

ORIGINAL

Decision No. ✓ .

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)
PANAMA-PACIFIC WAREHOUSE CORPORATION) Application No. 2026.
for an order authorizing the issue)
of capital stock and bonds.)

Frank James for applicant.

C.L.Chandler for protestants.

BY THE COMMISSION.

O P I N I O N .

This is an application of Panama-Pacific Warehouse Corporation for authority to issue and sell \$450,000.00 par value of 20 year, 6% serial gold bonds and \$450,000.00 par value of capital stock and to use the proceeds of such issues for the purpose of buying a warehouse site, erecting and equipping a warehouse, and for certain other purposes as hereinafter more particularly set forth.

Public hearings were held in Los Angeles on January 24, and January 29, 1916, at which time Davies Warehouse Company, Panama Commercial Warehouse Company, Los Angeles Warehouse Company and Santa Fe Warehouse Company appeared by their attorney, Mr. C. L. Chandler, as protestants,

contending that the warehouse space in Los Angeles already greatly exceeds the demand, and that applicant's venture cannot possibly be a profitable one.

Applicant was incorporated in August, 1915, as set forth in its Articles of Incorporation, for the following purposes among others, viz:

"To acquire by purchase or otherwise, and to lease or hold, construct, operate and maintain warehouses, sheds and other buildings and structures and carry on the business of warehouseman and of storage in the State of California and elsewhere, and to furnish and equip the same with machinery and appliances for the purpose of storing therein for hire or otherwise, goods, wares, merchandise and all other kinds of property."

The Articles of Incorporation provide for a capital stock of \$750,000.00, divided into 7,500 shares of the par value of \$100.00 each, and they are signed by the following incorporators who subscribed for one share of stock each:

W. C. Cook, Chicago, Illinois,
F. H. Brooks, Los Angeles,
Robert L. Hubbard, Los Angeles,
Frank James, Los Angeles,
W. E. Smith, Los Angeles.

It also appears that applicant desires to purchase land for its warehouse site in the industrial section of the City of Los Angeles at a location where it will have shipping facilities from two or more railroad systems, and to construct a fireproof and thoroughly up-to-date warehouse and to furnish the same with the most modern and efficient equipment. To provide for the above construction and other charges hereinafter more particularly set forth, applicant asks for authority to issue all of its \$450,000.00 face value of bonds at not less than 85, and \$382,500.00 par value of stock at not less than 85, which would net applicant

a total of \$707,625.00.

Applicant further asks authority to issue to C. E. McStay, F. H. Brooks, A. B. Cass, B. H. Raphael, C. L. Bisbee and G. B. Ocheltree of Los Angeles, and Moores and Dunford of Chicago, \$67,500.00 par value of stock in payment of their services and expenses in promoting the warehouse company.

Mr. C. E. Moores, one of applicant's principal promoters, stated that he had made a careful investigation and has found that there are several sites available that are adapted to warehouse purposes. He estimated that approximately 100,000 square feet of land will be necessary for the warehouse, and that the company would be able to buy such land at approximately \$1.75 per square foot. Applicant intends to erect a five story fireproof, reinforced concrete warehouse, having a total floor area of approximately 350,000 square feet, at an estimated cost of \$350,000.00, in addition to architects and superintendent's fees, and to equip the warehouse with all modern conveniences.

Applicant has submitted an approximate estimate of the cost of the building and equipping the warehouse, and desires to use the proceeds of said stocks and bonds as follows:

Purchase price of land for warehouse.....	\$175,000.00
Cost of building.....	350,000.00
Architect's fee, (to be paid to Moores & Dunford) at 5%.....	21,600.00
Equipment for building.....	82,000.00
Trustee's fee.....	750.00
Fee for bond issue.....	500.00
Engraving bonds (900).....	1,000.00
Paving streets and sidewalks.....	2,500.00
Paving driveway in rear.....	2,000.00
Side tracks and frogs.....	1,500.00
Building permit.....	250.00
Contingent expenses.....	20,000.00
Taxes first year.....	2,500.00
Bond interest first year.....	27,000.00
Overhead first year.....	10,000.00
Attorney's fees.....	2,500.00

Estimated total cost of property.....\$699,100.00

Although the protestants aforementioned contended that the available warehouse space in Los Angeles greatly exceeds the demand, applicants on their part urged that very few of the warehouses in Los Angeles are modern or up-to-date, a large proportion of them not being fireproof, and some of them not having even been built originally as warehouses.

While an enterprise of this kind must of necessity always contain a decided element of risk, still when we consider the remarkable growth of the City of Los Angeles between the years 1910 and 1915 in its population, its bank clearings and its harbor business, the latter having increased from approximately 80,483 tons of imports and 42,455 tons of exports in 1910 to 531,556 tons of imports and 544,396 tons of exports in 1915, we do not feel justified in denying the application on the ground that applicant's proposal is necessarily premature.

