

ORIGINAL

Decision No. 48297

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the joint Application)	
of	:	
EXETER TELEPHONE COMPANY, LTD. and)	
CORCORAN TELEPHONE EXCHANGE for an	:	Application
order authorizing Exeter Telephone Com-)	No. 34044
pany, Ltd. to sell and convey its tele-	:	
phone system to Corcoran Telephone)	
Exchange.	:	
-----)	

In the Matter of the Application)	
of	:	
CORCORAN TELEPHONE EXCHANGE for)	Application
an order authorizing it to issue	:	No. 34045
and sell its preferred and common)	
shares.	:	
-----)	

Eric Sutcliffe, of Orrick, Dahlquist, Neff & Herrington, for Corcoran Telephone Exchange; Joseph C. Kimble, for Exeter Telephone Company, Ltd.; Eldon N. Dye, for California Farm Bureau Federation, interested party; Claude Paragien, for subscribers of East Lynn and Deep Creek Telephone Association and Klink Rural Telephone Association, interested parties.

O P I N I O N

In these proceedings the Commission is asked to make its order or orders authorizing Exeter Telephone Company, Ltd. to sell and convey its telephone system to Corcoran Telephone Exchange and authorizing Corcoran Telephone Exchange to issue \$200,000 of its 6% cumulative preferred stock and \$293,600 of its common stock.

The applications were filed with the Commission on January 26, 1953. A public hearing was held in Exeter before Commissioner Potter and Examiner Coleman on February 16, 1953, at which time they were consolidated for the purpose of receiving evidence and for decision. In this decision, Exeter Telephone Company, Ltd. will be

referred to as Exeter and Corcoran Telephone Exchange as Corcoran.

The agreed purchase price to be paid by Corcoran for the properties of Exeter is the sum of \$294,752, plus an adjustment for the amount of accounts receivable, unbilled toll charges and labor costs properly chargeable to telephone plant accounts between November 30, 1952, and the closing date, the agreed price, according to the testimony, representing substantially the book value of the assets being transferred. The properties included in the transaction include a common battery switchboard, together with the building in which it is housed and the land upon which situated, and outside plant serving approximately 2,000 subscribers. It is the intention of the purchaser to continue in effect the present rates of Exeter.

To provide the purchase price and to recapitalize itself, Corcoran proposes at this time to issue shares of its preferred and common stock. Its plans call for the issue of \$40,540 of common stock at par in exchange for its presently outstanding stock of \$7,000 par value, thereby capitalizing retained earnings of \$33,540 and paying a stock dividend, for the issue of \$38,550 of such stock for the purpose of purchasing land and a building at Corcoran in which its present Corcoran switchboard is located, and for the issue of \$55,910 of such stock to pay outstanding notes in the amount of \$55,910, the three items aggregating \$135,000. The company in addition proposes to sell \$158,600 of its common stock and \$200,000 of its 6% preferred stock to finance the purchase price of the Exeter properties, to provide working funds, to pay attorneys' fees and other expenses incident to the proposed transaction in the amount of \$16,548, and to make an allowance for underwriter's commission of 10% of the par value of the stock to be sold.

The record shows that Corcoran has had earned surplus in excess of the proposed stock dividend and that such surplus has been

retained by it in its properties and business, that the purpose of the stock dividend is to bring the book value of the presently outstanding shares of stock to approximately the par value thereof, in advance of the offering of additional shares to other parties, that the land and building at Corcoran to be acquired is used and is required by Corcoran in its telephone operations, and that the outstanding indebtedness includes past-due notes representing moneys borrowed for additions to plant. As to the sale of the shares of stock to finance the Exeter purchase, the record shows that Corcoran, after discussing the matter with several investment banking institutions, arranged to dispose of its shares of stock to Bailey & Davidson under a firm underwriting agreement at a price equivalent to 90% of their par value. It appears that Bailey & Davidson propose to offer the shares of stock to the public at par, that is, \$25 a share for the preferred shares and \$10 a share for the common. The record indicates that these are the best arrangements Corcoran was able to make for the sale of its shares.

Upon consolidating the Corcoran and Exeter systems, it is planned to change the name of Corcoran to Central California Telephone Company. It appears that the consolidated system will have an investment in plant in excess of \$450,000, will provide service to approximately 3,160 subscribers at the outset with no held orders, and will have estimated annual revenues, based on the 1952 operations, of \$185,000, with estimated net profit of \$37,000. Its capital structure will consist entirely of shares of preferred and common stock, with no indebtedness outstanding other than current items.

According to the testimony, these systems are faced with large capital expenditures, with financing of the same being costly and difficult due to the small size of the plants and operations. It is reported by those in control of the affairs of Corcoran that by

combining the two properties into one ownership the larger investment base will permit the obtaining of funds under advantageous terms and that for this reason negotiations were had and consummated looking toward the purchase of Exeter by Corcoran. It is intended to proceed with the conversion of both the Corcoran and Exeter exchanges to dial operations, and the present financing has been confined to the issue of shares of preferred and common stock in order to permit the borrowing of funds at a later date to meet the cost of these and other improvements.

