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Decision No. 11700.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF
STATE OF CALIFORNIA

In the Matter of the Application of)
DILLINGHAM TRANSPORTATION COMPANY,)
a corporation, for an order permit-)
ting it to issue and sell certain)
shares of its capital stock.)

Application No. 8614.

Kidd and Hardy, by H.W. Kidd, for applicant.

BY THE COMMISSION:

O P I N I O N.

In this application, DILLINGHAM TRANSPORTATION COMPANY asks the Railroad Commission to make an order authorizing it to issue 1105 shares of its capital stock of the total par value of \$110,500, and to assume the payment of indebtedness aggregating \$46,251.81. The company proposes to sell three shares at par for cash for the purpose of qualifying directors, and to sell 1102 shares at \$90.00 per share net for the purpose of acquiring the properties of H.L. Dillingham and E.B. Dillingham and paying the assumed indebtedness.

A public hearing was held before Examiner Williams in Los Angeles on February 9, 1923.

It appears that H.L. Dillingham and E.B. Dillingham, under the firm name and style of Dillingham Transportation Company, a co-partnership, are engaged in operating auto stages for the transportation of passengers and baggage between Pasadena and Long Beach, via Whittier, Santa Fe Springs, Norwalk, Downey and other points, and between Long Beach and Santa Monica via Redondo, Venice and Ocean Park. The revenues and expenses of this business for the year ending December 31, 1922, are reported as follows:--

OPERATING REVENUES-

Passenger revenues, \$75,016.06
Express revenues 100.63 \$75,116.69

NON-OPERATING REVENUES-

Rents from buildings, etc., 4,799.00
Rents from equipment, 3,834.75
Storing and checking 115.10 8,748.85
Total, 83,865.54

OPERATING EXPENSES AND OTHER DISBURSEMENTS-

Conducting transportation, 32,720.15
Maintenance expenses, 9,760.45
Depreciation, 7,504.03
Traffic expenses, 4,244.49
General and miscellaneous expenses . . 19,440.73
Interest, 2,834.84
Total, 76,504.69

NET PROFIT, \$ 7,360.85

Believing that the business could be conducted more economically and efficiently by a corporation than by a co-partnership, H.L. Dillingham and E.B. Dillingham have caused the incorporation of Dillingham Transportation Company for the purpose of acquiring and operating their properties and business. The Articles of Incorporation of Dillingham Transportation Company show that it was organized on or about November 28, 1922, with an authorized capital stock of \$150,000.00, divided into 1500 shares of the par value of \$100.00 each. On January 24, 1923, by Decision No. 11551, it was authorized to acquire the operative rights of the Dillinghams. The present petition involves the issue of \$110,500.00 of stock to acquire properties. These properties and their estimated reasonable present value, are reported by applicant as follows:

12 automobile busses with specially built bodies,
1 touring car and 1 coupe, \$72,837.82
Furniture and fixtures, 426.86
Automobile tools and equipment, 203.18
Automobile tires and tubes 2,509.27
Prepaid interest on contracts for the purchase of
automobile stages, 2,924.68
Prepaid insurance, 2,198.35
Stationery, printed matter, tickets, 224.75
Prepaid taxes, 321.48
Value of terminal leases at Pasadena and Long Beach, 7,500.00
Value of good will, business name, etc. 10,000.00
Total, \$99,146.39

The testimony of H.L. Dillingham and exhibits herein show that the value of the automobiles, furniture and fixtures and automobile tools and equipment was determined by deducting from the actual original cost amounts representing estimated depreciation accrued since the date of purchase. The value of tires and tubes, printing, stationery and tickets, and the prepaid interest, insurance and taxes, represent amounts actually expended.

The item of \$7,500.00 for leaseholds represents an alleged value of two leases of terminal sites in Pasadena and Long Beach which applicant will receive from the Dillinghams. The lease of the Long Beach property is dated April 23, 1920, expires May 31, 1925 and calls for a gross rental of \$300.00 a month, of which \$150.00 is paid by the Dillinghams and \$150.00 by the Crown Stages. It appears that a portion of the space is sublet under arrangements calling for a monthly rental by sub-lessees of \$400.00, of which applicant will receive one half. The Pasadena lease, dated January 1, 1921 and expiring January 1, 1924, calls for a monthly payment of \$100.00, of which \$25.00 is paid by the Dillinghams. Here, as in Long Beach, space is rented to sub-lessees. The total amount received from these sub-lessees aggregates \$100.00 a month, of which applicant will receive one-quarter. No profit accrues on the Pasadena lease.

