

Decision No. 53671

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of CENTRAL EUREKA CORPORATION, a  
corporation, for Authority to  
Issue Common Stock.

Application No. 38186

Paul T. Wolf, for Applicant;  
Steinhart, Goldberg, Feigenbaum  
& Ladar by James B. Frankel,  
for A. K. Salz Company; and  
Stewart Miller, a shareholder  
of A. K. Salz Company,  
interested parties.

O P I N I O N

This is an application for an order authorizing Central Eureka Corporation (1) to issue 1,200,000 shares of its \$1 par value common stock in exchange for 1,250 shares of the outstanding \$100 par value common stock of A. K. Salz Company, and (2) to issue 60,000 shares of said \$1 par value common stock in payment for services rendered in negotiating this transaction.

The application was filed on June 26, 1956. Pursuant to the provisions of Section 822 of the Public Utilities Code, a public hearing upon the fairness of the terms and conditions of the issue and exchange of stock was held before Examiner Coleman in San Francisco, on August 1, 1956, after notice of such hearing had been given to the holders of all the outstanding shares of stock of both corporations. No protests were received by the Commission and at the conclusion of the hearing, the application was taken under submission.

Central Eureka Corporation is a California corporation, organized in 1894. It is engaged in certain nonutility activities, including rice drying, farming, cattle feeding, and feed milling and, since the close of 1954, in the public utility warehouse business in Colusa County. A condensed statement of its assets, liabilities and capital, as of April 30, 1956, is as follows:

Assets

Current assets -		
Cash and accounts receivable	\$ 197,873	
Inventories	343,314	
Other current assets	<u>223,519</u>	
Total current assets		\$ 764,706
Property, plant and equipment (at cost, less depreciation)		1,884,985
Investment in subsidiary		16,669
Goodwill		13,926
Deferred charges		<u>248,228</u>
Total		<u>\$2,928,514</u>

Liabilities and Capital

Liabilities -		
Current liabilities	\$ 972,811	
Long-term debt	<u>1,189,747</u>	
Total liabilities		\$2,162,558
Capital -		
Preferred stock, 5% cumulative	1,175,000	
Common stock, \$1 par	1,811,788	
Capital surplus	<u>1,791,853</u>	
Earned surplus (deficit)	<u>(4,012,685)</u>	
Total capital		<u>765,956</u>
Total		<u>\$2,928,514</u>

The accumulated deficit reflects losses in operations from activities, such as gold mining and meat packing, which have been discontinued. The record shows that applicant's present operations have been more successful and for the eight months ended April 30, 1956, produced net profits of \$14,086.

Since the date of the balance sheet, applicant has converted the shares of preferred stock into shares of common stock on a dollar-for-dollar basis and has issued additional shares of common stock in payment of indebtedness and in exchange for shares of stock of a corporation engaged in mining ventures. Presently applicant has 4,887,788 shares outstanding, which are held by approximately 2,600 shareholders. The shares are traded on the San Francisco and Los Angeles stock exchanges.

It appears that the applicant is following a policy of diversifying its activities. It has acquired, or is in the process of acquiring, shares of stock of certain nonutility companies engaged in such operations as mining, manufacturing, and ship repairing, among others. In addition, at this time, it is desirous of further extending its field of endeavor through the acquisition of stock of A. K. Salz Company, a corporation engaged in the leather tanning business in Santa Cruz.

A. K. Salz Company was organized in 1929 and has been engaged in business continuously since that time. A condensed statement of its June 30, 1956 balance sheet is as follows:

<u>Assets</u>		
Current assets		
Cash and accounts receivable	\$163,656	
Advance for materials	10,000	
Notes receivable	6,750	
Inventories	<u>329,342</u>	
Total current assets		\$509,748
Fixed assets (cost less depreciation)		380,447
Deferred charges		<u>51,781</u>
Total		<u>\$941,976</u>
<u>Liabilities and Capital</u>		
Current liabilities		
Capital -		\$101,598
Common stock \$100 par	\$125,000	
Earned surplus	<u>715,378</u>	
Total capital		<u>840,378</u>
Total		<u>\$941,976</u>

The outstanding stock is divided into 1,250 shares which are held by 33 shareholders. On the basis of the foregoing balance sheet, the book value is approximately \$670 a share, although such book value gives no consideration to goodwill or other intangible values which may attach to the business or to the present value of the company's assets. The stock is not traded on any exchange.

