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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Washington 25, D.C.

FOR RELEASE May 26, 1960

INSIDER TRADING RULE AMENDED. The SEC today announced an amendment of its Rule 16b-3 under the Securities Exchange Act of 1934 (Release 34-5127), deleting the exemption from Section 16(b) of the Act for stock acquired upon the exercise of options and providing that the selection of persons participating in plans subject to the rule be made by a disinterested board of directors or committee.

Section 16(b) provides for recovery by or on behalf of the company of any short-term trading profits of "insiders" (officers, directors and 10% owners) in any equity security of a company any class of whose equity securities is listed and registered on a national securities exchange. Rule 16b-3 has heretofore provided an exemption from these provisions for shares of stock acquired pursuant to bonus, profit sharing, retirement, thrift, savings or similar plans meeting specified conditions. The rule also exempted the acquisition of non-transferable options, and stock acquired under such options, pursuant to a plan meeting similar conditions.

PUBLIC SERVICE OF OKLAHOMA STOCK SALE CLEARED. The SEC has issued an order under the Holding Company Act (Release 35-14234) authorizing Public Service Company of Oklahoma, Tulsa, Oklahoma, to issue and sell to its parent, Central and South West Corporation, 650,000 additional shares of common stock for $6,500,000. The parent will acquire 450,000 shares with the proceeds of a cash dividend of $4,500,000 to be declared and paid by the subsidiary on stock now held by the parent. The proceeds received by the subsidiary from the sale of the remaining shares will be used for property additions and improvements.

SOUTHERN ELECTRIC GENERATING BOND OFFERING CLEARED. The SEC has issued an order under the Holding Company Act (Release 35-14235) authorizing Southern Electric Generating Company, Birmingham, Alabama, subsidiary of Alabama Power Company and Georgia Power Company, to issue and sell $40,000,000 of bonds due 1992 at competitive bidding. The proceeds will be used in part for the repayment of $27,000,000 short-term notes issued for property acquisition or construction; and the balance, together with $16,000,000 received in May 1960 from the sale of stock to the two parent companies, will be sufficient to finance construction expenditures of the issuer during 1960, except for short-term bank borrowings of $20,000,000 during the last five months of 1960.

FUND MANAGEMENT ORDER ISSUED. The SEC has issued an order under the Investment Company Act (Release 40-3036) declaring that a proposed sale of Fund Management Company stock will not constitute a transfer of a controlling block of the voting securities of that company. Troy V. Post is the present owner of all the outstanding stock of Fund Management Company, the investment adviser and principal underwriter for American Investment and Income Fund, Inc., and Life Insurance Stock Fund, Inc. Fund Management proposes to sell ten shares of stock, constituting 50% of the total stock to be outstanding, to American Life Insurance Company, an insurance company of which Post owns 82% of the outstanding voting securities.

GULF STATES UTILITIES PROPOSES BOND OFFERING. Gulf States Utilities Company, 285 Liberty Ave., Beaumont, Texas, filed a registration statement (File 2-16630) with the SEC on May 25, 1960, seeking registration of $17,000,000 of First Mortgage Bonds, Series due 1990, to be offered for public sale at competitive bidding.

Net proceeds of the sale of the bonds will be used to pay off some $15,000,000 of short-term notes issued under revolving credit agreements to provide funds for construction purposes, and the balance will be used to carry forward the construction program, and the balance will be used to carry forward the construction program and for other corporate purposes. Construction expenditures for the years 1960-61 are estimated at $97,000,000.

ASSOCIATED TESTING LABORATORIES PROPOSES OFFERING. Associated Testing Laboratories, Inc., Clinton Road, Caldwell, N. J., filed a registration statement (File 2-16631) with the SEC on May 25, 1960, seeking registration of 75,000 shares of common stock, to be offered for public sale through a group of underwriters headed by Drexel and Co. The public offering price and underwriting terms are to be supplied by amendment.

Associated is engaged in the business of environmental testing of components for defense industry and also manufactures environmental test equipment for use in its own operations and for sale to others. It has

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outstanding 366,666 common shares and certain indebtedness. A portion of the net proceeds of the sale of additional stock will be used initially to retire $100,000 of short term bank loans incurred for working capital purposes, and to provide additional testing facilities and equipment in new plants at Wayne, N. J., and Winter Park, Fla. The remaining proceeds will be added to working capital and are expected to be used in part for further expansion of facilities including the possible establishment of new testing laboratories in the New England and West Coast areas, in each case at an estimated cost of $125,000.

