

ORIGINAL

Decision No. 51005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)
SAN JOAQUIN TELEPHONE COMPANY,)
a California corporation, for)
authority to issue and sell)
securities.)
-----)

Application
No. 35387
(First Supplemental)

Talbot Kendall, for applicant;
John F. Donovan, for the staff
of the Commission

FIRST SUPPLEMENTAL OPINION

In a first supplemental application filed in the above entitled matter on December 13, 1954, San Joaquin Telephone Company seeks authorization to execute a supplemental indenture amending the terms of its debentures.

A public hearing on the supplemental application was held before Examiner Coleman in San Francisco on January 5, 1955, at which time the matter was taken under submission.

By Decision No. 50071, dated May 25, 1954, the Commission authorized applicant 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 telephone plants in and about Manteca and Ripon. The indenture provides that the debentures may be redeemed prior to maturity, at the option of the company, at the principal amount plus accrued interest. No penalty is provided for prepayment of the obligations.

Pursuant to the authorization thus granted, applicant has undertaken to dispose of its debentures through its own organization and also to obtain money on a temporary basis pending the issue of the longer term securities. The testimony in the present proceeding shows that applicant has borrowed \$120,000 from private individuals on a short-term basis, that the lenders of \$35,000 of such amount have expressed their willingness to accept debentures in satisfaction of the amounts owing them, and that it is the opinion of applicant's vice president, who has been in charge of the debenture sales activities, that a large part of the remaining \$85,000 of short-term loans could be converted into debentures, and additional debentures sold, provided the terms thereof be modified so as to require the payment by the company, upon redemption, of a premium equal to one year's interest. Applicant therefore proposes to execute a supplemental indenture revising the original instrument so as to provide that upon redemption prior to June 1, 1959, it will pay the full amount of the principal sum of each debenture redeemed plus the additional sum of 6% of the principal amount, together with unpaid accrued interest.^{1/} Applicant is of the opinion that with this revision in the terms of the debt it may be able to dispose of as much as \$300,000 of debentures during this year.

Applicant has financed itself in part through bank borrowings and sales of shares of preferred and common stock and in part with current liabilities. Its financial position as of October 31, 1954, is reflected in its balance sheet filed in this proceeding as Exhibit 1. A summary of the same is as follows.

^{1/} No premium will be paid on debentures called for redemption after June 1, 1959.

Assets

Telephone plant, less depreciation reserve		\$660,091.39
Current assets -		
Cash	\$ 38,718.77	
Special deposits	90,835.98	
Working funds	275.00	
Due from customers	40,111.89	
Other accounts receivable	14,317.63	
Materials and supplies	33,871.84	
Prepaid expenses	<u>27,903.06</u>	
Total current assets		246,034.17
Deferred charges		<u>24,530.47</u>
	Total	<u>\$930,656.03</u>

Liabilities

Funded debt		\$193,512.50
Current liabilities -		
Notes payable	\$ 55,000.00	
Accounts payable	209,143.42	
Customers' deposits	1,254.25	
Advance billings	12,224.23	
Accrued taxes	16,646.03	
Other current liabilities:	<u>17,011.73</u>	
Total current liabilities		341,279.66
Deferred credits		7,985.09
Capital stock and surplus -		
Preferred stock	250,000.00	
Common stock	100,000.00	
Surplus	<u>37,878.78</u>	
Total capital stock and surplus		<u>387,878.78</u>
	Total	<u>\$930,656.03</u>

Through the issue and sale of debentures applicant hopes to obtain sufficient funds to liquidate past due accounts payable, representing for the most part amounts due for central office equipment, and to take care of its 1955 capital requirements. It reports that during the year it expects to attach from 250 to 275 new subscribers to its lines, that presently it has no held orders, that it will require no additional central office equipment in the immediate future, and that its only plant requirements in 1955 will be for new telephones and some outside plant. It estimates its total capital budget for the year at from \$40,000 to \$50,000.

With the issue of \$300,000 of debentures, applicant's annual charges for interest and preferred stock dividends would approximate \$35,500. Its Exhibit 1 shows that its net income available for payment of interest aggregated \$36,036.23 during the ten months ended October 31, 1954, figures for the entire year not being available at the time of the hearing. It is expected, however, that the earnings position will be improved during 1955 because of the increases in rates authorized by Decision No. 50820, dated November 30, 1954, which increases were designed to produce annual net revenues, after income taxes, of \$50,500 based on the 1954 rate year. As stated, it is estimated that some new subscribers will be added during the year and it is noted that along with this increase in volume of business a relatively small amount of capital expenditures will be required.

Of applicant's capital structure as of the end of October of last year, 34% is represented by bank loans, 44% by preferred stock and 22% by common stock equity. Admittedly, the capital structure is out of balance and the issue of additional debt capital in the form of debentures will further decrease the position of the equity owner. However, information before the Commission shows that during the postwar period applicant was faced with the necessity of materially improving its service and of increasing its plant to take care of a substantial growth in its service area, and it is clear that its adverse capital structure was caused by the necessity for it to obtain construction funds, without delay, under whatever arrangements it could make. The record now before us indicates, however, that applicant's earnings

should be sufficient to enable it to meet its financial requirements. Moreover, it is of record that the holders of applicant's outstanding common stock, in an endeavor to improve the equity position, intend to forego dividends during the next five years and to retain in the business whatever earnings might be available to them. In our opinion applicant should undertake thus to increase the equity participation and in addition should improve its cash position through the collection of outstanding accounts receivable.

Under the circumstances set forth we will enter our order approving the modification of applicant's trust indenture so as to afford applicant the opportunity to proceed with its financing.

FIRST SUPPLEMENTAL ORDER

A public hearing having been held on the first supplemental application in this proceeding, and the Commission having considered the evidence and being of the opinion that applicant's request should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. San Joaquin Telephone Company may execute a supplemental indenture incorporating the amendment set forth in Exhibit A filed with the first supplemental application in this proceeding.

2. This first supplemental opinion and order will become effective upon the date hereof.

Dated at Los Angeles, California, this 25th day of January, 1955.

Edwin L. Mitchell
President

Justin D. Cuevas

Raymond L. Lutz

William K. Foley

Commissioners