

Decision No. 28585

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
LAWRENCE WAREHOUSE COMPANY,
a corporation, for an order author-
izing the issuance of 60,000 shares
of no par common stock in exchange
for 10,000 shares of presently out-
standing common and 10,000 shares
of presently outstanding preferred
stock; for the issuance of 20,000
shares of \$10.00 par value preferred
STOCK AT PAR FOR CASH; and for the
issuance of 20,000 shares of no par
common stock to be exchanged under
preferred stock convertible privi-
leges.

Application No. 20362

Williamson & Wallace, by W.R.Wallace, Jr.,
for applicant.
W. F. Cordes and J.E.Nauman, for certain
stockholders of Lawrence Warehouse
Corporation.

DEVLIN, Commissioner.

O P I N I O N

In this application the Railroad Commission is asked to
make its order authorizing Lawrence Warehouse Company:-

1. To issue 60,000 shares of its no par value common stock to be exchanged for presently outstanding issues of 10,000 shares of \$10.00 par per share common stock and 10,000 shares of \$10.00 par per share preferred stock, both at the ratio of three shares of the new common stock for one share of the common or preferred stock now outstanding:
2. To issue and sell 20,000 shares of its \$10.00 par value convertible preferred stock and to use the proceeds thereof to reduce its outstanding bank loans and to provide additional working capital to carry its accounts receivable and improve its facilities and services:
3. To issue 20,000 shares of its no par value common stock to be held by the corporation in its treasury to be exchanged for convertible preferred stock on a share for share basis at the request of the holders of said preferred stock.

It appears that Lawrence Warehouse Company was organized under the laws of the State of California on or about June 27, 1913 and for some years was engaged rather extensively in the storage of general merchandise in San Francisco and Oakland. As of January 1, 1932, however, it disposed of most of its buildings and properties and since that time has engaged primarily in what is designated as field warehousing. It reports that it now operates approximately 440 field warehouses in twenty-six states of the United States and in the territories of Hawaii and Alaska and that it also operates general bonded warehouses for the storage of distilled spirits in San Francisco, Fresno and Chicago and bonded bottling works in San Francisco and Chicago. The record shows that since January 1, 1932 the company's business has been rapidly increasing, Clyde Hildreth, its secretary and treasurer, testifying to the following figures:-

Calendar year	Gross Revenues		Total Net Operating Profit
	Field Warehouses	Bonded Warehouses	
1932	\$ 592,926.47	\$ -	\$ 32,259.97
1933	644,394.49	-	32,227.43
1934	911,518.45	38,853.31	44,225.23
1935	1,181,236.00	91,658.64	124,532.00

The company has outstanding 20,000 shares of stock of the par value of \$10.00 each and of the aggregate par value of \$200,000.00, divided equally into common stock and eight per cent. cumulative preferred stock. Its assets and liabilities as of November 30, 1935 are reported in Exhibit "D" as follows:-

A S S E T S

Warehouse property and equipment	\$67,699.29
Other property	230,874.31
Investment in securities	41,447.20
Cash and special deposits	73,747.37
Notes receivable	2,635.47
Due from affiliated companies	32,517.31
Accounts receivable	388,092.38
Materials and supplies	14,833.57
Prepayments	<u>27,051.90</u>
Total.....	<u>\$878,898.80</u>

LIABILITIES

Capital stock	\$ 200,000.00
Notes payable	254,717.65
Accounts payable	53,766.13
Accrued liabilities not due	26,149.09
Reserve for accrued depreciation	20,626.26
Other reserves	8,270.72
Other credit accounts	20,625.15
Profit and loss balance	30,188.43
Capital surplus	50,000.00
Paid in surplus	<u>214,555.37</u>
Total.....	<u>\$878,898.80</u>

According to information furnished the Commission the capital surplus of \$50,000.00 was brought on to the company's books through the inclusion in the property and equipment accounts of an estimated value of \$50,000.00 for goodwill, while the paid-in surplus of \$214,555.37 arose from the expenditure of certain sums included in the assets in the "other property" account for the development cost of field warehousing and the cost of a one-half interest in a field warehouse business of petroleum products, amounting to \$179,439.53 and from the forgiveness of approximately \$35,000.00 of indebtedness.

It appears that all of the outstanding common stock and about ninety-two per cent. of the outstanding preferred stock is held by Lawrence Warehouse Corporation, a Nevada company. (1)

(1) Published financial manuals show that Lawrence Warehouse Corporation, in addition, owns the outstanding stock of Bay Cities Transportation Company, Erikson Navigation Company and Gibson Properties Company. The latest information available to the Commission shows that it has outstanding stock, as follows:-

Prior preferred 7½% cumulative	\$ 150,000.
Original preferred 8% cumulative	162,200.
Original convertible preferred	135,000.
Common, no par value	75,960 shares

The testimony herein shows that dividends have not been paid on the preferred stock since July 1, 1930 and that the total amount now in arrears is \$4.20 per share. Applicant reports that its surplus earnings have been invested in its current assets.

The company at this time proposes to re-classify its capital stock structure, and to create a new issue of preferred stock. It recently has amended its Articles of Incorporation so as to provide for a total authorized capital stock of 200,000 shares divided into 150,000 shares of common stock of no par value and 50,000 shares of convertible cumulative six per cent. preferred stock having an aggregate par value of \$500,000. and having a par value of \$10.00 per share. The new class of preferred stock, in addition to carrying cumulative preferred dividends at the rate of six per cent. per annum, is redeemable at the option of the company at any time at \$11.00 per share, and is convertible at the option of the holders into common stock on a share for share basis. There is no distinction as to voting rights between the holders of the preferred and common shares.

