

ORIGINAL

Decision No. 49331

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)

of)

NATIONAL ICE AND COLD STORAGE COMPANY)
OF CALIFORNIA)

for an Order authorizing Applicant to execute)
and deliver a Promissory Note to be made pay-)
able to the order of the MASSACHUSETTS MUTUAL)
LIFE INSURANCE COMPANY of Springfield,)
Massachusetts, in the face amount of THREE)
MILLION TWO HUNDRED THOUSAND DOLLARS)
(\$3,200,000.00) together with interest payable)
quarterly at the rate of FIVE PERCENT (5%) per)
annum; said Note to be secured by a Deed of)
Trust and a Chattel Mortgage, as more particularly)
set forth in said documents, and also for an Order)
authorizing Applicant to execute and deliver a)
Promissory Note to be made payable to the order)
of THE ANGLO CALIFORNIA NATIONAL BANK OF SAN)
FRANCISCO in the face amount of TWO HUNDRED)
THOUSAND DOLLARS (\$200,000.00) together with)
interest payable quarterly at the rate of FIVE)
PER CENT (5%) per annum together with a Pledge)
Agreement in relation thereto, as more particu-)
larly set forth in said documents, and for the)
redemption and retirement of certain shares of)
preferred stock as hereinafter alleged.)

Application)
No. 34836)

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Nat Schmulowitz, for applicant.

O P I N I O N

National Ice and Cold Storage Company of California, appli-
cant herein, is a California corporation engaged in the operation of
cold storage warehouses and ice plants in Riverside, San Francisco,
Stockton, Santa Rosa, Marysville, Petaluma, Watsonville, Oakland,
Yuba City and Sacramento. It has filed this application on October
30, 1953, for authorization to execute a deed of trust, a mortgage
of chattels and a general pledge agreement and for authorization to

issue one note in the principal amount of \$3,200,000 in favor of Massachusetts Mutual Life Insurance Company, and one note in the principal amount of \$200,000 in favor of The Anglo California National Bank of San Francisco, all for the purpose of refinancing its properties, of redeeming and retiring outstanding shares of preferred stock and of paying indebtedness.

A public hearing was held in the matter before Examiner Coleman in San Francisco on November 10, 1953, at which time it was taken under submission. The Commission has received no protest to the granting of the application.

Capital Stock

Applicant was organized during 1912. Heretofore it has issued and now has outstanding 44,143 shares of common stock of no par value and 10,586 shares of noncallable 7% cumulative preferred stock of the par value of \$100 each. A portion of the preferred stock is held by the owners of the outstanding shares of common stock, the extent of such holdings as of December 31, 1952, being indicated in the following tabulation:

	<u>Percentage Held</u>	
	<u>Common</u>	<u>Preferred</u>
Concurrent holders -		
Walter A. Haas and family and corporation owned by him and two sisters	45.7%	28.2%
Others (no more than 10% of either class owned by any one group)	41.1	24.5
Total concurrent holders (40 in number)	<u>86.8</u>	<u>52.7</u>
Nonconcurrent holders -		
Various (93 in number)	-	47.3
Various (18 in number)	<u>13.2</u>	<u>-</u>
Total (151 stockholders)	<u>100.0%</u>	<u>100.0%</u>

Financial Position

Applicant's financial position as of September 30, 1953, as indicated by its balance sheet of that date, is set forth in Exhibit 9 filed in this proceeding. A summary of the balance sheet

is as follows:

<u>Assets</u>		
Plant and property -		
Land, buildings, equipment	\$7,882,835.88	
Construction in progress	217,342.33	
Total	<u>8,100,178.21</u>	
Less-depreciation reserve	4,162,187.45	
Balance		\$3,937,990.76
Other investments		380,086.21
Current assets -		
Cash and government securities	877,473.12	
Notes and accounts receivable	524,961.19	
Inventories	<u>87,048.38</u>	
Total current assets		1,489,482.69
Deferred charges		<u>59,267.80</u>
Total		<u>\$5,866,827.46</u>

