

# 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 May 1, 1963

**REGISTRATION OF ROSS SECURITIES REVOKED.** The SEC today announced a decision under the Securities Exchange Act (Release 34-7069) revoking the broker-dealer registration of Ross Securities, Inc. ("registrant"), of 99 Wall Street, New York, for fraud in its "boiler room" campaign to sell stock of Tamarac Gas & Oil Company, Inc., during 1958-1960. Eugene Ross, president and sole stockholder, and Samuel Balinsky (also known as Sam Balin), Stanley Mindel, Herbert Weiser, Sidney Drayer and Erwin Schnall, salesmen, were each found a cause of the revocation order.

Registrant underwrote a public offering of 266,640 shares of Tamarac common in June 1958 at \$1.125 per share. The offering was completed on July 29th, following which registrant traded extensively in the stock at prices up to \$2 per share. Various false and misleading representations were made in the sale of the stock, effected largely by repeated telephone calls to persons some of whose names were selected at random from long-distance telephone directories. The misrepresentations included predictions of increases in the price of the stock (to \$4, \$5, \$6, \$8 and even \$12 per share), references to the stock as a good investment and "blue chip," that the company would soon pay dividends and that it was merging with another company. No reasonable basis existed for such representations. Tamarac's offering circular made it clear that Tamarac was a promotional, unseasoned company; its assets as of May 5, 1958, consisted of \$1,000 cash, oil and gas leases obtained from insiders in exchange for 300,000 shares of stock, and organization expenses of \$422; and the oil and gas leases were undeveloped, the company had no producing wells or earnings history of any kind, and its management had no experience in the oil and gas business.

Observing that this case is "another appalling instance of an abdication of responsibility to deal fairly with customers," the Commission reiterated its rulings in other cases that compliance with the prospectus requirements of the Securities Act (or offering circular requirements of Regulation A) "does not, however, license broker-dealers or their salesmen to indulge in false or fanciful oral representations to their customers," and that the making of representations in the sale of securities unsupported by a reasonable basis is contrary to the obligation of fair dealing imposed on broker-dealers and their salesmen by the securities laws. This obligation is not diminished because a prospectus or offering circular containing information specified by the Act and our rules has been or is to be delivered. Such information furnishes the background against which the salesman's representations may be tested. Those who sell securities by means of representations were expressions of opinion which were not fraudulent, the Commission observed: "Optimistic and enthusiastic representations and recommendations to prospective customers without a reasonable basis, whether couched in terms of opinion or fact, are contrary to the basic obligation of fair dealing borne by those who sell securities to the public." Predictions of short-term increases in the price of Tamarac and other favorable representations as to Tamarac's prospects, the Commission continued, "stand out as the central theme of respondents' sales efforts. These sales techniques served not to inform fairly but to lend to this highly speculative investment an unwarranted air of certainty as to future profits and to obscure the risks involved in such an investment."

**LEONARD & CO. REGISTRATION REVOKED.** The SEC today announced the issuance of a decision under the Securities Exchange Act (Release 34-7070) revoking the broker-dealer registration of W. E. Leonard & Company, Inc. ("registrant"), 15 William St., New York. Leonard Quashen, president and controlling stockholder, and Robert Hendison, Henry Cohen (also known as Bobbie Allen), Albert Sol Lerch, and Jerome Schwartz (also known as Jerry Shaw), salesmen of registrant, were each found a cause of the revocation order. Registrant and Quashen consented to the order.

