

ORIGINAL

Decision No. 51916

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)
 \$350,000 principal amount of First)
 Mortgage Bonds, 4-1/4%, Series B, Due)
 September 1, 1980, (b) to execute and)
 deliver a First Supplemental Indenture)
 as of September 1, 1955, to set forth)
 the special terms and provisions in)
 respect of said series of Bonds and to)
 secure said bonds, and (c) to apply)
 the proceeds of sale of said Bonds to-)
 ward the payment of unsecured notes)
 outstanding and to be outstanding and)
 the reimbursement of its treasury.)
 -----)

Application
No. 37195

O P I N I O N

In this application Los Gatos Telephone Company seeks authorization to execute a supplemental indenture and to issue and sell \$350,000 in principal amount of First Mortgage Bonds, 4-1/4%, Series B, Due September 1, 1980, for the purpose of liquidating indebtedness and of reimbursing its treasury for expenditures made in carrying on its construction program.

Applicant is engaged in furnishing local and toll telephone service in and about Los Gatos, Morgan Hill and Novato. A summary statement indicating its results of operations for the last two calendar years and for the first six months of 1955 is as follows:

	<u>1953</u>	<u>1954</u>	<u>1955</u> <u>Jan.-June</u>
Operating revenues	\$678,333	\$768,599	\$419,912
Gross income	159,383	193,730	121,067
Fixed charges	26,875	31,941	27,340
Balance	132,508	161,789	93,727
Federal income taxes	61,869	76,116	45,480
Net income	70,639	85,673	48,247

Under authorization granted by Decision No. 50481, dated August 31, 1954, applicant executed an indenture of mortgage and deed of trust on its properties and issued and sold \$1,100,000 of 4-1/4% bonds of Series A, due July 1, 1979, of which \$1,078,000 remain outstanding at present. Applicant's financial condition as of June 30, 1955, is indicated in the following condensed balance sheet:

<u>Assets</u>		
Fixed assets, less depreciation reserve		\$2,766,941
Current assets -		
Cash and deposits	\$ 75,933	
Accounts receivable	91,028	
Material and supplies	<u>105,721</u>	
Total current assets		272,682
Deferred charges		<u>81,442</u>
Total		<u>\$3,121,065</u>
<u>Liabilities and Capital</u>		
First mortgage bonds		\$1,078,000
Current liabilities -		
Notes payable to bank	\$200,000	
Accounts payable	89,762	
Accrued payroll and taxes	85,437	
Other current liabilities	<u>24,843</u>	
Total current liabilities		400,042
Deferred credits		10,326
Preferred stock		774,710
Common stock equity -		
Common stock	513,330	
Premium on stock	238,698	
Earned surplus	<u>105,959</u>	
Total common stock equity		<u>857,987</u>
Total		<u>\$3,121,065</u>

From a review of the financial statements filed with the Commission and referred to herein, it appears that applicant has earned its fixed charges approximately six times during 1953 and

1954 and somewhat in excess of four times during the first half of the current year, the decline being occasioned by the increased interest requirements in connection with the bond issue during the latter part of 1954. Applicant has met its obligations with respect to outstanding shares of preferred stock and for a number of years has paid dividends on its outstanding common shares at the rate of 8% per annum.

From time to time applicant has come before the Commission for authorization to adjust rates and to issue securities and the Commission is familiar with its operations and with the demands for service with which it has been faced. Information on file shows that the stations in service have increased from 8,482 at the beginning of 1953 to 9,817 at the end of 1954 and to 10,293 at June 30, 1955. In meeting the requirements of its subscribers applicant has increased its central office equipment at Los Gatos and Morgan Hill and, on July 17, 1955, converted its Novato exchange to dial operation with Kellogg Switchboard & Supply Company cross-bar equipment.

It appears that it is, and has been, applicant's practice to finance itself temporarily with unsecured short-term notes to Bank of America National Trust and Savings Association, that presently, as shown by the preceding balance sheet, it is indebted to the bank in the amount of \$200,000, and that it expects this amount will increase to \$350,000 before the issuance and sale of the proposed Series B bonds. Applicant asserts that this indebtedness has been and will be incurred in order to pay for plant additions and betterments and to reimburse its treasury, as shown in Exhibit F attached to this application, as follows:

A.	Contract with Kellogg Switchboard and Supply Company to furnish and to install dial central office equipment for 960 lines of cross-bar equipment at Novato for a total price of \$154,931.11 (including contract price and sales and use tax thereon) on which there remains the final two-thirds payment due about September 15, 1955	\$101,494.02
B.	Contract with Kellogg Switchboard and Supply Company to furnish dial central office equipment to provide 500 additional lines and 1000 connector terminals at Los Gatos	96,432.88
C.	Contract with Kellogg Switchboard and Supply Company to furnish dial central office equipment to provide for the addition of 100 lines at the Morgan Hill central office	7,667.32
D.	For reimbursement of money actually expended from income since January 1, 1955, to purchase the following new telephone plant for all exchanges:	
	Station apparatus	\$51,127.62
	Cable	48,877.62
	Cable terminals	4,117.46
	Wire	3,725.30
	Payroll charged to construction	<u>33,557.78</u>
		141,405.78
E.	Estimated cost of new \$350,000, Series B, 4-1/4% bond issue to Occidental Life Insurance Company of California	<u>3,000.00</u>
	Total	<u>\$350,000.00</u>

The Series B bonds will be dated as of September 1, 1955, will mature September 1, 1980, and will bear interest at the rate of 4-1/4% per annum. Applicant proposes to sell them to Occidental Life Insurance Company of California, the holder of the presently outstanding bonds of Series A, at their principal amount plus accrued interest from September 1, 1955, to the closing date. The effect of the issue and sale of the additional bonds on applicant's capital ratios is indicated in the following tabulation:

	<u>Present</u>	<u>Pro Forma</u>
Bonds	40%	47%
Preferred stock	29	25
Equity capital	<u>31</u>	<u>28</u>
Totals	<u>100%</u>	<u>100%</u>

Upon a review of the application we are of the opinion that applicant will have need for the bond proceeds to meet its short-term obligations and to improve its financial position. Accordingly, an order authorizing the issue and sale of the \$350,000 of bonds appears to be warranted.

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 application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue and sale 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, on or after the effective date hereof and on or before December 31, 1955, may execute a first supplemental indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit A, and may issue and sell not to exceed \$350,000 in principal amount of First Mortgage Bonds, 4-1/4%, Series B, Due September 1, 1980, at not less than their principal amount plus accrued interest, for the purposes set forth in this application. The accrued interest to be received may be used for such purposes or for general corporate purposes.

2. 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.

3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$350.

16 Dated at San Francisco, California, this 12th day of ~~August~~ September, 1955.

Robert E. Mitchell

President

James J. Green
R. Hardy

Commissioners

