

Decision No. 86662

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of)

CONTINENTAL TELEPHONE COMPANY)
OF CALIFORNIA, REDWOOD EMPIRE)
TELEPHONE COMPANY and COLFAX)
TELEPHONE EXCHANGE)

Application No. 56025
(Filed October 22, 1976)

for an order authorizing (i) Redwood)
Empire Telephone Company and Colfax)
Telephone Exchange to merge with)
Continental Telephone Company of)
California, and (ii) Continental)
Telephone Company of California to)
issue its securities, to assume the)
liabilities of Redwood Empire)
Telephone Company and Colfax Telephone)
Exchange and to encumber properties.)

O P I N I O N

Continental Telephone Company of California seeks authority to issue not exceeding 78,000 shares of its \$5 par value common stock to Continental Telephone Corporation in exchange for all the outstanding capital stock of Redwood Empire Telephone Company and Colfax Telephone Exchange, and the latter two corporations seek authority to merge with and into Continental Telephone Company of California. In addition, Continental Telephone Company of California seeks authority to assume liabilities of Redwood Empire Telephone Company and Colfax Telephone Exchange, to issue not exceeding \$3,835,000 aggregate principal amount of its First Mortgage Bonds, and to execute and deliver a Seventeenth Supplemental Indenture.

Continental Telephone Company of California is a California corporation furnishing local and toll telephone service in portions of Arizona, California and Nevada. It is a subsidiary of Continental Telephone Corporation, a Delaware corporation.

Redwood Empire Telephone Company and Colfax Telephone Exchange are California corporations furnishing local and toll telephone service, and are wholly owned subsidiaries of said Continental Telephone Corporation. Redwood Empire Telephone Company serves portions of the Counties of Kern, Kings, Monterey, San Luis Obispo and Sonoma. Colfax Telephone Exchange operates in and around the City of Colfax.

For the twelve-month period ended September 30, 1976, applicants reported total operating revenues and net income, as follows:

	<u>Continental Telephone Company of California</u>	<u>Redwood Empire Telephone Company</u>	<u>Colfax Telephone Exchange</u>	<u>Combined</u>
Operating revenues	\$96,215,379	\$1,265,433	\$591,056	\$98,071,873
Net income	14,137,283	168,986	99,115	14,405,384

A summary of applicants' reported assets and liabilities at September 30, 1976, is as follows:

	<u>Continental Telephone Company of California</u>	<u>Redwood Empire Telephone Company</u>	<u>Colfax Telephone Exchange</u>	<u>Combined</u>
<u>Assets</u>				
Telephone plant - net	\$259,003,517	\$3,921,522	\$1,195,508	\$264,120,547
Other assets	<u>17,349,141</u>	<u>351,411</u>	<u>135,502</u>	<u>18,336,054</u>
Totals	<u>\$276,352,658</u>	<u>\$4,272,933</u>	<u>\$1,331,010</u>	<u>\$282,456,601</u>
<u>Liabilities</u>				
Stockholders' equity	\$119,335,314	\$ 818,379	\$ 682,276	\$120,336,459
Long-term debt	132,475,030	2,927,767	445,252	135,348,349
Other liabilities	<u>25,041,514</u>	<u>526,237</u>	<u>203,482</u>	<u>25,771,233</u>
Totals	<u>\$276,852,658</u>	<u>\$4,272,933</u>	<u>\$1,331,010</u>	<u>\$282,456,601</u>

Continental Telephone Company of California proposes to issue to its parent corporation not exceeding 73,000 shares of its \$5 par value common stock in exchange for (a) all the outstanding 211,530 shares of 50¢ par value common stock and 2,000 shares of \$50 par value preferred stock of Redwood Empire Telephone Company, and (b) all the outstanding capital stock of Colfax Telephone Exchange, which stock consists of 4,204 shares of \$10 par value common stock. After becoming wholly owned subsidiaries of Continental Telephone Company of California, Redwood Empire Telephone Company and Colfax Telephone Exchange would consummate a statutory merger with and into their new parent corporation.

