

ORIGINAL

Decision 83 08 033 AUG 3 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELE- )  
 PHONE AND TELEGRAPH COMPANY for )  
 authorization to split its out- )  
 standing common share, grant )  
 voting rights to its preferred )  
 shares, and establish a regional )  
 holding company, wholly-owned by )  
 the American Telephone and )  
 Telegraph Company, to hold its )  
 common shares. )

Application 83-05-55  
(Filed May 24, 1983)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) requests authority, under Public Utilities (PU) Code Sections 816 through 818, for the following:

1. To split its single share of outstanding common stock into 224,504,982 shares;
2. To grant voting rights to 21,420,000 shares of its non-voting preferred stock; and
3. To establish a regional holding company wholly-owned by the American Telephone and Telegraph Company (AT&T) to hold Pacific's common shares.

These proposed changes are all related to the divestiture as described in a later paragraph.

Summary of Decision

This decision grants Pacific the authority requested in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 27, 1983. No protests have been received.

Pacific, a California corporation, is the sole owner of Bell Telephone Company of Nevada and is itself a wholly-owned subsidiary of AT&T. Pacific, a public telephone utility company, provides local and long-distance telephone service in California. Pacific's system is comprised of local and long-distance telephone lines and exchanges, buildings, rights-of-way, franchises, and equipment.

Description of Divestiture

Pacific currently has two classes of shares outstanding. The first is a single common share which is owned by AT&T. The second class consists of 21,430,000 shares of non-voting preferred stock which is subject to mandatory redemptions, including a mandatory redemption of 500,000 shares on July 1, 1983. In order to effectuate divestiture, under the consent decree filed in Federal Court in U.S. v. Western Electric Co., it is planned that the common share owned by AT&T be transferred to a newly formed holding company thereby effectively transferring AT&T's ownership in Pacific to the holding company. As described in the application, ownership of the holding company would be with AT&T only from the time of formation until divestiture occurs (currently scheduled for January 1, 1984).

Pacific will write the Articles of Incorporation for the new holding company and will provide its board of directors and controller. AT&T would transfer the one and only outstanding share of Pacific's common stock to the holding company. At this point, Pacific would split this share into 224,504,982 shares to be held by the holding company.

Prior to divestiture, the holding company would have issued sufficient shares of its own stock for distribution to AT&T shareholders at divestiture on the basis of one holding company common share for every ten AT&T shares owned. Pacific's outstanding preferred shares would remain as Pacific's sole preferred shares.

The application indicates that the proposed distribution of the holding company's stock to AT&T shareholders would be a taxable transaction to those shareholders under the provisions of Internal Revenue Code Sections 355 and 368(c) unless the holding company owns at least 80% of the total combined voting power of all classes of Pacific's stock entitled to vote and at least 80% of the total number of shares of all other classes of Pacific's stock.

The application also states that, if the distribution were taxable, the holding company would experience adverse shareholder reaction, as the shareholders are likely to perceive that

the Pacific region's stock is less attractive as an investment as compared with the other six regions in which the distribution will be tax free. In order to avoid this adverse shareholder reaction, Pacific proposes that it amend its Articles of Incorporation to provide voting rights on the basis of one vote per share of preferred stock and to split the single outstanding share of Pacific's common stock into 224,504,982 shares, the number of common shares outstanding prior to AT&T's acquisition of all of Pacific's outstanding common shares on May 12, 1982.

After Pacific's common stock split and the granting of voting rights to its non-voting preferred stock, there would be 245,934,982 shares of voting stock and the holding company would control 224,504,982 of these or about 91% thereby fulfilling the requirements of the IRS for a tax free transaction making all regions equivalent and tax free.

There will be no change in Pacific's capital structure or voting control as a result of the proposed changes.

The application indicates that these transactions will not adversely affect Pacific's ability to provide telephone service in California or to attract necessary capital.

No other changes will take place with respect to the rights, privileges, restrictions, or preferences associated with the common and preferred shares. There will be no change in Pacific's capital structure. AT&T's ownership of Pacific will be transferred to the holding company.

The Commission's Revenue Requirements Division has reviewed Pacific's request to split its common stock, to grant voting rights to the non-voting preferred stock, and to establish a regional holding company to hold Pacific's common stock. The Division has no objection to Pacific's proposals.

Findings of Fact

1. Pacific, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. In order to effectuate divestiture, under the consent decree entered by the Federal court in U.S. v. Western Electric Co., it is planned that Pacific's common equity, which is owned by AT&T, be transferred to a holding company, which will be a wholly-owned subsidiary of AT&T until divestiture.

3. The proposed transactions will allow the distribution of the Pacific regional holding company shares to be a tax free transaction, which will be beneficial to Pacific and in the public interest.

4. The proposed transactions are for proper purposes and not adverse to the public interest.

5. The proposed transactions will not change Pacific's capital structure.

6. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

The number of common shares outstanding, the total par value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization to split Pacific's single share of outstanding common stock into 224,504,982 shares, to grant voting rights to 21,420,000 shares of non-voting preferred stock, or the establishment of a regional holding company wholly-owned by AT&T to hold Pacific's stock or property is not a finding of the value of Pacific's stock or property nor does it indicate the amounts to be included in rate setting proceedings.

The following order should be effective on the date of signature to permit Pacific to proceed with its stock split and other transactions as outlined in its application expeditiously.

O R D E R

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company (Pacific), on or after the effective date of this order, may split its single outstanding share of common stock into 224,504,982 common shares; may grant voting rights to its 21,420,000 shares of non-voting preferred stock; and may establish a holding company wholly-owned by the American Telephone and Telegraph Company to hold Pacific's common shares.

2. Pacific shall file the reports required by General Order Series 24.

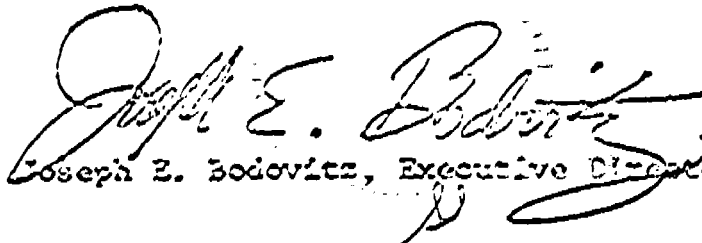
This order is effective today.

Dated AUG 3 1983, at San Francisco, California.

I dissent.  
WILLIAM T. BAGLEY, Commissioner

LEONARD M. GRIMES, JR.  
President  
VICTOR CALVO  
PRISCILLA C. GREW  
DONALD VIAL  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director

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