

ORIGINAL

Decision No. 60713

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of CALIFORNIA INTERSTATE TELEPHONE
COMPANY for authority to issue and
sell \$3,000,000 principal amount
of its Convertible Subordinated
Debentures, 6% Series, due 1980.

Application No. 42562

O P I N I O N

In this proceeding, which was filed on August 11, 1960, California Interstate Telephone Company seeks authorization to issue and sell \$3,000,000 of debentures.

The purpose of the proposed financing is to provide applicant with funds to discharge short-term indebtedness and, if any balance remains, to finance construction expenditures. The company reports that it is indebted to Bank of America National Trust and Savings Association in the amount of \$3,100,000 on short-term notes maturing during 1960-61 and that it proposes to borrow an additional \$600,000, the proceeds from these notes having been used, or to be used, for the construction, completion, extension or improvement of its telephone facilities. The company further reports that its estimated cash expenditures for construction will aggregate \$3,599,158 during the 12 months ending March 31, 1961.

The proposed debentures will constitute a new series. They will be designated as Convertible Subordinated Debentures, will be dated August 1, 1960, will mature August 1, 1980, will bear interest at the rate of 6 per cent per annum and, as provided in the indenture, may be redeemed, (but, prior to August 1, 1967, only with funds acquired by the company by means of issuance of shares of its capital stock or as a result of earnings and not by means of the company incurring any new indebtedness in connection therewith) at the option of the company, as a whole or from time to time in part, at any time prior to maturity at a premium starting at 107.50% to and including July 1, 1968, and thereafter at annually reducing premiums, together with accrued interest in each case. The debentures will be subordinated to currently outstanding funded debt and to short-term bank borrowings and will be convertible into common stock at an initial rate of \$14 a share, with appropriate provision for protection against dilution and with certain limitations as to the amount to be converted in any one year.

Applicant has made arrangements to sell the debentures at their face value to three insurance companies. The capital ratios, as of June 30, 1960, and as adjusted to give effect to the sale of the debentures, are indicated in the following tabulation:

	<u>June 30, 1960</u>	<u>Pro Forma</u>
Bonds	52.18%	45.74%
Debentures	6.21	17.78
Other long-term debt	.22	.20
Subtotal	<u>58.61</u>	<u>63.72</u>
Preferred stock	6.75	5.92
Common stock equity	<u>34.64</u>	<u>30.36</u>
Total	<u>100.00%</u>	<u>100.00%</u>

The Commission recently has given consideration to applicant's financial condition and in its Decision No. 60296, dated June 20, 1960, authorized certain increases in rates. In its decision, the Commission pointed out that the company had greatly accelerated its construction program in order to meet the service requirements on its system; that currently applicant is holding over 1,500 orders for service; that the construction budget for the two-year period ending March 31, 1962, will result in an increase in plant of 72 per cent; and that currently applicant is spending \$500,000 a month to meet its obligations to the public. The decision further pointed out that applicant's current earnings had declined to where they were not sufficient to cover the current annual stock dividends and that it was doubtful whether applicant could qualify to issue additional bonds at that time.

Upon review of the information before us, we find and conclude (1) that the proposed issues of securities are for proper purposes; (2) that the terms are reasonable under the conditions under which applicant is now operating; and (3) that the money, property or labor to be procured or paid for through

the issue of the debentures and stock is reasonably required for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings, we will enter our order granting applicant's requests.

The authorization herein granted is for the issue of the securities 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, therefore,

IT IS HEREBY ORDERED as follows:

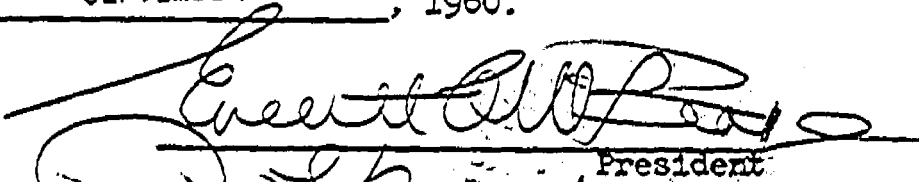
1. California Interstate Telephone Company, on or after the effective date hereof, and on or before March 31, 1961, may execute a Debenture Purchase Agreement and an indenture, in or substantially in, the same form as those filed in this proceeding and may issue and sell not to exceed \$3,000,000 principal amount of its Convertible Subordinated Debentures, at not less than the principal amount, plus accrued interest, for the purposes specified in this application.

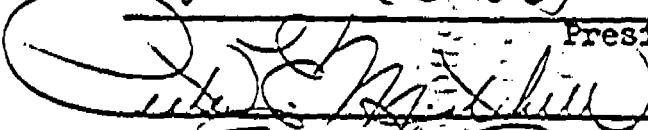
2. California Interstate Telephone Company, from time to time, may issue such shares of its common stock as may be required in exchange for debentures which may be surrendered for conversion.


3. California Interstate Telephone Company 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.

4. The authority herein granted will become effective when California Interstate Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,000.

Dated at San Francisco, California,
this 13th day of SEPTEMBER, 1960.



President




Commissioners

