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Decision No. 89669 NOV 28 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA .

In the Matter of the Application of)
ROSEVILLE TELEPHONE COMPANY to issue)
not exceeding 188,500 shares of its)
Capital Stock.)

Application No. 58355
(Filed September 14, 1978)

O P I N I O N

Roseville Telephone Company seeks authority to issue 188,500 shares of its \$5 par value capital stock, of which not more than 58,500 shares would be issued as a stock dividend.

Roseville Telephone Company is a California corporation which owns and operates a telephone system in the City of Roseville and contiguous territory. The number of telephones in service as of December 31, 1976 and 1977 amounted to 47,341 and 54,955, respectively.

The applicant proposes to declare a 5% stock dividend on its 1,170,000 shares of outstanding capital stock. The dividend would be accounted for by reducing Retained Earnings by \$30 for each share issued, and crediting the Capital Stock account with \$5 and the Premium on Capital Stock account with \$25. Cash would be paid on an equivalent basis in lieu of fractional shares. The company's board of directors has determined that the fair market value of its stock as of the distribution date will be \$30. This determination is based on, among other things, the ease with which the applicant sold 120,000 shares at \$25 per share prior to July 31, 1978, and the rapidly increasing demand for telephone service in the utility's service area and consequent improvement in projected cash flow.

The balance of the 188,500 shares of stock remaining after the stock dividend will be sold, for \$30 a share, exclusively to residents of California, thus assuring exemption from the requirements of the Securities Act of 1933. The company plans to conduct its own sales effort through its officers and employees. It does not plan to use the services of an underwriter.

Assuming the issuance and sale of 130,000 shares at \$30 per share, the applicant would realize proceeds of \$3,900,000. These proceeds would be used for the construction, extension, and improvement of its facilities in 1979, and for the discharge of short-term bank debt which may be incurred to finance such capital expenditures. Budgeted capital additions for 1979 total \$6,851,000, comprised of \$740,000 for the construction of buildings, \$4,081,000 for central office equipment, and \$2,030,000 for outside plant.

A pro forma statement of the company's capital structure, giving effect to the proposed stock dividend and sale of stock and anticipated bank borrowing, is set forth below:

	<u>Recorded</u> <u>July 31, 1978</u>	<u>Pro Forma</u>
Long-term debt	44.12%	36.68%
Short-term debt	<u>1.73</u>	<u>6.90</u>
Total Debt	<u>45.85</u>	<u>43.58</u>
Capital stock	15.79	15.61
Premium on capital stock	29.55	35.99
Retained earnings	<u>8.81</u>	<u>4.82</u>
Total Equity	<u>54.15</u>	<u>56.42</u>
Total Capitalization	<u>100.00%</u>	<u>100.00%</u>

Roseville Telephone Company has shown in the past that it has the ability to market its own stock, and at prices that are above book value. The Finance Division believes that the proposed financing is reasonable and appropriate in the circumstances. The Communications Division has also reviewed the application and agrees that the proposed financing is necessary to implement the applicant's construction program.

After consideration the Commission finds that:

1. The proposed stock issues would be for proper purposes.
2. Applicant's retained earnings from operations exceed 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 purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the relief requested. 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.

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O R D E R

IT IS ORDERED that:

1. Roseville Telephone Company, on or after the effective date hereof and on or before December 31, 1980, may issue not exceeding 188,500 shares of its \$5 par value capital stock, of which it may issue and distribute as a stock dividend not exceeding 58,500 shares and may offer the balance for sale at a price of \$30 per share, all in the manner and for the purposes set forth in this proceeding.

2. Roseville Telephone Company shall file with the Commission the reports 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 Roseville Telephone Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$6,655.

Dated at San Francisco, California, this 28th day of NOVEMBER, 1978.

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

Robert Babianich
President
William J. ...
Carol D. ...
Clair L. ...
Commissioners

