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Decision No. 12003.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

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In the Matter of the Application of)
MOTOR TRANSIT COMPANY)
for an order permitting it to issue)
certain shares of its corporate stock.)

Application No. 8786

H.W. Kidd, for applicant.

BY THE COMMISSION:

O P I N I O N.

MOTOR TRANSIT COMPANY in this amended application asks permission to issue $769.203.00 par value of common capital stock. It intends to issue $659,203.00 to White Auto Company and O.R. Fuller at not less than par to secure funds to pay indebtedness, and issue $110,000.00 from time to time at not less than $90.00 to acquire additional equipment.

A public hearing was held in this application before Examiner Handford at Los Angeles.

Motor Transit Company has, according to its Exhibit No. 2 filed in this proceeding, an authorized capital stock issue of $1,500,000.00 divided into 1,500,000 shares of the par value of $1.00 each. Of this stock, $317,182.00 has been issued and is outstanding. Of the outstanding stock, O.R. Fuller is said to own 211,454 shares, S. Cahn 105,727 shares and Ione Fuller one share. Applicant has no funded debt. As of December 31, 1922, its notes payable amounted to $200,480.79 and its accounts payable to $471,729.49. Of the notes and accounts payable $484,533.34 is due the White Auto Company. This company and O.R. Fuller have

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agreed to purchase at par $659,203.00 of applicant's stock, if authorized by the Commission, to enable applicant to pay its indebtedness.

In its amended Exhibit No. 2, attached to the application, applicant as of December 31, 1922, reports capital investment of $976,384.55. This amount is made up of the following items:

Fixed Capital		
Intangibles	$3,618.00	
Land	---	
Buildings	---	
Improvements on Leased Property	---	
Machinery and Tools	34,234.74	
Revenue Passenger Cars	532,339.54	
Revenue Combination Freight & Pass. Cars	46,229.20	
Revenue Freight Cars	---	
Express Baggage and Mail Cars	10,540.33	
Service Cars	10,183.27	
Telephone and Telegraph Lines	---	
Floating Equipment	---	
Furniture	16,093.46	
Miscellaneous Tangible Capital	449.38	
Undistributed Construction Expenses	84,096.93	
Total Fixed Capital		$737,784.85
Materials and Supplies - Inventory	128,599.70	
Working Cash Capital	110,000.00	
		238,599.70
Grand Total		$976,384.55

From the $976,384.55 applicant deducts the outstanding stock, -$317,182.00- leaving a balance of $659,202.55. The investment which applicant seeks to capitalize includes nothing for land, buildings or improvements on leased premises. It is of record that applicant has an investment of $124,361.21 in these items of properties, which properties may be transferred to a terminal company.

In its assets, as of December 31, 1922, reported in Exhibit No. 2, applicant includes $128,559.70 for materials and supplies and $110,000.00 for working capital, a total of $238,599.70. The working capital includes cash on hand and notes and accounts receivable. Its accounts receivable amount to $108,151.44. A substantial part of the accounts receivable represents deferred settlements from the sales in the body shop of applicant. For the purpose of this proceeding, we will assume an investment of $175,000.00 in materials and supplies and cash working capital. It is, of course, understood that the recognition of such an amount as a basis for the issue of stock does not mean that the Commission will recognize such amount for materials and supplies and working cash capital in a rate proceeding.

Applicant reports that it operated during 1922 the following passenger car equipment:

> Seven 8-passenger; twenty-eight 11-passenger, ten 14-passenger, six 18-passenger; thirty-one 21-passenger and twelve 25-passenger cars.

It further reports that it operated combination passenger and freight cars as follows:

> Twelve 3/4-ton 11-passenger,
> Two 2-ton 18-passenger.

Its other equipment consists of two 3/4-ton express, baggage and mail cars; three 3/4-ton service cars; one Ford service car and two shop cars. It reports that during 1922 it carried 2,139,449 passengers and 2,406 tons of freight.

In its annual report applicant reports revenues, expenses and other disbursements for 1922 as follows:

Transportation Revenue		$1,461,436.25
Transportation Expenses		1,469,667.98
Net Operating Deficit		8,231.73
Add -		
Revenue from other operations		182,150.94
Miscellaneous income		2,671.63
Net Income		176,590.84
Deductions -		
Interest	$29,604.02	
Expense other operations	171,444.18	
Total Deductions		201,048.20
Loss for Year		24,457.36

The operating expenses include $155,437.09 for depreciation. Referring to the depreciation allowance, F.D. Howell, applicant's vice-president, testified that --

> "*****the Company has been carrying depreciation on the basis of 2 per cent a month on equipment or rolling stock, and on investigation for the purpose of this hearing it was found that on that basis cars that were comparatively better than 50 per cent efficient, that were operating every day in the week would be carried on the books as practically out of service, so I had a

"survey of the equipment made by our shop superintendent and foreman and myself, and we decided that the equipment was actually on an average 75 per cent operating value, and that the depreciation reserve should -- the accrued depreciation to date should really equal about 25 per cent of the total value of the equipment rather than the amount set up on our books, so I have assumed for the purpose of this hearing, a depreciation of 25 per cent, and the reserve for depreciation of that same amount equalling $160,608 depreciation on furniture and fixtures, machinery and tools and so forth, as against some $350,000, set up on our books at that time. The books have not been altered as yet to meet that condition, but instructions have been given to the auditing department to set up that depreciation as of the first of the year and carry that depreciation from then on on the basis of 1 per cent a month until a further survey can give us more data for an actual depreciation."

If applicant's records during 1922 had been kept as now directed by F.B. Howell, it would have included in operating expenses on account of depreciation $77,718.54 instead of $155,437.09, which would have resulted in a profit of $53,361.18 instead of a loss of $24,457.36.

Applicant asks permission to issue and sell at not less than 90 $110,000.00 of its common capital stock and use the proceeds to acquire additional equipment. It is the intention of applicant to acquire only White Auto Company equipment. This equipment will consist of two types -touring car and central aisle cars. Five or six cars are needed immediately. It is believed by applicant's vice-president that during the year it will have to expend more than $110,000 for additional equipment. In this connection, the Commission's attention is called to the fact that during 1922 applicant expended $258,173.53 for equipment, during 1921 $294,959.23 and during 1920 $399,759.10.

O R D E R

MOTOR TRANSIT COMPANY having applied to the Railroad Commission for permission to issue $769,203.00 par value of its common capital stock, a public hearing having been held and the Commission being of the opinion that MOTOR TRANSIT COMPANY should be authorized to issue $705,603.00 par value of its common capital stock and that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant;

IT IS HEREBY ORDERED, that MOTOR TRANSIT COMPANY be, and it is hereby, authorized to issue $705,603.00 par value of its common capital stock.

The authority herein granted is subject to the following conditions:

1.---Of the stock herein authorized to be issued, $595.603.00 shall be sold by applicant at par net and the proceeds used to pay indebtedness referred to in applicant's Exhibit No. 3.

2.---Of the stock herein authorized to be issued, $110,000.00 shall be sold by applicant at not less than 90 net and the proceeds used to acquire additional equipment.

3.---Applicant shall file with the Commission monthly statements containing a complete description of all equipment purchased or constructed through the issue and sale of the $110,000 of stock referred to in Condition "2" of this order, and the cost thereof.

4.---Motor Transit Company 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 Commissions's General Order No. 24, which order in so far as applicable is made a part of this order.

5.---The authority herein granted will become effective on the date hereof and will expire on December 15, 1923.

Dated at San Francisco, California, this 2d day of May, 1923.

C L Seavey

H W Brundige

Irving Martin

J. H. Whittley

Commissioners.

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