

LEW

Decision No. 23743.

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
DOS PALOS TELEPHONE COMPANY, )  
a corporation, for authority to issue ) Application No. 17277  
stock. )

Ernest Irwin, for applicant.  
L. S. Wing, for California Farm Bureau Federation  
and Dos Palos Farm Center, interested parties.

BY THE COMMISSION:

O P I N I O N

In the above entitled proceeding Dos Palos Telephone Company requests permission to issue \$26,300.00 of its common capital stock, consisting of 26,300 shares of the par value of \$1.00 each, and to deliver \$5,000.00 thereof in reimbursement of its treasury and to sell \$21,300.00 at ninety cents a share to pay outstanding indebtedness.

Dos Palos Telephone Company, a corporation organized on or about January 11, 1909 under the laws of the State of California, is engaged in operating a telephone system in the town of Dos Palos and surrounding territory in Merced and Fresno Counties. As of December 31, 1930 it reports its assets and

liabilities as follows:-

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<u>A S S E T S</u>	
Plant and equipment . . . . .	\$30,790.64
Cash . . . . .	360.12
Due from subscribers and agents . . . . .	294.79
Materials and supplies . . . . .	1,345.94
Total assets.....	<u>\$32,791.49</u>

  

<u>L I A B I L I T I E S</u>	
Capital stock . . . . .	\$ 5,503.00
Accounts payable . . . . .	19,234.65
Depreciation reserve . . . . .	2,970.59
Surplus . . . . .	5,083.25
Total liabilities.....	<u>\$32,791.49</u>

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At the hearing held in this application to issue additional stock against the properties, Ernest Irwin, on behalf of applicant, testified that in his opinion the figure representing plant and equipment does not reflect the actual cost thereof because in the past depreciation in some cases has been deducted from the fixed capital and because inaccurate records were kept, and that he believed the historical cost of the properties as of January 1, 1931, to be \$40,790.23, as shown in his Exhibit No. 6. On this point, reference also might be made to an appraisal made by E. W. Watson, one of the Commission's assistant engineers, and introduced into the record in Application No. 17278, a rate proceeding heard concurrently with this application, wherein the historical cost of the properties as of April 30, 1931 was estimated at \$35,191.08. However, we do not feel it necessary in this proceeding to make a finding of the value of applicant's properties and will not in this proceeding pass on the various figures.

The record in this matter shows that the control of applicant's affairs passed into the hands of S. D. Crowe during January,

1930, and that immediately thereafter there was inaugurated a program of reconstruction and improvement of applicant's facilities, during the course of which the old exchange building was replaced by a modern exchange and garage building, the grounded system in large part was replaced by a metallic system, the majority of the old poles in Dos Palos were replaced by new and larger poles and open wires were replaced by cable. In Exhibit No. 7 filed at the hearing the expenditures for plant and equipment during the period from January, 1930, to and including April, 1931, were reported as follows:-

I T E M S	:ADDITIONS	:RETIREMENTS:	NET
Land and buildings.....	\$10,076.19:	\$ 1,303.36:	\$ 8,772.83
Central office equipment .....	550.36:	- :	550.36
Station equipment .....	1,606.16:	645.73:	960.43
Exchange lines.....	10,299.29:	3,047.44:	7,251.85
General equipment.....	1,141.59:	2.73:	1,138.86
<b>TOTAL.....</b>	<b>\$23,673.59:</b>	<b>\$ 4,999.26:</b>	<b>\$18,674.33</b>

The balance sheet appearing in this opinion shows outstanding accounts payable of \$19,234.65, borrowed from Mr. Crowe, which, it is testified, have been used in making the additions and improvements to the plant and facilities. It is planned by Mr. Crowe to take stock of the corporation, at ninety, in payment for his advances.

Coming to the request of the company to issue \$5,000.00 of stock in reimbursement of its treasury, it appears that it is its intention after reimbursement to distribute such stock to its stockholders as a stock dividend. In support of the request the company reports, as of December 31, 1930, a corporate surplus unappropriated of \$5,083.25 which it alleges represents surplus earnings from the operation of its business that have been used in the construction and betterment of its plant and equipment.

Reviewing the evidence in this matter, we do not believe that we can grant the company's request without some modification. In the first place, in our opinion, no showing has been made which would warrant us in permitting the issue by applicant of its stock at ninety percent of its par value and such authority as we will grant herein will authorize the disposal of the stock at its par value of \$1.00 a share.

In connection with the request to issue stock in payment of the advances of \$19,234.65, the record shows net expenditure for capital purposes, financed with such advances, of \$18,674.33 and it therefore appears to us the amount of stock to be issued should be limited to that sum. It clearly appears, however, that applicant's surplus earnings have been invested in its properties and applicant may, if it so desires, issue additional stock, approximating \$560.00, as set forth in the order following this opinion, to reimburse its treasury and thereafter to pay the balance of its indebtedness.

The proposal of the company to distribute \$5,000.00 of stock as a dividend would result in materially reducing its surplus, which is reported at only \$5,083.25 on December 31, 1930. In view of the reconstruction program now being followed by applicant and of its proposed readjustment in its rate schedules, as requested in Application No. 17278, now pending, we do not believe the reduction, and practically the elimination of its surplus balance is desirable. The order herein, accordingly, will limit the issue of stock for this purpose, to \$3,000.00.

#### ORDER

Dos Palos Telephone Company having applied to the Railroad Commission for authority to issue \$26,300.00 of stock, a public hearing having been held before Examiner Williams, and the Railroad

Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of \$22,234.00 of stock is reasonably required for the purposes specified herein, which purposes are not in whole or in part reasonably chargeable to operating expense or to income, and that the request to issue the remaining \$4,066.00 of stock should be dismissed without prejudice, therefore,

IT IS HEREBY ORDERED that Dos Palos Telephone Company be, and it hereby is, authorized to issue, at not less than par, on or before September 30, 1931, not exceeding \$22,234.00 par value of its common capital stock.

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

1. Of the stock herein authorized \$19,234.00 thereof may be sold at not less than par and \$18,674.00 of the proceeds used to pay in part outstanding accounts payable and \$560.00 of the proceeds used to reimburse its treasury in part and thereafter to pay indebtedness. The remaining \$3,000.00 of the stock herein authorized may be issued at par to reimburse its treasury, provided that thereafter it is distributed to its present stockholders <sup>as required</sup> and permitted by law as a stock dividend.
2. Applicant shall keep such record of the issue 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.

3. The authority herein granted will become effective  
twenty (20) days from the date hereof.

IT IS HEREBY FURTHER ORDERED that the application insofar  
as it relates to the issue of the remaining \$4,066.00 of stock  
be, and it hereby is, dismissed without prejudice.

DATED at San Francisco, California, this 1st day of

January, 1931.

C. C. Seaman  
Leon Whitcomb  
W. J. Cunn  
M. B. Harris  
Fred G. Stewart

Commissioners.