

Decision No. 30764

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the )  
SOUTHERN PACIFIC MILLING COMPANY, )  
a California corporation, for an order )  
authorizing the issue of shares of pre- ) Application No. 21352  
ferred and common stock. )

McCutchen, Olney, Mannon & Greene, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to make its order authorizing Southern Pacific Milling Company, a corporation, to issue its \$189,100.00 par value of preferred and \$656,200.00 par value of common stock as follows:-

1. 30,810 shares of its common stock of the par value of \$20.00 each and of the aggregate par value of \$616,200.00, in exchange for 6,162 shares of common stock now outstanding of the par value of \$100. each;
2. 6,955 shares of 7% cumulative preferred stock of the par value of \$20.00 each and of the aggregate par value of \$139,100.00 in exchange for 1391 shares of preferred stock now outstanding of the par value of \$100.00 each;
3. 2,500 shares of its 7% cumulative preferred stock of the par value of \$20.00 each and of the aggregate par value of \$50,000.00 to reimburse its treasury on account of moneys expended from income and to pay a stock dividend;
4. 2,000 shares of its common stock of the par value of \$20.00 each and of the aggregate par value of \$40,000.00 to finance the cost of properties and material and to pay indebtedness.

The application shows that Southern Pacific Milling Company is a corporation organized on or about July 15, 1886, under the laws of the State of California and now engaged in the business of operating public warehouses and in the business of merchandising various products in the Counties of Santa Clara, Monterey, Ventura, Santa Barbara and San Luis Obispo. The annual reports filed by the company show its revenues and expenses as follows:-

Item	Years ending May 31		
	1935	1936	1937
Warehouse revenues	\$ 145,875.28	\$186,515.14	\$168,040.41
Warehouse expenses	138,656.23	157,160.59	187,150.56
Net revenues-warehouse operation	\$ 5,219.05	\$ 29,354.55	\$ (19,110.15)
Other revenues	\$ 334,071.80	\$412,990.13	\$693,907.58
Other expenses	280,984.49	335,356.96	539,929.50
Net revenues-other operations	\$ 53,087.31	\$ 77,633.17	\$153,978.08
Total net revenues	\$ 58,306.36	\$106,987.72	\$134,867.93
Interest	\$ 27,017.86	\$ 34,947.32	\$ 26,324.06
Dividends	46,708.56	26,599.80	51,243.57
Surplus for year	\$ (15,420.06)	\$ 45,440.60	\$ 57,295.30

(Red)

For the period from June 1, 1937 to February 28, 1938 the company reports in Exhibit C a net profit of \$57,949.82.

In the application the company reports outstanding 6,162 shares of common stock and 1,391 shares of 7% cumulative preferred stock, all of the par value of \$100.00 each. It reports its assets and liabilities as of February 28, 1938 as follows:-

<u>A S S E T S</u>		
Operative property		\$ 1,340,075.81
Land	\$100,367.82	
Buildings	707,265.62	
Machinery and equipment	532,442.37	
Nonoperative property		68,221.39
Insurance funds and investments		60,997.68
Current assets:		
Cash	\$ 17,271.30	
Notes and accounts receivable	447,201.05	
Inventories	573,428.06	1,037,960.41
Prepaid charges		29,408.18
Total assets .....		<u>\$2,536,663.47</u>

# LIABILITIES

<u>Stock:</u>		
Common	\$616,200.00	
Preferred	<u>139,100.00</u>	\$755,300.00
Mortgage payable		10,394.22
Current liabilities:		
Notes and accounts payable	\$573,429.17	
Taxes payable	14,066.01	
Other	<u>7,308.54</u>	594,803.72
Reserves		855,926.06
Surplus		<u>320,239.47</u>
Total liabilities		<u>\$2,536,663.47</u>

It is reported that on February 8, 1938 the company amended its articles of incorporation so as to change the par value of the shares of stock, of both classes, from \$100. to \$20. As now stated, the articles provide for a total capital stock of \$1,000,000.00 divided into 50,000 shares of the par value of \$20.00 each, consisting of 12,500 shares of preferred stock and 37,500 shares of common stock. The terms of preference of the preferred stock are states as follows:-

