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Decision No. 14528.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
REDONDO HOME TELEPHONE COMPANY, a )  
corporation, for an order authoriz- ) Application Number 10696  
ing the issue of capital stock. )

D. Joseph Coyne, for Applicant.

BY THE COMMISSION:

OPINION

ORIGINAL

In this application, as amended at the hearing had before Examiner Fankhauser, the Railroad Commission is asked to make an order authorizing Redondo Home Telephone Company -

1. To issue and sell, at such price as the Commission may fix, 1000 shares of its seven percent cumulative preferred stock, of the aggregate par value of \$100,000.00 for the purpose of acquiring and installing additional telephone properties, and;

2. To issue 600 shares of its common capital stock, of the aggregate par value of \$60,000.00, as a stock dividend to its present stockholders.

Redondo Home Telephone Company was organized on or about March 21, 1905, with a total authorized capital stock of \$40,000.00 of common stock, all of which heretofore has been

issued and is outstanding. It appears that recently the authorized stock issue has been increased to \$250,000.00 divided into \$100,000.00 of common and \$150,000.00 of seven percent cumulative preferred stock. In the application as originally filed, applicant asked permission to issue \$150,000.00 of preferred stock and \$50,000.00 of common stock.

Applicant operates a manual telephone exchange in the City of Redondo Beach, furnishing exchange service throughout the Cities of Redondo Beach, Hermosa Beach and Manhattan Beach and making available to subscribers toll or long distance service over the lines of the United States Long Distance Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company. The Commission in Decision Number 13862 dated August 2, 1924, in Application Number 9560, reviewed the rates charged by applicant and found the service rendered by applicant inadequate. Quoting from the decision:-

" Applicant's plant as a whole is, and has been for some time, very congested and overloaded. New subscribers cannot be furnished service except in case of a vacancy resulting from a discontinuance of an existing service or by degrading an existing service. To relieve this condition and in order that applicant will be in a position to render a service which the subscribers and public are entitled to enjoy, it will be required to make immediate expansion and addition to its present plant. Applicant has definite plans providing for an increase in its plant, which it believes will correct the present conditions and enable it to take care of the present and future demands of service.

Applicant has already contracted for additional central office equipment and associated apparatus, costing approximately \$9,000.00, and which it contemplates will be installed during the latter part of this year. The installation of this board should afford the necessary relief required in central office capacity. Applicant's plans for outside plant construction, including aerial and underground cable and suburban construction, will involve the expenditure of \$65,000. and these facilities will be installed during the years 1924 and 1925 as the needs for service demand. These figures have been checked and I am of the opinion that applicant will be required to expend at least this amount to bring its plant into a condition that satisfactory service may be rendered."

The Commission's decision authorized the company to make effective certain modifications and adjustments to its rate schedule and its primary rate area, but provided that such modifications and adjustments could be made only upon completion of such additions and changes in the company's telephone plant and system as would result in adequate service being given to existing subscribers and in all reasonable demands for service being met; and further, upon proper showing that such additions and changes have been made, that adequate service is being furnished and that such relief is necessary and upon the issuance of a supplemental order by the Commission.

Accordingly, applicant has now filed the present petition to issue and sell preferred stock to finance the proposed expenditures of approximately \$74,000.00, referred to in the former decision of the Commission, which are thought necessary to place the properties in a position to give adequate service. The expenditures were reported in Exhibit No. 6 filed in Application Number 9560 as follows:-

Switchboard(two positions) and associated apparatus, as per contract with Stromberg-Carlson Telephone Manufacturing Co. plus cost of installation . . . . .		\$9,118.15
Underground conduit addition, 10 concrete manholes with connecting conduits . . . . .		2,500.00
Cost of underground cable on rack and in ducts . . . . .		7,367.01
Cost of buried cable, by sections-		
Base line south, on Broadway-Redondo . . . . .	\$5,319.89	
Base line north, on Camino Real Blvd, Redondo and Hermosa, and First, Hill, Second, Summit and adjacent streets to Neptune Ave., Hermosa, to serve Manhattan . . . . .	18,595.47	
Lateral on Opal Street . . . . .	412.92	
Lateral on Ruby Street . . . . .	470.50	
Lateral on Sapphire Street . . . . .	98.87	
Lateral on Marguerite Street . . . . .	589.24	
Lateral on Camino Real, Redondo . . . . .	799.46	
Lateral on Camino Real, 1st to 14th . . . . .	4,934.97	
Lateral beyond 14th St., Camino Real, Hermosa . . . . .	222.92	
Lateral, Camino Real to 10th & Summit . . . . .	1,387.43	
Lateral, 10th & Summit, north in Hermosa . . . . .	1,493.18	
Lateral from Manhole #10, Redondo . . . . .	1,794.67	
Various sub-laterals . . . . .	<u>369.84</u>	
Total for buried cable . . . . .		36,489.56
Terminals on above cables . . . . .		3,011.45
Poles used as distributing poles in blocks . . . . .		2,620.44
Anchors and guys . . . . .		<u>327.00</u>
Forward . . . . .		\$61,433.61

