

Decision No. 33923

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
LOS GATOS TELEPHONE COMPANY,
a corporation, for authority to issue
and sell preferred stock.

Application No. 23981

BY THE COMMISSION:

ORIGINAL

O P I N I O N

This is an application by Los Gatos Telephone Company for an order authorizing it to issue and sell, at the par value thereof, \$28,880 of its 5% cumulative preferred stock for the purpose of paying outstanding notes.

Los Gatos Telephone Company is a corporation engaged in the business of supplying telephone service in and about the Town of Los Gatos, Santa Clara County. As of December 31, 1940, it reports its assets and liabilities as follows:

<u>Assets</u>		
Telephone plant in service		\$243,741.55
Other investments		9,119.00
Current assets:		
Cash	\$ 384.74	
Accounts receivable	4,521.39	
Materials and supplies	11,989.27	
Prepaid expenses	<u>2,468.49</u>	<u>19,363.89</u>
Total Assets		<u>\$272,224.44</u>

Liabilities

Capital stock - common		\$115,500.00
Current liabilities:		
Notes payable	\$25,000.00	
Accounts payable	5,057.48	
Advance billings	58.35	
Accrued liabilities	<u>1,601.09</u>	31,716.92
Reserve for depreciation		63,549.86
Unappropriated surplus		<u>61,457.66</u>
Total Liabilities		<u>\$272,224.44</u>

The company has an authorized capital stock of \$500,000, consisting of 50,000 shares of the par value of \$10 each, divided equally into common and preferred stock. Under the terms of its Articles of Incorporation, as amended, the holders of the preferred stock will be entitled to receive cumulative dividends at the rate of 5% per annum, before any dividends can be paid on the common stock, and, if such preferred stock is called for redemption, to receive \$10.20 a share, plus accrued dividends, or 102% of the par value. Upon dissolution of the company, such preferred stockholders will be entitled to receive \$10 a share, plus accrued dividends. No preferred stock is at present outstanding.

Since the date of the foregoing balance sheet, the company has issued a short-term note for \$5,000 for the purpose of paying, in part, the open accounts payable shown on the balance sheet at \$5,057.48, bringing its total note indebtedness up to \$30,000 at this time. These notes, in favor of Bank of America, Los Gatos Branch, bear interest at the rate of 5% per annum, were issued and will mature, or have matured, as follows:

<u>Date of Issue</u>	<u>Date Due</u>	<u>Amount</u>
Sept. 26, 1940	Jan. 15, 1941	\$ 5,000
Dec. 2, 1940	Mar. 2, 1941	15,000
Dec. 2, 1940	Mar. 2, 1941	5,000
Jan. 16, 1941	Apr. 16, 1941	<u>5,000</u>
	Total	<u>\$30,000</u>

The company has been before the Commission, from time to time, for permission to issue stock to finance, in part, its construction requirements. In the last stock application filed by it, prior to the one now under consideration, it was authorized (Decision No. 30379, dated December 6, 1937) to issue and sell at par \$10,500 of common stock to pay indebtedness of \$5,000 and to reimburse its treasury because of surplus earnings used for additions to its plant and equipment during the period from January 1, 1937 to October 31, 1937.

In the present application the company reports that between November 1, 1937 and December 31, 1940, it made additions to its plant and properties in the amount of \$52,996.30 and recorded retirements of \$17,538.07, resulting in net additions during the period of \$35,458.23, a substantial part of which, it appears, was paid or provided through the issue of the short-term notes now outstanding. The net expenditures are summarized as follows:

Buildings	\$ 247.14
Central office equipment	1,679.13
Station apparatus	10,337.75
Station installation	3,394.95
Drop and block wires	2,195.37
Private branch exchange	(933.58)
Booths and special fittings	47.15
Pole lines	4,978.34
Aerial cable	9,024.45
Underground cable	43.75
Aerial wire	2,778.00
Underground conduit	(22.00)
Furniture and fixtures	1,674.23
Automobiles and work equipment	<u>13.55</u>
Total	<u>\$35,458.23</u>

(Red Figures)

A review of the information on file with the Commission indicates that the company's expenditures for capital additions have been caused, in part, by increased demands for service. At the close of 1937, it reported 1906 telephones in

service; at the close of 1938, 2023 telephones; at the close of 1939, 2112 telephones; and at the close of 1940, 2184 telephones. During this three-year period, it has reported its operating revenues at \$57,053.89 in 1938; at \$60,480.13 in 1939; and at \$65,399.99 in 1940, and its net income available for dividends and surplus at \$1,264.90 in 1938; at \$7,665.03 in 1939; and at \$7,293.11 in 1940.

The company now proposes to issue the \$28,880 of preferred stock to pay, in part, its outstanding notes and thus permanently to finance capital expenditures of that amount. It intends to offer such preferred stock to the holders of its presently outstanding common stock for subscription, at par for cash, on the basis of one share of preferred stock for each four shares of common stock, and to sell the balance of said \$28,880 of preferred stock not so subscribed, to residents of the State of California also at par for cash.

It appears to the Commission that the company's assets and earnings are ample to support the proposed increase in its capital stock and that its financial position will be improved by the replacement of notes by stock as here proposed. An order accordingly will be entered.

ORDER

Los Gatos Telephone Company having applied to the Railroad Commission for an order authorizing it to issue and sell \$28,880 of its 5% cumulative preferred stock, and the Commission having considered the application and being of the opinion that it is not a matter on which a public hearing is necessary, that the money, property or labor to be procured or paid for through the issue of said stock is reasonably required for the purpose specified herein, and that the expenditures for said purpose are

