

## Exhibit "A"—(Continued)

Within 90 days from the date of the mailing of this letter you may file a petition with The Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiency. In counting the 90 days you may not exclude any day unless the 90th day is a Saturday, Sunday, or legal holiday in the District of Columbia, in which event that day is not counted as the 90th day. Otherwise Saturdays, Sundays and legal holidays are to be counted in computing the 90-day period.

Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the Assistant Regional Commissioner, Appellate, 1250 Subway Terminal Building, 417 South Hill Street, Los Angeles 13, California. The signing and filing of this form will expedite the closing of your returns by permitting early assessment of the deficiency and will prevent the accumulation of interest, since the interest period terminates 30 days after receipt of the form, or on the date of assessment, or on the date of payment, whichever is the earliest.

Very truly yours,

Russell C. Harrington  
Commissioner

By /s/ H. L. Ducker  
Associate Chief, Appellate Division

Enclosures:

Statement

IRS Pub. No. 160

Agreement Form [10]

## Exhibit "A"—(Continued)

Ap:LA:AA-RR (COP) 90-D

## STATEMENT

Mr. Karl F. Knetsch and Mrs. Eva Fay Knetsch Husband and Wife  
3532 West 80th Street, Inglewood, California

Tax Liability for the Taxable Years Ended December 31, 1953  
and December 31, 1954.

Year	Income Tax	Deficiency
1953	Income Tax	\$113,684.48
1954	Income Tax	119,613.20
Total		\$233,297.68

In making this determination of your income tax liability careful consideration has been given to the reports of examination dated February 15, 1956 and April 4, 1956, to your protest dated May 17, 1956 and to the statements made at the conference held on June 13, 1956.

Copies of the letter and statement have been mailed to your authorized representative, Mr. W. Lee McLane, Jr., 806 Security Building, Phoenix, Arizona.

## Adjustment to Net Income

Year 1953

Net income as disclosed by amended return filed

March 15, 1954 \$ 59,290.08

Unallowable deduction:

(a) Interest expense 143,465.00

Net income as adjusted \$202,755.08

## Explanation of Adjustment

(a) It is held that the amounts aggregating \$143,465.00 paid by you on the single-premium 30-year maturity deferred annuity savings bonds issued by the Sam Houston Life Insurance Company and claimed as an interest deduction in your return for the year 1953, are not interest within the meaning of section 23(b) of the Internal Revenue Code of 1939 and are not deductible for Federal income tax purposes.

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Exhibit "A"—(Continued)

Computation of Tax  
Year 1953

	Alternative Tax	Tax At Ordinary Rates
Net income .....	\$202,755.08	\$202,755.08
Less: Long-term capital gain .....	325.00	
Ordinary income .....	\$202,430.08	\$202,755.08
Less: Exemptions (2) .....	1,200.00	1,200.00
Amount subject to tax—joint .....	\$201,230.08	\$201,555.08
Amount—for single computation .....	\$100,615.04	\$100,777.54
Tax—single computation .....	\$ 70,769.54	\$ 70,915.79
Tax—joint .....	\$141,539.08	\$141,831.58
Add: 52% of \$325.00 .....	169.00	
Alternative tax (lesser tax) .....	\$141,708.08	
Tax at ordinary rates (not applicable) .....		\$141,831.58
Tax from above .....		\$141,708.08
Add: Self-employment tax .....		81.00
Income tax liability .....		\$141,789.08
Income tax per return:		
Original, Account No. AR 1000027,		
Los Angeles District .....	\$ 28,106.20	
Less: Overassessment allowed,		
(amended return) ITC 7013 .....	1.60	28,104.60
Deficiency of income tax .....		\$113,684.48
Adjustment to Net Income		
Year 1954		
Net income as disclosed by return .....		\$ 83,123.78
Unallowable deduction:		
(a) Interest expense .....		147,105.00
Net income as adjusted .....		\$230,228.78

Explanation of Adjustment

(a) It is held that the amounts aggregating \$147,105.00 paid by you on the single-premium 30-year maturity deferred annuity savings bonds issued by the Sam Houston Life Insurance Company and claimed as an interest deduction in your return for

vs. United States of America

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Exhibit "A"—(Continued)

the year 1954, are not interest within the meaning of section 163 of the Internal Revenue Code of 1954 and are not deductible for Federal income tax purposes.

