

ORIGINAL

Decision 84 10 049

OCT 17 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ICS Communications, a California)
corporation, for Authorization to)
Guarantee Indebtedness and Pledge)
Stock)

Application 84-08-025
(Filed August 6, 1984)

O P I N I O N

ICS Communications (ICS) requests authority, under Public Utilities (PU) Code Section 830 for the following:

1. To guarantee the loan obligations of its parent, Metromedia, Inc. (Metromedia) under the terms set forth in the application that limits ICS's liability to \$34,211,269, its net worth as shown in its Consolidated Balance Sheet as of April 30, 1984 attached to the application and
2. To pledge the outstanding common stock of Chalfont Communications (Chalfont), a wholly-owned subsidiary of ICS, as security for the loan obligations.

Summary of Decision

This decision authorizes ICS to become a guarantor, limited to its net worth of certain loan obligations of Metromedia and to pledge the outstanding stock of Chalfont as security for these loan obligations.

Notice of the filing of the application appeared on the Commission's Daily Calendar of August 9, 1984. No protests have been received.

ICS, a California corporation and a wholly owned subsidiary of Metromedia, operates as a radiotelephone utility subject to the jurisdiction of this Commission. ICS also provides mobile telephone, paging, and point-to-point microwave service in Southern California. By Decision (D.)82-11-053 dated November 17, 1982 in Application (A.)82-08-35, the Commission approved the transfer of control of ICS and its wholly owned subsidiary, Chalfont, to Metromedia through the purchase (by Metromedia) of all of the outstanding common and preferred stock of ICS.

Chalfont, a California corporation and wholly owned subsidiary of ICS, operates as a radiotelephone utility under the jurisdiction of this Commission. It provides mobile telephone and paging service in Palm Springs, Palm Desert, and adjacent areas. Chalfont's 400 outstanding shares of common stock are owned by ICS. Both Chalfont and its parent, ICS, are owned and controlled by Metromedia through its ownership of ICS's common stock.

Metromedia, a multimillion dollar group broadcasting company, owns and operates television stations, radio stations, and radiotelephone utilities. Metromedia also has other diversified business interests. Following the implementation of D.82-11-053, Metromedia contributed all of the preferred stock it owned in ICS to ICS's capital account.

By D.84-04-054 dated April 18, 1984 in A.84-03-08, the Commission authorized the control of ICS by John W. Kluge through his acquisition of a majority ownership of the common voting stock of Metromedia under a proposed leveraged management buy-out plan. This plan was fully consummated on June 21, 1984, except that the guaranty and pledge agreements by ICS are being held in escrow pending this Commission's authorization requested in this proceeding.

The buy-out of the common voting stock of Metromedia was accomplished in part with loans from a syndicate of banks. The banks include Manufacturers Hanover Trust Company (MHTC), agent for the banks; Bank of America; Security Pacific National Bank; Union Bank; and Wells Fargo Bank. The loans to Metromedia were for the approximate amount of \$1,300,000,000. The loans are evidenced by a revolving credit agreement between MHTC and Metromedia. This agreement initially permits borrowings of up to the aggregate principal amount of \$1,300,000,000, at any one time outstanding, with mandatory periodic reductions in the revolving loan commitment, loan obligations, and interest obligations discussed in Exhibit A attached to the application. The revolving credit loans mature on December 31, 1992. The revolving credit agreement provides that Metromedia may pay the interest rate for borrowing upon one of three optional methods including the option to convert from one to another

interest rate basis while the revolving credit loans are outstanding. A more detailed explanation of this complex financing arrangement, and the terms and conditions thereof, are set forth in Exhibit A attached to the application.

