

Decision No. 27474

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of
ASSOCIATED TELEPHONE COMPANY, LTD.
for an Order authorizing it to issue
certain securities and to execute a
supplemental trust indenture.

Application No. 26417

BY THE COMMISSION:

O P I N I O N

In this application as amended, Associated Telephone Company, Ltd. asks permission to issue and sell at not less than 107% of their principal amount plus accrued interest, \$10,300,000 of First Mortgage Bonds, Series C, 3½%, due November 1, 1974, and execute a Supplemental Indenture, substantially in the same form as that attached to the First Supplemental Application and marked Exhibit C, as amended by the Second Supplemental Application.

Associated Telephone Company, Ltd. also asks permission to deviate, in the manner hereafter indicated, from the Uniform System of Accounts prescribed by the Railroad Commission.

Associated Telephone Company, Ltd., as of September 30, 1944, reports assets and liabilities as follows:

Assets

FIXED CAPITAL:		
Property, Plant, etc.	\$29,402,105.27	
TOTAL FIXED CAPITAL		\$29,402,105.27
INVESTMENTS:		
Stocks of Affiliated Companies	276,395.35	
Other Investments	592.20	
Post War Refund	381,980.00	
TOTAL INVESTMENTS		658,967.55
CURRENT ASSETS:		
Cash	2,719,379.70	
Special Deposits	80,874.57	
Working Funds	87,979.25	
Temporary Cash Investments	2,155,000.00	
Due from Customers and Agents	1,078,869.31	
Accounts Receivable	23,813.46	
Other Interest & Dividends Receivable	7,867.50	
Material and Supplies	612,892.21	
TOTAL CURRENT ASSETS		6,766,676.00
INTER-COMPANY ITEMS:		
Notes Receivable	45,000.00	
Interest & Dividends Receivable	168.75	
TOTAL INTER-COMPANY ITEMS		45,168.75
DEFERRED DEBIT ITEMS:		
Prepaid Rents	3,265.33	
Prepaid Taxes	428,632.83	
Prepaid Insurance	15,012.85	
Prepaid Directory Expense	3,226.43	
Other Prepayments	23,301.19	
Capital Stock Expense	42,264.73	
Discount on Long Term Debt	1,079,497.38	
Other Deferred Charges	33,940.53	
TOTAL DEFERRED DEBIT ITEMS		1,629,141.27
TOTAL ASSETS		<u>\$38,502,058.84</u>

Liabilities

CAPITAL STOCK:		
Common	\$ 5,977,075.00	
Preferred	5,636,608.00	
TOTAL CAPITAL STOCK		\$11,613,683.00
FUNDED DEBT		
		11,668,000.00
CURRENT LIABILITIES:		
Accounts Payable	926,535.98	
Customers' Deposits	3,623.82	
Advance Billing and Payments	219,061.82	
TOTAL CURRENT LIABILITIES		1,149,221.62
INTER-COMPANY ACCOUNTS PAYABLE		
		38,153.34
ACCRUED LIABILITIES NOT DUE:		
Taxes Accrued	3,048,153.71	
Interest Accrued	134,986.66	
Unmatured Dividends Accrued	49,583.33	
Other Accrued Liabilities Not Due	12,584.68	
TOTAL ACCRUED LIABILITIES NOT DUE		3,245,308.38
DEFERRED CREDITS AND RESERVES:		
Premium on Long-Term Debt	434,302.25	
Depreciation Reserve	9,128,188.23	
Emergency Facilities Reserve	11,928.17	
Amortization Reserve	19,043.92	
Other Deferred Credits	15,819.55	
TOTAL DEFERRED CREDITS AND RESERVES		9,609,282.12
DONATIONS		
		701,620.18
EARNED SURPLUS		
		476,790.20
TOTAL LIABILITIES		<u>\$38,502,058.84</u>

Applicant has outstanding 240,000 shares of common stock and 238,000 shares of cumulative preferred stock, \$1.25 Series.

Its funded debt consists of:

(a) First Mortgage Bonds, Series A, 3½%, due December 1, 1969	\$10,300,000
(b) First Mortgage Bonds, Series B, 3½%, due December 1, 1969	<u>1,368,000</u>
Total	<u>\$11,668,000</u>

HFM The \$10,300,000 of Series A, 3½%, Bonds were issued and sold to ~~thirteen~~ *thirteen* insurance companies at 105.75 under the authority granted by Decision No. 32570, dated November 21, 1939, in Application No. 23122. Upon giving the required notice, the Series A Bonds are now redeemable at the option of the company upon the payment of the principal amount thereof, the accrued interest to the date of redemption, together with a premium of 9%. It is applicant's intention to redeem the Series A Bonds on or ~~before~~ *about* December 28, *HFM* 1944. To provide itself with funds to accomplish that end, applicant asks permission to issue and sell at not less than 107% plus accrued interest, \$10,300,000 of First Mortgage Bonds, Series C, 3½%, due November 1, 1974. It is applicant's intention to sell the bonds privately and thus avoid the expense of preparing and filing a Registration Statement with the Securities and Exchange Commission. It estimates its expenses incidental to the issue of the bonds at \$92,000. This includes the payment of \$51,500 to its agents who are negotiating for the sale of the bonds.