In its decision, the Commission sustained findings by its hearing examiner that in the offer and sale of stock of Trans Central Industries, Inc., during 1960-61, registrant, aided and abetted by said persons, violated the anti-fraud provisions of the Federal securities laws in that while engaged in a high-pressure sales campaign (during which 410,125 shares were sold at \$1.75 to \$1.85 per share), sales literature was mailed to unknown prospects in various sections of the country followed by repeated long-distance telephone calls in which materially false and misleading statements and predictions were made to induce purchases. The Commission ruled that the salesmen were all co-participants in a scheme to defraud investors. The Commission observed that registrant and Quashen admittedly made predictions of specific and substantial price rises within relatively short periods, and found that they further represented that Trans Central was operating at a profit, earnings were rising, dividends would be paid very shortly, a stock split was soon contemplated, the stock was or would soon be listed on a national stock exchange and was quoted in the Wall Street Journal, and the registrant was a very old established firm. The Commission also found that the salesmen made various representations including specific price rises, that Trans Central had a contract with a soup company, that the marketprice of the stock was \$2, that Trans Central was operating at a profit and that its stock was a good buy. The Commission ruled that registrant and the salesmen had no reasonable basis for the predictions and statements made.

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**BARUCH AND JOAN RABINOWITZ ENJOINED.** The San Francisco Regional Office announced April 26 (LR-2607) the entry of a Federal court order (USDC, Phoenix), by default, permanently enjoining Baruch Rabinowitz (also known as Baruch Robbins) and Joan Rabinowitz (also known as Joan Robbins) from further violations of the anti-fraud provisions of the Federal securities laws in the offer and sale of stock of Mechanical Enterprises, Inc., of Arlington, Va., to customers of Corporate Underwriters Co., a Phoenix broker-dealer and other members of the investing public. Other defendants, Corporate Underwriters and its president, Ernest A. Ragland, Jr., previously consented to a permanent injunction entered against them in January 1963.

**SECURITIES RESEARCH ENJOINED.** The San Francisco Regional Office announced April 26 (LR-2608) the entry of a Federal court order (USDC, LA) permanently enjoining Securities Research Corporation, a Los Angeles broker-dealer, and its president, Loren Lake, from further violations of the Commission's net capital rule. The defendants consented to entry of the injunction. The Commission's complaint also named Robert T. Russell, controlling stockholder of the firm, against whom the action is still pending. A hearing is scheduled for April 30, 1963 on the Commission's motion for preliminary injunction against Russell; and the Court retained jurisdiction over the Commission's request for appointment of a receiver for the firm.

**JOE NEWCOMER FINANCE ENJOINED.** The SEC Denver Regional Office announced April 26 (LR-2609) the entry of a Federal court order (USDC, Colo.) preliminarily enjoining Joe Newcomer Finance Company, a Colorado company, and Joe W. Newcomer, Ruth L. Piland and Royce Hill, all of Colorado Springs, from further violating the registration and anti-fraud provisions of the Federal securities laws in the offer and sale of promissory and subordinated debenture notes. A petition under Chapter 10 of the Bankruptcy Act was filed by the company and approved by the Court. The Court further indicated that it would appoint a trustee for the company.

**COURTS ACTS AGAINST NATIONAL BANK OF COMMERCE OF SEATTLE.** The SEC Seattle Regional Office announced today (LR-2610) the entry of a Federal court order (USDC, WD, Wash.) requiring that records relating to accounts carried in the names of A.T.O. Manufacturing Company, Mrs. J. W. Wells and Easy Tow Rental System, Inc., be produced by the National Bank of Commerce of Seattle.

**CENTRAL AND SOUTH WEST RECEIVES ORDER.** The SEC has issued an order under the Holding Company Act (Release 35-14863) authorizing Central and South West Corporation, Wilmington registered holding company, and five subsidiaries, to use a method of allocation in filing their consolidated Federal income tax return which will give to each of the companies included therein the full investment credit each company contributes to the total investment credit allowed on the consolidated returns (except that with respect to Transok Pipe Line Company).

**ALABAMA POWER RECEIVES ORDER.** The SEC has issued an order under the Holding Company Act (Release 35-14864) authorizing Alabama Power Company, Birmingham utility subsidiary of The Southern Company, a registered holding company, to sell at competitive bidding \$16,000,000 of first mortgage bonds and 50,000 shares of preferred stock (\$100 par). The proceeds from this financing will be applied toward construction expenditures (estimated at \$58,529,000 for 1963) and payment of short-term bank loans incurred for such purposes.