The prospectus lists William Tonkowich as president and Bernard Novack as vice president; and each owns 97,500 common shares (26.6%). Also included in the registration statement are warrants to purchase 16,666 common shares on or before June 1, 1962, at $3 per share, which warrants were issued in 1959 to previous underwriters of the company as part of the underwriting compensation in connection with an offering of 166,666 common shares at $3 per share.

OUTBOARD MARINE FILES STOCK PLAN. Outboard Marine Corporation, 100 Pershing Road, Waukegan, Ill., filed a registration statement (File 2-16632) with the SEC on May 25, 1960, seeking registration of 292,400 shares of common stock, to be offered from time to time to officers and other executives of the company pursuant to its stock option plan.

BAHAMAS CARIBBEAN CONSTRUCTION FILES FINANCING PROPOSAL. Bahamas Caribbean Corporation Limited, 5008 Dodge St., Omaha, Nebraska, filed a registration statement (File 2-16633) with the SEC on May 25, 1960, seeking registration of 4500 shares of common stock, to be offered for sale at $5 per share, and 600 units of 6% promissory notes, to be offered for sale at $212.50 per unit. No underwriting is involved.

The company was organized under the Laws of the Bahamas Islands in January 1960 for the purpose of developing real estate in the Bahamas Islands. The N. P. Dodge Corporation, a Delaware corporation, is said to be the real party incorporator, and it owns all 500 shares of the company's issued and outstanding stock. Dodge Corporation is a subsidiary of N. P. Dodge Company, a Nebraska corporation. Both Dodge companies are in the business of real estate development. Bahamas Caribbean proposes to develop a 100 acre tract of land located on Grand Bahama Island in the Bahamas, involving primarily the clearing, grading and subdividing of the tract into residential lots and sale of the lots.

BASIC INC. FILES FOR SECONDARY. Basic Incorporated, 845 Hanna Bldg., Cleveland, today filed a registration statement (File 2-16634) with the SEC seeking registration of 123,808 outstanding shares of common stock.

According to the prospectus, 42,647 shares of this stock, 3.61% of the outstanding shares, are to be acquired by the underwriters from the holders thereof for public offering. The initial public offering price will be related to the then current market for the stock on the American Stock Exchange. Underwriting terms are to be supplied by amendment. The First Boston Corporation heads the list of underwriters. Of this stock, 19,047 shares will be purchased by the underwriters from Morgan Guaranty Trust Company of New York, as trustee of a trust, and 23,600 from The Mutual Life Insurance Company of New York. The selling stockholders obtained these common shares by converting (at an adjusted conversion price of $10.50 per common share) convertible preference shares issued to them in 1958.

The registration statement also covers 57,142 additional common shares owned by Morgan Guaranty as trustee of two other trusts, similarly acquired, and 24,019 additional shares issuable upon conversion of 2,522 convertible preference shares now held by Mutual Life. These additional common shares may be sold over the Exchange.

The company is a producer of basic granular refractories, materials used primarily for the construction and repair of the interior linings of steel-making furnaces. It also produces lime and magnesia products used for industrial processing and lime and stone used for agricultural and construction purposes and markets a line of building construction products. The prospectus lists Howard P. Eells, Jr., as president. The Chase Manhattan Bank, as trustee under the company's profit sharing and retirement plan, owns 168,417 shares (14.27%), and the management officials 111,130 shares (9.4%) of the outstanding stock.

VIOLATIONS CHARGED TO FIDELITY SECURITIES. The Securities and Exchange Commission has ordered proceedings under the Securities Exchange Act of 1934 to determine whether Fidelity Securities Corporation, 401 Glenwood Ave., Glenburnie, Md., defrauded investors in the sale of Eshelman Motors Corporation stock or otherwise violated provisions of the Federal securities laws and, if so, whether its broker-dealer registration should be revoked.

According to the Commission's order, Fidelity has been registered with the Commission as a broker-dealer since September 8, 1959. William Meyers was an officer, director and shareholder from about August 19 to December 9, 1959; Arthur Merican was an officer, director and shareholder from August 19, 1959, to February 10, 1960; and Herman F. Timme has been an officer, director and share holder since November 9, 1959.

The order asserts that, in the offer and sale of Eshelman Motors stock during the period September 8 to October 30, 1959, Fidelity, Meyers, Merican and W. A. Pancoast (a salesman) "engaged in acts, practices and a course of business which would and did operate as a fraud and deceit upon certain persons," in that they made

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ADVANCE. Following for Release in FRIDAY AM PAPERS, May 27, 1960. ADVANCE.