"The holders of the Preferred Shares shall be entitled to receive, when and as declared from the surplus profits arising from the business of the corporation, monthly dividends at the rate of seven-twelfths(7/12) of one (1) per cent per month upon the par value thereof. Commencing with and after the date of issue of any Preferred Share or Shares such dividends at the rate of seven-twelfths(7/12) of one(1) per cent for each calendar month shall be cumulative and shall be declared and paid or set apart before any dividends on the Common Shares shall be paid or set apart, so that if at any time after the issuance of any Preferred Shares dividends at the rate of seven-twelfths (7/12) of one (1) per cent for each calendar month shall not have been paid, or declared and set apart, on such Preferred Shares for all previous calendar months after the issuance thereof, the deficiency shall be paid, or declared and set apart, before any dividends shall be paid, or declared and set apart, for the Common Shares. Whenever all such cumulative dividends on the issued and outstanding Preferred Shares for all previous calendar months after its issue shall have been declared and paid, or set apart, the Board of Directors may declare dividends on the Common Shares, payable then or thereafter, out of any remaining surplus profits; provided, however, that when and after dividends amounting to seven (7) per cent in any one calendar year have been declared and paid, or set apart, upon the par value of the common shares, the holders of the Preferred Shares shall receive for each Preferred Share one-half(1/2) of the amount of dividends declared

and paid, or set apart, upon each Common Share in that calendar year, over and above seven(7) per cent of the par value thereof; the intention being that after dividends of seven (7) per cent of the par value have been paid or set apart on all shares, both Common and Preferred, in any one calendar year, that in case any other dividends are declared and paid or set apart in that year, the holders of the Preferred Shares shall participate therein with the holders of the Common Shares in the ratio of One(1) Dollar for each Preferred Share issued and outstanding to Two (2) Dollars for each Common Share then issued and outstanding.

On December 31, 1919, or on the 31st day of December of any year thereafter the whole or any part of said Preferred Shares may be purchased by the SOUTHERN PACIFIC MILLING COMPANY by paying to the holder thereof, as shown by the books of the corporation, the sum of Twenty-one(21) Dollars for each share thereof."

The company proposes and accordingly asks permission to issue new shares of stock of the par value of \$20.00 each in exchange for and upon surrender to it of the shares of stock now outstanding, such exchange to be upon the basis of five shares of the \$20.00 par value stock for one share of the \$100.00 par value stock.

The company further proposes to issue \$50,000.00 of preferred stock to reimburse its treasury because of earnings used for capital additions and improvements. Following the reimbursement of the treasury the company proposes to distribute such stock to its common stockholders as a stock dividend.

The foregoing balance sheet shows a balance in the corporate surplus account as of February 28, 1938, of \$320,239.47. A review of the company's financial statements on file with the Commission clearly shows that the company has had surplus earnings in excess of the proposed dividend and that such surplus earnings have been invested in its business and properties.

The company also proposes to issue and sell \$40,000.00 of common stock at not less than the par value thereof and to use the proceeds in part for the acquisition and replacement of equipment and inventories, such as lumber, bags, twine, buildings, millwork and

other items, and in part for the discharge of existing short term bank indebtedness which was incurred in the acquisition of equipment and inventories. As of February 28, 1938, such short term bank loans were reported at \$518,000.00.

The application contains no showing of expenditures to be made for the acquisition and replacement of equipment and inventories. The <sup>herein</sup> order/accordingly will authorize the use of the proceeds from the \$40,000.00 of stock to pay present outstanding indebtedness.

#### O R D E R

Southern Pacific Milling Company having applied to the Railroad Commission for an order authorizing the issue of stock, and the Commission being of the opinion that this is not a matter in which a public hearing is necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of such stock is reasonably required for the purposes specified herein and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:-

1. Southern Pacific Milling Company may, on or before December 31, 1938, issue 30,810 shares of its common stock of the par value of \$20.00 a share in exchange for and upon surrender of 6,162 shares of common stock of the par value of \$100.00 a share now outstanding, and issue 6,955 shares of its preferred stock of the par value of \$20.00 a share in exchange for and upon surrender of 1,391 shares of preferred stock of the par value of \$100.00 a share now outstanding.
2. Southern Pacific Milling Company may <sup>on or before December 31, 1938</sup> issue and sell/at not less than the par value thereof 2,000 shares of its common stock of the par value of \$20.00 a share and use the proceeds to pay in part outstanding

indebtedness.

3. Southern Pacific Milling Company may issue on or before May 31, 1939, 2,500 shares of its preferred stock to reimburse its treasury on account of surplus earnings expended for additions to and improvements of its properties, provided that after such reimbursement said preferred shares may be distributed as a stock dividend to the holders of the outstanding common stock.

4. Southern Pacific Milling Company shall keep such record of the issue of the stock herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

5. The authority herein granted will become effective fifteen (15) days after the date hereof.

DATED at San Francisco, California, this 11<sup>th</sup> day of April, 1938.

Arthur H. Brown  
Leon A. Bickell  
Frank R. Nelson  
Robert A. Bickell  
Bob & Bickell  
Commissioners