

42535

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
H. F. Knapp and Alden C. Knapp, a co-)
partnership, H. F. Knapp, an indi-)
vidual, and Sanger Telephone Company,)
a corporation, for an Order of the)
Commission: (a) authorizing H. F.)
Knapp and Alden C. Knapp, a co-part-)
nership, and H. F. Knapp, an indi-)
vidual, to sell to Sanger Telephone)
Company the properties owned by them)
and consisting of the Sanger Telephone)
Exchange System; (b) authorizing said)
H. F. Knapp and Alden C. Knapp, a co-)
partnership, and H. F. Knapp, an in-)
dividual, to withdraw from the public)
utility telephone business in said)
Sanger Telephone Exchange; (c) authori-)
zing Sanger Telephone Company to pur-)
chase Sanger Telephone Exchange System)
properties and to engage in the public)
utility telephone business in the)
Sanger Telephone Exchange; (d) authori-)
zing Sanger Telephone Company to issue)
shares of its \$100 Par Value Common)
Stock in an amount equal to the net)
book value of said properties and to)
issue 500 shares of its Cumulative Pre-)
ferred Stock, \$100 Par Value, 5½% Series;)
(e) authorizing Sanger Telephone Company)
to borrow \$200,000 on a long term loan)
and to execute a mortgage upon all of its)
property to secure said indebtedness.)
-----)

ORIGINAL

Application No. 30000

Marshall K. Taylor, for Applicants.

O P I N I O N

In this application, H. F. Knapp and Alden C. Knapp, a co-partnership, and H. F. Knapp, an individual, hereinafter sometimes referred to as Vendors, ask permission to sell and convey their telephone properties operated under the name of Sanger Telephone Company to Sanger Telephone Company, a corporation, hereafter

sometimes referred to as the Corporation. The Corporation asks permission to acquire said properties, to assume all the liabilities of the partnership except the liability of the partners for income taxes, to issue common stock in payment for the properties in an amount equal to the net worth of Vendors' properties at the time of their transfer, to issue and sell for the purposes hereafter stated \$50,000 par value of 5-1/4% cumulative preferred stock, and execute a \$200,000 loan agreement, issue notes and execute a mortgage.

H. F. Knapp and Alden C. Knapp, as a co-partnership, doing business under the fictitious name and style of "Sanger Telephone Company", own and operate a telephone system in the City of Sanger and territory contiguous thereto. All of the telephone properties except the real property used in said business, are owned by the co-partnership. The real property is owned by H. F. Knapp as an individual.

Vendors as of December 31, 1948, report assets and liabilities as follows:

<u>Assets</u>	
Telephone plant and equipment	\$226,604.72
Securities	8,558.25
Cash	8,946.25
Due from customers and agents	1,318.96
Accounts receivable	242.99
Material and supplies	<u>16,458.32</u>
Total assets	<u>\$262,129.49</u>

Liabilities

Proprietary account		\$178,118.23
H. F. Knapp	\$98,059.12	
Alden C. Knapp	80,059.11	
Notes payable		28,000.00
Accounts payable		2,920.19
Taxes accrued		3,216.26
Interest accrued		400.83
Depreciation reserve		43,149.03
Other deferred credits		290.35
Contributions of telephone plant		<u>6,034.60</u>
	Total liabilities	<u>\$262,129.49</u>

For the year 1948, Vendors report operating revenues of \$90,515.23 and income available for interest, dividends and surplus in the amount of \$8,555.57. In arriving at said income, Vendors included in operating expenses \$6,872 for depreciation.

The record shows that Vendors have 1,912 stations on their telephone system and hold 142 applications for telephone service. On January 1, 1945, they served 969 telephone stations. They have found it necessary to enlarge their telephone plant, and intend to install a one-thousand line automatic central office equipment. Their actual construction expenditures for 1948 and their estimated construction expenditures for 1949 and 1950 are reported as follows:

<u>Item</u>	<u>1948 Actual</u>	<u>1949 & 50* Estimated</u>
Buildings	\$ -	\$ 14,000.00
C. O. Equipment	8,811.53	160,000.00
Station Equipment	6,453.39	25,000.00
Outside Plant	41,901.26	53,400.00
Wiring Gain	<u>2,589.43</u>	<u>1,670.00</u>
Total Plant	<u>\$59,755.61</u>	<u>\$254,070.00</u>

*Includes expenditures for central office equipment only for 1950.

