

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 March 28, 1957

Securities Act Release No. 3769

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:

National Bankers Life Insurance Company, Dallas, Texas

In its Regulation A notification, filed February 28, 1957, National proposed the public offering of 156,960 shares of stock at \$1 per share

Mid-Hudson Natural Gas Corporation, New York, N. Y.

Mid-Hudson filed its Regulation A notification on July 1, 1955, proposing the public offering of 500,000 common shares at 50¢ per share

North Star Oil and Uranium Corporation, New York, N. Y.

In a Regulation A notification filed October 23, 1953, North Star proposed the public offering of 600,000 common shares at 50¢ per share

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

Regulation A provides a conditional exemption from registration under the Securities Act for public offerings of securities not exceeding \$300,000 in amount. In the case of National, the Commission's order asserts that the terms and conditions of Regulation A have not been complied with, in that written offers of stock were made by National without the required delivery to the offerees of copies of the offering circular and that the stock offering was commenced and some \$156,000 received from purchasers prior to the expiration of the waiting period prescribed by the Regulation.

With respect to Mid-Hudson, the Commission's order asserts that there is reasonable grounds to believe that that company's offering circular contains false and misleading statements of material facts or omits to state material facts, in the following particulars: (a) a representation that the 575,000 shares stated to have been issued to two persons for their assignment to the company of certain oil and gas leases constituted the consideration for the transfer of such leases; (b) failure to state that the consideration for such assignment agreed upon by the assignors was less than the number of shares represented to have been the consideration; and

(Over)

(c) a representation that the transfer of certain shares stated to have been made to one Sidney Lieberman, individually and as trustee of certain trusts, by the assignors of the said leases was made for a consideration of one mill per share.

The order with respect to North Star also asserts that that company's offering circular is false and misleading, in that (1) the issuer represented that its subsidiary, North Star Mines, Ltd., owned certain mining claims when title to some of such claims had already lapsed; and (b) the issuer represented specific time limitations for completion of assessment work on such claims when title to some of such claims had lapsed prior to the completion dates.

Holding Company Act Release No. 13435

The SEC has issued an order authorizing the merger of two subsidiaries of The Columbia Gas System, Inc., The Keystone Gas Company, Inc., and Binghamton Gas Works. These companies are engaged in the business of manufacturing, purchasing, distributing and selling gas at retail in various communities in the southern part of New York State. Both have the same officers and management. Keystone is to be consolidated with Binghamton, whose name is to be changed to Columbia Gas of New York, Inc. In connection with the merger, Binghamton will issue an additional 22,152 shares of its stock to Columbia Gas System in exchange for Keystone's presently outstanding stock. Binghamton will acquire Keystone's assets and assume its liabilities.

Investment Company Act Release No. 2501

Diversified Investment Fund, Inc., Elizabeth, N. J. investment company, has applied to the SEC for an exemption order permitting its acquisition of not to exceed \$600,000 of debentures of Aluminum Company of Canada, Ltd.; and the Commission has issued an order giving interested persons until April 11, 1957, to request a hearing thereon. Alcan has proposed the public offering of \$125,000,000 of Sinking Fund Debentures, due 1980. One of the underwriters is to be Dick & Merle Smith, one of whose partners is a director of the Fund. Accordingly, the Fund's purchase of the debentures is prohibited unless an exemption order is issued by the Commission.

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Western Nuclear Corporation, Rawlins, Wyoming, filed a registration statement (File 2-13195) with the SEC on March 27, 1957, seeking registration of \$400,000 of Series B 5-3/4% Subordinated Debentures and 440,000 shares of Common Stock. The company proposes to offer these securities for public sale in units, each consisting of \$1000 of debentures and 1100 common shares. The offering price is to be \$1,011 per unit. The offering is to be underwritten by Bosworth, Sullivan & Company. The underwriter is not receiving any direct compensation, except that its reasonable expenses, including counsel fees, are to be reimbursed by the company. The fees it received in connection with the private placement of the company's Senior Indebtedness and Series A Subordinated Debentures are considered by the company to represent adequate compensation to the underwriter for services rendered in connection with its entire program of financing, including the offering and sale of the units.

