

ORIGINAL

Decision No. 55644

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of

N. F. DAVIS DRIER AND ELEVATOR,
a corporation,

For an Order Authorizing the
Execution of a Note Secured by
an Encumbrance upon Public Utility
Property and Authorizing the
Issuance of Stock

Application No. 39406

O P I N I O N

In this application N. F. Davis Drier and Elevator, a corporation, seeks authorization to issue \$315,000 par value of common stock, to execute a deed of trust, and to issue a note in the principal amount of \$75,000.

Applicant was organized under the laws of the State of California and since 1948 has been engaged in merchandising activities in Firebaugh, Fresno County, in cleaning and drying rice and, incidental thereto, in the operation of public utility warehouse facilities for the storage of rice and grain. For the year ended April 30, 1957, it reported gross revenues of \$419,553, including storage and handling revenues of \$33,631, and net profit of \$60,017, after making provision for income taxes of \$56,000 and depreciation of \$43,000.

In Exhibit D, applicant has set forth a detailed account of its assets, liabilities and capital as of April 30, 1957. A summary statement prepared therefrom is as follows:

Assets

Current and prepaid assets	\$64,527	
Less - current liabilities	<u>62,517</u>	
Net current assets		\$ 2,010
Tangible assets less depreciation		528,787
Other assets		<u>13,718</u>
 Total		 <u>\$544,515</u>

Liabilities and Capital

Long-term debt		\$151,000
Amounts due stockholders		9,613
Capital -		
Common stock	\$ 45,000	
Earned surplus	<u>338,902</u>	
Total capital		<u>383,902</u>
 Total		 <u>\$544,515</u>

The long-term debt consists of a note payable to Northwestern Mutual Life Insurance Company. The outstanding stock consists of 450 shares of the par value of \$100 each which are held by Narval F. Davis and Joyce M. Davis.

The financial statements filed in this proceeding and in applicant's annual reports show that the company has conducted its operations at a profit, that it has not been its practice to distribute its net earnings to its shareholders, and that it has retained such earnings in its business, utilizing them as a major source of funds in constructing and acquiring its facilities.

Applicant now proposes to capitalize permanently a substantial portion of its retained earnings through the issue to its shareholders of seven new shares for each share now held, this calling for the issue of 3,150 shares of the par value of \$315,000. In addition, it proposes to increase its borrowings from Northwestern Mutual Life Insurance Company by the sum of \$75,000 to provide, in part, the cost of expanding its facilities. The additional loan will be represented by a note payable over a period of ten years with interest at the rate of 6 per cent per annum, payment to be secured by a deed of trust.

In making its application for approval of the additional borrowing, applicant reports that there are not sufficient grain storage facilities in the Firebaugh area, that during the 1956 rice season it shipped 200 cars of rice to Stockton and smaller quantities to other places because storage space was not available locally, and that in its opinion its planned expansion will take care of approximately 6,500 tons and will develop revenues of \$25,000 a year. The improvements will consist of eight new concrete grain storage tanks, twenty-four feet across and seventy feet high.

The application shows that the company has put in the foundations for the tanks at a cost of \$40,000, that the machinery will cost \$20,000, and that it has signed a contract for the construction of the tanks for a price of \$85,000.

A review of the application clearly shows (1) that the company has had earnings from operations well in excess of the proposed stock dividend, that such earnings have been retained

in the business and that shares of stock properly may be issued against such earnings, and (2) that the company will have need for additional funds from external sources to help meet the cost of the improvements to its plant facilities. We are of the opinion, therefore, that the money, property or labor to be procured or paid for by the issue of the stock and note is reasonably required for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Accordingly, we will enter an order granting applicant's requests.

O R D E R

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

IT IS HEREBY ORDERED as follows:

1. N. F. Davis Drier and Elevator, a corporation, may issue not exceeding \$315,000 par value of common stock in reimbursement of its treasury for income invested in its properties and business and thereafter may distribute such stock, as a stock dividend, to its present stockholders.

2. N. F. Davis Drier and Elevator may issue a note in the principal amount of \$75,000 and may execute a deed of trust for the purpose of financing, in part, the cost of the improvements and additions referred to in the opinion preceding this order,

which note and deed of trust shall be in, or substantially in, the same form as those filed in this proceeding as Exhibit B and Exhibit C, respectively.

3. N. F. Davis Drier and Elevator shall file 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 when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$75.

Dated at San Francisco, California, this 27th day of October, 1957.

[Signature]
President

[Signature]

[Signature]

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Commissioners

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B. J. [Signature]