

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)
 Sacramento Valley Electric Railroad)
 Company for an order modifying the)
 order of the Commission of date)
 August 13, 1912, wherein the said) Application No. 75.
 Company was granted permission to)
 sell and issue 30,000 shares of)
 Preferred Stock and 7500 shares of)
 Common Stock.)

EDGERTON, Commissioner.

SUPPLEMENTAL OPINION.

This is an application for a modification of the order made herein on the 13th day of August, 1912.

That order authorized the issuance and sale of preferred and common stock under conditions therein specified. Among said conditions, was the following:

"Said preferred stock to be sold to net not less than 80 per cent of its par value to the company, provided that said stock may be sold to be paid for in installments, said installments to be not less than \$25 cash at the time of sale and the balance in equal installments in not more than 3, 6 and 9 months thereafter. Promissory notes bearing interest at six per cent per annum may be taken for the deferred payments, the stock not to be delivered until fully paid for. Provided further, that if commissions be paid on the sale of said stock they shall not exceed an amount which will yield the aforesaid 80 per cent par value of said stock net to the company and said commissions shall be paid in proportion as the cash for said stock is received by the company. No commission shall be allowed or paid on the stock already subscribed for, nor shall any commission be allowed or paid except for services actually rendered in the sale of stock."

Said order also provided:

".... Construction of the road shall not be entered upon nor liability created, nor money paid out except for commissions as aforesaid until there shall be in the hands of the company from the sale of stock \$750,000."

Said order also provided:

"The authority hereby given to issue such stock shall apply only to stock issued by said company on or before the 1st day of August, 1913."

We are now asked to modify said order so as to permit the payment of general expenses incurred by said company other than commissions paid on the stock, notwithstanding it has not in its hands \$750,000 from the sale of stock, and to permit the taking of promissory notes for the entire price of the stock sold, and to extend the life of said order from August 1, 1913 to August 1, 1914.

It appears that up to August 31, 1913, this company has received \$416,401.55 on account of the sale of its preferred stock, \$212,290.00 of which is cash and \$204,111.55 is represented by promissory notes, and that it has paid out in commissions on the sale of said capital stock, the sum of \$80,290.29, and for expenses in conducting the business of said corporation, the sum of \$40,468.42.

It was testified to at the hearing that through the activities of the officers and agents of the company 90 per cent of the necessary right of way over which this line of railroad is to be constructed, has been given free to the company.

Applicant has submitted a detailed statement of expenses already paid to August 31, 1913, and asks that it be authorized to expend for general expenses to be incurred by the company hereafter, an amount not to exceed \$3,000.00 per month.

An analysis of the expenses paid by this company other than commissions on the sale of stock, shows that they consist generally of office rent and expenses, clerical help, stenographic services, advertising, expenses and salaries of right of way agents, expenses of its directors in traveling to and from meetings and the salaries of an auditor and an engineer.

I believe that it is necessary that this company maintain an office with the usual facilities and that it employ persons to obtain rights of way. (This, however, appears to be a diminishing necessity, as the testimony is that 90 per cent of the rights of way have already been obtained.) The need of an engineer at this time where no construction is under way is not so apparent. It appears that the money already paid out for these purposes has been honestly expended for the benefit of the company.

Sufficient showing has not been made, however, to justify a continuing expense of \$3,000.00 per month. I believe that with the exercise of economy that the expenses can be brought down to \$1,000.00 per month, and in view of the fact that this company is not building its line, but is selling stock for the purpose of building up a treasury, the greatest economy should be practiced in order that the money received from the sale of stock be available for the construction of the railroad.

Inasmuch as the directors of this company are familiar with men and conditions in the Sacramento Valley where this railroad is to be built, and where the stock is being sold, I believe it is reasonable to permit this company to take promissory notes for the sale of its stock, provided that these notes be passed upon and approved by the directors before acceptance, and that sufficient cash be realized upon said notes, without obligating the company to repay said money in the event that said promissory notes are not paid, to pay all commissions of stock salesmen and the expenses of said company. This will retain intact the cash now held by this company. All promissory notes taken by salesmen should be at once delivered to the directors of the company to be passed upon and in the event of their being disapproved, to be immediately returned to the maker.

I submit herewith the following form of supplemental order:

SUPPLEMENTAL ORDER.

Application having been made to the Railroad Commission of the State of California by Sacramento Valley Electric Railroad Company for an order modifying and amending the order made herein on the 13th day of August, 1912, in the particulars set out in the foregoing opinion, and a public hearing having been held, and it appearing to the Commission that said application should be granted under the conditions in this order set out.