The debts and liabilities which Continental Telephone Company of California would assume through the merger include 2% and 5% notes held by the Rural Electrification Administration and aggregating approximately \$3,950,000. In order to maintain a

flexible capital structure, the surviving corporation proposes to replace such notes by paying approximately \$65,000 cash and issuing not exceeding \$3,885,000 aggregate principal amount of its First Mortgage Bonds in exchange for, and against the surrender for cancellation of, the Redwood Empire Telephone Company and Colfax Telephone Exchange Rural Electrification Administration notes. The bonds would consist of (a) First Mortgage Bonds, Series M (2%) due December 31, 2001, in the principal amount of not exceeding \$2,600,000, (b) First Mortgage Bonds, Series N (5%) due April 30, 2009, in the approximate principal amount of \$735,000, and (c) First Mortgage Bonds, Series O (5%) due April 30, 2012, in the approximate principal amount of \$550,000. The new bonds would be secured by an existing indenture as heretofore amended and supplemented and as to be further amended and supplemented by a proposed Seventeenth Supplemental Indenture.

After consideration the Commission finds that:

1. The proposed transactions would not be adverse to the public interest.
2. The proposed stock and bond issues would be for proper purposes.
3. The money, property or labor to be procured or paid for by 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.
4. There is no known opposition and there is no reason to delay granting the relief requested.

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 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 may issue not exceeding 78,000 shares of its common stock, \$5 par value, in exchange for the outstanding preferred and common stock of Redwood Empire Telephone Company and the outstanding common stock of Colfax Telephone Exchange.

2. Redwood Empire Telephone Company and Colfax Telephone Exchange may merge with and into Continental Telephone Company of California.

3. Continental Telephone Company of California may assume all of the liabilities of Redwood Empire Telephone Company and Colfax Telephone Exchange.

4. Continental Telephone Company of California may execute and deliver a Seventeenth Supplemental Indenture in substantially the same form as Exhibit C attached to the application.

5. Continental Telephone Company of California may issue not exceeding \$3,835,000 aggregate principal amount of its First Mortgage Bonds in exchange for the outstanding mortgage notes of Redwood Empire Telephone Company and Colfax Telephone Exchange.

6. Continental Telephone Company of California shall adopt or reissue in its name the tariffs on file with this Commission for Redwood Empire Telephone Company and Colfax Telephone Exchange at the same rates and charges. The tariff filings shall be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and the public, and the effective date of the tariff filings shall be concurrent with the mergers herein authorized. The tariff filings made pursuant to this order shall comply in all respects with the regulations governing the construction and filing of tariffs set forth in the Commission's General Order No. 96-A.

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 this Commission on a separate basis the investment in properties, operating revenues and operating expenses for each of the areas for which Redwood Empire Telephone Company and Colfax Telephone Exchange presently maintain records.

8. Within thirty days after the mergers herein authorized, Continental Telephone Company of California shall file with the Commission a certified copy of the certificate filed with the Secretary of State effectuating the mergers.

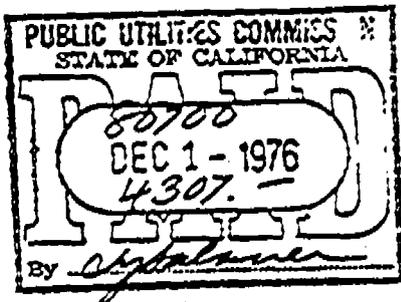
9. Within sixty days after the mergers herein authorized, Continental Telephone Company of California shall file with the Commission a copy of each journal entry used to record the mergers on its books of account.

10. 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.

11. On or before the end of the third month after the mergers herein authorized, Continental Telephone Company of California shall cause to be filed with the Commission, in such form as the Commission may prescribe, annual reports related to the operations of Redwood Empire Telephone Company and Colfax Telephone Exchange for the period commencing with the first day of the current year to and including the effective date for accounting purposes of the mergers.

12. 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, which fee is \$4,307.

Dated at San Francisco, California, this 23rd day of NOVEMBER, 1976.



[Signature] President
William Spitzer
[Signature]
[Signature]
Roluf Bateman
Commissioners