

ORIGINAL

Decision No. 42699

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 authorizing
it to issue not to exceed \$600,000.00
principal amount of promissory notes
and to execute a mortgage of real
property and chattels and pledge agree-
ment securing such notes.

Application
No. 30186

O P I N I O N

In this application, Los Gatos Telephone Company, herein-
after referred to as applicant, seeks permission to execute a
loan agreement and a mortgage of real property and chattels, and
to issue promissory notes in an aggregate amount not to exceed
\$600,000, for the purpose of paying indebtedness, and of financing
construction costs and of providing working capital.

Los Gatos Telephone Company, a corporation, for many
years has been engaged in furnishing telephone service in and
about Los Gatos, Santa Clara County. In 1948 it acquired the
property of Lyndon Farwell and J. Walter Crider, who had been
engaged in giving telephone service in and about Morgan Hill.
The operating revenues from the combined operations have been
reported at \$271,440.27 during 1948, and at \$50,473.61 for the
first two months of 1949, with net revenues of \$18,237.03 for 1948
and of \$4,868.55 for January and February of 1949.

Applicant's assets and liabilities as of February 28,
1949 are reported as follows:

Assets

Current assets-		
Cash and deposits	\$ 5,973.75	
Due from subscribers	14,916.68	
Other accounts receivable	690.41	
Materials and supplies	56,199.85	
Prepayments	<u>5,262.75</u>	
Total current assets		\$83,043.44
Plant-less reserve for depreciation(1)		506,578.45
Plant under construction		41,460.47
Plant acquisition adjustment		<u>7,907.27</u>
		\$
Total		<u>638,989.63</u>

Liabilities

Capital stock	\$	
Common	231,000.00	
Preferred	<u>134,760.00</u>	
Total capital stock		365,760.00
Premium on capital stock		69,300.00
Current liabilities -		
Notes payable	78,345.00	
Accounts payable	14,641.47	
Accrued taxes	13,812.20	
Other current taxes	<u>1,538.37</u>	
Total current assets		108,337.04
Amortization reserve		1,000.00
Provident pension reserve		1,560.00
Surplus		<u>93,032.59</u>
		\$
Total		<u>638,989.63</u>

The outstanding notes of \$78,345 shown on the balance sheet include two short term 4% notes in favor of the Bank of America National Trust and Savings Association. Since the date of the balance sheet applicant has issued an additional short term note to the bank in the amount of \$20,000. The proceeds realized through the issue of these notes were used for additions and betterments to the telephone plant, as shown in some detail in the application.

1. Cost of plant	\$657,938.30
Reserve for depreciation	151,359.85

Applicant reports that it is engaged in a program of expansion to meet increasing demands of service, which contemplates, among other things, the conversion of all of its manual central office equipment to dial equipment. The property being acquired and to be acquired under its program, consists of the following:-

A re-inforced concrete building at Los Gatos to house the central office, dial equipment, toll office and business office, estimated to cost \$110,000 of which the balance to complete is	\$ 67,000.00
Kellogg dial central office equipment for 2,300 lines of relaymatic equipment and five toll positions, contract price	400,682.85
86,000 feet of cable ranging from 26 pairs to 1,212 pairs	30,000.00
Labor	15,000.00
Office furniture and fixtures	4,000.00
Interest during construction	14,000.00
600 telephones	15,600.00
1,400 dials	8,400.00
Poles	1,000.00
Miscellaneous materials and supplies	8,200.00
Morgan Hill central office, final payment	850.00
Working cash	15,000.00
Legal fees and commission in obtaining loan	9,500.00
	\$
Total	<u>589,238.85</u>

Applicant reports that it is necessary for it to borrow funds to pay its short term notes and to proceed with its program. It seeks permission to execute a loan agreement (Exhibit 3 attached to the application) with Pacific Mutual Life Insurance Company. Pursuant to the terms of the agreement the company will loan applicant \$600,000. Under the terms of the agreement applicant will borrow initially \$210,000. The company will make available to it from time to time on or before March 1, 1951, additional amounts of not exceeding in the aggregate \$390,000. Applicant will pay interest on all sums borrowed on or prior to March 1, 1950 at the rate of 4% per annum, and on sums borrowed after that date at the rate of 4½% per annum. The interest is payable semi-annually. In addition applicant will pay a stand-by charge on the unused portion of the credit of one-half per cent

per annum from the date of the agreement to and including, March 1, 1951. Applicant may at any time surrender the unused portion of the credit, whereupon the stand-by charge shall terminate.