Vendors are not in a position to finance the construction program out of their personal resources. As of December 31,

1948, they had an investment of \$178,118.23 in the telephone properties. On the basis that their business would be incorporated, they have negotiated a tentative \$200,000 loan agreement with Pacific Mutual Life Insurance Company. They have caused to be organized under the laws of California a corporation known as Sanger Telephone Company. The Corporation has an authorized stock issue of 4,000 shares of the par value of \$100 each. One thousand shares consist of cumulative preferred stock, and 3,000 shares of common stock. The first series of the cumulative preferred stock is to consist of 500 shares, and bear cumulative dividends at the rate of 5-1/4% per annum. Upon giving proper notice, the 500 shares of preferred stock are redeemable at a redemption price of \$105 per share and accrued dividends if the redemption is effected on or before January 1, 1954, and at \$100 a share if the redemption is effected thereafter. In this application, the Corporation asks permission to issue and sell 500 shares of its cumulative 5-1/4% preferred stock. The shares will be sold through the Corporation's organization without the payment of any commissions.

To obtain additional funds with which to carry forward the Corporation's construction program, it asks permission to enter into a loan agreement with the Pacific Mutual Life Insurance Company, under the terms of which the insurance company will advance to the Corporation from time to time and on or before June 30, 1951, not exceeding \$200,000. Subject to the terms of the loan agreement, Exhibit "D", and mortgage, Exhibit "D" to the loan agreement, the Corporation can borrow \$50,000 on or before February 28, 1949, and the remaining \$150,000 at one time or from time to time in blocks of not less than \$25,000, or multiples thereof, on or before June 30, 1951. The loans made by the Corporation will be evidenced by a

note or notes bearing interest at the rate of 4-1/4% per annum, payable semi-annually. The notes will be due January 1, 1969. In addition to the interest payment, the Corporation agrees to pay on the unused portion of the credit a standby charge at the rate of 1/2 of 1% per annum from the date of the agreement to and including June 30, 1951. The Corporation agrees that on April 1, 1952, and on April 1 of each year thereafter while any part of the loan is unpaid, it will prepay to the insurance company, without premium, an amount equal to 3% of the maximum amount of the loan at any time preceding the date of such payment, together with interest accrued on the amount of such prepayment. The Corporation may prepay at its option, on thirty days' notice, all or any part of the loan. Prepayments during any year, pursuant to paragraphs six and eight of the mortgage, may be made without premium. Additional prepayments are subject to payment of a premium of 3% if such prepayment is made prior to January 1, 1950; thereafter, the premium is successively reduced by 1/6 of 1% on January 1, 1950, and on January 1 of each year thereafter to and including January 1, 1966. No premium need be paid for prepayment on and after January 1, 1967. Reference is here made to the loan agreement and mortgage for the specific terms thereof.

The mortgage will be a lien on all of the Corporation's telephone properties.

The proceeds of the preferred stock and notes will be used to pay outstanding notes, now amounting to \$33,000, and to finance the construction program mentioned herein.

The transfer of the Sanger telephone properties will not result in any change in the management of the properties. The

Corporation proposes to issue to the partnership and to H. F. Knapp in payment for their telephone properties, common stock of an aggregate par value equal to the net book value of the properties being purchased by it, rounded to the next lowest \$100. In our opinion the common stock issue should not exceed the proprietors' investment in the properties which, on December 31, 1948, amounted to \$178,118.23. In the event their investment at the time of the transfer of the properties exceeds that amount, the Corporation may file a supplemental application for permission to issue additional common stock. The properties will be initially recorded on the books of the Corporation at the same figures at which they were recorded on the records of the partnership at the time of their transfer.

