

**ORIGINAL**

Decision No. 71700

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of:

CENTRAL CALIFORNIA TELEPHONE  
COMPANY,  
DOS PALOS TELEPHONE CO., INC.,  
THE WESTERN TELEPHONE COMPANY,  
COLORADO RIVER TELEPHONE  
COMPANY,  
all California corporations,

Application No. 48959  
Filed November 18, 1966  
and Amendment  
Filed December 1, 1966

for authority (a) to merge, the  
latter to be the survivor with  
its name changed to Golden West  
Telephone Company, and (b) to  
carry out financing transactions  
related to the merger and to  
construction programs in their  
service areas.

(AMENDED TITLE)

O P I N I O N

This application concerns (a) the merger of Central California Telephone Company, Dos Palos Telephone Co., Inc. and The Western Telephone Company into Colorado River Telephone Company (name to be changed to Golden West Telephone Company), together with related financing transactions, and (b) additional issues of common stock and promissory notes, together with related agreements, all pertaining to the financing of construction in the service areas involved in this proceeding.

Applicants operate as public utility telephone companies furnishing communication services in various portions of the State of California. In addition, Colorado River Telephone Company operates in portions of the State of Arizona. Each applicant is a California corporation controlled through stock ownership by Continental Telephone Corporation, a Delaware corporation. With respect to the four applicants, together with Parker Valley Telephone Co. (which the Commission recently authorized to be merged into Colorado River Telephone Company), the reported aggregate number of telephones in service at December 31, 1965, amounts to 26,103, of which 24,704 are located in the State of California.

The number of shares of each applicant's stock held by Continental Telephone Corporation and by others is summarized from data set forth in the application, as follows:

	<u>Continental</u>	<u>Others</u>	<u>Total</u>
Central California Telephone Company			
Common Stock, \$10 par value	58,214	3,676	61,890
Preferred Stock, 6%, \$25 par value		8,000	8,000
Colorado River Telephone Company			
Common Stock, \$1 par value	44,652		44,652
Preferred Stock, 5-1/8%, \$100 par value		2,250	2,250
Dos Palos Telephone Co., Inc.			
Common Stock, \$1 par value	48,495		48,495
Preferred Stock, 5%, \$1 par value	50,000		50,000
The Western Telephone Company			
Common Stock, \$25 par value	24,141	1,066	25,207
Preferred Stock, 4-1/2%, \$25 par value	3,272		3,272
Preferred Stock, 5%, \$25 par value	356	379	735
Preferred Stock, 5-1/2%, \$25 par value	473	1,652	2,125

Revised Exhibit E, attached to the amendment to the application, consists of a copy of an Agreement of Merger which, among other things, will amend the Articles of Incorporation of the surviving corporation, Colorado River Telephone Company, so as to change its name to Golden West Telephone Company, and will provide for shares of stock consisting of the following:

	<u>No. of Shares</u>	<u>Par Value</u>	<u>Aggregate Par Value</u>
Common Stock	1,500,000	\$ 1	\$1,500,000
Cumulative Preferred Stock	12,500	100	1,250,000
Cumulative Preference Stock	<u>10,031</u>	25	<u>250,775</u>
Total	<u>1,522,531</u>		<u>\$3,000,775</u>

The Articles of Incorporation, as amended, will provide also that (1) each common share of the surviving corporation outstanding immediately prior to the effective date of the merger will be split and reconstituted into ten common shares; (2) the initial series of preferred shares will be designated as 5-1/8% Cumulative Preferred Stock and will consist of 2,250 shares; and (3) the preference stock will be divided into three series consisting of (a) 379 shares bearing a 5% of par value annual dividend rate, (b) 1,652 shares bearing a 5-1/2% of par value annual dividend rate and (c) 8,000 shares bearing a 6% of par value annual dividend rate.

