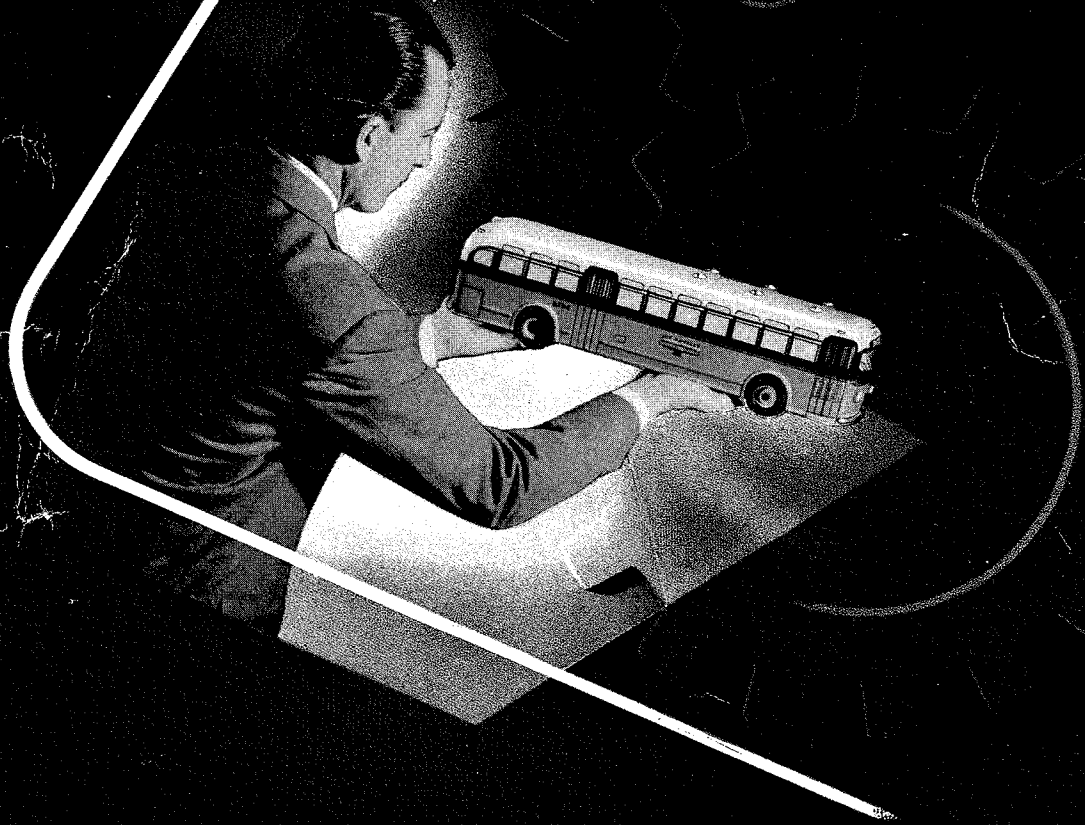


1946 Annual Report

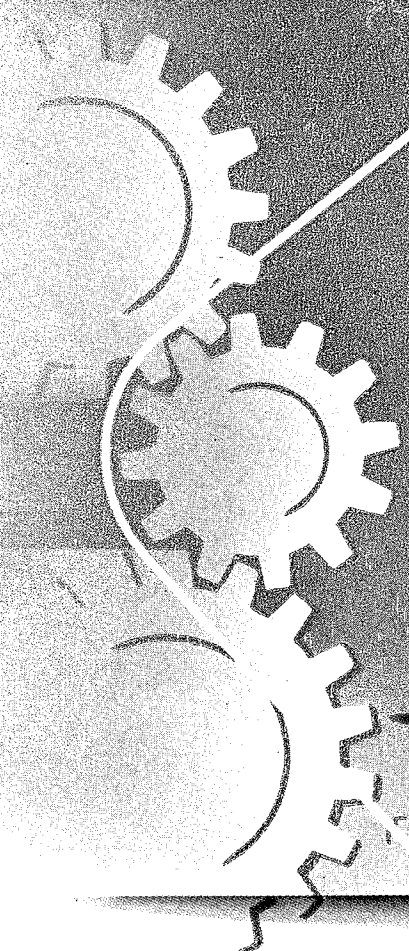
LOS ANGELES

TRANSIT LINES

SAFETY
COURTESY
SERVICE



GEARED TO GROW WITH *Los Angeles*



Geared to Grow...



THE Los Angeles Transit Lines occupies a unique position in the realm of public service. It serves a metropolitan area of 400 square miles with a population of 1,853,053. The City Planning Commission estimates that this figure will reach 2,315,000 in 1957. Obviously, the Company's operations must be dominated by policies capable of meeting today's service requirements while simultaneously preparing for the City's constantly expanding transit demands. "Geared to Grow" provided the back drop for Company activities during 1946, and the foundation was laid for a long range program of public service designed to meet the new horizons as they come into view.

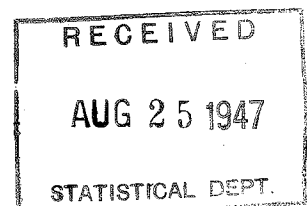
1946

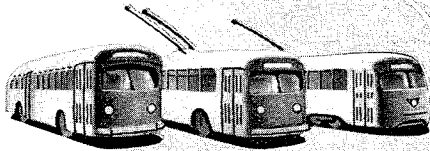
Inaugurated the Second Phase of the Master Plan

THE past twelve months witnessed the conversion of Company operations to peacetime normalcy. War-born mechanical and organizational problems were for the most part eliminated. This puts your Company in an excellent position to embark upon a program of revenue building through more scientific distribution of its facilities and equipment. Considerable headway was made in this respect. By more precise gearing of the system to the area's expanding transit needs, it is expected that a higher degree of transportation service will result as well as a marked improvement in operational efficiency. Readers of this Annual Report will find these first steps in preparation for a "Master Plan for Rapid Transit" of more than casual significance.



President, Los Angeles Transit Lines





"Coming events cast their shadows before"

BY every economic yardstick . . . Los Angeles has a right to have faith in its future. And what better passport to progress and prosperity can a city have than the actions of business leaders who are ready to back their judgment with new millions of invested capital?



- *Stalder Hotel*—New hotel to be completed in 1948. Estimated cost \$18,000,000.



- *United-Rexall Drug Co.*—National headquarters building under construction. Estimated cost \$8,000,000.



- *Bullock's Department Store*—Plans call for investment of \$10,000,000 in new stores in metropolitan Los Angeles area.



- *General Petroleum Corp.*—Will build office building on Flower Street between Sixth and Wilshire. Estimated cost \$5,000,000.



- *L. A. Municipal Airport*—When completed, this project will represent a total investment of \$40,000,000.



- *General Motors Corp.*—Ground has been broken for Chevrolet production plant at Burbank—\$8,000,000.



- *Kaiser Community Homes*—Housing projects in process of construction will represent investment of \$50,000,000 in Los Angeles County.



- *Lincoln-Mercury Division* of Ford Motors will build assembly plant valued at \$4,500,000.



- *General Mills Corporation*—New Vernon mill to be built at estimated cost of \$5,500,000.



- *Nash-Kelvinator Corporation* is planning new plant for construction of automobiles and electric refrigerators at cost of \$2,000,000.



- *May Company Department Stores*—New units to be added in Los Angeles area will be valued at \$10,000,000.



- *Los Angeles garment industry* is planning construction of new plants totaling an investment of over \$5,000,000.



RAPID TRANSIT is essential to growth

As Chairman of the Traffic and Transit Committee of the Los Angeles Chamber of Commerce, it is a privilege to commend the Los Angeles Transit Lines for the positive action it has taken in helping to solve the city's transit problems.

