$770,356.95 and \$1,148,198.39 in the years 1943 and 1942, respectively. Equivalent amounts have been deducted in the consolidated statement of income and expenses as special amortization of debt discount and expense.

The Corporation and its subsidiary companies filed separate income tax returns for the years 1934 to 1941, inclusive, and separate declared value excess-profits tax returns for the years 1934 to 1943, inclusive. The Bureau of Internal Revenue has examined such returns to and including 1941. Based upon such examinations the Bureau has assessed deficiencies for the years 1934 to 1939, inclusive, which with interest thereon amount to approximately \$1,400,000 for the Corporation. As a result of negotiations had with the Bureau it is proposed that such claims against the Corporation, together with similar claims aggregating approximately \$7,100,000 against Associated Gas and Electric Company, be settled (in the event of the consummation, and as a part, of the Plan of Reorganization referred to in Note 1) for the sum of \$750,000. This proposal has received the tentative acceptance of the Acting Secretary of the Treasury, contingent, among other things, upon the Court's approval of the Plan in 1944.

(14) *Litigation pertaining to recapitalization plan of 1933:*

On February 28, 1941, a petition was filed with the United States District Court for the Southern District of New York by the Trustee of Associated Gas and Electric Company, parent company, and soon thereafter trustees acting under indentures pursuant to which various classes of debentures of the Company were issued also filed petitions asserting various claims of the Company with respect to the ownership of assets now held by the Trustees of the Corporation and seeking to establish the rights of the Company and of holders of securities issued by the Company to share in these assets. Said petitions challenged the validity of a number of transactions, including certain transfers of assets from the Company to the Corporation, and of the Recapitalization Plan of 1933, pursuant to which many security holders of the Company exchanged their holdings for Corporation debentures. On or about May 7, 1941, the General Protective Committee for Security Holders of Associated Gas and Electric Company (limited to the fixed interest obligations of the Company) and individual holders of fixed interest obligations of the Company filed petitions in amplification and support of the above-mentioned petition filed by the Trustee of the Company. The Trustees of the Corporation filed their answers and objections to the various petitions and urged that such petitions be dismissed. Answers and objections were also filed by Committees and indenture trustees for various issues of debt securities issued by the Corporation.

On September 24, 1941, hearings on the questions raised by the various petitions and answers thereto began before the Honorable Frederick E. Crane, who had been designated by the reorganization Court as Special Master. On September 14, 1942, the Special Master finished taking evidence in this so-called "Recap Reference," and the hearings were recessed.

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Prior to and during the hearings in the "Recap Reference," representatives of holders of various Associated Gas and Electric Company securities other than its fixed interest debt, including holders of convertible debenture certificates, convertible obligations and scrip, had asserted that these securities constituted general debt of Associated Gas and Electric Company and were entitled to stand on a parity with the fixed interest debt of Associated Gas and Electric Company. (Representatives of holders of the Associated Gas and Electric Company convertible debenture certificates also filed petitions in the Corporation reorganization proceedings.) The determination of the status of holders of these securities as class claimants against Associated Gas and Electric Company was referred to the Honorable Frederick E. Crane, Special Master, by order of reference in the Associated Gas and Electric Company reorganization proceedings, dated October 27, 1942. Hearings in this so-called "CDC reference" commenced on December 7, 1942. On March 31, 1943, the Special Master filed his "Report and Opinion" therein, finding that, with one minor exception, none of the claimants in the "CDC reference" stood, as classes, on a parity with the fixed interest debenture holders and other general creditors of Associated Gas and Electric Company. The Court has not yet passed upon the Special Master's report in its entirety. On August 13, 1943, the Court entered an Order classifying holders of convertible obligations (other than persons who obtained them directly on exchange for convertible debenture certificates) and scrip as subordinate to general creditors of Associated Gas and Electric Company. That order was affirmed by the Circuit Court of Appeals on June 20, 1944.

On November 9, 1942, the Trustees of the Corporation and the Trustee of Associated Gas and Electric Company announced a joint Plan for Compromise of the claims of the debenture holders of the Corporation, of the fixed interest debenture and certificate holders of Associated Gas and Electric Company, and of certain of the claimants in the "CDC reference." The determination of the fairness of the Plan of Compromise was referred to the Honorable Frederick E. Crane, as Special Master, on November 13, 1942. Hearings on the fairness of the Plan, before the Special Master, began on April 29, 1943, and were concluded on July 2, 1943. On July 19, 1943, the Special Master issued an opinion finding the Plan of Compromise fair and reasonable and gave copies of such opinion to the attorneys participating in the proceedings before him. On September 3, 1943, the Special Master filed his report together with his findings of fact and conclusions of law. The Plan of Reorganization (see Note 1) gives effect to the Plan of Compromise. The Court will pass upon the fairness of the Plan of Compromise either directly or as a part of the Plan of Reorganization. Hearings before the Court in this matter began on June 12, 1944, and have been substantially concluded.

(15) *Other contingent liabilities:*

(a) New York City Gross Receipts Taxes

No provision has been made for claims asserted against the Estate of the Corporation (approximately \$270,000) by the City of New York for gross receipts taxes and penalties and interest thereon said to be due under various local laws for varying periods between January 1, 1933 and January 1, 1941. The total amount of gross receipts tax suggested by auditors for New York City against System companies, covering the years 1933 to 1941, inclusive, is the sum of \$893,721.40, exclusive of interest and penalties; with interest but ignoring penalties, it is approximately \$1,200,000. These amounts make no allowance, however, for allocation of any portion of the receipts of the holding and sub-holding companies outside the City of New York.

(b) New York State Taxes

Representatives of the New York State Tax Commission are presently conducting an examination to determine the liability, if any, of the Corporation and certain nonoperating System companies for the period since 1926, for New York state franchise taxes. No assessments have been made by the Tax Commission at this date.

(c) Provision for Fees and Expenses

No provision has been made for fees and expenses (including counsel fees) of the indenture trustees under the several debenture indentures of the Corporation for services rendered in the reorganization proceedings. Such fees and expenses are undetermined in amount and are subject to the approval of the Court in the proceedings for reorganization of Agecorp under Chapter X of the Bankruptcy Act. For the same reason, no provision has been made for any additional compensation that may be allowed by the Court to the Trustees of the Corporation, or their counsel, or for compensation, expenses, counsel fees, etc., of the various security holders' protective committees or other persons who, under the applicable provisions of Chapter X of the Bankruptcy Act, may be entitled to allowances of compensation for services or reimbursement for costs and expenses incurred.

(d) The following actions or proceedings are pending involving relationships between New England Gas and Electric Association, on the one hand, and the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company, and/or their subsidiaries, on the other hand:

- (1) Proceedings initially brought pursuant to certain orders of the Securities and Exchange Commission under Sections 11(b)(1) and 11(b)(2) of the Public Utility Holding Company Act of 1935 with

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respect to New England Gas and Electric Association. These proceedings have been broadened to include as parties thereto the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company, Gas and Electric Associates, and Utilities Investing Trust with a view to a determination of the validity and extent of all claims asserted on behalf of the Corporation and the above-named company and trusts, and of the relative rank of such claims. The hearings have been completed, all briefs filed, and the matter was finally submitted for decision after oral argument before the Commission on April 25, 1944.

- (2) A suit brought by New England Gas and Electric Association and by its former subsidiary, Electric Associates, Inc., now liquidated, in the Superior Court, Middlesex County, Massachusetts, has resulted in the finding by a Master, to whom it was referred for the determination of the facts, that certain purchases of National Public Service Corporation Secured Debentures, or Certificates of Deposit therefor, made by Electric Associates, Inc. were made for the account and benefit of NY PA NJ Utilities Company, and that New England Gas and Electric Association has paid out for NY PA NJ Utilities Company a total of \$551,784.30 which together with interest brings the total amount due from NY PA NJ Utilities Company to New England Gas and Electric Association as of May 31, 1943 to \$711,552.32. NY PA NJ Utilities Company was not served with process within Massachusetts in this suit, and appeared specially not submitting itself generally to the jurisdiction of the Court but solely for the purpose of protecting its interest in 17,744 shares of New England Gas and Electric Association \$5.50 Dividend Series Preferred, owned by it, the transfer of which by the State Street Trust Company, Boston transfer agent, has been restrained by order of the Court. The plaintiffs seek a decree to foreclose a charge or lien upon the National Public Service Corporation Debentures and Certificates of Deposit so purchased and a charge upon the \$5.50 Dividend Series Preferred Shares owned by NY PA NJ Utilities Company. The Master's report states in substance that if the Court shall find that New England Gas and Electric Association is entitled to repayment in accordance with his findings it will have to determine what, if any, right New England Gas and Electric Association has to collect out of said Debentures and Certificates of Deposit and said shares. A motion of NY PA NJ Utilities Company to recommit the Master's report for additional findings of fact was allowed by the Court on February 23, 1944. A further hearing was held June 1 and 2, 1944, before the Master who, as yet, has not issued a supplemental report.

Companion suits have been instituted against NY PA NJ Utilities Company in the Superior Court of New Castle County, Delaware, by the trustees of New England Gas and Electric Association and by its former subsidiary, Electric Associates, Inc. covering substantially the same cause of action as that alleged in the complaint filed in the Massachusetts Court.

- (3) An action brought by the Trustees of the Corporation and the Trustee of Associated Gas and Electric Company on October 16, 1942, in the United States District Court for the District of Massachusetts against New England Gas and Electric Association seeking to recover damages and an accounting for profits arising out of a transaction whereby holdings of companies in the Associated System in Electric Associates, Inc., were transferred to New England Gas and Electric Association for considerations which are claimed to have been grossly inadequate. This case is now at issue.
- (4) An action brought on behalf of Gas and Electric Associates in the Superior Court for the County of Middlesex, Massachusetts, against New England Gas and Electric Association and Utilities Investing Trust to set aside certain transfers claimed to have been in fraud of creditors. The complaint prays that a decree directing that an indebtedness of \$14,583,290.12 to Utilities Investing Trust from New England Gas and Electric Association be re-established and that 50,000 common and 100,000 first preferred shares of beneficial interest of New England Gas and Electric Association issued in satisfaction of such indebtedness be returned to New England Gas and Electric Association. This case is now at issue.

(e) Manila Electric Company

This company a nonconsolidated subsidiary located in the Philippine Islands (see Note 2-a), suspended as of September 1, 1942, payment of all interest and sinking fund requirements on its bonds as a result of the Japanese occupation of those islands. Under General Ruling No. 10-A issued by the United States Treasury Department on August 12, 1942, unless authorized by a Treasury license no Philippine company shall make any payment or perform any covenant, duty, condition or service within the United States on, or with respect to, any direct or indirect obligation or security of, or claim against any such company; nor shall any person within the United States exercise any right, remedy, power or privilege with respect to, or directly or indirectly arising out of or in connection with, any obligation or security of, or claim against, any Philippine company, including any right, remedy, power, or privilege with respect to any guaranty, covenant or agreement that such Philippine company will perform any covenant, duty, condition, or service. The Supreme Court of New York has decided in a suit for instructions brought on June 23, 1942, by the trustee of one of the issues of said bonds that the moneys held in the sinking fund by that trustee (\$150,580.82) should not be used in accordance with the provisions of the indentures pending further developments in the Philippines. In the meantime, however, the funds

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have been invested in U. S. Government securities. As an incident to deciding this case the Court made a finding that Associated Electric Company, a subsidiary holding company, as well as Manila Electric Company, had assumed the obligation of said bonds. The annual interest and sinking fund requirements on this issue amount to \$280,700 exclusive of interest requirements on bonds of that issue held inter-corporately. Associated Electric Company is advised that the protection accorded by said General Ruling No. 10-A extends to it to the extent that it may be so obligated.

(f) Warranties in connection with companies sold

In connection with numerous sales of securities of subsidiaries, the Corporation's sub-holding company subsidiaries have made agreements indemnifying the purchaser of such securities with respect to taxes and certain other liabilities to the extent that provision had not been made thereby by such subsidiaries at the time of sale. On the other hand, if the amounts paid or provided by the subsidiaries for such liabilities exceed the amounts finally determined to be due, certain of the agreements provide that the excess shall be paid to the selling company. The Corporation is unable at this time to determine or estimate the amounts which it may be called upon to pay or be entitled to receive under such agreements.

(16) *Proceedings under Section 11(b) of the Public Utility Holding Company Act of 1935:*

- (a) On September 4, 1941, the Securities and Exchange Commission instituted proceedings against the Trustees under Section 11(b)(1) of the Public Utility Holding Company Act of 1935, raising an issue as to whether or not, under the provisions of said section the Trustees might retain their direct or indirect interests in certain companies, trusts and partnerships. By an interim order dated August 13, 1942, as amended by a supplemental order dated December 30, 1942, the Commission directed the Trustees to divest themselves of all of their direct or indirect interests in certain companies, trusts and partnerships named in said order within a period of one year. The Trustees had disposed of their interests in some of the companies specified, and by order of the Commission dated January 10, 1944, have been granted an additional period of one year (expiring August 13, 1944) to dispose of their interests in the remaining companies. The Trustees have sought to have the Commission modify its order so as to permit retention of certain of these companies. The proceedings are still pending before the Commission. The Commission's approval of the Plan of Reorganization of Associated Gas and Electric Company and Associated Gas and Electric Corporation (see Note 1) was conditioned upon the Surviving Company being bound by the record made by the Trustees in said proceeding under Section 11(b)(1).
- (b) See Note A, Page 54, relative to proceedings instituted against General Gas & Electric Corporation by the Securities and Exchange Commission.

(17) *Unavailability to Corporation of major portion of consolidated balance of income:*

Because of the deficiencies in earned surpluses of certain subsidiaries, and the restrictions under specific orders of regulatory bodies having jurisdiction, as set forth in the statements appearing on Pages 28 to 33, the major portion of consolidated balance of income, before expenses, taxes and interest of the Corporation, for 1943, could not have been made available to the Corporation at December 31, 1943.

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CONSOLIDATED STATEMENT OF INVESTMENTS

(exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company, in proceedings for reorganization — see Note 1)

December 31, 1943

	Principal Amount or Number of Shares	Amount at Which Carried
SECURITIES OF, AND NONCURRENT RECEIVABLES FROM, NONCONSOLIDATED MAJORITY-OWNED COMPANIES, STATUTORY SUBSIDIARIES AND ASSOCIATED COMPANIES:		
Subsidiaries located in the Philippine Islands:		
Common stocks:		
Manila Electric Company	97,220 shs	\$11,447,534.55
Escudero Electric Service Company	2,000 shs	198,376.91
Bonds:		
Manila Electric Company, first refunding mortgage bonds, 5% series, due 1946	\$ 17,000.00	14,591.01
Manila Electric Railroad and Lighting Corporation, 5% 50 year first lien and collateral trust sinking fund bonds, due March 1, 1953	480,000.00	416,007.05
Accounts receivable, net (interest at 10%)		9,569,778.80
Less, Reserve		\$21,646,288.32
		10,000,000.00
		<u>\$11,646,288.32</u>
Virginia Public Service Company, a subsidiary company not consolidated (see Notes 2-a and 5-a, Pages 40 and 43):		
Common stock, entire issue, at cost	782,000 shs	\$ 2,660,287.73
Redemption price of bonds and accrued interest, deposited in escrow		1,165,166.67
		\$ 3,825,454.40
Less, Reserve		1,325,454.40
		<u>\$ 2,500,000.00</u>
K-T Electric and Water Company, a subsidiary company not consolidated (see Note 2-a, Page 40), common stock, par value \$1 per share, entire issue		
	1,000 shs	\$ 302,328.83
Tide Water Power Company, a subsidiary company not consolidated (see Note 2-a, Page 40), common stock, entire issue, at cost		
	115,789 shs	\$ 335,857.65
Less, Reserve		280,857.65
		<u>\$ 55,000.00</u>

Jersey Central Power & Light Company, common stock	341,351 shs		\$ 2,484,956.42
Paul Smith's Electric Light and Power and Railroad Company, common stock	6,227.5 shs		\$ 1,067,265.99
Paul Smith's Hotel Company, common stock	496 shs		18,507.70
			<u>\$ 1,085,773.69</u>
Other:			
Associated General Utilities Company:			
Debentures, 5's 1956	\$ 421,550.00 (A)		\$ 99,064.25
Income debentures, 4's 1961	87,590.00 (A)		20,583.65
Massachusetts Northeastern Transportation Company, common stock	2,856 shs		34,849.63
New York State Railways, Inc.:			
First consolidated 6½'s 1962 (stamped twice) (B)	\$ 720,000.00	}	210,937.57
First consolidated 4½'s 1962 (stamped twice) (B)	3,890,000.00		
Utica Belt Line Street Railway Company (B):			
Second 5's 1931	4,000.00		
First 5's 1939	50,000.00		
Utica & Mohawk Valley Railway Company, first 4½'s 1941 (B)	223,000.00		
Schenectady Railway Company:			
Income notes, 5's 1954	73,200.00		
Common stock	18,122 shs		
Utilities Investing Trust:			
Income notes (8%)	\$37,300,000.00	\$34,958,083.27	
Advance on open account (6%)	114,908.85	114,908.85	
		<u>\$35,072,992.12</u>	
		<u>35,072,991.12</u>	1.00
Less, Reserve			
Keuka Lake Power Corporation, common stock	2,450 shs		1.00
Keuka Lake Power Corporation, 6's 1960	\$ 245,000		1.00
			<u>\$ 365,438.10</u>
OTHER INVESTMENTS:			
National Public Service Corporation, secured debentures, 5% series, due 1978	\$17,079,000.00		\$ 4,269,750.00
New England Gas and Electric Association, \$5.50 cumulative dividend series preferred (entitled to \$100 a share in liquidation)	23,744 shs		\$ 2,045,509.09
Miscellaneous investments, including real estate (less reserve of \$26,544.95)			<u>\$ 568,284.55</u>
TOTAL INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company)			<u>\$25,323,329.00</u>

NOTES:

- (A) These debentures are stamped to the effect that no interest is or shall become payable thereon and that under no circumstances shall any holder of such debentures receive more than 69% of the principal amount upon the payment or redemption thereof.
- (B) Company in process of reorganization.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1943

	Shares Authorized	Shares Held Intercorporately (Eliminated in Consolidation)	Shares Outstanding		
			Shares	Held by Others	
				Par or Stated Value	Surplus or Deficit* Applicable
COMMON STOCKS:					
General Gas & Electric Corporation:					
Class A, no par value (less 654.25 shares held in treasury)	5,000,000(A)	2,621,912.123(A) (B)	2,289,202.657(A)		
Class B, par value 25 cents per share.....	4,000,000(A)	3,036,985.225(A)	10,014.775(A)		
York Railways Company (in proceedings for reorganization under Section 77B of the Bank- ruptcy Act), common, par value \$50 per share.	50,000	{ 722 49,119(E)	159	\$ 7,950.00	\$ 7,950.00*
Atlantic Utility Service Corporation, common, par value \$1 per share.....	200,000	80,000	6,570	6,570.00	52,780.64
Total common stocks of subsidiary companies				<u>\$14,520.00</u>	<u>\$44,830.64</u>

	Shares Authorized	Per Share	Callable at	Shares Outstanding				
			Amount Applicable to Shares Held by Others	Shares Held Intercorporately (Eliminated in Consolidation)	Shares	Held by Others Preferences in Involuntary Liquidation	Cumulative Dividends in Arrears	
PREFERRED STOCKS:								
ASSOCIATED ELECTRIC COMPANY AND SUBSIDIARIES:								
Pennsylvania Electric Company 4.40% series cumulative, par value \$100 per share.....	250,000 (All series)	\$110.25 (C)	\$ 7,607,250.00	—	69,000	\$6,900,000.00	—	
GENERAL GAS & ELECTRIC CORPORATION AND SUBSIDIARIES:								
General Gas & Electric Corporation (A):								
Prior \$5 cumulative, no par value.....	100,000	105.00	3,371,644.50	27,889.1	32,110.9	3,211,090.00	\$ 167,197.92	
Cumulative, no par value:								
\$6 convertible, series A.....	660,000	102.00	1,067,226.00	325,351	10,463	1,046,300.00	677,479.25	
\$6 convertible, series B.....		105.00	731,745.00	277,021	6,969	696,900.00	451,242.75	
\$7		110.00	216,634.00	20,282.5	1,969.4	196,940.00	148,197.35	
\$7 class B		110.00	1,650.00	15	15	1,500.00	1,128.75	
\$8		125.00	153,968.00	12,314.5	1,220.35	122,315.00	105,211.10	

Florida Power Corporation:

7% cumulative, par value \$50 per share (less 60 shares held in treasury).....	6,000	52.50	289,800.00	420	5,520	276,000.00	—
Series A, 7% cumulative, par value \$100 per share (less 142 shares held in treasury)	50,000	110.00(D)	3,163,820.00	—	28,762	2,876,200.00	—
Georgia Power and Light Company, \$6.00 series, cumulative, no par value (less 466 shares held in treasury)	15,000	105.00	664,335.00	4,200	6,327	632,700.00	374,874.75
South Carolina Electric & Gas Company: 5% cumulative, par value \$50 per share...	146,266	52.50	66,885.00	123,980	1,274	63,700.00	—

NY PA NJ UTILITIES COMPANY AND
SUBSIDIARIES:

NY PA NJ Utilities Company, \$3 noncumu- lative preferred, no par value (less 289 shares held in treasury)	10,000	26.00	140,545.60	—	5,405.6	135,140.00	—
Metropolitan Edison Company: Prior, cumulative, no par value:							
\$6	112,890	105.00	9,626,085.00	125	91,677	9,167,700.00	—
\$7	6,332	105.00	602,070.00	—	5,734	573,400.00	—
Cumulative, no par value:							
\$5	430,391	110.00(D)	64,790.00	5,097	589	58,900.00	—
\$6	400,000	110.00(D)	1,613,260.00	{ 15,000(E)	14,666	1,466,600.00	—
\$7	50,000	110.00(D)	209,660.00	{ 66,220	1,906	190,600.00	—
				{ 9,612			
New Jersey Power & Light Company, \$6 cumulative, no par value (called for re- demption during 1944)	98,959 (All series)	110.00	2,309,120.00	12,068(E)	20,992	2,099,200.00	—
New York State Electric & Gas Corpora- tion, 5.10% cumulative, par value \$100 per share	120,000	107.00(F)	12,840,000.00	—	120,000	12,000,000.00	—
Pennsylvania Edison Company, cumulative, no par value:							
\$5 (less 3,117 shares held in treasury) ..	150,000	80.00	9,877,280.00	—	123,466	9,259,950.00	—
\$2.80 (less 2,140 shares held in treasury)	150,000	52.50	4,411,522.50	—	84,029	4,201,450.00	—
Rochester Gas and Electric Corporation, cumulative, par value \$100 per share:							
6% series D (40,000 shares called for redemption during 1944)	160,022	105.00	16,800,000.00	—	160,000	16,000,000.00	—
5% series E	40,000	105.00	4,200,000.00	—	40,000	4,000,000.00	—
York Railways Company (in proceedings for reorganization under Section 77B of the Bankruptcy Act) 5% cumulative voting, par value \$50 per share	40,000	Noncallable		28,814	3,186	159,300.00	55,755.00
Total preferred stocks of subsidiary companies			\$80,028,991.35			\$75,336,505.00	\$1,981,599.87

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES
IN WHICH THERE IS A PUBLIC INTEREST

- (A) There is no stated value for each of the respective classes and shares of capital stock of General Gas & Electric Corporation; all capital stocks of the corporation are stated at an aggregate amount of \$16,069,500.91.

After payment in full of liquidation value (including accumulated dividends) of all preferred stocks, the holders of common stock, Class A, are entitled to \$5 a share in liquidation before any payment is made to holders of common stock, Class B. After the distribution of \$5 a share on common stock, Class A, the holders of common stock, Class B, are entitled to receive in liquidation up to \$5 a share after which the remaining assets shall be distributed equally among the holders of common stock, Class A and Class B.

The aggregate amount to which the 715,614.75 shares of preferred stocks of General Gas & Electric Corporation outstanding at December 31, 1943, are preferred in liquidation (exclusive of accumulated dividends) is \$71,561,475 which is approximately \$55,492,000 more than the stated value for all outstanding stocks of the corporation. Cumulative dividends in arrears on preferred stocks of General Gas & Electric Corporation not provided for in the accounts of that corporation amounted to \$43,285,112 of which arrearage approximately \$41,734,142 applies to preferred stock held by the parent company. The cumulative dividends on preferred stocks not provided for in the accounts of that corporation and the preference of the preferred stocks in liquidation amount to \$114,846,587 which is \$89,458,507 in excess of the aggregate of the stated value for all capital stocks and the surplus accounts of the corporation.

General Gas & Electric Corporation and the Trustees of the Corporation (upon approval by the Court) jointly propose to file with the Securities and Exchange Commission a plan of divestment of assets, simplification of corporate structure and equitable distribution of voting power of the General Gas & Electric Corporation pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935. This plan proposes the settlement of claims of public holders of securities of General Gas & Electric Corporation, as follows:

Holders of \$5 prior preferred stock to receive \$100 per share, plus unpaid dividends at the rate of 5% per annum to the effective date of the plan, in cash or in shares of 5% preferred stock \$50 par value of South Carolina Electric & Gas Company at par, at the option of General Gas & Electric Corporation.

Holders of cumulative preferred stock, \$6, \$7 and \$8 dividend series, to receive for each share held \$100 per share, plus unpaid dividends at contract rates from September 15, 1936, to the effective date of the plan, in cash or in 5% preferred stock \$50 par value of South Carolina Electric & Gas Company at par, at the option of General Gas & Electric Corporation.

Holders of common stocks, Classes A and B, to receive for each share held \$1.65 in cash and one-fifth of a share of Florida Power Corporation common stock, after reclassification of said common stock to reduce the presently outstanding no par issue thereof to 857,143 shares, \$7.50 par value.