The sums to be borrowed will be represented by notes due and payable on March 1, 1969, subject to earlier repayment. Applicant may at its option, at any time on thirty (30) days prior written notice, prepay all or any part of the loan in any multiple of \$1,000. Prepayments during the year in an amount not exceeding the sinking fund payments provided in the mortgage securing the payment of the loan, may be made without premium. Additional prepayments shall be subject to a payment of a premium of 3% if made prior to March 1, 1950, and at a premium successively reduced by one sixth of 1% on March 1, 1950, and on March first of each year thereafter to and including March 1, 1967, with no premium required for prepayments on or after March 1, 1967. The payment of the notes will be secured by a mortgage of real property and chattels, a copy of which has been filed in this proceeding as Exhibit 5.

Under the terms of the proposed mortgage applicant agrees, among other things, that it will maintain the mortgaged property in good working order, and repair; that it will replace or renew all obsolete or wornout property; and that for this purpose it will expend in maintenance expenses not less than 15% of its gross revenues in each year, so long as any part of the loan is outstanding. In lieu of expending said 15% of its revenues for the maintenance of the properties applicant may make expenditures of the difference between the amount of the gross revenues expended for maintenance, on the one hand, and an amount equal to 15% of its gross revenues, on the other hand, for permanent additions, providing such permanent additions shall not be made the basis for

the issue of additional advances under the loan agreement. The mortgage requires applicant to charge to operating expenses, depreciation at such rate or rates as shall be required or approved by the regulatory authorities having jurisdiction thereof, provided, however, that the amount of such depreciation shall be not less than 3 $\frac{1}{2}$ % of applicant's gross plant investment in each calendar year.

Applicant further agrees that until the loan is fully paid it will not pay any dividends on any class of its capital stock, except dividends payable in stock, or acquire for value shares of its outstanding stock, except out of net income accrued subsequent to December 31, 1948, (plus \$15,000 accrued prior to that date) remaining after deducting from such net income for the period from December 31, 1948 to the last day of the month preceding the declaration of such dividend or acquisition of such stock, the greater of the following items applicable to the same period; (a) 25% of its net earnings accrued subsequent to December 31, 1948 or (b) the sinking fund payments required under the terms of the mortgage. No dividends shall be paid nor stock acquired if, as a result thereof, the capital and surplus of applicant will be reduced to a sum less than 100% of the funded debt outstanding, or if the current assets are reduced below the current liabilities.

It is further provided that beginning on March 1, 1951 and on March 1 of each year thereafter, while any part of the loan remains unpaid, applicant will prepay without premium, an amount equal to 2 $\frac{1}{2}$ % of the maximum amount of the loan at any time outstanding, together with interest accrued on the amount of such prepayments. Such prepayments are termed "sinking fund payments".

A review of the application and of the applicant's financial statements indicates that it has need for additional funds to improve its cash position, and to proceed with its construction program.

O R D E R

The Public Utilities Commission having considered the above entitled matter and being of the opinion that a public hearing thereon 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 \$600,000 of notes is reasonably required by the Los Gatos Telephone Company for the purposes specified herein, and that the expenditures for such purposes, other than those for legal fees and commission in connection with the issue of said notes, are not in whole or in part reasonably chargeable to expenses or income, therefore,

IT IS HEREBY ORDERED, as follows:

1. Los Gatos Telephone Company, after the effective date hereof, and on or before June 30, 1949, may execute a loan agreement and a mortgage of real property and chattels in, or substantially in, the same form as the loan agreement and the mortgage filed in this application as Exhibits No. 3 and No. 5 respectively.
2. Los Gatos Telephone Company, after the effective date hereof, and on or before March 1, 1951, may issue its promissory notes in the aggregate principal amount of not exceeding \$600,000, such notes to be issued pursuant to the terms and conditions of said loan agreement and mortgage.

3. Los Gatos Telephone Company shall use \$98,345 of the proceeds realized through the issue of such notes to pay short term loans; approximately \$9,500 to pay legal fees and commission in connection with obtaining said loan; and the remaining proceeds to maintain and improve its service, and to finance, in part, its construction program outlined in this application, and referred to in the preceding opinion. The proceeds used to pay legal fees and commission shall be charged by applicant to Account 135, and thereafter amortized to income over the life of the notes, or over a shorter period if applicant so desires.

4. Los Gatos Telephone Company shall file with the Commission a copy of the loan agreement and the mortgage, as actually executed under the authority herein granted, such filings to be made within thirty (30) days after the dates of execution. It shall also file with the Commission a copy of each note issued under the authority herein granted within thirty (30) days after the date of each note, and monthly statements showing in some detail the purposes for which the proceeds were used, such monthly statements to be filed until it has accounted for the disposition of all of such proceeds.

5. The authority herein granted will become effective when Los Gatos Telephone Company has paid the fee prescribed

by Section No. 57 of the Public Utilities Act, which fee is \$600.

Dated at San Francisco, California, this 12th of April,
1949.

R. Z. Zimmerman
James F. Cagney
Harold T. Kula
Thomas H. Patten
Commissioners

