

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 11, 1957

FOR RELEASE

Securities Act Release No. 3775

The Securities and Exchange Commission today announced the issuance of a decision in which it ruled that Coastal Finance Corporation, Silver Spring, Maryland, made false and misleading representations concerning its income, assets and other matters in connection with a public offering of its securities in August, 1955. Upon the basis of this decision, the Commission ordered the permanent suspension of the Regulation A exemption from registration under the Securities Act of 1933 pursuant to which the securities had been offered and sold.

Organized in 1949, Coastal was engaged in the consumer finance business and operated twelve loan offices in Maryland, Virginia, Florida and Pennsylvania. The Regulation A notification covered an offering of 5,669 shares of Class A common stock at \$28.50 per share. The company was founded by Frank B. Bush, who with his wife owned a majority of its outstanding Class B common stock (which carried the right to elect a majority of the board of directors) and who had been its president and general manager since its inception. (The company is now undergoing reorganization in the U. S. District Court in Baltimore pursuant to Chapter X of the Bankruptcy Act.)

According to the Commission's decision, the falsification of assets and income was primarily an outgrowth of improper accounting practices which had the effect of inflating the income figures. This involved a "rolling of account" practice, or the renewal of delinquent loans when the credit factors did not justify such renewal, with resulting improper credits to interest income. Another improper practice consisted of "spreading payments," by means of which fictitious payments were made to what otherwise would be delinquent loans for the purpose of taking or keeping such loans out of a delinquency status, thereby avoiding a write-off of uncollectible loans against income, which was the declared policy of the company.

The net effect of these practices, the Commission stated, was to show an operating income of \$107,695 for the six months ended June 30, 1955, as reflected in Coastal's offering circular, whereas the company sustained a \$128,130 loss for the period, as shown by special audits subsequently made. As a further result of these improper practices, the actual number of delinquent accounts was concealed. Thus, reports for September 1955, after the issuance of instructions to show the actual number of delinquent loans without applying fictitious payments to hide delinquency, revealed that there were 1960 delinquent accounts as compared with 803 shown at the end of August 1955.

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These practices of rolling accounts and spreading payments were widespread throughout the Coastal organization, and rendered false the statement in Coastal's offering circular that past due loans considered by the company to be uncollectible were written off and that the company charged against income as provision for bad debts such amounts as were believed necessary by the management. While Bush disclaimed knowledge of these practices, the Commission concluded upon the basis of the hearing record, including the testimony of various company officials and employees, that his assertions to this effect cannot be accepted.

In its decision, the Commission also commented upon Coastal's purchase in February 1955 of Gateway Finance Company, of Pittsburgh, for \$290,331. In its offering circular, Coastal stated that there had been an appraisal of the assets acquired from Gateway. Bush had testified that he made such an appraisal, but not a physical appraisal, and that he weighed the factors, considered the delinquent accounts, tested the cash principal liquidation figures for several months, and analyzed the interest computations and collections. The Commission stated: "It is clear that no evaluation of the individual accounts was made with a view to determining the probability of their collection" and that "although Bush undoubtedly formed a judgment as to a proper price to offer for the Gateway assets, it is materially misleading to state in the offering circular that such assets had been appraised."

The Commission further found that Gateway had made an improper charge to capital surplus of \$56,131 during 1954 representing dividends paid on the Class A common; that the offering circular was inaccurate and misleading in respect of the statement in the certificate of the accountants that their examination was made in accordance with generally accepted auditing standards when the firm had made no field examination of any of Coastal's offices during 1955 prior to its certification as of June 30, 1955; that the offering circular failed to relate the full extent of the stockholdings of Bush and John W. Bowser, the president of Gateway and a later director of Coastal; and that the circular failed to disclose the payment of a finder's fee to William S. Marshall, also later a director, in connection with the Gateway acquisition.

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General Refractories Company, Philadelphia, filed a registration statement (File 2-13241) with the SEC on April 10, 1957, seeking registration of \$677,250 participating interests in the General Refractories Company Savings Plan for Salaried Employees, together with 15,750 shares of the common stock of General Refractories which may be acquired pursuant to the plan.

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International Paper Company, New York, filed a registration statement (File 2-13242) with the SEC on April 10, 1957, seeking registration of 18,855 shares of its \$10 par Common Stock, to be issued pursuant to the company's Incentive Stock Option Plan for Key Employees.

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First Mississippi Corporation, Jackson, filed a registration statement (File 2-13243) with the SEC on April 10, 1957, seeking registration of 10,000,000 shares of its \$1 par Common Stock. The company proposes to make a public offering of 2,500,000 shares at \$4 per share prior to November 30, 1957, or prior to the sale of 2,500,000 shares, whichever is the earlier; thereafter the price of the additional 2,000,000 shares will be \$5 per share, according to the prospectus. With the purchase of each share prior to November 30, 1957, or the sale of the 2,500,000 shares, whichever is the earlier, the purchaser will be granted an option to purchase at any time prior to November 30, 1959, two shares of such stock at a price of \$4.50 per share. The remaining 500,000 shares are reserved for issuance upon the exercise of options to be granted to directors, officers and employees, which options will be exercisable at \$5 per share.

Organized early in 1957, the company proposes to promote, for profit, the industrial and business development of Mississippi and the South. The charter grants authority for the corporation to engage in a broad field of activities; and it will be the purpose of the directors to review industrial and business opportunities and select those which, in their opinion, will be of greatest long term profit to the stockholders. The company plans to develop an industrial sales program for chemicals as one of its first activities. The chemicals will be obtained in part by purchase of preferred patronage rights in Coastal Chemical Corporation. In addition, the company proposes to build or join in building facilities to produce other chemicals; the development of water transportation facilities; the promotion of real estate developments; and the development of new enterprises. The promoters are 26 Mississippians, including Owen Cooper, Board Chairman, of Yazoo City, and Fred A. Anderson, Jr., of Gloster.

