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ORIGINAL

Decision No. 6457.

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA.

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In the Matter of the Reorganization )  
of OAKLAND AND ANTIOCH RAILWAY, )  
OAKLAND-ANTIOCH AND EASTERN RAILWAY )  
and SAN RAMON VALLEY RAILROAD. )

Application Number 4555.

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Jesse H. Steinhart, for applicant.

EDGERTON, Commissioner.

O P I N I O N.

The Railroad Commission is asked to make an order permitting a new corporation to issue bonds and stock to carry out the reorganization plan attached to the petition herein and marked Exhibit "A".

The reorganization plan covers Oakland, Antioch and Eastern Railway, Oakland and Antioch Railway and San Ramon Valley Railroad. The record shows that Oakland, Antioch and Eastern Railway owns practically all of the outstanding stock of San Ramon Valley Railroad and all of the outstanding stock of Oakland and Antioch Railway except \$28,700. The capitalization of the

three companies, excluding inter-company stock ownership, is reported as follows:

Oakland and Antioch Railway 5 per cent bonds held in ownership,.....	\$2,000,000
Oakland, Antioch and Eastern 5 per cent bonds held in ownership,.....	2,515,000
San Ramon Valley 6 per cent bonds held in ownership,.....	100,000
Oakland, Antioch and Eastern Railway 5 per cent bonds held as collateral,....	1,829,000
Oakland, Antioch and Eastern Railway stock outstanding,.....	8,682,600
Oakland and Antioch Railway stock outstan- ding and not held by Oakland, Antioch and Eastern Railway,.....	<u>28,700</u>
Total Stock and Bonds,.....	\$15,155,300

The \$1,829,000 of Oakland, Antioch and Eastern Rail-  
way bonds held as collateral have been deposited to secured the  
following indebtedness:

(a)--- \$490,000 of bonds pledged to secure gold notes in the amount of,....	\$294,000
(b)--- \$199,000 of bonds pledged to secure stockholders' loans in the amount of,.....	155,429
(c)---1,140,000 of bonds pledged as collateral to secure notes in the amount of,.....	<u>635,403</u>
Total, ..\$1,829,000	Total, .....
	\$1,082,832

Applicants in Exhibit No. "5" report the Assets and Liabilities of Oakland, Antioch & Eastern Railway and subsidiary companies as of March 31, 1919, as follows:-

ASSET ACCOUNTS:

Capital Assets .....		\$20,245,546.75
Oakland & Antioch Railway stock Invest- ment .....	\$7,000,000.00	
San Ramon Valley Railway Stock .....	242,600.00	
Acquisition of Rights-of-way .....	6,500,000.00	
Expenditures for Construction .....	<u>6,502,946.75</u>	
Investment in United States Refunding Certificates.....		60,000.00
Current Assets .....		275,157.53
Cash in Bank and on Hand .....	94,652.22	
Notes Receivable .....	12,157.14	
Accounts Receivable .....	75,942.79	
Materials and Supplies .....	<u>92,405.38</u>	
Unadjusted Debits .....		36,432.44
Deferred Assets .....		360.00
Deferred Charges to Profit and Loss .....		749,305.33
Bond Discount, Commissions, etc., .....	737,131.69	
Unexpired Insurance .....	2,345.26	
Tax Liability .....	9,828.38	
Deficit .....		<u>885,532.55</u>
 TOTAL ASSET ACCOUNTS .....		 <u>\$22,252,334.60</u>

LIABILITY ACCOUNTS:

Stock .....		\$10,000,000.00
Oakland, Antioch & Eastern Railway stock outstanding .....	\$8,682,600.00	
Forfeited for non-payment of assess- ment .....	1,260,000.00	
Stock Liability for conversion .....	<u>57,400.00</u>	
Oakland and Antioch Railway Stock .....		3,500,000.00
San Ramon Valley leasehold privileges .....		242,600.00
Assessment on Capital Stock .....		1,215,120.00
Bonds sold and outstanding .....		4,615,000.00
4-year convertible gold notes .....		294,000.00
Stockholders' loans .....		158,429.00
Miscellaneous long term notes .....		35,500.00
Current Liabilities .....		2,092,105.19
Notes Payable .....	\$ 733,113.55	
Accounts Payable .....	265,704.82	
Funded Debt, Interest matured & unpaid. 1,039,500.00		
Accrued Interest on funded and unfunded debt .....	53,143.87	
Other Deferred Liabilities .....	<u>642.95</u>	
Accrued Depreciation (Equipment) .....		85,899.26
Unadjusted Credits .....		<u>13,681.15</u>
 TOTAL LIABILITY ACCOUNTS .....		 <u>\$22,252,334.60</u>

The testimony herein shows that there has been approximately \$6,500,000 expended to pay for the construction and acquisition of the properties owned by Oakland, Antioch and Eastern Railway, Oakland and Antioch Railway and San Ramon Valley Railroad.