Applicant asks permission to execute a Supplemental Indenture modifying the Trust Indenture securing the payment of its outstanding bonds and the bonds which it now proposes to

issue. Applicant filed with its First Supplemental Application a revised copy (Exhibit C) of its proposed Supplemental Indenture. Further revisions of the indenture are submitted in the Second Supplemental Application. The Supplemental Indenture creates the new \$10,300,000 Series C, 3½%, Bonds and provides that except for said Series C Bonds, and \$1,500,000 of additional bonds the issue of which is not now before us, the Trustee may hereafter authenticate bonds only against property additions installed subsequent to November 1, 1944. The issue of the \$1,500,000 as well as any other bonds against said property additions is subject to future orders of the Commission. The original indenture provides that no bonds shall be authenticated and delivered on the basis of property additions or on the basis of deposit of cash unless the net earnings of the company before depreciation shall be at least 200% and the net earnings after depreciation shall be at least 150% of all interest charges on funded debt outstanding and on funded debt proposed to be issued. The proposed Supplemental Indenture amends this provision and provides that the net earnings, excluding accruals of Federal taxes based on income, shall be at least 200% of the interest requirement on all funded debt outstanding and on funded debt proposed to be issued. For the twelve months ending September 30, 1944, applicant reports income available for fixed charges in the sum of \$1,166,651.50 while its interest on funded debt amounted to \$404,960. Reference is here made to the Supplemental Indenture for other changes which it makes in the original indenture.

Applicant's balance sheet, as of September 30, 1944, shows discount on long-term debt of \$1,079,497.38 and premium received on long-term debt in the amount of \$434,302.23. Of the premium, \$395,205.33 is applicable to the Series A, 3½%, Bonds. This by the time of the bond refunding will be reduced to about

\$390,000. Upon the payment of the Series C Bonds, applicant will have to pay a premium of \$927,000. It estimates its tax savings on account of the refunding of its 3½% bonds at \$492,500. It asks permission to apply an amount equal to the tax savings and the unamortized premium received on the 3½% Bonds, aggregating about \$882,500, as a credit to its unamortized discount and expense reported at \$1,079,497.38 and to amortize the remaining balance, approximately \$197,000, together with the redemption premium of \$927,000 paid to Series A bondholders over the period between December 1, 1944 and December 1, 1969, the date on which the Series A Bonds, which are being refunded, would have matured. For accounting purposes, we have no objection to applicant's proposal.

O R D E R

Associated Telephone Company, Ltd. having asked permission to issue \$10,300,000 of its First Mortgage Bonds, Series C, 3½%, due November 1, 1974, for the purpose stated in the foregoing Opinion, the Commission having considered applicant's request and it being of the opinion that this is not a matter on which a hearing is necessary; that the money, property or labor to be procured or paid for by the issue of said bonds is reasonably required for the purpose herein stated; that the expenditures for said purpose, other than the use of the accrued interest, 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 December 31, 1944, issue and sell at not less than 107% of their face value and accrued interest, \$10,300,000 of First Mortgage Bonds, Series C, 3 $\frac{1}{4}$ %, due November 1, 1974, and use the proceeds other than accrued interest for the purpose of paying, in part, its outstanding \$10,300,000 of First Mortgage Bonds, Series A, 3 $\frac{1}{2}$ %, due December 1, 1969. The accrued interest may be used by applicant for general corporate purposes.

2. Associated Telephone Company, Ltd. may, after the effective date hereof and on or before December 31, 1944, execute a Supplemental Indenture substantially in the same form as the Supplemental Indenture attached to the First Supplemental Application and marked Exhibit C, as amended in the manner indicated in the Second Supplemental Application.

3. Associated Telephone Company, Ltd. may, if it sells said \$10,300,000 of Series C, 3 $\frac{1}{4}$ %, Bonds and redeems said \$10,300,000 of Series A, 3 $\frac{1}{2}$ %, Bonds, credit its unamortized bond discount and expense with an amount approximately equal to its tax savings on account of the payment of said Series A, 3 $\frac{1}{2}$ %, Bonds and with the unamortized premium applicable to said Series A, 3 $\frac{1}{2}$ %, Bonds, and amortize the remaining balance of said unamortized bond discount and expense, together with the redemption premium of \$927,000 paid on said Series A, 3 $\frac{1}{2}$ %, Bonds, over the period from December 1, 1944 to December 1, 1969, provided that said permission is granted for accounting purposes only and is not an admission by the Commission that said annual charges constitute a part of the cost of the funds obtained through the issue and sale of said \$10,300,000 of First Mortgage Bonds, Series C, 3 $\frac{1}{4}$ %, due November 1, 1974.

4. The authority herein granted will become effective when Associated Telephone Company, Ltd. has paid the fee prescribed by Section 57 of the Public Utilities Act.

5. Within thirty (30) days after the issue of said \$10,300,000 of First Mortgage Bonds, Series C, 3½%, due November 1, 1974, Associated Telephone Company, Ltd. shall file with the Railroad Commission a report in compliance with the Commission's General Order No. 24-A, which Order insofar as applicable is made a part of this Order; also two verified copies of the Supplemental Indenture executed under the authority herein granted and a true and correct copy of each agreement entered into covering the sale of said \$10,300,000 of Series C, 3½%, Bonds.

Dated at San Francisco, California, this 9th day of November, 1944.

Richard H. Baker
Justice F. Calver
Francis C. Havens

Wm H. Rowell
Commissioners.

