

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of HOME TELEPHONE COMPANY OF COVINA for an order authorizing the issue of bonds and the execution of a mortgage or deed of trust to secure the same.

Application No. 637.

Arthur Wright for applicant.

THELIX, Commissioner.

OPINION.

This is an application for authority to issue bonds for the purposes hereinafter indicated, and to execute a mortgage or deed of trust to secure the same.

Applicant is a public utility supplying local telephone service to Covina, Azusa, Glendora, San Dimas, Charter Oak, Irwindale, Vineland, Baldwin Park, Bassett, Puente, Rowland, and vicinity, in Los Angeles county. Applicant has telephone exchanges in Covina and Azusa, and has a total of about 1560 subscribers. The population of the territory served by applicant is between 5,000 and 6,000, and is rapidly growing.

Applicant's total authorized capital stock is 4,000 shares, of the par value of \$50.00 each, being a total par value of \$200,000. Of the stock so authorized, stock of the par value of \$83,900 has been issued.

Applicant has an authorized bond issue of \$50,000, secured by mortgage or deed of trust to Title Insurance and Trust Company, a corporation, having its principal place of business in the city of Los Angeles. The present condition of this authorized issue is as follows:

Sold to the public,.....	\$40,700.00
Pledged to secure notes,.....	7,000.00
In sinking fund,.....	2,300.00

Total,.....	\$50,000.00

It appears that of the bonds so issued, the following bonds were issued subsequent to March 23, 1912, without the prior consent of this Commission:

Bonds of the face value of \$700.00, in exchange for a lot in the city of Covina;

Bonds of the face value of \$1,600.00, which were sold at 95% of their face value;

Bonds of the face value of \$7,000.00, which were pledged as security for certain notes.

As these bonds were all issued subsequent to March 23, 1912, without the consent of this Commission, it is clear, under the provisions of Section 52 of the Public Utilities Act, that they are all void. It will accordingly be necessary for applicant to call them in and cancel them. Applicant asks that its application be amended, if necessary, so as to ask authority to issue other bonds in lieu of those heretofore illegally issued. The application may be considered amended in this respect. It is clear that all these bonds were issued in good faith, without any intention to violate any of the provisions of the Public Utilities Act. I shall recommend that the order authorize the issue of new bonds of the first authorization in lieu of those which have been illegally issued.

Applicant owes \$16,000 to the First National Bank of Covina, which sum is represented by various one-day notes. Applicant's current accounts are not over \$400.00 or \$500.00.

Heretofore, in Application No. 110, this Commission authorized the issue by applicant of 369 shares of its capital stock, of the par value of \$50.00 per share, the proceeds to be used to pay off applicant's existing indebtedness to banks, the surplus to be left in the hands of the Company for such further disposition as might thereafter be authorized by this Commission. The stock was to be sold so as to net said Company not less than 95% of the par value thereof. Applicant has sold 47 shares of said stock and has used

the proceeds to pay off a portion of its indebtedness to the First National Bank of Covina. Applicant alleges that because of the destruction by the frost of last winter of the citrus fruit crop in the vicinity of its operation and because of the uncertainty of stock dividends, it has become difficult to sell additional stock of the issue authorized by this Commission.

Applicant now asks authority to authorize a new bond issue in the total amount of \$200,000, and to use bonds of the face value of \$50,000 of this issue to retire the bonds of the present issue, and to issue an additional amount of \$40,000, face value, for the purposes hereinafter specified, and to execute a new deed of trust or mortgage to secure the issue of said bonds.

As this Commission's authority is not required for the initial authorization of a bond issue, but merely for the actual issue of the bonds so authorized, it will not be necessary to pass on that portion of the prayer which asks this Commission to authorize the creation of a possible bonded indebtedness in the amount of \$200,000. It will be necessary, however, for the Commission to pass on the bonds which it is proposed now to issue. As it is evident that the amount of outstanding bonds of the present issue is only \$47,700, it will be necessary to authorize no more than this amount of bonds of the proposed new issue to take up the outstanding bonds. The present bonds bear interest at the rate of 5% per annum, while the proposed bonds are to bear interest at the rate of 6% per annum. Applicant claims that before it can sell advantageously the additional \$150,000 of bonds which are to be included in the new authorization, it will be necessary to call in the existing bonds and to cancel the mortgage which secures them. While, if nothing further appeared, it would certainly be poor business to replace a 5% bond by means of a 6% bond, I am satisfied, under all the circumstances of this case, that it would be good business for applicant to call in the outstanding issue with 6% bonds, so as to facilitate the sale of the remaining bonds of

the proposed issue, all of which bonds will then be secured by a first mortgage. Applicant's secretary testified that, in his opinion, it would be possible to exchange bonds of the new issue for the outstanding bonds, bond for bond, both because of the increased interest, and because of the fact that the terms of the new bonds are to be 30 years, while the existing bonds become payable on or before May 12, 1925. I recommend that this portion of the application be granted on condition that the bonds for this purpose be not issued until applicant shall have sold the other bonds authorized by the order on the terms therein specified. Otherwise, applicant might be in the position of having exchanged its 5% bonds for 6% bonds without having sold any additional bonds.

