

Decision No. 17544.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
PASADENA-OCEAN PARK STAGE LINE, INC.  
to purchase, and T.C. Gillespie to  
sell, four automobile stage lines,  
to-wit: the line operated between  
Pasadena and Ocean Park in the County  
of Los Angeles, State of California,  
known as Pasadena-Ocean Park Stage  
Line; a line operated between Los  
Angeles and Pasadena and Mt. Wilson  
in said county and state known as  
Mt. Wilson Stage Line; a line oper-  
ated between Pasadena and Switzer's  
relay in said county and state, known  
as Arroyo Seco Stage Line; and a line  
operated between Culver City and Uni-  
versal City in said county and state  
known as the Studio Stage Line; and  
said Pasadena-Ocean Park Stage Line,  
Inc. to issue and sell certain shares  
of its capital stock.

ORIGINAL

Application No. 13174

Elmer P. Bromley and V. L. Ferguson,  
by V. L. Ferguson, for applicants.

BY THE COMMISSION:

OPINION

In this proceeding the Railroad Commission is asked to make  
an order authorizing T. C. Gillespie to transfer certain operative  
rights, stage equipment and properties, to which reference is made  
hereinafter, to the Pasadena-Ocean Park Stage Line, Inc. and to authorize  
the Pasadena-Ocean Park Stage Line, Inc. to issue \$294,400. of common  
stock and sell the same upon the terms outlined in the application or  
upon such terms as the Commission may determine, and use the proceeds  
to pay for the properties which it intends to acquire from T.C. Gillespie  
and to pay indebtedness.

The operative rights which T. C. Gillespie asks permission to transfer to the Pasadena Ocean Park Stage Line, Inc. were granted by the Commission in the following decisions and proceedings:-

LINE NO. 1: This passenger line, known as the Pasadena Ocean Park Stage Line is operated between Pasadena and Ocean Park. The operating right to operate the line was originally granted to one Harry Wilson by the Railroad Commission in its Decision No. 6962 dated December 19, 1919 in Application No. 4777, which operating right was in Decision No. 9357 dated August 9, 1921 in Application No. 7062 authorized by the Railroad Commission to be sold and transferred to N.A. Webb, F. S. Hendricks and D.E. Hamilton, who in turn were authorized by Decision No. 14951 dated May 21, 1925 in Application No. 11107 to transfer said operating right to T.C. Gillespie, applicant herein.

LINE NO. 2: This is a line for the carriage of freight, express and passengers operated between Los Angeles and Pasadena and Mt. Wilson and is known as the Mt. Wilson Stage Line. The freight and express operating rights were granted to N.A. Webb and F.S. Hendricks by the Railroad Commission in its Decision No. 10121 dated February 24, 1922 in Application No. 7469 and 7470. The rights to transport passengers on said line were acquired by Webb and Hendricks by reason of operations prior to May 1, 1917. By Decision No. 16455 dated April 9, 1926 in Application No. 12691 the Commission authorized the aforesaid operating rights to be transferred to T.C. Gillespie, applicant herein.

LINE NO. 3: This line is known as the Arroyo-Seco Stage Line and is operated for the purpose of transporting passengers and express between Pasadena and Switzer's Relay, Los Angeles County. The operating rights were originally granted to N.A. Webb and F.S. Hendricks by the Railroad Commission in Decision No. 6618 dated August 29, 1919 in Application No. 4864. By Decision No. 16454 dated April 9, 1926 in Application No. 12690 said Webb and Hendricks were authorized to transfer the operating rights to T.C. Gillespie, applicant herein.

Line No. 4: This line is known as the Studio Stage Line and is operated between Culver City and Universal City in Los Angeles County and was originally operated in part by one George A. Mason under a license of the Board of Public Utilities of the City of Los Angeles over the following routes in said city:-

Cahuenga to Selma, to Vine, to Sunset; Sunset to Cahuenga,  
to Universal City.

On June 29, 1926 the Board of Public Utilities authorized George A. Mason to transfer the operating rights to T.C. Gillespie, applicant herein. By Decision No. 16949 dated June 17, 1926 in Application No. 12610 the Commission authorized T.C. Gillespie to consolidate said operating rights with the operating rights from Hollywood Boulevard in the City of Los Angeles to Culver City, which latter operating rights were granted to T.C. Gillespie by Decision No. 16949.

The Pasadena-Ocean Park Stage Line, Inc. which intends to acquire the aforesaid operating rights does not ask to consolidate said rights for operating purposes.

