

**ORIGINAL**

Decision No. 71116

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of )  
) )  
CALIFORNIA INTERSTATE TELEPHONE )  
COMPANY, a California corporation, )  
) )  
for an order authorizing it to )  
issue and sell (i) 70,000 shares )  
of its common stock, and (ii) )  
\$3,000,000 principal amount of )  
its 5-7/8% Sinking Fund )  
Debentures due 1991. )

Application No. 48478  
Filed May 17, 1966  
and Amendment  
Filed July 26, 1966

O P I N I O N

California Interstate Telephone Company requests authorization from the Commission (1) to issue and sell 70,000 shares of its \$5 par value common stock pursuant to a proposed offering of subscription warrants to holders of its common stock and (2) to execute and deliver a Seventh Supplemental Indenture and, in connection therewith, to issue and sell \$3,000,000 aggregate principal amount of its debentures.

Applicant is a California corporation furnishing local and toll telephone service in portions of California and Nevada. For the year 1965 the company reports total operating revenues and net income of \$15,646,987 and \$2,716,825, respectively, and net telephone plant investment of \$62,063,544, as of December 31, 1965. According to applicant's 1965 annual report on file with the Commission, 54,232 telephones were in service at the end of the year,

of which 43,356 were located in California. The corporation's reported capitalization ratios as of December 31, 1965, together with pro forma ratios giving effect to the financing proposed herein, are as follows:

	<u>December 31, 1965</u>	<u>Pro Forma</u>
Long-term debt	50%	50%
Preferred stock	13	12
Common stock equity	<u>37</u>	<u>38</u>
Total	<u>100%</u>	<u>100%</u>

The utility estimates that its construction expenditures for the year 1966 will aggregate \$19,700,000, segregated as follows:

Central office equipment	\$ 9,260,500
Local exchange and toll lines	6,160,200
Land and buildings	2,254,200
Station equipment and apparatus	1,860,600
Furniture and work equipment	<u>164,500</u>
Total	<u>\$19,700,000</u>

The company states that it had \$11,000,000 of short-term borrowings outstanding as of July 26, 1966, which it used for paying a portion of the 1966 construction costs.

In this proceeding applicant proposes to issue and sell 70,000 shares of its \$5 par value common stock through offering to its common shareholders transferable warrants evidencing rights to subscribe for one additional common share for each 17.5 shares of common stock held on the record date, rounded to the nearest full share. The application, as amended, shows that Continental Telephone Corporation, the holder of 94.5% of applicant's outstanding common stock, intends to

exercise all of its rights in connection with the offering and to purchase, at the subscription price, shares offered to and not purchased by other stockholders. The amendment to the application indicates that the subscription price will reflect current market conditions on the record date and will not be less than \$41.25 per share nor more than \$42.75 per share.

Authority is sought also to issue and sell a new series of debentures to be designated 5-7/8% Sinking Fund Debentures due 1991. They will bear a maturity date of June 1, 1991, and will be redeemable at an optional redemption price of 105.875% of the principal amount to be redeemed, plus accrued interest, if redeemed on or before June 1, 1976, and thereafter at annually reducing premiums. However, such redemption may not be made prior to June 1, 1971, through the use of funds borrowed at an interest cost of less than 5-7/8% per annum. Said debentures will be issued under and pursuant to a Seventh Supplemental Indenture further amending an Original Indenture as heretofore amended.

According to applicant, the terms and conditions of the proposed debenture issue are reasonable because most institutional investors contacted indicated that they would require a higher interest rate in addition to restricted redemption provisions.

Upon receiving authorization from the Commission, the company plans to sell the debentures to several institutional investors for cash, at their principal amount, plus accrued interest, pursuant to the terms of a Debenture Purchase Agreement.

The application, as amended, shows that the net proceeds to be derived from the sales of common stock and debentures proposed herein will be used to refund, in part, applicant's outstanding short-term bank loans.

The Commission has considered this matter and finds that: (1) the proposed stock and debenture issues are for proper purposes; (2) applicant has need for funds from external sources for the purposes set forth in the application; (3) applicant will be required to pay interest at a lower effective rate than it would in the absence of a restricted redemption provision; (4) the proposed Seventh Supplemental Indenture will not be adverse to the public interest; (5) the money, property or labor to be procured or paid for by the issue of the stock and debentures herein authorized is reasonably required for the purposes specified herein; and (6) such purposes, except as otherwise authorized for accrued interest are 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, as amended, should be granted. A public hearing is not necessary.

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. California Interstate Telephone Company, on or after the effective date hereof and on or before December 31, 1966, may issue, to the holders of its common stock, warrants evidencing rights to subscribe to additional shares of its common stock, and may issue and sell not to exceed 70,000 shares of its common stock at a price per share of not less than \$41.25 nor more than \$42.75.

2. California Interstate Telephone Company may execute and deliver a Seventh Supplemental Indenture in the same form, or in substantially the same form, as that attached to the amendment to the application.

3. California Interstate Telephone Company may issue and sell not to exceed \$3,000,000 aggregate principal amount of its 5-7/8% Sinking Fund Debentures due 1991, at not less than their principal amount, plus accrued interest.

4. California Interstate Telephone Company shall use the proceeds from the sale of said common stock and debentures, exclusive of accrued interest, for the purposes specified in the application. The accrued interest may be used for said purposes or for general corporate purposes.

5. California Interstate Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. This order shall 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 16<sup>th</sup> day of AUGUST, 1966.

[Signature]  
President

George H. Prover

[Signature]

[Signature]  
Commissioners

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

