

ORIGINAL

Decision No. 56309

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
COACHELLA VALLEY TELEPHONE COMPANY
for an order authorizing it (a) to
borrow money and execute a loan
agreement, note and supplemental
mortgage in connection therewith;
(b) to sell and issue additional
shares of common stock; (c) to
execute a note and deed of trust
in connection with the acquisition
of additional real property; and
(d) to declare a stock dividend.

Application No. 39831

O P I N I O N

Coachella Valley Telephone Company has filed this applica-
tion for authorization:

1. To execute a loan agreement with Pacific Mutual Life Insurance Company and to execute a supplemental mortgage of chattels.
2. To issue a note, or notes, in the amount of \$350,000.
3. To issue one share of common stock of the par value of \$20 to J. Curtis Newman for cash.
4. To issue 7,772 shares of common stock of the aggregate par value of \$155,440 as a stock dividend.
5. To issue and sell 20,000 shares of common stock of the aggregate par value of \$400,000 at not less than par and to pay a commission on the sale.
6. To enter into a contract to acquire certain real property and to execute a purchase money deed of trust and a note for \$33,000.

In this decision, we will give consideration to the company's requests to issue shares of stock. The execution of the indentures and the issue of the notes will be the subject matters of a subsequent decision in this proceeding.

Applicant owns and operates telephone systems serving portions of Riverside and Imperial Counties. In 1957, according to Exhibit A, its operating revenues amounted to \$707,949 and its net income amounted to \$87,899, after a deduction of \$87,222 for depreciation. Its financial position as of the end of 1957, is indicated in the following condensed balance sheet:

<u>Assets</u>		
Net investment in telephone plant		\$2,317,962
Current assets -		
Cash	\$ 11,379	
Accounts receivable	156,950	
Materials and supplies	64,320	
Prepaid expense	<u>20,182</u>	
Total current assets		252,831
Deferred charges		<u>11,732</u>
Total		<u>\$2,582,525</u>
<u>Liabilities and Capital</u>		
Funded debt		\$ 850,000
Current liabilities -		
Notes payable	\$580,978	
Vouchers payable	211,293	
Advance billing	44,110	
Other current liabilities	<u>74,905</u>	
Total current liabilities		911,286
Preferred stock		100,000
Common stock equity -		
Common stock (23,315 shares)	466,300	
Premium on stock	5,955	
Capital surplus	4,026	
Earned surplus	<u>244,958</u>	
Total common stock equity		<u>721,239</u>
Total		<u>\$2,582,525</u>

The application shows that during 1956 the increase in the telephone plant account amounted to \$254,732 and during 1957 amounted to \$927,028 and that the expenditures for plant were financed by the company largely with internally generated funds and current liabilities.

It appears that applicant now desires to liquidate its current liabilities, in part, and to reimburse its treasury so as to replenish its working capital and to enable it to proceed with its construction program. Among other things, it has made arrangements to sell 20,000 shares of its common stock, at not less than their par value of \$20 a share, to a number of private investors to obtain funds for these purposes. It proposes to pay to Dean Witter & Co. the sum of \$16,000 as a commission for the sale of the entire issue.

Before proceeding with the sale of the additional shares, however, the present shareholders desire to capitalize a portion of their investment through the issue of new shares against the retained earnings. It is proposed that such new shares shall be distributed as a share dividend to the present holders at the rate of one new share for each three now held. In order to place the number of issued and outstanding shares at a number divisible by three, so as to simplify the distribution of the new shares, applicant proposes to sell one share of common stock at its par value to J. Curtis Newman for cash, thereby increasing the presently outstanding common shares to 23,316. The issue of shares against the retained earnings, as proposed by applicant, will call for a total distribution of 7,772 shares, of the total par value of \$155,440, and the transfer of that amount from the

earned surplus account to the capital stock account, there being no increase, of course, in the total common stock equity.

The application shows that it has not been the practice of the company to pay cash dividends on the outstanding shares of common stock, but instead to retain the earnings from operations in its business. A review of applicant's financial statement shows that applicant's retained earnings thus invested in the business and properties are well in excess of the proposed distribution and it therefore appears that an order is warranted authorizing the proposed transaction. As to the sale of the additional shares for cash, it is clear that applicant will have need for the funds to liquidate its current obligations and to reimburse its treasury.

We will enter an order at this time granting applicant's requests to issue its stock. Such an order is for the purpose of this proceeding 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.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that an ex parte order should be entered at this time with respect to the requests to issue stock, that the money, property or labor to be procured or paid for by the issue of such stock 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. Coachella Valley Telephone Company, on and after the date hereof and on or before August 31, 1958, is authorized:

- a. To issue and sell one share of common stock at its par value to J. Curtis Newman for cash.
- b. To issue not exceeding 7,772 shares of its common stock in reimbursement of its treasury because of income invested in its properties and thereafter to distribute such shares as a dividend.
- c. To issue and sell not exceeding 20,000 shares of its common stock at not less than par value and to pay a commission in connection with the sale of said 20,000 shares of stock of not to exceed \$16,000.

2. Coachella Valley Telephone Company shall use the proceeds to be received through the issue and sale of the one share of common stock to J. Curtis Newman and from the sale of 20,000 shares of common stock herein authorized for the purposes set forth in this application.

3. Coachella Valley 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.

4. The authority herein granted will become effective on the date hereof.

Dated at Los Angeles, California, this 3rd day of MARCH, 1958.

Paul E. Wheeler
President

Raymond L. ...

Matthew ...

C. Lynn Fox

Commissioners