

Decision No. 41912

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
LOS GATOS TELEPHONE COMPANY, )  
a corporation, for an order author- )  
izing it to issue and sell an addi- )  
tional amount of its common stock. )  
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Application  
No. 29533

O P I N I O N

In this application, Los Gatos Telephone Company has applied to the Commission for an order authorizing it to issue and sell, at \$16 a share, 11,550 shares of its common stock of the par value of \$10 each, and of the aggregate par value of \$115,500, for the purpose of paying indebtedness, of financing the cost of property and of providing working capital.

Los Gatos Telephone Company, a corporation organized during 1910 under the laws of the State of California, hereinafter referred to as Applicant, for many years has been engaged in giving telephone service in and about Los Gatos, Santa Clara County. Recently it has been authorized to extend its operations to include service in and about the Town of Morgan Hill through the purchase from Lyndon Farwell and J. Walter Crider of the properties known as the Morgan Hill Telephone Company. (Decision No. 41769, dated June 22, 1948.)

Applicant has financed the net cost of its properties through the issue of preferred and common stocks, the investment of earnings and, temporarily, through the issue of short-term notes and other current indebtedness. As of June 30, 1948, it reports its assets and liabilities as follows:

Assets

Current assets -		
Cash and working funds	\$ 2,455.28	
Accounts receivable	6,524.00	
Materials and supplies	61,316.86	
Prepayments	<u>4,198.81</u>	
Total current assets		\$ 74,494.95
Plant-less reserve for depreciation		<u>274,624.71</u>
Total		<u>\$449,119.66</u>

Liabilities

Preferred stock		\$134,760.00
Common stock		115,500.00
Current liabilities -		
Notes payable	90,000.00	
Accounts payable	15,035.47	
Accrued liabilities	<u>5,703.53</u>	
Total current liabilities		110,739.00
Surplus		<u>88,120.66</u>
Total		<u>\$449,119.66</u>

The outstanding preferred stock consists of 13,476 shares of the par value of \$10 each and the common stock of 11,550 shares also of the par value of \$10 each. The records of the Commission show that Applicant has paid regular annual dividends on the preferred stock since its issue in 1942, at the rate of 5%, and on the outstanding common stock, since 1912, at the rate of 3% per annum.

The present application shows that Applicant is in need of additional capital funds and that to meet its requirements it proposes at this time to issue and sell the 11,550 shares of common stock requested herein to the holders of its presently outstanding common stock at \$16 a share, for cash, payable at the time of subscription, and to sell any portion of said shares not so subscribed by such holders to bona fide residents of the State of California for cash, at not less than \$16 a share, said shares to be issued as of October 1, 1948. It proposes to use the proceeds from the sale of said 11,550 shares, amounting to \$184,800, for the following purposes:

1. Purchasing the assets of Morgan Hill Telephone Company for	\$ 44,000.00
2. Re-payment to said Lyndon Farwell and J. Walter Crider, as the Sellers of said Morgan Hill Telephone Company, for advances made by them to said Morgan Hill Telephone Company for capital improvements during the period from January 1, to July 15, 1948, inc.	6,000.00
3. Payment of short-term notes outstanding	90,000.00
4. Payment of the accounts payable	14,966.72
5. To finance the construction of a new telephone building for Morgan Hill Telephone Company at Morgan Hill, California (estimated construction time three months) estimated cost	14,670.00
6. Purchase of a lot for the site of a new building for dial equipment for Applicant, at Los Gatos, California for	14,500.00
7. Balance of said gross proceeds as an addition to working capital of Applicant	<u>663.28</u>
Total	<u>\$184,800.00</u>

The purchase price agreed to be paid for the Morgan Hill system was the sum of \$44,000 plus the re-payment to Lyndon Farwell and J. Walter Crider of a sum equal to all advances made by them for capital improvements to said system between January 1, 1948, and the date of completion of the sale, which advances, as shown in some detail in Exhibit "C" attached to the application, aggregated \$6,000 up to July 15, 1948. In support of the request to use \$104,966.72 of stock proceeds to pay notes and accounts payable, (items 3 and 4 in the preceding tabulation) Applicant reports that the items comprising said sum were used to finance in part the cost of additions to its plant. In this connection it reports its gross expenditures for

plant during the period from May 1, 1947, to June 30, 1948, at \$132,840.53, as shown in some detail in Exhibit "A" attached to the application, no part of which is said to have been provided through the issue of securities.

The order herein will authorize Applicant to issue the 11,550 shares of stock. The Commission is making no finding of the value of the properties acquired or constructed by Applicant, and referred to herein, nor of its shares of common stock. The action taken herein shall not be construed as an approval by the Commission of all the items representing reported expenditures for property or as binding the Commission to recognize the prices paid for such properties, or the price at which said shares of stock will be sold, as the basis for orders fixing rates for Applicant or determining other matters that may come before the Commission. A review of the application and of Applicant's financial statements clearly indicates that it is in need of additional funds from outside sources to enable it to meet its capital requirements and to maintain and improve its cash position and that the issue of additional shares is warranted.

#### O R D E R

The Public Utilities Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted as herein provided, that the money, property or labor to be procured or paid for through the issue of 11,550 shares of common stock is reasonably required by Los Gatos Telephone Company for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. Los Gatos Telephone Company, after the effective date hereof and on or before October 15, 1948, may issue and sell, for cash, at \$16 a share, not exceeding 11,550 shares of its common stock and use the proceeds to finance the acquisition of property and the construction, completion, extension and improvement of its facilities, to pay indebtedness incurred for such purposes and to maintain and improve its service.
2. Los Gatos Telephone Company shall file with the Commission a report, or reports, as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.
3. The authority herein granted will become effective twenty (20) days from the date hereof.

Dated, at San Francisco, California, this 3rd  
day of August, 1948.

R. T. [Signature]

[Signature]

Harold A. Kula

[Signature]  
Commissioners