

Decision No. 45723**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
San Joaquin Telephone Company, formerly	:	
Manteca Telephone Company, for authority)	Application
to issue and sell securities.	:	No. 32389
-----)	

O P I N I O N

San Joaquin Telephone Company, applicant herein, is a California corporation formerly named Manteca Telephone Company, which was organized during 1923 with an authorized capital stock of \$50,000, divided into 500 shares of common stock of the par value of \$100 each. In this application, it reports that heretofore it has issued 441 shares of common stock (\$44,100 par value) but that recently it has initiated proceedings to amend its articles of incorporation so as to provide for an authorized capital stock of \$500,000, to reduce the par value of its shares of common stock to \$5 each and to provide for the issue of shares of preferred stock.(1)

At this time, applicant requests authorization to issue and sell, at not less than par for cash, \$120,000 par value of Original Prior Preferred Stock, \$20 Par Value, 6% Series A, for the purpose of liquidating outstanding indebtedness, and to issue \$136,710 par value of common stock, for the following purposes:

(1)

In its 1950 annual report, applicant reports the outstanding shares of stock held by the following persons:

Talbot Kendall	220 shares
Sallie Kendall	220 shares
A. W. Bruner	<u>1</u> share
Total	<u>441</u> shares

1. In exchange for the common stock now outstanding on the basis of twenty new shares of the par value of \$5 each for each of the old shares of the par value of \$100	\$ 44,100
2. To reimburse the treasury for earnings retained in its business and thereafter to distribute the same as a stock dividend to stockholders of record	48,250
3. To pay outstanding indebtedness of \$44,360 in favor of Talbot and Sallie Kendall	<u>44,360</u>
Total	<u>\$136,710</u>

The preferred stock proposed to be issued is entitled to noncumulative dividends at the rate of 6% per annum and is redeemable at the option of applicant in accordance with the following schedule:

<u>Period</u>	<u>Price</u>
Before January 1, 1953	Not redeemable
January 1, 1953 to January 1, 1954	\$22.00
January 1, 1954 to January 1, 1955	21.50
January 1, 1955 to January 1, 1956	21.00
January 1, 1956 to January 1, 1957	20.50
January 1, 1957 to January 1, 1958	20.00

Since its organization, applicant has been engaged in operating a telephone system in and about the City of Manteca, in the County of San Joaquin. The present application shows that up to April 1, 1950, it had invested \$271,876.89 in its telephone properties and that it had financed the same in part with borrowed moneys in the amount of \$171,043.07 represented by outstanding notes and accounts payable, and in part with retained earnings in the aggregate amount of \$63,655.66. The outstanding indebtedness includes the following items:

Notes payable -	
In favor of Stockton Savings & Loan Bank	\$ 90,700.00
In favor of Commercial Credit Corporation	923.66
In favor of Talbot and Sallie Kendall	44,360.00
Accounts payable	<u>35,059.41</u>
Total	<u>\$171,043.07</u>

The program now planned by applicant will result in permanently capitalizing, through the issue of stock, expenditures represented by these items of indebtedness and expenditures of \$48,250 heretofore provided by the use of earnings. A pro forma statement as of April 1, 1951, giving effect to the proposed issues of stock, has been filed in this proceeding showing asset, liability and surplus balances as follows:

Assets

Plant and equipment		\$271,876.89
Due from affiliated companies		36,432.24
Current assets -		
Material and supplies	\$ 23,942.97	
Cash	21,049.87	
Accounts receivable	15,918.80	
Prepayments	<u>2,366.54</u>	
Total current assets		<u>63,278.18</u>
Total		<u>\$371,587.31</u>

Liabilities

Capital stock -		
Common	\$136,710.00	
Preferred	<u>120,000.00</u>	
Total capital stock		\$256,710.00
Current liabilities -		
Notes and accounts payable	11,313.92	
Customers' deposits	840.72	
Other current liabilities	<u>13,506.92</u>	
Total current liabilities		25,662.56
Contributions of plant		14,193.29
Depreciation reserve		59,616.80
Surplus		<u>15,405.66</u>
Total		<u>\$371,587.31</u>

In support of its request to capitalize retained earnings of \$48,250, applicant has filed, as exhibits in the proceeding, tabulations showing that since the beginning of 1925 its surplus account has increased from \$2,336.96 through accumulations of net income, that during this period it has paid dividends in only two years (1943 and 1944) in the aggregate amount of \$4,410, and that its depreciation reserve has increased from \$5,350.66 to \$59,616.80 through charges to operating expenses.

A review of applicant's books and records has been made by the Commission's staff. It clearly appears that applicant has had earned surplus in excess of the proposed distribution of \$48,250, and that it has been its policy to retain such earnings in its business instead of distributing them to its stockholders as cash dividends. The issue of stock as here proposed will improve applicant's financial position and will provide a larger base of permanent equity capital in the event applicant finds it necessary to resort to debt financing in the future. In this connection, applicant reports that it is faced with the necessity of making additional capital expenditures during 1951 in the aggregate amount of \$96,050 to extend and improve its facilities and that it plans to meet such requirements with short-term borrowings to be replaced with permanent financing at a later date. This matter, however, is not now before the Commission.

Under the circumstances set forth in this particular proceeding, the granting of the application is warranted. In accordance with applicant's request, the authority herein granted will become effective upon the date hereof so as to permit applicant forthwith to proceed with the sale of its stock.

O R D E R

The Commission having considered the above entitled matter, and being of the opinion that a public hearing thereon is not necessary; that the application should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue of the stock herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. San Joaquin Telephone Company, after the date hereof and on or before December 31, 1952, may issue and sell \$120,000 par value of its preferred stock for cash at a price not less than the par value thereof. Applicant shall use the proceeds to pay outstanding indebtedness incurred in making additions to its plant and properties.

2. San Joaquin Telephone Company, after the date hereof and on or before September 30, 1951, may issue not exceeding \$136,710 par value of its common stock for the purposes set forth in this application.

3. San Joaquin Telephone Company shall file with the Commission monthly 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 is effective upon the date hereof.

Dated at San Francisco, California, this 22nd day of May, 1951.

A. J. D. [Signature]
Justus J. [Signature]
Harold P. [Signature]
[Signature]

Commissioners