Computation of Tax  
Year 1955

	Alternative Tax	Tax At Ordinary Rates
Net income .....	\$230,228.78	\$230,228.78
Less: Long-term capital gain .....	275.00	
Ordinary income .....	\$229,953.78	\$230,228.78
Less: Exemptions (2) .....	1,200.00	1,200.00
Amount subject to tax—joint .....	\$228,753.78	\$229,028.78
Amount—for single computation .....	\$114,376.89	\$114,514.39
Tax—single computation .....	\$ 80,115.43	\$ 80,237.81
Tax—joint .....	\$160,230.86	\$160,475.62
Add: 50% of \$275.00 .....	137.50	
Alternative tax (lesser tax) .....	\$160,368.36	
Tax at ordinary rates (not applicable) .....		\$160,475.62
Tax from above .....		\$160,368.36
Add: Self-employment tax .....		108.00
Income tax liability .....		\$160,476.36
Income tax per return:		
Original, Account No. 273002887		
Los Angeles District .....		40,863.16
Deficiency of income tax .....		\$119,613.20

EXHIBIT "B"

CLAIM

Form 843—Rev. Jan. 1955

Received Oct. 8, 1956, Director Int. Rev. Los Angeles, Teller #3. \* \* \* \* \*

Name of taxpayer or purchaser of stamps: Karl F. Knetsch and Eva Fay Knetsch.

Number and street: 3532 West 80th Street.

Exhibit "B"—(Continued)

City, town, postal zone, State: Inglewood, California.

1. District in which return (if any) was filed: California (Los Angeles).

2. Name and address shown on return, if different from above: Same.

3. Period: From January 1, 1953, to January 1, 1954.

4. Kind of tax: Income.

5. Amount of assessment: \$113,684.48.

Dates of payment: July 19, 1956, plus \$15,795.91 of interest pd. 8/3/56.

6. Date stamps were purchased from the Government: .....

7. Amount to be refunded: \$129,480.39 plus interest or such greater amount as is legally refundable.

8. Amount to be abated (not applicable to income, estate or gift taxes): .....

9. The claimant believes that this claim should be allowed for the following reasons: See attached pages one (1) through three (3) which are incorporated herewith and made a part hereof.

I declare under the penalties of perjury that this claim (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is true and correct

Dated Oct. 8, 1956.

/s/ KARL F. KNETSCH.

/s/ EVA FAY KNETSCH. [14]

.....

Exhibit "B"—(Continued)

On December 11, 1953, claimant, Karl F. Knetsch, executed an application to purchase ten single premium deferred annuities from the Sam Houston Life Insurance Company of Houston, Texas, for a consideration of \$400,000.00 for each annuity, or a total of \$4,000,000.00 for all ten annuities. Along with the application, claimant, Karl F. Knetsch, paid \$4,000 by check to the Company as a cash premium. Thereafter, on the same date, December 11, 1953, the Sam Houston Life Insurance Company issued ten annuity contracts for a consideration of the \$4,000 and the execution by Karl F. Knetsch of ten contract loan agreements of \$400,000 each.

Under the terms of each loan agreement, it was provided that the Company was directed to apply the sum of \$400,000.00 in payment of each premium of \$400,000.00 remaining due by the claimant.

The ten annuity contracts were issued on December 11, 1953, and claimant, Karl F. Knetsch, paid interest at the rate of 3 1/2% per annum on \$4,000,000.00, or \$140,000.00, to the Sam Houston Life Insurance Company on December 11, 1953. The said sum of \$140,000.00 was paid to the Company by means of a cashier's check.

In addition to the loan of \$4,000,000.00, claimant, Karl F. Knetsch, also borrowed \$99,000.00 from the Sam Houston Life Insurance Company on December 11, 1953, and paid interest on the \$99,000.00 loan at the rate of 3 1/2% per annum, or \$3,465.00, to the Company on December 11, 1953.

## Exhibit "B"—(Continued)

Thus, claimant paid interest totaling \$143,465.00 to the Sam Houston Life Insurance Company on December 11, 1953, which amount was claimed as a deduction on the Federal income tax return of Karl F. Knetsch and Eva Fay Knetsch for the taxable year ending December 31, 1953.