The record shows that the recorded results of operation by A. K. Salz Company during recent years have been as follows:

	<u>Net Sales</u>	<u>Net Profits</u>
1953	\$1,419,346	\$84,039
1954	1,445,712	77,588
1955	1,517,872	49,012
1956 (6 months)	758,834	73,234

It is reported that the 1955 results reflect nonrecurring expenses in excess of \$40,000 for flood damage, research work and other matters. The testimony shows that, excluding 1955, the annual earnings for a number of years, after taxes, have averaged approximately \$76 a share.

Applicant now proposes to offer the shareholders of A. K. Salz Company the opportunity to exchange their shares for shares of stock of Central Eureka Corporation. The basis of exchange will be 960 shares of the \$1 Central Eureka Corporation's stock for each of the \$100 A. K. Salz Company's shares, which would require a total issue by Central Eureka Corporation of 1,200,000 shares, should the exchange offer be accepted by all shareholders. It is reported that the offer will become effective only if the holders of 80% of A. K. Salz Company's stock agree to the exchange. The offer, with respect to such 80% of the shareholders, will expire on October 31, 1956, but will be held open, for the remaining 20%, for a period of six months. It appears that the exchange offer is predicated primarily on earnings.

At this time, Central Eureka Corporation is negotiating for the acquisition of stocks of other corporations <sup>1/</sup> It reports that should the offer to A. K. Salz Company's shareholders be accepted by all of them, and should the other pending transactions be completed, it will have 8,187,788 shares outstanding. On the basis of present operations, it estimates its annual earnings per share at about 17 cents. It is asserted by applicant that the exchange will strengthen its earnings position and will benefit the present holders of the A. K. Salz Company's stock, should they make the exchange, by reason of the diversification of the operations of the Central Eureka Corporation and the available market for disposal of its shares.

Upon the basis of information submitted in this proceeding, we are of the opinion, and so find, that the terms and conditions of the issue and exchange of shares of stock are fair. In arriving at this conclusion, we make no finding of the value of the stock of either corporation and no estimate of the earnings which might be realized. Moreover, the attention of applicant and the shareholders of both corporations is called to the provisions of Section 828 of the Public Utilities Code, which reads as follows:

"No provision of this part, and no act done or performed under or in connection therewith, shall obligate the State to pay or guarantee, in any manner whatsoever, any stock or stock certificate or other evidence of interest or ownership, or bond, note, or other evidence of indebtedness, authorized, issued, or executed under the provisions of this part."

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<sup>1/</sup> In Application No. 38248, Central Eureka Corporation seeks authorization to issue 2,040,000 shares in acquiring the stocks of San Carlos Manufacturing Co. and Heating Equipment Manufacturing Co.

Finally, the shareholders of A. K. Salz Company are advised that the exchange of stock is not compulsory. It is the stated intention of the Central Eureka Corporation to maintain A. K. Salz Company as a separate operating corporation and the shareholders, if they so desire, may reject the exchange offer and continue in the ownership of their present holdings.

O R D E R

A public hearing having been held in the above-entitled matter upon the fairness of the terms and conditions of the issue of stock by Central Eureka Corporation in exchange for stock of A. K. Salz Company, notice having been given, and the Commission having considered the evidence and being of the opinion that the application should be granted, that the terms and conditions of the issue and exchange of stock should be approved, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Central Eureka Corporation may issue not exceeding 1,200,000 shares of its common stock, on or before April 30, 1957, in exchange for stock of A. K. Salz Company, in accordance with the terms set forth in this application.
2. Central Eureka Corporation may issue not exceeding 60,000 shares of its common stock, on or before April 30, 1957, in payment for services rendered in negotiating this transaction.

3. Central Eureka Corporation 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 on the date hereof.

Dated at Los Angeles, California, this 29<sup>th</sup> day of August, 1956.

[Signature] President  
[Signature]  
[Signature]  
[Signature]  
[Signature] Commissioners