

CACD/BVC

Decision 90 01 052 JAN 24 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application  
of HORNBLOWER YACHTS, INC. to  
Enter into and Perform Terms of  
a (1) Senior Subordinated Loan  
Agreement, and (2) Stock Warrant  
Agreement Pursuant to Sections 817  
and 818 of the California Public  
Utilities Code

ORIGINAL

Application 90-01-002  
(Filed January 4, 1990)

O P I N I O N

Summary of Decision

Hornblower Yachts, Inc (Hornblower) requests authority under Public Utilities Code (Code) Sections 816, 817 and 818 to issue up to \$7,000,000 of Senior Subordinated Debt (Debt) and to issue and deliver 1,667.46 stock warrants to purchase shares of Hornblower's issued and outstanding common stock.

Notice of the filing of the application appeared on the Commission's Daily Calendar of January 8, 1989. No protests have been filed to date.

Hornblower filed a motion requesting that Appendix I to Application (A.) 90-01-002 be "deemed to be confidential and proprietary and, accordingly, submitted under seal." However, on January 22, 1990, Hornblower submitted a written amendment which waived its request ". . . as to such information for purposes of any reference made thereto in said decision." This waiver allows this decision to include certain essential financial information required by this Commission to enable it to determine whether it will issue the order.

The Commission grants this ex parte decision before the completion of the required protest period because of the expedient nature of the transaction between Hornblower and Berkeley Atlantic Income, a Jersey corporation, and London Pacific Life and Annuity Company, a North Carolina Stock Life insurer (Lenders) and Hornblower's need for the additional financing.

Hornblower is a corporation organized and existing under the laws of the State of California. It is a certificated vessel common carrier engaged in the provision of on-call charter service on San Francisco Bay and San Diego Bay, respectively, as well as providing extensive exempt charter services in San Francisco, Berkeley, Newport Beach, Marina del Rey, San Diego and the Port of Los Angeles/Long Beach markets. Hornblower has stated in A.90-01-002 that unregulated services account for 99.99 percent of Hornblower's revenues.

For the twelve months ended December 31, 1989, Hornblower reported in its Statement of Income that it generated total operating revenues (including non-vessel related revenues) of \$19,139,000 and net income of \$1,036,000.

Hornblower's Balance Sheet as of December 31, 1989 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$10,763,000
Current Assets	2,906,000
Other Long-Term Assets	<u>602,000</u>
<b>Total</b>	<b>\$14,271,000</b>
<u>Liabilities and Equity</u>	<u>Amount</u>
Stockholder's Equity	\$ 4,072,000
Long-Term Debt	6,833,000
Other Liabilities	64,000
Current Liabilities	<u>3,302,000</u>
<b>Total</b>	<b>\$14,271,000</b>

Senior Subordinated Loan Agreement

Hornblower has entered into a Senior Subordinated Loan Agreement (Loan Agreement) by which Hornblower will sell and the Lenders will purchase an aggregate \$7,000,000 in principal amount of Senior Subordinated Notes (Notes), which will be due and payable on December 31, 1996. The notes provide for 14.0% interest, payable semi-annually, commencing June 30, 1990.

The Warrant Agreement

In conjunction with the Loan Agreement, Hornblower intends to enter into a Warrant Agreement, which provides that the Lenders shall be issued a total of 1,667.46 warrants to purchase shares of Hornblower's issued and outstanding common stock. In the event the warrants are exercised, the present shareholders will retain majority control of Hornblower, so that there would be no change of control in the company.

Capitalization Ratios

Hornblower's capitalization ratios at December 31, 1989, recorded, and at December 31, 1989, pro forma after giving effect to the proposed issuance of the Notes in the aggregate principal amount of \$7,000,000 are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 6,833,000	62.3%	\$13,833,000	77.0%
Depr. Income				
Taxes	64,000	0.6	64,000	0.3
Stockholders' Equity	<u>4,072,000</u>	<u>37.1</u>	<u>4,072,000</u>	<u>22.7</u>
Totals	\$10,969,000	100.0%	\$17,969,000	100.0%

Hornblower is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Use of Proceeds

Hornblower has stated in its application that it intends to use the funds provided through the financing to acquire additional vessels to compliment its present fleet, as well as other capital expenditures relative to equipment facilities and services. Hornblower has also stated that it is presently investigating additional vessel acquisition possibilities available to it; including, but not limited to, new vessel construction. Finally, Hornblower has stated that it will utilize a portion of the funds to introduce a new service category to its charter business.

