

ORIGINAL

Decision No. 78709

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)
))
CONTINENTAL TELEPHONE COMPANY OF)
CALIFORNIA and GOLDEN WEST)
TELEPHONE COMPANY)
))
for an order authorizing (i))
Golden West Telephone Company)
to transfer its business and)
assets to Continental Telephone)
Company of California and (ii))
Continental Telephone Company)
of California to issue its)
securities, to assume the)
liabilities of Golden West)
Telephone Company and to)
encumber properties.)

Application No. 52493
Filed March 11, 1971

Orrick, Herrington, Rowley & Sutcliffe, by
James F. Crafts, Jr., Attorney at Law, for
applicants.
James G. Shields, Kenneth K. Chew and
Sidney J. Webb, for the Commission staff.

O P I N I O N

Golden West Telephone Company seeks an order of the Commission authorizing it to transfer its public utility business and related assets to Continental Telephone Company of California. The latter seeks authority (a) to assume liabilities of the former, (b) to issue \$12,000,000 principal amount of bonds and \$4,097,400 of debentures, (c) to execute and deliver supplemental indentures pertaining to said bonds and debentures, (d) to issue 12,500 shares and 9,890 shares of its \$20 par value preferred stock of Series F and G, respectively, and (e) to issue 343,409 shares of its \$5 par value common stock.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on April 9, 1971. During the hearing the application was amended so as to increase the amount of requested common stock authorization from 316,235 shares to 343,409 shares. At the conclusion of the hearing the Commission's Utilities Division expressed concurrence with the tariff filing approach set forth in the application, and the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicants are California corporations furnishing local and toll telephone service in portions of California. In addition, Golden West Telephone Company and Continental Telephone Company of California operate in portions of Arizona and Nevada, respectively. Both corporations are subsidiaries of Continental Telephone Corporation, a Delaware corporation.

Golden West Telephone Company proposes to transfer substantially all its assets to Continental Telephone Company of California in exchange for 343,409 shares of common stock, 12,500 shares of 6% Cumulative Preferred Stock, Series F, 9,890 shares of 5-1/8% Cumulative Preferred Stock, Series G, and the assumption by the latter of liabilities of the former, all pursuant to a Plan and Agreement of Reorganization, a copy of which is attached to the application as Exhibit D.

The 343,409 shares of \$5 par value common stock contemplate that holders of \$1 par value common stock of Golden West Telephone Company would exchange 4 of their shares for 1 of the \$5 par value shares. For several years, the price per share for common stock of Continental Telephone Company of California and Golden West Telephone Company has been \$45 and \$9.20, respectively. Believing the proposed exchange ratio to be fair and reasonable to the minority stockholders of each company by balancing three elements of value, applicants state the following:

" . . . Such issuance will provide a benefit to the holders of common stock of Golden West on the basis of the historical cash prices referred to above and will also, based upon the relative book values of the common stocks of the two companies at December 31, 1970, result in a minor dilution in the book value of the common stock of Continental of California. However, since the earnings of Golden West are relatively larger than the earnings of Continental of California, the one-for-four exchange ratio will result in an increase in the earnings per share of Continental of California after giving effect to the transaction on a pooling-of-interests basis . . ."

The number of shares of \$20 par value Series F and Series G preferred stock contemplates that holders of \$25 par value preference stock and \$100 par value preferred stock of Golden West Telephone Company would exchange their shares for 1-1/4 and 5 of the \$20 par value shares, respectively.

According to the application, the liabilities of Golden West Telephone Company to be assumed by Continental Telephone Company of California include outstanding balances of approximately \$12,440,000 on Rural Electrification Administration 2% notes, and \$4,097,400 on unsecured notes held by Pacific Mutual Life Insurance Company. The latter include the \$2,000,000 9-1/2% note subject to restricted prepayment until January 1, 1981 authorized by Decision No. 78194, dated January 19, 1971, in Application No. 52345. In exchange for corresponding notes, Continental Telephone Company of California proposes to issue to the Rural Electrification Administration \$12,000,000 principal amount of First Mortgage Bonds, Series H (2%) due 1996, and to Pacific Mutual Life Insurance Company \$4,097,400 principal amount of 8% Sinking Fund Debentures due 1993, the latter to be subject to restricted redemption until January 1, 1978.

