

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF GENERAL TELEPHONE )  
COMPANY OF THE SOUTHEAST FOR )  
AUTHORITY TO (i) MERGE, (ii) )  
ASSUME THE EXISTING DEBT OF )  
GENERAL TELEPHONE COMPANY OF )  
KENTUCKY; (iii) ISSUE COMMON )  
STOCK TO REPLACE THE EXISTING ) CASE NO. 9373  
COMMON STOCK OF GENERAL TELEPHONE )  
COMPANY OF KENTUCKY; (iv) ASSUME )  
AND REPLACE THE EXISTING )  
PREFERRED STOCK OF GENERAL )  
TELEPHONE COMPANY OF KENTUCKY; )  
(v) FOR A CERTIFICATE OF )  
CONVENIENCE AND NECESSITY )

O R D E R

On June 27, 1985, General Telephone Company of the Southeast ("GTSE") filed an application seeking authority to assume the existing debt of General Telephone Company of Kentucky ("GTKY"), issue common stock to replace the existing common stock of GTKY, assume and replace the existing preferred stock of GTKY, and for a Certificate of Convenience and Necessity. The purpose of the foregoing transactions is to consummate a corporate merger of GTKY into GTSE.

On August 22, 1985, A public hearing was held at the Commission's office in Frankfort, Kentucky, in order to determine the reasonableness of the request. There were no intervenors in this proceeding.

## BACKGROUND

GTSE is a Virginia corporation doing business in the Commonwealth of Virginia and duly qualified to transact business as a foreign corporation in the states of Alabama, Georgia, Maryland, North Carolina, South Carolina, Tennessee, West Virginia and the District of Columbia. Its general office and principal place of business is 4100 North Roxboro Road, Durham, North Carolina. It owns and operates telephone properties in each of the jurisdictions mentioned in this paragraph except the State of Maryland and the District of Columbia.

GTKY is a Delaware corporation duly qualified to transact business as a foreign corporation in the Commonwealth of Kentucky. Its general office and principal place of business is 4100 North Roxboro Road, Durham, North Carolina, and it owns and operates telephone properties in the Commonwealth of Kentucky. Its principal office and place of business in Kentucky is 600 First Security Plaza, Lexington, Kentucky.

The purpose of the application is to obtain the approval of the Commission in merging into GTSE the telephone facilities and properties of GTKY, both as subsidiaries of GTE Corporation as described in the Agreement of Merger attached to the application as Exhibit A. GTSE proposes to merge the facilities and properties of GTKY into GTSE by a statutory merger effective December 31, 1985. The surviving corporation will be GTSE, a Virginia corporation. The common and preferred stock of GTKY will be exchanged for common and preferred stock of GTSE.

DEBT AND STOCK ASSUMPTION

The outstanding debt securities of GTKY as of May 31, 1985,

are:

<u>SECURITY ISSUE</u>	<u>OUTSTANDING</u>
3-3/8% Series, due 1985	\$ 1,700,000
4-5/8% Series, due 1987	2,000,000
4-1/4% Series, due 1988	2,000,000
5-1/4% Series, due 1989	4,000,000
5% Series, due 1991	2,500,000
4-1/2% Series, due 1993	4,000,000
4.65% Series, due 1995	5,000,000
6-1/4% Series, due 1997	6,500,000
7-3/4% Series, due 2001	14,000,000
7-3/4% Series, due 2003	14,000,000
8-3/8% Series, due 2007	40,000,000
9.95% Series, due 1999	25,000,000
13.75% Series, due 2000	25,000,000
13.10% Series, due 2013	25,000,000
	<u>\$ 170,700,000</u>

Sinking Fund Debentures

5-1/2% Series A, due 1991                   \$ 4,175,000

GTSE proposes to assume the outstanding indebtedness of GTKY by the issuance of supplemental indentures to the Trust and Debenture Indenture of GTKY. Under the terms of its First Mortgage Bond Indenture, GTSE will also close the Indentures of GTKY and will issue no further securities under GTKY's Indentures.

GTKY also has outstanding \$1,800,000 of short-term loans as of May 31, 1985. GTSE will assume the outstanding short-term loans of GTKY as of the date of merger.

The outstanding preferred stock of GTKY as of May 31, 1985, is:

<u>Security Issue</u>	<u>Outstanding Shares</u>	<u>Amount</u>
Preferred Stock (\$100 par value, 5.2% Series)	4,137	\$ 413,700
5.0% Series (\$50 par value)	22,160	1,108,000
5.16% Series (\$50 par value)	24,954	1,247,700
\$10.48 Series (No par \$100 stated value)	120,000	12,000,000

GTSE intends to either purchase at appraised value the shares of the dissenting shareholders or assume the obligation of the preferred stock and to issue new preferred stock in the name of GTSE with the same terms and conditions as set forth in the existing preferred stock of GTKY. GTSE shall also purchase at fair value all of the shares of the dissenting preferred shareholders of GTSE.

At the time of the proposed merger GTKY will have issued an outstanding 507,600 shares of common stock with stated or par value of \$250 a share. GTSE will issue 5,076,000 shares of common stock with stated or par value of \$25 a share in exchange for the common shares of GTKY.

GTSE will assume the outstanding liabilities, contracts, leases and other duties of GTKY as of the date of the merger.

The merger will be accounted for under the "pooling method" which is the standard methodology for regulated utilities.

GTSE further proposed that it be granted a Certificate of Convenience and Necessity to provide telephone service to those geographical areas of the Commonwealth currently served by GTKY.

#### FINDINGS AND ORDERS

The Commission, after consideration of the application and all evidence of record and being advised, is of the opinion and

finds that the application is for a lawful object within the corporate purposes of GTSE, compatible with the public interest, consistent with the proper performance by GTSE of its service to the public and will not impair GTSE's ability to perform that service.

IT IS THEREFORE ORDERED that GTSE be and it hereby is authorized to merge GTKY with GTSE.

IT IS FURTHER ORDERED that GTSE assume the outstanding indebtedness and preferred stock of GTKY; issue 5,076,000 shares of common stock in exchange for the existing 507,600 shares of common stock of GTKY; to issue 4,137 shares of 5.2 percent Series, 22,160 shares of 5 percent Series, 24,954 shares of 5.16 percent Series, and 120,000 shares of \$10.48 Series of new GTSE preferred stock.

IT IS FURTHER ORDERED that a Certificate of Convenience and Necessity is hereby granted GTSE to service the geographical area presently served by GTKY.

IT IS FURTHER ORDERED that independent financial records shall be maintained for Kentucky operations.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty by the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 26th day of September, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hemmick  
Chairman

Paul D. L...  
Vice Chairman

James N. Williams  
Commissioner

ATTEST:

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Secretary