

Decision No. 41826

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application

of

ORIGINAL

KERN MUTUAL TELEPHONE COMPANY, a)
 California corporation, for an)
 order authorizing it (a) to issue)
 and sell \$650,000 principal amount)
 of 5% Cumulative Income Debentures)
 due June 1, 1973, (b) to execute)
 and deliver an Indenture to be dat-)
 ed as of June 1, 1948, (c) to apply)
 the proceeds of sale of said Deben-)
 tures to completion of improvements)
 and extensions herein referred to,)
 to discharge of certain obligations)
 and to reimburse the treasury and)
 (d) to amend its Articles of Incor-)
 poration, increase its stated capi-)
 tal and issue 25,000 shares of \$10)
 par value capital stock in lieu of)
 and in exchange for 25,000 shares of)
 \$1 par value capital stock.)
 -----)

Application
No. 29445

O P I N I O N

In this application, Kern Mutual Telephone Company seeks an order of this Commission authorizing it to issue and sell, for the purposes hereafter stated, \$650,000 principal amount of its 5% Cumulative Income Debentures due June 1, 1973; to execute and deliver an indenture substantially in the form on file in this application as Exhibit "C"; to amend its Articles of Incorporation, increase its stated capital and issue 25,000 shares of \$10 par value capital stock in lieu of and in exchange for 25,000 shares of \$1 par value capital stock.

Kern Mutual Telephone Company, herein sometimes referred to as Applicant, is a corporation organized and existing under the laws of California and is a public utility furnishing

local and long distance telephone services in the communities of Taft, Fellows, Maricopa, McKittrick, Buttonwillow, Lost Hills and Cuyama Valley, Kern County, California. Applicant also operates its own toll lines between its service exchanges and toll lines connecting with The Pacific Telephone and Telegraph Company at Bakersfield, California.

Applicant reports its assets and liabilities at April 30, 1948, in Exhibit "B-1", which may be summarized as follows:

<u>Assets</u>	
Investments in plant	\$748,282.98
Current assets	108,713.61
Prepayments	<u>11,144.46</u>
Total Assets	<u>\$868,141.05</u>
<u>Liabilities</u>	
Notes payable	150,000.00
Other current liabilities	72,962.62
Accrued taxes	27,776.00
Provident reserve	304.96
Reserve for depreciation	319,060.46
Donations	24,728.92
Common stock	25,000.00
Unappropriated surplus	<u>248,308.09</u>
Total Liabilities	<u>\$868,141.05</u>

For the year 1947 and the first four months of 1948 Applicant reports, in Exhibit "B-2", revenues and expenses as follows:

	Year Ended 12-31-47	Four Months Ended 4-30-48
Gross operating revenues	\$309,645.25	\$120,235.15
Operating expenses	<u>218,147.19</u>	<u>84,317.53</u>
Net operating revenues	\$ 91,498.06	\$ 35,917.62
Operating taxes	<u>40,620.96</u>	<u>16,219.17</u>
Net operating income	<u>\$ 50,877.10</u>	<u>\$ 19,698.45</u>

Exhibit "E", on file in the application, is a financial statement as of June 1, 1948, in which Applicant shows as its only outstanding stock, 25,000 shares of common stock having a par value of \$1 per share and a total par value of \$25,000.

The outstanding notes of Applicant, all issued to Bank of America National Trust and Savings Association, are reported as follows:

<u>Date of Issue</u>	<u>Amount</u>	<u>Date of Maturity</u>	<u>Rate of Interest</u>
October 9, 1947	\$100,000	December 10, 1947	3% to 2-1-48 and 4% thereafter
January 9, 1948	50,000	June 1, 1948	4%
May 25, 1948	65,000	September 1, 1948	4%

The application shows in Exhibit "B-3" as corrected, that \$656,984 of additional funds will be required from outside sources, from May 1, 1948 to March 1, 1949, for capital purposes. This sum is segregated as follows:

<u>Projects</u>	<u>Amount</u>
Taft cable expansion	\$ 11,355
Taft central office building and pile yard	85,000
Taft station and PBX conversion and installation of held orders	57,072
Taft dial office	299,021
Buttonwillow rural expansion	6,000
Fellows cable plant	7,224
Fellows building	3,000
Fellows station and PBX conversion and installation of held orders	5,715
Fellows new central office	4,047
Normal requirements	12,000
Expenses of financing	21,250
Working capital	20,000
Loan	150,000
	<u>150,000</u>
	\$681,684
	Less:
	Income 14,700
	Depreciation 10,000
	<u>24,700</u>
Total additional funds required	<u>\$656,984</u>

To finance the estimated expenditures, in part, Applicant proposes to create an issue of debentures. It intends to offer the debentures directly to purchasers and also to enter into an agreement with C. A. Botzum of Los Angeles, California, for the sale of the debentures by him and his employees as agents for Applicant on the basis of a commission calculated on the principal amount of all debentures sold, including sales by

Applicant as follows:

1 $\frac{1}{2}$ % if sales do not exceed \$199,000.
2% if sales exceed \$199,000 but do not exceed \$649,000.
2 $\frac{1}{2}$ % (a total of \$16,250) if all \$650,000 of the
debentures are sold.

Applicant does not plan to offer or sell the debentures to any person other than a bona fide resident of the State of California who purchases for investment and not for the purpose of resale. By so limiting offers and sales of the debentures it will not be necessary to register the debentures under the Securities Act of 1933. The proposed offering price of the debentures is to be not less than the principal amount thereof, plus accrued interest from June 1, 1948.

Applicant proposes to apply the proceeds from the sale of the debentures to the payment of its short term bank indebtedness, to the completion of the improvements and extensions described in the application, and to the reimbursement of its treasury for monies expended for such improvements and extensions.

