

LEM

Decision No. 24437.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
COMMERCIAL DISPATCH LINES, LTD.,
a corporation, PACIFIC FREIGHT LINE
TERMINALS COMPANY, a corporation, and
PACIFIC FREIGHT LINES COMPANY, a cor-
poration, SELLERS, and MERCHANTS EX-
PRESS & DRAYING COMPANY, a corpora-
tion, BUYER, for an order of the
Railroad Commission of the State of
California (a) authorizing the former
to sell and convey and the latter to
purchase and acquire the properties
and rights referred to in this appli-
cation, and (b) authorizing the latter
to issue its common capital stock in
payment of said properties and rights;
also certain properties and rights
which it proposes to purchase from
Drayage Service Corporation, a cor-
poration.

ORIGINAL

Application No. 17721

BY THE COMMISSION:

FIRST SUPPLEMENTAL OPINION

In the original application, as above entitled, filed on October 13, 1931, the Railroad Commission was asked to make an order authorizing Commercial Dispatch Lines, Ltd., Pacific Freight Line Terminals Company and Pacific Freight Lines Company to sell and transfer properties to Merchants Express and Draying Company in exchange for capital stock of the latter in amounts equal to their net book worths as of August 31, 1931.

On October 26, 1931, the Commission entered its Decision No. 24158 authorizing the transfer of the properties, as requested,

and the issue by Merchants Express and Draying Company of 1,000 shares of stock at \$100. a share in part payment for said properties and for the properties of Drayage Service Corporation, a non-public utility. The decision stated that upon receiving further information the Commission, in a supplemental opinion and/or order, would consider the issue of additional stock.

Since the date of the decision the Commission has been furnished with additional information and has had an examination made of the books and records of some of the selling companies by a representative of its Department of Finance and Accounts. The matter, therefore, is now ready for further consideration and final determination of the amount of stock to be authorized.

Applicants have filed a consolidated balance sheet giving effect to the purchase by Merchants Express and Draying Company of the properties, business and rights of Commercial Dispatch Lines, Ltd., Pacific Freight Line Terminals Company, Pacific Freight Lines Company and Drayage Service Corporation, and to a revision in the reserve for depreciation. This statement shows assets and liabilities as of August 31, 1937, as follows:

| ASSETS | Commercial Dispatch Lines | Pacific Frt Line Terminals Co | Pacific Frt Lines Company | Drayage Service Corp'n | TOTALS |
|--|---------------------------|-------------------------------|---------------------------|------------------------|------------------|
| Plant and equipment..... | \$ 4,424 | \$ 7,180 | \$257,696 | \$437,771 | \$707,071 |
| Cash | - | 35 | 10,092 | 11,581 | 21,708 |
| Accounts receivable..... | 1,425 | 7,858 | 26,348 | 30,322 | 65,953 |
| Accts receivable-affiliated companies..... | - | 75 | 14,571 | 13,475 | 28,121 |
| Accts receiv.inter-comp.: | 4 | 6,510 | 29,272 | 135 | 35,921 |
| Inventories, etc..... | - | - | 10,179 | 1,179 | 11,358 |
| Prepayments..... | 244 | 257 | 5,984 | 6,232 | 12,717 |
| TOTALS..... | \$ 6,097 | \$ 21,915 | \$354,142 | \$500,695 | \$882,849 |
| LIABILITIES | | | | | |
| Notes payable..... | \$ - | \$ - | \$ 7,000 | \$ 25,000 | \$ 32,000 |
| Accruals..... | 103 | 73 | 9,221 | 6,916 | 16,313 |
| Accounts payable..... | - | 258 | 19,071 | 7,543 | 26,872 |
| Accts payable-affil.co's: | 138 | 290 | 65,881 | 19,379 | 85,688 |
| Accts payable-inter-co.: | 5,407 | 11,721 | - | 17,902 | 35,090 |
| Other credit accounts.... | 64 | 656 | 1,080 | 5,050 | 6,850 |
| Reserve for depre'n ...: | 1,082 | 2,449 | 118,549 | 177,071 | 299,151 |
| Net worth..... | 697* | 6,408 | 133,340 | 241,834 | 380,885 |
| TOTALS..... | \$ 6,097 | \$ 21,915 | \$354,142 | \$500,695 | \$882,849 |

*Debit

The purchaser desires to acquire the properties of Commercial Dispatch Lines, Ltd., for the sum of \$100. and those of the remaining selling companies, at the net worth figures set forth in the preceding statement. However, upon examination, it appears to us that we cannot authorize the issue of stock in the full amount of the net worth in each case, and we believe it necessary to make some adjustment in the figures reported in connection with Pacific Freight Lines Company and Drayage Service Corporation.

It will be observed that Pacific Freight Lines Company reports its net worth at \$133,340.00. Analysis shows that in arriving at this figure, plant and equipment accounts are included at \$257,696.00 and reserve for depreciation at \$118,549.00. In this connection it appears that the Commission, in Decision No. 22925, dated September 30, 1930, in authorizing Pacific Freight Lines Company to issue stock to acquire the properties of its predecessor operators, used in determining the amount of stock, the sum of \$256,407.00 for plant and equipment and \$97,426.00 for the reserve. It develops, however, that upon the acquisition of the properties, the company set up its plant and equipment accounts at \$259,873.00, the increase over the Commission's figure being accounted for by the inclusion of \$3,000.00 for goodwill and operative rights acquired from P. F. Johnson & Son in connection with the Oakland and San Rafael Express Company, \$320.00 for what appear to be repair items, and \$146.00 for the cost of building and installing one new top with side and rear curtains on a low bed truck.

