

Decision No. 39136

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of

GILROY TELEPHONE COMPANY,

a corporation, for permission to issue its capital stock in reimbursement to its treasury for unappropriated surplus invested in plant, and for permission to issue and sell its capital stock for extensions, additions and betterments to plant.

ORIGINAL

Application  
No: 27580

OPINION

Gilroy Telephone Company has applied to the Railroad Commission for permission to issue \$26,000 par value of its common capital stock. It proposes to use \$5,000 of said stock to reimburse its treasury because of surplus earnings reinvested in its properties, and thereafter to distribute the same to its stockholders as a stock dividend, and to sell the remaining \$21,000 to provide funds to finance the cost of additions and betterments.

The application shows that Gilroy Telephone Company is a corporation organized on or about March 25, 1911, and now engaged in conducting a telephone and telegraph business in and about the City of Gilroy. It reports an authorized capital stock of 10,000 shares, all common, of the par value of \$10 each, of which 5,861 shares, of the aggregate par value of \$58,610, now are outstanding. It reports no preferred stock and no mortgage

or other indebtedness except current and accrued items. Its assets and liabilities, as of April 30, 1946, are set forth in the application as follows:

Assets

Fixed capital		\$128,188.42
Telephone plant under construction		76.17
Current assets -		
Cash and working fund	\$15,670.19	
Temporary investments	20,078.75	
Accounts receivable	1,099.34	
Materials and supplies	<u>1,554.89</u>	38,403.17
Prepaid expense		<u>369.10</u>
Total assets		<u>\$167,036.86</u>

Liabilities

Capital stock		\$ 58,610.00
Current and accrued liabilities -		
Accounts payable	\$3,909.85	
Advance billing	2,153.91	
Accrued liabilities	5,879.12	
Other items	<u>400.29</u>	12,343.17
Deferred credits		5,855.72
Reserves for depreciation and amortization		64,569.35
Contributions of telephone plant		1,704.90
Surplus earning undistributed		<u>23,953.72</u>
Total liabilities		<u>\$167,036.86</u>

The company reports its operating revenues at \$53,087.66 in 1944, at \$59,820.90 in 1945 and at \$20,503.24 for the first four months of 1946. It reports net income after payment of operating expenses, taxes and other expenses, and making provision for depreciation, at \$10,009.56 in 1944, at \$12,088.18 in 1945 and at \$5,879.08 for the first four months of 1946.

It is alleged in the application that of the undistributed surplus earnings of \$23,953.72 as of April 30, 1946, at least \$5,000 has been invested in company's properties and that the remainder is reflected in cash and current assets.

The company reports that it intends to use the current assets now represented on the balance sheet as temporary investments, to remodel its central office building when conditions permit. It further reports that it needs additional funds for the installation of necessary additions to its plant to improve its facilities and to meet existing demands for service, which additions are described in Exhibit "C", filed in this proceeding, as follows:

Additions to central office switchboard and terminal facilities:

Two-position section of Western Electric Company common battery switchboard	\$ 3,640.27
Materials to complete wiring and equipping 110 subscriber lines and 10 toll lines	1,019.00
Materials to complete additions of two sections of main frame	165.59
Estimated labor and incidental costs	900.00
	<u>\$ 5,724.86</u>

Additional telephone instruments:

200 instruments with dial blanks for subsequent conversion to automatic service	3,320.00
Estimated cost of additional cable	<u>12,032.80</u>
Total estimated costs	<u>\$21,077.66</u>

These estimated costs do not include routine pole and wire additions nor interior wiring which will be required with the installation of service connections now on order.

The company reports that on April 30, 1946, it had on hand 84 unfilled applications for exchange stations which cannot be handled by present facilities. During the war it installed on a temporary basis 128 obsolete telephones which had been previously abandoned. It is the company's intention to replace

these as soon as possible. To place itself in a position to give adequate telephone service, the company must enlarge its switchboard facilities, acquire additional cable and about 200 telephone instruments.

The Commission has given consideration to this application. From a review of the application and the company's financial statements, it appears that it has had surplus earnings from operations in excess of \$5,000 which have been invested in its telephone properties and that the expenditures of additional sums are necessary to enable the company to maintain and improve its service. An order authorizing the issue of stock, as requested, will be entered.

O R D E R

Gilroy Telephone Company having applied to the Railroad Commission for permission to issue \$26,000 of stock and the Commission having considered the matter and being of the opinion that a public hearing is not necessary and that the money, property or labor to be procured or paid for through the issue of such stock 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.

IT IS HEREBY ORDERED as follows:

1. Gilroy Telephone Company may issue, on or before December 31, 1946, not exceeding \$5,000 par value of its common stock for the purpose of reimbursing its treasury because of surplus earnings invested in its telephone properties and

thereafter distribute such stock to its stockholders as a stock dividend.

2. Gilroy Telephone Company may issue and sell, on or before December 31, 1946, for cash at not less than par, not exceeding \$21,000 of its common stock and use the proceeds to finance the expenditures referred to in the foregoing opinion and described in Exhibit "C" filed in this proceeding.

3. Gilroy Telephone Company shall keep such record of the issue 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 Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective upon the date hereof.

Dated at Los Angeles, California, this 25<sup>th</sup> day of June, 1946.

Edward R. Anderson  
Justus J. Casper  
Arthur W. Blair  
Irving H. Lamm  
Harold P. Kule  
 Commissioners