Under the terms of the credit agreement, each direct and indirect subsidiary of Metromedia (with immaterial exceptions) was required to guarantee payment of the loan obligations of Metromedia, and Metromedia and each of its direct and indirect subsidiaries are required to pledge all of the capital stock of the subsidiaries owned by Metromedia and by its direct and indirect subsidiaries to the banks as security for the loan obligations. However, with respect to ICS and its wholly owned subsidiary, Chalfont, the credit agreement expressly provided that the guarantee of ICS for the loan obligations of Metromedia should be limited to ICS's net worth, and that both the guarantee by ICS and its pledge of the outstanding stock of Chalfont, should be subject to prior authorization or approval of the Commission.

ICS has attached to its application the forms of the guaranty and pledge agreements, made by other subsidiaries of Metromedia to the banks, which it proposes to execute and deliver (with appropriate modifications, including limitation of the ICS guarantee to its net worth) to the banks upon authorization and approval by this Commission.

ICS has included a financial statement with its application in this proceeding, including a Consolidated Balance Sheet as of April 30, 1984 which shows its net worth to be \$34,211,269. The Consolidated Balance Sheet includes the net worth of April 30, 1984 of ICS's wholly owned public utility subsidiary, Chalfont, and its wholly owned non-public utility subsidiaries, Peak Rentals Incorporated and Global Paging, Inc.

As set forth in D.84-04-054 dated April 18, 1984 in A.84-03-08 and in the application, ICS asserts, that the guaranty and pledge agreement, for which authorization is sought and which implements the loan commitments by the banks to Metromedia, is in the best interests of its existing and potential customers. Metromedia, the parent and financial source of ICS, possesses considerable technical and development resources that will continue to be applied to the improvement and expansion of ICS's radio-telephone facilities. Metromedia has the financial resources to support its plans for the radiotelephone service. ICS believes that Metromedia's ability to provide these services is demonstrated by its record in the operation of numerous broadcasting and radiotelephone facilities throughout the country. The authorization, herein requested, will enhance ICS's flexibility in

responding to rapid changes and fluctuations in the highly competitive telecommunications industry, and it will enable ICS to provide additional high quality, innovative point-to-point microwave, paging two-way mobile telephone, and cellular offerings and service.

The Commission is vested with jurisdiction of this proceeding under the provisions of PU Code Sections 816-854, particularly Section 830 thereof, which reads as follows:

"830. No public utility shall assume any obligation or liability as guarantor, endorser, surety, or otherwise in respect of the securities of any other person, firm, or corporation, when such securities are payable at periods of more than 12 months after the date thereof, without having first secured from the Commission an order authorizing it so to do. Every such assumption made other than in accordance with the order of the Commission authorizing it is void."

By D.82-11-053 dated November 17, 1982 in A.82-08-35, the Commission authorized the acquisition of ICS by Metromedia under the provisions of PU Code Section 854 through the purchase of all of the outstanding stock of ICS. The Commission concluded that this acquisition was not adverse to the public interest.

By D.84-04-054 dated April 18, 1984 in A.84-03-08, the Commission authorized the control of ICS by John W. Kluge through his acquisition of majority ownership of the common voting stock of

Metromedia, as not being adverse to the public interest. The Commission recognized that control was being acquired by a management buy-out plan, upon consummation of which all of the voting stock of Metromedia would be owned by the four principal executives of Metromedia, John W. Kluge owning 92.684%. The Commission further recognized that the buy-out would be financed in part by loans to Metromedia from a consortium of banks led by MHTC (including Bank of America, Security Pacific National Bank, Union Bank, and Wells Fargo Bank) in the approximate amount of \$1,300,000,000, and that, upon execution of the financing arrangements, all shares of stock issued to the principal executives of Metromedia, including those owned by John W. Kluge, would be pledged to the lending banks. The loans were evidenced by a revolving credit agreement, the terms of which have been described in this proceeding.

