

# 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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**SEC ADOPTS NEW RECORD KEEPING RULES FOR INVESTMENT COMPANIES.** The SEC today announced the amendment of Rules 31a-1 and 31a-2 and the adoption of a new Rule 31a-3 under the Investment Company Act (Release IC-3578), relating to records to be maintained and preserved by registered investment companies, certain majority-owned subsidiaries thereof, and other persons having transactions with registered investment companies. The amended and new rules will become effective January 1, 1963.

Rule 31a-1 as now in effect prescribes in general terms the accounts, books, and other documents required of every registered investment company and certain of the persons enumerated in Section 31(a) of the Act, as well as the required periods of time the various records shall be kept by them. Rule 31a-2 as now in effect prescribes, also in general terms, the record-keeping requirements of other persons enumerated in Section 31(a), together with the minimum periods of retention thereof.

As a result of its experience derived from inspections of investment companies, it appears to the Commission that its existing rules regarding the records to be maintained and preserved by registered investment companies, certain majority-owned subsidiaries thereof, and other persons having transactions with registered investment companies lack sufficient specificity and detail. Accordingly, the Commission deems it to be in the public interest and in the interest of investors to amend the existing Rules 31a-1 and 31a-2 by prescribing, with greater specificity and detail, the records required to be kept of securities transactions and by prescribing the keeping of certain memoranda and documents not previously required. The Commission's new rule 31a-3 sets forth certain requirements in circumstances where the records which are required to be maintained and preserved pursuant to the provisions of Rules 31a-1 and 31a-2 are prepared or maintained by others on behalf of the persons required to maintain and preserve such records.

**SEC ORDER CITES AMERICAN TRAILER RENTALS.** The SEC has ordered proceedings under the Securities Act of 1933 which question the accuracy and adequacy of informational disclosures contained in a registration statement filed by American Trailer Rentals Company (ATR), 1123 Delaware Street, Denver, Colo. A hearing has been ordered to take evidence with respect to the alleged deficiencies in the statement, for the purpose of determining whether the questioned disclosures are false and misleading and, if so, whether a "stop order" should be issued suspending the statement. The hearing is scheduled for December 10, 1962, in the Commission's Denver Regional Office; and it has been consolidated with the hearing (previously scheduled for December 5) to determine whether a prior order of the Commission temporarily suspending a Regulation A exemption from registration with respect to a proposed stock offering by Capitol Leasing Corporation, Denver affiliate of ATR, should be vacated or made permanent (Securities Act Release No. 4543).

According to ATR's prospectus the company proposes the public offering of \$4,000,000 of Fleet Participation Contracts and \$2,000,000 of Trailer Investment Contracts. Under the terms of the contracts, the public investor purchases the trailer and leases it back to ATR, which is responsible for providing management, operational and accounting services for the owner of trailers and the renting of such trailers to the public for either local use or one way trips throughout the United States. Fleet Participation Contracts provide that the trailer owner will participate proportionally in 35% of the monthly rental income of the fleet trailers, after payment of fleet operational expenses. Trailer Investment Contracts provide that the trailer owner will be paid each month 1 1/2% of the cost of his contract, irrespective of the rental income produced by such trailers.

