

Decision No. 53423

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )	
CALIFORNIA INTERSTATE TELEPHONE )	Application
COMPANY for authority to issue and )	No. 38111
sell 35,000 shares of its \$20.00 )	(and Amendment)
Par Value Cumulative Preferred Stock, )	
5.50% Convertible Series. )	
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O P I N I O N

In this application, as amended, California Interstate Telephone Company seeks authorization to issue 50,000 shares of its Cumulative Preferred Stock, 5.25% Convertible Series of a par value of \$20 each and an aggregate par value of \$1,000,000, 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, organized during January of 1954. It commenced operations in March, 1954, following its acquisition of the telephone properties and operations of the Interstate Telegraph Company, and since that date has been engaged in the business of rendering 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:

	1954 Mar. 25-Dec. 31	1955	April 1, 1955- March 31, 1956
Operating revenues	\$1,963,096	\$2,756,793	\$2,867,711
Operating expenses and taxes	1,540,635	2,172,094	2,280,268
Net operating income	\$ 422,461	\$ 584,699	\$ 587,443
Other income	9,919	31,480	25,381
Gross income	\$ 432,380	\$ 616,179	\$ 612,824
Interest and other deductions	200,363	279,909	279,632
Net income	<u>\$ 232,017</u>	<u>\$ 336,270</u>	<u>\$ 333,192</u>

Reports on file with the Commission show that applicant has been paying quarterly dividends of 17-1/2 cents on its outstanding shares of common stock, which is at a rate of 14% on the par value (\$5 per share) and about 6.66% on the price at which the stock originally was offered to the public.<sup>1/</sup>

A summary statement of applicant's assets and liabilities, as reflected in its March 31, 1956 balance sheet, follows:

Assets

Investment in telephone plant, less reserves		\$10,442,507
Current assets -		
Cash and working funds	\$166,541	
Accounts receivable	257,441	
Material and supplies	<u>486,333</u>	910,315
Prepaid expenses		90,247
Discount on bonds		101,531
Discount on debentures		34,975
Other deferred charges		<u>10,382</u>
Total assets		<u>\$11,589,957</u>

Liabilities

Bonds		\$ 4,537,000
Debentures		1,500,000
Current liabilities -		
Notes payable	\$400,000	
Accounts payable	264,599	
Accrued and other current liabilities	543,677	1,208,276
Deferred credits		235,957
Preferred stocks		1,000,000
Common stock equity -		
Common stock	\$1,500,000	
Premium on common stock	1,429,500	
Capital stock expense	(42,108)	
Earned surplus	<u>221,332</u>	<u>3,108,724</u>
Total liabilities		<u>\$11,589,957</u>

(Red Figure)

When applicant commenced operations in March, 1954, the total number of company telephones was 11,121. At December 31, 1954, the number had increased to 12,116, and at December 31, 1955 to 13,811, an increase of 2,690, or about 24%, in approximately 21 months.

<sup>1/</sup> The common shares were sold by the company to underwriters at \$9.765 a share and were offered to the public at \$10.50.

During this same period its gross investment in telephone plant, including telephone plant under construction, increased from \$8,555,812 to \$11,252,506.

To finance the acquisition of properties and to provide funds for capital improvements, applicant originally 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 \$9.765 per share. In May, 1955, it issued and sold an additional \$400,000 of its 4-1/4% bonds and in July, 1955, it issued and sold 50,000 shares (\$1,000,000 par value) of its Cumulative Preferred Stock, 5.25% Series.

Applicant now reports that it is facing a continuing demand for service and that in order to proceed with its construction program it had been required to obtain \$900,000 of additional funds through short-term financing. Future construction, including the building of central office structures at Hesperia and Lucerne Valley, and completing central office installation at June Lake, and a cable carrier installation between Victorville and San Bernardino, will require additional new capital, and it is expected that an additional \$100,000 of indebtedness will be incurred.

To provide the funds necessary to pay its existing short-term indebtedness and to finance the construction program, applicant has arranged to sell 50,000 shares, or \$1,000,000 par value, of its Cumulative Preferred Stock, 5.25% Convertible Series, to a group of underwriters at the par value of \$20 per share and to pay said underwriters, for their services, a compensation of \$1 a share. Applicant's capital ratios as of March 31, 1956, and as adjusted to give effect to the proposed financing are as follows:

	<u>As of March 31, 1956</u>	<u>After the Stock Has Been Issued</u>
Bonds	44.34%	40.34%
Debentures	14.89	13.54
Cumulative preferred stock	9.92	18.06
Common stock equity	<u>30.85</u>	<u>28.06</u>
	<u>100.00%</u>	<u>100.00%</u>

The new shares will be convertible into shares of common stock at an initial conversion price of \$13.33 per share of common stock, the price increasing after June 30, 1960.

Upon a review of this application, it appears that applicant will have need for additional funds from external sources to liquidate its obligations and to proceed with its construction activities. The issue of the convertible preferred stock herein proposed will tend to improve the company's financial position by the liquidation of current liabilities, and possible future conversions of the preferred stock will tend to broaden the common stock equity position of applicant's capital structure. On the basis of the information submitted by applicant in this proceeding, we will authorize it to issue and sell the shares of its 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% Convertible Series, on or before December 31, 1956, at not less than their par value, plus accrued dividends, for the purposes set forth in this application.

2. California Interstate Telephone Company may issue such shares of its common stock as may be required to meet the conversion rights of the holders of said 50,000 shares of Cumulative Preferred Stock, 5.25% Convertible Series.

3. 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.

4. This order will become effective on the date hereof.

Dated at San Francisco, California, this 16<sup>th</sup> day of July, 1956.

[Signature]  
President

Justus J. Caswell  
Raulo Interevier

[Signature]  
[Signature]  
Commissioners