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Decision No. 11363

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
THE SOUTHERN TERMINAL WAREHOUSING AND
STORAGE CORPORATION for an order auth-
orizing the issue of one thousand seven
hundred fifty shares of capital stock.

Application Number 8332.

Kenneth E. Matot, for Applicant.

BY THE COMMISSION:

O P I N I O N

THE SOUTHERN TERMINAL WAREHOUSING AND STORAGE CORPORATION asks permission to issue 1750 shares of its capital stock of the total par value of \$175,000.00 for the purposes and consideration hereinafter mentioned.

A public hearing was held before Examiner W. R. Williams in Los Angeles on November 10, 1922. Since the hearing, additional information has been filed and the matter is now ready for decision.

The Southern Terminal Warehousing and Storage Corporation was organized on or about September 8, 1922, with an authorized capital stock of \$250,000.00, divided into 2500 shares of the par value of \$100 each. Applicant asks permission to issue and deliver \$15,000 par value of its stock to Kenneth E. Matot in payment for legal services; \$15,000 par value to L. E. Bailey, D. R. Bailey and W. B. Moorhead in payment for services in preparing tariffs and looking after the organization of the corporation; and \$15,000 par value to A. M. Horne as first payment under a contract for the delivery of property and a warehouse building, and to issue and sell \$130,000 par value at not less than \$80 per share net. The company proposes to offer the \$130,000 of stock to the public at its par value, but asks permission to expend 20 per cent. of the proceeds in the payment of commissions;

to use \$100,000 to pay the balance due A. M. Horne under the contract with him, and to use the remainder of the proceeds, \$4,000, for working capital.

There is filed in this proceeding a copy of an agreement between A. M. Horne on the one hand, and L. E. Bailey, D. R. Bailey and W. B. Moorhead on the other, by the terms of which A. M. Horne has agreed to sell to the others certain lots located in the City of San Bernardino and to construct upon such lots a No. 1 Class "A" reinforced concrete fireproof warehouse building 100 feet by 125 feet in dimension, with a foundation sufficient to carry a four-story structure, said building to be completed with a ten-foot basement and first floor, but not including a sprinkler system. A. M. Horne has agreed to deliver the lots and building to the buyers for \$115,000 which, according to the contract, is payable as follows: \$10.00 upon the execution and delivery of the agreement; \$15,000 in capital stock of The Southern Terminal Warehousing and Storage Corporation as soon as its issue is authorized by the Railroad Commission; 20 per cent. of the balance when the foundation of the building is completed; 20 per cent. when the walls have been erected; 20 per cent. when the roof has been completed; 20 per cent. when the building has been accepted by the buyers, and the balance within 30 days after completion. L. E. Bailey, D. R. Bailey and W. B. Moorhead have assigned their interests in this agreement to The Southern Terminal Warehousing and Storage Corporation.

The plans of the warehouse are filed with the application. It is alleged that the lots and building, when completed, will be worth approximately \$150,000, although they will have cost applicant \$115,000. The testimony of A. M. Horne shows that he recently has acquired these properties, which consist of 13 lots and occupy one-half of a city block, for \$18,500.00, and that he can construct the warehouse called for in the contract for approximately \$93,775. The sum of these two items is \$112,275.00, or an amount slightly less than the agreed purchase price. At the hearing applicant in-

troduced some testimony tending to show that, based on a recent sale of real property in the vicinity, the value of the lots which it intends to purchase, had increased.

Kenneth E. Matot, attorney for applicant, has filed an affidavit in support of the request of applicant to issue to him \$15,000 of stock in payment for services in incorporating the corporation and in looking after its legal affairs for a period of one year. He alleges that for a period of nearly three months, he has been engaged in making preliminary studies and in organizing the company and that he has expended approximately \$500 in cash. He further alleges that the incorporators are willing to pay him \$15,000 in cash for his services but that he has agreed to accept in payment for such services \$15,000 in stock.