Hornblower is placed on notice, by this decision, that the Commission does not find that Hornblower's use of the proceeds are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecasts

Hornblower's cash requirements forecasts for 1990 and 1991 are summarized as follows:

<u>Components</u>	<u>1990</u>	<u>1991</u>
Cash Flow from:		
Net Income	\$ 682,000	\$ 1,463,000
Depr. & Amort.	<u>1,000,000</u>	<u>1,300,000</u>
Cash Flow from Operat.	\$ 1,682,000	\$ 2,763,000
(Inc.)/Dec. in Curr. Assets	( 600,000)	( 700,000)
Inc./(Dec.) in Curr. Liabs.	<u>200,000</u>	<u>1,000,000</u>
Net (Inc.)/Dec. Work. Capital	\$( 400,000)	\$ 300,000
(Inc.)/Dec. in Gross PP&E	(5,300,000)	(3,300,000)
(Inc.)/Dec. in Gross Other	<u>100,000</u>	<u>( 100,000)</u>
Cash Flow before Financing	\$(3,918,000)	\$( 338,000)
Financing Charges:		
(Dec.)/Inc. in Senior Debt	\$( 400,000)	\$ 500,000
(Dec.)/Inc. in Sub. Debt	0	0
(Dec.)/Inc. Equity	0	0
(Inc.)/Dec. in S/h Loans	(1,000,000)	0
Dividends Paid	<u>( 300,000)</u>	<u>( 450,000)</u>
Cash Flow from Financing	\$(1,700,000)	\$ 50,000
Net Change in Cash	<u>\$(5,618,000)</u>	<u>\$( 288,000)</u>

The Commission Advisory and Compliance Division (CACD) has analyzed Hornblower's cash requirements forecast for 1990 and 1991 as provided in the above summary. The CACD has concluded that the proposed issuance of Hornblower's Notes is necessary to help meet forecasted cash requirements which includes capital expenditures.

Exemption from Competitive Bidding Rule

Hornblower has requested an exemption from the Commission's Competitive Bidding Rule under Resolutions F-591 and F-616. CACD has reviewed Hornblower's request and has determined that the exemption is warranted under Section 3 of Resolution F-616 and recommends that Hornblower's request be granted. We concur with CACD's recommendation.

Findings of Fact

1. Hornblower, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. Hornblower has need for external funds for the purposes set forth in the application.
3. The proposed Notes are for proper purposes.
4. The money, property or labor to be procured, or paid for, by the proposed Notes is reasonably required for the purposes specified in the application.
5. Debt issues for which competitive bidding is not viable or available are exempt from the requirements of the Commission's Competitive Bidding Rule as set forth in Resolution F-616.
6. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

The proposed Notes are for lawful purposes and the money, property or labor to be obtained thereby is required for these purposes. Proceeds from the issuance of the Notes may not be charged to operating expenses or income.

ORDER

IT IS ORDERED that:

1. Hornblower Yachts, Inc. (Hornblower), on or after the effective date of this order, may issue, sell and deliver up to \$7,000,000 of Senior Subordinated Debt (Debt) and may issue and deliver up to 1,667.46 stock warrants to purchase shares of Hornblower's common stock.

2. Hornblower shall apply the net proceeds from the issue of the securities for the purposes set forth in the application.

3. Hornblower shall file the reports required by General Order Series 24.

4. Hornblower shall pay a fee in the amount of \$8,000 set by Public Utility Code Section 1094(b).

The authority granted by this order will become effective when Hornblower pays the fee set by Code Section 1904(b). In all other respects, this order is effective today.

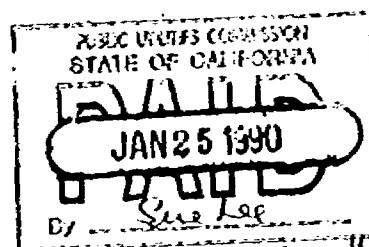
Dated JAN 24 1990 at San Francisco, California.

G. MITCHELL WALK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OGANIAN  
PATRICIA M. ECKERT  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

*Wesley Franklin*

WESLEY FRANKLIN, Acting Executive Director



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