

# SECURITIES AND EXCHANGE COMMISSION

# NEWS DIGEST



A brief summary of financial proposals filed with and actions by the S.E.C.

Washington 25, D.C.  
April 9, 1957

Securities Exchange Act Release No. 5483

FOR RELEASE \_\_\_\_\_

The Securities and Exchange Commission today announced the issuance of a decision ordering withdrawal from registration on the American Stock Exchange of the capital stocks of Great Sweet Grass Oils Limited and Kroy Oils Limited for violations of the Securities Exchange Act of 1934, effective after April 13, 1957.

The violations involved the filing with the Commission of reports, which were duplicates of reports filed with the Exchange, containing false and misleading statements concerning transactions involving the issuance of stock in exchange for oil and gas properties under a claimed exemption from the registration requirements of the Securities Act of 1933, and false representations with respect to the oil and gas reserves underlying those properties.

The evidence showed, according to the decision, that the issuance of stock by the two companies for oil and gas properties was "part of an overall scheme ... to effect the illegal distribution of such stock in this country without registration." The scheme was said to have been engineered by Samuel Ciglen of Toronto, Ontario, a director and later president of Sweet Grass, and general counsel of both companies. The stock was sold by means of an intensive sales campaign, involving the use of flamboyant sales literature which contained the falsely reported information as to oil and gas reserves.

In one transaction Sweet Grass issued 1,750,000 shares of its stock to Depositors Mutual Oil Development Company in exchange for its oil and gas properties. However, the stock never reached the Depositors Company (which was found to be a mere corporate shell) and the stock was funneled into three New York brokerage houses for sale over-the-counter to the American public in early 1956. These houses were George F. Rothschild & Co., Inc., Cornelis deVroedt, Inc., and Murray Securities Corporation. Approximately \$8 million was paid by the investing public for these shares, resulting in an underwriting profit of about \$5 million in addition to brokerage commissions.

Additional blocks of Sweet Grass and Kroy stock were distributed in the over-the-counter market under similar conditions in 1956. The sources of such shares were as follows: 500,000 shares of Sweet Grass stock issued in exchange for oil properties of Pitt Petroleum, Ltd.; 1,500,000 shares of Kroy stock issued in exchange for oil properties of Coronet Development Corporation; and 600,000 shares of Kroy stock purchased by Ciglen in acquiring control of Kroy. Again substantial underwriting profits were made in the distribution of these shares to the American public who paid over \$2,400,000 for 500,000 shares of Sweet Grass stock and over \$3 million for 1,210,700 shares of Kroy stock.

Both Sweet Grass and Kroy claimed an exemption from registration for these stock transactions in reliance upon the Commission's Rule 133 which is applicable to stock issued in exchange for the assets of another corporation where a majority vote of stockholders authorizes the transfer of assets for stock and binds all stockholders to the plan except as they have dissenters' rights. However, the Commission held that Rule 133 does not "free" stock from the registration requirements of the Securities Act insofar as subsequent distributions by stockholders are concerned. Where there is a pre-existing plan, as in this case, to use stockholders merely as a conduit for distributions of substantial blocks of stock to the public, the Rule 133 exemption is not available. The Commission stated, "In the instant case no bona fide reliance on Rule 133 was or could have been intended. The deliberate efforts disclosed by the record to evade the registration requirements of the Securities Act by creating corporate entities and effecting transactions meeting the requirements of the Rule in appearance only, are to be strongly condemned."

The Commission also concluded that an illegal distribution was made commencing in the latter part of 1955 of a large block of stock issued by Sweet Grass to Torny Financial Corporation, a Toronto underwriting firm controlled by Ciglen and Morris Black, Sweet Grass treasurer who participated with Ciglen in these transactions. These shares were resold through Canadian sub-underwriters to M. J. Shuck Company, a broker-dealer in New York, who in turn sold such shares over-the-counter in an intensive sales campaign. Over \$2 million was paid by the American public for 645,450 of such shares so distributed by Shuck. Sweet Grass failed to report that it used over 60% of the proceeds received from Torny to buy 1 million shares of Golden West Minerals, Ltd., a promotional mining corporation controlled by Ciglen. Sweet Grass also failed to report its subsequent acquisition of all the assets of Golden West in exchange for the issuance of 250,000 shares of Sweet Grass stock.

The Commission further found that estimates of oil and gas reserves contained in reports filed by Sweet Grass and Kroy were false and misleading. There was no proper basis, the Commission stated, for a claim to 93 million barrels of oil and 238,500,000 mcf of gas "from reservoirs not yet discovered" in the properties obtained in the Depositors transaction inasmuch as such possible reserves are by definition not ascertainable with any degree of certainty and may not even exist. The Commission found that the proven oil reserves acquired by Sweet Grass from Depositors Company and Pitt Petroleum, Ltd., could be estimated at most at approximately 3,495,000 barrels, as compared with the company's claim of 10,734,139 barrels. The proven oil reserves acquired by Kroy from Coronet Corporation in the Commission's judgment could be estimated at most at approximately 2,620,000 barrels as compared with the company's claim of 7,348,100 barrels.

