

Decision No. 91744 MAY 6 1980**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of ROSEVILLE TELEPHONE COMPANY
for Authorization pursuant to
Public Utilities Code Sections
816-830 to Issue Certificates
Evidencing 1,358,500 Shares of
Its Capital Stock and to Issue
403,850 Shares of Its Capital
Stock

Application No. 59516
(Filed March 13, 1980)

O P I N I O N

Roseville Telephone Company (Roseville Telephone) seeks authority pursuant to Sections 816-830 of the Public Utilities Code, (a) to issue 1,358,500 common stock certificates evidencing a stock split, (b) to issue 135,850 shares of common stock as a 5% stock dividend, and (c) to issue and sell 268,000 common shares for \$15 per share. Notice of the filing of the application appeared on the Commission's Daily Calendar of March 14, 1980.

Roseville Telephone is a California corporation furnishing local and long-distance telephone service in the City of Roseville and contiguous area. For the year 1979, the utility reported total operating revenues and net income in the respective amounts of \$16,590,400 and \$3,123,264. The utility's balance sheet as of December 31, 1979 is summarized as follows:

| <u>Assets</u> | <u>Amount</u> |
|--|---------------------|
| Telephone Plant, Less Accumulated Depreciation | \$49,122,596 |
| Current Assets | 2,737,397 |
| Other Assets and Deferred Charges | <u>515,819</u> |
| Total | <u>\$52,375,812</u> |
| <u>Liabilities and Capital</u> | |
| Common equity | \$25,996,303 |
| Long-Term Debt | 20,685,000 |
| Current Liabilities | 2,483,145 |
| Deferred Credits | <u>3,211,364</u> |
| Total | <u>\$52,375,812</u> |

Roseville Telephone proposes to increase the presently authorized 2,000,000 shares of common stock with a par value of \$5 per share, to 4,000,000 shares with a par value of \$2.50 per share to effect a two for one stock split. Each of the 1,358,500 presently issued and outstanding shares of common stock will be converted into two shares of common stock. The utility therefore seeks authority to issue certificates representing 1,358,500 additional shares of common stock, reflecting the stock split. The stock split will require no accounting entries in the company's capital accounts.

Roseville Telephone proposes to issue not exceeding 403,850 shares of its authorized capital stock. Of the 403,850 shares, not more than 135,850 shares will be issued in payment of a 5% dividend on the 2,717,000 shares of the utility's common stock issued and outstanding as a result of the stock split referred to above. Stockholders will receive cash on an equivalent basis in place of fractional shares. For each share issued as a stock dividend, Roseville Telephone will credit \$15 to its Capital Stock account. Assuming a maximum dividend of 135,850 shares, the Applicant will transfer \$2,037,750 from Retained Earnings and credit the identical amount to the Capital Stock account.

The balance of the 268,000 shares of stock remaining, after the 5% stock dividend of 135,850 shares, will be sold for \$15 per share to (a) its present stockholders residing in California, (b) to residents of its service area and neighboring areas, including its officers, directors and employees, and (c) to other residents of California, thus assuring exemption from the requirements of the Securities Act of 1933.

Roseville Telephone has shown in the past that it has the ability to market its own stock, and at prices that are above book value.

Assuming the issuance of 268,000 shares at a price of \$15 per share, the total proceeds to be received by Roseville Telephone would be \$4,020,000, which the utility would use for the construction of buildings, for central office equipment and outside plant, or toward the discharge of short-term bank debt which the utility may incur in order to finance such capital expenditures. Budgeted capital additions for 1980 are as follows:

| <u>Detail</u> | <u>Amount</u> |
|---------------------------|----------------|
| Outside Plant | \$4,690,000 |
| Central Office Equipment | 2,250,000 |
| Construction of Buildings | <u>910,000</u> |
| Total Budget 1980 | \$7,850,000 |

A pro forma statement of Roseville Telephone's capital structure, giving effect to the funding of the \$4,500,000 Revolving Credit Line proposed in A.59524, filed March 19, 1980, currently before this Commission, and to the proposed stock split and stock issues as summarized from Exhibit C, attached to the application, and as provided by letter from Roseville Telephone's attorneys is as follows:

| | <u>December 31, 1979</u> | <u>Pro Forma</u> |
|--------------------------|--------------------------|------------------|
| Short-Term Debt | 5.73% | 0.00% |
| Long-Term Debt | <u>38.17%</u> | <u>42.47%</u> |
| Total Debt | <u>43.90%</u> | <u>42.47%</u> |
| Capital Stock | 14.41% | 53.85% |
| Premium on Capital Stock | 33.23% | 0.00% |
| Retained Earnings | <u>8.46%</u> | <u>3.68%</u> |
| Total Equity | <u>56.10%</u> | <u>57.53%</u> |
| Total Capitalization | <u>100.00%</u> | <u>100.00%</u> |

The reasons given by the company in a letter to the Commission staff in support of their position to split the utility's stock are as follows:

- a. "An increase in the number of issued and outstanding shares of common stock would be appropriate in view of the growth and wider public interest in the company;
- b. A market price per share of approximately \$15 would be more favorable for market transactions in the company's common stock;
- c. A stock split effecting a decrease in the market price of the issued and outstanding common stock would generate greater interest in the company's stock, an increase in the number of shareholders and a wider distribution of shares increasing the availability of the common stock for purchase and sale transactions; and
- d. By enhancing the attractiveness of the company's stock for market transactions, such a stock split would benefit both the company and its shareholders by improving the opportunity for the sale of additional shares of the company's common stock to the public."

The Revenue Requirements Division and the Communications Division of the Commission's staff have reviewed the application and have concluded that the proceeds from the proposed issuance and sale of common stock are needed for the purposes specified. The Divisions, however, reserve the right to reconsider the reasonableness of construction expenditures in future rate proceedings.

Findings of Fact

1. The proposed stock split and stock issues would be for proper purposes.
2. The 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.

4. There is no known opposition and there is no reason to delay granting the authority requested in the application.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

In issuing our order herein, we place the Applicant and its stockholders on notice that we do not regard the number of shares outstanding, the total par value of these shares, or 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 Applicant'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. Roseville Telephone Company, on or after the effective date hereof, and upon the effectiveness of the amendment to its Articles of Incorporation or as soon thereafter as practicable, may issue certificates evidencing 1,358,500 shares of its common stock by issuing to each of its stockholders a certificate evidencing one share for each share of record held by such stockholder on the effective date of the amendment to its Articles of Incorporation.

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2. Roseville Telephone Company, or or after the effective date hereof and on or before December 31, 1982, may issue not exceeding 403,850 shares of its common stock, of which it may issue and distribute as a 5% stock dividend not exceeding 135,850 shares and may offer 268,000 shares for sale at a price of \$15 per share, all in the manner and for the purposes set forth in this proceeding.

3. Roseville Telephone Company shall file with the Commission the reports required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

4. This order shall become effective on the later of the date hereof, or the date upon which Roseville Telephone Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$7,058.

Dated MAY 6 1980 at San Francisco, California.

John E. Guyon
President
William L. Thompson
Charles D. Howell
Pauline J. Pedgley
Terrence J. ...
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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