

Decision No. 46664

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA COLD STORAGE &)
 DISTRIBUTING CO., a corporation,) Application
 to issue promissory note for \$500,000.00.) No. 32970
 -----)

Eugene Glenn, for applicant; C. L. Wells, for himself and for Ernest E. Little, W. A. Graffham, Earl E. Scharr, Archer F. Barnard, Myra R. Barnard, Benedict A. Kilmer, Ida L. Kilmer, Wallace H. Little, Luther Little, Bert W. Richardson, Charles W. Richardson, Lois C. Sharp and Earle N. Lempke, stockholders, protestants; J. P. Welles, for John A. Bremner, a stockholder, protestant; Hill, Farrer & Burrill, by William C. Farrer, for George L. Lower, a stockholder, protestant.

O P I N I O N

California Cold Storage & Distributing Co., applicant herein, is a California corporation engaged in the public utility cold storage business in San Diego, Long Beach and Bakersfield, in the business of manufacturing ice in Bakersfield, and in the distribution of beer in Southern California. (1) In this application it seeks authorization to issue an unsecured note in the principal amount of

(1) In Exhibit D, applicant reports its results from operations for the ten months ended October 31, 1951, as follows:

Sales and operating revenues -		
Cold storage (Public Utility)	\$ 325,891.84	
Ice	92,827.85	
Beverage department	6,486,784.05	
Miscellaneous	<u>6,080.83</u>	
Total sales and operating revenues		\$6,911,584.57
Other income		<u>83,443.27</u>
	Total	6,995,027.84
Cost of sales, expenses and taxes		<u>6,793,390.87</u>
Net profit		201,636.97
Dividends on preferred stock		<u>86,688.00</u>
Balance		<u>\$ 114,948.97</u>

\$500,000 for the purpose of paying outstanding indebtedness and of providing working capital. The proposed note, if authorized by the Commission, will be issued to The First National Trust and Savings Bank of San Diego, will bear interest at the rate of 4-3/4% per annum and will be payable in quarterly installments of \$12,500, or more, with final payment, however, on January 2, 1957. The note may be prepaid by applicant without premium.

A public hearing on the application was held in Los Angeles on January 10, 1952, at which time certain of the holders of applicant's outstanding shares of stock entered appearances in protest to the granting of the application.

The record indicates that applicant recently has acquired 3,702 shares of the outstanding 5,000 shares (\$500,000 par or stated value) of the capital stock of Southwestern Ice and Cold Storage Company, a corporation engaged in the ice and beverage business in Arizona, that the total purchase price was \$506,223, that applicant paid or provided the purchase price with funds on hand and funds obtained through the issue of a short-term note to The First National Trust and Savings Bank of San Diego in the principal amount of \$375,000, and that it now proposes to pay or refund said note with proceeds to be obtained from the issue to said bank of the \$500,000 note covered by the present application, the remaining \$125,000 of proceeds to be used for other purposes. The record further shows that applicant is considering the acquisition of the remaining 1,298 shares of stock of Southwestern Ice and Cold Storage Company through the issue of four of its own shares of common stock for each of said 1,298 shares and that at a later date it proposes to file an application looking toward the issue of its shares to accomplish this further acquisition and the merger of the properties and business of the two corporations.

The protestants of record in this proceeding did not object to the acquisition by applicant of the shares of stock of Southwestern Ice and Cold Storage Company or to the price paid or to the proposed merger. They did object to the issue by applicant at this time of the proposed note and the issue of its shares of stock at a later date. They took the position that applicant should finance the purchase price of the shares of stock of Southwestern Ice and Cold Storage Company which it now holds, and also the cost of acquiring the remaining 1,298 shares of stock of that company, with moneys to be borrowed from an insurance company, rather than from the bank, and they introduced testimony showing that three insurance companies have indicated they might be interested in a proposition to loan applicant from \$750,000 to \$800,000 on a mortgage loan payable over a period of 15 years with interest at the rate of 4-3/4% per annum, subject to prepayment at a premium. The companies made no commitments to advance such sums to applicant.

The issue of the additional shares of stock by applicant and the merger of the two corporations are not before us for decision at this time. The matter to be passed upon in the present proceeding is the proposed issue of the \$500,000 note and in this connection information before us indicates that applicant's board of directors considered the advisability of borrowing money by means of a bank loan and also under arrangements with an insurance company, that said board concluded applicant should borrow not more than \$500,000 at this time, and that it was of the opinion that it is in applicant's best interest to obtain such sum through the issue of an unsecured, five-year bank loan, as here proposed, rather than through the execution of a mortgage loan, for a larger amount, running for a period of fifteen years. The record shows that the board, by a vote of six of its seven members, authorized applicant's officers to borrow such sums as

applicant might need from The First National Trust and Savings Bank of San Diego and that, pursuant thereto, said officers negotiated an agreement to borrow said sum of \$500,000.

