Decision No. 33718

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

LAWRENCE WAREHOUSE COMPANY
a corporation

for an Order authorizing the issuance of 10,000 shares of Cumulative Six Per Cent (6%) Convertible Preferred Stock for cash, and 4,000 shares of Common Stock of No Par value to be held for use in conversion of said Preferred Stock for Common Stock, upon request of the holders thereof at the ratio of 2½ shares of said Preferred Stock for 1 share of Common Stock.

ORIGINAL

Application No. 23831

George M. Burditt, for Applicant

BY THE COMMISSION:

OPINION

In this proceeding Lawrence Warehouse Company asks permission to issue and sell 10,000 shares of its cumulative 6% convertible preferred stock, having a par value of $25 per share, for cash at the price of $22.50 per share, and to use the proceeds thereof to redeem its outstanding 6% preferred stock, which will not be converted into common stock, and to pay outstanding bank loans. Applicant further asks permission to issue 4,000 shares of its no par value common stock to be held in its treasury for exchange for its cumulative 6% convertible preferred stock having a par value of $25 per share, on the basis of 2½ shares of said preferred stock for one share of common stock at the request of the holders of the preferred stock.

Lawrence Warehouse Company is a corporation, organized and existing under and by virtue of the laws of the State of California. It is engaged in the warehousing business in the State of California and in various parts of the United States. It now operates about 800 field warehouses in forty-two states of the United States and in the Territory of Hawaii. It also operates under permits issued by the Alcohol Tax Unit, Bureau of Internal Revenue, twenty bonded field warehouses for the storage of wine in the State of California, two in the State of Michigan, and bonded warehouses for the storage of distilled spirits in San Francisco, Fresno, Montpelier and San Jose, California, and in Chicago, Illinois. In connection with the Chicago warehouse, it also operates a bonded bottling works for distilled spirits, tax-paid and in bond.

As of September 30, 1940, it reports assets and liabilities as follows:

Assets

Acct. No.	Account	
100	Warehouse property and equipment	$ 92,192.21
101	Other property	317,759.42
102	Investment in securities	71,512.81
103	Cash	101,896.09
104	Special deposits	19,866.37
105	Notes receivable	13,339.05
106	Accounts receivable	
	A - Advances for customers	7,980.74
	B - Due on storage charges	66,020.61
	C - Other accounts receivable	642,317.82
107	Materials and supplies	33,742.80
109	Prepayments	13,598.97
113	Other debit accounts	-
	Total Assets	$1,380,226.89

Liabilities

Acct. No.	Account	
150	Capital stock	$ 373,540.00
155	Indebtedness due affiliated companies	16,515.53*
156	Notes payable	387,280.00
157	Accounts payable	40,626.28
158	Accrued liabilities not due	74,148.05
160	Reserve for accrued depreciation	44,341.02
161	Other reserves	10,000.00
	Reserve for sinking fund for retirement of preferred stock	28.97
162	Other credit accounts	14,453.00
163	Profit and loss balance	187,317.42
	Capital surplus	50,000.00
	Paid in surplus	215,007.68
	Total Liabilities	$1,380,226.89

*Red figures

The outstanding stock of $373,540 consists of 7,553 shares of 6% preferred stock and 23,267 shares of common stock. The shares of preferred stock have a par value of $10 per share or an aggregate par value of $75,530. The shares of common stock are of no par value. A stated value of $298,010 is assigned to them in the balance sheet.

The $16,515.53, reported as due from affiliated companies, is an amount due from Lawrence Warehouse Corporation. The amount, so the record shows, has been collected by applicant since September 30, 1940.

Reports on file with the Railroad Commission show that for 1938 applicant's revenues amounted to $3,097,839.23; in 1939 to $3,472,746.69; and for the nine months ending September 30, 1940, to $2,827,503.81. For 1938, applicant's net income is reported at $113,816.03; for 1939 at $101,169.53; and for the nine months ending September 30, 1940 at $78,365.14. C. Hildreth, Secretary-Treasurer of applicant, testified that less than two per cent of such revenue was obtained from business conducted under rates on file with the Railroad Commission.

It is of record that applicant has need for additional working capital. As of September 30, 1940, its accounts receivable aggregated $716,319.17. It then had outstanding $372,000 of 4% demand notes, payable to the Bank of California, N. A., and a $10,000 2% note, due March 12, 1941, payable to Bank of America National Trust and Savings Association.

Applicant has recently amended its Articles of Incorporation, and as amended, they provide for the issue of three classes of shares of stock, to-wit: Cumulative 6% preferred, cumulative 6% convertible preferred, hereinafter sometimes referred to as the "new preferred stock," and common. The total number of shares of stock authorized is 177,553. The number of cumulative 6% preferred stock is fixed at 7,553 of a par value for each of said shares of $10. The number of cumulative 6% convertible preferred shares is fixed at 20,000, and the par value of each of said shares is $25. The number of common shares is fixed at 150,000, and each of said shares is without par value.

