

HN

Decision No. 87678 AUG 9 - 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
The Volcano Telephone Company for)
authority to issue 47,100 shares of)
its \$25.00 par value PREFERRED stock.)

Application No. 57383
(Filed June 16, 1977)

O P I N I O N

The Volcano Telephone Company (Volcano) requests authority to issue 47,100 shares of its \$25 par value 7% preferred stock as a stock dividend to the holders of its outstanding shares of common stock.

Volcano, a California corporation, is a public utility operating a telephone system which provides exchange and toll service to approximately 1,633 business and residential telephones in the unincorporated communities of Volcano, Pine Grove and Pioneer, Amador County and in the unincorporated community of West Point and vicinity, Calaveras County. The company's balance sheet on March 31, 1977, attached to the application as Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net telephone plant	\$6,080,684
Current assets	517,822
Other assets	<u>209,986</u>
Total	<u>\$6,808,492</u>
<u>Liabilities and Capital</u>	
Long-term debt	\$4,720,048
7% preferred stock	117,750
Common stock and surplus	<u>1,499,734</u>
Total capital	\$6,337,532
Current liabilities	397,751
Other liabilities	<u>73,209</u>
Total	<u>\$6,808,492</u>

Volcano's outstanding capital stock consists of 2,355 common shares and 4,710 shares of 7% preferred, with each class having a \$25 par value. All of the outstanding capital stock is held by two families. In this application, Volcano proposes to issue an additional 47,100 shares of 7% preferred stock as a stock dividend to the holders of its common shares at the rate of 20 shares of preferred for each common share. The purpose is to reorganize the corporation's capital structure and to achieve family objectives in estate planning designed to accomplish estate tax savings. The transaction would require transfer of \$1,177,500 from retained earnings to the preferred stock account.

The Certificate of Amendment to Volcano's Articles of Incorporation attached to the application provides generally that all classes of stock have equal rights, except that preferred shareholders shall, upon dissolution of the corporation, be entitled to a payment of \$25 per share before any distribution to common shareholders. The preferred stock is subject to optional redemption at par, and the payment of annual cash dividends will be subject to conditions set forth in the mortgage made by Volcano to the United States of America in connection with construction loans previously obtained through the Rural Electrification Administration.

Volcano's capitalization ratios as of March 31, 1977 and as adjusted to give effect to the proposed preferred stock dividend are summarized as follows:

	<u>Mar. 31, 1977</u>	<u>Pro Forma Mar. 31, 1977</u>
Long-term debt	74.48%	74.48%
Preferred stock	1.86	20.44
Common stock equity	<u>23.66</u>	<u>5.08</u>
Total	<u>100.00%</u>	<u>100.00%</u>

The summary illustrates that the relationship between preferred stock and common stock equity would change; the total stock would represent 25.52% of capitalization in both instances, however.

Volcano asserts that declaration of the proposed stock dividend would not increase operating costs or telephone rates and that control of the corporation would be retained by the present management.

On July 13, 1977 a letter received from the attorney for the parties points out that it is their desire that a preferred stock dividend be declared to enable the older members of the family to exchange their common stock for preferred stock and in this manner to pass on to future generations the increase in the value of the common stock as Volcano expands and grows. The older members of the family can then fix and determine the value of the stock for Federal Estate Tax purposes and pass on to subsequent generations the increase in value reflected in the equity growth of the common stock.

After consideration the Commission finds that:

1. The proposed stock would be for a proper purpose.
2. Volcano's retained earnings from operations exceed the amount of the proposed stock dividend to the extent that it may properly issue the stock dividend against such earnings.
3. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and no reason to delay granting the authorization requested herein. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares, nor the dividends paid, as measuring the return it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties, nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The Volcano Telephone Company, on or after the effective date hereof, may issue and distribute as a stock dividend not exceeding 47,100 shares of its \$25 par value 7% preferred stock, in the manner and for the purpose set forth in this proceeding.

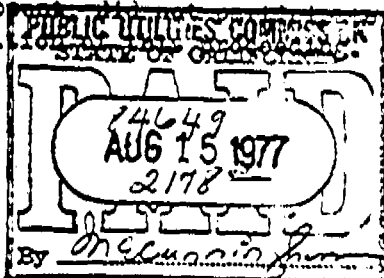
2. The Volcano Telephone Company shall file with the Commission the report required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

3. This order shall become effective when The Volcano Telephone Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$2,178.

Dated at San Francisco, California, this 9th day
of AUGUST, 1977.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.



Robert Belmont
President
William J. Sweeney Jr.
Walter J. Deane

Commissioners