

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 ANNUAL REPORT FILED WITH CONGRESS

The Securities and Exchange Commission today announced the delivery to Congress of the Commission's 24th Annual Report, for the fiscal year ended June 30, 1958.

The report calls attention to the continuing unparalleled surge of interest and activity in the securities markets which have produced enforcement problems "of the first magnitude" for the Commission. Despite recent fluctuations in business volume, the dollar amount of new securities for which registration statements were filed during the fiscal year reached a new high of \$16.5 billion. This compares with \$7.5 billion of new financing during fiscal 1953 and \$6.4 billion in fiscal 1948. The aggregate market value of all stocks on all exchanges, which never exceeded \$100 billion between 1933 and 1945, was \$250 billion at June 30, 1956, \$262 billion at June 30, 1957, and \$258 billion at June 30, 1958. The volume of exchange trading in securities exceeded \$32 billion during the last fiscal year.

With this high level of market activity in securities, "a fringe element of confidence men" has been attracted into the securities field "to take whatever advantage they can of the American public," the report states. "The operations of these confidence men have been encouraged by the expectations of a substantial segment of the public that it is possible for the unsophisticated investor to reap large and quick profits in the securities markets. Uninformed investors are often willing to purchase unknown and speculative securities which are represented as offering unusual opportunities for gain."

Opportunities for "illicit profit" by the illegal or fraudulent sale of securities have multiplied, the report continued, and inevitably the number, resources and ingenuity of violators seeking to capitalize upon these opportunities have likewise multiplied, all of which have combined to increase the Commission's job of law enforcement.

Among the problems of law enforcement which have faced the Commission is the so-called "boiler room" firm which engages in the sale of securities, primarily over the long-distance telephone, by means of high pressure methods ordinarily accompanied by misrepresentation, deception and fraud. While most of the large "boiler room" firms have disappeared under the pressures of SEC law enforcement, they have been replaced in part by smaller firms which spring up suddenly, sell one or two spurious issues quickly and then disperse, their fraudulent purpose accomplished. They also have shown a tendency to operate not only in the large financial centers but also in other locations around the country; and there has been a noticeable increase in migratory operators moving from state to state, particularly in the Western part of the country.

These methods of operation have made speed and alertness on the part of the Commission and its staff essential to law enforcement, and the Commission has utilized all available enforcement techniques to meet the problem. Resort to administrative proceedings to revoke broker-dealer registrations and court action to enjoin the fraudulent sale of securities "is not completely effective in halting the operations of 'boiler rooms,'" and the Commission stated it will continue to press for criminal prosecution where necessary to stop effectively this "cancerous diffusion."

OVER

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Another problem discussed in the report concerns the sale of "a substantial but undetermined number of securities" in violation of the registration, prospectus and anti-fraud provisions of the Securities Act. Some of these sales have been made under a questionable claim of exemption from registration, either on the basis of a "private offering" or "intrastate" exemption, to avoid making the disclosures which registration would provide; and the Commission ordinarily learns of such offerings after they have commenced and has no means of ascertaining whether or not the exemption is available except by initiating an investigation. Measures for remedying this situation are now under consideration, some of which may involve legislative proposals to the 86th Congress.

One of the problems confronting the Commission in this area of administration involves the sale of an increasingly large number of securities claimed to have been issued pursuant to these exemptions which have been transferred to United States citizens through Canadian, Swiss, Lichtenstein and other foreign financial institutions. It is difficult in these situations for the Commission to establish the facts as to the source of the securities in question and, in turn, the availability of an exemption, particularly where the laws of a particular foreign country preclude disclosure of the pertinent information; and there is reason to believe that in many instances these channels are utilized for the deliberate purpose of complicating or frustrating the Commission's enforcement effort "although there is no evidence of complicity on the part of foreign banks which may be involved." To cope with illegal distributions made through the use of such foreign devices, the Commission recently proposed (and is now considering industry comments upon) a rule which would require brokers and dealers to report orders received from non-residents to purchase a significant amount of a security as well as purchases of a significant amount of a security from a foreign source, if the purchase is made for the account of any other person who, to the knowledge of the broker-or dealer, proposes to sell or is selling the securities in the United States.

