

RSAC/RHG

ORIGINAL

Decision 97-05-036 May 6, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
GREYHOUND LINES, INC. PSC-1, for)	Application 97-03-053
approval to issue stock and notes)	(Filed March 28, 1997)
pursuant to the provisions of)	
Sections 818-830 of the California)	
Public Utilities Code.)	

O P I N I O N

Summary of Decision

This decision grants Greyhound Lines, Inc. (Greyhound) the authority requested in Application 97-03-053 (Application).

Greyhound requests authority, under Public Utilities (PU) Code §§ 816 through 830 to issue 2,400,000 shares of Convertible Exchangeable Preferred Stock (Preferred Stock) and to offer up to \$150 million Senior Notes (Notes).

Notice of the filing of the Application appeared on the Commission's Daily Calendar of April 3, 1997. No protests have been received.

Background

Greyhound, a Delaware corporation, operates as a passenger stage corporation subject to the jurisdiction of this Commission.

Greyhound was incorporated in Delaware in 1986 to acquire the domestic bus operations of The Greyhound Corporation. Its primary business consists of scheduled passenger service. The company also provides package express delivery service and food service. Greyhound currently provides passenger service to more than 2,400 destinations with a fleet of approximately 2,000 buses and 1,600 sales outlets.

In California, Greyhound provides extensive scheduled passenger service and package express delivery service. Greyhound's total intrastate and interstate passenger and express revenues in California for calendar year 1996 of \$74.3 million represented about 12% of its total 1996 passenger and express revenues of \$631.3 million. Greyhound's package delivery service is directed primarily to commercial shippers that require expedited delivery of small parcels within a limited geographical area. Greyhound reported net losses of: \$6.6 million for 1996, \$17.8 for 1995, and \$77.4 million for 1994, as shown in Exhibit D to the Application.

Greyhound's consolidated balance sheet for the period ended December 31, 1996, shown as Exhibit B to the Application, is summarized as follows:

(in thousands)	
<u>Assets</u>	<u>Amount</u>
Current Assets	\$ 61,314
Prepaid Pension Plans	24,927
Net Property, Plant & Equipment	314,454
Investments in Unconsolidated Affiliates	2,437
Insurance & Security Deposits	76,180
Net Intangible Assets	<u>20,970</u>
Total	\$500,282
<u>Liabilities and Equity</u>	<u>Amount</u>
Current Liabilities	\$118,449
Long-Term Debt	192,581
Reserve for Injuries & Damages	40,099
Deferred Gains	562
Other Liabilities	7,710
Stockholders' Equity	<u>140,881</u>
Total	\$500,282

Preferred Stock

Greyhound proposes to issue 2,400,000 shares of Preferred Stock (liquidation preference of \$25 per share) at a dividend rate to be determined at the time of issue. Some of the proposed features presented in the Application are:

1. The dividends will be payable quarterly.
2. The Preferred Stock will be convertible, subject to prior redemption (at a time to be determined) at the option of the holder into common stock, par value of \$.01 per share, of Greyhound at a conversion price to be determined at the time of issue, subject to certain adjustments.
3. The Preferred Stock will be redeemable, in whole or in part (at a time to be determined) at specified redemption prices, plus accumulated and unpaid dividends and certain other specified charges, if any, thereon to the redemption date.
4. Upon the occurrence of a change of control of Greyhound, Greyhound will be required to make an offer to repurchase all outstanding shares of Preferred Stock at a price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends and other specified charges, if any, thereon to the repurchase date.
5. Subject to certain enumerated conditions, Greyhound may at its option exchange all, but not less than all, of the then outstanding shares of Preferred Stock into its Convertible Subordinated Debentures due 2009 (Exchange Debentures) at a rate and date to be determined at the time of issue. The Exchange Debentures, if issued, will bear interest payable semi-annually.

Greyhound estimates the net proceeds from the sale of the 2,400,000 shares to be \$57.8 million if the purchaser's over-allotment option is not exercised in full¹.

As of December 31, 1996, Greyhound's preferred shares consisted of 10,000,000 shares authorized with par value of \$.01 and Series A Junior Preferred Stock 500,000 shares authorized with par value of \$.01, of which none have been issued as of the filing date of the Application.

Notes

Greyhound proposes to offer up to \$150 million Notes² at an interest rate to be determined at the time of issue and to be payable semi-annually in arrears.

Some of the features contemplated in the Application are:

1. The Notes will be redeemable at the option of Greyhound, in whole or in part, at a time to be determined, at redemption prices specified by Greyhound, plus accrued and unpaid interest and other specified charges, if any.
2. Greyhound may, at a time to be determined, redeem up to 35% of the aggregate principal amount of the Notes originally issued at a redemption price to be determined, of the principal amount plus accrued and unpaid interest and other specified charges, if any, thereon to the redemption date, provided at least \$97.5 million aggregate principal amount of the Notes remains outstanding following such redemption.
3. Upon the occurrence of a change of control, Greyhound will be required to make an offer to repurchase all or any part of each holder's Notes at a price equal to 101% of the principal amount thereof plus accrued and

¹ 2,760,000 shares is estimated to be issued if the purchaser's over-allotment option is exercised in full.

² \$185 million is estimated to be issued if the issue of the Preferred Stock is not completed.

unpaid interest and other specified charges, if any, thereon to the date of repurchase.

4. The Notes will be general unsecured obligations of Greyhound, ranking equally in right of payment with all other present or future senior indebtedness of Greyhound, and senior in right of payment to all present or future subordinated indebtedness of Greyhound. The Notes will be effectively subordinated, however, to all secured obligations of Greyhound.

