

Decision No. 44677

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of DELTA TELEPHONE AND TELEGRAPH
COMPANY, a California corporation,
for permission to issue stock to
reimburse its treasury.

Application
No. 31552

Gerald R. Johnson, for applicant

O P I N I O N

Delta Telephone and Telegraph Company, applicant herein, is a California corporation engaged in furnishing telephone and telegraph service in and about Courtland, Walnut Grove and other communities along the Sacramento River. In this application it seeks authority to issue 2,057.83 shares of its common stock, of the aggregate par value of \$205,783, to reimburse its treasury because of earnings from operations used in financing the cost of its plant and equipment. It proposes to distribute such shares to the holders of its presently outstanding stock as a stock dividend.

Applicant was organized in 1917. Up to May 31, 1950, as shown in Exhibit B, it had invested \$463,112.78 in its plant and equipment and had accumulated \$137,684.98 in its depreciation reserve, leaving a net investment of \$325,427.80. It has no long-term debt nor preferred stock outstanding and has met its capital requirements primarily through the use of earnings from operations. Its assets and its liabilities and net worth as of May 31, 1950, as reported by it, are shown in summary form, as follows:

<u>Assets</u>		
Plant and equipment		
Investment	\$463,112.78	
Less: depreciation reserve	<u>137,684.98</u>	
Net investment		\$325,427.80
Current assets		<u>62,912.50</u>
	Total	<u>\$388,340.30</u>

<u>Liabilities and Net Worth</u>		
Current liabilities		\$ 47,689.13
Contributions for construction		8,010.38
Net worth-		
Common stock (1,028.915 shares)	\$102,891.50	
Surplus	<u>229,749.29</u>	
Total net worth		<u>332,640.79</u>
	Total	<u>\$388,340.30</u>

According to applicant's annual reports for the last three years, its reported operating revenues, the net income available for dividends and surplus, and the dividends paid on the outstanding stock have been as follows:

	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Dividends Paid</u>	
			<u>Rate</u>	<u>Amount</u>
1947	\$120,965	\$29,582	10%	\$10,289
1948	123,784	37,836	10%	10,289
1949	137,459	33,692	10%	10,289

The net income in 1949 was equivalent to a return of approximately 10% on the stockholders' total investment and to a return of approximately 33% on the par value of the outstanding stock.

It appears that applicant is of the opinion that its outstanding stock more nearly should reflect its net worth. Its shares of stock have a par value of \$100 each and a book value of approximately \$322. It proposes, if authorized by the Commission, to issue 2,057.83 shares, of the aggregate par value of \$205,783, against the undistributed earnings, thereby transferring that

amount from its surplus account to its capital stock account and reducing the book value of its shares, following the issue of the new shares, to approximately \$107 each, on the basis of the balance sheet figures set forth herein. The stockholders' total investment in the business, as represented by the net worth, would, of course, be unaffected by the transaction.

A review of the record shows that applicant has had earnings from operations in excess of the proposed stock dividend. It clearly appears that it had need for such earnings in expanding its plant and that it invested the same in its properties, in lieu of distributing them to its stockholders. Its present proposal would result in permanently capitalizing, through the issue of stock, expenditures of \$205,783 and to that extent would restrict the withdrawal of cash from the business.

Applicant reports that it has outstanding \$25,000 of demand notes which were issued for capital purposes, that it has entered into contracts for the purchase of equipment to provide dial service, that it is faced with other expenditures for facilities to meet demands for service, and that at a later date it intends to engage in permanent financing to liquidate its notes and to finance its capital costs, although the specific form such financing will take was not indicated at the hearing held on the present application. The issue of stock as here proposed will provide for a larger volume of permanent equity capital which should improve applicant's financial position in the event it desires to resort to debt financing. At the same time, the resultant reduction in the book value of the stock should permit the more ready sale of additional shares.

Under the circumstances set forth in this particular proceeding it appears proper and desirable for applicant to issue stock in the amount and for the purpose requested.

Upon the conclusion of the proposed issue applicant would have 3,086.745 shares outstanding of the aggregate par value of \$308,674.50. In order to eliminate the fractional shares it proposes to purchase the same from the shareholders at par for the total sum of \$1,174.50, bringing the total outstanding amount down to \$307,500, consisting of 3,075 shares. It asks the Commission to approve the purchase of such fractional shares.

O R D E R

A public hearing having been held on the above entitled application and the Commission having considered the matter and being of the opinion that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of the stock herein authorized is reasonably required for the purpose specified herein and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Delta Telephone and Telegraph Company, after the effective date hereof and on or before December 31, 1950, may issue not exceeding 2,057.83 shares of its common stock, of the aggregate par value of \$205,783, for the reimbursement of moneys actually expended from income for the construction, completion, extension or improvement of its facilities, and may distribute

such shares, pro rata, as a stock dividend to the holders of its presently outstanding stock. Applicant may, if it so desires, purchase for cash, at par, any fractional shares.

2. Delta Telephone and Telegraph 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 twenty days from the date hereof.

Dated at San Francisco, California, this 22nd day of August 1950.

J. E. Indurain
James J. Calmes
Irving H. Russell
Harold P. Hild
Kenneth P. Potter
Commissioners