ORIGINAL

Decision No. 68836

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 its Common Stock, $5 par value, 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. 47346
Filed February 23, 1965

Best, Best & Krieger, by Glen E. Stephens, for applicant;
Sidney J. Webb, for the Commission staff

O P I N I O N

This is an application for an order of the Commission authorizing California Interstate Telephone Company to issue and sell, exempt from competitive bidding, 160,000 shares of its common stock of the par value of $5 per share and an aggregate par value of $800,000.

After due notice, a public hearing in this matter was held before Examiner Donovan in San Francisco on March 15, 1965, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation owning and operating a telephone system serving portions of the counties of Alpine, Inyo, Kern, Los Angeles, Madera, Mono, San Bernardino and Tulare in the State of California. In addition, it serves portions of the State of Nevada. For the year 1964, the company reports total operating revenues amounting to $12,237,975 and a net income of $1,535,914.

Subject to receiving authorization from the Commission, applicant proposes to effect a public sale of the 160,000 shares of its common stock through negotiated arrangements with a group of underwriters headed by Blyth & Co., Inc., who, under the terms and conditions of a proposed written agreement with applicant, would purchase all of said shares of the common stock. The agreement will provide for an initial public offering price per share of not more than $1 above nor $1 below the latest available bid quotation reported by the National Association of Securities Dealers for applicant's common stock at the time of finalizing the agreement. The maximum underwriting spread between the initial public offering price and the price to be paid to applicant by the underwriters will not exceed 4.75% of said initial public offering price. The testimony shows the bid price of the common stock as being around $33½ per share at the time of the hearing, that a similar offering of 150,000 shares of the company's common stock in 1964 reflected an underwriting spread of 4.34% of the initial public offering price of $26.50 per share, and that the actual spread for the proposed offering probably will approach such percentage instead of the 4.75% maximum. The company seeks an exemption of the proposed issue of common stock from the Commission's competitive bidding rule.

In support of its request for exemption, applicant asserts that its operating territory encompasses a large area which is sparsely populated and remote from financial centers; that toll revenues and plant investment per subscriber are relatively high because of the nature of the territory served; and that circumstances require a significant sales effort by a strong nationwide underwriting group familiar with the company's operations and capable of supporting its stock in the over-the-counter market, thereby benefiting the company and its customers. Moreover, applicant contemplates following the common stock offering with issues of preferred stock and debt securities, which it believes would be affected adversely if the common stock offering should prove to be unsatisfactory.

Tabulations showing common stock offerings sold directly to the public since January 1, 1961, as reported by Ebasco Services, and pertaining to telephone, electric and gas companies were introduced into evidence as Exhibit No. 2. Such tabulations show that all of the telephone and gas company sales were negotiated, but that seven of the twenty-five sales by electric companies were competitive, of which the smallest competitive bidding offer was in excess of $6,000,000. As a comparison of size of offering, Exhibit No. 1 reflects an estimate of $5,120,000 proceeds to be derived from the proposed issue of 160,000 shares of common stock.

The company reports that its business continues to increase at a rapid rate, and that it needs permanent capital to finance its construction program for the year 1965. Applicant's estimated cash requirements for 1965 construction will approximate $16,986,700, segregated as follows:

Telephone and other exchange equipment	$ 5,380,100
Toll and local exchange lines	1,541,900
Central office equipment	6,781,800
Land and buildings	1,195,200
Other telephone plant	2,087,700
Total	$16,986,700

Applicant proposes to use the proceeds from the sale of the shares of common stock for the purpose of discharging, in part, indebtedness incurred, or to be incurred, for capital expenditures, and represented by short-term notes in favor of Bank of America National Trust and Savings Association. In this connection, applicant reports that as of February 19, 1965, its outstanding bank loans aggregated $4,300,000, and it estimates that such borrowings will increase to approximately $8,000,000 by the anticipated closing date of April 27, 1965. In addition to selling common stock, the company plans to meet its cash requirements through the sale of additional securities, including $3,000,000 par value of preferred stock, through further short-term bank borrowings and from internal sources.

Capitalization ratios of the company at December 31, 1964, and giving effect to the contemplated $3,000,000 preferred stock issue, and to the proposed common stock offering assuming that applicant will obtain therefrom $32 per share, or $5,120,000, as set forth in Exhibit No. 1, are as follows:

	December 31, 1964	Pro forma
Long-term debt	50.82%	43.40%
Preferred stock	11.45	15.17
Common stock equity	37.73	41.43
Total	100.00%	100.00%

The Commission has considered this matter and finds that: (1) the proposed stock issue is for a proper purpose; (2) applicant will have need for funds from external sources for the purpose set forth in this proceeding; (3) applicant's 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; (4) the money, property, or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purpose specified herein; and (5) such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of the value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The issue and sale by California Interstate Telephone Company of 160,000 shares of its $5 par value common stock are hereby exempted from the Commission's competitive bidding rule which is set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954.

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2. California Interstate Telephone Company, on or after the effective date hereof and on or before August 31, 1965, may issue and sell not to exceed 160,000 shares of its $5 par value common stock at a price not less than that to be determined in the manner hereinabove set forth, and shall apply the proceeds toward reducing its short-term bank loans.

3. Within thirty days after the issue and sale of the shares of common stock herein authorized, California Interstate Telephone Company shall file with the Commission three copies of its prospectus together with three copies of its underwriting agreement.

4. The effective date of this order shall be five days after the date hereof.

Dated at San Francisco, California, this 6th day of APRIL, 1965.

Frederick B. Holoboff
President

Peter E. Mitchell

A. W. Gatov

William M. Bennett
Commissioners

I would require competitive bidding.
George G. Grover