In addition to the splitting and reconstituting of each share of outstanding common stock of the surviving corporation into ten common shares, the Agreement of Merger provides that the 2,250 outstanding shares of such corporation's 5-1/8% Cumulative Preferred Stock, \$100 par value, will be converted into 2,250 shares of 5-1/8% Cumulative Preferred Stock, \$100 par

value, under the Articles of Incorporation, as amended thereby. Similarly, the 379 shares of 5% preference stock, 1,652 shares of 5-1/2% preference stock and 8,000 shares of 6% preference stock will result from conversions of the 379 shares of 5% preferred stock and 1,652 shares of 5-1/2% preferred stock of The Western Telephone Company and the 8,000 shares of 6% preferred stock of Central California Telephone Company, respectively, all of which shares are held by others than Continental Telephone Corporation.

With respect to the balance of the outstanding shares of applicants' stock, the Agreement of Merger contains conversion factors whereby each existing share will be converted into the number of common shares of the surviving corporation to be derived by applying multipliers, as follows:

	<u>Multiplier</u>
Central California Telephone Company	
Common Stock, \$10 par value	4.56
Dos Palos Telephone Co., Inc.	
Common Stock, \$1 par value	1.373
Preferred Stock, 5%, \$1 par value	.096
The Western Telephone Company	
Common Stock, \$25 par value	10.8
Preferred Stock, 4-1/2%, \$25 par value	2.2
Preferred Stock, 5%, \$25 par value	2.4
Preferred Stock, 5-1/2%, \$25 par value	2.6

All of the preferred stock reflected in the above tabulation is held by Continental Telephone Corporation. The application shows that in determining the applicable conversion factors appropriate discounts were made from the par value of such preferred stock to reflect current conditions in the money market, and that the shares of common stock of the surviving corporation

were valued at \$9.20 per share, being the price at which additional shares are to be sold after the merger. Applicants report that the conversion factors with respect to the common stock shown in such tabulation were determined on the basis of each constituent corporation's contribution to total net income for the 21 months ended September 30, 1966. Cash at the rate of \$9.20 for a full common share of the surviving corporation will be paid in lieu of fractions of common shares.

A pro forma balance sheet of Golden West Telephone Company as of September 30, 1966, giving effect to the merger proposed in this proceeding, as computed from data set forth in the application, as amended, is as follows:

<u>Assets</u>		
Net telephone plant		\$16,253,820
Investments		40,080
Current assets		2,313,351
Deferred charges		<u>122,515</u>
<b>Total</b>		<b><u>\$18,729,766</u></b>
<u>Liabilities</u>		
Common stock, \$ 1 par value		\$ 1,081,637
Preferred stock, \$100 par value		225,000
Preference stock, \$ 25 par value		250,775
Paid-in surplus		1,330,629
Retained earnings		1,525,996
Long-term debt		12,755,141
Current liabilities		1,545,594
Deferred credits		<u>14,994</u>
<b>Total</b>		<b><u>\$18,729,766</u></b>

Estimated construction program expenditures applicable to the service areas involved in this proceeding amount to \$2,525,909 for 1967 and \$2,100,000 for 1968. The application shows that such expenditures will be met, in part, from internal

sources and outstanding Rural Electrification Administration loan commitments.

Colorado River Telephone Company proposes to issue \$500,000 principal amount of its 6% Promissory Notes due July 1, 1991, in favor of Pacific Mutual Life Insurance Company pursuant to the terms of a loan agreement. This departure from Rural Electrification Administration financing is similar to that described in Decision No. 70373, dated February 23, 1966, in Application No. 48205, which authorized Central California Telephone Company to issue \$630,000 aggregate principal amount of its promissory notes in favor of Pacific Mutual Life Insurance Company.

One of the conditions for said \$500,000 borrowing is that Colorado River Telephone Company must increase its equity capital by \$250,000. Inasmuch as the company anticipates borrowing \$200,000 of the \$500,000 before the merger, it will be required to increase its equity capital by \$100,000 prior to such borrowing. Colorado River Telephone Company intends to enter into a Subscription Agreement providing for the sale to Continental Telephone Corporation of (a) 1,037 shares of its common stock prior to the merger at a price of \$92 per share and (b) 16,304 shares of its common stock subsequent to the merger at a price of \$9.20 per share. The difference in price reflects the anticipated 10-for-1 split up to become effective immediately prior to the merger. If none of the shares should be sold prior to the merger, then all of the shares would be sold at a price of \$9.20 per share, so that in any event the aggregate proceeds would amount to \$250,000.

