

**ORIGINAL**

Decision No. 52806

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of:

(A) Ralph Hughes, Inc., for authority to issue shares of its common capital stock and other securities pursuant to Sections 816-830 of the California Public Utilities Code; and

(B) Ralph L. Hughes, Howard Brown and S. D. Sinton, copartners doing business as Ralph Hughes & Co., to sell, and Ralph Hughes, Inc., a corporation, to purchase, a highway common carrier certificate of public convenience and necessity for the transportation of property between numerous points in the State of California pursuant to Section 851-853 of the California Public Utilities Code.

Application  
No. 37780

O P I N I O N

In this application the Commission is asked to make an order authorizing:

1. Ralph L. Hughes, Howard Brown, and S. D. Sinton, copartners doing business as Ralph Hughes & Co., to sell highway common carrier operative rights and properties to Ralph Hughes, Inc.;
2. Ralph Hughes, Inc., to issue \$12,000 par value of common stock, and,
3. Ralph Hughes, Inc., to issue an unsecured promissory note in the principal amount of \$90,000.

It appears that the present copartners are engaged in business as a highway common carrier in the transportation of

livestock between all points and places in the State of California under a certificate of public convenience and necessity granted by Decision No. 44837, dated September 26, 1950, and also as a contract carrier and a radial highway common carrier. Their financial reports filed with the Commission show their revenues and expenses for the years ended October 31 as follows:

	<u>1953</u>	<u>1954</u>	<u>1955</u>
Operating revenues	\$201,452	\$220,979	\$249,502
Other income	<u>11,600</u>	<u>5,995</u>	<u>7,750</u>
Total income	213,052	226,974	257,252
Expenses, excluding depreciation & income tax	<u>155,912</u>	<u>167,586</u>	<u>187,682</u>
Balance	\$ 57,140	\$ 59,388	\$ 69,570

The application shows that the partners desire to incorporate their business, that they have organized Ralph Hughes, Inc., a corporation, and that they propose to transfer their operative rights and properties to said corporation. The corporation proposes to assume the payment of outstanding current obligations of the partners and to issue \$12,000 par value of its common capital stock. A pro forma balance sheet, giving effect to the transfer of the properties and the issue of the stock, which is based on the balance sheet figures of the partnership as of December 31, 1955, is as follows:

<u>Assets</u>		
Current assets -		
Cash	\$16,655	
Inventory	1,079	
Prepaid expense	<u>5,050</u>	
Total current assets		\$22,784
Tangible assets, depreciated		87,589
Intangible assets		<u>50</u>
Total		<u>\$110,423</u>
<u>Liabilities and Capital</u>		
Current liabilities		
Long-term debt		\$ 8,423
Capital stock		90,000
		<u>12,000</u>
Total		<u>\$110,423</u>

The partnership presently is indebted to Sinton & Brown Co., a corporation, on current account in the amount of \$90,000. The new corporation, applicant herein, in succeeding to the operations and in assuming presently outstanding indebtedness, proposes to refinance such short-term obligation through the issue of a long-term note in the principal amount of \$90,000 payable in installments of \$10,000 or more on the 10th day of each September, January, and April until the whole balance of the principal has been paid, with interest on deferred balances at the rate of 5% per annum.

A review of the proceeding shows that the new corporation will acquire a profitable operation and will enter into business at the outset with what appears to be ample working capital and a favorable relationship between its current assets and its current liabilities. While it is apparent that its initial capital structure will include a substantial long-term obligation, it is equally apparent that such obligation will be reduced rapidly with installment payments amounting to \$30,000 a year and that, on the basis of past operating results, the income of the company should be ample to meet the principal and interest payments which will be required by the new note.

Applicants report that there will be no change in the management or control of the operations as a result of the transfer nor in the character or extent of physical services available to the public. Under the circumstances we are of the opinion, and so find, that the proposed transaction will not be adverse to the public interest, that the money, property, or labor to be procured or paid for through the issue of the securities herein authorized

is reasonably required for the purposes specified herein, that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted.

In making this order we place applicants 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.

The action taken herein shall not be construed to be a finding of the value of the operative rights and properties herein authorized to be transferred.

#### ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary and being fully advised in the premises,

IT IS HEREBY ORDERED as follows:

1. Ralph L. Hughes, Howard Brown and S. D. Sinton, doing business as Ralph Hughes & Co., may sell and transfer their highway common carrier operative rights and properties to Ralph Hughes, Inc., a corporation.

2. Ralph Hughes, Inc., in payment for said operative rights and properties may assume the payment of outstanding indebtedness and may issue not exceeding \$12,000 par value of its capital stock.

3. Ralph Hughes, Inc., may issue an unsecured promissory note in the principal amount of not exceeding \$90,000 for the purpose of refinancing indebtedness to be assumed by it, which note shall be in, or substantially in, the same form as the note filed in this proceeding.

4. On not less than five days' notice to the Commission and to the public, effective concurrently with the consummation of the transfer, 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 Ralph L. Hughes, Howard Brown and S. D. Sinton, copartners doing business as Ralph Hughes & Co., have withdrawn or canceled and Ralph Hughes, 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.

5. Ralph Hughes, Inc., shall file with the Commission a report, or 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 Ralph Hughes, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$90.

Dated at San Francisco, California, this 27<sup>th</sup> day of March, 1956.

[Signature]  
President

[Signature]  
[Signature]

[Signature]  
[Signature]  
Commissioners

