

ORIGINAL

Decision No. 52805

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DELTA LINES, INC.,
a corporation, for authority to
acquire capital stock of MISSION
FREIGHT LINES, INC., and for au-
thority to execute promissory note.

Application
No. 37698

O P I N I O N

In this application Delta Lines, Inc., seeks authorization to acquire all the outstanding shares of stock of Mission Freight Lines, Inc., and to issue an installment note in the face amount of \$36,306.76.^{1/}

Both Delta and Mission are engaged in business as highway common carriers of property. Generally speaking, Delta operates between San Francisco, South San Francisco, Oakland, Alameda, Richmond and intermediate points in the San Francisco Bay area, and Sacramento, Stockton, Woodland, Chico, Marysville, Placerville, Alpine Lake, Jackson and Tracy, and between the foregoing points and points on U. S. Highway 99, south of Stockton, to and including Turlock, on the one hand, and Los Angeles Territory, on the other hand. Mission operates between San Francisco, Gilroy, Los Gatos and intermediate points, and between San Pablo, Gilroy, Los Gatos and intermediate points. Information filed with the Commission shows that the majority of the outstanding shares of Delta's stock are held by members of the Dwyer family and that T. R. Dwyer, the

^{1/} In this decision Delta Lines, Inc., will be referred to as Delta and Mission Freight Lines, Inc., as Mission.

corporation's president, is the largest shareholder. The outstanding shares of Mission's stock (100 shares without par value) are held by Fred L. Todd.

Delta was organized in 1920 and has been engaged continuously in transportation operations. During its operating life it has developed a substantial volume of business and for the past three years has reported the following:

	<u>1953</u>	<u>1954</u>	<u>1955 10 Mos.</u>
Revenues	\$3,413,966	\$3,403,341	\$3,119,334
Operating expenses, excluding depreciation	<u>3,210,254</u>	<u>3,276,152</u>	<u>2,948,287</u>
Balance	203,712	127,189	171,047
Interest and other deductions	<u>39,598</u>	<u>43,228</u>	<u>34,640</u>
Net income before depreciation	<u>\$ 164,114</u>	<u>\$ 83,961</u>	<u>\$ 136,407</u>

Annual depreciation charges amounted to approximately \$200,000.

Mission was organized April 4, 1955, and has been operating since September 1, 1955. It appears that the transportation operations it now conducts were inaugurated in 1948 by Fred L. Todd as radial highway common carrier activities, but that they were certified by the Commission by Decision No. 51022, dated January 25, 1955. They were acquired by Mission under authorization granted by Decision No. 51631, dated July 5, 1955, in a move designed to separate the highway common carrier operations of the then owner from the nonutility operations. A condensed statement of the assets, liabilities and capital of Mission as of October 31, 1955, is as follows:

Assets

Current assets -		
Special deposit	\$ 100	
Accounts receivable	6,986	
Prepayments	<u>3,847</u>	
Total current assets		\$10,933
Tangible property		37,320
Intangible property		<u>8,442</u>
		<u>\$56,695</u>

Liabilities and Capital

Current liabilities -		
Overdraft	\$ 335	
Accounts payable	10,850	
Accrued liabilities	<u>2,922</u>	
Total current liabilities		\$14,107
Equipment obligations		35,169
Common stock equity capital		<u>7,419</u>
		<u>\$56,695</u>

Delta now desires to extend its activities through the acquisition of all the outstanding stock of Mission. It has made arrangements with Fred L. Todd to purchase such stock for the sum of \$51,756.76, to pay \$15,450 of the purchase price in cash, and to issue, in evidence of the balance, an unsecured note in the face amount of \$36,306.76, such note to be payable in annual installments of \$12,102.25, with interest on unpaid principal at the rate of 7% per annum. The agreement provides for T. R. Dwyer to become a co-maker of the note.

Applicants assert the transaction will result in economies in operation and improvements in service to the public. Delta owns and operates approximately 80 units of pick-up and delivery equipment in the San Francisco Bay area and terminals in San Francisco and Emeryville. Mission, on the other hand, operates no terminals in the bay district and has performed its pick-up and delivery operations entirely with line-haul equipment. It is asserted that Delta

will be able to accord prompt and complete pick-up and delivery service to shippers in the district with its present equipment and facilities and that the use of the terminal properties will enable shippers of Mission to make deliveries of their own freight to the terminals should they desire to do so.

It is said that much of the traffic of both carriers originates from the same shippers in the bay area. Under separate operations each carrier now is required to make a pick-up or delivery trip with respect to each of its shippers. With coordinated operations only one such trip will be necessary, and it is planned for the dispatching, terminal handling, and billing, as well as the pick-up and delivery service, to be accomplished with the same personnel and facilities that Delta now employs in the handling of its own traffic. Further, unification of control and management should enable Delta to accord through service equivalent to single line handling of freight.

Upon a review of this matter we are of the opinion, and so find, that the acquisition by Delta of the stock of Mission will not be adverse to the public interest. The transaction will bring the operations of Mission under the control of the larger and financially stronger Delta and will make the facilities and personnel of Delta available to the shippers on the present Mission lines. It is true that Delta has agreed to pay \$51,756.76 for stock having a book value, based on the balance sheet of October 31, 1955, of only \$7,419, but it clearly appears that Delta's earnings and resources should be ample to enable it to meet the obligations with respect to the payment of principal and interest on the note it proposes to issue without adversely affecting its financial strength. The latest available balance sheet of Delta shows cash and working funds in the amount of

\$87,923 and total current assets, including such cash, of \$415,374, as compared with current liabilities of \$315,189. The balance sheet of Mission, of record in this proceeding, does not indicate a presently favorable financial position.

Upon the basis of the information before us we will enter an order authorizing Delta to acquire the stock of Mission. It does not appear to us, however, that the proposed 7% interest rate on the note to be issued by Delta is a realistic rate, and our order herein with respect to the request to execute an evidence of indebtedness will provide that the interest rate be reduced to not exceeding 6% per annum.

The action taken herein shall not be construed to be indicative of amounts which Delta Lines, Inc., might include in its operative property accounts in the event it is authorized to merge its properties with those of Mission at a later date, nor as a finding of the value of such properties.

ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for through the issue of the note herein authorized is reasonably required by Delta Lines, Inc., for the purpose specified herein, that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted only as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Delta Lines, Inc., may acquire and hold the presently outstanding shares of stock of Mission Freight Lines, Inc.

2. Delta Lines, Inc., in part payment for such shares of stock, may issue an unsecured promissory note in the principal amount of not exceeding \$36,306.76, such note to be in, or substantially in, the same form as the note filed in this proceeding in Exhibit A, provided that the interest rate thereon be reduced from 7% per annum to not exceeding 6% per annum.

3. Delta Lines, Inc., shall file with the Commission a copy of the note as executed and delivered, such filing to be made within 30 days after the date of the note.

4. The authority herein granted will become effective when Delta Lines, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$37.

Dated at San Francisco, California, this 27th day of March, 1956.

[Signature]
(President)

[Signature]

[Signature]

[Signature]
Commissioners

