

Decision No. 22682

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of ASSOCIATED TELEPHONE COMPANY, LTD., a corporation, for an order of the Commission authorizing Associated Telephone Company, Ltd. to issue and sell preferred stock for the purpose of reimbursing its treasury for expenditures heretofore made for plant additions and betterments.

Application No. 23159

O'Melveney & Myers by Harry L. Dunn
and Graham L. Sterling, Jr.
for applicant

Ernest Irwin for applicant

BY THE COMMISSION:

O P I N I O N

Associated Telephone Company, Ltd. asks permission to issue and sell at a price to net applicant not less than \$23.50 per share, 35,000 shares of its cumulative preferred stock, \$1.25 Series, without nominal or par value, for the purpose of reimbursing its treasury and obtaining funds to pay indebtedness, and to pay the cost of additions and betterments to its properties.

Associated Telephone Company, Ltd. is a corporation, duly organized and existing under and by virtue of the laws of California. It owns and operates telephone systems in several cities and towns and territories contiguous thereto in the Counties of Los Angeles, Orange, Riverside and San Bernardino, all in the State of California. In Application No. 23160, applicant asks per-

mission to issue 37,000 shares of its common stock without nominal or par value for the purpose of acquiring the outstanding stocks and the properties of the Santa Barbara Telephone Company.

Applicant has an authorized stock issue of 600,000 shares, all of which are without nominal or par value, and which are divided into two classes, to-wit: 300,000 shares of Cumulative Preferred Stock, \$1.25 Series, and 300,000 shares of Common Stock. It has presently outstanding 173,000 shares of its common stock and 143,000 shares of its cumulative preferred stock, \$1.25 Series. The company may, at its option, subject to the provisions of its Articles of Incorporation, redeem the cumulative preferred stock at \$26.50 per share. The shares of the cumulative preferred stock are entitled to voting rights on the basis of one vote per share with the right to vote cumulatively in electing directors.

As of November 30, 1939, applicant reports assets and liabilities as follows:

<u>ASSETS</u>		
FIXED CAPITAL		\$20,283,365.49
INVESTMENTS:		
Stocks of Affiliated Companies	\$ 274,880.35	
Other Investments	592.20	
TOTAL INVESTMENTS		275,472.55
CURRENT ASSETS:		
Cash	325,865.89	
Special Deposits	574.00	
Working Funds	73,039.25	
Due from Customers & Agents	444,581.80	
Accounts Receivable	13,860.44	
Materials & Supplies	493,186.60	
TOTAL CURRENT ASSETS		<u>1,351,107.98</u>
FORWARDED		\$21,909,946.02

ASSETS - CONTINUED

	FORWARDED	\$21,909,946.02
INTER-COMPANY ITEMS:		
Accounts Receivable	\$ 164.06	
TOTAL INTER-COMPANY ITEMS		164.06
DEFERRED DEBIT ITEMS:		
Prepaid Rents	1,969.96	
Prepaid Taxes	241,715.78	
Prepaid Insurance	6,315.27	
Prepaid Directory Expenses	932.69	
Other Prepayments	41,679.24	
Capital Stock Expense	14,572.75	
Discount on Funded Debt	1,010,132.88	
Extraordinary Maintenance & Retirements	<u>8,970.00</u>	
TOTAL DEFERRED DEBIT ITEMS		<u>1,326,238.57</u>
TOTAL ASSETS		<u>\$23,236,398.65</u>
<u>LIABILITIES</u>		
CAPITAL STOCK:		
Common	\$4,257,075.00	
Preferred	<u>3,295,358.00</u>	
TOTAL CAPITAL STOCK		\$ 7,552,433.00
FUNDED DEBT	10,300,000.00	
TOTAL FUNDED DEBT		10,300,000.00
CURRENT LIABILITIES:		
Accounts Payable	354,114.08	
Customers' Deposits	9,339.05	
Advance Billing & Payments	126,862.28	
Other Current Liabilities	<u>4,405.48</u>	
TOTAL CURRENT LIABILITIES		494,720.89
INTER-COMPANY ITEMS:		
Accounts Payable	<u>13,780.02</u>	
TOTAL INTER-COMPANY ITEMS		13,780.02
ACCRUED LIABILITIES NOT DUE:		
Taxes Accrued	319,812.34	
Unmatured Dividends Accrued	144,645.83	
Other Accrued Liabilities not Due	<u>2,181.61</u>	
TOTAL ACCRUED LIABILITIES NOT DUE		466,639.78
DEFERRED CREDITS AND RESERVES:		
Depreciation Reserve	3,567,920.52	
Amortization Reserve	966.87	
Other Deferred Credits	<u>3,984.12</u>	
TOTAL DEFERRED CREDITS AND RESERVES		3,572,931.51
DONATIONS		483,932.41
SURPLUS:		
Earned Surplus	<u>351,961.04</u>	
TOTAL SURPLUS		<u>351,961.04</u>
TOTAL LIABILITIES		<u>\$23,236,398.65</u>