On June 29, 1956, the Commissioner of Internal Revenue issued a statutory notice of deficiency to claimants asserting a deficiency in income taxes of \$113,684.48 resulting from the disallowance of the said \$143,465.00 interest deduction, on the ground that:

"(a) It is held that the amounts aggregating \$143,465.00 paid by you on the single premium 30-year maturity deferred annuity savings bonds issued by the Sam Houston Life Insurance Company and claimed as an interest deduction in your return for the year 1953, are not interest within the meaning of Section 23 (b) of the Internal Revenue [15] Code of 1939 and are not deductible for Federal income tax purposes."

It is the position of claimants that the \$143,465.00 claimed as an interest deduction is allowable as interest within the meaning of the Internal Revenue Code of 1939.

Section 23 (b) of the 1939 Internal Revenue Code provides a deduction for:

"All interest paid or accrued within the taxable year on indebtedness, \* \* \*"

It should be noted that the above section does

## Exhibit "B"—(Continued)

not deal with trade or business expenses. Instead, it is known as one which permits deductions for non-trade or non-business expenses. That is why one of the looseleaf services states that:

"A deduction without limitation is permitted any taxpayer for all interest paid or accrued on indebtedness."

Therefore, since it is a fact that the \$143,465.00 was paid during 1953, the only remaining question is whether it was paid on an indebtedness. Because the claimant, ~~Karl F.~~ Knetsch, executed loan agreements for the respective sums of \$4,000,000.00 and \$99,000.00, it is clear that indebtedness existed.

This leaves only the issue of whether the sum of \$143,465.00 paid in 1953 was interest. "Interest on indebtedness has a definite and well-accepted meaning as compensation allowed by law or fixed by the parties for use, or forbearance, or detention of money."<sup>1</sup> It has also been defined as "compensation for money borrowed or the forbearance of money legally owed."<sup>2</sup> Certainly the phrase "or the forbearance of money legally owed" contemplates that interest comes into existence in cases other than those where money has changed hands. Here the Sam Houston Life Insurance Company agreed that it would apply the \$4,000,000.00 loan proceeds in

<sup>1</sup> 1 CCH Fed. Tax Rep. par. 171.196 (1954).

<sup>2</sup> Fall River Electric Light Co., 23 B.T.A. 168, 171 (1931).

<sup>3</sup> Journal Company v. Comm., 44 B.T.A. 460 1941.



## Exhibit "B"—(Continued)

payment of the premiums due on the ten annuity contracts, and received from claimants the sum of \$140,000.00 as interest at the rate of 3½% per annum on said sum. In addition, the sum of \$99,000.00 was loaned to claimants, upon which \$3,465.00 was received by the Company as interest from claimants. [16]

Consequently, it is clear that the Internal Revenue Code of 1939 allows the deduction of \$143,465.00 claimed by claimants as interest. Such being the case, it follows that claimants are entitled to a refund of the \$129,480.39 plus interest as allowed by law. [17]

## EXHIBIT "C"

## CLAIM

Form 843—Rev. Jan. 1955

Received Oct. 8, 1956, Director Int. Rev., Los Angeles, Teller #3.

\*\*\*\*\*

Name of taxpayer or purchaser of stamps: Karl F. Knetsch and Eva Fay Knetsch.

Number and street: 353½ West 80th Street.

City, town, postal zone, State: Inglewood, California.

1. District in which return (if any) was filed: California (Los Angeles).

2. Name and address shown on return, if different from above: Same.

3. Period: From January 1, 1954, to January 1, 1955.

4. Kind of tax: Income tax.

## Exhibit "C"—(Continued)

5. Amount of assessment: \$119,613.20.

Dates of payment: July 19, 1956, plus \$8,844.82 of interest paid 8/3/56.

6. Date stamps were purchased from the Government: .....

7. Amount to be refunded: \$128,458.02 plus interest or such greater amount as is legally refundable.

8. Amount to be abated (not applicable to income, estate, or gift taxes): .....

9. The claimant believes that this claim should be allowed for the following reasons: See attached pages one (1) through three (3) which are incorporated herewith and made a part hereof.

I declare under the penalties of perjury that this claim (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is true and correct.

Dated Oct. 8, 1956.

/s/ KARL F. KNETSCH.

