

ORIGINAL

Decision No. 5690.

BEFORE THE RAILROAD COMMISSION OF  
THE STATE OF CALIFORNIA.

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In the matter of the Reorganization of  
PETALUMA AND SANTA ROSA RAILWAY COMPANY,  
a corporation, and of the application  
for authority to transfer the properties  
of said company to a new company to be  
hereafter incorporated and for permission  
to issue stocks and bonds of said new  
company.

Application Number 3917.

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Goodfellow, Ellis, Moore & Orrick by W.H. Orrick,  
for applicant.

LOVELAND, Commissioner.

O P I N I O N .

This is an application which involves the reorganization of PETALUMA AND SANTA ROSA RAILWAY COMPANY. The application contemplates that the company's properties be transferred to a new corporation and the new corporation issue stocks and bonds to acquire the properties and pay outstanding indebtedness.

Petaluma and Santa Rosa Railway Company was organized on or about May 22, 1903, with an authorized capital stock issue of \$1,000,000 divided into 10,000 shares of the par value of \$100 each. Stock in the amount of \$994,100 is reported as outstanding. The company also reports \$655,000 face value of 5% first mortgage bonds due March 1, 1924 and \$217,000 face value of 6% second mortgage bonds due April 1, 1917, as outstanding. In addition, \$80,000 of first mortgage and \$33,000 of second mortgage bonds are pledged to secure the payment of \$76,600 of notes. The company has regularly paid the interest on both the first and second mortgage bonds and on the

outstanding notes. It has found it impossible, however, to pay the sinking fund established by the first mortgage or the principal of the second mortgage <sup>bonds</sup> due April 1, 1917. Because of the failure of the company to pay the second mortgage bonds at maturity, the First Federal Trust Company, trustee under the mortgage, brought an action in the Superior Court of the State of California in and for the County of Sonoma to foreclose the mortgage securing the payment of the second mortgage bonds. The Mercantile Trust Company, trustee under the first mortgage, was given permission to intervene. A foreclosure decree has been entered by the court.

The reorganization plan, a copy of which is on file herein, provides for the formation of a new corporation with an authorized stock issue of \$1,250,000 divided into \$1,000,000 of common and \$250,000 of 6 per cent cumulative preferred stock. The preferred stock is to be redeemable at par. The new corporation is also to have an authorized issue of \$750,000 of 5-1/2 per cent 25-year first mortgage bonds. The mortgage under which the bonds are to be issued is to provide that the net earnings ordinarily applicable to dividends on common stock, may be applied and paid as such dividends up to the sum of \$25,000 in any one year; but that if such net earnings exceed \$25,000 in any year, and are not needed for the Company's business requirements in the opinion of the directors, any available excess of such net earnings over \$25,000 per annum shall be allotted and paid, one-half thereof as additional dividend on the common stock, one-quarter thereof to a sinking fund to redeem said first mortgage bonds at not exceeding 105 per cent; and the remaining one-quarter as a sinking fund to redeem the preferred stock at par.

As said, this application contemplates the transfer of the properties of Petaluma and Santa Rosa Railway Company to a new corporation. To pay and refund the \$655,000 of first mortgage bonds now outstanding, the new corporation would issue \$655,000 5-1/2 per

cent 25-year first mortgage bonds. The owners of the \$217,000 of second mortgage 6% bonds are to receive first mortgage bonds of the new corporation in an amount equal to 20 per cent of the face value of the bonds now owned by them, preferred stock in an amount equal to 80 per cent of the face value of the bonds now owned by them and common stock in an amount equal to 20 per cent of the face value of the bonds now owned by them. To pay and refund the \$217,000 of second mortgage bonds, the new corporation would issue \$43,400 of first mortgage bonds, \$43,400 of common stock and \$173,600 of 6 per cent preferred stock, making a grand total of \$260,400. All of the owners of second mortgage bonds and all of the owners of first mortgage bonds, excepting an individual who owns \$5,000 of said bonds, have approved the reorganization plan.