Applicant desires to use the remaining \$40,000, face value, of bonds as to which authority is asked as follows:

Applicant desires to use bonds of the face value of \$15,000 to take up a portion of its indebtedness to the First National Bank of Covina, represented by one-day notes totalling \$15,000, and to use the remaining portion, viz., \$22,000, to make extensions and improvements as follows:

Applicant desires to spend a maximum amount of \$10,000 to construct an exchange at Puente. At present, as many as eight parties are on a single line in that territory. Furthermore, the population is increasing rapidly, so that good service to the people in this territory seems to demand that a new exchange be constructed in Puente. Applicant desires to spend a maximum of \$6,000 for new cables and other improvements to the Covina Exchange plant, partly to substitute two or four party lines for the present overcrowded lines and partly to take care of additional business. Applicant desires to spend a maximum of \$4,000 at Azusa to make additions to the plant in that city and for the same general purposes for which it desires to make expenditures at Covina. Finally, applicant desires to expend \$2,000 at Glendora for additions to the plant and for the same general purposes for which it desires to make expenditures at Covina and Azusa.

The figures herein given are estimates of maximum expenditures, and applicant's secretary stated that the Company would be satisfied, if a total of \$22,000, face value, of bonds were authorized for these purposes. It seems clear that the expenditures contemplated by applicant are necessary for the extension and improvement of its service.

As hereinbefore stated, applicant has stock outstanding of the par value of \$83,900; bonds of the face value of \$40,700, with an additional \$7,000 as collateral, and notes of the face value of \$18,000. At the hearing the Commission made some investigation into the total value of applicant's property, which value applicant claims to be \$152,134.00. While the Commission does not in this proceeding pass upon this value, it is evident that there is sufficient margin between the value of the property and the securities and evidences of indebtedness at present outstanding to warrant the issue of bonds for which application is herein made, provided applicant's income is sufficient to justify such further issue. Referring to this point, it appears that in the year 1912, applicant had a total income of \$33,450.94, and that the total disbursements, including operating expenses, maintenance, interest on notes and bonds, taxes and licenses, insurance and collection expenses were \$25,204.71, leaving a net earning amounting to \$8,246.23. Out of this amount applicant declared dividends totalling 6% and amounting to \$4,908.00. During the present year applicant has declared two quarterly dividends of 2% each, being on the basis of an annual 8% dividend. I am convinced on this showing that this Commission may reasonably authorize the issue of the bonds as applied for, and recommend that the application be granted.

Applicant's secretary testified that applicant would not sell the bonds at less than 95% of their face value. The community is, under ordinary circumstances, a prosperous one and applicant hopes to place its bonds to advantage in the community which it serves. Applicant also asks that the authority to sell stock heretofore given in Application No. 110 be continued so that

applicant may sell either stock or bonds, the total proceeds to be derived therefrom not to exceed the sum of \$40,000. Owing to the present stringency in the financial market and the result of the frost in destroying the citrus fruit crops in the vicinity in which the applicant operates, it may be that it will not be possible for applicant to realize the money which it needs from the sale of either stock or bonds at reasonable prices, at least for some time. Applicant does not desire to pledge bonds as collateral on further promissory notes if it can avoid doing so. However, if applicant finds that it is necessary to adopt this course to tide it over the intervening period until it can sell its bonds or stock advantageously, applicant may write a letter to the Commission stating the facts fully, including the terms of any proposed pledge, whereupon the Commission will, without further formal hearing, take such action as may seem necessary in the premises.

I recommend that the application be granted as hereinafter in the order indicated, and submit the following form of order:

O R D E R.

