

ORIGINAL

Decision No. 42625

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

|                                     |   |             |
|-------------------------------------|---|-------------|
| In the Matter of the Application of | ) |             |
| Associated Telephone Company, Ltd.  | : |             |
| for authority to issue and sell     | ) |             |
| 100,000 shares of its Cumulative    | : | Application |
| Preferred Stock, \$20 Par Value, 5% | ) | No. 30091   |
| 1947 Series, without competitive    | : |             |
| bidding, and 100,000 shares of its  | ) |             |
| Common Stock, \$20 Par Value.       | : |             |
| -----                               | ) |             |

O'Melveny & Myers, by Graham Sterling; Marshall K. Taylor, 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 hereafter stated, 100,000 shares of its cumulative preferred stock, \$20 par value, 5% 1947 Series, and 100,000 shares of common stock, \$20 par value. Applicant also asks the Commission to exempt the issue and sale of said preferred 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, Pico, Pomona, Puente, Redondo Beach, San Dimas, Santa Monica, Signal Hill,

Venice, West Los Angeles and Whittier, all being located in the County of Los Angeles; Huntington Beach, Laguna Beach, La Habra, 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.

For the year ending December 31, 1948, Applicant reports operating revenues of \$14,364,877.48 and operating expenses including depreciation and taxes of \$11,991,849.36, leaving net operating income of \$2,373,028.12. The corresponding figures for 1947 were \$11,742,925.29, \$9,964,131.24 and \$1,778,794.05, respectively. Its net income available for dividends and surplus amounted to \$1,560,474.26 in 1948, and to \$1,054,762.83 in 1947.

During 1948, Applicant issued 135,000 shares of common stock, 300,000 shares of 5% preferred stock, and \$6,000,000 of bonds. It paid its regular dividend on its 4-1/2% and 5% outstanding preferred stock, and forty cents per share or 8% on its outstanding common stock.

As of December 31, 1948, Applicant reports assets and liabilities as follows:

Assets

|                                 |               |                        |
|---------------------------------|---------------|------------------------|
| Telephone plant and equipment   |               | \$58,302,531.42        |
| Investments                     |               | 631,271.68             |
| Stock of affiliated companies   | \$ 606,465.35 |                        |
| Other investments               | 8,051.88      |                        |
| Miscellaneous physical property | 16,754.45     |                        |
| Current assets                  |               | 9,797,500.02           |
| Cash                            | 4,222,869.73  |                        |
| Due from customers and agents   | 2,440,055.65  |                        |
| Accounts receivable             | 67,267.33     |                        |
| Material and supplies           | 3,067,307.31  |                        |
| Inter-company items -           |               |                        |
| Notes and accounts receivable   |               | 106,126.33             |
| Subscriptions to capital stock  |               | 24,080.00              |
| Deferred debit items            |               | 1,422,816.76           |
| Prepayments                     | 614,843.90    |                        |
| Discount on capital stock       | 11,145.00     |                        |
| Capital stock expense           | 76,776.35     |                        |
| Discount on long-term debt      | 697,728.23    |                        |
| Other deferred charges          | 22,323.28     |                        |
|                                 |               | <hr/>                  |
| Total Assets                    |               | <u>\$70,284,326.21</u> |

Liabilities

|   |                 |                        |
|---|-----------------|------------------------|
| Capital stock                             |                 | \$23,321,715.00        |
| Common                                    | \$11,677,075.00 |                        |
| Preferred                                 | 11,606,240.00   |                        |
| Capital stock subscribed                  | 38,400.00       |                        |
| First mortgage bonds                      |                 | 24,368,000.00          |
| Series B 3 $\frac{3}{4}$ % due Dec.1,1969 | 1,368,000.00    |                        |
| Series C 3 $\frac{3}{4}$ % due Nov.1,1974 | 10,300,000.00   |                        |
| Series D 3-1/8% due Nov.1,1977            | 6,700,000.00    |                        |
| Series E 3-3/8% due Nov.1,1978            | 6,000,000.00    |                        |
| Current liabilities                       |                 | 3,240,592.14           |
| Accounts payable                          | 2,842,220.96    |                        |
| Customers' deposits                       | 12,213.00       |                        |
| Advance billing and payments              | 386,158.18      |                        |
| Inter-company items -                     |                 |                        |
| Accounts payable                          |                 | 74,831.83              |
| Accrued liabilities not due               |                 | 2,154,194.62           |
| Taxes accrued                             | 1,854,091.16    |                        |
| Interest accrued                          | 128,142.50      |                        |
| Unmatured dividends accrued               | 92,046.80       |                        |
| Other accrued liabilities not due         | 79,914.16       |                        |
| Deferred credits and reserves             |                 | 15,229,470.98          |
| Premium on long-term debt                 | 635,547.62      |                        |
| Provident reserve                         | 63,486.02       |                        |
| Depreciation reserve                      | 14,521,970.82   |                        |
| Amortization reserve                      | 4,473.70        |                        |
| Other deferred credits                    | 3,992.82        |                        |
| Contributions of telephone plant          |                 | 772,090.98             |
| Surplus                                   |                 | 1,123,430.66           |
| Capital surplus                           | 30,388.00       |                        |
| Earned surplus                            | 1,093,042.66    |                        |
|   |                 | <hr/>                  |
| Total Liabilities                         |                 | <u>\$70,284,326.21</u> |