The Corporation will continue to render telephone service to the public under the same rates, rules and regulations as are presently maintained in effect by the Vendors. The Corporation will adopt the rates, rules and regulations presently on file with the Commission for the Vendors.

The certificate of public convenience and necessity herein authorized to be transferred is subject to the provisions of law that the Commission shall have no power to authorize the capitalization of any franchise or permit whatsoever or the right to own, operate or enjoy any such franchise or permit, in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, permit or right.

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

O R D E R

The Commission having considered the evidence submitted at the hearing had on this application and it being of the opinion that the money, property or labor to be procured or paid for through the issue of the stocks and notes herein authorized is reasonably required by Sanger Telephone Company, a corporation, for the purposes herein stated, that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order; therefore,

IT IS HEREBY ORDERED as follows:

1. H. F. Knapp and Alden C. Knapp, a co-partnership, and H. F. Knapp, an individual, may, after the effective date hereof and on or before June 30, 1949, sell and convey to Sanger Telephone Company, a corporation, all of the properties of the Sanger Telephone Exchange System, including the certificate of public convenience and necessity granted by the Commission by Decision No. 30282, dated November 1, 1937, and to that end may execute a bill of sale and deed in the form on file in this application as Exhibit "C".

2. Sanger Telephone Company, a corporation, may acquire said telephone properties and enter into business as a public utility telephone corporation in the Sanger Telephone Exchange, and assume all of the liabilities of the co-partnership except the liability of the partners for income taxes, provided it adopts the rates, rules and regulations presently on file with the Commission by H. F. Knapp and Alden C. Knapp, a co-partnership, and H. F. Knapp, an individual. Upon the transfer of said Sanger Telephone

Exchange system properties, said H. F. Knapp and Alden C. Knapp, a co-partnership, and H. F. Knapp, an individual, may withdraw from the public utility telephone business in the Sanger Telephone Exchange.

3. Sanger Telephone Company, a corporation, may issue, after the effective date hereof and on or before June 30, 1949, in part payment for said Sanger Telephone Exchange system properties, not exceeding \$178,100 par value of common stock.

4. Sanger Telephone Company, a corporation, after the effective date hereof and on or before June 30, 1949, may issue and sell at not less than \$100 a share, 500 shares (\$50,000 par value) of its cumulative preferred stock, 5-1/4% series.

5. Sanger Telephone Company, a corporation, after the effective date hereof and on or before June 30, 1949, may execute a loan agreement and mortgage in the principal amount of not exceeding \$200,000, said loan agreement and mortgage to be in, or substantially in, the form of the loan agreement and mortgage on file in this application as Exhibit "D". Sanger Telephone Company may from time to time issue notes pursuant to the terms of the loan agreement and mortgage.

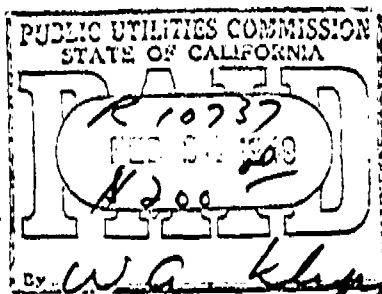
6. Sanger Telephone Company, a corporation, shall use the proceeds obtained from the issue of said \$50,000 par value of its preferred stock and from the issue of said notes to pay outstanding notes and to pay the cost of acquiring and constructing the properties referred to in the foregoing opinion, or reimburse its treasury because of moneys expended for said purpose.

7. The authority herein granted will become effective when Sanger Telephone Company, a corporation, has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is two hundred (\$200.00) dollars.

8. Sanger Telephone Company, a corporation, shall from time to time file with the Commission reports required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

9. Within thirty (30) days after the execution of the loan agreement and mortgage referred to herein, Sanger Telephone Company, a corporation, shall file with the Commission two (2) copies of said loan agreement and mortgage as executed.

Dated at San Francisco, California, this 23rd day of February, 1949.



R. J. [Signature]
Justin F. [Signature]
James F. [Signature]
Harold [Signature]
Kenneth [Signature]
Commissioners