I head a large organization whose business is dependent upon adequate transit facilities. We, like others, recognize the commercial and population growth of this city and the need for a long range plan of rapid transit.

Neil Petree

President, Barker Bros. Corp.

There's nothing static about Los Angeles Transit



MORE JOBS—MORE RIDERS

Between 1940 and 1946, the number of "white collar" worker employes within the city increased by over 130,000. This growth required a better coordinated transit service.



TRAFFIC CONGESTION

1946 witnessed the proposal of many drastic measures by city, business and civic groups to relieve automobile congestion in downtown areas. These changes will affect transit operations.



INDUSTRIAL EXPANSION

Within the past three years, 1,021 new industrial enterprises have been established within the city. Location of these plants calls for new lines, new routings and new schedules.



NEW SCHOOLS

Lifting of building restrictions will provide the impetus for an expansive new building program by the city's school system. Carrying pupils is one of the many services we provide.



NEW COMMUNITIES

Like other large and growing cities, Los Angeles has been suffering from an acute housing shortage. Scattered acreage, which was formerly barley fields, is now the site of dozens of new communities which will require transit service.



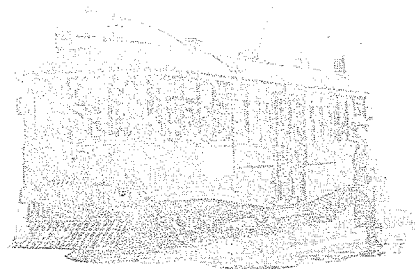
FREEWAY SYSTEM

High speed, express highways from contiguous communities to downtown Los Angeles are rapidly changing from the planning stage to actual construction. Los Angeles Transit is taking this development into consideration.

"11" LINE TEST is forerunner of system-wide processing plan

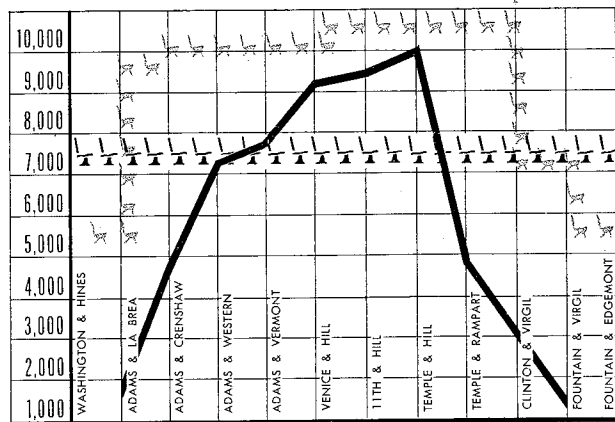


• An "11" Line coach pulls away from 6th and Hill Sts. This modern equipment replaces former "Sow Belly" streetcars shown at upper right.



ON June 30, 1946, the first processing of a major transit line went into effect. For many years, the "11" line, formerly the "A" line, had been served by "Sow Belly", center entrance streetcars. Traffic studies indicated that better passenger service and higher revenues would accrue if streetcars were replaced by fast, flexible motor coaches. Particularly uneconomic was the operation of a streetcar to its terminal after most of its load had been delivered. The replacement of streetcars with motor coaches resulted in an increase in the number of passengers handled and reduced travel time. In addition, coaches can be turned back when passenger load diminishes. The research formula applied in this "test" case is being extended throughout the system.

• A graphic illustration of how scientific allocation of equipment to a given line can affect revenues is shown below. In addition to building passenger load, motor coaches provided curb service for patrons in outlying districts. This change also resulted in faster transportation by the elimination of five turning points in congested intersections, which formerly retarded rail transit.



• Above graph shows flexibility of coaches over street cars. Blue seats indicate coach seats. By turning back motor coaches at any point, available seats can be made to parallel passenger loads even during peak periods. Black seats represent car seats which cannot be increased or decreased since street cars cannot be turned back between terminals except at fixed switchback points.

April '46

Average revenue passengers per day—

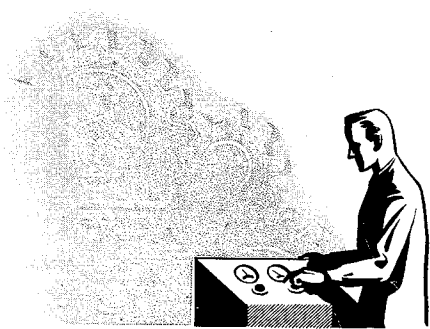


38,800



October '46

43,310

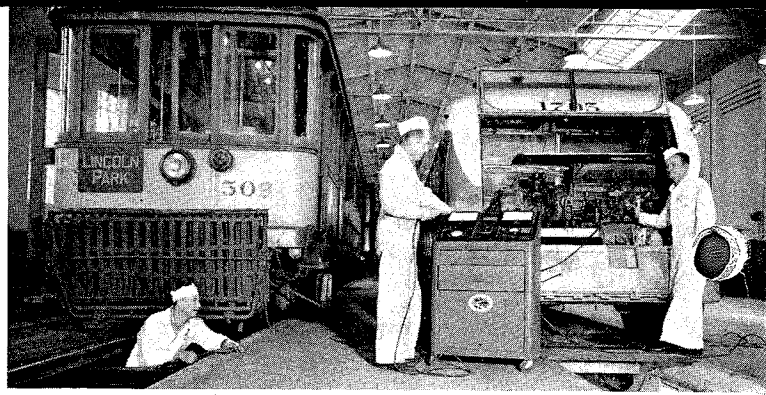


RESEARCH generated many new operating economies

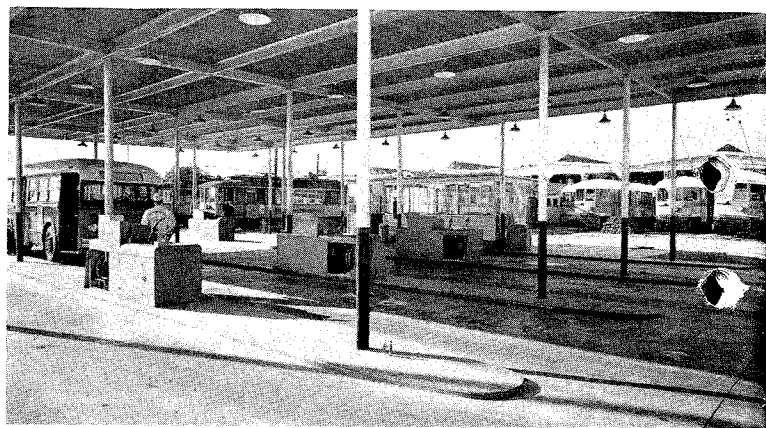
ONE of the noteworthy accomplishments during 1946 was the intensification of the Company's research projects. This included pin-point studies of every phase of operations as well as the indoctrination of officials in the application of research to management problems.

An operating committee consisting of key executives integrates the many studies which are constantly conducted throughout the property.

As a result of this activity, many economies were affected which had a direct bearing on the Company's 1946 operations. An example of research in action was the establishment of two combination car houses and garages at Divisions Three and Five (see maps) which resulted in a tremendous reduction of "deadhead" miles required by



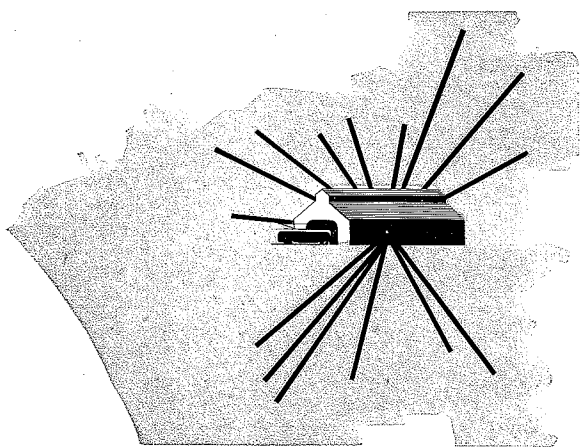
• Division Three plays an important part in cutting non-productive miles.