The properties of the Oakland and Antioch Railway and San Ramon Valley Railroad are operated under lease by Oakland, Antioch and Eastern Railway.

For the three years ending December 31, 1918, Oakland, Antioch and Eastern Railway has reported revenues and expenses as follows:

I t e m	: 1 9 1 8	: 1 9 1 7	: 1 9 1 6	:
Operating Revenues	\$879,766.36	\$746,834.76	\$620,315.59	:
Operating Expenses	591,772.88	506,677.48	437,297.25	:
Net Operating Revenues	287,993.48	239,157.28	183,018.34	:
Less Taxes	36,375.00	32,400.00	30,364.10	:
Operating Income	251,618.48	206,757.28	152,654.24	:
Add other Income	2,029.71	1,277.45	822.39	:
Gross Corporate Income	253,648.19	208,034.73	153,476.63	:
Deductions:	:	:	:	:
Rent for leased roads	106,323.38	106,047.87	106,621.59	:
Interest on funded debt	129,000.35	173,748.01	173,836.17	:
Interest on unfunded debt	50,091.36	56,994.70	63,951.89	:
Miscellaneous	2,394.30	21,233.92	19,298.36	:
Total Deductions	287,809.39	358,024.50	363,708.01	:
Loss for Year	34,161.20	149,989.77	210,231.38	:

The earnings of the Oakland, Antioch and Eastern Railway have during the past not been adequate to pay operating expenses, taxes, interest on its indebtedness and rental for the use of the properties of Oakland and Antioch Railway and San Ramon Valley Railroad. The Railroad Commission has at various times had occasion to review the financial condition of Oakland, Antioch and Eastern Railway. In Decision Number 2913, dated November 20, 1915, (Vol. 8, Opinions and Orders of the Railroad Commission of California, p. 452), the Railroad Commission directed Oakland, Antioch and Eastern Railway to report a plan for the readjustment of its finances

to meet its maturing obligations and to place it upon a permanent basis to meet its financial necessities.

A plan for the complete re-financing of the properties owned and operated by Oakland, Antioch and Eastern Railway is attached to the petition herein. The plan in general provides for the organization of a new company, which is to acquire all of the properties owned by Oakland, Antioch and Eastern Railway, Oakland and Antioch Railway and San Ramon Valley Railroad. The new company is to have an authorized stock issue of \$5,500,000. divided into \$4,000,000. of common and \$1,500,000. of preferred. It is also to have an authorized bond issue of \$3,000,000. The bonds are to have a life of 20-years and bear interest at the rate of 5½% or 6% per annum as may be hereafter determined. The plan is drawn up on the theory that the Oakland, Antioch and Eastern Railway bonds held as collateral will be reduced to ownership. It provides only for the refunding of the indebtedness of the three companies and has been presumably prepared upon the assumption that the indebtedness is in excess of the value of the properties. It recognizes no stockholders' equity in the properties. For every \$1,000. of Oakland, Antioch and Eastern Railway, or Oakland and Antioch Railway, or San Ramon Valley Railroad bond outstanding and deposited under the reorganization plan, the new company will issue \$200 of its bonds, \$200 of its first preferred stock and \$600 of common stock. Unsecured creditors of the existing companies, whose claims are valid and approved by the Bondholders' <sup>Committee</sup> are to cancel their claims and receive common stock remaining in the treasury after the common stock distribution has been made to bondholders and secured creditors as provided for in the plan, provided however, that no unsecured creditor is to receive an amount of stock greater in par value than the face value of the debt due him.

Creditors who have a first and direct lien on the mortgaged property, which are valid and enforceable at law, and approved by the Bondholders' Committee, are to be paid in cash. First lien creditors include those who have purchase price mortgages on terminals, valid existing and enforceable equipment liens and claims for current supplies and materials furnished within a period of six months prior to the date of reorganization, or such earlier date as may be fixed by the committee. In revised Exhibit "5", the indebtedness to be paid in cash is reported at \$271,354.73.

The record shows that at the time of the hearing on this application, the holders of about 92 per cent of the obligations of Oakland, Antioch and Eastern Railway, Oakland and Antioch Railway and San Ramon Valley Railroad had approved the reorganization plan and deposited or agreed to deposit the bonds or notes held by them. Assuming that no additional securities are deposited, the new company would issue bonds and stock, according to Exhibit "4" as follows:

Common Stock, . . . . .	\$4,000,000
Preferred Stock, . . . . .	1,161,300
Bonds, . . . . .	1,950,000
For Refunding, . . . . .	\$1,161,300
For sale purposes, . . . . .	788,700
	<hr/>
Total, . . . . .	\$7,111,300

The new company intends to sell \$788,700 of bonds, or such an amount of bonds as may be equal to the difference between the \$1,950,000 of bonds referred to above and the amount of bonds which will have to be issued to refund outstanding bonds, and use the proceeds obtained from the sale of such bonds to pay first lien creditors, pay non-consenting bondholders, pay reorganization expenses, pay for improvements and provide for working capital. If additional obligations are deposited, the amount of bonds and stock issued for refunding purposes will be changed proportionately.

