Decision No. 51281

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CULY TRANSPORTATION CO., INC., a corporation, to issue stock.	) :) :	Application No. 36731

Edward M. Berol, for applicant.

O P I N I O N

In this application, filed on February 14, 1955, Culy Transportation Co., Inc. seeks authorization to issue $100,000 par value of its $1.50 dividend series noncumulative preferred stock and $4,000 par value of its common stock.

A public hearing was held before Examiner Coleman in San Francisco on March 14, 1955, at which time the matter was taken under submission. No protests have been filed in the proceeding.

The record shows that F. O. Culy commenced operations as a highway carrier of general commodities in 1918, that he and members of his family conducted the operations continuously thereafter until January 1, 1954, when transfer was made to applicant corporation in exchange for stock, and that the members of the Culy family now hold all the outstanding stock and are engaged actively in the operation of the business. The common carriage consists of the transportation of general commodities, with certain exceptions, between the San Francisco and San Diego territories, the transportation of groceries and grocers' supplies between Sacramento and Tulare, inclusive, on the one hand, and the San Diego territory, on the other hand, with certain lateral service, and the transportation of fresh fruits and vegetables between the territory north of San Diego, on the one hand, and San Diego, Los Angeles and San Francisco territories, on the other hand. Applicant operates 76 pieces of equipment, the original cost of which is reported at $557,653.

Applicant was organized on August 26, 1953. Its articles of incorporation, as amended, provide for an authorized capital stock of $150,000, divided into 4,000 shares of preferred stock of the par value of $25 each, and 50,000 shares of common stock of the par value of $1 each. Presently there are outstanding 40,000 shares of common stock and no shares of preferred.

In order to obtain funds to liquidate its outstanding indebtedness and to provide working capital, applicant now proposes to issue and sell 4,000 shares of its preferred stock at their par value of $25 each and 4,000 shares of its common stock at $5 each. It plans to offer such shares to its creditors in cancellation of amounts due them and to offer shares for sale to its employees, including its officers, under a stock purchase plan whereby the subscribers will be entitled to purchase a minimum of one share and a maximum of four shares of preferred stock a month and, for each one share of preferred stock so purchased, will be entitled to purchase one share of common stock. Applicant has not yet solicited its creditors or employees to subscribe for stock but it reports a number of large creditors holding obligations of about $25,000 have indicated their willingness to accept stock and that the employees, or some of them, have expressed an interest in the stock purchase plan. Should the application be granted, applicant intends forthwith to circulate its proposal to its employees. The testimony shows that the officers, or some of them, intend to subscribe for additional shares to the limit permitted by the terms of the proposed offer.

In the event the entire offering should be subscribed and the shares issued, applicant would have outstanding $100,000 par value of preferred stock and 44,000 shares of common stock carried on its balance sheet at a total par value, plus premiums of issue, in the amount of $60,000, exclusive of accumulated surplus items. The preferred shareholders would be entitled to preferential annual dividends of $6,000, which dividends, however, would be noncumulative.

Prior to 1952 the carrier operations, according to reports filed with the Commission, were conducted at a profit. The testimony shows that the traffic moved primarily in a southbound direction and that the carrier utilized its equipment in the return northbound movement for the transportation of a specialized commodity. It appears that in 1952 or 1953 the northbound traffic was lost by the carrier because of the removal of the principal shipper to another locality and that the carrier thereafter expanded its traffic and terminal activities in an endeavor to develop new northbound traffic.

As a result of these changes it appears that reversals were encountered. The operators reported net operating revenues of $1,546 in 1952, net operating losses of $9,333 in 1953, and net revenues of $2,835 during the first nine months of 1954, before payment of interest on long-term debt, which payments, of course, reduced still further the net results and in each of the periods created deficits. The adverse results, according to the testimony, were caused almost entirely by the poor load factor and by the increase in the terminal and traffic expenses. It appears, however, that annual depreciation charges, which do not constitute cash outlays, aggregated $39,705 in 1952, $54,451 in 1953, and $57,043 during the nine-months period of 1954, and that the operators were able to meet principal and interest requirements on their outstanding obligations. As a matter of fact, applicant corporation during the first nine months of its operating life reduced its current liabilities from $138,844 to $121,543 and its long-term debt from $310,270 to $299,340.[1/]

In an endeavor to arrest operating losses and to improve its position, applicant undertook a reorganization of its affairs during the latter part of 1954. Among other things, it closed its terminal at Long Beach, moved its shop facilities to San Diego where they would be under the direct supervision of one of its officers, reduced its supervisory staff by delegating additional duties to its officers and shareholders, and developed a northbound load to equalize its southbound traffic movement. According to the testimony of its general manager, it has succeeded in eliminating the northbound movement of empty trucks and has put into operation revised terminal and operating procedures which have resulted in savings of approximately $3,000 a month. During January of 1955, for example, applicant reported operating revenues of $99,839 and net operating profit of $9,112, after all charges including payment of interest. It reports that favorable results have continued through February, although actual figures were not available at the time of the hearing.

Upon the basis of the operating conditions now prevailing, applicant is of the opinion its revenues will be more than ample to enable it to meet its principal and interest requirements and to pay the annual dividend on the shares of preferred stock it hopes to issue. The record developed at the hearing clearly points up an

1/ At September 30, 1954, applicant's financial structure consisted of:

Current liabilities	$121,543
Long-term debt	299,340
Equity capital (40,000 shares)	49,524

improvement in applicant's balance sheet position and in its operating results and, on the basis of the showing made, we will grant its request to issue shares of stock. If carried to a successful conclusion, the offering would improve applicant's position by the liquidation of current liabilities, the creation of working capital, and the development of a broader base of equity capital.

With respect to applicant's plan to dispose of its shares, we have no objection if it invites its creditors and employees to become shareholders in the enterprise. The action of the Commission in thus passing on this application, however, should not be taken as a finding that dividends will be paid nor as a finding of the value of the shares of stock. The most the record shows is that applicant has taken steps to improve its position and that the likelihood exists it will realize net profits during the coming year. The order herein should not be construed as obligating the State to pay or guarantee, in any manner whatsoever, the shares of stock authorized to be issued.[2]

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 application should be granted, as herein provided, 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 purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

2/ Section 828, Public Utilities Code.

1. Culy Transportation Co., Inc., on or after the effective date hereof and on or before March 31, 1956, may issue not exceeding 4,000 shares of its preferred stock at $25 a share and not exceeding 4,000 shares of its common stock at not less than $5 a share to liquidate outstanding indebtedness and to provide working capital, provided that no shares may be issued until applicant has received full payment therefor.

2. Culy Transportation Co., Inc. shall file with the Commission, as soon as available, a copy of each letter or notice to its employees inviting subscriptions to its shares of stock.

3. Applicant 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 20 days after the date hereof.

Dated at San Francisco, California, this 5th day of April, 1955.

President

Commissioners