

Decision No. 32681

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ASSOCIATED TELEPHONE COMPANY, LTD., a corporation, and SANTA BARBARA TELEPHONE COMPANY, a corporation, for an order of the Commission (a) authorizing Associated Telephone Company, Ltd. to acquire all the outstanding capital stock of Santa Barbara Telephone Company; (b) authorizing Santa Barbara Telephone Company to transfer and convey all its properties and assets to Associated Telephone Company, Ltd. and to cease public utility operations; (c) authorizing Associated Telephone Company, Ltd. to acquire the properties and assets of Santa Barbara Telephone Company, to assume the debts and liabilities of said Santa Barbara Telephone Company existing at the date of such acquisition, and to execute an indenture as required by Section 2 of Article XI of the indenture from Santa Barbara Telephone Company to Crocker First Federal Trust Company, Trustee, dated as of January 1, 1926, and authorizing Associated Telephone Company, Ltd. to enter and engage in the telephone business in the territories affected; (d) authorizing Associated Telephone Company, Ltd. to issue and sell common stock for the purpose of acquiring stock of Santa Barbara Telephone Company.

ORIGINAL

Application No. 23160

Allen L. Chickering, Jr., for Santa Barbara Telephone Company,
O'Melveny & Myers, by Harry L. Dunn and Graham L. Sterling, Jr., for Associated Telephone Company, Ltd.,
Ernest Irwin, for Associated Telephone Company, Ltd.

BY THE COMMISSION:

O P I N I O N

Applicants in the above entitled matter ask the Commission to enter its order as follows:-

1. Authorizing Associated Telephone Company, Ltd. to acquire all the outstanding stock of Santa Barbara Telephone Company; and

2. Authorizing Santa Barbara Telephone Company to transfer, convey and assign all of its properties to Associated Telephone Company, Ltd. and thereupon cease public utility operations; and

3. Authorizing Associated Telephone Company, Ltd. to acquire all of said properties of Santa Barbara Telephone Company and assume all debts and liabilities of said Santa Barbara Telephone Company and engage in the telephone business in the territory now served by Santa Barbara Telephone Company; and

4. Authorizing Associated Telephone Company, Ltd. to issue at \$25.00 per share, 37,000 shares of common stock, without nominal or par value and to pay in part for the stock of Santa Barbara Telephone Company and execute indentures, to which reference will be made hereafter.

Santa Barbara Telephone Company is a corporation duly organized under the laws of the State of California. It owns and operates a telephone system throughout the entire county of Santa Barbara, and more particularly in the cities of Santa Barbara, Lompoc and Santa Maria, and the communities of Carpinteria, Guadalupe, Santa Inez, and territories adjacent thereto, in the Counties of Santa Barbara and San Luis Obispo, State of California.

As of September 30, 1939 it served 18,669 telephone stations, all of which, except 61, were company owned.

As of November 30, 1939, Santa Barbara Telephone Company in Exhibit No. 8, reports assets and liabilities as follows:-

ASSETS

FIXED CAPITAL:		
Property, plant, etc.	\$3,451,808.56	
Total fixed capital		\$3,451,808.56
INVESTMENTS:		
Stocks of affiliated companies	\$ 1,515.00	
Sinking funds	<u>5,300.00</u>	
Total investments		6,815.00
CURRENT ASSETS:		
Cash	151,658.38	
Working funds	387.00	
Due from customers and agents	37,105.44	
Other accounts receivable	309.17	
Materials and supplies	<u>54,681.43</u>	
Total current assets		244,141.42
Deferred debit items:		
Prepaid rents	286.81	
Prepaid taxes	31,287.21	
Prepaid insurance	1,709.91	
Prepaid directory expenses	1,085.58	
Other prepayments	27.49	
Discount on long term debt	4,898.56	
Other deferred charges	<u>1,000.00</u>	
Total deferred debit items		40,295.56
Total assets		<u>\$3,743,060.54</u>

LIABILITIES

CAPITAL STOCK:		
Common	\$ 250,000.00	
Preferred	<u>500,000.00</u>	\$ 750,000.00
FUNDED DEBT:		1,414,000.00
CURRENT LIABILITIES:		
Accounts payable	31,444.30	
Customers' deposits	296.35	
Advance billing and payments	108.15	
Other current liabilities	<u>2,766.98</u>	
Total current liabilities		34,615.78
ACCRUED LIABILITIES NOT DUE:		
Taxes accrued	78,571.16	
Interest accrued	20,620.83	
Unmatured dividends accrued	<u>11,875.00</u>	
Total accrued liabilities not due		111,066.99
DEFERRED CREDITS AND RESERVES:		
Depreciation reserve	1,020,863.65	
Other deferred credits	<u>7,568.04</u>	
Total deferred credits and reserves		1,028,431.69
DONATIONS:		112,579.42
SURPLUS:		
Earned surplus	<u>292,366.66</u>	
Total surplus		292,366.66
Total liabilities		<u>\$3,743,060.54</u>

Santa Barbara Telephone Company for the three years and eleven months ending November 30, 1939, reports revenues and expenses as follows:-