Another problem reviewed by the Commission in its report relates to the evasion of the Securities Act registration requirements in connection with corporate mergers, consolidations, reclassifications of securities and acquisitions of corporate assets. Under the so-called "no-sale" theory of SEC Rule 133 certain of these transactions are not deemed to constitute a "sale" of securities to stockholders of corporate parties to the transaction, and the rule has the effect of exempting issues of securities in these transactions from the registration requirements. But, according to the report, a substantial number of transactions of this type ostensibly entered into under the rule may, in fact, involve violations of the registration requirements. The Commission considers that Rule 133 provides no exemption from registration with respect to any public distribution of securities received in such a transaction by a security holder who may be deemed to be a statutory underwriter; and it currently has under consideration a proposal for revision of the rule designed to restate its purpose and effect and to clarify its application and limitations.

The report notes an increase in the sale of promotional stocks of new ventures, particularly in fields in which the securities of established enterprises have shown marked gains. Among these are new insurance and finance ventures, particularly in the South Central, Southwestern and Southeastern parts of the country. In a number of these promotions sales techniques have been employed which have involved abuses and violations of the anti-fraud and other provisions of the Federal securities laws; and in a substantial number of others there appear to be possible violations which require extensive investigation.

With the increasing tempo of activities in the securities markets, the Commission also has noted a growing number of instances of unusual and unexplained market activities in particular securities, suggesting possible market manipulation. In some of these cases a preliminary investigation has revealed no violations of law, while in others the Commission has found it necessary to obtain a court injunction or recommend criminal prosecution. The Commission is much concerned with the increase in manipulative activities and it is expected that it will be required to devote more of its enforcement effort to this area.

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DIVERSIFIED, INC., PROPOSES OFFERING

Diversified, Inc., 500 Monroe St., Amarillo, Texas, filed a registration statement (File 2-14662) with the SEC on January 6, 1959, seeking registration of 300,000 shares of its 50¢ par Common Stock. The shares are to be offered for public sale at \$3 per share. The offering is to be made by Investment Service Company, of Denver, on a "best efforts" basis, for which the underwriter will receive a selling commission of \$0.525 per share, plus certain additional amounts for expenses.

Diversified, Inc., was organized under Texas law on July 18, 1955, to engage in the business of purchasing, improving and developing real estate, and to generally engage in the business of lending money. During its initial stages it acted exclusively as a real estate development company in purchasing tracts of unimproved property in and about Amarillo, and developing and improving said property for real estate sites for sale to the public. The company at this time proposes to expand its real estate development program in purchasing other unimproved property which is deemed meritorious for such purposes, develop the property it now has, and in general engage in the consumer finance field by the organization or acquisition of subsidiary companies to effectuate this purpose.

The company now has outstanding 695,000 shares of no par common stock, of which 42.03% is held by its officers and directors. An additional 95,802 shares are reserved for issuance to two officers and directors and one other person upon the payment of promissory notes held by the company and made by these persons in the amount of \$55,862.65. The prospectus lists Tom Cannon as president.

None of the 50¢ par shares is now outstanding. Of the net proceeds of the sale of the new shares, \$375,000 is to be used for acquisition of undeveloped real estate and \$275,000 for organization or acquisition of consumer finance business, the balance to be used for working capital and certain expenses incurred in connection with the offering.

WEY-DO MANUFACTURING HEARING REQUEST GRANTED

At the request of Wey-Do Manufacturing Co., Inc., 40 Remsen St., Brooklyn, New York, the Securities and Exchange Commission has ordered a hearing on the question whether to vacate, or make permanent, its order of November 21, 1958, temporarily suspending a Regulation A exemption from registration under the Securities Act of 1933 with respect to a public stock offering by Wey-Do.

