



A public hearing in this matter was held before Examiner Fankhauser on May 28, 1924. Since the hearing, additional information has been filed and the matter is now ready for decision.

Auto Transit Company was organized on or about April 4, 1918. The company's Articles of Incorporation, as amended, provide for an authorized issue of \$250,000.00 of stock, divided into 50,000 shares of non-cumulative eight per cent preferred stock of the par value of \$1.00 per share and 200,000 shares of common stock of the par value of \$1.00 per share. As of April 30, 1924, the company reports its assets and liabilities as follows :-

ASSETS

Plant and equipment . . . . .	\$ 34,698.07
Cash . . . . .	2,414.35
Accounts receivable . . . . .	152.55
Special funds . . . . .	<u>20.00</u>
Total Assets . . . . .	<u>\$37,284.97</u>

LIABILITIES

Capital stock . . . . .	\$ 5,000.00
Notes payable . . . . .	4,894.50
Accounts payable . . . . .	3,863.90
Other credit accounts . . . . .	13.84
Reserve for depreciation . . . . .	17,399.12
Surplus . . . . .	<u>6,113.61</u>
Total Liabilities . . . . .	<u>\$37,284.97</u>

The outstanding stock is all common. The preferred stock it is proposed to issue will be sold at par for cash and the proceeds used to pay approximately \$2,800.00 due the Fageol Motor Company and to pay in part the cost of a new 22-passenger Pierce Arrow Stage.

Auto Transit Company is engaged in transporting passengers between San Francisco and Santa Cruz and intermediate points. O. A. Moon and C. E. Simonds, who desire to transfer their properties, are engaged in transporting passengers between Santa Cruz and Salinas via Watsonville and between Castroville and Monterey (Decision Number 10137 Application Number 7590). J. S. Nickols, who also asks permission to transfer his property, is engaged in transporting passengers between Watsonville and Hollister via Aromas, Chittenden and San Juan (Decision

Number 13502 Application Number 10014). The earnings of the three operators for the year ending December 31, 1923 are reported as follows:-

<u>Item</u>	<u>Auto Transit Company</u>	<u>O.A.Moon and C.L.Simonds</u>	<u>J.S.Nickols</u>
<u>Revenues</u>			
Passenger	\$50,934.34	\$22,928.65	\$10,243.78
Express	504.19	-	-
Other	7.94	340.00	-
Total . . .	<u>\$51,446.47</u>	<u>\$23,268.65</u>	<u>\$10,243.78</u>
<u>Expenses</u>			
Conducting transportation	\$25,685.70	\$12,487.10	\$ 3,685.39
Maintenance	16,485.66	8,981.15	2,405.21
Traffic	373.32	1,625.60	-
General	5,115.13	2,518.00	2,498.25
Total . . .	<u>\$47,659.81</u>	<u>\$25,611.85</u>	<u>\$ 8,588.85</u>
Net Revenue . . . .	<u>\$ 3,786.66</u>	<u>\$ 2,343.20*</u>	<u>\$ 1,654.93</u>

\* Loss

Applicants now desire to bring the three lines under one ownership and management and are of the opinion that such a consolidation will result in economies being effected in operating and overhead expenses. However, the Commission is not called upon, at this time at least, to make an order consolidating or expanding the several operative rights, the present application in this respect involving only a request to transfer the ownership of such rights. The granting of the present request should not be construed as authority to consolidate the individual rights now held by the various applicants, or to expand such rights beyond those now held by each of the applicants. Before the Commission can make an order authorizing such a consolidation or expansion it will be necessary for applicants to be before it in a formal proceeding seeking a certificate of public convenience and necessity to operate the three rights as one.

Coming now to that portion of the application which involves the issue of common stock, it appears that Auto Transit Company proposes to deliver \$25,000.00 of common stock to O. A. Moon and C. L. Simonds and \$10,000.00 to J. S. Nickols in payment for their properties and rights. The properties of O. A. Moon and C. L. Simonds are shown in

Exhibit "A" to consist of three fifteen-passenger Packard automobile stages and one seven-passenger Packard automobile stage, together with tools, supplies, automobile equipment, gas, oil and tires, and the properties of J. S. Nickols are described in Exhibit "B" as consisting of one fifteen-passenger Packard automobile stage and one seven-passenger automobile stage, together with tires, equipment, tools, gas, oil, etc.