Any owner of shares of stock of the Petaluma and Santa Rosa Railway Company may become a party to the reorganization plan --

"By subscribing for and purchasing such a proportion, or any less part, of the common stock of the Company, which shall not have been issued to parties of the second part in exchange for second mortgage bonds, as the number of Railway shares held by him shall bear to said total number of 9941 outstanding Railway shares (fractional shares to be avoided by allotment of the nearest even number), and by paying in cash to the Depositary the sum of ten dollars (\$10) per share for each share of common stock of the Company so subscribed by him. Such stockholder by making such subscription shall be deemed to have assented to and be bound by all of the terms and conditions hereof. The Depositary may require such subscribers to produce their certificates of stock of the Railway as evidence of the right to subscribe. This privilege of subscription shall be assignable. Any shares of Common Stock of the Company which shall not have been so subscribed and paid for on or before ten days after the incorporation of the Company (except the shares to be exchanged for second mortgage bonds as aforesaid) may by the Company be allotted and sold at said price of ten dollars (\$10) per share to any shareholder or shareholders of the Railway."

Mr. L.B. Mackey, secretary of the Reorganization Committee, testified that the First Federal Trust Company is willing to advance to the stockholders for a period of one year at 6 per cent interest per

annum, such an amount as they may desire for the purpose of paying for stock subscriptions in the new corporation. The proceeds realized from the subscription of the common stock of the new corporation will be used to pay off floating indebtedness of the Petaluma and Santa Rosa Railway Company, that is, the \$76,600 of short term notes. The remainder of the proceeds will be used to pay reorganization expenses or for such other purposes as the Board of Directors may deem advisable.

Applicant has not submitted to the Commission a statement of its reorganization expenses. Mr. Mackey testified that every effort is being made to keep the reorganization expenses at a minimum. The members of the Reorganization Committee receive no compensation. No receiver has been appointed to take possession of the properties, so that there will be no receiver's salary nor any payment for receiver's counsel. The foreclosure decree fixes the compensation of the Mercantile Trust Company of San Francisco, trustee under the first mortgage, at \$2,506.40, and the compensation of counsel for Mercantile Trust Company at \$1,500. The compensation of the First Federal Trust Company, trustee under the second mortgage, is fixed at \$519.50 and that of its counsel at \$1,000. I recommend that no part of the funds contributed by the stockholders, be used to pay reorganization expenses, unless authorized by the Commission, after a detailed statement of such expenses has been filed with the Commission.

Applicant in Exhibit No. 3 estimates the results of 12 months operation based on 1917 gross earnings plus increase in rates granted by the Railroad Commission in 1917 and using the 1917 operating expenses plus actual and prospective increase in 1918, as follows:

Gross Earnings, . . . . .	\$376,303.44
Operating Expense, . . . . .	289,460.10
Net from Operations, . . . . .	<u>86,843.34</u>
Less Taxes, . . . . .	10,500.00
Gross Income, . . . . .	<u>76,343.34</u>
Interest, . . . . .	45,770.00
Surplus, . . . . .	<u>\$30,573.34</u>

It will be noted that for the 12 months, the company estimates its gross income at \$76,343.34 as compared with a gross income of \$67,664 in 1916 and a gross income of \$65,691.43 in 1917. The estimated earning statement does not take into account the increase in rates allowed by the Commission in its recent decisions.

Applicant in Exhibit No. 2 reports the assets and liabilities of the Petaluma and Santa Rosa Railway Company as follows:

ASSET ACCOUNTS:

Property Account, . . . . .		\$2,098,694.84
Current Assets, . . . . .		63,249.47
Cash, . . . . .	\$21,372.73	
Due from Agents, . . . . .	9,053.09	
Due from other Railroads, . . . . .	10,396.90	
Accounts Receivable, . . . . .	1,617.81	
Materials and Supplies, . . . . .	<u>20,808.94</u>	
Sinking Fund, . . . . .		169.78
Unadjusted Debits, . . . . .		4,456.87
Insurance, . . . . .	879.67	
Miscellaneous Accounts, . . . . .	<u>3,577.20</u>	
Profit and Loss, . . . . .		<u>960.71</u>
<u>TOTAL ASSETS,</u> . . . . .		<u>\$2,167,531.67</u>

LIABILITY ACCOUNTS:

