

**ORIGINAL**

Decision No. 49135

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of Roseville Telephone Company, )  
for authority to issue 17,520 )  
shares of its common stock at )  
\$10.00 par value. )  
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Application  
No. 34756

O P I N I O N

This is an application for an order of the Commission authorizing Roseville Telephone Company to issue 17,520 shares of its common stock, of the par value of \$10 each and of the aggregate par value of \$175,200, for the following purposes:

To pay a stock dividend	\$ 50,220
To pay a demand note in favor of Bank of America representing borrow- ings for plant additions	10,000
To finance the cost of additions and improvements	<u>114,980</u>
Total	<u>\$175,200</u>

Applicant is engaged in furnishing telephone service to approximately 3,600 stations in and about the City of Roseville. Figures indicating the extent of its operations during the past two and one-half years are as follows:

	<u>1951</u>	<u>1952</u>	<u>1953</u> 6 Mos.
Operating revenues	\$159,692	\$175,539	\$95,538
Net income	\$ 22,048	\$ 18,335	\$12,145
Telephones in service	2,851	3,479	3,600

In Exhibit A filed in this proceeding applicant presents its balance sheet as of June 30, 1953. A summary of the same is as follows:

Assets

Current assets -		
Cash	\$	599.45
Accounts receivable		33,969.37
Material and supplies		21,011.36
Prepaid expenses		<u>2,206.74</u>
Total current assets		\$ 57,786.92
Telephone plant less reserves		520,238.85
Other assets		30,000.00
Deferred debits		<u>4,782.02</u>
		<u>\$612,807.79</u>
	Total	

Liabilities and Capital

Current liabilities -		
Notes payable	\$	10,000.00
Accounts payable		19,835.69
Accrued liabilities		19,309.62
Other current liabilities		<u>12,306.16</u>
Total current liabilities		\$ 61,451.47
Long-term debt		194,000.00
Capital -		
Capital stock		301,800.00
Surplus		<u>55,555.32</u>
Total capital		<u>357,356.32</u>
		<u>\$612,807.79</u>
	Total	

The Commission recently has had occasion to review applicant's operations. In Decision No. 49047, dated September 1, 1953, it approved a revised rate schedule designed to produce net revenues of \$45,000 and yield a return of 6.25% on a rate base of \$720,422 which included the sum of \$124,222 representing the estimated cost of plant expansion required to provide adequate service to waiting applicants and to extend lines into certain suburban areas. The Commission commented on the service conditions on applicant's system and directed it to undertake immediately to provide facilities for the rendering of service to all applicants and to rearrange its plant construction program so as to place new applicants for service on a current basis by January 1, 1955. The decision indicated that at March 31, 1953, applicant had 536 held orders.

It appears that applicant now is undertaking to extend and improve its facilities. Heretofore it has borrowed the sum of \$10,000 on a short-term basis for this purpose and it estimates additional expenditures of \$114,980 are needed for enlargement of its central office equipment, telephone stations and outside plant, as follows:

Cable	\$ 31,730.43
Poles, hardware and labor	19,526.90
Wire plant	16,217.37
Additional dial plant for central office	30,000.00
Overheads, 10%	9,747.47
Subtotal	<u>107,222.17</u>
Additional telephones, including installation cost	<u>7,757.83</u>
Total	<u>\$114,980.00</u>

Applicant proposes to undertake the sale of shares of its common stock, at par, to pay its short-term borrowing and to finance its plant expansion. Before proceeding with the sale of the additional shares, however, it desires to distribute to its present shareholders a part of the earnings which have been retained in the business and it proposes to issue to such shareholders 5,022 shares of stock as a dividend, at the rate of one share for each six now held.

A review of applicant's records and reports shows that its plant and business have been increasing rapidly, that its net investment in its system has increased from \$203,904 at the beginning of 1951 to \$520,238 at the middle of 1953, and that it has been engaged during this year in converting its system from one of manual common-battery operations to full dial operations. It appears from its balance sheet that applicant has financed itself with borrowed money, shares of stock and earnings from operations and that it has had earnings in excess of the proposed stock dividend which have been invested in the properties and business. An order, therefore,

properly can be entered authorizing the issue of 5,022 shares of stock against the surplus so invested.

In issuing these 5,022 shares of stock applicant will transfer \$50,220 from its surplus account to its capital stock account. The transfer of this amount will result in a permanent retention of earnings of that amount in the business. It will tend to minimize dilution of the interest of the present shareholders upon the issue of the additional shares and it will provide a broader base of permanent equity in applicant's capital structure.

Upon a full review of this matter we are of the opinion that an order should be entered granting applicant's requests.

#### ORDER

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 shares of 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, on or before June 30, 1954, may issue not exceeding 5,022 shares of its common stock, at par, for the purpose of reimbursing its treasury for moneys expended from income for additions to its properties and thereafter may distribute such shares as a stock dividend to the holders of its presently outstanding shares of common stock.

2. Roseville Telephone Company, on or before June 30, 1954, may issue and sell, at not less than par, not exceeding 12,498 shares of stock for the purpose of paying outstanding short-term bank borrowings and of financing the cost of plant additions and improvements, as set forth in this application.

3. Applicant shall file with the Commission monthly reports as required by 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 20 days after the date hereof.

Dated at San Francisco, California, this 13<sup>th</sup> day of October, 1953.

R. Z. [Signature]  
President

[Signature]  
[Signature]  
[Signature]

Commissioners