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Decision No. \_\_\_\_\_

ORIGINAL

Decision No. 2939

BEFORE THE RAILROAD COMMISSION OF  
THE STATE OF CALIFORNIA.

In the Matter of the Application )	
of PETALUMA AND SANTA ROSA RAIL- )	<u>Application</u>
WAY COMPANY for authority to is- )	
sue coupons for interest to ac- )	<u>No. 1967.</u>
crue on said bonds,	

Edwin E. McMurray for Applicant.

BY THE COMMISSION.

O P I N I O N

This is an application by PETALUMA AND SANTA ROSA RAILWAY COMPANY, a corporation, hereinafter referred to as the "railway company", for an order authorizing the issue of six per cent. interest coupons to be attached to applicant's second mortgage bonds, three of said coupons to be attached to each bond and to be payable April 1, 1916, October 1, 1916 and April 1, 1917, respectively.

From the evidence it appears that said bonds were dated April 1, 1905, and matured April

1, 1915, being of the denomination of \$1,000 each and bearing interest at the rate of six per cent. per annum, payable semi-annually on the first days of April and October in each year; that there were at the beginning of 1915, and still are, 217 of said bonds outstanding and unpaid out of the total authorized issue under said second mortgage of 250 of such bonds.

It further appears that prior to their maturity the railroad company, being at that time unable to pay the principal upon said bonds or to refund the same by the issue of new securities, entered into an agreement with the holders of all but seven of said outstanding bonds, by which the bondholders agreed not to present their bonds for payment or to authorize foreclosure of the mortgage securing the same before April 1, 1917, (providing semi-annual interest should be regularly paid in the meantime) in consideration of which said railway company paid to the respective bondholders a cash bonus of \$10.00 upon each of their bonds, and agreed to issue and attach to each of said bonds four interest coupons for \$50.00 each, said coupons maturing on October 1, 1915, April 1 and October 1, 1916, and April 1, 1917; said coupons to be similar to the interest coupons originally attached to said bonds.

Thereafter the railway company proceeded to issue and attach to each of said 210 outstand-

ing bonds said four interest coupons, without having first obtained authorization therefor from this Commission. It appears from the evidence, however, that said railway company and its officers acted throughout in good faith, proceeding upon the theory that these interest bearing coupons were not evidence of indebtedness, and that when the matter was called to the railway company's attention it filed the present application for authority to issue coupons for the interest accruing upon all of said outstanding bonds on April 1 and October 1, 1916, and April 1, 1917. Said proposed coupons are in the following form, to wit:

No. \_\_\_\_\_ \$30.00.

On the first day of \_\_\_\_\_, 191\_\_\_\_, the Petaluma and Santa Rosa Railway Company will pay to the bearer hereof Thirty Dollars (\$30.) in gold coin of the United States of the present standard of weight and fineness at the office of the Mercantile Trust Company of San Francisco, in the City and County of San Francisco, State of California, or at the office of the United States Mortgage and Trust Company, in the City of New York, State of New York, at the option of the holder hereof, being the interest then due on its second mortgage six per cent. gold bond No. \_\_\_\_.

\_\_\_\_\_  
Treasurer.

It appears that none of said coupons ~~were~~<sup>was</sup> issued prior to April 1, 1915, and accordingly it was not necessary for the railway company to obtain authority from this Commission to issue those maturing on October 1, 1915 and April 1, 1916, respectively, and it is not necessary for the rail-

way company to issue new coupons in place of those maturing on April 1, 1916.

As to the remainder, the company originally claimed that the consent of this Commission was not necessary, upon the theory that these interest coupons represent no new obligations on the part of the railway company, inasmuch as the said outstanding bonds provide that interest shall be paid until the bonds are refunded, and that the interest coupons are merely convenient memoranda of the fact of the existing indebtedness. Section 52 of the Public Utilities Act, however, requires the consent of this Commission to the issuance of evidences of indebtedness payable at periods of more than twelve months from the date thereof. Assuming that these evidences of indebtedness are being issued for a pre-existing obligation, we are nevertheless clearly of the opinion that the consent of this Commission is necessary for those maturing more than one year after the date of issue.

O R D E R

PETALUMA AND SANTA ROSA RAILWAY COMPANY  
having applied to the Railroad Commission for an  
order authorizing the issue of \$30.00 coupons,  
three of which, falling due respectively on April

1 and October 1, 1916, and April 1, 1917, are to be attached to each of said 217 outstanding six per cent. second mortgage bonds referred to in the foregoing Opinion.

And a public hearing having been held on said application and the Commission finding that applicant's request is reasonable and should be granted, and that the purposes for which applicant desires to issue said coupons are chargeable to income, in that they represent interest hereinafter to be paid upon applicant's bonds, and it appearing that said coupons will not be capitalized but will be paid out of applicant's income,

IT IS HEREBY ORDERED that Petaluma and Santa Rosa Railway Company be, and the same is hereby, authorized to issue said above-mentioned interest coupons for \$30.00 each, maturing on October 1, 1916 and April 1, 1917, respectively, as evidence of the interest to accrue on each of said 217 bonds outstanding.

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

1. Said coupons shall be issued only to evidence or represent interest to become due at the above dates upon applicant's second mortgage bonds now outstanding.
2. Said coupons shall not be issued except upon the return to the railway company and

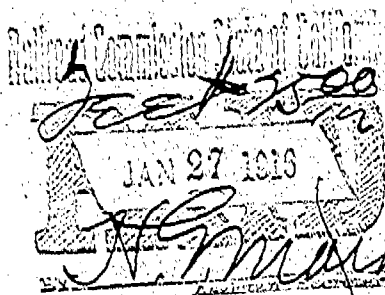
the cancellation of the corresponding coupons heretofore illegally issued by said railway company.

3. Within thirty days after the coupons herein authorized to be issued shall have been issued, applicant shall report such fact to this Commission, together with a statement of the number of coupons so issued, the dates of their maturity and the persons to whom they were issued.

4. The coupons herein authorized to be issued shall be issued on or before March 1, 1916.

5. This order shall not become effective until Petaluma and Santa Rosa Railway Company has paid the fee specified in Section 57, as amended, of the Public Utilities Act.

Dated at San Francisco, California, this 27th day of November, 1915.



Max Thelen  
H. S. V. Land  
de Gordon  
Edwin O. Edgerton  
Frank Deolin

Commissioners.