The suggestion has been made by certain security holders that the new company issue additional common stock in an amount

equal to the assessment paid by the stockholders and the matured unpaid interest coupons attached to bonds held in ownership. To carry out the suggestion would call for the issue of about \$6,000,000 instead of \$4,000,000 of common stock. The total capitalization of the new company, assuming that only 92% of the obligations of the existing companies will be deposited, would be increased from \$7,111,300 to about \$9,111,300. As said, the testimony shows that approximately \$6,500,000 has been invested in the properties. No doubt the properties have to some extent depreciated. No showing was made that the appreciation in land values offsets the depreciation which has occurred in the depreciable property. A stock and bond issue of \$9,111,300, as suggested by some of the creditors, appears excessive. In reorganizations of this nature, the Commission has heretofore taken the position that the capitalization of a new company should bear a reasonable relation to the value of the properties and that the fixed charges should be well within the earnings of the properties. There appears no valid reason why the Commission should depart from such position in this case. In my opinion, the new company should not issue more than \$1,950,000 of bonds, at least \$620,000 of bonds to be sold for cash, - \$1,330,000 of preferred stock and \$4,000,000 of common stock, as provided for in the reorganization plan. The distribution of such stock and bonds is a matter for the creditors to determine rather than the Commission, which is concerned primarily with the total amount of stock and bonds issued by the new company.

The reorganization plan, which the Commission is asked to approve, reduces the annual fixed charges of the properties from \$285,000 to \$117,000 per annum; the bonded debt from \$6,444,000 to \$1,950,000 and the capital stock from \$8,711,300 to at least \$5,330,000. The bondholders retain the full benefit of all of the security which they hold after providing only for such

creditors as hold a lien prior to their lien, and through becoming stockholders they secure the benefits of all increased earnings as they accrue. Provision is also made in the plan for financing the cost of future additions and betterments.

No receiver has ever been appointed by the courts to take possession of either the properties of Oakland, Antioch and Eastern Railway, or Oakland and Antioch Railway or San Ramon Valley Railroad. It is the intention of the reorganization committee to apply to the courts for a decree foreclosing the mortgages securing the payment of the bonds issued by the various corporations mentioned. Until such decree is rendered, it is impossible to state definitely how much of the proceeds obtained from the sale of the bonds by the new company will have to be expended to pay for the claims of non-consenting bondholders.

The Commission can at this time, in this proceeding, issue only a preliminary order indicating the maximum amount of stock and bonds which the new company may issue. Before a final order can be made, there must be filed with the Commission a statement showing the purposes for which the new company intends to expend the proceeds obtained from the sale of its bonds, a detailed statement of reorganization expenses, a copy of the proposed mortgage, a description of the properties which the new corporation intends to acquire together with a statement showing the amount of money received by the new corporation as a result of the foreclosure sale. The order herein will also require that there be filed with the Commission a stipulation relating to the amortization of the reorganization expenses out of income.



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 Oakland, Antioch and Eastern Railway, Oakland and Antioch Railway and San Ramon Valley Railroad and for an order authorizing the issue of stock and bonds, a public hearing having been held;

IT IS HEREBY ORDERED that Oakland, Antioch and Eastern Railway, Oakland and Antioch Railway and San Ramon Valley Railroad be, and they are hereby, authorized to sell all of their properties directly or indirectly to a corporation to be hereafter organized, such sale being made for the purpose of carrying out the reorganization plan attached to the petition herein and marked Exhibit "A", 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, not exceeding \$1,950,000 of first mortgage bonds bearing interest at not more than 6 per cent per annum and not exceeding \$1,330,000 of 6 per cent preferred stock and \$4,000,000 of common stock;

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 Commission the articles of incorporation and trust deed or mortgage of the corporation to be hereafter organized to acquire said properties, a complete description of the properties, a detailed statement of the reorganization expenses, a statement showing the purposes for which the new corporation intends to expend the proceeds obtained from the sale of its bonds, together with a statement showing

the amount of money received by the new corporation as a result of the foreclosure sale; and

PROVIDED, FURTHER, that none of the bonds herein authorized shall be sold until the Railroad Commission has made a supplemental order herein defining the terms and conditions under which such bonds may be sold and the purposes for which the proceeds may be expended; and

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 Commission, to the effect that the reorganization expenses will, at such time, 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 26<sup>th</sup> day of June, 1919.

Edwin O. Egerton

Frank R. Darling

H. B. ...

Dwight ...  
Commissioners.

no fee Dec 6457  
no fee 1<sup>st</sup> Corp. Dec. 6849  
file 906-due Dec. 7026. 2<sup>nd</sup> Corp. App-