

ORIGINAL

Decision No. 708

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of
Southern Pacific Company for authority
to issue notes aggregating face value
Thirty Million Dollars (\$30,000,000)
with interest at five per cent (5%)
per annum and secured by bonds and
other securities.

Application No. 585.

Guy V. Shoup for applicant.

EDGERTON, Commissioner.

OPINION

This is an application for an order authorizing the issue by Southern Pacific Company of \$30,000,000 face value of notes to be dated June 1, 1913, to mature June 1, 1915, and bearing interest at five per cent per annum, payable semi-annually, said notes to be subject to redemption at par and accrued interest on June 1, 1914 and December 1, 1914 on thirty days' notice by applicant to the holders thereof.

Applicant was organized under the laws of the State of Kentucky, March 17, 1884, and through stock ownership, leases and otherwise, it owns, controls and operates a large number of railroad and other transportation systems located in a number of states. Among others, it so controls and operates extensive railroad and other transportation systems in the State of California.

The financial condition of applicant is as follows:

Bonds outstanding June 30, 1912	\$140,587,410
Stock outstanding June 30, 1912	272,675,730
Bonds unpledged in treasury June 30, 1912 ..	106,000,000
Stock unpledged in treasury June 30, 1912 ..	105,000,000

Applicant submits a statement showing earnings over fixed charges, operating expenses and taxes for the year ending June 30, 1912 of \$21,603,000 and estimated earnings for the year ending June 30, 1913 of \$21,855,000.

It is proposed to secure the payment of the promissory notes by pledging a part of these stocks or bonds, or both, as such security. The indebtedness represented by the promissory notes is not to be a lien upon any of the operating property of applicant.

At the hearing it was testified that the issuance of these notes for the comparatively short period of two years at five per cent was the most economical method of raising money needed to make additions and betterments to the properties of applicant at this time; that because of the condition of the money market any attempt to sell bonds running for a long period would result in the payment by applicant of more by way of interest and discount for the money obtained than by the proposed plan.

The purposes for which the money to be derived from these notes are to be used are additions and betterments to existing lines and the construction of lines into new territory.

A summary of such additions and betterments to be made on the Pacific Coast in California and Oregon, and toward the payment of which a part of the money to be obtained on the sale of these notes is to be applied, is as follows:

Southern Pacific Co. - Pacific System	\$11,356,540.00
Salem, Falls City & Western Ry.....	68,680.00
Pacific Railway & Navigation Co.....	134,540.00
Portland, Eugene & Eastern Ry.....	2,501,880.00
Coos Bay Oregon Coal Co.....	-----
Coos Bay, Roseburg & Eastern Railway and Navigation Co.....	4,470.00

Corvallis & Eastern R.R. Co.....	\$	270,580.00
Albion Lumber Co.....		10,250.00
Pacific Fruit Express Co. (One-half).....		<u>75,625.00</u>
Grand Total		\$14,422,565.00

Applicant proposes to expend in additions and betterments on its entire system for the calendar year 1913, \$48,526,000.00. ⁽⁷⁾ toward which expenditure the proceeds from the sale of these notes are to be applied, the balance to be supplied from other sources, probably from surplus.

It appears beyond doubt that applicant is in such excellent financial condition as to make sure that the principal and interest on these proposed notes can be promptly paid and it further appears that all of the money to be derived therefrom is to be used for purposes properly capitalizable under the California law.

The representatives of applicant were unable to state in detail what securities and the amount thereof which would be pledged as collateral security for these notes, and while this order may properly be made prior to the furnishing of such detail, the Commission should be furnished a complete list of the securities so pledged, and also be furnished with any contract which may be executed in relation to the issuance of these notes or the pledge of collateral as security therefor.

It has been suggested by representatives of applicant that a minimum sale price of 97-1/2 per cent of face value be placed upon these notes, and while it is apparent that under ordinary conditions these notes drawing five per cent should bring par, in view of the security to be placed behind them

and the excellent showing of earnings by applicant, still I realize that there is a condition of the money market at present, to be recognized, and it may be necessary for applicant to discount these notes in order to obtain the required money.

I recommend that the application be granted upon the conditions, among others, that immediately upon the execution of any contract in relation to the issuance of these notes, or the pledging of collateral to pay the same, this Commission be furnished with a copy of such agreement and also with a complete list of the securities pledged as collateral. Further, that before the expenditure of any of the money in California, derived from the sale of these notes, complete detailed estimates of the betterments, additions and improvements proposed to be made in California be furnished for the approval of the Commission.

I submit herewith the following form of order:

O R D E R

Application having been made to the Railroad Commission of the State of California by Southern Pacific Company for an order authorizing the issue by said company of \$30,000,000 face value of notes, bearing interest at the rate of five per cent per annum, dated June 1, 1913, and payable June 1, 1915,

And a hearing having been duly held and it appearing to the Commission that the money to be secured by the issue of said notes is necessary and reasonably required by said company for the acquisition of property and the construction, completion and extension of its facilities, and that the purposes for which the proceeds of the sale of said notes are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission of

the State of California does hereby authorize the issue by Southern Pacific Company of \$30,000,000 face value of notes, bearing interest at the rate of five per cent per annum, said notes to be dated June 1, 1913, and to be due and payable June 1, 1915, and to be subject to redemption at par and accrued interest on June 1, 1914 and December 1, 1914, on thirty days' notice by said company to the holders thereof.

Said notes are to be issued upon the following conditions and not otherwise:

1. Southern Pacific Company shall sell the notes hereby authorized so as to net said company not less than 97-1/2 per cent of the face value thereof plus accrued interest at the date of their delivery to the purchaser.

2. The proceeds from the sale of said notes shall be used for the following purposes only:

For additions and betterments to existing lines and for the construction of lines into new territory and for such purposes on the Pacific Coast, as follows:

Southern Pacific Co. - Pacific System	\$11,356,540.00
Salem, Falls City & Western Ry.....	68,680.00
Pacific Railway & Navigation Co.....	134,540.00
Portland, Eugene & Eastern Ry.....	2,502,880.00
Coos Bay Oregon Coal Co.....	-----
Coos Bay, Roseburg & Eastern Railway and Navigation Co.	4,470.00
Corvallis & Eastern R.R. Co.....	270,580.00
Albion Lumber Co.....	10,250.00
Pacific Fruit Express Co. (One-half)	75,625.00
Grand total	\$14,422,565.00

For a more detailed description of which, reference is hereby made to Exhibit B on file herein.

3. Immediately upon the execution of any agreement under which said notes are issued, a true copy of said agreement together with a complete list of the securities pledged as security for the payment of said notes shall be furnished this Commission.

4. Before any of the money derived from the sale of said notes shall be spent in California, full and detailed estimates of the additions and betterments and improvements proposed to be made in California shall be furnished for the approval of the Commission.

5. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said notes hereby authorized to be issued, and on or before the 25th day of each month the company shall make a verified report to the Commission in accordance with the Commission's General Order No. 24, stating the sale or disposition of such notes during the preceding month, the terms and conditions of such sale or other disposition, the moneys realized therefrom and the use and application of such moneys.

6. The authority hereby given to issue such notes shall apply only to notes issued by said company on or before the 1st day of July, 1914.

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 7th day
of June, 1913.

Railroad Commission State of California
Fee \$105.00
JUN 11 1913
H. L. Washburn
Assistant Secretary.

H. B. Loveland
Max Thelen
Edwin C. Edgerton
Commissioners.