

Decision No. 43997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
 of)
 KERN MUTUAL TELEPHONE COMPANY, a)
 California corporation, for an)
 order authorizing it (a) to issue)
 and sell 15,000 shares of \$10 par)
 value capital stock at the price)
 of \$10 per share, cash and (b) to)
 apply the proceeds of sale of said)
 shares to the discharge of certain)
 of its obligations (including ac-)
 counts payable in respect of com-)
 pletion of improvements and exten-)
 sions, and purchase or redemption)
 and retirement of outstanding de-)
 bentures) and to reimburse its)
 treasury.)
 -----)

ORIGINAL

Application
 No. 31120

O P I N I O N

Kern Mutual Telephone Company has filed this application with the Commission for authority to issue and sell, at par, 15,000 shares of its common stock of the par value of \$10 and of the aggregate par value of \$150,000, for the purpose of paying indebtedness.

Applicant is a corporation engaged in furnishing telephone service in the communities of Taft, Fellows, Maricopa, McKittrick, Buttonwillow, Lost Hills and Cuyama Valley, all in Kern County, California. Its financial statements on file with the Commission show its revenues and expenses for the last three years as follows:

	<u>1947</u>	<u>1948</u>	<u>1949</u>
Operating revenues	\$309,645.25	\$376,808.20	\$409,559.26
Operating expenses	<u>268,268.15</u>	<u>321,239.52</u>	<u>342,444.86</u>
Net operating revenues	41,377.10	55,568.68	67,114.40
Interest and debt expense	<u>2,095.41</u>	<u>12,101.82</u>	<u>23,552.31</u>
Net income	<u>\$ 39,281.69</u>	<u>\$ 43,466.86</u>	<u>\$ 43,562.09</u>

As of December 31, 1949, applicant reports its assets and liabilities as follows:

<u>Assets</u>	
Telephone plant	\$1,206,103.71
Work in progress	130,640.55
Sinking funds	7,326.58
Current assets -	
Cash	\$(17,086.95)
Accounts receivable	39,865.38
Materials and supplies	<u>25,486.95</u>
Total current assets	48,265.38
Debt discount and expense	29,444.55
Deferred debits	<u>5,364.08</u>
Total	<u>\$1,427,144.85</u>
<u>Liabilities</u>	
Capital stock--common	\$ 250,000.00
Bonds--1st mortgage 4's, due 1973	500,000.00
Debentures--5%, due 1973	33,000.00
Current liabilities -	
Accounts payable	\$284,338.63
Advance payments	107.87
Accrued liabilities	<u>15,241.51</u>
Total current liabilities	299,688.01
Reserve for depreciation	276,929.67
Deferred credits	546.71
Donations	24,728.92
Surplus	<u>42,251.54</u>
Total	<u>\$1,427,144.85</u>

The application shows that during the last five years dividends have been paid on the outstanding stock (25,000 shares of the par value of \$10 each) at the rate of \$1.08 a year. Applicant's latest annual report on file with the Commission shows that as of December 31, 1948, the outstanding shares of stock were held as follows:

General Telephone Corp.	8,610-1/3
Blanche Maguire	8,609-1/3
J. P. Maguire	3,889-1/3
Alice DeLury	1,944
Jessie Gilkyson	1,943
J. T. Maguire	1
Harlan Holmwood	1
T. A. Brooks	1
Berniece Emerson	<u>1</u>
Total	<u>25,000</u>

In Application No. 29445, filed with the Commission on June 21, 1948, applicant asked permission to issue and sell \$650,000 of 5% cumulative income debentures due 1973, and in support of its request reported that it had need for funds in the aggregate amount of \$656,984 to pay indebtedness and to finance its construction program, a summary of such expenditures being as follows:

<u>Projects</u>	<u>Amount</u>
Taft cable expansion	\$ 11,355
Taft central office building and pole 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 in- stallation 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	<u>150,000</u>
Total	\$681,684
Less:	
Income	14,700
Depreciation	<u>10,000</u>
Total additional funds required	<u>\$656,984</u>

By Decision No. 41826, dated July 7, 1948, the Commission authorized applicant to issue and sell the \$650,000 of debentures. The record shows, however, that applicant was able to sell only \$33,000 of the total amount authorized and that accordingly it revised its plans and applied for and received permission to issue and sell \$500,000 of first mortgage 4% bonds to pay indebtedness and to meet in part its capital requirements. The authority granted applicant to issue and sell debentures has expired.

Applicant now reports that its construction program has been completed, substantially, but that by reason of its inability

to sell debentures and the increases in the actual cost of construction over its estimates, it incurred indebtedness in the aggregate amount of approximately \$256,000 which presently is outstanding in the form of open accounts payable. It now intends to issue additional securities to liquidate the outstanding accounts payable, to pay the \$33,000 of debentures, and to reimburse its treasury.

At a later date applicant will file an application to issue \$175,000 of bonds. At the present time it proposes to issue and sell 15,000 shares of stock. It intends to offer said shares at \$10 a share to the holders of its presently outstanding shares of stock in such amount as shall not exceed their respective present proportional interests, and to sell to underwriters, at \$10 a share, such of said shares as are not purchased by stockholders. It proposes to pay to said underwriters, as compensation, a commission of \$4,500.

A review of the application clearly indicates that applicant has need for additional funds to be obtained through the issue of its stock to improve its cash position and to finance in part its capital expenditures.

ORDER

The Commission 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 15,000 shares of common stock is reasonably required by Kern Mutual Telephone Company for the purposes specified herein, and that the expenditures for said purposes 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 September 30, 1950, may issue and sell not exceeding 15,000 shares of its capital stock at and for the price of \$10 per share in cash.

2. Kern Mutual Telephone Company shall use the proceeds to be received from the issue and sale of said shares of stock to pay expenses and commissions incurred in connection with such sale, to purchase and redeem the presently outstanding debentures, and to pay outstanding accounts payable incurred for the purpose of making extensions, additions, betterments and improvements to its plants and properties.

3. Applicant shall file with the Commission reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order. It shall file, also, a copy of the agreement with underwriters covering the sale of its shares of stock, such copy to be filed within thirty (30) days after its date.

4. The authority herein granted will become effective twenty (20) days after the date hereof.

Dated at Los Angeles, California, this 4th day of April, 1950.

R. Z. [Signature]
James F. [Signature]
[Signature]
Harold P. [Signature]
Russell L. [Signature]
Commissioners