The plan also provides for the cancellation by General Gas & Electric Corporation of all securities and indebtedness held by the Trustees of the Corporation which shall be surrendered in consideration for the delivery of (a) all Florida Power Corporation common stock not distributable to the public as provided above, and (b) the entire issue of a single class of new common stock of General Gas & Electric Corporation.

- (B) Includes due bill for 720,136.9063 shares.
- (C) Callable at \$108.25 after September 1, 1948.
- (D) After redemption of senior preferred issues.
- (E) Pledged as collateral under bank loan to NY PA NJ Utilities Company.
- (F) Callable at \$105 after May 31, 1946.

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ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF LONG-TERM DEBT IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1943

56

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Others
LONG-TERM DEBT OF PARENT COMPANY IN WHICH THERE IS A PUBLIC INTEREST:					
8% eight year bonds, due 1940	\$100,000,000.00	—	\$ 5,000.00	\$ 599,000.00	\$ 7,438,510.00
4% debentures, due 1973	(A)	—	—	—	487,150.00
4½% debentures, due 1973	(A)	—	—	—	9,231,615.00
5% debentures, due 1973	(A)	—	—	—	13,163,810.00
5½% debentures, due 1973	(A)	—	—	—	1,454,620.00
3½% income debentures, due 1978	(A)	—	643,740.00	—	11,301,690.00
3¾% income debentures, due 1978	(A)	—	236,850.00	683,900.00	37,558,765.00
4% income debentures, due 1978	(A)	—	1,233,235.00	100,800.00	69,514,320.00
4½% income debentures, due 1978	(A)	—	218,090.00	1,099,200.00	15,215,960.00
Total bonds and debentures of parent company (including \$7,438,510 matured)					<u>\$165,366,440.00</u>

LONG-TERM DEBT OF SUBSIDIARY COMPANIES IN WHICH
THERE IS A PUBLIC INTEREST:

Associated Electric Company and Subsidiaries:

Associated Electric Company:

4½% bonds, due 1953	(A)	—	4,601,000.00	—	\$ 24,468,300.00
5% bonds, refunding series, due 1961	(A)	—	2,064,000.00	—	32,320,000.00

The Lake Shore Gas Company, first mortgage bonds 5½% series,

Reorganization Administration, due serials to 1953-1954

(A) 34,000.00 154,000.00 145,000.00

Missouri General Utilities Company, 2.77% note payable to Rural Electrification Administration, due serially to 1957 (B)

87,503.12 \$ 5,233.32 — — — 87,503.12

Pennsylvania Electric Company:

First mortgage bonds, 3¾% series, due 1972	(A)	—	—	—	32,500,000.00
First mortgage bonds, 3¾% series, due 1973	(A)	—	—	—	4,000,000.00
2½% note payable to The Pennsylvania Company for Insurances on Lives and Granting Annuities, due serially to 1948..	500,000.00	100,000.00	—	—	500,000.00

Eric County Electric Company:

6% consolidated mortgage gold bonds, due 1959 (noncallable)	946,000.00	—	—	—	946,000.00
6% funding mortgage gold bonds, due 1980 (noncallable)....	74,000.00	—	—	—	74,000.00

Associated Utilities Corporation and Subsidiaries:

Associated Real Properties, Inc., real estate mortgage	7,880.00	—	—	—	7,880.00
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General Gas & Electric Corporation and Subsidiaries:

Florida Power Corporation:

First mortgage 4% bonds, series C, due 1966 (called in 1944 at 104)	(A)	—	—	—	11,000,000.00
3½% serial debentures, due serially to 1956 (called in 1944 at 100 to 102).....	2,000,000.00	126,000.00	—	—	1,685,000.00
3% note payable to Rural Electrification Administration, due serially to 1955	103,894.70	8,657.90	—	—	103,894.70

Florida Public Service Company:

First mortgage 4% bonds, series C, due 1955 (called in 1944 at 102)	(A)	—	—	56,000.00	5,092,400.00
4½% serial debentures, due serially to 1955 (called in 1944 at 100 to 102)	2,750,000.00	—	—	—	2,300,000.00

Georgia Power and Light Company:

First mortgage bonds, 5% series, due 1978	(A)	—	—	—	3,027,500.00
3% note payable to Rural Electrification Administration, due serially to 1955	67,174.95	5,747.36	—	—	67,174.95

South Carolina Electric & Gas Company:

First mortgage bonds, 3½% series, due 1973	(A)	—	—	—	20,000,000.00
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NY PA NJ Utilities Company and Subsidiaries:

NY PA NJ Utilities Company, secured 5% debentures, due 1956 (called in 1944 at 102) (C)	3,926,500.00	—	—	497,900.00	3,093,200.00
The Metropolitan Edison Corporation secured consolidated, refunding bonds, 6% series, due 1961 (called in 1944 at 105) (D)	(A)	—	1,961,300.00	111,600.00	703,300.00

The Mohawk Valley Company:

6% consolidated refunding bonds, due 1991 (called in 1944 at 105) (E)	(A)	—	1,483,100.00	49,900.00	806,800.00
6% debentures, due 2031 (called in 1944 at 101)	10,000,000.00	—	98,100.00	—	141,200.00

Canada Power Corporation, first mortgage 5% bonds, due 1958

Glen Rock Electric Light and Power Company first mortgage 3½% bonds, due 1966	(A)	—	—	—	325,000.00
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(Continued)

CONSOLIDATED STATEMENT OF LONG-TERM DEBT IN WHICH THERE IS A PUBLIC INTEREST (Continued)

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Others
LONG-TERM DEBT OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST, Continued:					
NY PA NJ Utilities Company and Subsidiaries, Continued:					
Long Island Water Corporation:					
First mortgage 4% bonds, series A, due 1964	(A)	—	—	—	\$ 2,144,000.00
Roosevelt Water, Power and Light Company, first mortgage 6% bonds, due August 1, 1944 (closed mortgage).....	\$ 100,000.00	\$ 3,000.00	—	—	3,000.00
Metropolitan Edison Company:					
First mortgage bonds:					
Series D, 4½%, due 1968	(A)	—	—	\$ 19,000.00	20,311,500.00
Series E, 4%, due 1971	(A)	—	—	3,000.00	4,681,000.00
Series G, 4%, due 1965	(A)	—	\$ 548,900.00	—	11,710,900.00
Divisional lien, York Haven Water and Power Company, fifty- year bonds, 5%, due 1951	1,500,000.00	—	198,500.00 (F)	—	1,247,500.00
New Jersey Power & Light Company:					
First mortgage bonds, 4½% series, due 1960 (called in 1944 at 105)	(A)	—	—	—	9,000,000.00
New Jersey Northern Gas Company, first mortgage 5% bonds, due 1952 (called in 1944 at 105)	1,000,000.00	—	—	—	61,000.00
New York State Electric & Gas Corporation:					
First mortgage bonds:					
3¾% series, due 1964 (G)	(A)	—	—	—	13,000,000.00
3¼% series, due 1971	(A)	—	—	—	35,393,000.00

Northern Pennsylvania Power Company:

First and refunding mortgage bonds:

Series A, 5%, due 1956	(A)	—	—	26,000.00	1,343,900.00
5% series, due 1962	(A)	—	588,000.00	100,000.00	1,989,600.00

Divisional lien, Sayre Electric Company, first mortgage, forty year 5% bonds, due 1947 (less \$329,000 held by Trustee in Sinking Fund)

750,000.00	—	19,500.00 (H)	—	202,000.00
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Pennsylvania Edison Company:

Penn Central Light and Power Company:

First mortgage bonds:

4½%, due 1977	(A)	—	—	—	25,700,000.00
5%, due 1979	(A)	—	—	—	2,175,000.00

Rochester Gas and Electric Corporation:

General mortgage bonds:

Series D, 4½%, due 1977	(A)	—	—	—	6,000,000.00
Series G, 3¾%, due 1966	(A)	—	—	—	3,000,000.00
Series H, 3¾%, due 1967	(A)	—	—	—	3,000,000.00
Series I, 3½%, due 1967	(A)	—	—	—	1,657,000.00
Series J, 3¾%, due 1969	(A)	—	—	—	8,323,000.00
Series K, 3¾%, due 1970	(A)	—	—	—	15,000,000.00

Divisional lien, Genesee Valley Power Company, Inc., 6% first mortgage bonds, due serially to 1953 (closed mortgage)....

200,000.00	—	—	—	16,000.00
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York Railways Company (in proceedings for reorganization under Section 77B of the Bankruptcy Act), 5% first mortgage thirty-year bonds due 1937 (all bonds held intercorporate and \$3,013,000 held by others have been extended to 1947).....

10,000,000.00	—	—	582,000.00	4,387,000.00
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United Coach Company, The, and Subsidiaries:

Schenectady Rapid Transit, Inc., instalment notes payable for equipment

20,000.00	6,000.00	—	—	20,000.00
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\$254,638.58

Total long-term debt of subsidiary companies (including \$1,374,000 matured and \$254,638.58 maturing within one year)

\$320,981,552.77

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**NOTES TO CONSOLIDATED STATEMENT OF LONG-TERM DEBT
IN WHICH THERE IS A PUBLIC INTEREST**

-
- (A) Additional bonds issuable upon compliance with statutory and mortgage indenture requirements.
- (B) Missouri General Utilities Company, first mortgage bonds, series A, G's of 1946 in the principal amount of \$187,000 pledged as collateral to this note.
- (C) Securities pledged with trustee as collateral under these debentures:
- | | |
|---|----------------|
| Glen Rock Electric Light and Power Company: | |
| Common stock | 2,000 shares |
| 6% Cumulative preferred stock, par value \$50 per share..... | 1,000 shares |
| York Railways Company, common stock..... | 49,119 shares |
| The Metropolitan Edison Corporation, | |
| 6% bonds due 1961 (treasury securities) in principal amount of..... | \$1,954,200.00 |
| The Mohawk Valley Company, | |
| 6% bonds due 1981 (treasury securities) in principal amount of..... | 356,400.00 |
| Cash | 86.50 |
- (D) Securities pledged with trustee as collateral under indenture dated September 1, 1931:
- | | |
|--|----------------|
| Metropolitan Edison Company, common stock..... | 343,396 shares |
| New Jersey Power & Light Company, common stock..... | 87,500 shares |
| Northern Pennsylvania Power Company, common stock..... | 22,130 shares |
- (E) Securities pledged with trustee as collateral under indenture dated November 1, 1931:
- | | |
|--|----------------|
| New York State Electric & Gas Corporation, common stock..... | 46,484 shares |
| Rochester Gas and Electric Corporation, common stock..... | 775,914 shares |
- (F) Pledged as collateral with trustee under indenture dated November 1, 1920 of Metropolitan Edison Company.
- (G) Not including \$2,481,000 nominally issued and held by trustee under indenture for the account of New York State Electric & Gas Corporation.
- (H) Pledged as collateral with trustee under mortgage of Northern Pennsylvania Power Company.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In the Matter of Associated Gas and Electric Corporation, Debtor.

In Proceedings for the Reorganization of a Corporation pursuant to Chapter X of the Bankruptcy Act.
No. 75635.

Notice of Hearing on Applications by Brooklyn Trust Company, and Empire Trust Company, as Successor Indenture Trustees for Allowances of Interim Compensation and Reimbursement of Expenses.

To All Persons Interested in the Estate of Associated Gas and Electric Corporation, Debtor:

NOTICE IS HEREBY GIVEN THAT:

1. Pursuant to the provisions of orders of this Court entered June 12, 1940, Brooklyn Trust Company was appointed successor Indenture Trustee, Registrar as to principal only and Escrow Agent of Income Debentures, due 1978 of Associated Gas and Electric Corporation, and Empire Trust Company was appointed successor Indenture Trustee and Registrar as to principal only of Convertible Debentures, due 1973 of Associated Gas and Electric Corporation.

2. The Court in said orders provided that the fees, charges and expenses of Brooklyn Trust Company and Empire Trust Company, respectively, for services rendered and disbursements incurred in such capacities shall be subject to the approval of the Court, shall be a charge upon the Estate of the Debtor, shall be included and paid as a part of the cost and expenses of the administration of the Estate of the Debtor and shall be fixed by the Court and paid at reasonable intervals upon application made to the Court upon such notice as the Court shall direct.

3. By order entered herein July 31, 1944, the Court granted leave to Brooklyn Trust Company and Empire Trust Company to file on or before the 25th day of August, 1944, an application for the allowance of interim compensation on account of services rendered in such capacities from June 13, 1943 to June 12, 1944, and from June 14, 1943 to June 13, 1944, respectively, and reimbursement of expenses incurred during said periods (exclusive of, and without prejudice to, subsequent applications for, fees and disbursements of counsel, and exclusive of, and without prejudice to, subsequent applications for, services rendered and disbursements incurred in connection with the reorganization proceedings of the Debtor herein). In said order the Court directed that a hearing be held with respect to said applications, before the Court in Room 1306, United States Court House, Foley Square, New York, N. Y., at 11:30 o'clock, A. M., on September 25, 1944, and at such other time and place as the Court shall designate upon the adjournment of any such hearings.

4. At said hearing Brooklyn Trust Company will apply for an allowance of interim compensation and for reimbursement of expenses for the following services and in the following amounts:

Services rendered during the period from June 13, 1943 to June 12, 1944, both dates inclusive, subject to the exception referred to in paragraph 3, <i>supra</i> , in administering and maintaining the trusts upon succession thereto, in authenticating and issuing debentures and maintaining custody of unissued and reserve debentures, and in acting as registrar of debentures as to principal only.....	\$ 8,604.24
Services rendered during the period from June 13, 1943 to June 12, 1944, both dates inclusive, subject to the exception referred to in paragraph 3, <i>supra</i> , in administering and maintaining escrow agency under agreement of December 1, 1933, including administration and custody of deposited securities.....	150.00
Disbursements, June 13, 1943 to June 12, 1944.....	4,691.05
Total	\$13,445.29

5. At said hearing Empire Trust Company will apply for an allowance of interim compensation and for reimbursement of expenses for the following services and in the following amounts:

Services rendered, during the period June 14, 1943 through June 13, 1944, subject to the exception referred to in paragraph 3, <i>supra</i> , in administration and maintenance of trust under indentures securing debentures due 1973, in authenticating debentures and maintaining custody of unissued and reserve debentures, in acting as registrar of debentures as to principal only, and for cancelling certain debentures.....	\$1,045.67
Disbursements, June 14, 1943 to June 13, 1944.....	1.27
Total	\$1,046.94

6. Said applications are required to be served upon the undersigned Trustees prior to the filing herein of such applications. A copy of such applications so served may be examined at the offices of the Trustees, 21 West Street, New York, N. Y.

Dated: New York, N. Y.,
July 31, 1944.

DENIS J. DRISCOLL and WILLARD L. THORP,

Trustees of Associated Gas and Electric Corporation, Debtor.

(This notice is printed herein to conserve paper.)

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ASSOCIATED GAS AND ELECTRIC COMPANY
and
ASSOCIATED GAS AND ELECTRIC
CORPORATION

Annual Report of Trustees

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FOR YEAR ENDED
DECEMBER 31, 1944

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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

In the Matter
of
ASSOCIATED GAS AND ELECTRIC COMPANY,
Debtor.

In Proceedings for the Reorganization of a Corporation pursuant to Chapter X of the Bankruptcy Act. No. 75634.

In the Matter
of
ASSOCIATED GAS AND ELECTRIC CORPORATION,
Debtor.

In Proceedings for the Reorganization of a Corporation pursuant to Chapter X of the Bankruptcy Act. No. 75635.

Annual Report of Trustees

STANLEY CLARKE, Trustee of Associated Gas and Electric Company, Debtor, and DENIS J. DRISCOLL and WILLARD L. THORP, Trustees of Associated Gas and Electric Corporation, Debtor, submit their Annual Report for the year 1944 on the operation of the business and management of the property of the two companies.

I. PLAN OF REORGANIZATION

The Trustees believe that this will be the last Annual Report before the consummation of the joint Plan of Reorganization of the two top companies in the Associated System. The Plan, proposed by the Trustee of Associated Gas and Electric Company (Ageco) and the Trustees of Associated Gas and Electric Corporation (Agecorp), was approved on April 14, 1944 by the Securities and Exchange Commission, and on September 13, 1944 by Judge Vincent L. Leibell who has been in charge of the reorganization proceedings in the United States District Court for the Southern District of New York. On April 19, 1945 the Circuit Court of Appeals for the Second Circuit entered orders affirming the action of Judge Leibell.

Both the Securities and Exchange Commission and the District Court have approved the Amendment to the Plan which designated the Board of Directors of the Surviving Company.¹

In May and June 1945 information and ballots were mailed to security holders and creditors of Ageco and Agecorp who participate in the Plan, to obtain their votes of acceptance or rejection of the Plan. These ballots are returnable on or before July 23, 1945. If the necessary acceptances are

¹The directors thus designated by the amendment are:

J. Lee Bausher	President, Infants Socks, Inc.; Treasurer, Reading Air Chutes, Inc., Reading, Pennsylvania.
Harold M. Bixby	Vice-President and Director, Pan American Airways Corporation, New York City.
Harold V. Bozell	President, General Telephone Corporation, New York City.
Edwin F. Chinlund	Vice-President, Director and member of Executive Committee, R. H. Macy & Co., Inc., New York City.
Henry R. Hayes	Financial Consultant, New York City; Director of Columbia Gas & Electric Corporation.
Albert F. Tegen	President and Director, Associated Electric Company; President and Director, NY PA NJ Utilities Company, New York City.
Willard L. Thorp	Co-Trustee, Associated Gas and Electric Corporation, New York City.
William J. Waite	Chairman of Board, Clinton Trust Company; Secretary and Treasurer, A. Gusmer, Inc.; Director, Secretary and Treasurer of Schock, Gusmer & Co., Inc., Hoboken, New Jersey.
George R. Walker	President, Huron Holding Corporation, New York City; Chairman, Committee for Holders of Agecorp 8% Eight Year Gold Bonds Due 1940.

obtained, it is anticipated that the Plan will be submitted to the District Court for confirmation at a hearing to be held in early August. If the Court confirms the Plan, it is hoped that the various steps necessary in order to transfer the assets to the Surviving Company and to provide for the delivery of new securities under the Plan can be taken so as to permit the process of exchanging securities to be begun late in October, 1945.

The Trustees have been advised that a petition is proposed to be filed before July 19, 1945 in the Supreme Court of the United States for a writ of certiorari to review the decision of the Circuit Court of Appeals which affirmed the action of Judge Leibell in approving the Plan. That petition is to be filed by the Protective Committee representing the Holders of Convertible Obligations Due 2002 (exclusive of those holders who acquired the same by direct exchange for Convertible Debenture Certificates). The holders of securities represented by the Committee do not participate under the Plan. On November 20, 1944, the Supreme Court denied a petition of this Committee for a writ of certiorari to review a decision of the Circuit Court of Appeals which had affirmed the order of Judge Leibell dated August 13, 1943, classifying such holders as subordinated creditors of Ageco. It is possible that consummation of the Plan may be somewhat delayed as the result of the present effort to obtain review of the Plan, or for other reasons not now foreseen.

Additional developments in the reorganization proceedings during 1944 and until June 1, 1945 were the following:

1. On September 13, 1944, the Court entered an order declaring Agecorp to be insolvent. On the same date the Court also entered an order declaring Ageco to be insolvent. This order specified that no value is attributable to the claims of holders of the following Ageco securities:

Convertible obligations due 2002.

Scrip maturing on or after January 10, 1940.

All classes of stock.

Stock purchase warrants.

The order also specified that nothing contained therein should affect the rights of "Original Holders" (as that term is defined in the Plan) of Convertible Obligations or Preferred or Preference Stocks of Ageco to participate under the Plan in accordance with its terms. No appeal was taken from either of the above-mentioned orders and the time prescribed by law to take such appeal has expired.

2. By orders of the Court entered on December 28, 1944, the creditors of Ageco and Agecorp were divided into ten classes for the purposes of the Plan of Reorganization and its acceptance.

3. In submitting the Plan to participating security holders and creditors under date of May 10, 1945, the Trustees reported that the cash requirements of the Plan can be met without the borrowing of \$4,000,000 by a subholding company, as originally appeared to be necessary.

In connection with the program on the Plan, all the steps in the so-called Reconstruction Program of NY PA NJ Utilities Company (Nypanj) summarized in the Agecorp Trustees' 1943 Report have been completed or authorization therefor has been sought. Underlying debt and preferred stock of Nypanj subsidiaries, especially that of Metropolitan Edison Company, have been reduced materially; Nypanj has paid off its debentures and has made application for approval of the redemption of its preferred stock; cross-holdings of securities of Nypanj and of its subsidiaries have been substantially eliminated; an amended plan for the reorganization of York Railways Company has been filed and in connection therewith authorization has been sought to merge the companies serving York, Pa., and vicinity to constitute a subsidiary of Metropolitan Edison Company; and all Jersey Central Power & Light Company's common stock, other than directors' qualifying shares, is now owned by Nypanj.

II. THE INCOME RECORD

It is particularly difficult to analyze the income record for the Associated System, because the figures have been influenced so greatly during the last few years by sales of properties, refundings

and nonrecurrent tax adjustments, and the picture will be greatly altered again in the near future by the termination of the reorganization proceedings. We present below the *pro forma* consolidated income statement, based on adjusted operating results for 1943, which was submitted to the Court at hearings on the Plan. There is also presented a *pro forma* consolidated income statement prepared on substantially the same assumptions, based on adjusted operating results for the year 1944. In both instances these statements picture the *pro forma* income for a 12 months period following an assumed consummation of the Plan and completion of the NY PA NJ Reconstruction Program.

It is emphasized that these are *pro forma* statements and should not be confused with the audited statements at the end of this Report. The *pro forma* consolidated income is derived largely from the Nyanp subsidiaries, other than Pennsylvania Edison Company. Associated Electric Company and subsidiaries, General Gas & Electric Corporation and subsidiaries, Pennsylvania Edison Company, and Atlantic Utility Service Corporation (in process of liquidation) are treated as investments. Except for an assumed cash income of \$750,000 from the General Gas & Electric Corporation group, these investments are not assumed to produce income to the Surviving Company, and their earnings are not reflected in these statements. The *pro forma* Federal taxes on income are estimated on the assumption that provisions of the Internal Revenue Code applicable to 1944 would apply and that the Surviving Company and its eligible subsidiaries would join in consolidated tax returns, in which there would be no System liability for Federal excess profits taxes. Such lack of excess profits tax liability, although probable for the first year following consummation of the Plan and possible for the following year, is unlikely to continue thereafter if the provisions of the Internal Revenue Code remain unchanged. These statements do not include provision for amortization of plant acquisition adjustments, the amount of which to be charged to income account in the future may be substantial. The figures have been rounded to the nearest \$1,000 and the notes to the statement, submitted in the Plan proceedings, have not been reproduced.

CONDENSED PRO FORMA CONSOLIDATED INCOME STATEMENTS OF THE SURVIVING COMPANY AND CERTAIN SUBSIDIARIES

	1943	1944
Gross Operating Revenues	\$94,744,000	\$98,600,000
Operating revenue deductions:		
Operating expenses	\$41,176,000	\$43,446,000
Maintenance expenses	6,031,000	6,537,000
Depreciation	9,529,000	9,732,000
Taxes (other than Federal income taxes)	10,136,000	10,218,000
Federal income taxes	6,993,000	8,060,000
Total revenue deductions.....	73,865,000	77,993,000
Operating income	\$20,879,000	\$20,607,000
Other income	117,000	123,000
Gross income	\$20,996,000	\$20,730,000
Income deductions at subsidiary level (including dividends paid or accrued on preferred stocks)	10,251,000	9,475,000
Balance of income of consolidated subsidiaries applicable to Surviving Company	\$10,745,000	\$11,255,000
Dividend income from non-consolidated subsidiary	750,000	750,000
Balance	\$11,495,000	\$12,005,000
Expenses and taxes of Surviving Company	1,078,000	1,107,000
Balance	\$10,417,000	\$10,898,000
Interest on debt of Surviving Company	502,000	502,000
Consolidated net income (subject to restrictions pursuant to orders of regulatory bodies)	\$ 9,915,000	\$10,396,000

On the basis of the estimated issue of 7,500,000 shares, the earnings shown in the *pro forma* statement are equivalent to approximately \$1.32 per share based on 1943 and \$1.38 per share based on 1944. All these earnings are not available for dividends, since approximately \$.31 per share for 1943 and \$.29 per share for 1944 were restricted by orders of regulatory commissions from being distributed as dividends by certain subsidiaries. Furthermore, the Surviving Company will be required to use approximately \$1,800,000 of cash income annually for debt retirement for several years unless cash realized from the sale of assets or investments is used for this purpose. However, the investment items have substantial value and ultimate realization on them is expected to exceed the Surviving Company's debt obligations.

Turning to the audited statement on page 36 of the Agecorp System as now constituted, the consolidated balance of income for 1944 was \$11,873,467.77 before deductions for interest on Agecorp indebtedness. This statement reflects revenues, expenses, taxes and other costs of the companies in the System treated for the purposes of this statement as a single entity. It excludes from both years the results of operations of properties sold prior to December 31, 1944 and subsidiaries located in the Philippine Islands, and includes interest and dividends from subsidiaries sold (limited to net income on a consolidated basis) which is reflected in "other income". However, it includes results of operations of Jersey Central Power & Light Company and Erie County Electric Company only from their approximate dates of acquisition, which were respectively October 1, 1944 and September 1, 1943, instead of for the full two-year period for each. Consequently, data for the two years should not be used for purposes of exact comparison.

Consolidated Operating Results of Subsidiaries

In order to compare consolidated operating results of subsidiaries at December 31, 1944, the following summary of earnings includes the results of operations of Jersey Central Power & Light Company and Erie County Electric Company for the full two years with no adjustment for possible operating economies had they been added earlier to the System.

