

ORIGINAL

Decision No. 21268
1265

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE)
ASSOCIATED TELEPHONE COMPANY, ASSOCIATED)
TELEPHONE COMPANY, HOME TELEPHONE COMPANY)
OF COVINA, HUNTINGTON BEACH TELEPHONE COM-)
PANY, REDONDO HOME TELEPHONE COMPANY, LAGUNA)
BEACH TELEPHONE COMPANY, and SANTA MONICA)
BAY TELEPHONE COMPANY for an order of the)
Commission (a) authorizing The Associated)
Telephone Company to acquire all, or sub-)
stantially all the outstanding capital stock)
of each of the other of said applicants; (b))
authorizing each of said other applicants to)
transfer and convey all its property and)
assets to The Associated Telephone Company;)
and (c) authorizing The Associated Telephone)
Company, for the purpose of acquiring the)
stock and properties of said other applicants,)
to issue preferred and common stock and to)
assume the liabilities of said other corpora-)
tions existing at the date of their acquisition,)
and for the purpose of discharging or refunding)
certain of such liabilities, to issue and sell)
preferred stock.)

Application No. 15494

R. D. Stevenson; and Mott, Vallee and Grant,
by Paul Vallee and J. G. Mott,
for Applicants.

BY THE COMMISSION:

O P I N I O N

In this application, as amended, Associated Telephone Company, Home Telephone Company of Covina, Huntington Beach Telephone Company, Redondo Home Telephone Company, Laguna Beach Telephone Company and Santa Monica Bay Telephone Company ask permission to consolidate and merge their respective properties, franchises, permits, rights and assets of every character under the ownership of The Associated Telephone Company. The Associated Telephone Company desires authority to acquire the outstanding stock and/or the properties of said companies as of January 1, 1929; issue and sell,

at not less than \$22.50 per share, 106,312 shares of preferred and 142,400 shares of common stock for the purposes hereinafter stated; and to assume the indebtedness and liabilities of said companies.

The Associated Telephone Company is a corporation organized under and by virtue of the laws of the State of California. The company has an authorized stock issue of 600,000 shares, all of which are without nominal or par value and are divided into 300,000 shares of preferred and 300,000 shares of common stock. The holder of each share of preferred stock shall be entitled to receive dividends at the rate of, but never exceeding, \$1.50 per share per year, payable quarterly on dates fixed by the board of directors of the corporation, but only out of such surplus or net earnings of the company as shall be made applicable to the payment of dividends by the board of directors. The dividends shall be cumulative and shall be payable before any dividends shall be paid or set apart for the common stock, so that if in any year there shall not have been paid on each outstanding share of preferred stock a dividend of \$1.50, the deficiency shall be payable before any dividend shall be paid on or set apart for the common stock. In the event of liquidation, dissolution or winding up of the corporation, either voluntary or involuntary, the holders of the preferred stock shall be entitled to be paid out of the assets of the corporation the sum of \$25.00 for each share and any unpaid dividends accrued thereon, before any amount shall be paid to the holders of the common stock. After such payments in full to the holders of the preferred stock, the remaining assets shall be paid or distributed to the holders of the common stock, ratable according to the number of shares held by each.

The corporation at any time, or from time to time, upon the authority of its board of directors and upon securing any permit or authority then required by law, shall have the right to redeem or retire any part of the preferred stock by paying to, or setting aside

for the benefit of the holders thereof, the sum of \$26.25 with respect to each share redeemed, together with all unpaid accrued dividends thereon to the date of redemption.

No preference is granted by the corporation's articles of incorporation, nor shall any distinction be made between the two classes of stock of the corporation, either as to voting power or to the statutory or constitutional liability of the holders thereof to the creditors of the corporation; and except for, and subject to, the preferences, matters and things stated in the articles of incorporation, each share of stock of said corporation shall be equal to every other share of such stock.

Each of the applicants in this proceeding, except The Associated Telephone Company, now owns and operates telephone properties in the State of California, such properties being general telephone systems located in the following municipalities and in the territory contiguous thereto: Azusa, Baldwin Park, Covina, Glendora, Hermosa Beach, Long Beach, Ocean Park, Puente, Redondo Beach, Sawtelle, Santa Monica, Signal Hill, Venice and West Los Angeles, all being located in the County of Los Angeles; Huntington Beach, Laguna Beach, Los Alamitos and Seal Beach, all located in the County of Orange; and San Bernardino, located in the County of San Bernardino.

