Decision No. 41157

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sunland-Tujunga Telephone Company, a corporation, for an Order of the Commission authorizing it (a) to issue and sell 8000 shares of preferred stock for $200,000 (b) to borrow $125,000 and (c) to issue 13,000 common shares in equal exchange for 3,250 shares currently outstanding.	Application No. 28992

O P I N I O N

In this application, the Public Utilities Commission is asked to make an order authorizing Sunland-Tujunga Telephone Company: (1) to reclassify each of its authorized common shares of stock of the par value of $100 into four shares of the par value of $25 each, and to issue 13,000 shares of the new common stock of the par value of $25 each and of the aggregate par value of $325,000 in exchange for the presently outstanding 3,250 shares of common stock of the par value of $100 each, and (2) to issue and sell at par for cash, 8,000 shares of 5¼% cumulative first preferred stock of the par value of $25 each and of the aggregate par value of $200,000 for the purpose of financing the cost of plant additions, and (3) to enter into a supplement to the credit agreement with the Bank of America National Trust and Savings Association and Occidental Life Insurance Company providing for a short term credit of $75,000 and long term loans of $125,000 for the purpose of financing the cost of plant additions.

Sunland-Tujunga Telephone Company owns and operates a telephone system serving the communities of Sunland, Tujunga, Hansen Heights and La Tuna Canyon, in Los Angeles County. It reports 3,337 telephones in service on November 30, 1947, as compared with 2,498 on December 31, 1946, and 1,805 on December 31, 1945. For the 11 months ending November 30, 1947, applicant reports operating revenues of $195,216.96 and operating expenses, including depreciation and taxes, of $164,995.36. Its net operating income for the period is reported at $30,221.60 and its net income at $35,099.58.

As of November 30, 1947, applicant reports its assets and liabilities as follows:

Assets		
Telephone plant and equipment		$748,905.87
Materials and supplies		56,871.10
Cash		24,752.96
Accounts receivable		23,076.30
Prepaid taxes, insurance and rent		1,008.98
Discount on long-term debt		3,641.62
Total assets		$858,256.83
Liabilities		
Capital stock		$250,000.00
Long-term debt		325,000.00
Bank of America, N.T.& S.A. 3% notes	$ 80,000.00	
Occidental Life Insurance Co. 3-3/8% notes	245,000.00	
Notes payable		75,000.00
Accounts payable		12,953.75
Deferred credits		2,746.88
Accrued taxes		23,432.75
Depreciation reserve		94,969.95
Surplus		74,153.50
Total liabilities		$858,256.83

The $748,905.87 reported as the cost of telephone plant and equipment includes the cost of telephone plant and equipment in the course of construction. Since the date of the balance sheet, applicant has issued $75,000 of common stock and $105,000 of notes to meet in part its capital requirements.

Applicant was organized during June, 1910, under the laws of California. It has heretofore issued 3,250 shares of common stock of the par value of $100 each, out of a total authorized issue of 5,000 shares. It has issued no preferred stock nor bonds, although it has issued $400,000 of serial notes under a credit agreement dated February 28, 1947, with the Bank of America National Trust and Savings Association and Occidental Life Insurance Company. Of such notes $80,000 face amount were issued to the Bank and $320,000 to the Insurance Company. The notes issued to the Bank bear interest at the rate of 3% per annum, and those issued to the Insurance Company 3-3/8% per annum. The notes mature in installments during the years 1950 to 1972. N.C. 3/7/48.

Applicant intends to amend its Articles of Incorporation so as to provide for an authorized capital stock issue of 28,000 shares of the par value of $25 each and of the aggregate par value of $700,000, divided into two classes, to wit: 8,000 shares of 5½% cumulative first preferred shares of the par value of $25 each, and 20,000 common shares of the par value of $25 each.

Applicant asks permission to issue and sell at their par value of $25 per share, 8,000 shares of 5½% preferred stock. It will sell the shares directly to the purchasers without the payment of any commissions or brokerage fees. All sales will be for cash, except applicant's employees will be given the privilege of purchasing shares on a six month payroll deduction plan. Stock certificates will not be issued until shares are paid for in full. A copy of applicant's general subscription order was filed at the hearing as Exhibit No. 1 and a copy of its employees' installment subscription order as Exhibit No. 2.

The stock proceeds will be used to pay short term notes issued under the supplement to the credit agreement referred to above, or to pay the cost in part of applicant's 1948 telephone plant additions.

Applicant's proposed amended Articles of Incorporation provide for the creation and maintenance of a sinking fund for the purchase or redemption of the preferred shares of stock. It covenants that it will, on May 1, 1959, and on or before May 1 in each year thereafter, set aside in a sinking fund for the purchase or redemption of the preferred shares an amount in cash equal to 1% of the aggregate par value of the greatest number of preferred shares at any time theretofore issued, whether or not then outstanding. The sinking fund payments may at the option of applicant be increased to not exceeding 2% of the aggregate par value of the greatest number of preferred shares at any time theretofore issued, whether or not at the time outstanding. Applicant reserves the right to redeem the preferred shares at $26.25 per share if such redemption is voluntary, or at $25 a share if the redemption is by operation of the sinking fund. The proposed amended Articles of Incorporation further provide that the holders of the common shares of stock shall have exclusive voting powers, except as provided by law and except that in the event applicant fails to pay any quarterly dividend on its outstanding preferred stock the holders of the preferred stock are given the same voting rights and privileges as holders of common shares, the same to remain in effect during the time that the company is in default of dividend payments on the preferred stock.

