

Decision No. 42500

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

THE PACIFIC TELEPHONE AND TELEGRAPH)
COMPANY, a corporation,)

Application
No. 29919

for an order authorizing it to offer)
828,920 common shares for subscription)
and sale for cash at \$100 per share to)
the holders of its preferred and common)
shares.)
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John A. Sutro and Arthur T. George, for Applicant;
John J. O'Toole, City Attorney, Dion R. Holm,
Assistant City Attorney, and Paul L. Beck, Chief
Valuation Engineer, by Paul L. Beck, for the City
and County of San Francisco.

HULS, Commissioner

O P I N I O N

In this application, The Pacific Telephone and Telegraph Company asks the Commission for an order authorizing it to offer 828,920 common shares of its 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 common share for each five 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 a date to be fixed hereafter, and upon receipt by Applicant of subscriptions properly executed and the necessary funds, to issue certificates for the appropriate number of shares; and authorizing Applicant to use the proceeds from the issue and sale of said common shares to reimburse its treasury in part because of moneys expended by Applicant for the acquisition of property and for the construction, completion, extension and

improvement of facilities of The Pacific Telephone and Telegraph Company and its subsidiary, Bell Telephone Company of Nevada.

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

Applicant has recently, through the amendment of its articles of incorporation, increased its authorized stock issue from 4,820,000 shares to 5,820,000 shares. The authorized stock is divided into 820,000 preferred shares and 5,000,000 common shares. Each share has a par value of \$100. The holders of the preferred shares are entitled to cumulative dividends at the rate of 6% per annum. The articles of incorporation provide that the unissued shares may be offered for subscription or sale or in exchange for property and be issued from time to time upon such terms and conditions as the board of directors may prescribe; but, when offered for subscription or sale for cash such shares shall be offered first to the corporation's preferred and common shareholders who shall have a preferential right to subscribe for or purchase the shares so offered, in proportion to the number of shares, preferred and/or common, held by them respectively.

As of October 31, 1948, Applicant had outstanding 820,000 shares (\$82,000,000 par value) of preferred stock and 3,324,602 shares (\$332,460,200 par value) of common stock. The testimony shows that American Telephone and Telegraph Company owns 640,957 preferred shares or 78.17% of such shares, and 3,003,584 common shares or 90.34% of such shares. Its combined preferred and common share ownership is 87.93% of all outstanding shares. Other share-

holders numbering more than 7,000, own 179,043 preferred shares or 21.83%, and 321,018 common shares or 9.66%. Their combined ownership of all outstanding shares is 12.07%.

Applicant's and its subsidiary's consolidated balance sheet as of October 31, 1948, shows assets and liabilities as follows:

Assets

Plant and Other Investments:	
Telephone plant in service	\$1,041,227,387.64
Telephone plant under construction	60,253,147.28
Property held for future telephone use	1,936,827.82
Telephone plant acquisition adjustment	925,503.06
Total telephone plant	1,104,342,865.80
Miscellaneous physical property	357,067.60
Other investments	598,400.08
Total plant and other investments	1,105,298,333.48
Current Assets:	
Cash	6,382,650.80
Special cash deposits	228,746.56
Working funds	231,806.22
Accounts receivable	37,309,143.01
Material and supplies	23,029,920.93
Total current assets	67,182,257.52
Prepaid Accounts and Deferred Charges:	
Prepayments	6,215,477.55
Discount on capital stock - net	4,817,811.12
Capital stock expense	116,915.57
Other deferred charges	1,416,905.15
Total prepaid accounts and deferred charges	12,567,109.39
Total Assets	\$1,185,047,710.39

Liabilities

Capital Stock:	
Common stock-par value (\$100 per share)	\$ 332,460,200.00
(Authorized - 4,000,000 shares;	
Outstanding - 3,324,602 shares)	
Preferred stock-par value (\$100 per share)	
6% cumulative	82,000,000.00
(Authorized and outstanding 820,000 shares)	
Total capital stock	414,460,200.00
Funded Debt:	
Thirty year 3-1/4% debentures due Mar.1,1978	75,000,000.00
Thirty-five year 3-1/8% " due Sept.15,1983	75,000,000.00
Forty year 2-3/4% debentures due Dec.1,1985	75,000,000.00
Forty year 2-7/8% " due Oct.1,1986	75,000,000.00
Forty year 3-1/8% " due Oct.1,1987	100,000,000.00
Total funded debt	400,000,000.00
Current and Accrued Liabilities:	
Advance billing for service & customers' deposits	5,451,562.96
Accounts payable and other current liabilities	37,492,413.33
Note payable	100,000.00
Accrued liabilities not due:	
Taxes	20,618,519.26
Interest	1,999,611.89
Total current and accrued liabilities	65,662,107.44
Deferred Credits:	
Unextinguished premium on funded debt - net	4,022,205.57
Other deferred credits	151,067.80
Total deferred credits	4,173,273.37
Depreciation and Amortization Reserves	285,662,164.00
Unappropriated Earned Surplus	15,089,965.58
Total Liabilities	\$1,185,047,710.39

