

Decision No. 28698

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ASSOCIATED TELEPHONE COMPANY, LTD.,)
a corporation, for authority to issue)
and sell 106,312 shares of its cumu-) Application No. 20452
lative preferred stock, \$1.25 series.)

BY THE COMMISSION:

O P I N I O N

This is an application for an order authorizing Associated Telephone Company, Ltd. to issue and sell 106,312 shares of its cumulative preferred stock, \$1.25 series, without nominal or par value, at not less than \$23.75 a share, for the purpose of paying in part indebtedness to be incurred in redeeming 106,312 shares of preferred stock now outstanding bearing cumulative dividends at the rate of \$1.50 a year.

Associated Telephone Company, Ltd. is a corporation organized under the laws of the State of California on or about March 18, 1929 and is engaged in the business of owning and operating telephone systems in the Counties of Los Angeles, Orange and San Bernardino. In addition it owns all of the outstanding stock of Fowler Independent Telephone Company, Lindsay Home Telephone and Telegraph Company and Reedley Telephone Company, public utility companies operating telephone systems in Fresno and Tulare Counties.

When organized, Associated Telephone Company, Ltd. had an authorized capital stock of 600,000 shares, without nominal or par value, divided into 300,000 shares of common stock and 300,000 shares of preferred stock, the latter bearing cumulative dividends at the rate of \$1.50 a year and being redeemable at the option of the com-

pany at any time upon thirty days' notice at \$26.25 a share. Of the capital stock the company has heretofore been authorized by the Commission to issue and sell, at not less than \$23. a share, 136,485 shares of common stock and 106,312 shares of preferred stock to finance the cost of acquiring properties. (Decision No. 21268, dated June 21, 1929, and Decision No. 23601, dated April 13, 1931). It appears that approximately 90% of the outstanding common stock is owned by General Telephone Corporation, a New York corporation.

The application shows that the company proposes to call all of its outstanding preferred stock- 106,312 shares- for redemption on April 30, 1936 at the redemption price of \$26.25 a share. Such redemption requires a total cash payment of \$2,790,690. plus accrued dividends. To provide itself with a portion of the funds necessary to effect the redemption it has made arrangements to borrow \$2,524,910. from General Telephone Corporation, which amount it is alleged, together with funds now on hand, will be sufficient to enable the company to carry out the transaction. The moneys borrowed will be evidenced by an unsecured promissory note payable on or before sixty days after date of issue with interest at the rate of 6% per annum.

In order to finance permanently the cost of redeeming its \$1.50 preferred stock, applicant has created and proposes to issue, a new series of preferred stock designated cumulative preferred stock, \$1.25 series. It appears that recently applicant has amended its Articles of Incorporation so as to provide for a total capital stock of 706,312 shares, without nominal or par value, divided into 106,312 shares of preferred stock, which now are outstanding, 300,000 shares of cumulative preferred stock and 300,000 shares of common stock. The shares of cumulative preferred stock shall be issued in two series to be designated, respectively, the \$1.25 series and Series B, each series consisting of 150,000 shares.

The holders of shares of cumulative preferred stock, \$1.25 series, shall be entitled to (1) cumulative dividends at the rate of \$1.25 a share a year; (2) to the payment of \$26.50 a share and all unpaid accrued dividends in the event the company redeems the stock and to voting rights on the basis of one vote a share with the right to vote cumulatively in electing directors. The holders of the shares of cumulative preferred stock, Series B, shall be entitled to such dividends, not to exceed \$1.50 a share a year, such redemption price, not to exceed \$26.50 a share, together with all unpaid accrued dividends to the date of redemption, and such voting rights, not to exceed one vote for each share with the right to vote cumulatively in electing directors, as the company's Board of Directors may hereafter determine. In the event of liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, the holders of the cumulative preferred stock, both series, shall be entitled to \$25. a share and all unpaid cumulative dividends accrued.

The amended articles further provide that no shares of cumulative preferred stock shall be issued unless and until (1) full and complete notice shall have been given for the redemption of all the outstanding shares of preferred stock; (2) the redemption date specified in such notice shall have passed; and (3) the funds necessary to effect the redemption of such stock shall have been irrevocably set apart by the corporation for payment to the owners of said stock.

As indicated above, the company plans at this time to sell on or after May 1, 1936, 106,312 shares of its new cumulative preferred stock, \$1.25 series, at not less than \$23.75 a share, which will yield it \$2,524,910., to obtain funds to pay the amount to be advanced by General Telephone Corporation. As a result of the proposed financing applicant estimates it will save approximately \$26,000. a year in annual dividend payments on preferred stock. However, the present preferred stock now is carried on applicant's books at \$23. a share,

making the total credit balance in its capital stock account, for such preferred stock, the sum of \$2,445,176. If applicant, as here proposed, pays \$2,790,690. in redeeming its preferred stock, the excess over the amount now carried on the balance sheet should, in our opinion, be charged to the company's unappropriated surplus account. Incidentally, it appears that as of February 29, 1936 applicant's unappropriated surplus was reported at \$692,614.09.

O R D E R

Associated Telephone Company, Ltd. having applied to the Railroad Commission for permission to issue and sell 106,312 shares of its cumulative preferred stock, \$1.25 series, and the Commission being of the opinion that this is not a matter in which a public hearing is necessary, that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of such shares, is reasonably required for the purpose specified herein, and that the expenditures for such purpose are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED that Associated Telephone Company, Ltd. be, and it hereby is, authorized to issue and sell, after the effective date hereof and on or before June 30, 1936, not exceeding 106,312 shares of its cumulative preferred stock, \$1.25 series, at not less than \$23.75 a share, for the purpose of paying amounts borrowed from General Telephone Corporation to redeem present outstanding preferred stock.

IT IS HEREBY FURTHER ORDERED that Associated Telephone Company, Ltd. shall file within thirty(30) days after the issue of the stock herein authorized, a report of such issue and of the disposition of the proceeds, as required by the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective when applicant has filed with the Commission a complete copy of its registration statement filed with the Securities and Exchange Commission.

DATED at San Francisco, California, this 6th day of April, 1936.

M B Harris
Leon Whitely
W. H. Burr
W. H. Burr
Frank R. King

Commissioners.