

Decision No. 34388

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 it to issue
and sell Preferred and Common Stock.

ORIGINAL

Application No. 24271

O'Molveny & Myers, by Harry L. Dunn
and Graham L. Sterling, Jr.,
for Applicant.

BY THE COMMISSION:

O P I N I O N

Associated Telephone Company, Ltd., hereinafter some times referred to as applicant, asks the Railroad Commission to enter its order authorizing applicant to issue and sell 60,000 shares of its cumulative preferred stock, \$1.25 Series, without nominal or par value, at a price not less than \$24.50 per share and to issue and sell 30,000 shares of its common capital stock, without nominal or par value, at a price not less than \$25.00 per share, for the purpose of reimbursing applicant's treasury, paying indebtedness and paying in part the cost of the additions and betterments described in Exhibits No. 4 and 5.

Associated Telephone Company, Ltd. is a California corporation. It owns and operates telephone systems in numerous cities and towns, and territories adjacent thereto, in the counties of Los Angeles, Orange, Riverside, San Bernardino and Santa Barbara.

In Exhibit No. 6 applicant shows its assets and liabilities as of May 31, 1941, to have been as follows:

ASSETS

| | | |
|---|---------------------|-------------------------------|
| <u>Telephone Plant, Equipment, etc:</u> | | \$26,298,802.98 |
| Telephone plant in service | \$25,935,696.02 | |
| Telephone plant under construction | 305,532.38 | |
| Telephone plant acquisition adjustment | 57,574.58 | |
| Investments in stocks of affiliated companies | | 276,395.35 |
| Other Investments | | 5,900.95 |
| <u>Current Assets:</u> | | 2,317,905.30 |
| Cash | 664,194.14 | |
| Due from customers and agents, net | 627,731.98 | |
| Other accounts receivable | 18,576.27 | |
| Materials and supplies | 972,106.43 | |
| Other current assets | 196.27 | |
| Due from affiliated companies | 35,100.21 | |
| Prepayments | | 97,301.53 |
| Capital Stock Expenses | | 30,161.34 |
| Discount on long-term debt | | 803,038.22 |
| Other deferred charges | | <u>1,638.03</u> |
| | TOTAL ASSETS | <u>\$29,831,143.70</u> |

LIABILITIES

| | | |
|--|--------------------------|-------------------------------|
| <u>Capital Stock:</u> | | \$ 9,326,183.00 |
| Common stock | 5,182,075.00 | |
| Preferred stock | 4,144,108.00 | |
| Bonded Indebtedness | | 11,668,000.00 |
| <u>Current Liabilities:</u> | | 1,586,337.77 |
| Notes payable | 900,000.00 | |
| Accounts payable | 485,401.92 | |
| Customers' deposits | 3,790.40 | |
| Advanced billing payments | 172,579.20 | |
| Other current liabilities | 8,327.91 | |
| Accounts payable to affiliated companies | 16,238.29 | |
| <u>Accrued Liabilities:</u> | | 573,863.77 |
| Taxes accrued | 407,429.60 | |
| Other interest accrued | 1,025.00 | |
| Unmatured dividends accrued | 144,541.67 | |
| Other accrued liabilities not due | 20,867.57 | |
| <u>Deferred Credits:</u> | | 5,610,626.41 |
| Depreciation reserve | 5,572,263.41 | |
| Amortization reserve | 8,958.96 | |
| Other deferred credits | 29,404.00 | |
| Contributions of Telephone Plant | | 681,450.76 |
| Earned Surplus | | <u>384,681.99</u> |
| | TOTAL LIABILITIES | <u>\$29,831,143.70</u> |

Applicant has an authorized stock issue of 600,000 shares of no par value, divided into 300,000 shares of common stock and 300,000 shares of cumulative preferred stock, \$1.25 Series. Of the common stock 210,000 shares, and of the preferred stock 178,000 shares, are now outstanding. The common stock, as indicated on applicant's balance sheet, has a stated value of \$5,182,075.00, and the preferred stock a stated value of \$4,144,108.00. The holders of the preferred stock are entitled to cumulative dividends at the rate of, but never in excess of, \$1.25 per share per annum before any dividends are paid on the common stock. In the case of liquidation, the holders of the preferred stock are entitled to prior distribution of assets up to \$25.00 per share, plus accrued and unpaid dividends. The preferred shares of stock are callable at any time at \$26.50 per share plus accrued and unpaid dividends.

Applicant's bonded indebtedness consists of \$10,300,000 of its First Mortgage bonds, Series A, 3½%, due December 1, 1969, and \$1,368,000 of Santa Barbara Telephone Company First Mortgage 3½% bonds, Series C, due January 1, 1966. The payment of the latter bonds was assumed by applicant. It has called said bonds for redemption. Applicant has been authorized to issue, for the purpose of redeeming said bonds, \$1,368,000 of its First Mortgage bonds, Series B, 3½%, due December 1, 1969.

