

ORIGINAL

Decision No. 54535

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
GENERAL TELEPHONE COMPANY OF)	
CALIFORNIA for an Order authorizing)	Application
it to issue and sell 750,000 shares of)	No. 38767
its Common Stock.)	
-----)	

O P I N I O N

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 5,500,000 common shares and 2,300,000 cumulative preferred shares. Its outstanding shares as of December 31, 1956, are shown in the following tabulation:

	<u>Shares</u>	<u>Amount</u>
Cumulative preferred stock, \$20 par value,		
4-1/2% series	280,312	\$ 5,606,240
4-1/2% cumulative preferred stock	718,862	14,377,240
Common stock	<u>2,883,038</u>	<u>77,660,760</u>
Totals	<u>4,882,212</u>	<u>\$97,644,240</u>

In addition, by Decision No. 54174, dated December 4, 1956, as supplemented by Decision No. 54342, dated January 8, 1957, the Commission authorized applicant to issue and sell at a price of not less than \$19 a share, flat, 500,000 shares of its 5% cumulative preferred stock. Applicant states that it has issued 118,116 of such shares.

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.

Use of Proceeds

Upon disposing of its shares of stock, applicant proposes to use the 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 1956 it had expended \$63,414,460 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. Such amount is exclusive of \$10,000,000 of 5% cumulative preferred stock authorized for issuance but not sold as of December 31, 1956.

Applicant's prospectus which was issued in connection with its recent preferred stock offering shows that during the years 1951 through 1955, inclusive, its gross additions to property amounted to

\$174,095,219 and its retirements to \$43,313,000, and that during the first 10 months of 1956 its gross property additions were \$50,374,720 and retirements were \$11,662,136. For the last two months of 1956 applicant's estimated gross property additions and betterments amount to \$11,300,000. The prospectus shows the number of telephones in service at the indicated dates, as follows:

December 31, 1952	522,316
December 31, 1953	573,854
December 31, 1954	634,967
December 31, 1955	716,203
October 31, 1956	798,278

It now appears that the company is faced with construction expenditures during 1957 of even larger amounts than those it made during 1956. According to Exhibit B it will be called upon to expend \$72,015,000 during the current year for gross additions, as follows:

Buildings	\$ 8,144,000
Central office equipment	17,183,000
Station equipment	15,824,000
Outside plant	25,864,000
Franchises, right of way, land and general equipment	<u>5,000,000</u>
Total	<u>\$72,015,000</u>

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, 1956, and as adjusted to give effect to financing recently approved by the Commission and that now proposed, after deducting \$100,000 from debentures and \$500,000 from serial notes for their retirement on or about February 1, 1957, are as follows:

	December 31, 1956		Pro Forma	
	Amount	Pct.	Amount	Pct.
First mortgage bonds	\$91,618,000	39%	\$91,618,000	36%
Sinking fund debentures	14,900,000	6	14,900,000	6
Serial notes	4,500,000	2	4,500,000	2
Short-term bank loans	16,000,000	7	7,000,000	3
Preferred stock	19,983,480	9	29,983,480	12
Common stock equity	87,744,181	37	103,160,755	41
Totals	<u>\$234,745,661</u>	<u>100%</u>	<u>\$251,162,235</u>	<u>100%</u>

As of December 31, 1956, applicant reports its current and accrued assets and prepaid expenses at \$27,824,495 and its current and accrued liabilities at \$36,139,930, including short-term bank borrowings of \$16,000,000.

Exhibit B indicates that later in 1957 the company will seek authorization to engage in \$40,000,000 of additional financing, consisting of \$20,000,000 of bonds with the balance divided equally between preferred and common stocks.

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:

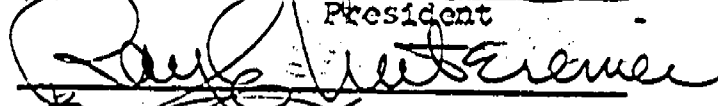
1. General Telephone Company of California may issue and sell to the holder of its presently outstanding common stock not exceeding 750,000 additional shares of common stock at par, for cash, on or before June 30, 1957, and use the proceeds for the purposes set forth in this application.


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.

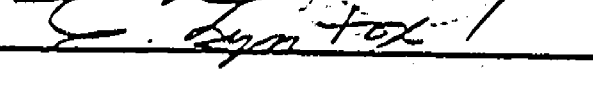
3. The authority herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 19th day of February, 1957.



President






Commissioners