The testimony herein indicates that applicants are of the opinion that the reasonable value of the three fifteen-passenger Packard automobile stages of O. A. Moon and C. L. Simonds is \$15,000.00, of the seven-passenger Packard stage \$2,000.00 and of the tools, automobile equipment and supplies \$1,000.00, a total of \$18,000.00. In addition, applicants allege that the operative rights of O. A. Moon and C. L. Simonds are reasonably worth \$7,000.00. The automobile stages and equipment of J. S. Nickols <sup>are</sup> said to possess a reasonable value of \$9,000.00 and his operative rights \$2,000.00.

In this connection the attention of applicants is directed to Section 52-B of the Public Utilities Act which reads in part as follows :-

" The Commission shall have no power to authorize the capitalization of the right to be a corporation or to authorize the capitalization of any franchise or permit whatsoever for the right to own, operate or enjoy any such franchise or permit in excess of the amount (exclusive of any tax or annual charge) actually paid to the state or to a political subdivision thereof as the consideration for the grant of such franchise, permit or right; nor shall any contract for consolidation or lease be capitalized nor shall any public utility hereafter issue any bonds, notes or other evidences of indebtedness against or as a lien upon any contract, for consolidation or merger".

The testimony herein indicates that the values claimed for the franchises by O. A. Moon and C. L. Simonds and J. S. Nickols do not represent the amounts paid to the state or to a political subdivision as the consideration for the grant of such rights. J. S. Nickols testified that he had expended between \$300.00 and \$400.00 in obtaining his right. It appears that O. A. Moon and C. L. Simonds purchased their operative rights from their predecessors for \$9,400.00. There is nothing to show, however, what amount if any was paid to the state or

political subdivision by O. A. Moon and C. L. Simonds or their predecessors as the consideration for the grant of such right. The Commission, therefore, is of the opinion that it cannot recognize the value claimed by applicants for operative rights as a basis for the issue of stock requested.

It appears that in acquiring the properties of O. A. Moon and C. L. Simonds Auto Transit Company will assume the payment of indebtedness aggregating \$1,600.00. The order herein will authorize Auto Transit Company to issue \$16,400.00 of stock in payment of the properties of O. A. Moon and C. L. Simonds and to issue \$8,400.00 of stock in payment for the properties of J. S. Nickols.

In support of the request of Auto Transit Company to issue \$45,000.00 of stock in payment for a dividend, George H. Higgins, the company's president, testified that in his opinion the property of the company was fully worth \$50,000.00 although, as shown in the foregoing balance sheet, such properties are reported as \$34,698.07, no value whatever being carried for franchise or operative rights. The company is therefore of the opinion that it should be permitted to issue an amount of stock approximately equal to the alleged value of the properties.

Section 52 of the Public Utilities Act reads in part as follows :-

" A public utility may issue stocks and stock certificates and bonds, notes and other evidences of indebtedness payable at periods of more than twelve months after the date thereof for the following purposes and no others, namely, for the acquisition of property or for the construction, completion, extension or improvement of its facilities or for the improvement or maintenance of its service or for the discharge or lawful refunding of its obligations or for the reimbursement of moneys actually expended from income or from any other moneys in the treasury of the public utility, not secured by or obtained from the issue of stocks, or stock certificates or bonds, notes or other evidences of indebtedness of such public utilities for any of the aforesaid purposes, except maintenance of service and replacement in cases where the applicant shall have kept its accounts or vouchers for such expenditures in such manner as to enable the Commission to ascertain the amount of money so expended and the purposes for which such expenditure was made".