Proceeds of the stock sale will be used to promote the industrial and business development of Mississippi and the South by utilizing the funds of the company in such manner, activities and enterprises as is deemed wise by the management. It has made arrangements with Coastal Chemical Corporation and Mississippi Chemical Corporation whereby First Mississippi may serve as a possible industrial sales outlet for the two companies and likewise cooperate with them in developing by-products.

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Blue Ridge Mutual Fund, Inc., New York investment company, filed an amendment on April 10, 1957, to its registration statement (File 2-10823), seeking registration of an additional 500,000 shares of its common stock.

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Douglas Oil Co. of California, Paramount, California, today filed an application (File 22-2079) with the SEC under the Trust Indenture Act of 1939 for qualification of a trust indenture pursuant to which \$2,100,000 of 5½% Debentures due March 1, 1969, are to be issued. The debentures are to be issued in exchange for all or part of the presently outstanding 199,955 shares of capital stock of Apex Petroleum Corporation, Ltd., after approval of the terms and conditions of the exchange by the California Commissioner of Corporations.

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Portland General Electric Company, Portland, Oregon, today filed a registration statement (File 2-13244) with the SEC seeking registration of 300,000 shares of its \$7.50 par Common Stock, to be offered for public sale through an underwriting group headed by Blyth & Co., Inc. The public offering price and underwriting terms are to be supplied by amendment. Net proceeds of the stock sale will become a part of the general funds of the company. The company has completed arrangements for the private placement with a group of institutional investors of \$10,000,000 of First Mortgage Bonds, 4-7/8% Series, due June 1, 1987, at a price of 99.60% plus accrued interest. The net proceeds derived from the sale of the stock and bonds will be applied to reduce outstanding notes payable, which evidence loans obtained for temporary financing of the construction program. Additional funds amounting to approximately \$43,000,000 will be required to complete the company's 1957 and 1958 construction program, and will be obtained from funds available from internal sources, bank loans, and the future sale of additional securities. Notes outstanding at February 28, 1957, amounted to \$9,000,000, and are expected not to exceed \$500,000 after application of the proceeds of this financing. Construction expenditures are estimated at \$33,750,000 for 1957 and \$26,250,000 for 1958.

Securities Act Release No. 3777

The Securities and Exchange Commission has ordered proceedings under the Securities Act of 1933 to determine whether a stop order should be issued suspending the effectiveness of a registration statement filed by National Lithium Corporation ("National"), of New York City, under which that company proposed the public offering of 3,120,000 shares of its Common Stock at \$1.25 per share.

In its order, the Commission asserts that it has reasonable cause to believe that the registration statement is false and misleading in respect of various material facts. A hearing for the purpose of taking evidence has been scheduled for April 24, 1957, in the Commission's Washington Office. National was organized on November 13, 1956 under Delaware Law. According to its prospectus, the company proposes to engage in the development of lithium deposits located in the Yellowknife mining area of the Northwest Territories, in the Province of Quebec, and in the State of New York. The properties of National were acquired from General Lithium Corporation Limited, Kix Minerals Ltd. and Geolex Exploration and Development Company, which are stockholders and among the promoters of the company. Public offering of the National stock was to be underwritten by Gearhart & Otis, Inc., on a "best efforts" basis. William Stix Wasserman and R. C. Bacon, both of New York, are listed as Board Chairman and President, respectively. The company now has outstanding 6,880,000 common shares. Of this stock, 1,500,000 shares were acquired for \$225,000 by General Kix and Geolex and 2,000,000 shares by a limited group designated by the underwriter; and General, Kix and Geolex received 3,380,000 shares and have received or will receive \$400,000 for the properties transferred by them to the company.

The Commission's order challenges the accuracy and adequacy of various informational disclosures contained in the registration statement. Among these are disclosures with respect to the estimates of the extent and grades of alleged proven and probable lithium ores; beneficiating tests made with respect to the alleged lithium ore; the present and future ability of National to extract, process and market the alleged lithium ores at a profit; the available means of trans-

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porting ore or concentrates from the properties and the probable cost of such transportation; expected markets for the lithium concentrate proposed to be produced; the eventuality of the company's profitably producing lithium compounds and lithium metal in the future; and certain other and related representations in the prospectus.

In addition, the order challenges the adequacy and accuracy of information with respect to the plan of distribution of the National common stock; the use of the proceeds thereof; transactions with promoters, underwriters and other persons; the ownership of National common by promoters, management officials and others; and information descriptive of the speculative features of the offering.

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A. G. Spalding & Bros. Inc., Chicopee, Mass., today filed a registration statement (File 2-13245) with the SEC seeking registration of \$2,017,300 of 5½% Subordinated Convertible Debentures, due June 1, 1962. The debentures are to be offered for subscription at 100% of principal amount, by stockholders of record May 7, 1957, and on the basis of \$100 of debentures for each 30 common shares then held. The company's largest stockholder, Pyramid Rubber Company, has agreed to purchase all the debentures not sold pursuant to exercise of the stockholders' subscription rights. Pyramid owns 118,711 of the 537,552 shares now outstanding. Pyramid in turn may resell for investment some of the debentures it may thus acquire to other persons (not exceeding fifteen) who may be stockholders, officers, or directors of the company.

Net proceeds of the sale of the debentures will be added to the company's working capital and will be available for any corporate purposes. The principal purpose and reason for this additional working capital is to reduce the company's requirements for current bank loans which, as of the close of its last fiscal year, October 31, 1956, stood at \$2,000,000, and which, owing to the seasonal character of the company's business, amounted to \$7,875,000 on April 1, 1957.

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