Among the items of disclosure challenged by the Commission are the following: (a) The adequacy and accuracy of the statements made concerning the speculative nature of the securities being offered, in view of the inability of ATR to meet its obligations under presently outstanding trailer investment contracts from trailer rental income; (b) the history of ATR and the hazards of the enterprise, in view of the failure to disclose (1) the sale of trailer purchase and lease agreements to the public at prices in excess of the cost of the trailers to the registrant and the use of such excess payments as a source of funds to meet contractual obligations for payments to purchasers of trailer purchase and lease agreements, (2) the inadequacy of rental proceeds to defray operating costs as well as contractual obligations under lease agreements, and (3) the extensive amount of losses sustained by ATR and the reason therefor; (c) the extent of ATR's liability under the Securities Act for past sales of unregistered securities; (d) the contemplated use of proceeds to make payments on contractual obligations previously incurred and to be incurred through this offering; (e) the inability of Alexander Grant & Company, ATR's independent accountants, to express an over-all opinion as to the Combined Statement of Operations due to the inadequacy of ATR's accounting records; (f) the business and history of the company, including the character, organization and location of ATR's trailers and rental outlets; (g) the failure to disclose ATR's inadequate maintenance facilities; (h) the various and sundry defects in its trailer fleet; (i) the financial condition of its exclusive manufacturer, De Mar, Inc. in view of that company's bankruptcy in April, 1962; (j) the use by one or more of ATR's promoters of funds obtained from the public for other than corporate business; (k) the affiliation between ATR and De Mar, Inc.; (l) the failure to disclose that I. H. Peters, an officer and director of ATR, was a director, stockholder and sales representative of De Mar, Inc. and that W. N. Marks was a director of ATR and an officer and director of Executive Sales; (m) the amount of the interest of officers and directors of ATR in trailer sales on its behalf; (n) the circumstances under which I. H. Peters and W. N. Marks acquired their positions with ATR and Executive Sales; and (o) the arrangement by which four of ATR's ten directors listed in the prospectus were elected to office. (NOTE TO PRESS. Copies of foregoing also available in SEC Denver Regional Office.)

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**VIOLATIONS CHARGED TO PREFERRED SECURITIES OF PHOENIX.** The SEC has ordered proceedings under the Securities Exchange Act of 1934 to determine whether Preferred Securities, Inc., 3033 North Central Ave., Phoenix, Ariz., engaged in practices which operated as a "fraud and deceit" upon investors in violation of the anti-fraud and anti-manipulative provisions of the Federal securities laws and, if so, whether its broker-dealer registration should be revoked.

The said company ("registrant") has been registered with the Commission as a broker-dealer since July 30, 1960. William M. Liddon is president and sole stockholder. According to the order, in June 1961 Space Technology and Research Corporation, a Colorado company, filed a notification under Regulation A of the Securities Act covering a proposed offering of 300,000 common shares at \$1 per share and naming Henry Fricke Co., of New York, as underwriter. A subsequent report of stock sales stated that the offering was completed on August 4, 1961 and that Preferred Securities Corp (sic) and McRae Securities Corporation participated in the distribution of such stock during the period covered by the report. In its order, the Commission recites charges of its staff that information developed in an investigation tends to show that in the offer and sale of Space Technology stock from July 1961 to January 1962, registrant and Liddon engaged in manipulative and deceptive practices, made false and misleading representations and otherwise engaged in a "course of business which would and did operate as a fraud and deceit" upon investors in violation of the anti-fraud and anti-manipulative provisions of the Federal securities laws.

The staff charges that registrant and Liddon purchased from McRae Securities and Henry Fricke Co. an aggregate of 40,000 shares of Space Technology stock at a 10% discount from the \$1 per share offering price, and thereafter sold 26,950 of such shares at \$1 per share to certain persons, including 20,000 shares to one Jack Karsh. In addition, it is charged that registrant and Liddon also sold 5,000 shares to Marvel Enterprises and 7,000 shares to Liddon Realty, Inc. at \$1 per share, which companies are owned in whole or in part by Liddon. Subsequently, it is asserted, they repurchased Space Technology stock at prices in excess of \$1 per share from the two companies and others without receiving payment for such shares by them, and repurchased 5,000 shares from Jack Karsh at prices in excess of the offering price. They then are alleged to have sold the shares reacquired from Marvel, Liddon Realty and Karsh to the public at prices in excess of the offering price. The staff further charges that thereafter, at a time when the two named companies did not have sufficient funds to pay for their purchases of the 12,000 shares, registrant and Liddon paid the companies \$1.05 per share in order to provide them with sufficient funds to pay for their purchases at \$1 per share. In the public offering of the shares, it is alleged, false and misleading representations were made concerning the plan of distribution and offering price of the securities as well as omissions to state that the stock sale violated the registration requirements of the Securities Act and resulted in contingent liabilities.

