

ORIGINAL

Decision No. 42696

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, )  
 )  
 for an order authorizing it to offer )  
 814,694 common shares for subscription )  
 and sale for cash at \$100 per share to )  
 the holders of its preferred and common )  
 shares. )  
 ----- )

Application  
No. 30865

Arthur T. George, and Pillsbury, Madison & Sutro  
 by John A. Sutro, for applicant; Dion R. Holm,  
 City Attorney, and Paul L. Beck, Chief Valuation  
 and Rate Engineer in the City Attorney's Office,  
 by Paul L. Beck, for the City of San Francisco,  
 interested party.

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 814,694 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 six 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, as far as possible, its treasury because of

moneys expended by applicant for the acquisition of property and for the construction, completion, extension and improvement of facilities of applicant 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 an authorized stock issue of 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 November 30, 1949, applicant had outstanding 820,000 shares (\$82,000,000 par value) of preferred stock and 4,068,165 shares (\$406,816,500 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 3,732,493 common shares or 91.75% of such shares. Its combined preferred and common share ownership is 89.47% of all outstanding shares. Other shareholders numbering more than 7,700, own 179,043 preferred shares or 21.83%, and 335,672 common shares or 8.25%. Their combined ownership of all outstanding shares is 10.53%.

Applicant's consolidated balance sheet as of November 30, 1949, shows assets and liabilities as follows:

Assets

Plant and other investments:		\$1,241,813,584.68
Telephone plant in service	\$1,211,189,199.16	
Telephone plant under construction	27,053,413.96	
Property held for future telephone use	2,356,747.36	
Telephone plant acquisition adjustment	112,264.83	
Miscellaneous physical property	503,534.29	
Other investments	598,425.08	
Current assets:		67,946,908.81
Cash	6,336,710.41	
Special cash deposits	1,243,501.31	
Working funds	271,879.29	
Accounts receivable	40,664,365.72	
Material and supplies	19,430,452.08	
Prepaid accounts and deferred charges:		15,051,991.71
Prepayments	8,398,431.85	
Discount on capital stock-net	4,817,811.12	
Capital stock expense	138,834.51	
Other deferred charges	1,696,914.23	
 Total assets		<u>\$1,324,812,485.20</u>

Liabilities

Capital stock:		\$ 488,816,500.00
Common stock-4,068,165 shares	\$406,816,500.00	
Preferred stock-820,000 shares	82,000,000.00	
Funded debt:		400,000,000.00
Thirty year 3-1/4% debentures due March 1, 1978	75,000,000.00	
Thirty-five year 3-1/8% debentures due September 15, 1983	75,000,000.00	
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	
Current and accrued liabilities:		115,278,336.51
Notes payable -		
Banks	43,900,000.00	
Other	100,000.00	
Advance billing for service and customers' deposits	6,591,485.12	
Accounts payable and other current liabilities	34,600,040.82	
Accrued liabilities not due -		
Taxes	27,076,365.35	
Interest	3,010,445.22	
Deferred credits:		4,095,730.31
Unextinguished premium on funded debt-net	3,937,436.65	
Other deferred credits	158,293.66	
Depreciation reserve		299,562,244.56
Unappropriated earned surplus		<u>17,059,673.82</u>
	Total liabilities	<u>\$1,324,812,485.20</u>

On December 1, 1949, applicant's board of directors declared a dividend of \$1.50 per share on the company's outstanding preferred stock, and a dividend of \$1.75 per share on its outstanding common stock. Allowing for the portion of such dividends attributable to October and November, 1949, applicant's surplus is \$11,493,481.32.

The following statement shows applicant's capitalization ratios as of December 31, 1949:

	<u>Amount</u>	<u>Per Cent</u>
Common stock	\$406,816,500	42.5
Preferred stock	82,000,000	8.6
Debt	<u>467,400,000</u>	<u>48.9</u>
Total	<u>\$956,216,500</u>	<u>100.0</u>

Applicant's debt consists of \$400,000,000 of debentures and \$67,400,000 of short-term notes. The notes bear interest at the rate of 2% per annum. It estimates that by March 31, 1950, the short-term notes will amount to about \$84,500,000.

If the \$81,469,400 par value of common stock is issued, applicant's capitalization ratios will be approximately as follows:

	<u>Amount</u>	<u>Per Cent</u>
Common stock	\$488,285,900	50.32
Preferred stock	82,000,000	8.46
Debentures	<u>400,000,000</u>	<u>41.22</u>
Total	<u>\$970,285,900</u>	<u>100.00</u>

It is of record that applicant will have to do additional financing of about \$75,000,000 during 1950. Applicant's pro forma capitalization ratios are such as to warrant consideration of issuing some form of indebtedness to evidence the additional financing during 1950.

Applicant and its subsidiary, Bell Telephone Company of Nevada, report gross and net construction expenditures for 1949 (December estimated) and their estimate of 1950 gross and net construction expenditures as follows:

("000" omitted)

Item	1949		1950 Estimates	
	Gross	Net	Gross	Net
Right of way	\$ 531	\$ 494	\$ 392	\$ 272
Land and buildings	15,294	14,511	12,865	12,536
Central office equipment	42,378	29,329	28,171	22,604
Station equipment	57,837	21,147	58,689	17,592
Exchange lines	48,620	42,935	45,931	40,477
Toll lines	9,624	7,800	5,960	3,931
General equipment	5,496	2,866	5,242	3,266
Total	\$179,780	\$119,082	\$157,250	\$100,678

The foregoing figures exclude intercompany, interarea and interstate transfers in the amount of \$84.

In 1949 the gross construction expenditures of Bell Telephone Company of Nevada amounted to about \$1,596,000, and its net construction expenditures to \$963,000. The corresponding figures for 1950 are estimated at \$2,800,000 and \$2,200,000, respectively. Its construction expenditures constitute a relatively small amount of the total.

The record shows that from October 31, 1922, to November 30, 1949, applicant expended for the construction, completion, extension and improvement of its facilities and those of its subsidiary the sum of \$289,506,375.94, which sum it did not obtain from the issue of securities. A substantial part of that sum is evidenced by the increase in the company's depreciation reserve.

Applicant asks permission to use the 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.

The testimony shows that applicant plans to file a registration statement with the Securities and Exchange Commission on or about February 24, 1950. If such statement becomes effective by March 15, it will mail the prospectus and the warrants to its stockholders on about March 21 and close the subscription period on or about April 14. This schedule is subject to change because of applicant's not being advised when it will obtain the necessary authority to issue the stock and because of the market value of applicant's stock. In my opinion, applicant should extend the subscription period to at least 30 days. Subject to the 30-day subscription period, applicant may fix the date for the mailing of the prospectus and warrants and the close of the subscription period.

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 814,694 common shares (\$51,469,400 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 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, 1950, 814,694 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 a date to be hereafter fixed by its board of directors, 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, provided that a period of not less than thirty (30) days be allowed between the mailing of the prospectus and warrants and the close of the subscription period.

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 17<sup>th</sup> day of January, 1950.

R. T. Johnson  
Justice J. A. Quinn  
W. W. F. [unclear]  
Harold P. [unclear]  
Frederick Lott  
Commissioners