SEC ORDERS 30-DAY SUSPENSION OF REYNOLDS & CO. In a decision announced today (Release 34-6273), the SEC ordered the suspension of Reynolds & Co. and Reynolds & Co., Inc. from membership in the National Association of Securities Dealers for a period of thirty days effective July 1, 1960. Reynolds & Co. and Reynolds & Company, Inc. are brokerage and investment banking firms having their main offices in New York.

The suspension order was based upon Commission findings of violations of the Securities laws in four of Reynold's 38 branch offices during the period from January 1954 to January 1959, and of failure by Reynolds & Co. and certain of its partners and supervisory employees to exercise proper supervision over branch office employees. Two individuals who were partners of Reynolds & Co. at the time and four supervisory employees were named as causes of the Commission's order because of their faulty supervision. Also named as causes were two salesmen who committed the violations.

Reynolds had urged that no sanction should be imposed and in support thereof had cited various mitigating factors, including loss of business attributed to publicity attendant upon the proceedings. While concluding that the public interest does not necessitate revocation of registration nor the suspension or expulsion of the Reynolds firms from membership in exchanges, the Commission ruled that "the lack of adequate supervision shown by the record in this case was of so grave a nature that, notwithstanding the mitigating circumstances advanced by registrant, the imposition of a sanction is required in the public interest" and that the 30-day suspension from the NASD was necessary.

The violations occurred in Reynolds & Co.'s branch offices in Carmel, Berkeley and San Francisco, California and Chicago, Illinois. It involved excessive trading in discretionary accounts of customers in the Carmel branch, unauthorized transactions and forgeries of customers' names in the Chicago office as well as violations of Regulation T, and fraudulent representations in the sale of uranium shares by the San Francisco and Berkeley offices.

In its opinion, the Commission analyzed transactions in four accounts of customers by a salesman in the Reynolds' Carmel office, and concluded that all four accounts were "grossly overtraded in the light of the character of the accounts." In one account, an average investment of $57,310 was turned over 29 times in a 46-month period, with purchases totalling $1,664,572 and sales $1,651,907. Of 318 "in-and-out" transactions in this account, about 158 were completed within 30 days, with 22 being completed on the same or the following day. The account suffered a net realized and unrealized loss of $35,986 and the firm charged $26,852 in commissions. In the other accounts, a $66,012 investment was turned over 34 times in 56 months, a $15,175 investment 27 times in 28 months, and a $59,961 investment 5.6 times in 16 months, with customer losses amounting to $19,847, $6,200 and $11,591, respectively, while commissions charged amounted to $38,428, $7,555, and $5,542, respectively.

Even apart from the discretionary authority given the salesman, the Commission observed, "in view of the trust and confidence reposed in him by the customers" the salesman and Reynolds & Co. "assumed a fiduciary obligation to effect transactions in the accounts with an eye single to the best interests of the customers. It is evident that this obligation was disregarded by the effecting of an excessive number of transactions in the customers' accounts in order to produce commissions" for Reynolds and the salesman. The then managing partner of the west coast branch offices and the then manager of the Carmel office failed to give proper supervision to the salesman's activities, although they were aware of the large volume of trading in the accounts and the confidential relationship to the customers.

In the Chicago branch office, a salesman effected unauthorized transactions for the accounts of customers during the period of March 1955 to May 1957. In one case as many as 18 such transactions were effected in a period of less than four months. In another instance, securities purchased without authorization in one customer's account were, after complaints by the customer, transferred to the account of another customer pursuant to his purported written authorization which was in fact forged by the salesman, at the price charged the first customer which was some $1800 more than the market price at the time of the transfer. The lack of proper supervision by the office manager, resident manager and resident partner, who among other things failed to verify the alleged authorization for the transfer from one account to another, was characterized by the Commission as "a reckless failure to inquire into highly questionable circumstances as well as active participation in an improper transfer of a loss to another customer." The record further shows that this salesman had also forged the signatures of customers to letters falsely stating that their transactions had not been solicited. Despite discovery of these facts by the firm, the salesman was permitted to continue his activities without restriction. Moreover, in 14 accounts handled by this salesman, there were 40 instances of failure to comply with Regulation T of the Federal Reserve Board by neither collecting payment within 7 days after a purchase in a special cash account nor promptly liquidating the transaction. It was found that Reynolds & Co. had exercised no control or supervision with respect to compliance with Regulation T in the Chicago office and that the three supervisors involved failed to perform their responsibilities in this respect.

