

Decision No. 37794

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the
LOS ANGELES TRANSIT LINES

For an order or orders authorizing the
issuance of securities and the mortgage
or other encumbrance of properties.

ORIGINAL

Application
No. 26624

GIBSON, DUNN and CRUTCHER, by S. M. Haskins,
Homer D. Crotty, and Max Eddy Utt, for applicant.

GILMORE TILLMAN, Assistant City Attorney,

WIXON STEVENS, Deputy City Attorney,
K. CHARLES BEAN, Chief Engineer and General
Manager of the Board of Public Utilities and
Transportation, and STANLEY LANHAM, Assistant
Chief Engineer for said Board for the City of
Los Angeles, interested party.

ROWELL, Commissioner:

O P I N I O N

Los Angeles Transit Lines, formerly known as Los
Angeles Railway Corporation, asks the Commission to enter an
order authorizing applicant:

(a) to issue 1,095,440 shares of new common stock of
the par value of \$10 per share in exchange for the shares of its
outstanding preferred and common stock;

(b) to issue and sell at not less than 101-3/4% of the
principal amount plus accrued interest \$5,350,000 of first
mortgage 3-7/8% serial bonds;

(c) to issue unsecured installment notes in the principal amount of \$3,150,000 and sell said notes at an aggregate price of \$3,218,229 plus accrued interest; and

(d) to execute a trust indenture to secure the payment of the first mortgage serial bonds and a loan agreement under the terms of which it will issue the installment notes.

Applicant's balance sheet as of February 28, 1945, including its rail and coach divisions and its share of Los Angeles Motor Coach Lines, shows assets and liabilities as follows:

ASSETS

<u>ROAD and EQUIPMENT</u>		\$49,499,468.63
Land	\$ 6,167,783.42	
Buildings, shop equipment, etc.	4,001,339.77	
Trackage and electrical system	19,848,473.95	
Street cars	11,659,722.85	
Coaches, automobiles and trucks	5,499,918.89	
Other items	<u>2,322,229.75</u>	
<u>MARKETABLE SECURITIES</u>		51,207.20
<u>CURRENT ASSETS</u>		6,078,557.67
Cash	2,256,855.98	
U.S. Treasury notes	2,875,000.00	
Accounts receivable	145,855.10	
Material and supplies	733,122.84	
Other current assets	<u>67,723.75</u>	
<u>OTHER ITEMS</u>		261,068.32
Prepaid taxes and insurance	215,739.45	
Miscellaneous items	<u>45,328.87</u>	
Total assets		<u>\$55,890,301.82</u>

LIABILITIES

<u>CAPITAL STOCK</u>		\$10,954,400.00
Preferred - \$100 par value	\$ 8,954,400.00	
Common - 200,000 shares no par value	<u>2,000,000.00</u>	
<u>FUNDED DEBT</u>		9,087,106.68
<u>CURRENT LIABILITIES</u>		4,434,369.09
Accounts and wages payable	759,323.03	
Accrued interest	126,544.97	
Accrued taxes	<u>3,548,501.09</u>	
<u>ACCRUED DEPRECIATION</u>		25,975,041.34
Buildings, shop equipment, etc.	1,917,973.31	
Trackage and electrical system	12,730,550.35	
Street cars	7,755,476.48	
Coaches, automobiles and trucks	<u>3,571,041.20</u>	
<u>UNREDEEMED FARE TOKENS</u>		94,185.63
<u>SURPLUS</u>		<u>5,345,199.08</u>
	Total liabilities	\$55,890,301.82

Applicant has outstanding 200,000 shares of no par value common stock to which it assigns a stated value of \$2,000,000. It also has outstanding 89,544 shares (par value \$100 per share) of noncumulative 5% preferred stock with the aggregate par value of \$8,954,400. As of January 10, 1945, all of the common stock and 87,991.1112 shares of the 5% noncumulative preferred stock were owned by American City Lines, Inc. It acquired the stock from the estate of H. E. Huntington, et al. It paid for the preferred stock \$50 and for the common stock \$5 per share.

