

Decision No. 44272

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)
125,000 shares of its Cumulative)
Preferred Stock, \$20 Par Value, 5%)
1947 Series, and 125,000 shares of)
its Common Stock, \$20 Par Value,)
without competitive bidding.)
-----)

Application
No. 31406

ORIGINAL

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 the Commission to make an order exempting from the requirements of its competitive bidding rule a proposed issue of 125,000 shares (\$2,500,000 par value) of its Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series, and authorizing it to issue and sell said shares at a price and upon terms hereafter to be submitted to the Commission. It asks, also, for an order authorizing it to issue and sell to the holder of its presently outstanding Common Stock, \$20 Par Value, 125,000 shares (\$2,500,000 par value) of such common stock for cash at par.

As of March 31, 1950, applicant reports its outstanding bonds and stocks as follows:

First Mortgage 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	6,950,000	
Series E, 3-3/8%, Due Nov.1,1978	6,000,000	
Series F, 2-7/8%, Due Nov.1,1979	<u>9,000,000</u>	
Total First Mortgage Bonds		\$23,618,000
Preferred Stock -		
4-1/2% Series	5,606,240	
5% 1947 Series	<u>8,252,280</u>	
Total Preferred Stock		13,858,520
Common Stock		14,160,755

In Exhibit B, applicant reports its assets and liabilities, as of March 31, 1950, as follows:

Assets

Fixed capital		\$80,107,848
Other investments		74,080
Current assets -		
Cash	\$ 966,365	
Notes receivable	22,311	
Due from consumers	2,807,922	
Interest and dividends receivable	49,692	
Materials and supplies	<u>3,080,248</u>	
Total current assets		6,926,538
Inter-company items		49
Prepaid expenses		227,988
Capital stock expense		46,733
Discount on long-term debt		674,943
Other deferred charges		<u>27,384</u>
	Total	<u>\$88,085,563</u>

Liabilities

Common stock		\$14,160,755
Preferred stock		13,858,520
Premium on stock		17,098
Funded debt		33,618,000
Current and accrued liabilities -		
Notes payable	\$1,800,000	
Accounts payable	2,904,736	
Consumers' deposits	11,928	
Advance billing	533,756	
Accrued liabilities	<u>1,899,373</u>	
Total current and accrued liabilities		7,149,793
Inter-company accounts		86,566
Depreciation reserve		16,786,560
Other reserves		726,570
Contributions of telephone plant		895,564
Surplus		<u>786,137</u>
	Total	<u>\$88,085,563</u>

Since the date of the balance sheet, applicant has increased its outstanding notes to \$5,100,000. These consist of short-term, 2% bank loans.

Applicant reports that it has need for additional funds from the sale of securities to enable it to proceed with its 1950 construction program. In Exhibit C attached to the application, it reports its estimated gross additions to plant during the year at \$24,391,303, segregated as follows:

Buildings	\$ 1,115,800
Central office equipment	5,693,700
Station equipment	6,152,000
Outside plant	10,446,200
Right of way, land and general equipment	556,500
Wiring gain and loss	818,600
Construction work in progress	<u>(391,497)</u>
Total	<u>\$24,391,303</u>

It appears that presently applicant is contemplating the issue during the year of \$7,000,000 of bonds, \$4,000,000 of preferred stock and \$4,000,000 of common stock to meet, in part, its requirements, the balance to be provided from earnings from operations, salvage from property retired and other sources. Initially, as set forth in this application, it proposes to issue and sell \$2,500,000 par value of preferred stock and a like amount of common stock.

Applicant plans to issue and sell the \$2,500,000 of common stock at par to the holder (General Telephone Corporation) of all its presently outstanding common stock pursuant to the preemptive right granted by its Articles of Incorporation. It plans, subject to authorization being granted by the Commission, to issue and sell the \$2,500,000 of preferred stock under a negotiated arrangement to a group of underwriters. In this connection, the record shows that it is the opinion of applicant's officers that a better price can be obtained if said shares of preferred stock are sold on a negotiated basis rather than under competitive bidding. The testimony in this proceeding shows that discussions have been had with representatives of two life insurance companies looking toward a private placement of the proposed issue of shares of preferred stock, but that one company was not interested in purchasing said shares and the other indicated that it might do so only at a price below the current market price. Applicant states that it is not willing to go below such market price and it feels that if it were to offer its shares of preferred

stock for sale at competitive bidding that the bid price, if any bids were received, would not exceed the price which was suggested during its discussions looking toward the private placement of its shares. It is of the opinion that through negotiation it can obtain a higher price.

The record in this proceeding warrants the Commission in making an order exempting the issue of the shares of preferred stock from its competitive bidding rule. Applicant has entered into no agreement for the sale of its shares of preferred stock but states that at a later date it will advise the Commission of the price and the terms upon which it proposes to dispose of the same. At that time, the Commission will give further consideration to the company's request to issue and sell its shares of stock, it being understood that if applicant does not receive a satisfactory price the exemption to be granted in this proceeding will lapse.

The issue of the shares of common stock is exempt from the provisions of the Commission's competitive bidding rule.

O R D E R

A public hearing having been held on the above entitled matter and the Commission having considered the record in the proceeding and being of the opinion that the money, property or labor to be procured or paid for through the issue and sale of the shares of stock herein authorized is reasonably required by Associated Telephone Company, Ltd. for the purposes specified herein, 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, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale of 125,000 shares of Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series, by Associated Telephone Company, Ltd. is exempt from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, provided applicant receives for said shares a price satisfactory to the Commission.
2. Associated Telephone Company, Ltd. may issue and sell, after the effective date hereof and on or before July 31, 1950, said 125,000 shares of Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series, at a price to be fixed by the Commission in a supplemental order.
3. Associated Telephone Company, Ltd. may issue and sell, after the effective date hereof and on or before July 31, 1950, to the holder of its presently outstanding common stock, 125,000 additional shares of its common stock, said shares to be sold at not less than \$20 per share.
4. Associated Telephone Company, Ltd. shall use the proceeds to be obtained from the issue and sale of said shares of preferred and common stock for the acquisition of property and/or for the construction, completion, extension and/or improvement of its public utility telephone facilities and/or for the improvement of its telephone service and for the discharge of indebtedness, if any, and for the purpose of reimbursing its treasury for funds expended for said purposes.
5. The authority herein granted to issue and sell said 125,000 shares of preferred stock will become effective when the

Commission, by supplemental order, has fixed the price at which said shares may be sold. In all other respects, the authority herein granted is effective upon the date hereof.

6. Associated Telephone Company, Ltd. shall file with the Commission, as soon as available, two (2) copies of its prospectus and a report showing the names of those to whom said shares were sold, the number of shares sold to each, the consideration received, the expenses incident to the issue and sale, and the account, or accounts, to which such expenses were charged.

Dated at San Francisco, California, this 7th day of June, 1950.

R. E. [Signature]
Justin J. Greener
Edward [Signature]
Harold K. Kels
[Signature]
Commissioners