

Decision No. 52676**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 General Telephone Company of Cali-)
 fornia for an Order authorizing it)
 to issue and sell 750,000 shares of)
 its Common Stock, \$20 Par Value.)

Application
No. 37729OPINION

This is an application for an order authorizing General Telephone Company of California to issue and sell 750,000 shares of its common stock of the par value of \$20 each and of the aggregate par value of \$15,000,000.

Capital Stock

The company has an authorized capital stock of 7,800,000 shares of the par value of \$20 each, divided into 5,000,000 common shares and 2,800,000 cumulative preferred shares issuable in series. Its outstanding shares as of December 31, 1955, are shown in the following tabulation:

	<u>Shares</u>	<u>Amount</u>
Preferred -		
4 ¹ / ₂ % series	280,312	\$ 5,606,240
5% 1947 series	<u>1,437,724</u>	<u>28,754,480</u>
Total preferred	1,718,036	34,360,720
Common	<u>3,133,038</u>	<u>62,660,760</u>
Total	<u>4,851,074</u>	<u>\$97,021,480</u>

The outstanding shares of common stock are held by General Telephone Corporation. For some years annual dividends of \$1.60 have been paid such outstanding shares.

Sale of Shares

Subject to obtaining the approval of the Commission, applicant now proposes to offer the 750,000 shares of common stock covered by this application to the holder of its presently outstanding common shares pursuant to the pre-emptive right to subscribe for additional shares which is granted such holder by applicant's articles of incorporation. Applicant intends to dispose of the new shares at par. It estimates it will be required to use \$18,000 of the proceeds to pay expenses incident to the sale, leaving a balance of available cash of \$14,982,000.

Use of Proceeds

Upon disposing of its shares of stock, applicant proposes to use the net proceeds for the acquisition of property, for the construction, completion, extension, or improvement of its facilities, for the improvement and maintenance of its service, for the payment of indebtedness to banks which may have been incurred for said purposes, and for the reimbursement of its treasury.

In presenting this matter to the Commission, applicant asserts that up to the close of 1955 it had expended \$54,879,699 for additions to plant which had not been paid or provided through the issue of securities but which, apparently, had been financed temporarily with retained earnings, depreciation monies, and current liabilities.

Applicant's prospectus which was issued in connection with its recent preferred stock offering shows that during the years 1950 through 1954, inclusive, its gross additions to property amounted to \$154,170,952 and its retirements to \$37,508,208, and that during 1955 its gross property additions were \$46,954,982 and retirements

were \$12,215,470. The prospectus shows the number of telephones in service as of the end of each of the last five years as follows:

1951	464,004
1952	522,316
1953	573,854
1954	634,967
1955	715,203

It now appears that the company is faced with construction expenditures during 1956 of even larger amounts than those it made during 1955. According to Exhibit C it will be called upon to expend \$51,517,700 during the current year for gross additions, as follows:

	<u>Gross Additions</u>
Buildings	\$ 3,549,400
Central Office Equipment	16,963,700
Station Equipment	13,420,900
Outside Plant	13,579,600
Other (Franchises, Right of Way, Land and General Equipment)	1,787,700
Wiring Gain and Loss	<u>2,216,400</u>
Total	<u>\$51,517,700</u>

The company estimates its 1957 expenditures will aggregate \$55,000,000.

Capital Structure

It has been applicant's practice to finance itself, in part, through the issue of bonds and other forms of indebtedness, preferred stock, and common stock equity. Its capital ratios as of December 31, 1955, and as adjusted to give effect to financing

recently approved by the Commission and that now proposed, were as follows:

	<u>December 31, 1955</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Pct.</u>	<u>Amount</u>	<u>Pct.</u>
Bonds	\$ 71,618,000	38%	\$ 71,618,000	35%
Debentures & notes	-	-	20,000,000	10
Bank loans	10,000,000	5	10,000,000	5
Preferred stock	34,360,720	18	19,983,480	10
Common stock equity	<u>70,991,883</u>	<u>39</u>	<u>83,066,363</u>	<u>40</u>
Total	<u>\$186,970,603</u>	<u>100%</u>	<u>\$204,667,843</u>	<u>100%</u>

As of December 31, 1955, applicant reports its current and accrued assets and prepaid expenses at \$18,905,266 and its current and accrued liabilities at \$28,583,916, including short-term bank borrowings of \$10,000,000.

Information filed with the Commission indicates that at a later date in 1956 the company will seek authorization to engage in approximately \$20,000,000 of bond financing.

Conclusions

A review of the application clearly shows that applicant has been engaged in a continuing construction program of some magnitude and that it will be called upon to make further extensions of its facilities. The application clearly shows that applicant will have need for additional funds from external sources to improve its cash position and to enable it to meet its capital requirements. We are 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 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, we will enter our order granting the application.

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 and that the application should be granted,

IT IS HEREBY ORDERED as follows:

1. General Telephone Company of California may issue and sell to the holder of its presently outstanding common stock not exceeding 750,000 additional shares of common stock at par, for cash, on or before April 30, 1956, and use the proceeds for the purposes set forth in this application.
2. General Telephone Company of California 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.

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

Dated at San Francisco, California, this 28th day of February, 1956.

John E. Mitchell
President

Justice J. Caswell
Royce W. Winters
R. Hardy

Commissioners