

completion, extension and improvement of facilities of Applicant and its subsidiary.

Applicant owns and operates directly a general telephone system in the States of California, Oregon, Washington and part of Idaho, and, through its subsidiary corporation, in the State of Nevada. Said system is composed of local and long distance telephone lines and exchanges and the buildings, rights of way, franchises and equipment therefor.

As of March 31, 1948, Applicant reports its authorized and outstanding capital stock as follows:

A. <u>Authorized</u>	<u>Number of Shares</u>	<u>Par Value</u>
Common	4,000,000	\$400,000,000
Preferred	820,000	82,000,000
B. <u>Outstanding</u>	<u>Number of Shares</u>	<u>Par Value</u>
Common	2,787,577	\$278,757,700
Preferred	820,000	82,000,000

Of Applicant's outstanding stock, the American Telephone and Telegraph Company owns 640,957 preferred shares or 78.17% of such shares, and 2,482,935 common shares or 89.07% of such shares. Its combined preferred and common share ownership is 86.59% of all outstanding shares. Other shareholders, representing more than 7,000, own 179,043 preferred shares or 21.83%, and 304,642 common shares or 10.93%, the combined ownership of all outstanding shares being 13.41%.

The consolidated balance sheet of The Pacific Telephone and Telegraph Company and its subsidiary, the Bell Telephone Company of Nevada, shows as of March 31, 1948, assets and liabilities as follows:

Assets

Telephone plant		\$ 995,136,970.20
Miscellaneous physical property		325,369.09
Other investments		598,395.08
Current assets		64,809,638.37
Cash	\$ 3,789,328.30	
Special cash deposits	2,825,741.12	
Working funds	301,203.64	
Accounts receivable	33,322,457.21	
Material and supplies	24,570,908.10	
Prepayments		6,328,847.80
Discount on capital stock-net		4,817,811.12
Other deferred charges		<u>1,234,998.36</u>
	Total Assets	<u>\$1,073,252,030.02</u>

Liabilities

Capital stock		\$ 360,757,700.00
Common	\$278,757,700.00	
Preferred, 6% cumulative	82,000,000.00	
Funded debt		325,000,000.00
Forty year 2-3/4% Debentures due December 1, 1985	75,000,000.00	
Forty year 2-7/8% Debentures due October 1, 1986	75,000,000.00	
Forty year 3-1/8% Debentures due October 1, 1987	100,000,000.00	
Thirty year 3-1/4% Debentures due March 1, 1978	75,000,000.00	
Advances from American Telephone and Telegraph Company		34,500,000.00
Current and accrued liabilities		61,892,678.70
Advance billing for service and customers' deposits	4,945,925.42	
Accounts payable and other current liabilities	40,443,868.05	
Taxes	11,731,369.54	
Interest	3,531,786.69	
Dividend on preferred stock, payable April 15, 1948	1,230,000.00	
Rents	9,729.00	
Unextinguished premium on funded debt		4,239,202.72
Other deferred credits		119,243.46
Depreciation and amortization reserves		277,058,491.42
Unappropriated surplus		<u>9,684,713.72</u>
	Total Liabilities	<u>\$1,073,252,030.02</u>

Applicant's capitalization ratios as of March 31, 1948,

were:

<u>Item</u>	<u>Amount</u>	<u>Percent.</u>
Common stock	\$278,757,700	38.19
Preferred stock	82,000,000	11.23
Debentures	325,000,000	44.52
Due American Telephone and Telegraph Company	34,500,000	4.73
Surplus	<u>9,684,714</u>	<u>1.33</u>
Total	<u>\$729,942,414</u>	<u>100.00</u>

The amount owing the American Telephone and Telegraph Company is represented by unsecured 2.75% promissory notes, each due one day after date. As of May 14, 1948, Applicant owed American Telephone and Telegraph Company \$56,500,000. It is estimated that by June 30, 1948, such indebtedness will have increased to \$79,600,000.