Pasadena-Ocean Park Stage Line, Inc. was organized on or about January 15, 1926, with an authorized capital stock of \$500,000.00 divided into 5000 shares of the par value of \$100. each, of which 2000 shares, represents eight percent cumulative preferred stock and 3000 shares, common stock. Under the terms of the company's Articles of Incorporation the preferred stock is entitled to dividends at the rate of eight percent per annum before any dividends can be paid upon the common stock. Furthermore, the preferred stock may be redeemed at the option of the company at \$105. per share. In this application the company does not ask permission to issue any preferred stock, and the authority herein granted should not be construed as in any way passing upon the propriety of providing at this time for an eight percent preferred stock redeemable at \$105. per share.

Applicants have submitted statements in which they report the original cost of the equipment and properties which T. C. Gillespie intends to transfer to the Pasadena-Ocean Park Stage Line, Inc. and the present value of such properties.

The following tabulation is a summary of the different statements submitted and shows the present value of the properties allocated to the different stage lines:-

| ITEM                                  | Line 1<br>Pasadena-<br>Ocean<br>Park | Line 2<br>Mt. Wil-<br>son | Line 3<br>Arroyo-<br>Seco | Line 4<br>Studio | Total      |
|---------------------------------------|--------------------------------------|---------------------------|---------------------------|------------------|------------|
| Busses                                | \$143,900.00                         | 25,000.00                 | 5,000.00                  | 4,000.00         | 177,900.00 |
| Fare boxes&c                          | 2,303.54                             | -                         | -                         | -                | 2,303.54   |
| Materials                             | 4,678.44                             | 160.29                    | -                         | -                | 4,838.73   |
| Driver's sup-<br>plies                | 384.81                               | -                         | -                         | -                | 384.81     |
| Prepayments                           | 2,577.10                             | 115.02                    | 24.90                     | 210.10           | 2,925.12   |
| Tires                                 | 8,731.31                             | 1,932.12                  | 307.02                    | -                | 10,970.45  |
| Improvements<br>on leased<br>property | 656.84                               | 1,125.41                  | 320.00                    | -                | 2,102.25   |
| Machinery                             | 2,893.10                             | -                         | -                         | -                | 2,893.10   |
| Furniture                             | 1,853.09                             | -                         | -                         | -                | 1,853.09   |
| Lease value                           | 14,500.00                            | 7,250.00                  | 7,250.00                  | -                | 29,000.00  |
| Accounts rec.                         | 6,762.93                             | 1,306.94                  | 450.16                    | 1.00             | 8,521.03   |
| Organization                          | 6,931.95                             | 1,189.12                  | 638.13                    | 952.48           | 9,711.68   |
| Cash                                  | 3,670.05                             | -                         | -                         | -                | 3,670.05   |
| Subtotals....                         | 199,843.16                           | 38,076.90                 | 13,990.21                 | 5,163.58         | 257,073.85 |
| LESS:                                 |                                      |                           |                           |                  |            |
| Indebtedness                          | 131,360.18                           | 15,427.31                 | 5,155.18                  | 1,421.66         | 153,364.33 |
| Balance....                           | 38,482.98                            | 22,649.59                 | 8,835.03                  | 3,741.92         | 103,709.52 |
| Good will                             | 25,000.00                            | 10,000.00                 | 5,000.00                  | 4,000.00         | 44,000.00  |
| Net totals...                         | 93,485.98                            | 32,649.59                 | 13,835.03                 | 7,741.92         | 147,709.52 |

The equipment consists of thirty-five stages having a seating capacity from seven to twenty-nine and having a reported present value ranging from \$750. to \$11,200.00, a Mack truck and a Cadillac service car. The net present value of the properties, as reported by applicants, is \$147,709.52. It will be noted, however, that in arriving at this net value the company has included an alleged value of \$29,000.00 for leases, \$9,711.68 for organization and \$44,000.00 for good will, and deducted indebtedness in the sum of \$153,364.33.

To acquire properties valued by applicants at \$147,709.52, Pasadena-Ocean Park Stage Line, Inc. asks permission to issue \$173,800. of stock.

Applicant corporation asks permission to issue and sell stock at 85 per share net to realize \$100,000. which it will use to pay part of the \$153,554.35 of indebtedness. The debt so to be paid represents balances due on contracts covering the purchases of lines one, two and three by T.C.Gillespie. The payments become due on or before October 30, 1929. It is not the intention of the corporation to anticipate any of the payments but to sell stock from time to time as payments become due. On a basis of 85, the corporation would have to sell about \$117,700. of stock to realize \$100,000.

