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.

FOR RELEASE January 18, 1957

Securities Act Release No. 3741

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:

Popular Drug Stores, Inc., Reno, Nevada
The Regulation A notification of Popular Drug Stores, filed February 23, 1955, proposed the public offering of 200,000 shares of capital stock at $1 per share

Ouachita Mining Company, Inc., Mena, Arkansas
Ouachita's Regulation A notification filed November 13, 1956 proposed the public offering of 20,000 shares of capital stock at $2.50 per share

Sharron Oil & Gas Company, Inc., Denver, Colorado
In its Regulation A notification, filed October 29, 1956, Sharron proposed the public offering of 8,750,000 common shares at 1¢ per share

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

Regulation A provides a conditional exemption from registration for public offerings of securities not exceeding $300,000 in amount. One of the conditions of such exemption is the filing of semi-annual reports reflecting the number of shares sold and the use of the proceeds thereof. In the Commission's suspension order with respect to Popular Drug Stores, it is asserted that that company has failed to file such reports and has ignored requests by the Commission's staff for their filing.

With respect to Ouachita and Sharron, the Commission's orders assert (A) that there has been a failure to comply with the terms and conditions of Regulation A and (B) that the issuers' offering circulars are false and misleading in respect of material facts.

In the case of Ouachita, the Commission's order asserts that that company failed to comply with Regulation A, in that (1) four copies of the provisions of the governing instruments defining the rights of holders of issuer's equity securities were

not filed; (2) that the consideration paid by various persons for 702,025 shares of unregistered stock issued to them was not given; (3) that no information was given to support the statement that the issuer received $702,025 for the 702,025 shares issued to officers, directors, and other persons, and (4) that no facts were presented to justify the statement that the net assets of the issuer amount to $755,500. In addition, the order asserts (a) that the financial information contained in the offering circular does not comply with Regulation A, in that assets acquired in exchange for stock are carried in dollar amounts in excess of identifiable cash costs to promoters, predecessor companies and other transferors; (b) that real and personal properties acquired largely from promoters, officers and directors are valued at $780,000, but no information is given respecting the considerations paid by the transferors for such properties; (c) that, with respect to the representation that 23,000 lbs. of high grade free manganese ore which the issuer obtained from its properties were sold for $628, no disclosure is made concerning the cost of producing such ore or the number of tons required to be mined to produce the 23,000 lbs. of ore; and (d) that the issuer represents that the officers and directors believe that "one contiguous body of ore extends...over an area averaging eight miles wide and fifty-two miles long," whereas available geological evidence indicates that no such belief is factually justified.

The suspension order with respect to Sharron asserts that Regulation A has not been complied with by that company, in that (1) there was a failure to disclose information relating to the issuer's prior sales of unregistered stock and the consideration received therefrom; (2) the issuer failed to specify and assert any exemption from registration for the offering and sale of such unregistered stock; (3) four copies of the provisions of the governing instruments defining the rights of holders of Sharron's equity securities proposed to be offered were not filed; (4) restrictions in the form of escrow agreements or otherwise were not imposed upon shares issued to directors, officers, and promoters of the issuer; (5) a promoter, affiliate and predecessor of the issuer was not identified; and (6) there is a conflict in the reported information with respect to the sale of the issuer's stock through the underwriters. In addition, the order asserts (a) that the financial information contained in the offering circular does not comply with the applicable requirements of the Regulation; (b) that the issuer's financial statement is misleading in showing its unissued stock as an asset; (c) that the offering circular contains a statement that certain dry holes are located at various distances from the issuer's properties whereas a plat attached to the offering circular shows such dry holes to be even closer to the issuer's properties; (d) that no disclosure is made as to the depths to which proposed wells on the issuer's properties will be drilled; (e) that no reasonable basis exists for the statement that the maximum ultimate oil recoverable per well from the wells to be drilled on the issuer's properties will amount to approximately 250,000 barrels; and (f) that information relating to a number of wells on properties adjacent to the issuer's leases is not given.

Holding Company Act Release No. 13364

The Securities and Exchange Commission today announced the issuance of a decision on an application by Power Reactor Development Company, of Detroit, Michigan.

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holding that Power Reactor Development Company is not to be considered an electric utility company for the purposes of the Public Utility Holding Company Act of 1935.

Power Reactor Development Company is a not-for-profit corporation organized under the laws of the State of Michigan for the purposes of constructing and operating a fast breeder reactor at Lagoona Beach, Michigan, to produce plutonium and steam. In proceedings before the Atomic Energy Commission it is seeking a license for the conduct of research and development looking toward demonstration of the practical value of a reactor for industrial and commercial purposes. The plutonium would be sold to the Atomic Energy Commission and the steam to the Detroit Edison Company, which will construct a generating unit adjacent to the site of the reactor.