HOME TELEPHONE COMPANY OF COVINA having applied to the Railroad Commission for authority to issue bonds of the total face value of ninety thousand (\$90,000) dollars, said bonds to be payable on the first day of July, 1945, and to bear interest at the rate of six (6%) per cent per annum, payable semi-annually, and secured by a mortgage or deed of trust upon all the property of the Company, and also for authority to execute said mortgage, and further for authority to issue bonds of its first authorization in lieu of certain bonds of said authorization heretofore issued subsequent to March 25, 1912, and without the authorization of this Commission, and a public hearing having been held upon said application, and it appearing that the purposes for which said bonds are to be issued

are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED AS FOLLOWS:

1. Home Telephone Company of Covina is hereby authorized to issue its bonds of the face value of eighty-seven thousand and seven hundred (\$87,700) dollars, face value of principal, maturing the first day of January, 1945, bearing interest at the rate of six (6%) per cent per annum, payable semi-annually on the first day of January and the first day of July of each year, said bonds to be of face values of one thousand (\$1000) dollars, five hundred (\$500) dollars and one hundred (\$100) dollars, all in accordance with the terms of mortgage or trust deed hereby approved, to be made and executed by Home Telephone Company of Covina in substantially the form which is attached to the application herein as Exhibit "B", and Home Telephone Company of Covina is hereby authorized to execute said mortgage or deed of trust, on the following conditions and not otherwise, to-wit:

(1) Home Telephone Company of Covina may issue said bonds of the face value of forty-seven thousand and seven hundred (\$47,700) dollars in exchange, bond for bond, for an equivalent number of bonds of its first authorization now outstanding, on condition that this authority shall not take effect until applicant shall have disposed or arranged to dispose of the remaining bonds herein authorized.

(2) Home Telephone Company of Covina is hereby authorized to issue its said bonds, of the face value of forty thousand (\$40,000) dollars, on the following conditions and for the following purposes only:

(a) Said bonds shall be sold so as to net said Company not less than ninety-five (95%) per cent of the par value of the principal thereof, besides interest accrued thereon.

(b) The proceeds from the sale of said bonds shall be used only as follows:

(1) The proceeds from the sale of bonds of the face value of eighteen thousand (\$18,000) dollars shall be used

only to discharge or refund applicant's one-day notes, now held by the First National Bank of Covina;

(2) The proceeds from the sale of bonds of the face value of twenty-two thousand (\$22,000) dollars shall be used only as follows:

(a) The proceeds from the sale of bonds not in excess of ten thousand (\$10,000) dollars, face value, shall be used to build an exchange at Puente, together with appurtenances;

(b) The proceeds from the sale of bonds not in excess of six thousand (\$6,000) dollars, face value, shall be used for additions to the present telephone exchange at Covina, including the labor incident to the installation of the same.

(c) The proceeds from the sale of bonds not in excess of four thousand (\$4,000) dollars, face value, shall be used in making additions to the plant at Azusa.

(d) The proceeds from the sale of bonds not in excess of two thousand (\$2,000) dollars, face value, shall be used to make additions and improvements at Glendora.

(3) Home Telephone Company of Covina, before it issues the bonds herein ~~issued~~ ^{authorized} shall file with this Commission a certified ^{executed} copy of mortgage or deed of trust substantially in the form annexed to the petition herein, and marked "Exhibit B."

2. Home Telephone Company of Covina is hereby authorized to issue its bonds of its first authorization as follows:

(a) Bonds of the face value of seven thousand (\$7,000) dollars in lieu of bonds of the same amount heretofore illegally issued, to be used as collateral on certain outstanding promissory notes.

(b) Bonds of the face value of seven hundred (\$700) dollars in lieu of bonds of the same amount heretofore illegally issued in exchange for a lot in Covina.

(c) Bonds of the face value of sixteen hundred (\$1600) dollars in lieu of bonds of the same amount heretofore

illegally sold subsequent to March 25, 1912.


3. Home Telephone Company of Covina shall keep separate, true and accurate accounts, showing the receipt and application in detail of the proceeds of the sale or disposal of all the bonds hereby authorized to be issued, and on or before the 25th day of each month the Company shall make verified reports to the Railroad Commission, stating the sale ~~xxxxxxx~~ or sales of said bonds during the previous month, the terms and conditions of sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

4. The authority hereby given to issue bonds shall apply only to bonds issued by said Company on or before the first day of August, 1914, and the authority to issue stock heretofore given to said Company by this Commission's order in Application No. 110 is hereby extended to and including said first day of August, 1914, on condition that the total face value of bonds and stock issued for the purpose of refunding or discharging said Company's existing indebtedness and of making the extensions and improvements heretofore indicated shall not exceed the sum of forty thousand (\$40,000) dollars.

5. The authority hereby given to issue bonds shall not become effective until the fee specified in Section 57 of the Public Utilities Act, as amended, has been paid.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the state of California.

Dated at San Francisco, California, this 21st day of August, 1913.


H. S. Ireland
Max Shelden
Commissioners