A.35583 MMW

Decision No. 50372

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of U. S. GROWERS & SHIPPERS SERVICE, INC. for permission (1) to exchange all of its outstanding par value common stock for non-par common stock, and (2) to issue its unsecured bonds in a total of $100,000.	Application No. 35583

Nathan E. Gillin, for applicant.

OPINION

U. S. Growers & Shippers Service, Inc., applicant herein, is engaged in the cold storage business in southern California. On July 6, 1954, it filed the above entitled application for authorization to issue 4,000 shares of its no par value common stock in exchange for 2,000 shares presently outstanding of the par value of $100 each, and for authorization to issue $100,000 in principal amount of 10% unsecured bonds in payment of outstanding current obligations.

A public hearing was held before Examiner Coleman in Los Angeles on July 26, 1954, at which time the matter was taken under submission.

According to information on file with the Commission, applicant was organized during 1950 with an authorized capital stock of $200,000, divided into 2,000 shares, all common, of the par value of $100 each, all of which shares are outstanding and are reported held as follows:

Arthur M. Taub	565	Leon Saliba	55½
Sam Perricone	257½	Nathan Gillin	55½
Irving Taub	50	Conrad Lawbel	186½
Bernard Solomon	30	E. J. Taub	667
Albert Caraco	133	Total	2,000

The corporation has not paid dividends on its outstanding shares.

It appears that applicant commenced its operations on October 1, 1950. It has financed itself with long-term obligations, current liabilities and equity capital. Its financial position as of March 31, 1954, is indicated by its balance sheet of that date filed in Exhibit F, a summarized statement being as follows:

Assets

Current assets -		
Cash	$ 15,845	
Accounts receivable	14,597	
Prepaid expenses	18,575	
Total current assets		$ 49,017
Fixed assets -		
Cost	379,616	
Reserve for depreciation	87,834	
Balance	291,782	
Under construction	85,513	
Total fixed assets		377,295
Organization expense		15,347
Total		$441,659

Liabilities and Capital

Current liabilities		$ 97,086
Long-term liabilities		100,512
Net worth -		
Common stock	$200,000	
Retained earnings	44,061	
Total net worth		244,061
Total		$441,659

Applicant's operating experience as reflected by its filed financial statements is indicated in the following tabulation:

19.

	Gross Revenues	Expenses	Net Before Depreciation	Depreciation	Net Income
1950	$ 31,160	$ 31,116	$ 44	$ 3,436	$(3,392)
1951	156,817	118,755	38,062	20,877	17,185
1952	202,236	158,708	43,528	27,616	15,912
1953	198,834	154,313	44,521	29,705	14,816
1954 (3 Mos.)	45,155	38,964	6,191	6,651	(460)

The first three months of the year, according to the testimony, cover the period of lowest seasonal activity for the cold storage business. It is estimated by applicant that its profit for the year 1954 will be greatly in excess of those for 1953.

Applicant is taking steps to reclassify its authorized capital stock so as to provide for shares without par value instead of shares with $100 par value, and to issue two new shares for each of the present shares. It may undertake the sale of additional shares in the future and it is of the opinion that it can do so more successfully with the no par value stock. Its proposal to issue 4,000 of the new shares in place of the present 2,000 shares will not result in any change in the total stated value of $200,000 shown on the balance sheet.

The record shows that applicant has made substantial expenditures for additional plant since the date of the above stated balance sheet, that its facilities have been doubled in size and that its volume of business has been greatly expanded. Applicant reports that it has financed its additional construction costs, as well as increases in working capital, with credit represented by open account indebtedness or conditional sales contracts and with 8% demand loans from its shareholders. According to the application it has increased its accounts payable and other indebtedness to builders and equipment dealers to the amount of $97,000 and its borrowings from its shareholders to the amount of $84,400, together with an item of $1,000 payable to its accountants.

In order to eliminate the demand loans due shareholders and a portion of the other indebtedness applicant desires to issue a longer term obligation. Subject to receiving authorization from the Commission, it proposes to issue and sell $100,000 of unsecured bonds to its shareholders, such bonds to bear interest at the rate of 10% per annum and to be payable at the rate of $16,000 a year during each of the five years commencing one year after date of issue and in the amount of $20,000 at the end of the sixth year, the bonds for retirement to be chosen by lot.

In presenting this matter to the Commission for approval applicant asserts that it has been unable to obtain additional first mortgage money from the insurance company which holds its present mortgage obligation or to arrange bank borrowings except on a short-term basis. The proposed additional borrowings will be junior to the present mortgage indebtedness and applicant took the position that such borrowings, although unsecured, will occupy a position similar to that of a second mortgage and it presented testimony showing that the going interest rate on second mortgage money ranges from 10% upward. deletion

The testimony is not persuasive that applicant cannot obtain its money at a lower interest rate. Moreover, the mere fact that the prevailing second mortgage money rate may be 10% or higher does not constitute sufficient reason, in our opinion, for applicant's shareholders to ask their corporation to pay them 10% on such sums as they might advance to it. There is nothing in the record to show that the conditions under which prospective borrowers are required to seek second mortgage money and to pay interest at the rate of 10% per annum, or more, are comparable with the conditions under which applicant is financed and is operating. Here we have before us a corporation with a substantial volume of equity capital in its structure, with a record of profitable operations and, according to the testimony, with prospects of even better results in the future now that its construction work has been completed. On the one hand, applicant's officers estimate earnings so favorable in 1954 and succeeding years as to result in increased available net income after providing for the rapid amortization of its facilities under emergency certificates and the servicing of the proposed securities, while on the other hand they seek approval of an interest rate equivalent to that charged those who are compelled to go into the second mortgage money market. In view of the demonstrated and estimated earnings position of applicant, its shareholders should have sufficient faith in the enterprise to advance sums on more reasonable terms than those here proposed.

Under the circumstances set forth in this proceeding it appears to us that applicant's permanent financing should take some form other than 10% bonds or notes and we will not authorize the issue of the bonds as here requested.

We have no objection to the issue of the shares of stock for the purpose outlined in this proceeding.

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 money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is reasonably required by applicant for the purpose specified herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income, but that the application, so far as it involves the issue of 10% unsecured bonds should be denied; therefore,

IT IS HEREBY ORDERED as follows:

1. U. S. Growers & Shippers Service, Inc., on or before December 31, 1954, may issue 4,000 shares of its no par value common stock in exchange for 2,000 shares of common stock presently outstanding of the par value of $100 each.

2. The application, insofar as it involves the issue of $100,000 of 10% unsecured bonds, hereby is denied without prejudice.

3. Applicant 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 effective date of this order will be 20 days after the date hereof.

Dated at San Francisco, California, this 10th day of August, 1954.

Peter E. Mitchell
President
Justus F. Craemer
Kenneth Potter
Rex Hardy [illegible]

Commissioners