

Decision No. 56110

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sanger Telephone Company for authority to (1) borrow \$100,000 from the Pacific Mutual Life Insurance Company, to execute and issue notes and to execute and deliver a Supplemental Mortgage, (2) to issue and sell 500 shares of Cumulative Preferred Stock, \$100 Par Value, 5½%, 1958 Series, and (3) to issue 965 shares of Common Stock to existing holders thereof.

Application No. 39665

O P I N I O N

Sanger Telephone Company has filed this application for authorization:

- (1) To execute a supplemental mortgage and loan agreement and to issue \$100,000 of notes.
- (2) To issue and sell \$50,000 par value of its 5½% Cumulative Preferred Stock at not less than par.
- (3) To issue \$96,500 par value of its common stock and to distribute such stock to the holders of record of its outstanding shares of common stock.

Applicant is a California corporation presently engaged in operating telephone facilities in and about the City of Sanger, County of Fresno. According to its financial statement of September 30, 1957, its net investment in telephone plant, including that under construction, amounted to \$689,398 and its sources of capital funds included the following:

	<u>Amount</u>	<u>Per Cent of Total</u>
Long-term debt	\$158,000	23%
Preferred stock	150,000	22
Common stock equity -		
Common stock	\$193,100	
Surplus	<u>183,158</u>	
Total common stock equity	<u>376,258</u>	<u>55</u>
Total	<u>\$684,258</u>	<u>100%</u>

The long-term debt consists of notes issued during 1949 and 1950 to Pacific Mutual Life Insurance Company, which notes mature in 1969 and bear interest at the rate of $4\frac{1}{2}\%$ per annum. The outstanding preferred stock consists of 1,500 shares of the par value of \$100 each which are entitled to annual cumulative dividends of $5\frac{1}{2}\%$ per annum. The outstanding common stock consists of 1,931 shares of the par value of \$100 each. Applicant has paid dividends on its common stock during 1952 at the rate of 75 cents a share, during 1953 and 1954 at the rate of \$1 a share and during 1955 and 1956 at the rate of \$1.25 a share.

The application shows that the company is faced with continuing demands for additional service and that it is necessary for it to make provision for further expansion of its facilities. It contemplates the addition during 1958 of 400 lines and 600 terminals of central office equipment, with associated outside plant and station equipment, and the installation of automatic ticketing equipment to provide nationwide toll dialing to its subscribers. It reports that 200 of the new lines are scheduled for installation in February, 1958, and the other 200 in December and it is planned that the automatic toll ticketing equipment will be placed in service in July.

In addition to providing new plant equipment, applicant also desires to reimburse its treasury and to replenish its working capital. A statement of its capital requirements during 1958 and its estimated sources of funds is as follows:

<u>Requirements</u>	
Construction -	
Buildings	\$ 5,000
Central office	101,700
Station equipment	20,000
Outside plant	50,600
Office furniture	2,500
Working equipment	500
Total construction	<u>180,300</u>
Replenish working capital	<u>19,700</u>
Total	<u>\$200,000</u>
<u>Sources of Funds</u>	
Long-term debt	\$100,000
Preferred stock	50,000
Internal funds	<u>50,000</u>
Total	<u>\$200,000</u>

The additional long-term debt of \$100,000 will be represented by borrowings from Pacific Mutual Life Insurance Company pursuant to the terms of a new loan agreement with that company, the new borrowings to be evidenced by notes payable on July 1, 1962 with interest at the rate of 5-3/8% per annum. The notes may be prepaid at the option of the company at any time on 30 days' prior written notice on and after January 1, 1962 at a premium of 10% if prepaid prior to June 30, 1967; at a premium of 6% after that date and on or before June 30, 1969; and thereafter at annually reducing premiums.

Before proceeding with the issue of the additional shares of preferred stock, applicant desires to distribute to its present common shareholders a part of the earnings which they have reinvested

in the business and assets. It therefore proposes to issue to such shareholders a total of 965 shares of its common stock on the basis of one new share for each two shares presently held and to transfer the sum of \$96,500 from the surplus account to the capital stock account.

From a review of the verified application, it appears that applicant has need for funds from external sources for the purposes indicated in this proceeding, that it has had earnings from operations well in excess of the amount of the proposed issue of common stock, that such earnings have been retained in the business and property and that an order properly can be made at this time authorizing the reimbursing of the treasury because of the reinvestment of such earnings. Accordingly, we will enter our order granting applicant's requests.

The authorization herein granted is for the issue of securities 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 nor as indicative of the requirements for extended service between Sanger and Fresno exchanges which issue is pending before this Commission in Case No. 5928.

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 the 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. Sanger Telephone Company may issue not exceeding \$100,000 principal amount of its promissory notes and may execute a loan agreement and supplemental mortgage, which notes, loan agreement and supplemental mortgage shall be in, or substantially in, the same form as those filed in this proceeding.
2. Sanger Telephone Company may issue not exceeding 500 shares of its Cumulative Preferred Stock, \$100 par value, 5½%, 1958 Series, and sell such shares at not less than the par value thereof.
3. Sanger Telephone Company shall use the proceeds from the issue of the notes and preferred stock herein authorized for the purposes of financing the cost of additions to its telephone facilities and of reimbursing its treasury and of replenishing its working capital.
4. Sanger Telephone Company may issue not exceeding 965 shares of its common stock for the purpose of reimbursing its treasury and may distribute such shares to its common shareholders of record as a stock dividend.
5. Sanger 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.

6. The authority herein granted will become effective when Sanger Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$100.

Dated at San Francisco, California, this 21st day of January, 1958.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

