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Decision No. <u>52466</u>

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 additional 18,737 shares of its) common stock. Application No. 37584

OPINION

In this application Los Gatos Telephone Company seeks authority to issue 18,737 shares of common stock, of a par value of \$10.00 each and of the aggregate par value of \$187,370.00; to sell such shares at and for the price of \$16.00 per share; and to use the proceeds of \$299,792.00 to pay outstanding indebtedness and to finance the cost of additions to its telephone plant.

Applicant is a California corporation organized on or about November 16, 1910. It operates telephone exchanges in Los Gatos, Morgan Hill and Novato, and as of October 31, 1955, had 10,892 subscriber stations connected to its lines. It has financed its investment in properties used to render telephone service through the issue of long term debt, preferred and common stocks and through the use of retained earnings. It has an authorized capital stock consisting of 400,000 shares of the par value of \$10.00 each, divided into 200,000 shares of 5% cumulative preferred stock and 200,000 shares of common stock, of which there are now outstanding 77,471 shares of preferred and 51,333 shares of common stock. Applicant has paid regular divi-

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dends on its outstanding shares of preferred stock at the rate indicated, and on its outstanding common stock at the rate of 8% of the par value, per annum. It reports its investment in telephone plant, its operating revenues and its net operating income for the calendar years 1950 to 1954, both inclusive, and for the 11 months ended November 30, 1955, as follows:

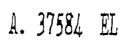
Period	Investment <u>in Plant</u>	Operating <u>Revenues</u>	Net Operating	
1950	\$1,386,245	<pre>\$ 348,830</pre>	\$ 35,883	
1951	1,763,694	454,409	53,827	
1952	2,134,709	588,179	77,903	
1953	2,516,887	678,333	95,900	
1954	2,893,720	768,599	111,323	
1955*	3,454,002	715,166	120,615	

* Ten months only.

In Exhibit A filed in this proceeding, applicant's assets and liabilities as of October 31, 1955, are shown as follows:

<u>Assets</u>

Telephone Plant Less: Depreciation reserves Current Assets -		3,456,693 <u>377,192</u>	\$3,079,501
Cash in bank and on hand Accrued tolls and deferred Accounts receivable (Net o: Material and supplies	exchange f \$6,274 reserve)	12,926 49,820 48,526	
Prepayments and deferred d Unamortized debt expense Unamortized dial conversion	-	119,408 <u>68,745</u>	299,425 32,121 <u>32,044</u>
Total J	Assets		\$ <u>3,443,091</u>
<u>Liabilities</u>			
Capital Stock Premium on capital stock Earned surplus Long term debt Current liabilities - Accounts payable Accrued taxes	\$	133,960	\$1,288,040 238,698 126,974 1,450,000
Other accrued liabilities Reserve for unclaimed checks Contributions of telephone pl Other deferred credits	lant	180,123 <u>37,288</u>	351,371 73 9,935 <u>(22,000)</u>
Total I	Liabilities		\$ <u>3,443,091</u>



In November 1955 applicant issued its unsecured short term promissory note, in the amount of \$50,000, to Bank of America National Trust & Savings Association, and in December 1955 issued a similar note, also in the amount of \$50,000, the cash funds realized from the issue of these two notes being utilized to reduce outstanding current liabilities shown on the October 31, 1955 balance sheet as accounts payable, and to finance, in part, the cost of new construction.

Applicant now seeks through its proposed stock issue to liquidate the short term notes and to finance in part the cost of plant additions necessary to increase the capacity of the service and facilities at its three exchanges. It reports its proposed disbursements as follows:

To repay borrowings from Bank of America National Trust & Savings Association To provide additional central office lines	\$100,000
at the Novato exchange	20,442
To provide minor central office additions at its three exchanges	- · ·
To provide new station equipment	7,554 38,545 118,690
To construct new outside plant To purchase new furniture and office	118,690
equipment for its Los Gatos and	
Novato exchanges To purchase motor vehicles for its	7,211
Los Gatos and Novato exchanges	7,350
Total	\$ <u>299,792</u>

Applicant reports that it 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 such shares to the holders of its presently outstanding shares of common stock of record on January 15, 1956, at the rate of .365 new common shares for each common share now held and thereafter to sell the unsubscribed shares, if any, to

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the public, at the offering price of \$16.00 per share. The offer to stockholders will remain open to February 7, 1956.

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

QRDER

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 through the issue of the stock herein authorized is reasonably required by applicant for the purpose 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, 1956, may issue and sell, at not less than \$16.00 per share, 18,737 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.

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3. The authority herein granted will become effective on the date hereof.

Dated at _____ San Francisco , California, this _____ day of annaran_, 1956. esider uz Z O

Commissioners

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