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Decision No. 14496.

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 ex-
ecute 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 fran-
chises; of Santa Monica Bay Home Tel-
ephone Company for authority to sell
its property for stock of Santa Moni-
ca Bay Telephone Company.

ORIGINAL

Application Number 10412

BY THE COMMISSION:

SECOND SUPPLEMENTAL ORDER

The Commission by Decision Number 14258 dated November 14, 1924, authorized Santa Monica Bay Telephone Company to issue, subject to the terms and conditions of such decision, \$450,000.00 of common stock and \$125,000.00 of seven percent preferred stock and \$636,000.00 of six percent bonds. By such decision the Commission also authorized the Santa Monica Bay Home Telephone Company to transfer its properties to the Santa Monica Bay Telephone Company.

Referring to the issue of common stock the Commission in its decision says:-

"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."

A further hearing was had in the above entitled matter before Examiner Fankhauser on November 17th. At such hearing the Commission introduced its Exhibit No. 1 which is a statement prepared by Paul Thelen, an assistant engineer of the Commission, showing the amounts that should have been in the reserve for accrued depreciation of Santa Monica Bay Home Telephone Company on June 30, 1924, using a five percent sinking fund basis and a straight line basis for calculating the depreciation. The former method results in a total of \$177,206.00 and the latter, a total of \$243,431.00. The company through its witnesses, re-affirmed its views on depreciation, as originally submitted at the hearing had on October 6, 1924. At such hearing A. L. Wilson, consulting engineer for the company, stated that in his opinion the amount that should be in the reserve would approximate the accrued depreciation of \$113,564.00 reported by him.

At the hearing had on November 17th applicants filed a statement (Exhibit No. 9) in support of an alleged going concern value of \$73,110.65. This is in addition to the value of the properties as submitted at the original hearing. The \$73,110.65 is segregated in the two items, namely developing business \$44,098.10 and losses sustained during early development period \$29,012.55. As of September 30th the Santa Monica Bay Home Telephone Company reports an accumulated surplus of \$92,924.66. It is also reported that some of the accounts of the company are incorrect, in that cost items which should have been charged to capital account have been included in operating expenses. To the extent that this is a fact, operating expenses, if the accounts had been properly kept, would be reduced and the unappropriated surplus accordingly increased. There was no evidence submitted showing that the company has not recovered the

losses which it may have sustained during its early history. Moreover, if any such losses have been sustained the losses were those of the Santa Monica Bay Home Telephone Company, and not those of the Santa Monica Bay Telephone Company, which asks permission to issue common stock, to acquire the equity in the properties of the Santa Monica Bay Home Telephone Company.

On November 26th applicants filed a supplemental application in which they ask that Santa Monica Bay Telephone Company be permitted to issue \$750,000.00 of common stock upon the basis and statements set forth in the original application and amendments thereto.

The Commission has been advised that the properties of the Santa Monica Bay Home Telephone Company were transferred to the Santa Monica Bay Telephone Company on December 31, 1924. Statements have been filed showing the cost of additions and betterments to the properties from June 30, 1924, the date of the valuation of the properties heretofore submitted, to December 31, 1924. The Commission has before it also a statement of the liabilities which the Santa Monica Bay Telephone Company has assumed, or will assume. Having considered the evidence submitted in connection with this proceeding, we are of the opinion that the Santa Monica Bay Telephone Company should be permitted to issue \$200,000.00 of common stock in addition to the \$450,000.00 heretofore authorized to be issued.

We are further of the opinion that the company should, in opening its accounts, set up its reserve for depreciation on a five percent. sinking fund basis, in accordance with the principles appearing in the Commission's Exhibit No. 1.

IT IS HEREBY ORDERED that the order in Decision Number 14258 dated November 14, 1924, be, and it is hereby, amended so as to permit Santa Monica Bay Telephone Company to issue and sell at not less than par \$650,000.00, instead of \$450,000.00, of 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.

IT IS HEREBY FURTHER ORDERED that the order in Decision Number 14258 dated November 14, 1924, shall remain in full force and effect, except as amended by this Second Supplemental Order.

IT IS HEREBY FURTHER ORDERED that the supplemental application filed in the above entitled matter on November 26, 1924 be, and the same is hereby dismissed without prejudice.

DATED at San Francisco, California, this 27th day of January, 1924.

H. V. Brundage
O. S. Leavelle
Egerton Shore
George D. Squires
Ernest Scott

Commissioners.