	1944	1943	Increase or Decrease*	
			Amount	%
Operating revenues:				
Electric	\$126,640,585	\$120,727,625	\$5,912,960	4.9
Gas	16,710,198	15,936,254	773,944	4.9
Transportation	3,195,947	3,082,342	113,605	3.7
Steam heating, water and ice.....	2,594,505	2,572,588	21,917	.9
Total operating revenues.....	<u>\$149,141,235</u>	<u>\$142,318,809</u>	<u>\$6,822,426</u>	<u>4.8</u>
Operating revenue deductions (exclusive of provisions for Federal taxes on in- come):				
Operating expenses	\$ 65,360,877	\$ 61,318,056	\$4,042,821	6.6
Maintenance	10,162,404	9,145,326	1,017,078	11.1
Depreciation	14,569,413	14,176,208	393,205	2.8
Amortization of plant acquisition adjustments	75,000	—	75,000	—
Provision for taxes (other than Federal taxes on income)	13,846,381	13,913,278	66,897*	.5*
Total operating revenue deduc- tions	<u>\$104,014,075</u>	<u>\$ 98,552,868</u>	<u>\$5,461,207</u>	<u>5.5</u>
Operating income before provision for Federal taxes on income and income deductions	<u>\$ 45,127,160</u>	<u>\$ 43,765,941</u>	<u>\$1,361,219</u>	<u>3.1</u>

(a) Services and Revenues

The comparative record of principal services rendered in 1944 and 1943 by the System operating companies included in the preceding summary of consolidated operating results of subsidiaries is as follows:

	1944	1943	% Increase
<i>Electricity</i>			
Kilowatt hours sold	6,357,073,758	6,113,386,056	4.0
Number of customers	1,256,377	1,231,149	2.0
Dollars of gross operating revenue.....	126,640,585	120,727,625	4.9
<i>Gas</i>			
Cubic feet sold	17,456,131,500	16,993,158,700	2.7
Number of customers	335,232	326,714	2.6
Dollars of gross operating revenue.....	16,710,198	15,936,254	4.9
<i>Transportation</i>			
Number of passengers carried	42,412,043	41,329,130	2.6
Dollars of gross operating revenue.....	3,195,947	3,082,342	3.7
<i>Steam Heating</i>			
Thousands of pounds sold	3,125,423	3,087,213	1.2
Number of customers	2,262	2,217	2.0
Dollars of gross operating revenue.....	2,380,860	2,293,973	3.8

Use of each of the above classes of utility service increased during 1944 over 1943. Electric revenues constituted approximately 85% of the total revenues in 1944 and 1943. Sales analyses show increases for all classes of customers. Kilowatt hour sales to, and revenues received from, domestic customers during 1944 increased 7.1% and 4.6%, respectively, over 1943. Sales to, and revenues from, commercial customers increased 6.7% and 5.7%, respectively, over 1943, indicating that the period of maximum curtailment of commercial usage due to war conditions, dimout regulations, and "wartime" presumably occurred during 1942 and 1943. Sales to domestic and commercial customers in 1944 accounted for more than half the increase in total sales and revenues in 1944.

Industrial kilowatt hour sales and revenues in 1944 increased but 0.7% and 4.0%, respectively, over 1943, indicating the leveling off of increased industrial load caused by war demands.

Electric rate reductions made effective during 1944 amounted to approximately \$2,000,000 on an annual basis. The companies and their respective reductions comprising the principal part of the above total are:

Pennsylvania Electric Company	\$575,000
New York State Electric & Gas Corporation	330,000
New Jersey Power & Light Company	255,000
(50% credits of monthly bills for April and December of residential and commercial customers)	
Staten Island Edison Corporation	265,350
Florida Power Corporation	370,800
Georgia Power and Light Company	38,200
South Carolina Electric & Gas Company	102,000

Additional rate reductions were also agreed to in informal negotiations with regulatory commissions during the early part of 1945 by New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation amounting, on an annual basis, to approximately \$1,000,000 and \$750,000, respectively.

New Jersey Power & Light Company, as a result of the operation of the Rate Adjustment Plan (discussed in the Agecorp Trustees' 1943 Report), effected as of May 15, 1945 a reduction of electric rates amounting to \$306,000, on an annual basis.

On June 19, 1945 the New York Public Service Commission ordered Staten Island Edison Corporation to place in effect certain rate schedules estimated by the Commission to reduce revenues by

approximately \$290,000 annually, compared with the rates in effect prior to August 1, 1943, the effective date of a temporary rate order mentioned on page 7 of the Agecorp Trustees' 1943 Report. These orders are being contested in the Supreme Court of New York.

In each instance of filing new tariffs, the terms and conditions of service as well as the rate structures are reviewed to the end that System companies continually keep their schedules modernized to encourage the development of greater usage by their customers.

(b) Expenses

Of the \$4,000,000 increase in operating expenses in 1944 as indicated in the summary of operating results of subsidiaries the major portion is attributable to increased fuel and labor costs. Approximately \$2,700,000 of the increase is due to higher fuel expense, arising from both higher unit costs of fuel and increased output. Hydro power generation in 1944 dropped over 102,000,000 kwh below generation in the preceding year, this decline necessitating greater use of fuel. Purchased power showed a small decrease as a result of recent additions to generating stations by subsidiaries.

In 1944, operating expense, purchased power and gas, and maintenance amounted to \$75,523,281, equivalent to 50.6% of total revenues, compared with 49.5% in 1943.

(c) Maintenance

The expense of the System companies for maintenance, as shown in the summary of operating results of subsidiaries on page 4, was approximately \$10,162,000 in 1944 compared with \$9,145,000 in 1943. Annual maintenance expenditures of all the companies included in the System's consolidated income statements at December 31, 1944, for the years 1938 to 1944, inclusive, follow:

1938.....	\$ 6,478,771
1939.....	7,014,726
1940.....	7,766,087
1941.....	8,212,205
1942.....	8,635,450
1943.....	9,145,326
1944.....	10,162,404

The large increase in maintenance expense reflected in the figures for 1944 compared with 1943 is due principally to hurricane damage estimated to have cost System operating companies in New Jersey, New York, Florida, Georgia and South Carolina approximately \$600,000.

(d) Pensions

During 1944, several System companies adopted completely revised employee pension plans or amended previously existing plans. The companies adopting completely revised plans were Pennsylvania Electric Company, New Jersey Power & Light Company, Florida Power Corporation, and Georgia Power and Light Company. The initial annual current service costs, applicable to these four plans, is estimated to be \$250,000, of which amount approximately \$155,000 will represent additional expense, because certain retired employees, to whom pension payments were previously being made directly by the companies, are now to be covered under the new plans. During 1944, the companies charged against gross revenues approximately \$162,000 for prior service costs of the plans. These revisions not only represented the accomplishment of desirable objectives from the standpoint of constructive System pension policy, but also made available for pension purposes the funds to which the companies were entitled under the Utilities Employees Securities Company Settlement Agreement of June 4, 1943, and the Welfare Trust Agreement of December 2, 1943, described on pages 16 and 17 of the Agecorp Trustees' 1943 Report. It is expected that six System companies, including the four mentioned above, will draw from these funds a total of approximately \$2,500,000, applicable to the so-called past service liability.

Rochester Gas and Electric Corporation and Jersey Central Power & Light Company have amended their previously existing plans to qualify pension funds for exemption from income tax under

the provisions of Sec. 165(a) of the Internal Revenue Code. New York State Electric & Gas Corporation has also amended its pension plan, established in 1941, to provide for the payment of benefits on account of service prior to 1941. Other System companies which had been operating under the System pension plan, dated December 14, 1937, have recently adopted amendments to conform to the requirements for exemption of pension trust funds from income tax under the provisions of Sec. 165(a) of the Internal Revenue Code.

Taxes

The Agecorp Trustees and all eligible subsidiaries have joined or propose to join with the Ageco Trustee in consolidated Federal excess profits tax returns for the years 1940 to 1945, inclusive, and in consolidated Federal income tax returns for the years 1942 to 1945, inclusive.

In reports and financial statements issued by the Agecorp Trustees and most of their subsidiaries since 1942, reference has been made to deductions taken for the accrued interest on the obligations of Ageco and Agecorp in the consolidated income tax returns filed by the Ageco Trustee. Because some doubt existed as to whether such interest constituted an allowable deduction, the provisions made for Federal taxes in the financial statements of Agecorp and its subsidiaries did not take these interest deductions into account.

This doubt has recently been removed. On April 5, 1945 the Acting Secretary of the Treasury approved a closing agreement made by the Ageco Trustee and the Agecorp Trustees with the Commissioner of Internal Revenue, which recognizes the deductibility of such interest for the period from January 1, 1942 up to the date of consummation of the Plan of Reorganization. In view of this closing agreement, the amounts which had been provided in reserves by Agecorp and its consolidated subsidiaries during 1942 and 1943 against the possible disallowance of this interest deduction have been reflected in the consolidated financial statements of Agecorp and its consolidated subsidiaries, as additions to the account described as "Excess of Assets over Liabilities". Since the consolidated statement of income for 1944 does not include these charges for interest and since the Plan of Reorganization is expected to be consummated during 1945 and such deductions will not exist thereafter, the amounts shown for Federal income taxes as operating revenue deductions are the estimated tax liabilities computed before such interest deductions. For these reasons, also, the amount of the reduction attributable thereto for 1944 has been reflected as an addition to the account described as "Excess of Assets over Liabilities".

Between the appointment of the Trustees on March 2, 1940 and June 1, 1945 approximately 425 claims for Federal taxes on income against Ageco, Agecorp and their subsidiaries for the years 1934 to 1941, inclusive, have been settled. With the exception of asserted deficiencies against two subsidiary companies for the year 1940, there are no pending Federal tax claims against subsidiary companies for any of the years 1933 to 1941, inclusive.

A substantial war loss deduction for Associated Electric Company's investment in its Philippine Islands properties was taken in the consolidated income tax return for 1942. This war loss deduction eliminated the 1942 income tax liability and produced a large net operating loss which was carried over as a deduction in the 1943 return. In connection with the audit now being made of the 1942 return, the Bureau of Internal Revenue reduced the tax basis of the Philippine Islands investment, which was acquiesced in for the limited purpose of determining the amount of war loss. This decrease in the amount of war loss will reduce the taxable income to be realized upon recovery of, or reimbursement for, these properties. As a result of this reduction in the amount of the war loss and other adjustments in the 1942 return, it became evident that some tax liability existed and that the net operating loss carryover to 1943 would be wiped out. Therefore, pending the final audit of the returns, \$1,140,000, together with interest, was paid to the Collector in 1945 on account of 1942 and 1943 income taxes.

In 1942 the New York State Tax Commission asserted claims for franchise and license taxes against Ageco, Agecorp and some 120 subholding and miscellaneous non-operating companies and their predecessors (except Atlantic Utility Service Corporation and its predecessors), all of which were

claimed to have done business in the State. In some cases, including Agecorp, these claims covered all tax years back to 1926. Against one group of companies, NY PA NJ Utilities Company and its predecessors, a liability of approximately \$2,300,000, exclusive of interest and penalties, was asserted. On February 28, 1945 a settlement was effected with the Commission whereby all claims for franchise and license taxes against all System companies involved for all years to and including 1943 were discharged upon payment of \$425,000. In addition, the State asserted claims for franchise taxes against Atlantic Utility Service Corporation and predecessors in the amount of \$235,000, exclusive of interest and penalties, for the years 1929 to 1943, inclusive. This asserted liability has been settled for the sum of \$118,000.

III. DIVIDEND RESTRICTIONS

The consolidated net earnings by major subholding company groups for the calendar year 1944 were as follows:

Associated Electric Company Group.....	\$1,605,516
General Gas & Electric Corporation Group.....	1,894,258
NY PA NJ Utilities Company Group.....	7,938,432
Miscellaneous Companies Group.....	283,245

Except for a dividend from The United Coach Company, in process of dissolution, in the Miscellaneous Companies Group (see page 21 of this Report), these net earnings were retained or employed by the operating companies or the subholding companies. In tangible form, these sums make their appearance in new power plants, new transmission or distribution lines, adequate supplies of cash, liquid reserve funds in the form of United States Government obligations, or in the reduction of indebtedness or preferred stock. General Gas & Electric Corporation has accumulated cash and liquid investments which are expected to be used in large part, together with certain other assets, in satisfaction of the claims of public security holders pursuant to the plan under Section 11(e) of the Public Utility Holding Company Act of 1935, described on pages 13 and 14 of the Agecorp Trustees' 1943 Report.

In some instances various restrictions upon dividend payments prevent the moving of these earnings to the subholding companies or prevent payments by the subholding companies to the Agecorp Trustees. These restrictions are described in the following paragraphs. Marked progress was made during 1944 and the first five months of 1945 in the lifting of such restrictions or, in formulating plans to do so.

Associated Electric Company Group

As noted in previous Reports, the security structure of Pennsylvania Electric Company has been so reconstituted that its earnings are available to Associated Electric Company without restriction, other than the dictates of good business judgment. The complete stoppage of any flow of earnings from the subsidiaries of Associated Electric Company in the Philippine Islands as a result of the war still continues, although the Islands have been reoccupied. The problems of rehabilitation of the Philippine subsidiaries' properties and business prevent reliance upon any earnings from that source for some time to come.

In 1939 Associated Electric Company agreed with a holder of a substantial amount of its bonds, who had complained that the Company's accounting and dividend policies during 1938 were not in accordance with the provisions of the trust indenture, under which such bonds were issued, that the company would not declare or pay any dividends on its common stock while such complaint was the subject of negotiation. Furthermore, in 1941 Associated Electric Company stipulated in a proceeding before the Securities and Exchange Commission that no dividends would be paid on the common stock of the Company without the prior consent of the Commission. Following the assertion by Associated Electric Company of certain claims against the Ageco and Agecorp estates with respect to dividend and other payments prior to reorganization proceedings, an agreement, more fully described in Part VII of this Report, was entered into on May 8, 1945 between the Trustees of Ageco and Agecorp and Associated Electric Company providing, among several things, for the compromise of

these claims. The above-mentioned bondholder has agreed that upon consummation of the settlement agreement, after approval of it by the United States District Court for the Southern District of New York, Associated Electric Company shall be relieved of the commitment that it gave such bondholder in 1939.

General Gas & Electric Corporation Group

In this group, except as noted below, the principal restrictions upon the earnings of subsidiaries of General Gas & Electric Corporation have been removed through the accumulation of earnings and by the consummation in 1945 of the Plan of Recapitalization of Georgia Power and Light Company. Under the terms of an order of the Securities and Exchange Commission, Florida Power Corporation is required to retain annually \$300,000 of its earnings applicable to common stock until such time as the ratio of its debt (excluding current obligations) to net property, plant and equipment is not greater than 50%. In the case of South Carolina Electric & Gas Company, a temporary restriction was imposed by an order of the Securities and Exchange Commission authorizing the Company to issue and sell, in 1943, \$20,000,000 of its 3½% First Mortgage Bonds due 1973. By the terms of this order the Company was required to retain \$200,000 annually of its earnings until such time as the earned surplus of the Company reached \$1,575,000. At May 31, 1945, the amount of earned surplus was \$1,468,229.

None of the earnings flowing from the Gengas subsidiaries to Gengas have been distributable by Gengas to the Agecorp Trustees pending a final determination with respect to the joint Plan of Divestment of Assets, Simplification of Corporate Structure and Equitable Distribution of Voting Power, filed with the Securities and Exchange Commission by Gengas and the Agecorp Trustees on August 11, 1944.

NY P A N J Utilities Company Group

Of the \$7,938,000 of consolidated net earnings of Nypanj and subsidiaries for 1944, approximately \$1,710,000 was unavailable for distribution in dividends by reason of orders of regulatory bodies or deficits in earned surplus.

The largest dividend restriction is applicable to New York State Electric & Gas Corporation, which is prohibited by order of the New York Public Service Commission from distributing earnings aggregating \$1,380,000 annually. The restrictions now in effect have resulted in an appropriated earned surplus balance, at December 31, 1944, of \$6,630,000 which is not available for distribution.

The payment of dividends out of the net income applicable to common stock of Jersey Central Power & Light Company, which amounted to approximately \$162,000 for the period from October 1, 1944 (the approximate date of acquisition) to December 31, 1944, is at present prohibited under the orders of the New Jersey Board of Public Utility Commissioners.

York Railways Company is in reorganization under Section 77B of the Bankruptcy Act, and the earnings of this Company and its subsidiaries, aggregating approximately \$168,000 in 1944, were not available for payment of dividends. As stated elsewhere in this report, an amended plan of reorganization of York Railways Company has been filed and applications for approval thereof are pending. Upon consummation of this amended plan of reorganization, the earnings of Edison Light and Power Company, into which Glen Rock Electric Light and Power Company will be merged, will become available to Metropolitan Edison Company, which will then be the owner of the common stock of Edison Light and Power Company, now a subsidiary of York Railways Company.

Staten Island Edison Corporation declared no dividends in 1944, from its net income of \$537,915.53. An application to reclassify the preferred and common stock of Staten Island Edison Corporation was filed on January 25, 1944 with the New York Public Service Commission. In connection therewith certain changes in the accounts are suggested which would create a deficit in earned surplus, and an accounting reorganization is therefor also proposed. Pending Commission action upon this application, the accumulation of sufficient surplus, or a clarification of the situation created by the Commission's rate order of June 19, 1945 referred to on page 5 herein, no dividends have been declared.

The flow of earnings from Nypanj to the Agecorp Trustees by declaration of dividends has been restricted by reason of the earned surplus deficit of Nypanj. However, Nypanj has been indebted to the Agecorp Trustees on a convertible obligation and on open account, portions of which bear interest at 1% and 2%, respectively, if earned. In April, 1945 Nypanj joined with the Agecorp Trustees in seeking authority from the Securities and Exchange Commission, subject to obtaining an appropriate order from the Court, for (1) the donation to Nypanj by the Trustees, for cancellation, of all indebtedness of Nypanj owing to the Trustees, and (2) the redemption, at \$26 per share and the payment of an amount equal to dividends from January 1, 1941 to the date of redemption, of the 5,694.6 outstanding shares of \$3 Noncumulative Preferred Stock of Nypanj. In connection with these transactions, an accounting reorganization has been proposed which will eliminate the deficit in earned surplus of Nypanj and free its earnings for such dividend distributions as good business judgment may warrant.

Finally, there is the restriction created by the reorganization proceedings upon the flow of income from Agecorp and Ageco to their security holders. It is hoped that this situation will soon be cured, and that the earnings of the Associated System can be appropriately utilized by the Board of Directors of the Surviving Company to strengthen the System still further, to reduce the Surviving Company's indebtedness and to pay dividends.

IV. THE FINANCIAL POSITION

The consolidated balance sheet for the System at December 31, 1944 which is shown on pages 32 to 35 was prepared on a basis consistent with that of the previous year published by the Agecorp Trustees. The related statements and the notes to financial statements describe in some detail the principal changes in the consolidated accounts that have occurred since December 31, 1943.

The Agecorp Trustees' 1943 Report directed attention to the greatly improved current position of the System subsequent to the beginning of the Trusteeship. During 1944 the current position was further improved as a result of sales of properties and securities and retention of earnings. The current assets shown at December 31, 1944 exceeded the current assets at January 10, 1940 by approximately \$37,900,000 and at the end of 1944 current assets were 2.7 times current liabilities. These current funds will be available for corporate purposes, including construction in the post-war period, upon the release of materials which have been and still are, in some instances, unavailable in large quantities due to war restrictions. There follows a condensed summary of consolidated current position of the System at January 10, 1940, December 31, 1943 and 1944:

	December 31,		January 10,
	1944	1943	1940
<i>Current and Accrued Assets:</i>			
Cash and liquid investments	\$47,687,166	\$39,603,808	\$11,004,512
Notes and accounts receivable, less reserves	10,516,340	8,584,829	11,416,118
Materials and supplies	7,762,151	5,703,302	5,513,511
Prepayments	782,056	938,027	940,704
Other current and accrued assets	180,013	133,212	153,252
Total current and accrued assets	<u>\$66,927,726</u>	<u>\$54,963,178</u>	<u>\$29,028,097</u>
<i>Current and Accrued Liabilities:</i>			
Long-term debt (current) and notes payable	\$ 4,075,529	\$ 1,254,638	\$12,068,940
Accounts and preferred dividends payable	5,685,221	4,526,567	6,428,939
Taxes and interest accrued	11,313,122	10,821,996	14,209,233
Customers' deposits	2,453,419	2,789,319	5,228,939
Other current and accrued liabilities	1,071,235	1,101,202	1,028,533
Total current and accrued liabilities	<u>\$24,598,526</u>	<u>\$20,493,722</u>	<u>\$38,964,584</u>
Net Current Assets	<u>\$42,329,200</u>	<u>\$34,469,456</u>	<u>(\$ 9,936,487)</u>

() Denotes excess of current liabilities over current assets.

Cost of Capital

(1) Refunding Operations

Since January 1, 1944 six major refunding operations have been carried out by System companies. The main details of each of these operations are given in the following summaries:

Florida Power Corporation and Georgia Power and Light Company (General Gas & Electric Corporation Group)

On February 29, 1944 Florida Power Corporation sold \$16,500,000 principal amount of $3\frac{3}{8}\%$ First Mortgage Bonds due 1974 at an effective interest rate to the company of 3.1786% and at the same time sold \$4,000,000 principal amount of $3\frac{1}{4}\%$ Serial Debentures at par. The proceeds of this sale were used to retire the $3\frac{1}{2}\%$ debentures of Florida Power Corporation and the 4% and $4\frac{1}{2}\%$ First Mortgage Bonds of Florida Public Service Company, which had been merged into Florida Power Corporation on January 14, 1944. The balance remaining after the retirement of these obligations was held for future construction.

On March 26, 1945 Florida Power Corporation sold 40,000 shares of Cumulative Preferred Stock, 4% Series, at \$100.177 per share, having an effective dividend rate of 3.9929%. The proceeds of this sale were used to redeem the outstanding 7% Preferred Stock of Florida Power Corporation and for a donation to Georgia Power and Light Company in order to assist the latter company in retiring its preferred stock, reducing its funded debt, and consummating its plan of recapitalization approved by the Securities and Exchange Commission on January 23, 1945.

On May 14, 1945 Georgia Power & Light Company sold \$2,500,000 principal amount of 30-year, 3% bonds at \$101.509, the effective interest rate to the company being 2.9241%. The net proceeds of this sale were used, together with other funds of the company, to redeem \$2,500,000 principal amount First Mortgage Bonds, 5% Series, due 1978.

New Jersey Power & Light Company (NY PA NJ Utilities Company Group)

As noted in the Agecorp Trustees' 1943 Report, on May 19, 1944 New Jersey Power & Light Company sold \$9,000,000 principal amount of 3% bonds, due 1974, and 30,000 shares of 4% Cumulative Preferred Stock, and the proceeds were used to redeem all the company's outstanding bonds and preferred stock.

Metropolitan Edison Company (NY PA NJ Utilities Company Group)

On November 3, 1944 Metropolitan Edison Company consummated a major refunding and refinancing operation, including the elimination of cross-holdings of its preferred stock by Nypanj and its cross-holdings of Nypanj obligations. Metropolitan Edison Company sold \$24,500,000 principal amount of 2% First Mortgage Bonds due 1974 and 125,000 shares of 3.90% Cumulative Preferred Stock (\$100 par). The effective interest rate to the Company on the bonds was 2.8594% and the effective dividend rate on the stock was 3.8467%. The proceeds of this sale, together with \$9,049,900 cash received from Nypanj, and certain other treasury funds, were used to redeem \$36,725,400 principal amount of 4% and $4\frac{1}{2}\%$ First Mortgage Bonds and \$11,489,700 par value of preferred stocks bearing dividend rates of \$5, \$6, and \$7. In connection with this program Metropolitan Edison Company delivered to Nypanj \$15,778,500 principal amount of Nypanj obligations and received from Nypanj 95,729 shares of Metropolitan's preferred stock which were then cancelled. \$1,247,500 principal amount of York Haven Water and Power Company 50 year 5% bonds, due 1951, assumed by Metropolitan Edison Company, were not redeemed since the indenture contained no provision for call.

Northern Pennsylvania Power Company (NY PA NJ Utilities Company Group)

On March 6, 1945 Northern Pennsylvania Power Company sold \$4,000,000 principal amount of First Mortgage Bonds, $2\frac{3}{4}\%$ Series, due 1975. The effective interest rate to the company was 2.7431%.

The proceeds of this sale were used to retire three 5% bond issues totalling \$3,641,500 and to provide funds for new construction.

(2) Short-Term Debt Retired

At December 31, 1943 Nypanj had a remaining balance of \$1,000,000 due on a short-term note. This was paid off in April, 1944. In November 1944 Nypanj borrowed \$10,000,000 on a 2% serial bank loan (classified as long-term debt in the Consolidated Statement of Debt on page 51) which was outstanding at December 31, 1944. This loan was reduced to \$8,500,000 on May 3, 1945. Other subsidiaries have approximately \$1,000,000 principal amount of obligations in the form of serial notes to banks, serial debentures, etc., maturing in 1945.

(3) Long-term Debt Retired

During 1944 Agecorp subsidiaries decreased publicly-held long-term debt by approximately \$8,700,000, and an additional decrease of approximately \$1,700,000 occurred in the first five months of 1945. These decreases are shown in the schedule below. However, the consolidated statement for Agecorp and its subsidiaries, of long-term debt in which there is a public interest (pages 50 to 53), showed \$350,776,478.56 outstanding at December 31, 1944, compared with \$320,981,552.77 at December 31, 1943. This increase is accounted for by the inclusion in the consolidated statement during 1944 of Jersey Central Power & Light Company's debt, which was \$40,650,000 at the end of 1943, less debt of \$2,147,000 of Long Island Water Corporation which was sold during the year and the net decrease of \$8,708,074.21 detailed in the schedule below.

