

LEB

Decision No. 22286.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
PACIFIC ELECTRIC RAILWAY COMPANY,
a corporation, for permission to ac-
quire 871,284 shares, being two-thirds
of the outstanding and issued capital
stock of Motor Transit Company, a Cal-
ifornia corporation.

ORIGINAL

Application No. 16280

Frank Karr, for applicant.

BY THE COMMISSION:

O P I N I O N

Pacific Electric Railway Company asks permission to acquire under the terms and conditions set forth in this application, and hold 871,284 shares of the outstanding and issued capital stock of Motor Transit Company.

Motor Transit Company is a corporation organized under and by virtue of the laws of the State of California. It operates a large system of motor stages in the Counties of Los Angeles, Orange, Riverside and San Bernardino.

It appears that on December 12, 1929, Motor Transit Terminal Corporation, the legal owner of the issued and outstanding stock of Motor Transit Company, and O. R. Fuller, granted an option to Robert C. Gillis to purchase all of the issued and outstanding capital stock of Motor Transit Company, consisting of 1,306,926 shares.

This option was on January 30, 1930 assigned to Pacific Transportation Securities, Inc., said Robert C. Gillis having been, in fact, a resulting trustee for said Pacific Transportation Securities, Inc. and in securing said option, acted as agent for the company. The option was exercised by the Pacific Transportation Securities, Inc. on January 31, 1930, at which time it paid the first payment, \$500,000.00, together with interest thereon, from January 1, 1930 in the sum of \$2,500.00. Upon the receipt of the \$500,000.00 and said interest, the Motor Transit Terminal Corporation delivered the 1,306,926 shares of stock of said Motor Transit Company to Pacific Transportation Securities, Inc. The balance which is due under the option is payable in four equal payments, one each on July 1, 1930, January 1, 1931, July 1, 1931 and December 31, 1931, with interest from January 1, 1930 on all deferred payments at the rate of six percent per annum, payable semi-annually.

While the Pacific Transportation Securities, Inc. has agreed to purchase all of the outstanding stock of the Motor Transit Company, it is understood between said Pacific Transportation Securities, Inc. and Motor Transit Terminal Corporation that the Pacific Electric Railway Company will acquire, if authorized by the Commission to do so, two thirds of the outstanding stock of the Motor Transit Company, and will pay for such stock two thirds of the total remaining sum to be found due on the purchase price, in accordance with the terms and conditions of the aforesaid option,

The purchase price of the total outstanding capital stock of Motor Transit Company is estimated at \$3,000,000.00. The actual consideration to be paid will be determined by an appraisal of the company's properties which, in general, shall be made in the following manner:-

The value of the operating rights, good will and going concern shall be determined on the basis of gross revenue derived by reason of operations and shall consist of all the revenues derived during the year 1929 under the following classification of revenues, as contained in the uniform classification of accounts issued by the California Railroad Commission for Class "A" companies, effective January 1, 1922, namely, Accounts Nos. 500-1-2-3-4-5; 520-21-22. There shall, however, be excluded those revenues derived which are chargeable to Account No. 523, "Rent of Buildings and Other Property". There shall also be excluded nonoperating revenues classified under Accounts Nos. 301-302. From the total amount thus derived, there shall be deducted any amounts unpaid, as of December 31, 1929, on account of contracts for the purchase of operating rights of other companies, such contracts being made in the name of Motor Transit Company shall continue and the payments be completed by the company through the successors of the Motor Transit Terminal Corporation in the stock ownership.

