

**ORIGINAL**

Decision No. 75833

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 )  
 CALIFORNIA INTERSTATE TELEPHONE )  
 COMPANY and GOLDEN STATE TELEPHONE )  
 COMPANY )  
 )  
 for an order or orders authorizing )  
 (i) the merger of Golden State )  
 Telephone Company into California )  
 Interstate Telephone Company and )  
 (ii) California Interstate Telephone )  
 Company to issue its securities. )  
 \_\_\_\_\_ )

Application No. 51136  
Filed June 3, 1969

O P I N I O N

California Interstate Telephone Company requests an order of the Commission authorizing it to acquire all the outstanding capital stock of Golden State Telephone Company, and thereafter to merge said company into itself. In addition, California Interstate Telephone Company seeks authority to issue bonds and shares of its capital stock in exchange for corresponding securities of Golden State Telephone Company. In connection with the bonds the surviving corporation desires authority to execute and deliver a supplemental indenture under its proposed new name of Continental Telephone Company of California.

Applicants are California corporations operating as public utility telephone companies furnishing communication services in various portions of the State of California. In addition, California Interstate Telephone Company operates in the western portion of the State of Nevada. Each of the two corporations is a subsidiary of Continental Telephone Corporation, a Delaware corporation. For the year 1968, California Interstate Telephone Company and Golden State Telephone Company report operating revenues of \$24,827,040, and \$5,836,104, respectively. Their reported assets and liabilities at April 30, 1969, are summarized as follows:

	<u>California Interstate Telephone Company</u>	<u>Golden State Telephone Company</u>
<u>Assets</u>		
Telephone plant less depreciation reserve	\$108,679,156	\$20,254,915
Current assets	4,362,669	1,586,063
Other assets	<u>1,540,173</u>	<u>208,283</u>
Total	<u>\$114,581,998</u>	<u>\$22,049,261</u>
<u>Liabilities</u>		
Common stock	\$ 7,299,805	\$ 1,500,000
Preferred stock	9,820,000	1,296,000
Capital surplus	20,046,966	4,809,418
Earned surplus	9,472,231	2,423,954
Long-term debt (including current portion)	65,354,000	11,179,750
Current liabilities	2,293,926	436,372
Deferred credits	<u>295,070</u>	<u>403,767</u>
Total	<u>\$114,581,998</u>	<u>\$22,049,261</u>

The common stock of California Interstate Telephone Company is represented by 1,459,961 shares of the par value of \$5 each. By Decision No. 75669, dated May 20, 1969, in Application No. 51020, the Commission authorized the company to issue and sell not exceeding 44,445 additional shares of such stock at a price of \$45 per share aggregating approximately \$2,000,000.

With respect to Golden State Telephone Company the outstanding common stock is represented by 150,000 shares of the par value of \$10 each. The outstanding preferred stock has a par value of \$25 per share with 38,400 shares bearing a 6-1/4% dividend rate and 13,440 shares bearing a 5-1/8% dividend rate.

In order to accomplish the proposed merger in accordance with Section 4124 of the California Corporations Code, California Interstate Telephone Company must own all the outstanding capital stock of Golden State Telephone Company. The application states that Continental Telephone Corporation, which owns all the outstanding common stock of Golden State Telephone Company, will contribute such stock to California Interstate Telephone Company. The prayer of the application contains no request pertaining to the issuance of additional shares of common stock.

California Interstate Telephone Company proposes to issue 48,000 shares of its Cumulative Preferred Stock, Series C, and 16,800 shares of its Cumulative Preferred Stock Series D, in

exchange for said outstanding 38,400 shares and 13,440 shares, respectively, of Golden State Telephone Company. The new shares of preferred stock will have a par value of \$20 each and will bear the same dividend rates as apply to said presently outstanding shares of \$25 par value preferred stock.

Under its new name of Continental Telephone Company of California the surviving corporation under the merger intends to issue \$7,578,000 aggregate principal amount of its First Mortgage Bonds, Series F (5-5/8%) due 1990 in exchange for outstanding First Mortgage Bonds of Golden State Telephone Company held by Pacific Mutual Life Insurance Company. The new bonds will be subject to a seven-year restricted redemption provision.

It appears that the merger will cause the surviving corporation to become stronger as a result of its increased size. Also, applicants anticipate that some cost savings will result from the elimination of the necessity of keeping separate accounting records for the two companies as well as providing financing for each company on a separate basis.

After consideration the Commission finds that:

1. The proposed acquisition of stock, merger and supplemental indenture will not be adverse to the public interest.

2. The proposed stock and bond issues are for proper purposes.
3. The money, property or labor to be procured or paid for by the issue of the stock and bonds herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. In issuing our order herein, we place the surviving corporation 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 the company should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of its 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 may acquire all the outstanding capital stock of Golden State Telephone Company, and thereafter may merge said company into itself pursuant to the provisions of Section 4124 of the California Corporations Code.

2. California Interstate Telephone Company may issue 48,000 shares of its Cumulative Preferred Stock, Series C, \$20 par value, in exchange for the 38,400 outstanding shares of 6-1/4% \$25 par value preferred stock of Golden State Telephone Company, and the former may issue 16,800 shares of its Cumulative Preferred Stock, Series D, \$20 par value, in exchange for the 13,440 outstanding shares of 5-1/8% \$25 par value preferred stock of the latter. The Series C and D stock shall be in conformance with a Certificate of Determination of Preferences in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D.

3. California Interstate Telephone Company, under its new name of Continental Telephone Company of California, may execute and deliver a Tenth Supplemental Indenture in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit C.

4. Continental Telephone Company of California may issue not exceeding \$7,578,000 aggregate principal amount of its First Mortgage Bonds, Series F (5-5/8%) due 1990, in exchange for outstanding bonds of Golden State Telephone Company presently held by Pacific Mutual Life Insurance Company.

5. Continental Telephone Company of California 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 California and Nevada.

6. Continental Telephone Company of California 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.

7. Within thirty days after consummating the merger herein authorized, Continental Telephone Company of California shall file with the Commission a certified copy of the certificate filed with the Secretary of State in accordance with Section 4124 of the California Corporations Code.

8. Within five days after the effective date of the merger herein authorized, Continental Telephone Company of California shall file with the Commission, by advice letter, a notice of adoption of the presently filed tariff schedules of Golden State Telephone Company.

9. The respective tariff schedules of Golden State Telephone Company and California Interstate Telephone Company, now on file with this Commission, shall be refiled within ninety days after the effective date of the merger herein authorized under the name of Continental Telephone Company of California, in accordance with the requirements of General Order No. 96-A, except that Continental Telephone Company of California may withdraw such of the merged corporation's rates, rules, conditions and standard forms as are substantially identical with those of California

Interstate Telephone Company, and the withdrawal of which will not result in increases in rates nor more restrictive conditions than the presently filed tariff schedules of either merged company.

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

11. On or before the end of the third month after the consummation of the merger herein authorized, Continental Telephone Company of California shall cause to be filed with the Commission, in such form as the Commission may prescribe, an annual report, or reports, related to the operations of Golden State Telephone Company for the period commencing with the first day of the current year to and including the effective date of the merger.

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

Dated at San Francisco, California,  
this 24 day of JUNE, 1969.

William Sproull  
President  
Augustine  
Richard P. Manssey  
William J. ...  
Thomas  
Commissioners