

# SECURITIES AND EXCHANGE COMMISSION

# NEWS DIGEST



A brief summary of financial proposals filed with and actions by the S.E.C.

Washington 25, D.C.

April 26, 1957

FOR RELEASE

Securities Exchange Act Release No. 3780

The SEC today announced the issuance of a decision making effective an amended registration statement filed by Automation Shares, Inc., newly organized Washington investment company, and dismissing proceedings on the question whether a stop order should be issued suspending effectiveness of the registration statement for failure to comply with the disclosure requirements of the Securities Act of 1933.

The Automation Shares registration statement became effective on January 29, 1957. It proposed the public offering of 289,250 shares of capital stock at \$10 per share plus a sales commission based on a percentage of the offering price. The promoter, manager and principal underwriter of the securities is Automation Shares Management Corporation. In stop order proceedings authorized under date of February 5, 1957, the Commission challenged the accuracy of the registration statement by reason of its failure to disclose certain agreements and arrangements which affected the initial capital required under the Investment Company Act of 1940 as a condition to the making of a public offering of Automation Shares stock.

In the registration statement, it was stated that Automation Shares held subscriptions for a total of 10,750 shares of stock which, when paid in, would provide initial assets of \$107,500 in cash, and that no public offering of shares would be commenced until at least \$105,000 of the subscriptions had been paid in cash. After naming the persons who would own 5% or more of the initial issue, the prospectus stated: "The Fund has no further contracts or other arrangements with any of the above-mentioned persons . . ."

However, according to the Commission's decision, there was a failure to disclose certain information, as follows: In order to obtain \$60,000 of the initial \$100,000 of required capital, the Management Corporation entered into an agreement with two of the initial subscribers for 6,000 shares under which each of the two subscribers agreed to subscribe for 50 shares of the Management Corporation's stock at \$100 per share and each was given an option to subscribe for an additional 50 shares of such stock at the same price. The Management Corporation agreed to pay interest at 2% per month on their \$60,000 investment in Automation Shares stock and to indemnify them against loss upon the redemption of their holdings of that stock. As further consideration, the Management Corporation agreed to maintain a deposit of its funds with a savings and loan association of which the two subscribers were officers and to cause their election to the board of directors of Management Corporation. Under the agreement, also, the Management Corporation could require each of these subscribers to redeem all or part of his shares of Automation Shares stock if the net worth of the latter would not thereby be reduced below \$125,000; and their subscription for 100 shares of Management Corporation's stock was to be paid for out of the first \$10,000 received from redemption of Automation Shares stock, and they could exercise their option for an additional 100 shares of Management Corporation stock only by using the proceeds received upon their redemption of additional shares of Automation Shares stock

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To raise an additional \$26,500 of needed capital of Automation Shares, the Management Corporation entered into agreements with some of its own promoters and other subscribers under which such persons subscribed for \$26,500 of Automation Shares stock on the expectation that such stock would be later redeemed and the proceeds used to pay for subscriptions for a like amount of Management Corporation stock. Such redemption was not to be made until such time as the net worth of Automation Shares after such redemption would be \$250,000.

These agreements, the Commission held, violated the net-worth requirements of the Investment Company Act. The principal purpose of those requirements is to require the promoters of a new investment company to invest \$100,000 of their own funds in the enterprise (or to obtain such funds from a small group of responsible persons who have confidence in the promoters) before inviting the investing public at large to entrust its funds in the care of the company's management. "The objective of this provision would be thwarted," the Commission stated, "if the initial \$100,000 of net worth is loaned or advanced as a temporary accommodation, as was attempted to be done in this case. The \$100,000 of net worth . . . must be provided by shareholders with a bona fide investment purpose without any present intention to dispose of the investment. There was no such investment purpose here."

The omission of information regarding these arrangements "rendered the prospectus materially misleading," the Commission concluded. However, subsequent to the institution of the stop order proceedings, the registration statement and prospectus were amended; all subscriptions for Automation Shares stock have been cancelled; the company has no shares or subscriptions for shares outstanding; and the arrangements have been cancelled. Automation Shares now proposes to make a public offering to obtain the initial required net worth of \$100,000 from no more than 25 persons; and the amended registration statement appears not to be incomplete or inaccurate in any material respect and appears to disclose the requisite information.

In view of these and other extenuating circumstances, including the fact that company counsel brought the undisclosed facts to the Commission's attention and cooperated fully in expediting these proceedings, the Commission in the exercise of its discretion determined to consider the amendments filed, to order them effective, and to dismiss the proceedings.

