

ORIGINAL

Decision No. 50071

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
SAN JOAQUIN TELEPHONE COMPANY,	:	Application
a California corporation, for)	No. 35387
authority to issue and sell securities;	:	
-----)	

Talbot Kendall, for applicant.

O P I N I O N

On April 29, 1954, San Joaquin Telephone Company filed the above entitled application for authorization to execute an indenture and to issue and sell \$500,000 in principal amount of 6% income debentures due June 1, 1974, for the purpose of refinancing outstanding indebtedness and of providing the cost of additions to its plant.

A public hearing was held before Examiner Coleman in San Francisco on May 13, 1954, at which time the matter was taken under submission.

Applicant is engaged in the operation of telephone systems in and about Manteca and Ripon in San Joaquin County. Its annual reports to the Commission for the last three years show its investment in plant and number of telephones in service at the close of each year and its gross and net operating revenues during the year as follows:

	<u>Telephones in Service</u>	<u>Investment in Plant</u>	<u>Gross Oper. Revenues</u>	<u>Net Oper. Revenues</u>
1951	3,074	\$370,544	\$203,544	\$17,535
1952	3,502	454,588	225,307	3,332
1953	3,868	687,057	269,159	24,548

Heretofore, the Commission has reviewed applicant's operations. In Decision No. 48147, dated January 13, 1953, it found that errors existed in its accounting records and procedures and that there existed overloading on the switchboard and unreasonable delays in filling applications for service, particularly in outlying areas, there being more than 200 held orders. It directed the utility to establish service for all applications of record by December 31, 1953, and thereafter to arrange its program so as to take care of applications for service on a current basis.

It now appears that applicant has caused an inventory and appraisal to be made of its properties, that it has set up and is maintaining a revised accounting system and that it has no held orders at the present time. It has enlarged its Manteca switchboard and has installed a dial board at Ripon and, according to the testimony in the present proceeding, has extended its lines to all sectors of its service area. It reports its gross expenditures for plant during 1953 to accomplish these improvements and extensions amounted to approximately \$230,000 and it estimates that it still is faced with capital expenditures during 1954 in order to complete its program, of \$102,450, primarily for outside plant as set forth in some detail in Exhibit F attached to its application.

The record shows that the expansion of applicant's facilities has caused it to incur short-term indebtedness and current obligations in the amount of \$282,470 and that it does not have sufficient cash resources to meet these liabilities and to finance its required capital additions. Applicant is now seeking to obtain funds from the issue and sale of the debentures covered by this application to liquidate its current liabilities, to

refinance an existing mortgage indebtedness of \$197,637, and to assist in the completion of its construction program of 1954.^{1/}

The proposed debentures will be entitled to interest at the rate of 6% per annum, noncumulative and payable only if earned. In the event the available net income is insufficient to provide for full payment of 6% per annum, then such net income shall be payable pro rata on the then outstanding debentures. The trust indenture defining the terms of the issue provides, among other things, that in the event of default by the company in making interest payments when due and payable the trustee under the indenture may, and upon demand of the holders of not less than a majority in aggregate principal amount of the debentures then outstanding shall, declare the principal of all debentures to be due and payable.

Applicant will undertake to dispose of the debentures at par for cash through its own organization in its service area. It has been successful in the past in selling preferred stock through its own efforts and it is confident it will be able to market the proposed issue of debt capital. While its present plans call for no outside participation in the sales program, it appears that at a later date it may endeavor to enlist underwriting or other assistance and it asks the Commission to authorize an allowance of 10% for selling expense.

^{1/} Summarizing, applicant intends to apply the proceeds to the following:

Payment of expenses incident to the issue	\$ 5,000
Short-term obligation and accounts payable	282,470
Additions and betterments--1954	102,450
Long-term debt	<u>197,637</u>
Total	<u>\$587,557</u>

It appears that applicant has been compelled to pay 6% interest on bank loans. The testimony shows that it has attempted to obtain additional bank credit but has been unsuccessful in negotiating long-term borrowings at a lower rate or in amounts sufficient for its needs. It has not been in a position to interest institutional lenders and because of lack of dividend history it is unlikely it can engage in equity financing at this time.

It is clear that applicant is faced with the necessity of raising funds from external sources if it is to liquidate its outstanding obligations and complete the construction of its plant. While the terms of the offering are unusual, it appears to us if applicant, on the basis of its experience, is of the opinion it can finance itself in the manner it now proposes that it should be given the opportunity to do so. We are of the opinion, however, that in prosecuting the sale of the securities applicant should distribute to each prospective purchaser a prospectus showing clearly all the terms and conditions of the debentures and its financial position and earnings experience. The prospectus should set forth that the authorization of the Commission is not to be construed as obligating the State of California to pay or guarantee the debentures in any way whatsoever.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the debentures 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 may execute an indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit E and may issue and sell, on or before June 30, 1956, at par for cash, not exceeding \$500,000 in principal amount of its income debentures.

2. Applicant shall use the proceeds from the sale of said debentures for the purposes set forth in this application. Applicant may pay a sales commission of not to exceed 10% of the par value of any debentures sold other than by its officers and employees.

3. Applicant shall prepare a prospectus in connection with its offering of said debentures along the lines indicated in the preceding opinion and shall distribute a copy of the same to each prospective purchaser of the debentures. It shall file three copies of the prospectus with the Commission before undertaking the public offering.

4. Applicant shall deposit the proceeds from the sale of said debentures in a special bank account and withdraw the same from said account only for the purposes authorized by this decision. Applicant shall file monthly reports with the Commission as required by the terms of General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$303.00.

Dated at San Francisco, California, this 25th day of May, 1954.

John E. Mitchell
President

Justus J. Carlson
Wesley Patten
Verne Roggens

Commissioners

