

**ORIGINAL**

Decision No. 52924

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 Applicant (a) to issue and sell 12,000 shares of a new series of preferred shares, par value \$25 per share, and (b) to use the proceeds of sale of said preferred shares to redeem 4,230 shares of presently outstanding 6% Cumulative Preferred Shares, to pay outstanding unsecured short-term promissory notes aggregating \$152,200, and to reimburse its treasury.

Application  
No. 37890

O P I N I O N

This is an application for a preliminary order authorizing Kern Mutual Telephone Company to issue and sell 12,000 of its preferred shares, Series A, \$25 par value, aggregating \$300,000, for the purpose of redeeming and retiring outstanding 6% preferred shares, paying short-term indebtedness, and reimbursing its treasury for capital expenditures.

Applicant reports that it has taken steps to amend its articles of incorporation to provide for a new issue of preferred shares. It has been conducting negotiations to sell said new preferred shares, either to private institutions or to underwriters, and has received the most favorable offer from Central Republic Company. The application shows that Central Republic Company proposes to underwrite a public offering of the 12,000 shares at the following maximum terms, to wit: (1) a dividend rate of not exceeding 5½%;

(2) a redemption price of \$26 a share initially, declining at the rate of 25¢ a share every three years from May 1, 1956; (3) an annual purchase fund for the redemption of shares equal to not more than 2½% of the maximum amount of said shares at any one time outstanding; (4) a public offering price to be equal to the par value plus accrued dividends, if any; (5) underwriters' compensation of not to exceed 6%. If market conditions at the time of the offering permit, the new issue will have a dividend rate of 5½% and modifications will be made in some of the other terms.

If successful in disposing of its shares, applicant proposes to use the proceeds for the following purposes:

To pay short-term bank loans	\$153,200
To retire 6% preferred stock	109,980
To reimburse its treasury for capital expenditures in 1955	13,820
To pay underwriters' compensation	18,000
To pay attorneys' fees and miscellaneous costs	<u>5,000</u>
Total	<u>\$300,000</u>

Financial reports filed with the Commission show that applicant's volume of business and its required investment have been increasing. As of December 31, 1955, the company reports its net investment in telephone plant at \$1,501,050, and its capital structure at \$1,474,165 represented by long-term debt of \$751,000 and equity capital, both preferred and common, of \$723,165. As of the same date it reported its current assets at \$158,481 and its current and accrued liabilities at \$278,602. The company's latest financial statement sets forth that its operating revenues during 1955 aggregated \$640,576 and its net income \$54,811.

A review of the application indicates that the company will

have need for funds from external sources to improve its current position and to finance construction costs, and, upon the basis of its recorded results of operations, that its net earnings should be ample to provide adequate coverage for the preferred stock dividends. As indicated by the following tabulation, applicant's capital ratios will be improved by the proposed financing.

	<u>Dec. 31, 1955</u>	<u>Pro Forma</u>
Bonds	51%	45%
Preferred stock	8	18
Common stock equity	<u>41</u>	<u>37</u>
Totals	<u>100%</u>	<u>100%</u>

Applicant reports that it is not possible to determine the final offering terms and all the rights, privileges, preferences, and restrictions of the proposed new preferred shares until such time as its board of directors shall have adopted a resolution fixing such features, which time will be shortly before the proposed offering date of the new shares. Consequently, applicant proposes to file a supplemental application in this matter for final approval of the price and other terms of the financing. At that time the Commission will give consideration to issuing a final order in the proceeding.

The approval herein indicated is for the issue of securities only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 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 may issue and sell not to exceed 12,000 preferred shares, Series A, \$25 par value, at the price and under the terms to be set forth in a supplemental order to be entered in this proceeding.
2. Applicant shall use the proceeds to be received through the sale of said 12,000 shares for the purposes set forth in this application.
3. Kern Mutual Telephone Company may issue new share certificates evidencing the change in its articles of incorporation.
4. Within 60 days after the sale of said 12,000 shares of preferred stock, applicant shall file a report with this Commission showing the name or names of those to whom said shares were sold, the price at which they were sold, and the purposes for which the proceeds were used.

5. The authority herein granted will become effective when the Commission has entered a supplemental order fixing the terms under which said shares may be issued and sold.

Dated at San Francisco, California, this 24<sup>th</sup> day of April, 1956.

*E. M. Bittell*  
President

*Justin F. Caswell*  
*Ronald W. Cramer*

*William H. Kelly*

*W. H. Kelly*  
Commissioners