

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 11th
day of December, 1992.

In the matter of the application of RBJ Corp.)
and KLM Telephone Company for authority (1))
for RBJ to acquire, take or hold more than)
ten percent of the total capital stock of) CASE NO. TM-93-22
KLM Telephone Company, and (2) for KLM)
Telephone Company to execute a Deed of Trust,)
Security Agreement and Financing Statement to)
secure a loan for \$2,600,000.)

ORDER APPROVING STOCK PURCHASE

On July 23, 1992, RBJ Corporation (RBJ) filed an application requesting authority to acquire, take, and hold all of the issued and outstanding capital stock of KLM Telephone Company (KLM). On October 9, 1992, RBJ and KLM filed an amended joint application requesting authority for KLM to execute a Deed of Trust, Security Agreement and Financing Statement to secure financing for the stock purchase.

In order to facilitate the purchase of KLM's stock by RBJ, the Holway Finance Company (HFC), a subsidiary of Holway Telephone Company which is a subsidiary of RBJ, is to borrow \$2.6 million from the National Bank for Cooperatives (CoBank). HFC will provide the loan proceeds to RBJ in order to finance the purchase of KLM's stock and RBJ will guarantee the debt. As partial security for the loan, CoBank requires that KLM execute and deliver to CoBank a Deed of Trust, Security Agreement and Financing Statement.

RBJ is a holding company which provides local exchange telephone service to the public through wholly-owned subsidiaries. KLM is a telecommunications company and a public utility as those terms are defined by Section 386.020, RSMo Supp. 1991, providing telecommunications service to

approximately 1250 customers located in four exchanges in the Missouri Counties of Bates and Vernon.

RBJ states that the acquisition of KLM's stock by RBJ will not be detrimental to the public because RBJ, through KLM, expects to employ many, if not all, of the existing employees of KLM who currently assist in providing telephone service to its customers and to the extent KLM requires additional managerial and operational expertise, RBJ can and will provide such additional expertise as its principals have vast experience and expertise in the provision of telecommunications service. Also, RBJ proposes no immediate change in any of KLM's current tariff rules and rates and will continue to render telecommunications service pursuant to such rules and rates upon Commission approval of its application.

On November 16, 1992, the Staff of the Commission (Staff) filed a memorandum recommending that the Commission approve the application on the following conditions:

- (1) that RBJ book the acquisition adjustment below the line for accounting purposes; and
- (2) That this order include language making it clear that approval does not constitute any determination of the ratemaking treatment to be accorded this transaction.

Also on November 16, 1992, the Office of the Public Counsel (Public Counsel) filed a motion for a hearing in this case. On November 19, 1992, Public Counsel waived its motion for a hearing subject to the following conditions:

- (a) that RBJ and KLM identify separately on their books and records the costs associated with the acquisition so that these costs can be identified and excluded from the cost of service charged to Missouri ratepayers;
- (b) that RBJ and KLM identify separately for Staff and Public Counsel journal entries at the corporate parent level and the Missouri jurisdictional level so no acquisition costs or any acquisition premium or adjustment will be

included in the cost of service charged to Missouri ratepayers;

- (c) that KLM continue to abide by the Commission's quality of service rule, 4 CSR 240-32, and not consolidate with any other subsidiary of RBJ the reporting of data required by this rule for a period of two years after the acquisition without prior notice to Staff and Public Counsel;
- (d) that KLM continue to maintain separate basic property records as long as it is a separate legal corporate entity;
- (e) that KLM notify Staff and Public Counsel at least 60 days prior to relocating any portion of its books and records currently being kept in Missouri to any other jurisdiction; and
- (f) that KLM notify Staff and Public Counsel at least two months prior to any scheduled or required notice to its customers or the public of its intent to implement any plans during the first two years after the acquisition resulting in significant changes in its current operations.

Based on Staff's analysis of financial data prepared by RBJ, the overall capital structure of the combined companies after the stock purchase would consist of 79.96 percent long-term debt and 20.04 percent common equity. Staff indicates that while the equity ratio is somewhat lower than it should be for a regulated utility, the acquisition should not be detrimental to RBJ's continued operations or its ratepayers.

Staff also reviewed the relevant financial ratios and indicates that after the stock purchase, RBJ's Times Interest Earned Ratio will be 1.58x. According to Staff's calculations, RBJ should be able to meet the coverage requirements of 1.50x set forth in the Guaranty Agreement with the CoBank. Additional covenants set forth in the Guaranty Agreement include a minimum current ratio (current assets divided by current liabilities) of 1 to 1 and a ratio of net worth to total assets (shareholders' equity divided by total assets) of .15 to 1 as of fiscal year-end 1992. The net worth requirement is to increase each year as follows: to .18 to 1 as of year-end 1993, to .21 to 1 as of year-

end 1994, and to .25 to 1 as of year-end 1995. Staff's calculations indicate that RBJ's equity ratio of 20.04 percent should meet the net worth criteria for 1992. As for the current ratio requirement, the financial data provided by RBJ indicates a current ratio of 1.83 (\$686,342/374,696) which exceeds the 1 to 1 requirement set forth in the Guaranty Agreement. Staff indicates that the acquisition of KLM by RBJ should not be detrimental to the ratepayers of either company.

The Commission finds that, in this case, the overall capital structure of the combined companies, the adjustments in the relevant financial ratios, and the financing plan are all reasonable. The Commission also finds that RBJ's acquisition of KLM will have a minimal impact on Missouri jurisdictional operations. The Commission further finds that the conditions recommended by Staff and Public Counsel are reasonably designed to protect the public interest. Thus, the Commission finds that the purchase of KLM's stock by RBJ is not detrimental to the public interest and should be approved.

IT IS THEREFORE ORDERED:

1. That RBJ Corporation is hereby authorized to acquire, take and hold all of the issued and outstanding capital stock of KLM Telephone Company in accordance with the application and this Order.

2. That KLM Telephone Company is hereby authorized to execute and deliver a Deed of Trust, Security Agreement and Financing Statement in accordance with the application and this Order.

3. That RBJ Corporation and KLM Telephone Company are hereby authorized to take any and all other actions necessary to effectuate the stock purchase authorized in Ordered Paragraph 1.

4. That the stock purchase approved in Ordered Paragraph 1 shall be subject to the conditions specified in this Order.

5. That nothing in this Order shall be considered as a finding by the Commission of the value for ratemaking purposes of the properties herein involved, nor as an acquiescence in the value placed upon said property by RBJ Corporation and KLM Telephone Company.

6. That the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions in any later proceeding.

7. That this Order shall become effective on 22nd day of December, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,
Perkins and Kincheloe, CC.,
concur.