

ORIGINAL

Decision No. 5687A

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
REFRIGERATED FOOD SERVICES, INC.,
a corporation;

MERCHANTS REFRIGERATING COMPANY OF
CALIFORNIA, a corporation;
and

SECURITY WAREHOUSE & COLD STORAGE
COMPANY, a corporation,

for an order (1) authorizing Refrigerated Food Services, Inc. to issue shares of its capital stock; (2) authorizing Refrigerated Food Services, Inc. to acquire all of the outstanding common shares of Security Warehouse & Cold Storage Company, a California public utility; (3) authorizing Refrigerated Food Services, Inc. and Security Warehouse & Cold Storage Company to merge; (4) authorizing Security Warehouse & Cold Storage Company to withdraw or cancel its rates, rules and regulations and Refrigerated Food Services, Inc. to adopt or establish the same as its own; (5) authorizing Refrigerated Food Services, Inc. to issue its promissory note maturing more than twelve (12) months from the date thereof and to mortgage its properties to secure said promissory note; and (6) authorizing Merchants Refrigerating Company of California to guarantee payment of the indebtedness represented by said promissory note of Refrigerated Food Services, Inc.

Application
No. 40098

O P I N I O N

Refrigerated Food Services, Inc., applicant in this proceeding, is a California corporation which was organized on or about April 24, 1958, for the purpose of acquiring the properties

and operations of Security Warehouse & Cold Storage Company, a corporation engaged in the public utility cold storage warehouse business in San Jose and Santa Clara. Refrigerated Food Services, Inc. at this time seeks authorization to acquire the stock of Security Warehouse & Cold Storage Company; to enter into an agreement of merger with Security Warehouse & Cold Storage Company; and to issue 1,000 shares of its common stock and a \$1,250,000 note secured by a deed of trust.

Security Warehouse & Cold Storage Company presently has outstanding 35,000 shares of its common stock of the par value of \$25 each, having an aggregate recorded book value, according to its balance sheet of March 31, 1958, of \$1,437,454. The company's reported revenues and expenses for the last three calendar years have been as follows:

	<u>1955</u>	<u>1956</u>	<u>1957</u>
Operating revenues	\$1,277,515	\$1,443,696	\$1,320,409
Nonutility revenues	300,917	294,071	221,373
Total	<u>\$1,578,432</u>	<u>1,737,767</u>	<u>1,541,782</u>
Operating expenses, interest, taxes	<u>1,221,711</u>	<u>1,360,855</u>	<u>1,179,252</u>
Balance before depr.	356,721	376,912	362,530
Depreciation	<u>326,931</u>	<u>294,821</u>	<u>300,736</u>
Net income	<u>\$ 29,790</u>	<u>\$ 82,091</u>	<u>\$ 61,794</u>

Refrigerated Food Services, Inc., the new corporation, is negotiating for the acquisition of the outstanding 35,000 shares at a price of \$47 each, or a total of \$1,645,000. To meet the purchase price, it seeks authorization to issue and sell 1,000 shares of its common stock of the par value of \$1 each for \$395,000 and to borrow \$1,250,000 from American Trust Company, the borrowing to be represented by a note, payable in annual installments of

\$150,000 each, commencing on June 1, 1960, with interest at the rate of 5-1/2% per annum. The payment of the note will be secured by a deed of trust covering the properties now owned by Security Warehouse & Cold Storage Company.

As a second step in the transaction, Security Warehouse & Cold Storage Company and Refrigerated Food Services, Inc. will enter into an agreement of merger whereby the separate existence of Security Warehouse & Cold Storage Company will be terminated and Refrigerated Food Services, Inc., as the surviving corporation, will succeed to all the assets and liabilities and will enter upon its operations with a financial structure as indicated in the following pro forma balance sheet as of March 31, 1958:

Assets

Current assets -		
Cash	\$142,623	
U.S. Treasury securities	99,696	
Accounts receivable	73,107	
Accrued storage unbilled	927	
Inventories	16,512	
Prepaid insurance	<u>19,642</u>	
Total current assets		\$ 352,507
Tangible assets		1,861,332
Other investments		21,550
Deferred charges		<u>5,972</u>
Total		<u>\$2,241,361</u>