In ordering withdrawal of the Sweet Grass and Kroy stocks from Exchange registration, the Commission rejected the argument of counsel for both companies that in view of undertakings by the companies to revise the oil estimates and otherwise comply with the requirements of the Exchange Act, the only sanction should be a suspension of trading for a short period of time.

The Commission noted that, while Ciglen, Black and Jack A. Gilbert, a law associate of Ciglen, "have resigned from their positions with the two companies, it is not at all clear that the companies now have an independent management." Furthermore, "the record does not disclose that any steps have been taken by the present

management to recover any illegal profits resulting from the transactions here involved. . . . Use of the facilities of a national securities exchange by an issuer is a privilege involving important responsibilities under the Act, including compliance with the reporting requirements. When those responsibilities are abused, the integrity of the exchange market is vitiated. Congress has specified that when violations have occurred we may require the delisting of securities of the issuer if necessary or appropriate for the protection of investors. And in considering investors, regard must be had not only for existing stockholders of the issuer, but also for potential investors. We conclude that under all the circumstances, the protection of investors requires that the registrations of the securities of Sweet Grass and Kroy on the American Stock Exchange be withdrawn."

The effective date of the Commission's withdrawal order coincides with the expiration of the Commission's order of April 3, 1957, which temporarily suspended trading in the Sweet Grass and Kroy stocks on the Exchange through April 13, 1957. Consequently, over-the-counter trading in the stocks may be resumed at the opening of business Monday, April 15, 1957.

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The American Hardware Corporation, New Britain, Conn., filed a registration statement (File 2-13234) with the SEC on April 8, 1957, seeking registration of 118,000 shares of its \$12.50 par Common Stock. American Hardware proposes to offer this stock in exchange for shares of Common Stock and Class B Common Stock of Kwikset Locks, Inc., at the rate of one share of American Hardware common for two shares of Kwikset common and 55,500 shares of American Hardware common for 150,000 shares of Kwikset Class B common.

This offer is conditioned upon its acceptance by the holders of not less than 85% of the aggregate of the issued and outstanding common and Class B common of Kwikset (233,750 shares) on or before June 28, 1957, subject to American Hardware's privilege to reduce this percentage to 80% of such shares (220,000 shares). The offer is subject to various other conditions, including the condition that Adolf Schoepe, President of Kwikset and owner of the 150,000 Class B common shares, shall have delivered to American Hardware a written consent to the termination of his present employment contract, a written resignation as president and director of Kwikset, and an undertaking that, for five years (or for five years from and after the termination of any employment or consulting agreement which he may enter into with American Hardware, he will not engage in any business that is competitive to the business of the lockset business of American Hardware. The offer is further conditioned upon the resignation of other officers and directors of Kwikset and its subsidiaries, if requested by American Hardware.

The purpose of the offer by American Hardware is to acquire a controlling interest in Kwikset, whose principal product is its line of residential locksets, designed, manufactured and assembled in Kwikset's plant at Anaheim, Calif. In the event the exchange offer is consummated, it is intended, at least initially, to operate Kwikset as a subsidiary of American Hardware; and it is also intended to have Kwikset engage in the manufacture and sale of other products in the builders' hardware field for the purpose of increasing its sales volume and earnings.

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Securities Act Release No. 3774

The Securities and Exchange Commission has issued orders temporarily suspending Regulation A exemptions from registration under the Securities Act of 1933 with respect to public offerings of securities by the following:

Central Wyoming Oil & Uranium Corporation, New York, N. Y.

In its Regulation A notification, filed January 20, 1954, Central proposed the public offering of 599,000 common shares at 50¢ per share

Manhattan Mercury Corporation, Denver, Colo.

Manhattan filed its Regulation A notification on October 28, 1955, proposing the public offering of 1,500,000 common shares at 20¢ per share

Moder-Rate Homes, Inc., Bradford, Penna.

In a Regulation A notification filed October 7, 1955, Moder-Rate proposed the public offering of 300,000 common shares at \$1 per share

Each of the orders provides an opportunity for hearing, upon request, on the question whether the suspension should be vacated or made permanent.

The Commission's orders assert that each of the respondent companies has failed to comply with the terms and conditions of Regulation A and that the offering circular of each company contains false and misleading statements of material facts. In the case of Central, for example, the order alleges that Central's stock offering exceeded the \$300,000 limitation of Regulation A, that sales of its stock were made in jurisdictions not named in the notification, and that sales literature was used in the stock offering which was not filed with the Commission. Furthermore, the order asserts (1) that Central's offering circular omits material information with respect to the status and expiration date of various oil leases held by the company, the status of an escrow of 750,000 shares of Central common held by its president, Milton J. Shuck, the participation in the distribution of Central's stock by, and the payment of commissions to, M. J. Shuck & Co., of which Shuck is sole proprietor; (2) that the financial statements included in the offering circular reflect, cash on hand and in banks as of March 15, 1955, in the amount of \$24,718, an overstatement in the amount of \$7,272; and (3) that Shuck was preliminarily enjoined on September 6, 1956, from engaging in or continuing a conduct or practice in connection with the purchase or sale of a security within the meaning of the Commission's Rule 223(a)(6)(ii).