/s/ EVA FAY KNETSCH [18]

\*\*\*\*\*

On December 11, 1953, claimant, Karl F. Knetsch, executed an application to purchase ten single premium deferred annuities from the Sam Houston Life Insurance Company of Houston, Texas, for a consideration of \$400,000.00 for each annuity, or a total of \$4,000,000.00 for all ten annuities. Along with the application, claimant, Karl F. Knetsch, paid \$4,000.00 by check to the Company as a cash

Exhibit "C"—(Continued)

premium. Thereafter, on the same date, December 11, 1953, the Sam Houston Life Insurance Company issued ten annuity contracts for a consideration of the \$4,000 and the execution by Karl F. Knetsch of ten contract loan agreements of \$400,000.00 each. Under the terms of each loan agreement, it was provided that the Company was directed to apply the sum of \$400,000.00 in payment of each premium of \$400,000.00 remaining due by the claimant. The ten annuity contracts were issued on December 11, 1953.

Interest at the rate of  $3\frac{1}{2}\%$  per annum on the \$4,000,000.00 loan was paid in 1953 and 1954 by claimant, Karl F. Knetsch. The interest payment for the year 1954 in the amount of \$140,000.00 was paid on December 27, 1954 to the Sam Houston Life Insurance Company. The said sum of \$140,000.00 was paid to the Company by means of a cashier's check.

In addition to the loan of \$4,000,000.00, claimant, Karl F. Knetsch, also borrowed \$203,000.00 from the Sam Houston Life Insurance Company during 1954, and paid interest on the \$203,000.00 loan at the rate of  $3\frac{1}{2}\%$  per annum. The interest on the \$203,000.00 loan was paid as follows: \$3,465.00 to the Company on December 27, 1954, and \$3,640.00 to the Company on December 30, 1954.

Thus, claimant paid interest totaling \$147,105.00 to the Sam Houston Life Insurance Company in December of 1954, which amount was claimed as a deduction on the Federal income tax return of Karl

Exhibit "C"—(Continued)

F. Knetsch and Eva Fay Knetsch for the taxable year ending December 31, 1954.

On June 29, 1956, the Commissioner of Internal Revenue issued a statutory notice of deficiency to claimants asserting a deficiency in income taxes of \$119,613.20 resulting from the disallowance of the said \$147,105.00 interest deduction, on the ground that:

"(a) It is held that the amounts aggregating \$147,105.00 paid by you on the single premium 30-year maturity deferred annuity savings bonds issued by the Sam Houston [18] Life Insurance Company and claimed as an interest deduction in your return for the year 1954 are not interest within the meaning of Section 163 of the Internal Revenue Code of 1954 and are not deductible for Federal income tax purposes."

It is the position of claimants that the \$147,105.00 claimed as an interest deduction is allowable as interest within the meaning of the Internal Revenue Code of 1954.

Section 163 (a) of the 1954 Internal Revenue Code provides a deduction for:

"All interest paid or accrued within the taxable year on indebtedness, \* \* \*

It should be noted that the above section does not deal with trade or business expenses. Instead, it is

## Exhibit "C"—(Continued)

known as one which permits deductions for non-trade or non-business expenses. That is why one of the looseleaf services states that:

"A deduction without limitation is permitted any taxpayer for all interest paid or accrued on indebtedness \* \* \*"

Therefore, since it is a fact that the \$147,105.00 was paid during 1954, the only remaining question is whether it was paid on an indebtedness. Because the claimant, Karl F. Knetsch, executed loan agreements for the respective sums of \$4,000,000.00 and \$203,000.00, it is clear that indebtedness existed.

This leaves only the issue of whether the sum of \$147,105.00 paid in 1954 was interest. "Interest on indebtedness has a definite and well-accepted meaning as compensation allowed by law or fixed by the parties for use, or forbearance, or detention of money."<sup>1</sup> It has also been defined as "compensation for money borrowed or the forbearance of money legally owed."<sup>2</sup> Certainly the phrase "or the forbearance of money legally owed" contemplates that interest comes into existence in cases other than those where money has changed hands. Here the Sam Houston Life Insurance Company agreed that it would apply the \$4,000,000.00 loan proceeds in

<sup>1</sup> 1 CCH Fed. Tax Rep. par. 171.196 (1954).

