

LBM

Decision No. 28055

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. 20015

ORIGINAL

BY THE COMMISSION:

FOURTH SUPPLEMENTAL ORDER

The Railroad Commission by Decision No. 28055, dated June 24, 1935, authorized Associated Telephone Company, Ltd. to issue and sell \$8,500,000. of Series B, first mortgage 4% bonds due July 1, 1965, and to use the proceeds to pay and redeem a like amount of Series A, first mortgage 5% gold bonds, due March 1, 1965. Thereafter, by Decision No. 28098, dated July 8, 1935, it authorized the company to amortize over the life of the new Series B bonds certain sums representing unamortized discount and expense previously incurred in connection with the Series A bonds and then standing on its books.

Condition 2 of the order in Decision No. 28055, as amended, required the company to file with the Commission a statement showing in detail the expenses incurred by it because of the issue and sale of the new bonds. Such a statement was filed on September 1, 1936 showing total expenses of \$752,231.10, as follows:-

Legal and professional services	\$ 19,450.64
Auditors' services	7,113.59
Trustees services	15,397.71
Filing fee-Securities & Exchange Commission . . .	841.50
Documentary stamps	8,500.00
Printing and engraving	6,742.41
Telephone calls, telegrams, postage, traveling . . .	869.42
Certification as legal investment for Savings Banks in California	850.00
Discount on sale-first mortgage 4%, Series B . . .	340,000.00
Interest, month of August, 1935, first mortgage 4%, Series B	28,333.33
Premium on first mortgage 5% gold bonds, Series A	\$340,000.
Profit on first mortgage 5% gold bonds, Series A, held in treasury at date of redemption	15,952.50
	324,047.50
Trustees' fees for cremation of temporary first mortgage 4% bonds, Series B-estimated	85.00
Total	<u>\$752,231.10</u>

The statement filed by the company shows an item of \$28,333.33 representing interest for August, 1935 on the Series B bonds. The Commission does not believe that this item should be treated as expense incurred in connection with the issue of the new bonds to be amortized in the future. In the opinion of the Commission, interest charges on bonds outstanding, including duplicate interest charges incurred during refinancing programs, should be charged to income account during the year in which they are incurred. However, since the submission of the statement the company has advised the Commission that it will charge the \$28,333.33 item to its surplus account.

The statement further shows the inclusion by the company, as an expense item incurred in connection with the issue and sale of the new Series B bonds, of the sum of \$340,000. representing premiums paid in redeeming the old Series A bonds, which amount, however, is reduced by a profit of \$15,952.50 realized on Series A bonds acquired by the company prior to the redemption date and held in its treasury, resulting in net premium of \$324,047.50.

It has not been the Commission's policy to consider the premiums paid in retiring one issue of bonds as a factor in determining the cost of money represented by a succeeding issue. While in general it appears that such premiums should be charged to surplus at the time they are made, the Commission on occasions, good cause being shown, has permitted some companies, for accounting purposes and convenience, to treat such items on their books as deferred debits and to amortize them over a period of years.

In this case, Associated Telephone Company, Ltd. as of October 31, 1936 reports unappropriated surplus of \$424,048.76. Rather than charge the net premium of \$324,047.50 to surplus forthwith it asks in a supplemental petition filed in this proceeding on November 27, 1936 for

permission to charge the total premiums of \$340,000. to "Discount on funded debt" and to credit the \$15,952.50 to the same account and thereafter to amortize the balance over the life of the Series B bonds, that is, on or before July 1, 1965.

It appears that the company in the statement includes certain estimated expenditures amounting to \$85.00. The Commission will not require it to continue to file additional reports as and when the additional expenditures are incurred, but will accept the statement as meeting the requirement of Condition 2 of the order in Decision No. 28055, as amended. In so doing, we are not approving the amount expended for the several purposes. The Commission reserves the right to make such orders in the future as it may deem proper with respect to the accounting for the expenditures shown in the statement.

The Commission has at this time given consideration to the company's request to amortize the net premiums paid in retiring its Series A bonds, and believes that for accounting purposes it may be granted, therefore,

IT IS HEREBY ORDERED that Associated Telephone Company, Ltd., unless and until otherwise directed, be, and it hereby is, authorized to charge to balance sheet account "Discount on funded debt" the sum of \$340,000.00, representing premiums paid in redeeming its Series A bonds and to credit to said account the sum of \$15,952.50 representing profits realized on Series A bonds acquired by it prior to the date of redemption, and to amortize the balance resulting from such entries, on or before July 1, 1965, it being understood that the authorization here given is permissive only and that the Commission reserves the right to modify this order at any time without notice to the company.

DATED at San Francisco, California, this 7th day of December, 1936.

M. B. Lavin
Leon A. Whiskey
W. H. Carr
Robert J. Lavin
William J. Lavin
Commissioners.