Applicant's capitalization ratios on December 31, 1948, were as follows:

| <u>Class of Security</u> | <u>Amount</u>       | <u>% of Total</u> |
|--------------------------|---------------------|-------------------|
| Common stock             | \$11,677,075        | 24.50%            |
| Preferred stock          | 11,606,240          | 24.36             |
| Bonds                    | <u>24,368,000</u>   | 51.14             |
| Total                    | <u>\$47,651,315</u> |                   |

Applicant estimates (Exhibit "C") its 1948 gross construction expenses at \$19,584,000 and its retirement at \$4,297,200, resulting in an increase in its investment in telephone properties of \$15,286,800. The gross construction expenditures include about \$895,700 for buildings, \$6,101,800 for central office equipment, \$5,633,700 for station equipment, \$5,908,500 for outside plant, \$344,400 for right-of-way, land and general equipment, and \$700,300 for miscellaneous purposes. It is because of its construction expenditures that Applicant finds it necessary to issue at this time additional stock, and later during the year bonds or some other type of security.

Applicant's articles of incorporation provide that each holder of shares of outstanding common stock shall have the preemptive right to subscribe for and purchase his pro rata share of any newly issued common stock. Pursuant to such provision, Applicant intends to offer the 100,000 shares of common stock to General Telephone Corporation, owner of all of Applicant's outstanding common stock. The shares of stock will be sold at their par value, to wit, \$20 per share. The issue and sale of this stock may be consummated under the order of Decision No. 38614 without inviting bids.

Applicant asks the Commission to grant it permission to issue and sell the 100,000 shares of preferred stock on a negotiated basis. If this request is granted, it would give to certain underwriters an option running for 90 days to purchase the 100,000 shares of preferred stock. Applicant's original proposal was to grant the underwriters a 180-day option. Under the option the underwriters would pay to Applicant not less than \$20 per share, plus accrued dividends. The shares would be offered to the public at not less than \$21 per share. If the shares are sold to the public at a price in excess of \$21 per share, exclusive of accrued dividends, Applicant would receive one-half of the excess which is over \$21 but under \$21.51, in each case exclusive of accrued dividends. Applicant would receive all of the sale price which is in excess of \$21.50 per share, exclusive of accrued dividends.

Under Applicant's proposal the underwriters assume no liability to acquire any of the preferred shares. The order herein will permit Applicant to issue and sell the 100,000 shares of preferred stock on a negotiated basis, provided it enters into a firm underwriting agreement satisfactory to the Commission covering the issue and sale of the shares. It should be understood, however, that if Applicant does not receive a satisfactory price for the preferred stock, the exemption granted in the following order will lapse.

Applicant should, in due course, file a supplemental application showing the price at which it proposes to issue and sell the 100,000 shares of preferred stock.

O R D E R

A public hearing having been held on the above entitled application and the Commission having considered the evidence submitted at such hearing and being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by Associated Telephone Company, Ltd. for the purposes herein stated, that 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. The issue and sale of said 100,000 shares of cumulative preferred stock, \$20 par value, 5% 1947 Series, by Associated Telephone Company, Ltd., provided it obtains for said shares a price satisfactory to the Commission, is exempt from the provisions of the order in Decision No. 38614, dated January 15, 1946.
2. Associated Telephone Company, Ltd. may issue and sell, after the date hereof and on or before June 30, 1949, to the holder of its presently outstanding common stock, 100,000 additional shares of its common stock, said shares to be sold at not less than \$20 per share.
3. Associated Telephone Company, Ltd. may issue and sell, after the effective date hereof and on or before June 30, 1949, at a price to be fixed by a supplemental order, 100,000 shares of its cumulative preferred stock, \$20 par value, 5% 1947 Series.

4. Associated Telephone Company, Ltd. shall use the proceeds obtained from the issue and sale of said shares of common stock and preferred stock for the acquisition of property and/or for the construction, completion, extension and/or improvement of its public utility telephone facilities, and/or the improvement of its telephone service, and for the discharge of indebtedness, if any, and for the purpose of reimbursing Applicant's treasury for funds expended for said purposes.

5. The authority herein granted to issue and sell said 100,000 shares of preferred stock will become effective when the Commission, by supplemental order, has fixed the price at which said shares of stock may be sold. Except as provided in this paragraph, the authority granted by this order is effective upon the date hereof.

6. Associated Telephone Company, Ltd. shall file with the Commission, as soon as available, a copy of any amendments to its registration statement filed with the Securities and Exchange Commission covering the issue and sale of said shares of preferred stock.

7. Associated Telephone Company, Ltd. shall file with the Commission, on or before July 31, 1949, a report showing in some detail the expenses incurred in connection with the issue and sale of said shares of common and preferred stock, the account or accounts to which such expenses were charged, the number of shares of each class of stock issued and sold, the names of the purchasers, the consideration received therefor, and the purposes for which the stock proceeds were expended.

Dated at San Francisco, California, this 22nd day  
of March, 1949.

R. Z. Dittman  
Justice F. Casper  
Grant Powell  
Kenneth Potts

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Commissioners