

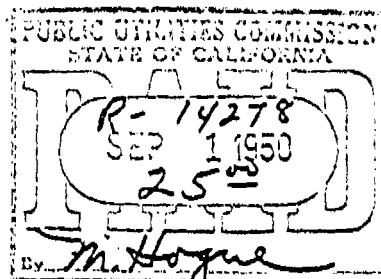
**ORIGINAL**

Decision No. 44749

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the

- (1) Application of GARBERVILLE GAS CORP., a Corporation, for an order authorizing sale of 2,205 shares Treasury Stock, under Section 52(b) of the Public Utilities Act.
- (2) Application of GARBERVILLE GAS CORP., a Corporation, for an order authorizing the issue of a deed of trust on real estate and building in amount of \$6,000.00, under Section 51(a) and Section 52(b) of the Public Utilities Act.
- (3) Application of GARBERVILLE GAS CORP., a Corporation, for an order approving the issue of a Corporation note in the amount of \$18,940.26, under Section 52(b) of the Public Utilities Act.



Application No. 31685

Paul F. Stewart, for applicant.

O P I N I O N

In this application, as amended at the public hearing held thereon, Garberville Gas Corp. seeks authority to issue and sell 2,205 shares (\$22,050 par value) of its common capital stock, at \$10.25 a share; to execute a deed of trust; and to issue two notes in the aggregate principal amount of \$24,940.26, one note to be in the principal amount of \$6,000 and one in the principal amount of \$18,940.26. (1)

(1) Originally, applicant requested permission to sell 2,205 shares of treasury stock which it contemplated acquiring from existing stockholders. At the hearing it reported that it had concluded to sell unissued shares of its authorized stock, instead of treasury shares, and it asked the Commission to make its order permitting the issue of said shares.

Applicant is engaged in the business of purchasing liquid propane or butane, converting it to gas and, as a public utility, distributing it to consumers in and about the Town of Garberville, Humboldt County, and also in the tank gas business and the business of selling and leasing tanks and appliances. It reports revenues from its various activities, and expenses, as follows:

	12 Months Ending <u>Jan. 31, 1950</u>	6 Months Ending <u>July 31, 1950</u>
Sales -		
Utility	\$ 29,325.97	\$15,573.84
Tanks and appliances	36,273.73	24,409.06
Tanks leased	3,399.94	2,896.50
Materials and parts	5,190.38	2,911.63
Labor	1,659.06	541.65
Tank gas	<u>64,015.63</u>	<u>37,202.11</u>
Total	139,864.71	83,534.79
Cost of sales	<u>98,312.32</u>	<u>51,750.07</u>
Gross profit	41,552.39	31,784.72
Operating expenses	<u>37,535.23</u>	<u>22,119.33</u>
Operating profit	4,017.16	9,665.39
Less -		
Miscellaneous debits and credits-Net	2,046.41	2,190.59
Federal taxes on income	<u>190.97</u>	<u>1,141.21</u>
Total	<u>2,237.38</u>	<u>3,331.80</u>
Net income	<u>\$ 1,779.78</u>	<u>\$ 6,333.59</u>

The utility revenues account for approximately 20% of the total revenues. The application shows that during the twelve months ending January 31, 1950, the utility business was conducted at a loss of \$9,411.77 and during the six months ending July 31, 1950, at a loss of \$1,737.01.

The operations of the business formerly were conducted by Kenneth E. Knapp, doing business as Garberville Gas Company. The record in an earlier proceeding, Application No. 29131, shows that said Knapp became financially involved, that he had incurred indebtedness of approximately \$50,000 including a judgment against him of some \$15,000, and that his funds had been attached by the judgment creditor. In an attempt to reorganize the affairs of the business, Paul F. Stewart advanced personal funds to pay the judgment and other

pressing obligations, amounting in the aggregate to \$18,940.26, and took an assignment of the judgment under an arrangement whereby applicant corporation was organized to take over the business and properties, subject to the indebtedness, and to issue \$45,000 par value of its stock, of which \$22,950, or 51%, was delivered to said Stewart and \$22,050, or 49%, to said Knapp. (Decision No. 41350, dated March 23, 1948, and Decision No. 41958, dated August 17, 1948, in Application No. 29131.)

It now appears that said Knapp, and Bonnie Knapp, his wife, have agreed to surrender their shares of stock to applicant corporation in consideration of a cash payment to them of \$2,601.25 and the cancellation of the judgment and other indebtedness standing against them. Applicant proposes, upon re-acquiring said shares, to hold them as treasury stock.

In exhibits filed in this proceeding, applicant reports its balance sheet as of July 31, 1950, and a pro forma statement giving effect to the acquisition from the Knapps of said shares of stock and to the issue of the new shares and the proposed notes, as follows:

<u>Assets</u>	<u>Books</u>	<u>Pro Forma</u>
Current assets -		
Cash on hand and in bank	\$ 2,560.87	\$ 2,560.87
Accounts receivable	28,431.36	28,431.36
Inventories	18,719.60	18,719.60
Total current assets	<u>49,711.83</u>	<u>49,711.83</u>
Tangible assets -		
Property, plant and equipment	78,960.47	88,260.47
Less-allowance for depreciation	19,211.70	19,211.70
Net tangible assets	<u>59,748.77</u>	<u>69,048.77</u>
Prepaid expenses	1,141.54	1,141.54
Intangible assets	<u>2,810.36</u>	<u>2,810.36</u>
Total	<u>\$113,412.50</u>	<u>\$122,712.50</u>