<sup>2</sup> Fall River Electric Light Co., 23 B.T.A. 168, 171 (1931).

<sup>3</sup> Journal Company v. Comm., 44 B.T.A. 460 1941.

## Exhibit "C"—(Continued)

payment of the premiums due on the ten annuity contracts, and received from claimants the sum of \$140,000.00 as interest at the rate of 3½% per annum on said sum. In addition, the sum of \$203,000.00 was loaned to claimants, upon which \$3,465.00 and \$3,640.00 was received by the Company as interest from claimants. [19]

The only remaining issue is whether, by virtue of the terms of Section 264 of the 1954 Internal Revenue Code, the interest payment of \$147,105.00 is not allowed as a deduction. That section provides that no deduction shall be allowed for

"(2) Any amount paid or accrued on indebtedness incurred or continued to purchase or carry a single premium life insurance, endowment, or annuity contract.

Paragraph (2) shall apply in respect of annuity contracts only as to contracts purchased after March 1, 1954."

Since the contracts involved herein were all purchased prior to March 1, 1954, it follows that Section 264 is not applicable.

Consequently, it is clear that the Internal Revenue Code of 1954 allows the deduction of \$147,105.00 claimed by claimants as interest. Such being the case, it follows that claimants are entitled to a refund of the \$128,458.02 plus interest as allowed by law. [20]

[Endorsed]: Filed May 3, 1957.

[Title of District Court and Cause.]

ANSWER

Comes now the defendant in answer to plaintiff's complaint and admits, denies and alleges as follows:

First Alleged Count

I.

Admits the allegations contained in paragraph 1.

II.

Admits the allegations contained in paragraph 2.

III.

Admits the allegations contained in paragraph 3.

IV.

Admits the allegations contained in paragraph 4.

V.

Admits the allegations contained in paragraph 5.

VI.

Admits the allegations contained in paragraph 6.

VII.

Admits the allegations contained in paragraph 7.

VIII.

Admits the allegations contained in paragraph 8 thereof except that it is denied that the dates of payments were July 19, 1956 and August 3, 1956, respectively. The \$113,684.48 was paid July 9, 1956 and the \$15,795.91 interest was paid July 27, 1956.

IX.

Admits the allegations contained in paragraph 9

except that each and every allegation contained in the claim for refund, Exhibit B, is denied except as otherwise specifically admitted herein.

X.

Admits the allegations contained in paragraph 10.

XI.

Denies the allegations contained in paragraph 11.

XII.

Denies the allegations contained in paragraph 12.

XIII.

Denies the allegations contained in paragraph 13.

XIV.

Denies the allegations contained in paragraph 14 except that it is admitted that no part of the sum of \$129,480.39 has been paid or credited.

Second Alleged Count

XV.

Admits the allegations contained in paragraph 15.

XVI.

Admits the allegations contained in paragraph 16.

XVII.

Admits the allegations contained in paragraph 17.

XVIII.

Admits the allegations contained in paragraph 18.

XIX.

Admits the allegations contained in paragraph 19.



XX.

Admits the allegations contained in paragraph 20.

XXI.

Admits the allegations contained in paragraph 21.

XXII.

Admits the allegations contained in paragraph 22 except that the dates of payment of July 19, 1956 and August 3, 1956 are denied. The payment of \$119,613.20 was made July 9, 1956. The payment of \$8,844.82 was made July 27, 1956.

XXIII.

Admits the allegations contained in paragraph 23 except that each and every allegation contained in the claim for refund, Exhibit C, is denied except as it is otherwise specifically admitted herein.

XXIV.

Admits the allegations contained in paragraph 24.

XXV.

Denies the allegations contained in paragraph 25.

XXVI.

Denies the allegations contained in paragraph 26.

XXVII.

Denies the allegations contained in paragraph 27.

XXVIII.

Denies the allegations contained in paragraph 28 except that it is admitted that no part of said sum of \$128,458.02 has been paid or credited.

Wherefore, defendant prays that the action be dismissed with prejudice, that judgment be entered that plaintiffs take nothing and that defendant have its costs in its behalf expended. [23]

LAUGHLIN E. WATERS,

United States Attorney,

EDWARD R. McHALE,

Assistant United States Attorney,

Chief, Tax Division,

ROBERT H. WYSHAK,

Assistant United States Attorney,

neq,

/s/ EDWARD R. McHALE,

Attorneys for Defendant. [24]

Affidavit of Service by Mail Attached [25]

[Endorsed]: Filed July 3, 1957.

