

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of
Southern Pacific Milling Company for } Application No. 1348.
authority to issue stock.

J. M. Mannon, Jr., for applicant.

GORDON, Commissioner.

O P I N I O N

This is an application by Southern Pacific Milling Company for authority to issue 2,500 shares of preferred stock of the par value of \$100 per share or a total par value of \$250,000, and 2,000 shares of its common stock of the par value of \$100 per share or a total par value of \$200,000. It is proposed to sell the preferred stock at a price not less than \$92.50 per share and to apply the proceeds toward the liquidation of the applicant's indebtedness represented by notes, in the sum of \$270,000, of which \$210,000 are due the Wells Fargo Nevada National Bank of San Francisco, and \$60,000 due J. C. Coleman.

The Southern Pacific Milling Company was incorporated July 15, 1886. It conducts both a public utility business and a general business which is not of a public utility nature. Its public utility business consists of its ownership and operation of some forty-seven warehouses in Monterey, San Luis Obispo, Santa Barbara and Ventura Counties. At these warehouses the applicant takes hay, grain and produce generally for storage. The Southern Pacific Milling Company also carries on a general grain, bean, milling and merchandise business. It manufactures and deals in poultry foods, operates alfalfa mills, barley rolling mills, etc.

A group of the stockholders of Southern Pacific Milling Company own all but 122 shares of the 2,000 shares of Salinas Valley Lumber Company, a lumber corporation which operates in several

of the larger cities in which Southern Pacific Milling Company also operates. The administration of the two corporations has been in the same hands. It is now proposed by Southern Pacific Milling Company to issue 2,000 shares of its common stock of a total par value of \$200,000 in exchange for the properties of Salinas Valley Lumber Company. It is stated by the applicant that these properties of Salinas Valley Lumber Company cost \$172,748.33 and have a present value of \$176,262.02. At the hearing the applicant stated that \$11,034.06 should be added to this sum as representing certain property which had been overlooked in the inventory.

The applicant stated that it was held to be desirable by reason of the identity of interests, to amalgamate the two enterprises, particularly in view of the plan to issue the preferred stock.

This Commission, of course, has jurisdiction only over the affairs of this corporation in so far as it conducts a public utility business.

From figures submitted by the applicant, it would appear that for the fiscal year ending May 31, 1912, approximately 37 per cent, and for the year ending May 31, 1913, approximately 40 per cent of the revenue was derived from the warehouse or public utility business. The remaining revenue came from the sale of bags, twine, feed and from the grain, bean, merchandise and collateral business of the applicant.

The applicant submitted the following appraisals of its own properties and those of Salinas Valley Lumber Company:

	<u>Cost</u>	<u>Present Value</u>
Southern Pacific Milling Company, ...	\$712,986.36	\$765,505.69
Salinas Valley Lumber Company,	<u>172,748.33</u>	<u>176,262.02</u>
Total,	\$885,734.69	\$941,767.71

Brot. Fwd. \$885,734.69 \$941,767.71

The applicant submitted as the value of property overlooked in the inventory of Salinas Valley Lumber Company 11,034.06 11,034.06 which, if added to both cost and present value would give \$896,768.75 \$952,801.77

In this valuation no deduction is made for depreciation on warehouses. The Commission has not assumed to check in detail these figures, for the reason that this Commission is concerned only with the public utility features of this enterprise. Any findings that may be made herein, therefore, will be with the reservation as to values to be placed upon the public utility properties of this applicant.

The applicant submitted in its annual reports to this Commission the following income statements for the fiscal years ending May 31, 1912 and May 31, 1913:

	<u>1912</u>	<u>1913</u>
Operating Revenue	\$243,862.06	\$210,196.62
Operating Expenses	<u>154,857.30</u>	<u>160,034.62</u>
Net Operating Revenue	89,004.76	50,162.00
Other Income:		
Interest and Dividend	\$ 1,046.00	\$ 1,042.00
Miscellaneous Non-operating Revenue	<u>6,302.81</u>	<u>2,001.00</u>
Total Gross Income less Operating Exp.	96,353.57	53,205.00
Deductions:		
Interest	\$ 14,721.95	\$ 15,708.74
Taxes	4,209.79	3,720.70
Depreciation	<u>35,971.23</u>	<u>38,906.00</u>
Total Deductions	\$ 54,902.97	\$ 58,345.44
Net Corporate Income for Year,	\$ 41,450.60	5,140.44 (1)
Surplus beginning of year	\$235,577.45	\$245,269.67
Add depreciation for 1912 not entered on ledger,	----	35,971.23
Deductions for year:		
Uncollectible Accounts	\$ 274.81	\$ ----
Losses by fire	4,708.57	373.07
Dividends	<u>26,775.00</u>	<u>26,775.00</u>
Surplus at close of year	\$245,269.67	\$248,952.39

(1) Deficit.

Mr. Fairfax H. Wheelan, Vice President of Southern Pacific Milling Company, testified that this corporation had paid dividends uninterruptedly in the amount of 6 per cent on its outstanding capital stock since 1893, and stated that the surplus at the close of the fiscal year 1913 amounted to \$248,952.39.