Forward . . . . . \$61,433.61

Suburban construction:

Gillette Manor, Walteria, etc.  
Buried cable . . . . . \$3,256.44  
Terminals . . . . . 312.41  
Poles . . . . . 1,785.24  
Anchors and guys . . . . . 244.25  
225 crossarms, 16 pins . . . . . 805.50  
Backbores . . . . . 15.00  
Wire, 100 miles #12 iron wire, with  
insulators, etc. . . . . 3,236.00

Total suburban construction . . . . . 9,554.84  
Contingencies, 5 percent . . . . . 3,543.42  

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Total . . . . . \$74,531.87

T. A. Gould, applicant's president, believes that it will require more than \$74,531.87 to acquire and install the foregoing property. For this reason the company asks authority to issue and sell \$100,000.00 of preferred stock. It asks permission to sell such stock at not less than 95 percent of par value and to use, if necessary, five percent of the par value of stock sold to pay commissions and selling expenses. As no definite showing was made of the necessity for making additional expenditures the order herein, while authorizing the issue and sale of \$100,000.00 of preferred stock at the price requested, will provide that net proceeds in excess of \$74,531.87 may be expended only as hereafter authorized in supplemental orders.

As of November 30, 1924 applicant reports its assets and liabilities as follows:-

(See following page)

ASSETS:

Fixed capital . . . . .	\$136,665.85
Cash . . . . .	1,984.85
Bills receivable . . . . .	158.22
Accounts receivable . . . . .	7,304.23
Material and supplies . . . . .	2,787.06
Prepayments . . . . .	251.86
Unextinguished discount (Stock)	28,793.81

Total assets .....\$ 177,945.88

LIABILITIES:

Capital stock . . . . .	\$ 40,000.00
Funded debt . . . . .	70,000.00
Accounts payable . . . . .	12,392.27
Accruals . . . . .	717.94
Reserve for depreciation . . . . .	39,353.95
Surplus unappropriated . . . . .	15,481.72

Total liabilities .....\$ 177,945.88

In support of the request to issue \$60,000.00 of common stock, as a stock dividend, the company reports that since its incorporation, in 1905, no dividends have ever been paid to the holders of the \$20,000.00 of stock outstanding, and that moreover since such stock was issued, over \$100,000.00 in property has been added to its assets. While it may be true that the assets of the company have increased by more than \$100,000.00, applicant's balance sheet shows that more than eighty percent of the added assets were acquired through issue of bonds or other indebtedness and the investment of moneys represented by the reserve for accrued depreciation. This Commission considers liabilities as part of the capitalization of properties.

An issue of stock for the purpose of paying a dividend is limited by the amount of money, not obtained from the issue of stock, bonds or other evidences of indebtedness expended for the

purposes mentioned in Section 52 of the Public Utilities Act, and by the amount of unappropriated corporate surplus. Applicant's representatives admitted that the amount of dividend declared could not exceed the reported surplus (\$15,481.72) on November 30, 1924. It was urged by them, however, that the Commission should permit the sale of the stock at a discount so that the par value of common stock issued would exceed the amount of the surplus. In our opinion, applicant's balance sheet does not justify such a procedure. The order herein will authorize applicant to issue \$15,400.00 of common stock at par to reimburse its treasury, because of earnings expended for the acquisition of properties. After such reimbursement the \$15,400.00 may be distributed as a stock dividend.

O R D E R

Redondo Home Telephone Company having applied to the Railroad Commission for permission to issue \$60,000.00 of common stock and \$100,000.00 of preferred stock, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of \$15,400.00 of common stock and \$100,000.00 of preferred stock, is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Redondo Home Telephone Company be, and it is hereby, authorized to issue from and after the date

hereof and on or before December 31, 1925, \$15,400.00 of its common stock and \$100,000.00 of its seven percent cumulative preferred stock.

The authority herein granted is subject to the following conditions:-

1. The \$15,400.00 of common stock herein authorized shall be issued at par to reimburse the company's treasury on account of income invested in properties prior to November 30, 1924. After such reimbursement, such stock may be distributed as permitted and directed by law to the holders of outstanding common stock as a stock dividend.
2. The \$100,000.00 of preferred stock herein authorized shall be sold at not less than 95 percent. of par value. Of the proceeds the company may use, if necessary, an amount not exceeding five percent. of the par value of stock sold to pay commissions and other expenses incident to the sale. Of the remaining proceeds the company may use not exceeding \$74,531.87 to finance the cost of the extensions, additions and betterments to which reference is made in the opinion which precedes this order. The remaining proceeds and such part of the five percent not used to pay commissions and other expenses incident to the sale of the stock may be expended only as hereafter authorized by the Commission.
3. Applicant shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a ver-

ified report, as required by the Railroad Commission's  
General Order No. 24, which order in so far as applicable,  
is made a part of this order.

DATED at San Francisco, California, this 2<sup>d</sup> day of  
February, 1925.

H. H. Brundage

Ernest Shore

George D. Squires

Ernest C. ...

Commissioners.