Applicant, as said, has now outstanding 23,267 shares of common stock of no par value and 7,553 shares cumulative 6% preferred stock of the par value of $10 per share, or of an aggregate par value of $75,530. The preferred stock now outstanding is at the option of the holders thereof convertible into common stock of the company at the rate of three shares of such preferred stock for one share of common stock. The applicant may, at its option, redeem the outstanding preferred stock, in whole or in part, upon paying the holders thereof $11 per share and any accumulated and accrued dividends. It is applicant's intention to redeem its outstanding 6% preferred stock. Under applicant's amended Articles of Incorporation there shall be no distinction as to the voting rights between the holders of applicant's outstanding stock except that the holders of the new preferred stock shall have the right to elect the smallest number of directors that will constitute a majority of applicant's board of directors whenever and as often as applicant shall be in default in the payment of four or more quarterly dividends, whether consecutive or not, on said new preferred stock, or the tangible net worth of applicant falls below 150% of the aggregate par value of such preferred stock outstanding, or the sinking fund provision contained in the Articles of Incorporation shall not have been complied with by applicant. The amended Articles of Incorporation further provide that the holders of the new preferred stock shall be entitled to receive dividends at the rate of 6% per annum, payable quarterly on the first days of January, April, July and October in each year, out of funds of the applicant legally available therefor, when and as declared by the board of directors. The dividends on the new preferred stock are cumulative and are payable before any dividends may be declared, paid upon or set apart for common stock. The amended Articles of Incorporation further provide that the holders of the new preferred stock may convert the same into common stock at the rate of 2½ shares of said new preferred stock for one share of common stock. The amended Articles of Incorporation further provide that applicant will, beginning January 1, 1942, and thereafter on or before January 1 of each year, so long as any of the new preferred shares remain outstanding, set aside and pay into a sinking fund, an amount equal to at least 10% of applicant's net earnings for the previous calendar year, after provision for all Federal, State or other taxes and Governmental levies, as determined by the annual audit, but not including therein dividends required to be paid on the new preferred stock. The amount of said sinking fund in any one calendar year shall, however, not exceed $25,000. The money paid into the sinking fund shall be used to redeem the new preferred stock at a price of not to exceed $26.50 per share. The amended Articles of Incorporation contain other provisions which we do not deem it necessary to mention herein.

The testimony shows that applicant has entered into an agreement with O'Melveny, Wagenseller and Durst for the sale of 10,000 shares of its cumulative 6% convertible preferred stock. Under this agreement, O'Melveny, Wagenseller and Durst are in effect agents for applicant. They do not underwrite the issue. They may elect to purchase all or part of said 10,000 shares of stock at a price of $22.50 per share. The proceeds which applicant will realize from the sale of said stock will be used by it, first, to redeem its outstanding 6% preferred stock, which is not converted into common stock, and second, to pay part of its outstanding bank loans. The record shows that any expenses incident to the issue of said stock in excess of $3,500 will be paid by O'Melveny, Wagenseller and Durst.

O R D E R

A public hearing having been held in the above application by Examiner Fankhauser, the Commission having considered the evidence submitted at such hearing, and it being of the opinion that the issue of 10,000 shares of cumulative 6% convertible preferred stock by Lawrence Warehouse Company and the issue by said company of 4,000 shares of common stock is reasonably necessary for the purposes herein stated, that the expenditures for said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore

IT IS HEREBY ORDERED as follows:

1. Lawrence Warehouse Company may issue and sell, on or before June 30, 1941, at not less than $22.50 per share, 10,000 shares of its cumulative 6% convertible preferred stock and use the proceeds to redeem its outstanding preferred stock, which will not be converted into common stock, and to pay part of its outstanding bank loans.

2. Lawrence Warehouse Company may issue not exceeding 4,000 shares of its common capital stock and hold such shares in its treasury for the purpose of exchanging its cumulative 6% convertible preferred stock, having a par value of $25 per share, on the basis of 2½ shares of said preferred stock for one share of common stock, at the request of the holders of said preferred stock.

3. Within fifteen (15) days after the effective date of the registration statement filed with the Securities and Exchange Commission, Lawrence Warehouse Company shall file with the Railroad Commission a complete copy of said registration statement, including all exhibits referred to therein.

4. Lawrence Warehouse Company shall file with the Railroad Commission such reports as are required by the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

5. The authority herein granted shall not be regarded as a precedent for future action by the Commission.

6. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 10th day of December, 1940.

Ray L. Riley

Frank R. Havenner

C. C. Baker

Justus F. Craemer

Commissioners.