

ORIGINAL

Decision No. 50481

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
LOS GATOS TELEPHONE COMPANY,)	
a California corporation, for an order)	
authorizing it (a) to issue and sell)	
\$1,100,000 principal amount of First)	
Mortgage 4 $\frac{1}{2}$ % Bonds, Series A, due July)	
1, 1979, (b) to execute and deliver)	Application
an Indenture of Mortgage and Deed of)	No. 35717
Trust to secure said Bonds, and (c) to)	
apply the proceeds of sale of said)	
Bonds toward the payment of outstanding)	
secured and unsecured notes, to finance)	
plant additions and betterments, and to)	
reimburse its treasury.)	
-----)	

O P I N I O N

Los Gatos Telephone Company has filed this application for authorization to execute a trust indenture and to issue and sell \$1,100,000 in principal amount of first mortgage bonds.

Applicant is engaged in furnishing local and toll telephone service in and about the communities of Los Gatos, Morgan Hill and Novato. According to information filed with the Commission its investment in plant and its volume of business have been increasing rapidly, as indicated in the following tabulation:

	<u>Telephones in Service</u>	<u>Increase in Net Plant</u>	<u>Operating Revenues</u>	<u>Net Income</u>
1951	7,516	\$309,586	\$454,409	\$29,747
1952	8,482	336,743	588,179	56,157
1953	9,316	338,166	678,333	70,638

In Exhibit D filed in this proceeding applicant sets forth a statement of its assets and liabilities as of June 30, 1954, a summary of the same being as follows:

Assets

Current assets -		
Cash	\$ 9,993	
Accounts receivable	75,736	
Materials and supplies	<u>111,921</u>	
Total current assets		\$ 197,650
Fixed assets, less depreciation reserve		2,338,073
Deferred charges		<u>58,262</u>
	Total	<u>\$2,593,985</u>

Liabilities and Capital

Current liabilities -		
Note to Central Valley Bank	\$ 90,000	
Accounts payable	266,441	
Other current liabilities	<u>81,536</u>	
Total current liabilities		\$ 437,977
Mortgage note		525,000
Miscellaneous reserves		15,235
Preferred stock		774,710
Common stock equity -		
Common stock	513,330	
Premium on common stock	238,698	
Earned surplus	<u>89,035</u>	
Total common stock equity		<u>841,063</u>
	Total	<u>\$2,593,985</u>

Applicant has financed its capital requirements in part through the \$525,000 outstanding note in favor of Pacific Mutual Life Insurance Company, in part through the \$90,000 note in favor of Central Valley Bank and in part with money owing on open account to Kellogg Switchboard and Supply Company in the amount of \$159,959.80 for purchases of equipment, material and supplies, the three items of indebtedness aggregating \$774,959.80.

In the proceeding now before the Commission applicant reports that it intends to execute an open-end trust indenture providing for the issue of first mortgage bonds and to create and sell at this time an initial series of bonds, to be designated as Series A, to bear interest at the rate of 4-1/4% per annum, to mature July 1, 1979, and to be redeemable at 105 if redeemed prior to July 1, 1955, and thereafter at a redemption price reduced by one-fifth of one per

cent per annum in each of the years 1955 through 1978. The indenture establishes a sinking fund of 2% of the total principal amount of Series A bonds at any time outstanding.

Subject to receiving authorization from the Commission, applicant proposes to sell \$1,100,000 of its Series A bonds to Occidental Life Insurance Company of California at the principal amount plus accrued interest from the date of the bonds to the date of delivery, and to use the proceeds, after paying expenses incident to the issue and sale of the bonds, for the purpose of paying the outstanding notes and accounts of \$774,959.80 to which reference has been made, of reimbursing its treasury for moneys expended in carrying on its construction program and of financing capital additions. It appears that applicant has need for funds to pay the present obligations, and thereby to improve its cash position, and to enable it to proceed with its 1954 construction work. It reports in this connection that it expects a net gain during 1954 of 340 stations in its Los Gatos exchange, of 108 stations in its Morgan Hill exchange, and of 216 stations in its Novato exchange. As of July 1 of this year it had 68 held orders.

Applicant's construction plans call for additional cable in its Los Gatos area to reinforce the main feeder route to the area west of San Jose Avenue where new homes are being constructed and to make provision for new service and for upgrading of service. For the Morgan Hill area applicant has additional central office equipment on order, to be placed in service about January 1, 1955, and in the Novato area its program includes the construction of a new dial central office building, together with other facilities.

The effect of the proposed financing on applicant's capital ratios is as follows:

	<u>June 30, 1954</u>	<u>Pro Forma</u>
Mortgage indebtedness	25%	41%
Preferred stock	36	29
Common stock equity	<u>39</u>	<u>30</u>
Totals	<u>100%</u>	<u>100%</u>

Upon reviewing the proceeding we are of the opinion that the application should be granted and accordingly we will enter an order in the proceeding.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

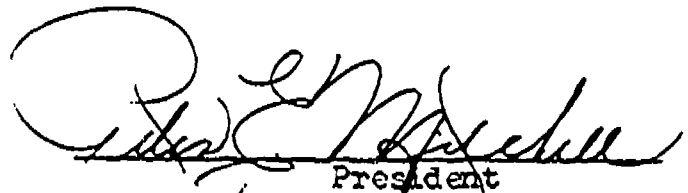
IT IS HEREBY ORDERED as follows:

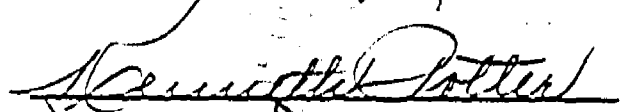
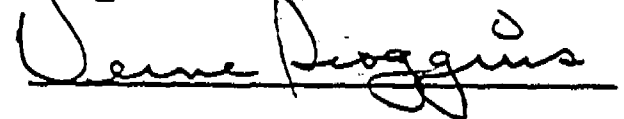
1. Los Gatos Telephone Company may execute an indenture of mortgage in substantially the same form as that filed in this proceeding as Exhibit A.
2. Los Gatos Telephone Company may issue and sell not to exceed \$1,100,000 principal amount of First Mortgage 4-1/4% Bonds, Series A, due July 1, 1979, at not less than the principal amount plus accrued interest, on or before December 31, 1954, for the purposes set forth in this application. The accrued interest may be used for such purposes or for general corporate purposes.

3. Los Gatos Telephone Company shall file with the Commission monthly reports as required by 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 when Los Gatos Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$485.00.

Dated at San Francisco, California, this 31st day of August, 1954.


President

Commissioners