Applicant now has $325,000 par value of common stock outstanding. It is observed that applicant in the event of a default in the payment of a quarterly dividend on the preferred stock, proposes to give the holders of the preferred stock one vote per share. In the meantime the holders of common stock will continue to exercise their right of one vote per share. It is obvious that with only $200,000 par value of preferred stock outstanding, the control of applicant will vest with the holders of common stock whether there is a default or not in the payment of a dividend on the preferred stock. We feel that the purchasers of preferred stock should, from the date they pay for their stock, have voting rights and privileges on a parity with the voting rights of the holders of common stock.

The par value of applicant's outstanding shares of common stock is being changed in order that such shares will have the same par value as the preferred shares. It asks permission to issue 13,000 shares of common stock of the par value of $25 each and of the aggregate par value of $325,000 in exchange for 3,250 shares of outstanding common stock of the par value of $100 each and of the aggregate par value of $325,000.

Applicant estimates its 1948 construction expenditures as follows:

Buildings	$ 64,000.00
Central Office	225,000.00
Station Apparatus	55,000.00
Station Installations	24,000.00
Drop and Block Wire	10,000.00
Pole Lines	3,500.00
Aerial Cable	50,000.00
Underground Cable	9,000.00
Aerial Wire	5,000.00
Office Equipment	8,000.00
Vehicles and Tools	1,500.00
Total	$455,000.00
Less: Cash and Materials on Hand at 12/20/47	95,000.00
Balance	$360,000.00

Applicant reports that it had approximately $95,000 of cash and materials on hand at the close of 1947. It estimates that during 1948 it will have depreciation accruals and earnings of approximately $35,000 available to meet in part the balance of its estimated construction expenditures of $360,000, leaving a remainder of $325,000 to be provided from outside sources. It proposes to obtain the $325,000 through the issue and sale of the $200,000 of preferred stock and through the issue of notes in the amount of $125,000. The Bank of America National Trust and Savings Association and Occidental Life Insurance Company have agreed, under a supplement to the credit agreement dated February 28, 1947, to extend to applicant an additional credit of $125,000. Of this amount, the Bank will loan applicant $55,550 and the Insurance Company $69,450. The amount loaned by the Bank will mature in eight annual installments of $6,943.75 each beginning November 15, 1950. The amount loaned by the Insurance Company will mature in ten annual installments of $6,945 each commencing November 15, 1958. Each of the loans will bear interest at the rate of 4% per annum, payable quarterly, and will be evidenced by promissory notes. The Bank further agrees to loan applicant $75,000 represented by promissory notes payable on or before April 15, 1948. Under this provision of the agreement, applicant has to date borrowed $30,000 to meet payments on capital additions. It intends to pay the short term notes through the issue of the preferred stock. The $125,000 credit will not be available to applicant until it has invested in its properties $200,000 obtained through the sale of stock.

A review of the record in this application shows that applicant has need for the additional funds which it will obtain through the issue of the preferred stock and notes.

O R D E R

The Public Utilities Commission having considered the evidence submitted at the hearing had on this application, and it being of the opinion that the money, property or labor to be procured or paid for through the issue of stock and notes by Sunland-Tujunga Telephone Company in the amounts requested in this application is reasonably required for the purposes specified herein, that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:

1. Sunland-Tujunga Telephone Company, after the effective date hereof and on or before December 31, 1948, may

   a. Reclassify each of its authorized common shares of the par value of $100 per share, into four common shares of the par value of $25 per share, and issue and exchange

13,000 of such newly authorized common shares of the par value of $25 per share, for the outstanding 3,250 common shares of the par value of $100 per share.

b. Issue and sell, at their par value of $25 a share, 8,000 shares of its 5½% Cumulative First Preferred Stock,

provided Sunland-Tujunga Telephone Company modifies its proposed amended Articles of Incorporation so as to give the holders of preferred shares of stock the same voting rights and privileges as are by said Articles of Incorporation given to the holders of common shares.

c. Enter into a Supplement to the Credit Agreement dated February 28, 1947, in substantially the same form as that filed in this proceeding as Exhibit "C" and issue its long term notes, subject to the terms of said agreement, in the aggregate amount of not exceeding $125,000.

2. Applicant shall use the proceeds to be received from the issue of the preferred stock and the notes herein authorized to finance in part its estimated 1948 construction expenditures, or pay indebtedness incurred for that purpose.

3. Applicant shall file with the Commission a report, or reports, as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is one hundred twenty-five ($125.00) dollars, and when applicant has filed with the

Commission a certified copy of its amended Articles of Incorporation.

Dated at San Francisco, California, this 27th day of January, 1948.

R. J. Mitchell

Ira H. Rowell

Harold P. Huls

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
JAN 27 1948
By Virginia Downing