Item	1936	1937	1938	11 months ending Nov. 30, 1939
Operating revenues	\$605,913.02	\$642,770.67	\$674,889.98	\$612,867.26
Operating expenses and taxes	<u>481,878.90</u>	<u>527,960.60</u>	<u>567,719.09</u>	<u>525,991.84</u>
Net operating income	124,034.12	114,810.07	107,170.89	86,875.42
Interest and other deductions:				
Interest on bonds	71,196.16	50,588.90	50,190.87	45,706.50
Amortization of debt discount, premiums and expense	327.89	191.99	190.45	173.42
Other interest (net)	82.45	21.12	50.44	230.68
Miscellaneous deductions	924.97	986.05	1,017.94	863.13
Total interest and other deductions	<u>72,531.47</u>	<u>51,788.06</u>	<u>51,449.70</u>	<u>46,973.73</u>
Net income	<u>\$51,502.65</u>	<u>\$63,022.01</u>	<u>\$55,721.19</u>	<u>\$39,901.69</u>

As indicated in the foregoing balance sheet, Santa Barbara Telephone Company has \$250,000 par value (2500 shares) of common stock and \$500,000 par value (5,000 shares) of 6% noncumulative preferred stock outstanding. Recently, said shares of stock were acquired by General Telephone Corporation, which owns all of the common stock, except 13,974 shares of Associated Telephone Company, Ltd. It is of record that General Telephone Corporation paid \$140 per share for the common stock and \$136 per share for the preferred stock, or a total of \$1,030,000 for the stock of Santa Barbara Telephone Company. This consideration represents approximately the net book cost of the properties of said Santa Barbara Telephone Company. It is now proposed to transfer said stock of Santa Barbara Telephone Company to the Associated Telephone Company, Ltd. for a total consideration of \$1,030,000.

Associated Telephone Company, Ltd. asks permission to issue to General Telephone Corporation as part payment for said Santa Barbara Telephone Company stock, 37,000 shares of its common stock without nominal or par value at \$25 per share. The balance will be paid in cash from the company's treasury or by an evidence of indebtedness. Upon the acquisition of said stock by Associated Telephone Company, Ltd. Santa Barbara Telephone Company will be dissolved and all its assets transferred to Associated Telephone Company, Ltd., which will assume all the liabilities of Santa Barbara Telephone Company.

Santa Barbara Telephone Company has outstanding \$1,414,000 of first mortgage 3½% bonds, due January 1, 1966. The payment of the bonds is secured by a trust indenture executed to Crocker First National Bank of San Francisco. Associated Telephone Company, Ltd. will execute to said bank an indenture in which it agrees to assume and pay the principal of, and the interest on said bonds, and to fulfill and perform all the terms and conditions of the trust indenture securing the payment of said bonds. A copy of said proposed indenture was filed in this proceeding on December 13, 1939. Associated Telephone Company, Ltd. will also execute an indenture to convey to Security-First National Bank of Los Angeles, trustee under the indenture securing the payment of its bonds, the title to certain of the properties of Santa Barbara Telephone Company. A copy of said indenture was filed with the Commission on December 26, 1939.

The transfer of the properties does not involve any change in the rates now being charged by Santa Barbara Telephone Company. It appears that the transfer of the properties of Santa Barbara Telephone Company to Associated Telephone Company, Ltd. will be in the interest of the public in that operating expenses applicable to such properties will be reduced, a larger technical staff will be available to operate

the Santa Barbara Telephone Company properties and materials and supplies and special equipment can be more readily supplied. Capital expenditures, operating revenues and operating expenses will be recorded by exchanges.

ORDER

A public hearing having been held in the above entitled matter before Examiner Fankhauser and the Commission having considered the record in this proceeding, and it being of the opinion that the money, property or labor to be procured or paid for by the Associated Telephone Company, Ltd. through the issue of 37,000 shares of its common capital stock, is reasonably required for the purposes herein stated, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

1. Associated Telephone Company, Ltd. may, on or before March 1, 1940, acquire all of the outstanding capital stock of Santa Barbara Telephone Company.

2. Santa Barbara Telephone Company may, on or before March 1, 1940, transfer, convey and assign all of its properties to the Associated Telephone Company, Ltd. and concurrently with the transfer, conveyance and assignment of said properties and their operation by Associated Telephone Company, Ltd., cease public utility operations.

3. Associated Telephone Company, Ltd. may, on or before March 1, 1940, acquire all of said properties of Santa Barbara Telephone Company and enter and engage in the telephone business in the territory now occupied by Santa Barbara Telephone Company, provided it assumes all

debts and liabilities of said Santa Barbara Telephone Company.

4. Associated Telephone Company, Ltd. may, on or before March 1, 1940, issue at not less than \$25 per share, 37,000 shares of its common capital stock without nominal or par value, for the purpose of paying in part for the stock of Santa Barbara Telephone Company.

5. Associated Telephone Company, Ltd. may, on or before March 1, 1940, execute an indenture, substantially in the same form as the indenture filed in this proceeding on December 13, 1939, and an indenture substantially in the same form as the indenture filed in this proceeding on December 26, 1939, provided that the authority herein granted to execute said indentures is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said indentures as to such other legal requirements to which said indentures may be subject.

6. Associated Telephone Company, Ltd. shall file with the Railroad Commission monthly reports in compliance with the Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

7. Associated Telephone Company, Ltd. shall file with the Railroad Commission within thirty (30) days after it acquires the properties of Santa Barbara Telephone Company, two certified copies of the deed or other instrument of conveyance under which it holds title to said properties, and two certified copies of the indentures herein authorized to be executed.

8. The authority herein granted will become effective upon

the date hereof.

DATED at San Francisco, California, this 27th day of
December, 1939.

Raymond J. [unclear]
Frank [unclear]
Ray H. [unclear]
[unclear]

COMMISSIONERS.