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ORIGINAL

Decision No. 8685

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of  
 UNION HOME TELEPHONE & TELEGRAPH CORPORATION,  
 LONG BEACH HOME TELEPHONE & TELEGRAPH COMPANY,  
 SAN BERNARDINO HOME TELEPHONE & TELEGRAPH  
 COMPANY, and ASSOCIATED TELEPHONE COMPANY, for  
 permission to issue stocks and bonds of ASSO-  
 CIATED TELEPHONE COMPANY for stocks and bonds  
 of UNION HOME TELEPHONE & TELEGRAPH CORPORATION,  
 and other purposes; to pledge and mortgage said  
 stock and bonds of UNION HOME TELEPHONE & TELE-  
 GRAPH CORPORATION, and all other property of  
 ASSOCIATED TELEPHONE COMPANY, as security for  
 said bonds of ASSOCIATED TELEPHONE COMPANY; to  
 lease property of UNION HOME TELEPHONE & TELE-  
 GRAPH CORPORATION, LONG BEACH HOME TELEPHONE &  
 TELEGRAPH COMPANY, and SAN BERNARDINO HOME TELE-  
 PHONE & TELEGRAPH COMPANY, to ASSOCIATED TELEPHONE  
 COMPANY; to assign the telephone franchises of  
 LONG BEACH HOME TELEPHONE & TELEGRAPH COMPANY,  
 SAN BERNARDINO HOME TELEPHONE & TELEGRAPH COMPANY  
 and UNION HOME TELEPHONE & TELEGRAPH CORPORATION,  
 to ASSOCIATED TELEPHONE COMPANY, for the leases;  
 and to establish rates, rules, regulations and  
 practices for ASSOCIATED TELEPHONE COMPANY.

Application  
Number  
6231

W. W. Butler, for applicants.  
 Flint & Mackay, by E. B. Cornell, for Kellogg Switchboard  
 and Supply Company.

BRUNDIGE, Commissioner.

O P I N I O N.

This application involves the refinancing of the prop-  
 erties now operated by UNION HOME TELEPHONE & TELEGRAPH CORPORATION  
 and the leasing of these properties to ASSOCIATED TELEPHONE COMPANY,  
 a new corporation.

The testimony shows that the Union Home Telephone & Tel-  
 egraph Corporation owns all of the outstanding stock and bonds of  
 the San Bernardino Home Telephone & Telegraph Company, and all of  
 the outstanding stock and all but \$25,000. of the outstanding bonds

of Long Beach Home Telephone & Telegraph Company.

*BoRw  
Met 7-21* ✓ Union Home Telephone & Telegraph Company reports \$1,382,000.00 of 5% bonds and \$1,<sup>872</sup>~~382~~,550.00 of stock outstanding on December 31, 1920. Originally the company issued \$5,500,000. of stock. Some years ago, the testimony shows, that the Board of Directors levied an assessment of \$2.00 a share upon the stockholders and that all of the outstanding stock, except \$1,872,550. was surrendered by the owners thereof rather than pay the assessment.

George B. Ellis, president of the Union Home Telephone & Telegraph Corporation, testified that the present capitalization of the properties makes it impossible for the company to raise new moneys either through the sale of bonds or stock. In Decision Number 7438, dated April 19, 1920, in Application Number 4817, in which decision the Commission fixed applicant's rates, the Commission, after calling attention to the company's capitalization, says:

"Apparently only two means exist to remedy this situation. Either the company should speedily effect a financial reorganization, or assessments should be levied against the outstanding stock in sufficient amount to provide the company with the necessary operating capital, including the capital needed for extensions and improvements."

