

LEM

Decision No. 20724.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
DOWNEY HOME TELEPHONE AND TELEGRAPH)
COMPANY, a corporation, for authority)
to issue stock.)

ORIGINAL
Application No. 15235

Ernest Irwin, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Downey Home Telephone and Telegraph Company asks permission to issue \$176,500.00 par value of its common capital stock and use \$50,000.00 thereof to reimburse its treasury on account of earnings expended for additions and betterments to its properties and to sell the remaining \$126,500.00 at \$95. per share for the purpose of paying outstanding indebtedness in the sum of \$120,200.00 incurred to pay for additions and betterments to the company's properties.

The Downey Home Telephone and Telegraph Company owns and operates the telephone system serving the village of Downey and the territory adjacent thereto, including the communities of Norwalk, Artesia and Bellflower, all in Los Angeles County. The company has an authorized stock issue of \$500,000.00 divided into 5,000 shares of the par value of \$100. each.

As of December 1, 1928 applicant reports stock outstanding in the amount of \$40,000.00. Its other liabilities and surplus are shown in the following balance sheet which is as of the same date;-

ASSETS:

Fixed capital	\$237,040.00
Current assets:	
Cash	2,397.16
Accounts receivable	6,374.21
Materials and supplies	8,379.49
Prepayments	137.56
Total current assets	<u>\$ 17,288.42</u>
Insurance fund assets	1,278.87
Stock discount	-
Total assets	<u>\$255,608.19</u>

LIABILITIES:

Capital stock	\$ 40,000.00
Current liabilities :	
Audited vouchers	1,162.56
Accounts payable	120,200.04
Miscellaneous accounts payable	6,689.16
Accruals	2,387.33
Total current liabilities	<u>\$130,439.09</u>
Reserves	17,524.74
Surplus	67,644.36
Total liabilities	<u>\$ 255,608.19</u>

The testimony shows that since 1920 applicant has reconstructed all of its outside plant and has changed all of its manual central office equipment to automatic. The central office equipment at Artesia was changed to automatic in 1921, in Downey in 1927, while automatic exchange equipment was installed in Bellflower in 1926 and in Norwalk during 1928. Applicant's investment in fixed capital on November 30, 1928 is reported at \$237,040.90. Since December first 1922 it expended for additions and improvements to its plant the gross sum of \$222,827.77. During the same period it retired property representing an investment of \$59,854.36 leaving net additions of \$162,973.41. This expenditure was financed by borrowing

money and by using earnings. As of December 1, 1928 the company had 1244 telephone stations on its system.

The operating revenues of the company for 1926, 1927 and for the eleven months ending November 30, 1928 have been reported as follows:-

<u>ITEM</u>	1926	1927	1928 11 mos.
Operating revenues	\$41,485.27	\$ 43,660.80	\$ 46,388.21
Operating expenses	26,391.43	23,852.67	30,059.46
Net operating revenue	15,093.84	19,808.13	16,328.75
Taxes	5,175.51	4,658.16	2,727.10
Balance	9,918.33	15,149.97	13,601.65
Nonoperating revenue	22.15	35.71	293.83
Gross income	9,940.48	15,185.68	13,895.48
Rent and other deductions	850.17	978.18	1,019.35
Net income available for stock	\$9,090.31	\$14,207.50	\$12,876.13

It is of record that approximately \$15,000.00 now carried in the company's surplus should have been credited to its depreciation reserve. Even though this transfer is made there would remain in the company's surplus an amount in excess of the stock which it asks permission to issue to reimburse its treasury and then distribute as a stock dividend.

It is of record also that the expenditures made by applicant for the construction and reconstruction of its telephone system were all incurred for the purpose of improving its system. As the plant is now operated it is giving efficient and satisfactory service.

ORDER

Downey Home Telephone and Telegraph Company having asked permission to issue \$176,500.00 par value of its common capital stock, a public hearing having been held before Examiner Falkhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required by applicant and that the expenditures herein authorized are

not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED AS FOLLOWS:-

1. Downey Home Telephone and Telegraph Company may issue at not less than par \$50,000.00 par value of its common capital stock to reimburse its treasury on account of earnings expended for additions and betterments to its properties, and thereafter distribute such stock according to law, as a stock dividend.

2. Downey Home Telephone and Telegraph Company may issue and sell on or before August 1, 1929 at not less than 95 percent of its par value, \$126,500.00 par value of its common capital stock and use the proceeds to pay outstanding indebtedness.

3. The authority herein granted shall become effective upon the date hereof.

4. Downey Home Telephone and Telegraph Company 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 verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 25th day of January, 1929.

Albany

Edward A. ...

Lionel Whiteley

M. J. ...

Commissioners.