

DEM

Decision No. 17569.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
REDONDO HOME TELEPHONE COMPANY)
for authority to increase its bonded)
indebtedness, to execute a deed of)
trust to secure the same, and to is-)
sue stock and bonds for cash and)
property.)

ORIGINAL

Application No. 16183

Mott, Vallee and Grant,
by Paul Vallee, for applicant.

BY THE COMMISSION:

O P I N I O N

In the above entitled proceeding the Railroad Commission is asked to make an order authorizing Redondo Home Telephone Company:

1. To execute a mortgage and/or deed of trust to secure the payment of an authorized issue of \$5,000,000.00 of first mortgage bonds;
2. To issue at this time \$200,000.00 of six percent twenty year bonds secured thereby, and to deliver \$66,000.00 thereof in exchange for a like amount of bonds now outstanding and to sell the remaining \$134,000.00 at not less than 95 percent of face value for the purpose of reimbursing its treasury, paying outstanding obligations and of financing the cost of additions, betterments, extensions and improvements;
3. To issue and sell at not less than par, for cash, \$50,000. of its common capital stock and to use the proceeds to reimburse its treasury, pay obligations and finance the cost of additions, betterments, extensions and improvements;
4. To issue \$14,000.00 of its common capital stock in ex-

change for a like amount of seven percent cumulative preferred stock now outstanding.

Redondo Home Telephone Company has outstanding at present \$66,000.00 of first mortgage twenty-five year bonds, due December 1, 1945, which bear interest at the rate of 2-1/2 percent per annum during the first eight years and at the rate of six percent per annum thereafter. In addition it has \$69,400.00 of stock outstanding, consisting of \$14,000.00 of preferred and \$55,400.00 of common. The company reports its assets and liabilities, as of August 31, 1926, as follows:-

ASSETS:

Fixed capital	\$310,293.01	
LESS: Reserve for depreciation	<u>35,275.52</u>	\$275,016.49
Cash		7,184.56
Bills receivable		158.22
Accounts receivable		8,768.13
Materials and supplies		9,557.39
Deferred charges		<u>32,949.58</u>
Total assets.....		<u>\$355,454.07</u>

LIABILITIES:

Capital stock		\$ 69,400.00
Funded debt		66,000.00
Notes payable		130,000.00
Trade acceptance		1,303.37
Accounts payable		18,600.38
Advances for extensions		292.50
Accruals		6,123.48
Donations in aid of construction		20,695.60
Corporate surplus unappropriated		<u>11,018.74</u>
Total liabilities.....		<u>\$355,454.07</u>

The mortgage securing the payment of the bonds outstanding is dated December 1, 1918, and provides for a total issue of only \$70,000.00 of bonds, all of which were issued in payment for property. The bonds now outstanding are held by The Pacific Telephone and Telegraph Company.

It appears that recently applicant's stockholders have authorized the execution of a new mortgage and/or deed of trust to secure the payment of a total authorized issue of \$5,000,000.00 of bonds, issuable in series. The company plans, at this time, to issue \$200,000.00 of bonds of the "Series of 1926", and it reports that it has made arrangements with The Pacific Telephone and Telegraph Company to exchange \$66,000.00 of such bonds for the \$66,000.00 of bonds now outstanding, and to sell the remainder, \$134,000.00 to the Citizens National Company at not less than 95 percent of face value plus accrued interest. The agreement with Citizens National Company provides that applicant will receive a minimum of 95 for its bonds if the purchaser disposes of them at 99, and will further receive an amount equal to one half of the difference between ninety-nine and the price at which the bonds are sold, if sold above ninety-nine.

Applicant's stockholders have recently voted to increase its capital stock from \$250,000.00 divided into 2500 shares of the par value of \$100. each and consisting of \$100,000.00 of common stock, \$150,000.00 of seven percent cumulative non-callable preferred stock to \$1,500,000.00 divided into 15,000 shares of the par value of \$100.00 each and consisting of \$1,000,000.00 of common stock and \$500,000.00 of seven percent cumulative preferred stock callable at \$105. per share. It is of record that the outstanding \$14,000.00 of preferred stock of the Redondo Home Telephone Company has been acquired by parties who are willing to exchange such stock for \$14,000.00 of the company's common stock on the basis of par for par. Following the exchange the preferred stock will be cancelled. Applicant asks that it be permitted to issue \$14,000.00 of its common stock in exchange for \$14,000.00 of its preferred stock and further, that it be permitted to sell \$50,000.00 of its common stock for cash at not less than par. It is of record that the common stock to be sold will be purchased by applicant's present common stockholders.