The president of the Union Home Telephone & Telegraph Corporation is of the opinion that funds sufficient to meet the needs of the company cannot be raised through assessments. It has, therefore, ✓ *BoRw  
Met 7-21* been concluded to re-finance the properties through the ~~re-~~organi-  
zation of the Associated Telephone Company. Under the plan of re-financing, the Associated Telephone Company will issue \$600. face value 6% bonds due August 1, 1950, and \$300. of its common stock, in exchange for each \$1,000. bond of Union Home Telephone & Telegraph Corporation, and \$75.00 in cash, or its equivalent. For each \$100.00 of Union Home Telephone & Telegraph Corporation stock-outstanding, the Associated Telephone Company will issue \$2.00 par value of its stock. In addition, the Associated Telephone Company.

will issue approximately \$59,275.00 of stock to pay off matured interest coupons and other claims. There are \$1,382,000.00 of bonds and \$1,872,550.00 of stock of Union Home Telephone & Telegraph Corporation outstanding. Holders of \$1,204,000.00 of bonds and the owners of \$1,867,500.00 of stock have assented to the plan of re-financing. If all assent, the Associated Telephone Company will issue for re-financing purposes, \$829,200.00 of bonds and \$511,326.00 of stock, or a total of \$1,340,526.00 of bonds and stock, as compared with a total of \$3,254,550.00 now outstanding. The reduction in capitalization of the properties amounts to \$1,814,024.00. The outstanding bonds will be reduced \$552,800.00 and the outstanding stock \$1,361,224.00.

The \$75.00 per \$1,000.00 bonds which the bondholders are required to pay to the company in order to participate in the plan of re-financing may be paid either in cash or through the cancellation of interest coupons. If the latter method is pursued, the interest coupon attached to the Union Home Telephone & Telegraph Corporation bonds and due August 1, 1920, and the two coupons, -one due February 1, 1921 and the other August 1, 1921--attached to Associated Telephone Company bonds, will be cancelled. The value of the three coupons aggregates \$61.00. The difference between the \$75.00 to be paid by the holder of each \$1,000.00 bond and the \$61.00, will be adjusted through dividend payments.

Associated Telephone Company in its lease with Union Home Telephone & Telegraph Corporation, agrees to pay all interest on Union Home Telephone & Telegraph Corporation bonds not exchanged after August 1, 1921. It is the intention of the company to keep open the re-financing plan so that those who have not yet signed the plan may do so and participate in the re-financing of the properties upon the same basis as those who have already signed the plan.

Associated Telephone Company proposed to issue \$25,000. of bonds to retire \$25,000. of bonds of the Long Beach Telephone & Telegraph Company.

Applicants in Exhibit "S" report expenditures on capital account of \$61,649.50 from January 1 to November 1, 1920, and estimate that during 1921, \$131,911.30 should be expended for further additions and betterments. To pay in part for the expenditures during 1921, applicant asks permission to issue at not less than \$80. per share, \$100,000. of its common stock.

Associated Telephone Company will continue in effect the rates, rules and regulations of Union Home Telephone & Telegraph Corporation.

The lease between Union Home Telephone & Telegraph Corporation provides, among other things, that Associated Telephone Company will spend such sums as may be necessary from time to time for maintenance, operation and new construction in connection with the property leased and during the period of the lease to pay all taxes, assessments and license fees which may become a proper charge against the lessor, to pay interest becoming due after August 1, 1921 on such bonds of the lessor as are not exchanged for stock and bonds of the Associated Telephone Company, to assume and agree to pay the indebtedness of the lessor to Kellogg Switchboard and Supply Company of Chicago, the notes of lessor due Pacific Telephone & Telegraph Company and also other current and floating indebtedness of the lessor, except past due interest coupons of lessor and outstanding obligations of lessor given therefor.

It appears from the testimony that upon two former occasions the bondholders of Union Home Telephone & Telegraph Corporation were asked to forego the collection of interest coupons Numbers 10, 11, 12 and 13; also Numbers 19, 20, 21 and 22. This was done for the purpose of enabling the company to use earnings which would ordinarily be applied to the payment of interest to pay for additions and betterments,

It appears that a few of the bondholders have to date not agreed to waive the payment of the coupons mentioned.

The company has refused to pay any coupon numbered subsequent to 23 unless the holder of the bond waived payment of the coupons heretofore mentioned. The company insists that it must treat all bondholders alike and that it cannot pay the coupons of some and urge others to waive payment. Whatever rights the bondholders may have is a matter, as has been pointed out before, for the courts, rather than for this Commission, to determine. The Commission is in accord with the policy of treating all bondholders alike and will not tolerate any discrimination, and therefore, while authority is herein granted to issue some stock to refund unpaid coupons, such authority is permissive and not compulsory. The Commission cannot require any one to accept stock in payment for interest coupons. If any holder of an unpaid coupon finds himself in a position similar to that of the holders of coupons who have received cash payment, the company should pay him in cash also, if such payment is desired.