A statement of reported December 31, 1970 balance sheets of applicants reflecting the note and common stock authorized by said Decision No. 78194, together with adjustments and a pro forma balance sheet giving effect to the transactions proposed in this proceeding, is as follows:

	<u>Continental Telephone Company of California</u>	<u>Golden West Telephone Company</u>	<u>Adjustments increase or (decrease)</u>	<u>Pro forma</u>
<u>Assets</u>				
Net telephone plant	\$151,291,709	\$26,127,745	\$	\$177,419,454
Current assets	12,058,606	2,313,883	(224,105)	14,148,384
Other assets	<u>2,068,448</u>	<u>154,264</u>	<u></u>	<u>2,222,712</u>
Total	<u>\$165,418,763</u>	<u>\$28,595,892</u>	<u>\$ (224,105)</u>	<u>\$193,790,550</u>
<u>Liabilities</u>				
Common stock	\$ 9,923,970	\$ 1,373,637	\$ 343,408	\$ 11,641,015
Preferred and prefer- ence stock	13,354,500	441,775		13,796,275
Capital surplus	34,056,861	2,985,800	(343,408)	36,699,253
Earned surplus	14,471,037	3,770,309		18,241,346
Mortgage bonds	73,022,690		12,000,000	85,022,690
R.E.A. notes		12,340,207	(12,340,207)	
Unsecured long-term debt	4,881,000	4,097,400		8,978,400
Current liabilities	13,959,578	3,259,314	116,102	17,334,994
Deferred credits	<u>1,749,127</u>	<u>327,450</u>	<u></u>	<u>2,076,577</u>
Total	<u>\$165,418,763</u>	<u>\$28,595,892</u>	<u>\$ (224,105)</u>	<u>\$193,790,550</u>

Applicants indicate that the proposed transactions would facilitate financing and increase the flexibility of personnel and equipment. Moreover, the companies anticipate substantial cost savings through elimination of duplicate accounting records, professional fees and corporate records, as well as reduction in the number of required financing transactions.

After consideration the Commission finds that:

1. The proposed transactions and documents would not be adverse to the public interest.
2. The proposed security issues are for proper purposes.

3. Continental Telephone Company of California would be required to pay interest at a lower rate than it would in the absence of the proposed restricted redemption provision applicable to the new debentures.
4. The money, property or labor to be procured or paid for by the issue of the securities 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, as amended, should be granted. In issuing our order herein, we place Continental Telephone Company of California 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 the company'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. Continental Telephone Company of California and Golden West Telephone Company may enter into and carry out the terms of a Plan and Agreement of Reorganization, which document shall be in the same form, or in substantially the same form, as that attached to the application as Exhibit D altered to show not exceeding 343,409 shares of common stock shown in paragraph 2(a) on page 3 thereof.

2. Golden West Telephone Company may transfer its public utility business and assets to Continental Telephone Company of California and, upon consummation of the transfer, the former shall be relieved of all further public utility obligations in connection with the operations of the public utility business to be transferred.

3. Continental Telephone Company of California may acquire the assets and assume the liabilities of Golden West Telephone Company, as described in the application.

4. Continental Telephone Company of California, on or after the effective date hereof and on or before December 31, 1971, for the purpose set forth in the application, may issue not exceeding \$12,000,000 principal amount of its First Mortgage Bonds, Series H (2%) due 1996, and may execute and deliver a Twelfth Supplemental Indenture in the same form, or in substantially the same form, as Exhibit E attached to the application.

5. Continental Telephone Company of California, on or after the effective date hereof and on or before December 31, 1971, for the purpose set forth in the application, may issue not exceeding \$4,097,400 principal amount of its 8% Sinking Fund Debentures due 1993, and may execute and deliver an Eighth Supplemental Indenture in the same form, or in substantially the same form, as Exhibit F attached to the application.

6. Continental Telephone Company of California, for the purpose and upon the terms and conditions set forth in the application as amended, may issue not exceeding 343,409 shares of its \$5 par value common stock and 12,500 and 9,890 shares of its Series F and G, respectively, \$20 par value cumulative preferred stock.

7. Continental Telephone Company of California shall maintain its accounting records in such form as to enable it to make available in any subsequent proceeding before the Commission on a separate basis the investment in properties, operating revenues and operating expenses for each of the areas for which it and Golden West Telephone Company presently maintain records, including segregation of such items among the States of Arizona, California and Nevada.

8. On or before the date of actual transfer, Golden West Telephone Company shall refund all customers' deposits which are due and payable as of the date of transfer. All unrefunded deposits shall be transferred to Continental Telephone Company of California which shall be responsible for their refund when due.

9. If the authority herein granted to transfer properties is exercised, Continental Telephone Company of California, within thirty days thereafter, shall notify the Commission, in writing, of that fact and within said period shall file with the Commission a true copy of any bill of sale which may be executed in connection with such transfer.

10. Within five days after consummation of the transfer 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 West Telephone Company.

11. 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.

12. Within sixty days after consummating the transfer herein authorized, Continental Telephone Company of California shall file with the Commission a copy of each journal entry used to record the transfer on its books of account.

13. On or before the end of the third month after the consummation of the transfer 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 West Telephone Company for the period commencing with the first day of the current year to and including the effective date of the transfer.

14. This order shall become effective when Continental Telephone Company of California has paid the fee prescribed by Section 1904.1 of the Public Utilities Code.

Dated at San Francisco, California,
this 25th day of MAY, 1971.

[Signature]
Chairman
[Signature]
[Signature]
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Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By [Signature]