

ORIGINALDecision No. 63900

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application
of the Kerman Telephone Company
for Authority to issue 2445
shares of its common stock.
Par Value \$35.00

Application No. 44543
Filed June 13, 1962

O P I N I O N

Kerman Telephone Company has filed this application for authorization to issue 2,445 shares of its common stock, of the par value of \$35 each and of the aggregate par value of \$85,575, for the purpose of paying indebtedness and financing the cost of additions and improvements to its plant.

The application shows that the company has financed itself, primarily, with borrowed money, shares of preferred and common stock, and retained earnings. Its capital ratios as of March 31, 1962, are indicated in the following tabulation:

Long-term debt		\$ 92,500	18%
Note payable		10,000	2
Preferred stock		197,100	40
Common stock equity -			
Common stock	\$126,350		
Capital surplus	2,985		
Retained earnings	67,928		
Total common stock equity		<u>197,263</u>	<u>40</u>
Total		<u>\$496,863</u>	<u>100%</u>

The long-term debt consists of 5-3/8% mortgage notes issued to Pacific Mutual Life Insurance Company and the \$10,000 note represents 6% borrowings from William G. Sebastian, applicant's president. The preferred stock includes 5-1/2% and 6% cumulative preferred shares. The common stock consists of 3,610 shares on which, during the last four years, dividends were paid in the amount of \$9,674 in 1958, \$2,707 in 1959, \$5,415 in 1960 and \$8,122 in 1961.

The company now desires to sell 1,001 of the additional common shares covered by this application at par, for cash, and to use the proceeds to discharge the outstanding \$10,000 note and to finance, in part, estimated costs of \$38,000 of additions and improvements to its facilities as set forth in Exhibit B annexed to the application. It desires to distribute the remaining 1,444 shares to its shareholders, as a dividend, in order to capitalize a portion of its retained earnings. This proposal of the company, of course, will not result in the withdrawal of cash from the operations but merely in the transfer of \$50,540 from its surplus account to its capital stock account and in the permanent retention of earnings of that amount in the business.

Applicant's financial reports filed with the Commission show that its operating revenues increased from \$167,411 in 1958 to \$232,434 in 1961 and its net income from \$20,793 to \$28,572. Its recorded investment in telephone plant increased from \$342,367 at the beginning of 1958 to \$573,684 at the close of 1961. Upon reviewing the application and the company's financial statements, we find and conclude that applicant is required to obtain funds from external sources to meet its capital requirements and, with respect to the proposed share dividend, that its earnings from operations have been in excess of the proposed stock issue, that such earnings have been retained in the business of the utility and that an order is warranted authorizing the issue of shares to capitalize a portion of such retained earnings.

In issuing our order herein we are making no finding of the value of applicant's properties or stock and we place applicant on notice that we will not regard the dividends paid on its shares as measuring or determining the rate of return the company should be allowed to earn on its investment in properties. Our action herein is for the issue of stock only and is not to be construed as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

C R D E R

The Commission having determined that a public hearing is not necessary on the above-entitled matter and being of the opinion that the application should be granted, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required 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 ORDERED that -

1. Kerman Telephone Company, on or after the effective date hereof and on or before December 31, 1962, may issue not to exceed 2,445 shares of its common stock at the price, under the terms, and for the purposes set forth in this application.

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 shall become effective twenty days after the date hereof.

Dated at San Francisco, California,
this 10th day of JULY, 1962.

George G. Grover
President

[Signature]

[Signature]

[Signature]

Fredrick B. Holschaff
Commissioners