

ORIGINAL

Decision No. 19732

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 cap-)
ital stock of the par value of three)
hundred and twenty-five thousand)
(\$325,000.00) dollars.)

Application No. 14121.

In the Matter of the Application of)
PICKWICK STAGES SYSTEM,)
a corporation, for an order permit-)
ting it to issue three hundred)
thousand (\$300,000.00) dollars of)
equipment trust certificates.)

Application No. 14122.

BY THE COMMISSION:

FIRST SUPPLEMENTAL OPINION

The Railroad Commission, by Decision No. 19105, dated December 6, 1927, in the above entitled matters, authorized Pickwick Stages System to issue and sell at not less than par, \$325,000.00 of its common capital stock and to execute and enter into an equipment trust agreement and a lease agreement and to assume or guarantee the payment of not exceeding \$300,000.00 of six and one half percent serial equipment trust certificates, the issue and sale of which certificates, at not less than ninety-five percent of face value, was authorized.

The order of the Commission provided that the proceeds from the sale of the stock and certificates be deposited in a

special bank account to be used by the company for the purpose of financing the construction cost of equipment but only upon being authorized, by supplemental orders, to do so. In this connection, Condition No. "1" of the order reads as follows:-

"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."

On December 14, 1927, applicant filed a supplemental petition in the above entitled matters asking permission to use \$34,900.00 of the proceeds from the sale of the stock and \$31,350.00 from the sale of the certificates to finance in part the cost of the following equipment:-

Four	27-passenger aisle-parlor sedan intercity type automobile stages bearing the names "Carat", "Scarab", "Tiger Eye" and "Louisiana". of the value of \$13,500.00 each	\$54,000.00
One	26-passenger parlor sedan intercity type automobile stage bearing the name "Wisconsin" of the value of	<u>12,500.00</u>
	Total	<u>\$66,500.00</u>

It appears that the equipment has been constructed by The Pickwick Corporation, a company which owns all of the outstanding stock of Pickwick Stages System, applicant herein. In support of the request contained in the supplemental petition applicant has filed, as Exhibit "A", a certified statement showing in detail the costs to The Pickwick Corporation of manufacturing the five units of equipment now proposed to be purchased by applicant.

These costs, compared with the purchase prices proposed to be paid by applicant, are as follows:-

Equipment	Reported Cost to The Pickwick Corporation.	Proposed purchase price by applicant	Difference
27-passenger stages:			
Carat	\$11,732.19	\$13,500.00	\$1,767.81
Scarab	11,898.93	13,500.00	1,601.07
Tiger Eye	11,694.92	13,500.00	1,805.08
Louisiana	11,755.83	13,500.00	1,744.17
Sub-total.....	\$47,081.87	\$54,000.00	\$6,918.13
26-passenger stage:			
Wisconsin	<u>10,507.82</u>	<u>12,500.00</u>	<u>1,992.18</u>
Total.....	<u>\$57,589.69</u>	<u>\$66,500.00</u>	<u>\$8,910.31</u>

The prices proposed to be paid by Pickwick Stages System are approximately fifteen percent higher than the manufacturing costs reported in the supplemental petition. As we have indicated in Decision No. 19105, we do not look with favor on the practice 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. Further, Condition "1", of the order in Decision No. 19105, quoted above, provides that before the company can obtain supplemental orders permitting the withdrawal of stock and certificate proceeds to finance the cost of equipment, it shall, among other things, justify said cost, and we do not believe that sufficient showing has been made in this supplemental petition in justification of the use of the entire \$66,500.00. For these reasons we will authorize the use of only \$57,589.69 of the proceeds from the sale of the stock and certificates to finance the cost of the five stages referred to in this opinion. In the event

Pickwick Stages System pays The Pickwick Corporation more than \$57,589.69 for the equipment, such excess must be provided from some source other than the issue of stock or certificates or other form of indebtedness and must be charged to applicant's surplus account and not to its plant and equipment or operating expense accounts.

SECOND SUPPLEMENTAL ORDER

Pickwick Stages System having filed a supplemental petition in the above entitled matters for permission to use \$66,250. of proceeds obtained from the sale of the stock and certificates to be issued by Decision No. 19105, dated December 6, 1927, and the Commission being of the opinion that the money, property or labor to be procured or paid for through the use of not exceeding \$57,589.69 of such proceeds is reasonably required for the purpose specified herein, and that the expenditure of not exceeding \$57,589.69 is not, in whole or in part, reasonably chargeable to operating expense or to income

IT IS HEREBY ORDERED that Pickwick Stages System be, and it hereby is, authorized to use not exceeding \$57,589.69 of the proceeds obtained through the issue and sale of the stock and certificates authorized by Decision No. 19105, dated December 6, 1927, for the purpose of financing the cost of acquiring the five automobile stages referred to in the foregoing opinion, namely: the "Carat", "Scarab", "Tiger Eye", "Louisiana" and "Wisconsin", provided that in the event applicant pays more than \$57,589.69 for said stages it shall charge any excess over \$57,589.69 to its corporate surplus account.

IT IS HEREBY FURTHER ORDERED that the provision of the order in Decision No. 19105, dated December 6, 1927, reading:-

"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."

be, and the same is hereby, amended so as to read:--

"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 or said stock or certificates 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."

IT IS HEREBY FURTHER ORDERED that Pickwick Stages System shall keep such record of the disposition of the proceeds 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.

IT IS HEREBY FURTHER ORDERED that Pickwick Stages System shall file a verified copy of the journal entry or entries by which it records on its books of account the purchase of the five automobile stages referred to herein, such copy to be filed within thirty (30) days after such purchase.

IT IS HEREBY FURTHER ORDERED that the order in Decision No. 19105, dated December 6, 1927, shall remain in full force and effect, except as modified by this Second Supplemental Order.

DATED at San Francisco, California, this 10th
day of January, 1928.

Leon Whitell

Chas. J. ...

Thos. B. ...

M. J. ...

Commissioners.