

ORIGINAL

Decision No. 34871

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 authorizing it to issue  
and sell 360,000 of its shares at the  
par value thereof, namely, \$100 per  
share, and aggregating \$36,000,000,  
to The Pacific Telephone and Telegraph  
Company

and

of the Application of

THE PACIFIC TELEPHONE AND TELEGRAPH  
COMPANY, a corporation,

for an order authorizing it to purchase  
from Southern California Telephone Company  
360,000 of its shares at the par value  
thereof, namely, \$100 per share, and  
aggregating \$36,000,000.

Application  
No. 24630

BY THE COMMISSION:

O P I N I O N

This is an application for an order of the Railroad Commission authorizing Southern California Telephone Company, hereinafter sometimes referred to as the company, to issue and sell 360,000 shares of its common stock at the par value thereof, namely \$100 per share, and aggregating \$36,000,000, for the purpose of paying outstanding indebtedness and of

reimbursing its treasury, and authorizing The Pacific Telephone and Telegraph Company to purchase said 360,000 shares of stock.

A condensed balance sheet of Southern California Telephone Company shows its assets and liabilities as of October 31, 1941, as follows:

<u>ASSETS</u>		
Telephone Plant		\$219,655,910.04
Telephone Plant in Service	\$214,613,226.58	
Telephone Plant Under Construction	3,972,186.36	
Property Held for Future Telephone Use	293,104.65	
Telephone Plant Acquisition Adjustment	<u>777,392.45</u>	
Miscellaneous Property and Investments		310,274.10
Current Assets		9,768,006.02
Cash and Special Deposits	\$ 310,597.85	
Working Funds	20,310.84	
Notes Receivable	3,350.37	
Accounts Receivable	5,427,195.17	
Materials and Supplies	<u>4,006,551.79</u>	
Prepaid Accounts and Deferred Charges		<u>1,082,924.52</u>
Total Assets		<u>\$230,817,114.68</u>
<u>LIABILITIES</u>		
Common Stock		\$125,000,000.00
Notes due The Pacific Telephone and Telegraph Company		30,650,000.00
Notes due Trustee of Pension Fund		5,038,724.35
Current and Accrued Liabilities		13,704,919.27
Advance Billing and Customers' Deposits	\$ 929,064.39	
Accounts Payable	5,041,281.82	
Accrued Liabilities	<u>7,743,973.06</u>	
Deferred Credits		70,111.19
Depreciation and Amortization Reserves		55,999,364.99
Unappropriated Surplus		<u>252,994.88</u>
Total Liabilities		<u>\$230,817,114.68</u>

The company has an authorized capital stock of 1,750,000 shares, all common, of the par value of \$100 each and of the aggregate par value of \$175,000,000. At present, as shown by the balance sheet, there is outstanding stock of the aggregate par value of \$125,000,000, all of which is reported held by The Pacific Telephone and Telegraph Company.

The company has no bonds outstanding. Its liabilities consist of unsecured notes and accounts payable. As of October 31, 1941, it owed The Pacific Telephone and Telegraph Company the sum of \$30,650,000. Included in this amount is a \$3,350,000 note issued on April 29, 1936 for the purpose of refunding bonds. The remainder of the notes, to-wit:

\$27,300,000, was issued in varying amounts, from December 5, 1940 to October 31, 1941. Pursuant to an order of the Commission, the company has been paying interest at the rate of 3.31% per annum on the \$3,350,000 note. On the remainder of the notes, it paid interest at the rate of 5% per annum to October 1, 1941 and at the rate of 4% per annum since October 1, 1941. All of the notes are payable one day after date.

On its outstanding stock, the company paid dividends at the rate of 7.67½% in 1936; 8% in 1937; and 7.75% in each of the years 1938 and 1940. During the first ten months of this year, the company's dividend payments have amounted to \$7,354,166 as compared with \$8,333,333.33 for the first ten months of 1940. The dividends paid this year were \$75,319.79 in excess of the net income for the ten months ended October 31, 1941.