Colorado River Telephone Company proposes also to enter into an agreement whereby Crocker-Citizens National Bank will extend to it a revolving line of credit, up to an amount of \$2,000,000 at any one time outstanding, from January 31, 1967 until January 31, 1969. Each borrowing will be evidenced by a promissory note to become due and payable not later than January 31, 1969, and bearing interest at a fluctuating rate equal to 1/4% in excess of the bank's prime commercial loan rate.

The proceeds to be derived from the notes in favor of Pacific Mutual Life Insurance Company and Crocker-Citizens National Bank, and from the sale of additional shares of common stock to Continental Telephone Corporation will be expended for capital additions, the retirement of bank loans incurred or to be incurred for making capital additions, and reimbursement of treasury for funds heretofore or hereafter expended for capital additions, all relating to the service areas involved in this proceeding.

Upon the merger becoming effective, Golden West Telephone Company will assume all of the outstanding indebtedness of the other constituent corporations being merged into it, including indebtedness represented by Rural Electrification Administration loans. In this connection, the surviving corporation desires authority to execute a Supplemental Mortgage and an Amendment to its Telephone Loan Contract with the United States of America similar to those authorized with respect to the merger of Parker Valley Telephone Co. into Colorado River Telephone Company.

It appears that previously committed Rural Electrification Administration unadvanced funds are available in amounts of \$263,000 for Parker Valley Telephone Co. and \$1,000,000 for The Western Telephone Company. To the extent that such amounts are not reduced by advances prior to merger, Colorado River Telephone Company, as the surviving corporation, anticipates obtaining funds from such commitments through issuing its notes in lieu of further notes being issued by Parker Valley Telephone Co. and The Western Telephone Company.

Applicants anticipate that the proposed merger will result in economies such as reduction of accounting records, elimination of numerous financing arrangements and related costs, reduction of auditing and legal fees and a simplified management function.

The Commission has considered this matter and finds that: (1) the proposed transactions will not be adverse to the public interest; (2) the proposed stock and note issues are for proper purposes; (3) the money, property or labor to be procured or paid for by the issue of the stock and notes herein authorized is reasonably required for the purposes specified herein; and (4) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application, as amended, should be granted. A public hearing is not necessary.

In issuing our order herein, we place applicants and their shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return they should be allowed



to earn on their investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of their stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Central California Telephone Company, Dos Palos Telephone Co., Inc. and The Western Telephone Company may merge into Colorado River Telephone Company, the latter to continue as the surviving corporation under the name of Golden West Telephone Company.
2. Applicants may consummate the merger in accordance with an Agreement of Merger in the same form, or in substantially the same form, as Revised Exhibit E, attached to the amendment to the application.
3. In accordance with the Agreement of Merger, Colorado River Telephone Company may effect a 10-for-1 split up of its shares of common stock, such split up to become effective immediately prior to the merger.
4. Golden West Telephone Company may issue 2,250 shares of its 5-1/8% Cumulative Preferred Stock in conversion of an equal number of outstanding shares of 5-1/8% Cumulative Preferred Stock of Colorado River Telephone Company.

5. Golden West Telephone Company may issue not to exceed 379 shares of its 5% Cumulative Preference Stock, 1,652 shares of its 5-1/2% Cumulative Preference Stock and 8,000 shares of its 6% Cumulative Preference Stock in conversion of respective equal numbers of shares of 5% and 5-1/2% Cumulative Preferred Stock of The Western Telephone Company and 6% Cumulative Preferred Stock of Central California Telephone Company.

6. In accordance with the Agreement of Merger, Golden West Telephone Company may issue not to exceed 635,117 shares of its common stock in conversion of not to exceed 25,207 shares of outstanding common stock and 4,101 shares of outstanding preferred stock of The Western Telephone Company, 48,495 shares of outstanding common stock and 50,000 shares of outstanding preferred stock of Dos Palos Telephone Co., Inc., and 61,890 shares of outstanding common stock of Central California Telephone Company.

