

Decision No. 5326S

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

A. A. HARRINGTON, doing business as
Livingston Telephone Company, a sole
proprietorship, and

LIVINGSTON TELEPHONE COMPANY, a cor-
poration,

for an order authorizing:

- a) A. A. Harrington to sell and
Livingston Telephone Company, a cor-
poration, to purchase the properties
owned by him and consisting of the
Livingston Telephone Company;
- b) A. A. Harrington to withdraw from
the public utility telephone business;
- c) Livingston Telephone Company, a
corporation, to engage in the public
utility telephone business now being
conducted by A. A. Harrington;
- d) Livingston Telephone Company, a
corporation, to issue stock; and
- e) Livingston Telephone Company, a
corporation, to borrow up to \$100,000.00

Application
No. 38081

O P I N I O N

In this proceeding the Commission is asked to make an order authorizing A. A. Harrington to sell a public utility telephone system to Livingston Telephone Company, a corporation, and authorizing said corporation to issue \$100,680 par value of common stock, to enter into a loan agreement, execute a mortgage, and to issue promissory notes in the total amount of \$100,000.

The application shows that A. A. Harrington, doing business as Livingston Telephone Company, operates a public utility telephone

service in the incorporated city of Livingston and in surrounding territory in Merced County. Applicant Harrington reports that the population is growing in his territory and that he is experiencing an increased demand for telephone service which requires the expansion of his facilities. He proposes at this time to convert the telephone system to a dial system, and to provide other facilities, all at an estimated cost of \$100,000, as follows:

500 Lines - 1,500 Terminals "XY" Dial Switchboard	\$ 61,000
Telephones, Dials and Paystations	25,000
Miscellaneous	<u>14,000</u>
Total	<u>\$100,000</u>

Applicant Harrington reports that he is not in a position to finance the construction program out of his own resources and has found it difficult to obtain such financing in the present status of the telephone company as a sole proprietorship but that Stromberg-Carlson, a division of General Dynamics Corporation, tentatively has agreed to loan the sum of \$100,000, provided that the business be incorporated.

Accordingly, applicant Harrington has caused the organization of Livingston Telephone Company and now proposes to transfer his business and properties to it in exchange for shares of stock equal, approximately, to the December 31, 1955, net book value as reflected by his books of account, which book value is stated at \$100,682. Thereafter, it is proposed for the new corporation to enter into a loan agreement with Stromberg-Carlson under the terms of which the latter would advance the total sum of \$100,000, said advances to be represented at the outset by interim notes, payable on demand, with interest at the rate of 4-3/4% per annum. The agreement provides for

the ultimate issue, not later than June 30, 1957, of a final note in exchange for the interim notes then outstanding, the final note to be payable in 240 consecutive monthly installments with interest at the rate of 4-3/4% per annum and to be secured by a mortgage on the telephone properties.

From annual reports filed with the Commission the following tabulation has been prepared, indicating the growth in the business and operations of A. A. Harrington during the last five calendar years:

	Telephone Plant <u>Dec. 31</u>	Operating Revenues	Net Income	Stations <u>Dec. 31</u>
1951	\$ 97,588	\$43,993	\$ 919	786
1952	106,645	49,132	94	849
1953	120,250	52,081	778	881
1954	133,883	56,694	1,201	930
1955	161,970	63,792	898	1,008

A condensed statement of applicant Harrington's assets, liabilities and capital as of December 31, 1955, is as follows:

Assets

Telephone plant	\$155,715.22	
Work in progress	6,254.30	
Subtotal	<u>161,969.52</u>	
Reserve for depreciation	58,562.62	\$103,408.90
Current assets		<u>14,293.36</u>
Total		<u>\$117,702.26</u>

Liabilities and Capital

Current liabilities	\$ 15,649.02
Contributions	1,370.31
Proprietary capital	<u>100,682.93</u>
Total	<u>\$117,702.26</u>

Recently, the Commission has reviewed the operations of the telephone system and by Decision No. 52593, dated February 7, 1956,

in Application No. 37356, authorized applicant Harrington to place revised rates in effect which, it is estimated, will increase the annual operating revenues by \$9,120 and will produce a return of 6.5% on a depreciated rate base of \$105,300. The revised rates were designed to yield net revenue of \$6,850 after making allowance of \$9,900 for depreciation.

Upon the basis of the revised rates it would appear that the new corporation should be in a position to meet its requirements under the proposed loan agreement. The installation of the improvements to the plant should be in the public interest and accordingly we will enter our order granting the present application. We find the proposed transfer is not adverse to the public interest. The authority granted herein shall not be deemed to be a finding of the value of the property herein authorized to be transferred.

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 notes herein authorized is reasonably required by applicant corporation 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. A. A. Harrington, on and after the effective date hereof and on or before December 31, 1956, may sell and convey to Livingston Telephone Company, a corporation, the telephone properties and business being operated by him and thereafter may withdraw from the public

utility telephone business. Livingston Telephone Company, a corporation, may enter into the operations of the telephone properties as of January 1, 1956.

2. Livingston Telephone Company, a corporation, on and after the effective date hereof and on or before December 31, 1956, may issue not exceeding \$100,680 par value of its common stock in exchange for the properties and business of A. A. Harrington, subject to outstanding liabilities.

3. Livingston Telephone Company, a corporation, on and after the effective date hereof and on or before December 31, 1956, may execute and enter into a loan agreement with Stromberg-Carlson, a division of General Dynamics Corporation, and may execute a mortgage, which loan agreement and mortgage shall be in, or substantially in, the same form as those filed in this proceeding, and may issue interim notes, pursuant to the terms of said agreement, and for the purposes set forth therein, in the aggregate amount of not exceeding \$100,000 at any one time outstanding.

4. Livingston Telephone Company, a corporation, may issue its final note, as set forth in said agreement, in the principal amount of not exceeding \$100,000 in payment of interim notes of like amount.

5. On or before the date of actual transfer, A. A. Harrington shall refund all deposits which customers are entitled to have refunded. Any unrefunded deposits shall be transferred to and become the obligation for refund of Livingston Telephone Company, a corporation.

6. The rates, rules and regulations of A. A. Harrington now on file with the Commission shall be refiled within 30 days after

the date of transfer under the name of Livingston Telephone Company, a corporation, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, Livingston Telephone Company, a corporation, may file a notice of adoption of said presently filed rates, rules and regulations. No increase in the present rates shall be made unless authorized by the Commission.

7. If the authority herein granted to transfer properties is exercised, Livingston Telephone Company, a corporation, within 30 days thereafter, shall notify the Commission in writing of the date of completion of the transfer.

8. Livingston Telephone Company, a corporation, 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.

9. The authority herein granted will become effective when Livingston Telephone Company, a corporation, has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$100.

Dated at San Francisco, California, this 26th day of June, 1956.

Walter E. Mitchell
President
Justice J. Casner
Paul L. Linterman
Walter H. Cook