Under the Public Utility Holding Company Act of 1934, a company must register as a holding company if it has a subsidiary which is an electric or gas utility company unless an exemption from registration is available by Commission rule or obtained by Commission order. The effect of the decision of the Commission is that the 21 corporations sponsoring Power Reactor Development Company are not holding companies subject to registration under the Act by virtue of their sponsorship of Power Reactor Development Corporation.

In its decision, the Commission noted that Section 2(a)(3) of the Public Utility Holding Company Act of 1935 defines an electric utility company as a "...company which owns or operates facilities used for the generation, transmission, or distribution of electric energy for sale...." The section also provides that the Commission shall by order declare a company operating any such facilities not to be an electric utility company if "...such company is primarily engaged in one or more businesses other than the business of an electric utility company, and by reason of the small amount of electric energy sold by such company it is not necessary in the public interest or for the protection of investors or consumers that such company be considered an electric utility company...." The Commission found that the business of Power Reactor Development Company was primarily one other than that of an electric utility company and that it will not sell any electric energy; and, accordingly, the Commission held that the statutory requirements for the entry of the exemption order were satisfied.

In connection with the issuance of the Commission's decision, Chairman J. Sinclair Armstrong called attention to the amendment of the Commission's Rule U-7 under the Public Utility Holding Company Act of 1935 adopted July 13, 1956 (Holding Company Act Release No. 13221). The amended Rule in substance declares that a nuclear reactor company is not an electric utility company if (1) its "...only connection with the generation, transmission, or distribution of electric energy is the ownership or operation of facilities used for the production of heat or steam from special nuclear material which heat or steam is used in the generation of electric energy...", (2) if it "...is organized not for profit..." and (3) if it "...is engaged primarily in research and development activities." Certain filing requirements are set out for companies claiming exemption under the rule, and a procedure is established for challenge by the Commission.

Chairman Armstrong further observed that in the instant proceeding the sponsoring corporations of Power Reactor Development Company had preferred to obtain a Commission order rather than rely on the exemption provided in the amended Rule U-7.

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"The proceeding illustrates," Chairman Armstrong said, "the practibility of organizing corporations for the development of electric energy from nuclear power, with many sponsors, in a manner which conforms to the standards of the Public Utility Holding Company Act of 1935. Prospective sponsors of such companies are invited to discuss their organizational problems with the Commission's Division of Corporate Regulation early in the planning stage so as to have the benefit of its expert advice as to methods of conforming to the standards of the Public Utility Holding Company Act of 1935."

Chairman Armstrong also pointed to the fact that the Commission, in its decision, took notice of the proceeding now pending before the Atomic Energy Commission with respect to the licensing of the Power Reactor Development Company project under the Atomic Energy Act of 1954, and observed that the action of the Securities and Exchange Commission was based solely on the provisions of the Public Utility Holding Company Act of 1935 and upon the record of the hearing held under the latter Act, and not on the proceedings before the Atomic Energy Commission.

The 21 corporate sponsors of Power Reactor Development Company are:

Allis-Chalmers Manufacturing Co.
Burroughs Corporation
Cincinnati Gas & Electric Company
Columbus and Southern Ohio Electric Company
Combustion Engineering, Inc.
Consumers Power Company
Delaware Power & Light Company
Detroit Edison Company
Fruehauf Trailer Company
Holley Carburetor Company
Iowa-Illinois Gas and Electric Co.
Long Island Lighting Company
Philadelphia Electric Company
Potomac Electric Power Company
Rochester Gas and Electric Company
Toledo Edison Company
The Babcock & Wilcox Company
Westinghouse Electric Corp.
Wisconsin Electric Power Company
Southern Services, Inc.

Holding Company Act Release Nos. 13365 and 13366

Delaware Power & Light Company (Wilmington) and The Southern Company (Wilmington) have filed separate applications with the SEC under the Holding Company Act with respect to their proposals to guarantee 1.20% and 8%, respectively, of $15,000,000 of proposed borrowings by Power Reactor Development Company ("PRDC"); and the Commission has issued orders giving interested persons until February 1, 1957, to request a hearing on the respective proposals.

PRDC is a non-profit company which is engaged in constructing a fast breeder atomic reactor at Lagoona Beach, Mich., in order to determine the soundness and economy of producing, by means of a reactor, steam to be used in generating electric energy for public utility service. Delaware Power and Southern are among the twenty-one sponsoring companies. PRDC has obtained commitments for contributions totaling $23,540,000 from interested companies, including commitments from Delaware Power and for subsidiaries of Southern. To secure additional funds PRDC also has made arrangements for $15,000,000 of borrowings from five New York banks acting as Trustees for various pension trusts. The Loan Agreement under which these borrowings are to be effected, conditions the granting of any loans upon their being guaranteed as to principal and interest. Delaware Power, Southern and eleven other sponsoring companies have entered into guaranty agreements.

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