7. Colorado River Telephone Company may issue and sell to Continental Telephone Corporation not to exceed 1,087 shares of its common stock at a price of \$92 per share, if sold prior to the merger herein authorized, and not to exceed 16,304 shares of its common stock at a price of \$9.20 per share, if sold subsequent to such merger; however, the number of shares and price of such stock are subject to adjustment pursuant to the anti-dilution provision contained in the Subscription Agreement, which may be executed and delivered in the same form, or in substantially the same form, as that attached to the application as Exhibit D, as modified by the amendment to the application.

8. Colorado River Telephone Company may execute and deliver a loan agreement with Pacific Mutual Life Insurance Company and, pursuant to the terms thereof, may issue not to exceed \$500,000 principal amount of its 6% promissory notes, which agreement and notes shall be in the same form, or in substantially the same form, as those attached to the application as Exhibit C.

9. Colorado River Telephone Company may execute and deliver a credit agreement with Crocker-Citizens National Bank and, pursuant to the terms thereof, may issue its promissory notes in the aggregate principal amount of not to exceed \$2,000,000 at any one time outstanding, which agreement and notes shall be in the same form, or in substantially the same form, as those attached to the amendment to the application as Exhibit H.

10. Colorado River Telephone Company shall use the proceeds to be derived from issuing the stock and notes herein authorized for the purposes specified in this proceeding.

11. Golden West Telephone Company may execute and deliver an Amendment to Telephone Loan Contract and a Supplemental Mortgage in the same form, or in substantially the same form, as those referred to in the application.

12. Golden West Telephone Company, as successor to Parker Valley Telephone Co. and The Western Telephone Company, may issue 2% promissory notes in favor of the United States of America. Said notes shall be in principal amounts aggregating not to exceed \$1,263,000 or such lesser amount as may result

from draw downs prior to merger, shall be in the same form, or in substantially the same form, as those previously authorized for Parker Valley Telephone Co. and The Western Telephone Company, and the proceeds to be derived therefrom shall be expended for the purposes contemplated by the previous authorizations pertaining thereto.

13. Golden West Telephone Company, after the consummation of the merger herein authorized, shall maintain its records in such form as to show separately the investment in properties, operating revenues and operating expenses for each of the areas for which applicants presently maintain records, including a segregation of such items between Arizona and California.

14. Golden West Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

15. Within five days after the effective date of the merger herein authorized, Golden West Telephone Company shall file with the Commission, by advice letters, notices of adoption of the presently filed tariff schedules of each company merged into it.

16. The respective tariff schedules of the companies so merged and of Parker Valley Telephone Co., now on file with the Commission, shall be refiled on or before April 30, 1967, under the name of Golden West Telephone Company, in accordance with the requirements of General Order No. 96-A, except that Golden West Telephone Company may withdraw such of each corporation's rules and standard forms as are substantially identical

with those of Golden West Telephone Company, and the withdrawal of which will not result in increases in rates or more restrictive conditions than the presently filed tariffs of each respective corporation. This paragraph supersedes Ordering Paragraph No. 7 of Decision No. 71249, dated September 6, 1966, in Application No. 48709, which pertains to the refiling of tariff schedules of Parker Valley Telephone Co.

17. Within sixty days after the consummation of such merger, Golden West Telephone Company shall file with the Commission a copy of each journal entry used to record the merger on its books of account.

18. On or before the end of the third month after the consummation of the merger herein authorized, Golden West Telephone Company shall cause to be filed with the Commission, in such form as the Commission may prescribe, an annual report, or reports, related to the respective operations of each company merged into it, for the period commencing with the first day of the calendar year in which the merger occurs to and including the effective date for accounting purposes of the merger.

19. Colorado River Telephone Company and Golden West Telephone Company, being two names for the same corporation, may be used interchangeably wherever either name appears in this decision.

20. This order shall become effective when Colorado River Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,750.

Dated at San Francisco, California,  
this 13<sup>th</sup> day of DECEMBER, 1966.

Commissioner George C. Grover did not participate in the disposition of this proceeding.

[Signature]  
President

Commissioner Frederick B. Holoboff did not participate in the disposition of this proceeding.

[Signature]  
[Signature]  
Commissioners