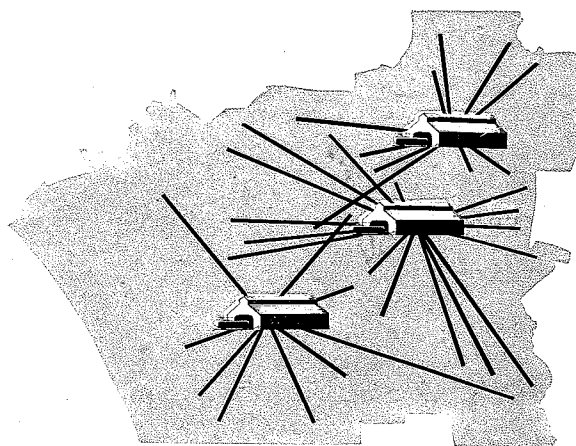
• Division Five completed the strategic placement of coach garages.

a bus to go from its home base to the start of its assigned line.

To illustrate the savings involved, before Division Five was converted, the Van Ness Motor Coach line alone deadheaded 6.2 miles per day since 1930. During those sixteen years, the line totaled 72,416 non-productive miles.



• BEFORE: Each of the black lines indicates the "deadhead" distance a coach had to travel BEFORE it started its run.



• AFTER: Addition of two new coach divisions cut non-productive mileage distances materially.



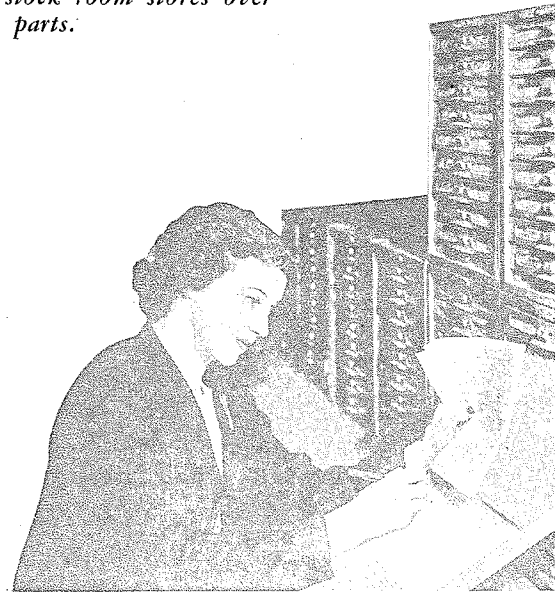
• This stock room stores over 21,000 parts.

PERPETUAL INVENTORY SYSTEM

THE operation of a metropolitan transit system involves not only the maintenance of a great variety of vehicles but the procurement and use of thousands of items. These range from delicate test instruments to giant cranes, and from motors to tiny screws. Moreover, the nature of the transit business is such that these thousands of parts must be instantly available at all times.

In addition, serious financial losses can occur if stocks become obsolete and occupy valuable storage space. During 1946, a system of perpetual inventory was inaugurated. Under this system, the Company knows, at any moment, what materials are on hand, in what quantities, and their market value. The system further provides that as any essential unit is withdrawn from stock, a replacement part is automatically ordered. Thousands of dollars and man hours are saved by this new method of stock room control.

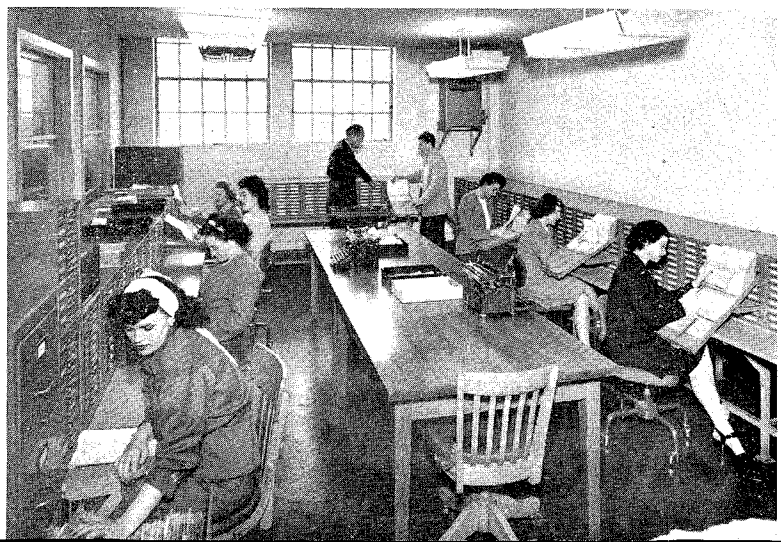
A newly installed Cardex System is used to maintain accurate records for the perpetual inventory operation.



• Cardex operator uses withdrawal card to order replacement parts. Below: Inventory records are protected in fire proof steel cabinets.

CLERICAL WORK EXPEDITED

EVERY clerical division was analyzed during 1946. New methods were introduced to expedite work and eliminate duplications. An example of this expediting was evidenced in the transportation department where 75% of statistical reports were found unnecessary. Today, the work of preparing mileage records is performed by two persons instead of a former large staff. Moreover, these records are completed by noon of the following day, and a report of daily operations is placed on the President's desk three hours later.



• *First and Spring Streets intersection shows two "P" line cars of equal speed and pickup. Freedom of movement is possible with the same type cars on the same line.*

• *When both fast and slow vehicles are on the same track schedules are disrupted.*



Reassignment of Vehicles

STARTING in March, 1946, a program of reassigning vehicles was put into operation. The objectives were to speed up schedules and cut "deadhead" or non-productive miles. Certain lines required fast starting streamliners, while on others, older equipment was adequate.

Traffic studies further recommended the use of Trackless Trolleys on certain narrow streets in the congested downtown area. A division, located in the area where this equipment will operate, is being rearranged to accommodate these new type vehicles.

The program of redistribution of equipment will ultimately affect practically all lines. An example of the results of this operation is the saving of over 50,000 annual deadhead miles by housing vehicles within the area they serve in direct proportion to passenger loads.

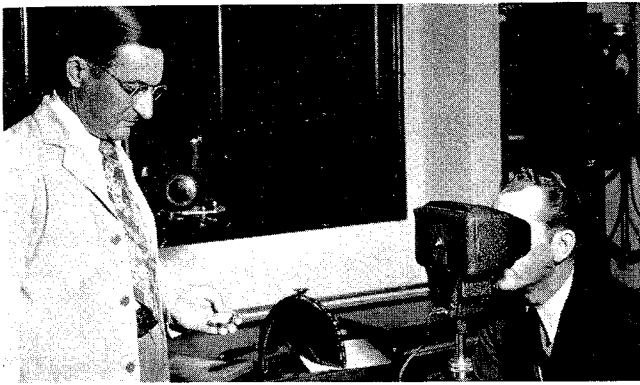
One example is the "5" Line which formerly divided its cars between Division Five in the Southwest and Division Three in the Northeast parts of the city. This particular line measures over 21 miles between terminals. Studies showed that peak traffic loads were much greater in the Southwest area than the other. By a redistribution of vehicles according to passenger demands, deadhead mileage was not only greatly reduced but the riding public received better and faster service.

ELECTRIC LOG RECORDER

THE Dispatcher's office is the nerve center of transit operations. It is to this vital point that field reports of service interruptions are channeled, both by telephone and radio from roving supervisors. Keeping a record of these incoming calls and outgoing instructions had been a time consuming procedure, since the Dispatcher's log had to be written in longhand. The radio controlled instrument now records these two-way conversations on a plastic disc, thereby saving innumerable hours of writing as well as making a permanent record, complete in all details.

