

Decision No. 27149

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
LAKE HEMET WATER COMPANY) Application No. 19470
for order authorizing issue of stocks.)

Cosgrove & O'Neil, for Applicant.

ORIGINAL

BY THE COMMISSION:

O P I N I O N

Lake Hemet Water Company, a corporation, has applied to the Railroad Commission for an order authorizing it to issue 5,160 shares of its capital stock of the aggregate par value of \$516,000.00.

The application shows that the company is engaged in the business of diverting and distributing water for irrigation, domestic, mechanical and commercial purposes in the territory situate in Riverside County, generally known as the Hemet-San Jacinto Valley, and lying adjacent to and in the neighborhood of the cities of Hemet and San Jacinto and the unincorporated town of Valle Vista.

In making this application the company has submitted a balance sheet showing its assets and liabilities as of May 31, 1933, as follows:

ASSETS

Fixed capital.....	\$ 782,114.00
Cash.....	6,899.21
Notes receivable.....	2,729.03
Interest receivable.....	463.84
Accounts receivable.....	2,441.08
Materials and supplies.....	3,296.90
Prepaid insurance.....	187.21
Miscellaneous investments.....	1,808.49
Other suspense.....	4,799.29
Unamortized stock discount.....	1,462,617.24
Deficit.....	<u>31,051.33</u>

Total.....\$2,298,407.62

LIABILITIES

Capital stock.....	\$2,000,000.00
Notes payable.....	43,499.99
Audited vouchers.....	750.00
Consumers' deposits.....	149.60
Interest and taxes accrued.....	7,199.75
Services billed in advance.....	9,735.78
Consumers' advances.....	1,054.16
Donations in aid of construction...	3,512.02
Reserve for depreciation.....	<u>232,506.32</u>

Total.....\$2,298,407.62

The \$2,000,000.00 of stock consists of 100,000 shares of the par value of \$20.00 each. As shown in the foregoing balance sheet, there was set up against the \$2,000,000.00 par value of stock, discount in the amount of \$1,462,617.24, leaving a net figure, or stated capital, of \$537,382.76.

Section 300 (b) of the general corporation law of California provides that every stock corporation shall have a stated capital. If par value shares have been issued for a consideration less than par, only the amount of the agreed consideration for such shares specified in dollars shall be credited to stated capital.

Lake Hemet Water Company has taken steps to reduce its stated capital from \$537,382.76, as of May 31, 1933, to \$516,000.00, a decrease of \$21,382.76. To effect the reduction, it has amended

its articles of incorporation so as to reduce the authorized capital stock from \$2,000,000.00, divided into 100,000 shares of the par value of \$20.00 each, to \$516,000.00, divided into 5,160 shares of the par value of \$100.00 each, all shares being of one class. It has made arrangements to issue to its stockholders the 5,160 shares of \$100.00 par value stock in exchange for the 100,000 shares of \$20.00 par value of stock in proportion to their holdings.

The result of the transaction is to eliminate the un-amortized discount on stock in the amount of \$1,462,617.24, to set up the capital stock at \$516,000.00 instead of \$2,000,000.00 and to reduce the deficit by the amount of the stated capital reduction, that is, by \$21,382.76.

In support of the proceeding it is alleged that the new stock as issued will more nearly approximate in value the shareholders' interests as reflected by the actual assets and liabilities. It appears that the exchange of stock is being made on a proportionate basis and that consequently the stockholders' relative interests will not be affected and that there will be no change in the control of the corporation.

ORDER

Lake Hemet Water Company having applied to the Railroad Commission for permission to issue stock, and the Railroad Commission being of the opinion that this is not a matter in which a public hearing is necessary, that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of such stock is reasonably required for the purpose specified herein, which purpose is not,

in whole or in part, reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED, that Lake Hemet Water Company be, and it hereby is, authorized to issue, on or before December 31, 1934, 5,160 shares of its capital stock of the par value of \$100.00 a share in exchange for 100,000 shares of stock, heretofore issued, of the par value of \$20.00 a share, for the purpose of reducing its stated capital, its deficit and eliminate its discount on stock in the amounts indicated in the opinion preceding this order, provided:

1. That applicant keep such record of the issue of said 5,160 shares of stock as will enable it to file a report thereof, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order; and

2. That the authority herein granted become effective upon the date hereof.

DATED at San Francisco, California, this 14th day of June, 1934.

CC Seamy
Iron Overhaul

W. L. Moore

Commissioners.