The following statement shows Applicant's capitalization ratios as of October 31, 1948:

	<u>Amount</u>	<u>Per Cent</u>
Common stock	\$332,460,200	40.08
Preferred stock	22,000,000	9.88
Debentures	400,000,000	48.22
Surplus	<u>15,089,966</u>	<u>1.82</u>
Total	<u>\$829,550,166</u>	<u>100.00</u>

As of October 31, 1948, Applicant had no bank loans outstanding. The testimony shows that at the date of the hearing (January 17, 1949) on this application, its bank loans amounted to \$39,260,000. They bear interest at the rate of 2% per annum. It is estimated that by the end of March Applicant's bank loans will amount to from \$72,000,000 to \$75,000,000. If no securities are issued to pay such bank loans, they will have increased to about \$90,000,000 by the end of May. The loans have been made, or will be made, to pay construction expenses.

Applicant and its subsidiary report gross and net construction expenditures for 1948 and their estimate for 1949 as follows: ("000" omitted)

Item	<u>1948 Actual</u>		<u>1949 Estimates</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Right of way	\$ 759	\$ 740	\$ 440	\$ 427
Land and buildings	33,489	32,508	19,299	18,795
Central office equipment	70,749	64,135	49,694	37,130
Station equipment	56,675	25,391	58,219	24,526
Exchange lines	50,058	45,024	44,735	39,757
Toll lines	18,383	16,931	11,879	9,781
General equipment	<u>9,593*</u>	<u>7,129</u>	<u>6,272</u>	<u>4,369</u>
Total	<u>\$239,706</u>	<u>\$191,858</u>	<u>\$190,538</u>	<u>\$134,785</u>

*Excludes intercompany, interarea, and interstate transfers in amount of \$363.

In 1948 the actual construction expenditures of Bell Telephone Company of Nevada amounted to about \$2,093,000 and its

net construction expenditures to \$1,729,000. The corresponding figures for 1949 are estimated at \$1,700,000 and \$1,080,000, respectively. Its construction expenditures constitute a relatively small amount of the total.

The record shows that from October 31, 1922, to October 31, 1948, Applicant expended for the construction, completion, extension and improvement of its facilities and those of its subsidiary the sum of \$270,922,424.74, which sum it did not obtain from the issue of securities. The funds to make this expenditure were obtained from the following sources:

a. Increase in reserves	\$249,871,892.30
b. Increase in deferred credits over increase in deferred charges	6,373,663.56
c. Decrease in Accounts 202, 204 and 278	1,825,841.86
d. Write-off against surplus of preferred stock discount	2,000,000.00
e. Increase in surplus	13,422,851.65
f. Increase in current and accrued liabilities over increase in current assets and prepayments	<u>(2,571,824.63)</u>
Total	<u>\$270,922,424.74</u>

Applicant asks permission to use stock proceeds, to the extent that such proceeds are sufficient therefor, to reimburse its treasury because of the above expenditures. After reimbursement of its treasury, Applicant will use as much of the stock proceeds as may be required to pay its bank loans, and will apply the remainder or an amount equivalent thereto to finance new construction.

Currently Applicant's common stock is selling for less than its par value. Applicant's comptroller is hopeful that by the

time⁽¹⁾ Applicant is in a position to offer the stock to its stockholders the market price will have increased and that the stockholders will subscribe for their pro rata shares. Applicant does not propose to issue any shares offered but for which it receives no subscriptions.

There is now pending before the Commission a formal proceeding covering the payments by Applicant to American Telephone and Telegraph Company for services rendered by the latter under the license contract, a matter referred to in Decision No. 41591, dated May 18, 1948. Applicant did not, for reasons of record in that pending proceeding, file the plan referred to in said Decision No. 41591 and called for by Decision No. 41416, dated April 6, 1948. The issue raised by Applicant's failure to file the plan will be decided on the record in the pending proceeding. In the meantime, Applicant should be authorized to issue the 828,920 common shares of stock.

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 828,920 common shares (\$82,892,000 par value) of its capital stock, a public hearing having been held and the Commission being of the opinion that the

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The testimony shows that Applicant plans to file a registration statement with the Securities and Exchange Commission on or about February 18, 1949. If such statement becomes effective on March 4, it will mail the prospectus and the warrants to its stockholders on March 10 and close the subscription period on March 31. This schedule is subject to change because of delay in obtaining the necessary authority to issue the stock and because of the market value of Applicant's common stock.

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 purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED that The Pacific Telephone and Telegraph Company be, and it is hereby, authorized to offer, on or before June 30, 1949, 828,920 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 five (5) 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 a date to be hereafter fixed, 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 number of shares of stock subscribed for, the consideration received therefor, 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 8th day of February, 1949.

R. E. Indig
Justice J. Garner
Earl P. Brown
Harold P. Hills
Kenneth D. Potter
Commissioners