The net decrease of principal amount of publicly-held long-term debt in 1944 and the five months ended June 1, 1945 was as follows:

Long-Term Debt	Year 1944	Jan. 1, 1945 to June 1, 1945
Associated Electric Company	\$ 1,135,000.00	\$ —
Missouri General Utilities Company.....	5,233.33	2,671.00
Pennsylvania Electric Company	500,000.00	—
Pennsylvania Electric Company	646,744.38 (a) (b)	161,899.00
Associated Utilities Corporation and subsidiaries	13,880.00	—
General Gas & Electric Corporation:		
Florida Power Corporation	172,600.00 (a) (c)	—
Florida Power Corporation	8,657.90	4,329.00
Georgia Power and Light Company	5,747.36	530,373.00
South Carolina Electric & Gas Company....	300,000.00	—
NY PA NJ Utilities Company	4,744,500.00	—
NY PA NJ Utilities Company	10,000,000.00 (a)	1,500,000.00 (d)
Metropolitan Edison Company	12,203,400.00	—
Jersey Central Power & Light Company....	530,000.00	—
New Jersey Northern Gas Company.....	61,000.00	—
Northern Pennsylvania Power Company....	20,000.00	484,500.00 (a)
Total net reduction	<u>\$ 8,708,074.21</u>	<u>\$1,714,772.00</u>

NOTES:

- (a) Denotes increase.
- (b) Represents construction advances from the United States Government, due 1945-1948.
- (c) Represents an increase of \$422,600 in connection with refunding, of which \$250,000 has since been retired.
- (d) Represents payment on May 3, 1945 of installment of serial bank loan of Nypanj in amount of \$10,000,000 made November 3, 1944.

(4) Preferred Stock Retired

The schedule below details the net decrease in involuntary liquidation value of publicly-held preferred stock outstanding during 1944 and the five months ended June 1, 1945.

Preferred Stocks	Year 1944	Jan. 1, 1945 to June 1, 1945
General Gas & Electric Corporation	\$ —	\$ 35,000
South Carolina Electric & Gas Company....	1,000	—
Florida Power Corporation	21,000(a) (b)	826,800(a)
Georgia Power and Light Company	—	632,700
NY PA NJ Utilities Company:		
Jersey Central Power & Light Company....	47,400	—
Metropolitan Edison Company	1,042,800(a) (c)	—
New Jersey Power & Light Company.....	900,800(a) (d)	—
Rochester Gas and Electric Corporation....	4,000,000	—
Total net reduction	<u>\$ 2,083,800</u>	<u>\$ 159,100(a)</u>

NOTES:

- (a) Denotes increase.
- (b) Represents intercorporate holdings sold to public.
- (c) Represents increase of publicly-held preferred stock although Metropolitan Edison Company, in its refinancing program, reduced by \$8,562,600, the total involuntary liquidation value of its preferred stocks outstanding which were held by the public and by affiliated companies.
- (d) Represents increase of publicly-held preferred stocks, although New Jersey Power & Light Company, in its refinancing program, reduced by \$306,000 the total involuntary liquidation value of its preferred stocks outstanding which were held by the public and by Nypanj.

V. CONSTRUCTION AND CAPACITY

Although continuing demands of the war program on all essential materials curtailed construction in 1944, gross construction expenditures for the year by System companies amounted to approximately \$20,100,000, which exceeded the expenditure for construction in each of the two preceding years.

Gross construction expenditures for the past eight years by System companies included in the consolidated statements at December 31, 1944, and the budget estimate for 1945, follow:

1937.....	\$23,138,847
1938.....	12,657,558
1939.....	15,471,965
1940.....	19,902,579
1941.....	30,653,272
1942.....	19,106,904
1943.....	17,034,090
1944.....	20,091,721
1945 (Budget).....	32,500,000

Actual gross construction expenditures to May 31, 1945 were about 37% less than the budget as of that date.

The electric generating capacity of the System companies included in the consolidated statements at December 31, 1944 follows:

End of Year	Kilowatts*
1937.....	1,284,220
1938.....	1,329,220
1939.....	1,330,853
1940.....	1,321,603
1941.....	1,390,510
1942.....	1,404,960
1943.....	1,443,210
1944.....	1,550,135

* Name Plate ratings.

Major changes in generating capacity during 1944, as reflected in the preceding tabulation, were as follows:

New York State Electric & Gas Corporation (Westover plant addition at Binghamton, in service January 15, 1944)	35,000 kilowatts
Pennsylvania Electric Company (Front Street, Erie, plant addition, in service January 18, 1944)	25,000 kilowatts
Pennsylvania Edison Company (Williamsburg plant addition, in service August 4, 1944)	25,000 kilowatts
Florida Power Corporation (Bayboro plant addition at St. Petersburg, in service December 20, 1944)	25,000 kilowatts

New York State Electric & Gas Corporation's new steam generating plant, to be known as the Jennison Station, of 33,000 KW capacity at Bainbridge, N. Y. is scheduled for completion in September 1945. Work has been started on Staten Island Edison Corporation's new 25,000 KW steam generating plant on Arthur Kill, which is scheduled for completion in October 1946; and ground will soon be broken for the recently authorized 25,000 KW addition to the steam generating station of Florida Power Corporation at Inglis, Florida.

VI. COMPLIANCE WITH SECTION 11 OF THE PUBLIC UTILITY HOLDING COMPANY ACT

In 1941 the Agecorp Trustees proposed to meet the so-called integration requirements of Section 11(b)(1) of the Public Utility Holding Company Act of 1935 by setting up four simplified integrated utility systems in place of the then existing single system with its scattered properties and complicated capital structure. As noted in previous years' reports of the Agecorp Trustees, the original integration program was submitted to the Securities and Exchange Commission in 1942, and in 1943 and 1944 certain changes from the original program, described in the Agecorp Trustees' 1943 Report, were also submitted.

Two developments have occurred with respect to the proposed New York-Northern Pennsylvania System. In the early part of 1944, hearings were completed on the retention of Rochester Gas and Electric Corporation and Canadea Power Corporation with the other properties proposed to be included in this system. Early in 1945, Northern Pennsylvania Power Company entered into a contract for the sale of its gas property, the retention of which as an additional system had not been urged before the Commission.

With respect to the proposed Eastern Pennsylvania-New Jersey System, Nypanj completed on October 4, 1944 the acquisition of all the common stock (except directors' qualifying shares) of Jersey Central Power & Light Company. Two-thirds of this stock had been pledged as collateral for an issue of National Public Service Corporation debentures, most of which were held by Nypanj and its subsidiaries. In January 1945 Metropolitan Edison Company, a subsidiary of Nypanj, consummated contracts for the sale of all its gas properties and franchises. The retention of such properties had not been urged before the Commission.

The Florida-Georgia System has been reconstituted substantially as proposed to the Securities and Exchange Commission, now that a plan of recapitalization of Georgia Power and Light Company under Section 11(e) of the Public Utility Holding Company Act of 1935 has been consummated. Pursuant to this plan Georgia Power and Light Company on March 26, 1945 became a direct subsidiary of Florida Power Corporation. Authorization by the Securities and Exchange Commission of the merger of Florida Public Service Company into Florida Power Corporation, which was effected on January 14, 1944, was conditioned upon a divestment by the Florida companies of the water, gas, and ice properties (other than the ice plant in the city of Orlando and the water property at Winter

Garden, Florida) and all land obtained upon the merger into Florida Power Corporation of Sante Fe Land Company. Most of the Sante Fe lands have been sold. The water properties of Florida Power Corporation, with the exception of the property at Winter Garden, have also been sold. On January 20, 1945 Florida Power Corporation entered into a contract with Florida Utilities Corporation for the sale of all its gas properties, together with the office building located in Orlando, Florida. At the date of this Report, applications for approval of this sale are pending before the Securities and Exchange Commission. The Securities and Exchange Commission also conditioned its approval of the plan of recapitalization of Georgia Power and Light Company upon a divestment by that company of its water and ice properties, within one year from the effective date of the plan. Except for one water property, no contract for sale of these properties has yet been made. Upon sale of the Georgia water and ice properties and consummation of the sale of the Florida gas properties, the conditions in the Commission's orders approving the Florida merger and the Georgia recapitalization will have been substantially met and the Florida-Georgia System, as proposed by the Agecorp Trustees in the proceedings under Section 11(b)(1) of the Public Utility Holding Company Act, will have been set up.

On August 11, 1944 a joint Plan of Divestment of Assets, Simplification of Corporate Structure and Equitable Distribution of Voting Power of General Gas & Electric Corporation (Gengas) was filed with the Securities and Exchange Commission by Gengas and the Agecorp Trustees. The main provisions of this Plan were set forth on pages 13 and 14 of the Agecorp Trustees' 1943 Report. No substantial opposition to the plan was indicated at the hearings, which were held in October 1944. On June 15, 1945 Gengas notified the Commission that it elected the option, provided in the Plan, to distribute preferred stock of South Carolina Electric & Gas Company (see Note (A) page 56). The decision of the Commission is awaited.

In February 1945 an amended plan of reorganization of York Railways Company was formulated. In connection with the consummation of this amended plan of reorganization Glen Rock Electric Light and Power Company will be merged into Edison Light and Power Company, the assets of York Steam Heating Company will be acquired by Edison Light and Power Company, and Metropolitan Edison Company will acquire all the Edison Light and Power Company outstanding Common Stock. At the date of this Report applications seeking authority to consummate these transactions in connection with the plan are pending before the Pennsylvania Public Utility Commission and the Securities and Exchange Commission. Consummation of this plan and the related transactions are additional steps in furtherance of the Agecorp Trustees' proposals for setting up simplified integrated utility systems.

In the Agecorp Trustees' 1943 Report, the proposed sale by Gengas of the common stock of Tide Water Power Company (Tide Water) for \$55,000 was mentioned. Before application by Gengas for authority to consummate this sale was acted upon by the Securities and Exchange Commission, a proceeding against Tide Water under Section 11(b)(2) of the Public Utility Holding Company Act of 1935, alleging inequitable distribution of voting power among Tide Water's security holders, was instituted by the Commission. The application of Gengas for authority to consummate the sale was denied by the Commission on August 25, 1944 on the ground that no sale of the interest of Gengas in Tide Water could be permitted prior to consummation of a plan of recapitalization substituting a single class of common stock for Tide Water's then outstanding preferred and common stocks. In September 1944 Tide Water filed a recapitalization plan. On December 22, 1944 the Commission issued its order approving the issuance and sale by Tide Water of \$4,500,000 principal amount of bonds and the issuance of four shares of new Common Stock for each share of its \$6 Preferred Stock. In its order the Commission reserved jurisdiction over the allocation of new common stock to Gengas, as the holder of Tide Water's common stock. The proposal now before the Commission provides that Gengas is to receive $3\frac{1}{2}\%$ of the new Common Stock, together with 1,870 shares of the capital stock of Atlantic Utility Service Corporation held by Tide Water, a cancellation of any claims which Tide Water may have against Gengas and an assignment of any claims which Tide Water may have against affiliated companies. Hearings before the Commission with respect to this proposal were held on June 5, 1945 and a decision by the Commission is awaited.

Sales of Property

Sales of physical properties or of the System's investments in the securities of various companies which took place during the first seven months of 1944 were listed in the Agecorp Trustees' 1943 Report. These sales and additional sales to June 30, 1945 are given in the following tabulation. The asterisk indicates that the sale was consummated in 1945. Unless otherwise indicated, the transaction was a sale of the System's investment in the company named.

Associated Electric Company Group:

	<u>Base Price</u>
Ohio-Midland Light and Power Company	
Paint Township, New Washington and Wyandot Divisions.....	\$ 110,000
Remaining properties	2,005,000
Union Gas & Electric Company.....	750,000
Owensboro Gas Company.....	624,500
Properties of West Virginia Light, Heat and Power Company.....	427,633*
Properties of Missouri Southern Public Service Company.....	170,000
K-T Electric and Water Company.....	85,000
The Portsmouth Gas Company.....	555,000*
Properties of The New Matamoras Electric Company.....	46,806*

General Gas & Electric Corporation Group:

Virginia Public Service Company.....	\$2,500,000
South Carolina Electric & Gas Company	
All gas properties located in cities of Florence and Darlington, S. C.	60,721
Georgia Power and Light Company	
Ice and meat storage buildings.....	10,000
Water Property located at Donalsonville, Ga.	25,000*

NY PA NJ Utilities Company Group:

Metropolitan Edison Company	
All gas properties.....	1,425,000*
Long Island Water Corporation.....	825,000
The Patchogue Electric Light Company.....	625,000
Properties of The Lakewood Water Company.....	365,000

Miscellaneous Group:

Reading Street Railway Company.....	} 750,000
Reading Traction Company.....	
Reading and Southwestern Street Railway Company.....	
Paul Smith's Electric Light and Power and Railroad Company.....	300,000
Railway and Bus Associates	
Miscellaneous street railway company bonds and notes.....	145,562
Massachusetts Northeastern Transportation Company.....	71,400
New Jersey and Staten Island Ferry Company.....	45,000
Paul Smith's Hotel Company.....	37,500
Miscellaneous real estate.....	5,000

As of June 1, 1945 sale contracts were pending, awaiting approval or consummation, for the following investments or properties at the base prices indicated:

	<u>Base Price</u>
<i>Associated Electric Company Group:</i>	
Missouri General Utilities Company.....	\$1,610,000
Pennsylvania Electric Company	
Gas properties located in Johnstown, Pa.	1,194,826
The Lake Shore Gas Company.....	720,000
Properties of Eastern Land Corporation.....	60,000

	<u>Base Price</u>
<i>General Gas & Electric Corporation Group:</i>	
Florida Power Corporation	
Certain gas and miscellaneous properties.....	1,210,000
<i>NY PA NJ Utilities Company Group:</i>	
Properties of Spring Brook Water Company.....	242,500
Northern Pennsylvania Power Company	
All gas properties.....	12,139
New York State Electric & Gas Corporation	
Lancaster gas properties.....	125,000
<i>Miscellaneous Group:</i>	
The Valley Public Service Company.....	413,000
Properties of Schenectady Rapid Transit, Inc.	32,489

Corporate Simplification

In addition to the sales of property listed above, the following corporate entities were eliminated in the manner shown during the period from January 1, 1944 to December 31, 1944:

Agincourt Land Corporation.....	Merged*
Broome Electric Corporation.....	Dissolved
Florida Public Service Company.....	Merged*
Granville Electric Company.....	Dissolved
The Harpers Ferry Paper Company.....	Dissolved
Johnstown Fuel Supply Company.....	Dissolved
The Railway and Bus Associates.....	In process of dissolution
Sanford Gas Company.....	Merged*
Sante Fe Land Company.....	Merged*
The United Coach Company.....	In process of dissolution

* Effective December 31, 1943.

In August 1944 the Agecorp Trustees and several subholding and subsidiary companies filed with the Securities and Exchange Commission a joint application covering various transactions designed to simplify The United Coach Company-Associated Utilities Corporation subholding groups and to bring up cash and certain holdings of System securities to the Trustees of Agecorp, thus enabling them to contribute \$4,000,000 to Nyanj to assist it in paying off the balance of a bank loan and thus securing the release from pledge of the preferred stocks of Metropolitan Edison Company required in connection with the refinancing by that Company. The various steps in this program were approved in October 1944 by the Securities and Exchange Commission and the United States District Court for the Southern District of New York. These transactions included the contribution by the Agecorp Trustees of all the capital stock of The United Coach Company, a wholly-owned subsidiary of the Agecorp Trustees, to Associated Utilities Corporation, another wholly-owned subsidiary of the Agecorp Trustees; the dissolution and liquidation of The United Coach Company; the acquisition by Associated Utilities Corporation of The Railway and Bus Associates, a subsidiary of Associated Real Properties, Inc., in turn a subsidiary of Associated Utilities Corporation; and the liquidation of The Railway and Bus Associates. In connection with this program, the Agecorp Trustees also contributed to Associated Utilities Corporation \$50,500,000 of the principal of the 2% Convertible Obligation of Associated Utilities Corporation, held by Agecorp Trustees. This contribution enabled Associated Utilities Corporation, through an accounting reorganization, to eliminate its surplus deficit.

Present System Companies

The companies constituting the Associated System on June 15, 1945, and the subholding groups in which voting stocks of those companies are held, are shown on a System corporate chart which appears on pages 24 and 25 of this Report.

VII. CLAIMS AND SETTLEMENTS

Recovery Claims

New England Gas and Electric Association

The Agecorp Trustees' 1943 Report described the claims against New England Gas and Electric Association (Negas) of the Ageco Trustee, the Agecorp Trustees, and Gas and Electric Associates, an indirect subsidiary of Agecorp. Jurisdiction over these claims, certain of which were the subject of litigation in the courts, and also of other related matters, was asserted by the Securities and Exchange Commission in February 1943 in a proceeding which had theretofore been initiated by the Commission to require the simplification by Negas of its capital structure. In April 1944 the various controversies were submitted to the Commission, and a decision is awaited. On March 29, 1945 Negas filed a Plan of Recapitalization with the Commission under Section 11(e) of the Public Utility Holding Company Act of 1935. This Plan was based on the assumption that the Commission's decision upon the above-mentioned claims will be adverse to the Trustees and Gas and Electric Associates. The Trustees and Gas and Electric Associates moved to stay all proceedings pending the Commission's decision on the claims. This motion was denied. However, the Commission has limited the nature of the evidence which may be submitted in support of Negas' Plan so as to exclude any evidence with respect to the proposed allocation of new securities pending its decision on the claims.

Action Against The Chase National Bank of the City of New York

In January 1942 the Ageco Trustee brought suit in the United States District Court for the Southern District of New York against The Chase National Bank of the City of New York. That Bank had been trustee under the indentures securing two issues of Ageco debentures. It was alleged that the Bank, in breach of its fiduciary duty to debenture-holders, had collected a loan from Ageco, and had made an unfair exchange of securities with certain subsidiaries of Ageco, at times when Ageco was insolvent or was in bad financial condition and later became insolvent. Recovery was sought of the money and securities received by the Bank, and additional recovery and damages was sought for the benefit of debenture-holders (see Ageco Ninth Quarterly Report).

In January and February 1943 the various counts of this suit were dismissed by the District Court on the ground that the Ageco Trustee had no capacity to bring this suit. Appeal was taken to the Circuit Court of Appeals of the Second Circuit (see Ageco Thirteenth Quarterly Report). In July 1943, that Court affirmed the order of the District Court holding that the Ageco Trustee could not sue to recover damages to debenture-holders for the alleged breach of trust. The Court, however, held that the Ageco Trustee could sue to force the Bank to restore to the Ageco Estate any funds and securities wrongfully received by the Bank in breach of its fiduciary duty (see Ageco Fifteenth Quarterly Report). Accordingly, the counts relating to this portion of the case were sent back to the District Court for trial on the merits (*Clarke v. The Chase National Bank of the City of New York*, 137 F. 2d, 797). The case went to trial on March 5, 1945 and is still on trial.

It should be noted that under the opinion of the Circuit Court of Appeals, it will be the duty of the District Judge in charge of the reorganization proceedings to determine the proper disposition of the proceeds of any recovery. The opinion of the Circuit Court of Appeals also left untried the extent to which the Bank, if forced to restore the money and securities which it received, would be reinstated as a creditor of Ageco. Provision for the settlement of these questions, in the event of any recovery, is made in the Plan of Reorganization.

Stockholders' Derivative Actions

There are now pending in the New York Supreme Court, New York County, eight actions against former stockholders of Ageco and their attorneys in which recovery is sought of amounts aggregating approximately \$325,000. The defendants had commenced stockholders' derivative actions against System directors and others, alleging fraud and mismanagement, which the Trustees claim were

improperly settled by the use of System funds prior to the reorganization proceedings. Five of these actions were pending on January 1, 1944. Three additional actions were brought after that date. In one of these latter actions, *Clarke v. Mayer*, a motion was made by the defendants to dismiss the complaint on the ground that it was barred by the three-year statute of limitations. The Court granted this motion, but its action has recently been reversed by a unanimous decision of the Appellate Division of the Supreme Court, First Department. An application has been made to the Appellate Division by the defendants in this case for leave to appeal to the Court of Appeals, which cannot be determined before October. If the decision of the Appellate Division is not reversed, the way will be open for going forward with all the other actions. A motion is pending to amend the complaints in the five older cases, and to lift the stay which is now in effect in two of these cases.

Claims Against Estates

Subsidiary Claims

On May 25, 1945 Judge Leibell issued an order in the reorganization proceedings requiring the filing on or before July 10, 1945 of proofs of claim, if any, by subsidiaries of Ageco and Agecorp other than Associated Electric Company and certain other subsidiaries whose claims are being taken into account in proceedings before the Securities and Exchange Commission. At the same time the Court authorized the Ageco Trustee and the Agecorp Trustees to deliver to such subsidiaries as should not file claims against the Ageco or Agecorp Estates pursuant to the above-mentioned order, covenants not to sue for reimbursement with respect to any claims based on payments made by Ageco, Agecorp or the Agecorp Trustees on account of System Federal taxes for the years 1927-1933, inclusive. Investigations had disclosed that, except for a claim of one subsidiary in the amount of approximately \$60,000, which has since been filed, the only substantial claims that had not been or in all probability would not be otherwise disposed of and that were likely to be asserted would be asserted by Associated Electric Company on account of various transactions occurring prior to 1940, including certain dividend payments made by Associated Electric Company to Agecorp. Although the amounts which might be claimed by reason of such transactions were very substantial, the determination of such claims by litigation would have been protracted and difficult because of many factual and legal questions that they involved. Accordingly, on May 8, 1945, a compromise settlement agreement was executed by the Ageco Trustee, the Agecorp Trustees and Associated Electric Company, subject to Court approval. By this agreement Associated Electric Company is allowed an unsecured general claim of \$5,000,000 against the Estates of Ageco and Agecorp. The agreement also provides (a) for delivery by or for the account of the Agecorp Trustees to Associated Electric Company of the 166,600 outstanding shares of Common Stock of Pennsylvania Edison Company, all owned by NY PA NJ Utilities Company, and (b) for delivery by the Agecorp Trustees to Associated Electric Company, for cancellation, of 250,000 shares of capital stock of that company, out of 650,000 shares (100%) now held by the Trustees. If the settlement agreement is approved, Associated Electric Company will receive under the Plan of Reorganization 107,000 shares of New Common Stock of the Surviving Company, to be pledged as security for its outstanding debentures.

Claims against Ageco Estate

4,768 claims (including 2,252 involved in the so-called CDC litigation) have been filed against the Ageco Estate, in addition to claims based on the purchase of Ageco securities by employees and claims based on Ageco's guaranty of interest on Utilities Employees Securities Company Income Bonds due 1981.

The 4,768 claims, which were referred to in the Ageco Trustee's Twenty-Second Report, pages 6 and 7, have been heard by Referee Joyce, except for 178. The Referee has disallowed all the claims which have been heard, except for 4 claims based on alleged fraud or duress, as to which decision has been reserved.

Of the 178 claims which were made, 118 have been set down for hearing on July 12, 1945, leaving 60 claims to be disposed of. One of these claims is that of Metropolitan Life Insurance Company

and is based on its holding of \$1,000,000 principal amount of Associated Electric Company bonds, due January 1, 1953, which were purportedly assumed by Ageco. The remaining 59 claims are of a miscellaneous character.

There are 52 claims based on the purchase of Ageco securities by System employees (see Ageco Trustee's Twenty-First Report, page 9). These claims have been set down for hearing before Referee Joyce on September 11, 1945.

Approximately 1,600 claims have been filed against the Ageco Estate based on the guaranty by Ageco of interest on Utilities Employees Securities Company Income Bonds due 1981 (see Ageco Trustee's Twenty-First Report, page 10, and Ageco Trustee's Twenty-Second Report, pages 7 and 8). These claims are still the subject of investigation.

Claims against Agecorp Estate

All claims which have been filed against the Agecorp Estate have been disallowed except for a few small claims based on the furnishing of materials or the rendering of services.

VIII. SPECIAL FUNDS

Ageco

Pursuant to orders of the Court, the Ageco Trustee has:

1. Notified holders of interest coupons on Eastern Utilities Investing Corporation 5% Gold Debentures due 1954 maturing on or before September 15, 1932, to present their coupons to The New York Trust Company for payment of 97.24% of the face amount thereof. (The Court order provides that the claims represented by such coupons shall be barred if not presented on or before November 10, 1945.)

2. Notified holders of certain unpaid checks dated prior to 1933 for dividends on stock of Ageco and certain subsidiaries to present them to Registrar and Transfer Company, as paying agent, for payment of the face amount thereof. (The Court order provides that all claims represented by such checks shall be barred if not presented on or before November 15, 1945.)

3. Notified holders of Ageco 5½% Convertible Investment Certificates due 1938 extended to November 15, 1939, to present their certificates to Irving Trust Company for payment of 83.15% of the unpaid portion of the principal amount thereof less 25¢ for each certificate presented. (The Court order provides that the claims represented by such certificates shall be barred if not presented on or before five years from the date of the entry of the final decree terminating the reorganization proceedings.)

4. Notified holders of Eastern Utilities Investing Corporation 5% Debentures to present them to Registrar and Transfer Company as Depositary in exchange for Ageco 5% Sinking Fund Income Debentures due 1986. (The Court order provides that the claims represented by such certificates shall be barred if not presented on or before five years from the date of the entry of the final decree terminating the reorganization proceedings.)

Agecorp

The Agecorp Trustees have notified the holders of coupons or checks for interest on Agecorp 8% Bonds maturing on or before September 15, 1939 to present their coupons or checks to Colonial Trust Company as paying agent for payment of the face amount thereof. An order of the Court dated May 22, 1945 provides that the claims represented by such coupons or interest checks shall be barred if not presented for payment on or before five years from the date of the entry of the final decree terminating the reorganization proceedings.

IX. AGECORP TRUSTEES' CASH RECEIPTS AND DISBURSEMENTS

During the year 1944, the Agecorp Trustees received \$4,940,737.55, of which \$3,651,866.36 represented realization on investments and \$1,287,664.18 represented income. The realization on investments represented primarily cash received from Associated Utilities Corporation in part payment of that corporation's indebtedness to Agecorp. The cash income realized was primarily interest on indebtedness of Associated Utilities Corporation and dividends received from The United Coach Company.