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Western Nuclear Corporation (formerly "Lost Creek Oil & Uranium Co.") was organized in 1955 for the purpose of engaging in the acquisition, exploration and development of mineral lands as well as the operation and mining of such properties. Since its organization it has engaged primarily in the acquisition of unexplored properties, and the exploration and, when merited, the development of such properties. More recently, it has entered into a contract with the Atomic Energy Commission providing for the construction by the company of a uranium oxide mill (near Jeffrey City, Wyoming), the processing by the company of its own ores and the ores of others and the sale by the company to the AEC of uranium oxide produced at the mill. The AEC's responsibility is confined to the purchase of a limited amount of uranium oxide, but only if produced and delivered by the company. The company has recently concluded a private financing which will provide total proceeds to the company of \$4,369,500 for the purpose of financing the construction of its mill, a townsite and related facilities.

Net proceeds of the sale of the units together with the balance available to the company under its term loan agreement will be added to the general funds of the company to be used for completion of the company's mill, townsite and related facilities and to provide approximately \$500,000 for operating purposes.

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Transcontinental Gas Pipe Line Corporation, Houston, Texas, filed a registration statement (File 2-13196) with the SEC on March 27, 1957, seeking registration of \$50,000,000 of First Mortgage Pipe Line Bonds, Series due 1977, and 100,000 shares of Cumulative Preferred Stock (no par - stated value \$100 per share). The company proposes to offer these securities for public sale through an underwriting group headed by White, Weld & Co. and Stone & Webster Securities Corporation. The interest rate on the bonds, dividend rate on the preferred, and public offering price and underwriting terms for both issues, are to be supplied by amendment.

The company estimates that it will spend approximately \$113,000,000 after December 31, 1956, in completing construction work which was scheduled at that date. Substantially all of the funds necessary for such program are expected to be obtained from the sale of the new bonds and preferred stock, bank borrowings and general funds of the company. It has entered into a credit agreement with six banks which permits borrowings from time to time up to \$40,000,000 until September 30, 1958, and to reborrow prior to that date any amounts repaid to the banks from the proceeds of the sale of bonds or stock. \$11,000,000 was borrowed under this agreement on March 4th, \$8,000,000 of which was applied to the payment of a previously outstanding bank loan.

An unspecified amount of the net proceeds of the sale of bonds and preferred stock will be applied to repay notes then outstanding under the credit agreement, and the balance will be available for construction. The construction program consists principally of the construction of mainline facilities, already approved by the Federal Power Commission, to increase the daily allocated capacity by 80,386 Mcf, and the construction of facilities covered by an application now pending before FPC which is designed to increase the allocated capacity of the system by an additional 11,381 Mcf per day.

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St. Louis Insurance Corporation, St. Louis, Mo., filed a registration statement (File 2-13197) with the SEC on March 27, 1957, seeking registration of 1,250 shares of Class C Preferred Stock, \$57 par, cumulative, non-convertible. These shares are not outstanding, and are to be offered for sale by the owner thereof, R. M. Realty Company. The public offering price is to be \$97 per share, with a \$2 commission to the underwriter, Yates Heitner & Woods. The issuer will not receive any part of the proceeds. R. M. Realty Company is listed as the owner of 5,130 shares of the Class C preferred.

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For IMMEDIATE Release Thursday, March 28, 1957

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

Summary of Accounting Series Release No. 78

In a decision announced today by the Securities and Exchange Commission, Touche, Niven, Bailey & Smart, New York certified public accounting firm, and two of its partners, were temporarily suspended from practice before the Commission for a 15-day period, effective May 1, 1957. The decision, issued pursuant to Rule II(e) of the Commission's Rules of Practice, was based on findings of improper professional conduct in connection with the firm's certification of financial statements of Seaboard Commercial Corporation for 1947 which were included in Seaboard's annual report for 1947 filed with the Commission pursuant to the Securities Exchange Act of 1934.

Seaboard was a commercial finance company, but by the end of 1947 its financial condition had drastically changed as a result of the concentration of its funds in six companies, all of which had experienced increasingly serious financial difficulties in 1946 and 1947. As of December 31, 1947 Seaboard's advances to and investments in these six companies aggregated \$5,238,000 out of its stated total assets of \$7,987,000. These companies had all incurred operating losses and had continually required further advances from Seaboard during 1947. The aggregate excess of liabilities over assets of three of these companies exceeded \$1,200,000 as of the end of the year.

