

ORIGINAL

Decision No. 60671

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 7,000 shares of a new series of convertible preferred shares, (b) to issue the common shares issuable on conversion of said preferred shares, and (c) to apply the proceeds of sale of said preferred shares to the payment of outstanding unsecured demand promissory notes aggregating \$176,000.

Application No. 42557

O P I N I O N

On August 11, 1960 Kern Mutual Telephone Company filed this application for authorization to issue and sell 7,000 shares of a new series of cumulative convertible preferred stock.

The new shares will have a par value of \$25 each, will be entitled to cumulative dividends at the rate of 6-1/2 per cent per annum, payable quarterly, and will be convertible into shares of common stock, at the option of the holders, on or before September 1, 1970, at an initial conversion price for the common stock of \$15 a share, and at an agreed initial conversion basis of 1-2/3 common shares for each share of preferred stock. The common shares have a par value of \$10 each. Dividends have been paid on the outstanding shares during the last five years at the rate of 80 cents a share per annum.

Applicant proposes to sell the 7,000 shares of the new series of preferred stock at their par value, amounting to \$175,000 in the aggregate, without payment of commission or other compensation, and to use the proceeds to pay outstanding short-term notes of like amount which represent indebtedness incurred for plant additions and replacements. In presenting this application to the Commission the company has filed its financial statements which show its net investment in operative plant at \$1,543,041 as of June 30, 1960, and its outstanding capital structure as follows:

Long-term debt	\$ 678,500	41%
Short-term notes	176,000	11
Preferred stock	279,500	17
Common stock and surplus	<u>518,235</u>	<u>31</u>
Total	<u>\$1,652,235</u>	<u>100%</u>

The outstanding short-term notes include \$71,000 which carry interest at the rate of 5-1/2 per cent per annum and \$105,000 which carry interest at the rate of 6-1/2 per cent per annum.

The issue of preferred shares to take up the outstanding short-term notes will increase applicant's fixed charges very slightly and from a review of the financial statements of record in this proceeding it appears that applicant's earnings should be sufficient to enable it to meet the dividends on the shares it now proposes to issue. We find and conclude, therefore, that the issue of the shares of preferred stock is for a proper purpose, to wit, the discharge or refunding of obligations, that the money, property or labor to be procured or paid for by such issue is reasonably required for such purpose, and that the expenditures

herein authorized are not, in whole or in part, reasonably chargeable to operating expenses or to income. Upon the basis of these findings, we will enter our order granting the application.

The action taken herein shall not be construed to be 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 and that the application should be granted,

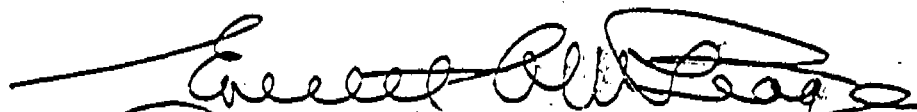
IT IS HEREBY ORDERED as follows:

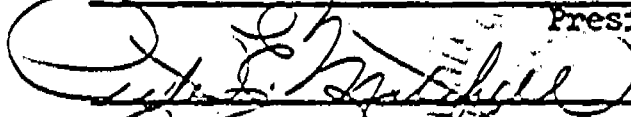
1. Kern Mutual Telephone Company, on or after the effective date hereof and on or before June 30, 1961, may issue and sell not to exceed 7,000 shares of its 6-1/2 per cent Cumulative Preferred Shares, Series B, Convertible on or Before September 1, 1970, at not less than their par value of \$25 a share, and shall use the proceeds for the purpose of paying outstanding indebtedness.
2. Kern Mutual Telephone Company from time to time may issue such an amount of its common shares as shall be required upon surrender of said preferred shares for conversion, pursuant to the provisions of the Certificate of Determination of Preferences filed in this application as Exhibit A.


3. Kern Mutual Telephone Company shall file a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

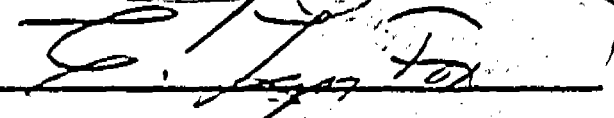
4. The authorization herein granted shall become effective on the date hereof.

Dated at San Francisco, California,
this 1st day of September, 1960.



President






Commissioners