Cash disbursements for the year amounted to \$4,745,596.83, of which \$596,957.61 represented expenses of the Agecorp Trusteeship and \$45,718.80 represented corporate expenses. The remainder of the cash outlay represented capital and other disbursements, the major portion of which was a \$4,000,000 capital contribution to NY PA NJ Utilities Company previously referred to.

A comparative summary of the disbursements for 1943 and 1944, in detail, is as follows:

	1944	1943
<i>Expenses of the Trusteeship (including special services):</i>		
Allowances of Trustees and Counsel	\$ 109,125.00	\$ 121,050.00
Salaries and wages (including legal and accounting staffs) ..	301,306.43	373,553.23
Expenses—Trustees, Counsel and Staff	10,911.43	16,823.14
Payment to service companies	14,082.55	13,913.45
Tax and other consultant services	22,323.60	10,323.35
Compensation paid to Special Masters pursuant to Court orders	7,000.00	20,072.58
Office rent and safe custody charges	27,230.45	33,836.65
Telephone and Telegraph	7,539.45	9,966.89
Printing and mailing reports and Plan of Reorganization ..	35,722.69	70,452.07
Court reporting and other legal disbursements	9,080.44	10,785.06
Office expense, stationery, supplies, postage and other expenses	41,513.37	40,084.22
Taxes (other than income taxes)	11,122.20	13,412.03
Total Expenses of the Trusteeship	\$ 596,957.61	\$ 734,272.67
<i>Corporate Expenses:</i>		
Auditing (including certification of System consolidated statements for year 1942)	\$ 10,318.89	\$ —
Transfer, registrar and fiscal agency fees	35,399.91	23,146.31
Interest on Trustees' Certificate of Indebtedness	—	42,236.36
Total Corporate Expenses	\$ 45,718.80	\$ 65,382.67
<i>Capital and Other Disbursements:</i>		
Capital contribution to NY PA NJ Utilities Company pursuant to Court order	\$4,000,000.00	\$ —
Payment to Ageco Trustee—partial allowances for services rendered and expenses incurred in Recap Litigation and Compromise thereof and in connection with the Plan of Reorganization	93,000.00	50,000.00
Payment of principal of Trustees' Certificate of Indebtedness	—	3,790,335.00
Payment to Associated Trustees on Account of collateral note	—	424,882.83
Payments on liabilities assumed and expenses incurred in connection with property sales	113.35	88,407.30
Repayment to subsidiary companies of tax refunds pursuant to Court order	—	102,515.64
Payments out of trust funds pursuant to Court order	9,500.00	6,594.44
Purchase of Ageco Trustee's interest in Hopson distribution and taxes and other expenses in regard to Hopson assets	—	43,367.51
Furniture and fixtures and other disbursements	307.07	988.86
Total Capital and Other Disbursements	\$4,102,920.42	\$4,507,091.58
Total Cash Disbursements	\$4,745,596.83	\$5,306,746.92

The expenses, \$596,957.61 (including the costs of special services of a non-recurring nature), of the Agecorp Trusteeship for the year 1944 represented a decrease of \$137,315.06 when compared with such expenses (\$734,272.67) paid during the preceding year. In 1942 and 1941 such expenses amounted to \$777,186 and \$783,686. The major portion of the 1944 decrease of \$137,315.06 is reflected in salaries and wages (\$72,000), printing and mailing (\$35,000), and allowances of counsel and expenses of the Agecorp Trustees and counsel (\$12,000). \$25,450 of the decrease in salaries and wages was brought about by the transfer of certain members of the Trustees' staff to the staffs of the subholding companies.

X. AGECO TRUSTEE'S CASH RECEIPTS AND DISBURSEMENTS

During the five and one-half years Ageco has been in reorganization it has had no corporate income, by reason of the inability of its sole direct subsidiary, Agecorp, to pay interest on its indebtedness to Ageco or to pay dividends on its capital stock, all the shares of which are owned by Ageco.

The principal sources of funds for payment of administrative expenses of the Ageco Trustee have been the Ageco general cash transferred to the Ageco Trustee on March 2, 1940, proceeds of the sale of Trustee's Certificates, receipts from settlements of claims against former officers and directors of Ageco and others, refund of Federal income taxes paid by Ageco for account of a former subsidiary company, funds which upon determination of their legal status were held to be general assets of the Estate, and partial reimbursements by the Agecorp Trustees of expenses incurred by the Ageco Trustee in the Recap litigation, the Plan of Compromise of such litigation and the Plan of Reorganization.

A small amount of cash has been received by the Ageco Trustee for fees charged for the exchange by security holders of coupon for registered and registered for coupon debentures; such fees represent only partial reimbursement of the expenses incurred by the Ageco Trustee in providing facilities whereby security holders can effect such exchanges.

In 1944, the general cash receipts (\$286,260.43) of the Ageco Trustee included transfers from restricted funds pursuant to Court orders (\$186,818.76) and partial allowances (\$93,000) for the services and expenses incurred by the Ageco Trustee in the Recap litigation, Plan for Compromise and the Plan of Reorganization, received from the Agecorp Trustees pursuant to Court orders.

The 1944 cash disbursements for administrative expenses, such as interim compensation of the Trustee and Special Counsel, salaries of attorneys and other members of the Trustee's staff, rent, fees and disbursements of Registrar and Transfer Company, etc., amounted to \$114,195.03. Other disbursements from general funds were the payment of \$75,000 to discharge the balance of \$200,000 principal amount of Trustee's Certificates sold in 1940 and 1941 and \$68,000 paid for services rendered by Atlantic Utility Service Corporation, a System company, during the period from January 10, 1940 through February 10, 1941.

The following comparative summary of administrative expenses of the Ageco Trustee for the years 1940 through 1944 shows that such expenses were highest in 1941 and that in 1944 they were \$48,540 less than in 1941:

	Administrative Expenses	Comparison with previous year
March 2 to December 31, 1940 (10 months).....	\$149,319(a)	
Year 1941.....	162,735	\$13,416 Increase
Year 1942.....	153,486	9,249 Decrease
Year 1943.....	121,863	31,623 Decrease
Year 1944.....	114,195	7,668 Decrease
Year 1944 compared with 1941.....		\$48,540 Decrease

(a) Includes \$68,000 paid in 1944 for services rendered by a System company during the period January 10, 1940 through February 10, 1941.

Financial Statements

The accounts of Agecorp for the year 1944 were examined by Lybrand, Ross Bros. & Montgomery. A copy of the audit report and financial statements of Agecorp on both parent company and consolidated bases are presented on the following pages.

As indicated in the auditors' report and more fully set out in the notes to the financial statements, the values ascribed to the investments of Agecorp do not purport to represent either realizable or replacement values. The amounts shown (except for the write-down of investment in Associated Utilities Corporation in 1944 of approximately \$36,380,000) are as carried in the accounts of Agecorp at January 10, 1940 (the date of entry of the order approving the petition filed by Agecorp for reorganization under Chapter X of the Bankruptcy Act); and the liabilities of Agecorp, except with respect to current trade accounts payable of the Trusteeship, are also shown as carried in the accounts of Agecorp at January 10, 1940, both as affected by transactions occurring between that date and December 31, 1944.

The valuations ascribed to the consolidated fixed capital and investments are subject to later determination. The recorded debts are subject to a final legal determination of their validity and rank as claims against the Estate.

Respectfully submitted,

STANLEY CLARKE,
Trustee of Associated Gas and
Electric Company.

DENIS J. DRISCOLL,

ALLEN E. THROOP,
Attorney for Trustees of Associated
Gas and Electric Corporation.

WILLARD L. THORP,
Trustees of Associated Gas and
Electric Corporation.

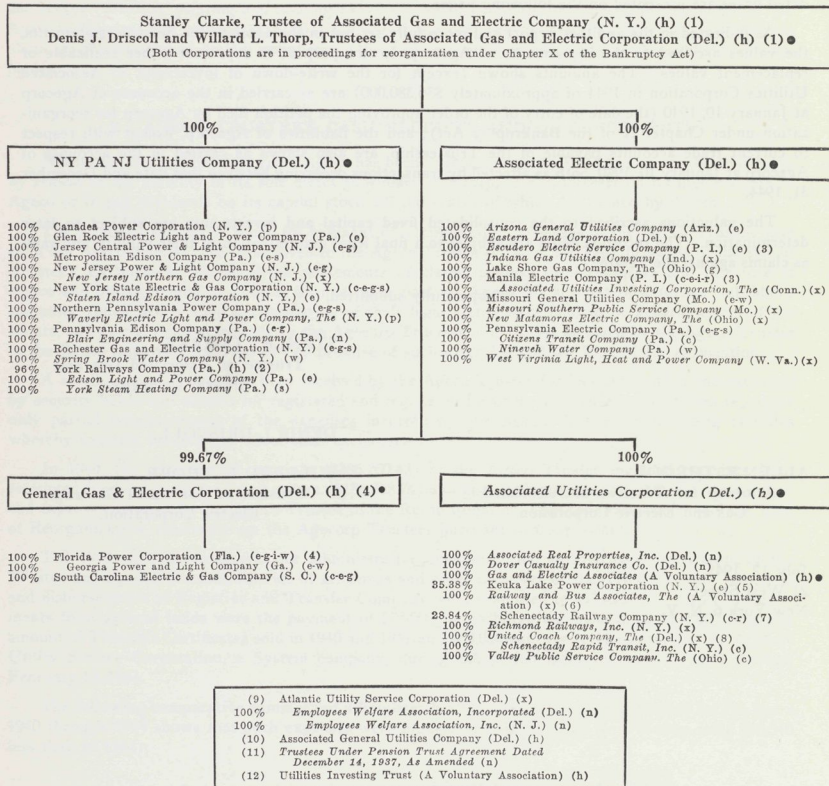
July 12, 1945.
21 West Street,
New York 6, N. Y.

ASSOCIATED GAS AND ELECTRIC SYSTEM

Corporate Chart as at June 15, 1945.

Showing Percentage of Voting Stock Ownership (Except as otherwise noted)

(As of the date of this chart, applications were pending before regulatory bodies for necessary authority to consummate the sale or elimination, or to take steps affecting the status, of certain companies included herein.)



GENERAL NOTES

Companies shown in *italics* have no securities or long-term notes outstanding with the public.

The State in which each company is incorporated is shown parenthetically following the company name.

The parenthetical letter references following the company name represent the type of service rendered, as follows:

- (c) Transportation—coach
- (e) Electric
- (g) Gas
- (h) Principally holding or investing company
- (i) Ice
- (n) Miscellaneous non-utility company
- (r) Holds and/or leases utility facilities or property
- (z) Transportation—street railway
- (s) Steam
- (w) Water
- (x) Inactive

ASSOCIATED GAS AND ELECTRIC SYSTEM

NOTES TO CORPORATE CHART

- Registered under Section 5 of the Public Utility Holding Company Act of 1935.

- (1) This chart reflects the pooling of interests of the two Trusteeships, pursuant to the proposed joint Plan of Reorganization, dated June 14, 1943, and hence does not specifically indicate the ownership of the Common Stock (the only class of stock outstanding) of Associated Gas and Electric Corporation, which, on January 10, 1940, was wholly-owned by Associated Gas and Electric Company, nor does it indicate that the direct ownership of the securities reflected as jointly owned, is in the Trustees of Associated Gas and Electric Corporation. On January 10, 1940, petitions for reorganization of Associated Gas and Electric Company and Associated Gas and Electric Corporation, respectively, were filed under Chapter X of the Bankruptcy Act.
- (2) This Company is in proceedings for reorganization under Section 77B of the Bankruptcy Act. The percentage shown includes 7.03% owned by Metropolitan Edison Company.
- (3) Substantially all the assets of this Company are located in the Philippine Islands.
- (4) The percentage shown for General Gas & Electric Corporation represents ownership of Common Stock, Class B only. In addition thereto, 96.90% of the outstanding Cumulative Preferred Stocks is owned by the Trustees of Associated Gas and Electric Corporation. Due to arrears in dividends, the Cumulative Preferred Stocks vote share for share with the Common Stock, Class B. Such Common Stock, Class B and Cumulative Preferred Stocks, owned by the Trustees of Associated Gas and Electric Corporation, represent 99.18% of the voting power of General Gas & Electric Corporation capital stock outstanding.

Under a Plan of Divestment of Assets, Simplification of Corporate Structure and Equitable Distribution of Voting Power of General Gas & Electric Corporation, filed by the Trustees of Associated Gas and Electric Corporation and by General Gas & Electric Corporation with the Securities and Exchange Commission under Section 11(c) of the Public Utility Holding Company Act of 1935, it is proposed that the Trustees of Associated Gas and Electric Corporation shall own 100% of a new single class of Common Stock of General Gas & Electric Corporation and that 54% of the Common Stock of Florida Power Corporation be distributed among public holders of General Gas & Electric Corporation Common Stock, Class A and B, upon surrender of such stock for cancellation.

- (5) The existence of present control of this Company by the company indicated may be open to reasonable doubt.
- (6) This Association is in process of liquidation and upon disposition of its interest in Schenectady Railway Company, its last remaining asset, will be eliminated from the corporate chart.
- (7) The existence of present control of this Company by the company indicated may be open to reasonable doubt. The percentage shown includes 0.19% owned by Associated Utilities Corporation.
- (8) This Company was dissolved by Certificate filed October 26, 1944, and upon disposition of its interest in Schenectady Rapid Transit, Inc., its last remaining asset, will be eliminated from the corporate chart.
- (9) 99.93% of the Capital Stock of this Company is owned, or is under contract to be acquired, by various subsidiary companies of the Trustees of Associated Gas and Electric Corporation. Atlantic Utility Service Corporation, which formerly rendered services to the companies reflected in this chart, discontinued its operations on or about August 31, 1942, and it is now in process of liquidation.
- (10) No voting securities of this Company are owned by any of the companies indicated on this chart. Associated General Utilities Company was declared by the Securities and Exchange Commission to be a subsidiary of Associated Gas and Electric Company and Associated Gas and Electric Corporation by order dated February 10, 1939.
- (11) This Trust has no securities outstanding. It was declared by the Securities and Exchange Commission to be a subsidiary of Associated Gas and Electric Company by order dated April 14, 1939. The Trust has filed an application under Section 2(a)(8) of the Public Utility Holding Company Act of 1935 for revocation of this order.
- (12) The Shares of Beneficial Interest (which have no voting power) of Utilities Investing Trust are owned by Trustees under Declaration of Trust Dated June 1, 1924, the beneficial interest in which is in turn owned by the Trustees of Associated Gas and Electric Corporation.

Associated Utilities Corporation and Gas and Electric Associates own \$37,300,000 principal amount of Income Notes of Utilities Investing Trust.

Utilities Investing Trust owns 100% of the Common Shares and \$7.00 Second Preferred Shares (neither of which has any voting power) of New England Gas and Electric Association, a Massachusetts Voluntary Association, which is registered as a holding company under Section 5 of the Public Utility Holding Company Act of 1935.

AUDITORS' REPORT

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

To Messrs. Denis J. Driscoll and
Willard L. Thorp, Trustees of
Associated Gas and Electric Corporation, Debtor,
New York, N. Y.

We have made an examination of the financial statements of Associated Gas and Electric Corporation, Debtor, and of the consolidated financial statements of the Debtor and subsidiary companies. In connection therewith, we reviewed the systems of internal control of Associated Gas and Electric Corporation, Debtor, and of certain of its subsidiaries and, without making a detailed audit of the transactions, examined or tested accounting records of such companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examinations were made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We have also been furnished with the financial statements for 1944, together with reports thereon of other public accountants, of all consolidated subsidiaries of the Debtor which were not examined by us. Approximately 24 per cent of the amount shown in the accompanying consolidated statements as total assets and other debits of the group at December 31, 1944 and approximately 31 per cent of the total consolidated operating revenues for 1944 represent, respectively, assets and other debits and operating revenues of these last-mentioned companies.

Similar examinations previously had been made for the year 1943. In all material respects, the principles of accounting applied during 1944, in our opinion, have been on a basis consistent with that of the preceding year.

Based upon our examination and the aforesaid reports of other public accountants and subject to provision for such expenses referred to in Note 13-b, page 45, as may be approved by the Court as being applicable to the year 1944, in our opinion, the accompanying financial statements (pages 27, 36, and 37), together with the applicable notes thereto, present fairly the results of operations of the Debtor and of the consolidated group for the year 1944, exclusive of deductions for interest on indebtedness of the Debtor.

Pending the determination and recording of fair values of investments of the Debtor and its subsidiary holding companies and such related or other adjustments as may result from the reorganization proceedings, referred to in Note 1, page 40, the accompanying financial statements (pages 27 to 56, inclusive) are not to be read as a presentation of the financial position of the Debtor or of the consolidated group. However, based upon our examination and the aforesaid reports of other public accountants, such financial statements do, in our opinion, set forth, subject to

- (1) the determination of fair values of investments and other adjustments referred to above,
- (2) such additional adjustments of property and related reserve accounts as may be required by regulatory authorities upon completion of "original cost" and related studies,
- (3) the adequacy of the accumulated reserve for depreciation of property, plant and equipment, and
- (4) provision for such expenses referred to in Note 13-b, page 45, as may be approved by the Court as being applicable prior to January 1, 1945,

the assets, liabilities and reserves of the Debtor and of the consolidated group at December 31, 1944, on the bases indicated in such statements including the notes thereto.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, N. Y.
July 12, 1945

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1944 and 1943

(on the basis of recording interest and dividends on investments in subsidiary companies, accrued or declared subsequent to January 10, 1940, only as and when received; and before deduction for interest on indebtedness other than Trustees' certificate)

	Year 1944	Year 1943
INCOME:		
From investments in subsidiary (sub-holding) companies (Note 15, Page 47):		
Dividends on common stock, The United Coach Company.....	\$ 450,000.00	\$ 240,000.00
Interest principally on convertible obligation of Associated Utilities Corporation.....	781,256.00	813,566.94
Miscellaneous	16,712.75	51,797.96
Total	<u>\$1,247,968.75</u>	<u>\$1,105,364.90</u>
EXPENSES AND TAXES:		
General expenses	\$ 649,954.12	\$ 727,206.45
Taxes (Note 4, Page 30)	10,506.27	13,073.82
Total	<u>\$ 660,460.39</u>	<u>\$ 740,280.27</u>
INTEREST ON TRUSTEES' CERTIFICATE OF INDEBTEDNESS (principal amount paid during 1943)	—	39,393.61
Total	<u>\$ 660,460.39</u>	<u>\$ 779,673.88</u>
NET INCOME , before deductions of \$10,665,663.92 in 1944 and \$10,754,806.17 in 1943 (including in each year \$3,590,256.00 on income note payable to parent company) for interest on indebtedness (Note 4, Page 30).....	<u>\$ 587,508.36</u>	<u>\$ 325,691.02</u>

STATEMENT OF CHANGES IN THE AMOUNT DESCRIBED AS "EXCESS OF ASSETS OVER LIABILITIES" AND TREATED AS RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF INVESTMENTS UPON FINAL DETERMINATION OF VALUES

for the year ended December 31, 1944

BALANCE , December 31, 1943	\$164,919,736.89
ADDITIONS:	
Net income (before deduction for interest on indebtedness, as above).....	587,508.36
Excess of principal amount over cost of bonds reacquired	1,555,061.05
Transfer from reserve for Federal income taxes as explained in Note 4, Page 30.....	997,333.80
Transfer from liability for collections and interest on subscriptions to securities, pursuant to order of referee in bankruptcy	72,990.68
Miscellaneous	43,562.80
Total	<u>\$168,176,193.58</u>
DEDUCTIONS:	
Write-down of investment in a subsidiary (sub-holding) company.....	\$36,380,314.73
Provision for additional New York State franchise taxes for prior years.....	73,202.00
Payment to Trustee of Associated Gas and Electric Company for proportionate part of "Recap Litigation" expenses applicable to prior years.....	<u>68,000.00</u>
	<u>36,521,516.73</u>
BALANCE , December 31, 1944	<u>\$131,654,676.85</u>

The Notes referred to herein are an integral part of these statements.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1944, and liability for interest on indebtedness accrued subsequent to January 10, 1940, and designating no amounts as capital liability to sole stockholder,
Associated Gas and Electric Company)

December 31, 1944

ASSETS AND OTHER DEBITS:

INVESTMENTS (exclusive of investment in securities of Associated Gas and Electric Company, parent company, in proceedings for reorganization) (Note 2, Page 30):

Securities of, and advances to, subsidiary (sub-holding) companies (details on Page 31):

Common stocks	\$156,126,110.10	
Preferred stocks	9,338,974.36	
Convertible obligations	203,978,084.71	
Interest bearing scrip	959,120.30	
Advances on open account	26,525,468.80	

\$396,927,758.27

Miscellaneous	138,959.86	\$397,066,718.13
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ACCRUED INTEREST RECEIVABLE (through January 10, 1940) on investment in a subsidiary (sub-holding) company, noncurrent

79,957.38

SPECIAL FUNDS 7,539.91

CURRENT ASSETS:

Cash	\$ 720,096.12	
Special deposits	1,157.21	721,253.33

DEFERRED DEBITS 4,135.65

INVESTMENT IN SECURITIES OF ASSOCIATED GAS AND ELECTRIC COMPANY, parent company, in proceedings for reorganization (Note 1, Page 40):

5% sinking fund income debentures, Series B, due 1986 (\$1,740,860 principal amount)	\$ 638,689.65	
\$5 dividend series preferred stock (133,364 shares)	—	638,689.65

TOTAL ASSETS AND OTHER DEBITS \$398,518,294.05

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of interest and dividends receivable, accrued or declared subsequent to January 10, 1940, but not received at December 31, 1944, and liability for interest on indebtedness accrued subsequent to

January 10, 1940, and designating no amounts as capital liability to sole stockholder,

Associated Gas and Electric Company)

December 31, 1944

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS INCURRED PRIOR TO JANUARY 10, 1940 (exclusive of indebtedness, other than for convertible debentures, to Associated Gas and Electric Company, parent company, in proceedings for reorganization) (Notes 1 and 10, Pages 40 and 44, respectively):

Long-term debt (Note 3, Page 30):

8% eight year bonds, matured March 15, 1940 (less \$130,000 in treasury)	\$ 7,912,510.00	
Convertible (fixed interest) debentures, due 1973 (Note 8, Page 43)	24,337,195.00	
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures and \$3,601,815 in treasury)	133,590,735.00	\$165,840,440.00

Other indebtedness:

Accrued interest on long-term debt (including \$202,294.15 matured)	\$ 2,042,500.83	
Taxes payable and accrued:		
Federal income and declared value excess-profits for 1939...	49,459.53	
Other	58,834.45	
Accounts payable:		
Subsidiary (sub-holding) company	52,946.94	
Other	5,824.15	2,209,565.90
		\$168,050,005.90

CURRENT AND ACCRUED LIABILITIES:

Accounts payable	\$ 31,295.60	
Accrued taxes, salaries, wages, Trustees' fees, etc. (Note 13-b, Page 45)	94,667.49	125,963.09

RESERVE FOR CONVERSION OF DEBENTURES (Note 8, Page 43)

24,337,195.00

OTHER RESERVES

68,753.87

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of

(a) liability for interest on indebtedness accrued subsequent to January 10, 1940, (b) indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of investments upon final determination of values

\$192,581,917.86

INDEBTEDNESS (other than for convertible debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY, parent company, in proceedings for reorganization (Notes 1 and 10, Pages 40 and 44, respectively):

5% cumulative income note, due 1980	\$ 71,805,120.00	
Noninterest bearing note, due 1983	1,250,000.00	
Advances on open account	568,122.14	
Dividend payable	90,000.00	
Accrued interest on 5% cumulative income note through January 10, 1940	568,457.20	74,281,699.34

EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness accrued subsequent to January 10, 1940), treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 27)

131,654,676.85

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES.....

\$398,518,294.05

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR

(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

NOTES TO FINANCIAL STATEMENTS

- (1) *Reorganization proceedings pursuant to Chapter X of the Bankruptcy Act and proceedings under Section 11 of the Public Utility Holding Company Act of 1935:*

See Notes 1 and 14 on Pages 40 and 47, respectively.

(2) *Investments:*

- (a) Investments of Associated Gas and Electric Corporation in subsidiary (sub-holding) companies are stated (except for the write-down of investment in Associated Utilities Corporation in 1944 of approximately \$36,380,000) at the amounts at which they were carried in the accounts of the Corporation as at January 10, 1940, the date of entry of the order approving the petition filed by the Corporation for reorganization under Chapter X of the Bankruptcy Act. In the case of certain of these securities, the amounts represent cost to the Corporation or companies merged therewith and, in the case of others, substantially written-up or written-down amounts in relation to cost on the basis of cash paid, par value of securities issued or indebtedness incurred therefor. Based on unaudited reports filed with the Securities and Exchange Commission through December 31, 1944, the amounts at which the above-mentioned investments are stated are, in the aggregate, approximately \$235,000,000 less than the cost thereof (on the basis stated above) to the Associated Gas and Electric Corporation System.

- (b) Convertible obligations receivable provide, in part, that in the event of bankruptcy or insolvency of the makers thereof, the obligations represented by such convertible obligations shall not be paid until there shall first have been paid or discharged all other obligations of the makers thereof.

These obligations are convertible, by the terms of the instruments, in whole or in part, at the option of either the maker or the holder into presently unauthorized nonvoting preferred stock, par value \$100 per share, and entitled to noncumulative dividends at stipulated rates per share, on the basis of one share of stock for each \$100 of principal amount of the respective obligations.

Interest on the convertible obligations is payable, by the terms of the instruments, only out of, and (not exceeding the stated interest rates) to the extent of, the "available net income" for any calendar year.

- (c) Pursuant to a loan agreement dated October 4, 1944, all obligations of NY PA NJ Utilities Company to the Corporation are subordinated to serial notes payable to a bank aggregating \$10,000,000. Furthermore, by order of the Securities and Exchange Commission, NY PA NJ Utilities Company is prohibited from making any payments which will reduce the principal of its convertible obligation held by the Corporation and its open account indebtedness to the Corporation to less than \$202,000,000 and \$24,000,000, respectively, and is further prohibited from increasing the stated rate of interest on said convertible obligation.

