

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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STOP ORDER SUSPENDS NATIONAL SECURITY LIFE STATEMENT. In a decision and order announced today (Release 33-4638), the SEC suspended a Securities Act registration statement filed by National Security Life Insurance Company, an Indiana legal reserve stock insurance company. The statement, the disclosures in which the Commission found to be materially deficient, related to a proposed offering to shareholders of rights to purchase 73,300 common shares at \$2 per share at the rate of one share for each five shares held. The company consented to entry of the stop order.

According to the decision, a similar offering had been made by National to its shareholders in November 1960 pursuant to a claimed Regulation A exemption from Securities Act registration. Shortly thereafter, the Commission temporarily suspended the exemption on the grounds that terms and conditions of the Regulation were not complied with and that the notification and offering circular were materially false and misleading. By that time, the company had received subscriptions and payment for 43,919 of the 73,300 shares and had delivered certificates for 22,330 shares. The suspension became permanent in January 1961; and the company's registration statement under the Securities Act, which covered those same 73,300 shares, also included an offer of rescission to persons who had purchased shares under the Regulation A offering.

The Commission found that the statement is materially deficient in failing to properly disclose the circumstances surrounding a previous offering of 150,000 shares of National's stock, particularly that such stock had been offered and sold without registration under the Securities Act and by the use of materially misleading representations and manipulative activities, and that the company had incurred contingent liabilities in connection with such sales. As a part of such manipulative activities, the Commission found that while a partnership (known as Ewing L. Cox, Agent), formed by Richard A. Larson, president of the company, and Ewing L. Cox, secretary-treasurer, which had been given exclusive rights to distribute National's stock, was offering and selling such stock to the public at prices of \$5.50 to \$10 per share, Larson, Cox and Samuel B. Huffman, general counsel of National (as well as certain other officers and directors), were simultaneously purchasing, through said partnership and two affiliated concerns, some 14,257 shares of the stock in the over-the-counter market at substantially lower prices, ranging from \$3 to \$6.50 per share. The Commission found that said three persons organized certain stock clubs to provide funds for the purchase of and to purchase outstanding shares of National's stock in the lower-priced trading market while the said partnership was making a public offering at higher prices. The Commission observed that the purchases by these stock clubs, as well as another club, National Security Insurance Club, which has been operating since July 1961, served a dual purpose: to realize profits from the disparity between the purchase price and the public offering price of \$6.50 per share, and after the present registration statement was filed, to support the market price of National's stock so as to induce shareholders who had acquired additional unregistered stock through warrants offered at \$2 per share not to rescind such purchases, and to encourage shareholders to exercise their rights to purchase National's stock at \$2 per share if the present registration statement should become effective. The Commission ruled that the activities of said Insurance Club were coordinated with activities of other organizations under common control of said persons in carrying out a series of transactions in National's stock which were manipulative in character and such activity should have been disclosed.

Other items of disclosure found by the Commission to be materially deficient were (1) that the exemption from Securities Act registration covering certain intrastate offerings was not available to National as claimed, since at least three sales were made to non-residents of Indiana, (2) annual reports and other sales literature used in connection with the 150,000-share offering contained materially misleading representations to the effect that National's operations were successful and profitable (in fact National suffered a substantial loss in every year from 1956 through 1960 and its accumulated loss at the end of 1960 totaled \$626,857), (3) investors were not told that while they were being offered National's stock at from \$5.50 to \$10 per share, simultaneously there was an active over-the-counter market in which such stock was being traded at substantially lower prices, (4) the offer of rescission with respect to the sale of the 43,919 shares pursuant to the claimed Regulation A offering did not disclose whether it is applicable to all 43,919 shares or only to the 21,589 shares for which payment was received but certificates were not delivered, and that purchasers may have rights to rescind under the Act which are not subject to the 30-day limitation put on the rescission offer, and (5) the statement fails to state that escrowed funds of National intended to be used to satisfy obligations arising from the acceptance of the rescission offer are insufficient to satisfy all possible acceptances and that it might be necessary to use a substantial portion of the proceeds from the sale of shares covered by the registration statement to pay such obligations. Also, if purchasers of the prior 150,000-share offering seek to enforce their rights to rescission, National's operations might be seriously jeopardized and its reserve position substantially impaired, possibly to the point where it would be in violation of Illinois and Indiana insurance requirements.

The stop order has the effect of barring the further public offering of subject securities by National until the deficiencies are corrected by amendment to the satisfaction of the Commission and the stop order is lifted.

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REGISTRATION OF AMERICAN SECURITIES REVOKED. In a decision announced today (Release 34-7137), the SEC revoked the broker-dealer registration of American Securities Associates, Incorporated, 236 Hamm Building, St. Paul, Minnesota, for violations of the anti-fraud and certain other provisions of the Federal securities laws. William I. Davis, president, Howard V. O'Connell, Jr., former executive vice president, and Robert L. Baker, former treasurer, were each found a cause of the revocation order. The Commission ruled, however, that the findings with respect to O'Connell shall not affect his present status in the securities business.

