

Decision No. 14258

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
 SANTA MONICA BAY TELEPHONE COMPANY
 for authority to create a bonded in-
 debtedness of \$10,000,000.00 to exe-
 cute a deed of trust to secure the
 same, to purchase property, to issue
 stock and bonds for cash and property,
 and to operate under various franchises
 of
 SANTA MONICA BAY HOME TELEPHONE COM-
 PANY for authority to sell its property
 for stock of Santa Monica Bay Telephone
 Company.

Application Number 10412

ORIGINAL

Mott and Vallee, for Applicants.

BY THE COMMISSION :

O P I N I O N

The Railroad Commission is asked to make an order -

- (a) Authorizing Santa Monica Bay Home Telephone Company to sell all of its properties to the Santa Monica Bay Telephone Company and authorizing the former company to withdraw from and the latter company to engage in the telephone business in the territory covered by the telephone system of Santa Monica Bay Home Telephone Company.
- (b) Authorizing Santa Monica Bay Telephone Company to execute a mortgage or deed of trust and issue \$836,000.00 of bonds.
- (c) Authorizing Santa Monica Bay Telephone Company to issue \$650,000.00 of common stock plus such additional common stock as may be equal in par value to the cost of additions and extensions from July 1, 1924 to the date of the transfer of the properties and accounts receivable on the date of the transfer of the properties.
- (d) Authorizing the Santa Monica Bay Telephone Company to issue and sell \$125,000.00 par value of seven per cent cumulative preferred stock.

Reference will hereafter be made to the purposes for which the Santa Monica Bay Telephone Company intends to issue its stocks and bonds.

The Santa Monica Bay Home Telephone Company has an authorized stock issue of \$500,000.00, of which \$263,000.00 is outstanding. Its bonded debt outstanding amounts to \$497,500.00 and its mortgage notes to \$14,833.33, making a total secured debt of \$512,333.33. The outstanding bonds of the Santa Monica Bay Home Telephone Company bear interest at the rate of five per cent per annum and mature in 1937. In addition to the secured debt to which reference has been made, the company as of September 30, 1924 reports \$184,446.68 of notes payable, \$100,308.92 of audited vouchers payable, and \$969.85 of trade acceptances payable, making a total current debt of \$285,725.45. It reports advances for extensions at \$35,661.61. Its various reserves aggregate a total of \$232,739.91 and consist of the following :-

Reserve amortization bond interest	\$ 2,467.89
Reserve bond interest	11,258.20
Reserve bad debts	1,200.00
Reserve taxes	5,927.35
Reserve 1923 income tax	1,545.84
Reserve 1924 income tax	4,637.70
Reserve accrued depreciation	194,477.95
Reserve redemption of bonds	<u>11,224.98</u>

\$232,739.91

As of September 30, 1924 the company reports a surplus of \$92,924.66. All of the surplus and the reserves have been temporarily invested in the company's properties.

For the years 1922 and 1923 and the first nine months of 1924 the Santa Monica Bay Home Telephone Company reports operating revenues, operating expenses and other income, disbursements and gross income as follows :-

ITEM	1922	1923	9 Mos. 1924
Telephone operating revenues	\$179,568.06	\$216,379.84	\$199,838.87
Telephone operating expenses	111,642.30	137,047.57	150,326.96
Net telephone operating revenue:	67,925.76	79,332.27	49,511.91
Uncollectible operating revenue:	657.57	2,469.94	1,825.79
Taxes assignable to operations	11,677.67	13,912.11	10,727.15
Deductions from revenue	12,335.24	16,382.05	12,552.94
Operating income	55,590.52	62,950.22	36,958.97
Non-operating income	10,164.58	11,316.14	-
Gross income-amount available for interest, dividends, etc.	\$ 65,755.10	\$ 74,266.36	\$ 36,958.97

The operating expenses for 1922 include \$45,922.67 for depreciation, those for 1923 the sum of \$52,790.30 and those for 1924 the sum of \$34,810.08.

There has been filed in this proceeding a valuation of the property of the Santa Monica Bay Home Telephone Company, such valuation having been prepared by A. L. Wilson. He reports the estimated reproduction cost new of the properties as of June 30, 1924, using present prices, at \$1,545,109.33 and the reproduction cost new less depreciation at \$1,429,183.21. On the historical basis he reports the estimated original cost at \$1,530,607.06 and the original cost less depreciation at \$1,417,043.06. A. L. Wilson estimates the accrued depreciation on the reproduction cost new basis at \$115,926.12 and on the historical basis at \$113,564.00. He testified that he had made no calculation of the amount that should be in the reserve for accrued depreciation but expressed an opinion that the amount would approximate \$115,000.00. The Santa Monica Bay Home Telephone Company in its balance sheet as of September 30, 1924 (applicant's Exhibit No. 2) shows a reserve for accrued depreciation of \$194,477.95. The record does not enable the Commission to reach a definite conclusion either as to the amount of the accrued depreciation or the amount that should be in the reserve for accrued depreciation. The Commission has therefore set aside the submission of this matter and has set this proceeding down for further hearing. It should be noted, however, in this connection that the Commission's order setting aside the submission and reopening this proceeding for further hearing in no way limits such

further hearing to a consideration of the accrued depreciation or the reserve for accrued depreciation.