- (d) A joint application-declaration has been filed by the Trustees of the Corporation and NY PA NJ Utilities Company, a subsidiary (sub-holding) company, with the Securities and Exchange Commission, under the Public Utility Holding Company Act of 1935, requesting, among other things, the Commission's approval of a contribution by the Trustees of the Corporation to NY PA NJ Utilities Company of its indebtedness to the Corporation aggregating approximately \$228,000,000, together with accrued interest thereon to the date of such contribution. Such contribution is to enable NY PA NJ Utilities Company to effect an accounting reorganization after writing down, in part direct and in part by the creation of a reserve, the recorded amount of its investment in subsidiary and other companies by charges to earned surplus as set forth in Note 1, Page 40.

(3) *Long-term debt:*

The outstanding 8% eight year bonds due 1940 and income debentures due 1978, were reduced during 1944 by the respective principal amounts of \$125,000 and \$1,883,900 as a result of the acquisition of such securities from Associated Utilities Corporation, subsidiary (sub-holding) company.

(4) *Provision for Federal income tax:*

In computing the maximum liability for Federal income taxes for 1942 and 1943, no recognition was given to certain deductions for interest and amortization charges on securities of the Corporation and its parent (both of which are in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act), which deductions have been determined to be allowable. The allowance of such deductions for the years 1942, 1943 and 1944, eliminates the Corporation's liability for income tax in each of these years. No provision for such taxes has been made for the year 1944 and the amounts previously provided (\$757,333.80 for 1943 and \$240,000.00 for 1942) were credited during 1944 to "Excess of assets over liabilities". The elimination of such liability for 1943 has been reflected in the statement of income and expenses for that year and net income is \$757,333.80 greater than the amount previously reported.

Reference is made to Note 12, Page 44.

(5) *Liabilities—general:*

The amounts at which the liabilities are stated do not purport to represent proved obligations of Associated Gas and Electric Corporation, Debtor, for such amounts, but are those reflected by the books of the Corporation as at January 10, 1940, as affected by transactions occurring between that date and December 31, 1944. Certain proofs of claim which include items, other than those shown as liabilities on the books of the Corporation, have been filed pursuant to various orders of the Court, and certain settlements of claims of subsidiary companies which are also not shown in the books of the Corporation are being reviewed by the Court or regulatory bodies.

(6) *Contingent liabilities:*

See Notes 12 and 13, Pages 44 and 45.

(7) *Waiver of receipt of dividends:*

In connection with orders of the Securities and Exchange Commission permitting payments of dividends for the quarters ended March 15, 1941 to June 15, 1945, inclusive, on the shares of General Gas & Electric Corporation \$5 prior preferred stock publicly held, the Trustees of the Corporation agreed to waive, until further order of the Commission, receipt of similar dividends for such quarters on the 27,889.1 shares of such stock held by them.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

STATEMENT OF INVESTMENTS

December 31, 1944

	Number of Shares or Principal Amount	Amount at Which Carried
SECURITIES OF, AND ADVANCES TO, SUBSIDIARY (SUB-HOLDING) COMPANIES:		
Common stocks:		
Associated Electric Company, par value \$1 per share.....	650,000 shs.	\$ 38,022,081.93
Associated Utilities Corporation, no par value.....	1,200	5,492.00
General Gas & Electric Corporation:		
Class A, no par value.....	2,621,912.123	2,845.28
Class B, par value 25 cents per share.....	3,036,985.225	235.53
NY PA NJ Utilities Company, par value \$1 per share.....	458,000	118,095,455.36
		<u>\$156,126,110.10</u>
Preferred stocks:		
General Gas & Electric Corporation:		
\$5 prior preferred, cumulative, no par value (Note 7, Page 30).....	27,889.1	\$ 976,130.40
\$6 cumulative, convertible, series A, no par value.....	325,351	4,283,156.37
\$6 cumulative, convertible, series B, no par value.....	277,021	3,631,194.68
\$7 cumulative, no par value.....	20,282.5	277,826.52
\$8 cumulative, no par value.....	12,314.5	170,666.39
		<u>\$ 9,338,974.36</u>
Convertible obligations (Note 2, Page 30):		
NY PA NJ Utilities Company:		
Interest bearing (1% if earned).....		\$196,725,000.00
Noninterest bearing.....		5,275,000.00
Total obligation, due March 1, 1963.....	\$202,000,000.00	\$202,000,000.00
Associated Utilities Corporation, interest bearing (2% if earned), due March 1, 1963.....	1,240,584.71	1,240,584.71
General Gas & Electric Corporation, interest bearing (6% if earned), due March 1, 1963.....	737,500.00	737,500.00
		<u>\$203,978,084.71</u>
Interest bearing scrip, General Gas & Electric Corporation, 4%, due December 30, 1942.....	959,324.82	\$ 959,120.30
Advances on open account:		
NY PA NJ Utilities Company:		
Interest bearing, 2%.....	24,478,251.18	\$ 24,478,251.18
Noninterest bearing.....	1,561,390.80	1,561,390.80
		<u>\$ 26,039,641.98</u>
General Gas & Electric Corporation.....	485,826.82	485,826.82
		<u>\$ 26,525,468.80</u>
Total, securities of, and advances to, subsidiary (sub-holding) companies		<u>\$396,927,758.27</u>
MISCELLANEOUS INVESTMENTS:		
Securities of associate company:		
Associated General Utilities Company:		
4% bonds, due 1961 (Note A, Page 49).....	87,590.00	\$ 20,583.65
5% bonds, due 1956 (Note A, Page 49).....	421,550.00	99,064.25
		<u>\$ 119,647.90</u>
Office furniture and library, less reserve for depreciation of \$18,213.57.....		15,626.96
Other.....		3,685.00
Total other investments.....		<u>\$ 138,959.86</u>
TOTAL INVESTMENTS		<u>\$397,066,718.13</u>

The Notes referred to herein are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES

(exclusive of liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940—Note 7—and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1944

ASSETS AND OTHER DEBITS:

COMBINED FIXED CAPITAL of Associated Electric Company, Associated Utilities Corporation, General Gas & Electric Corporation and NY PA NJ Utilities Company and their respective subsidiaries (Notes 2-d and 3):

Property, plant and equipment (including going value and other intangibles) of operating subsidiaries.....	\$664,002,377.26	
Net excess of the respective amounts at which the investments in operating subsidiaries are carried (without deduction of reserves) by parent companies within the respective groups over the related net assets of such subsidiaries as shown by their books, as adjusted, as at December 31, 1937 or subsequent date of acquisition.....	142,512,654.72	\$806,515,031.98

INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company—parent company, in proceedings for reorganization) (Notes 2-a and 5) (details on Pages 48 and 49):

Securities of, and noncurrent receivables from, nonconsolidated majority-owned companies, statutory subsidiaries and associate companies:

Manila Electric Company and Escudero Electric Service Company (located in the Philippine Islands) (less reserve of \$10,000,000)	\$ 11,646,288.32
Other	327,242.78

Other investments:

New England Gas and Electric Association	2,045,509.09	
Tide Water Power Company (less reserve of \$280,857.65)	55,000.00	
Purchase money notes	693,636.36	
Miscellaneous, including real estate (less reserve of \$20,158.48)	482,553.77	15,250,230.32

SPECIAL FUNDS:

Deposits in escrow in accordance with consolidated tax liability apportionment agreements (Note 12)	\$ 2,130,989.58	
Other	1,024,885.11	3,155,874.69

CURRENT AND ACCRUED ASSETS:

Cash in banks and on hand.....	\$ 20,684,814.87	
Miscellaneous special deposits.....	1,027,351.69	
United States Government obligations, at cost	25,975,000.00	

Accounts receivable:

Customers	\$ 9,888,111.79	
Other	1,402,684.51	
	<u>\$11,290,796.30</u>	
Less, Reserve for uncollectible accounts.....	774,460.09	10,516,336.21
	<u>7,762,150.77</u>	
Materials and supplies (including construction materials) at cost or less.....	7,762,150.77	
Prepayments	782,055.76	
Other current and accrued assets.....	180,013.61	66,927,722.91

DEFERRED DEBITS:

Unamortized debt discount and expense of subsidiaries (including \$3,383,816.50 applicable to refunded issues) (Note 6)....	\$ 7,652,553.08	
Fixed capital in suspense being amortized pursuant to orders of state regulatory bodies.....	859,665.93	
Fixed capital in suspense, the disposition of which has not yet been determined.....	362,741.08	
New York State canal dam rebuilding costs, being amortized.....	262,900.44	
Other deferred debits	1,336,788.57	10,474,649.10

NET EXCESS of amounts at which Associated Gas and Electric Corporation carried investments in capital stocks of Associated Electric Company, General Gas & Electric Corporation, NY PA NJ Utilities Company and The United Coach Company at January 10, 1940 (effective date of petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939, as shown by their consolidated financial statements (Note 2-c).....

76,615,684.19

TOTAL ASSETS AND OTHER DEBITS, exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company.....

\$978,939,193.19

INVESTMENTS IN SECURITIES OF, AND RECEIVABLES FROM, ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (Notes 1 and 5-b):

Sinking fund income debentures (\$1,740,860 principal amount).....	\$ 814,123.65	
Preferred and preference stocks (1,316,886 shares).....	—	
Sundry Class A and common stocks, warrants and noninterest bearing scrip	—	
Accounts receivable	92,173.70	906,297.35
	<u>92,173.70</u>	
TOTAL ASSETS AND OTHER DEBITS.....		<u>\$979,845,490.54</u>

The Notes on Pages 40 to 47 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND RESERVES, Continued

(exclusive of liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940 — Note 7 — and designating no amount as capital liability of that company to its sole stockholder, Associated Gas and Electric Company)

December 31, 1944

LIABILITIES, OTHER CREDITS AND RESERVES:

INDEBTEDNESS OF ASSOCIATED GAS AND ELECTRIC CORPORATION AT JANUARY 10, 1940
(exclusive of indebtedness, other than for certain convertible debentures, to Associated Gas and Electric Company—parent company, in proceedings for reorganization) (Note 10):

Long-term debt (details on Page 50):

8% eight year bonds, matured March 15, 1940 (less \$474,000 owned intercorporate and \$130,000 in treasury)	\$ 7,438,510.00	
Convertible (fixed interest) debentures, due 1973 (Note 8)	24,337,195.00	
Income debentures, due 1978 (less \$50,475,960 authenticated and held in escrow for conversion of fixed interest debentures and \$3,601,815 in treasury)	133,590,735.00	\$165,366,440.00

Other indebtedness:

Accrued interest on long-term debt (including \$202,294.15 matured)	\$ 2,030,387.50	
Taxes payable and accrued	108,293.98	
Accounts payable	5,824.15	2,144,505.63
		\$167,510,945.63

PREFERRED STOCKS OF SUBSIDIARY COMPANIES (details on Pages 54 and 55):

Preferred stocks, stated at preferences in involuntary liquidation (stocks stated at \$95,002,305.00 are callable at the aggregate amount of \$101,689,228.85 plus accrued dividends; the remainder is not callable)	\$ 95,161,605.00	
Premiums on preferred stocks	499,562.62	
Provision for cumulative dividends in arrears	1,911,140.80	97,572,308.42

LONG-TERM DEBT OF SUBSIDIARIES (less \$1,256,500 in treasury and in sinking funds, \$2,665,300 owned intercorporate of which aggregate amount \$184,500 are pledged as collateral for various obligations, and less \$4,025,520 A-1 due during 1945) (details on Pages 50 to 53):

346,700,949.15

CURRENT AND ACCRUED LIABILITIES:

Long-term debt of subsidiaries maturing during 1945.....	\$ 4,075,529.41
Accounts payable	47,549,963.14
Dividends on preferred stocks of subsidiary companies (including \$152,865.13 accrued but not declared)	930,257.44
Customers' deposits	2,453,419.46
Taxes accrued	9,033,798.04
Interest accrued (Note 7)	2,345,067.20
Other current and accrued liabilities.....	1,072,154.11
	<hr/> 24,665,188.80

DEFERRED CREDITS:

Customers' advances for construction.....	\$ 1,136,966.42
Unamortized premium on debt of subsidiaries.....	3,513,459.15
Other deferred credits	252,946.79
	<hr/> 4,903,372.36

RESERVES:

Depreciation of property, plant and equipment (Note 4)	\$103,473,411.47
Conversion of debentures (Note 8)	24,337,195.00
Federal income taxes (including \$2,130,989.68 deposited in escrow)	5,148,948.59
Stabilizing reserve in connection with a subsidiary company's rate adjustment plan.....	1,010,520.89
Other reserves	1,294,132.01
	<hr/> 135,264,207.96

CONTRIBUTIONS IN AID OF CONSTRUCTION (nonrefundable).....

4,891,103.99

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES, exclusive of (a) liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940 —Note 7, (b) that company's indebtedness to Associated Gas and Electric Company, and (c) reserve for adjustment of presently stated amounts of fixed assets and investments upon final determination of values

\$781,508,076.31

INDEBTEDNESS (other than for certain debentures) TO ASSOCIATED GAS AND ELECTRIC COMPANY—parent company, in proceedings for reorganization (Note 10):

5% cumulative income note, due 1980.....	\$ 71,805,120.00
Noninterest bearing note, due 1983.....	1,250,000.00
Advances on open account.....	568,122.14
Dividend payable	90,000.00
Accrued interest on 5% cumulative income note through January 10, 1940.....	568,457.20
	<hr/> 74,281,699.34

EXCESS OF ASSETS, on basis at which stated herein, OVER LIABILITIES (exclusive of liability for interest on indebtedness of Associated Gas and Electric Corporation accrued subsequent to January 10, 1940), treated as RESERVE FOR ADJUSTMENT OF PRESENTLY STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS UPON FINAL DETERMINATION OF VALUES (see accompanying statement, Page 37)

124,055,714.89

TOTAL LIABILITIES, OTHER CREDITS AND RESERVES.....

\$979,845,490.54

The Notes on Pages 40 to 47 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

for the years ended December 31, 1944 and 1943

(before deductions for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation (Note 7) and excluding Federal income tax reductions explained in Note 12-b)

	1944	1943 (Note 2-a)
OPERATING REVENUES:		
Electric	\$117,163,877.51	\$107,214,256.23
Gas	14,316,500.31	13,159,807.47
Transportation, coach	3,195,946.88	3,082,341.29
Steam heating, water and ice	2,594,505.43	2,572,588.23
Total	\$137,270,830.13	\$126,028,993.22
OPERATING REVENUE DEDUCTIONS (exclusive of expenses and taxes of Associated Gas and Electric Corporation):		
Operating expenses (other than shown below)	\$ 60,676,332.69	\$ 54,921,177.63
Maintenance	9,434,424.34	8,327,711.14
Provision for depreciation of property, plant and equipment (Note 4)	13,180,199.31	12,253,908.18
Amortization of plant acquisition adjustments	75,000.00	—
Provision for taxes:		
Federal taxes on income (excluding reductions (a) as explained in Note 12-b and (b) of \$727,000 in 1944 and \$770,000 in 1943 related to and applied by subsidiary companies against items not reflected in income (Note 12))	10,336,036.09	8,802,481.23
Other (excluding a reduction of state income taxes of \$108,000 in 1944 related to and applied by a subsidiary company against items not reflected in income)	12,511,149.48	12,136,581.10
Total	\$106,213,141.91	\$ 96,441,859.28
OPERATING INCOME	\$ 31,057,688.22	\$ 29,587,133.94
OTHER INCOME:		
Interest and dividends from subsidiaries sold or not consolidated (Note 2-a)	\$ 222,328.65	\$ 530,101.98
Miscellaneous (net)	545,637.67	519,760.98
Total	\$ 767,966.32	\$ 1,049,862.96
GROSS INCOME	\$ 31,825,654.54	\$ 30,636,996.90
INCOME DEDUCTIONS—SUBSIDIARY COMPANIES:		
Interest on long-term debt	\$ 13,562,379.69	\$ 13,664,672.92
Amortization of debt discount and expense, less premium	603,261.60	669,230.79
Taxes assumed on interest	145,395.51	153,534.34
Other interest charges	187,092.70	181,942.26
Interest charged to construction (credit)	(317,178.35)	(474,740.86)
Miscellaneous amortization, principally of intangibles	261,225.97	261,225.97
Miscellaneous income deductions	195,848.82	119,373.71
Dividends on preferred stocks, paid or accrued	4,653,700.44	4,364,192.24
Total	\$ 19,291,726.38	\$ 18,939,431.37
BALANCE OF INCOME, before deductions for expenses and taxes of Associated Gas and Electric Corporation and for interest on that company's indebtedness (Note 15)	\$ 12,533,928.16	\$ 11,697,565.53
EXPENSES AND TAXES OF ASSOCIATED GAS AND ELECTRIC CORPORATION (Note 4, Page 30)	660,460.39	779,673.88
BALANCE OF INCOME, before deductions for interest on indebtedness, other than Trustees' certificate, of Associated Gas and Electric Corporation (Note 7) and excluding Federal income tax reductions explained in Note 12-b (Note 15) ..	\$ 11,873,467.77	\$ 10,917,891.65

The Notes on Pages 40 to 47 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**STATEMENT OF CHANGES IN THE AMOUNT DESCRIBED AS "EXCESS OF ASSETS
OVER LIABILITIES" AND TREATED AS RESERVE FOR ADJUSTMENT OF PRESENTLY
STATED AMOUNTS OF FIXED ASSETS AND INVESTMENTS
UPON FINAL DETERMINATION OF VALUES**

for the year ended December 31, 1944

BALANCE, December 31, 1943	\$131,038,595.77
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ADDITIONS:

Income (before deduction for interest on indebtedness of Associated Gas and Electric Corporation and excluding Federal income tax reductions explained in Note 12-b), per accompanying statement (Page 36)	11,873,467.77
Reduction in Federal income taxes for 1944 resulting from deductions, in consolidated returns, of interest and amortization charges on obligations of the Corporation and its parent (both of which are in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act), which deductions will not be available after the consummation of a Plan of Reorganization (Note 12-b)	5,836,180.78
Transfer from reserve for Federal income taxes for prior years (\$10,670,000.00) less additional provision (\$950,920.84) for such taxes (Note 12-b)	9,719,080.16
Adjustment of provision for prior years' taxes other than Federal income taxes.....	154,845.58
Transfer from reserve for uncollectible accounts by a subsidiary company	100,000.00
Reversal of a charge made in 1943 for preferred dividends declared by a subsidiary company applicable to 1944, which charge is reflected in 1944 statement of income and expenses.....	91,939.59
Reduction of provision for preferred dividends in arrears pursuant to an approved Plan of Recapitalization of a subsidiary company	77,505.75
Transfer from liability for collections and interest on subscriptions to securities, pursuant to order of referee in bankruptcy	72,990.68
Total	\$158,964,606.08

DEDUCTIONS:

Write-downs and losses on sales of property, plant and equipment and investments	\$ 25,771,707.39
Unamortized debt discount and expense and net premiums on bonds reacquired after deducting the reduction in Federal and state income taxes of three subsidiary companies attributable thereto	7,856,097.48
Premiums and expenses on preferred stocks of subsidiary companies called for redemption	1,076,755.01
Expense of issuance and sale of bonds and preferred stocks, less premiums on bonds	93,240.73
Payment to Trustee of Associated Gas and Electric Company for proportionate part of "Recap Litigation" expenses applicable to prior years	68,000.00
Miscellaneous (net)	43,090.58
Total deductions	\$ 34,908,891.19

BALANCE, December 31, 1944	\$124,055,714.89
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The Notes on Pages 40 to 47 are an integral part of this statement.

ASSOCIATED GAS AND ELECTRIC

(in proceedings for reorganization pursuant to Chapter XI of the United States Bankruptcy Act of 1937)

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS

for the year ended December 31, 1944

(before deductions for interest on indebtedness of Associated Gas and Electric Corporation)

	Consolidated	Eliminations (A)
OPERATING REVENUES:		
Electric	\$117,163,878	\$1,499,559
Gas	14,316,500	560,179
Transportation, coach	3,195,947	95,375
Steam heating, water and ice	2,594,505	17,219
Total	\$137,270,830	\$2,172,332
OPERATING REVENUE DEDUCTIONS (exclusive of expenses and taxes of Associated Gas and Electric Corporation):		
Operating expenses (other than shown below)	\$ 60,676,333	\$1,730,934
Maintenance	9,434,424	58,570
Provision for depreciation of property, plant and equipment	13,180,199	65,725
Amortization of plant acquisition adjustments	75,000	—
Provision for taxes:		
Federal taxes on income (excluding reductions (a) as explained in Note 12-b and (b) \$727,000 related to and applied by subsidiary companies against items not reflected in income (Note 12))	10,336,036	39,521
Other (excluding a reduction of state income taxes of \$108,000 related to and applied by a subsidiary company against items not reflected in income)	12,511,150	74,442
Total	\$106,213,142	\$1,969,192
OPERATING INCOME	\$ 31,057,688	\$ 203,140
OTHER INCOME:		
Interest and dividends from subsidiaries sold or not consolidated (Note 2-a)	\$ 222,328	\$ (59,314)
Miscellaneous (net)	545,638	1,775,171
Total	\$ 767,966	\$1,715,857
GROSS INCOME	\$ 31,825,654	\$1,918,997
INCOME DEDUCTIONS—SUBSIDIARY COMPANIES:		
Interest on long-term debt	\$ 13,562,380	\$1,758,191
Amortization of debt discount and expense, less premium	603,261	22,240
Taxes assumed on interest	145,395	—
Other interest charges	187,093	2,570
Interest charged to construction	(317,178)	—
Miscellaneous amortization, principally of intangibles	261,226	—
Miscellaneous income deductions	195,849	(12,816)
Dividends on preferred stocks, paid or accrued	4,653,700	(286,679)
Total	\$ 19,291,726	\$1,483,506
BALANCE OF INCOME, before deductions for expenses and taxes of Associated Gas and Electric Corporation and for interest on that company's indebtedness (Note 15)	\$ 12,533,928	\$ 435,491
EXPENSES AND TAXES OF ASSOCIATED GAS AND ELECTRIC CORPORATION (Note 4, Page 30)	660,460	—
BALANCE OF INCOME, before deductions for interest on indebtedness of Associated Gas and Electric Corporation (Note 7) and excluding Federal income tax reductions explained in Note 12-b (Note 15)	\$ 11,873,468	\$ 435,491

() Denotes red figure.

NOTES:

- (A) Eliminations include adjustments to eliminate the income and expenses of subsidiaries sold during 1944 and to include as other income only the income, limited to net income on a consolidated basis, actually received from such companies during the year (Note 2-a).

The Notes on Pages 40 to 47 are

**CORPORATION, DEBTOR,
to Chapter X of the Bankruptcy Act)
COMPANIES**

STATEMENT OF INCOME AND EXPENSES

December 31, 1944

(Note 7) and excluding Federal income tax reductions explained in Note 12-b)

Combined	Associated Gas and Electric Corporation, Debtor	Associated Electric Company and Subsidiary Companies(B)	General Gas & Electric Corporation and Subsidiary Companies(B)	NY PA NJ Utilities Company and Subsidiary Companies(B)	Miscellaneous Companies
\$118,663,437	\$ —	\$21,835,067	\$15,293,509	\$81,534,861	\$ —
14,876,679	—	2,395,835	1,201,550	11,279,294	—
3,291,322	—	335,270	1,218,970	466,417	1,270,665
2,611,724	—	467,245	89,831	2,054,648	—
<u>\$139,443,162</u>	<u>\$ —</u>	<u>\$25,033,417</u>	<u>\$17,803,860</u>	<u>\$95,335,220</u>	<u>\$ 1,270,665</u>
 \$ 62,407,267	 \$ —	 \$11,366,854	 \$ 8,257,922	 \$42,195,498	 \$ 586,993
9,492,994	—	1,659,098	1,283,991	6,458,641	91,264
13,245,924	—	2,103,551	1,867,749	9,237,727	36,897
75,000	—	—	75,000	—	—
 10,375,557	 —	 2,344,381	 829,223	 6,887,359	 314,594
12,585,592	—	1,489,972	1,669,757	9,360,626	65,237
<u>\$108,182,334</u>	<u>\$ —</u>	<u>\$18,963,856</u>	<u>\$13,983,642</u>	<u>\$74,139,851</u>	<u>\$ 1,094,985</u>
 \$ 31,260,828	 \$ —	 \$ 6,069,561	 \$ 3,820,218	 \$21,195,369	 \$ 175,680
 \$ 163,014	 \$ —	 \$ —	 \$ —	 \$ 159,352	 \$ 3,662
2,320,809	1,247,968	101,714	154,934	115,127	701,066
<u>\$ 2,483,823</u>	<u>\$ 1,247,968</u>	<u>\$ 101,714</u>	<u>\$ 154,934</u>	<u>\$ 274,479</u>	<u>\$ 704,728</u>
 \$ 33,744,651	 \$ 1,247,968	 \$ 6,171,275	 \$ 3,975,152	 \$21,469,848	 \$ 880,408
 \$ 15,320,571	 \$ —	 \$ 3,991,885	 \$ 1,693,959	 \$ 9,038,418	 \$ 596,309
625,501	—	190,832	154,275	280,394	—
145,395	—	35,727	3,652	106,016	—
189,663	—	16,860	32,715	139,259	829
(317,178)	—	(14,993)	(107,577)	(194,608)	—
261,226	—	—	—	261,226	—
183,033	—	41,848	40,868	100,292	25
4,367,021	—	303,600	263,002	3,800,419	—
<u>\$ 20,775,232</u>	<u>\$ —</u>	<u>\$ 4,565,759</u>	<u>\$ 2,080,894</u>	<u>\$13,531,416</u>	<u>\$ 597,163</u>
 \$ 12,969,419	 \$ 1,247,968	 \$ 1,605,516	 \$ 1,894,258	 \$ 7,938,432	 \$ 283,245
660,460	660,460	—	—	—	—
<u>\$ 12,308,959</u>	<u>\$ 587,508</u>	<u>\$ 1,605,516</u>	<u>\$ 1,894,258</u>	<u>\$ 7,938,432</u>	<u>\$ 283,245</u>

(B) Certain items in the consolidated statements of these subsidiary (sub-holding) companies have been combined or reclassified to facilitate the presentation of this statement.

an integral part of the statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (1) *Reorganization proceedings pursuant to Chapter X of the Bankruptcy Act and certain transactions proposed in joint application—declaration filed with the Securities and Exchange Commission by the Trustees of the Corporation and NY PA NJ Utilities Company, a subsidiary (sub-holding) company:*

On January 10, 1940, Associated Gas and Electric Corporation and its parent, Associated Gas and Electric Company, filed petitions for reorganization under Chapter X of the Bankruptcy Act in the United States District Court for the Northern District of New York. The petitions were approved by the Court on that day. On January 30, 1940, the proceedings were removed to the Southern District of New York.

