

ORIGINAL

Decision No. 14123

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of)
 CONSOLIDATED MOTOR FREIGHT LINES, INC.,) Application Number 10437
 for order authorizing issue of stock.)

J. B. McFarland, for Applicant.

BY THE COMMISSION :

OPINION

In this application Consolidated Motor Freight Lines, Inc. asks permission to issue and sell 9597 shares of its capital stock of the aggregate par value of \$47,985.00 for the purpose of financing the cost of additional equipment, of paying advertising costs and of providing working capital.

The application shows that the company is engaged in transporting freight between Oakland, Richmond, San Leandro and Maywards and locally in San Francisco and Oakland. It appears that the corporation was organized on or about May 25, 1921 with an authorized capital stock of \$75,000. divided into 15,000 shares of the par value of \$5.00 each, of which \$74,500. heretofore has been issued under former orders from the Commission. It is now reported that applicant has increased its authorized capital stock to \$250,000. divided into 50,000 shares of the par value of \$5.00 each, all common.

Applicant now asks permission to issue \$1,800.00 of stock to E. N. Walter in payment of services rendered as president and to issue and sell \$46,185.00 of stock. It reports that it proposes to sell its stock to not less than par and it asks permission to use the proceeds as follows :-

To buy two 5-ton second hand White trucks	\$ 5,300.00
To convert same into tractors	1,250.00
To buy two low-bed trailers	3,440.00
To pay for lumber and heavy iron and steel carrier 2-wheel tractor attachment	1,070.00
To buy one new 5-ton White chassis freight body, top sides, complete	5,500.00
To paint company colors and signs on new trucks .	325.00
To enlarge office in Oakland	800.00
To build sheds to house additional trucks on property adjoining Oakland terminal	1,250.00
To equip and lease Richmond Dock offices fixing dock and put roadway in repair, etc. . . .	1,250.00
To pay advertising cost	6,000.00
To provide working capital	20,000.00
	<u>\$46,185.00</u>

At the hearing in this matter applicant reported that it had decided not to acquire the new White truck for \$5,500. but, instead, to purchase three low-bed trailers at a cost of \$5,100. and the application was amended to that extent.

If applicant desires to compensate its president for services rendered, we believe that such payment should be made in cash obtained from the earnings of the company and not in stock. The request to issue \$1,800. par value of stock will be denied.

The company reports that it should expend \$6,000. for advertising and the promotion of new business and it asks permission to establish a fund of this amount with proceeds from the sale of stock. The Uniform Classification of Accounts prescribed by the Commission for Class "A" Automotive Companies provides that money expended for advertising should be charged to operating expense account 651 -"Advertising". This account reads :-

"This account shall include salaries and expenses of advertising agents, cost of printing, publishing, and distributing time tables, folders, notice to shippers and other advertising matter; advertising in newspapers and periodicals for the purpose of securing traffic, signs on cars advertising special events; portables for signs for attracting traffic, bulletin boards, cards, cases, display cards and photographs; postage and express charges on advertising matter; cost of bill posting; donations made for traffic purposes and for entertaining conventions and similar expenses."

Whatever money the company expends for advertising should be withdrawn from earnings and not obtained from the sale of stock.

In addition it asks permission to use \$20,000. for working capital. It reports that its volume of business is rapidly increasing and that based on the first six months operations, its business during 1924 should increase 100 per cent over 1923. It appears that a large portion of the company's business is transacted on a charge basis, the accounts running from 45 to 90 days. Considering the amount of business transacted by applicant and the freight advances which it is obliged to make, we believe that a working capital of \$20,000. should be allowed.

While applicant asks permission to sell its stock at not less than par, net to it, it appears that such stock will be offered to the public, through J. A. Snowden & Company, or some other fiscal agent, at \$6.25 a share, or 125 per cent of par value. We will not allow a selling commission of twenty-five per cent. J. B. McFarland is of the opinion that the stock can be sold for \$6.25 per share (par value \$5.00). The order herein will authorize the issue and sale of 8037 shares (par value \$40,185.) of stock at not less than \$6.25 a share and will provide that an amount of the proceeds not exceeding 15 per cent of the par value of stock sold may be used for payment of selling expenses and commissions.

ORDER

Consolidated Motor Freight Lines, Inc., having applied to the Railroad Commission for permission to issue \$47,985.00 of common capital stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for through such issue of \$40,185.00 of stock is reasonably required by applicant and that this application should be granted to the extent indicated in this order ;

IT IS HEREBY ORDERED that CONSOLIDATED MOTOR FREIGHT LINES, INC. be, and it is hereby, authorized to issue on or before June 30, 1925, 8037 shares of its capital stock of the aggregate par value of \$40,185.00.

The authority herein granted is subject to the following conditions :-

1. Applicant may sell 8,037 shares (par value \$40,185.) of the stock at not less than \$6.25 a share.
2. Of the proceeds obtained from the sale of the \$40,185.00 applicant may use, if necessary, an amount not exceeding 15 per cent of the par value of stock sold to pay commissions and other expenses incident to the sale thereof, and may use the remaining proceeds to finance the cost of additional property and equipment, to provide working capital, as indicated in the foregoing opinion. Any proceeds not needed for these purposes may be expended only as hereafter authorized by the Commission in supplemental orders.
3. Applicant shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th. day of each month a verified report, as required by the Railroad Commission's General Order Number 24, which order in so far as applicable, is made a part of this order.
4. The authority herein granted shall become effective upon the date hereof.

IT IS HEREBY FURTHER ORDERED that this application in so far as it involves the issue of 1560 shares (\$7,800. par value) of stock, be

dismissed without prejudice.

DATED at San Francisco, California, this 2nd day of October,
1924.

H. B. Brundage
Irving Masten

J. I. Whittsey
Commissioners.