L. E. Bailey, D. R. Bailey and W. B. Moorhead have also filed an affidavit in which they allege that for a period of more than three months they have been engaged in organizing The Southern Terminal Warehousing and Storage Corpora^{tion}, that they were instrumental in securing the option and making the contract to purchase the property and building in San Bernardino for \$115,000., that they have completed a schedule of rates which they allege would have cost the corporation in excess of \$35,000 to secure in the absence of any existing rate schedules, and that they have expended approximately \$500 in cash. In compensation for their time, labor and money expended, they request the applicant to issue to them \$15,000 of stock. While the proposed schedule of rates has not yet been filed with the Commission, information submitted at the hearing indicates that it does not differ materially from other warehouse rate schedules. It is common knowledge that warehouse tariffs are on file with the Commission and are public documents. Any one interested in organizing a warehouse corporation has access to such tariffs and there appears to be no need for incurring a great amount of labor or expense in preparing such a rate book. The allegation that the preparation of a tariff schedule would have cost the company \$35,000 had conditions been different is not, in our opinion, a suffi-

cient showing for an order authorizing the issue of \$15,000 of stock.

Not only does applicant ask permission to issue \$30,000 of stock in payment for legal and certain organization costs, but it also asks to expend twenty per cent. of the proceeds realized from the sale of \$130,000 for value of stock, to pay the cost of selling such stock. Thus in effect applicant requests permission to issue \$56,000 of stock for organization purposes. We believe that the issue of so large an amount of stock for the purposes indicated is unwarranted and wholly unjustified. The order herein will permit applicant to issue and sell at not less than par \$130,000 of stock and to expend an amount not exceeding 17-1/2 per cent. of the proceeds from the sale of such stock, to pay bona fide and reasonable organization and incorporation expenses, attorneys fees and stock selling expenses.

The record shows that the company intends to engage in a general warehousing, commission and brokerage business in the City of San Bernardino. Applicant alleges that there is no bonded warehouse open to the public for general storage in the district to be served by applicant. It is thought that the company's net revenue should approximate \$60,000 a year, and that handling charges should be sufficient to take care of overhead and operating expenses.

O R D E R

THE SOUTHERN TERMINAL WAREHOUSING AND STORAGE CORPORATION having applied to the Railroad Commission for permission to issue \$175,000 of stock, a public hearing having been held and the Railroad Commission being of the opinion that applicant should be permitted to issue only \$145,000 of stock at this time and that the money, property or labor to be procured by such issue is reasonably required by applicant;

IT IS HEREBY ORDERED, that THE SOUTHERN TERMINAL WAREHOUSING AND STORAGE CORPORATION be, and it is hereby, authorized to issue 1450 shares (\$145,000) of its capital stock on or before June 30, 1923.

The authority herein granted is subject to the following conditions;

1. - Of the stock herein authorized, \$15,000 (150 shares) may be delivered to A. M. Horne in part payment of the properties proposed to be acquired from him and referred to hereinabove.
2. - The remaining stock herein authorized, \$130,000 (1300 shares) may be sold for cash at not less than par and the proceeds used for the following purposes:
 - (a) An amount not exceeding 17-1/2 percent. of the proceeds may be used to pay bona fide and reasonable organization and incorporation expenses, attorney fees and stock selling expense.
 - (b) An amount not exceeding \$100,000. of the proceeds may be delivered to A. M. Horne in part payment for the properties described in this application.
 - (c) The remainder of the proceeds may be used for working capital.
3. - Applicant 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 in so far as applicable, is made a part of this order.
4. - Applicant shall file with the Commission a copy of its prospectus, a copy of its stock subscription agreement and a copy of each and every agreement under the terms of which an individual or individuals are employed to act as agents or salesmen for applicant in selling the stock herein authorized.

IT IS HEREBY FURTHER ORDERED that the application in so far as it relates to the issue of \$30,000 of stock be, and it is hereby, dismissed without prejudice.

DATED at San Francisco, California, this 15 day of December, 1922.

H. H. Brundage
James Martin
Charles H. Jones

Commissioners