

NEWS DIGEST

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

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FOR RELEASE July 26, 1962

REGISTRATIONS OF TWO BROKER-DEALERS REVOKED. In a decision announced today (Release 34-6862) the SEC revoked the broker-dealer registrations of Mutual Fund Distributors, Inc. and T.C.A. Associates, Inc. (formerly Slayton & Company, Inc.) both of 408 Olive Street, St. Louis, Mo. for fraud in the sale of shares of Managed Funds, Incorporated, an open-end investment company. Hilton H. and Hovey E. Slayton, who controlled both firms and organized and controlled Managed Funds, were each found to be a cause of the revocation order.

In its decision, the Commission ruled that the two firms, aided and abetted by the Slaytons, violated the anti-fraud provisions of the Securities Act and certain provisions of the Exchange Act in that they used prospectuses in the sale of Managed Funds shares which were materially misleading. (The Commission in 1959 suspended the Managed Funds registration statement because of defective disclosures therein, but the suspension was vacated in June 1960 after new management was obtained and the defects were corrected). The Commission ruled that the prospectuses should have disclosed that Managed Funds followed a policy of placing orders for transactions in its portfolio securities with broker-dealers who sold its shares or who had rendered services to the firms controlled by the Slaytons, pursuant to definite understandings or commitments with respect to the amount of reciprocal business to be awarded. According to the decision, respondents contended that it is a "common practice in the industry for mutual funds to award reciprocal brokerage business to broker-dealers selling their shares;" and that the existence of such practice "has not been regarded as a matter required to be disclosed in a prospectus." The Commission held, however, that information relative to compensation (in the form of allocated brokerage on an agreed basis) of a dealer selling Managed Funds shares was material to the prospective buyer, and that this information was pertinent insofar as it would have contributed to the ability of the prospective buyer to assess the objectivity of the dealer's recommendation of Managed Funds shares in preference to another security. In addition, the Commission stated, the reciprocal business arrangements of Managed Funds, involving specific quotas of brokerage business to be assigned to particular broker-dealers, "carried the potentiality that management, in order to meet these commitments, would be induced to engage in portfolio transactions not otherwise warranted."

The Commission also ruled that the prospectuses were materially misleading with respect to the investment objectives, dividend policies and portfolio turnover of Managed Funds, the direction of its operations by the Slaytons independently of the board of directors, and the employment of Stephen M. Jaquith as an investment adviser and the terms of such employment, as well as the arrangements for compensation of other broker-dealers who sold Managed Funds shares.

VIOLATIONS CHARGED TO MAYO & CO. The SEC has ordered proceedings under the Securities Exchange Act of 1934 to determine whether Mayo & Co., Incorporated, 1518 Walnut Street, Philadelphia, engaged in practices which operated as a "fraud and deceit" upon its customers and, if so, whether its broker-dealer registration should be revoked.

The said company ("registrant") has been registered with the Commission as a broker-dealer since October 7, 1960, and Louis Mayo, Jr. is its president. Seymour Briskin and Joel Pollack were employed by registrant from about November 1961 to February 1962. In its order, the Commission recites charges of its staff that information developed in an investigation tends to show that in the offer and sale of stock of National Industries, Incorporated, in November and December 1961, registrant, Mayo and Briskin "engaged in transactions, practices and a course of business which would and did operate as a fraud and deceit upon certain persons," in violation of the anti-fraud provisions of the Federal securities laws, in that they (1) engaged in the distribution and sale of such stock to customers with whom they were unacquainted, by means of an intensive telephone campaign, without any knowledge of the individual needs and circumstances of such customers or of the suitability of such stock to their needs, (2) endeavored to place customers in a position where they were asked to make hasty decisions to buy such securities upon the basis of undocumented representations and without having disclosed to them material facts concerning the true nature and worth of the securities, and (3) made false and misleading statements of material facts and distributed false and misleading offering circulars.

The alleged misrepresentations relate to a rise in price of National stock, the financial condition of National, the earnings and financial condition of its subsidiaries, and other material facts relating to the operations and financial condition of National, including the use of proceeds of the sale of National stock. The staff also charges (a) violations of the Exchange Act in registrant's failure to file an amendment to its broker-dealer registration reflecting the employment of Pollack, who had been permanently enjoined by the New York Supreme Court in August 1960 from engaging in securities transactions within the State of New York; and (b) violation of the Securities Act registration requirement in the sale of National stock.

A hearing will be held, at a time and place to be announced, for the purpose of taking evidence to determine whether the staff charges are true and, if so, whether registrant's broker-dealer registration should be revoked. Registrant is a member of the National Association of Securities Dealers, Inc.; and one of the issues in these proceedings is whether it also should be suspended or expelled from NASD membership.

OVER

WONDERBOWL OFFERING SUSPENDED. The SEC has issued an order temporarily suspending a Regulation A exemption from registration under the Securities Act of 1933 with respect to a stock offering by Wonderbowl, Inc., 7805 Sunset Blvd., Los Angeles.