[Title of District Court and Cause.]

PLAINTIFFS' MEMORANDUM IN SUPPORT  
OF PLAINTIFFS' OBJECTIONS TO EX-  
HIBITS 53-61

Memorandum

Defendant proposes to offer the year end financial statements of the Sam Houston Life Insurance Company (Exhibits 53-58), a Wall Street Journal advertisement placed by the company (Exhibit 59), a letter mailed to defendant's counsel on September 17, 1957, by the company (Exhibit 60), and a summary of annuity contracts issued by the company

in 1953 and 1954 (Exhibit 61). Since plaintiffs submit that the only factual and legal issue is whether or not plaintiffs became indebted to the Sam Houston Life Insurance Company, it follows that such evidence is not [37] relevant as to this issue.

In determining a dispute regarding the relevancy of proffered evidence, the question to be resolved, says Jones on Evidence, "is as to whether there is a logical or rational connection between the fact which is sought to be proved and a matter of fact which has been made an issue in the case."

Applying this test to the financial statements of the Sam Houston Life Insurance Company (Exhibits 53-58) it is submitted that there is no logical or rational connection between the year end financial condition of the company or the percentage of its reserves set aside for issued annuity contracts and the issues of whether Knetsch was indebted to the company. A creditor need not be solvent at the end of a taxable year in order to qualify as a creditor. Nor is a debtor any the less or more of a debtor depending upon the solvency of the lender.

In fairness it should be pointed out that undoubtedly the defendant's offer of Exhibits 53-58 is connected with the defendant's contention that plaintiffs did not borrow money from the company and hence there could be no indebtedness. However, this view has been presented to the courts in the past and been rejected. For instance, in *Northwestern Pennsylvania Gas Corp.*, 3 TCM 52, Prentice-Hall 1944 TC Mem. Dec. par. 44,017 at 65,

<sup>1</sup> Jones on Evidence, § 137, p. 238 (1938).

the Tax Court, citing a Supreme Court decision, said:

"Respondent's position, we think, is wholly untenable. The indebtedness upon which interest may be deducted is not limited to money borrowed. *Deputy v. du Pont*, 308 U. S. 488."

Therefore, the cash position of the company at the beginning and end of each year is not significant. Furthermore, even if the rule respecting indebtedness [38] did require that actual money be borrowed before the kind of indebtedness arose upon which interest could be deducted, the company's balance of cash accounts at the beginning and end of each year would not constitute relevant evidence of the amount of company cash on hand on or about December 11, 1953, which was the day Knetsch executed the contract loan agreements totaling \$1,000,000.00.

#### Exhibit 59-60

This advertisement which appeared in the Wall Street Journal after placement there by the company is offered, according to defendant's statement at the July 7, 1958, pre-trial conference, to show that Knetsch's intent in purchasing the annuities and executing the contract loan agreements was not to create indebtedness but simply to avoid tax liability.

Invoking the same tests set forth above, it is submitted that the company placed the advertisement. Knetsch did not. Therefore, Knetsch's intent cannot be determined from this fact. Furthermore, while the intent of the parties to create indebt-

edness may be a proper factual issue, it does not follow that ascertaining the intent of only one of the parties reflects the intent of both parties.

The same considerations apply with respect to the envelope addressed to defendant's counsel. While it is stated as fact in paragraph 22 of the proposed Pre-Trial Conference Order that literature such as Exhibit 60 was sent to Knetsch and received by him after inquiries made by him, it is submitted that there is no rational connection between this fact and the issue of whether Knetsch subsequently became indebted to the company in 1953 and 1954. [39]

#### Exhibit 61

This summary of the single premium annuities issued by the Sam Houston Life Insurance Company has no rational or logical connection with the issue of whether Knetsch was indebted to the company in 1953 and 1954. The volume of annuities sold, whether large or small, is not relevant to the issue of indebtedness.

#### Summary

All of the exhibits from 53 through 61, are not, it is submitted, relevant to the issue of whether Knetsch became indebted to the company in 1953 and 1954.

