

Decision No. 52842

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

SOUTHERN PACIFIC MILLING COMPANY,
a California corporation,

for an order authorizing increase in
par value of its outstanding stock
and the issuance of additional shares
as a dividend in stock.

Application
No. 37833

O P I N I O N

In this application, Southern Pacific Milling Company, a corporation, seeks approval of a reclassification of its capital stock and of the issue of additional shares of common stock.

Presently, applicant's issued capital stock consists of 38,100 shares of common stock of the par value of \$1 each, of which 350 shares have been reacquired by it and are held in its treasury, leaving 37,750 held by the stockholders. Its total capital and surplus amounted to \$1,602,515 on January 31, 1956, according to its balance sheet of that date which has been filed in the proceeding as Exhibit A. It has no long-term debt outstanding nor any shares of preferred stock or other form of senior securities.

The application shows that the company now has taken steps to amend its articles of incorporation so as to reclassify its \$1 par value shares of common stock into \$5 par value shares, and, in addition, to capitalize \$943,750 of its surplus through the issue of 188,750 of its new \$5 shares, such additional shares to be distributed to the shareholders on a five-for-one basis as a stock dividend. The

effect of these transactions on applicant's balance sheet is shown in the following tabulation:

| | <u>Book Balances</u> <u>Jan. 31, 1956</u> | <u>Transfers</u> | <u>Pro Forma</u> |
|--------------------------------|--|------------------|--------------------|
| <u>Assets</u> | | | |
| Current assets - | | | |
| Cash | \$ 478,822 | - | \$ 478,822 |
| Accounts receivable | 526,767 | - | 526,767 |
| Inventories | 93,546 | - | 93,546 |
| Prepaid expenses | 62,667 | - | 62,667 |
| Total current assets | 1,161,802 | - | 1,161,802 |
| Plant and equipment - net | 812,857 | - | 812,857 |
| Other assets | 130,962 | - | 130,962 |
| Total | <u>\$2,105,621</u> | - | <u>\$2,105,621</u> |
| <u>Liabilities and Capital</u> | | | |
| Current liabilities | \$ 503,106 | \$ - | \$ 503,106 |
| Capital and surplus - | | | |
| Common stock | 38,100 | 1,096,150 | 1,134,250 |
| Less - treasury stock | (12,051) | - | (12,051) |
| Reduction surplus | 34,250 | (34,250) | - |
| Surplus | 1,542,216 | (1,061,900) | 480,316 |
| Total capital & surplus | <u>\$1,602,515</u> | - | <u>\$1,602,515</u> |
| Total | <u>\$2,105,621</u> | - | <u>\$2,105,621</u> |

The preceding tabulation shows that applicant has financed itself with equity funds and that a substantial portion of its investment is represented on its balance sheet in the current assets accounts. In this connection it is noted that although applicant is engaged in business as a public utility warehouseman at Santa Maria, its operations, in the main, are of a nonutility nature, consisting of the production and sale of rock, sand, and gravel at various locations in the southern part of the state. A comparative income account for the last three fiscal years, showing applicant's recorded results of operations and pointing up the relatively small proportion of utility business, is as follows:

12 Months Ended May 31.

| | <u>1953</u> | <u>1954</u> | <u>1955</u> |
|------------------|-------------------|------------------|-------------------|
| Revenues - | | | |
| Public utility | \$ 71,510 | \$ 29,143 | \$ 5,553 |
| Non-utility | <u>5,886,503</u> | <u>5,582,957</u> | <u>5,809,104</u> |
| Total revenues | <u>5,958,013</u> | <u>5,612,100</u> | <u>5,814,657</u> |
| Net income | <u>306,332</u> | <u>163,142</u> | <u>298,815</u> |
| Dividends - | | | |
| Preferred (1) | 3,750 | 7,500 | 3,750 |
| Common | <u>25,300</u> | <u>78,975</u> | <u>103,812</u> |
| Total dividends | <u>29,050</u> | <u>86,475</u> | <u>107,562</u> |
| Balance for year | <u>\$ 277,282</u> | <u>\$ 76,667</u> | <u>\$ 191,253</u> |

(1) A former issue of 5% preferred stock has been reacquired and canceled.

During the last five fiscal years applicant has paid dividends on its \$1 par value common stock as follows:

| | <u>Rate</u> | <u>Amount</u> |
|-------------------------|-------------|---------------|
| Year ended May 31, 1952 | \$.30 | \$ 15,180 |
| " " " " 1953 | .50 | 25,300 |
| " " " " 1954 | 2.00 | 78,975 |
| " " " " 1955 | 2.75 | 103,804 |
| Current year to date | 2.25 | 82,687 |

Applicant's present proposal with respect to its stock does not involve a distribution of assets. The reclassification and the share dividend will result in the transfer of \$1,096,150 from the surplus accounts to stated capital and the permanent retention in the business of surplus of that amount. The completion of the transactions will reduce the book value of the issued shares from approximately \$42 each to approximately \$7 each and will enable applicant to present a financial statement containing a more balanced capital structure.

A review of applicant's operating experience clearly shows that in the conduct of its business it has accumulated surplus well in excess of the proposed stock issues, that the shareholders have

chosen to invest such surplus in the business, and that an order, therefore, properly can be made authorizing the company to issue stock in reimbursement of the amounts so invested and to distribute such stock to its shareholders as a stock dividend. Upon full consideration we are of the opinion that the money, property or labor to be procured or paid for by the issue of the additional shares of stock herein authorized is reasonably required by applicant for the purposes specified herein, that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that an order should be entered granting applicant's requests.

ORDER

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

IT IS HEREBY ORDERED as follows:

1. Southern Pacific Milling Company may amend its articles of incorporation, as indicated in this application, and may reclassify its issued shares of common stock of the par value of \$1 each into a like number of shares of common stock of the par value of \$5 each.
2. Southern Pacific Milling Company may issue not exceeding 188,750 shares of its \$5 par value common stock in reimbursement of its treasury for surplus invested in its assets and thereafter may distribute such shares as a stock dividend to its existing shareholders.

3. Southern Pacific Milling Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 3rd
day of April, 1956.

John E. Mitchell
President

Justin J. Cramer

Raymond L. Freeman

Montgomery

Commissioners