Capital Stock Outstanding, . . . . .		\$ 994,100.00
Funded Debt, . . . . .		872,000.00
First Mortgage Bonds, . . . . .	735,000.00	
Second Mortgage Bonds, . . . . .	<u>250,000.00</u>	
	985,000.00	
Loss Bonds Pledged:		
First Mortgage, . . . . .	\$80,000	
Second Mortgage, . . . . .	<u>33,000</u>	
	113,000.00	
Current Liabilities, . . . . .		95,166.51
Notes Payable, . . . . .	76,600.00	
Audited Vouchers, . . . . .	<u>18,566.51</u>	
Accrued Liabilities, . . . . .		18,597.66
Interest, . . . . .	14,181.31	
Taxes, . . . . .	<u>4,416.35</u>	
Unadjusted Credits, . . . . .		105,040.32
Account depreciation on equipment, . . . . .	93,063.37	
Compensation Insurance Reserve, . . . . .	11,092.16	
Miscellaneous Credits, . . . . .	<u>884.79</u>	
Surplus, . . . . .		<u>82,627.18</u>
<u>TOTAL LIABILITIES,</u> . . . . .		<u>\$2,167,531.67</u>

In Exhibit No. 1, Petaluma and Santa Rosa Railway Company reports the "valuation" of its properties as of June 30, 1918, at \$1,778,706.33. To acquire these properties, the new corporation proposes to issue:

Common Stock, . . . . .	\$1,000,000
Preferred Stock, . . . . .	173,600
First Mortgage Bonds, . . . . .	698,400
Total Stocks and Bonds, . . . . .	<u>\$1,872,000</u>

I do not believe that it is necessary for the purpose of this proceeding, to make a specific finding as to the cost or value of the properties here involved. I believe that under the facts and circumstances as revealed by the evidence herein, the Commission should permit the issue of securities as outlined in the reorganization plan. It will, of course, be understood that neither the Reorganization Committee, nor the new corporation or its successors or assigns, will at any time urge the Commission to consider the amount of securities hereafter authorized to be issued in this proceeding as a rate base.

The reorganization plan provides for a voting trust, effective for a period of seven years, under the terms of which the preferred stockholders are given control of the properties in the event that the dividends on the preferred stock are not paid regularly. I believe that all classes of stockholders should have all the power and control to which their ownership entitles them. I do not believe that one class of stockholders should be restricted in their complete enjoyment of all their usual rights. However, as they have seen fit, or may be willing, to surrender their rights, the Commission should not, in my opinion, interpose any objections.

Neither the articles of incorporation nor the deed of trust of the new corporation have been filed with the Railroad Commission. Obviously, no final order can be made at this time in this proceeding. The Commission can authorize the transfer

of the properties and indicate the maximum amount of stocks and bonds which it will permit a new corporation to issue for the purpose mentioned herein, and supplemental order or orders to be made when these matters are definitely presented to the Railroad Commission.

I herewith submit the following form of Order.

O R D E R.

Application having been made to the Railroad Commission for an order authorizing the sale and transfer of the properties of the Petaluma and Santa Rosa Railway Company, about to be sold at foreclosure sale, and for an order authorizing the issue of stocks and bonds, and a public hearing having been held,

IT IS ~~HEREBY ORDERED~~ that whosoever may be the purchaser of the properties of the Petaluma and Santa Rosa Railway Company, about to be sold under a decree of foreclosure, be, and the same is hereby, authorized to sell, transfer and convey all of the properties, real, personal and mixed, described in the decree of foreclosure - a copy of which is attached to the petition herein-so purchased, to a corporation to be hereafter organized, and said corporation, when organized, is hereby authorized to acquire said properties and to issue in payment therefor and for such other purposes as the Railroad Commission may authorize, 5-1/2 per cent 25-year first mortgage bonds in an amount not to exceed \$698,400, common stock in an amount not to exceed \$1,000,000 and 6 per cent cumulative preferred stock in an amount not to exceed \$173,600, provided that this order shall not become effective until a supplemental order shall have been made by the Railroad Commission after there has been presented to the Railroad Commission the name or names of the person or persons who may have purchased said properties through said foreclosure sale, the articles of incorporation and

trust deed of the corporation hereafter to be organized to acquire said properties, a complete description of the properties acquired at said foreclosure sale and to be transferred to said new corporation, together with a statement showing the amount of money received at the foreclosure sale. Provided further, that none of the moneys realized through the issue of common stock shall be expended until a supplemental order or orders have been made by the Railroad Commission specifying the purposes for which said moneys may be expended, Provided further, that this order shall not become effective until there has been filed by a person or persons properly authorized a stipulation to be approved by the Railroad Commission to the effect that the reorganization expenses will, at such times, in such amounts and in such manner as the Railroad Commission may order, be amortized out of income.

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

Dated at San Francisco, California, this 16th day of August, 1918.

Edwin O. Edgerton  
H. L. Loveland  
W. G. Anderson  
Frank Wilson  
Commissioners.