ORIGINAL

Decision No. 38259

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation,
for an order authorizing it to issue and sell $75,000,000 principal amount of Thirty Year 2-3/4% Debentures, due October 1, 1975, and authorizing it to execute and deliver an Indenture to be dated as of October 1, 1945.

Application No. 26968

Felix T. Smith, Arthur T. George and John A. Sutro, for Applicant.

John Francis Neylan, for Halsey Stuart & Co., Inc.

BY THE COMMISSION:

OPINION

In this application, The Pacific Telephone and Telegraph Company, referred to herein at times as Applicant, asks permission to issue and sell at par and accrued interest $75,000,000 principal amount of thirty year 2-3/4 per cent debentures, due October 1, 1975, and use the proceeds for the purposes hereinafter stated. Applicant also asks permission to execute and deliver an indenture, under the provisions of which said debentures will be issued.

Applicant, as of July 31, 1945, reports assets and liabilities as follows:

ASSETS

PLANT AND OTHER INVESTMENTS:	
Telephone Plant in Service	$387,244,305.78
Telephone Plant Under Construction	1,734,894.18
Property Held for Future Telephone Use	931,113.88
Telephone Plant Acquisition Adjustment	721,336.89
Total Telephone Plant	390,631,650.73
Miscellaneous Physical Property	148,107.10
Investments in Subsidiary Companies	171,854,927.39
Other Investments	1,149,272.16
Sinking Funds	325,000.00
Total Plant and Other Investments	564,108,957.38
CURRENT ASSETS:	
Cash and Special Deposits	2,221,372.74
Working Funds	143,112.43
Notes Receivable	453.73
Accounts Receivable	15,611,340.27
Material and Supplies	3,459,717.07
Total Current Assets	21,435,996.24
PREPAID ACCOUNTS AND DEFERRED CHARGES:	
Prepayments	1,408,203.14
Discount on Capital Stock - Net	4,817,811.12
Other Deferred Charges	421,101.61
Total Prepaid Accounts and Deferred Charges	6,647,115.87
TOTAL ASSETS	$592,192,069.49

LIABILITIES

CAPITAL STOCK:	
Common Stock (2,461,250 shares, $100 par value)	$246,125,000.00
Preferred Stock - 6% Cumulative (820,000 shares at $100 par value)	82,000,000.00
FUNDED DEBT	54,568,000.00
ADVANCES FROM AMERICAN TELEPHONE AND TELEGRAPH COMPANY	12,800,000.00
ADVANCES FROM BELL TELEPHONE COMPANY OF NEVADA	1,650,000.00
NOTES SOLD TO TRUSTEE OF PENSION FUND	7,363,878.26
CURRENT AND ACCRUED LIABILITIES:	
Advance Billing for Service and Customers' Deposits	1,965,171.31
Accounts Payable and Other Current Liabilities	11,844,303.83
Accrued Liabilities Not Due:	
Taxes	24,483,800.49
Interest	480,737.93
Rents	1,911.96
Total Current and Accrued Liabilities	38,775,925.52
DEFERRED CREDITS:	
Unamortized Premium on Funded Debt - Net	214,749.26
Other Deferred Credits	83,331.54
DEPRECIATION AND AMORTIZATION RESERVES	138,510,537.78
CONTRIBUTIONS OF TELEPHONE PLANT	69,320.74
UNAPPROPRIATED SURPLUS	10,031,326.39
TOTAL LIABILITIES	$592,192,069.49

Applicant's funded debt consists of $29,652,000 of refunding mortgage 3-1/4 per cent Series B bonds, due April 1, 1966, and $24,916,000 of refunding mortgage 3-1/4 per cent Series C bonds, due December 1, 1966. Both series of bonds are redeemable at the option of the company, upon sixty days' notice, on any interest payment date. The interest on Series B bonds is payable on April 1 and on October 1, while the interest on Series C bonds is payable on June 1 and on December 1. The Series B bonds are now, and to and including April 1, 1946, redeemable at 105 per cent of their face value and accrued interest, while the Series C bonds are now, and to and including June 1, 1946, redeemable at 107-1/2 per cent of their face value and accrued interest. After April 1, 1946, and to and including April 1, 1955, the Series B bonds are redeemable at 104 per cent of their face value and accrued interest. After June 1, 1946, and to and including June 1, 1951, the Series C bonds are redeemable at 106-1/2 per cent of their face value and accrued interest. Applicant intends to redeem both Series B and C bonds on or before the next interest payment date of each Series. It proposes to publish, on or about October 1, the required notice to redeem the Series C bonds on December 1, 1945. It further proposes to pay during the current year the principal, the call premium and interest on Series B bonds to April 1, 1946, to any holders who agree to surrender such bonds. Any Series B bonds not surrendered will be called in the regular manner for payment on April 1, 1946.

