Decision No. 68897

ORIGINAL

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 Debentures and for authority to issue and sell 5,000 shares of its Original Prior Preferred Stock, $6.625 Dividend Series of 1964.

Application No. 47206
Filed December 22, 1964
and Amendment
Filed January 14, 1965

Bacigalupi, Elkus & Salinger, by Charles de Y. Elkus, Jr., for applicant;
Robley E. George, Assistant County Counsel, San Joaquin County, for San Joaquin County Employees' Retirement Association, interested party;
Neal C. Hasbrook, for California Independent Telephone Association, interested party; and
R. T. Perry and Sidney J. Webb, for the Commission staff.

O P I N I O N

This is an application for an order of the Commission authorizing San Joaquin Telephone Company to issue and sell $500,000 principal amount of 6% Non-Cumulative Income Debentures, due June 1, 1994, and 4,950 shares of Original Prior Preferred Stock, $20 Par Value, $6.625 Dividend Series of 1964.

After due notice, a public hearing in this matter was held before Examiner Donovan in Manteca on March 24, 1965, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation rendering public utility telephone service in the Cities of Manteca and Ripon, and in certain unincorporated areas in San Joaquin County. For the year ended December 31, 1964, it reports total operating revenues of $1,039,123 and a net income of $59,639 before paying cash dividends aggregating $17,150 on preferred stock. A summary of the company's reported assets and liabilities at December 31, 1964, is as follows:

Assets	
Telephone plant and equipment, less depreciation	$1,524,953
Current assets	630,905
Deferred charges	11,520
Total	$2,167,378
Liabilities	
Common stock	$ 100,000
Preferred stock	245,000
Retained earnings	182,239
Debentures	1,200,000
Current liabilities	440,139
Total	$2,167,378

The outstanding preferred stock consists of 5,950 shares of Original Prior Preferred Stock, $20 Par Value, 7% Series A and 6,300 shares of Original Prior Preferred Stock, $20 Par Value, 7% Series B. Applicant proposes to amend its Articles of Incorporation so as to authorize the issuance of 4,950 shares of Original Prior Preferred Stock, $20 Par Value, $6.625 Dividend Series of 1964. Such shares will be callable at $115 per share up to and including December 31, 1969, and thereafter at $100 per share, and the same terms will apply upon liquidation or dissolution of the corporation. Dividends on the proposed shares of preferred stock will be noncumulative, as they are on the presently outstanding shares.

The company proposes to offer 2,450 shares of its $6.625 dividend preferred stock in exchange for its outstanding 7% dividend preferred stock on the basis of one share for each five shares. In order to obtain funds to redeem at $20 per share any unexchanged shares of 7% dividend preferred stock, applicant proposes to sell for cash at $100 per share the portion of the 2,450 shares of $6.625 dividend preferred stock not issued in exchange for 7% dividend shares of preferred stock. In addition, the company proposes to issue and sell 2,500 shares of such $6.625 dividend preferred stock for cash at $100 per share, and to use the net proceeds to reimburse its treasury for moneys expended for the construction, completion, extension or improvement of its facilities.

Applicant's outstanding long-term debt consists of $1,200,000 principal amount of 6% Non-Cumulative Income Debentures. The company proposes to sell an additional $500,000 principal amount of its 6% Non-Cumulative Income Debentures, due June 1, 1994, at their principal amount plus accrued interest, and to use the net proceeds to reimburse its treasury and to repay short-term loans for construction.

The record shows that the company was serving 8,578 telephones as of December 31, 1964 and that it anticipates adding 800 stations in 1965 and 1,000 stations during 1966.

During the two-year period ending December 31, 1966, applicant anticipates that it will require approximately $1,000,000 to finance necessary additions to its telephone plant because of expected growth. Details of the proposed construction projects, aggregating $1,000,000, appear in Exhibit E, as modified by Exhibit No. 1. The company estimates that it will incur $4,500 expenses in connection with the issue and sale of the proposed securities.

According to the testimony, applicant has no held orders for primary service; however, the Commission staff's Exhibit No. 3 shows that the company had on file as of March 31, 1965, 171 unfilled requests to upgrade residential services. The exhibit shows also that San Joaquin Telephone Company's exchange rates are equal to or lower than those of The Pacific Telephone and Telegraph Company's Tracy Exchange, which is a neighboring exchange with approximately the same number of stations. Said exhibit includes a staff conclusion that the proposed plant additions are urgently needed.