The company proposes to issue 60,000 of its new no par value common shares in exchange for the 20,000 shares (10,000 shares of common and 10,000 shares of eight per cent. preferred) now outstanding of the total par value of \$200,000., such exchange to be on the basis of three no par shares for each one share of the \$10.00 par value, and, in addition, to issue and sell at not less than par for cash, 20,000 shares (\$200,000. par value) of its new six per cent. preferred stock for the purpose of obtaining funds to pay in part its outstanding note indebtedness.

In considering the proposed exchange of stock it will be noted that the foregoing balance sheet shows the present stock

carried thereon at its full par value of \$200,000.00, with no discount or premium set up, indicating that the corporation received, at least so far as its records show, only the par value for its issued stock. A pro forma balance sheet filed with the application suggests that it is the company's intention as a result of issuing a greater number of shares of stock, not to increase the stated value thereof, but to carry the 60,000 shares on its balance sheet at the \$200,000. figure. The record in this proceeding indicates that the company in support of its request to issue 60,000 shares of stock in exchange for the 20,000 shares now outstanding, relies on its Exhibit "F", which is a computation made by Benjamin Hicklin, a certified public accountant, of the estimated value of the present net worth of the company. This exhibit is as follows:-

Net income for eleven months ended Nov. 30, 1935	\$101,904.68
Estimated net income for year 1935	<u>110,000.00</u>
Estimated net income for 10 years, based upon 1935 operations	\$1,100,000.00
<u>Less</u> 30%, allowance for over-estimate	<u>330,000.00</u>
Estimated available net income for 10 years.....	770,000.00
<u>Less</u> -provision for federal income taxes and state franchise taxes	<u>154,000.00</u>
Net income for 10 years available for dividends.....	616,000.00
<u>Less</u> -dividend requirements for 20,000 shares of new preferred stock	<u>120,000.00</u>
Balance of net income available for common stock, dividends and earned surplus	496,000.00
Net worth of present stock.....	\$494,743.80
<u>Less</u> -intangible assets.....	<u>229,439.53</u>
Estimated value of present net worth of Lawrence Warehouse Company.....	<u>\$761,304.27</u>

The procedure followed in the preparation of Exhibit "F" in effect, is based on the theory of capitalization of potential earnings which may or may not be realized.

It is clear that the \$761,304.27 does not now represent the investment in the properties and business by the present holders of the company's stock and I do not believe the Commission should,

or can, use it as a basis for an order authorizing the issue of additional shares at this time as here requested. The issue of the stock has not been justified by the investment of surplus earnings. If hereafter applicant realizes its anticipated net earnings and invests the same in its properties and business, it may apply for permission to issue stock to reimburse its treasury. I recommend that the order herein authorize the company to issue not exceeding 20,000 shares of its no par common stock in exchange for the 20,000 shares of \$10.00 par value stock now outstanding.

Applicant proposes to sell its new six per cent. preferred stock at par for cash and to use the proceeds to pay in part its outstanding indebtedness consisting of six per cent. demand notes which were reported issued to Bank of California to obtain funds for working capital. These notes, as of January 1, 1936, amounted to \$226,000.00.

Objection to the company's plan was voiced by certain stockholders of Lawrence Warehouse Corporation, applicant's holding company. It seems that the holding company also is in arrears in the payment of its preferred dividends and it is felt by the protestants that a new class of stockholders should not be created who would have a prior claim to the earnings of applicant. However, so far as the present issue of new six per cent. preferred stock is concerned, it will be used to retire at dollar for dollar six per cent. demand notes so that protestant's position from the point of view of the income statement should not be adversely affected. Further, it would seem to me to be in the best interest of all concerned if applicant's current indebtedness were, in effect, to be converted into stock as proposed, and therefore I recommend that this portion of

the company's request be granted.

Accordingly, I herewith submit the following form of order:-

O R D E R

Lawrence Warehouse Company having applied to the Railroad Commission for permission to issue stock, a public hearing having been held, and the Commission being of the opinion that the company should be authorized to issue stock only in the amounts and for the purposes specified herein, that the money, property or labor to be procured or paid for through such issue is reasonably required for the purposes specified herein and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expense or to income, therefore,

IT IS HEREBY ORDERED as follows:-

1. Lawrence Warehouse Company may, after the effective date hereof and on or before September 30, 1936, issue not exceeding 20,000 shares of its no par value common stock in exchange, on a share for share basis, for the 20,000 shares now outstanding, common and preferred, of the par value of \$10.00 each.
2. Lawrence Warehouse Company's request for permission to issue an additional 40,000 shares of no par value common stock in exchange for the stock now outstanding, is dismissed without prejudice.
3. Lawrence Warehouse Company may, after the effective date hereof and on or before September 30, 1936, issue and sell at not less than par for cash, 20,000 shares of its \$10.00 par value convertible preferred stock and use the proceeds to pay outstanding demand notes.

4. Lawrence Warehouse Company may issue not exceeding 20,000 shares of its no par value common stock to be exchanged for said convertible preferred stock on a share for share basis at the request of the holders of said preferred stock.
5. Lawrence Warehouse Company shall keep such record of the issue 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.
6. The authority herein granted to issue no par value common stock will become effective twenty (20) days from the date hereof, while the authority granted to issue preferred stock will become effective when Lawrence Warehouse Company has filed with this Commission a copy of its registration statement filed with the Securities and Exchange Commission.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 19th day of February, 1936.

M. B. Harris
Leon Whisely

Starr R. Smith

Commissioners.