Applicant presented at the hearing the balance sheet as of July 1, 1914, as follows:

Resources

Cash	\$ 6,045.95
Merchandise	111,317.90
Office Fixtures	54,133.98
Live Stock and Equipment	8,055.76
Real Estate and Imp.	508,479.54
Cleaning Plants	83,518.41
Barley Mills	62,082.71
Bills Receivable	54,872.77
Accounts Receivable	173,956.81
Stocks and Bonds	17,314.50
Grain Loans	14,165.68
O. B. Rem. Etc.	8,868.99
Patents	6,290.00
Rents, Taxes and Ins.	<u>4,752.49</u>

Total\$1,103,855.59

Liabilities

Capital Stock	\$446,250.00
Surplus Funds	269,015.30
Bills Payable	275,000.00
Accounts Payable	64,494.49
Out. Business	3,329.87
Collateral Loans	16,792.00
Draft Account	<u>1,973.93</u>

Total\$1,103,855.59

The applicant now has outstanding an issue of 4,462½ shares of common stock of the par value of \$100 per share, or a total par value of \$446,250.

Applicant has now authorized a total issue of \$1,000,000 of stock; \$250,000 of preferred, and \$750,000 of common. It proposes to issue the entire block of \$250,000 of preferred stock as previously noted and to issue at this time \$200,000 of the common, which would leave it with stock outstanding of both classes in the sum of \$896,250. The balance will remain in its treasury.

The preferred stock which the applicant proposes to issue will call for 7 per cent cumulative dividends. Thereafter 7 per cent may be paid upon the common stock, and after such payment upon the common stock, in case other dividends are declared, the holders of the preferred stock shall participate therein with the holders of the common stock in the ratio of one dollar for each share of preferred stock issued and outstanding to two dollars for each share of common stock then issued and outstanding. The preferred stock will be callable at 105 per share on December 31, 1919, or on any December 31 thereafter, in whole or in part.

It is the purpose of the applicant, as expressed at the hearing, to provide that the stock, if redeemed, will be called by lot.

It was stated at the hearing by witnesses for applicant that regular dividends of 6 per cent had been paid on the stock of Salinas Valley Lumber Company; that the book value of such stock was \$121.80 per share; and that the property would be transferred either free of indebtedness or with current assets more than sufficient to extinguish any existing indebtedness.

It will undoubtedly be necessary for this Commission, in determining cases now pending or which may in the future arise, to draw a sharp distinction between the public utility properties of this applicant and its other holdings. In passing upon this application, however, the Commission has in mind the enterprise as a whole, and this must be necessarily so, for the reason that in the presentation no effort has been made to separate the public utility properties from those features of the business which are not of a public utility character. It may become necessary for this Commission to inquire into the value of the public utility property, and in passing upon the application herein it does not fix or determine any values whatsoever as applicable to the public utility properties of this applicant.

With this clearly understood, I recommend that this application be granted, and submit the following form of order:

O R D E R

Southern Pacific Milling Company having applied to this Commission for authority to issue 2,500 shares of its preferred stock of the par value of \$100 per share, and for authority to issue 2,000 shares of its common stock of a par value of \$100 per share,

And a hearing having been held and it appearing that the purposes for which applicant proposes to issue said preferred stock and said common stock are not in whole or in part chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Southern Pacific Milling Company be given authority and it is hereby given authority to issue 2,500 shares of its preferred stock, said preferred stock being 7 per cent cumulative, of the nature described in the aforesaid opinion, and more exactly as described in applicant's Exhibit "B" on file in connection with the application herein to which reference is hereby made,

IT IS FURTHER ORDERED that Southern Pacific Milling Company be given authority and it is hereby given authority to issue 2,000 shares of its common stock of the par value of \$100 per share.

The authority herein given is given upon the following conditions and not otherwise:

(1) Applicant shall sell its preferred stock herein authorized at a price not less than \$92.50 per share.

(2) The proceeds received by applicant for the sale of its preferred stock shall be applied upon its indebtedness to Wells Fargo Nevada National Bank in the sum of \$210,000, and to J. C. Coleman in the sum of \$60,000, such indebtedness consisting of notes payable, a list of which is on file with this Commission as part of Exhibit "B" filed in connection with the application herein to which reference is hereby made.

(3) The common stock herein authorized to be issued shall be issued to Salinas Valley Lumber Company or the stockholders of Salinas Valley Lumber Company in exchange for the properties of the Salinas Valley Lumber Company as inventoried by applicant in its Exhibit "D" on file in connection with the application herein to which reference is hereby made.

(4) Applicant shall submit to this Commission a true copy of any contract or contracts into which it may enter with the purchasers of its preferred stock.

(5) The property of Salinas Valley Lumber Company shall be transferred to applicant either free of indebtedness or with sufficient current assets to liquidate any indebtedness owing by Salinas Valley Lumber Company.

(6) Nothing herein shall be taken as a finding of this Commission as to the value or values of all or any part of the public utility properties of this applicant.

(7) Southern Pacific Milling Company shall keep separate, true, and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock hereby authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said stock during the preceding month, the terms and conditions of the sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

(8) The authority herein granted shall apply to such stock as shall have been issued on or before October 15, 1915.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Com-

mission of the State of California.

Dated at San Francisco, California, this 9th day of
October, 1914.

A. H. Loveland
Max Gordon
Max Thelen

Commissioners.