On April 14, 1944, the Securities and Exchange Commission approved, generally, the joint Plan of Reorganization of Associated Gas and Electric Corporation and Associated Gas and Electric Company filed by the Trustees of the respective companies on June 14, 1943. The Plan contemplates, among other things, that a single Surviving Company will emerge from the reorganization proceedings, which Surviving Company will hold all of the common stock of NY PA NJ Utilities Company, or all of its assets, subject, however, to such disposition thereof as may be required under Section 11(b)(1) of the Public Utility Holding Company Act of 1935. The Plan was approved by the United States District Court for the Southern District of New York by order entered on September 13, 1944, and by order entered on the same day, the Court determined that the Corporation was insolvent. Certain parties in interest appealed to the United States Circuit Court of Appeals for the Second Circuit from the District Court's decision approving the Plan, and on April 19, 1945, the Circuit Court of Appeals entered an order affirming the District Court's decision. On May 22, 1945, the Plan was submitted to the creditors and security holders of Associated Gas and Electric Corporation and Associated Gas and Electric Company entitled to vote thereon for their acceptance or rejection.

Certain litigation, commonly known as the "Recap Litigation", together with litigation concerning related matters, was tentatively settled under a Plan of Compromise which was approved by the District Court by order entered on September 13, 1944. Such approval was conditioned upon the compromise being carried out through the above-mentioned Plan of Reorganization of the Corporation and Associated Gas and Electric Company. Certain parties in interest appealed to the United States Circuit Court of Appeals for the Second Circuit from the District Court's decision, and on April 19, 1945 the Circuit Court of Appeals entered orders affirming the District Court's decision.

The consummation of the Plan will involve very substantial reductions, either directly or by the creation of appropriate reserves, of the amounts at which the principal assets of Associated Gas and Electric Corporation and its subsidiaries consolidated are now carried. The Trustees of the Corporation and NY PA NJ Utilities Company have filed a joint application-declaration with the Securities and Exchange Commission requesting approval of certain transactions involving principally a contribution by the Trustees of the Corporation to NY PA NJ Utilities Company of its indebtedness to the Trustees of the Corporation aggregating approximately \$228,000,000 and accrued interest thereon, and concurrent write-downs of investments and creation of reserves by NY PA NJ Utilities Company aggregating approximately \$156,770,000, and the elimination of its resulting deficit in earned surplus, which as at December 31, 1944 would amount to approximately \$166,000,000.

(2) *Basis of consolidation:*

- (a) The consolidated statements of Associated Gas and Electric Corporation and subsidiary companies include all companies, the majority of the voting stock of which is owned directly or indirectly by the Corporation, except (1) Manila Electric Company and Escudero Electric Service Company, both of which are located in the Philippine Islands, and (2) various subsidiary companies which were sold during 1944. These latter companies have been eliminated from the consolidated financial statements as at January 1, 1944, and for the purposes of comparison, the accompanying consolidated statement of income and expenses for 1943 has been adjusted to exclude the revenues and expenses of such companies and to include as income, as in the case of the statements for 1944, only the income, limited to net income on a consolidated basis, actually received from such companies during the year.

As a result of the exclusion of the companies which were sold during 1944, as explained above, the consolidated "Balance of Income, before deductions for expenses and taxes of Associated Gas and Electric Corporation" (\$11,697,565.53) for 1943 is less than the amount previously reported for that year by \$240,800.63, representing the difference between the net income of such companies on a consolidated basis and the income actually received therefrom by affiliated companies.

- (b) Included among the majority-owned companies consolidated are York Railways Company, which is in proceedings for reorganization pursuant to Section 77B of the Bankruptcy Act, and its subsidiaries.
- (c) The consolidated statement of income and expenses includes the operating results of Jersey Central Power & Light Company for the period beginning October 1, 1944, the approximate date at which it became a majority-owned subsidiary of NY PA NJ Utilities Company. It also reflects for the period beginning September 1, 1943, the operations of the property formerly owned by Erie County Electric Company, which company was merged with Pennsylvania Electric Company on that date.

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- (d) The net excess of the amounts at which investments in operating utility subsidiaries are carried (without deduction of reserves) by the sub-holding parents of such subsidiaries over the related net assets of such subsidiaries has been computed as at December 31, 1937 or subsequent date of acquisition (after giving effect to certain adjustments referred to below), and has been shown separately in the consolidated statement of assets, liabilities and reserves under the item of "Combined fixed capital" of these utility company groups. A subsidiary (sub-holding) company has provided a reserve of \$11,837,424.80 at December 31, 1944 against investments in operating subsidiaries. In consolidation, such reserve has been included in the "Excess of assets over liabilities" since such excess is treated as a reserve for presently stated amounts of fixed assets and investments upon final determination of values.

As at December 31, 1937, Associated Gas and Electric Corporation and most of its subsidiary holding companies underwent what they considered to be "accounting reorganizations" and, pursuant to authorizations of their Boards of Directors, transferred to their respective capital surplus accounts the recorded balances in their earned surplus accounts, and in the consolidations of individual groups, the balances appearing in the surplus accounts of the subsidiary companies were treated as if such subsidiaries had been acquired at December 31, 1937. While for each consolidated group as a whole the amount so transferred to capital surplus was a credit balance, the group consolidations would have reflected deficits in the consolidated earned surplus, before such transfer, had the companies in the past not charged to capital surplus certain items which, under now generally accepted accounting principles, would be required to be charged to earned surplus.

Since December 31, 1937, there have been net charges to capital surplus of sub-holding company parents of the operating utility companies, which charges have been reflected as being applicable to periods prior to that date and which consequently have had the effect of reducing the amount of the "net excess" referred to above. These items aggregated approximately \$41,000,000. In addition, such "net excess" has been further written down subsequent to December 31, 1937 by charges of approximately \$13,300,000 to earned surplus or deficit of the sub-holding parent companies, in connection with various mergers within the respective groups and pursuant to orders of the Securities and Exchange Commission. On the other hand, changes made in the basis of stating the property accounts of certain of the operating subsidiaries had the effect of increasing the "net excess" referred to above by approximately \$83,000,000, \$13,000,000 and \$17,400,000 in 1941, 1942 and 1944, respectively. The principal portion (approximately \$85,000,000) of such aggregate increase of \$113,400,000 resulted from the elimination from the books of the operating subsidiaries of amounts reflecting the effect of upward revaluations prior to 1938 of plant and other property. The remainder of such increase was occasioned by the restatement of certain of the properties of other operating subsidiaries to their "original cost" as found by, or reported to, regulatory bodies having jurisdiction.

- (e) Pursuant to authorizations of its Board of Directors, Associated Gas and Electric Corporation prior to January 10, 1940 wrote down, since December 31, 1937, but as at that date, the carrying amounts of its investments in certain subsidiaries by approximately \$173,000,000. Of this amount, approximately \$147,000,000 applied to investments in sub-holding parents of operating utility companies and approximately \$26,000,000 to investments in Associated Utilities Corporation.

The net excess of the amounts at which Associated Gas and Electric Corporation carried investments in capital stocks of presently owned sub-holding parents of operating utility companies at January 10, 1940 (the effective date of the petition for reorganization of Associated Gas and Electric Corporation) over the related consolidated net assets of the latter companies and their respective subsidiaries as at December 31, 1939, as shown by their consolidated financial statements, appears as a separate item in the consolidated statement of assets, liabilities and reserves pending the final determination of values of such investments. Such "net excess" was arrived at as follows:

	Amount at Which Investments Were Carried by Parent	Underlying Consolidated Net Assets	Net Excess
NY PA NJ Utilities Company.....	\$112,323,667.73	\$23,260,438.45	\$89,063,229.28
Associated Electric Company.....	38,022,081.93	37,433,428.72	588,653.21
General Gas & Electric Corporation.....	9,342,055.17	21,243,996.27	11,901,941.10*
The United Coach Company (Associated Utilities Corporation, successor)	5,491.00	1,139,748.20	1,134,257.20*
Total	<u>\$159,693,295.83</u>	<u>\$83,077,611.64</u>	<u>\$76,615,684.19</u>

* Denotes red figure.

The excess of the aggregate amount at which investments in nonutility subsidiaries (other than sub-holding parents of operating utility companies) were carried by Associated Gas and Electric Corporation at January 10, 1940 over the total recorded amount of underlying net assets of such subsidiaries as of that date, after adjustments of differences between principal and carrying amounts of debt securities and preferred stocks of associate companies held by the nonutility subsidiaries and of unamortized discount applicable thereto has been written off in consolidation.

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- (3) Combined property, plant and equipment (including going value and other intangibles) of operating subsidiaries of Associated Electric Company, Associated Utilities Corporation (successor to The United Coach Company), General Gas & Electric Corporation and NY P A NJ Utilities Company:

- (a) The amount at which these assets are stated is the aggregate of the amounts at which such assets were carried as at December 31, 1944, in the books of the several operating companies.
- (b) The presently effective uniform systems of accounts for electric, gas and water utilities prescribed by the Federal Power Commission and by the state regulatory commissions having jurisdiction over the principal operating subsidiaries require, among other things, that properties be stated at original cost (i.e., cost when first devoted to public service), that the difference between such original cost and the amount at which the properties are now being carried be transferred to plant adjustment accounts (account 100.5, representing the difference between cost to the companies and original cost, and account 107, representing revaluations and other amounts not properly includible in account 100.5), and that such difference be depreciated, amortized or otherwise disposed of as the commission having jurisdiction may approve or direct.

The electric and gas property of five subsidiaries is stated at the original cost thereof (\$180,960,384.89) as approved by the regulatory bodies having jurisdiction, plus \$5,200,572.28 representing plant acquisition adjustments, account 100.5. Four other subsidiaries have completed their reclassification studies and have reported thereon to the state commissions. Such reports indicate that the carrying amounts of such subsidiaries' properties (\$275,448,927.35) are approximately \$51,000,000 in excess of the original cost thereof. Of the latter amount, approximately \$25,000,000 may be segregated in account 100.5 and approximately \$26,000,000 in account 107. In addition, the regulatory commission having jurisdiction over one of such subsidiaries has completed its review of the original cost of certain of the company's properties, principally water rights, and has ordered the company to reduce the recorded amount for such properties by a charge to earned surplus. The company's appeal from the commission's order has been taken to the state courts and is now pending. In the event the order is upheld, the company would be required to charge earned surplus in the amount of approximately \$5,300,000 at December 31, 1944. The remaining property, carried at \$202,392,492.74, consists of property for which reclassification studies have not been completed and property not subject to original cost requirements. Based upon preliminary results of such studies, it is estimated that the carrying amounts of the former property are approximately \$29,300,000 in excess of the original cost thereof, of which approximately \$18,700,000 may be segregated in account 100.5 and approximately \$10,600,000 in account 107.

- (c) Reserves have been provided for amounts in excess of original cost of property, plant and equipment applicable to certain subsidiary operating companies aggregating \$23,888,421.87 of which amount \$20,701,652.69 was charged, in effect, against revaluation surplus carried on the books of two subsidiaries. In the subsidiary group consolidation, such revaluation surplus has been applied since December 31, 1937 as a reduction of the excess of the carrying amounts of investments in subsidiaries over the related net assets at that date and the portions of the reserves established from revaluation surplus have been similarly applied at December 31, 1944. The balance of such reserves amounting to \$3,186,769.18 at December 31, 1944 has been included in the "Excess of assets over liabilities" since such excess is treated as a reserve for presently stated amounts of fixed assets and investments upon final determination of values.
- (d) Subsequent to December 31, 1944, certain of the companies included in the consolidation have entered into agreements and are engaged in negotiations looking toward the execution of other agreements for the sale of investments of sub-holding company parents in all or part of the properties of certain operating subsidiaries to nonaffiliated interests. It is not possible at this time to estimate the amount of the profit or loss that may arise from effecting the various disposals.
- (4) *Depreciation policies:*
- (a) Most of the operating subsidiaries provide for depreciation of property, plant and equipment (other than automotive equipment) in amounts determined by the respective managements. In one instance, the provision is computed on the basis of rates approved by the state regulatory body having jurisdiction; and, in another instance, the 6% sinking fund (compound interest) method is used. Provisions for depreciation of automotive equipment are based, generally, on estimated service lives. In 1944 and 1943, the amounts provided in the aggregate for depreciation and depletion (where provision is made as such) by the operating subsidiaries approximate deductions therefor claimed or to be claimed on Federal income tax returns, which deductions are based on a straight-line method.
- (b) No specific provisions are made for amortization of intangibles included in property, plant and equipment except in the case of one major subsidiary which is writing off certain intangibles at the rate of \$200,000 per annum under an agreement with a regulatory commission.
- (c) The systems of accounts (referred to in Note 3-b) prescribed by the Federal Power Commission and state regulatory commissions having jurisdiction require that provision be made for loss in service value of electric, gas and water plants which is not restored by current maintenance, and mention various causes of depreciation

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which are to be considered. Pending completion by the companies and review by the commissions of the data pertaining to the original cost of plant, it cannot be presently foreseen what changes in the companies' accounts or depreciation policies may be necessary or desirable.

(5) *Investments:*

- (a) Investments in securities of Manila Electric Company and Escudero Electric Service Company (both located in the Philippine Islands) and New England Gas and Electric Association are stated at amounts which represent, for the most part, cost or less to the consolidation, less the related reserves indicated. Investments in securities of other nonconsolidated majority-owned companies, statutory subsidiaries and other associate companies are stated at written-down amounts, less the reserves indicated. Miscellaneous investments appear at cost or less, and are after deducting related reserves.

The investment in subsidiaries in the Philippine Islands, amounting to \$21,646,288.32 (before deducting reserve of \$10,000,000), is approximately \$1,200,000 less than related net assets of such subsidiaries based on the latest reports (unaudited) received from such companies as of October 31, 1941. The company owning such investment retained in 1942 E. M. Gilbert, an engineer of the firm of Gilbert Associates, Inc., who was familiar with the properties located in the Philippine Islands, to make a review of the situation from the standpoint of the destruction that might be sustained as a result of the war, and, based upon his report which contained estimates of the maximum and minimum damages that might be sustained, created a reserve of \$10,000,000 against such investment. The information presently available is inadequate to properly evaluate the damages actually sustained, but indications are that it has been substantial.

- (b) Investments in sinking fund income debentures of Associated Gas and Electric Company are stated at cost to the consolidation and other securities of that company are carried at no value.
- (c) The amounts at which investments in securities of, and receivables from, associate and nonassociate companies are carried do not purport to represent realizable values.

(6) *Unamortized debt discount and expense:*

The unamortized debt discount and expense applicable to indebtedness of Associated Gas and Electric Corporation, which amounted to \$3,209,541.06 at January 10, 1940, has been closed to the "Excess of assets over liabilities."

(7) *Interest on indebtedness of Associated Gas and Electric Corporation:*

No provision has been made in the consolidated statement of assets, liabilities and reserves at December 31, 1944 for interest on (a) the outstanding bonds and debentures of Associated Gas and Electric Corporation, or (b) the income note owing by said Corporation to its parent, subsequent to January 10, 1940, the date of the filing and approval of the Corporation's petition for reorganization pursuant to Chapter X of the Bankruptcy Act. Interest on such indebtedness outstanding at December 31, 1944, after eliminating the portion of such indebtedness held within the consolidated group, computed as provided in said securities, for the period from January 11, 1940 to December 31, 1944, and for each of the years 1943 and 1944 (none of which is reflected in the consolidated statement of income and expenses), is as follows:

	Jan. 11, 1940 to Dec. 31, 1944	Each of the Years 1943 and 1944
Bonds and debentures.....	\$34,991,953.79	\$ 7,037,487.92
Indebtedness to Associated Gas and Electric Company on income note	17,851,550.67	3,590,256.00
Total	<u>\$52,843,504.46</u>	<u>\$10,627,743.92</u>

(8) *Convertible debentures, due 1973, and reserve for conversion of debentures:*

The convertible (fixed interest) debentures, due 1973, are convertible, by the terms of the indentures, at the option of the holder into income debentures, due 1978, equal in principal amount to twice the principal amount of convertible debentures surrendered for such conversion.

The reserve for conversion of debentures represents the balance of the provision made in 1933 by appropriation from capital surplus for the above conversions.

(9) *Securities held intercorporate and treasury securities, which are pledged:*

Certain securities of subsidiaries which are held intercorporate and eliminated in consolidation, and treasury securities are pledged, restricted or subordinated as shown on Pages 50 to 55.

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(10) *Indebtedness to Associated Gas and Electric Company:*

The Trustees of the Corporation are informed that, in addition to the items shown under the above caption, the Trustee of Associated Gas and Electric Company holds \$115,730 principal amount of convertible debentures, due 1973, of Associated Gas and Electric Corporation.

The 5% cumulative income note, due 1980, and the noninterest bearing note, due 1983, are both subordinated by the terms of the respective notes to all other indebtedness of the Corporation, except the indebtedness represented by such notes.

(11) *Liabilities of Associated Gas and Electric Corporation—General:*

See Note 5, Page 30.

(12) *Provision for Federal income and excess profits tax:*

- (a) The Corporation and its consolidated subsidiary companies, except Georgia Power and Light Company which was not considered eligible, joined or propose to join with their parent, Associated Gas and Electric Company, in consolidated Federal excess profits tax returns for the years 1940 to 1944, inclusive, and in consolidated income tax returns for the years 1942 to 1944, inclusive. Consolidated income tax returns were not permitted, under the Internal Revenue Code, for the years 1940 and 1941.

The consolidated excess profits tax returns filed for the years 1940 and 1941, indicating no tax due, have been examined by the Revenue Agents in Charge who have recommended their acceptance with modifications, which, however, did not result in taxable income. In the event that the consolidated excess profits tax returns filed for the years 1942 and 1943 and the return which it is anticipated will be filed for the year 1944 are accepted as filed, the Corporation and its subsidiary companies which joined in the consolidated returns will have no liability for such taxes, and no provision therefor has been made in these statements. Georgia Power and Light Company provided \$15,400 for excess profits taxes during 1944 and claims that prior thereto it was not subject to such taxes.

Each of the companies joining in a consolidated return, other than a company in bankruptcy, is severally liable to the Federal Government for the full amount of any income or excess profits tax, including any deficiencies, penalties or interest, which may be assessed against the affiliated group.

Agreements, herein called apportionment agreements, have been made by the companies which joined in the consolidated returns. These agreements provide that any tax liability of the group shall be allocated to each of the participants therein in the ratio that the liability of each on a separate return basis bears to the sum of the liabilities so computed for each participant, except that the amount, excluding interest and penalties, allocated to any participant other than the Corporation and Associated Gas and Electric Company shall not exceed the participant's tax liability computed on the basis of a separate return.

The apportionment agreements made by the participants in the 1942 and 1943 consolidated returns contain special provisions relating to the deduction claimed in the 1942 return for the war loss suffered by Associated Electric Company, a subsidiary (sub-holding) company, on its investment in properties located in the Philippine Islands. To the extent that the deduction claimed for this loss is allowed, Associated Electric Company or the consolidated group may be subject to substantial taxes in subsequent years upon the recovery of the war loss. The special provisions in the apportionment agreements provide for the establishment of an escrow fund to meet such contingent liability. A fund has been created by deposits in escrow on the part of each company. The ultimate amounts required to be paid in satisfaction of such contingent liability cannot presently be determined; however, if at the time of recovery the amount in the escrow fund is insufficient for such purpose, each of the companies deriving a tax benefit from the allowance of the war loss as a deduction will be called upon to pay its pro rata share of the deficiency. If, on the other hand, the escrow fund should be in excess of the requirement, the excess will be distributed to the companies depositing the funds on a pro rata basis.

- (b) In computing the maximum liability for Federal income taxes for 1942 and 1943, no recognition was given to certain deductions, in consolidated returns, for interest and amortization charges on securities of the Corporation and its parent, Associated Gas and Electric Company (both of which are in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act). In accordance with a closing agreement between the Trustees of the Corporation and its parent and the Commissioner of Internal Revenue, approved by the Acting Secretary of the Treasury on April 5, 1945, the deductions for interest have been determined to be allowable for the years 1942 to 1944, inclusive, and to and including the date of consummation of a Plan of Reorganization of the Corporation and its parent, subject, however, to any change in, or modification of, the law enacted subsequent to the date of the agreement and applicable to such taxable period. The effect has been to reduce Federal income taxes of the consolidated group by approximately \$5,840,000 in 1944, \$5,350,000 in 1943 and \$5,320,000 in 1942. The provisions made in 1943 and 1942 for such taxes were credited to "Excess of assets over liabilities" in 1944. Since such reductions result from interest and amortization not taken into account in the accompanying consolidated statement of income and expenses, and since similar deductions

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will not be available after consummation of a Plan of Reorganization of the Corporation, the provision for Federal income taxes included in the consolidated statement of income and expenses for 1944 also excludes such reduction which is shown as a direct credit to "Excess of assets over liabilities".

- (c) The Corporation and its subsidiary companies filed separate income tax returns for the years 1934 to 1941, inclusive, and separate declared value excess-profits tax returns for the years 1934 to 1944, inclusive. The Bureau of Internal Revenue has examined and accepted such returns to and including 1941, with minor exceptions involving principally deficiencies assessed against the Corporation for the years 1934 to 1939, inclusive. As a result of extensive negotiation, it has been proposed that such claims against the Corporation, together with claims asserted against Associated Gas and Electric Company for the same period, be settled (in the event of the consummation, and as a part of the Plan of Reorganization of the Corporation and Associated Gas and Electric Company) for the sum of \$750,000. This proposal has received the tentative acceptance of the Acting Secretary of the Treasury.

(13) Other contingent liabilities:

(a) New York City Gross Receipt Taxes

No provision has been made for claims asserted against the Estate of the Corporation (approximately \$149,000) by the City of New York for gross receipts taxes and penalties and interest thereon said to be due under various local laws for varying periods between January 1, 1933 to January 1, 1941. The total amount of gross receipts tax computed by auditors for New York City against System companies, covering the years 1933 to 1941, inclusive, is approximately \$895,000, exclusive of interest and penalties; with interest but ignoring penalties, it is approximately \$1,250,000. These amounts make no allowance, however, for allocation of any portion of the receipts of the holding and sub-holding companies outside the City of New York. Counsel for the Trustees of the Corporation believes that the System is entitled to, and will receive, an allocation in connection with such receipts from outside the City of New York which should reduce substantially the amounts to be paid in settlement of the case.

(b) Provision for Fees and Expenses

No provision has been made for fees and expenses (including counsel fees) of the indenture trustees under the several debenture indentures of the Corporation for services rendered in the reorganization proceedings. Such fees and expenses are undetermined in amount and are subject to the approval of the Court in the proceedings for reorganization of the Corporation pursuant to Chapter X of the Bankruptcy Act. For the same reason, no provision has been made for any additional compensation that may be allowed by the Court to the Trustees of the Corporation, or their counsel, or for compensation, expenses, counsel fees, etc., of the various security holders' protective committees or other persons who, under the applicable provisions of Chapter X of the Bankruptcy Act, may be entitled to allowances of compensation for services or reimbursement for costs and expenses incurred. However, certain payments have been made to the Trustee of Associated Gas and Electric Company, in accordance with orders of the Court, representing interim allowances on account of services rendered and expenses incurred in connection with the so-called "Recap Litigation".

- (c) The following actions or proceedings are pending involving relationships between New England Gas and Electric Association on the one hand, and the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company, and/or their subsidiaries, on the other hand:

- (1) Proceedings, initially brought pursuant to certain orders of the Securities and Exchange Commission under Sections 11(b)(1) and 11(b)(2) of the Public Utility Holding Company Act of 1935 with respect to New England Gas and Electric Association, have been broadened to include as parties thereto the Trustees of the Corporation, the Trustee of Associated Gas and Electric Company, Gas and Electric Associates, and Utilities Investing Trust with a view to a determination of the validity and extent of all claims asserted on behalf of the Corporation and the above-named company and trusts, including the claims asserted in the actions referred to in items (3) and (4) below, and of the relative rank of such claims. The hearings have been completed, all briefs filed, and the matter was finally submitted for decision after oral argument before the Commission on April 25, 1944.
- (2) New England Gas and Electric Association and its former subsidiary, Electric Associates, Inc., now liquidated, instituted an action against NY PA NJ Utilities Company in the Superior Court, Middlesex County, Massachusetts, whereby they sought, inter alia, a decree to foreclose a charge or lien upon the 17,744 shares of New England Gas and Electric Association \$5.50 Dividend Series Preferred Shares owned by NY PA NJ Utilities Company and upon \$1,214,500 principal amount of National Public Service Corporation 5% Secured Debentures, allegedly purchased for the account of NY PA NJ Utilities Company. NY PA NJ Utilities Company, although it was not served with process within Massachusetts in this suit, appeared solely for the purpose of protecting its interest in said preferred shares, the transfer of which has been restrained by order of the Court. On July 29, 1944, the parties involved in the litigation, without prejudice to their rights therein, agreed to permit the plaintiffs to surrender the aforementioned Debentures for the proportionate

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share of cash held by the trustee for payment thereof, and such securities were subsequently surrendered for approximately \$315,700.

