

Decision No.       

ORIGINAL

Decision No. 4821

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of  
SOUTHERN CALIFORNIA TELEPHONE COMPANY  
for an order authorizing the issue of  
capital stock and bonds, the execution  
of a deed of trust, the purchase of  
property, and the operation under  
various franchises; of

HOME TELEPHONE AND TELEGRAPH COMPANY for  
an order authorizing the sale of its  
property to SOUTHERN CALIFORNIA TELEPHONE  
COMPANY; of

SUNSET TELEPHONE AND TELEGRAPH COMPANY for  
an order authorizing the sale of a portion  
of its property to THE PACIFIC TELEPHONE  
AND TELEGRAPH COMPANY; and of

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY  
for an order authorizing the sale of a  
portion of its property to SOUTHERN  
CALIFORNIA TELEPHONE COMPANY and the ac-  
quisition of capital stock of SOUTHERN  
CALIFORNIA TELEPHONE COMPANY.

ApplicationNo. 2227.

Pillsbury, Madison and Sutro, by H.D. Pillsbury, and  
James T. Shaw for applicants.

THEMEN and GORDON, Commissioners.

FIRST SUPPLEMENTAL OPINION.

In the amended supplemental petition in the above  
entitled matter, SOUTHERN CALIFORNIA TELEPHONE COMPANY asks auth-  
ority to issue \$737,100.00 par value of its common capital stock  
to The Pacific Telephone and Telegraph Company in exchange for  
property hereinafter referred to.

The Pacific Telephone and Telegraph Company asks

authority to acquire the \$737,100.00 par value of common capital stock of Southern California Telephone Company at par.

By Decision Number 3845 dated November 4, 1916, (Vol. 11, Opinions and Order of the Railroad Commission of California, pg. 806), the Railroad Commission authorized the Home Telephone and Telegraph Company, hereinafter referred to as the "Home Company" and The Pacific Telephone and Telegraph Company, hereinafter referred to as the "Pacific Company", to sell to the Southern California Telephone Company, hereinafter referred to as the "Southern Company, the properties described in Exhibit Numbers 1 and 2 attached to said Decision Number 3845. In exchange for the properties as the same existed on December 31, 1915, the Southern Company was authorized to issue stock and bonds in the sum of \$14,000,000.00 - the bonds not to exceed \$9,330,000.00. Applicants now report that the Southern Company has issued \$8,782,000.00 (less \$4,027,000.00 of bonds reserved to refund outstanding bonds of Home Company) of bonds and \$5,218,000.00 par value of capital stock, making a total of \$14,000,000.00.

Condition 6 of the order in Decision Number 3845, dated November 4, 1916, reads as follows:

"Southern California Telephone Company is hereby authorized to issue to Home Telephone and Telegraph Company and to The Pacific Telephone and Telegraph Company in payment for additions and betterments to the property of said companies made between December 31, 1915 and the date of the conveyance by said two companies of their respective properties and the accounts receivable of said two companies on said date of conveyance, such an amount of capital stock and bonds as may be hereafter authorized by the Railroad Commission after complete presentation of the facts, by a supplemental order herein."

The properties of the Home and Pacific companies referred to above were transferred to the Southern Company as of May 1, 1917. From December 31, 1915 to May 1, 1917, the Home Company reports that it has expended for net additions and betterments the sum of

and  
 \$277,119.28, the Pacific Company the sum of \$312,617.38, making  
 a total of \$589,736.66. In addition, the Home Company on  
 April 30, 1917 reported materials and supplies on hand, \$8,697.92,  
 accounts receivable, . . . . . 38,940.53,  
 while the Pacific Company reported --

materials and supplies on hand, 7,620.36  
 accounts receivable, . . . . . 92,173.97

Making a grand total, . . . . . \$147,432.78

To acquire the net additions and betterments since December 31,  
 1915, the materials and supplies on hand and the accounts re-  
 ceivable, the Southern Company proposes to issue \$737,100.00 par  
 value of its common capital stock.

The Southern Company has acquired the above-mentioned  
 properties as of May 1, 1917, free and clear of all encumbrances,  
 except the lien of the outstanding bonds of the Home Company.  
 The testimony shows that the proceeds of the stock <sup>to be</sup> issued by the  
 Southern Company to acquire accounts receivable of the Home and  
 Pacific Company will be used for working capital or re-invested in  
 property. Of the Home Company accounts receivable, from 1½ to  
 2 per cent, and of the Pacific Company accounts receivable, about  
 one-half per cent. are at this time regarded as uncollectible.  
 While it is impossible to definitely determine at present the  
 amount of accounts receivable which are uncollectible, it is  
 obvious that no stock should be issued against accounts which may  
 never be collected by the Southern Company and the order will so  
 provide.

The Pacific Company reports that it has succeeded to  
 the rights of the Home Company for compensation for the net addi-  
 tions and betterments and materials and supplies on hand and

accounts receivable of that company.

We herewith submit the following form of order.

SECOND SUPPLEMENTAL ORDER.

SOUTHERN CALIFORNIA TELEPHONE COMPANY having applied to the Railroad Commission for authority to issue \$737,100.00 par value of its common capital stock for purposes indicated in the foregoing opinion, and The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for authority to acquire said stock,

And a hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue of stock is reasonably required for the purpose or purposes specified in the order, and that the purposes for which the proceeds are to be expended are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Southern California Telephone Company be, and it is hereby, granted authority to issue \$737,100.00 par value of its common capital stock, said stock to be issued in exchange for the property set forth in Exhibit "A" and Exhibit "B" attached to the amended supplemental/<sup>petition</sup>~~application~~ in the above entitled matter, provided that stock be issued only against such accounts receivable as shall be collected by the Southern California Telephone Company, and that the proceeds from such stock as may be issued to acquire accounts receivable be used for working capital or invested in property.

IT IS HEREBY FURTHER ORDERED that The Pacific Telephone and Telegraph Company be, and it is hereby, granted authority to purchase or acquire from Southern California Telephone Company at par

\$737,100.00 par value of its common capital stock, or such an amount thereof as may be issued pursuant to the authority granted by this order.

The authority hereby granted is granted upon the following conditions and not otherwise:

- 1.- Southern California Telephone Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock hereby authorized to be issued, and on or before the 25th day of each month the company shall make a verified report to the Railroad Commission stating the sale or sales of said stock during the preceding month, the terms and conditions of the sale and the moneys realized therefrom and the use and application of such moneys, all in accordance with the Railroad Commission General Order Number 24, which order in so far as applicable is made a part of this order.
- 2.- The authority hereby granted shall apply only to such capital stock as may have been issued on or before June 1, 1918.

The foregoing First Supplemental Opinion and Second Supplemental Order are hereby approved and ordered filed as the First Supplemental Opinion and Second Supplemental Order of the Railroad Commission of California.

*November*  
of ~~September~~, 1917. Dated at San Francisco, California, this 7<sup>th</sup> day

*Mrs. Thelen*  
*H. W. Leland*  
*Herb. Gordon*  
*Frank R. Dyer*  
COMMISSIONERS