

ORIGINAL

Decision No. 47093

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 5,000 6% cumulative pre-)
 ferred shares, par value \$25 per)
 share, and (b) to apply the pro-)
 ceeds of sale of said shares for)
 the purposes herein set forth.)
 -----)

Application
No. 33273

Orrick, Dahlquist, Neff & Herrington, by
Eric Sutcliffe and Sidney Roberts, for
applicant.

O P I N I O N

Kern Mutual Telephone Company is a corporation engaged as a public utility in furnishing local and long distance telephone service in the communities of Taft, Fellows, Maricopa, McKittrick, Buttonwillow, Lost Hills, Cuyama Valley and Ventucopa, in Kern County. In this application it seeks authorization to issue and sell 5,000 shares of its 6% cumulative preferred stock of the par value of \$25 each and of the aggregate par value of \$125,000.

Applicant reports that it has need for the proceeds from the sale of its shares of stock to pay indebtedness and to finance the cost of additions to plant. Subject to receiving authorization from the Commission, it proposes to sell said shares to an underwriting firm at \$22.50 a share for re-sale to the public at \$25 a share, and to use \$2,463.41 of the net proceeds for legal and other expenses incident to the sale, to use \$58,856.59 to pay outstanding notes and accounts incurred for construction purposes, and to use \$51,180.00 for

additions to be completed in 1952 as follows:

Central office equipment	\$ 5,850.00
Trunk lines between offices	9,100.00
P. B. X. equipment	26,230.00
Station material	8,000.00
Miscellaneous construction	<u>2,000.00</u>
Total	<u>\$51,180.00</u>

In Exhibit 1 filed in this proceeding applicant shows that up to the close of 1951 it had increased its investment in its properties to \$1,539,225.10, that \$929,320.56 of this amount had been installed during the last five years, and that during this period its revenues had increased from \$309,645.25 in 1947 to \$466,298.69 in 1951, and its number of stations in service from 4,604 to 6,295. Applicant reports that it has converted its service to dial operations, that it has adequate toll lines between offices and thirty circuits to Bakersfield, that it has equipment on order to provide automatic ticketing to all its exchanges and to Bakersfield, and that it is planning the addition of twenty-four circuits to Bakersfield by microwave. It has reduced its held orders from 369 at the beginning of 1951 to 166 on April 15, 1952, and it estimates the plant expenditures for which provision now is being made will eliminate its held orders and also applications to up-grade service.

At the close of 1951, applicant had outstanding \$655,000 of 4% bonds and \$537,828.72 of equity capital, consisting of \$400,000.00 of common stock and \$137,828.72 of surplus, against plant in service and work in progress in the net amount of \$1,202,335.31 after deducting the reserve for depreciation. Applicant reports that it considered various methods of additional financing to meet its requirements and concluded that the issue of shares of preferred stock, under the terms here proposed, is in its best interest.

The shares of preferred stock are of the par value of \$25 each and will be subject to redemption at \$26 a share plus accrued

and unpaid dividends. The holders of such shares will be entitled to cumulative dividends at the rate of 6% per annum, payable quarterly, but will not be entitled to voting rights unless and until eight quarterly dividends may be in arrears, in which event, and until all arrearages are made up, each holder of record of preferred shares shall be entitled to two votes for each share held. Under the Articles of Incorporation, as amended, applicant will be required to create and maintain a sinking fund for the purchase or redemption of the preferred shares and for that purpose, so long as any preferred shares may be outstanding, will set aside annually a sum in cash equal to 5% of the aggregate par value of the total number of shares theretofore issued, whether or not then outstanding.

A review of the record clearly shows that applicant is in need of funds from external sources to meet its capital requirements. Considering the relationship between its net investment in fixed assets and its mortgage indebtedness, as reflected by its balance sheet, it appears that the issue of stock, rather than debt financing, is desirable if not necessary. Usually, we do not look with favor on the issue of non-voting preferred stock but in this case the proposed preferred shares, by their terms and by reason of the required sinking fund, represent temporary financing and, in effect, take on some of the attributes of debentures. The record shows that the present management of this utility has made efforts to develop and finance the properties and operations, has improved the facilities and apparently has met or is endeavoring to meet demands for better and additional service. Under the circumstances as presented in this particular proceeding we are of the opinion that we are warranted in entering an order granting the application. The order will be made effective at once so as to enable applicant to liquidate indebtedness now due.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion 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 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. Kern Mutual Telephone Company, after the effective date hereof and on or before August 31, 1952, may issue and sell not exceeding 5,000 shares of its 6% cumulative preferred stock of the aggregate par value of \$125,000 under the terms and 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 5th day of May, 1952.

R. J. Duran
President
Justice J. Casper
Harold P. Kulo
Russell L. Lott
John E. DeWitt
Commissioners