Respectfully submitted,

/s/ NOLA McLANE,  
Attorney for Plaintiffs.

[Endorsed]: Filed July 16, 1958.

### PLAINTIFFS' EXHIBIT No. 71

[Title of District Court and Cause.]

(For Identification)

### PRE-TRIAL CONFERENCE ORDER

Following pre-trial proceedings pursuant to Rule 16 of the Federal Rules of Civil Procedure and Local Rule 9 of this Court, it is ordered:

#### I.

This is an action seeking a refund of Federal income tax paid by plaintiffs for the years 1953 and 1954. Karl F. Knetsch and his wife, Eva Fay Knetsch, are the plaintiffs, while the United States of America is the defendant. The complaint and answer raise the issues.

#### II.

Federal jurisdiction is invoked under Title 28, Section 1346(a)(1) of the United States Code, Act of June 25, 1948, c. 646, 62 Stat. 689, 933 as amended by the Act of July 30, 1954, c. 648, sec. 1, 68 Stat. 589, and Section 1340.

#### III.

The exhibits to be offered at the trial, or a photo [41] reproduction thereof, are as follows and they may be introduced into evidence without any foundation being laid or evidence of authenticity introduced and without prejudice to the right of either party to object to the competency, materiality, or relevancy thereof:

Ex. 1: Application for an annuity to the Sam

Plaintiffs' Exhibit No. 71—(Continued)  
Houston Life Insurance Company, Houston, Texas,  
by plaintiff Karl F. Knetsch (hereinafter referred  
to as Knetsch).

Ex. 2: Check dated December 11, 1953, for  
\$4,000.00.

Ex. 3-12: Sam Houston Life Insurance Com-  
pany Annuity Savings Bonds issued to Karl F.  
Knetsch, numbered A-15400 through A-15409, re-  
spectively.

Ex. 13-22: Annuity Loan Notes and Assignments  
by Knetsch, dated December 11, 1953, one for each  
bond numbered A-15400 through A-15409, respec-  
tively.

Ex. 23: Cashier's check dated December 11, 1953,  
for \$140,000.00.

Ex. 24: Typed receipt of Sam Houston Life  
Insurance Company dated December 11, 1953, for  
\$140,000.00.

Ex. 25: Cashier's check dated December 16, 1953,  
for \$92,000.00.

Ex. 26-35: Annuity Loan Notes and Assignment  
dated December 16, 1953, each in the sum of \$9,900,  
one for each bond numbered A-15400 through A-  
15409, respectively.

Ex. 36: Check dated December 16, 1953, for  
\$3,465.

Ex. 37: Typed receipt of Sam Houston Life  
Insurance Company dated December 16, 1953, for  
\$3,465.

Ex. 38-47: Annuity Loan Notes and Assignments  
each in the sum of \$20,300 dated December 30, 1954,

Plaintiffs' Exhibit No. 71—(Continued)  
one for each bond numbered A-15400 through A-  
15409, respectively. [42]

Ex. 48: Cashier's check dated December 30, 1954,  
for \$104,000.00.

Ex. 49: Cashier's check dated December 27, 1954,  
for \$143,465.00.

Ex. 50: Check dated December 30, 1954, for  
\$3,640.

Ex. 51: Sam Houston Life Insurance Company  
receipt dated December 30, 1954, for \$7,105.

Ex. 52: Sam Houston Life Insurance Company  
receipt dated December 30, 1954, for \$140,000.00.

Ex. 53-58: Excerpts from Best's Life Insurance  
Reports regarding Sam Houston Life Insurance  
Company for calendar years 1952 through 1956,  
respectively.

Plaintiffs object to Exhibits 53 through 58 upon  
the ground that they are neither relevant nor  
material to the issue before the Court which is  
whether or not plaintiffs paid interest in the sums  
of \$143,465.00 and \$147,105.00 to the Sam Houston  
Life Insurance Company during 1953 and 1954  
respectively.

Ex. 59: Wall Street Journal advertisements  
placed by the Sam Houston Life Insurance Com-  
pany in the Wall Street Journal.

Plaintiffs object to Exhibit 59 upon the same  
grounds as set forth in their objections to Exhibits  
53 through 58.

Ex. 60: Envelope postmarked September 17,