<u>Liabilities and Capital</u>		
Notes payable		\$ 891,928.40
Current liabilities		<u>273,204.31</u>
Total liabilities		1,165,132.71
Preferred stock		1,058,600.00
Capital -		
Common stock (44,143 shares)	\$ 1.00	
Surplus	<u>3,643,093.75</u>	
Total capital		<u>3,643,094.75</u>
Total		<u>\$5,866,827.46</u>

The notes payable, which include current maturities of \$137,000, represent the unpaid balances of \$1,297,100 of five-year 3-3/4% notes issued under authorization granted by the Commission by Decision No. 45755, dated May 22, 1951, in Application No. 32401. Since the date of the balance sheet the amount of the indebtedness has been decreased to \$891,115.88, and of this amount \$50,000 will be due on December 1, 1953.

The outstanding shares of common stock consist of 44,143 shares which, as shown by the preceding statement, are carried on the books at \$1.00. It appears that applicant's common stock originally had a par value of \$100 each and was carried on its balance sheet at par, but that under authorization granted by the Commission by Decision No. 28433, dated December 9, 1935, the outstanding shares

were converted into shares without par value and were written down to the total sum of \$1.00 in order to eliminate from the books items representing goodwill and appreciation charged to the property accounts in 1914.

A summary statement of applicant's revenues and expenses during the last three years, as set forth in its annual reports to the Commission, is as follows:

	<u>1950</u>	<u>1951</u>	<u>1952</u>
Revenues -			
Operating	\$1,910,832	\$2,358,300	\$2,588,878
Nonoperating	<u>1,345,342</u>	<u>1,093,080</u>	<u>1,465,720</u>
Total	3,256,174	3,451,380	4,054,598
Expenses	<u>3,039,460</u>	<u>3,171,082</u>	<u>3,723,838</u>
Net income	216,714	280,298	330,760
Preferred dividends	<u>74,102</u>	<u>74,102</u>	<u>74,102</u>
Balance	<u>\$ 142,612</u>	<u>\$ 206,196</u>	<u>\$ 256,658</u>
Amount of depreciation included in expenses	<u>\$ 269,274</u>	<u>\$ 266,881</u>	<u>\$ 275,399</u>

Arrearages on Preferred Stock

The record shows that for a number of years applicant's earnings did not permit the payment of dividends, that it paid no dividends on its outstanding shares of preferred stock for the period from December 1, 1920, to December 1, 1949, resulting in an accumulation of arrearages because of the cumulative feature of such dividends, and that while applicant has paid the regular semi-annual dividend on its shares of preferred stock since December 1, 1949, there will nevertheless remain an arrearage on December 31, 1953, of \$199.50 a share, or a total amount of \$2,111,907. It appears that although applicant has realized profits from its operations in recent years, it has not had sufficient cash on hand to discharge the payment of the accumulated dividends and that it could not liquidate its obligations with respect thereto without impairing its financial position. Due to the existence of the arrearages applicant, of

course, has been unable to pay dividends on its shares of common stock and, in fact, has never paid any dividends on such shares since its organization.

Offer to Preferred Stockholders

The present application shows that applicant now desires to relieve itself of the burden of the high dividend rate of 7% on the preferred stock, to discharge the accumulated arrearages on such stock, and to place itself in a position where it can pay dividends on its shares of common stock. To accomplish these objectives it has made an offer to the holders of the outstanding shares of preferred stock to purchase their holdings for the sum of \$250 a share, payable in cash, the surrender of such shares pursuant to such offer to extinguish the liability with respect to the unpaid dividends. At the time of filing this application the holders of 10,040-1/8 preferred shares, or approximately 95% of the total, had signified their acceptance of the offer and subsequently five additional shares have been tendered for payment.

Proposed Note Issues

In order to accomplish its program it is necessary for applicant to obtain funds from external sources and to discharge the mortgage indebtedness presently existing on the properties. It has made arrangements to borrow \$3,200,000 from Massachusetts Mutual Life Insurance Company, to be represented by a note secured by a deed of trust and by a mortgage of chattels, and to borrow \$200,000 from The Anglo California National Bank of San Francisco, to be represented by a note secured by a general pledge agreement covering certain personal property consisting of shares of stock of Fresno Consumers Ice Company and Valley Ice Company.

