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Decision No. 29274

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA TELEPHONE)
COMPANY,)
a corporation, for an order author-)
izing the issuance of common capi-)
tal stock of the par value of)
\$38,913,100.00.)

Application No. 14848.

Pillsbury, Madison and Sutro; James G. Marshall;
James T. Shaw; Lawler and Degnen, by
Oscar Lawler, for applicant.

BY THE COMMISSION:

OPINION

In this application, as amended in the hearing had on August 17th before Examiner Fankhauser, Southern California Telephone Company asks permission to issue and sell at par 389,131 shares (\$38,913,100.00 par value) of its common capital stock and use the proceeds, first for the purpose of paying indebtedness incurred by applicant for the construction, completion, extension and improvement of its facilities prior to May 31, 1928, which have not been already capitalized through the proceeds derived from the issue and sale of securities heretofore authorized by the Commission, and second, to finance to the extent that they are sufficient therefor, the cost of additions and extensions to its plant made on and after May 31, 1928; and authorizing The Pacific Telephone and Telegraph Company to purchase all or any part of the \$38,913,100.00 of the stock referred to in this application.

Applicant has an authorized stock issue of \$75,000,000.00 of which \$36,086,900.00 is outstanding. Of the outstanding stock \$6,086,900.00 was issued under the authority granted by Decision No. 3845, dated November 4, 1916, (Vol. II, Opinions and Orders of the Railroad Commission of California, page 806) and \$30,000,000.00 was issued under the authority granted by Decision No. 12929, dated December 13, 1923, (Vol. 24, Opinions and Orders of the Railroad Commission of California, page 228). The company also has outstanding \$8,342,000.00 of funded debt consisting of \$7,376,000.00 bonds and \$966,000.00 of notes secured by deeds of trust or mortgages.

As of May 31, 1928, Southern California Telephone Company was indebted to The Pacific Telephone and Telegraph Company for advances in the sum of \$38,175,202.99. On these advances the company has been paying interest at the rate of six percent per annum. The other current liabilities of the company appear in the balance sheet following.

In Exhibit One applicant reports its investment in fixed capital at \$88,563,302.00 and its construction work in progress at \$587,444.00, making a total of \$89,150,746.00. Against such investment the company has issued \$36,086,900.00 of its capital stock and ~~\$8,342,000.00~~^{8,342,000.00} of funded debt. The stock was issued at a discount of \$175,241.00. Through the issue of the stock and bonds the company in Exhibit One reports that it realized \$44,253,659.00 which deducted from the \$89,150,746.00 leaves a balance of \$44,897,087.00. This investment in fixed capital was financed by moneys borrowed from The Pacific Telephone and Telegraph Company, by other current liabilities and the investment in the company's properties of money offset by a reserve for accrued depreciation.

The assets and liabilities of the Southern California Telephone Company as of May 31, 1928, are reported in Exhibit Two as follows:-

<u>ASSETS:</u>	May 31, 1928.
Intangible Capital	\$531,752.37
Right of Way	157,856.70
Land and Buildings	9,365,763.87
Central Office Equipment	32,564,958.08
Station Equipment.	12,695,435.31
Exchange and Toll Lines.	31,131,249.08
Other Plant.	773,508.15
General Equipment.	1,342,778.94
<u>Total Fixed Capital.</u>	<u>\$88,565,302.50</u>
Construction Work in Progress.	587,443.76
Investment Securities.	2,155.03
Miscellaneous Investments.	34,832.88
Cash and Deposits.	473,816.30
Bills Receivable	441.76
Accounts Receivable.	2,116,735.07
Materials and Supplies	477,446.77
Accrued Income Not Due	1,154.75
Sinking Fund Assets.	148,559.46
Prepayments.	456,748.05
Unamortized Debt Discount and Expense.	403,288.25
Unextinguished Discount on Capital Stock	175,241.35
Other Deferred Debits.	63,753.97
<u>Total Assets</u>	<u>\$93,504,919.90</u>

<u>LIABILITIES:</u>	
Capital Stock, Common	\$36,086,900.00
Funded Debt.	8,342,000.00
Advances from System Corporations.	38,175,202.99
Bills Payable.	139,819.79
Accounts Payable	1,418,435.15
Accrued Liabilities Not Due.	763,313.13
Liability on account of Provident Funds.	64,252.10
Other Deferred Credit Items.	55,151.96
Reserve for Accrued Depreciation	9,269,474.00
Reserve for Amortization of Intangible Capital	27,035.77
Deficit.	836,664.99
<u>Total Liabilities</u>	<u>\$93,504,919.90</u>

In view of the fact that the company's investment in fixed capital and other assets is substantially in excess of the amount of stock which it asks permission to issue, we do not feel it necessary to make

a detailed examination of its investment in fixed capital account.

Testimony shows that The Pacific Telephone and Telegraph Company owns all of applicant's outstanding stock except shares necessary to qualify directors and that it will purchase the \$38,913,100.00 of stock if the issue thereof is authorized by the Commission.

ORDER

Southern California Telephone Company having applied to the Railroad Commission for permission to issue \$38,913,100.00 of common 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 by the issue of stock is reasonably required by Southern California Telephone Company and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income and that this application should be granted, therefore,

IT IS HEREBY ORDERED as follows:-

1. Southern California Telephone Company may issue and sell at not less than par on or before December 31, 1928, \$38,913,100.00 par value of its common capital stock and use the proceeds; first, to pay such indebtedness as may have been incurred by the company to construct, complete, extend and improve its facilities prior to May 31, 1928, and, second, to finance to the extent that they are sufficient therefor the cost of additions and extensions to its plant made on and after May 31, 1928.

2. The Pacific Telephone and Telegraph Company may acquire and hold the said \$38,913,100.00 of stock (or any part thereof) of Southern California Telephone Company.
3. Southern California Telephone Company shall file with the Railroad Commission a report as is required by the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.
4. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 28th
day of September, 1928.

Leon Whiteley

C. J. Sweeney

David L. ...

W. J. ...

Commissioners.