

ORIGINAL

Decision 35014

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. 24752

BY THE COMMISSION:

O P I N I O N

In this application the Railroad Commission is asked to make an order authorizing Los Gatos Telephone Company to issue and sell, at par for cash, not exceeding 2,888 shares of its 5% cumulative preferred stock of the par value of \$10 a share, making an aggregate par value of \$28,880, and to use the proceeds to pay outstanding indebtedness.

Los Gatos Telephone Company has an authorized capital stock issue of \$500,000 consisting of 50,000 shares of the par value of \$10 each, said shares being divided equally into common and preferred stock. Under the terms of its Articles of Incorporation, as amended, the holders of the preferred stock are 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 stock is called for redemption, to receive \$10.20 a share. Upon dissolution of the company, whether voluntary or involuntary, the holders of the preferred stock are entitled to receive \$10 a share plus accrued dividends for their stock before any dis-

tribution is made to the holders of the common stock.

It has been the practice of the company to finance its net construction costs primarily through the issue of its common and preferred stock. As of December 31, 1941, its investment in its assets and its outstanding stock and liabilities may be shown as follows:

ASSETS

Fixed Capital:		
Telephone plant and services	\$277,158.59	
<u>Less: Depreciation reserve</u>	<u>69,608.86</u>	
Net fixed capital		\$207,549.73
Miscellaneous investments		9,119.00
Current and accrued assets:		
Cash	6,486.86	
Accounts receivable	4,810.76	
Materials and supplies	14,188.39	
Prepaid expenses	<u>2,541.27</u>	
Total current and accrued assets		<u>28,027.28</u>
Total		<u>\$244,696.01</u>

LIABILITIES

Current and accrued liabilities:		
Notes payable	\$ 25,000.00	
Accounts payable	9,912.03	
Advance billings	517.65	
Accrued liabilities	<u>1,996.31</u>	
Total current and accrued liabilities		\$ 37,425.99
Capital stock and surplus:		
Preferred stock	28,880.00	
Common stock	\$115,500.00	
Surplus	<u>62,890.02</u>	<u>178,390.02</u>
Total capital stock and surplus		<u>207,270.02</u>
Total		<u>\$244,696.01</u>

The company has issued and outstanding \$25,000 of short-term 5% notes payable to First National Bank of Los Gatos

or Bank of America National Trust & Savings Association, Los Gatos Branch, as follows:

<u>Date of Issue</u>	<u>Date Due</u>	<u>Amount</u>
Jun. 27, 1941	Jan. 15, 1942	\$ 5,000
Sept. 24, 1941	May 17, 1942	5,000
Nov. 18, 1941	May 17, 1942	5,000
Dec. 20, 1941	May 17, 1942	<u>10,000</u>
Total		<u>\$25,000</u>

The accounts payable include \$5,000 due Kellogg Switchboard and Supply Company for a new switchboard.

Although applicant was organized prior to the effective date of the Public Utilities Act, substantially all of its outstanding stock has been issued under authority granted by the Commission. By Decision No. 33923, dated February 18, 1941, in Application No. 23981, the company was authorized to issue, at par, \$28,880 par value of its 5% preferred stock for the purpose of paying short-term indebtedness which, it appeared, had been incurred to finance, temporarily, construction costs prior to December 31, 1940.

The company now reports that between January 1, 1941, and December 31, 1941, it expended \$34,468.89 for additions and betterments to its properties and recorded retirements of \$1,051.85, leaving net expenditures of \$33,417.04, a substantial part of which apparently was provided through the issue of the short-term notes now outstanding. The net expenditures are segregated to accounts as follows:

Buildings	\$ 348.14
Central office equipment	12,093.91
Station apparatus	5,286.92
Station installation	1,373.54
Drop and block wires	601.10
Booths and special fittings	5.77
Pole lines	1,285.71
Aerial cable	5,381.63
Buried cable	267.99
Aerial wire	1,289.98
Underground cable	4,104.40
Underground conduit	354.07
Furniture	833.33
Vehicles	<u>190.55</u>
Total	<u>\$33,417.04</u>

The net increase in plant during 1941 of \$33,417.04 compares with a net increase during 1940 of \$10,730.77 and during 1939 of \$10,940.80. The company reported its operating revenues at \$71,655.58 for 1941; at \$65,399.99 for 1940 and at \$60,480.13 for 1939. It reported its net income available for dividends and surplus at \$12,549.90 for 1941; at \$8,305.85 for 1940 and at \$7,665.03 for 1939.

The company, upon issuing and selling the additional \$28,880 of 5% preferred stock, proposes to use \$25,000 of the proceeds to pay its 5% short-term notes and \$3,880 to pay in part its liability to Kellogg Switchboard and Supply Company. It proposes to offer such stock to its common stockholders for subscription at par for cash, on the basis of one share of preferred stock for each four shares of common stock held, and to sell, at par for cash, any balance of the preferred shares not so subscribed to residents of the State of California.

It clearly appears that the company's assets and earnings should support the additional stock issue and that the payment of indebtedness, as proposed, will improve its financial position. The request of the company, therefore, will be granted.

O R D E R

Los Gatos Telephone Company having applied to the Railroad Commission for an order authorizing the issue of \$28,880 of 5% preferred stock; the Commission having considered the company's request and it being of the opinion that a public hearing is not necessary in this matter; that the money, property or labor to be procured or paid for through the issue of said stock 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 expenses or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED that Los Gatos Telephone Company be, and it hereby is, authorized to issue and sell at par for cash, on or before July 31, 1942, not exceeding 2,888 shares (\$28,880 par value) of its 5% cumulative preferred stock and to use the proceeds to pay \$25,000 of notes now outstanding and \$3,880 due to Kellogg Switchboard and Supply Company.

IT IS HEREBY FURTHER ORDERED that Los Gatos Telephone Company shall keep such record of the issue and sale of the stock 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-A, which order, insofar as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall become effective upon the date hereof.

Dated at San Francisco, California, this 10<sup>th</sup> day  
of February, 1942.

Justin J. Coakley  
Ray W. Rice  
A. J. [unclear]  
Francis D. Havenner  
[unclear]  
Commissioners