A. 37683 CB

Decision No. 52531

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of General Telephone Company of California for authority to issue and sell 718,862 shares of its 4-1/2% Cumulative Preferred Stock and $15,000,000 principal amount of its 3-7/8% Sinking Fund Debentures, due February 1, 1981, and to execute and deliver an Indenture pursuant to which said Debentures are to be issued, and to issue $5,000,000 principal amount of its 3-3/4% Serial Notes.	Application No. 37683 (and First Amendment)

O P I N I O N

By Decision No. 52465, dated January 16, 1956, in Application No. 37583, the Commission, after public hearing, exempted from competitive bidding proposed issues by General Telephone Company of California of 718,862 shares ($14,377,240 par value) of 4½% preferred stock, $15,000,000 in principal amount of debentures, and $5,000,000 in principal amount of serial notes.

The company has undertaken to dispose of its securities by negotiated and other arrangements. In the present application, filed on January 20, 1956, it seeks authorization:

1. To offer said 718,862 shares of 4½% Cumulative Preferred Stock to the holders of its presently outstanding 5% preferred stock in exchange upon the basis of one of said 4½% preferred shares and $1.50 in cash for each 5% preferred share surrendered in exchange;

2. To issue and sell to underwriters at a price of $20 a share, such part of said 718,862 shares of 4½% preferred stock as

may not not be issued pursuant to said exchange offer;

3. To issue and sell $15,000,000 of 3-7/8% Sinking Fund Debentures, due February 1, 1981, at a price equal to the principal amount thereof plus accrued interest, and to execute an Indenture with Chemical Corn Exchange National Bank, as trustee, defining the terms of said debentures; and

4. To issue and sell $5,000,000 of 3-3/4% Serial Notes due 1957 to 1966.

The application shows that the agreement with the underwriters with respect to the new 4½% preferred shares will provide that such underwriters will solicit and assist in the making of exchanges and that they will purchase shares not surrendered for resale to the public at an initial offering price of $20.50 each. The application further shows that the debentures will be sold to a small group of purchasers for investment purposes with no present intention on their part of reselling the same, and that the notes will be issued under the terms of a credit agreement with the First National City Bank of New York and The Security First National Bank, Los Angeles, whereby $5,000,000 will be made available to applicant up to February 29, 1956, and will be represented by notes payable in 10 equal annual installments of $500,000 each beginning February 1, 1957, and ending February 1, 1966.

The primary purpose of the proposed financing is to provide applicant with funds to refund a presently outstanding issue of $28,754,480 of 5% preferred stock. It appears that conditions are favorable to the issue by applicant of a lower dividend rate preferred and that applicant can realize annual savings in income taxes and fixed charges by refunding the present 5% issue with monies obtained, in part, by the issue of the new 4½% preferred stock, and, in part, with borrowed monies represented by the proposed debentures and serial notes. Applicant has estimated its savings during the first year in the amount of $566,000 and in increasing amounts annually thereafter as the borrowed money is repaid.

The effect of the refinancing program on applicant's capital ratios is indicated in the following tabulation:

	November 30, 1955	After Financing
Bonds	39.36%	37.79%
Debentures and notes	-	10.55
Bank loans	1.65	5.28
Preferred stock	18.88	10.54
Common stock and surplus	40.11	35.84
Total	100.00%	100.00%

It appears that the proceeds from the sale of the new securities, before payment of expenses of issue not yet determined, will be $2,697,240 in excess of the maximum amount required to refund and retire the present 5% preferred stock. The company proposes to use the proceeds not needed to refund preferred stock to reimburse its treasury for monies actually expended from income, or from other monies in its treasury not obtained through the issue of securities, for the acquisition of properties and the construction, completion, extension, or improvement of its facilities. It has reported, in this connection, that up to October 31, 1955, it had expended $50,692,352 for plant additions which had not been provided through the issue of permanent securities but which had been financed, generally speaking, with depreciation monies and retained earnings. It is applicant's intention, upon replenishing its treasury, to use such funds to meet, in part, its continuing construction program and in this connection it estimates its gross additions to plant during 1956 in the total amount of $51,517,700.

A summary of applicant's capital requirements during 1956 and its estimated sources of funds is indicated in the following tabulation:

Requirements

Refund 5% stock -		
Par value	$28,754,480	
Call premium	2,925,520	
Total refund cost		$31,680,000
Additions to plant -		
Gross additions	51,517,700	
Less salvage, wiring gain, donations	8,708,100	
Balance		42,809,600
Payment of bank loans		4,000,000
Increase in current assets		3,107,861
Total		$81,597,461

Source of Funds

From operations -		
Net income	$10,197,299	
Add back non-cash items	9,097,686	
Dividends	(6,943,864)	
Total from operations		$12,351,121
From securities -		
Present issues -		
Preferred stock	14,377,240	
Debentures	15,000,000	
Serial notes	5,000,000	
Sub-total	$34,377,240	
Additional issues -		
Bonds	19,887,100	
Common stock	14,982,000	
Total from securities		69,246,340
Total		$81,597,461

A review of this matter shows that applicant will have need for additional funds to carry into effect its proposed refunding operation and to continue with its construction activities. It clearly appears that its retained earnings invested in its plant are substantially in excess of the amount of reimbursement now requested. Accordingly, we will enter our order granting applicant's requests.

The approval herein indicated is for the issue and sale of securities only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 of the securities 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. General Telephone Company of California is authorized to issue securities on and after the effective date hereof and on or before September 30, 1956, as follows:

(a) To issue and exchange not to exceed 718,862 shares of its 4½% Cumulative Preferred Stock of the par value of $20 each, and of the aggregate par value of $14,377,240, for outstanding shares of its Cumulative Preferred Stock, $20 par value, 5% 1947 Series, such exchange to be on a share-for-share basis and pursuant to the terms and conditions of the proposed exchange offer referred to in this application;

(b) To issue and sell such part of said 718,862 shares of its 4½% Cumulative Preferred Stock as may not be issued pursuant to said exchange offer, such issue and sale to be at a price not less than $20 a share and upon the terms and conditions provided for in an agreement to be substantially in the form as Exhibit A-1 filed in this proceeding;

(c) To execute and deliver an Indenture with Chemical Corn Exchange Bank, as trustee, and to issue and sell $15,000,000 aggregate principal amount of 3-7/8% Sinking Fund Debentures due February 1, 1981, at a price equal to the principal amount thereof plus accrued interest and under the terms and conditions provided in an agreement to be substantially in the same form as Exhibit B-1 filed in this proceeding;

(d) To issue and sell $5,000,000 aggregate principal amount of 3-3/4% Serial Notes at a price equal to the principal amount thereof plus accrued interest and under the terms and conditions referred to in Exhibit E-1 filed in this proceeding.

2. Applicant shall use the proceeds for the purposes referred to in this application, that is, to finance the cost of refunding presently outstanding 5% preferred stock and of reimbursing its treasury. The accrued interest to be received may be used for such purposes or for general corporate purposes.

3. Applicant shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order, and shall file as soon as possible three copies of its prospectus relating to its preferred shares herein authorized to be issued.

4. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $8,000.

Dated at Los Angeles, California, this 31st day of January, 1956.

President

Commissioners

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STATE OF CALIFORNIA
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