

ORIGINAL

Decision No. 45349

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
additional 20,533 shares of its
common stock.

Application
No. 32089

O P I N I O N

Los Gatos Telephone Company, applicant herein, is engaged in furnishing telephone service in and about Los Gatos and Morgan Hill. In this application, it seeks authority to issue 20,533 shares of common stock of the par value of \$10 each and of the aggregate par value of \$205,330, to sell said shares at and for the price of \$16 a share, and to use the proceeds of \$328,528 to pay outstanding indebtedness and to finance the cost of additions to its telephone plant.

Applicant is a California corporation organized on November 16, 1910. Its authorized capital stock consists of 150,000 shares of the par value of \$10 each, divided into 50,000 shares of 5% cumulative preferred stock and 100,000 shares of common stock, of which there now are outstanding 13,476 shares of preferred and 30,800 shares of common stock. Applicant has paid regular dividends on its outstanding shares of preferred stock at the rate indicated and on its outstanding shares of common stock at the rate of 8% per annum. It reports its investment in telephone plant and its operating revenues and net operating income for the calendar years 1946

to 1949, inclusive, and for the first eleven months of 1950, as follows:

	<u>Investment in Plant</u>	<u>Operating Revenues</u>	<u>Net Operating Income</u>
1946	\$ 369,492	\$152,483	\$11,050
1947	438,404	189,238	13,392
1948	661,362	271,379	27,934
1949	1,047,748	309,308	32,697
1950-11 months	1,386,783	318,370	31,979

On January 16, 1951, by Decision No. 45258, the Commission authorized applicant to make certain increases in rates which were designed to allow it a return of approximately \$71,000, being at the rate of 5.36% on a rate base of \$1,334,610.

In Exhibit B filed in this proceeding, applicant's assets and liabilities as of November 30, 1950, are shown as follows:

Assets

Telephone plant		\$1,386,783.83
Current assets -		
Cash	\$ 36,959.23	
Accounts receivable	13,443.39	
Materials and supplies	77,476.98	
Prepayments	<u>8,248.54</u>	
Total current assets		136,128.14
Capital stock expense		617.12
Discount on long-term debt		8,582.42
Extraordinary maintenance and retirements		40,780.61
Other deferred charges		<u>428.14</u>
Total		<u>\$1,573,320.26</u>

Liabilities

Capital stock	\$ 442,760.00	
Premium on capital stock	115,500.00	
Long-term debt	600,000.00	
Current liabilities -		
Accounts payable	\$ 26,526.91	
Due Kellogg Switchboard & Supply Co.	117,301.90	
Accrued liabilities	<u>16,437.83</u>	
Total current liabilities		160,266.64
Depreciation reserve		163,521.51
Other reserves		4,475.00
Deferred credits		704.48
Surplus		<u>86,092.63</u>
Total		<u>\$1,573,320.26</u>

The indebtedness in favor of Kellogg Switchboard & Supply Co., which was incurred for central office equipment at the Los Gatos exchange, is past due. Applicant now seeks, through its proposed stock issue, to liquidate the amount, and other indebtedness, and to obtain funds to increase the capacity of its service and facilities in both its Los Gatos and Morgan Hill exchanges. It reports its proposed disbursements as follows:

To pay Kellogg contract	\$117,301.90
To pay installment due on long-term debt	15,000.00
To finance the cost of additions -	
600 message registers	26,547.80
250 line crossbar additions to	
Morgan Hill central office	35,000.00
Motor vehicles	3,000.00
1,000 telephones	27,000.00
Coinbox booths	2,000.00
PEX switchboard	1,500.00
Furniture and fixtures	2,000.00
Central office additions	6,000.00
Miscellaneous station apparatus	5,000.00
Station installations	6,000.00
Drop and block	12,500.00
Outside plant	<u>69,678.30</u>
Total	<u>\$328,528.00</u>

In lieu of some of the items of plant additions, applicant may elect to apply an additional \$15,000 in payment of its long-term debt.

It appears that applicant has not entered into any contract for the sale of the shares of stock covered by the present application but that it proposes to offer said shares to the holders of its presently outstanding shares of common stock, of record on January 15, 1951, at the rate of two new shares for each three now held and thereafter to sell the unsubscribed shares, if any, to the public at the same price, that is, at \$16 a share. The offer to the stockholders will remain open to the close of business on March 18, 1951.

A review of the matter clearly indicates that applicant has need for additional funds to improve its financial position and to meet its capital requirements. Accordingly, an order will be entered.

O R D E R

The 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 the stock herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Los Gatos Telephone Company, after the effective date hereof and on or before December 31, 1951, may issue and sell, at not less than \$16 a share, 20,533 shares of its common capital stock and use the proceeds for the purposes indicated in this application.
2. Applicant shall file with the Commission a report, or reports, as required by 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 after the date hereof.

Dated at San Francisco, California, this 13th day of
February, 1951.

A. F. Dunning
Justice F. Casper
Harold P. Hale

Wm. H. P. Foster
Edw. E. Mitchell
Commissioners