

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CHARLES S. SHUKEN, an individual,)
for authority pursuant to Section 854)
of the California Public Utilities Code)
to acquire control of METROPOLITAN)
DISTRIBUTION CENTERS, INC.)

Application No. 57855
(Filed February 8, 1978)

O P I N I O N

In this application, Charles S. Shuken (Shuken) requests authority to control Metropolitan Distribution Centers, Inc. (Metropolitan).

Metropolitan is a California corporation operating as a public utility warehouseman in the City of Los Angeles. The company also conducts a trucking business in connection with the warehouse activities. The company holds a highway common carrier certificate and other permits issued by this Commission. In addition, the corporation performs trucking services under the jurisdiction of the Interstate Commerce Commission.

On March 22, 1971, Metropolitan (formerly known as Metropolitan Warehouse Company) amended its Articles of Incorporation for the purpose of authorizing the issuance of 640 shares of \$100 par value common stock for each share outstanding, which at the time totalled 20/32 of one share. Subsequently, Metropolitan inadvertently issued a total of 400 shares without first receiving authority from this Commission as required by the Public Utilities Code. Three hundred shares were issued to Dalton G. Feldstein (Feldstein) and 100 shares were issued to Shuken. In order to make this transaction valid, it will be necessary for Metropolitan to cancel the shares inadvertently issued to Feldstein and Shuken and issue new certificates to replace those canceled. For the purposes of this proceeding we will authorize Metropolitan to issue new shares for those issued without authority.

Feldstein desires to cease active participation in the business. Metropolitan, therefore proposes to purchase 266-2/3 shares of stock from Feldstein, thereby causing Shuken to become the controlling stockholder owning 100 shares of the 133-1/3 outstanding shares remaining after the purchase.

In order to provide Metropolitan with sufficient funds to reacquire 266-2/3 shares, Shuken and his cousin Charles A. Schulman (Schulman) will advance to the company a sum of \$688,900 on open account which will be noninterest bearing and subordinated to all indebtedness. Schulman will also acquire 3-1/3 shares from Feldstein.

Shuken has been the active general manager of Metropolitan for the past several years and is also Metropolitan's Vice President. He holds a Masters Degree in Business Administration (MBA) from Harvard University, having previously completed his undergraduate work at Stanford University. The attorney for Shuken informed the staff that Feldstein is Shuken's father-in-law.

In a Supplemental Exhibit filed contemporaneously with the application, Metropolitan reports total operating revenues and net income of \$5,215,022 and \$321,834, respectively, for the year 1977. It is noted that of the total operating revenues of \$5,215,022, approximately 60 percent of such revenues are derived from public utility warehouse operations. Metropolitan's balance sheet on December 31, 1977 attached to the application as Exhibit "A", is summarized as follows:

| <u>Assets</u> | <u>Amount</u> |
|--|--------------------|
| Current assets | \$1,168,580 |
| Carrier operating equipment-net | 60,044 |
| Intangibles | <u>38,358</u> |
| Total | <u>\$1,266,982</u> |
| <u>Liabilities and Capital</u> | |
| Current liabilities | \$ 563,745 |
| Equipment obligations | -0- |
| Other liabilities | 81,747 |
| Common stock and surplus | <u>621,490</u> |
| Total | <u>\$1,266,982</u> |

After completion of the proposed transaction, Metropolitan's current ratio will be 1.7 to 1 and it will have working capital of \$404,835. Considering the open account advances to stockholders as part of stockholder equity, Metropolitan would then have a net worth of \$421,490. Submitted with the application was an appraisal of tangible property, made by Sam L. Ratner, who has been engaged in the purchase and sale of equipment and merchandise for a period in excess of thirty years and said appraisal of tangible property evinces a true going business value of such tangible property by an amount exceeding book value in the sum of \$515,107. Adding this amount to the stockholders' equity including \$421,490 shows a real net worth for all practical purposes of Metropolitan in the total sum of \$936,597.

A pro forma balance sheet of Metropolitan giving effect to the proposed transaction is summarized as follows:

| <u>Assets</u> | Book <u>Net Worth</u> | Real <u>Net Worth</u> |
|-------------------------------------|--------------------------|--------------------------|
| Cash | \$ 153,843 | \$ 153,843 |
| Trade receivables | 666,119 | 666,119 |
| Other | 148,618 | 148,618 |
| Carrier equipment (net) | 26,268 | 209,868 |
| Warehouse equipment (net) | 33,776 | 365,283 |
| Intangibles | 38,358 | 38,358 |
| Total | <u>\$1,066,982</u> | <u>\$1,582,089</u> |
| | | |
| <u>Liabilities and Capital</u> | Book <u>Net Worth</u> | Real <u>Net Worth</u> |
| Current liabilities | \$ 563,745 | \$ 563,745 |
| Other | 81,747 | 81,747 |
| Open account advances | 688,900 | 688,900 |
| Capital stock | 13,330 | 13,330 |
| Treasury shares | 26,670 | 26,670 |
| Capital surplus (retained earnings) | (307,410) | 207,697 |
| Total stockholder's equity | <u>(267,410)</u> | <u>247,697</u> |
| Total | <u>\$1,066,982</u> | <u>\$1,582,089</u> |

Shuken estimated that Metropolitan's retained earnings for the year 1978 will be equal to or greater than those for the year 1977 in the sum of \$256,000.

The Transportation Division and the Finance Division of the Commission staff have reviewed the proposed transaction and consider the request of Shuken to be reasonable.

After consideration the Commission finds that:

1. Metropolitan, through inadvertance, issued a total of 400 shares of \$100 par value common stock per share for proper purposes, without receiving authority from this Commission. The issuance of these shares is void under Section 825 of the Public Utilities Code.

2. The control of Metropolitan by Shuken through the "indirect acquisition" of 75 percent of validly issued and outstanding common stock of Metropolitan would not be adverse to the public interest.

There is no known opposition and there is no reason to delay granting the relief requested. A public hearing is not necessary.

On the basis of the foregoing, the Commission concludes that the application should be granted. The action taken herein shall not be construed as a finding of the value of the capital stock of Metropolitan.

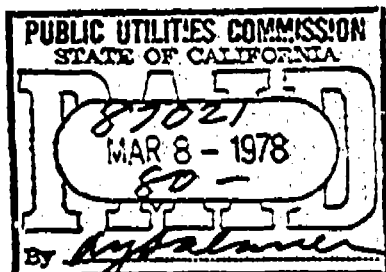
O R D E R

1. Metropolitan Distribution Centers, Inc., on or after the effective date hereof and on or before June 30, 1978, may issue a total of 400 shares of \$100 par value common stock per share, for the 400 shares previously issued without authority from this Commission.

2. Charles S. Shuken may control Metropolitan Distribution Centers, Inc.

3. This order shall become effective when Metropolitan Distribution Centers, Inc. has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$80.

Dated at San Francisco, California, this 7th day of MARCH, 1978.



Robert Bateman
President
William Snow
Vernon L. Sturgeon
Charles D. Gentry
Clare J. DeWitt
Commissioners