Similarly, in the case of Manhattan, the Commission's order asserts that the issuer has failed to file the required reports of stock sales. The order also alleges that Manhattan's offering circular is false and misleading in that it fails to show whether or not necessary royalty payments have been made or the required number of work shifts per month have been performed on the issuer's lode mining claims; fails to show that the underwriters named therein have withdrawn from their underwriting of the offering; fails to show that two directors (one the secre-

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tary-treasurer) have resigned; and fails to reflect accurately information as to the issuer's properties, financial condition, composition of its management and other particulars.

With respect to Moder-Rate, the Commission's order alleges that that company's offering circular does not reflect material changes in the financial condition of the company since October 27, 1955; the appointment of a receiver on January 10, 1957, by the Court of Common Pleas, McKean County, Pennsylvania; the suspension on July 18, 1956, and subsequent expulsion of William T. Bowler & Company, the underwriter, from the Midwest Stock Exchange and the revocation of that firm's license by the State of Pennsylvania; and the retention by said underwriter of a portion of the funds derived from the offering. The order further alleges that the offering circular is false and misleading, particularly with respect to the acceptance by the issuer of a consideration other than cash for substantial portions of the securities offered and the use by the issuer for the benefit of the underwriter of portions of the cash proceeds of stock sales.

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Richard S. Durkes, a director of Dixon Home Telephone Company, Dixon, Ill., together with six other voting trustees under a voting trust agreement for stock of Dixon Home Telephone, filed a registration statement (File 2-13235) with the SEC on April 8, 1957, seeking registration of voting trust certificates for 14,692 shares of the common capital stock of Dixon Home Telephone.

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Jones & Laughlin Steel Corporation, Pittsburgh, filed a registration statement (File 2-13236) with the SEC on April 8, 1957, seeking registration of its common stock, as follows: 125,447 shares to be offered under its Stock Option Plan to certain officers and other key employees of the company; and 13,975 shares now held in the company's treasury as a deferred rewards fund for certain officers (to be sold from time to time upon the retirement of such officers).

Holding Company Act Release No. 13439

Jersey Central Power & Light Company, Asbury Park, N. J. subsidiary of General Public Utilities Corporation, has applied to the SEC for an order authorizing its sale to GPU of an additional 700,000 shares of Jersey Central common stock for a cash consideration of \$7,000,000; and the Commission has issued an order giving interested persons until April 25, 1957, to request a hearing thereon.

Of the proceeds of the stock sale, Jersey Central proposes to use \$2,000,000 to repay a similar principal amount of bank loans outstanding at December 31, 1956 (the proceeds of which were used for construction); and the balance will be used for 1957 construction expenditures (including the repayment of \$2,500,000 of bank loans for construction purposes which were obtained since December 31, 1956).

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Holding Company Act Release No. 13441

The Columbia Gas System, Inc., New York holding company, has joined with eleven of its subsidiaries in the filing of an application with the SEC for an order authorizing the subsidiaries to issue and sell common stock and/or installment promissory notes to Columbia in the aggregate amounts of \$23,700,000 and \$55,400,000, respectively. Proceeds thereof will be applied to the construction programs of the subsidiaries, the expenditures for which are estimated at \$92,661,571 for 1957. The subsidiaries are as follows: United Fuel Gas Company, Amere Gas Utilities Company, Atlantic Seaboard Corporation, Central Kentucky Natural Gas Company, Virginia Gas Distribution Corporation, Kentucky Gas Transmission Corporation, The Ohio Fuel Gas Company, The Manufacturers Light and Heat Company, Cumberland and Alleghany Gas Company, Home Gas Company, and Binghamton Gas Works.

In addition to the foregoing, Columbia Gas proposes to advance \$42,000,000 on open account to five of the subsidiaries to finance their purchase of current inventory gas for underground storage.

Investment Company Act Release No. 2504

Israel Enterprises, Inc., New York investment company, has applied to the SEC for an exemption order with respect to certain transactions incident to its dissolution and liquidation; and the Commission has issued an order giving interested persons until April 22, 1957, to request a hearing thereon.

According to the application, the purpose for which IEI was organized, i.e., to assist new and existing enterprises in Israel, has been achieved as the result of the investment of capital by IEI in five companies which were organized and operate in Israel. It is therefore proposed to dissolve and liquidate IEI by means of a distribution of its portfolio securities in kind to its stockholders. Prior thereto, IEI proposes to consolidate its holdings into distributable units consisting of securities of three of the companies.

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