• *Two-way radio conversation being automatically recorded on plastic disc.*

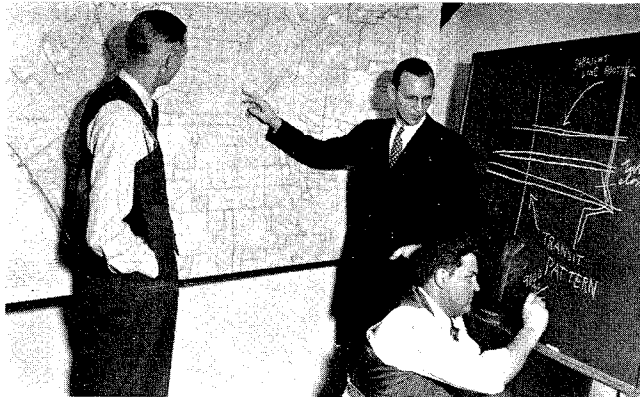
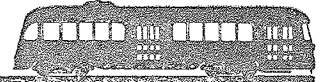




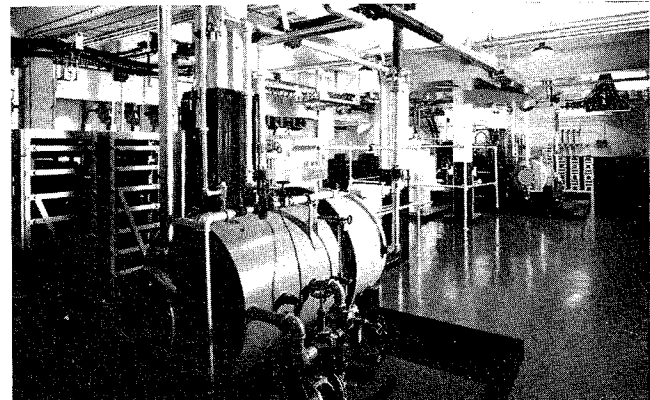
◦ Job applicant being tested for glare and night blindness, part of a scientific program to select operators.



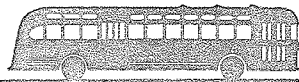
◦ Shop foreman saves time by using new inter-office equipment to discuss work assignments with mechanical crew.



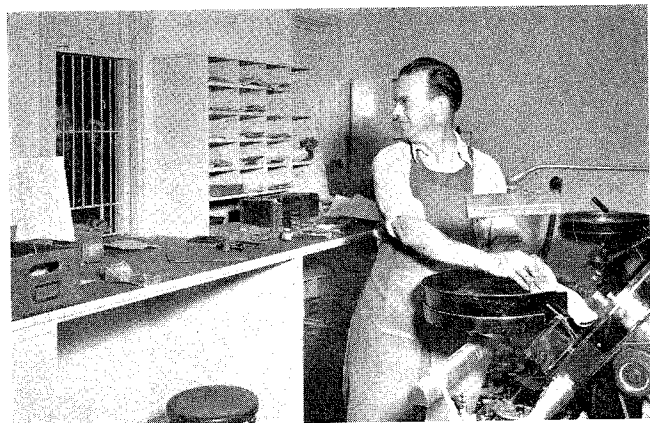
◦ Team work in departments. Company encourages all department employees to study problems and recommend solutions.



◦ Valuable sub-station equipment and instruments protected against corrosion by scientifically compounded paints.



◦ Two-way radio equipped supervisor's car, one of many additional mobile emergency units used to expedite service delays.



◦ A sack of coins is being deposited in new automatic counting machine. This equipment simplifies turn-in procedure.

PREVENTIVE MAINTENANCE

shifted into high gear in 1946

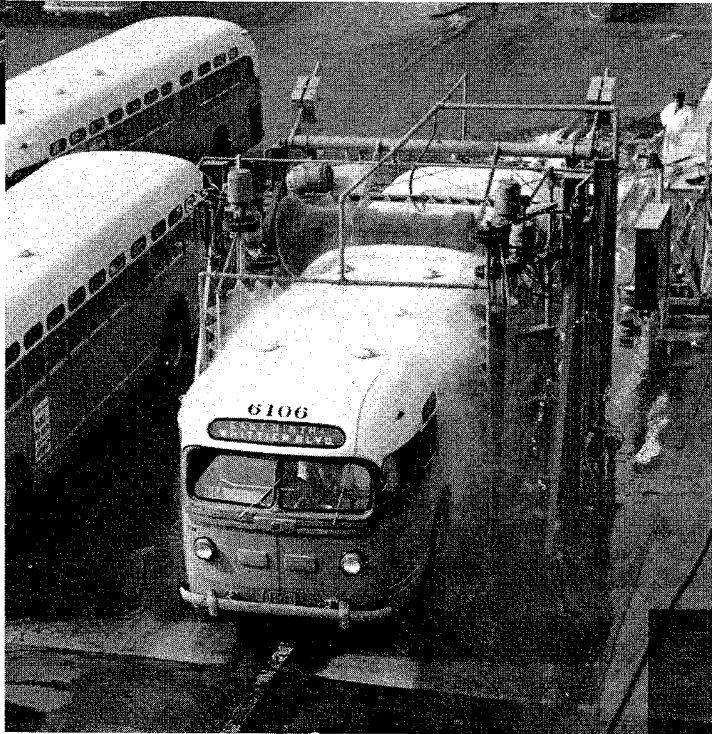
IN 1945, the Los Angeles Transit Lines applied the principles of "Preventive Maintenance" and "Assembly Line Methods". Each operating procedure is designed to reduce maintenance costs and expedite repair and shop routines. Facilities and methods were provided and prescribed.

Beginning early in 1946, these two operating principles were projected to include all phases of the Company's mechanical divisions.

Further evidence of the value of preventive maintenance is the fact that the streetcar mileage between regular shop inspections was *increased* from 25% to 75%, depending upon types of vehicles.

Additional important economies were effected by dispersing mobile emergency units to operate out of division points instead of a centrally located base. This *reduced* by 50% the average time formerly required for the emergency truck to reach the scene of delay.

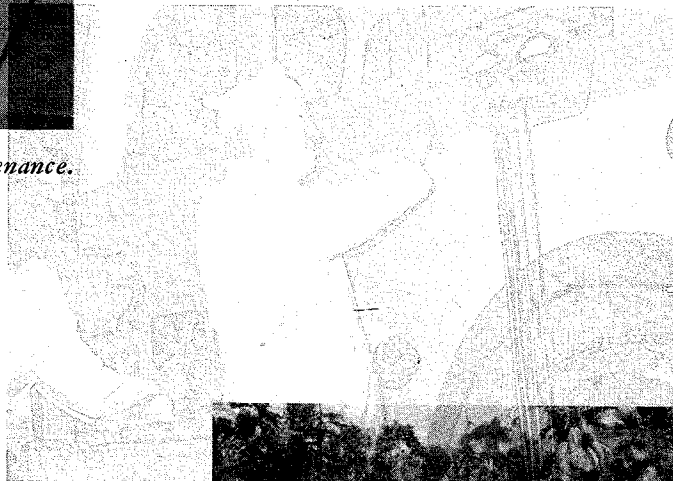
Another innovation was the introduction of a roving mechanic to make minor adjustments not requiring the service of a shop mechanic and a substitute coach in order to get a stalled vehicle back into service.



• Cleanliness is an essential part of Preventive Maintenance.