Liabilities and Capital

Current liabilities	\$ 459,042
Long-term debt	1,270,000
Deferred liabilities	117,319
Capital stock and surplus	<u>395,000</u>
Total	<u>\$2,241,361</u>

Refrigerated Food Services, Inc. has been organized by Merchants Refrigerating Company, a New York corporation which is engaged in the refrigerated warehouse business in New York, New Jersey, Missouri, and Minnesota, and in Modesto, California, through a wholly-owned subsidiary named Merchants Refrigerating Company of California. It will acquire all the 1,000 shares of stock which the new corporation proposes to issue and, along with the present California subsidiary, will guarantee the payment of the proposed \$1,250,000 note.

It is recognized that at the outset Refrigerated Food Services, Inc. will enter upon its business activities with a capital structure containing a proportionally large amount of long-term debt as contrasted with its proprietary capital. However, the proposed financing provides that the long-term debt will be extinguished in rather substantial annual installments and it appears that the earnings of the business, on the basis of past performance, should be ample to service the indebtedness without impairing the company's financial position. Moreover, the new corporation will be a wholly-owned subsidiary of Merchants Refrigerating Company which, according to the record, has been engaged in business for many years and has developed a record of successful operations and a favorable financial position. Because it is a foreign corporation, it cannot enter directly into business in California as a public utility.

Upon reviewing the application, we conclude and we find that the proposed merger will not be adverse to the public interest, that the money, property or labor to be procured or paid for by the issue

of the securities herein authorized is reasonably required by Refrigerated Food Services, Inc. for the purpose specified herein and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

The action taken herein shall not be construed to be a finding of the value of the stock and properties of Security Warehouse & Cold Storage Company.

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 as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Refrigerated Food Services, Inc., on and after the effective date hereof and on or before December 31, 1958, may issue not exceeding 1,000 shares of its capital stock to Merchants Refrigerating Company at the price, under the terms and for the purpose set forth in this application.

2. Refrigerated Food Services, Inc., on and after the effective date hereof and on or before December 31, 1958, may issue a note in the principal amount of not exceeding \$1,250,000, and may execute a deed of trust, under the terms and for the purpose set forth in this application, which note and deed of trust shall be in, or substantially in, the same form as those attached to the application as Exhibit G and Exhibit I, respectively.

3. Refrigerated Food Services, Inc. may acquire all of the outstanding 35,000 shares of common stock of Security Warehouse & Cold Storage Company, such acquisition to be financed by the proceeds to be derived from the issuance of the stock and note herein authorized.

4. Merchants Refrigerating Company of California may assume an obligation as guarantor with respect to the \$1,250,000 note herein authorized.

5. Refrigerated Food Services, Inc. and Security Warehouse & Cold Storage Company may enter into an agreement of merger whereby Security Warehouse & Cold Storage Company will be merged into Refrigerated Food Services, Inc.

6. On not less than five days' notice to the Commission and to the public, effective concurrently with the consummation of such merger, Security Warehouse & Cold Storage Company and Refrigerated Food Services, Inc. shall supplement or reissue the tariffs now on file with the Commission, insofar as they name rates, rules and regulations governing the warehouse operations here involved, to show that Security Warehouse & Cold Storage Company has withdrawn or canceled and that Refrigerated Food Services, Inc. concurrently has adopted or established, as its own, said rates, rules and regulations. The tariff filings made pursuant to this order in all respects shall comply with the regulations governing the construction and filing of warehouse tariffs set forth in the Commission's General Order No. 61.

7. Refrigerated Food Services, Inc. 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.

8. The authority herein granted will become effective when Refrigerated Food Services, Inc. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,125.

Dated at San Francisco, California, this 17th day of June, 1958.

[Signature] President
[Signature]
[Signature]
[Signature]
[Signature] Commissioners