**B.S.F. RECEIVES ORDER.** The SEC has issued an order under the Investment Company Act (Release IC-3683) authorizing the proposed sale, assignment and transfer by B.S.F. Company, Wilmington closed-end investment company, to Arthur Brown, a director of B.S.F. (or his designee) of certain policies of life insurance on Brown's life which are owned by B.S.F.

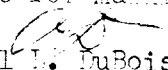
**THOROFARE MARKETS FILES THRIFT PLAN.** Thorofare Markets, Inc., Meadowbrook Road, Murrysville, Pa., filed a registration statement (File 2-21372) with the SEC on April 26 seeking registration of 10,000 shares of common stock, to be offered pursuant to its Employees' Thrift Plan.

**BROOKLYN UNION GAS FILES STOCK PLAN.** The Brooklyn Union Gas Company, 195 Montague St., Brooklyn, N.Y., filed a registration statement (File 2-21373) with the SEC on April 26 seeking registration of 15,000 shares of common stock, to be offered pursuant to its Employee Common Stock Purchase Plan.

**SECURITIES ACT REGISTRATIONS.** Effective April 30: The Pittston Company (File 2-21285). Effective May 1: Associated Mortgage Companies, Inc. (File 2-20960); Continental Can Co. Inc. (File 2-21280); Household Finance Corp. (File 2-21310); Japan (File 2-21319).

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Discussed with Commission, decision NOT  
to print Young release for mailing list  
distribution.

  
Orval L. DuBois  
5/2/63

For Release WEDNESDAY, May 1, 1963

SECURITIES AND EXCHANGE COMMISSION  
New York Regional Office  
New York 7, New York

Litigation Release No.

Llewellyn P. Young, Regional Administrator of the New York Regional Office of the Securities and Exchange Commission, today cautioned broker-dealers and banks not to accept without close scrutiny published price quotations for over-the-counter securities of obscure companies about which little or no published information is available.

Mr. Young said that in recent weeks the New York Regional Office has investigated a number of such quotations for securities in which the company was either wholly fictitious or the merest shell. Several broker-dealers have been placing bids in the "pink sheets" as high as \$15 a share for such stock. A number of banks, misled by the appearance of a market for the stocks, have accepted them as collateral for thousands of dollars in loans. Some brokers also have taken losses.

Mr. Young said that a number of rings were active in this kind of venture and that banks and brokers in New York, New Jersey, Florida, Ohio and Illinois have been taken in. The procedure has been to print stock certificates and an impressive letterhead, complete with fictitious officers, and then to persuade securities firms to put quotations for the stock in the "pink sheets", with a promise of substantial profits. This has been followed by telephone inquiries to larger firms asking about the availability of the stock, who then in turn have made inquiries of the firms quoting in the "pink sheets". The result has been the appearance of a market, on which banks and brokers have relied to their sorrow.

Mr. Young said that although the rings have operated in hit and run fashion, so far the S.E.C. has been able to spot the fraud and move quickly enough to prevent any general public injury. Recent examples of such securities are those of the Argyle Corporation, involving counterfeit stock certificates of a dormant company, and United Gas Transmission, a

purported New Jersey company whose only nexus to reality is a telephone answering service. The New York Regional Office is currently investigating other dubious companies whose securities are being quoted in the "pink sheets", including one apparent shell for which half a dozen securities firms have been bidding up to \$15 a share in recent weeks.

Mr. Young said that broker-dealers must be constantly vigilant to protect themselves and the public in the discharge of their responsibilities under the federal securities laws. Even inadvertent participation by a broker-dealer in such a fraud raises a question of whether these laws have been complied with by him.

The New York Regional Office of the Commission (225 Broadway, New York 7, N. Y., Telephone REctor 2-6363) will welcome any current information the public may have about companies, securities or price quotations of this character.