The Commission under the Public Utilities Act has no power to authorize the issue of stock for the purpose of paying a stock dividend. It can, however, upon proper showing authorize the issue of stock for the purpose of reimbursing the company's treasury because of earnings invested in the properties and business of the company and if such order is made the company thereafter can distribute the stock as a stock dividend. It is therefore necessary for the Commission to determine the amount of surplus earnings of Auto Transit Company which have been invested in its business. As shown by the preceding balance sheet as of April 30, 1924 the company reported a corporate surplus of only \$6,113.61. But it appears that the company has been including in its operating expenses amounts for depreciation at the rate of 25 per cent per annum on equipment. Its officers now believe that 25 per cent is too high and that 16-1/3 per cent per annum will be sufficient for depreciation of equipment. Adjusting the reserve for accrued depreciation accordingly results in the transfer of \$5,398.39 from such reserve to surplus, leaving about \$12,000.00 in the reserve. The Commission is of the opinion that it cannot authorize Auto Transit Company to issue stock to reimburse its treasury in excess of \$11,512.00.

#### ORDER

Application having been made to the Railroad Commission for an order authorizing the transfer of properties and rights and the issue of stock, a public hearing having been held and the Railroad Commission being of the opinion that the application should be granted as herein provided and that the money, property or labor to be procured or paid for through such issue of stock is reasonably required,

IT IS HEREBY ORDERED that O. A. Moon and C. L. Simonds, doing business under the firm name and style of Coast Transit Company; and J. S. Nickols, doing business under the firm name and style of Red Star Auto Stage Line, be, and they are hereby, authorized to sell and

transfer their properties and rights to which reference is made in the foregoing opinion, to Auto Transit Company, a corporation.

IT IS HEREBY FURTHER ORDERED that Auto Transit Company, a corporation, be, and it is hereby, authorized to issue \$36,312.00 of its common capital stock and \$10,000.00 of its eight per cent non-cumulative preferred stock, and to assume the payment of not exceeding \$1,600.00 of indebtedness.

The authority herein granted is subject to the following conditions :-

1. Applicant may deliver not exceeding \$16,400.00 of the common stock herein authorized in payment for the properties of O. A. Moon and C. E. Simonds and may deliver \$8,400.00 of the common stock herein authorized in payment for the properties of J. S. Nichols. The remaining \$11,512.00 of the common stock herein authorized may be issued for the purpose of reimbursing the company's treasury on account of surplus earnings invested in properties and may thereafter be distributed as a stock dividend, as required and permitted by law, to the holders of the outstanding stock of Auto Transit Company.
2. Applicant may sell the \$10,000.00 of preferred stock herein authorized for cash at not less than par and use the proceeds for the purpose of paying indebtedness and of financing the cost of additional equipment to which reference is made in the foregoing opinion.
3. Auto 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 Commission's General Order Number 24, which order in so far as applicable is made a part of this order.

4. O. A. Moon and C. L. Simonds and J. S. Nickols shall cancel immediately all time schedules, tariffs, rates and classifications at present on file with the Railroad Commission, and Auto Transit Company shall file immediately new time schedules, rates, tariffs and classifications or adopt as its own the time schedules, tariffs, rates and classifications heretofore filed with this Commission by O. A. Moon and C. L. Simonds and J. S. Nickols; all such new time 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 Number 51 and other regulations of the Railroad Commission.
5. The rights and privileges, the transfer of which are 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.
6. No authority is hereby conveyed for the consolidation, enlargement or expansion of any operative rights beyond those heretofore held by the applicants herein under authority granted by the Commission.
7. The transfer of the operative rights and properties herein authorized and the required cancellation and fil-



ing of tariffs and schedules shall be made not later than 90 days from the date of this order, unless the time for effecting the transfers, the cancellation and filing of tariffs be extended by the further order of this Commission.

8. The authority herein granted will become effective upon the date hereof.

IT IS HEREBY FURTHER ORDERED that the application in so far as it involves the issue of \$45,668.00 of common stock by Auto Transit Company be, and it is hereby, dismissed without prejudice.

DATED at San Francisco, California, this 18<sup>th</sup> day of July, 1924.

H. N. Boudage

Iwing Martin

J. F. Whiteley  
Commissioners.