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Decision No. 12226.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Application of LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY, a corporation organized under the laws of the State of California, and having its principal place of business at Los Angeles, California, LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS CO., INC., a corporation, organized under the laws of the State of California, and having its principal place of business at Santa Paula, California, and W.W. McKEE, for an order authorizing said LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY, INC., to purchase certificate of Public Convenience and Necessity, No. 6878, and acquired by LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY by Decision No. 7133, and for permission to issue stock of LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY, INC.	Application Number 9036.

Durley and Downes, by W. Mark Durley, for applicants.

BRUNDIGE, Commissioner.

OPINION

In this application the Railroad Commission is asked to make an order authorizing -

1....Los Angeles and Santa Barbara Motor Express Company, a corporation, hereinafter sometimes referred to as the "old company", to transfer its operative rights and properties to Los Angeles and Santa Barbara Motor Express Company, Inc., a newly organized corporation;

2....Los Angeles and Santa Barbara Motor Express Company, Inc., hereinafter sometimes mentioned as the "new company", to issue and deliver $125,000.00 of its stock to Los Angeles and Santa Barbara Motor Express Company in payment for such operative rights and properties; and

3....Los Angeles and Santa Barbara Motor Express Company, the old company, to sell the $125,000.00 of stock it will receive in payment for its operative rights and properties to W.W. McKee for $125,000.00, represented by a note payable in five years with interest at six per cent. per annum

Los Angeles and Santa Barbara Motor Express Company was organized on or about January 2, 1920, with an authorized capital stock of $50,000.00, divided into 500 shares of the par value of $100.00 each, of which stock of the par value of $14,000.00 is reported outstanding. The company is the owner of an operative right for the conduct of an automobile freight and express service between Los Angeles and Santa Barbara, having acquired such operative right from C.T. Mayo, E.D. Stuart, J.S. Hunter and W.P. Wilson, pursuant to authority granted by the Commission in Decision No. 7133, dated February 13, 1920.

Its assets and liabilities as of April 30, 1923, are reported as follows:

ASSETS:		
Plant and Equipment -		
Equipment	$82,357.37	
Organization Expense	300.59	
Furniture and Fixtures	369.00	
Garage Equipment	1,636.28	
Total Plant and Equipment		$84,663.24
Current Assets -		
Cash on hand	242.50	
Cash in bank	4,816.62	
Accounts Receivable	4,801.50	
Materials and Supplies	2,383.25	
Total Current Assets		12,243.87
Prepayments -		
Insurance	1,275.19	
Licenses	200.00	
Rents	300.00	
Total Prepayments		1,775.19
Deficit		32,593.81
TOTAL ASSETS		$131,276.11

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LIABILITIES:

Capital Stock		$14,000.00
Current Liabilities -		
Accounts Payable........................	$6,409.42	
Due Dunn Manufacturing Co..............	89,780.99	
Pay Roll...................................	2,186.95	
Total Current Liabilities		98,377.36
Reserve for Depreciation		18,898.75
TOTAL LIABILITIES		$131,276.11

It appears that approximately all of the current liabilities, aside from the amount due Dunn Manufacturing Company, have been paid since the date of the balance sheet.

It is reported that there were losses incurred from the beginning of the business up to the month of July, 1922, but that since that time the operations have been conducted at a profit. The revenues and expenses for the year ended December 31, 1922, and for the four months ended April 30, 1923, are reported as follows

	Year Ended Dec. 31, 1922	Four Months Ended April 30, 1923
Revenues:		
Freight Revenues	$ 106,699.97	$ 47,803.52
Trade Discount	289.54	187.97
Storage	18.99	241.27
Other	---	235.23
Total Revenues	$ 107,008.50	$ 48,467.99
Operating Expenses:		
Transportation	64,423.27	25,459.58
Traffic	3,455.67	1,194.04
Maintenance	23,517.33	11,539.89
General	9,685.55	3,893.19
Total Operating Expenses..	101,081.82	42,086.70
Net Income	5,926.68	6,381.29
Non-Operating Expenses	634.28	11.42
Net Profit for Period . .	5,292.40	6,369.87

It appears that all of the selling company's outstanding stock, excepting directors' shares, is held by the Dunn Manufacturing Company, which company, from time to time, has advanced $61,707.67 to cover operative losses and $28,008.32 to pay for additional equipment. Dunn Manufacturing Company is engaged in the manufacture of oil well tools and other articles. It reports that it desires to sever its connection with the auto stage business, so that its officers and employees may devote their entire time and attention to its other business. Therefore, it has been decided to transfer the business and properties of Los Angeles and Santa Barbara Motor Express Company to a new corporation, to be known as Los Angeles and Santa Barbara Motor Express Company, Inc., which asks permission to issue in payment such an amount of capital stock as will equal not only the estimated value of the automobiles and other properties, but will also cover the amounts advanced by Dunn Manufacturing Company to meet operative losses.

