

ORIGINAL

Decision No. 63463

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 not to exceed 160,000 shares
of the Common Stock of the Par
Value of \$5.00 per share and for
the exemption of such proposed
issue from the requirements of the
Competitive Bidding Rule established
in this Commission's Decisions
Nos: 38614 and 49941.

Application No. 44220

Best, Best & Krieger, by James H. Krieger,
for applicant.

O P I N I O N

In this proceeding the Commission is asked to make an order (1) exempting from competitive bidding a proposed issue by California Interstate Telephone Company of 160,000 shares of its common stock of the aggregate par value of \$800,000 and (2) authorizing the company to issue and sell said shares.

The application was filed with the Commission on February 27, 1962. Thereafter, a public hearing was held before Examiner Donovan in San Francisco on March 14, 1962, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The company seeks authorization to use the proceeds from the sale of its shares of common stock (1) for the reduction and discharge of its short-term bank loans which may be outstanding at the time the stock money is received, and (2) to finance in part its current construction program.

The company reports that, as of February 26, 1962, its outstanding short-term bank loans aggregated \$2,850,000 and it estimates that it will increase such borrowings to \$3,600,000 prior to June 1, 1962. It reports that its bank loans have been, and will be, incurred in meeting its construction requirements. The company further reports that for the year ending December 31, 1962, its cash expenditures for construction of additions to its plant are estimated to equal approximately \$6,463,125.

It has been applicant's practice to finance temporarily with short-term bank loans and from time to time to refinance with permanent securities. Its capital structure as of November 30, 1961, appears in the following tabulation:

First mortgage bonds -			
4 1/2% series due 1979	\$ 4,123,000		
5 1/2% series due 1982	1,410,000		
5-1/8% series due 1983	2,500,000		
5 3/4% series due 1984	<u>3,000,000</u>	\$11,033,000	41.30%
Debentures -			
4-3/4% sinking fund due 1974	1,274,000		
6% convertible due 1980	<u>3,000,000</u>	4,274,000	16.00
Other long-term debt		<u>39,000</u>	<u>0.15</u>
Total long-term debt		15,346,000	57.45%
Preferred stock -			
5 1/2% cumulative series	880,000		
5 1/2% convertible series	484,100		
5 3/4% cumulative series	<u>2,000,000</u>		
Total preferred stock		3,364,100	12.59
Common equity -			
Common stock	3,481,835		
Premium on common	3,666,000		
Earned surplus	1,034,635		
Capital stock expense	<u>(180,187)</u>		
Total common equity		<u>8,002,283</u>	<u>29.96</u>
Total capitalization		<u>\$26,712,383</u>	<u>100.00%</u>

If the preceding tabulation is modified to give effect to the proposed issue of common stock, the relative ratios would be as follows:

Long-term debt	49.97%
Preferred stock	10.95
Common equity	<u>39.08</u>
Total	<u>100.00%</u>

The outstanding common stock as of November 30, 1961 consists of 638,545 shares of the par value of \$5 each. During the years since the inception of the company in 1954 dividends have been paid on the common stock at the rate of 70 cents per share per annum. The book value of the outstanding common shares is calculated at \$12.53 a share on the basis of the November 30, 1961 recorded figures, and the recent market price as taken from the over-the-counter market quotations was $25\frac{1}{2}$ bid and $27-\frac{3}{4}$ asked.

Applicant has not entered into any contract for the sale of its shares of common stock but proposes, upon receiving the necessary authorization from the Commission, to sell all of the shares of common stock to a group of underwriters under terms and conditions to be set forth in a proposed written agreement between applicant and the underwriters. Applicant estimates that it will obtain approximately \$4,000,000 from the sale of the proposed issue of common stock.

Applicant is required to obtain an exemption from the Commission's competitive bidding rule in order to dispose of its common shares under a negotiated sale to a group of underwriters. In support of the request for exemption, a witness called by applicant, testified that on the basis of studies he had made, security underwriters would show little interest in bidding on a security offering of the relatively

small size contemplated, that because the stock is unlisted, trading therein is somewhat limited, and that only a limited number of investors would have knowledge of the company. In contrast with the conditions which would prevail under competitive bidding, the witness testified that with a negotiated offering the underwriters would have the time and incentive to prepare a market and that the issue could be timed so as to take advantage of favorable market conditions. It was the witness' opinion that applicant would obtain at least as high a price, if not a higher one, for the proposed issue of common stock through negotiation with an underwriting syndicate than by sale at competitive bidding. Information before the Commission shows that in the past, on a number of occasions, applicant has been successful in disposing of its shares of stock, both common and preferred, at satisfactory prices under negotiated arrangements.

From a review of the record developed in this proceeding it is clear that applicant will have need for additional funds to repay its outstanding short-term indebtedness, to improve its capital structure and to enable it to proceed with its construction program. It also appears that applicant's proposed plan of selling the proposed issue of common stock through a negotiated underwriting rather than by competitive bidding will not be adverse to the public interest and that

there appears to be no reason why it should not be authorized at this time to proceed with the negotiated offering. The order herein will grant exemption from competitive bidding and will give applicant preliminary authorization to proceed with the sale of its shares of common stock. At a later date, upon the filing by applicant of a supplemental application setting forth the price for the stock and the commission to be paid the underwriters, the Commission will give consideration to entering a final order in this proceeding.

The approval herein given goes to exemption from competitive bidding and to the issue and sale of common stock 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 the application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale by California Interstate Telephone Company of 160,000 shares of its common stock is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954, provided that applicant obtain for said shares a price satisfactory to the Commission.


2. California Interstate Telephone Company, after the effective date hereof and on or before December 31, 1962, may issue and sell said 160,000 shares of common stock at a price to be fixed by the Commission in a supplemental order in this proceeding, it being the opinion of the Commission that the money, property or labor to be procured or paid for by the issue and sale of such stock is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

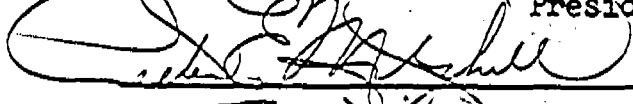
3. California Interstate Telephone Company shall use the net proceeds to be received from the issue and sale of such shares for the reduction and discharge of short-term bank loans which may be outstanding at the time the stock money is received and for the purpose of acquiring properties or constructing, completing, extending and improving its facilities.


4. Within 90 days after the issue and sale of said 160,000 shares of common stock, California Interstate Telephone Company shall file with the Commission three copies of its prospectus and a report showing the names of the underwriters to whom said shares are sold, the number of shares sold to each underwriter, the compensation received, and the expenses incurred incidental to the issue and sale of such shares.


5. The authority herein granted to issue and sell shares of stock will become effective when the Commission, by supplemental order, has fixed the price at which said 160,000 shares may be sold. In other respects, this order is effective on the date hereof.


Dated at San Francisco, California,
this 27th day of MARCH, 1962.



President








Commissioners