

Decision No. 39368

**ORIGINAL**

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 (a) to offer 328,125 common shares for subscription and sale for cash at \$100 per share to the holders of its preferred and common shares, and (b) to issue and sell \$75,000,000 principal amount of Forty Year \_\_\_\_\_% Debentures due October 1, 1986.

Application No. 27709.

Pillsbury, Madison & Sutro, by  
John A. Sutro; and Arthur T. George, for applicant.

O P I N I O N

In this application, The Pacific Telephone and Telegraph Company asks the Commission to enter an order authorizing it to issue and sell, for the purposes hereafter stated, \$75,000,000 of 40-year debentures due October 1, 1986, and \$32,812,500 par value of common stock.

The Pacific Telephone and Telegraph Company is a corporation organized under the laws of California. It owns and operates directly or through subsidiary corporations, a general telephone system in the States of California, Nevada, Oregon, Washington and part of Idaho. As of June 30, 1946, it reports assets and liabilities as follows:

ASSETSPLANT AND OTHER INVESTMENTS:

Telephone Plant in Service	\$408,854,224.41
Telephone Plant Under Construction	7,074,808.49
Property Held for Future Telephone Use	886,042.23
Telephone Plant Acquisition Adjustment	700,032.07
Total Telephone Plant	<u>417,515,107.20</u>
Miscellaneous Physical Property	147,931.70
Investments in Subsidiary Companies	190,304,927.39
Other Investments	648,232.88
Total Plant and Other Investments	<u>608,616,199.17</u>

CURRENT ASSETS:

Cash	2,337,600.40
Special Cash Deposits	918,669.87
Working Funds	140,699.71
Notes Receivable	423.26
Accounts Receivable	16,296,603.00
Material and Supplies	5,838,002.45
Total Current Assets	<u>25,531,998.69</u>

PREPAID ACCOUNTS AND DEFERRED CHARGES:

Prepayments	1,726,178.05
Discount on Capital Stock - Net	4,817,811.12
Other Deferred Charges	661,927.67
Total Prepaid Accounts and Deferred Charges	<u>7,205,916.84</u>
<b>TOTAL ASSETS</b>	<u><b>\$641,354,114.70</b></u>

LIABILITIESCAPITAL STOCK:

Common Stock - par value (\$100 per share)	\$246,125,000.00
Preferred Stock - par value (\$100 per share) 6% cumulative	<u>82,000,000.00</u>
Total Capital Stock	<u>328,125,000.00</u>

FUNDED DEBT - FORTY YEAR 2-3/4% DEBENTURES DUE

DECEMBER 1, 1985	75,000,000.00
ADVANCES FROM AMERICAN TELEPHONE AND TELEGRAPH COMPANY	46,300,000.00

CURRENT AND ACCRUED LIABILITIES:

Advance Billing for Service and Customers' Deposits	2,300,001.16
Accounts Payable and Other Current Liabilities	16,485,443.38
Accrued Liabilities Not Due:	
Taxes	13,765,919.82
Interest	171,875.00
Dividend on Preferred Stock, payable July 15, 1946	1,230,000.00
Rents	8,358.00
Total Current and Accrued Liabilities	<u>33,961,597.36</u>

DEFERRED CREDITS:

Unamortized Premium on Funded Debt	1,397,320.81
Other Deferred Credits	73,686.12
<u>DEPRECIATION AND AMORTIZATION RESERVES</u>	<u>148,848,561.69</u>

UNAPPROPRIATED SURPLUS

7,647,918.72

TOTAL LIABILITIES\$641,354,114.70

Applicant estimates its gross and net construction expenditures for 1946 and 1947 as follows:

Item	1946 (1)		1947 (1)	
	Gross	Net	Gross	Net
Rights of way	\$ 644	\$ 618	\$ 569	\$ 554
Land & buildings	14,202	13,612	24,150	23,302
Central office equipment	38,518	35,858	73,387	67,019
Station equipment	44,447	18,352	53,707	23,681
Exchange lines	23,937	21,000	39,267	34,180
Toll lines	8,379	7,096	17,623	16,187
General equipment	5,534	4,272	5,984	3,699
Total	135,661	100,308	214,687	168,622

(1) In thousands of dollars.

While applicant proposes to use the debenture and stock proceeds to reimburse its treasury because of income expended for additions and betterments and improvements to its properties, it will actually use the proceeds to pay indebtedness due the American Telephone and Telegraph Company or to pay for extensions, additions and improvements to its telephone plant or its subsidiaries. The moneys borrowed from the American Telephone and Telegraph Company have been or will be used for said purposes.

Applicant proposes to sell \$75,000,000 of debentures by means of competitive bidding. The debentures are to be dated October 1, 1946 and to mature October 1, 1986. The interest rate of the debentures and the schedule of redemption prices will be fixed by the successful bidder as described in sections 3, 6 and 7 of the "statement of terms and conditions to bids" filed in this application as Exhibit "D". Applicant expects to publish its invitation for bids on or about September 26, 1946 and open the bids on or about October 8, 1946. Delivery of, and payment of the purchase

price for, the debentures will be made on or about October 11, 1946, as more specifically set forth in said Exhibit "D".

