

# 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.

February 6, 1957

FOR RELEASE \_\_\_\_\_

Securities Act Release No. 3748

The Securities and Exchange Commission today announced the issuance of a "stop order" decision suspending the effectiveness of a registration statement filed by Universal Service Corporation, Inc., of Houston, Texas, which proposed the public offering of 500,000 shares of Universal common stock at \$2.50 per share.

In its decision, the Commission found that the registration statement and prospectus were misleading in respect of various material facts and failed to comply with the disclosure requirements of the Securities Act of 1933. More particularly, the Commission held that Universal's claims as to uranium ore reserves and the mineral content thereof were unjustified; that its claims that the presence of oil-bearing boulders on its properties were direct evidence of the existence of oil-bearing strata at depth were "wholly unwarranted;" that there was a failure to disclose a potential liability for past stock sales in violation of the registration and anti-fraud provisions of the Securities Act and of the Texas securities law; that there was an inadequate description of the method by which the public offering of securities was to be made; that the description of the proposed use of proceeds was "grossly misleading" for failure to state that exploration to date had failed to reveal minable mineral deposits and there was no basis for believing so large a sum as \$1,250,000 could reasonably be expended for further work on the property; and that there was inadequate disclosure of transactions with the promoters.

Universal was organized on September 9, 1954, under Texas law for the purpose of financing the development and mining of uranium, quicksilver and other minerals as well as oil and gas. The principal promoter was Bert Thompson, of Houston, whose father owned the property in the southern part of Brewster and Presidio Counties, Texas, on which mineral claims were located. He interested Frank Cowart, of Frank Cowart & Company, Inc., broker-dealer firm in Houston, in the properties, and Cowart in turn interested his associate, E. A. Collins. Incorporators were A. I. O'Keeffe (the company's first president, who subsequently resigned), a Houston business man, Donald Peters (successor president), counsel for Thompson, and James L. Guest, an associate of Collins. Under a prior agreement, 1,200,000 shares were to be allocated to Thompson for the mineral claims and leases, 600,000 to Cowart and Collins for cash and services, and 200,000 were to constitute treasury shares. Upon organization of the company, 1,990,000 shares were issued to Peters and 5,000 each to O'Keeffe and Guest.

On Thompson's instructions, Peters transferred 500,000 shares back to Universal as treasury stock. Of this, 61,287 shares were issued to some 94 prior purchasers of "preorganization shares" and Cowart began selling the balance under a purported

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exemption from SEC registration for securities offered and sold exclusively to persons resident within a single state. The Commission found this claimed exemption to have been invalidated by a sale to a non-resident; and it further found that fraudulent representations were made in connection with such sales, including representations of an "unbelievably rich" uranium strike. These claims were based in part upon a "completely discredited" report of a geologist who subsequently repudiated the statements he previously made about an ore body which he had found, and acknowledged that the material forming the basis for the favorable assays had come not from Universal's properties but from other properties in Mexico.

Representations contained in the registration statement and prospectus with respect to minerals on Universal's properties were based largely upon reports of another firm of consulting engineers and geologists. Based upon its analysis of the hearing record, which contained expert testimony, the Commission concluded that such reports "are essentially misleading and the use of the information therein in the prospectus is deceptive to investors." An expert witness called by the Commission testified that his inspection of the properties "showed no evidence of possible presence of minable deposits of uranium. Samples taken by him from the area in Section 49 where exploration work had been done assayed only .025% uranium content, far below the Atomic Energy Commission minimum standard" and considerably lower than those reported by the firm employed by Universal, according to the Commission's decision. With respect to possible oil-bearing boulders, the expert witness, who is familiar with the territory, testified that in his opinion the existence of oil is entirely inconsistent with the known geological data relating to the property. The property is shown by government surveys to be in an area marked unfavorably for the discovery of oil, the only well drilled on the property was a dry hole, and the nearest producing well is 100 miles away, the Commission found.

#### Securities Act Release No. 3750

The Securities and Exchange Commission today announced the institution of 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 Automation Shares, Inc. The hearing therein is scheduled for February 20, 1957, in the Commission's Washington Office.

Automation Shares is a newly-organized investment company with offices in Washington, D. C. Its registration statement, which became effective January 29, 1957, proposed the public offering of 289,250 shares of its common stock. Automation Shares Management Corporation is named as Manager and the Principal Distributor. An "initial issue" of not more than 20,000 shares were to be issued to not more than 25 persons for a consideration of \$10 per share. Under the Investment Company Act of 1940, no registered investment company may make a public offering of its securities unless such company has a net worth of at least \$100,000.

In its prospectus, Automation Shares stated that as of the effective date of the registration statement "it will hold subscriptions for a total of 10,750 shares at \$10.00 per share which, when paid in, will provide total initial assets of \$107,500 in cash....These subscriptions are required, by their terms, to be paid in full on or before twenty-one days after the effective date of the Fund's registration statement....The proceeds of the subscriptions are to be held by the Custodian in cash

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or government securities for a period of at least four months after the effective date of the Fund's Registration Statement." After listing the principal subscribers and the shares subscribed, the prospectus further stated: "All of the officers and directors of the Fund as a group, after subscriptions to the initial issue are paid in, will own 1612.5 shares (15.3%) of the then outstanding issue. The Fund has no further contracts or other arrangements with any of the above mentioned persons or other officers or directors of the Fund."

In its order authorizing the stop order proceedings, the Commission asserts that it has reasonable cause to believe that the registration statement is false and misleading in respect of certain material facts. More particularly, the Commission challenges the accuracy and adequacy of (1) the description of the subscription agreements and the statements relative to the funds to be provided pursuant thereto; (2) the statement "The Fund has no further contracts or other agreements with any of the above mentioned persons or other officers or directors of the Fund;" (3) the description of the agreements relating to management and underwriting; and (4) the description of the subscription agreements and the rights of redemption thereunder, set forth in the "Opinion of the Independent Accountants."

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Daystrom, Incorporated, Murray Hill, N. J., filed a registration statement (File 2-13069) with the SEC on February 5, 1957, seeking registration of \$8,000,000 of Convertible Subordinate Debentures due March 1, 1977, to be offered for public sale through an underwriting group headed by Goldman, Sachs & Co. and R. W. Pressprich & Co. The interest rate, public offering price and underwriting terms are to be supplied by amendment.

Daystrom, through divisions and its subsidiaries, is engaged principally in the manufacture and sale of a wide variety of electrical, electronic, mechanical and electro-mechanical equipment and components. Net proceeds of this financing will be added to the company's general funds and will be available for general corporate purposes, including proposed expansion of the company's manufacturing facilities and increase of its working capital. It is estimated that the cost of construction of presently authorized additional manufacturing space at Los Angeles, California and Saint Joseph, Michigan, will approximate \$2,170,000. In addition, over-crowded conditions in the company's plants at Newark, N. J., together with an anticipated increase in produce volume, indicate a requirement for the expenditure within the next two or three years, according to the prospectus, of approximately \$5,000,000 for manufacturing space and facilities.

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Illinois Bell Telephone Company (Chicago) today filed a registration statement (File 2-13071) with the SEC seeking registration of \$40,000,000 of First Mortgage Bonds, Series E, due March 1, 1988, to be offered for public sale at competitive bidding. Net proceeds will be used to reimburse the company's treasury for expenditures for property additions and improvements, including repayment of some \$10,000,000 of advances from American Telephone and Telegraph Company, parent, the balance of the proceeds to be used for general corporate purposes, including further construction expenditures.

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