**CENTRAL AND SOUTH WEST RECEIVES ORDER.** The SEC has issued an order under the Holding Company Act (Release 35-14753) authorizing a capital contribution by Central and South West Corporation, Wilmington registered holding company, to its utility subsidiary, Public Service Company of Oklahoma, of 100 shares (100%) of capital stock of Transok Pipe Line Company.

**GREAT LAKES INSURANCE FILES FOR STOCK OFFERING.** Great Lakes Insurance Corporation of Wisconsin, 2715 West Wisconsin Avenue, Milwaukee, filed a registration statement (File 2-20909) with the SEC on November 25th seeking registration of 3,000,000 shares of common stock, to be offered primarily to certain selected insurance agents and agencies who will sell the company's policies. No underwriting is involved.

The company is engaged in writing high-risk automobile insurance only in Wisconsin. It is licensed in Wisconsin and Georgia and negotiations are said to be underway for licensing in three additional states. The net proceeds from the stock sale will be added to working capital in order to meet the requirements of the states in which the company plans to do business. The company has outstanding 1,000,000 shares of common stock, of which Great Lakes Management Company, Inc. owns 30% and management officials as a group 12.4%. Harry W. Kaminsky is president, and Edward E. Kaminsky is first vice president of the company and president of Great Lakes Management. According to the prospectus, all of the company's outstanding stock was sold to Wisconsin residents in December 1961 under a Wisconsin registration, and the company "does not believe that any resales have been made in the interstate commerce, while the sale of the original issued shares was still in progress." The prospectus states, however, that there may be a contingent liability on the part of the company in connection with this original issue under the Securities Act of 1933.

**AVNET ELECTRONICS SHARES IN REGISTRATION.** Avnet Electronics Corp., 70 State Street, Westbury, L. I. N. Y., filed a registration statement (File 2-20912) with the SEC on November 27th seeking registration of 176,059 outstanding shares of common stock (recently issued in connection with the company's acquisition of stock or assets of present subsidiaries), to be offered for public sale by the holders thereof from time to time in the over-the-counter market at prices prevailing thereon at the time of sale (maximum \$25 per share\*). The statement also includes (1) 6,750 shares underlying warrants (recently assumed by the company in connection with its acquisition of the business and most of the assets of the former Hamilton Electro Corp.), to be offered for public sale by the holders thereof in a like manner as the 176,059 outstanding shares, (2) 750,000 common shares to be issued by the company from time to time in connection with the acquisition of other companies, (3) 176,915 common shares previously issued or to be offered pursuant to stock option plans, and (4) 262 common shares to be offered by the company to holders of the remaining 525 Class A shares of Pitt Products Limited (not previously acquired by the company) pursuant to the company's offer to exchange one share for each two shares of Pitt.

The company is engaged in the business of assembling, processing and marketing an extensive line of electrical connectors and in marketing transistors, diodes, capacitors and other items related to the electronics, communications, aircraft, missile, utility and business machine industries. During the past two years the company has engaged in a program of expansion and diversification, having acquired, in exchange for cash and an aggregate of 1,314,861 common shares, seven companies. Robert H. Avnet, board chairman, owns 291,786 shares (10.6%) of the company's outstanding common stock and management officials as a

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group 871,611 shares. In addition, The Avnet family as a group (including trustees, an executor and custodians) owns 868,696 shares. Lester Avnet is president.

**NATIONAL SECURITY LIFE PROPOSES RIGHTS OFFERING.** National Security Life Insurance Co., Inc., 6225 University Ave., Madison, Wisc., filed a registration statement (File 2-20916) with the SEC on November 28th seeking registration of 590,075 shares of common stock. It is proposed to offer such stock for subscription by common stockholders of record on October 15, 1962, on a share for share basis. The subscription price (maximum \$2 per share\*) is to be supplied by amendment. Unsubscribed shares are to be offered for public sale at the subscription price by the company or by securities dealers who will be paid a 10% selling commission.

