

LBM

Decision No. 23601.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ASSOCIATED TELEPHONE COMPANY, LTD.,)
for an order authorizing it to issue)
certain securities.)

Application No. 17276

ORIGINAL

C. F. Mason and Ernest Irwin, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding Associated Telephone Company, Ltd. asks permission to issue \$2,000,000.00 of its first mortgage five percent gold bonds, Series "A", due March 1, 1965, 65,000 shares of its preferred stock and 9,847 shares of its common stock, all for the purposes hereinafter stated.

The company owns and operates telephone systems in the following cities and towns and territory contiguous thereto; Azusa, Baldwin Park, Covina, Glendora, Hermosa Beach, Long Beach, Malibu, Manhattan Beach, Ocean Park, Puente, Redondo Beach, Santa Monica, Signal Hill, Venice and West Los Angeles, all being located in the County of Los Angeles; Huntington Beach, Laguna Beach, Seal Beach and Westminster, all located in the County of Orange; and San Bernardino, located in the County of San Bernardino.

Applicant has an authorized stock issue of 600,000 shares divided into 300,000 shares of common and 300,000 shares of preferred. All the shares of stock of the company have no par value.

As of March 1, 1931 applicant had outstanding 126,638 shares of common and 106,312 shares of preferred. The holders of the preferred stock are entitled to cumulative dividends payable at the rate of, but never in excess of, \$1.50 per share per annum before any dividends are paid on common stock. In case of liquidation they are entitled to prior distribution of assets up to \$25.00 per share plus accrued and unpaid dividends. The preferred stock is callable at \$26.25 per share at the option of the company.

Applicant has outstanding \$6,000,000.00 of first mortgage five percent gold bonds, Series "A", dated March 1, 1930 and due March 1, 1965. In addition to this bonded indebtedness it reports in Exhibit No. 2 outstanding as of April 1, 1931 notes payable to banks in the amount of \$250,000.00; trade acceptances payable to Graybar Electric Co., Inc., in the amount of \$77,769.07; notes payable to system corporations in the amount of \$133,000.00; accounts payable to system corporations in the amount of \$171,744.55; and audited vouchers and wages unpaid (approximately) \$150,000.00. The several amounts aggregate \$782,513.62.

In Exhibit "B" applicant reports net plant additions since the expenditure of the proceeds realized from the sale of the \$6,000,000 of bonds which are now outstanding, in amounts as follows:

Net additions in December, 1930, not covered...	
by proceeds of sale of bonds.....	\$372,679.15
Net additions to plant in January, 1931.....	10,843.17
Construction work in progress January 31, 1931	<u>650,722.18</u>
Total.....	<u>\$1,034,244.50</u>

In Exhibit "C" applicant reports its 1931 construction expenditures at \$2,986,522.00 which, if added to the \$1,034,244.50, makes a total of \$4,020,766.50. To avoid duplication there should be deducted from this the total actual expenditures in January, 1931, which are reported in Exhibit No. 3 at \$128,371.13. The total actual or estimated expenditures of the company, against which the

Commission has not authorized the issue of any stocks or bonds amounts to \$3,894,395.37. The testimony shows that the major part of the company's 1931 construction expenditures will be incurred to carry out its program of development undertaken in 1929.

To finance the aforementioned expenditures in part the company asks permission to issue and sell at not less than 95 per cent of their face value and accrued interest, \$2,000,000.00 of its first mortgage five percent gold bonds, Series "A", due March 1, 1965 ; and at not less than \$23.00 per share, 65,000 shares of its preferred stock.

If these securities were sold at the minimum prices suggested, applicant would realize \$3,395,000.00. It is believed that the amount which it will realize from the sale of securities, together with its depreciation reserve moneys, which it will have available for investment in properties, will be sufficient to finance its 1930 and 1931 construction expenditures.

It is the intention of the company to sell forthwith the \$2,000,000.00 of bonds and use the proceeds to pay the indebtedness set forth in Exhibit No. 2, and which has been incurred in connection with the aforementioned construction expenditures, and use the balance to pay in part the remainder of its expenditures. (Exhibit "B" and Exhibit "C".)

It is of record that applicant will undertake to sell the 65,000 shares of preferred stock through its own organization. The plans under which this stock will be disposed of have not been definitely decided upon. Some of it may be sold on the installment payment basis, with the result that part of the proceeds will not be collected until the latter part of this year or until 1932.