In Exhibit "3" Applicant and its subsidiary estimate their gross and net construction expenditures for the year 1948 as follows: ("000" omitted)

<u>Item</u>	<u>Gross Construction Expenditures</u>	<u>Net Construction Expenditures</u>
Right of Way	\$ 721	\$ 717
Land and Buildings	34,853	34,067
Central Office Equipment	78,007	70,974
Station Equipment	56,162	24,345
Exchange Lines	45,467	40,554
Toll Lines	17,581	15,663
General Equipment*	<u>8,555</u>	<u>6,298</u>
Total	<u>\$241,346</u>	<u>\$192,618</u>

*Excludes inter-company and inter-area transfers in amount of \$31.

The record shows that from October 31, 1922, to March 31, 1948, Applicant expended for the acquisition of property and for the construction, completion, extension and improvement of its facilities and those of its subsidiary the sum of

\$255,887,325.63, which sum was not secured by or obtained by Applicant from the issue of stock or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness. About 94% of the amount represents increases in Applicant's depreciation and other reserves. Applicant asks permission to use the stock proceeds, to the extent that such proceeds are sufficient therefor, to reimburse its treasury because of such expenditures. After the reimbursement of its treasury, it will use treasury funds in an amount equal to the stock proceeds to pay indebtedness due American Telephone and Telegraph Company.

The testimony shows that if the Commission authorizes Applicant to issue the 601,262 shares of common stock, said shares will be offered for subscription and sale for cash at \$100 per share to the holders of its preferred and common shares in the proportion of one (1) common share for each six (6) preferred and/or common shares standing in the name of each shareholder of record on the stock books of Applicant at the close of business on June 15, 1948. Applicant presently contemplates to file its registration statement with the Securities and Exchange Commission on May 28, to mail a copy of the prospectus and the warrants to its stockholders on June 16, and close the subscriptions on July 7, 1948. It is of record that any shares not subscribed for will not be sold.

The Commission by its order in Decision No. 41416, dated April 6, 1948, provides that "Applicant shall submit not later than July 1, 1948 a plan for a new arrangement with American Telephone and Telegraph Company in respect to payments for services rendered to Applicant by Bell Telephone Laboratories, Inc.

and for services rendered to Applicant by the operation and engineering and other departments of the American Telephone and Telegraph Company to the extent recognized herein as proper costs chargeable to Applicant".

The testimony shows that the preparation of a plan is under active consideration by Applicant, and that it will use its best efforts to comply with such provision. It is, of course, obvious that any payments made under the license contract reduces the amount of Applicant's earnings available for dividends. The Commission will await the filing of such plan and consider the next stock application in the light thereof.

I herewith submit the following form of order.

O R D E R

The Pacific Telephone and Telegraph Company having applied to the Public Utilities Commission of the State of California for an order authorizing the issue of 601,262 common shares (\$60,126,200 par value) of its capital stock, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of said shares of stock is reasonably required by Applicant for the purpose herein stated, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that The Pacific Telephone and Telegraph Company be, and it is hereby, authorized to offer, on or before September 1, 1948, 601,262 common shares of stock for

subscription and sale for cash at \$100 per share to the holders of its preferred and common shares in the proportion of one (1) common share for each six (6) preferred and/or common shares standing in the name of each shareholder of record on the stock books of Applicant at the close of business on or about June 15, 1948, and upon receipt by Applicant of subscriptions properly executed and the sale price of the shares covered by the subscriptions, issue stock certificates for the appropriate number of shares.

IT IS HEREBY FURTHER ORDERED that The Pacific Telephone and Telegraph Company shall use the proceeds from the issue and sale of said shares of common stock, or any part thereof, to reimburse in part its treasury for moneys expended from income or from other moneys in its treasury not secured by or obtained from the issue of stock or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness, for the acquisition of property and for the construction, completion, extension and improvement of the facilities of Applicant and its subsidiary.

IT IS HEREBY FURTHER ORDERED that within sixty (60) days after the closing date for subscriptions for said shares of stock, Applicant shall file with the Commission a report showing the names of the subscribers for said shares of stock, the number of shares subscribed for by each, and the purposes for which Applicant expended the proceeds.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is effective upon the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Public Utilities Commission of the State of California.

Dated at San Francisco, California, this 18th day of May, 1948.

R. B. Minter
Justin J. Casner
Joseph H. Powell
Harold H. Kuli
Samuel Potter
Commissioners