Based upon the representation of ICS and our prior decisions, the proposed guarantee and pledge agreement (a requirement of the credit agreement) do not create unacceptable financial risks for ICS. The Commission's Evaluation and Compliance Division has reviewed the application and has concluded the requested authorization is not unreasonable. The financing available to ICS from its parent, Metromedia, will enable ICS to

respond to the rapid developments of the telecommunications industry; will improve the ability of ICS to provide additional, high quality, and innovative radiotelephone services; and will provide more efficient, competitive, and sophisticated common carrier services.

The limitation of the guarantee of ICS to the lending banks to ICS's net worth of \$34,211,269 is both prudent and reasonable. However, ICS (and Metromedia) is placed on notice that the limitation is approved for the purposes of this proceeding only, and that the authorization herein granted is not a finding of the value of the utility's property, nor does it indicate the amounts to be included in ratesetting proceedings. The Commission is not immediately concerned with Metromedia's pledge of the outstanding stock of ICS to the lending banks; however, ICS, Metromedia, and the lending banks are placed on notice that any attempt to enforce the pledge, involving a transfer of control of ICS and/or Chalfont, will require prior Commission authorization.

Findings of Fact

1. ICS, a California corporation, operates as a radiotelephone utility subject to the jurisdiction of this Commission. Chalfont, a California corporation and a wholly owned subsidiary of ICS, also operates as a radiotelephone utility subject to this Commission's jurisdiction.

2. Metromedia, a Delaware corporation, is a multimillion dollar group broadcasting company which owns and operates television stations, radio stations, and radiotelephone utilities, together with other diversified business operations.

3. The Commission, by D.82-11-053 dated November 17, 1982 in A.82-08-35, authorized the control of ICS by Metromedia through Metromedia's purchase of all of the outstanding stock of ICS.

4. The Commission, by D.82-04-054 dated April 18, 1984 in A.84-03-08, authorized the control of ICS by John W. Kluge through Kluge's acquisition of 92.684% of the outstanding voting common stock of Metromedia under a consummated management buy-out plan.

5. The management buy-out was financed in part by loans to Metromedia from a syndicate of banks in the approximate maximum amount of \$1,300,000,000, evidenced by a revolving credit agreement.

6. The credit agreement requires ICS to guarantee the loan obligations of Metromedia, subject, however, to prior Commission authorization and limited to the net worth of ICS in the amount of \$34,211,269. The credit agreement also requires ICS to pledge to the lending banks the outstanding capital stock of Chalfont as security for the loan obligations.

7. The forms of guaranty and pledge agreement attached to the application as Exhibits B and C, respectively, are reasonable and subject to appropriate modifications including limitation of the guaranty of ICS to its net worth of \$34,211,269.

8. For the purposes of this proceeding only, the proposed guaranty by ICS of the loan obligations of Metromedia to the lending banks, limited to the net worth of ICS, and the pledge of stock of Chalfont by ICS as security for the loan obligations, is reasonable and prudent.

9. There is no known opposition to this proceeding and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

This authorization is not a finding of the value of the utilities' stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

The following order should be effective on the date of signature to enable ICS to give its guarantee and to pledge the stock of Chalfont as security for the loan obligations, up to the limit of \$34,211,269 expeditiously.

ORDER

IT IS ORDERED that:

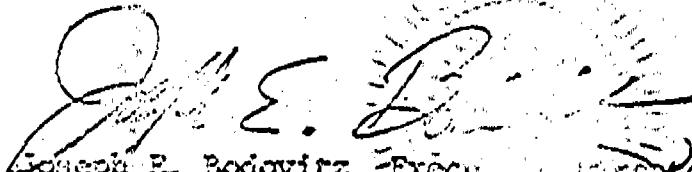
1. The application is granted and ICS Communications (ICS) may enter into the guarantee of the loan obligations of Metromedia described in the application under which the liability of ICS is limited to the net worth of ICS of \$34,211,269, and may pledge the stock of Chalfont as security for the loan obligations, substantially in the form of Exhibits B and C attached to the application, with appropriate modifications.

This order is effective today.

Dated OCT 17 1984 at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director