To provide itself with funds to redeem its Series B and C bonds and to reimburse its treasury because of income expended for the acquisition of properties, Applicant asks permission to issue and sell at par $75,000,000 of 2-3/4 per cent thirty year debentures. The payment of the principal of the Series B and C bonds calls for an expenditure of $54,568,000, leaving $20,432,000 for the reimbursement of Applicant's treasury. The money applied to the reimbursement of Applicant's treasury will be used to pay approximately $8,500,000 due The American Telephone and Telegraph Company, to pay approximately $7,200,000 of demand notes held by the Bankers Trust Company, trustee of the pension fund established by Applicant, to pay $3,351,300 of premium on the Series B and C bonds, and to pay estimated expenses incident to the issue of the debentures of about $140,000. The remainder of the proceeds will be used by Applicant for working capital.

The testimony shows that Applicant has entered into verbal agreements, which are later to be reduced to writing, to sell the debentures to the following:

Bankers Trust Company	$ 4,800,000
Equitable Life Assurance Society	12,500,000
John Hancock Mutual Life Insurance Company	5,000,000
Union Central Life Insurance Company	2,000,000
Sun Life Assurance Company of Canada	4,000,000
Penn Mutual Life Insurance Company	3,500,000
Provident Mutual Life Insurance Company of Philadelphia	2,500,000
Prudential Insurance Company of America	15,000,000
Massachusetts Mutual Life Insurance Company	2,500,000
Mutual Benefit Life Insurance Company	2,000,000
Mutual Life Insurance Company of New York	6,500,000
New York Life Insurance Company	12,500,000
New England Mutual Life Insurance Company	2,000,000
Northern Life Insurance Company	200,000

Applicant reports that it resorted to a private sale because time does not permit it to prepare and file a registration statement that can be made effective prior to October 29, the beginning of the U. S. Victory Loan Bond Drive. It was not until after V-J Day and recent reports emanating from responsible governmental officials in Washington that the Excess Profits Tax should be repealed or reduced, that Applicant's Vice President and Comptroller concluded that it might be to Applicant's advantage to now refund its bonds.

The testimony does not convince us that there was sufficient negotiation carried on in the offer of sale of the debentures. Applicant at the outset, because of time limitations, decided upon a private sale. It contacted officers of some twenty insurance companies and endeavored to sell its debentures to them at 100.5 per cent of their face value and accrued interest. They advised Applicant that they were not interested in the purchase of the debentures at that price. Thereupon Applicant dropped the price of the debentures to 100 per cent of their face value and accrued interest. At this price commitments to purchase the debentures were promptly made. In fact, the prospective purchasers asked for more than $75,000,000.

An investment banking firm offered Applicant a minimum price of 100.5 per cent of their face value and accrued interest for the debentures subject, among others, to the condition that a registration statement be filed with the Securities and Exchange Commission and become effective so that the debentures could be offered for sale on or before October 29, the beginning of the U.S. Victory Loan Bond Drive. Applicant rejected this offer because it was impossible for it to meet that condition and further for the reason that the added expense of filing a registration statement and the annual expense under an indenture qualifying under the Trust Indenture Act of 1939 would exceed the increased price for the debentures. It is unfortunate that

Applicant delayed its refunding operation until it had but one course to travel in order to refinance before the U. S. Victory Loan Bond Drive. During the period of the delay other Bell Companies undertook the refunding of indebtedness.

The record in this case does not warrant a finding in support of this application, and therefore we believe that it should be denied. This does not necessarily mean that Applicant cannot refund its outstanding bonds this year. The testimony shows that The American Telephone and Telegraph Company is ready to advance to Applicant enough money to redeem its Series C bonds on December first. No doubt Applicant could, on a temporary loan basis, obtain the necessary funds from other sources. In the meantime, steps can be taken to prepare and file with the Securities and Exchange Commission a registration statement effective so that the debentures could be offered for sale after the close of the U. S. Victory Loan Bond Drive. Such registration would greatly expand the field for marketing the debentures.

O R D E R

A public hearing having been held by the Commission en banc on September 24 in the above entitled application, and the Commission having considered the evidence submitted at such hearing and it being of the opinion that this application should, for the reason stated in the foregoing opinion, be denied, therefore,

IT IS HEREBY ORDERED that this application be, and the same is, hereby denied.

Dated at San Francisco, California, this 26th day of September, 1945.

R. Hawley Anderson

Justus F. Craemer

Richard Sachse

Franck R. Havenner

Commissioners

Commissioner Rowell, dissenting:

I cannot concur in the foregoing order because I am unable to find anything in the record to justify a denial of the application of this utility to issue refunding debentures when the consequence of such refunding will result in a substantial reduction in the utility's annual interest charges. The opinion states that the testimony does not convince us that there was a real negotiation carried on in the offer of sale of the proposed securities. The only question, as I view it, is whether the record contains any facts which would justify the conclusion that the applicant could sell its securities at a higher price and at greater net yield to it. The witness for the company expressed the opinion that the sale of securities under the plan proposed would be distinctly to the company's benefit and that in his opinion no higher price resulting in greater net proceeds could be obtained. His testimony stands unchallenged.

Unless the Commission feels that it should ask for the presentation of further testimony, I believe it is incumbent upon it to decide the application solely upon the record as made. The record compels the granting of the application.

Commissioner.