Following the inauguration of its operation the company made property additions of \$19,202.00 and retirements of \$21,379.00, arriving at the balance now urged of \$257,696.00. Certain of the charges and other items, we believe, are not proper and should not be used in this proceeding for the purpose of determining the amount of the stock issue. From the \$257,696.00 we think there should be deducted

the following items:

| | | |
|--|-------------|--------------------|
| Goodwill and operative rights, as above | \$3,000.00 | |
| Repairs to trucks and trailers, upon acquisition..... | 320.17 | |
| Repairs capitalized, December, 1930, J.E. 74..... | 1,497.65 | |
| Duplicate charges added to Dolly #10..... | 200.00 | |
| Re-painting signs, December, 1930, J.E. 76..... | 317.24 | |
| Air brake installed on Drayage Service Company truck..... | 78.00 | |
| Office supplies capitalized | 151.61 | |
| Neon sign sold | 1,516.35 | |
| Retirements of property not yet entered on books pending approval from New York office..... | \$29,794.26 | |
| LESS estimated salvage | 948.93 | 28,845.33 |
| TOTAL..... | | <u>\$36,526.25</u> |

The last item represents the amount carried on the books for thirteen units of equipment. Retirement estimates have been prepared or are contemplated for such property and therefore we do not believe that the purchaser in this proceeding should issue stock against them. It appears that depreciation has been accrued on such pieces up to August 31, 1931 in the amount of \$17,753.00.

For the purposes of this proceeding we believe that the \$36,526. should be deducted from the plant and equipment accounts and \$17,753. from the reserve. These adjustments, considering the other asset and liability accounts at their book balances, would reduce the net worth of Pacific Freight Lines Company, as of August 31, 1931 to \$114,567., compared with the reported figure of \$133,340.

As to the Drayage Service Corporation, the examination of its records indicates that there have been included in its capital accounts certain items for repair and replacement costs which appear to us as chargeable to operating expenses and other sums which do not seem proper for use as a base in arriving at the amount of stock to be authorized. These items are as follows:

| | | |
|---|-------------|--------------------|
| Replacement and repair costs heretofore charged to capital accounts: | | |
| Trucks and tractors..... | \$ 3,489.19 | |
| Trailers | 1,091.17 | |
| Passenger auto | 131.99 | \$4,712.35 |
| Organization expenses..... | | 5,736.57 |
| Retirement estimates and contemplated retirements carried in capital accounts at | 26,902.95 | |
| Less salvage | 600.00 | 26,302.95 |
| Sub-total..... | | <u>36,751.87</u> |
| Decrease in depreciation reserve because of above retirement | | 22,154.07 |
| BALANCE- decrease in net worth..... | | <u>\$14,597.80</u> |

The organization expenses of \$5,736.57 in the main, represent amounts expended for legal and engineering services several years ago in connection with a merger proposed at that time which was not, however, completed.

It clearly appears to us that the reported net worth of Drayage Service Corporation, \$241,834.00, for the purpose of this proceeding, should be reduced by the sum of \$14,598.00 to a figure of \$227,236.

Summarizing, we will authorize the issue of stock against amounts as follows:

| | | |
|---|----|-----------------|
| Commercial Dispatch Lines, Ltd | \$ | 1. |
| Pacific Freight Line Terminals Company..... | | 6,408. |
| Pacific Freight Lines Company..... | | 114,567. |
| Drayage Service Corporation..... | | 227,236. |
| Total..... | | <u>348,212.</u> |

By the original decision the Commission authorized Merchants Express and Draying Company to issue 1,000 shares of its common stock at \$100. a share in part payment for the properties of the four companies. The order herein, therefore, will permit the issue of an additional 2,482 shares of common stock, without nominal or par value, at \$100. a share.

FIRST SUPPLEMENTAL ORDER

The Commission having given further consideration to the request of Merchants Express and Draying Company to issue stock in payment for the properties of Commercial Dispatch Lines, Ltd., Pacific Freight Line Terminals Company, Pacific Freight Lines Company and Drayage Service Corporation, and being of the opinion that the issue of an additional 2482 shares of common stock at \$100. a share, is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED, that Merchants Express and Draying Company be, and it hereby is, authorized to issue 2,482 shares of its common stock at \$100. a share, in addition to the 1,000 shares authorized by Decision No. 24158, dated October 26, 1931, to pay in part for the business, properties and rights of Commercial Dispatch Lines Ltd., Pacific Freight Line Terminals Company, Pacific Freight Lines Company and Drayage Service Corporation.

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

1. Merchants Express and Draying Company in recording on its plant and equipment accounts the purchase of the properties referred to herein, may charge thereto not exceeding \$4,423.70 for the plant and equipment of Commercial Dispatch Lines, Ltd.; not exceeding \$7,180.47 for that of Pacific Freight Line Terminals Company; not exceeding \$221,169.74 for that of Pacific Freight Lines Company; and not exceeding \$401,019.12 for that of Drayage Service Corporation, all as of August 31, 1931, plus, of course, net additions and betterments made subsequent to that date.
2. The authority herein granted is not to be construed as a finding of value of said properties for the purpose of fixing rates.
3. Merchants Express and Draying Company shall keep such record of the issue of the stock herein authorized to be issued 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.

4. Merchants Express and Draying Company shall file with the Commission a copy of each and every journal entry used to record on its books the acquisition of the properties of the selling companies and the distribution to primary accounts.
5. The authority herein granted will become effective twenty (20) days after the date hereof. Under such authority no stock may be issued later than April 30, 1932.

DATED at San Francisco, California, this 14 day of February, 1932.

C. S. Seaver
Leon White
M. J. Linn
M. B. Lauer
Fred G. Stewart
Commissioners.