Wey-Do filed a notification with the Commission on August 16, 1957, proposing the public offering of 1,000 common shares at \$50 per share pursuant to the conditional exemption from registration provided by Regulation A. In its order of November 21, 1958, temporarily suspending the exemption from registration, the Commission asserted that Wey-Do had failed to comply with certain terms and conditions of the Regulation; that its offering circular fails to disclose certain material facts; and that its use in the offering and sale of Wey-Do stock would violate the anti-fraud provisions of the Securities Act (See Release No. 3997).

At the hearing, scheduled for February 5, 1959, in the Commission's New York Regional Office, inquiry will be conducted into the foregoing matters for the purpose of determining whether the suspension order should be vacated or made permanent.

SPECIAL HEARING ORDERED IN NEWMAN ASSOCIATES CASE

The Securities and Exchange Commission has scheduled a hearing to be held before the Commission on January 12, 1959, at 2:30 P.M., to determine whether it is necessary or appropriate in the public interest or for the protection of investors to suspend the broker-dealer registration of Philip Newman Associates, Inc., 671 Broad Street, Newark, N.J., pending a hearing and decision on the question whether to revoke such registration.

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In its order of December 31, 1958, authorizing proceedings on the question of revocation of Associates' broker-dealer registration, the Commission asserted that information developed in an investigation conducted by its staff tends, if true, to show that Associates, together with three of its officers and eleven of its salesmen, wilfully violated the registration and anti-fraud provisions of the Securities Act of 1933 in the offer and sale of common capital stock of Monarch Asbestos Company, Limited, during the last three months of 1958 (See Release No. 5851). The officers named were Marguerite P. Wagner, a director; George H. Wagner, president, and Daniel Mintzer, secretary-treasurer.

The Commission also has amended its December 31, 1958, order to charge that Associates and the three officers failed and refused to make the company's books and records available for examination by Commission representatives, thus wilfully violating Section 17(a) of the Securities Exchange Act of 1934.

NORTHWEST NATURAL GAS FILES FOR BOND OFFERING

Northwest Natural Gas Company, 920 S. W. Sixth Ave., Portland, Ore., today filed a registration statement (File 2-14663) with the SEC seeking registration of \$7,000,000 of First Mortgage Bonds, Series due 1984, to be offered for public sale through an underwriting group headed by Lehman Brothers. The interest rate, public offering price and underwriting terms are to be supplied by amendment.

Net proceeds of the sale of the bonds will be used for partial payment of bank loans aggregating \$8,000,000. According to the prospectus, construction expenditures for 1959 are estimated at \$5,000,000. The company expects to finance this construction program with bank loans, cash on hand and cash to be generated from operations.

AVCO MANUFACTURING PROPOSES RIGHTS OFFERING OF DEBENTURES

Avco Manufacturing Corporation, 750 Third Avenue, New York, New York, today filed a registration statement (File 2-14664) with the SEC seeking registration of \$15,000,000 of Convertible Subordinated Debentures, due February 1, 1979. The company proposes to offer the debentures for subscription by stockholders. The basis of the offering, as well as the interest rate, record date, subscription price and underwriting terms is to be supplied by amendment. Lehman Brothers and Emanuel, Deetjen & Co. are listed as the principal underwriters.

The net proceeds will be used to reduce short term bank loans incurred by the Company to provide a portion of the funds for the construction and equipment of the Avco Research Center on which the Company has expended approximately \$16,000,000 to date and anticipates the expenditure of approximately an additional \$1,000,000. Such use of the proceeds will result in replenishing the Company's working capital and place the Company in a better position to expand its operations.

TRANSCONTINENTAL GAS PIPE LINE FILES FOR BOND OFFERING

Transcontinental Gas Pipe Line Corporation, 3100 Travis Street, Houston, today filed a registration statement (File 2-14666) with the SEC seeking registration of \$35,000,000 of First Mortgage Pipe Line Bonds, Series due 1979, to be offered for public sale through an underwriting group headed by White, Weld & Co., and Stone & Webster Securities Corporation. The interest rate, public offering price and underwriting terms are to be supplied by amendment.

Net proceeds of the sale of the bonds are to be used for property additions and improvements and/or to reduce outstanding notes under the company's Revolving Credit Agreement. The company's current construction program is estimated at \$165,700,000.