The Commission believes that the lease between the Union Home Telephone & Telegraph Corporation and the Associated Telephone Company should be modified and that all obligations of the Union Home Telephone & Telegraph Corporation should be assumed by the Associated Telephone Company, or else a greater consideration given for the use of the properties of the Union Home Telephone & Telegraph Corporation in order that it may discharge its recognized and valid obligations.

There has been filed in this proceeding a copy of the proposed mortgage of the Associated Telephone Company. Subsequent to the hearing, the mortgage was modified in a minor parti-

cular. As modified, the mortgage is satisfactory to the Commission.

I herewith submit the following form of order:-

O R D E R

Application having been made to the Commission for permission to lease telephone properties, to execute a mortgage and issue stocks and bonds, a public hearing having been held, and the Commission being of the opinion that the money, property or labor to be acquired through the issue of the stock and bonds herein authorized, is reasonably required by the Associated Telephone Company, and that the expenditures herein authorized are not reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that San Bernardino Home Telephone & Telegraph Company, Long Beach Home Telephone & Telegraph Company and Union Home Telephone & Telegraph Corporation, be, and they are, authorized to lease their properties to the Associated Telephone Company under a lease arrangement substantially in the same form as the leases filed in this proceeding, provided that the lease between Union Home Telephone & Telegraph Corporation and Associated Telephone Company be modified so as to require the Associated Telephone Company to assume all valid obligations of Union Home Telephone & Telegraph Corporation, or the rental specified in the lease, modified so as to permit Union Home Telephone & Telegraph Corporation to meet its <sup>valid</sup> obligations.

IT IS HEREBY FURTHER ORDERED that Associated Telephone Company be, and it is hereby, authorized to execute a mortgage substantially in the same form as the mortgage filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that Associated Telephone Company be, and it is hereby, authorized to issue \$611,326.00 of its common stock and \$329,200.00 of its 6% bonds.

The authority herein granted is subject to the following conditions:-

1.--- All the bonds herein authorized to be issued, and \$511,326.00 of stock herein authorized to be issued, shall be used for the purpose of refunding the outstanding bonds and stock and certain outstanding interest coupons of the Union Home Telephone & Telegraph Corporation, referred to in this application.

2.---\$100,000.00 of the stock herein authorized to be issued shall be sold by applicant for not less than \$80. per share, and the proceeds used to pay for the additions and betterments described in applicant's Exhibit No. 10.

3.--- The approval herein given of said mortgage is for the purpose of this proceeding only and an approval in so far as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said mortgage as to such other legal requirements to which said mortgage may be subject.

4.--- The authority herein granted to issue bonds and stock shall not be interpreted as a finding of the value of the properties herein authorized to be leased for any purpose other than the issue of the stock and bonds herein permitted.

5.---The authority herein granted will not become effective until Associated Telephone Company has paid the fee prescribed in the Public Utilities Act.

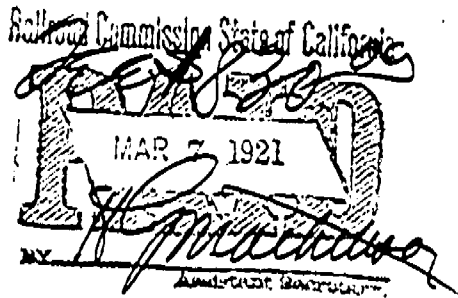
6.---Associated Telephone Company shall keep such record of the issue and sale of the stock and bonds herein authorized and of the use of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order, in so

far as applicable, is made a part of this order.

7.--The authority herein granted will apply only to such bonds and stock as may be issued or sold on or before October 1, 1921.

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

Dated at San Francisco, California, this 31 day of ~~January~~ March 1921.



*Frank D. DeWitt*  
*H. L. Loveland*  
*H. T. Bondage*  
*Charles H. Rowlee*

Commissioners.