

ORIGINAL

Decision No. 73620

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)
))
CALIFORNIA INTERSTATE TELEPHONE)
COMPANY)
))
for an order or orders)
authorizing (1) applicant to)
issue shares of its common)
stock, \$5 par value, for cash)
or in cancellation of)
indebtedness and in exchange for)
the outstanding common stock of)
Henderson Telephone Company,)
Inc., and (2) the merger of)
Henderson Telephone Company,)
Inc. into applicant.)

Application No. 49794
Filed November 14, 1967
and Amendment
Filed December 12, 1967

O P I N I O N

California Interstate Telephone Company is a California corporation furnishing local and toll telephone service in portions of California and Nevada. In this proceeding the utility seeks authority (1) to issue and sell 55,600 shares of its \$5 par value common stock for an aggregate consideration of \$2,502,000, and (2) to issue an additional 37,158 shares of its common stock in connection with a proposed merger.

Applicant has been authorized previously to issue and sell securities to finance a portion of its 1967 construction costs, the latest authorization being for \$7,000,000 of First Mortgage Bonds as set forth in Decision No. 73174, dated October 10, 1967, in Application No. 49679.

The present application shows that the utility has received advances totaling \$2,500,000 from its parent company, Continental Telephone Corporation, in connection with the financing of its 1967 construction program. Applicant now proposes to issue and sell 55,600 shares of its common stock to Continental Telephone Corporation at a price of \$45 per share in consideration for cancellation of the \$2,500,000 of advances and a \$2,000 cash payment which will be used for construction purposes. It is stated that the \$45 per share purchase price of the common stock is the highest cash price which the parent company is presently prepared to pay.

California Interstate Telephone Company also proposes to issue an additional 37,158 shares of its common stock in exchange for all the outstanding common stock of Henderson Telephone Company, Inc., a Nevada corporation. The latter, a wholly owned subsidiary of Continental Telephone Corporation, provides telephone service in the State of Nevada to approximately 5,000 stations located in the City of Henderson and surrounding territory south of Las Vegas. Substantially concurrent with the acquisition of said stock, applicant plans to merge Henderson Telephone Company, Inc. into itself.

The application shows that in connection with the proposed merger applicant would assume the outstanding long-term debt of Henderson Telephone Company, Inc., which debt amounts to approximately \$1,025,000. The pro forma balance sheet, attached to the application as part of Exhibit B, shows that the proposed 37,158 shares of common stock plus the

corresponding premium will equal the common stock equity of Henderson Telephone Company, Inc., which amounted to \$467,485 as of September 30, 1967.

According to the amendment to the application, the number of shares to be issued with respect to the merger is based on the relative earnings of the two companies for the 21-month period ended September 30, 1967. It is stated that the proposed exchange of stock will neither dilute nor enhance the earnings per share of applicant's outstanding common stock owned by minority shareholders as well as by Continental Telephone Corporation. Moreover, applicant asserts that the foregoing basis is more than fair in view of the fact that the parent corporation paid in excess of \$100 per share for the stock of Henderson Telephone Company, Inc.

The Commission has considered this matter and finds that: (1) Henderson Telephone Company, Inc. conducts business wholly within the State of Nevada and is not a public utility within the meaning of the California Public Utilities Code; (2) the proposed stock issues are for proper purposes; (3) 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; (4) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; and (5) the assumption of outstanding indebtedness in connection with the proposed merger will not be adverse to the public interest.

On the basis of the foregoing findings we conclude that the application, as amended, should be (a) dismissed for lack of jurisdiction with respect to the proposed merger and (b) granted in all other respects. A public hearing is not necessary.

In issuing our order herein, we place applicant and its 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 applicant should be allowed to earn on its investment in plant, and that the authorization herein given is not to be construed as a finding of the value of applicant's 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. California Interstate Telephone Company, for the purposes specified in this proceeding, may assume outstanding indebtedness and may issue not exceeding 92,758 shares of its \$5 par value common stock in the manner set forth in the application.

2. California Interstate 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.

3. This application, insofar as it seeks authority pertaining to the proposed merger of Henderson Telephone Company, Inc. into California Interstate Telephone Company, is dismissed.

4. The effective date of this order is the date hereof.

Dated at San Francisco, California,
this 16th day of JANUARY, 1967.

[Signature]
President

[Signature]

[Signature]

[Signature]
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.