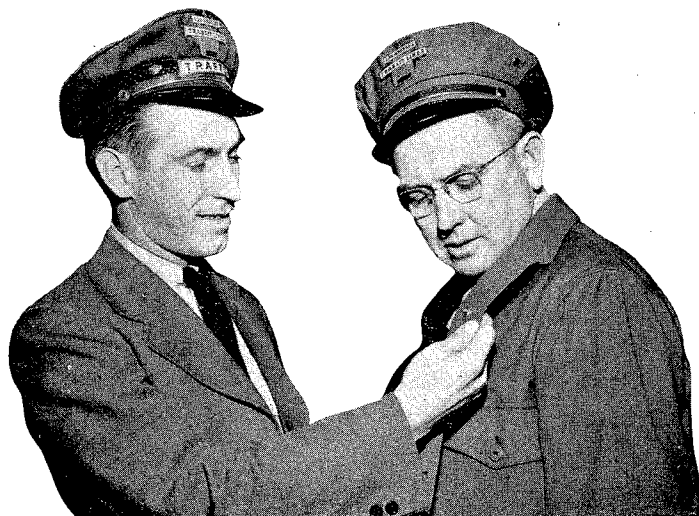
• Frequent testing of R.P.M. ratings, oil pressures, motor temperatures, and exhaust vapors foretell future failures.

• Roving repair specialist performs dual function. He makes emergency coach repairs at point of failure, and teaches operators to make similar adjustments in case of future breakdowns.



SAFETY EDUCATION

in the public and employe interest



◦ Operator receives highly prized award pin for two year safety record.

THE Los Angeles Transit Lines assumed a position of leadership in the city's campaigns for accident prevention. A three pronged attack against accidents was sustained during 1946.

Spearheading the Company's safety program was a constant stream of educational material directed to the public at large in the form of news stories, radio broadcasts, outside car posters, inside car cards and articles in "take one" folders. Much of this material was prepared in cooperation with the Greater Los Angeles Safety Council and emphasized caution while boarding or leaving transit vehicles.

In addition, every Company operator attended safety school four times during the year. These classes were conducted by a staff of five safety instructors and represented nearly 25,000 classroom hours.

Safety education was also maintained among shop employes through a shop Safety Committee which makes monthly inspections of the Company's shop and mechanical properties. It is the function of this group to locate potential accident hazards and provide for their elimination.



◦ Safety Chief C. A. Tengblad and radio-screen star Parkyakarkus talk over publicity for local safety drive.

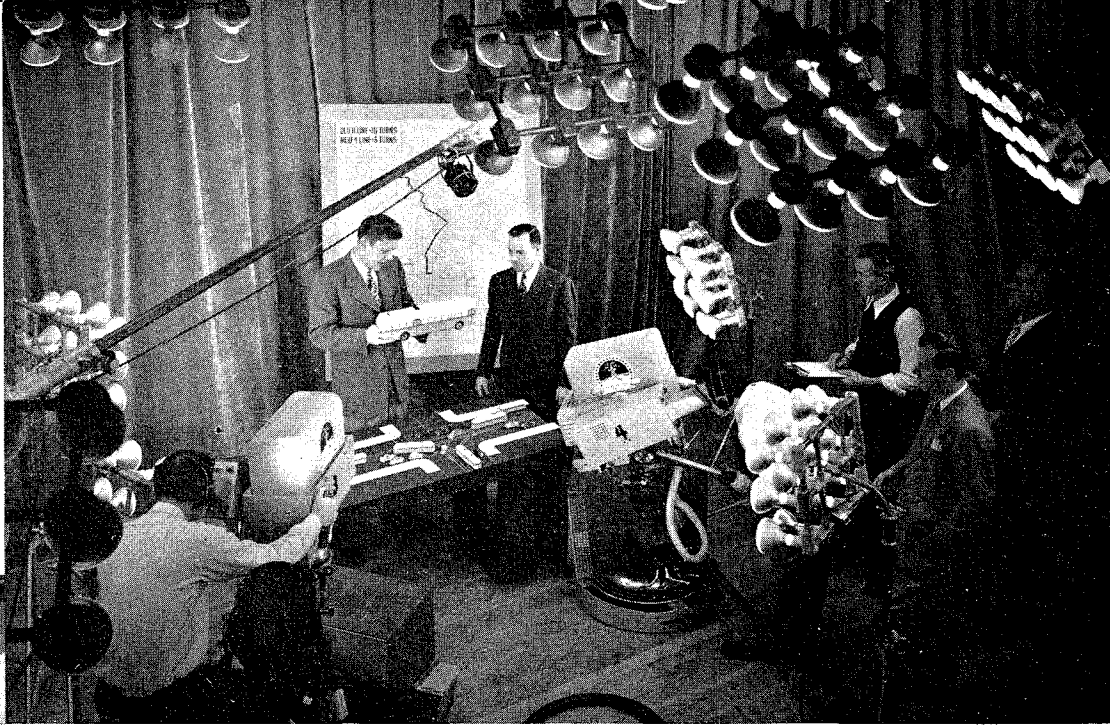


◦ Motor coach and radio starlet Ann Whitfield show public what NOT to do in traffic.



◦ Trainee group attends first class in series of safety education lectures.

PUBLIC REL



• Los Angeles Transit Lines plays star role during half hour television broadcast over Paramount Studio's Station KTLA.

COMPANY inspired news stories reached an all-time high in 1946, with a total of 6,919 inches of favorable editorial mention in newspapers and magazines.

Advertising activities embraced all principal media. Copy themes consisted of straightforward messages relating to current safety campaigns and company activities. A good proportion of 1946 promotional efforts was designed to build passenger load during off-peak hours. The Company also cooperated with the American Transit Association by acting as a local sponsor for "Spotlight on America," its coast-to-coast radio program.

Realizing that the best form of public relations is generated by the way employes conduct themselves in their contacts with the public, a concentrated effort was made to impress all operators with the significance of the Company slogan: "Safety, Courtesy, Service." This was done primarily through the Company's house magazine, "Two Bells."

A decrease of 28% in rider complaints during 1946, compared with 1945, reflects the activities of the Public Relations Department.



• Above: "Two Bells" is issued monthly to all employes.

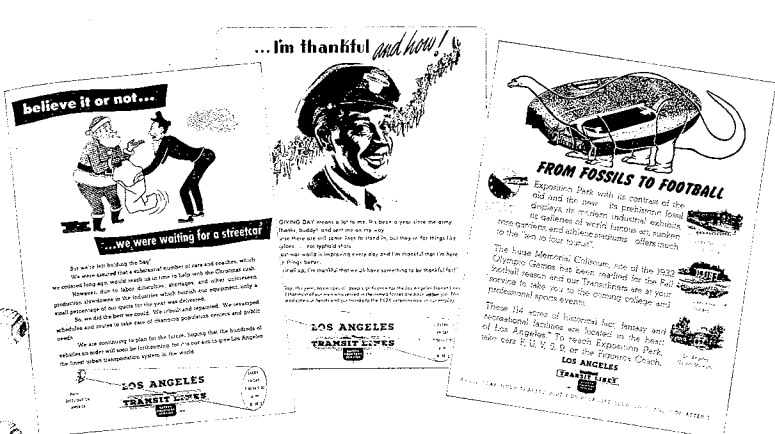


• Above: 110,000 copies of Weekly Topics are distributed on vehicles to inform patrons on transit affairs.

• Below: Specially painted coaches promote civic activities.



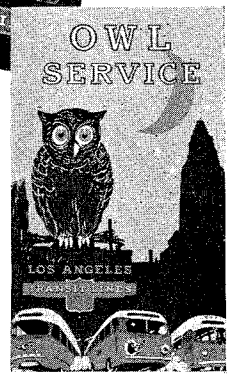
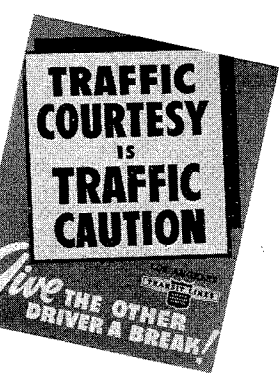
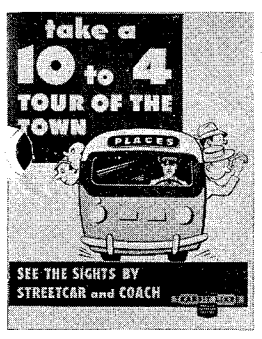
ATIONS to build public confidence



• Above: Typical newspaper advertisements.