#### Securities Exchange Act Release No. 5505

The Securities and Exchange Commission has ordered proceedings under the Securities Exchange Act of 1934 to determine whether the broker-dealer registration of Carl J. Bliedung, of Washington, D. C., should be revoked for alleged failure to comply with the Commission's bookkeeping requirements. A hearing therein is scheduled for May 13, 1957, in the Commission's Washington Office; and the hearing also will concern itself with the question whether Bliedung should be suspended or expelled from membership in the National Association of Securities Dealers, Inc.

Bliedung, a sole proprietor, became registered with the Commission on July 2, 1948. In its order, the Commission asserts that information developed in an investigation conducted by its staff tends to show that, during the period August 31, 1951, to date, Bliedung did not make and keep current certain books and records relating to the conduct of his securities business, as required by rules of the Commission. Among these are blotters or other records of original entry containing an itemized daily record of purchases and sales of securities, receipts and deliveries of securities, and receipts and disbursements of cash and other debits and credits; ledgers or other records reflecting all assets and liabilities, income, expense, and capital accounts; ledger accounts or other records itemizing separately as to each cash and margin account of every customer, all purchases, sales, receipts and deliveries of securities for such account and all other debits and credits to such account; a memorandum of each brokerage order received or given reflecting the details with reference to instructions and execution of the order, together with the time of entry and of execution or cancellation; and a memorandum of each purchase or sale of securities for the account of Bliedung showing the price and the time of execution.

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At the hearing, inquiry will be conducted for the purpose of determining whether the foregoing information is true and, if so, whether Bliedung has wilfully violated the bookkeeping rules of the Commission and whether his broker-dealer registration should be revoked and/or whether he should be suspended or expelled from NASD membership.

Securities Act Release No. 3781

The Securities and Exchange Commission has issued an order temporarily suspending a Regulation A exemption from registration under the Securities Act of 1933 with respect to a public offering of securities by Electronic Micro-Ledger Accounting Corporation ("Electronic"), of Boston, Mass. The order provides an opportunity for hearing, upon request, on the question whether the suspension should be vacated or made permanent.

Electronic filed its Regulation A notification on September 28, 1955, proposing the public offering of 299,810 shares of its common stock at \$1 per share (149,000 to the public and 150,810 to existing stockholders).

In its suspension order, the Commission asserts that it has reasonable cause to believe that the company's offering circular and other sales literature is false and misleading and that their use in connection with the offering and sale of Electronic stock "would and did operate as a fraud and deceit" upon the purchasers thereof. More particularly, the order challenges the accuracy and adequacy of the representations with respect to (1) Electronic's license agreement with Central Records, Inc., (2) the market price for its stock, (3) the use to be made of the proceeds of the offering, and (4) Electronic's proposed operations and plans. The offering circular, according to the order, fails to disclose modifications in the licensing agreement between Electronic and Central Records, Inc., as well as changes in Electronic's plans, proposed operations and obligations resulting from the modifications of said agreement.

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Washington Gas Light Company, Washington, D. C., filed a registration statement (File 2-13281) with the SEC on April 25, 1957, seeking registration of \$8,000,000 of Refunding Mortgage Bonds, Series due 1982, to be offered for public sale at competitive bidding. Net proceeds of this financing will be added to the general funds of the company and be used for such corporate purposes as the management may determine. From its general funds, the company expects, among other things, to provide for part of its current construction program and to retire \$205,000 of long-term debt by December 1, 1957. Construction expenditures for 1957 are presently estimated at \$12,100,000.

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Community Public Service Company, Fort Worth, Texas, filed a registration statement (File 2-13282) with the SEC on April 26, 1957, seeking registration of \$3,000,000 of First Mortgage Bonds, Series E, due 1987, to be offered for public sale at competitive bidding. Net proceeds will be used to pay bank loans (which are expected to aggregate \$2,500,000 at the time of the sale of the bonds) then outstanding for property additions and improvements in 1955, 1956 and now in progress.

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Radiation, Inc., Melbourne, Fla., filed a registration statement (File 2-13284) with the SEC on April 25, 1957, seeking registration of 226,333 shares of its 25¢ par Class A Common Stock. The company proposes to offer 186,333 of the Class A shares for subscription by holders of outstanding Class A common and Common Stock at the rate of one new share of Class A stock for each three shares of Class A common or Common Stock held. The record date, subscription price and underwriting terms are to be supplied by amendment. Kuhn, Loeb & Co. and Johnson, Lane, Space & Co., Inc., are listed as the principal underwriters.