The San Francisco and Berkeley offices engaged in the sale of stock in six mining companies the principal assets of which consisted of six million shares of stock of U & I Uranium, Inc., which had an interest in certain uranium claims in San Juan County, Utah. From April 1954 to April 1955 the firm purchased as agent for customers a total of 5,175,932 shares of stock of the mining companies (at from about 10¢ to 65¢ per share) out of 17,000,000 shares outstanding. Various fraudulent representations were made by the assistant manager of the Berkeley office and other employees, including statements that the stock was the "hottest thing" the assistant manager had ever seen, that it was "going up tomorrow" and that "the sky was the limit." It was also represented to customers that U & I's uranium claims were worth from $50 to $100 million when in fact,

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on the basis of subsequent explorations, the highest valuation was about $40,000,000 as of February 1959, on which valuation U & I's interest would not be worth more than about $4,600,000. The assistant manager also failed to disclose to customers to whom he was recommending purchase of stock of the mining companies that he was at the same time selling shares of such stock which he owned (a total of 377,500 shares were so sold at a profit of about $100,000); and the execution of customers' buy orders was deliberately withheld until the market price of the stock had increased as a result of the inclusion, on request of the employees, of increasingly higher bids in the over-the-counter quotations then published by members of an exchange. The employees also participated in a publicity campaign which resulted in the publication of newspaper articles which were materially false and misleading. The west coast managing partner in San Francisco and the manager of the Berkeley office failed to exercise their duties of supervision over these activities.

Moreover, in addition to the foregoing violations, the Commission found that from September 1955 to December 1956 a salesman in Reynolds' Minneapolis office sold on his own account to the firm's customers and others, without any recording thereof on Reynolds' books, shares in a non-existent company; and in order to obtain funds to pay purported dividends on the stock and to cover losses in a commodity account which he maintained with Reynolds under a fictitious name, the salesman caused the firm's cashier to issue and give to him 10 checks amounting to over $9,900, payable to the order of various customers, which he appropriated to his own use after forging the endorsements of customers. The Commission observed that the practices engaged in by this salesman "would not have been permitted under an effective system of internal control and supervision."

In urging that no sanction be imposed, Reynolds called attention to the fact that it has dismissed all of the employees directly responsible for the fraudulent activities; that one of the branch managers had resigned by request; that the west coast managing partner has become a limited partner having no operating responsibilities; and that another partner and three other supervisors have been relieved of their supervisory responsibilities. The firm also has endeavored to settle on an equitable basis all claims of customers and, in addition to adjusting all unauthorized transactions in Chicago, has paid about $275,550 in such settlements, while its bonding company in Minneapolis has paid $13,608 to customers of that office. Reynolds also has established additional procedures for supervision and internal control in order to prevent any recurrence of the improper activities. The firm referred to the extensive publicity given to the institution of these proceedings and stated that it had sustained substantial losses of business as a result thereof; and it also advanced other mitigating circumstances.

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false representations to purchasers of Eshelman Motors stock with respect to the listing of the stock on an exchange, the market price and future price of the stock. It is also charged that in the sale of the Eshelman Motors stock they obtained unreasonable and excessive profits by inducing the purchase of such stock at prices far in excess of the contemporaneous cost of the shares to Fidelity and withholding information as to such cost.

Moreover, according to the order, Fidelity violated the Commission's record-keeping requirements, failed to send or give proper written confirmations of customers' transactions, and falsified a report stating that Fidelity had not done business with another broker and had acted only as broker in soliciting subscriptions for securities of an issuer, when in fact it effected transactions as principal with customers and other broker-dealers.

A hearing for the purpose of taking evidence on the foregoing will be held at a time and place later to be announced.

SEC COMPLAINT NAMES PRUDENTIAL OIL. The SEC Boston Regional Office announced May 20th (Lit. Release 1687) the filing of court action (USDC Conn.) seeking to enjoin Prudential Oil Corporation and Edward J. Willey from violating Securities Act registration requirements in sale interests in "Prudential Oil 1960 Drilling Fund."

DEADLY GAME CO. ORDER VACATED. The Securities and Exchange Commission has vacated its order of March 25, 1960, temporarily suspending a Regulation A exemption from registration under the Securities Act of 1933 with respect to an offering of securities by "The Deadly Game Company," 1674 Broadway, New York.

In a notification filed on April 8, 1959, the Wilkes-Manchester Productions and Emil Coleman, as "The Deadly Game Company," proposed the public offering of $100,000 of pre-formation limited partnership interests (with a provision for an involuntary overcall of 10% for an additional $10,000 of interests) pursuant to the conditional exemption from registration provided by Regulation A. The March 25th suspension order was based upon the company's failure to comply with a requirement of the regulation for the filing of semi-annual reports of the sale of securities pursuant to the exemption. Subsequently, a report was filed reflecting that $100,000 of securities had been sold as of December 20, 1959, and that the play had been produced, presented, and closed. No further offering is being made.

Accordingly, the Commission vacated its suspension order.

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