It is alleged in the petition that applicant corporation will have to incur an expenditure of \$2,500.00 for the purpose of paying organization expenses, promotion expenses, and expenses of this proceeding. Applicant asks permission to issue enough stock at 85 to realize \$2,500.00. This request calls for the issue of approximately \$2,900.00 of stock. The corporation also asks permission to issue six shares of its stock to qualify its directors. We believe that those shares should constitute a part of the stock which the corporation asks permission to issue and sell for organization and promotion service.

No evidence was submitted in support of an alleged value of \$9,711.68 for organization. To support the \$29,000. lease value, evidence was submitted to show that it would likely cost applicants from \$350. to \$500. per month to duplicate their present depot facilities at Pasadena, for which only a nominal rental is paid. The lease expires December 31, 1928. In regard to the \$44,000. value assigned to good will, it is alleged that T.C.Gillespie has operated the various lines in an efficient manner, has built up a favorable impression with, and lucrative patronage from, the travelling public, and that the lines have a valuable and tangible asset in the way of good will and going business value which could not be acquired by a new operation except by an expenditure of \$44,000.00. The amount is not based on any calculation, but represents an estimate of the value of good will.

The financial statements submitted in this proceeding show that every line has been operated at a loss during such time as it was operated by T. C. Gillespie. The 1925 reports on file with the Commission likewise show a loss from operation. While it is true that the testimony shows that the business of the several lines has been increasing under T. C. Gillespie's ownership, the increase has not been sufficient to offset the operating expenses and interest charges. We feel that both the values submitted and the amount of stock which applicant corporation asks permission to issue are excessive and unreasonable. For the purpose of this proceeding we will not recognize the organization, lease or good will values submitted by applicants. We are of the opinion that the capitalization of the properties should be on a conservative basis. With this same end in view we believe that any stock issued to T. C. Gillespie in payment for properties should be accepted by him at par, and that any stock sold to pay debts should be sold at par.

The order herein will authorize the company to issue \$189,000. of stock, and fix the purposes for which such stock may be issued.

#### O R D E R

Application having been made to the Railroad Commission for an order authorizing T. C. Gillespie to transfer operative rights and properties to the Pasadena-Ocean Park Stage Line, Inc. and authorizing said corporation to issue \$294,400.00 par value of its common capital stock, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that said corporation should be permitted to issue not exceeding \$189,000.00 of stock for the purposes hereinafter stated, and that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and the Commission being further of the opinion that the transfer

of the operative rights to the properties herein referred to should be authorized and that this application inasmuch as it involves the issue of \$105,400.00 of stock should be denied, therefore,

IT IS HEREBY ORDERED that T. C. Gillespie be, and he is hereby, authorized to transfer to the Pasadena-Ocean Park Stage Line, Inc. the operative rights and properties described in the opinion which precedes this order.

IT IS HEREBY FURTHER ORDERED that the Pasadena-Ocean Park Stage Line, Inc. be, and it is hereby, authorized to acquire on or before January 1, 1926 said operative rights and properties, and issue and deliver in payment therefor \$75,000.00 of stock and assume the payment of indebtedness of not exceeding \$153,364.35.

IT IS HEREBY FURTHER ORDERED that Pasadena-Ocean Park Stage Line, Inc., if it acquires the aforesaid properties, be, and it is hereby, authorized to issue and sell on or before October 30, 1929, at not less than par \$114,000.00 par value of its common capital stock and use of the proceeds, if necessary, an amount not exceeding \$10. per share to pay expenses incident to the sale of such stock. Of the remaining proceeds \$2,500.00 may be used to pay organization expenses, and expenses incident to this proceeding, and the balance shall be used by applicant corporation to pay indebtedness which it is herein authorized to assume.

The authority herein granted is subject to further conditions as follows:-

1. T. C. Gillespie, doing business under the firm name and style of the stage lines referred to herein, shall cancel immediately all tariffs heretofore filed by him with the Railroad Commission, such cancellation to be in accordance with the provisions of General Order No. 51 and other regulations of the Railroad Commission, and Pasadena-Ocean Park Stage Line, Inc. shall file immediately new tariffs in duplicate in its own name, such tariffs to be identical with those

heretofore filed by T. C. Gillespie.

2. The rights and privileges herein authorized to be transferred may not be discontinued, sold, leased, transferred or assigned unless written consent of the Railroad Commission has first been secured.
3. No vehicle may be operated by Pasadena-Ocean Park Stage Line, Inc. unless such vehicle is owned by it or is leased under a contract or agreement on a basis satisfactory to the Commission.
4. The authority herein granted will become effective upon the date hereof.
5. Pasadena-Ocean Park Stage Line, Inc. 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 insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 29<sup>th</sup> day of October, 1926.

H. B. Brundage  
C. C. Seamy  
Wm. W. West  
Thos. S. Routt

Commissioners.