

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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REOPENING OF CASES INVOLVING ELECTRIC ENERGY INC. AND OHIO VALLEY ELECTRIC CORPORATION

J. Sinclair Armstrong, Chairman of the Securities and Exchange Commission, announced today the issuance of notices and orders for hearings relating to Electric Energy Inc. and Ohio Valley Electric Corporation. These companies are generating projects created under the sponsorship of various companies to supply power to Atomic Energy Commission installations at Paducah, Kentucky, and Portsmouth, Ohio. Several of the sponsoring companies are holding companies or subsidiaries of holding companies registered under the Public Utility Holding Company Act of 1935.

Electric Energy Inc. was formed in 1951 by five sponsoring companies, namely, Union Electric Company of Missouri (now Union Electric Company), Central Illinois Public Service Company, Illinois Power Company, Kentucky Utilities Company, and Middle South Utilities, Inc., to serve power to the Atomic Energy Commission installation then being constructed at Paducah, Kentucky. The common stock of Electric Energy Inc. was acquired by the five sponsoring companies in various proportions, and the acquisition as to some of the sponsors required approval under Sections 9 and 10 of the Holding Company Act. In permitting the acquisition the Commission did not determine whether there was compliance with the standards of Section 10, stating that "the exigencies of national defense preclude the delay inherent in making a record" to determine whether or not the applicable standards of Section 10 were satisfied. Jurisdiction was expressly reserved to reexamine the situation "at a more appropriate time" to determine whether the acquisition complied with the applicable standards. Generally speaking, Section 10 of the Act provides that the Commission shall approve an acquisition of securities of a public-utility company unless it finds that the acquisition will tend towards interlocking relations or the concentration of control of public-utility companies of a kind or to an extent detrimental to the public interest or the interest of investors or consumers, or the acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding-company system. Further, the Commission cannot approve the acquisition of such securities unless it finds that the acquisition will serve the public interest by tending towards the economical and efficient development of an integrated public-utility system.

Ohio Valley Electric Corporation and its subsidiary, Indiana-Kentucky Electric Corporation, were created in 1952 by ten sponsoring companies to supply power for the Atomic Energy Commission installation at Portsmouth, Ohio. The acquisition of stock of Ohio Valley by six of the sponsoring companies similarly required ap-

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proval of the Commission under the Holding Company Act. In authorizing the acquisition the Commission again did not determine whether there was compliance with the standards of Section 10 and again reserved jurisdiction to reexamine the matter at a more appropriate time. Rapid construction of the generating facilities, in the light of the national defense emergency, was held to warrant postponing the completion of the administrative process involved in making the determinations required by Section 10 of the Act.

Chairman Armstrong explained that it has been understood from the beginning that these unresolved issues would be examined and decided when there was no longer any excuse for postponement or delay. The Commission's opinion in the Electric Energy case stated that the companies themselves had suggested "that final determination of which companies should retain their interests in Electric Energy Inc. should be made after the impact of the defense program on their respective interests is known and after the present emergency has passed." This same language was quoted in the Commission's opinion on the Ohio Valley Electric Corporation application.

The emergency that was cited by the Commission as justification for permitting these acquisitions without determining whether there was compliance with Section 10 has passed in the sense that the generating plants involved are all completely constructed and in operation supplying energy to the Atomic Energy Commission's establishments. The Commission believes therefore that there is no longer any reason why the unresolved issues relating to these acquisitions should not be fully examined and put to rest.

Chairman Armstrong emphasized that the issues to be examined upon the reopening of these cases relate principally to the retention of the equity stock of the generating companies and not to the operational and other financing arrangements of the project. There is nothing in the proceedings which the Commission is now instituting which will cause any interruption of the supply of power to these vital operations of the Atomic Energy Commission.

The hearings are scheduled to commence on February 4, 1957.

Securities Act Release No. 3720

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:

Cuyama Hills Oil Corporation, Reno and Nixon, Nevada

Cuyama Hills' Regulation A notification, filed November 13, 1953, proposed the public offering of 50,000 shares of capital stock at \$1 per share

Dal-Tex Uranium Corporation, Dallas, Texas

Dal-Tex Uranium's Regulation A notification, filed March 24, 1955, proposed the public offering of 2,850,000 common shares at 10¢ per share

Foster Publications, Inc., New York, N. Y.

Foster Publications' Regulation A notification, filed October 29, 1954, proposed the public offering of 300,000 common shares at \$1 per share

Glory Hole, Inc., Chicago, Ill.

Glory Hole's Regulation A notification, filed June 11, 1956, proposed the public offering of 80,000 shares of Class A common at \$2.50 per share

Oregon Timber Products Co., Inc., Reno, Nev.

Oregon Timber's Regulation A notification, filed July 23, 1956, proposed the public offering of 300,000 common shares at \$1 per share

Rexrug Mills, Inc., New York, N. Y.

Rexrug Mills' Regulation A notification, filed September 7, 1956, proposed the public offering of 300,000 common shares at \$1 per share. Its principal business was to be conducted in Winona, Miss.

Regulation A provides an exemption from registration for public offerings of securities not exceeding \$300,000 in amount, subject to compliance with the terms and conditions of the Regulation. The Commission's suspension orders in the foregoing cases allege a failure on the part of the respective companies to comply with various provisions of the Regulation (including false and misleading representations and/or failure to disclose certain material facts); and they provide an opportunity for hearing, upon request, on the question whether such orders should be vacated or made permanent.