The Commission found, among other things, that the \$857,729 reserve for losses and contingencies in Seaboard's certified balance sheet was materially inadequate, and that the respondents in certifying to statements including this reserve failed to follow generally accepted accounting and auditing standards and failed to exercise an independent and informed judgment. It noted that the senior in charge of the field work, which included supplementary procedures undertaken because of respondents' awareness of the seriousness of the situation, had estimated, at the conclusion of his work, that a reserve of \$1,453,551 was required. Thereafter the partner in charge of the audit, following a conference with management, had arrived at an estimated reserve of \$1,345,000 and a draft certificate used by the respondents after several meetings with management referred to a need for a reserve of about \$1,350,000. The Commission found that management's representations that the existing reserve of about \$107,000 was adequate were largely in the nature of hopes and expectations for the future unsupported and contradicted by the past history of the six companies. The Commission

found that respondents, contrary to proper auditing procedure, did not obtain recent financial statements as to some of Seaboard's major debtors, and failed to make independent inquiries to determine whether inventories pledged as collateral were properly stated. In one instance, where Seaboard's advances of about \$1,500,000 were primarily secured by inventories, it developed that such inventories were overstated by \$635,000.

In finding the reserve inadequate, the Commission noted that no reserve was provided for Seaboard's investment of \$512,500 in Coastal Machine Works, Inc., a wholly owned subsidiary, notwithstanding the fact that Coastal had suffered a permanent decline in value and earning power and that its net assets, though stated at slightly in excess of Seaboard's investment, improperly reflected an appraisal write-up of about \$439,000 which the respondents themselves, as Coastal's certifying accountants, had questioned.

The Commission found that respondents improperly deferred to management's wishes in deleting from their certificate language indicating the condition of Seaboard's major accounts. It also held that respondents should have taken exception to a note to the reserve figure which was materially misleading in indicating that the reserve was set up to provide for future losses that might result from uncertain general business conditions, rather than in recognition of the specific deterioration of Seaboard's accounts.

Seaboard's income statement was also found misleading by the Commission. The inadequate addition to the reserve of \$750,000 was not charged to income, notwithstanding that an addition to the reserve was necessitated by developments during 1947. The Commission noted that if the increase in the reserve of \$750,000 had been charged to income, Seaboard's stated net income of almost \$250,000 would have been converted to a loss of approximately \$500,000, and that an adequate provision for losses on uncollectible accounts would have produced a loss in excess of \$1,000,000.

The Commission further found that the Seaboard balance sheet, in listing as non-current assets only \$641,713 of the advances to companies other than Coastal, materially overstated current assets and understated non-current assets. Notwithstanding the fact that they originally estimated the amount to be excluded from current assets at \$1,374,000 or \$1,500,000, respondents certified the financial statements containing the lower figure which was materially inadequate in the light of the information available.

The Commission also held that the classification of \$300,000

of Coastal's total indebtedness to Seaboard as current did not conform to good accounting practice, since Coastal was not in a position to liquidate its indebtedness currently, and Coastal's net current asset position did not justify such classification, it appearing that Coastal's balance sheet, also certified by respondents, overstated net current assets by improperly excluding from current liabilities a reserve for renegotiation claims.

Noting that Seaboard owned the stock of two of its debtors, and exercised complete control over others, the Commission held that the balance sheet was further materially misleading in listing amounts owed by these companies as due from customers rather than from subsidiaries.

While recognizing that respondents insisted upon certain disclosures and an increase over the reserve figure originally proposed by Seaboard, the Commission concluded that the financial statements and the certificate as a whole improperly minimized adverse disclosures and failed to portray realistically the financial condition of Seaboard. The Commission emphasized that the responsibility of an independent public accountant is not only to the client who pays his fee, but also to investors, creditors, and others who may rely on the financial statements which he certifies, and that he must report fairly on the facts as he finds them.

Respondents, who had contested the charges against them, had stressed that two partners of the firm who had principal roles in the audit had died and the composition of the firm had substantially changed since the audit.