

DEM

Decision No. 17108.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)  
LAWRENCE WAREHOUSE COMPANY, )  
a corporation, to issue stock. )

Application No. 12849

ORIGINAL

Sanborn and Roehl and DeLancey C. Smith,  
for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding Lawrence Warehouse Company asks permission to issue \$49,950.00 of its preferred stock and \$53,350.00 of its common stock.

Lawrence Warehouse Company is engaged in the business of managing and operating warehouses and performing services incidental to storing and warehousing merchandise in San Francisco, Oakland and other points in the state. It was organized during July, 1913, and has an authorized capital stock of \$200,000.00, consisting of 20,000 shares of the par value of \$10. each and divided equally into common and eight percent cumulative preferred stock. Up to May 31, 1926, according to General Order No. 24 reports filed by applicant with the Commission, it had issued \$104,710.00 of stock, consisting of \$46,620.00 of the common and \$58,090.00 of the preferred.

By Decision No. 9129, as amended from time to time, applicant was authorized to issue and sell, at not less than 95 percent of par value on or before December 31, 1926, \$50,000.00 of its preferred stock for the purpose of providing working capital and paying outstanding notes. Under such authority applicant reports

that up to May 31, 1926, \$36,450.00 of preferred stock has been issued, leaving a balance unissued of \$13,570.00. The \$13,570.00 of stock, which applicant, under the former order of the Commission, still in effect, may issue, added to the \$58,090. of preferred stock outstanding, results in a total of \$71,660.00. Deducting this amount from the authorized preferred stock of \$100,000. leaves a balance of \$28,340.00 of preferred stock, the issue of which has not been authorized by this Commission. Since applicant, under the authority granted, by Decision No. 9129, may issue the \$13,570.00 of stock on or before December 31, 1926, we believe that the order in this proceeding should be limited to the issue of \$28,340.00 of preferred stock.

The company asks permission to sell the additional preferred stock herein applied for at not less than 95 percent of par value, and to use the proceeds to provide working capital, it reporting that additional working capital is required by its rapidly growing business.

The volume of the company's business is indicated by its annual reports to the Commission which show revenues and expenses as follows:-

<u>ITEM</u>	1924	1925
Operating revenues . . . . .	\$231,789.27	\$283,052.92
Non-operating revenues . . . . .	16,675.31	42,296.58
Total revenues . . . . .	248,464.58	305,349.50
Operating expenses . . . . .	257,477.74	266,831.52
Gross corporate income . . . . .	10,986.84	38,517.98
<u>LESS:</u>		
Interest . . . . .	2,675.45	3,729.87
Other deductions . . . . .	799.62	2,202.66
Total deductions . . . . .	3,475.07	5,932.53
Net corporate income for year . . . . .	7,511.77	32,585.45

We believe the company should be authorized to issue and sell \$28,340.00 additional preferred stock to provide working capital, subject to the conditions of this order.

Coming to the request of the company to issue common stock it appears that it is the intention of the company to deliver such stock to the present common stockholders as a stock dividend, the

petition, in this connection, reading as follows:-

"Applicant also desires to issue to the present holders of its common stock, \$58,380.00 of the common stock remaining in the treasury of applicant at its discretion, any time within one year, and the par value thereof to be charged to surplus".

The purposes for which the Commission is authorized to permit the issue, by a public utility, of its stock are defined and limited by the provisions of Section 52 of the Public Utilities Act. That section reads in part as follows:-

"A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes and other evidences of indebtedness payable at periods of more than twelve months after the date thereof, for the following purposes and no others, namely, for the acquisition of property, or for the construction, completion, extension or improvement of its facilities, or for the improvement or maintenance of its service, or for the discharge or lawful refunding of its obligations, or for the reimbursement of moneys actually expended from income or from any other moneys in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness of such public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant shall have kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of moneys so expended and the purposes for which such expenditure was made."

It will be noted that the payment of dividends is not one of the purposes mentioned. So far as the issue of the common stock is concerned, it must be justified on the theory of reimbursing applicant for money, obtained from income, expended for one of the aforesaid purposes. While applicant reports a surplus, as of April 30, 1926, of \$237,227.37, an analysis of applicant's surplus account shows that its earned surplus was \$45,847.47. This surplus has been invested in applicant's properties and business. Because of such investment applicant should, if it complies with the order herein, be permitted to issue \$45,800.00 of common stock to reimburse its treasury. After such reimbursement the stock may be used for such purposes as applicant's Board of Directors

may determine.