The 40,000 remaining shares of Class A common are to be sold to the underwriters by certain present holders (selling stockholders); and the company will receive no part of the proceeds of the sale of such shares. In addition, the underwriters will purchase from certain principal stockholders, including the selling stockholders, their rights to subscribe for the additional Class A common; and the underwriters have agreed to exercise all such rights and to offer the resulting 129,733 shares of additional Class A common to the public at the initial offering price. Thus, an aggregate of 169,733 shares will be offered to the general public at the time of the commencement of the offering to stockholders.

The company expects to utilize the net proceeds of the stock offering for its account as follows: \$150,000 for retirement of a loan from an officer of the company; \$950,000 to reduce current bank borrowings; and the balance to provide additional working capital. Of such balance, up to \$400,000 may be expended for additional facilities.

The company was organized in 1950 by Homer R. Denius and George S. Shaw, directors and president and vice-president, respectively. Its principal business is the design, development, and production of advanced electronic equipment and systems. Denius is listed as the owner of 164,003 shares (54.7%) of the outstanding common stock and 43,867 shares (17.3%) of the outstanding Class A common; Grace E. Denius 60,000 and 20,000 shares; and Shaw 44,003 and 14,667 shares. Denius has agreed to sell 32,000 Class A shares to the underwriters and Shaw 8,000 such shares. Subscription rights are to be sold to the underwriters as follows: Denius, 207,870; Grace E. Denius, 80,000; Shaw, 58,670; and John W. Boone, trustee under trusts established by Messrs. Denius and Shaw for their children, 42,660. Three rights are required to subscribe for one share of additional Class A stock.

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Westinghouse Electric Corporation, New York, filed a registration statement (File 2-13284) with the SEC on April 25, 1957, seeking registration of 400,000 shares of its \$12.50 par Common Stock, to be offered for subscription by employees of that company and subsidiaries under its "Employee Stock Plan."

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Niagara Mohawk Power Corporation, Syracuse, N. Y., today filed a registration statement (File 2-13285) with the SEC seeking registration of 200,000 shares of its \$100 par Preferred Stock. The company proposes to offer this stock for public sale through an underwriting group headed by Harriman Ripley & Co., Inc. The dividend rate, public offering price and underwriting terms are to be supplied by amendment. Net proceeds will be used to reimburse the company's treasury and to finance in part its construction program. The construction program of the company and its subsidiaries required \$66,952,000 in 1956 and is expected to require about \$94,000,000 in 1957.

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The Grolier Society, Inc., New York, today filed a registration statement (File 2-13286) with the SEC seeking registration of \$2,500,000 of Convertible Subordinated Debentures, due May 1, 1967, and 393,000 shares of its \$1 par Common Stock. The debentures and 318,000 common shares are to be offered for public sale through an underwriting group headed by Dominick & Dominick. The interest rate on the debentures and the public offering prices and underwriting terms on both issues are to be supplied by amendment. Of the 318,000 common shares, 300,000 are being purchased by the underwriters from the company and 18,000 from a stockholder (Fred P. Murphy, Board Chairman and owner of 770,463 shares, representing 36.44% of the outstanding Class B common and 46.09% of the combined common and Class B common. The 18,000 common shares will be issued to him on conversion of the same number of Class B shares). The remaining 75,000 common shares are to be offered to employees under the company's Employees Stock Purchase Plan.

Net proceeds of the sale by the company of the debentures and common stock will be added to its working capital and used in general to finance installment sales contracts receivable. The company will receive no part of the proceeds of the sale of the 18,000 common shares by Murphy. Grolier's business consists generally of the writing, publication and sale of encyclopedias and reference source material.

New York Telephone Company, New York City, today filed a registration statement (File 2-13287) with the SEC seeking registration of \$70,000,000 of Refunding Mortgage Bonds, Series J, due May 15, 1991, to be offered for public sale at competitive bidding. The company will apply the net proceeds from the sale of the bonds toward the repayment of borrowings from banks, which are expected to aggregate \$167,000,000 at the time the proceeds are received. The company also expects to sell \$1,400,000 shares of its \$100 par common stock at par to its parent, American Telephone and Telegraph Company, on or about June 28, 1957, and to use the proceeds to repay borrowings from banks, which are expected to aggregate \$140,000,000 at that time. These borrowings have been necessary because of the company's large construction expenditures.

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