In Exhibit "B" the authorized and outstanding stock of the companies now owning the telephone properties, which are

referred to in this application, is, as of December 31, 1928, reported as follows:

<u>Name of Company and Class of Stock</u>	<u>Authorized</u>	<u>Outstanding</u>
Associated Telephone Company Common Stock	\$2,000,000	\$1,511,800
Huntington Beach Telephone Company Common Stock	50,000	42,200
Laguna Beach Telephone Company Common Stock	50,000	11,600
Home Telephone Company of Covina Preferred Stock - 7% Cumulative.. Common Stock	300,000 300,000	158,200 101,800
Santa Monica Bay Telephone Company Preferred Stock - 7% Cumulative.. Common Stock	1,000,000 1,000,000	625,000 650,600
Redondo Home Telephone Company Preferred Stock	500,000	None
Common Stock	<u>1,000,000</u>	<u>119,400</u>
Total	<u>\$6,200,000</u>	<u>\$3,220,600</u>

It is of record that the Associated Telephone Utilities Company owns 89% of the common stock of Associated Telephone Company, the other 11% being owned by The Pacific Telephone and Telegraph Company. The Associated Telephone Utilities Company owns all of the common and preferred stock of the Home Telephone Company of Covina. It owns all of the stock of the Huntington Beach Telephone Company, of the Redondo Home Telephone Company and of the Huntington Beach Telephone Company. It owns nearly 98% of the common stock of the Santa Monica Bay Telephone Company, while the remainder of the common stock of that company, except about 18 shares, is owned by The Pacific Telephone and Telegraph Company. The Associated Telephone Utilities Company stands ready and willing to purchase the 18 shares of common stock of the Santa Monica Bay Telephone Company. None of the preferred stock of the Santa Monica Bay Telephone Company is owned by Associated Telephone Utilities Company.

The outstanding bonded debt of the several companies,

as of December 31, 1928, is reported as follows:

Associated Telephone Company		
1st Mtge. Collateral Trust 6% Bonds due Aug. 1, 1950		\$ 1,518,400
Huntington Beach Telephone Company		
1st Mtge. 6% Serial Bonds		40,000
Home Telephone Company of Covina		
1st and Refunding 6% Bonds due July 1, 1943		175,100
General and Refunding 6% Bonds due Sept. 1, 1953		103,000
Santa Monica Bay Telephone Company		
1st and Refunding Mtge. 6% Bonds due Sept. 1, 1944		1,294,000
Redondo Home Telephone Company		
1st Mtge. 6% Bonds due Sept. 1, 1946		200,000
	Total	<u>\$ 3,330,500</u>

The current liabilities of the companies appear in the consolidated balance sheet.

In Exhibit "B" the assets and liabilities of Associated Telephone Company, Huntington Beach Telephone Company, Laguna Beach Telephone Company, Home Telephone Company of Covina, Santa Monica Bay Telephone Company and Redondo Home Telephone Company, as of December 31, 1928, are reported as follows:

<u>ASSETS</u>		
<u>FIXED CAPITAL:</u>		
Physical Properties	\$8,500,793.03	
Construction Work in Progress	140,298.90	
Intangible as per Books (Including Stock Discount)	253,863.41	
<u>TOTAL FIXED CAPITAL</u>		\$ 8,894,955.34
<u>MISCELLANEOUS INVESTMENTS:</u>		1,975.16
<u>DEPRECIATION FUND:</u>		
Advances to Company	\$ 392,500.00	
Cash	99,292.00	
Investments	6,240.00	
<u>TOTAL DEPRECIATION FUND</u>		\$ 498,032.00
<u>CURRENT ASSETS:</u>		
Cash on Hand & in Banks	\$ 165,784.86	
Employees' Working Funds	3,425.00	
Cash - Special Deposits	7,030.20	
Due from Subscribers	85,576.87	
Due from Subscribers-(Jan. 1 toll charges, A.T.Co. not on books)	60,769.11	
Misc'l. Accounts Receivable	18,256.83	
Due from System Corporations not included in this group	12,948.38	
Materials and Supplies	303,429.22	
Notes Receivable	2,419.00	
<u>TOTAL CURRENT ASSETS</u>		\$ 659,639.27
<u>SINKING FUND ASSETS:</u>		
		33,728.62
	Carried Forward	<u>\$10,088,330.39</u>

	Brought Forward	\$10,088,330.39
<u>DEFERRED CHARGES:</u>		
Unamortized debt Discount and Expense	\$ 105,744.48	
Miscellaneous Prepayments	25,511.42	
Clearing Accounts-Undistributed Balance	5,131.90	
<u>TOTAL DEFERRED CHARGES</u>		\$ 136,387.80
<u>TOTAL ASSETS</u>		<u>\$10,224,718.19</u>