In the case of Cuyama Hills, the Commission's order asserts that the continued offering of that company's stock "would operate as a fraud or deceit upon purchasers," in that a material change has occurred in the company's affairs which is not reflected in its advertising literature, namely, that the oil and gas lease which is its principal asset has been declared terminated and quiet title proceedings begun by the owner of the lands involved.

The order with respect to Dal-Tex Uranium asserts that that company's offering circular fails to disclose the status of the balance payable on an option to purchase all of the company's properties, \$11,000 of which balance was payable on or before June 25, 1955, and the remainder out of the proceeds of the stock offering; that the use of such offering circular without disclosure of the status of such option "would operate as a fraud and deceit upon prospective purchasers;" and that the company failed to file the required reports of its stock sales and the use of the proceeds thereof.

Foster Publications likewise failed to file the required reports showing its sale of stock and the proceeds thereof, according to the Commission's order. Furthermore, the order asserts that the continued offering of Foster Publications stock would "operate as a fraud and deceit upon purchasers" in view of the fact that on June 25, 1956, the company filed a voluntary petition in bankruptcy, admitting insolvency, in the U. S. District Court for the Southern District of New York, and failed to amend its offering circular to disclose the financial condition and present status of the issuer.

In the case of Glory Hole, the Commission's order asserts that an exemption under Regulation A is not available because the offering price of all securities sold by the issuer within one year, plus those the subject of this offering, exceeded the \$300,000 limitation; that the company's notification and offering circular are false and misleading in respect of certain material facts; and that use of the offering circular in connection with the offering and sale of Glory Hole stock "would operate as a fraud and deceit upon the purchasers thereof." More particularly, it is alleged that the offering circular fails to disclose the interests of William Mark Muchow in Chain O'Mines, Inc., and Chain O'Mines, Ltd., listed as predecessors and affiliates of the issuer; fails to disclose the past activities of Muchow and his associates in the promotions of said two companies and of Chain O'Mines Operators, Inc., and the results of attempts to operate the properties held by those concerns, which are now represented to be under contract to purchase by the issuer; fails to disclose, in the biographical sketch describing the past activities of promoter Muchow, the background and record of Muchow in connection with the sale of securities of U. S. Chromium, Inc., Chain O'Mines Operators, Inc., and Chain O'Mines, Ltd.; fails to furnish a description of the physical, geological and economic characteristics of the mining properties proposed to be acquired by the issuer; and fails to describe adequately certain litigation in which the company is involved and the possible effect thereof on stockholders of the issuer. Furthermore, the order challenges the statement in the offering circular that Muchow holds 264 of the 9,770 outstanding shares of Chain O'Mines Operators, Inc., as well as references throughout the offering circular to Muchow as "Dr. William M. Muchow" and "Dr. Muchow" and the statement that he is "a dentist," in view of the failure to disclose the revocation of his license to practice dentistry in Illinois.

The Commission's order with respect to Oregon Timber asserts (1) that Regulation A was not complied with by reason of the issuer's failure to file written sales literature used in connection with the offering of its stock, the use of written sales literature without furnishing a copy of the offering circular, and the offering of securities in states not designated in the Notification; (2) that the company's offering circular contains false and misleading statements of material facts; (3) that the offering of stock "operated as a fraud and deceit upon offerees and purchasers of the securities;" and (4) that the

Issuer and its president, Hubert Joseph O'Rourke, were enjoined on October 22, 1956, by the U. S. District Court for Nevada from offering and selling issuer's stock in violation of the registration requirement of the Securities Act. The charges of false and misleading representations relate, among other things, to the failure to disclose in the offering circular the nature and extent of the business of the issuer, the assets acquired from its promoter, O'Rourke, the liabilities assumed in connection with such acquisition, and the financial results of the operations of the business acquired. The order also challenges a representation that the issuer has no predecessors, in view of its acquisition of a lumber business from O'Rourke and the assumption of the liabilities of that business (known as Oregon Timber Co.) for 400,001 shares of stock issued to O'Rourke.

In its order with respect to Rexrug Mills, the Commission asserts that John C. Foster, a promoter presently connected with the issuer, was convicted in the Criminal Court of Record, Dade County, Florida, on September 12, 1949, for failure to register as a securities dealer and illegal sale of securities in violation of the Florida securities laws. It is further alleged that Regulation A has not been complied with, in that (1) the offering circular fails to disclose that Foster was a promoter of the issuer and his conviction; (2) the offering price of all securities of the issuer offered and sold within one year, including those the subject of this offering, exceeded the \$300,000 limitation; and (3) the offering circular omits material facts with respect to the background and experience of Robert S. Smith, President, Treasurer and a Director of the company.

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United Aircraft Corporation, East Hartford, Conn., today filed a registration statement (File 2-12913) under the Securities Act of 1933 seeking registration of 46,000 shares of its \$5 par Common Stock, to be offered to eligible employees of United Aircraft and its domestic subsidiaries pursuant to the company's Stock Option Plan adopted by the company's Board of Directors on June 27, 1955.

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Amendments were filed on November 19, 1956 to the following registration statements seeking registration of additional securities as indicated:

Institutional Shares Ltd., New York investment company (File 2-4049)
1,000,000 Institutional Growth Fund Shares

Old Dominion Investors' Trust Inc., Suffolk, Va. investment company (File 2-9662)
2,000 shares Capital Stock \$75 par value

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