Applicant's capitalization ratios as of December 31, 1964, and as adjusted to give effect to the proposed issues of preferred stock and debentures, based on information submitted in this proceeding, are as follows:

	Dec. 31, 1964	Pro Forma
Debentures	69.5%	68.6%
Preferred stock	14.2	20.0
Common stock equity	16.3	11.4
Total	100.0%	100.0%

Although the company's debt is on the high side and the terms of its preferred stock and debentures are unusual for a public utility operating under the jurisdiction of this Commission, applicant has demonstrated over a period of many years that it has been able to carry out similar financing programs successfully without impairing its ability to serve the public adequately at just and reasonable rates or its ability to maintain a favorable current position. Moreover, the proposed issues contemplate decreases in the debt ratio and in the fixed dividend rate applicable to the company's preferred stock.

The testimony shows that all of the 20,000 shares of applicant's $5 par value common stock heretofore issued are held by its president and its vice-president and treasurer. In addition, the annual reports on file with the Commission show that since its incorporation in 1923 applicant has paid only one cash dividend on common stock, $4,400 in the year 1943, and that the only other dividend relating to the common stock was a $48,250 common stock dividend made in 1951 and accomplished by transferring such amount to the common stock account from the earned surplus account. Under these circumstances it is apparent that the earnings applicant realizes on its common shares are being reinvested in the company. As of December 31, 1964, retained earnings totaling $182,239 had been so reinvested.

The Commission has considered this matter and finds that: (1) the proposed preferred stock and debenture issues are for proper purposes; (2) applicant's ability to meet its public service responsibilities will not be impaired by the proposed financing; (3) the money, property or labor to be procured or paid for by the issue of the preferred stock and debentures herein authorized is reasonably required for the purposes specified herein; and (4) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted.

The action taken herein is for the purpose of this particular proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates. Moreover, such action is not to be construed as an indication that the Commission does, or will in the future, recognize a common stock equity ratio of 11.4% as adequate under the more customary types of financing through public offerings of securities subject to this Commission's jurisdiction.

In order to ensure that prospective purchasers of applicant's securities will be fully informed, we are of the opinion that in offering the preferred stock and debentures for sale applicant should distribute to each prospective purchaser a prospectus showing clearly all the terms and conditions of the preferred stock and debentures and the company's financial position and earnings experience. Each prospectus shall set forth that the authorization of the Commission is not to be construed as obligating the State of California to pay or guarantee the securities in any manner whatsoever.

ORDER

IT IS ORDERED that:

1. San Joaquin Telephone Company may issue and sell, at not less than their principal amount plus accrued interest, not to exceed $500,000 of its 6% Non-Cumulative Income Debentures, due June 1, 1994, and shall use the proceeds for the purposes set forth in this application. The accrued interest from the sale of the debentures may be used for such purposes or for general corporate purposes.

2. San Joaquin Telephone Company may issue not to exceed 2,450 shares of its Original Prior Preferred Stock, $20 Par Value, $6.625 Dividend Series of 1964, which it may offer in exchange for its Original Prior Preferred Stock, $20 Par Value, 7% Series A and Series B, on the basis of one share for each five shares on the terms and conditions set forth in the application. It may issue and sell for cash at $100 per share any part of such 2,450 shares not issued in exchange for said 7% shares and shall use the proceeds to redeem at $20 per share the unexchanged shares of such 7% preferred stock.

3. In addition to the shares authorized in Ordering Paragraph 2, San Joaquin Telephone Company may issue and sell for cash at $100 per share 2,500 shares of its Original Prior Preferred Stock, $20 Par Value, $6.625 Dividend Series of 1964, and shall use the proceeds for the purposes set forth in this application.

4. San Joaquin Telephone Company shall either prepare a single prospectus in connection with its offering of both said debentures and preferred stock or shall prepare a separate prospectus for each type of offering, which shall be along the lines indicated in the preceding opinion, and shall deliver an appropriate copy to each prospective purchaser of the securities. It shall file three copies of each prospectus with the Commission at least five days before undertaking the public offering of the securities contemplated by the prospectus.

5. San Joaquin Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. This order, insofar as it authorizes San Joaquin Telephone Company to issue, sell and exchange preferred stock, shall become effective when the company has filed with this Commission a certified copy of an amendment of its Articles of Incorporation authorizing it to issue not less than 4,950 shares of Original Prior Preferred Stock, $20 Par Value, $6.625 Dividend Series of 1964.

7. This order, insofar as it authorizes San Joaquin Telephone Company to issue and sell debentures, shall become effective when the company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $500.

8. Except as provided in Ordering Paragraphs 6 and 7, this order shall become effective on the date hereof.

9. Any authority herein granted and not exercised will expire on June 30, 1967.

Dated at San Francisco, California, this 20th day of APRIL, 1965.

Frederick B. Holoboff
President

Peter E. Mitchell

George G. Grover

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William M. Bennett

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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