

Decision No. 19105

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PICKWICK STAGES SYSTEM,)
a corporation, for an order author-)
izing the issuance and sale of)
capital stock of the par value of)
Three Hundred and Twenty Five)
Thousand (\$325,000.00) Dollars.)

ORIGINAL

Application No. 14121.

In the Matter of the Application of)
PICKWICK STAGES SYSTEM,)
a corporation, for an order per-)
mitting it to issue Three Hundred)
Thousand (\$300,000.00) Dollars of)
equipment trust certificates.)

Application No. 14122.

Warren E. Libby, for applicant.

BY THE COMMISSION:

O P I N I O N

In the above entitled matters Pickwick Stages System, a corporation, asks the Railroad Commission to make an order authorizing it to issue \$325,000.00 of common stock at par and \$300,000.00 of six and one half percent equipment trust certificates at 95 to finance the cost of additional equipment.

A public hearing on the two applications was held before Examiner Fankhauser on October 28th at which time they were consolidated for the purpose of receiving evidence and for decision.

As of August 31, 1927, Pickwick Stages System reports outstanding \$1,759,250.00 of common stock and \$770,000.00 of equipment trust certificates. The assets and liabilities of the same date are shown in Exhibit "A" as follows:-

ASSETS:

Land	\$24,699.17
Buildings and equipment	\$2,599,848.72
Less depreciation.	<u>430,668.15</u>
Net.	2,169,180.57
Franchises	510,720.29
Current Assets:	494,396.02
Other assets	36,099.34
Deferred charges	107,348.78
Discount on capital stock.	<u>5,844.00</u>
Total Assets	<u>\$3,348,287.17</u>

LIABILITIES:

Stock outstanding.	\$1,759,250.00
Equipment trust certificates	770,000.00
Cost of furniture and equipment payable in installments	195,207.82
Accrued Federal income tax - 1926.	10,831.66
Reserve for motor.	116,293.57
Current liabilities.	257,802.07
Surplus.	45,182.46
Profit and loss - 1927	<u>193,719.59</u>
Total Liabilities.	<u>\$3,348,287.17</u>

The company in these two applications asks permission to issue stock and equipment trust certificates to acquire the use of additional equipment which it reports will cost it \$605,000.00. This equipment consists of the following:-

10 - 26-passenger parlor sedan intercity type stages at \$12,500 each	\$125,000.
10 - 27-passenger aisle parlor sedan intercity type stages at \$13,500 each.	\$135,000.
16 - 27-passenger aisle parlor sedan intercity type stages equipped with lavatories and toilets at \$15,000 each	\$240,000.
6 - 28-passenger observation parlor buffet semi- double deck stages at \$17,500 each.	\$105,000.
Total	<u>\$605,000.</u>

A portion of the proposed cost of the equipment, applicant proposes to obtain through assuming the obligations referred to in the equipment trust agreement and lease of automobile stage equipment filed in Application No. 14122 as Exhibit "B" and "C". This agreement provides for the issue of \$300,000.00 equipment trust certificates bearing interest at the rate of six and one half percent per annum and payable on the following dates in the following amounts:-

October 15, 1928\$20,000.
October 15, 1929\$40,000.
October 15, 1930\$60,000.
October 15, 1931\$60,000.
October 15, 1932\$60,000.
October 15, 1933\$60,000.
Total . . .	<u>.\$300,000.</u>

Under the provisions of Exhibits "B" and "C" the Pickwick Stages System undertakes to lease equipment referred to herein and pay as rental for the use of such equipment an amount sufficient to pay the equipment trust certificates, to pay interest thereon and maintain the equipment and pay any other expenses in connection with the operation of said equipment. Assuming that the equipment trust certificates are sold at 95, the company would realize \$285,000. The balance of the purchasing price is to be secured through the issue of common stock at par which will be purchased by the Pickwick Corporation.

The testimony shows that the equipment which is to be acquired and made available for the Pickwick Stages System and which will finally be paid by the Pickwick Stages System is being constructed by the Pickwick Corporation which owns all of the outstanding common stock of Pickwick Stages System. It appears that the Pickwick Corporation is selling the equipment at ^{a profit} ranging as high as twenty-five percent.

We feel that the amounts which Pickwick Stages System, a public utility, proposes to pay for the equipment, are excessive

and that such excessive prices are due in part at least to the practice of having the parent company construct the equipment. It occurs to us that the operations of Pickwick Stages System have reached such a magnitude as should enable it to acquire or construct its equipment on a more favorable basis than it is acquiring the same from Pickwick Corporation. The situation presented here is in its essentials no different from the practice, long since rejected by the Commission, of permitting a construction company to profit at the expense of a public utility when the construction company controls the public utility or is owned or controlled by the same interests which own or control the utility.

The order herein, accordingly, will be of a preliminary nature and, while authorizing the issue of the stock and certificates in the amounts applied for, will provide that the proceeds received from the sale of such securities be placed in a separate bank account and withdrawn by applicant only upon receiving supplemental authority from this Commission to do so. To obtain such supplemental authority it will be necessary for applicant to file with the Commission, when it is desired to withdraw proceeds, a supplemental petition containing a certified statement showing in detail the actual cost of constructing the equipment to be financed with such proceeds and justify the cost therein shown.

O R D E R

Pickwick Stages System having applied to the Railroad Commission for an order authorizing the issue of stock and equipment trust certificates, referred to in the foregoing opinion, a public hearing having been held and the Railroad Commission being of the opinion that the request should be granted as herein provided, and not otherwise, and that the issue of stock and certificates is reasonably required by applicant,

IT IS HEREBY ORDERED that Pickwick Stages System be, and it hereby is, authorized to issue and sell at not less than par, \$325,000. of its common capital stock and to execute and enter into an equipment trust agreement and a lease agreement substantially in the same form as the agreements filed with Application No. 14122,^{as amended by the company in its letter of November 1, 1933} and to assume or guarantee the payment of not exceeding \$300,000. of six and one half percent serial equipment trust certificates payable on or before October 15, 1933, the issue and sale of which certificates, at not less than 95 percent of face value plus accrued interest, is hereby authorized.

IT IS HEREBY FURTHER ORDERED that Pickwick Stages System shall deposit the proceeds from the sale of the \$325,000.00 of stock and the \$300,000.00 of certificates in a special bank account, and use such proceeds only upon being authorized to do so by supplemental orders in these proceedings, for the purpose of financing the construction cost of the equipment referred to in the foregoing opinion, or for such other purposes as the Commission might authorize.

The authority herein granted is subject to the following conditions;-

1. To obtain supplemental orders authorizing the use of proceeds from the sale of the stock and certificates applicant shall first file with the Commission supplemental petitions containing certified statements showing in detail the actual cost of constructing the equipment to be financed through the use of said proceeds, and justify said cost.
2. The authority herein granted to execute an equipment trust agreement and a lease agreement is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said agreements as to such other legal

requirements to which said agreements might be subject.

3. Applicant shall keep such record of the issue of the stock and certificates herein authorized as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.
4. The authority herein granted to issue stock shall become effective upon the date hereof. The authority herein granted to issue certificates shall become effective only when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$300. and the authority to use proceeds from the sale of stock and certificates shall become effective only when hereafter authorized in supplemental orders.
5. Under the authority herein granted no stock or certificates may be issued after June 30, 1928.
6. Within thirty days after the execution of the agreements referred to herein Pickwick Stages System shall file two certified copies thereof.

DATED at San Francisco, California, this 6th day of December 1927.

C. Seavey

Thos. D. Davis

M. J. Lusk
Commissioners.

