

Decision No. 52466

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 authorizing it to issue and sell an additional 18,737 shares of its common stock.

Application
No. 37584

O P I N I O N

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-

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:

<u>Period</u>	<u>Investment in Plant</u>	<u>Operating Revenues</u>	<u>Net Operating Income</u>
1950	\$1,386,245	\$ 348,830	\$ 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:

Assets

Telephone Plant	\$3,456,693	
Less: Depreciation reserves	<u>377,192</u>	\$3,079,501
Current Assets -		
Cash in bank and on hand	12,926	
Accrued tolls and deferred exchange	49,820	
Accounts receivable (Net of \$6,274 reserve)	48,526	
Material and supplies	119,408	
Prepayments and deferred charges	<u>68,745</u>	299,425
Unamortized debt expense		32,121
Unamortized dial conversion expense		<u>32,044</u>
Total Assets		<u>\$3,443,091</u>

Liabilities

Capital Stock		\$1,288,040
Premium on capital stock		238,698
Earned surplus		126,974
Long term debt		1,450,000
Current liabilities -		
Accounts payable	\$ 133,960	
Accrued taxes	180,123	
Other accrued liabilities	<u>37,288</u>	351,371
Reserve for unclaimed checks		73
Contributions of telephone plant		9,935
Other deferred credits		<u>(22,000)</u>
Total 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	\$100,000
To provide additional central office lines at the Novato exchange	20,442
To provide minor central office additions at its three exchanges	7,554
To provide new station equipment	38,545
To construct new outside plant	118,690
To purchase new furniture and office equipment for its Los Gatos and Novato exchanges	7,211
To purchase motor vehicles for its Los Gatos and Novato exchanges	<u>7,350</u>
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

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.

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 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.

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

Dated at San Francisco, California, this 16th day of January, 1956.

[Signature]
President

Justin J. Casner

Roy L. Lintner

[Signature]

Commissioners