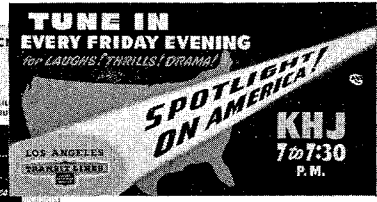
• Below: Outside dash cards carry Company messages.



• Above: Official route map of Los Angeles Transit Lines shows all lines superimposed on city map. Owl Schedules are for benefit of midnight to dawn riders.



• Above: Samples of car cards used to publicize Company and build revenue.



GOOD EMPLOYEE RELATIONS pays dividends



THE transit business is a highly specialized and technical operation. Based on the accepted axiom that a happy employe is a good employe, the Company encourages employes in their civic, social and economic development.

The Company provides an attractive Sickness and Accident Benefit Plan. Group social and civic activities are promoted through such organizations as an American Legion Post, Women's Club, Veterans Club and a Retired Employes Club. The Company sponsors one of the largest bowling leagues in the nation, composed of 38 teams. Good fellowship is further encouraged by numerous departmental social affairs.

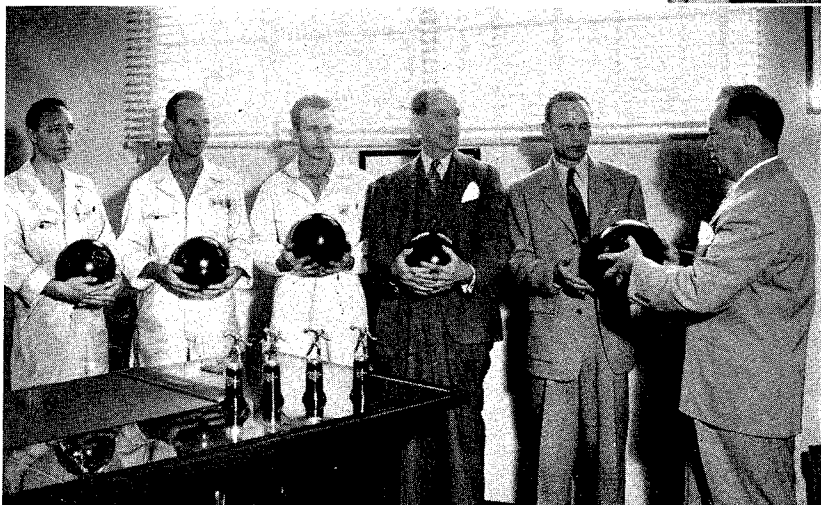
Company interest in employe activities builds morale by creating a greater sense of enjoyment and satisfaction than might be found in other types of work which pay higher wages.



• A happy employe is a good employe.



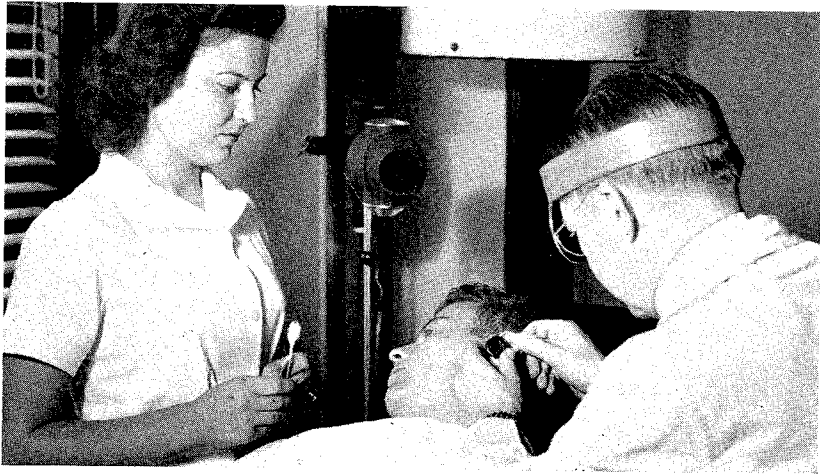
• Los Angeles Transit Lines Post 541 takes a leading part in American Legion activities.



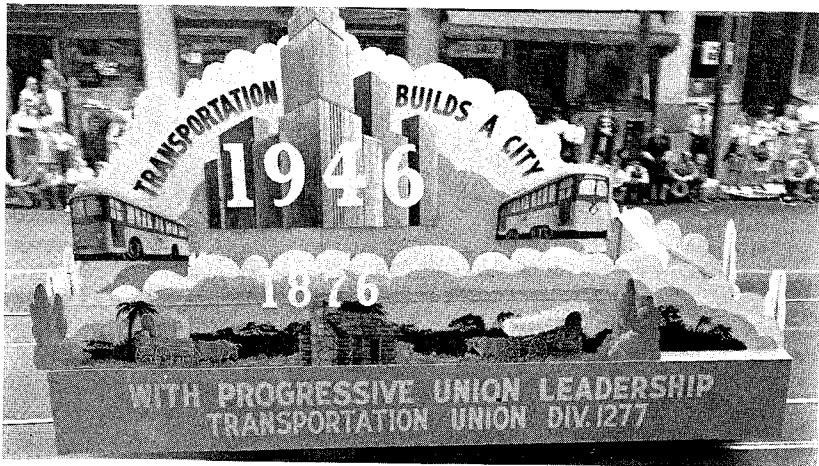
• Winners of annual Employe Bowling Tournament receive prizes from company official.



• *Wives and mothers of employes attend Women's Club luncheon.*



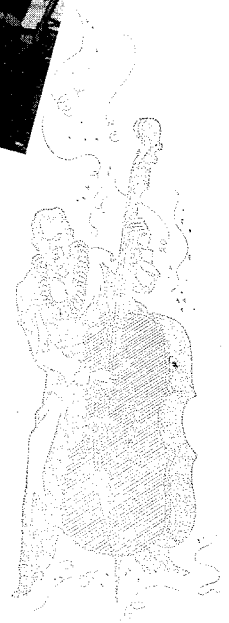
• *Employes Benefit Fund includes medical and hospital services.*



• *Transit workers' float in Labor Day Parade.*



• *Lunch time entertainment, a monthly feature at South Park Shops.*



COMPARATIVE INCOME AND STATISTICS AT A GLANCE

INCOME:	1946	1945
Operating Revenue	\$22,488,678.03	\$22,022,459.39
Other Income	59,352.69	42,920.23
Total	\$22,548,030.72	\$22,065,379.62
EXPENSES:		
Salaries and Wages	\$11,470,990.26	\$10,822,757.26
OTHER EXPENSES (excluding labor):		
Maintenance—Plant and Equipment	1,102,010.38	1,387,757.99
Power, Fuel and Lubricants	992,918.27	946,214.85
Transportation	268,666.69	302,336.90
General Administration	578,207.88	550,901.12
Insurance, including Injuries and Damages	2,323,214.29	2,363,368.13
Depreciation	2,297,561.18	2,043,068.15
Taxes and Licenses	2,085,670.34	2,074,713.82
Interest and Carrying Charges	425,744.36	355,767.25
Total Expenses	\$21,544,983.65	\$20,846,885.47
NET INCOME:		
Earnings per share on 1,095,440 shares of common stock outstanding	\$ 1,003,047.07 \$0.92	\$ 1,218,494.15 \$1.11

PASSENGER REVENUE:

Passenger revenue reached an all-time high of \$22,157,086 during 1946. This was an increase of 2.98% over 1945. Increases for previous years were 1.87% for 1945 over 1944, 9.68% for 1944 over 1943, 21.74% for 1943 over 1942, and 20.34% for 1942 over 1941. Passenger revenue might decline as more and more private automobiles become available. However, there is a possibility that a substantial amount of our gains will be retained due to the increase in population and industrial activities of the greater Los Angeles area.

