

Decision No. 58041

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of U. S. GROWERS COLD
STORAGE, INC. for permission to
sell its real property and to
chattel mortgage its equipment
as security for a long term lease.

Application No. 40828

O P I N I O N

U. S. Growers Cold Storage, Inc., has filed this application for authorization to sell and lease back certain real property and improvements and to execute a chattel mortgage.

Applicant is a California corporation, organized in 1950, which is engaged in the cold storage business in Vernon. It conducts its operations in two adjoining properties one of which it owns and one of which it leases from Case Investments, Inc., at a monthly rental of \$4,000.^{1/} For the first nine months of 1958, applicant reported revenues of \$323,018.99 and net profit of \$66,851.11 available for depreciation and fixed charges. After making provision for depreciation, applicant reported net profit of \$14,156.35.

A balance sheet, showing applicant's assets, liabilities and net worth as of September 30, 1958, has been filed in this proceeding as Exhibit G. A condensed statement of the exhibit is as follows:

^{1/} According to the company's 1957 annual report, the properties it owns have a capacity of 672,800 cubic feet and the properties it leases, a capacity of 760,000 cubic feet.

Assets

Current assets -		
Cash	\$ 1,240.82	
Rent deposit	<u>16,467.93</u>	
Subtotal	17,708.75	
Receivables	133,933.09	
Prepaid expenses	<u>31,071.17</u>	
Total current assets		\$182,713.01
Fixed assets, less reserve		<u>423,603.68</u>
Total		<u>\$606,316.69</u>

Liabilities and Net Worth

Current liabilities	\$141,313.54
Notes payable to stockholders	98,000.00
Long-term debt	207,330.72
Net worth	<u>159,672.43</u>
Total	<u>\$606,316.69</u>

With the existing capital structure shown in the preceding balance sheet, applicant, so it asserts, has been subject to a burden of substantial monthly payments of principal and interest on outstanding debt which has depleted its working capital and reduced its cash reserves to a low balance.

In order to minimize the cash outlays which have been occasioned by the large incidence of borrowed money in its capital structure, and to liquidate obligations and to improve its financial position, applicant, subject to receiving authorization from the Commission, has entered into an agreement to sell its presently owned real property and improvements to Case Investments, Inc., for the sum of \$400,000, and thereupon to lease back the premises and to continue its present operations in them. The reported book value of the properties to be sold is \$252,826.55.

Under the terms of the sale, the purchase price will be met by the assumption by the purchaser of secured obligations on the property of \$170,000, and unsecured obligations payable to the stockholders, and by the delivery of cash for the balance of the purchase price which will be used by applicant to liquidate current obligations and to replenish its working cash. According to the application, the company will be relieved of obligations and will increase its cash reserves in amounts as follows:

Bank of America National Trust & Savings Association, real estate loan balance approximately	\$170,000
Short-term stockholders loans and accrued interest	115,000
Equipment loans	15,000
Current general accounts payable	30,000
Bank of America National Trust & Savings Association, 90-day loans	15,000
Added cash reserves	<u>55,000</u>
Total	<u>\$400,000</u>

The proposed lease will cover both properties which now are operated by applicant, one of which, as stated, presently is leased at \$4,000 per month. The lease will run for a period of ten years, at a monthly rental of \$7,500 for both properties, with the option to the lessee to renew for an additional period of ten years on the same terms. As security for the performance of lessee's obligations, it has agreed to execute to the lessor a chattel mortgage on its furniture, fixtures, equipment, machinery and lift trucks.

A review of the application shows, upon the completion of the transaction, that there will be no reduction in the facilities which now are utilized in the public utility service and that

applicant will be relieved of its long-term debt, will liquidate present current obligations and will be provided with a substantial quantity of cash reserves which will be available for its operations. The company's earnings statements indicate that its revenues should be ample to enable it to meet its lease obligations as well as to generate additional internal funds for retention in its business. We are of the opinion, and so find, that the proposed sale and lease will not interfere with the utility's service to the public and for that reason will not be adverse to the public interest.

Under the circumstances as disclosed in this application we will enter our order granting applicant's requests. Our order in this proceeding, however, shall not be construed to be a finding of the value of the properties referred to herein nor of the reasonableness of the terms of the sale and lease. We reserve the right, if called upon to fix rates, to review these matters anew and, with respect to such properties, to determine at any time the amounts to be included for rate purposes in the rate base or in the operating expenses.

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. U. S. Growers Cold Storage, Inc., may sell the properties referred to in Exhibit C filed in this proceeding to Case Investments, Inc., under the terms and conditions set forth therein and may enter

into a lease agreement in, or substantially in, the same form as that filed as said Exhibit C.

2. U. S. Growers Cold Storage, Inc., may execute a chattel mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit F.

3. U. S. Growers Cold Storage, Inc., shall file with the Commission a copy of each journal entry used to record on its books the sale of the properties under the authorization herein granted, such filing to be made within 30 days after the date of each such entry.

4. The authority herein granted will become effective on the date hereof.

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

[Signature] President
[Signature]
[Signature]
Theodore J. Deiner
[Signature] Commissioners