Applicant proposes to amend its Articles of Incorporation to reclassify its preferred and common stock into one class of stock, designated as common stock of the par value of \$10 per share. By such amendment and reclassification each outstanding share of 5% noncumulative preferred stock would be changed into ten shares of new common stock, and each outstanding share of

common stock would be changed into one share of new common stock. As the result of the reclassification, applicant will have outstanding 1,095,440 shares of common stock of the aggregate par value of \$10,954,400. This par value is the same as the sum of the par value of applicant's presently outstanding preferred stock and the stated value of its common stock. No one appeared at the hearing to protest the reclassification of applicant's outstanding stock.

Applicant has paid no dividends on any of its stock since 1913.

Exhibit 12 shows funded debt in the amount of \$9,577,106.68, segregated as follows:

1. General Mortgage 5% Bonds due December 1, 1971	\$7,500,000.00
2. Conditional Sales Contracts:	
(a) Street Cars (30) - Bank of America National Trust and Savings Association	247,196.68
(b) Coaches (205) - The Pennsylvania Company for Insurance on Lives and Granting Annuities	1,295,000.00
(c) Coaches (11) - Bank of America National Trust and Savings Association	30,870.00
(d) Coaches (5) - Union National Bank of Pasadena	14,040.00
(e) Coaches (37) - Bank of America National Trust and Savings Association	<u>490,000.00</u>
Total	\$9,577,106.68

Applicant intends to pay presently all of said indebtedness of \$9,577,106.68. The general mortgage bonds are callable

on thirty-five days' notice, on June 1 or December 1 of any year, at 102% of their face amount and accrued interest. The \$247,196.68 due Bank of America National Trust and Savings Association is payable at par plus a premium of one-half of one percent while the \$1,295,000 indebtedness payable to The Pennsylvania Company for Insurance on Lives and Granting Annuities is payable at par plus a premium of one-fourth of one percent. The other indebtedness is payable at par. The payment of said indebtedness of \$9,577,106.68 calls for a total expenditure of \$9,731,580.16. Applicant intends to obtain this money from the following sources:

(a) From sale of \$5,350,000 of 3-7/8% serial bonds	\$5,443,625.00
(b) From sale of \$3,150,000 of unse- cured 3% installment notes	3,218,229.00
(c) Withdrawal of cash from company funds	<u>1,069,726.16</u>
	\$9,731,580.16

The installment notes will be sold to the following banks:

<u>Banks</u>	<u>Face Amount of Note</u>	<u>Payments to Company</u>
Bank of America National Trust & Savings Ass'n.	\$2,150,000	\$2,196,569
Security First National Bank of Los Angeles	750,000	766,245
Citizens National Trust & Savings Ass'n.	<u>250,000</u>	<u>255,415</u>
	\$3,150,000	\$3,218,229

The notes will be sold at premiums which result in an effective interest rate ranging from 1½% to 2½%. The notes mature in annual installments of \$630,000. A copy of the loan agreement under which the notes will be issued has been filed in this

application as Exhibit 6.

The payment of the \$5,350,000 of bonds will be secured by a trust indenture creating an encumbrance and first lien on applicant's property. A copy of applicant's proposed trust indenture has been filed in this application as Exhibit 4. The \$5,350,000 of serial first mortgage bonds mature during the period from September 1, 1950, to March 1, 1958. Bonds in the amount of \$315,000 mature beginning September 1, 1950, and continuing through March 1, 1955. Beginning September 1, 1955, and ending September 1, 1957, the semi-annual maturity is \$365,000. \$375,000 of the bonds are payable on March 1, 1958. The bonds are redeemable at the option of the company on sixty days' notice at the following prices:

<u>Period</u>	<u>Percentage of Principal Amount</u>
March 2, 1945, to February 28, 1950, inc.	101½
March 1, 1950, to February 28, 1955, inc.	101
March 1, 1955, to February 28, 1958, inc.	100½

plus in each case, an additional percentage of principal equal to one-fourth of one percent for each twelve-month period or portion thereof between the date fixed for redemption and the interest payment date next preceding the express maturity of the series being redeemed.

