

transportation of logs over its line. Its assets and liabilities, as of December 31, 1931, are reported as follows:

ASSETS

Investment in road and equipment.	\$269,019.15
Miscellaneous physical property..	63,009.06
Cash.....	633.18
Accounts receivable.....	2,286.50
Materials and supplies.....	748.00
Unadjusted debits.....	262,716.45
Discount on stock.....	<u>270,000.00</u>

Total Assets.....\$868,412.34

LIABILITIES

Capital stock.....	\$500,000.00
Notes payable.....	262,716.45
Reserves for depreciation.....	92,273.73
Other reserves.....	1,000.00
Profit and loss-credit balance...	<u>12,422.16</u>

Total Liabilities.....\$868,412.34

It appears that the line of railway was constructed during 1883 and 1884. In 1931 its main line was rebuilt at a cost of \$262,716.45, which is carried in the foregoing balance sheet as an unadjusted debit, not having been transferred to road and equipment accounts at the date of the statement. The cost of the reconstruction work and of building a new spur line was financed through the issue of the \$262,716.45 of demand notes authorized by the Commission by Decision No. 23565, dated April 6, 1931. (Vol. 36, Opinions and Orders of the Railroad Commission of California, page 111.)

The corporate life of the old company will expire in 1934. Rather than extend the life and increase the authorized capital stock, those in control of the affairs of the company have concluded to form a new corporation and to cause the transfer of the properties of the old company to such new organization. It is reported that the outstanding \$500,000.00 of stock of the old company

and the \$262,716.45 of notes are held in equal shares by the Elk River Mill & Lumber Company and Dolbeer & Carson Lumber Company, and that they are willing upon transfer of the properties to cancel the notes payable and to accept \$800,000.00 of the common capital stock of the new company issued at 80 per cent of par value. The new company, it appears, was duly organized under the laws of California on or about May 13, 1932, with an authorized capital stock of \$1,000,000, divided into 10,000 shares of the par value of \$100.00 each, all common.

In presenting this application to the Commission, applicants have submitted an appraisal of the properties prepared by Jerome Newman, consulting engineer, in which the historical cost, as of May 1, 1932, is estimated at \$570,900.00, and the historical cost depreciated at \$503,277.00, all as set forth in Exhibit "1" filed during the hearing in this proceeding.

Jerome Newman testified that if the properties had been reconstructed in 1924, or at prices prevailing in 1924, the historical cost of the properties new would be \$650,150.00 and the depreciated cost \$576,350.00. We are not concerned here with the value of the properties for the purpose of fixing rates. Two issues are before us - one, the transfer of the business, franchises and properties of the Bucksport & Elk River Railroad Company and the discontinuance by that company of its public utility obligations; and, second, the issue of stock by the Bucksport & Elk River Railway Company in payment for such properties. The transfer of the business, franchises and properties does not result in a change in the control of such business, franchises and properties.

For years the Commission has held to the theory that security issues should not exceed the cost of the properties of a corporation, plus the cost of selling the securities and reasonable

discounts if the same are necessary and justified. It has not based the issue of securities on what it might have cost to build the properties in question under conditions prevailing at times when the properties were not actually constructed. We will in this instance adhere to our policy of relating security issues to the cost of the properties, including the present value of land. The order herein will authorize Bucksport & Elk River Railway Company to issue \$540,000.00 par value of its common capital stock, of which approximately \$37,000.00 may be issued to complete the reconstruction and extension of the properties referred to in Decision No. 23565, dated April 6, 1931, and the remainder issued in payment for the business, franchises and properties of Bucksport & Elk River Railroad Company.

The stock herein authorized is substantially the same as the present outstanding stock and notes payable of Bucksport & Elk River Railroad Company, less the \$270,000.00 of discount on stock which that company now reports in its balance sheet.

O R D E R

Application having been made to the Railroad Commission for an order authorizing Bucksport & Elk River Railroad Company to transfer properties and Bucksport & Elk River Railway Company to issue \$800,000.00 of stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the transfer of the properties and the issue of \$540,000.00 of stock should be authorized, that such stock is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income

and that the application insofar as it involves the remaining \$260,000.00 of stock should be denied without prejudice, therefore,

IT IS HEREBY ORDERED, that Bucksport & Elk River Railroad Company be, and it hereby is, authorized to sell and transfer to Bucksport & Elk River Railway Company its business, franchises and properties and, upon the acquisition of the same by Bucksport & Elk River Railway Company, to discontinue its public utility operations.

IT IS HEREBY FURTHER ORDERED, that Bucksport & Elk River Railway Company be, and it hereby is, authorized to purchase the business, franchises and properties of Bucksport & Elk River Railroad Company and in payment therefor, and to reconstruct and extend said properties, as referred to in Decision No. 23565, dated April 6, 1931, to issue, at not less than par value, not exceeding \$540,000.00 of its common capital stock.

IT IS HEREBY FURTHER ORDERED, that this application insofar as it involves the remaining \$260,000.00 of stock be, and it hereby is, denied without prejudice.

The authority herein granted is subject to the following conditions:

(1) The aforesaid business, franchises and properties shall be acquired by Bucksport & Elk River Railway Company free and clear of all indebtedness.

(2) The authority herein granted will apply only to such transfer of properties and issue of stock as may be made on or before December 31, 1932.

(3) Bucksport & Elk River Railway Company shall keep such record of the issue of the stock herein authorized as will enable it to file, within thirty (30) days thereafter, 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.

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

DATED at San Francisco, California, this 3^d day of October, 1932.

C. L. Loney
Leon Whitely

W. A. Goo

W. B. Harris

Fred G. Stewart

Commissioners.