

ORIGINAL

Decision No. 41314

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
Associated Telephone Company, Ltd. for	:	
an Order authorizing it to issue and)	Application
sell 75,000 shares of its Cumulative	:	No. 29113
Preferred Stock, \$20 Par Value, 5% 1947)	
Series.	:	
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Marshall K. Taylor; and O'Melveny & Myers, by
Graham L. Sterling, Jr., for Applicant.

O P I N I O N

In this application, Associated Telephone Company, Ltd. asks permission to issue and sell, for the purposes hereinafter stated, at not less than \$19.94 per share, 75,000 shares of cumulative preferred stock, \$20 par value, 5% 1947 Series. It further asks the Commission to exempt the issue and sale of said shares of stock from the competitive bidding requirements of Decision No. 38614, dated January 15, 1946.

Applicant is a corporation organized and existing under the laws of California. It owns and operates telephone systems in the following cities and towns and territory contiguous thereto: Artesia, Azusa, Baldwin Park, Bellflower, Covina, Claremont, Downey, Glendora, Hermosa Beach, Lancaster, La Verne, Long Beach, Malibu, Manhattan Beach, Norwalk, Ocean Park, Pomona, Puente, Redondo Beach, San Dimas, Santa Monica, Signal Hill, Venice and West Los Angeles, all 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 for the year ending December 31, 1947, reports operating revenues of \$11,742,925.29 and operating expenses including depreciation and taxes of \$9,964,131.24, leaving a net operating income of \$1,778,794.05. Its net income, that is, the amount available for dividends and surplus, is reported at \$1,054,762.83. During the year Applicant paid \$597,937.20 in dividends on its common stock and \$252,280.80 on its preferred stock, or an aggregate of \$850,218.00.

As of December 31, 1947, Applicant reports assets and liabilities as follows:

Assets

Telephone plant, equipment, etc.		\$43,746,580.94
Stocks of affiliated companies		306,465.35
Current Assets:		
Cash and special deposits	\$5,766,368.87	
Due from customers and agents	1,913,390.12	
Accounts receivable	52,912.60	
Materials and supplies	<u>2,292,126.65</u>	
Total current assets		10,025,298.44
Inter-company items:		
Accounts receivable	5,991.28	
Notes receivable	<u>350,000.00</u>	
Total inter-company items		355,991.28
Prepayments		435,326.59
Deferred debit items:		
Discount on capital stock	16,500.00	
Capital stock expense	84,878.40	
Discount on long term debt	918,276.99	
Other deferred charges	<u>30,800.67</u>	
Total deferred debit items		<u>1,050,456.06</u>
Total Assets		<u>\$55,920,118.66</u>

Liabilities

Capital stock:		
Common	\$ 8,977,075.00	
Preferred	<u>8,606,240.00</u>	
Total capital stock		\$17,583,315.00
First mortgage bonds		<u>17,668,000.00</u>
Series B 3-1/4's due 1969	1,368,000.00	
Series C 3-1/4's due 1974	10,300,000.00	
Series D 3-1/8's due 1977	<u>6,000,000.00</u>	
Current liabilities:		
Accounts payable	3,002,923.84	
Customers' deposits	6,521.00	
Advance billing and payments	<u>315,484.32</u>	
Total current liabilities		3,324,929.16
Inter-company accounts payable		84,001.51
Accrued liabilities not due:		
Taxes accrued	1,637,587.70	
Interest accrued	90,746.66	
Unmatured dividends accrued	67,046.80	
Other accrued liabilities not due	<u>48,969.12</u>	
Total accrued liabilities not due		1,844,350.28
Deferred credits and reserves:		
Premium on long-term debt	612,447.12	
Provident reserve	75,000.00	
Depreciation reserve	13,096,344.92	
Amortization reserve	4,116.71	
Other deferred credits	<u>7,421.48</u>	
Total deferred credits and reserves		13,795,330.23
Contributions of telephone plant		723,205.52
Surplus:		
Earned surplus	866,598.96	
Capital surplus	<u>30,388.00</u>	
Total surplus		<u>896,986.96</u>
 Total Liabilities		 <u>\$55,920,118.66</u>

Applicant's capitalization ratios now are as follows:

Common stock	\$ 8,977,075.00	25.47%
Preferred stock	8,606,240.00	24.41%
Bonds	<u>17,668,000.00</u>	<u>50.12%</u>
 Total	 <u>\$35,251,315.00</u>	 <u>100.00%</u>

Applicant estimates its 1948 construction expenditures, including expenditures for the Whittier Exchange, after March 1, 1948, as follows:

	<u>Gross Additions</u>	<u>Retirements</u>	<u>Net Additions</u>
Right of Way	\$ 25,000		\$ 25,000
Land	164,000		164,000
Buildings	2,621,600	\$ 35,275	2,586,325
Central office equipment	5,444,900	539,500	4,905,400
Station equipment	6,142,647	2,645,845	3,496,802
Outside plant	3,651,830	428,508	3,223,322
Furniture and office equipment	104,500	25,400	79,100
Vehicles and other work equipment	<u>427,000</u>	<u>98,800</u>	<u>328,200</u>
Total	<u>\$18,581,477</u>	<u>\$3,783,328</u>	<u>\$14,798,149</u>

The proposed expenditures are set forth in some detail in a report dated January 23, 1948, and filed with the Commission. Applicant asks the Commission to consider the report as part of the record in this application.

During the year 1947, Applicant obtained about \$12,000,000 from the sale of stocks and bonds. At the beginning of the year it had approximately \$4,000,000 remaining from the sale of such securities. This sum, the testimony shows, is sufficient to finance Applicant's construction program through April. It estimates that during 1948 it must raise about \$9,500,000 from the sale of stocks and bonds. The sale of 75,000 shares of preferred stock, which Applicant now asks permission to issue, is its first step in raising additional money to finance its 1948 construction expenditures. Applicant has negotiated a tentative agreement with a group of underwriters which will include Paine, Webber, Jackson & Curtis and Mitchum, Tully & Co., for the purchase of said 75,000 shares of its cumulative preferred stock, \$20 par value, 5% 1947 Series. Under the agreement Applicant will receive not less than \$19.94 per share plus accrued dividends. Presently it is proposed to offer the shares to the

public at \$21 per share. If they are offered to the public at a price in excess of \$21 per share but at not more than \$21.50 per share, one-half of the amount of the sale price per share which is in excess of \$21 and all of the sale price which exceeds \$21.50 per share, will be paid to Applicant. Applicant under the tentative agreement will have to pay the cost of counsel for the underwriters in an amount not to exceed \$3,000, plus incidental traveling and communication expenses. It is Applicant's intention to give the underwriters an option to purchase the 75,000 shares on or before September 15, 1948, in lots of not less than 1,000 shares each.

Applicant's Articles of Incorporation provided for an authorized stock issue of 1,500,000 shares, all shares of the par value of \$20 each. 750,000 shares are common and 750,000 shares are preferred stock. The preferred shares are issuable in series. The shares of each series rank alike as to priority with respect to dividends and rights upon liquidation. Applicant now has outstanding 280,312 shares of preferred stock, 4-1/2% Series, and 150,000 shares of 5% 1947 Series, leaving 319,688 shares not allocated to any series. Applicant proposes to amend its Articles of Incorporation and increase the 5% 1947 Series by 75,000 shares.

In November, 1947, Applicant received no bids for the purchase of 150,000 shares of 5% 1947 Series of its preferred stock. The shares were subsequently sold on a negotiated basis. Applicant is of the opinion that market conditions at the present time are less favorable for obtaining bids for the 75,000 shares, and therefore asks the Commission to exempt the issue and sale of

the 75,000 shares of preferred stock from the competitive bidding provisions of Decision No. 38614, dated January 15, 1946. This exemption will be granted.

Exhibit "4" filed in this application and in Application No. 29114 shows that Applicant has, since December 31, 1931, incurred construction expenditures in the sum of \$7,966,709.64, which have not been paid for through the issue of stocks or bonds. The order herein will authorize Applicant to use the net proceeds realized through the issue of said 75,000 shares of stock to reimburse its treasury for expenditures heretofore made for capital purposes, or to use said net proceeds to pay in part the cost of properties acquired or constructed and installed during 1948.

O R D E R

The Commission having considered the evidence submitted at the hearing had on this application, and it being of the opinion that the money, property or labor to be procured or paid for by the issue of 75,000 shares of cumulative preferred stock, \$20 par value, 5% 1947 Series, is reasonably required by Associated Telephone Company, Ltd. 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, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Associated Telephone Company, Ltd. may, after the effective date of this order and on or before September 30, 1948,

grant options to the group of underwriters referred to in the foregoing opinion covering the issue and sale to said underwriters of 75,000 shares of cumulative preferred stock, \$20 par value, 5% 1947 Series, in lots of not less than 1,000 shares each, and from time to time or at any one time, upon the exercise of said options, to issue and sell not more than 75,000 shares of said stock at a price of not less than \$19.94 per share plus accrued dividends, provided, however, that if said shares are sold by said underwriters at a price in excess of \$21 per share plus accrued dividends but not more than \$21.50 per share plus accrued dividends, one-half of the amount of such sale price per share which is in excess of \$21 plus accrued dividends shall be paid to Applicant, and all of the amount of such sale price which exceeds \$21.50 plus accrued dividends per share shall be paid to Applicant.

2. The issue and sale of said 75,000 shares of cumulative preferred stock, \$20 par value, 5% 1947 Series, is exempt from the competitive bidding requirements of the Commission's Decision No. 38614, dated January 15, 1946.

3. Associated Telephone Company, Ltd. shall use the proceeds from the sale of said 75,000 shares of stock (a) to pay expenses incident to the issue and sale of said shares of stock, (b) to reimburse, in part, Applicant's treasury for moneys heretofore expended for the acquisition of property or for the construction, completion, extension or improvement of its facilities and not secured or obtained from the issue of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes, or other evidences of indebtedness, or (c) to pay

in part for the acquisition of property and/or for the construction, completion, extension, and/or improvement of Applicant's public utility telephone facilities and/or for the improvement of its telephone service.

4. The authority herein granted will become effective when Associated Telephone Company, Ltd. has filed with the Commission a copy of an amendment to its Articles of Incorporation increasing the number of shares of its cumulative preferred stock, \$20 par value, 5% 1947 Series.

5. Within thirty (30) days after the issue of the stock herein authorized, Associated Telephone Company, Ltd. shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

Dated at San Francisco, California, this 16th day of March, 1948.

R. J. Anderson
Justus F. Casper
Joseph C. Cull
Harold P. Hule
Herbert H. Potter
Commissioners