

ORIGINAL

Decision No. 58035

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
CALIFORNIA WATER SERVICE COMPANY,  
a corporation,

for an order authorizing it to  
issue additional common shares  
and to split its common shares

Application No. 40782

O P I N I O N

In the above-entitled proceeding, California Water Service Company seeks authorization (1) to issue shares of its common stock of the par value of \$12.50 each in exchange for presently outstanding shares of common stock of the par value of \$25 each in order to effect a split up, on a two-for-one basis, of its outstanding common stock; (2) to issue common shares of the par value of \$12.50 each as may be required upon the surrender of shares of preferred stock for conversion; and (3) to issue shares of common stock for distribution to its common shareholders as a stock dividend.

At the present time, applicant's Amended Articles of Incorporation provide for an authorized capital stock of 1,765,421 shares of the par value of \$25 each, consisting of 765,421 shares of preferred stock and 1,000,000 shares of common stock. As of December 31, 1958, the following shares were outstanding:

	<u>No. of Shares</u>	<u>Total Par Value</u>
Preferred -		
Series C - 4.4%	139,000	\$3,475,000
Series D - 5.3	11,943	298,575
Series E - 5.28	11,534	288,350
Series F - 5.36	12,875	321,875
Series G - 5.2	5,480	137,000
Series H - 5.2	3,589	89,725
Series I - 5.08	60,000	1,500,000
Series J - 5.5	60,000	1,500,000
Total preferred	<u>304,421</u>	<u>7,610,525</u>
Common	<u>556,472</u>	<u>13,911,800</u>
Total	<u>860,893</u>	<u>\$21,522,325</u>

The preferred shares are entitled to cumulative dividends at the rates indicated and, except for the shares of Series C and Series I, are convertible into common stock. As provided in the amended articles, the shares, both preferred and common, have equal voting rights.

Applicant now is undertaking to amend its Articles of Incorporation so as to change its authorized common shares from 1,000,000 of the par value of \$25 each to 2,000,000 of the par value of \$12.50 each, the effect of which will be to split the outstanding common shares on a two-for-one basis. It is not proposed to increase the total capital or surplus but merely to divide the common stock into twice the present number of shares and to reduce the par value of the common shares to one half of the present par value. Applicant's management is of the opinion that the proposed stock split will broaden the market for its common shares and will result in a wider distribution and an increased number of shareholders, which applicant believes is desirable and will facilitate future financing.<sup>1/</sup>

---

<sup>1/</sup> On the basis of applicant's balance sheet as of December 31, 1958, the presently outstanding common shares have a book value of approximately \$38 each. Information before the Commission shows that the shares have been quoted recently on the over-the-counter market at \$55-1/4 bid and \$58-3/4 asked.

In order to maintain the voting relationship between the preferred shares and common shares, applicant intends to amend its articles so as to give to the holders of the preferred shares of all series two votes for each preferred share held and to give to the holders of the common shares one vote for each common share held. With the change in the par value of the common stock, the conversion prices will be proportionately changed.

As to the request of the company to issue additional shares of common stock, it appears that applicant proposes to pay a 5% stock dividend upon its common shares, payable on March 19, 1959, to common shareholders of record at the close of business on March 11, 1959. If the proposed stock split should become effective on or before March 19, 1959, the stock dividend will be paid in common shares of the par value of \$12.50 each and each common shareholder of record at the close of business on March 11, 1959, will be entitled to receive two common shares of the par value of \$12.50 each for each 20 common shares of the par value of \$25 each. If the stock split should not become effective on or before March 19, 1959, each shareholder would receive one common share of the par value of \$25 for each 20 common shares of the par value of \$25 each.

The proposal of the company will not result in an increase in the total net worth of the company but merely in the transfer of approximately \$695,590 from the surplus account to the capital stock account. In making its request thus to capitalize its retained earnings, in part, applicant has submitted its balance sheet showing its assets, liabilities and net worth as of December 31, 1958 as follows:

Assets

Utility plant, less reserve		\$67,315,931
Other physical property		133,141
Special deposits		200,559
Current assets -		
Cash	\$ 1,474,581	
Accounts receivable	763,833	
Materials and supplies	586,988	
Prepaid expenses	757,121	
Total current assets		3,582,523
Deferred debits		397,924
Total		<u>\$71,630,078</u>

Liabilities and Net Worth

Long-term debt		\$31,804,000
Current liabilities		3,366,601
Contributions and advances		6,641,896
Deferred credits		1,244,463
Preferred stock		7,610,525
Net worth -		
Common stock	\$13,911,800	
Premiums on stock	1,914,340	
Surplus	5,136,453	
Total net worth		20,962,593
Total		<u>\$71,630,078</u>

A review of applicant's financial statements shows that it has been its practice to finance itself, in part, with retained earnings, instead of distributing such earnings as cash dividends, and that the amount of such retained earnings, after making allowance for depreciation, is well in excess of the proposed stock issue. An order, therefore, properly can be made authorizing applicant to issue its shares of common stock in the amount requested against the retained earnings which have been invested in additions, betterments and extensions to its facilities. Such shares thereafter may be distributed to the holders of the presently outstanding common shares as a stock dividend.

The authorization herein given is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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, that the money, property or labor to be procured or paid for through the issue of the stock herein authorized 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; therefore,

IT IS HEREBY ORDERED as follows:

1. California Water Service Company may change its authorized common shares from 1,000,000 common shares of the par value of \$25 each to 2,000,000 common shares of the par value of \$12.50 each and may issue to each holder of outstanding common shares certificates representing two common shares of the par value of \$12.50 each for each common share of the par value of \$25 each.

2. California Water Service Company, from time to time, may issue common shares of the par value of \$12.50 each to persons who wish to surrender, in exchange therefor, shares of applicant's preferred stock, such exchange to be on the basis of such conversion terms as are provided under the certificates of determination of preferences of said preferred shares.

3. California Water Service Company may issue shares of its common stock to its common shareholders of record at the close of business on March 11, 1959, in accordance with the program referred to in the preceding opinion, for the purpose of reimbursing its treasury for retained earnings expended for additions, betterments and extensions to its facilities and, upon such reimbursement, may distribute such stock to its common shareholders as a stock dividend.

4. California Water Service Company shall charge the expenses of effecting the split up of its common stock to its surplus account.

5. California Water Service Company shall file with the Commission a report, or reports, of the shares of common stock issued in reimbursement of its treasury under the authorization herein granted, as required by General Order No. 24-A.

6. The authority herein granted will become effective when California Water Service Company has filed with the Commission a certified copy of the Certificate of Amendment to its Articles of Incorporation to reflect the changes in its capital stock which are referred to in this proceeding.

Dated at San Francisco, California, this 24th day of FEBRUARY, 1959.

[Signature]  
President  
[Signature]  
Theodore D. [Signature]  
[Signature]  
Commissioners