The board of directors, of course, is charged with the responsibility of conducting applicant's affairs. In our opinion, we are not warranted in withholding our approval of the action of a majority of the directors in this matter or our order authorizing the issue of the note as requested in this proceeding, provided, of course, such issue is for a lawful purpose and meets the requirements of the Public Utilities Code and of the Commission. We are required under the terms of the code to make a finding with respect to the reasonableness of the proposed issue and the expenditure of the proceeds.

As stated, applicant proposes to use \$375,000 of the proceeds from the issue of the note to pay short-term indebtedness which was incurred to meet part of the purchase price of the shares of stock of Southwestern Ice and Cold Storage Company. There are of record in this proceeding financial statements reflecting the operations of Southwestern Ice and Cold Storage Company during 1951 and showing its investments in its properties and its outstanding liabilities and capital. The statements show that during the first eleven months of the year the Arizona company reported sales and operating revenues of \$1,319,727.98 and net profit of \$119,859.94, after deducting cost of sales, expenses, taxes and interest. The statements further show that the book value of the outstanding shares of stock is approximately \$203 a share, compared with an average purchase price paid by applicant of approximately \$136, and that the reported net profits for the eleven months are approximately 12% of the reported book value.

The financial condition of Southwestern Ice and Cold Storage Company as of November 30, 1951, is shown by the following balance sheet:

<u>Assets</u>	
Current assets -	
Cash	\$ 129,404.36
Accounts receivable	27,288.22
Inventories	211,522.94
Prepaid accounts	<u>30,369.77</u>
Total current assets	\$ 398,585.29
Fixed assets -	
Land	34,851.55
Plant and equipment	1,277,369.87
Less - depreciation	<u>(431,892.34)</u>
Total fixed assets	880,329.08
Other investments	<u>64,667.11</u>
Total	<u>\$1,343,581.48</u>

<u>Liabilities and Capital</u>	
Current liabilities	
Long-term debt	\$ 91,036.54
Reserve for insurance and taxes	125,000.00
Capital -	95,462.08
Common stock	\$ 500,000.00
Surplus	<u>532,082.86</u>
Total capital	1,032,082.86
Total	<u>\$1,343,581.48</u>

Concerning the remaining proceeds of \$125,000, applicant reports that it desires to use them to increase its working capital for general business purposes. In Exhibit D it shows that on October 31, 1951, it had cash on hand and in bank in the amount of \$268,879.43 and total current assets (including cash) of \$1,080,497.29, as compared with current liabilities of \$707,554.53. The record indicates that since October applicant has used approximately \$130,000 of its cash resources to meet part of the purchase price of the shares of stock it has acquired and that it is faced with the expenditure of approximately \$90,000 to finance the cost of additional storage facilities at Long Beach.

In reviewing this matter and considering the nature of applicant's operations, it appears that applicant will have need for funds at this time to pay indebtedness and to augment its working capital, thereby replenishing its treasury for expenditures made in acquiring said shares of stock and providing for the addition to its plant. We are of the opinion, and so find, that applicant properly may issue its note for the purposes indicated, that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant for said purposes, and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. In our opinion there is no reason for delaying our action in the matter until such time as applicant may complete its arrangements to merge the properties. As stated, we have received no application to consummate the merger and have not been informed when it will be filed.

Accordingly, an order will be entered granting applicant's request. The action taken herein shall not be construed to be a finding of the value of the stock of Southwestern Ice and Cold Storage Company.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. California Cold Storage & Distributing Co., after the effective date hereof and on or before June 30, 1952, may issue its

promissory note in the principal amount of \$500,000 for the purposes set forth in this decision, such note to be in, or substantially in, the same form as that filed in this proceeding as Exhibit B and to be issued in accordance with the terms of the loan agreement with The First National Trust and Savings Bank of San Diego, a copy of which is filed in this proceeding as Exhibit C.

2. Applicant shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904 of the Public Utilities Code, which fee is five hundred (\$500.00) dollars.

Dated at San Francisco, California, this 22nd day of January, 1952.

R. F. [Signature]
President

Justin F. [Signature]
Harold P. [Signature]

[Signature]

Commissioners

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.