Regulation A provides a conditional exemption from registration with respect to public offerings of securities not exceeding \$300,000 in amount. In a notification filed on February 6, 1961, Wonderbowl proposed the public offering of 150,000 common shares at \$2 per share. The Commission asserts in its suspension order that it has reasonable cause to believe that (1) an officer and promoter of the company is subject to a court injunction order and (2) the company's offering circular was false and misleading in respect of certain material facts. The alleged misrepresentations relate to the company's failure to disclose that it had an interest in a department store and motel and intended to expend proceeds of the offering to provide working capital for the department store.

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

CANADIAN RESTRICTED LIST. The SEC has removed Dumont Nickel Corporation from its Canadian Restricted List, reducing to 256 the number of Canadian companies whose securities the Commission has reason to believe recently have been or currently are being distributed in the United States in violation of the registration requirements of the Securities Act of 1933, thus depriving investors of the financial and other information essential to an informed and realistic evaluation of the worth of the securities which registration would provide. (Release 33-4516)

MICHIGAN WISCONSIN PIPE LINE FINANCING CLEARED. The SEC has issued an order under the Holding Company Act (Release 35-14674) authorizing Michigan Wisconsin Pipe Line Company, a non-utility subsidiary of American Natural Gas Company, to issue to a group of banks (during 1962) up to \$21,000,000 of promissory notes. The proceeds from such notes, together with treasury funds, will be used to retire \$8,000,000 of outstanding notes (incurred to finance the 1961 construction program) and to finance its 1962 construction program (estimated at \$13,500,000).

DELTA VENTURE CAPITAL SEEKS ORDER. Delta Venture Capital Corporation, Hopkins, Minn., has applied to the SEC for an order under the Investment Company Act declaring that it has ceased to be an investment company; and the Commission has issued an order (Release IC-3506) giving interested persons until August 10, 1962 to request a hearing thereon. According to the application, the company's outstanding securities are owned by 25 persons; and it is not making and does not intend to make a public offering of its securities.

INVESTORS SYNDICATE SEEKS ORDER. Investors Syndicate of America ("ISA"), Minneapolis face-amount certificate company and subsidiary of Investors Diversified Services, Inc., has applied to the SEC for an exemption order under the Investment Company Act with respect to the proposed sale by ISA of 30,000 shares of Class A common stock of North American Life and Casualty Company to H. P. Skoglund, president and board chairman of North American; and the Commission has issued an order (Release IC-3507) giving interested persons until August 8, 1962 to request a hearing thereon. North American has outstanding 100,000 Class A shares, of which ISA owns the 30,000 shares (30%) and Skoglund and his family 18,000 shares (18%). ISA's interest in North American was originally acquired in 1948 (in the form of non-voting stock) for \$375,000. Skoglund has contracted to purchase the 30,000 shares for an aggregate of \$8,475,000, \$750,000 at closing and the balance in its entirety on or before March 1, 1963.

CHRISTIANA SECURITIES ORDER. The SEC has issued an exemption order under the Investment Company Act (Release IC-3508) permitting Christiana Securities Company, Wilmington, Del., and certain other persons to enter into certain "joint enterprise" transactions involved in contemplated public offerings of common stock of General Motors Corporation in connection with the divestiture by E. I. du Pont de Nemours and Company of all of its holdings of 63,000,000 shares of such stock pursuant to a judgment of a United States District Court.

According to the order, the initial step in the divestiture was the distribution of about 23,000,000 shares of General Motors stock by Du Pont Company to its stockholders, 6,708,560 shares of which were received by Christiana. Under the terms of the judgment, Christiana must divest itself of any shares of General Motors stock presently owned and to be received from Du Pont Company, and officers and directors of Christiana, certain du Pont family members, related trusts and a charitable foundation must also dispose of any shares of General Motors stock received from Christiana or from the Du Pont Company. To pay the taxes incurred on the distribution Christiana proposes to make an underwritten secondary distribution of 550,000 shares of the General Motors stock it has received and, to avoid a number of underwritten secondary distributions in a limited period of time, Christiana has extended the opportunity to join the underwritten secondary offering to certain of the other major shareholders of Christiana and Du Pont Company, who plan to sell 1,039,680 shares of General Motors stock. A separate offering is contemplated with respect to 101,354 shares of General Motors stock to be offered by or for the account of certain members of the du Pont family and certain other persons and institutions.

SECURITIES ACT REGISTRATIONS. Effective July 26: American & Foreign Power Co., Inc. (File 2-20498); International Proteins Corp. (File 2-19693); Microdot Inc. (File 2-20310); Orion Electronic Corp. (File 2-18784); Paramount Pictures Corp. (File 2-20521); Perfect Photo, Inc. (File 2-19783); Prosper-Way, Inc. (File 2-19752). Withdrawn July 26: The Frouge Corp. (File 2-19696); H. Kohnstamm & Co., Inc. (File 2-19818); Luck's Inc. (File 2-19857); Midwestern Mortgage Investors (File 2-19835); Minkus Stamp and Publishing Co., Inc. (File 2-20293).