Applicant will require \$2,511,281.25 to reacquire the 10,045-1/8 shares of preferred stock and \$891,115.88 to discharge its outstanding bank loans, a total of \$3,402,397.13. It will provide from its own cash the amount in excess of the proceeds from the issue of its notes required to complete the transaction and to pay brokerage fees, attorney's fees and other charges incident to the transaction.

Terms of Notes

The \$3,200,000 note will bear interest at the rate of 5% per annum and will be payable, principal and interest, in 79 quarter-annual installments of \$63,500 on the first day of each quarter beginning March 1, 1954, and continuing until September 1, 1973, with the remaining balance payable on December 1, 1973. In addition to the obligatory quarterly installments, applicant shall pay, if earned, the sum of \$64,000 per annum as additional amortization of the principal amount of the loan until the sum of such additional amortization payments has reached the amount of \$320,000. The first of said additional amortization payments is to be made after the close of the fiscal year ending December 31, 1954, and not later than April 1, 1955.

The \$200,000 note will bear interest on deferred payments at the rate of 5% per annum and will be payable in ten equal semi-annual installments of \$20,000 each, on June 1 and December 1 of each year, the first of such payments to be due and payable on June 1, 1954.

Effect of Refinancing Program

If applicant's program is carried to completion it will have at the outset, according to Exhibit 9, long-term indebtedness of \$3,400,000 in place of the \$1,004,012.50 par value of preferred stock which has been tendered for surrender at the time of the filing of

the application and the present long-term notes of \$891,115.88. Its total surplus account will have been reduced from \$3,643,093.75 to \$2,137,076. Its capital structure on a pro forma basis will consist of the following:

Notes	\$3,400,000.00	-61%
Preferred stock	58,587.50	1
Common stock equity	<u>2,137,076.00</u>	<u>38</u>
Totals	<u>\$5,595,663.50</u>	<u>100%</u>

These figures will be modified slightly because of the five additional shares tendered for payment.

On the other hand, applicant will be relieved of approximately \$2,000,000 in accrued and unpaid dividends on the shares of preferred stock surrendered for redemption and the current annual dividends at the rate of 7% on such shares. Although its total indebtedness will be increased, it appears that its annual charges will be decreased because of the tax deductible feature of the interest on its notes as compared with the dividends on the shares of preferred stock. It is true that applicant will have a relatively high percentage of borrowed money in its capital structure, but it is noted from the record that applicant is faced with no capital expenditures requiring external financing and that the principal amount of the notes annually will be reduced in substantial amounts.

Conclusions and Findings

A review of the record and of applicant's financial reports indicates that its proposed program will improve its financial position and that its earnings should be ample to enable it to service the proposed notes. We are of the opinion and hereby find that the money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required by applicant for the purposes specified herein and that such purposes, except as otherwise authorized herein with respect to the payment of certain

items of indebtedness, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

We further find that the proposed note issues should be exempted from the Commission's competitive bidding rule.

ORDER

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. National Ice and Cold Storage Company of California, after the effective date hereof and on or before February 28, 1954, may execute a deed of trust, a mortgage of chattels and a general pledge agreement and may issue a note in the principal amount of not exceeding \$3,200,000 and a note in the principal amount of not exceeding \$200,000 for the purposes indicated in this application, such instruments to be in, or substantially in, the same form as those filed in this proceeding.

2. The issue of said notes hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.

3. National Ice and Cold Storage Company of California 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.

4: The authority herein granted will become effective when National Ice and Cold Storage Company of California has paid the fee prescribed by Section 1904(b) of the Public Utilities Code.

Dated at San Francisco, California, this 17th day of November, 1953.

A. J. ...
President

Justin F. ...
Lawrence ...
W. E. ...
Gene ...
Commissioners