Applicant reports its assets and liabilities as of April 30,

1926, as follows:-

A S S E T S

Cash on hand and in banks (Credit balance) . . . . .	\$ 399.35
Accounts receivable . . . . .	106,229.07
Freight advanced for customers . . . . .	4,919.74
Notes receivable . . . . .	1,750.55
Stock-Bay Cities Transportation Company . . . . .	27,727.73
Stock-Erikson Navigation Company . . . . .	3,191.67
Stock-Other companies . . . . .	2,798.00
Real estate . . . . .	12,587.94
Warehouse equipment . . . . .	22,834.44
Automobiles and trucks . . . . .	56,469.58
Office furnitures and fixtures . . . . .	17,007.82
Miscellaneous equipment . . . . .	22,071.86
Improvements to leased property . . . . .	17,571.09
Leaseholds . . . . .	152,100.00
Stock subscriptions receivable . . . . .	5,602.50
Rent, insurance, taxes and other expenses paid in advance . . . . .	18,931.38
Printing and supplies . . . . .	4,300.13
Good will . . . . .	50,000.00
Total . . . . .	<u>\$525,694.15</u>

L I A B I L I T I E S

Notes payable . . . . .	\$ 65,910.70
Advances from subsidiaries . . . . .	11,028.16
Purchase contracts . . . . .	17,597.42
Accounts payable . . . . .	14,371.70
Payables not due . . . . .	4,887.31
Real estate mortgages . . . . .	2,000.00
Reserve for outward labor not yet performed but col- lected from customers . . . . .	9,068.62
Reserves for depreciation, etc. . . . .	42,759.51
Deferred revenue . . . . .	9,333.36
Subscriptions to preferred stock . . . . .	7,500.00
Capital stock, preferred . . . . .	57,390.00
Capital stock, common . . . . .	<u>46,620.00</u>
Capital stock surplus . . . . .	191,579.90
Earned surplus . . . . .	<u>45,847.47</u>
Total . . . . .	<u>\$525,694.15</u>

Applicant's balance sheet is written up, in part, on a valuation rather than a cost basis, with the result, among others, that it shows a surplus of \$237,227.37, whereas its earned surplus amounts to only \$45,847.47, the remaining \$191,579.90 representing the estimated increase in value of leaseholds and good will. While it is true that the balance sheet contains a segregation of the

surplus account into an item designated capital stock surplus, and an item designated earned surplus; the two amounts are consolidated into one total. We take exception to such a consolidation and will require that the two items be kept separate.

### O R D E R

Lawrence Warehouse Company having applied to the Railroad Commission for permission to issue \$103,510.00 of stock, and the Railroad Commission being of the opinion that this is a matter in which a public hearing is not necessary, and that the money, property or labor to be procured or paid for by the issue of \$74,140.00 of stock is reasonably required by applicant,

IT IS HEREBY ORDERED that Lawrence Warehouse Company be, and it is hereby, authorized to issue and sell, at a net price of not less than ninety-five percent of par value and accrued dividends, \$28,540.00 par value of its preferred stock, and use said net proceeds for working capital, and to issue \$45,800.00 of its common stock at par for the purpose of reimbursing its treasury on account of earnings invested in its properties and business, provided that the authority herein granted to issue said preferred stock will become effective upon the date hereof, but that the authority herein granted to issue common stock will not become effective until applicant has filed with the Commission for approval, a stipulation duly authorized by its Board of Directors declaring that it will keep separate, and will never merge or consolidate its earned surplus with the surplus reported obtained from any other source, and that it will never declare or pay a dividend except against and out of earned surplus.

The authority herein granted is subject to further conditions as follows:-

(1) Lawrence Warehouse Company shall keep such record of the issue, sale and delivery of the stock herein

authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

(2) Under the authority herein granted no stock may be issued after December 31, 1926.

IT IS HEREBY ORDERED that the application insofar as it involves the issue of \$29,170,000 of stock be, and it is hereby, dismissed without prejudice.

DATED at San Francisco, California, this 13<sup>th</sup> day of July, 1926.

H. B. Brundage

Frank J. ...

Leon ...

Commissioners.