Santa Monica Bay Telephone Company was organized in July 1924. It has an authorized stock issue of \$2,000,000.00 divided into 10,000 shares of common and 10,000 shares of preferred stock of the par value of \$100.00 per share. The preferred stock bears cumulative dividends at the rate of seven per cent per annum. In the event of liquidation or dissolution the preferred stock shall be paid in full at par plus accumulated unpaid dividends before any payment is made on the common stock. All of the remaining proceeds shall be distributed amongst the holders of common stock. The corporation at its option may redeem all or any part of the outstanding preferred stock on any dividend payment at \$105.00 per share, plus accumulated dividends unpaid at the date of redemption.

Santa Monica Bay Telephone Company is to have an initial authorized bonded debt of \$10,000,000.00. Of this amount the company at this time asks permission to issue and sell \$836,000.00. The application shows that the \$836,000.00 of bonds are to bear interest at six per cent and are to be payable on September 1, 1944, and that the company at its option may redeem the bonds prior to maturity by paying the following premiums:- prior to or during the calendar year 1934, five per cent of the principal; in 1935 four and one half per cent; in 1936 four per cent; in 1937 three and one half per cent; in 1938 three per cent; in 1939 two and one half per cent; in 1940 two per cent; in 1941 one and one half per cent; in 1942 one per cent; in 1943 one half per cent; in 1944 at par and accrued interest. Santa Monica Bay Telephone Company has not yet filed a copy of its proposed mortgage or deed of trust. The order herein will provide that no bonds may be delivered until the Commission has authorized the company to execute a mortgage or deed of trust to secure the payment of the bonds.

It is of record that The Pacific Telephone and Telegraph Com-

pany owns \$265,500.00 of the \$497,500.00 of outstanding five per cent bonds of the Santa Monica Bay Home Telephone Company which are a first lien on the properties of that company. The Santa Monica Bay Telephone Company asks permission to issue \$239,000.00 of its six per cent bonds to refund \$265,500.00 of five per cent bonds of Santa Monica Bay Home Telephone Company owned by The Pacific Telephone and Telegraph Company. The refunding is being effected on about a six per cent basis. While the exchange of the bonds in the amounts and on the basis mentioned results in a small increase in the annual interest charge, the amount of bonds of Santa Monica Bay Home Telephone Company outstanding in the hands of the public will be reduced from \$497,500.00 to \$232,000.00. Upon the completion of the refunding the total bonds outstanding will be \$471,000.00 as compared with the total of \$497,500.00 now outstanding. The \$471,000.00 consists of \$232,000.00 of 5 per cent first mortgage bonds of Santa Monica Bay Home Telephone Company and \$239,000.00 of 6 per cent refunding bonds of Santa Monica Bay Telephone Company.

Santa Monica Bay Telephone Company also asks permission to issue and sell at ninety four and accrued interest \$597,000.00 of six per cent bonds and use the proceeds for the following purposes :-

1. In part payment of the following liabilities :-

(a) Mortgage notes	\$ 14,833.33
(b) Trade acceptances	24,350.07
(c) Notes payable	160,446.97
(d) Vouchers audited payable	104,793.64
Total	<u>\$ 304,424.01</u>

2. To pay in part for additions, betterments, extensions and improvements described in Exhibit "C" \$ 333,417.49

3. To refund in part the following liabilities assumed :-

(a) Reserve for amortization of bond discount	\$ 1,645.26
(b) Reserve for bond interest	5,239.50
(c) Reserve for taxes	7,603.42
(d) Reserve for income tax 1923	3,091.66
(e) Reserve for income tax 1924	3,091.80
(f) Reserve for bond redemption to Jan. 1, 1924	11,224.98
(g) Reserve for bond redemption from Jan. 1 1924 to Sept. 1, 1924	4,105.03
Total	<u>\$ 36,001.65</u>
Grand Total	<u>\$673,843.15</u>

The expenditures referred to in Exhibit "C" are the following :-

Material ordered	\$ 57,945.29
Material estimated	19,550.00
Sawtelle exchange	63,780.00
Ocean Park building	154,955.00
Trunk cable	37,187.20
Total	<u>\$333,417.49</u>

The \$36,001.65 represented by various reserves is said to have been invested in the properties of Santa Monica Bay Home Telephone Company which will be acquired by Santa Monica Bay Telephone Company, which assumes to pay the liabilities represented by such reserves. The \$36,001.65 constitutes part of the purchase price of the properties.

To refund or pay in part the liabilities to which reference has been made Santa Monica Bay Telephone Company asks permission to issue and sell at a net price of \$92. per share, 1250 shares (\$125,000. par value) of seven per cent cumulative preferred stock. If the bonds and preferred stock are sold at the prices indicated the company will realize \$676,180.00 as contrasted with \$673,843.15 representing debts to be refunded and the cost of additions and extensions. Any proceeds not needed for the purposes indicated in this opinion, may be expended only for such purposes as may be authorized by the Railroad Commission in a supplemental order or orders.

