

ORIGINALDecision No. 58145

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 COACHELLA VALLEY TELEPHONE COMPANY
 for an order authorizing it
 (a) to borrow money and execute
 a loan agreement, note and
 supplemental mortgage in con-
 nection therewith; (b) to sell
 and issue additional shares of
 common stock; and (c) to declare
 a stock dividend.

Application No. 40865

O P I N I O N

This is an application for an order of the Commission authorizing Coachella Valley Telephone Company to issue notes and shares of common stock.

Applicant owns and operates telephone properties serving portions of Riverside and Imperial Counties. In recent years it has been experiencing a substantial growth and has been called upon to enlarge and extend its plant and lines. The following tabulation, prepared from its filed reports, shows its reported investment in utility plant, including plant under construction, and the number of stations in service at the close of each of the last five years and the operating revenues and net operating income:

	<u>Utility Plant</u>	<u>No. of Stations</u>	<u>Operating Revenues</u>	<u>Net Operat- ing Income</u>
1954	\$1,459,166	5,768	\$435,285	\$ 89,932
1955	1,656,902	6,331	497,569	104,989
1956	1,911,634	7,076	572,280	98,852
1957	2,838,663	7,801	707,949	135,200
1958	3,397,700	-	964,538	166,180

The application does not show the number of stations in service on December 31, 1958. It does show that during the period from February 14, 1958 to January 1, 1959, applicant added 1,017 stations to its lines.

A summary statement of applicant's assets, liabilities and net worth, as of December 31, 1958, indicating its financial position as of that date, is as follows:

<u>Assets</u>		
Telephone plant -		
Plant in service	\$3,255,605	
Plant under construction	142,095	
Subtotal	<u>\$3,397,700</u>	
Less: Depreciation Reserve	(599,606)	
Contributions	<u>(17,379)</u>	
Net Plant		\$2,780,715
Current and prepaid assets		227,214
Deferred debits		<u>66,492</u>
Total		<u>\$3,074,421</u>
<u>Liabilities and Net Worth</u>		
Long-term debt		\$1,199,291
Current liabilities		567,850
Preferred stock		100,000
Net Worth -		
Common stock	\$1,021,760	
Premium on stock	5,955	
Capital surplus	3,387	
Retained earnings	<u>176,168</u>	
Total Net Worth		<u>1,207,280</u>
Total		<u>\$3,074,421</u>

Analysis of applicant's financial statements shows that it has met a portion of its capital requirements, temporarily, with current liabilities and with income from operations, including depreciation moneys and retained earnings. It has not been its practice to distribute its net income as dividends on its outstanding shares of common stock.

Applicant now is endeavoring to make provision for permanent financing and thereby reduce its current liabilities, reimburse its treasury and meet, in part, estimated construction costs. It has reported that its gross additions to plant accounts will aggregate \$636,466 in 1959, and its retirements, \$55,200, leaving estimated net additions of \$581,266. The estimated gross amounts include expenditures for its Indio general office building and additional lines and facilities to service an expected gain of 1,025 stations.

Among other things, applicant proposes to raise additional capital by borrowing \$500,000 from Pacific Mutual Life Insurance Company, which heretofore has loaned it \$1,275,000, and by selling 20,000 shares of its common stock of the par value of \$20 each, at a price of not less than the par value thereof, to a limited number of private investors.

The proposed borrowing from Pacific Mutual Life Insurance Company will be represented by notes payable on or before January 1, 1964, with interest at the rate of 5-1/4% per annum. The notes may be prepaid, at the option of the company, on or after January 1, 1964 and prior to January 1, 1965, at a premium of 7.50% and thereafter at annually reducing premiums. The common shares, as stated, will be sold at not less than their par value for cash. Applicant has employed Dean Witter & Co., as a broker to assist in effecting the sale of the stock and has made arrangements to pay it \$14,000 as a commission for the sale of the entire block.

Before proceeding with the sale of the additional shares, however, applicant desires to capitalize a portion of its retained earnings by the issue of shares to present shareholders as a stock dividend, this issue of common stock to be made at the rate of one new share for each 10 shares now held. In order to avoid the issue of fractional certificates or scrip certificates, applicant proposes to pay to each holder of less than ten shares of common stock a cash payment at the rate of \$2 for each share held by such shareholder and to pay the same amount for each share held by any shareholder in excess of the largest number of shares which is divisible by ten. It is reported that the total number of shares issuable in connection with the proposed dividend is 5,103 shares of the par value of \$102,060.

Applicant's capital ratios as of December 31, 1958, and as adjusted to give effect to the proposed financing, are as follows:

	<u>Dec. 31, 1958</u>	<u>Pro Forma</u>
Long-term debt	48%	50%
Preferred stock	4	3
Common stock and surplus	<u>48</u>	<u>47</u>
Total	<u>100%</u>	<u>100%</u>

Upon reviewing this proceeding, we are of the opinion that applicant will have need for additional funds to liquidate its outstanding obligations, and thereby improve its cash position, and to finance estimated construction costs. Applicant's financial statements clearly show that it has had earnings from operations well in excess of the proposed stock dividend and that such earnings have been retained in applicant's business and properties. Upon the basis of the information before us, we are warranted in entering our order granting applicant's requests.

The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, 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 notes and shares of stock herein authorized is reasonably required 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. Coachella Valley Telephone Company, on and after the effective date hereof and on or before December 31, 1959, is authorized:

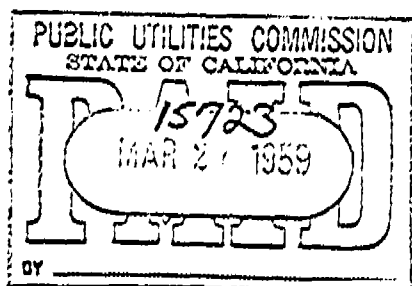
- a. To execute and deliver to Pacific Mutual Life Insurance Company a loan agreement and a supplemental mortgage in substantially the same forms as those set forth in Exhibit B and Exhibit D, respectively, filed in this proceeding.

- b. To execute and deliver a note, or notes, in the amount of \$500,000 to Pacific Mutual Life Insurance Company pursuant to the terms of said loan agreement and supplemental mortgage.
- c. To issue and sell not to exceed 20,000 shares of its common stock at a price of not less than \$20 a share and to pay a commission of not less than \$14,000 for the sale of the entire 20,000 shares.
- d. To use the proceeds obtained through the issue of said notes and shares of common stock for the purpose of paying indebtedness, or reimbursing its treasury and of financing the cost of additions to its plant.
- e. To issue not to exceed 5,103 shares of its common stock in reimbursement of its treasury because of retained earnings invested in its properties and to distribute such shares as a stock dividend.

2. Coachella Valley Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when Coachella Valley Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$500.

Dated at San Francisco, California, this 24th day of March, 1959.



L. J. Fox
President
W. E. Hatch
William D. ...
Theodore ...
Everett ...
Commissioners