As stated by Commissioner Edgerton in Decision No. 2385, reported in Vol. 6, Opinions and Orders of the Railroad Commission of California, p. 926, 928, 929:

"It has been the aim of the Commission, as far as could reasonably be done, to safeguard the issue of stocks and bonds. It has never pretended to say that stocks and bonds which it authorized were necessarily good stocks and bonds for an intending investor to buy. On the contrary, it has specifically and repeatedly stated that stocks and bonds issued upon Commission authorization must take their place in the financial world with stocks and bonds heretofore or hereafter issued, and were, therefore, liable to the same economic laws to which all investment is necessarily subject. There is no guarantee by the State."

"I would issue a warning, therefore, to the public or that part of the public which has conceived it to be the function of this Commission to allow the issue of only such investment securities as should be sure to be remunerative and profitable to the investor. That, of course, is not the case. Every stock and every bond issued with the authorization of this Commission should, by the investing public, be subjected to the same scrutiny

and to the same test as any other stock or bond which might be available on the market for public purchase."

Moreover, in any business enterprise the honesty and ability of the officials and managers of the company are of no less importance than the soundness of the proposition. No enterprise subjected to keen competition will succeed unless it is properly managed, and upon this point the investor must always satisfy himself from his own investigations.

Our comments on this subject are not intended to refer to any particular corporation or any particular individual. We have merely taken this opportunity to make these observations in view of the question raised by the contestants as to the probable success of the undertaking.

The statement offered by the promoters as to the amount of money furnished and services rendered by them in the promotion of applicant is as follows:

<u>Name</u>	<u>Cash</u>	<u>Services</u>
C. E. McStay.....	\$ 1,588.00	\$ 7,500.00
Frank H. Brooks.....	-	3,500.00
Automobile for 7 months.....	810.39	-
Chauffeur for 7 months, at \$75.00 per month.....	525.00	-
Office Equipment and rent of office at Los Angeles for 7 months.....	950.00	-
Moores & Dunford - Traveling and hotel expenses C.H.Moores in 2 trips to Los Angeles, occupying a total of 5 weeks.....	1,150.00	-
Traveling and hotel expenses trip from Chicago to New York, 6 days.....	120.00	-
36 days' time at \$100. per day	-	3,600.00
W.C.Cook of Moores & Dunford - 31 weeks at Los Angeles at \$75.00 per week.....	-	2,325.00
Traveling expenses, Chicago to Los Angeles.....	90.00	-
Forward.....	\$5,233.39	\$16,925.00

<u>Name</u>	<u>Cash</u>	<u>Services</u>
Brought forward.	\$5,233.39	\$16,925.00
Incidental expenses at Los Angeles.....	775.00	-
Office and financial organization over period of 7 months.....	<u>3,000.00</u>	<u>-</u>
Total Cash.....	\$9,008.39	
Total Services.....		\$16,925.00
Total Cash and Services.....	\$26,008.39	

So far as we can judge from the evidence introduced, we are convinced that if due economy had been exercised the actual cash outlay chargeable to promotion expenses could easily have been kept down to \$5,000.00. We do not consider, for example, that it was necessary for the promoters to have two offices in Los Angeles (as well as one in Chicago), an automobile and a chauffeur, or to allow \$3,000.00 for "office and financial organization over a period of 7 months" to Moores & Dunford, who, if this application is allowed, will receive an architect's fee of \$21,600.00.

We feel that Mr. Moores or Moores & Dunford would not be badly paid for their services if they were allowed simply the actual expenses they have thus far incurred and their architect's fee; but it has always been the policy of this Commission to consider the risks involved in the promotion of any enterprise and the possibility of the promoter's failure to receive reimbursement either for his services or for the money he may have advanced, and, accordingly, we have always endeavored to be liberal in the granting of promotion stock.

Under the circumstances of this case we feel that \$40,000.00 par value of stock would be an extremely liberal allowance to the promoters. This would reimburse applicants for all moneys expended by them and amply compensate them for all their services and any risks they assumed in promoting this enterprise.

Under the present condition of the bond market we consider that applicant ought to be able to sell its proposed bonds for at least 90% of their face value, and we shall make our order accordingly. As these are 20 year serial gold bonds, the first of which mature within 3 years, the total issue, if sold at 85, would yield an average interest of approximately 7.9% while if sold at 90 it would yield an average rate of approximately 7.5%, which, considering the fact that the bonds will be secured by a large parcel of land and a thoroughly first-class warehouse, located in the heart of the shipping district of Los Angeles, ought, in our opinion, to enable applicant's promoters to market them with comparative ease. As the first of these bonds to mature will yield a much larger return upon the investment than those maturing at the end of the term it will be necessary in our Order to require that either all the bonds shall be sold at once or else that they shall be sold in the inverse order of their maturity.