Applicant will acquire the leases and receive rent from sub-lessees sufficient to pay its own rental expenses, and to yield a profit of \$50.00 a month. Because of this favorable condition it alleges that these leases possess a value to it of not less than \$7,500.00. It will be noted, however, that the lease to the Long Beach properties expires in slightly more than two years and the one to the Pasadena terminal in less than one year from the present time. No showing was made by applicant at the hearing that these leases can be renewed upon their expiration and we do not believe that applicant has justified the issue of stock against an allowance of

\$7,500.00 for value attaching to such leases. During the term of the lease, from January 1, 1923, applicant will receive \$1,450.00. On condition that the money so received is invested in property, the Commission will permit the issue \$1,600.00 of stock against leases.

H.L. Dillingham and E.B. Dillingham are asking Dillingham Transportation Company to pay them \$10,000.00 for goodwill, going concern value and the value of the business name of Dillingham Transportation Company. In support of this claim, they allege that service was started during the early part of 1918 with one ten-passenger stage, that patronage at first was small and the operations unprofitable. From time to time the lines and service were expanded, new operative rights were secured, extensive advertising was done, traffic arrangements were made with other carriers, and the business was built up until at present there are in use 12 stages which produced a net profit during 1922 of over \$7,000.00. The Commission will not authorize the issue of stock against good will or going concern value. It appears, however, that applicant's incorporators have incurred some expense in establishing the business. We believe that applicant should be permitted to issue \$3,000 of stock on account of promotion expenses.

Applicant proposes to acquire the properties referred to in this proceeding subject to outstanding indebtedness of \$46,251.81, consisting of \$42,052.11 due on contracts for the purchase of automobiles and \$4,199.70 of current unsecured accounts payable representing chiefly money borrowed to pay for materials and supplies. Applicant proposes to use a part of the proceeds from the sale of the stock herein applied for to pay this indebtedness.

It appears that no change is planned in the management or control of the business as a result of this proposed transfer and that the public will not be inconvenienced.

The order herein will permit applicant to issue \$95,600.00 of stock subject to the conditions of the following order:

O R D E R

DILLINGHAM TRANSPORTATION COMPANY having applied to the Railroad Commission for permission to issue \$110,500.00 of stock, and to assume the payment of indebtedness, a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by the assumption of this indebtedness and the issue of \$95,600.00 of stock is reasonably required by applicant;

IT IS HEREBY ORDERED, that DILLINGHAM TRANSPORTATION COMPANY be, and it is hereby, authorized to issue 956 shares of its capital stock of the total par value of \$95,600.00 and to assume the payment of indebtedness aggregating \$46,251.81.

IT IS HEREBY FURTHER ORDERED, that the application, in so far as it relates to the issue of 149 shares of the par value of \$14,900.00, be, and it is hereby, dismissed without prejudice.

The authority herein granted is subject to the following conditions:

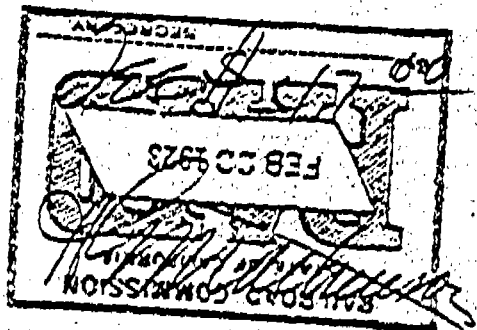
- 1.--Three shares of the stock herein authorized may be sold to applicant's directors at par for cash, and the proceeds used for working capital.
- 2.--514 shares may be sold at not less than \$90.00 per share net to the company. The proceeds shall be used to pay the indebtedness which applicant is herein authorized to assume.
- 3.--439 shares may be delivered to H. L. Dillingham and E. B. Dillingham in part payment for the business and properties referred to in the foregoing opinion, subject to the indebtedness referred to in this order.
- 4.--The profit realized from the leases referred to in the foregoing opinion shall be invested by applicant in equipment and properties.
- 5.--The authority herein granted shall not be interpreted as a

finding of value of such properties for rate fixing or for any purpose other than this transfer.

6.--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 No. 24, which order in so far as applicable, is made a part of this order.

7.--The authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act and will expire on December 15, 1923.

DATED at San Francisco, California, this 21st day of February, 1923.



C. Shaver

James Masterson
Egerton Shaw

J. J. Whittesey
Commissioners.