

Decision No. 41884

ORIGINAL

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)	
sell 85,000 shares of its Cumulative	:	Application
Preferred Stock, \$20 Par Value, 5%)	No. 29518
1947 Series and 85,000 shares of its	:	
\$20 Par Value Common Stock.)	
-----	:	

O P I N I O N

Associated Telephone Company, Ltd. has applied to the Public Utilities Commission for authority to issue and sell 85,000 shares of its Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series, of the aggregate par value of \$1,700,000 and 85,000 shares of its Common Stock, of the per value of \$20 each and of the aggregate par value of \$1,700,000, for the purpose of reimbursing the treasury and of financing the cost of additions.

Applicant owns and operates telephone systems operating in and about certain cities and towns in the counties of Los Angeles, Orange, San Bernardino and Santa Barbara and, in addition, it owns the outstanding stock of San Joaquin Associated Telephone Company, a corporation operating telephone systems in Tulare County. Its balance sheet as of May 31, 1948, shows its investment in its fixed capital accounts and in stock of its subsidiary at \$51,880,090.31, with reserves for depreciation and amortization of \$14,266,292.54, leaving a net balance of \$37,613,798.27. Its net current assets, exclusive of inter-company items, aggregated \$2,211,926.61.

The balance sheet shows that applicant has financed the cost of its property and assets primarily through the issue of first mortgage bonds, preferred and common stocks as follows:

Bonds		
Series B, 3-1/4%, due Dec 1, 1969 -	\$1,368,000	
Series C, 3-1/4%, due Nov 1, 1974 -	10,300,000	
Series D, 3-1/8%, due Nov 1, 1977 -	<u>6,700,000</u>	
Total bonds		\$18,368,000
Preferred stock, \$20 par value -		
4-1/2% Series	5,606,240	
5% 1947 Series	<u>4,500,000</u>	
Total preferred stock		\$10,106,240
Common stock \$20 par value		<u>10,177,075</u>
Total		<u>\$38,651,315</u>

The outstanding preferred stock, 5% 1947 Series, which is similar to that now proposed to be issued, is entitled to cumulative dividends at the rate of 5% per annum and is callable at any time prior to November 1, 1957, at \$22.00 per share, on or after November 1, 1957 and prior to November 1, 1962 at \$21.75 per share, on or after November 1, 1962 and prior to November 1, 1967 at \$21.50 per share and thereafter at \$21.25 per share, together with all accrued and unpaid dividends.

On the outstanding common stock dividends have been paid during the last five years as follows:

<u>Year</u>	<u>Amount</u>	<u>Rate-%</u>
1943	\$ 1.50	7.50
1944	1.55	7.75
1945	1.32	6.60
1946	2.00	10.00
1947	1.80	9.00

During each of the last two quarters of 1947 and the first quarter of 1948 dividends of 40 cents per share were paid, being at the rate of 8.00% per annum.

Applicant now reports the necessity of issuing additional stock to meet its construction requirements. Heretofore, it has filed with the Commission a statement showing its estimated expenditures for 1948 in some detail. In summary form it now reports its estimated gross additions to plant for 1948 and for the first six months of 1949 as follows:

	<u>1948</u>	<u>1949</u> <u>6 Months</u>
Building	\$2,278,300	\$ 1,270,000
Central office equipment	4,330,500	3,216,500
Station equipment	5,094,400	2,946,100
Outside plant	3,840,000	2,072,300
Other (right of way, land, wiring gain and general)	<u>1,088,300</u>	<u>508,600</u>
Total	<u>\$16,621,500</u>	<u>\$10,013,500</u>

The application shows that actual expenditures for the first five months of 1948 amounted to \$7,022,485, leaving a balance of estimated expenditures for the thirteen months ending June 30, 1949, of \$19,622,515, plus an expenditure for stock of its subsidiary of \$225,000, making total requirements of \$19,847,515. Applicant estimates its sources of funds to meet its cash requirements as follows:

Net from operations-after dividends	\$ 3,233,689
From salvage on property retired, contributions, miscellaneous	2,380,320
From current accounts	999,131
From bank loans	5,225,000
From sale of stock and bonds	<u>8,009,375</u>
Total	<u>\$19,847,515</u>

As to the preferred stock to be issued, applicant proposes, subject to receiving permission from the Commission, to negotiate an agreement with a group of underwriters for the sale of 75,000 of said shares at a price to the company of not less than \$20.125 per share plus accrued dividends. Said shares

would be offered for sale by the underwriters to the public at the price to be received by applicant plus \$1.125 per share, or \$21.25 per share plus accrued dividends, provided, however, that if said shares are offered and sold to the public by the underwriters at a price in excess of \$21.25 per share, applicant shall receive one-half of the excess which is over \$21.25 but under \$21.76 and applicant shall receive all of such sale price which is in excess of \$21.75 per share.

As to the remaining 10,000 shares of preferred stock, applicant proposes to offer them to its employees, and to the employees of its subsidiary, in accordance with the terms of an Employees' Stock Purchase Plan, a copy of which is filed in this proceeding, which provides that such employees may subscribe for shares at a price \$1.00 per share less than the price at which such shares are initially offered to the public by underwriters, payment to be made by payroll deductions at the rate of \$1.00 per share per pay day, or over a total period of 10-1/2 months.

Thus, for the shares of preferred stock sold to underwriters, applicant will receive not less than \$20.125 a share while on shares sold directly by it to employees it will receive not less than \$20.25 a share. However, if allowance be made for additional expenses which applicant must necessarily incur in connection with its stock sales offer to employees, it appears that its net receipts per share, for such shares so sold, may be approximately the same as the net receipts it will receive from sales to underwriters. The situation presented here differs from one where an issuing company, selling its shares of stock directly through its own organization, offers such shares to the public at

one price and, at the same time, to employees at a different price. (1) Under the particular circumstances set forth in this proceeding we will authorize the issue and sale of the shares of preferred stock as proposed by applicant.

As to the common shares proposed to be issued, applicant intends to offer them for sale to the holder of its presently outstanding common stock at par. In this connection it is reported that under applicant's articles of incorporation the holder of the shares of the outstanding common stock has the preemptive right to subscribe for and purchase newly issued shares of common stock of applicant. (2)

In November, 1947, applicant issued an invitation for public bids for the sale of 150,000 shares of preferred stock, of the same series as is the subject of this application, but received no bids in response to such invitation. Thereafter, it undertook the sale of preferred shares on a negotiated basis and disposed of 75,000 shares at \$19.84 per share and 75,000 shares at \$19.94 per share during December, 1947. In April, 1948, it sold to underwriters under a negotiated agreement, an additional block of 75,000 shares of said preferred stock at \$19.94 per

(1)

By Decision No. 34369, dated July 1, 1941, (43 CRC 623) the Commission refused to approve a plan of Pacific Gas and Electric Company to offer 320,000 shares of preferred stock to the public and, at the same time, to offer 80,000 shares to employees at a lower price. That plan differed from the one outlined in this proceeding in that there no sales to underwriters were contemplated, the issuing company proposing to make both offers directly through its own organization to the public and to employees.

(2)

Applicant's 1947 annual report shows that all its outstanding common stock is owned by General Telephone Corporation. The holdings of General Telephone Corporation amount to 51.05% of applicant's total outstanding preferred and common stock.

share. It now reports that market conditions are no more favorable at the present time for the obtaining of bids in response to a public invitation than they were at the time when applicant sold its last shares of said stock. Accordingly it has requested that the issue of the present shares of preferred stock be exempt from the Commission's competitive bidding rule.

It clearly appears that applicant has need for additional funds and that the issue of stock is warranted. The request of the company for exemption from the competitive bidding rule will be granted.

ORDER

The Public Utilities Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the requests of applicant should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of 85,000 shares of preferred stock and 85,000 shares of common stock is reasonably required by Associated Telephone Company, Ltd. for the purposes herein stated and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Associated Telephone Company, Ltd. after the effective date of this order and on or before December 31, 1948, may grant options to underwriters covering the issue and sale of

75,000 shares of Cumulative Preferred Stock, \$20.00 Par Value, 5% 1947 Series, in lots of not less than 1,000 shares each, and from time to time, or at one time, upon the exercise of said options, may issue and sell said 75,000 shares at a price of not less than \$20.125 per share plus accrued dividends, provided, however, that if said shares are sold by said underwriters at a price in excess of \$21.25 per share, plus accrued dividends, applicant shall receive one-half of the excess which is over \$21.25 plus accrued dividends but under \$21.76 plus accrued dividends, and applicant shall receive all of such sale price which is in excess of \$21.75 per share plus accrued dividends.

2. Associated Telephone Company, Ltd. after the effective date hereof and on or before December 31, 1949, may issue and sell 10,000 shares of Cumulative Preferred Stock, \$20.00 Par Value, 5% 1947 Series, to its employees, and to employees of its subsidiary at a price of \$1.00 per share less than the offering price to the public of said 75,000 shares referred to in the preceding paragraph, said offer of stock to such employees to be made pursuant to the terms of the Employees' Stock Purchase Plan filed in this proceeding as Exhibit "B".

3. The issue and sale of the 85,000 shares of cumulative preferred stock herein authorized are hereby exempted from the competitive bidding requirements of the Commission's Decision No. 38614, dated January 15, 1946.

4. Associated Telephone Company, Ltd. after the effective date hereof and on or before December 31, 1948, may issue and sell to the holder of its presently outstanding common stock,

75,000 shares of common stock at par for cash and, in addition, may issue and sell to such holder at par for cash, 10,000 shares of common stock at or before the time or times said 10,000 shares of preferred stock are issued and sold to employees pursuant to the terms of the Employees' Stock Purchase Plan, but in no event later than December 31, 1949.

5. Applicant shall use the proceeds to be received from the sale of said shares of preferred and common stock to reimburse its treasury and to finance the cost of the acquisition of property and the construction, completion, extension and improvement of its facilities and those of its subsidiary, and the improvement of its service, and to pay indebtedness incurred for such purposes.

6. Associated Telephone Company, Ltd. shall file with the Commission as soon as available, a copy of its Registration Statement and a copy of the stock purchase agreement with the underwriters as actually executed. It shall also file a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

7. The authority herein granted to issue stock will become effective twenty (20) days from the date hereof. In other respects the order will become effective upon the date hereof.

Dated at San Francisco, California, this 27th day
of July, 1948.

James J. Callahan
Frank J. [unclear]
Harold A. [unclear]

Commissioners