Applicant asks permission to use the proceeds obtained from the sale of the \$184,000.00 of bonds and the \$50,000.00 of stock for the following purposes:-

a. In payment of the following liabilities:

Notes payable, as hereinbefore listed.....	\$130,000.00	
Trade acceptances for materials	1,303.37	

Accounts payable as follows:

Automatic Electric Company	\$899.22	
Graybar Electric Company	334.78	
Kellogg Switchboard & Supply Co.	104.51	
Kierulff & Ravenscroft	212.83	
Maydwell & Hartzell, Inc.	630.97	
Santa Monica Bay Telephone Co	7,712.93	
Southern California Edison Co.	1,403.73	
C/ Ganahl Lumber Co.	34.55	11,333.52

Total..... \$142,636.89

b. To pay the cost of the following improvements to be constructed during 1927-1928:

Cable No. 1	\$500.00	
Cable No. 2	3,500.00	
Cable No. 5	500.00	
Cable No. 7 Project 1	5,500.00	
Cable No. 7 Project 2	2,600.00	
Cable No. 8 Project 1	3,500.00	
Cable No. 8 Project 2	2,500.00	
	<u>\$18,600.00</u>	18,600.00

Pole Line Construction and Joint		4,000.00
Pole Interests		2,000.00
Extension of Open Wire Lead . . .		<u>24,600.00</u>

The Palos Verdes Project		
Switchboard	1,500.00	
Outside Plant Extension	<u>2,500.00</u>	4,000.00
Substation equipment		<u>1,063.11</u>
		<u>\$ 29,663.11</u>

c. To reimburse the treasury of the company on account of surplus earnings invested in its properties in the amount of \$5,000.00.

The testimony shows that all of the moneys obtained through the issue of the notes, trade acceptances and moneys represented by accounts payable referred to above, has been expended for additions, extensions, betterments and improvements to the company's plants and system. The testimony further shows that all of the

improvements referred to in Decision No. 15388 dated September 12, 1925, in Application No. 10696 have been made and that the company's expenditures for construction purposes exceeded the amount (\$127,156.82) referred to in such decision.

Applicant has submitted a copy of its proposed mortgage and/or deed of trust. We believe that it should be modified in several respects. The prohibition (Article 1, Section 10) against the issue of bonds maturing more than forty years after their date should be eliminated. Section 8 of article ^{three} reading-"operating expenses, including current maintenance and repairs, taxes, rentals and all interest charges," should be amended so as to read- "operating expenses, including current maintenance and repairs, adequate provision for depreciation, taxes, rental, interest and all other fixed charges." There should be eliminated from the last paragraph of section fourteen, ^{of} article three the following language "and the findings of the trustee in this behalf shall be final and conclusive on the company." Section eleven of article seven should be amended so that the trustee has no discretion to waive or rescind any default, and that a default such as contemplated in said section can be waived by the trustee only upon the written request of the holders of eighty per cent in amount of the bonds outstanding. Section three of article eight should be modified so as to permit the company to use proceeds obtained from the sale of mortgaged property either for the purposes now stated in said section (to acquire new properties) or to redeem bonds in accordance with article four and article five of the indenture. Section one of article thirteen, relating to changes in the mortgage and/or deed of trust reading--"From time to time the holders of two thirds in amount of all bonds issued under this indenture for the time being outstanding," etc. should be changed so as to read- "From time to time the holders of eighty percent in amount of all bonds issued under this indenture for the time being outstanding" etc.

We are of the opinion that applicant should submit a copy of its proposed mortgage and/or deed of trust, revised along the

lines herein indicated.

O R D E R

Redondo Home Telephone Company having applied to the Railroad Commission for authority to execute a mortgage^{and}/or deed of trust, and to issue stock and bonds, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the application should be granted, as herein provided and that the money, property or labor to be procured or paid for through the issue of stock and bonds is reasonably required for the purposes specified herein, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that Redondo Home Telephone Company be, and it hereby is, authorized to issue, on or before June 30, 1927, \$200,000.00 of its first mortgage six percent twenty year bonds, of the "Series of 1926", and \$64,000.00 of its common capital stock.

The authority herein granted is subject to the following conditions:-

1. Applicant may deliver \$66,000.00 of the bonds herein authorized in exchange for the \$66,000.00 of bonds now outstanding, and \$14,000.00 of the common stock herein authorized in exchange for the \$14,000.00 of preferred stock now outstanding, which preferred stock shall be cancelled.
2. Applicant may sell for cash \$154,000.00 of the bonds herein authorized at not less than 95 percent of face value plus accrued interest, and \$50,000.00 of the common stock at not less than par.
3. Applicant may use the proceeds to be received from the sale of the \$154,000.00 of bonds, other than accrued in-

interest which may be used for general corporate purposes, together with the proceeds to be received from the sale of the \$50,000.00 of stock for the following purposes and none other:-

- a. To pay outstanding liabilities.....\$142,636.89
- b. To reimburse the treasury 5,000.00
- c. To finance in part expenditures estimated for the remainder of 1926, 1927 and 1928, as set forth in Exhibit "D" 29,663.11

4. Applicant shall keep such record of the issue and sale of the stock and bonds herein authorized and of the disposition of the proceeds, as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

5. The authority herein granted to issue stock shall become effective upon the date hereof, but the authority granted to issue bonds will not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Two Hundred (\$200.) Dollars, nor until the Commission has authorized applicant to execute a mortgage and/or deed of trust to secure the payment of the bonds herein authorized to be issued.

DATED at San Francisco, California, this 5th day of November 1926.

Fee \$200.00
 RECEIVED
 RAILROAD COMMISSION
 STATE OF CALIFORNIA
 NOV 11 1926
 J. L. Mackay
 Fee \$25.00

H. B. Dunning
C. Seaver
Wm. H. ...
Leon ...
Thos. ...
 Commissioners.