Santa Monica Bay Telephone Company asks permission to issue \$650,000.00 of common stock "together with stock issued at its par value for additions and extensions from July 1, 1924 to date of transfer and accounts receivable on the date of transfer" of the properties. The \$650,000.00 was apparently arrived at by deducting from the estimated reproduction cost new less depreciation reported by A. L. Wilson, the liabilities to be assumed. Inasmuch as a further hearing will be had in this matter and the question of accrued depreciation and the amount that should be in the reserve for accrued depreciation considered at such hearing, the Commission will not at this time authorize the issue of \$650,000.00 of common stock. The order herein will permit

of the transfer of the properties and the issue of \$450,000.00 of common stock. Following the further hearing an order will be entered increasing the amount of stock if the evidence justifies such an increase.

O R D E R

Santa Monica Bay Home Telephone Company having applied to the Railroad Commission for permission to sell all of its properties to the Santa Monica Bay Telephone Company and the latter company having asked permission to purchase such properties and to issue in payment for such properties, \$650,000.00 of common stock, together with such additional common stock which at its par value will be equal to the cost of additions and extensions from July 1, 1924 to the date of the transfer of the properties, and accounts receivable on the date of the transfer of the properties, and issue \$125,000.00 of preferred stock and \$836,000.00 of bonds, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the Santa Monica Bay Telephone Company should at this time be authorized to issue \$450,000.00 of common stock, \$125,000.00 of preferred stock and \$836,000.00 of bonds for the purpose of acquiring the properties of Santa Monica Bay Home Telephone Company, to refund indebtedness and pay the cost of additions and extensions and that the money, property or labor to be procured or paid for by the issue of such stocks and bonds is reasonably required by the Santa Monica Bay Telephone Company and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:-

1. Santa Monica Bay Home Telephone Company may sell all of its properties to the Santa Monica Bay Telephone Company which is hereby authorized to acquire such pro-

erties, provided it will engage in the telephone business in the territory now covered by the telephone system of Santa Monica Bay Home Telephone Company. Upon the acquisition of the properties of Santa Monica Bay Home Telephone Company by Santa Monica Bay Telephone Company, the former company may withdraw from the telephone business.

2. The Santa Monica Bay Telephone Company may issue and sell at not less than par \$450,000.00 of its common stock and use the proceeds to pay in part the cost of the properties of Santa Monica Bay Home Telephone Company or deliver such stock at not less than par in part payment for such properties.
3. Santa Monica Bay Telephone Company may issue and sell at not less than \$92. per share net, 1250 shares (\$125,000.00 par value) of its seven percent. cumulative preferred stock and use the proceeds obtained from the sale of such stock to refund in part the indebtedness referred to in the preceding opinion or pay in part the cost of additions and extensions referred to in such opinion.
4. Santa Monica Bay Telephone Company may issue \$239,000.00 of six percent. bonds due September 1, 1944 to refund \$265,500. of five percent. bonds of the Santa Monica Bay Home Telephone Company.
5. Santa Monica Bay Telephone Company may issue and sell at not less than 94 percent. of face value and accrued interest \$597,000.00 of six percent. bonds due September 1, 1944 and use the proceeds to refund in part the indebtedness referred to in the preceding opinion or to pay in part the cost of additions and extensions referred to in such opinion.

6. Any proceeds obtained from the sale of the preferred stock - or bonds herein authorized to be issued and sold and not needed for any of the purposes mentioned in the foregoing opinion, may be expended by the Santa Monica Bay Telephone Company only for such purposes as the Railroad Commission may hereafter authorize by a supplemental order or orders.

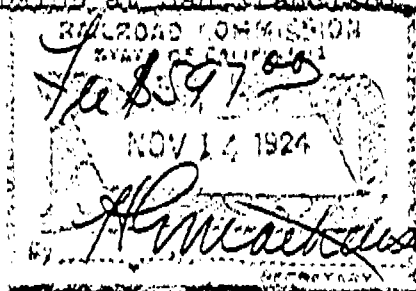
7. Santa Monica Bay Telephone Company shall keep such record of the issue, sale and delivery of the stock and bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report as required by the Railroad Commission's General Order No. 24, which order in so far as applicable, is made a part of this order.

8. The authority granted to issue bonds will not become effective until Santa Monica Bay Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, nor until the Commission has authorized the Santa Monica Bay Telephone Company to execute a mortgage or deed of trust to secure the payment of such bonds, nor until the Commission has been advised that Santa Monica Bay Home Telephone Company has complied with the sinking fund provisions of its mortgage or deed of trust.

9. The authority herein granted to transfer properties and to issue common and preferred stock will become effective upon the date hereof.

10. Under the authority herein granted no stock or bonds may be issued, sold or delivered after June 30, 1925.

DATED at San Francisco, California, this 14th day of November, 1924.



Cl. Seavey
Ernest Martin
Ernest Shore
9- _____
Commissioners