Organized in 1961, the company writes participating and non-participating ordinary life insurance, accepting substandard risks with special premiums determined by its reinsurer. The net proceeds from the stock sale will be used to expand operations and make possible the retention of a larger portion of the business written. The company has outstanding 590,075 shares of common stock, of which management officials as a group own 24,100 shares. Carlos L. Deal is board chairman and president. According to the prospectus, the company sold 580,075 shares in March 1962 at \$1 per share to Wisconsin residents, and issued an aggregate of 10,000 shares at \$1 per share to two agency managers in settlement of options previously granted. The prospectus states that possible contingent liabilities may arise with respect to the sale of such shares because they were not registered with the Commission under the Securities Act of 1933. The prospectus also indicates that the company has operated at a loss since its incorporation and expects to continue to operate at a loss during the first few years.

**AMERICAN MOTORS FILES STOCK PLANS.** American Motors Corporation, 14250 Plymouth Road, Detroit, filed a registration statement (File 2-20915) with the SEC on November 27th seeking registration of 933,558 shares of capital stock, to be offered pursuant to its 1954, 1958 and 1961 Stock Option Plans.

**NATIONAL FUEL GAS SEEKS ORDER.** National Fuel Gas Company, New York registered holding company, and its subsidiaries, Empire Gas and Fuel Company, Limited, and Empire Gas Appliance Corporation, have applied to the SEC for an order under the Holding Company Act authorizing Empire Gas and Fuel to acquire for cash all of the assets of Empire Gas Appliance; and the Commission has issued an order (Release 35-14754) giving interested persons until December 20, 1962 to request a hearing thereon. According to the application, Empire Gas and Fuel owns all of the outstanding securities of Empire Gas Appliance and proposes to acquire its assets (which at September 30, 1962 amounted to \$186,718) and assume its liabilities (of \$6,328). Empire Gas Appliance proposes to declare a liquidating dividend in exchange for its outstanding shares of capital stock and dissolve.

**SEC COMPLAINT NAMES BANNER SECURITIES, OTHERS.** The SEC New York Regional Office announced November 27th (LR-2439) the filing of a complaint (USDC, Brooklyn, N.Y.) seeking to enjoin violations of the Securities Act registration and anti-fraud provisions by Banner Securities, Inc., of Kew Gardens, N. Y., in the offer and sale of stock of Micro-Metals Corporation of Passaic, N. J. Additional defendants are Frank Ebner (of Valley Stream, N.Y.), president, and nine salesmen of Banner Securities, United National Labs, Inc., of Passaic, and its vice-president, Philip L. Bornstein, of Glen Rock, N. J., who is also president of Micro-Metals.

**U.S. MANAGEMENT, OTHER ENJOINED.** The SEC Denver Regional Office announced November 23d (LR-2440) the entry of a Federal court order (USDC, Cheyenne, Wyo.) permanently enjoining United States Management Corp., of Dallas, a Texas corporation, Frank E. Huggins (Dallas) and Leonard J. Tillotson (Ogden, U.) from further violations of the Securities Act registration and anti-fraud provisions in the sale of an investment contract involving profits from sale of a book entitled "Own a Business in America's Future." The company and Huggins consented to the injunction; and a default judgment was entered against Tillotson.

**SECURITIES ACT REGISTRATIONS.** Effective November 27: Paul Hardeman, Inc. (File 2-20713).  
Effective November 28: Newconn Associates (File 2-20371); Orbit Stores, Inc. (File 2-20426).  
Withdrawn November 27: ADR's of Hitachi, Ltd. (File 2-17482).

\*As estimated for purposes of computing the registration fee.

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