OPERATING STATISTICS:

STREET RAILWAY OPERATIONS:	1946	1945
Revenue Car Miles	24,098,688	25,178,688
Passenger Revenue	\$15,297,245	\$15,727,084
Revenue per Car Mile	63.48¢	62.46¢
Operating Expenses per Car Mile	57.75¢	54.15¢
Miles of Track operated at end of year	302	346
BUS OPERATIONS:		
Revenue Bus Miles:		
Regular Service	15,257,187	13,156,006
Charter Service	105,481	763,078
Total	15,362,668	13,919,084
Passenger Revenue	\$ 6,859,841	\$ 5,789,332
Chartered Service Revenue	73,013	297,328
Total	\$ 6,932,854	\$ 6,086,660
Revenue per total Bus Mile	45.13¢	43.73¢
Operating Expenses per total Bus Mile	42.87¢	44.15¢
Miles of Bus Routes operated at the end of year	263	225

LOS ANGELES TRANSIT LINES

(A California Corporation)

BALANCE SHEET, DECEMBER 31, 1946

ASSETS

CURRENT ASSETS:

Cash on demand deposit and on hand	\$1,410,080.22
Accounts receivable, arising in the ordinary course of business	94,642.36
Materials and supplies, at cost	926,583.26
Interest receivable	20,027.42

\$ 2,451,333.26

PREPAID EXPENSES:

Taxes and insurance	\$ 186,822.03
Other	30,451.87

217,273.90

TANGIBLE PROPERTY (Note A):

	Cost	Depreciation	Net
Motor and trolley coaches	\$ 8,009,648.41	\$ 3,597,421.29	\$4,412,227.12
Street railway cars	10,103,333.43	6,933,136.75	3,170,196.68
Rail lines, power system, and miscellaneous equipment	16,279,306.16	11,457,045.16	4,822,261.00
Buildings	3,162,381.16	1,064,082.86	2,098,298.30
Land, right-of-way, and grading....	6,469,021.98		6,469,021.98
Interest during construction and miscellaneous overhead	1,816,329.48		1,816,329.48
	<u>\$45,840,020.62</u>	<u>\$23,051,686.06</u>	<u>22,788,334.56</u>

22,788,334.56

INTANGIBLE PROPERTY, consisting of franchises, at cost (Note A)

3,428.54

OTHER ASSETS:

Deposit with Trustee of First Mortgage Bonds (Note C)	\$ 881,565.94
United States Treasury Bonds, 2½%, due 1967/72, at cost, on deposit as collateral for franchise bond	419,086.33
Investment in and advance to Transit Casualty Company (Note C)	396,000.00
Deposit as collateral for indemnity bonds	50,000.00
Miscellaneous physical property	59,087.53

1,805,739.80

\$27,266,110.06

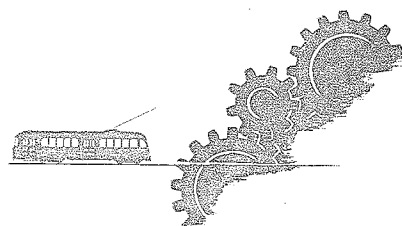
Reference is made to accompanying explanatory notes.

LOS ANGELES TRANSIT LINES

(A California Corporation)

BALANCE SHEET, DECEMBER 31, 1946

LIABILITIES



CURRENT LIABILITIES, exclusive of portion of term obligations due within one year (see below):		
Accounts payable, arising in the ordinary course of business		\$ 703,192.00
Accrued salaries and wages		551,842.80
Accrued taxes and other current liabilities		278,744.71
Payroll deductions for income and social security taxes withheld		158,071.16
Accrued interest on term obligations		74,740.22
Reserve for federal taxes on income (Note B):		
Current year, less tax anticipation notes of \$300,000.00		146,000.00
Prior years		71,504.51
		\$ 1,984,095.40
EQUIPMENT AND OTHER TERM OBLIGATIONS:		
	Due within one year	Due after one year
Notes payable to banks, secured by liens on motor coaches, interest at 2.18%, payable monthly; \$476,708.16 due in 1947, 1948, and 1949, \$398,398.16 in 1950, and \$115,605.98 in 1951.....	\$ 476,708.16	\$1,467,420.46
Notes payable to banks (unsecured), maturing \$315,000.00 semi-annually to March, 1950, interest at 3%	630,000.00	1,575,000.00
First Mortgage 3 7/8% Serial Bonds, maturing semi-annually at \$315,000.00 commencing September 1, 1950 and \$365,000.00 commencing September 1, 1955 to maturity in 1958		5,350,000.00
	\$ 1,106,708.16	\$8,392,420.46
		9,499,128.62
PREMIUM ON TERM OBLIGATIONS		92,643.07
UNEARNED REVENUE		171,798.00
RESERVE FOR INJURIES AND DAMAGES		170,000.00
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
Authorized, 1,100,000 shares of the par value of \$10.00 each		
Issued and outstanding, 1,095,440 shares		\$10,954,400.00
Surplus, per accompanying statement (Note D)		4,394,044.97
		15,348,444.97
		\$27,266,110.06

Reference is made to accompanying explanatory notes.

LOS ANGELES TRANSIT LINES

STATEMENT OF SURPLUS

YEAR 1946

EARNED SURPLUS:

Balance, January 1, 1946 \$4,504,435.06

Deduct:

Loss on properties retired, sold, or abandoned:

Depreciable properties \$ 63,433.74

Non-depreciable properties 836,878.66

Labor for abandoning property 31,386.85

Payments to the City of Los Angeles on liability for repaving street
railway lines 465,434.11

\$1,397,133.36

Less credit in lieu of Federal taxes on income—equivalent to tax
reduction resulting from deductibility in current year of charges
made directly to surplus (see income account) 169,000.00

1,228,133.36

Balance, after deductions \$3,276,301.70

Net income for year 1946, per accompanying statement 1,003,047.07

\$4,279,348.77

Dividends on common shares at 50c, in cash 547,720.00

Balance, December 31, 1946 (Note D) \$3,731,628.77

SURPLUS ARISING FROM DONATIONS IN AID OF CONSTRUCTION:

Balance, January 1, 1946 \$ 661,525.51

Donations received during year 890.69

Balance, December 31, 1946 662,416.20

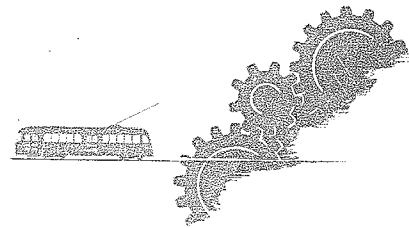
TOTAL SURPLUS, December 31, 1946, to balance sheet \$4,394,044.97

Reference is made to accompanying explanatory notes.

