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In the Matter of the Application :
of STOCKTON TERMINAL AND EASTERN :
RAILROAD COMPANY for an order :
authorizing an issue of Bonds. :
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Application No. 51.

C. L. Neumiller for Applicant.

THELEN, Commissioner.

OPINION ON SUPPLEMENTAL APPLICATION.

On May 30, 1912, this Commission made its order in the proceeding entitled as above, authorizing applicant to issue its six (6) per cent gold bonds of the face value of \$65,000, the proceeds to be used only for the purposes specified in the order. The order specified that applicant might sell said bonds so as to net applicant not less than eighty (80) per cent of the par value of the principal thereof besides interest accrued thereon, and provided that the bonds should issue on the conditions specified in the order and not otherwise.

When applicant filed its first monthly report under said order, it appeared that bonds of the face value of fifty-four thousand (\$54,000) Dollars had been pledged by applicant to secure five promissory notes totalling twenty-seven thousand (\$27,000) dollars. This Commission's order gave authority to sell but not to pledge. The Commission, on ascertaining the facts, immediately notified applicant that it had violated this Commission's order and directed it to file a supplemental petition setting up the facts fully and asking for a modification of this Commission's order so as to authorize a pledge of the bonds, if that were desired.

Applicant filed such petition, asking permission to pledge the entire authorized issue, and a hearing was held thereon.

At the hearing, three of applicant's directors testified that the violation of the order had been unintentional; that they supposed that an authority to sell bonds included an authority to pledge them; that applicant's creditors had been pressing for payment and that it became necessary to secure funds to meet these claims and to extend the line of railway several miles; that it was impossible at that time to sell applicant's bonds at a reasonable figure, and that they had consequently authorized the applicant to borrow the money from five local banks, giving the bonds as collateral and themselves going on the notes. These notes were as set forth in the order which follows this opinion. The money derived from these notes, being \$27,000, all went into applicant's treasury and was spent for purposes authorized in this Commission's said order dated May 30, 1912.

Applicant asks that said order be so modified as to validate the pledge of its bonds, as aforesaid, and to give to it in the future the alternative of selling or pledging said bonds. Mr. J. E. Adams, representing the United Investment Company, which owns some 99% of applicant's capital stock, appeared at the hearing and requested that certain conditions be inserted in the order on this supplemental application. These conditions will be inserted except as to those matters which are properly the subject of agreement between applicant and the banks and persons from whom applicant may borrow money to be secured by its bonds.

I am convinced that none of applicant's directors intended to violate this Commission's order. They adopted the expedient which seemed to them nearest at hand to secure the necessary funds, without reading carefully this Commission's order. While there has been a violation of this Commission's order, it has not been such a violation as to call for further steps than those which the

Commission promptly took. I am satisfied that it would be advisable to modify the Commission's original order so as to give to applicant the alternative right to pledge the bonds therein authorized, with the right to sell the bonds which may be outstanding as collateral, on the terms and conditions hereinafter in the order specified. Even with these bonds outstanding as collateral, there will be a wide margin between the face value of the bonds and the value of applicant's property.

I submit the following form of order:

O R D E R .

This Commission having heretofore on the 30th day of May, 1912, made its order authorizing Stockton Terminal and Eastern Railroad Company to issue its six (6) per cent gold bonds of the face value of \$65,000, to be sold so as to net the said company not less than eighty (80) per cent of the par value of the principal thereof besides interest accrued thereon, and said company having thereafter issued a portion of said bonds to the face value of \$54,000 as collateral to secure the payment of five certain notes amounting to \$27,000 in violation of the terms of said order, and said company having thereafter filed its petition praying for a modification of this Commission's said order so as to permit said company to pledge said bonds as an alternative to selling them, and a public hearing having been held on said application and it appearing to this Commission that said violation of its said order was unintentional and that the relief hereinafter given should be granted,

IT IS HEREBY ORDERED as follows:

1. This Commission's said order dated May 30, 1912, in the proceeding entitled as above, is hereby amended so as to provide that applicant may either sell said bonds as therein

provided or as an alternative may pledge such of them as may not have been sold at not to exceed two dollars face value of bonds for one dollar face value of indebtedness. The authority to sell applies also to such of said bonds as may be in the hands of a pledgee.

2. Bonds of said authorized issue used as collateral on one obligation may thereafter during a period of one year from the date of this order be used as collateral on other obligations on the terms herein specified, subject to the proviso in the next section. In other respects this Commission's consent must, of course, be secured before applicant enters into the obligations referred to in Section 52 of the Public Utilities Act.

5. All moneys derived from obligations on which bonds of said authorized issue are used as collateral shall be used only for the purposes and not to exceed the amounts specified in the Commission's order dated May 30, 1912.

4. The issue by applicant of its bonds as collateral on the following promissory notes is hereby authorized and confirmed:

(a). Note of Stockton Terminal and Eastern Railroad Company to Andrew McCormick and F. J. Dietrich, dated July 25, 1912, amount \$5500, endorsed by the payees and held by Farmers and Merchants Bank of Stockton.

(b). Note of Stockton Terminal and Eastern Railroad Company to Andrew McCormick and Edward F. Davis, dated July 25, 1912, amount \$5500, endorsed by the payees and held by Commercial and Savings Bank of Stockton.

(c). Note of Stockton Terminal and Eastern Railroad Company to The First National Bank of Stockton, dated July 25, 1912, amount \$5000, endorsed by Andrew McCormick, F. J. Dietrich and E. F. Davis.

(d). Note of Stockton Terminal and Eastern Railroad Company to The Stockton Savings and Loan Society, dated

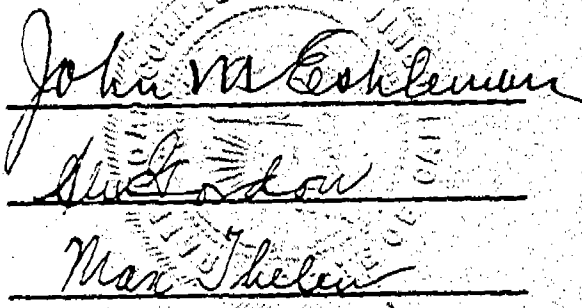
July 25, 1912, amount \$5500, and endorsed by Andrew McCormick, F. J. Dietrich and E. F. Davis.

(c). Note of F. J. Dietrich, E. F. Davis and Andrew McCormick to Stockton Savings Bank, dated June 8, 1912, amount \$5500 and now held by Stockton Savings Bank.

5. In all other respects this Commission's said order dated May 30, 1912, is hereby affirmed.

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 October, 1912.

The seal of the Railroad Commission of the State of California is visible in the background of the signatures. It features a central emblem surrounded by the text "RAILROAD COMMISSION OF THE STATE OF CALIFORNIA".
John M. Eschler
W. H. Shaw
Max Thelen

Commissioner.