We believe that the company should be permitted to issue and sell its bonds at not less than 97 percent of their face value plus accrued interest, and its preferred stock for not less than \$24.00 per share. Of the proceeds realized from the sale of said stock an amount of not exceeding seventy-five cents per share may be expended to pay the expenses incident to the sale of the stock.

By Decision No. 21268, dated June 21, 1929, in Application No. 15494, the Commission authorized applicant to issue certain securities to acquire the outstanding capital stock, property and assets of the Associated Telephone Company, Home Telephone Company of Covina, Huntington Beach Telephone Company, Laguna Beach Telephone Company, Redondo Home Telephone Company and Santa Monica Bay Telephone Company. In authorizing the issue of the securities, in that decision the Commission considered the cost of the properties of the several companies as of December 31, 1928. The properties, however, were not actually transferred until September 1, 1929. Between December 31, 1928 and September 1, 1929, the surplus earnings of the aforementioned companies aggregated \$226,480.02. These net surplus earnings were acquired by applicant as of September 1, 1929, and set up on its balance sheet as "Capital surplus." The \$226,480.02 has been invested in the properties of applicant. It now asks that it be permitted to issue 9,847 shares of its common stock to reimburse its treasury on account of such expenditures. It proposes to issue such stock on a basis of \$23.00 per share, which is the same basis on which its common stock now outstanding was issued. While we are willing to grant this request, we do so because we view it as capitalizing properties acquired under the authority granted by Decision No. 21268. In subsequent proceedings we may find that the company's common stock should be issued on a different

basis.

O R D E R

Associated Telephone Company, Ltd. having asked permission to issue stocks and bonds, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the stocks and bonds herein authorized is reasonably required by applicant for the purposes herein stated, and that such purposes are not in whole or in part reasonably chargeable to operating expense or to income, and that this application should be granted as herein provided, therefore,

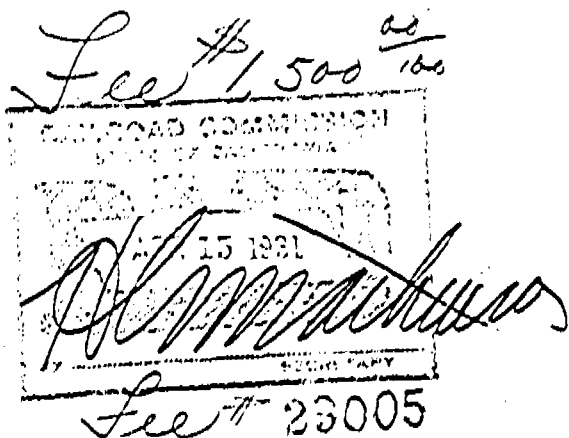
IT IS HEREBY ORDERED as follows:

1. Associated Telephone Company, Ltd. may issue and sell on or before August 1, 1931 at not less than 97 percent of their face value and accrued interest, \$2,000,000.00 of its first mortgage five percent gold bonds, Series "A", due March 1, 1965, and shall use the proceeds, other than the accrued interest, to pay the indebtedness referred to in Exhibit No. 2, and to pay in part the construction expenditures set forth in Exhibit "B" and in Exhibit "C", filed in this proceeding. The accrued interest may be used for general corporate purposes.
2. Associated Telephone Company, Ltd. may issue and sell on or before December 31, 1931 at not less than \$24.00 per share, 65,000 shares of its preferred capital stock, and may use of the proceeds an amount of not exceeding seventy-five cents per share to pay the expenses incident to the sale of said stock. The remainder of the proceeds and such portion of the said seventy-five cents not needed for the payment of said expenses, shall be used to pay

in part the construction expenditures referred to in Exhibit "B" and in Exhibit "C" filed in this proceeding.

3. Associated Telephone Company, Ltd. may issue, on or before August 1, 1931, at not less than \$23.00 per share, 9,847 shares of its common capital stock to reimburse its treasury because of \$226,480.02 expended for the acquisition of the properties, and distribute said stock to the holders of its common stock.
4. The authority herein granted to issue stock will become effective upon the date hereof, and the authority to issue bonds, upon the payment of the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Thousand Five Hundred (\$1,500.00) Dollars.
5. Associated Telephone Company, Ltd. shall keep such record of the issue and sale of the stocks and bonds herein authorized and of the disposition 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 insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 13th day of April, 1931.



C. C. Seaver
Leon Whipple
W. J. Lewis
W. B. Lewis
Fred G. Stewart
Commissioners