It is urged that the consolidation of the two systems will result in operating and management economies. The distance between the two exchanges is approximately 25 miles and it appears possible to use the same personnel to some extent. In addition, the record shows that there is an identity of ownership of the stock of Corcoran and the stock of Kern Mutual Telephone Company, a much larger utility operating in and about Taft and other communities in Kern County, and that it is intended to set up a service company whose costs of operation would be shared proportionately by Kern Mutual Telephone Company and the Corcoran company. Such an organization, according to the testimony, should result in an engineering staff capable of handling all engineering problems, a centralized customer billing system, a centralized purchasing system with economies through bulk buying, and standardized traffic, commercial and accounting operations.

The request is made for authorization to offer 2,500 shares of common stock to the present shareholders at \$9 a share, no underwriting expenses or commissions to be incurred. The record, however, in our opinion does not warrant an order authorizing the sale of shares of stock to Corcoran's present shareholders at a price differing from that at which the additional shares will be offered to the public. Accordingly, this request will not be granted.

Upon a full review of the record we are of the opinion that the proposed transfer will not be adverse to the public interest, 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 Corcoran for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred.

No protest to the transfer of the properties or the issue of the stock was made at the hearing. However, the subscribers of certain farmer lines took exception to the continued inclusion in the service area of Exeter of the territory in which the farmer lines operate and to the present foreign exchange rates for which they now are billed. These matters, however, are not at issue in the present proceedings. In our opinion, the rights of these individuals will in no way be changed by the transfer of title of the properties of Exeter to Corcoran, as here proposed.

ORDER

A public hearing having been held on the above entitled matters, and the Commission having considered the evidence and being of the opinion that the applications should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Exeter Telephone Company, Ltd., on and after the effective date hereof and on or before June 30, 1953, may sell and convey its telephone system to Corcoran Telephone Exchange in accordance

with the terms and conditions of the agreement of sale filed as Exhibit 1 in Application No. 34044 and, upon the consummation of such sale and conveyance, may cease furnishing and supplying telephone service in the area in which it now operates.

2. Corcoran Telephone Exchange, on and after the effective date hereof and on or before June 30, 1953, may issue and sell not exceeding \$200,000 par value of its 6% cumulative preferred stock and not exceeding \$158,600 of its common stock, at not less than 90% of the par value thereof, for the purpose of financing the purchase price of the properties of Exeter Telephone Company, Ltd., of paying expenses incurred in connection with such purchase and the issue and sale of said shares, and of reimbursing its treasury and providing working capital, all as set forth in Application No. 34045.

3. Corcoran Telephone Exchange, on and after the effective date hereof and on or before June 30, 1953, may issue \$40,540 par value of its common stock in exchange for the presently outstanding \$7,000 of stock for the purpose of reimbursing its treasury because of retained earnings invested in its plant and properties and, in connection with such issue, to transfer \$33,540 from earned surplus to stated capital. Corcoran Telephone Exchange may issue \$55,910 par value of its common stock in payment and discharge of \$55,910 principal amount of outstanding notes, and may issue \$38,550 par value of its common stock in payment for the land and building presently occupied by it in Corcoran.

4. Upon acquiring the properties of Exeter Telephone Company, Ltd. under the authorization herein granted, Corcoran Telephone Exchange shall charge the purchase price thereof to Account 276, Telephone Plant Acquired, and within six months thereafter shall file with the Commission its proposed journal entries to distribute the purchase price to primary plant and other accounts.

5. Corcoran Telephone Exchange shall set up and maintain its records so as to show for each exchange the investment in plant, the related depreciation reserve, and the revenues and expenses.

6. On or before the date of actual transfer, Exeter Telephone Company, Ltd. shall refund all deposits which customers are entitled to have refunded. Any unrefunded deposits shall be transferred to and become the obligation for refund of Corcoran Telephone Exchange.

7. The rates, rules and regulations of Exeter Telephone Company, Ltd. now on file with the Commission shall be refiled within thirty days after the date of transfer under the name of Corcoran Telephone Exchange, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, Corcoran Telephone Exchange may file a notice of adoption of said presently filed rates, rules and regulations. No increase in the present rates shall be made unless authorized by the Commission.

8. If the authority herein granted is exercised, Exeter Telephone Company, Ltd., within thirty days thereafter, shall notify the Commission in writing of the date of the completion of the transfer herein authorized and of its compliance with the conditions hereof.

9. Corcoran Telephone Exchange shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

10. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 24^{JW} day of February, 1953.

A. J. [Signature]
President

Justus J. [Signature]
Harold P. [Signature]

[Signature]
[Signature]
Commissioners