

ORIGINAL

Decision No. 46401

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)

of)

CATALINA ISLAND STEAMSHIP LINE,)
a corporation,)

Application)
No. 32821)

for an Order approving a Distri-)
bution of Reduction Surplus.)
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O P I N I O N

Catalina Island Steamship Line, applicant herein, is a California corporation, formerly known as Wilmington Transportation Company, which was organized in 1884 and which is, and for many years has been, engaged in operating vessels between Los Angeles Harbor and Catalina Island. In this application it seeks an order approving its distribution in 1948 of \$394,313.87 of its reduction surplus.

Prior to 1934, applicant had issued and outstanding \$2,000,000 par value of common stock divided into 20,000 shares of the par value of \$100 each. During 1934, under authority granted by Decision No. 27188, dated June 30, 1934, in Application No. 19501, it issued \$1,000,000 par value of common stock, divided into 20,000 shares of the par value of \$50 each, in exchange for the 20,000 shares of the par value of \$100 then outstanding, thereby creating a reduction surplus of \$1,000,000. The order of the Commission authorizing the issue of the shares of stock contained the following proviso:

"That the authority to issue said stock will not become effective until Wilmington Transportation Company has filed with the Commission, in form satisfactory to the Commission, a stipulation duly executed by its Board of Directors wherein and

whereby it agrees that it will not, without the consent of the Railroad Commission, declare a dividend, the amount of which is in excess of its earned surplus and that for the purpose of declaring said dividend, the surplus created by the reduction of said capital stock will not be considered by said Wilmington Transportation Company as earned surplus."

Thereafter, the stipulation was filed by the company and was approved by the Commission by Decision No. 27247, dated July 30, 1934. Applicant filed its Certificate of Distribution of Reduction Surplus with the Secretary of State as required by Section 1908 of the Corporations Code.

Applicant's outstanding shares of common stock are, and for many years have been, held by Santa Catalina Island Company. Prior to the close of 1948 applicant in turn owned 12,324-2/3 shares of the stock of Santa Catalina Island Company, which it carried on its books in the amount of \$616,233.33, the subsidiary thus owning a substantial block of the stock of the parent. The present application shows that applicant's board of directors on November 22, 1948, in order to clarify and simplify the intercorporate relationship, authorized the distribution to its stockholder of said 12,324-2/3 shares as a dividend, the payment being charged on its books to earned surplus in the amount of \$221,919.46 and to the reduction surplus in the amount of \$394,313.87.

The effect of this transaction was to exhaust the balance in the earned surplus account at that time and to decrease the reduction surplus from \$1,000,000 to \$605,686.13. Applicant did not obtain the consent of the Commission to decrease its reduction surplus account, as provided by the terms of its stipulation. It asserts, however, that its failure to do so was through inadvertence, and in mitigation of the violation of the stipulation it states that the personnel of its board of directors, with two exceptions, was

totally different in 1948 than it was in 1934 when the stipulation was made and that, with one exception, all its officers, as well as its legal counsel, had been changed during the intervening period.

Counsel for applicant reports that when the terms of the stipulation were called to his attention, consideration was given to having the board of directors rescind or repeal its 1948 action. He reports, however, that in his opinion there is no authority in the Corporations Code which will permit such action. Accordingly, the present application for approval of the transaction has been filed with the Commission.

In considering this matter, reference is made to applicant's financial condition. Its balance sheet as of December 31, 1950, shows its assets and liabilities and net worth as follows:

Assets

Current assets -		
Cash and deposits	\$ 499,700	
Marketable securities	459,168	
Accounts receivable-net	31,056	
Material and supplies	55,588	
Total current assets		\$1,045,512
Special deposits		118,174
Property and equipment -		
Total	2,749,123	
Less-depreciation reserves	2,236,808	
Net property and equipment		512,315
Deferred items		71,311
		<u>\$1,747,312</u>
	Total	

Liabilities and Net Worth

Current liabilities -		
Due affiliated companies	\$ 75,880	
Accounts payable	81,480	
Accrued liabilities	7,731	
Total current liabilities		\$ 165,091
Insurance reserves		9,903
Net worth -		
Capital stock	1,000,000	
Reduction surplus	605,686	
Unearned surplus	9,085	
Earned surplus	(42,453)	
Total net worth		1,572,318
	Total	<u>\$1,747,312</u>

The payment of the 1948 dividend through the distribution of certificates did not deplete the cash balances of the company. It is noted from the foregoing balance sheet that applicant had no outstanding indebtedness other than current liabilities, and that it had current assets and special deposits well in excess of any obligations shown by its reports. The large balances in its cash and marketable securities accounts have been accumulated over a period of years, and, from an analysis of applicant's annual reports, apparently represent depreciation accruals.

The debit balance of \$42,453 shown in applicant's earned surplus account as of the close of 1950 resulted from a decrease in revenues experienced during 1950 and from a substantial increase in expenses. For the year 1949, applicant reported water-line operating revenues of \$1,863,679 and expenses, exclusive of taxes, of \$1,753,502, as compared with 1950 revenues of \$1,791,156 and expenses of \$1,927,093. Its operating experience during the year 1950 resulted in reducing its earned surplus account from a credit balance of \$89,643 at the beginning of the year to the deficit as stated at the close of the year. On this point it should be noted that the Commission, by Decision No. 45885, dated June 26, 1951, authorized applicant to place in effect increased passenger fares estimated by applicant to increase its operating revenues by \$105,000.

Upon a full review of this matter, it does not appear that the 1948 distribution of reduction surplus adversely affected applicant's service to the public or impaired its financial position. Accordingly, an order will be entered in this matter.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing thereon is not necessary; therefore,

IT IS HEREBY ORDERED that the distribution of reduction surplus by Catalina Island Steamship Line in 1948 in the amount of \$394,313.87 hereby is approved by the Commission.

IT IS HEREBY FURTHER ORDERED that this order will become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 13th day of November, 1951.

A. J. [Signature]
President

Harold A. Hule

Francis D. [Signature]
John E. [Signature]

Commissioners