

HS

Decision No. 7239.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF
THE STATE OF CALIFORNIA.

---oOo---

In the Matter of the Application of)	
HUNTINGTON BEACH COMPANY)	
to sell its telephone system to)	
HUNTINGTON BEACH TELEPHONE COMPANY)	<u>Application No. 5175</u>
and of HUNTINGTON BEACH TELEPHONE)	
COMPANY to issue stock.)	

J.S. Lawshe, for Huntington Beach Company;
H.V. Anderson, for Huntington Beach Telephone Company.

BRUNDIGE, Commissioner.

O P I N I O N.

This application involves the transfer of the telephone properties owned by Huntington Beach Company to Huntington Beach Telephone Company, and the issue of \$22,000.00 of stock by Huntington Beach Telephone Company to pay for such properties.

Applicants report that Huntington Beach Company was organized primarily for the purpose of acquiring, improving, subdividing and selling a tract of land at Huntington Beach in Orange County, and of carrying on other similar business. Among other properties which it owns is a telephone system located at Huntington Beach. It asks permission to sell its telephone properties to the newly organized Huntington Beach Telephone Company, which will engage exclusively in the business of maintaining and operating the telephone properties and system.

Huntington Beach Telephone Company has an authorized stock issue of \$50,000. divided into 50,000 shares of \$1. each. None of the stock, except 2500 shares, - 500 shares to each of the five persons now acting as directors of the company- has been issued. The issue of the stock has never been authorized by the Commission. It was subscribed for, pursuant to Section 295 of the Civil Code, which requires \$100. of stock per mile of telegraph line to be subscribed for, prior to the filing of the articles of incorporation. Heretofore, the Commission has held that public utilities organized in good faith may issue one share of stock to each director for qualifying purposes. In this instance, it appears to me that a greater number of shares than was necessary to qualify directors was issued, and there is, therefore, some doubt about the validity of the 2500 shares of stock outstanding. To remove this doubt, I believe that the Commission should authorize Huntington Beach Telephone Company to issue 2500 shares of stock in lieu of the 2500 shares of stock heretofore issued without an order from the Railroad Commission.

Huntington Beach Telephone Company asks authority to issue, as said above, \$22,000. of its stock to acquire the telephone properties of Huntington Beach Company. The company submitted an appraisal in which the reproduction cost is reported at \$50,195.94, and the present value at \$15,699.62. The Commission's engineers estimate the historical reproduction cost of the properties at \$20,999.00, the historical reproduction cost less depreciation, at \$15,902.00; the reproduction cost new, using 1919 prices, at \$31,353.00, and the reproduction cost new, using 1919 prices, less depreciation, at \$23,616.00.

The engineers of the Commission agree with representatives of applicant, that the depreciation rates used in applicant's appraisal are too high.

I believe that Huntington Beach Telephone Company should be permitted to issue \$22,000.00 of stock to acquire the properties of the Huntington Beach Company, and I, therefore, submit the following form of Order:

O R D E R.

HUNTINGTON BEACH COMPANY having applied to the Railroad Commission for authority to sell its telephone properties to HUNTINGTON BEACH TELEPHONE COMPANY, and HUNTINGTON BEACH TELEPHONE COMPANY having joined in the application and asked permission to issue \$22,000.00 of stock in payment for the properties, 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 by the issue of stock herein authorized, is reasonably required for the purposes specified in this Order:

IT IS HEREBY ORDERED that HUNTINGTON BEACH COMPANY be, and it is hereby, authorized to sell and transfer to the HUNTINGTON BEACH TELEPHONE COMPANY all of its telephone properties referred to in the petition herein and in Exhibit "A" in Application Number 4472.

IT IS HEREBY FURTHER ORDERED that HUNTINGTON BEACH TELEPHONE COMPANY be, and it is hereby, granted authority to issue \$24,500.00 par value of its common capital stock.

The authority herein granted is upon the following conditions, and not otherwise:

1. Of the stock herein authorized, \$22,000.00 shall be issued at not less than par to Huntington Beach Company in payment for the telephone properties herein authorized to be sold and transferred, and \$2,500.00 shall be issued at par to

directors of Huntington Beach Telephone Company in lieu of the \$2,500.00 of stock heretofore issued without an order from the Railroad Commission, provided that none of the \$2,500.00 of stock be issued until the certificates heretofore issued to directors have been returned and canceled.

- 2.--The price at which the telephone properties are herein authorized to be transferred shall not be urged before this Commission, or other public body, as determining the value of said properties for rate-fixing or any purpose other than the transfer herein authorized.
- 3.--Within sixty days after the transfer of the properties, Huntington Beach Telephone Company shall file with the Railroad Commission a verified copy of the instrument of conveyance under which it holds title to the properties and advise the Commission of the specific date when the transfer became effective.
- 4.--Huntington Beach Telephone 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 shall apply only to such transfer as may be made and to such stock as may be issued on or before August 1, 1920.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 11th day of

March
~~February~~, 1920.

H. L. Loveland

H. B. Anderson

Irving Martin 126
COMMISSIONERS.