

ORIGINAL

Decision No. 49905

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Kerman Telephone Company for authority :
 to issue and sell 1,000 shares of its) Application
 Cumulative Preferred Stock, \$100 Par : No. 35294
 Value, 6% Series, and to issue 1,360)
 shares of its Common Stock, \$35 Par :
 Value.)
 ----- :

O P I N I O N

Kerman Telephone Company has filed this application for authorization to issue 1,000 shares (\$100,000 par value) of its cumulative preferred stock, 6% series, and 1,360 shares (\$47,600 par value) of its common stock, for the purpose of reimbursing its treasury, of paying indebtedness and of financing the cost of additions and improvements to its properties.

Applicant owns and operates telephone plants providing service in and about Kerman and Biola. Its financial statements filed with the Commission reflect its results of operations during the last three years as follows:

	<u>1951</u>	<u>1952</u>	<u>1953</u>
Operating revenues	\$76,168	\$89,019	\$98,200
Operating expenses	<u>65,242</u>	<u>75,479</u>	<u>75,886</u>
Net operating income	10,926	13,540	22,314
Interest deductions	<u>4,894</u>	<u>5,089</u>	<u>5,973</u>
Net income	<u>\$ 6,032</u>	<u>\$ 8,451</u>	<u>\$16,341</u>

During this three-year period, the reported number of company-owned stations has increased from 959 at the beginning of 1951 to 1,308 at the close of 1953, an increase of 349 or about

36 percent. At December 31, 1953, applicant reported 95 held applications for primary service.

In Exhibit B filed in this proceeding applicant has set forth a statement of its assets and liabilities as of December 31, 1953. A summary of the statement is as follows:

<u>Assets</u>		
Telephone plant -		
Total amount	\$222,395	
Less-reserve	<u>51,023</u>	
Balance		\$171,372
Current assets		6,665
Deferred debits		<u>116</u>
	Total	<u>\$178,153</u>
<u>Liabilities and Capital</u>		
Current liabilities -		
Notes payable	\$ 79,243	
Accounts payable	48,005	
Other items	<u>5,394</u>	
Total current liabilities		\$132,642
Contributions of telephone plant		1,246
Capital -		
Common stock	8,400	
Premium on stock	1,075	
Surplus	<u>34,790</u>	
Total capital		<u>44,265</u>
	Total	<u>\$178,153</u>

The balance sheet and the application indicate that applicant has financed its investment in its properties primarily with retained earnings, accounts payable to the holders of its outstanding shares of stock and notes in favor of its shareholders and others.

Applicant now desires to transfer \$24,815 from its surplus account to its capital stock account, in order to have that account more nearly reflect the book value of the shares of stock, and it also plans to liquidate a considerable portion of its outstanding

liabilities. To accomplish these objectives it intends, subject to receiving authorization from the Commission, to issue 1,360 shares of its common stock, which shares have a par value of \$35 each and an aggregate par value of \$47,600, and to distribute 709 of such shares, of the par value of \$24,815, to its shareholders as a stock dividend because of earnings retained in the business, and to deliver the remaining 651 shares to its shareholders in payment of outstanding current indebtedness of \$22,785. It proposes to sell its shares of preferred stock, at par for cash, for the purpose of paying all or part of its outstanding notes and of meeting in part capital expenditures during 1954 which are estimated as follows:

Ringling machine	\$ 2,000
Rural pole installation	20,000
Cable plant expansion	12,000
Central office growth	4,000
Replace Biola central office	<u>8,000</u>
Total	<u>\$46,000</u>

A review of the application and of financial statements on file with the Commission shows that applicant does not have sufficient cash from internal sources to meet its capital requirements and to liquidate its outstanding liabilities. Its surplus account clearly has been accumulated through the retention of earnings from operations and has been re-invested in the properties and business. The transactions as now proposed will result in permanently capitalizing \$24,815 of such earnings through the issue of common stock and should improve applicant's financial position through the substitution of shares of stock for current and long-term obligations. At the conclusion of the financing, applicant's capital stock account will stand at \$56,000 and its surplus balance at approximately \$12,000, although applicant estimates that this balance will build

up to \$20,000 by the close of 1954. Its outstanding notes, which are 6% and 7% by their terms, will be curtailed substantially through the issue of 6% preferred stock with no increase in the annual fixed charges as a result of such refinancing.

Upon the showing made in the verified application we are of the opinion we are warranted in entering an order granting applicant's requests.

O R D E R

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. Kerman Telephone Company may issue not exceeding 1,360 shares of its common stock at par, on or before December 31, 1954, in reimbursement of its treasury and in payment of outstanding liabilities, and may issue and sell, at par for cash, on or before December 31, 1954, not exceeding 1,000 shares of its preferred stock for the purpose of paying outstanding notes and of financing construction costs, all as set forth in Exhibit C and Exhibit D filed in this proceeding.

2. Kerman Telephone Company 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 upon the date hereof.

Dated at San Francisco, California, this 13th day of April, 1954.

R. F. [Signature]
President

Justin J. [Signature]
[Signature]

[Signature]

Commissioners