

It is suggested that we sell \$50,000. Cities Service 5% Convertible Gold Debentures due June 1st 1950. Recent investigation of the company's position shows the following:-

1. The books are never audited
2. Gross revenue is derived from three sources,
  - 21% from Public Utilities
  - 21% " Natural Gas
  - 58% " Oil producing, refining and manufacturing
3. Company is not an oil company in commonly accepted sense, but is merely a gambling prospecting enterprise. Policy is to drill for oil in hopes that a gusher will blow in and then to sell it to some other oil company. Gushers are not plentiful and the market for them is now practically non-existent.
4. The only portion of gross which produces net revenue is the public utility division.
5. A comparison of the Oil division with Texas Corporation reveals the following:-

~~\$4,000,000~~ 50,000

	<u>Texas Corp.</u>	<u>Cities Service</u>
Investment in Oil Industry (Net)	\$ 324,000,000.	\$ 350,000,000.
Gross earnings therefrom	189,000,000.	75,000,000.
Net " "	18,000,000.	Nil

6. The company now has \$67,500,000. in bank loans and Henry L. Doherty, President, has personally \$40,000,000. in bank loans.
7. Total short term debt (Notes and bank loans) maturing in 1932 amount to \$108,750,000. Bankers are Chase National and Central Hanover.
8. Earnings cannot be expected to alleviate the circumstances in which Cities Service finds itself as is evidenced by the following:-

12 months ended Jan. 31st 1932.

Gross earnings of Subsidiaries	\$ 180,000,000.
Expenses of Subsidiaries	<u>142,862,000.</u>
Available for Cities Service	37,138,000.
Expenses of Cities Service	<u>2,208,000.</u>
Balance	34,930,000.
Depreciation and Depletion	* <u>15,000,000.</u>
Net Earnings	19,930,000.
Bond Interest of Cities Service	<u>12,108,000.</u>
Net Income	7,822,000.
Preferred Dividend	<u>7,361,000.</u>
Available for Common	461,000.
Common Dividend	<u>9,720,000.</u>
<u>Deficit</u>	<u>9,259,000.</u>

\* In 1930 the amount written off for Depreciation and Depletion was \$24,852,000. A comparison with Texas Corp. may be interesting here:-

	<u>Texas Corp.</u>	<u>Cities Service</u>
Investment	324,000,000.	\$ 350,000,000.
Depreciation and Depletion	42,000,000.	15,000,000.

The debentures are currently quoted at about 50 Canadian funds, yielding 11.75%.