LOS ANGELES TRANSIT LINES

STATEMENT OF INCOME

YEAR 1946



OPERATING REVENUE:	
Passenger revenue:	
Street railways	\$15,297,244.97
Coach operations	6,859,841.02
	<hr/>
Charter, advertising, and miscellaneous revenue	\$22,157,085.99
	331,592.04
	<hr/>
	\$22,488,678.03
OPERATING EXPENSES:	
Maintenance track	\$ 487,995.98
Maintenance equipment	3,152,498.37
Transportation	9,172,212.33
Station expense	14,638.33
Traffic promotion	39,901.14
Insurance and pensions	2,333,039.01
General and administrative	1,250,470.68
Depreciation (Note A)	2,297,561.18
Taxes and licenses	1,470,670.34
Operating rents	285,251.93
	<hr/>
	20,504,239.29
NET OPERATING INCOME	<hr/>
	\$ 1,984,438.74
OTHER INCOME:	
Interest on securities	\$ 40,835.29
Premium on term obligations retired during year	12,459.18
Miscellaneous	6,058.22
	<hr/>
	59,352.69
	<hr/>
	\$ 2,043,791.43
OTHER DEDUCTIONS:	
Interest charges	\$ 412,073.39
Trustee's and transfer agent's fees	13,670.97
	<hr/>
	425,744.36
NET INCOME, before provision for Federal taxes on income	<hr/>
	\$ 1,618,047.07
PROVISION FOR FEDERAL TAXES ON INCOME:	
Current year (Note B)	\$ 446,000.00
Charge in lieu of Federal taxes on income—equivalent to tax reduction resulting from deductibility in current year of charges made directly to surplus (see surplus account)	169,000.00
	<hr/>
	615,000.00
NET INCOME, to surplus	<hr/>
	\$ 1,003,047.07

Reference is made to accompanying explanatory notes.

LOS ANGELES TRANSIT LINES
(A California Corporation)

NOTES TO FINANCIAL STATEMENTS

YEAR 1946

NOTE A: The tangible property is stated at historical cost as based upon an engineering and accounting study of the property accounts by representatives of the Public Utilities Commission (formerly Railroad Commission), the Los Angeles Board of Public Utilities and Transportation, the Los Angeles City Attorney's office, and the Company as of December 31, 1936 (completed in 1937), with subsequent additions at cost.

The depreciation reserves were adjusted as of December 31, 1936, to reflect the amounts resulting from the aforementioned joint study. Provision for depreciation for the years 1937 to 1941, inclusive, has been calculated on the straight line method at rates developed by that study, which rates were believed to be adequate. In 1942, certain of the depreciation rates were revised to conform to new estimates of useful lives of certain properties in the light of changed operating conditions and the Company's "motorization program" as referred to hereinafter. The net effect of the changes in rates was to increase the annual provision for depreciation.

The depreciation rates previously established were applied during 1946. The rates range from 2% on buildings to 20% on automobiles (other than motor coaches and trucks); the rates applied to motor coaches and trucks vary from 10% to 14.28%; the rates applied to passenger and combination cars vary according to classification but the average is about 4%.

Pursuant to authority of the Public Utilities Commission of the State of California, the Company does not make provision for depreciation or amortization of franchises (carried in the balance sheet at December 31, 1946, at \$3,428.54) or of other items classified as "nondepreciable" comprising land, right-of-way, and grading, interest during construction (to which there has been no addition since the joint study as of December 31, 1936), and miscellaneous overhead, which are carried in the balance sheet at December 31, 1946, in the aggregate amount of \$8,288,780.00. Such assets are carried on the books until they, or the properties to which they relate, are retired, at which time the "nondepreciable" costs, plus any costs incurred and less any amounts received therefor, are charged to surplus.

The costs of additions and betterments are capitalized. Costs of retirements of depreciable properties are charged to the depreciation reserve (and salvage is credited thereto) with the exception of electric railway cars and automotive equipment and certain buildings and equipment not required in the business; upon the retirement of the latter the depreciation reserves are relieved of the accumulated depreciation thereon and the gain or loss on disposal is transferred to surplus.

In 1940, the Company developed a comprehensive plan for converting approximately 68% of its street railway lines to coach operations within five years. In 1942, when it appeared that early termination of the war was not to be expected, the Company's program was extended from five to eight years, to be completed by 1949. The Company's plan is subject to the approval of the Public Utilities Commission of the State of California and the City of Los Angeles. In carrying out this "motorization program," certain depreciable and non-depreciable properties were retired, sold, or abandoned during the year on which

LOS ANGELES TRANSIT LINES

(A California Corporation)

NOTES TO FINANCIAL STATEMENTS

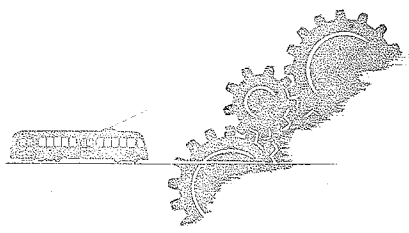
YEAR 1946

losses aggregating \$900,312.40 were charged to surplus. In connection therewith, payments were made to the City of Los Angeles on liability for repaving street railway lines. Other properties may be retired, sold, or abandoned in furtherance of such program. Loss therefrom, if any, will be offset in part by the applicable federal income tax rates as then permitted by law.

NOTE B: The Company's liability for federal taxes on income for years prior to 1942 has been settled. The returns for the years 1942, 1943, and 1944 have been examined by the Treasury Department and the Company has paid the tax due under a proposed settlement. Although the returns for those years are open, the Company believes that its full tax liability with respect thereto has been paid. The Company will claim unused excess profits credit carry-backs for the years 1945 and 1946. The amount of the refund will not be known until the claims have been filed and approved by the Treasury Department.

NOTE C: The deposit with trustee consists of cash of \$356,885.21 and notes of \$524,680.73 representing the net proceeds from the sale of properties subject to the First Mortgage $3\frac{7}{8}\%$ Serial Bonds. There is also deposited with the trustee stock of the Transit Casualty Company. The cash in the hands of the trustee may be drawn upon by the Company to reimburse it for moneys expended for the acquisition of capital assets, as provided in the Indenture.

NOTE D: The Company's surplus is restricted as to the payment of dividends by the Indenture securing the First Mortgage $3\frac{7}{8}\%$ Serial Bonds and Term Loan Agreement relating to the Unsecured Instalment Notes. Accordingly, the Company is not permitted to pay any dividend (except dividends payable in its own capital stock) or make any distribution on its capital stock except out of net earnings (as defined in the said agreements) arising subsequent to December 31, 1944. The amount of the surplus so available for dividends was \$2,396,147.72 at December 31, 1946.



This report and the financial statement contained herewith are submitted for the general information of stockholders of the Company as such, and are not intended to induce, or for use in connection with, any sale or purchase of securities.

DIRECTORS

E. ROY FITZGERALD
Chairman of Board
President
National City Lines

ED FITZGERALD
Vice President and
Treasurer
National City Lines

W. RALPH FITZGERALD
President
Los Angeles Transit Lines

FOSTER G. BEAMSLEY
Vice President
National City Lines

T. ALLAN BOX, JR.
Investment Banker
Lester & Company

BRUCE H. GRIGSBY
Vice President
Security First National Bank

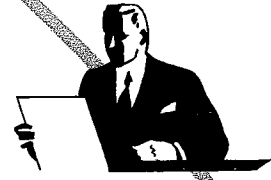
CONE T. BASS
Vice President and
General Manager
Los Angeles Transit Lines

S. M. HASKINS
Senior Partner
Gibson, Dunn & Crutcher

MAYNARD MCFIE
Investments
Industrial Real Estate

J. L. HAUGH
President
Fresno City Lines

T. J. MANNING
President
Key System Transit Lines



OFFICERS

W. RALPH FITZGERALD
President

CONE T. BASS
Vice President and
General Manager

B. M. LARRICK
Operating Manager

JOSEPH G. GORMAN
Vice President and
Secretary-Treasurer

J. C. YARBROUGH
Comptroller

L. A. REEVES
Assistant to
General Manager

The annual meeting of stockholders will be held on May 13, 1947, at 10:00 A. M., at the Los Angeles Transit Lines building, 1060 South Broadway, Los Angeles 15, California



LOS ANGELES

TRANSIT LINES

SAFETY
COURTESY
SERVICE