The Articles of Incorporation of the new company show that it was organized on or about April 21, 1923, with an authorized capital stock of $250,000.00, divided into 25,000 shares of the par value of $10.oo each, all shares being common. The company has entered into an agreement, dated May 8, 1923, with the old company and with W.W. McKee, by the terms of which it agrees to issue $125,000.00 of its stock to the old company in payment for all of that company's rights, business and properties. The old company thereupon will sell such stock to W.W. McKee for $125,000.00 and has agreed to accept in payment therefor a non-negotiable six per cent. five-year promissory note secured by pledge of the stock. In this manner the Dunn Manufacturing Company hopes to recover its losses.

The application shows that the amount of stock to be issued, namely $125,000.00, was determined by using the following estimated values for the properties:

Automobiles.	$53,942.66
Furniture and Fixtures (Actual Cost) . . .	975.00
Shop Equipment (Actual Cost)	1,633.55
Leaseholds	7,875.00
Franchise, or Development Cost	61,707.67
Total, ...	$126,133.88

The automobile equipment consists of fourteen trucks, twelve trailers, one extra van body and one White motor for auxiliary purposes, all as shown in applicant's "Exhibit Number 1" filed at the hearing. It appears that this equipment, which was purchased during 1920, 1921 and 1922, originally cost the company $67,428.32. The purchase price of $53,942.64, shown above, is an amount equivalent to eighty per cent. of the reported cost, it being estimated by applicants that the equipment has depreciated to the extent of twenty per cent. of the cost since the date of purchase. In support of this claim, applicants allege that the performance of extensive maintenance work and the practice of continually overhauling the motors and replacing worn parts with new, has resulted in maintaining the equipment in a condition practically as good as new. According to the testimony of T.F. Bulpin, superintendent of the old company and in charge of the repair shop, the maintenance charges, which are reported high, amount to $100.oo per month for each car.

Along with the physical properties there will be transferred to the purchasing company five leases of terminal sites. These leases, which are alleged to possess a value of $7,875.00 and which are to be transferred at that price, are described as follows:

Los Angeles Depot,10 years from Jan.1,1922,monthly rental...	$265.00
Santa Paula Depot, 5 years from Aug.1,1921,monthly rental...	75.00
Santa Barbara Depot,10 years from Aug.1,1922,montly rental..	90.00
Fillmore Depot, 5 years from Aug.1, 1922, montly rental.....	40.00
Ventura Depot, 5 years from April 1,1923,monthly rental.....	50.00

Mr. W.W. McKee, president of the new company and manager of the old, testified that actual inquiry by him disclosed the fact that should the leases be terminated the Los Angeles and Santa Barbara properties could be re-leased for a monthly rental of $35.00 in excess of the present rental and the Santa Paula depot for $25.00 a month more. No increase is estimated for the other two depots. Multiplying the amount of increases in rent by the unexpired terms of the leases, in months, results in a total of $7,875.00, the estimated leasehold values. This amount is not actually being realized by the old company, nor does the record show that it will be realized by the new company. Lease contracts such as are before us in this proceeding, should not in my opinion be used as a basis for capitalization.