<u>Liabilities and Capital</u>		
Current liabilities	\$ 38,454.57	\$ 26,754.57
Other liabilities -		
Due Paul F. Stewart	18,940.26	16,440.26
Deferred obligation	2,500.00	-
Notes payable	825.00	6,825.00
Total liabilities	<u>60,719.83</u>	<u>50,019.83</u>
Capital -		
Common stock	45,000.00	67,050.00
Surplus	7,692.67	5,642.67
Total capital	<u>52,692.67</u>	<u>72,692.67</u>
Total	<u>\$113,412.50</u>	<u>\$122,712.50</u>

Applicant reports that subject to receiving permission from the Commission, it proposes to sell the 2,205 shares of unissued stock for the total sum of \$22,601.25, and to borrow the sum of \$6,000, making a total of \$28,601.25, which it plans to disburse for the following purposes:

To pay legal and accounting fees incurred upon organization	\$ 2,500.00
To pay accounts incurred in maintaining its service	10,000.00
To purchase an office building and real property	9,300.00
To pay a portion of the indebtedness due Paul F. Stewart	2,500.00
To finance in part the cost of acquiring treasury stock	2,601.25
To provide additional working capital	<u>1,700.00</u>
Total	<u>\$28,601.25</u>

As part of the arrangement with Knapp, applicant proposes to purchase from him, for the sum of \$9,300, a parcel of land in Garberville and the building located thereon, which presently is being used by applicant as a store and office. It proposes to obtain \$6,000, or approximately 65%, of the agreed purchase price from G. W. Waldrip, and in evidence of the amount thus borrowed, to issue its promissory note in the principal amount of \$6,000, payable in monthly installments of \$125 each with interest at the rate of 8% per

annum, the payment of said note to be secured by a deed of trust covering the real property and the building.

In support of the request to issue the \$6,000 note, Paul F. Stewart testified that he had been unable to make arrangements to borrow the sum from banks without undue delay. He testified that two banks had declined to loan funds, and that a third bank had indicated that it would require considerable time to complete the transaction. He questioned also his ability to borrow from such sources an amount representing such a large percentage of the purchase price. In further support of the request, the witness testified that applicant has need for the funds forthwith and under the proposed arrangements the money would be available immediately. He stated it is contemplated that as soon as possible, arrangements will be made to refund the loan.

The proposed rate of interest unquestionably is high. Normally, the Commission would not approve the issue of a note under these terms. However, under the circumstances set forth in this proceeding an order will be entered to enable applicant to proceed at this time with its program. It appears that the building is used for the most part for nonutility purposes, and the rate of interest on the note must not be construed as determining the rate of return applicant should earn on its investment in utility properties.

As to the request of applicant to issue a note in the principal amount of \$18,940.26 to represent the amounts advanced to applicant by Paul F. Stewart at the time of its organization, it appears that the amount was obtained by said Stewart from borrowings on his own account from Bank of California N. A., and that the bank now has requested that a duly authorized note be executed by applicant to said Stewart and assigned by him to it. It is proposed

that the note run for a period of six months with interest at the rate of  $3\frac{1}{2}\%$  per annum, and thereafter be renewed from time to time.

A review of the application and of the testimony submitted in support of it clearly indicates that applicant has need for additional funds for the purposes set forth herein. Accordingly an order will be entered.

O R D E R

A public hearing having been held in the above entitled matter, and the Commission having considered the matter and being of the opinion that the requests of applicant should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue of the stock and notes herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Garberville Gas Corp., after the effective date hereof and on or before December 31, 1950, may issue and sell not exceeding 2,205 shares of stock at not less than \$10.25 a share, and use the proceeds for the purposes set forth in this application.

2. Garberville Gas Corp., after the effective date hereof and on or before December 31, 1950, may execute a deed of trust and issue a promissory note in the principal amount of not exceeding \$6,000, in, or substantially in, the same form as the deed of trust and note filed in this proceeding as Exhibit III, for the purpose of financing in part the cost of the real property and building to

which reference is made in the opinion preceding this order.

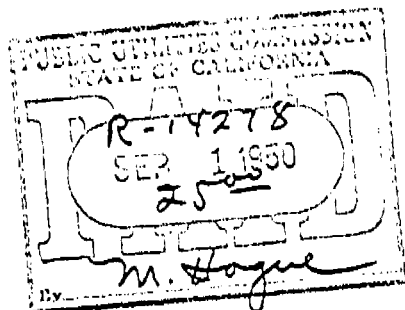
3. Garberville Gas Corp., after the effective date hereof and on or before December 31, 1950, may issue a note in the principal amount of not exceeding \$18,940.26, in substantially the same form as the note filed in this proceeding as Exhibit IV, for the purpose of paying or refunding indebtedness of like amount now outstanding. Applicant may renew said note, or any unpaid portion thereof, from time to time for a total period not to exceed five (5) years from the date of the first note issued under the authority herein granted.

4. Applicant 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.

5. Prior to recording on its books the acquisition of the 2,205 shares of stock from Kenneth E. Knapp and Bonnie Knapp, applicant shall submit to the Commission its proposed journal entries to reflect the transaction.

6. The authority herein granted will become effective when applicant has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is twenty-five (\$25.00) dollars.

Dated at San Francisco, California, this 1<sup>st</sup> day of September, 1950.



[Signature]  
Justice J. G. ...  
[Signature]  
[Signature]  
Commissioners