

ORIGINAL

Decision No. 47222

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)	
350,000 shares of its Cumulative	:	Application
Preferred Stock, \$20 Par Value,)	No. 33418
5% 1947 Series, without competitive	:	
bidding.)	
-----	:	

James Greene, of O'Melveny & Myers, and R. K. Chase
and Harlan Holmwood, for applicant.

O P I N I O N

This is an application for an order authorizing Associated Telephone Company, Ltd. to issue and sell 350,000 shares of its Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series.

Generally speaking, the purpose of issuing said shares is to provide funds to finance the cost of additions to plant, to improve service and to meet demands of additional customers, or to pay indebtedness and reimburse the treasury. Applicant estimates its capital requirements during 1952 at approximately \$32,900,000, of which it proposes to obtain approximately \$24,000,000 from the sale of securities, leaving a balance of some \$8,900,000 from internal sources. Earlier this year it has sold \$7,000,000 par value of common stock and it contemplates the sale of bonds at a later date. It estimates its 1953 construction costs will be larger than those in 1952.

Since the close of the war applicant has been engaged in a substantial construction program to meet demands for service. According to its annual reports on file with the Commission its reported

investment in plant in service has increased from \$30,092,482 at the beginning of 1946 to \$110,838,498 at the close of 1951 and its telephones in service from 186,787 to 464,004, with approximately 16,000 held orders at present. It appears that it has financed its costs, in part, through the issue of bonds and shares of preferred and common stock. Its financial structure as of March 31, 1952, as indicated by its financial statement filed in this proceeding as Exhibit A, is as follows:

First mortgage bonds -		
Series B, 3-1/4's, due 1969	\$ 1,368,000	
Series C, 3-1/4's, due 1974	10,300,000	
Series D, 3-1/8's, due 1977	6,950,000	
Series E, 3-3/8's, due 1978	6,000,000	
Series F, 2-7/8's, due 1979	15,000,000	
Series G, 3-5/8's, due 1981	<u>10,000,000</u>	
Total first mortgage bonds	<u>49,618,000</u>	47.3%
Preferred stock -		
4-1/2% Series	5,606,240	
5% Series	<u>17,754,480</u>	
Total preferred stock	<u>23,360,720</u>	22.2
Equity capital -		
Common stock	30,660,755	
Surplus	<u>1,315,499</u>	
Total equity capital	<u>31,976,254</u>	30.5
Total	<u>\$104,954,974</u>	100.0%

Applicant estimates that prior to the issue of the shares of preferred stock now under consideration it will have borrowed approximately \$4,000,000 on short-term notes and that it may find it necessary to borrow additional sums before the sale is completed. A pro forma statement of the capital structure as set forth above, giving effect to the issue of the additional shares of preferred stock, would reduce the bond component to approximately 45%, which should place applicant in a more favorable position to engage in debt financing at a later date.

Subject to receiving permission from the Commission, applicant hopes to sell its shares of preferred stock by means of a negotiated underwriting. It alleges that better results can be

obtained by such an arrangement than could be obtained if it endeavored to dispose of its shares at competitive bidding. In this connection it points out that in 1947 it published invitations for bids for a block of preferred shares and received none, that thereafter it sold its shares on a negotiated basis, and that during each of the years 1948 to 1951, inclusive, it sold additional shares under similar arrangements.

A witness called on behalf of applicant testified that applicant's shares of preferred stock are not listed on any exchange, that there has been but little institutional participation in its former offerings and that there is but a relatively small number of shares presently held outside its service area. Exhibit No. 3 shows that approximately 73.09% of the outstanding preferred shares of this series are held in southern California and 12.75% in northern California, a total of 85.84% in the state. On the basis of past experience, applicant concludes that the best and perhaps the only market for its shares is in California, particularly the southern part of the state, among its present holders. Applicant's officers are of the opinion that the underwriters who have purchased its earlier issues of preferred shares, and with whom they now propose to negotiate for the sale of the proposed offering, are in the best position to proceed with the sale of the stock covered by this application and that in their opinion it would be doubtful if another group of underwriters, outside the service area, could be formed to submit bids.

Under the circumstances indicated by the testimony and exhibits in this proceeding, we are of the opinion that we are warranted in authorizing the issue of the shares of stock, as here proposed, and exempting the issue from competitive bidding.

Applicant is not in a position at this time to indicate the

price at which it will sell its shares of stock and accordingly it now seeks only a preliminary order approving the issue. At a later date it will file a supplemental application setting forth the agreed price and the terms of the sale.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided; that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes specified herein; 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. The issue and sale by Associated Telephone Company, Ltd. of 350,000 shares of Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series, is exempted 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., after the effective date hereof and on or before December 31, 1952, may issue and sell said 350,000 shares at a price to be fixed in a supplemental order.
3. Associated Telephone Company, Ltd. shall use the proceeds to be received from the issue and sale of said shares for the purposes set forth in this application.

4. The authority herein granted to issue and sell shares of preferred stock will become effective when the Commission by supplemental order has fixed the price at which they may be sold. In other respects, the authority herein granted is effective upon the date hereof.

5. Associated Telephone Company, Ltd. shall file with the Commission, as soon as available, three (3) 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 and the consideration received.

Dated at Los Angeles California, this 5th day of June, 1952.

A. Z. [Signature]
President

Justin J. Craemer

Harold H. Kula

Herbert J. [Signature]

John E. [Signature]
Commissioners