The funded debt appearing in the foregoing balance sheet consists of \$10,300,000 of 4% First Mortgage Bonds. These bonds have been called for redemption on January 1, 1940. On December 1, 1939, the company issued and sold \$10,300,000 face value of First Mortgage, Series "A," 3½% Bonds, due December 1, 1969, for the purpose of redeeming said 4% bonds.

In Exhibit No. 3, applicant reports that it has expended for additions and betterments the sum of \$1,889,291.27, which it did not obtain from the issue of stocks or bonds. This sum represents depreciation reserve moneys, current and accrued liabilities, and surplus earnings invested in applicant's properties. While it asks permission to issue the stock to reimburse its treasury, the testimony shows that the stock proceeds will actually be used to pay indebtedness incurred for construction purposes and to pay in part for additions and betterments set forth in applicant's 1940 budget, which is filed in this proceeding as Exhibit No. 4. In summary form, said budget shows the following expenditures:

<u>Plant Item</u>	<u>Gross Construction</u>	<u>Plant Displaced</u>	<u>Net Additions</u>
Right of Way	\$ 9,000	\$ -	\$ 9,000
Land	24,000	-	24,000
Buildings	77,360	21,300	56,060
Central Office			
Equipment	471,250	46,600	425,250
Station Equipment	1,374,000	982,350	391,650
Outside Plant	834,280	457,430	376,850
General Equipment	71,000	38,000	33,000
Total	\$2,861,490	\$1,545,680	\$1,315,810

It is estimated that \$186,600 of the above construction work will not be completed until 1941.

As stated, applicant asks permission to sell the 35,000 shares of stock at a net price of not less than \$23.50 per share, after paying \$1.25 per share commission to the underwriters, who are Bonbright & Company, Incorporated; Paine, Webber & Co.; and Mitchum, Tully & Co.

After reviewing the record in this proceeding, we have concluded that applicant should sell said stock at a net price of not less than \$24 per share, and that of the proceeds realized from the sale of said stock not more than \$1 per share may be paid as commissions to the underwriters. If applicant pays to the underwriters more than \$1 per share commission, it must charge the difference between the amount it pays to said underwriters and the said \$1 per share of stock sold to surplus.

O R D E R

Associated Telephone Company, Ltd. having asked permission to issue 35,000 shares of its cumulative preferred stock, \$1.25 Series, a public hearing having been held 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 issue of said stock is reasonably required by applicant for the purposes herein stated, and that the expenditures for said 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 and not otherwise, therefore

IT IS HEREBY ORDERED that Associated Telephone Company, Ltd. be, and it is hereby, authorized to issue and sell on or before March 1, 1940, at a price to net applicant not less than \$24 per share, 35,000 shares of its cumulative preferred stock, \$1.25 Series, for the purpose of reimbursing its treasury because of income expended for additions and betterments to its properties, provided, that said

proceeds, except as herein otherwise authorized, be used to pay indebtedness incurred on account of the construction of additions and betterments to applicant's properties and to finance in part the additions and betterments set forth in applicant's 1940 budget filed in this proceeding as Exhibit No. 4.

IT IS HEREBY FURTHER ORDERED that of the gross proceeds realized from the sale of said stock, applicant may expend not more than \$1 per share to pay commissions to underwriters, provided, the payment of said \$1 per share will not result in a net sale price of said stock of less than \$24 per share.

IT IS HEREBY FURTHER ORDERED that Associated Telephone Company, Ltd. shall from time to time until all of said stock proceeds have been expended file with the Railroad Commission monthly reports such as are required by the Commission's General Order No. 24-A, which order insofar as applicable is hereby made a part of this order.

IT IS HEREBY FURTHER ORDERED that, except for the purpose of filing a petition for a rehearing, which petition must be filed within twenty (20) days after the date hereof, the authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 27th day of

December, 1939.

R. G. ...
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COMMISSIONERS.