Applicant has not submitted its proposed deed of trust. It will, of course, be necessary for the same to be submitted by the company and receive the approval of this Commission before any of the bonds herein authorized can be issued. Moreover, as applicant has not been able to specify the exact parcel of land which it desires to buy, we shall, before finally authorizing the sale of applicant's

bonds, require it to give this Commission a description of the proposed site together with the lowest price at which applicant can obtain the property. The Commission will then be able to issue a supplemental order without requiring applicant to file a new formal application.

O R D E R.

PANAMA-PACIFIC WAREHOUSE CORPORATION having applied to this Commission for an order authorizing the issue and sale of \$450,000.00 face value of bonds so as to net applicant not less than 85% of their face value, and the issue and sale of \$382,500.00 of its capital stock at 85% of its par value, and the issue of \$67,500.00 par value of its capital stock in payment of promotion services, and a public hearing having been held, and it appearing that the application should in part be granted, subject to certain modifications and conditions as hereinafter set forth,

IT IS HEREBY ORDERED that Panama-Pacific Warehouse Corporation be and the same is hereby authorized to execute a mortgage or deed of trust creating a bonded indebtedness of \$450,000.00, evidenced by 900 20 year, 6%, first mortgage serial bonds of the face value of \$500.00 each.

IT IS HEREBY FURTHER ORDERED that Panama-Pacific Warehouse Corporation be and the same is hereby authorized to issue and sell said \$450,000.00 face value of bonds.

IT IS HEREBY FURTHER ORDERED that Panama-Pacific Warehouse Corporation be and the same is hereby authorized to issue and sell 3,500 shares of its capital stock of the par value of \$100.00 each.

IT IS HEREBY FURTHER ORDERED that Panama-Pacific Warehouse Corporation be and the same is hereby further authorized to issue to C. E. McStay, F. H. Brooks, A. B. Cass, R. H. Raphael, C. L. Bisby and G. B. Ocheltree of Los Angeles, and Moores & Dunford of Chicago, \$40,000.00 par value of its capital stock for all expenses and services incurred in or connected with the promotion and organization of applicant.

The authority herein granted to applicant is granted upon the following conditions, and not otherwise:

1. Panama-Pacific Warehouse Corporation shall issue and sell said bonds so as to net said company not less than 90% of the par value of the principal thereof together with accrued interest thereon.

2. Panama-Pacific Warehouse Corporation shall issue and sell said \$350,000.00 par value of stock so as to net said company not less than 85% of the par value thereof.

3. Before any of the bonds or stock herein authorized to be issued shall be issued, applicant shall submit to this Commission its proposed mortgage or deed of trust securing said bond issue and shall obtain a supplemental order approving the same.

4. Before any of the \$40,000.00 par value of stock shall be issued to the promoters, applicant must have completed the erection and equipment of its warehouse in accordance with its plans as set forth in the foregoing Opinion.

5. Applicant shall issue and sell said stock and bonds at such times and in such a manner that the face value of the bonds issued will at no time exceed the par value of the stock issued and sold by a greater ratio than that of nine to seven.

6. The bonds herein authorized shall be sold in such a manner that no bond maturing at any particular date shall be sold or issued unless all the bonds under this issue maturing at any later date or dates shall be sold at the same time or shall have been sold previously.

7. Before any of the bonds or the stock herein authorized to be issued shall be issued, applicant shall submit a verified statement to this Commission containing an accurate description of the proposed site for the warehouse, together with the net cost of the same.

8. Not more than approximately the following amounts shall be applied from the proceeds of the sale of said stocks and bonds upon the following items, unless authorized by a supplemental order of this Commission:

Purchase of warehouse site.....	\$175,000.00
Construction of warehouse building.....	350,000.00
Equipment for building.....	82,000.00
Architect's fee at 5%.....	21,600.00
Trustee's fee.....	750.00
Commissioners' fee.....	500.00
Engraving 900 bonds.....	1,000.00
Paving street and sidewalks.....	2,500.00
Paving driveway in rear.....	2,000.00
Spur tracks and frogs.....	1,500.00
Building permit.....	250.00
Taxes for first year.....	2,500.00
Bond interest for first year.....	27,000.00
Overhead first year.....	10,000.00
Attorney's fees.....	2,500.00
Contingent expenses.....	20,000.00
Total.....	\$699,100.00

The balance of the proceeds, amounting to \$3,400.00 shall be retained in applicant's treasury and not expended except upon a subsequent order of this Commission.

9. Panama-Pacific Warehouse Corporation shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds and the stock herein authorized to be issued, and on or before the 25th day of each month the company

shall make verified report to this Commission, stating the sale or sales of bonds or stock during the preceding month, the terms and conditions of such sale or sales, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this Order.

10. The authority herein given to issue and sell bonds and stock shall apply only to bonds and stock so issued and sold by applicant on or before December 31, 1916.

11. This Order shall not become effective until the fee prescribed by Section 57, as amended, of the Public Utilities Act has been paid.

Dated at San Francisco, California, this 29th day of February, 1916.

Max Shelton

H. B. Stoveland

Edwin O. Edgerton

Stan R. Dyer

Commissioners.