

ORIGINAL

Decision No. 48904

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 addi-)
tional 29,773 shares of its preferred)
stock.)
-----)

Application
No. 34575

O P I N I O N

In this application Los Gatos Telephone Company seeks authorization to issue and sell, at par for cash, 29,773 shares of its 5% preferred stock of the par value of \$10 and of the aggregate par value of \$297,730 for the purpose of paying indebtedness, of financing the cost of equipment and of providing working capital.

Applicant intends to offer the shares of preferred stock to the holders of its outstanding shares of common stock at the close of business on July 24, 1953, for subscription on or before August 26, 1953, on the basis of .58 share of preferred stock for each one share of common stock then held, at a price of \$10 a share payable in cash at the time of subscription, and to sell to the general public at the same price any of said 29,773 shares of preferred stock not taken by shareholders. If it is successful in disposing of its shares it intends to use the proceeds for the following purposes:

To pay outstanding notes -	
Central Bank of California	\$135,000.00
Crocker First National Bank	15,000.00
Pacific Mutual Life Insurance Company	15,000.00
Sub-total	<u>165,000.00</u>
To pay Kellogg Switchboard & Supply Company	106,505.18
To pay for central office equipment at Los Gatos	20,820.39
To provide working capital	<u>5,404.43</u>
Total	<u>\$297,730.00</u>

In presenting this application to the Commission applicant has filed as Exhibit B its financial statement showing, among other things, its balance sheet as of May 31, 1953, a summary of the same being as follows:

Assets

Telephone plant, less depreciation reserve		\$2,010,490.95
Current assets -		
Cash	\$ 54,246.50	
Accounts receivable	35,780.29	
Materials and supplies	<u>77,653.85</u>	
Total current assets		167,680.64
Deferred charges		<u>102,681.04</u>
Total		<u>\$2,280,852.63</u>

Liabilities

Long-term debt		\$ 540,000.00
Current liabilities -		
Notes payable	\$165,000.00	
Accounts payable	162,646.81	
Other current liabilities	<u>79,551.74</u>	
Total current liabilities		407,198.55
Reserves		15,775.56
Preferred stock		476,980.00
Common stock equity		<u>840,898.52</u>
Total		<u>\$2,280,852.63</u>

For the 12 months of 1952 applicant reports operating revenues of \$588,179.21 and net income for the year of \$56,157.03, and for the first five months of 1953 operating revenues of \$273,586.81 and net income of \$30,850.90. It appears that applicant regularly has paid the cumulative dividends on its outstanding shares

of preferred stock and, in addition, has paid dividends at the rate of 8% per annum on its outstanding shares of common stock.

In support of its request to issue additional shares of preferred stock, applicant reports that it has need for the proceeds to reduce its outstanding current liabilities in order to maintain its credit rating with manufacturers and suppliers. In addition it sets forth in its application that it is contemplating refinancing its existing long-term debt and increasing the amount of its borrowings and that the proposed lending agency has requested that first it increase the amount of outstanding stock. Applicant's program of issuing shares of preferred stock at this time for the purposes indicated will effect changes in its capital ratios, as follows:

	<u>May 31, 1953</u>	<u>Pro Forma</u>
Long-term debt	27%	25%
Other notes	8	-
Sub-total	<u>35</u>	<u>25</u>
Preferred stock	23	36
Equity capital	<u>42</u>	<u>39</u>
Totals	<u>100%</u>	<u>100%</u>

A review of the application indicates that the proposed issue of shares of stock will improve applicant's financial position by reducing its outstanding current liabilities and will provide a broader foundation upon which it can base further debt financing in the future. An order will be entered granting the application, such order to become effective at once so as to enable applicant to pay its outstanding indebtedness, as proposed, without further delay.

ORDER

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 of the shares of 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 may issue and sell 29,773 shares of its 5% preferred stock, at par for cash, on or before January 31, 1954, and use the proceeds for the purposes set forth in this application.

2. Applicant 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 upon the date hereof.

Dated at San Francisco, California, this 4th day of August, 1953.

[Signature]
President

[Signature]
[Signature]

[Signature]
[Signature]
Commissioners