Upon completion of the offer of the debentures, Applicant proposes, if the proceeds of the sale of the debentures are insufficient for the foregoing purposes, to issue obligations senior to the debentures (if seniority is required by the lending agency) for the purpose of providing any required additional funds. The senior obligations will be in a maximum principal amount not exceeding \$500,000.

The debentures are to be issued in accordance with the terms of a proposed indenture, dated as of June 1, 1948, on file in this application as Exhibit "C". The indenture is in satisfactory form. There is on file as Exhibit "D" in this proceeding a copy of a resolution of the board of directors of Applicant

creating an issue of debentures in the aggregate principal amount of not to exceed \$650,000 to be designated as 5% Cumulative Income Debentures due June 1, 1973. The debentures are to be dated June 1, 1948, and to mature June 1, 1973. They are to be issuable as registered debentures without coupons and to bear interest at the rate of 5% per annum, payable semi-annually on June 1 and December 1, beginning December 1, 1948. Applicant is obligated to make payment of interest on any debentures only when and to the extent that its "Available Net Income" as defined in the indenture for the preceding calendar year is sufficient for such payment.

The debentures are redeemable at the option of Applicant, in whole or in part, on any date prior to maturity on at least sixty days' notice, at redemption prices (expressed in percentages of the principal amount) together with accrued interest to the date fixed for redemption, as follows: to and including June 1, 1953, 103%; thereafter, during the twelve months' periods ending June 1, 1954, 102-3/4%; 1955, 102½%; 1956, 102¼%; 1957, 102%; 1958, 101-3/4%; 1959, 101½%; 1960, 101¼%; 1961, 101%; 1962, 100-3/4%; 1963, 100½%; 1964, 100¼% and thereafter at 100%. The indenture provides that the debentures may be redeemed under certain conditions by the Trustee through the operation of a sinking fund, by paying therefor in cash 100% of the principal amount thereof plus unpaid accrued interest to the date fixed for redemption.

Applicant proposes to amend its Articles of Incorporation to provide, among other things, for a change in its 25,000 shares of authorized and outstanding capital stock from a par value of \$1 per share to \$10 per share. Applicant will increase its stated capital by a transfer of \$225,000 from its unappropriated surplus. Its financial statements indicate that it has

invested earnings in its assets in excess of \$225,000 which have not been paid or provided through the issue of securities. The issue of stock, as requested, accordingly appears to be warranted.

O R D E R

The Public Utilities Commission of the State of California having considered the above entitled application 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 for through the issue of \$650,000 of debentures and 25,000 shares of stock is reasonably required by Kern Mutual Telephone Company for the purposes specified herein, and that the expenditures for said purposes, other than accrued interest and the payment of expenses incident to the issue and sale of the debentures, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Kern Mutual Telephone Company, after the effective date hereof and on or before December 31, 1948, may issue and sell, at not less than their face value plus accrued interest not to exceed \$650,000 of its 5% Cumulative Income Debentures, due June 1, 1973.

2. Kern Mutual Telephone Company may employ an agent or agents to assist in the sale of said debentures and pay a commission or commissions to said agent or agents as set forth in this application.

3. Kern Mutual Telephone Company, after the effective date hereof and on or before December 31, 1948, may execute and deliver an indenture to be dated as of June 1, 1948 in substantially the same form as the indenture filed in this proceeding as Exhibit "C".

4. Kern Mutual Telephone Company shall use the proceeds, exclusive of accrued interest, derived from the issue and sale of said debentures, to pay expenses incident to the issue and sale of the debentures, to discharge its note indebtedness, to pay in part for the improvements to and extensions of its properties referred to in the foregoing opinion, to reimburse its treasury for monies expended for such improvements and extensions, and for the improvement and maintenance of its service. The accrued interest may be used for general corporate purposes.

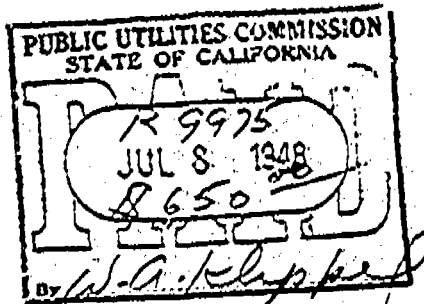
5. Pending the preparation and delivery of definitive debentures, Kern Mutual Telephone Company may issue, sell and deliver temporary debentures in the aggregate face amount of not exceeding \$650,000, under the same terms and conditions as those under which it is authorized to issue definitive debentures, and thereafter to exchange said temporary debentures for definitive debentures.

6. Kern Mutual Telephone Company, after the effective date hereof and on or before December 31, 1948, may issue 25,000 shares of its \$10 par value capital stock in lieu of and in exchange for 25,000 shares of its \$1 par value capital stock and upon such issue transfer \$225,000 from its unappropriated surplus account to its capital stock account.

7. The authority herein granted to issue and sell said debentures, and to execute an indenture, will become effective when Applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is six hundred fifty (\$650.00) dollars. The authority herein granted to issue said stock will become effective when Applicant has filed with the Commission a certified copy of its Amended Articles of Incorporation.

8. Kern Mutual Telephone Company shall file with the Commission such report, or reports, as are required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order. Applicant shall further file with the Commission as soon as available, two (2) copies of the debenture subscription agreement and/or prospectus used in connection with the offering for sale of said debentures, two (2) copies of its indenture dated as of June 1, 1948 as executed, and two (2) copies of any agreement with C. A. Botzum in connection with the sale of said debentures.

Dated at San Francisco, California, this 7th day of July, 1948.



[Signature]
Justice J. Ogilvie
[Signature]
Hazel Kula
[Signature]
Commissioners