

# 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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FOR RELEASE July 21, 1959

## SEC COMMENTS ON LUDMAN CORP. REORGANIZATION

The SEC today announced the submission of a statement of its views upon a proposed plan of reorganization of the Ludman Corporation, of Miami, a Florida corporation, which formerly manufactured and distributed aluminum windows and related products. The reorganization proceeding is pending before Judge Joseph P. Lieb, in the United States District Court in Miami, Florida. The Commission stated that an advisory report on the plan, the filing of which is discretionary with the Commission, was neither necessary nor appropriate.

In general, the plan provides for the recapitalization of Ludman so that it would have outstanding \$900,000 of 6% first mortgage bonds, \$545,360 of 3% preferred stock, and \$100,000 of common stock. All secured and priority creditors are to receive cash payment in full. The United States Government, for its claim for taxes, is to receive \$50,000 upon consummation of the plan with the balance of \$350,000 to be paid in six annual installments; wage claimants are to receive 55% of their claims in cash with the remainder in new 3% preferred stock; and general unsecured creditors are to receive 25% of their claims in new 3% preferred stock. No participation is provided for the publicly-held common stock. The proponent of the plan, Herman Greenfeld of Miami, in return for \$1 million of cash needed to consummate the plan, is to receive all the first mortgage bonds and common stock. The proponent has also obligated himself to furnish up to \$300,000 for working capital, if needed.

The Commission advised Judge Lieb that based upon studies made of similar companies, the Commission believes the plan proponent may not be paying an adequate price for the company, and that the unsecured general creditors may not be getting adequate compensation for their interest in the debtor's assets. In addition, since the record does not show how the reorganized company could meet its new long-term obligations, the Commission could not say the plan was feasible. However, it agrees that no equity exists for the stockholders because of the debtor's apparent insolvency.

## STOP ORDER SUSPENDS INDUSTRO TRANSISTOR FILING

The SEC today announced the issuance of a decision (Release 33-4116) suspending the effectiveness of a registration statement filed by Industro Transistor Corporation, of Long Island City, N. Y., which proposed the public offering of 135,000 shares of common stock at a price related to the current market price of outstanding shares, and warrants for an additional 36,000 shares to be issued to the underwriter.

The Commission ruled that informational disclosures contained in Industro's registration statement and prospectus were materially deficient with respect to such matters as its business, financial statements, compensation to the underwriter and others, and the proposed use of the proceeds of the stock sale, and that company had failed to disclose in the forepart of the prospectus "the speculative features of Industro's business and securities, including the relative investment of insiders and the public, the severe competition in the industry, and other hazards of the enterprise." The company consented to issuance of the stop order.

Organized in 1953, Industro commenced active operations in July 1957 and the manufacture of transistors on a production basis about December 1957. Promoters and officers received some 225,000 shares. In September 1957 150,000 shares were sold at \$2 per share pursuant to a claim of exemption under Regulation A.

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According to the Commission's decision, although Industro's prospectus states that the company's transistors are being used in a variety of equipment (many of which were listed), it fails to disclose the number of transistor units produced by Industro and the extent of its production for each use listed. The prospectus also lists Industro's customers; but it fails to disclose the amount of sales to each, or the fact that such sales were nominal and were not being made on a consistent basis. It also fails to disclose adequately the competitive relationship of Industro and large manufacturers of transistors.

Industro's financial statements were found by the Commission to be "materially misleading" in overstating sales and cost of goods sold by recording sales returns as purchases of raw material, in overstating inventory of finished goods by using a valuation substantially in excess of that indicated by reported costs, in overstating net sales by failing to provide for substantial returns which Industro knew the buyer intended to make and which Industro had agreed to accept, in failing to make adequate provision for uncollectible accounts receivable, and in overstating net worth. Proper accounting for these items would have converted an indicated \$17,000 net profit from operations for the four months ended October 31, 1958, to a substantial loss, the Commission stated.

The prospectus stated that \$50,000 of the estimated \$327,000 net proceeds of the stock sale would be allocated to the purchase of raw materials and \$212,000 to working capital; but the prospectus failed to disclose the need for \$50,000 additional raw materials in view of the present large inventories in relation to sales, or the need for and proposed use of the \$212,000 allocated to working capital.

Furthermore, according to the decision, the prospectus failed to disclose that, recent over-the-counter quotations for Industro's stock or that, shortly prior to filing the registration statement, Industro distributed press releases and reports of operations to the public which contained inaccurate and misleading statements which may have influenced the judgment of purchasers and sellers of its securities. There was also a failure to disclose that warrants held by the underwriter and options held by Industro's board chairman would enable them to benefit from a rise in the market for Industro stock at the expense of the equity interests of the common stockholders.

#### EXEMPTION FOR SMALL BUSINESS INVESTMENT COMPANIES PROPOSED

The SEC today announced a proposal to adopt a new Rule 3c-2 under the Investment Company Act which would except certain small business investment companies from the registration and other requirements of that Act if certain conditions are met; and it invited the submission of views and comments thereon not later than August 21, 1959.

Generally speaking, an investment company which does not propose to make a public offering of its securities and whose outstanding securities are beneficially owned by not more than 100 persons is exempt from registration pursuant to Section 3(c)(1) of that Act. In computing the number of beneficial owners, the stockholders of a company which itself holds more than 10% of the outstanding voting securities of the investment company must also be counted.

Under the proposed rule, the computation of the 100 stockholders for purposes of the Section 3(c)(1) exception need not include shareholders of a company owning 10% or more of the outstanding voting securities of a small business investment company licensed or proposed to be licensed under the Small Business Investment Act of 1958, if the value of all securities of small business investment companies owned by such company does not exceed 5% of the value of its total assets.

#### BULOVA WATCH FILES KEY EXECUTIVE EMPLOYEE STOCK PLAN

Bulova Watch Company, Inc., Flushing, New York, filed a registration statement (File 2-15371) with the SEC on July 20, 1959, seeking registration of 100,000 shares of common stock, to be offered pursuant to the company's Restricted Stock Option Plan for Key Executive Employees.

#### COHU ELECTRONICS FILES FOR RIGHTS OFFERING

Cohu Electronics, Inc., 5725 Kearny Villa Road, San Diego, Calif., filed a registration statement (File 2-15372) with the SEC on July 20, 1959, seeking registration of 356,125 shares of common stock. The company proposes to offer this stock for subscription by its common stockholders, at the rate of one new share for each three shares held. The record date, subscription price and underwriting terms

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are to be supplied by amendment. Hayden, Stone & Co. and Winslow, Co. & Stetson, Inc., are listed as the principal underwriters.

The company designs, develops and manufactures electronic equipment, industrial television equipment, and electro-acoustic equipment. Net proceeds of this financing are to be used as follows: \$271,000 to pay a 5% unsecured note to vendors and sales representatives; \$1,165,000 to reduce bank notes; and the balance to increase working capital said to be required by the increase in business volume.

#### MICHIGAN BELL TELEPHONE PROPOSES DEBENTURE OFFERING

Michigan Bell Telephone Company, 1365 Cass Ave., Detroit, today filed a registration statement (File 2-15373) with the SEC seeking registration of \$30,000,000 of Thirty-five year Debentures, due August 1, 1994, to be offered for public sale at competitive bidding. The company intends to use most of the net proceeds of the debenture sale to repay advances from its parent, American Telephone and Telegraph Company, which are expected to approximate \$25,000,000 at the time the proceeds are received. The remainder of the proceeds will be used for general corporate purposes.

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