

Decision No. 37839

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
\$20.00 Par Value Common Stock and
Cumulative Preferred Stock, \$20.00
Par Value, 4½% Series

ORIGINAL

Application
No. 26662

HARRY L. DUNN and MARSHALL K. TAYLOR,
For Applicant

BY THE COMMISSION:

O P I N I O N

Associated Telephone Company, Ltd., hereinafter
sometimes referred to as Applicant, asks the Commission to
issue its order to the following effect:

1. Authorizing Applicant to issue 298,854 shares
of its \$20.00 par value Common Stock in exchange for 240,000
shares no par value Common Stock now outstanding.

2. Authorizing Applicant to issue not exceeding
238,000 shares of its Cumulative Preferred Stock, 4½% Series,
in exchange for all or any part of its outstanding Cumulative
Preferred Stock, \$1.25 Series, on the basis of one share of
said 4½% series plus cash in the sum of not more than \$4.25
per share for each share of said \$1.25 series and an adjustment
of dividends in an amount equal to the difference between the
accrued dividend on the share of the \$1.25 series from May 1,
1945, to the date of redemption thereof and the dividend accrued
on the share of the 4½% series from May 1 to the date of

expiration of the exchange offer.

3. Authorizing Applicant to issue and sell at not less than \$22.25 per share plus accrued dividends, 42,312 shares of said Cumulative Preferred Stock, 4 $\frac{1}{2}$ % Series, and all or any part of said 238,000 shares of said series not issued in exchange for the outstanding Cumulative Preferred Stock, \$1.25 Series, and to use the proceeds of such sale to redeem the unexchanged Cumulative Preferred Stock, \$1.25 Series, and to pay on said exchange a cash adjustment not exceeding \$4.25 per share.

4. Authorizing Applicant to credit to its paid-in or capital surplus account the premium which may be realized from the issuance of the new Cumulative Preferred Stock, 4 $\frac{1}{2}$ % Series, in accordance with the provisions of Section 300 b of the Civil Code of California, and further authorizing Applicant to the extent of said premium to charge to said capital or paid-in surplus account the redemption premium on its presently outstanding cumulative preferred shares, \$1.25 series.

Applicant owns and operates telephone systems in the following cities and towns and territory contiguous thereto: Azusa, Baldwin Park, Covina, Claremont, Glendora, Hermosa Beach, Lancaster, La Verne, Long Beach, Malibu, Manhattan Beach, Ocean Park, Pomona, Puente, Redondo Beach, San Dimas, Santa Monica, Signal Hill, Venice and West Los Angeles, all being located in the County of Los Angeles; Huntington Beach, Laguna Beach, Seal Beach and Westminster, all located in the County of Orange; Chino, Crestline, Etiwanda, Lake Arrowhead, Ontario, San Bernardino and Upland, all located in the County of San Bernardino; and Carpinteria, Goleta, Guadalupe, Lompoc, Los Alamos, Montecito, Santa Barbara, Santa Maria and Santa Ynez, all located in the County of Santa Barbara, all in the State of California.

Applicant as of February 28, 1945, reports assets and liabilities as follows:

ASSETS

Fixed Capital:		\$29,852,321.71
Tangible plant	\$29,767,794.48	
Organization and franchises	84,527.23	
Investments:		679,947.55
Stocks of affiliated companies	276,395.35	
Other investments	592.20	
Post War Refund	402,960.00	
Current Assets:		6,570,520.03
Cash	2,042,173.28	
Special deposits	7,577.24	
Working funds	88,627.35	
Temporary cash investments	2,700,000.00	
Due from customers and agents	1,156,817.95	
Accounts receivable	37,285.83	
Other interest and dividends receivable	12,807.51	
Material and supplies	525,230.87	
Inter-Company Items:		45,112.50
Notes receivable	45,000.00	
Interest and dividends receivable	112.50	
Deferred Debit Items:		1,694,439.77
Prepaid rents	11,023.71	
Prepaid taxes	251,010.60	
Prepaid insurance	5,686.26	
Prepaid directory expense	4,381.19	
Other prepayments	22,017.74	
Capital stock expense	42,264.73	
Discount on Long Term debt	1,127,331.81	
Other deferred charges	230,723.73	
		\$38,842,341.56
Total Assets		

LIABILITIES

Capital Stock:		\$11,613,683.00
Common	\$5,977,075.00	
Preferred	5,636,608.00	
Funded Debt:		11,668,000.00
Current Liabilities:		1,255,724.06
Accounts payable	1,031,041.31	
Customers' deposits	3,067.06	
Advance billing and payments	221,615.69	
Inter-Company Accounts Payable:		21,348.52
Accrued Liabilities not Due:		2,752,439.69
Taxes accrued	2,508,629.87	
Interest accrued	122,698.33	
Unmatured dividends accrued	108,791.67	
Other accrued liabilities not due	12,319.82	
Deferred Credits and Reserves:		10,351,941.83
Premium on long-term debt	668,013.19	
Depreciation reserve	9,638,116.18	
Emergency facilities reserve	14,944.22	
Amortization reserve	27,849.07	
Other deferred credits	3,019.17	
Donations:		703,662.94
Earned Surplus:		475,541.52
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Total Liabilities		\$38,842,341.56

Applicant has outstanding 240,000 shares of no par value common stock and 238,000 shares of no par value cumulative preferred stock, \$1.25 series. Through the issue of the common stock, Applicant has received a total consideration of \$5,977,075, or an average of \$24.9045 per share. The preferred shares represent a total consideration of \$5,636,608, or an average of \$23.6832 per share. The Applicant's common stock is all owned by General Telephone Corporation. Its preferred stock is widely distributed. Applicant has regularly paid \$1.25 dividend on its preferred stock. On its common stock it paid a dividend of \$1.45 per share in 1942, \$1.50 per share in 1943, and \$1.55 per share in 1944.

Applicant's funded debt consists of \$10,300,000 of series C 3½% first mortgage bonds, due November 1, 1974, and \$1,368,000 of series B 3½% first mortgage bonds, due December 1, 1969.

Applicant's officers, because of the current favorable market for preferred stocks, have concluded to take steps to redeem its Cumulative Preferred Stock, \$1.25 Series. Such stock is redeemable on thirty (30) days' notice at \$26.50 per share and accrued dividends. It is proposed to amend Applicant's Articles of Incorporation so that they will finally provide for an authorized stock issue of 800,000 shares of the par value of \$20.00 each. Of these shares, 400,000 represent common stock and 400,000 preferred stock. Applicant's outstanding common stock with a stated value of \$5,977,075, represented by 240,000 shares of no par value, will be converted into 298,854 shares of the new common stock having an aggregate par value of \$5,977,080.

To effect the refunding or redemption of its outstanding 238,000 shares of no par value Cumulative Preferred Stock, \$1.25 Series, Applicant asks permission to issue 280,312 shares of Cumulative Preferred Stock, \$20.00 par value, 4½% Series. It will offer 238,000 shares of said stock to the holders of its outstanding 238,000 shares of Cumulative Preferred Stock, \$1.25 Series, on a share-for-share basis plus the payment of \$4.25 per share to the holders of said stock who exchange it for the 4½% series. It further asks permission to issue and sell at not less than \$22.25 per share 42,312 shares of said 280,312 shares and all or any part of said 238,000 shares not issued in exchange for its outstanding Cumulative Preferred Stock, \$1.25 Series. The proceeds realized from the sale of such stock will be used to

redeem the unexchanged Cumulative Preferred Stock, \$1.25 Series, and to pay the holders of the stock exchanged \$4.25 per share.

Applicant estimates its annual savings because of the preferred stock refunding or redemption under present tax laws at \$37,984.13. Its preferred stock stated capital will be reduced from \$5,636,608 to \$5,606,240, or by the sum of \$30,368.

Applicant requests permission to regard the premium it will receive upon the issue of its 4½% series stock as capital or paid-in surplus and to charge to such capital or paid-in surplus premium which it must pay upon the redemption of its presently outstanding Cumulative Preferred Stock, \$1.25 Series. Redemption premiums paid in excess of the premium received will be charged to earned surplus. We will permit Applicant for accounting purposes to credit to capital or paid-in surplus the premium which it will receive upon the issue of its Cumulative Preferred Stock, 4½% Series, and to charge to capital or paid-in surplus and earned surplus the premium it must pay upon the redemption of its Cumulative Preferred Stock, \$1.25 Series. By granting such permission we do not admit that Applicant is issuing its Cumulative Preferred Stock, 4½% Series, on a 4½% basis. The stock is being issued at a premium or on a yield basis to the purchaser of about 4.04%.

The testimony shows that Applicant will amortize the stock sales commissions and expenses incurred because of the issue of the new stock by charges to account 323, Miscellaneous Income Deductions, in amounts approximately equal to the annual dividend savings because of the preferred stock refunding.

O R D E R

A public hearing having been held on this application by Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that Applicant should be permitted to issue the stock to which reference has been made for the exchange, retirement and redemption of its outstanding stock, 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, which 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 September 30, 1945, issue 298,854 shares of its \$20.00 par value Common Stock in exchange for its outstanding stock or stock certificates, to wit: 240,000 shares of no par value Common Stock, and thereupon retire said 240,000 shares.

2. Associated Telephone Company, Ltd., may after the effective date hereof and on or before September 30, 1945, issue not exceeding 238,000 shares of its Cumulative Preferred Stock, 4 $\frac{1}{2}$ % Series, in exchange for all or any part of its outstanding Cumulative Preferred Stock, \$1.25 Series, on the basis of one share of said 4 $\frac{1}{2}$ % Series, plus cash for the same of not more than \$4.25 per share for each share of said \$1.25 Series, and an adjustment of dividends in an amount equal to the difference between the accrued dividend on the share of the \$1.25 series

from May 1, 1945, to the date of redemption thereof and the dividend accrued on the share of the 4½% series from May 1 to the date of expiration of the exchange offer.

3. Associated Telephone Company, Ltd., may after the effective date hereof and on or before September 30, 1945, issue and sell at not less than \$22.25 per share plus accrued dividends 42,312 shares of its Cumulative Preferred Stock, 4½% Series, and all or any part of said 238,000 shares of said 4½% series not issued in exchange for its outstanding Cumulative Preferred Stock, \$1.25 Series, and use the proceeds of such sale to redeem the unexchanged Cumulative Preferred Stock, \$1.25 Series, and to pay on such exchange a cash adjustment of not exceeding \$4.25 per share.

4. The order in Decision No. 29401, dated December 21, 1936, is hereby modified so as to permit Associated Telephone Company, Ltd., to transfer the premium which it will receive upon the issue of its Cumulative Preferred Stock, 4½% Series, to capital or paid-in surplus and charge against said capital or paid-in surplus premium which it must pay upon the redemption of its Cumulative Preferred Stock, \$1.25 Series.

5. The authority herein granted will become effective when Associated Telephone Company, Ltd., has filed with the Railroad Commission a certified copy of the amendment to its Articles of Incorporation in substantially the same form as the proposed amendment filed in this application as Exhibit "Two".

6. Within thirty (30) days after the effective date of the registration statement filed with the Securities and Exchange Commission, Associated Telephone Company, Ltd., shall file with the Railroad Commission a complete copy of said registration

statement, including all exhibits filed in connection therewith.

7. Within six (6) months after the issue, exchange and sale of the stock herein authorized, Associated Telephone Company, Ltd., shall file with the Railroad Commission a statement showing in detail the expenses incurred by it in connection with the issue, exchange and sale of said stock, and also 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.

Dated at San Francisco, California, this 1st day of

May, 1945.

David Anderson
Justus F. Cooper
Richard K. Hatcher
Francis J. Jones
Joseph H. Lawrence
 Commissioners