Coming now to the value claimed for franchise or development cost, it appears that this figure, namely- $61,707.67, represents amounts advanced by Dunn Manufacturing Company to cover losses during the early years of operation. In the petition applicants refer to the $61,707.67 as the value placed on the franchises. However, the testimony given at the hearing indicates that applicants consider this item as development cost rather than as franchise value and urge that it is a proper basis for the Commission to use in making an order authorizing the issue of stock. I am unable to agree with this contention. Harry R. Staples, vice-president and secretary of the old company and also of the Dunn Manufacturing Company, testified that the business was started by certain individuals who were purchasing trucks under contracts from Dunn Manufacturing Company, that because of poor management the operations from their inception were unsuccessful and that the Dunn Manufacturing Company, in order to avoid loss, was eventually compelled to take over the business. His testimony and the application further show that the officials of Dunn Manufacturing Company met the losses incurred, but for some time left the control and management of the auto stage business to one of their employees. The losses continuing, it became apparent to those in control of Dunn Manufacturing Company that they must give their personal attention to the stage business. After about a year under the direct management of the officials of Dunn Manufacturing Company, the business began to show a profit, which has steadily increased.

It appears to me that under circumstances such as those of the present proceeding, the Commission should not authorize the issue of stock to cover these early operating losses. Further, for reasons indicated above, I am unwilling to recommend the issue of stock against the leasehold values herein claimed. I believe that for the purposes of this proceeding Los Angeles and Santa Barbara Motor Express Company, Inc., may be permitted to issue not exceeding $56,600.00 of stock.

After the stock has been issued, the old company may sell the stock to Mr. W.W. McKee without an order from the Commission. For want of jurisdiction I suggest that that portion of the application relating to the sale of stock by Los Angeles and Santa Barbara Motor Express Company to Mr. McKee be dismissed.

I herewith submit the following form of Order:

O R D E R.

Application having been made to the Railroad Commission for an order authorizing the issue of $125,000.00 of stock and the transfer of operative rights and properties, a public hearing having been held and the Railroad Commission being of the opinion that the transfer of operative rights and properties should be permitted and that the issue of $56,600.00 of stock should be authorized by the Commission.

IT IS HEREBY ORDERED, that LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY be, and it is hereby, authorized to transfer and sell, and LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY, INC., be, and it is hereby, authorized to acquire and purchase the properties and rights owned and operated by Los Angeles and Santa Barbara Motor Express Company.

IT IS HEREBY FURTHER ORDERED, that LOS ANGELES AND SANTA BARBARA MOTOR EXPRESS COMPANY, INC., be, and it is hereby, authorized to issue in payment for such properties not exceeding $56,600.00 of stock.

IT IS HEREBY FURTHER ORDERED, that the application in so far as it relates to the issue of $68,400.00 of stock and the sale of stock by Los Angeles and Santa Barbara Motor Express Company be, and it is hereby dismissed without prejudice.

The authority herein granted is subject to the following conditions:

1.....Los Angeles and Santa Barbara Motor Express Company shall cancel immediately all time schedules, tariffs, rates and classifications at present on file with the Railroad Commission, and Los Angeles and Santa Barbara

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Motor Express Company, Inc., shall file immediately new time schedules, rates, tariffs and classifications, or adopt as its own the time schedules, tariffs, rates and classifications heretofore filed by Los Angeles and Santa Barbara Motor Express Company, -all such new schedules, tariffs, rates and classifications to be identical with those heretofore filed with the Commission; such cancellations and filings to be in accordance with the provisions of General Order No. 51 and other regulations of the Railroad Commission.

2......The rights and privileges, the transfer of which is herein authorized may not again be transferred, assigned, leased, sold, hypothecated, or operations thereunder discontinued, unless the written consent of the Railroad Commission to such transfer, assignment, lease, sale, hypothecation or discontinuance shall have first been secured.

3......No vehicle may be operated by Los Angeles and Santa Barbara Motor Express Company, Inc., under the authority contained in this decision unless such vehicle is owned by said company or leased by it under a contract or agreement on a basis satisfactory to the Railroad Commission.

4......The price at which Los Angeles and Santa Barbara Motor Express Company is herein authorized to transfer properties shall never be urged before this Commission, or other court or public body having jurisdiction, as a measure of value of said properties for the purpose of fixing rates, or for any purpose other than the transfer herein authorized.

5......Within thirty days after the issue and delivery of the stock herein authorized, Los Angeles and Santa Barbara Motor

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Express Company, Inc., shall file with the Commission 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.

6......The authority herein granted to transfer rights and properties and to issue stock, will become effective upon the date hereof, but will expire on September 30, 1923.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 19th day of June, 1923.

C L Seavey

H D Brundige

Irving Martin

Egerton Shore

J. F. Whitley

Commissioners.

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