In the latter part of 1940 applicant prepared a 1941 construction budget (Exhibit No. 4) in which it estimated its gross plant additions at \$3,433,700, its plant retirements at \$1,418,550 and its net plant additions at \$2,015,150. Since the preparation of this budget, a number of projects which were not foreseen in 1940 have been added to applicant's 1941 con-

struction program. It has prepared a revised construction budget (Exhibit No. 5) for the last seven months of the current year. Its gross construction expenditures for the seven months are now estimated at \$2,800,100, its plant retirements at \$928,300 and its net additions to plant at \$1,871,800. Adding to this figure the actual net additions to plant for the first five months of this year, amounting to \$996,196.39, results in actual and estimated net plant additions for 1941 of \$2,867,096.39. A general description of the various construction projects is contained in Exhibits No. 4 and 5.

To carry forward its construction program applicant has borrowed from several banks a total of \$1,100,000. These bank loans are represented by 90-day, 1½% unsecured notes. For the purpose of paying its bank loans and for the further purpose of reimbursing its treasury on account of income expended for additions and betterments and financing the cost of additions and betterments, set forth in Exhibits No. 4 and 5, applicant asks permission to issue, as said, 60,000 shares of its cumulative preferred stock, and 30,000 shares of its common stock. It asks authority to issue and sell the preferred stock at not less than \$24.50 per share and the common stock at not less than \$25.00 per share. The testimony shows that applicant is now carrying on negotiations with Bonbright & Company, Inc., Paine, Webber & Company and Mitchum Tully & Company for the sale of the preferred stock. While no definite agreement has been entered into for the sale of said stock, applicant expects that the price to it will be not less than \$24.50 per share. The actual price will depend upon market conditions at the time the stock is offered for sale. It is understood that the company will receive for the stock \$1.25 per share less than the amount at which the stock is resold by the underwriters to the

public. Applicant will not reimburse the underwriters for any of their expenses. The order herein will fix a minimum price of \$24.75 per share for said preferred stock.

All of applicant's outstanding common stock is owned by the General Telephone Corporation. It will acquire the 30,000 shares of common stock which applicant now asks permission to issue. A consideration of the record in this proceeding leads us to believe that applicant should receive not less than \$26.50 per share for the 30,000 shares of common stock. The order following will therefore fix \$26.50 per share as the minimum price at which said common stock may be issued. Said order will further provide that the authority to issue the preferred stock will not become effective until said common stock has been issued.

O R D E R

A public hearing having been held in the above entitled application before Examiner Fankhauser, the Commission having considered the evidence submitted at such hearing, and it being of the opinion that the money, property or labor to be procured or paid for by Associated Telephone Company, Ltd. through the issue and sale of 60,000 shares of its cumulative preferred stock and 30,000 shares of common stock is reasonably required by said Associated Telephone Company, Ltd. for the purposes specified in this order, and that the expenditures for such 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, therefore,

IT IS HEREBY ORDERED as follows:

1. Associated Telephone Company, Ltd. may, after the effective date hereof and on or before October 1, 1941, issue and sell at not less than \$24.75 per share, 60,000 shares of its cumulative preferred stock, \$1.25 Series, and at not less than \$26.50 per share, 30,000 shares of its common capital stock.

2. Associated Telephone Company, Ltd. shall use \$1,100,000 of the proceeds realized through the issue and sale of said stock to pay \$1,100,000 of outstanding notes and use the remainder of said proceeds to reimburse its treasury because of income expended for additions and betterments to its telephone properties, provided that the proceeds used for the purpose of reimbursing applicant's treasury be applied to the financing in part of the cost of additions and betterments described in Exhibits No. 4 and 5 on file in this proceeding.

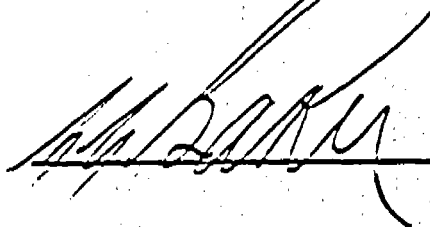
3. Within thirty (30) days after the effective date of the registration statement which Associated Telephone Company, Ltd. will file with the Securities and Exchange Commission, said Associated Telephone Company, Ltd. shall file with the Railroad Commission a copy of said registration statement including all exhibits referred to therein, except such exhibits which have been included in a prior registration statement, a copy of which applicant has filed with the Commission.

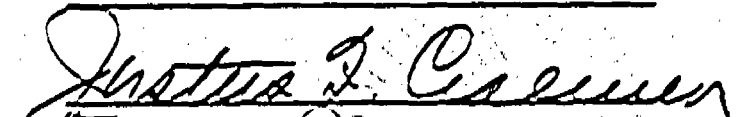
4. Associated Telephone Company, Ltd. shall, from time to time, file with the Railroad Commission reports in compliance with the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted to issue and sell common stock will become effective upon the date hereof.

6. The authority herein granted to issue and sell preferred stock will become effective if and when Associated Telephone Company, Ltd. has issued and sold, and has received payment for, said 30,000 shares of common stock.

Dated at San Francisco, California, this 8th
day of July, 1941.








Commissioners