Applicant has entered into agreements to sell the \$5,350,000 of serial first mortgage bonds at 101-3/4% of their face value and accrued interest to the following:

The Mutual Life Insurance Company of New York	\$2,000,000
New England Mutual Life Insurance Company	500,000
Occidental Life Insurance Company of California	500,000
Modern Woodmen of America	500,000
The Northwestern National Bank	500,000
The Lincoln National Life Insurance Company	500,000
The Franklin Life Insurance Company	300,000
Investors' Syndicate	250,000
State Farm Mutual Automobile Insurance Company	200,000
State Farm Life Insurance Company	<u>100,000</u>
Total	\$5,350,000

The bonds will be sold by applicant at an effective interest rate of about 3.65%.

Applicant's comptroller testified that the semi-annual payments of notes and bonds and the provisions of the proposed trust indenture and loan agreement will not prevent applicant from modernizing and improving its transportation service. The Order herein will authorize applicant to execute said trust indenture and said loan agreement with the understanding that the authority so granted will not be urged as foreclosing the Commission from directing applicant, after proper hearing, to improve its transportation service.

I herewith submit the following form of Order.

O R D E R

The Commission having been asked to enter its Order authorizing applicant to issue stock, bonds and notes and execute a trust indenture and a loan agreement to which reference is made in the foregoing opinion, and the Commission being of the opinion that the money, property or labor that will be procured by applicant through the issue of said stock, bonds and notes is reasonably required by applicant for the purposes herein stated, and that the expenditures for said purposes, other than the payment of accrued interest, are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions in this Order, therefore,

IT IS HEREBY ORDERED as follows:

1. Los Angeles Transit Lines may, after the effective date hereof and on or before August 1, 1945, reclassify its preferred and common stock and issue 10 shares of new common stock of the par value of \$10 per share for each share of 5% non-cumulative preferred stock of the par value of \$100 now outstanding, and issue one share of new common stock of the par value of \$10 in exchange for each share of common stock of no par value now outstanding.
2. Los Angeles Transit Lines may, after the effective date hereof and on or before August 1, 1945, issue and sell at not less than 101-3/4% of the principal amount thereof plus accrued interest \$5,350,000 of first mortgage 3-7/8% serial bonds.
3. Los Angeles Transit Lines may, after the effective date hereof and on or before August 1, 1945, issue and sell for

the aggregate amount of \$3,218,229 plus accrued interest, \$3,150,000 of 3% unsecured installment notes.

4. The proceeds realized through the issue and sale of said bonds and said notes, other than accrued interest, shall be used by Los Angeles Transit Lines to pay in part the funded indebtedness to which reference is made in the foregoing opinion. The accrued interest may be used by Los Angeles Transit Lines for general corporate purposes.

5. Los Angeles Transit Lines may, after the effective date hereof and on or before August 1, 1945, execute a trust indenture substantially in the same form as the trust indenture filed in this application as Exhibit 4, and may execute a loan agreement in substantially the same form as the loan agreement filed in this application as Exhibit 6.

6. The authority herein granted will become effective when Los Angeles Transit Lines has paid the fee prescribed by Section 57 of the Public Utilities Act.

7. Within thirty (30) days after the issue of said bonds and notes, Los Angeles Transit Lines shall file with the Railroad Commission a certified copy of its amended Articles of Incorporation, two certified copies of its trust indenture securing the payment of said bonds, and two certified copies of the loan agreement under which said notes are issued.

8. Los Angeles Transit Lines shall file with the Railroad Commission reports required by the Commission's General Order 24-A, which Order in so far as applicable is made a part of this Order.

9. Within six (6) months after the issue of said stock, bonds and notes, Los Angeles Transit Lines shall file with the

Railroad Commission a statement showing in detail the expenses incurred in connection with the issue and sale of said stock, bonds and notes and the accounts to which said expenses were charged.

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

Dated at San Francisco, California, this 17th day of April, 1945.

Harold Anderson
Justice J. Creech
Richard K. Chase
Henry A. Dean
Irving S. Paul
 Commissioners