Greyhound states in the Application that it has been informed by its financial advisors that current market conditions affecting the proposed offerings are at risk. The market is a highly volatile and competitive one, and there is a potential risk that investors will have committed their available funds to other similar available transactions if the proposed offerings are not consummated immediately.

In accordance with Article 5. Stocks and Security Transactions of the PU Code, a utility is required to obtain Commission authorization for the issuance of stock, notes, and other evidences of indebtedness.

Greyhound's proposed offerings raise no questions that should dissuade us from giving favorable consideration to the authorization requested in the Application. At this time, the proposed debt may provide Greyhound a better complement of financing options and opportunity to achieve a lower cost of debt.

We will require Greyhound to maintain and make available to the Commission within 30 days of the date of request, the following:

1. Copies of the agreement setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of the Senior Notes.
2. Copies of the purchase and underwriting agreements and the final interest rate, redemption price, and other charges pertaining to the Preferred Stock offering.

The authorization herein given is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Capital Ratios

Greyhound's capital ratios as of December 31, 1996, reflected in its supplemental data to the Application provided to the Accounting and Finance Branch, are set forth below, as recorded and as adjusted to give pro forma effect to the principal transactions that follow:

	(in thousands)			
	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$192,581	57.8%	\$211,252	54.9%
Stockholders' Equity	<u>140,881</u>	<u>42.2%</u>	<u>173,673</u>	<u>45.1%</u>
Total	\$333,462	100.0%	\$384,925	100.0%

1. The proposed issue of \$150 million Notes.
2. The retirement of Greyhound's 10% Senior Notes projected at \$138.7 million (net of discount).
3. Current maturities of \$5.6 million.
4. Increase of \$1.3 million in other long-term debt, including capital leases obligations.
5. Increase of \$448,000 in revolving bank loan.
6. The proposed issue of \$60 million Preferred Stock.
7. Other financial activities resulting in changes in capital and retained deficit with an estimated total of \$27.1 million.

We will not make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Environmental Impact

Greyhound states that there is no possibility that its request to issue debt could have a significant adverse impact on the environment.

Use of Proceeds

Of the estimated \$57.8 million net proceeds from the issue of Preferred Stock and approximately \$145.2 million net proceeds, Greyhound intends to (a) retire its 10% Senior Notes due 2001, with an estimated redemption cost of \$164.1 million; (b) fund the acquisition of Carolina Trailways for approximately \$25.6 million; (c) acquire four bus terminals (currently leased by Greyhound) for approximately \$6.7 million; and (d) retire certain interest rate swap agreements entered into by Greyhound for approximately \$3.1 million. The remaining net proceeds will be used to repay borrowings under an existing Revolving Credit Facility, which facility may also be amended, replaced or restated in contemplation of the transactions cited in the Application.

Upon order of the Commission and for proper cause, § 818 of the PU Code allows the use of proceeds from the issue of debt security and stock for purposes reasonably required in the operation of a utility.

We will approve the use of the proceeds as requested in the Application.

Findings of Fact

1. Greyhound, a Delaware corporation, operates as a passenger stage corporation subject to the jurisdiction of this Commission.

2. Greyhound has need for external funds for the purposes set forth in the Application.

3. The Commission does not by this decision determine that Greyhound's capital ratios are necessary or reasonable for ratemaking purposes.

4. For the calendar year 1996, Greyhound's intrastate and interstate revenues in California were 12% of its total operating revenues.

5. The proposed issue of shares of Preferred Stock and Notes would be for proper purposes and not adverse to the public interest.

6. Greyhound has declared that the proposed stock and debt issues are not subject to environmental regulations.

7. There is no known opposition to the Application and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order which follows.

3. The proposed debt is for lawful purposes and the money, property, or labor to be obtained or paid for by it is required for these purposes.

4. This authorization is not a finding of the value of Greyhound's stock or property, nor does it indicate the amounts to be included in ratemaking proceedings.

5. This Application for financing approval does not require environmental review.

6. Greyhound should pay the fee determined in accordance with PU Code § 1904.1. The fee should be calculated taking into account Greyhound's California revenues only.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Greyhound Lines, Inc. (Greyhound) is authorized to (a) issue and sell not exceeding 2,400,000 shares of Convertible Exchangeable Preferred Stock (2,760,000 if the purchaser's over-allotment option is exercised in full), liquidation preference \$25 per share (Preferred Stock) and (b) issue up to \$150 million of Senior Notes (\$185 million if the Preferred Stock is not completed), upon terms, features, and conditions as set forth in or contemplated in Application 97-03-053 (Application).

2. Greyhound shall apply the proceeds of the transaction for the purposes specified in the Application.

3. Greyhound shall maintain and within thirty (30) days from the date of request, provide the Commission or the Accounting and Finance Branch any or all of the following:

- (a) Copies of the agreement setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of the Senior Notes.
- (b) Copies of the purchase and underwriting agreements and the final interest rate, redemption price, and other charges pertaining to the Preferred Stock offering.

4. On or before the 25th day of each month, Greyhound shall file the reports required by General Order Series 24.

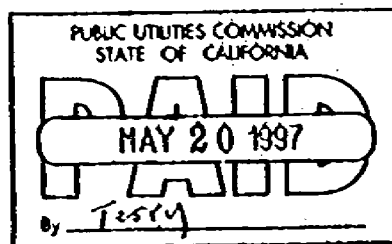
5. The authority granted by this order shall become effective when Greyhound pays \$7,588, the fee required by Public Utilities Code § 1904.1.

6. The Application is granted as set forth above.

7. This proceeding is closed.

This order is effective today.

Dated May 6, 1997, at San Francisco, California.



CK # 205181 - \$ 7,588. -

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners