

# SECURITIES AND EXCHANGE COMMISSION NEWS DIGEST

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



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FOR RELEASE January 16, 1961

Statistical Release No. 1728. The SEC Index of Stock Prices, based on the closing price of 300 common stocks for the week ended January 13, 1961, for the composite and by major industry groups compared with the preceding week and with the highs and lows for 1960 - 1961 is as follows:

	1957-59 = 100		Percent Change	1960 - 1961	
	1/13/61	1/6/61		High	Low
Composite	120.5	118.3	+1.9	121.4	107.7
Manufacturing	115.1	113.0	+1.9	122.0	103.6
Durable Goods	118.5	117.0	+1.3	129.5	107.7
Non-Durable Goods	112.1	109.2	+2.7	115.1	99.5
Transportation	100.5	97.8	+2.8	108.3	87.1
Utility	147.1*	144.2	+1.9	147.1	118.4
Trade, Finance & Service	134.5*	132.5	+1.5	134.5	120.5
Mining	83.8	83.3	+0.6	86.7	67.0

\*New High

SECURITIES ACT REGISTRATION STATEMENTS. During the week ended January 12, 1961, 21 registration statements were filed, 23 became effective, 3 were withdrawn, and 303 were pending at the week end.

ORDER SUSPENDS MARKWELL-WEST STAR MINING REGISTRATION. In a "stop order" decision announced today (Release 33-4317), the SEC suspended the effectiveness of a Securities Act registration statement filed in January 1957 by J. Fred Markwell and Alexander Markwell, voting trustees for shareholders of West Star Mining Company, of Dalene, Idaho. The company was organized under Idaho law in 1939 to engage in the exploration and development of mineral deposits. It has certain property located in Shoshone County, Idaho, which is in the exploratory stage of development with no established ore reserves.

The registration statement related to voting trust certificates representing 2,500,000 shares of West Star common stock. After a hearing, at which the voting trustees did not appear, SEC staff counsel filed a brief and the trustees submitted an answer and petition in which they admitted that the registration statement was deficient in certain respects; and they stated that, although the statement had become effective, none of the certificates had been sold and that they intended to amend the statement. No amendment was filed.

The hearing examiner filed a recommended decision in which he found that the disclosures contained in the registration statement were materially deficient in various respects and recommended the issuance of a stop order. The findings of the hearing examiner were in large part adopted by the Commission. Among the deficiencies were the omission of financial information regarding the company's operations, including the dollar amount raised from the sale of stock and from mining operations since 1948 and the purposes for which used; the inclusion of inadequate and misleading information with respect to exploration work on the company's properties; the inclusion of misleading excerpts from old engineering reports concerning the geology and mining prospects of such properties; the inclusion of misleading information concerning the relationship of such properties to adjacent, producing properties; and references to 200 tons of low milling grade ore having been mined, as well as suggestions that certain camp buildings should care for operational needs "until such time as the mine is placed on a dividend paying basis or a commercial ore shoot has been opened for further work."

PUGET SOUND POWER & LIGHT FILES BOND AND RIGHTS OFFERINGS. Puget Sound Power & Light Company, 1400 Washington Building, Seattle, Wash., filed a registration statement (File 2-17465) with the SEC on January 13, 1961, seeking registration of \$15,000,000 of First Mortgage Bonds, Series due 1991, to be offered for public sale through a group of underwriters headed by Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith. The public offering price and underwriting terms are to be supplied by amendment. Also included in the registration statement are 326,682 shares of common stock which the company proposes to offer, through the same underwriters, for subscription by its common stockholders on the basis of one new share for each ten shares held of record on February 15, 1961. The subscription price and underwriting terms for the rights offering are to be supplied by amendment.

The net proceeds from the sale of the securities will be used to pay outstanding bank loans due July 31, 1961, incurred for construction purposes, and to provide funds for the company's 1961 construction program which, it is estimated, will require cash expenditures of \$20,000,000. Bank loans are expected to aggregate \$16,500,000 at the time of the sale of the new bonds. The remainder of the funds required to finance the 1961 construction program is expected to be obtained from new bank loans and from operations.

APCO OIL PROPOSES RIGHTS OFFERING. Apco Oil Corporation, 811 Rusk Avenue, Houston, Texas, filed a registration statement (File 2-17466) with the SEC on January 13, 1961, seeking registration of \$10,102,100

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of subordinated debentures, due April 1, 1981 and 505,105 shares of common stock. The company proposes to offer such securities in units (each unit consisting of a \$100 debenture and 5 common shares) for subscription by holders of Class A and Class B stock of Union Texas Natural Gas Corporation on the basis of one unit for each 70 shares of Class A and/or Class B stock of Union Texas. Carl M. Loeb, Rhoades & Co. and Smith Barney & Co. head the list of underwriters. The record date, interest rate of the debentures, subscription price and underwriting terms are to be supplied by amendment.

The company was organized under Delaware law on August 15, 1960. Under date of August 30, 1960 the company, Union Texas and others entered into agreements providing for the purchase of all the properties, business and assets of Anderson-Prichard Oil Corporation, an integrated oil company engaged in exploration for and production of crude oil and natural gas and transporting, refining and marketing crude oil and petroleum products. Under the agreement, the company has contracted to acquire the transportation, refining and marketing properties and business of Anderson-Prichard, and Union Texas and others have contracted to purchase the oil and gas properties of Anderson-Prichard. As consideration for the properties, the company will pay \$26,200,000 (less certain minor adjustments) and will assume its proportionate share of Anderson-Prichard's current liabilities and obligations allocable to the properties being acquired. The properties to be acquired by the company consist of two refineries producing a variety of products, located at Arkansas City, Kansas and Cyril, Oklahoma, pipeline gathering systems transporting crude oil and other liquid hydrocarbons to the refineries, a products pipeline, tank cars, tank trucks, distribution facilities, service stations, cash, inventories, receivables and miscellaneous assets. According to the prospectus, the company intends to operate such properties and conduct such business the same as they have been done in the past. The company's principal business offices will be in Oklahoma City. The net proceeds from the sale of units, together with \$12,000,000 to be borrowed from banks, will be used to purchase the said properties and business of Anderson-Prichard.

The company has outstanding 1,000 shares of common stock which will be repurchased by the company at their issue price and will be included in the securities to be offered. Roland V. Rodman is listed as president. According to the prospectus, partners of William A. M. Burden & Co. and members of their immediate families, and partners of Carl M. Loeb, Rhoades & Co. and members of their immediate families, will be entitled to purchase 15% and 10%, respectively, of the units to be offered for sale by the company by reason of their holdings of Union Texas stock; but the prospectus does not indicate whether and the extent to which they will exercise their subscription rights.

ADVANCED INVESTMENT MANAGEMENT PROPOSES OFFERING. Advanced Investment Management Corporation, The Rector Bldg., Little Rock, Ark., filed a registration statement (File 2-17467) with the SEC on January 13, 1961, seeking registration of 300,000 shares of common stock, to be offered for public sale at \$3.50 per share. The offering is to be made on a best efforts basis by Advanced Underwriters, Inc., for which it will receive a selling commission of \$.525 per share (plus \$20,000 for expenses). The underwriter is owned and controlled by Jesse L. Byrd, Jr., company president, and two other officers.

The company was organized in October 1960 with the primary objective of operating an insurance home office service and management company, and with the related secondary purpose of owning investments in entities engaged in the business of life insurance, automobile insurance and other related and unrelated phases of the insurance industry. It is not chartered to engage in the insurance business, but would attend to all typically home-office operational procedures of insurance companies, including underwriting, policy issuance, handling reinsurance, premium accounting, production records, premium billing, and various other services. Net proceeds of the stock sale, estimated at \$851,895, will be used largely as a reserve for acquisition by purchase of interests in life insurance, as well as for furniture and fixtures, establishing a sales organization, and for working capital.

According to the prospectus, the company has outstanding 149,420 common shares, purchased by the present 21 shareholders at 25¢ per share. Byrd owns 10.68% of the outstanding stock and management officials as a group 33.40%. Carolyn B. Hirsch of the Eglin Air Force Base in Florida owns 13.40% and Louis E. McMahan of McChansboro, Ill., 14.28% of the outstanding stock. An additional 224,420 shares are reserved for issuance upon the exercise of warrants issued to the original investors and others (including warrants for 49,920 shares issued to management officials), which warrants are exercisable between July 1961 and October 1962 at 25¢ per share.

DELAWARE REALTY-CHRISTIANA SECURITIES MERGER CLEARED. The SEC has issued a decision and order under the Investment Company Act (Release 40-3177) permitting the merger of Delaware Realty and Investment Company into Christiana Securities Company. The value of the total net assets of Christiana as of September 30, 1960, with investments reflected at market value on November 11, 1960, was \$2,418,263,000, of which 98.6% was represented by its holdings of common stock of E. I. du Pont de Nemours and Company (12,199,200 shares, or 26.6% of the outstanding du Pont stock). On the same date and basis, the value of the total net assets of Delaware Realty was \$1,052,225,000, of which 74.5% was represented by its holdings of Christiana common stock (49,000 shares, or 32.7%) and 22.6% by its holdings of du Pont common stock (1,217,920 shares, or 2.7%).

Christiana has outstanding 150,000 shares of 7% cumulative preferred stock and 150,000 shares of common stock, of which Delaware Realty owns 43,500 shares of preferred and 49,000 shares of common. The net asset value of the Christiana common (based on November 11, 1960, market), after deducting the outstanding preferred at its \$120 redemption price per share, was \$16,001.75. There are about 3,800 holders of the common. Delaware Realty has outstanding 785,000 common shares, held by some 220 stockholders and with net asset value of \$1,340.41 per share. Under the terms of the merger and based on November 11, 1960, market prices, the 785,000 shares of Delaware Realty common would be converted into 64,557 shares of Christiana common (or one share of Delaware Realty for 0.08224 shares of Christiana). All common and preferred stock of Christiana owned by Delaware Realty will be canceled in the merger; all other shares of Christiana stock will remain outstanding. The merger is subject to approval by holders of two-thirds of the total outstanding shares of each company.

**CAUTION:** Following for Release in Morning Newspapers of Tuesday, January 17, 1961

**MANAGEMENT SURVEY OF SEC REPORTED.** Chairman Edward N. Gadsby of the Securities and Exchange Commission today released the following statement with respect to the report of Booz, Allen & Hamilton on its "management survey" of the Commission's operations conducted at the request of the Bureau of the Budget:

"The Securities and Exchange Commission is pleased to note that Booz, Allen & Hamilton is of the opinion that 'the Commission is properly and carefully administering the (Federal securities) law(s) with objectivity and judgment' and is 'performing an excellent job in administering the responsibilities placed upon it by the Congress.' We of the Commission congratulate our staff on the study's recognition that 'The caliber of its (SEC) staff and the quality standards to which it aspires are high.'

"Particularly gratifying is the further conclusion by this independent consulting firm that the Commission is in urgent need of a substantial increase in its personnel if the Commission is to keep abreast of increasing work-load demands upon its staff in nearly all important phases of its operations and fulfill its obligations under the securities laws to protect the interests of public investors without impeding the flow of capital into industry.

"The report, of course, does recommend a number of changes in Commission procedures as well as certain substantive changes in Commission organization. The Commission will make an objective review and evaluation of all these recommendations in terms of their possible contribution to the solution of current work-load and other problems. Those recommendations which will contribute to the objective of a more effective discharge of the Commission's various responsibilities in the public interest will be adopted promptly."

Following a brief review of the functions and activities of the Commission, the report states, in part:

**"4. INCREASED ACTIVITY IN THE SECURITIES MARKET HAS PLACED ADDITIONAL BURDENS ON THE SEC IN RECENT YEARS**

In Exhibit I below, the general upward trend in SEC workload between fiscal years 1950 and 1960 is noted. In particular, there has been a fourfold increase in the number of registration statements filed. During this decade, the total number of SEC personnel has decreased, notwithstanding some increases from the low point of 1955.

Exhibit I

EMPLOYMENT AND PRINCIPAL WORKLOAD TRENDS

Fiscal Years 1950 to 1960

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Registration Filings	496	544	665	621	649	849	981	943	913	1,226	1,628
Regulation A Filings	1,375	1,358	1,494	1,528	1,175	1,628	1,463	919	732	854	1,049
Preliminary Proxy Statements Filed	1,711	1,805	1,850	1,821	1,858	1,934	2,016	1,991	1,994	2,024	2,133
Annual Reports Filed	2,872	2,937	2,994	3,056	3,086	3,145	3,241	3,394	3,645	3,692	3,854
Broker-Dealer Inspections	906	922	827	686	788	822	952	1,214	1,452	1,471	1,499
Investigations Opened	550	725	511	462	343	392	362	512	447	523	519
Criminal Cases Referred	18	29	14	18	19	8	17	26	15	45	53
Administrative Proceedings Completed <sup>(1)</sup>	89	118	56	64	48	34	43	65	96	131	106
Injunction Actions Filed	34	21	27	22	19	31	35	71	65	60	86
Average Employment	1,062	1,040	930	813	750	700	707	778	836	904	945
Per Cent of Employment in Regional Offices	31%	32%	34%	35%	35%	37%	37%	38%	39%	41%	41%

<sup>(1)</sup>Limited to cases in which order for hearing was issued by the Commission.

"(1) Most Workload Factors are beyond the Control of the SEC. The Commission has no control over the number of registrations, proxy statements, and periodic reports which it must process. These items are the result of decisions by corporate officials and others which reflect market activity and the general economic state of the nation."

"(2) The Principal Control Available to the Commission is That of Setting Priorities of Emphasis in Regulatory Effort. While it cannot control its basic document inflow, the Commission does have responsibility for developing the extent to which it will exercise its regulatory programs. For example, the Commission: sets standards for the review of registration statements to afford reasonable protection to the investing public; establishes the frequency and scope of inspection programs; decides which matters to investigate, which violations to pursue most vigorously and what types of sanctions to impose in order to give maximum protection to the public.

"The evaluation of the degree of public protection which can be provided under the statutes, but within the limitations of its own staff, is a difficult problem of judgment for the SEC. It is of utmost importance that the decision processes be organized to facilitate this judgment, particularly as it relates to the allocation and assignment of available personnel. Further, it is to the Commission's credit that it has been able to maintain reasonably effective control of securities violations in spite of an increasing work-load."

**"5. THE COMMISSION IS EFFECTIVELY CARRYING OUT THE MISSION ASSIGNED TO IT BY THE CONGRESS, BUT ADDITIONAL MANPOWER IS REQUIRED IN ORDER TO PREVENT DETERIORATION OF REGULATORY STANDARDS.** The primary conclusion of this study is that the SEC is performing an excellent job in administering the responsibilities placed upon it by the Congress. The caliber of its staff and the quality standards to which it aspires are high. The Commission is held in esteem generally by those with whom it deals, both inside and outside the Federal Government.

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"This is not to say that further improvements in SEC organization, processes and procedures are unnecessary or that no changes are required in order to better administration generally. SEC is facing many problems. This report contains a number of recommendations which should contribute to operating improvements. As an over-all evaluation, we conclude that the agency is well and faithfully fulfilling its administrative and regulatory obligations.

"The survey uncovered no areas where the Commission is obviously exceeding the depth of analysis and investigation to which it must penetrate in order to fulfill its statutory obligations. While criticism is occasionally made in some quarters that SEC is too meticulous or zealous in demanding conformance with regulatory requirements, it is the conclusion of this survey that the Commission is properly and carefully administering the law with objectivity and judgment. It is recognized that SEC must and does exercise discretion in determining the precise application of its rules and regulations in effecting compliance with the governing statutes. While insisting upon a high standard of conformance with the intent of the law, it is also clearly the duty of the Commission constantly to reappraise the requirements which it places upon regulated companies and individuals for the purpose of simplifying such requirements where consistent with protection to the investing public. In our view, SEC is sensitive to the need for this kind of adaptability and flexibility inside the limits of statutory policy.

"There are no indications that public protection has been seriously endangered up to this time because of the problems of handling a mounting workload with, at least in some areas, an inadequate staff. Heretofore the Commission has found ways to absorb increasing workloads and to meet threats to the investing public as they have occurred. This has, however, placed an undue strain on staff and has forced some sacrifice both in expeditious handling of required submissions and in the maintenance of desirable levels of compliance and enforcement. While no significant damage has been done by these circumstances up to now, the situation has reached the point where administrative relief must be provided or the quality of regulation may soon begin to be affected adversely. In particular, prompt handling of registration statements and other filings is necessary to avoid impeding the flow of new capital into the nation's economy."

"6. THERE ARE FIVE MAJOR PROBLEM AREAS IN WHICH THE COMMISSION IS SEEKING IMPROVEMENT. The principal problems facing the Commission today are the following: 1. Delays in processing registration statements and periodic financial reports. 2. Dispersion of responsibility in the Washington headquarters for guidance of enforcement activities conducted by field offices. 3. Insufficient training facilities for new employees. 4. Unevenness of enforcement coverage among regions. 5. Unevenness of inspection coverage among both regions and programs.

"(1) By Far the Most Serious Problem is the Delay in Processing Registration Statements. As indicated in Exhibit I, SEC workload has increased markedly since 1950. During the last two years, the median number of calendar days required to process registration statements from date of filing to effective date has increased markedly. In fiscal year 1960, the median time was 43 days. During the 4 months ending October 31, 1960, this time increased to 58 (as compared to the statutory period of 20 days from the original filing date or latest amendment). Also, some periodic financial reports received by the Commission have remained unreviewed for extended periods, sometimes for as long as several years.

"(2) Responsibility for Coordinating Field Enforcement Activities is Diffused among Two Headquarters Activities. Both the General Counsel and the Division of Trading and Exchanges are involved in various stages of the enforcement process.

"Typically, the Division of Trading Exchanges directs the enforcement process through the regional office up to the point at which litigation is recommended. If criminal proceedings are recommended, the criminal reference report is then sent to the Office of General Counsel. If civil proceedings are recommended, the Division of Trading and Exchanges presents the recommendation to the Commission. If the filing of a suit is then authorized by the Commission, the Office of General Counsel takes over at that point.

"One result of the fact that both the Office of General Counsel and the Division of Trading and Exchanges are involved in enforcement activities is that regional offices obtain guidance and direction from both offices, often early in the enforcement process. Some overlapping of instructions and the need for additional coordination are inevitable results of the fact that two headquarters offices are involved in guiding and directing field enforcement effort. Also, some lost time is incurred because of the necessity of transferring information from one group to another as the case moves from investigation to litigation.

"These adverse conditions are not extreme. However, internal handling of cases would be smoother and responsibility clearer if the present overlap of enforcement authority were eliminated.

"(3) Insufficient Facilities Exist for Training. Mounting work volumes have made it necessary to employ new attorneys, accountants and investigators. Men who have the capacity to do effective training are not available for this function because of the strong pressure to handle day-to-day workloads. The Commission has conducted new employee training in the past, but has abandoned the programs to a large extent in order to meet work pressures. The results are evident in excessive periods of time to get new employees to a high productivity level and a consequent increase in supervisory burdens.

"(4) The Completeness of Enforcement Coverage Varies among Regions. There is evidence in some regions that leads which come to the SEC must be ignored or dropped at an early point because of the pressure of other work. This situation leads to a selection process based on a sliding scale of values depending on current work pressures. A case which might be fully explored in one region might be dropped in another because other matters seem more important. There is also a difference in coverage during different time periods within a particular region. A case which might have received attention last year will be dropped this year based on the application of priority judgments.

"This condition might not be cause for concern were it not for the conclusion, previously reported to the Congress by the SEC and also reached during this study, that there is every likelihood that some situations are being bypassed through inability to find staff time for investigation. To repeat a

point made in Section 5, there is no evidence that the investing public is at present in serious danger as a result. It is likely, however, that an increasing number of situations will slip by unless attention is given to providing greater and more intensive coverage where needed.

"(5) There is Unevenness of Inspection Coverage. The frequency with which broker-dealer inspections are made varies markedly between regions. The principal problem is, again, in New York because of the concentration of the investment business in that city.

"To date, the inspection program for investment companies has not been fully implemented. Also, on September 13, 1960, inspection of investment advisers was authorized by Congress. The increasing importance of these activities in the financial community makes it a matter of necessity for the SEC to develop firm policies and programs and to train its field force to cope with these responsibilities in adequate fashion. Steps are being taken in this direction."

"The problems outlined in the preceding subparagraphs (1), (3), (4) and (5), all are matters of coping with increased workload or changing requirements. Opportunities for work elimination and simplification have been explored during this study to determine whether present staff levels might not be adequate to the tasks facing the Commission. Some administrative improvements can be adopted which will help. But it is the conclusion of this report that additional staff is required if the problems described are to be satisfactorily solved. Subsequent chapters amplify this finding and provide estimates of added manpower requirements."

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Summary conclusions reflected in ensuing sections of the report are as follows:

(1) The principal recommendation relating to the present headquarters and field organization of the Commission is a proposal to reorganize the line divisions more closely along functional lines in order to consolidate all compliance functions in one division, and all investigation and enforcement functions in another. (2) The principal registration and disclosure problem now faced by the Commission pertains to the extensive delay in processing securities registrations under the 1933 Act. To a lesser extent, delays in review of Regulation A filings, periodic financial reports and investment company sales literature also exist. The basic reasons for such delays primarily concern the increase in volume of filings and reports and the fact that an increasing number of companies are filing for the first time. (3) While certain procedural actions can be taken to alleviate processing delays, the principal need is for additional manpower to meet the workload increase. On a more long-range basis, studies by the Commission may reveal additional opportunities for savings through rule or procedural changes involving the scope of review made. (4) The principal inspection needs in the Commission pertain to strengthening the investment company program and initiating the investment adviser program. Establishing long-range program goals, hiring and training new staffs, and preparing inspection manuals and other field guidelines are the primary actions to be taken to develop added efficiency and coverage. (5) The special regulatory and advisory activities conducted in the Commission's headquarters are generally satisfactory. However, there is need for additional supervisory effectiveness in processing registrations by broker-dealers and investment advisers, and in review of public utility company applications. Whether all review work required by the Public Utility Holding Company Act and Commission rules thereunder is necessary should be the subject of further study by the Commission. (6) Recommendations have been made designed to place reports of preliminary investigation on a more current basis, to require monthly activity reports from regions, to provide increased coordination and coverage of investigation and enforcement activity in the field, and to improve control over work flow in administrative proceedings. (7) Principal opportunities for improvement in the Commission's administrative practices and controls concern additional planning and procedures assistance by the Management Staff in the Office of the Executive Director, greater participation by operating officials in preparation of the annual budget, and establishment of a regular management reporting system for Commission members. In addition, a more comprehensive system of management reports for the New York Regional Office is required. There are also opportunities for reduction in clerical effort required to process correspondence and to maintain index records. A central forms control would facilitate forms simplification and standardization. (8) Manpower utilization within the Commission is generally satisfactory. There are some opportunities for personnel savings, but these are outweighed considerably by the basic need for additional manpower to meet workload increases. Management development and training programs should be expanded to assure the availability of qualified personnel to meet the additional workload and the anticipated large number of retirements.

KENTUCKY POWER BANK BORROWING APPROVED; ACCOUNTING ISSUE SETTLED. The SEC today announced the issuance of a decision (Release 35-14353) under the Holding Company Act approving a \$40,000,000 bank financing of Kentucky Power Company, Ashland, subsidiary of American Electric Power Company, Inc., which will provide part of the funds to be used by Kentucky to construct a steam-electric generation station, having an estimated capability of 265,000 kilowatts, in the State of Kentucky on the Big Sandy River, a tributary of the Ohio River. The Big Sandy plant is expected to be completed and available for commercial service in the latter part of 1962.

At the same time, the Commission approved a proposal for settlement of a question raised by the Commission with respect to the proper presentation in financial statements of accumulated reductions in Federal income taxes, both as to Kentucky and its associate companies. On the books of Kentucky, the accumulated reduction amounted to \$831,825 as of September 30, 1960, and was designated "Earned Surplus Restricted for Future Federal Income Taxes;" and on the books of the system subsidiaries the consolidated accumulated reduction amounted to \$101,299,167, of which \$94,698,293 was reflected as Earned Surplus Restricted, and \$6,600,874 as Reserve for Future Federal Income Taxes. They reflected the accumulated reductions in Federal income taxes arising from the taking of liberalized depreciation and accelerated amortization for tax purposes (pursuant to Sections 167 and 168 of the Internal Revenue Code) while taking straight-line depreciation for financial accounting purposes.

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The Commission's Division of Corporate Regulation had urged that the Earned Surplus Restricted designation applied to the accumulated reductions in the balance sheets of Kentucky and the other system companies was not consistent with the Commission's stated policy regarding balance sheet treatment of credit equivalent to reduction in income taxes (Release 35-14173 of February 29, 1960), even though corresponding to the manner in which they were classified on the companies' books pursuant to State regulatory commission orders. Under the policy statement, such accumulated tax reduction, if material in amount, may not be designated as earned surplus (or its equivalent) or in any manner as a part of equity capital (even though accompanied by words of limitation such as "restricted" or "appropriated").

After several weeks of hearings during which testimony was offered by Kentucky and American Electric in support of their balance sheet treatment of the accumulated reduction, counsel for the two companies and counsel for the SEC Division of Corporate Regulation entered into discussions looking to the possible settlement of the accounting issue which had been raised. An agreement was reached, which was submitted to and approved by the Commission.

Under the settlement proposal, as approved, supplemental financial statements have been filed by both companies which the Commission has found not in contravention of its statement of policy. In the new financial statements, the accumulated reductions are carried under a designation reading: "Accumulated Amount Invested in the Business Equivalent to Reduction in Federal Income Taxes Resulting from Accelerated Amortization and Liberalized Depreciation, Which is Recorded as Earned Surplus Restricted for Future Federal Income Taxes in Accounts Maintained Pursuant to State Regulatory Requirements."

As part of the settlement, the Commission also approved certain ratio tests concerning the capital structure of the various companies in the American Electric holding-company system. In future financings by companies in the system, the Commission will give due weight to the existence of the accumulated tax reduction and its size in determining appropriate capitalization ratios; and, so long as the consolidated balance sheet of American Electric and its subsidiaries or the corporate balance sheet of any subsidiary includes a substantial amount of accumulated tax reduction, the Commission will not take any adverse action in respect of capitalization ratios where, upon completion of the financing: (a) common stock equity is not less than 30% of total capitalization, including surplus; (b) mortgage debt is not in excess of 60% of total capitalization, including surplus; and (c) total long-term debt is not in excess of 65% of total capitalization, including surplus. For purposes of these tests, any accumulated tax reduction resulting from charges against income as an operating revenue reduction in respect of accelerated amortization or liberalized depreciation for Federal income tax purposes will not be included as a part of common stock equity or as part of capitalization, including surplus.

The Commission observed in its decision that by its statement of policy on accumulated tax reductions it had not intended to and, of course, could not foreclose rating agencies, financial analysts, investors, and others from regarding the amount of accumulated tax reductions in any manner they deem appropriate for their purposes.

SEC COMPLAINT NAMES JACOBY & CO., INC. The SEC San Francisco Regional Office announced January 11th (LR-1885) the filing of a complaint (USDC, Los Angeles) seeking to enjoin Jacoby & Co., Inc., of Los Angeles and Beverly Hills, and Larry Jacoby, its president, from further violations of the SEC net capital rule.

MOTIONS DENIED, TRIAL DATE SET. The SEC Fort Worth Regional announced January 12th (LR-1886) that, after denial of various motions, the US District Court in Dallas had fixed January 16th for commencement of trial under the indictment charging John Milton Addison and others with violations of anti-fraud provisions of Securities Act.

EFFECTIVE SECURITIES ACT REGISTRATIONS: January 16: Madigan Electronic Corporation (File 2-17157); James Brooks & Company, Inc. (File 2-17220); PneumoDynamics Corporation (File 2-17321); Reeves Soundcraft Corporation (File 2-17326); United States Plywood Corporation, Employees' Stock Purchase Plan for 1961 (File 2-17389).

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