The company's expenditures for additions and

betterments to its properties have increased materially during the present year. Reports filed with the Commission show gross capital expenditures of \$16,165,470 in 1939; \$18,148,525 in 1940, and \$25,284,623 during the first ten months of 1941. After the deduction of retirements, net additions and betterments are reported at \$6,333,197 in 1939; at \$7,173,234 in 1940, and at \$16,559,340 during the first ten months of 1941.

The company estimates that by the time it is in a position to issue the 360,000 shares of stock, its borrowings from The Pacific Telephone and Telegraph Company will equal or exceed the sum of \$36,000,000. In the event that its indebtedness to The Pacific Telephone and Telegraph Company at the time the stock is issued is less than \$36,000,000, applicant asks permission to use the difference between the \$36,000,000 realized from the issue of stock and its indebtedness due The Pacific Telephone and Telegraph Company to reimburse its treasury because of income expended for additions and betterments to its properties. It is of record that the company has expended since 1917, \$58,687,995.80 for additions and betterments to its properties and the retirement of indebtedness, and that no stock or any evidences of indebtedness have been issued to finance such expenditures. In the main, this amount represents the investment of the company's depreciation and other reserves and surplus in its properties.

The order herein will authorize Southern California Telephone Company to issue at par said 360,000 shares of stock. However, the company should be placed upon notice that the Commission does not, and will not, regard the dividends on the

common stock as determining or fixing the rate of return the company should be allowed to earn in the event the Commission is called upon or finds it desirable to review its rates.

O R D E R

Application having been made to the Railroad Commission for an order authorizing Southern California Telephone Company to issue and sell \$36,000,000 par value of its common stock to The Pacific Telephone and Telegraph Company, who asks permission to purchase and hold said \$36,000,000 par value of stock, and the Commission having considered the matter and it being of the opinion that a public hearing is not necessary; that the money, property or labor to be procured or paid for through such issue is reasonably required by Southern California Telephone Company for the purposes specified herein, and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. Southern California Telephone Company may, on or before February 28, 1942, issue and sell to The Pacific Telephone and Telegraph Company 360,000 shares of common capital stock at the par value thereof, namely \$100 per share, aggregating \$36,000,000, and shall use the proceeds to pay and discharge its indebtedness due The Pacific Telephone and Telegraph Company, provided that any proceeds not needed to pay such indebtedness shall be used to reimburse the company's

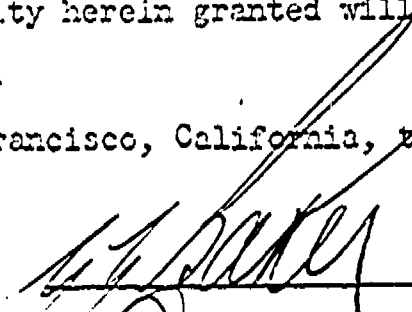
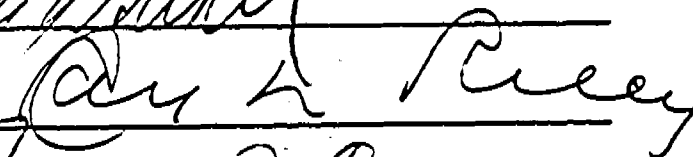

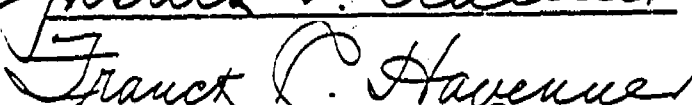

treasury because of income expended for additions and betterments to its properties or for the retirement of indebtedness.

2. The Pacific Telephone and Telegraph Company may purchase and hold said 360,000 shares of stock which Southern California Telephone Company is herein authorized to issue.

3. Southern California Telephone Company shall file with the Commission a report, or reports, as required by the Commission's General Order No. 24-A, 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 23<sup>rd</sup> day of December, 1941.

  
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Commissioners.