On June 29, 1945, the Court entered an interlocutory decree sustaining the contention of NY PA NJ Utilities Company to the effect that said 17,744 shares of New England Gas and Electric Association \$5.50 Dividend Series Preferred Shares could not be reached and applied in satisfaction of indebtedness of NY PA NJ Utilities Company to the plaintiffs, but that said National Public Service Corporation Debentures could be so reached and applied. Thereafter, on June 30, 1945, the Court entered a final decree finding the amount due from NY PA NJ Utilities Company to the plaintiffs, after the application of the amount realized by the plaintiffs from said Debentures, was \$482,557.39, including interest to June 30, 1945. The plaintiffs have served notice of appeal.

Companion suits have been instituted against NY PA NJ Utilities Company in the Superior Court of New Castle County, Delaware, by the Trustees of New England Gas and Electric Association and by its former subsidiary, Electric Associates, Inc., involving substantially the same cause of action as that alleged in the complaint filed in the Massachusetts court.

- (3) An action brought by the Trustees of the Corporation and the Trustee of Associated Gas and Electric Company on October 16, 1942, in the United States District Court for the District of Massachusetts against New England Gas and Electric Association seeking to recover damages and an accounting for profits arising out of a transaction whereby holdings of companies in the Associated System in Electric Associates, Inc., were transferred to New England Gas and Electric Association for considerations which are claimed to have been grossly inadequate. This case is now at issue.
- (4) An action brought on behalf of Gas and Electric Associates in the Superior Court for the County of Middlesex, Massachusetts, against New England Gas and Electric Association and Utilities Investing Trust to set aside certain transfers claimed to have been in fraud of creditors. The complaint prays that a decree directing that an indebtedness of \$14,583,290.12 to Utilities Investing Trust from New England Gas and Electric Association be reestablished and that 50,000 common and 100,000 first preferred shares of beneficial interest of New England Gas and Electric Association be issued in satisfaction of such indebtedness be returned to New England Gas and Electric Association. This case is now at issue.

(d) Manila Electric Company

This company, a nonconsolidated subsidiary located in the Philippine Islands (Notes 2-a and 5), suspended as of September 1, 1942, payment of all interest and sinking fund requirements on its bonds as a result of the Japanese occupation of those islands. Under General Ruling No. 10-A issued by the United States Treasury Department on August 12, 1942, unless authorized by a Treasury license, no Philippine company shall make any payment or perform any covenant, duty, condition or service within the United States on, or with respect to, any direct or indirect obligation or security of, or claim against any such company; nor shall any person within the United States exercise any right, remedy, power or privilege with respect to, or directly or indirectly arising out of or in connection with, any obligation or security of, or claim against, any Philippine company, including any right, remedy, power, or privilege with respect to any guaranty, covenant or agreement that such Philippine company will perform any covenant, duty, condition, or service. The Supreme Court of New York decided in a suit for instructions brought on June 23, 1942, by the trustee of one of the issues of said bonds that the moneys held in the sinking fund by that trustee (\$150,580.82) should not be used in accordance with the provisions of the indentures pending further developments in the Philippines. In the meantime, however, the funds have been invested in United States Government obligations. As an incident to deciding this case the Court made a finding that Associated Electric Company, a subsidiary (sub-holding) company, as well as Manila Electric Company, had assumed the obligation of said bonds. Associated Electric Company is advised that the trustee is prohibited from taking any steps to assert or enforce such claims unless a license therefor is obtained from the Treasury Department. An application for such a license has been filed by the trustee, but has not yet been acted upon by the Treasury Department. The annual interest and sinking fund requirements on this issue amount to approximately \$275,000, exclusive of interest requirements on bonds held intercorporate.

(e) Warranties in connection with companies sold

In connection with the numerous sales of securities of subsidiaries, the Corporation's subsidiary (sub-holding) companies have made agreements indemnifying the purchaser of such securities with respect to taxes and certain other liabilities to the extent that provision had not been made thereby by such subsidiaries at the time of sale. On the other hand, if the amounts paid or provided by the subsidiaries for such liabilities exceed the amounts finally determined to be due, certain of the agreements provide that the excess shall be paid to the selling company. The Corporation is unable at this time to determine or estimate the amounts which its subsidiary (sub-holding) companies may be called upon to pay or be entitled to receive under such agreements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) *Proceedings under Section 11 of the Public Utility Holding Company Act of 1935:*

(a) On September 4, 1941, the Securities and Exchange Commission instituted proceedings against the Trustees of the Corporation under Section 11(b)(1) of the Public Utility Holding Company Act of 1935, raising an issue as to whether or not, under the provisions of said section, their direct or indirect interests in certain companies, trusts and partnerships could be retained. By an interim order dated August 13, 1942, as amended by a supplemental order dated December 30, 1942, the Commission directed the Trustees of the Corporation to divest themselves of all of their direct or indirect interests in certain companies, trusts and partnerships named in said order within a period of one year. Most of the companies specified have been disposed of, and, by order of the Commission dated January 10, 1944, an additional period of one year (expiring August 13, 1944) was granted in which to dispose of their interests in the remaining companies. The Trustees of the Corporation have sought to have the Commission modify its order so as to permit retention of certain of these companies. The proceedings are still pending before the Commission. The Commission's approval of the Plan of Reorganization of the Corporation and Associated Gas and Electric Company (see Note 1) was conditioned upon the Surviving Company being bound by the record made by the Trustees of the Corporation in said proceeding under Section 11(b)(1).

(b) See Note A, Page 56, relative to proceedings affecting General Gas & Electric Corporation under Section 11 of the Public Utility Holding Company Act of 1935.

(15) *Unavailability to Corporation of major portion of consolidated balance of income:*

Because of the deficiencies in earned surplus of subsidiary (sub-holding) companies, the major portion of consolidated balance of income before expenses, taxes and interest of the Corporation for 1944 could not have been made available to the Corporation at December 31, 1944.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INVESTMENTS

(exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company, in proceedings for reorganization)

December 31, 1944

	Principal Amount or Number of Shares	Amount at Which Carried
48 SECURITIES OF, AND NONCURRENT RECEIVABLES FROM, NONCONSOLIDATED MAJORITY-OWNED COMPANIES, STATUTORY SUBSIDIARIES AND ASSOCIATE COMPANIES:		
Subsidiaries located in the Philippine Islands:		
Common stocks:		
Manila Electric Company	97,220 shs.	\$11,447,534.55
Escudero Electric Service Company	2,000 shs.	198,376.91
Bonds:		
Manila Electric Company, first refunding mortgage bonds, 5% series, due 1946.....	\$ 17,000.00	14,591.01
Manila Electric Railroad and Lighting Corporation, 5% 50 year first lien and collateral trust sinking fund bonds, due March 1, 1953.....	480,000.00	416,007.05
Accounts receivable, net		9,569,778.80
		<u>\$21,646,288.32</u>
Less, Reserve		10,000,000.00
		<u>\$11,646,288.32</u>
Other:		
Associated General Utilities Company:		
Debentures, 5's 1956	\$ 421,550.00(A)	\$ 99,064.25

New York State Railways, Inc.:

First consolidated 6½'s 1962 (stamped twice) (B).....	\$ 720,000.00	}	207,591.88
First consolidated 4½'s 1962 (stamped twice) (B).....	3,890,000.00		
Schenectady Railway Company:			
Income notes, 5's 1958	73,200.00	}	
Common stock	18,122 shs.		
Utilities Investing Trust:			
Income notes (8%)	\$37,300,000.00	}	1.00
Advance on open account (6%).....	114,908.85		
Keuka Lake Power Corporation, common stock.....	2,450 shs.		1.00
Keuka Lake Power Corporation, 6's 1960.....	\$ 245,000.00		1.00
			<u>\$ 327,242.78</u>

OTHER INVESTMENTS:

New England Gas and Electric Association, \$5.50 cumulative dividend series preferred (entitled to \$100 a share in liquidation)	23,744 shs.	\$ 2,045,509.09
Tide Water Power Company, at cost.....		\$ 335,857.65
Less, Reserve		280,857.65
		<u>\$ 55,000.00</u>
5% Purchase money notes:		
W. E. Vogelback, due serially to May 18, 1949 (secured by pledge of common stock and open account of Union Gas & Electric Company)	\$ 200,000.00	\$ 200,000.00
W. T. Stevenson, due serially to June 29, 1949 (secured by pledge of common stock and open account of Owensboro Gas Company)	493,636.36	493,636.36
		<u>\$ 693,636.36</u>
Miscellaneous investments, including real estate (less reserve of \$20,158.48).....		<u>\$ 482,553.77</u>
TOTAL INVESTMENTS (exclusive of investments in securities of, and receivables from, Associated Gas and Electric Company, parent company)		<u>\$15,250,230.32</u>

NOTES:

- (A) These debentures are stamped to the effect that no interest is or shall become payable thereon and that under no circumstances shall any holder of such debentures receive more than 69% of the principal amount upon the payment or redemption thereof.
- (B) Company in process of reorganization.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF LONG-TERM DEBT IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1944

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Others
LONG-TERM DEBT OF ASSOCIATED GAS AND ELECTRIC CORPORATION IN WHICH THERE IS A PUBLIC INTEREST:					
8% eight year bonds, matured 1940	\$100,000,000.00	—	\$ 130,000.00	\$ 474,000.00	\$ 7,438,510.00
4% debentures, due 1973.....	(A)	—	—	—	487,150.00
4½% debentures, due 1973.....	(A)	—	—	—	9,231,615.00
5% debentures, due 1973.....	(A)	—	—	—	13,163,810.00
5½% debentures, due 1973.....	(A)	—	—	—	1,454,620.00
3½% income debentures, due 1978.....	(A)	—	608,740.00	—	11,301,690.00
3¾% income debentures, due 1978.....	(A)	—	692,750.00	—	37,558,765.00
4% income debentures, due 1978.....	(A)	—	1,114,035.00	—	69,514,320.00
4½% income debentures, due 1978.....	(A)	—	1,186,290.00	—	15,215,960.00
Total bonds and debentures of parent company (including \$7,438,510 matured)					<u>\$165,366,440.00</u>

LONG-TERM DEBT OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST:

Associated Electric Company and Subsidiaries:

Associated Electric Company:

4½% bonds, due 1953.....	(A)	—	—	—	\$ 23,607,300.00
5% bonds, refunding series, due 1961.....	(A)	—	—	—	32,046,000.00

The Lake Shore Gas Company, first mortgage bonds 5½% series, due 1950

(A)	—	—	154,000.00	445,000.00
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Missouri General Utilities Company, 2.77% note payable to Rural Electrification Administration, due serially to 1957 (B) ..	82,269.79	\$ 5,379.25	—	—	82,269.79
Pennsylvania Electric Company:					
First mortgage bonds, 3¾% series, due 1972	(A)	—	—	—	32,500,000.00
First mortgage bonds, 3¾% series, due 1973	(A)	—	—	—	4,000,000.00
Construction advances refundable to the United States Government	646,744.38	264,744.90	—	—	646,744.38
Erie County Electric Company:					
6% consolidated mortgage gold bonds, due 1959 (non-callable)	946,000.00	—	—	—	946,000.00
6% funding mortgage gold bonds, due 1980 (noncallable)...	74,000.00	—	—	—	74,000.00
Subsidiary of Associated Utilities Corporation:					
Schenectady Rapid Transit, Inc., installment notes payable for equipment	14,000.00	6,000.00	—	—	14,000.00
Subsidiaries of General Gas & Electric Corporation:					
Florida Power Corporation:					
First mortgage bonds, 3¾% series, due 1974	(A)	—	—	—	16,500,000.00
3¼% serial debentures, due serially to 1957	4,000,000.00	255,000.00	—	—	3,750,000.00
3% note payable to Rural Electrification Administration, due serially to 1955	95,236.80	8,657.90	—	—	95,236.80
Georgia Power and Light Company:					
First mortgage bonds, 5% series, due 1978	(A)	—	—	—	3,027,500.00
3% note payable to Rural Electrification Administration, due serially to 1955	61,427.59	5,747.36	—	—	61,427.59
South Carolina Electric & Gas Company, first mortgage bonds, 3¾% series, due 1973 (less \$300,000 held by Trustee in sinking fund)					
	(A)	—	—	—	19,700,000.00
NY PA NJ Utilities Company and Subsidiaries:					
NY PA NJ Utilities Company, 2% serial notes payable to bank, due 1945-1947	10,000,000.00	3,000,000.00	—	—	10,000,000.00
Canada Power Corporation, first mortgage 5% bonds, due 1958..	2,000,000.00	—	—	—	2,000,000.00
Glen Rock Electric Light and Power Company, first mortgage 3¼% bonds, due 1966	(A)	—	—	—	325,000.00

(Continued)

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF LONG-TERM DEBT IN WHICH THERE IS A PUBLIC INTEREST (Continued)

December 31, 1944

	Authorized	Maturing Within One Year	Held in Treasury	Held Intercorporately (Eliminated in Consolidation)	Held by Others
LONG-TERM DEBT OF SUBSIDIARY COMPANIES IN WHICH THERE IS A PUBLIC INTEREST, Continued:					
NY PA NJ Utilities Company and Subsidiaries, Continued:					
Jersey Central Power & Light Company:					
First mortgage bonds, 3½% series, due 1965.....	(A)	—	—	—	\$ 38,000,000.00
2¼% serial notes payable to banks, due 1945-1948	\$ 2,120,000.00	\$ 530,000.00	—	—	2,120,000.00
Metropolitan Edison Company:					
First mortgage bonds, 2⅞% series, due 1974.....	(A)	—	—	—	24,500,000.00
Divisional lien, York Haven Water and Power Company, fifty year bonds, 5%, due 1951	1,500,000.00	—	—	—	1,247,500.00
New Jersey Power & Light Company, first mortgage bonds, 3% series, due 1974	(A)	—	—	—	9,000,000.00
New York State Electric & Gas Corporation:					
First mortgage bonds:					
3¼% series, due 1964 (C)	(A)	—	—	—	13,000,000.00
3¼% series, due 1971	(A)	—	—	—	35,393,000.00
Divisional lien, Elmira Water, Light and Railroad Company, first consolidated mortgage, five per cent, fifty year bonds, due 1956	5,000,000.00	—	—	\$ 72,000.00	4,922,000.00
Northern Pennsylvania Power Company:					
First and refunding mortgage bonds:					
Series A, 5%, due 1956	(A)	—	—	26,000.00	1,343,900.00
5% series, due 1962	(A)	—	\$ 588,000.00	100,000.00	1,989,600.00
Divisional lien, Sayre Electric Company, first mortgage, forty year 5% bonds, due 1947 (less \$349,000 held by Trustee in sinking fund)	750,000.00	—	19,500.00(D)	—	182,000.00

Pennsylvania Edison Company:

Penn Central Light and Power Company:

First mortgage bonds:

4½%, due 1977	(A)	—	—	—	25,700,000.00
5%, due 1979	(A)	—	—	—	2,175,000.00

Rochester Gas and Electric Corporation:

General mortgage bonds:

Series D, 4½%, due 1977	(A)	—	—	—	6,000,000.00
Series G, 3¾%, due 1966	(A)	—	—	—	3,000,000.00
Series H, 3¾%, due 1967	(A)	—	—	—	3,000,000.00
Series I, 3½%, due 1967	(A)	—	—	—	1,637,000.00
Series J, 3¼%, due 1969	(A)	—	—	—	8,323,000.00
Series K, 3¾%, due 1970	(A)	—	—	—	15,000,000.00

Divisional lien, Genesee Valley Power Company, Inc. 6% first mortgage bonds, due serially to 1953 (closed mortgage)....	200,000.00	—	—	—	16,000.00
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York Railways Company (in proceedings for reorganization pursuant to Section 77B of the Bankruptcy Act), 5% first mortgage thirty-year bonds due 1937 (all bonds held intercorporate and \$3,013,000 held by others have been extended to 1947).....	10,000,000.00	—	—	582,000.00	4,387,000.00
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\$4,075,529.41

Total long-term debt of subsidiary companies (including \$1,374,000 matured and \$4,075,529.41 maturing within one year)					<u>\$350,776,478.56</u>
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NOTES:

- (A) Additional bonds issuable upon compliance with statutory and mortgage indenture requirements.
- (B) Missouri General Utilities Company, first mortgage bonds, series A, 6's of 1946 in the principal amount of \$165,000 pledged as collateral to this note.
- (C) Not including \$2,481,000 nominally issued and held by Trustee under indenture for the account of New York State Electric & Gas Corporation.
- (D) Pledged as collateral with Trustee under mortgage of Northern Pennsylvania Power Company.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES IN WHICH THERE IS A PUBLIC INTEREST

December 31, 1944

	Shares Authorized	Shares Held Intercorporately (Eliminated in Consolidation)	Shares Outstanding		
			Held by Others		
			Shares	Par or Stated Value	Deficit Applicable
COMMON STOCKS:					
General Gas & Electric Corporation:					
Class A, no par value (less 589.79 shares held in treasury)	5,000,000 (A)	2,621,912.123 (A) (B)	2,289,246.997 (A)		
Class B, par value 25 cents per share	4,000,000 (A)	3,036,985.225 (A)	10,014.775 (A)		
York Railways Company (in proceedings for re- organization pursuant to Section 77B of the Bankruptcy Act), common, par value \$50 per share	50,000	49,913	87	\$4,350.00	\$4,350.00

	Callable at		Shares Outstanding			
	Shares Authorized	Per Share	Amount Applicable to Shares Held by Others	Shares Held Intercorporately (Eliminated in Consolidation)	Held by Others	
					Shares	Cumulative Dividends in Arrears
					Preferences in Involuntary Liquidation	

PREFERRED STOCKS:

**SUBSIDIARY OF ASSOCIATED ELEC-
TRIC COMPANY:**

Pennsylvania Electric Company, cumulative,
par value \$100 per share, 216,000

GENERAL GAS & ELECTRIC CORPORATION
AND SUBSIDIARIES:

General Gas & Electric Corporation (A):								
Prior \$5 cumulative, no par value.....	100,000	105.00	3,371,644.50	27,889.1	32,110.9	3,211,090.00	—	
Cumulative, no par value:								
\$6 convertible, series A.....	660,000	102.00	1,067,226.00	325,351	10,463	1,046,300.00	\$ 740,257.25	
\$6 convertible, series B.....		105.00	731,745.00	277,021	6,969	696,900.00	493,056.75	
\$7.....		110.00	216,964.00	20,282.5	1,972.4	197,240.00	162,229.90	
\$7 class B.....		110.00	1,320.00	—	12	1,200.00	987.00	
\$8.....		125.00	153,668.75	12,314.5	1,229.35	122,935.00	115,558.90	
Florida Power Corporation:								
7% cumulative, par value \$50 per share (less 60 shares held in treasury).....	6,000	52.50	311,850.00	—	5,940	297,000.00	—	
Series A, 7% cumulative, par value \$100 per share (less 142 shares held in treasury).....	50,000	110.00(D)	3,163,820.00	—	28,762	2,876,200.00	—	
Georgia Power and Light Company, \$6.00 series, cumulative, no par value (less 466 shares held in treasury) (E).....	15,000	105.00	664,335.00	4,200	6,327	632,700.00	335,331.00	
South Carolina Electric & Gas Company, 5% cumulative, par value \$50 per share..	146,266	52.50	65,835.00	123,980	1,254	62,700.00	—	
NY PA NJ UTILITIES COMPANY AND SUBSIDIARIES:								
NY PA NJ Utilities Company \$3 noncumu- lative, no par value (less 289 shares held in treasury).....	10,000	26.00	140,545.60	—	5,405.6	135,140.00	—	
Jersey Central Power & Light Company, cumulative, par value \$100 per share:	398,204							
7% series.....		110.00	7,740,810.00	—	70,371	7,037,100.00	—	
6% series.....		110.00	7,658,530.00	—	69,623	6,962,300.00	—	
5½% series.....		107.50	8,451,757.50	—	78,621	7,862,100.00	—	
Metropolitan Edison Company, cumulative, par value \$100 per share.....	185,000			—			—	
3.90% series.....		105.625	13,203,125.00	—	125,000	12,500,000.00	—	
New Jersey Power & Light Company, cumu- lative, par value \$100 per share.....	65,899			—			—	
4% series.....		107.00(F)	3,210,000.00	—	30,000	3,000,000.00	—	
New York State Electric & Gas Corpora- tion, 5.10% cumulative, par value \$100 per share.....	120,000	107.00(G)	12,840,000.00	—	120,000	12,000,000.00	—	
Pennsylvania Edison Company, cumulative, no par value:								
\$5 series (less 3,117 shares held in treas- ury).....	150,000	80.00	9,877,280.00	—	123,466	9,259,950.00	—	
\$2.80 series (less 2,140 shares held in treasury).....	150,000	52.50	4,411,522.50	—	84,029	4,201,450.00	—	
Rochester Gas and Electric Corporation, cumulative, par value \$100 per share:	381,129							
6% series D.....		105.00	12,600,000.00	—	120,000	12,000,000.00	—	
5% series E.....		105.00	4,200,000.00	—	40,000	4,000,000.00	—	
York Railways Company (in proceedings for reorganization pursuant to Section 77B of the Bankruptcy Act), 5% cumulative, voting, par value \$50 per share.....	40,000	Noncallable	—	28,814	3,186	159,300.00	63,720.00	
Total preferred stocks of subsidiary companies.....			\$101,689,228.85			\$95,161,605.00	\$1,911,140.80	

The Notes on Page 56 are an integral part of this Statement.

ASSOCIATED GAS AND ELECTRIC CORPORATION, DEBTOR,
(in proceedings for reorganization pursuant to Chapter X of the Bankruptcy Act)
AND SUBSIDIARY COMPANIES

**NOTES TO CONSOLIDATED STATEMENT OF CAPITAL STOCKS OF SUBSIDIARIES
IN WHICH THERE IS A PUBLIC INTEREST**

- (A) There is no stated value for each of the respective classes and shares of capital stock of General Gas & Electric Corporation; all capital stocks of the corporation are stated at an aggregate amount of \$16,069,500.91.

After payment in full of liquidation value (including accumulated dividends) of all preferred stocks, the holders of common stock, Class A, are entitled to \$5 a share in liquidation before any payment is made to holders of common stock, Class B. After the distribution of \$5 a share on common stock, Class A, the holders of common stock, Class B, are entitled to receive in liquidation up to \$5 a share after which the remaining assets shall be distributed equally among the holders of common stock, Class A and Class B.

The aggregate amount to which the 715,614.75 shares of preferred stocks of General Gas & Electric Corporation outstanding at December 31, 1944, are preferred in liquidation (exclusive of accumulated dividends) is \$71,561,475 which is approximately \$55,492,000 more than the stated value for all outstanding stocks of the corporation. Cumulative dividends in arrears on preferred stocks of General Gas & Electric Corporation not provided for in the accounts of that corporation amounted to \$46,955,707 of which arrearage approximately \$45,443,618 applies to preferred stock held by the parent company. The cumulative dividends on preferred stocks not provided for in the accounts of that corporation and the preference of the preferred stocks in liquidation amount to \$118,517,182 which is \$92,813,537 in excess of the aggregate of the stated value for all capital stocks and the surplus accounts of the corporation.

General Gas & Electric Corporation and the Trustees of the Corporation jointly filed on August 12, 1944 with the Securities and Exchange Commission a Plan of Divestment of Assets, Simplification of Corporate Structure and Equitable Distribution of Voting Power of the General Gas & Electric Corporation pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935. As the result of the exercise on June 15, 1945 by General Gas & Electric Corporation of an option reserved to it by the Plan to provide for the satisfaction of the claims of public holders of its preferred stocks either in cash or in 5% preferred stock, \$50 par value, of South Carolina Electric & Gas Company, at par, public holders of securities of General Gas & Electric Corporation will receive the following treatment under the Plan, provided the approval of the Commission and appropriate Court orders are obtained:

Holders of \$5 prior preferred stock to receive for each share held two shares of 5% cumulative preferred stock, \$50 par value, of South Carolina Electric & Gas Company; accumulated dividends, if any, on both issues to be appropriately adjusted in cash as of the effective date of the Plan.

Holders of cumulative preferred stock, \$6, \$7 and \$8 dividend series, to receive for each share held 2.8 shares of 5% cumulative preferred stock, \$50 par value, of South Carolina Electric & Gas Company, plus a sum in cash equal to the unpaid dividends on the General Gas & Electric Corporation cumulative preferred stock at contract rates from September 15, 1936 to the effective date of the Plan, less (1) \$40 and (2) any accrued dividends on the 2.8 shares of South Carolina Electric & Gas Company preferred stock.

Holders of common stocks, Classes A and B, to receive for each share held $\frac{1}{4}$ of a share of common stock (after being reclassified to 857,143 shares) of Florida Power Corporation and \$1.65 in cash, plus an amount equivalent to the allocable portion of dividends paid on the Florida Power Corporation stock subsequent to August 11, 1944 (\$450,000 to July 1, 1945).

The Plan also provides for the cancellation by General Gas & Electric Corporation of all securities and indebtedness held by the Trustees of the Corporation which shall be surrendered in consideration for the delivery of (a) all Florida Power Corporation common stock not distributable to the public as provided above, (b) the entire issue of a single class of new common stock of General Gas & Electric Corporation, and (c) a release of all claims which General Gas & Electric Corporation may have, as of the effective date of the Plan, against the Corporation, Associated Gas and Electric Company, or any of their subsidiaries.

- (B) Includes due bill for 720,136.9063 shares.
- (C) Callable at \$108.25 after August 31, 1948.
- (D) After redemption of senior preferred issue.
- (E) On March 26, 1945, pursuant to a Plan of Recapitalization, Georgia Power and Light Company redeemed the 6,327 shares of its \$6 cumulative preferred stock held by the public by the payment of \$150 per share plus an amount equivalent to dividends at contract rates from June 30, 1944 to the effective date of the Plan. The 4,200 shares owned intercorporately were donated to the company for cancellation.
- (F) Callable at \$105 after March 31, 1949.
- (G) Callable at \$105 after May 31, 1946.