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that the order heretofore made by this Commission herein, dated August 13, 1912, is hereby amended and modified so as to read as follows:

O R D E R

Application having been made to the Railroad Commission of the State of California by Sacramento Valley Electric Railroad Company for an order authorizing the issue by said company of 30,000 shares par value \$3,000,000 preferred stock and 7,500 shares par value \$750,000 common stock, and authorizing applicant to sell said preferred stock at par and to pay commissions on the sale thereof of 20 per cent and authorizing the sale or exchange of said common stock for rights of way.

And a hearing having been duly held and it appearing to the Commission that the money and property to be secured by the issue of said stock are necessary and reasonably required by said company for the purpose of procuring rights of way and constructing thereon the railroad as specified in said application and exhibits attached thereto, and the purpose for which the proceeds of the issue of said stock are to be used are not in whole or in part reasonably chargeable to operating expenses or income.

IT IS HEREBY ORDERED that the Railroad Commission of the State of California does hereby authorize the issue by Sacramento Valley Electric Railroad Company of \$3,000,000 par value preferred stock and \$750,000 par value common stock.

Said preferred stock to be sold to net not less than 80 per cent of its par value to the company, provided, that said stock may be sold to be paid for in installments, said installments to be not less than \$25.00 cash per share at the time of sale, and the balance in equal installments, payable in not more than 3, 6 and 9 months thereafter. Promissory notes bearing interest at not less than six per cent per annum may be taken for the deferred payments. Provided further, that promissory notes bearing interest at not less than six per cent per annum and payable at not more than one year from their date, may be taken for the whole purchase price of said stock, but sufficient money shall be realized from such promissory notes, without obligating the company to repay the same, to pay all commissions paid on the sale of said stock, and in addition, the general expenses herein allowed to be paid by the company. Provided further, that if commissions be paid on the sale of stock they shall not exceed an amount which will yield the aforesaid 80 per cent of the par value of said stock net to the company. Commissions shall be allowed or paid only for services actually rendered in the sale of stock.

None of the said stock shall be delivered until fully paid for. All promissory notes taken for the above purposes shall be delivered immediately to the Board of Directors of the company to be approved or disapproved by said Board. Where said promissory notes are approved a record of such approval shall be made and kept by said directors, and where said promissory notes are disapproved, the same shall be returned immediately to the makers.

Said common stock may be sold by the company under the conditions above set out for the sale of preferred stock or said

common stock may be exchanged for rights of way over which said railroad is to be constructed and operated, such exchange to be made upon the basis of the fair market value of such rights of way and the par value of the common stock.

Provided that the exchange of common stock for rights of way shall not be finally consummated until \$750,000 on the sale of preferred stock shall have been paid in to the treasury of the company. Proper provision, however, may be made for the conditional acquiring of said rights of way in exchange for said common stock pending final consummation of such exchange. Construction of the road shall not be entered upon nor liability created, nor money paid out except for commissions as aforesaid until there shall be in the hands of the company from the sale of stock \$750,000.

The proceeds from the sale of said preferred stock shall be used for the following purposes:

For the purchase of materials and rolling stock and the construction of an electric railroad in certain territory all as set out in detail in the application and exhibits attached thereto and filed therewith.

Said company is hereby authorized to pay for general expenses, exclusive of commissions paid on the sale of stock, as set out in detail in the statements filed with this Commission, covering the period up to August 31, 1913, an amount equal to \$40,468.42. Said company shall submit for the approval of this Commission a statement similar in form to the one just above mentioned, showing general expenses incurred from said August 31, 1912 to the date of this order. From and after the date of this order, and until the further order of this Commission, said company is authorized to expend for general expenses, similar to those detailed in the statements heretofore made, and just above referred to, an amount not to exceed \$1,000.00 per month, provided that said \$1,000.00 shall not be taken from cash now in the

hands of applicant, but shall be realized from promissory notes hereafter taken for the sale of stock.

Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale or exchange of said stock 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 disposal of such stocks during the preceding month, the terms and conditions of such sale or other disposition, the moneys or property realized therefrom and the use and application of such money or property. And in addition thereto said company shall submit to this Commission for its approval the form of all contracts for the sale or exchange of stock and before the execution thereof all contracts for grading, bridging, track, including materials and labor, equipments of all kinds and all materials, labor and property involving costs in excess of \$1,000.00.

The authority hereby given to issue such stock shall apply only to stock issued by said company within the time from the 1st day of August, 1913, to the 1st day of August, 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 27th
day of September, 1913.

John M. Cullinan

Alex. Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.