

Decision No. 51660**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

(Amended Title))	
In the Matter of the Application	:	
of CALIFORNIA INTERSTATE TELEPHONE)	Application
COMPANY for authority to issue and	:	No. 37048
sell 50,000 shares of its Cumulative)	(and Amendment)
Preferred Stock, 5.25% Series.	:	
-----)	

O P I N I O N

In this application California Interstate Telephone Company seeks authorization to issue 50,000 shares (\$1,000,000 par value) of its Cumulative Preferred Stock, 5.25% Series, and to sell said shares, at not less than their par value, for the purpose of paying indebtedness and of financing the acquisition of property and the construction, completion, extension and improvement of its facilities and service.

Applicant is a California corporation. On or about March 25, 1954, it acquired the telephone properties and operations of California Electric Power Company and since that date has engaged in the business of furnishing telephone service to the public in portions of the counties of San Bernardino, Kern, Inyo, Mono and Alpine, in the State of California, and in portions of the State of Nevada. It has reported its results of operations as follows:

	<u>1954</u>	<u>1955</u> Jan.-Apr.
Operating revenues	\$1,963,096	\$819,244
Operating expenses and taxes	<u>1,540,635</u>	<u>651,029</u>
Net operating income	422,461	168,215
Other income	9,919	8,177
Interest and other deductions	<u>(200,363)</u>	<u>(90,285)</u>
Net available for common	<u>\$ 232,017</u>	<u>\$ 86,107</u>

Financial statements filed with the Commission show that applicant has been paying quarterly dividends of 17-1/2 cents on its outstanding shares of common stock.

A summary statement of applicant's balance sheet as of April 30, 1955, is as follows:

Assets

Investment in telephone plant, less reserves		\$ 9,089,711
Other investments		63,000
Current assets -		
Cash and working funds	\$ 127,128	
Accounts receivable	244,892	
Materials and supplies	349,675	
Total current assets		721,695
Prepaid expenses		74,667
Discount on bonds		100,557
Discount on debentures		36,059
Other deferred charges		10,203
	Total	<u>\$10,095,892</u>

Liabilities and Capital

Bonds		\$ 4,200,000
Debentures		1,500,000
Current liabilities -		
Notes payable	\$ 500,000	
Accounts payable	128,488	
Accrued liabilities	409,673	
Total current liabilities		1,038,161
Deferred credits		285,107
Common stock equity -		
Common stock	1,500,000	
Premium on stock	1,429,500	
Capital stock expense	(17,500)	
Earned surplus	160,624	
Total common stock equity		<u>3,072,624</u>
	Total	<u>\$10,095,892</u>

At the outset, applicant issued and sold \$4,200,000 of 4-1/4% bonds, \$1,500,000 of 4-3/4% debentures, and 300,000 shares of its \$5 par value common stock at \$9.76 $\frac{1}{2}$ to finance its construction costs and to provide funds for capital expenditures. It appears, however, that the territory served by applicant has

experienced a rapid growth in population, that applicant has been faced with a demand for service which has required it to obtain additional funds through the medium of short-term debt financing in the amount of \$500,000, as shown by the foregoing balance sheet, and that it will be called upon to engage in further financing in the near future. Information filed with the Commission shows that it has a construction budget calling for capital expenditures of \$4,630,900 during the next three years, of which approximately \$1,756,700 will be required during the fiscal year ending March 31, 1956.

Subject to receiving authorization from the Commission, applicant proposes to issue and sell the 50,000 shares of preferred stock covered by this application to Investors Diversified Services, Inc. under a negotiated arrangement at not less than the par value plus accrued dividends. It appears that it will be required to pay a placement fee of \$17,500 and that it proposes to use the remaining proceeds to liquidate the outstanding short-term borrowings of \$500,000 and to provide in part its immediate construction requirements. A review of its construction budget clearly indicates that it will be required to make capital expenditures well in excess of the proposed stock issue.

Applicant's capital ratios as of March 31, 1955, and as adjusted to give effect to the proposed financing, are as follows:

	<u>Mar. 31, 1955</u>	<u>Pro Forma</u>
Bonds	49.94%	44.99%
Debentures	16.51	14.87
Preferred stock	-	9.92
Common stock equity	<u>33.55</u>	<u>30.22</u>
Totals	<u>100.00%</u>	<u>100.00%</u>

Upon a full review of this application it clearly appears that applicant will have need for additional funds from external sources to liquidate its obligations and to enable it to proceed with its construction activities. The issue of the preferred stock will improve its financial position through the liquidation of the current liabilities and will broaden the capital stock base in its structure. On the basis of the information submitted in this proceeding, we will authorize it to issue and sell its shares of stock in accordance with the terms of its application.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue and sale of the shares of 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. California Interstate Telephone Company may issue and sell 50,000 shares of its Cumulative Preferred Stock, 5.25% Series, on or before October 31, 1955, at not less than par value plus accrued dividends, and use the proceeds for the purposes set forth in this application.

2. California Interstate Telephone Company shall file with the Commission monthly reports as required by General Order

No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 12th day of July, 1955.

Justin J. Caenen
President
Paul Lutz
Michael J. [unclear]
[unclear]
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.