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Decision No. 10354

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of the RUSSIAN RIVER WATER COMPANY, a corporation, for permission to issue stock.) Application Number 7654

A. F. Lemberger, for Applicant.

BY THE COMMISSION:

O P I N I O N

In this application, Russian River Water Company asks permission to issue and sell at not less than par, $25,000. of its seven percent. cumulative preferred stock and $28,075. of its common stock, and to use the proceeds to reimburse its treasury and to pay for additions and betterments.

A public hearing was held before Examiner Satterwhite in San Francisco on April 12, 1922.

Russian River Water Company was incorporated on or about April 12, 1917 with an authorized capital stock of $50,000, divided into 500 shares of the par value of $100 each, all shares being common. Subsequently, on December 4, 1920, the authorized capital stock was increased to $125,000. consisting of $25,000.(250 shares) of seven percent. cumulative preferred stock and $100,000. (1,000 shares) of common stock.

Applicant reports that no preferred stock has been issued and that on December 31, 1921, $42,950. of common stock was outstanding. The record shows that in addition $28,975. of common stock

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has been authorized by the Commission but not yet issued. Applicant further reports no bonded indebtedness, $25,500. of notes payable and $34,542.66 of miscellaneous accounts payable.

It reports its income and corporate surplus accounts for the year ending December 31, 1921 as follows:-

INCOME ACCOUNT:

Operating revenues	$14,725.16
Operating expenses	9,858.94
Net operating revenues	4,866.22
Interest deductions	1,065.86
Miscellaneous rent deductions . . .	464.09
Total deductions	1,529.95
Balance for year	$3,336.27

CORPORATE SURPLUS ACCOUNT:

Deficit on December 31, 1920 . . .	$1,654.47
Profit for year from income account	3,336.27
Miscellaneous additions to surplus	605.69
Surplus on December 31, 1921 . .	2,287.49

The company now asks permission to issue and sell all of its preferred stock and all of the unissued common stock that has not been authorized by the Commission. It proposes to use $39,300. of the proceeds to reimburse its treasury for capital expenditures made during 1920 and 1921, and to expend the balance when and as authorized by the Commission in supplemental orders to pay for future additions and betterments.

The company reports in Exhibit "3" that during the years 1920 and 1921 it expended for capital purposes the sum of $39,317.36 on account of which it now asks permission to reimburse its treasury through proceeds obtained from the sale of stock. The testimony of Harold Everhart, applicant's auditor, shows that this amount was obtained from the following sources:-

From notes payable	$25,500.00
From accounts payable . . .	9,028.87
From surplus earnings . . .	2,287.49
From reserve for accrued depreciation	2,501.00
Total	$39,317.36

The company should use $34,528.87 obtained from the sale of the stock to pay indebtedness, $2,501.00 of the proceeds to reimburse its reserve for accrued depreciation, and $2,287.49 of the proceeds to reimburse its corporate surplus..

It appears from the testimony herein and from the petition that applicant first planned the issue of its preferred stock prior to 1921 and circulated a prospectus or statement showing that the stock carried dividends cumulative from January 15, 1921 and that the moneys obtained from the sale would be used for capital additions set forth in a prospectus. Subscriptions were obtained for some of the preferred stock, but none was issued. The company now reports that developments later showed that some of the capital expenditures were not as imperative or necessary as others mentioned in the prospectus, while some not mentioned at all had to be made to enable applicant to give better service. It is the intention of applicant to cancel the conditions of the original prospectus and to afford the subscribers the opportunity to cancel their old subscriptions. It will take new subscriptions from those conversant with the fact that the conditions of the old prospectus will not be fulfilled. The old subscriptions may be cancelled provided any money paid thereon be returned with interest at the rate of 7% during the period that the money was under the control of applicant. If this is done, no one, it seems, has any cause for complaint. Those who have heretofore subscribed for stock may, if they so desire, subscribe again under the new conditions.

T.C. Mellersh, applicant's vice president and general manager, testified that he anticipated little difficulty in disposing of the common stock at par and of the preferred stock at par plus accrued dividends since January 15, 1922.

O R D E R

RUSSIAN RIVER WATER COMPANY having applied for permission to issue and sell stock, a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified herein and that this application should be granted subject to the conditions of this order;

IT IS HEREBY ORDERED, that RUSSIAN RIVER WATER COMPANY be, and it is hereby, authorized to issue and sell $25,000. of its 7 per cent. cumulative preferred stock at not less than par plus accrued dividends from January 15, 1922, and to issue and sell $28,075.00 of its common stock at not less than par.

The authority herein granted is subject to the following conditions:

1.---Applicant may use $34,528.87 of the proceeds to pay indebtedness incurred for the purpose of acquiring and constructing additions and betterments to its plant. Proceeds in the sum of $2,501.00 may be used to reimburse applicant's reserve for accrued depreciation, and $2,287.49 of the proceeds to reimburse its surplus. The proceeds used to reimburse the reserve for accrued depreciation must be used either to replace property or to acquire additional properties.

2.--The remaining proceeds obtained from the sale of the stock herein authorized shall be deposited by applicant with some bank or banks as a special deposit and expended only as permitted by the Railroad Commission in a supplemental order or orders.

3.--Applicant may cancel subscriptions heretofore taken for preferred stock provided it return to the subscribers all moneys paid on such subscriptions with interest at the rate of 7% for such period as the money was under the control of applicant.

4.--Russian River Water Company shall keep such record of the issue and sale 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 in so far as applicable, is made a part of this order.

5.--The authority herein granted will apply only to such issue and sale of stock as may be made on or before December 31, 1922.

DATED at San Francisco, California, this 25d day of April, 1922.

H. W. Brundige

Irving Martin

Chester H. Rowell

W. D. Benedict

Commissioners.