

Decision No. 51431

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of:)

(A) L. A. (MIKE) SCHAGER, to sell, and)
of MIKE SCHAGER, INC., to purchase, cer-)
tificate of public convenience and neces-)
sity as a petroleum irregular route)
carrier and motor vehicle equipment and)
other property, pursuant to Sections 851-)
853 inclusive of the Public Utilities)
Code;)

Application
No. 36898

(B) MIKE SCHAGER, INC., for authority)
to issue and sell shares of its common)
capital stock pursuant to Sections 816-)
830 inclusive of the Public Utilities)
Code.)
-----)

O P I N I O N

This is an application for an order of the Commission authorizing L. A. Schager to transfer operative rights and properties to Mike Schager, Inc., a corporation, and authorizing said corporation to issue 1,000 shares of common stock without par value for the sum of \$30,000, and to incur long-term indebtedness.

L. A. Schager is the owner of a certificate of public convenience and necessity granted by Decision No. 50951, dated January 4, 1955, for the operation of a petroleum irregular route service in California.^{1/} The application shows that applicant Schager presently is conducting substantial operations under his certificates and permits, that because of new explorations and

^{1/} Applicant Schager also owns radial highway common carrier and city carrier permits. He will file separate applications for the transfer of these.

production activities in the Huntington Beach area substantial new demands have been made upon him for service, and that during the first two months of 1955 his net profit amounted to \$40,464 but that his investment in accounts receivable has increased to almost \$60,000. According to the application, L. A. Schager finds himself in a position where a substantial amount of additional working capital is required and he has concluded, instead, to withdraw from the operations by transferring his business to other interests. He has made arrangements to sell his certificate, together with his operating equipment, to Mike Schager, Inc. for the sum of \$42,000^{2/} and, in addition, has entered into an agreement with Mike Schager, Inc. to refrain from carrying on any business, or businesses, of the type and kind proposed to be sold for a period of not exceeding five years for an additional consideration of \$12,000.

As to the agreed payment of \$42,000, the application shows that \$10,062 will be paid within 30 days after the effective date of any order of the Commission approving the transfer, \$1,218 will be payable on or before December 1, 1955, and the remainder of \$30,720 will be payable in semi-annual installments of \$3,840 with interest at the rate of 6% per annum on deferred balances. As to the \$12,000 agreement, \$3,132 will be payable in cash, \$348 will be payable on or before December 1, 1955, and the balance of \$8,520 will be payable in semi-annual installments of \$1,065 with interest at the rate of 6% per annum on deferred balances. The total deferred balances will aggregate \$40,806 and the semi-annual installment payments will amount to \$4,905.

^{2/} The tangible property consists of 10 units of motor vehicle equipment, together with the inventory of parts, office equipment and other miscellaneous property.

Mike Schager, Inc. has an authorized capital stock of 7,500 shares, all of which are without par value. It appears that it was organized by those in control of Ray's Vacuum Truck Service, a corporation presently engaged in business as a radial highway common carrier, a city carrier, and a petroleum contract carrier, and that it proposes to sell to said corporation 1,000 shares of its common stock, at and for the price of \$30 a share, to obtain funds for distribution as follows:

To make initial payments on account of the purchase price of property	\$13,194
For working capital	<u>16,806</u>
Total	<u>\$30,000</u>

The transaction as proposed will result in the establishment of a substantial quantity of working cash which should place the new corporation in a position to take care of additional demands for service. With the change in ownership, the business will be conducted by persons who, according to the application, have had long experience in the performance of transportation of the nature involved in this operation. From a review of the matter we are of the opinion, and so find, that the transfer will not be adverse to the public interest.

Applicants are hereby placed on notice that operative rights, as such, do not constitute a class of property which may be capitalized or used as an element of value in rate fixing for any amount of money in excess of that originally paid to the state as the consideration for the grant of such rights. Aside from their purely permissive aspect, they extend to the holder a full or partial monopoly of a class of business over a particular route. This monopoly feature may be changed or destroyed at any time by the

state, which is not in any respect limited as to the number of rights which may be given.

A pro forma balance sheet of Mike Schager, Inc., giving effect to the transactions outlined in this application, is as follows:

Assets

Current assets -		
Cash in bank	\$16,806.00	
Materials and supplies	<u>3,500.00</u>	
Total current assets		\$20,306.00
Tangible property -		
Revenue equipment	34,500.00	
Service equipment	<u>2,740.00</u>	
Total tangible property		37,240.00
Intangible property -		
Franchise	1,260.00	
Other intangible property	<u>12,000.00</u>	
Total intangible property		<u>13,260.00</u>
	Total	<u>\$70,806.00</u>

Liabilities

Long-term obligations	\$40,806.00
Common capital stock	<u>30,000.00</u>
Total	<u>\$70,806.00</u>

The action taken herein shall not be construed to be a finding of the value of the assets herein authorized to be transferred nor of those set up on the pro forma balance sheet, particularly the item of other intangible property. The value assigned for this item is one agreed upon by the parties to the transaction. However, we are of the opinion, and will so provide in the order herein, that this reported book investment of \$12,000 should be amortized by charges to Account 7500 over the same period of time the corporation will take to liquidate the indebtedness to be incurred in setting up this intangible item.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the shares of stock and the incurring of the long-term indebtedness herein authorized is reasonably required by applicant corporation for the purposes specified herein, and that such purposes, except for the item of \$12,000, are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. L. A. Schager may transfer his certificate of public convenience and necessity and his operative equipment to Mike Schager, Inc., a corporation, on or before September 30, 1955, in accordance with the terms and conditions set forth in this application.
2. Mike Schager, Inc., a corporation, may issue and sell not exceeding 1,000 shares of its common stock, at and for a total consideration of \$30,000, on or before September 30, 1955, and may incur long-term indebtedness providing for deferred payments of \$40,806 for the purposes set forth in this proceeding.
3. On not less than five days' notice to the Commission and to the public, applicants shall supplement or reissue the tariffs on file with the Commission naming rates, rules and regulations governing the common carrier operations here involved to show that L. A. Schager has withdrawn or canceled and Mike Schager, Inc., a

corporation, has adopted or established, as its own, said rates, rules and regulations. The tariff filings made pursuant to this order shall comply in all respects with the regulations governing the construction and filing of tariffs set forth in the Commission's General Order No. 80.

4. Mike Schager, Inc., a corporation, shall amortize its reported book investment of \$12,000 in other intangible property by charges to Account 7500 over a period of not exceeding five years.

5. Mike Schager, Inc. shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

6. The authority herein granted will become effective when Mike Schager, Inc. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$41.

Dated at San Francisco, California, this 10th day of May, 1955.

John E. [Signature]
President

Justin J. Gallivan
Paul [Signature]

[Signature]

Commissioners

