

ORIGINAL

Decision No. 45441

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of Roseville Telephone Company,	:	
for authority to issue 18,730)	Application
shares of its common stock	:	No. 32140
at \$10 par value.)	
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O P I N I O N

Roseville Telephone Company, applicant herein, is a California corporation engaged in operating a telephone system in and about the City of Roseville. In this application, it seeks authority to issue 18,730 shares of common stock at par (\$10 a share) for the following purposes:

1. To reimburse its treasury for moneys expended from income for additions to plant	12,500 shares
2. To pay outstanding notes of \$54,500	5,450 "
3. To provide the cost of additions to plant	<u>780</u> "
Total	<u>18,730</u> shares

Applicant was organized on April 1, 1914. According to Exhibit A attached to its present application, it had invested \$287,825.69 in its telephone properties up to November 30, 1950, and had accumulated a depreciation reserve of \$87,291.37. It has no long-term debt nor preferred stock outstanding, and except for \$54,500 of demand notes it has met its capital requirements through the issue of \$62,500 par value of common stock and the use of earnings from operations. Its assets, liabilities and net worth as of November 30, 1950, are shown in summary form as follows:

Assets

Investment -		
Telephone plant	\$287,825.69	
Less-depreciation reserve	<u>87,291.37</u>	
Net telephone plant		\$200,534.32
Current assets and deferred debits		65,861.94
Other assets		<u>921.30</u>
	Total	<u>\$267,317.56</u>

Liabilities and Net Worth

Notes payable-6%, demand		\$ 44,500.00
Other current liabilities		30,317.52
Net worth -		
Capital stock	\$ 62,500.00	
Surplus	<u>130,000.04</u>	
Total net worth		<u>192,500.04</u>
	Total	<u>\$267,317.56</u>

Since the date of the balance sheet the outstanding notes have been increased to \$54,500 principal amount, representing primarily, if not entirely, borrowings from stockholders.

A review of applicant's annual reports and its financial statements filed with the application shows, among other things, the following data for the last ten years:

	<u>Net Plant Additions</u>	<u>Operating Revenues</u>	<u>Charges for Depreciation</u>	<u>Net Income</u>	<u>Dividends Amount</u>	<u>Rate</u>
1941	\$11,078	\$ 43,992	\$4,289	\$11,675	\$6,250	10.0%
1942	4,726	52,341	4,508	10,422	6,250	10.0%
1943	2,707	56,623	4,337	12,610	7,187	11.5%
1944	4,273	68,131	4,390	11,346	7,500	10.4%
1945	2,563	79,924	4,380	16,558	7,812	12.5%
1946	11,420	90,226	4,592	21,579	8,125	13.0%
1947	25,412	102,207	4,118	21,766	8,125	13.0%
1948	23,512	112,458	6,124	19,685	8,125	13.0%
1949	73,166	125,566	7,728	22,747	8,125	13.0%
1950 ^{1/}	27,277	133,408	8,800	21,291	8,125	13.0%

^{1/}11 months

The outstanding stock consists of 6,250 shares of the par value of \$10 each but with a book value of approximately \$31 a share on the basis of the balance sheet figures of November 30, 1950. The net income of \$21,291 for the first 11 months of 1950 was equivalent

to a return of approximately 34% on the par value of the outstanding stock but to a return of approximately 11% on the book value of such stock at the close of the period.

It appears that applicant is of the opinion that the outstanding shares of stock more nearly should reflect their net worth. It proposes, if authorized by the Commission, to issue 12,500 shares against its undistributed earnings and to distribute such shares as a stock dividend to the holders of the presently outstanding 6,250 shares, thereby transferring the sum of \$125,000 from its surplus account to its capital stock account and reducing the book value of the outstanding shares to approximately \$10 each, the stockholders' total investment in the business remaining unaffected by the transaction.

In presenting this matter to the Commission, applicant reports that in order to meet demands for improved and additional service it is faced with a construction program during the next three years involving the expenditure of approximately \$270,000 for central office dial equipment, dial stations and outside plant; that it is endeavoring to negotiate a loan to provide the estimated costs; and that the prospective lenders have indicated applicant first should increase the permanent equity capital. The issue of stock as here proposed will result in permanently capitalizing expenditures of \$125,000 and to that extent will restrict the withdrawal of cash from the business and should strengthen the credit position of applicant. Further, the transaction, if consummated, will reduce the book value per share of the holdings of the present stockholders to approximately the same amount at which applicant now proposes to issue additional shares for the purpose of paying its outstanding notes of \$54,500 and of financing certain expenditures estimated at \$7,800 which it proposes to make forthwith for additional facilities consisting of a

three-position switchboard to be purchased from Gilroy Telephone Company, an addition to its telephone building and 2,500 feet of cable.

A review of the application clearly shows that applicant has had earnings from operations in excess of the proposed stock dividend, 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. Under the circumstances set forth in this proceeding, and considering particularly applicant's need for additional funds which it expects to obtain from borrowings, it appears that the Commission is warranted in authorizing the issue of stock as proposed.

ORDER

The Commission having considered the above entitled matter, and being of the opinion that a public hearing thereon is not necessary; 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 by applicant 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. Roseville Telephone Company, after the effective date hereof and on or before September 30, 1951, may issue at par not exceeding 18,730 shares of its common stock for the purposes set forth in this application.
2. Roseville 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.

3. The authority herein granted will become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 13th day of March, 1951.

R. B. [Signature]
Justin J. [Signature]
Harold P. [Signature]
[Signature]
[Signature]
Commissioners