In its decision, the Commission found that the firm, aided and abetted by one or all of said persons, violated the anti-fraud provisions of the Federal securities laws in that (1) in October 1959 the firm used an offering circular in the offer and sale of about 38,000 shares of its stock containing a balance sheet (prepared and "certified" by Baker in his capacity as treasurer) which was false and misleading in that it failed to disclose an indebtedness of Davis and his sister (then secretary of the firm) based on unsecured advances of \$14,253 to them, (2) failed to disclose the offer and sale by Davis, immediately prior to and during the public offering, of his personally-owned stock of the firm to insiders and others, generally at prices far below the public offering price as well as his sale to certain customers of his personally-owned stock at \$1 per share instead of stock ordered by the customers from the company, and (3) the income statement in the offering circular, covering the 5-month period ending in July 1959, overstated net income, such overstatement resulting from entries in three fictitious customers' accounts maintained by the firm (which transactions resulted in a net loss). The Commission found that in maintaining such fictitious accounts, falsely confirming transactions therein and confirming transactions with customers as agent when in fact it was acting as principal, the firm and Davis also violated the Commission's record-keeping requirements and the confirmation provisions of the Exchange Act. The Commission also found that the firm, aided and abetted by Davis and O'Connell during his association with it between August and December 1959, failed to promptly amend the company's registration application to report changes which occurred with respect to officers and principal stockholders as well as a change of business address.

In finding that Davis, Baker and O'Connell are each a cause of the revocation order, the Commission observed that although O'Connell had three years' experience as a state securities examiner and was a principal officer of the firm charged with the general management and supervision of its business, "Davis and Baker were the prime wrongdoers. The speed with which registrant's affairs disintegrated made it difficult for O'Connell, a newcomer to the firm at the time of these events, to act effectively, and he did make an effort with others to rehabilitate registrant and to reorganize its management." The Commission further observed that aside from these proceedings, O'Connell had not himself been the subject of prior disciplinary proceedings and concluded that its findings in this case should not affect his present status. Commissioner Whitney dissented from the majority opinion insofar as it makes findings of "cause" and "willful violator" as to O'Connell.

REGISTRATION OF CONTINENTAL BOND & SHARE REVOKED. In a decision announced today (Release 34-7135), the SEC revoked the broker-dealer registration of Continental Bond & Share Corporation, 1728 Springfield Ave., Maplewood, New Jersey, for violations the Commission's net capital and recordkeeping requirements. Jerry L. Gale and Sonya Ostrow, principal officers and sole stockholders of the firm, were each found a cause of the revocation order.

In its decision, the Commission found that in May 1961, the firm filed a report of its financial condition with the Commission which set forth a transaction in which Gale (or the firm) borrowed securities valued at \$12,000 from a customer as a subordinated loan to the firm; and it also furnished the Commission's staff with an original subordination agreement purportedly bearing the customer's signature. In fact, the Commission found, the customer had never signed the agreement or agreed to subordinate the loan to payment of the firm's other indebtedness. Moreover, the Commission found that the firm's ledger incorrectly reflected the purchase of 2,700 shares of stock of International Diode Corporation by the same customer on June 21, 1961 and the subsequent sale of the stock by the customer on July 3, 1961. In fact the customer had never purchased or sold the stock. The Commission also found that book entries showing an apparent elimination of a \$16,000 indebtedness to a bank as of November 28, 1961 were incorrect by virtue of the fact that the loan was not repaid until December 4, 1961 and resulted in an understatement of the firm's liabilities as of the November date. Moreover, 4,920 shares of Diode stock which were furnished the bank as security for the loan were not returned to the firm until after the loan was repaid on December 4, whereas the firm's books incorrectly showed that the stock had been returned on September 29, 1961.

MINING EXCHANGE REQUEST DENIED. In a decision announced today (Release 34-7136), the SEC denied a request by the San Francisco Mining Exchange for a rehearing with respect to its decision of July 31, 1963 which affirmed an earlier ruling of the Hearing Examiner refusing to issue a subpoena duces tecum requested by the Exchange to be directed to the Secretary of the Commission requiring him to produce certain staff papers "in order to conduct an evidentiary hearing to discover whether or not there exists evidence sufficient to justify a formal charge of bias and prejudice" on the part of the Commission. The Commission ruled that the Exchange's contentions are not essentially different from those presented to it previously and which the Commission has already considered.

ELECTRIC BOND AND SHARE SEEKS ORDER. Electric Bond and Share Company, New York registered investment company, and Escambia Chemical Corporation, of New York, have applied to the SEC for an order under the Investment Company Act authorizing the proposed redemption and exchange of certain securities of Escambia held by Bond and Share; and the Commission has issued an order (Release IC-3760) giving interested persons until September 24, 1963 to request a hearing thereon. Escambia has outstanding \$8,125,500 of 4% notes due 1966, \$10,000,000 of 5½% convertible notes due 1967 and 10,150 common shares, all (except for 150 common shares) are owned by Bond and Share. Escambia is engaged in a construction program estimated at \$7,400,000, of which \$3,000,000 must be supplied by raising of new capital; and in order to raise new capital and to