LIABILITIES

<u>CAPITAL STOCK - Common</u>		\$ 2,493,800.00
<u>CAPITAL STOCK - Preferred</u>		726,800.00
<u>PREMIUMS ON CAPITAL STOCK</u>		2,000.00
<u>BUNDED DEBT</u>		3,330,500.00
<u>ADVANCES FROM DEPRECIATION FUND</u>		392,500.00
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 146,220.46	
Due to Long Distance Co's by A.T.Co. not on books	43,881.93	
Matured Int. & Div. Unpaid	1,109.20	
Due to System Corporations not included in this group	45,000.00	
Subscribers' Deposits	1,734.88	
Notes Payable	450,000.00	
<u>TOTAL CURRENT LIABILITIES</u>		\$ 687,946.47
<u>ACCRUED LIABILITIES NOT DUE:</u>		
Taxes Accrued (Adjusted in accordance with Audit Report of Arthur Andersen & Co.)	\$ 141,212.41	
Interest Accrued	73,962.61	
Dividends Declared	9,810.00	
Miscellaneous Accruals	13,229.16	
<u>TOTAL ACCRUED LIABILITIES</u>		\$ 238,214.18
<u>DEPOSITS AND OTHER DEFERRED LIABILITIES</u>		41,831.06
<u>RESERVE FOR LOSS ON UNCOLLECTIBLE ACCOUNTS</u>		3,957.28
<u>RESERVE FOR ACCRUED DEPRECIATION</u>		1,001,214.73
<u>SURPLUS:</u>		
Surplus Invested in Fixed Capital		281,587.85
Other Surplus		1,024,366.62
<u>TOTAL LIABILITIES</u>		<u>\$10,224,718.19</u>

For the three years ending December 31, 1928, the operating revenues and expenses, the non-operating income and fixed charges of the several companies have been reported to the Railroad Commission as follows:

<u>ITEM</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>
Operating revenue	\$1,587,303.30	\$1,813,238.14	\$2,043,018.91
Operating expenses	854,089.16	930,212.62	1,045,263.18
Net operating revenue	<u>733,214.14</u>	<u>883,025.52</u>	<u>997,755.73</u>
Taxes and uncollectible bills	162,448.14	200,869.31	216,168.15
Operating income	<u>570,766.00</u>	<u>682,156.21</u>	<u>781,587.58</u>
Non-operating revenue	29,447.80	28,748.01	11,843.70
Gross income	<u>600,213.80</u>	<u>710,904.22</u>	<u>793,431.28</u>
Interest and other deductions	242,293.86	231,960.97	236,299.53
Profit for year	<u>\$ 357,919.94</u>	<u>\$ 478,943.25</u>	<u>\$ 557,131.75</u>

Appraisals of the tangible properties of Associated Telephone Company, Huntington Beach Telephone Company, Laguna Beach Telephone Company and Home Telephone Company of Covina, as of September 1, 1928, prepared by Ernest Irwin, were submitted by applicants. These appraisals were all made on the historical reproduction cost basis. No appraisals were submitted of the properties of Santa Monica Bay Telephone Company and Redondo Home Telephone Company, because both of these companies' properties were financed during the past few years under orders of the Commission. As to these companies, applicants report that they used the Commission's figures, plus the cost of additions and betterments subsequent to the date of the Commission's appraisal. To the appraisal of the properties by Mr. Irwin was added the net cost of additions and betterments from September 1, 1928 to December 31, 1928. In Exhibit No. 8 applicants submit that the appraisal of the properties plus the net cost of additions and betterments from September 1, 1928 to December 31, 1928 aggregates \$8,939,321.18. This figure does not include materials and supplies or any allowance for working capital. The amount invested in materials and supplies and other current assets are shown in the balance sheet on page five.

In Exhibit No. 5, Ernest Irwin estimates the accrued depreciation, or rather the amount that should be in the reserve for

depreciation, at \$987,333.93.

Mr. S. L. Odegard, President of all of the companies involved in this proceeding, testified that in his opinion the consolidation of the properties was in the public interests for the reason, among others, that the new company would be able to finance additions and betterments at a less interest rate than could the individual companies, also that the consolidation of the properties would eliminate the keeping of separate corporate records, that the accounting department of the consolidated company could be organized so that its work can be done more efficiently and at a lesser cost, and likewise that one organization operating the various properties would make it possible for the executive end to be so organized that the men could devote more of their time to particular work, thereby developing a greater acquaintance with their particular field and greater skill in it.

He also testified that for the time being the rates now charged by the different companies would be continued in effect and that separate operating records would be kept for each district or division, so that if the Commission is called upon at any time to fix the rates, say for the Covina territory, figures would be available showing the investment in that territory and the cost of operating the properties located therein.

As stated, The Associated Telephone Company asks permission to issue and sell, at not less than \$22.50 per share, 106,312 shares of its preferred stock and 142,400 shares of its common stock. The proceeds realized from the sale of 45,731 shares of preferred stock and 142,400 shares of common stock would be used for the purpose of acquiring the shares of stock and/or the properties and assets of Associated Telephone Company, Home Telephone Company of Covina, Huntington Beach Telephone Company, Redondo Home Telephone Company, Laguna Beach Telephone Company and Santa Monica Bay Telephone Company. For the purpose of discharging and retiring \$1,365,072 of floating indebtedness to be assumed by The Associated Telephone Company, that

company desires to issue and sell for cash, at not less than \$22.50 per share, 60,581 shares of its preferred stock. The \$1,365,072.00 of floating indebtedness includes \$763,072.00 to be advanced to the Santa Monica Bay Telephone Company and the Home Telephone Company of Covina for the redemption and retirement of the 7% preferred stocks of said companies and \$600,000.00 of indebtedness (Exhibit No. 9), which was incurred for the purpose of paying for additions and betterments to the properties of the several companies.

We have considered the appraisals and costs of applicants' properties, including the current assets, and have also considered the liabilities to be paid and assumed by The Associated Telephone Company and the earnings of the properties in question, and as a result of such consideration believe that The Associated Telephone Company should be permitted to issue and sell, for not less than \$23.00 per share, for the purposes herein stated, 106,312 shares of preferred and 126,638 shares of common stock.

The Commission, by Decision No. 7438, dated April 19, 1920, as amended, directed Union Home Telephone and Telegraph Corporation, predecessor of Associated Telephone Company to create and maintain a cash depreciation fund. While the order herein will permit the transfer and consolidation of the properties of the companies mentioned in this application, such authority should not be construed as modifying said Decision No. 7438, dated April 19, 1920, as amended. If The Associated Telephone Company acquires the properties of Associated Telephone Company, it must assume the conditions imposed by said Decision No. 7438, dated April 19, 1920, as amended from time to time. If it desires to be relieved from the maintenance of the cash depreciation fund, it should file a formal application requesting the Commission to modify its order in said Decision No. 7438, dated April 19, 1920, as amended.

ORDER

Applicants, Associated Telephone Company, Home Telephone Company of Covina, Huntington Beach Telephone Company, Redondo Home

Telephone Company, Laguna Beach Telephone Company and Santa Monica Bay Telephone Company, having asked permission to consolidate and merge their respective properties, franchises, permits, rights and assets of every character under the ownership of The Associated Telephone Company, and The Associated Telephone Company having asked permission to issue 106,312 shares of preferred and 142,400 shares of common stock and assume indebtedness, a public hearing having been held by Examiner Fankhauser, and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of 106,312 shares of preferred and 126,638 shares of common stock and the assumption of indebtedness is reasonably required by applicant, The Associated Telephone Company, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or income, and that this application insofar as it involves the issue of 15,762 shares of common stock should be denied without prejudice, therefore,

IT IS HEREBY ORDERED as follows:

(1) Applicants, Associated Telephone Company, Home Telephone Company of Covina, Huntington Beach Telephone Company, Redondo Home Telephone Company, Laguna Beach Telephone Company and Santa Monica Bay Telephone Company, may, on or before October 1, 1929, transfer to and consolidate and merge all (but not only a part) of their respective properties, franchises, permits, rights and assets of every character under the ownership of The Associated Telephone Company.

(2) The Associated Telephone Company may acquire, on or before October 1, 1929, all or any part of the outstanding stock of the aforesaid companies and/or the properties of the aforesaid companies and operate said properties in the event it acquires said properties.

(3) The Associated Telephone Company may issue and sell, at not less than \$23.00 per share, on or before October 1, 1929, 106,312 shares of its preferred and 126,638 shares of its common stock and use the proceeds obtained from the sale of such stock to pay for the stock and/or the properties of the aforesaid companies and to pay indebtedness which it will assume through the acquisition of said stock and/or

properties, all as more fully set forth in the opinion which precedes this order.

(4) The Associated Telephone Company may, upon the acquisition of the properties of the aforesaid companies, assume the indebtedness of such companies.

(5) Within sixty days after acquiring the properties of Associated Telephone Company, Home Telephone Company of Covina, Huntington Beach Telephone Company, Redondo Home Telephone Company, Laguna Beach Telephone Company and Santa Monica Bay Telephone Company, The Associated Telephone Company shall file with the Railroad Commission a copy of the deed or other instrument of conveyance under which it acquires and holds title to the properties of the said companies.

(6) The authority herein granted will become effective ten days after the date hereof.

(7) The Associated Telephone Company shall file with the Commission such reports as are required by the Commission's General Order No. 24, which order insofar as applicable is made a part of this order.

(8) This application insofar as it involves the issue of 15,762 shares of common stock is hereby denied without prejudice.

DATED at San Francisco, California, this 21st
day of June, 1929.

Thomas S. Lovell

Chas. Sweeney

Leon Whipple

W. J. Carr

Commissioners