The value of the real estate shall be the market value as of December 31, 1929, less encumbrances of balances of purchase price unpaid. Buildings and improvements on fee properties shall be valued on the basis of reproduction cost new as of December 31, 1929, less actual accrued depreciation. Buildings and improvements of leased properties, furniture and fixtures, machinery and tools, shall be valued on the same basis. Materials and supplies shall be valued at the list price of the manufacturers, less regular trade discount granted to purchasers of stock in the same quantities as does Motor Transit Company. Unit stocks and reclaimed parts shall be valued by an appraisal. Stationery and printing and ticket stocks shall be valued at the cost to Motor Transit Company. Rolling stock, passenger, freight, combination, services, wrecking, administrative and other cars shall be based on

their actual value in the use and adaptability for the service in which operated, and not on the basis of the value of secondhand equipment on a sales room floor, with due consideration given to maintenance and actual depreciation and obsolescence. No value shall be placed on leaseholds and all leases in use taken over from others in the purchase of other operations shall remain with the purchaser without cost. The value of work in process shall be taken at the cost of materials and supplies and labor expended on the same up to and including December 31, 1929. Organization and legal expenses shall be valued at \$10,000.00.

Motor Transit Terminal Corporation and O. R. Fuller agree to hold harmless said Motor Transit Company and the purchaser of its stock against all claims and demands on account of debts or accidents or other accounts incurred or caused prior to midnight of December 31, 1929.

The option (Exhibit No. 1) outlines in detail the manner in which the appraisals of the different units of property shall be made.

Applicant cannot at this time state the exact amount it will be called upon to pay for the 871,284 shares of the issued and outstanding shares of the capital stock of Motor Transit Company, and will not know the exact amount until the appraisal of the properties has been completed. It is of record that as soon as the exact amount is ascertained, applicant will at once apply to the Railroad Commission for authority to issue its notes for the amounts due from it on July 1, 1931 and December 31, 1931 payments under the option, if authority to purchase said stock is granted by the Railroad Commission.

This application does not involve the transfer of any properties of the Motor Transit Company, nor does it involve the curtailment of any services now rendered by either the Motor Transit Company or the Pacific Electric Railway Company. While the record shows that economies can be effected by coordinating the services of the two com-

panies and that a better service can be given through such coordination, that matter is not now before the Commission. While we believe that the acquisition of two thirds of the outstanding stock of Motor Transit Company by Pacific Electric Railway Company is in the public interest, we desire to state that no determination has been made of the amount which may be charged to road and equipment or to plant and equipment accounts or to other asset accounts in the event that the properties of Motor Transit Company are, after securing the necessary authority, transferred to Pacific Electric Railway Company or to some other corporation. The transfer of the properties of Motor Transit Company is not now before the Commission.

It appears from Exhibit No. 1 that on January 1, 1930 a new set of books of accounts and records shall be opened by the Motor Transit Company to care for future operations under the new ownership and that all books of account and records of Motor Transit Company, prior to that date, shall remain in the possession of the Motor Transit Terminal Corporation and its auditors until they shall have been closed and all debts paid that have accrued prior to said date, and all collections made of accounts that may be due and payable up to that date, and the records so retained shall be placed in public storage and made available to said Motor Transit Company on its request or on demand by public authorities having jurisdiction thereover. As stated, there is no request before the Commission wherein the Motor Transit Company asks permission to transfer any of its properties or discontinue public utility operations. The record clearly shows that the Motor Transit Company will continue the operation of the public utility properties which it has heretofore operated and that it will continue to function as a public utility. We feel that Motor Transit Company, a public utility, should retain possession of all of its

books of accounts and records and not turn them over to Motor Transit Terminal Corporation or place them in public storage.

O R D E R

Pacific Electric Railway Company having asked permission to acquire and hold 871,284 shares of the outstanding and issued capital stock of Motor Transit Company, a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the acquisition of such stock by Pacific Electric Railway Company is in the public interest, and that this application should be granted, therefore,

IT IS HEREBY ORDERED that Pacific Electric Railway Company may, on or before December 31, 1931, acquire and hold 871,284 shares of the issued and outstanding capital stock of Motor Transit Company, provided that the consideration being paid by Pacific Electric Railway Company for such stock shall not be urged before this Commission as fixing the value of the properties of Motor Transit Company for any purpose other than the transfer of the stock herein authorized.

DATED at San Francisco, California, this 3rd day of April, 1930.

Cl. Seaver
Leon Whitehall
W. J. Lee
Commissioners.