We find that applicant has need for the funds it will realize through the issue of the \$75,000,000 of debentures. The order herein will authorize applicant to issue said \$75,000,000 of debentures subject to the condition that such authority will not become effective until applicant has paid the fee required by Section 57 of the Public Utilities Act, and subject to the further condition that such authority will not become effective until the Commission, by supplemental order, has fixed the price at which applicant may sell said debentures.

Applicant is, through stock ownership, controlled by the American Telephone and Telegraph Company. The following tabulation shows the number of shares of applicant's outstanding stock, the number owned by the American Telephone and Telegraph Company, and the number owned by others:

Class of Stock	Shares of Stock Outstanding	Shares Owned by A. T. & T. CO.		Shares Owned by Others	
		No.	%	No.	%
Preferred	820,000	640,957	78.17	179,043	21.83
Common	2,461,250	2,198,945	89.34	262,305	10.66
Total	3,281,250	2,839,902	86.55	441,348	13.45

As of July 5, 1946, applicant had 6,763 shareholders other than the American Telephone and Telegraph Company.

Applicant asks permission to issue and sell 328,125 additional shares (\$32,812,500 par value) of common stock at \$100 per share. It proposes to offer the additional shares of stock to the holders of its preferred and common shares in the proportion of one common share for each 10 preferred or common shares standing in the name of each shareholder of record on the stock books of applicant at the close of business at a date to be hereafter fixed. The stock proceeds would be expended by applicant for purposes similar to the purposes for which it will expend the debenture proceeds.

Applicant's common stock was at the time of the hearing selling at about \$155 per share. It reports the book value of the stock at approximately \$101.50 per share. The price at which applicant should be permitted to sell the stock is at issue. Other state regulatory commissions in areas served by applicant have evinced an interest in that matter. The order herein will authorize the issue of the debentures. We defer action on the stock issue, reserving our jurisdiction to hold a further hearing on that part of the application. Applicant at such hearing will be afforded opportunity to show why its proposed common stock issue should not be sold under competitive bidding, or why its application should not be amended to offer its stock to present shareholders at a price more nearly approaching present market value.

#### O R D E R

The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for permission to issue and sell \$75,000,000 of 40-year debentures due October 1, 1986, and to issue \$32,812,500 par value of common stock, a public hearing having been held and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the

money, property or labor to be procured or paid for through the issue of said debentures is reasonably required by applicant for the purposes herein stated, that the expenditures for such purposes, other than the use of accrued interest, are not, in whole or in part, reasonably chargeable to operating expense or to income, and that the submission of this application in so far as the issue of stock is concerned should be set aside and a further hearing had thereon; therefore,

IT IS HEREBY ORDERED as follows:

1. The Pacific Telephone and Telegraph Company may, after the effective date hereof, and on or before November 15, 1946, issue and sell at the price to be fixed by a supplemental order, \$75,000,000 principal amount of 40-year debentures, due October 1, 1986. Pending the preparation and delivery of definitive debentures, The Pacific Telephone and Telegraph Company may execute and deliver in lieu of such definitive debentures, temporary debentures, such temporary debentures to be issued and sold under the same terms and conditions as applicant is herein authorized to issue definitive debentures.

2. The Pacific Telephone and Telegraph Company may execute and deliver an indenture in, or substantially in, the same form as the indenture filed in this application as Exhibit "C".

3. The Pacific Telephone and Telegraph Company shall use the proceeds, other than accrued interest, realized through the issue of said debentures to reimburse its treasury on account of income expended for additions, betterments, and improvements to its properties and to properties of its subsidiaries, and thereafter shall apply said proceeds to pay indebtedness due the American Telephone and Telegraph Company, or to pay for extensions, additions and improvements to its telephone plant and of its subsidiaries. The accrued interest may be used for general corporate purposes.

4. The authority herein granted to issue debentures will become effective when the Railroad Commission has entered a supplemental order fixing the price at which The Pacific Telephone and Telegraph Company may sell said debentures and when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

5. The Pacific Telephone and Telegraph Company shall file with the Railroad Commission in thirty (30) days after the issue and sale of said debentures a complete copy of its registration statement filed with the Securities & Exchange Commission, including all exhibits referred to therein, covering the issue of said debentures; also two (2) copies of the indenture executed under the authority herein granted.

6. The Pacific Telephone and Telegraph Company shall file with the Railroad Commission a report, or reports, required by the Commission's General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

7. The Pacific Telephone and Telegraph Company shall, on or before April 30, 1947, file with the Railroad Commission a statement showing in detail the expenses incurred because of the issue and sale of said debentures.

Dated at Los Angeles, California, this 27<sup>th</sup> day of August, 1946.

~~Secretary of the Railroad Commission~~  
~~of the State of California~~

*Harold P. Kulo*  
*James F. Casner*  
*Frederic J. Gray*  
*Edward T. Powell*  
*R. F. [unclear]*  
Commissioners