

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.

FOR RELEASE December 20, 1956

Securities Act Release No. 3731

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 stock by Bevanda Mines, Inc., of Lovelock, Nev. The order provides an opportunity for hearing, upon request, on the question whether the suspension should be vacated or made permanent.

Bevanda Mines filed its Regulation A notification with the Commission on March 22, 1955. It proposed the public offering of 50,000 shares of non-voting preferred stock at \$1 per share.

In its order, the Commission asserts that it has reason to believe that the offering of Bevanda Mines stock, if made or continued, "would operate as a fraud or deceit upon purchasers," in that (1) material changes have occurred in the officers and management of the company which are not reflected in the company's notification and offering circular and (2) the company's sales literature while referring to the reputation of one of its officers and/or directors, fails to fully and accurately disclose his background and reputation.

The order further asserts that Bevanda Mines has failed to comply with a requirement of Regulation A for the filing of reports of stock sales and the use of the proceeds thereof and has ignored a request of the Commission's staff for such reports.

Securities Act Release No. 3732

(a) Estate Security, Inc.

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 Estate Security, Inc., of Riverside, California. The order provides an opportunity for hearing, upon request, on the question whether the suspension should be vacated or made permanent.

Regulation A provides a conditional exemption from registration with respect to public offerings of securities not exceeding \$300,000 in amount. One of such conditions is a requirement that semi-annual reports be filed reflecting the amount of securities sold and the use of the proceeds thereof. The Commission's suspension order charges that no such reports have been filed by Estate Security, despite requests from the Commission's staff for such reports. The company's Regulation A notification, filed December 20, 1955, proposed the public offering of 30,000 shares

of preferred stock and 30,000 shares of common stock, at \$1 per unit of one share each.

(b) Trans-Continental Uranium Corporation

The Commission has vacated its order of December 13, 1955, temporarily suspending a Regulation A exemption with respect to the public offering by Trans-Continental Uranium Corporation (Salt Lake City, U.) of 3,000,000 shares of common stock, 10¢ par. This suspension order was based upon the company's failure to file a report of stock sales and the further fact that Justin Stepler, Inc., a principal underwriter, and Beverly I. Stepler, a director of the issuer, had been permanently enjoined by the New York State Supreme Court, County of New York, from engaging in the business of acting as a broker or dealer in securities in that State.

Upon the basis of a stipulated record, the Commission found that the issuer's failure to file the report of sales was at least in part due to the underwriter's failure to make information available to the issuer; that the issuer filed such report subsequent to the Commission's suspension order of December 13, 1955; and that the issuer terminated the underwriting contract with Justin Stepler, Inc., obtained the resignation of Beverly I. Stepler as a director, and abandoned any further offering of the securities as of a date prior to the entry of said injunction.

Holding Company Act Release No. 13335 ¹³³⁴²

The Commission has authorized a postponement from February 4, 1957 to March 4, 1957, of the hearing in the reopened proceedings with respect to the reserved Section 10 "integration" issues under the Holding Company Act involving the purchase of Electric Energy, Inc., stock in 1951 by Union Electric Company, Illinois Power Company, Middle South Utilities, Inc., and Kentucky Utilities Company.

The postponement followed the receipt of a request from Union Electric and Kentucky Utilities for an extension of the December 21, 1956 due date for filing amendments to their previous applications setting forth the facts as they now exist with regard to relationships of the respective companies to Electric Energy and with particular reference to the matters to be considered under Section 10. The due date for such amendments has been extended to January 21, 1957.

Holding Company Act Release No. 13340

Louisiana Power & Light Company (New Orleans) has applied to the SEC for an order authorizing its sale at competitive bidding of \$20,000,000 of First Mortgage Bonds, Series due January 1, 1987; and the Commission has issued an order giving interested persons until January 2, 1957, to request a hearing thereon. According to the application, proceeds of the financing will be used to pay the costs of needed additional facilities and extensions, for the payment of \$7,280,000 of bank loans, and for other corporate purposes.

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CROWELL-COLLIER INVESTIGATION

The Securities and Exchange Commission today announced that it had ordered a public investigation with respect to the issuance and distribution by The Crowell-Collier Publishing Company of \$4,000,000 principal amount of its convertible debentures and the shares of common stock into which such debentures are convertible.

The purpose of the investigation is to determine whether the parties involved have violated the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. The hearing date will be announced later.

Securities Exchange Act Release No. 5423

The SEC today announced the issuance of a decision denying an application for broker-dealer registration filed by F. J. McDermott & Co., Inc., Jersey City, N. J.

The company's application named Frank Joseph McDermott as president, secretary, a director and controlling stockholder. McDermott previously had been registered as a broker-dealer from July 1952 to June 1954. In a prior decision of the Commission, issued June 7, 1954, the Commission found that McDermott had wilfully violated provisions of the Securities Exchange Act and SEC rules thereunder (a) in effecting securities transactions when his aggregate indebtedness exceeded 2000% of his net capital, (b) in failing to keep his books and records current, (c) in failing to file any financial report for 1952, and (d) in filing financial reports in 1955 which were incomplete, inaccurate, false and misleading in that they did not reflect certain customers' free credit balances and were not properly certified. However, McDermott was then permitted to withdraw from registration and the Commission's proceedings were discontinued, in view of the fact that McDermott had closed his business and satisfied all his obligations except to two persons with whom he had entered into arrangements satisfactory to them.

These wilful violations by McDermott, the Commission stated, constitute a basis for denial of the present application for registration "if we find such denial to be in the public interest." Observing that the provisions of the law and Commission rules which McDermott violated are considered important, the Commission stated: "They are vital parts of the program for the protection of the investing public, and we cannot accept applicant's position that they are merely technical in nature.

"Furthermore," the Commission pointed out, "in order to be satisfied that the public interest would be served by permitting applicant to become registered with McDermott in control of its business, the record should offer assurance that there will not be violations by applicant in the future. We are unable to find such assurance on the record before us."

For these and related reasons, the Commission concluded that it could not find "that registration would be consistent with the interests of investor protection."

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Illinois Power Company, Decatur, today filed a registration statement (File 2-12968) with the SEC seeking registration of 200,000 shares of its no par Common Stock, to be offered for public sale through an underwriting group headed by The First Boston Corporation and Merill Lynch, Pierce, Fenner & Beane. The initial public offering price will be related to the current market for the stock at the time of the offering. Underwriting terms are to be supplied by amendment. Net proceeds are to be applied first to the payment of short term bank loans made for financing construction expenditures (now amounting to \$8,000,000) and the balance to new construction. The cost of the construction program during the period November 1, 1956, to December 31, 1959, is estimated at \$113,000,000.

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Interstate Oil Pipe Line Company, Shreveport, La., today filed a registration statement (File 2-12969) with the SEC seeking registration of \$25,000,000 of Twenty-five Year Sinking Fund Debentures, due 1982. The debentures are to be offered for public sale through an underwriting group headed by Morgan Stanley & Co. The interest rate, public offering price and underwriting terms are to be supplied by amendment. Net proceeds will be added to the general funds of the company and are expected to be used to construct additional pipe line facilities which, based on experience, will be required for normal growth. Annual expenditures for these purposes during the next several years are expected to average about \$5,000,000. It is anticipated that most of these facilities will be crude oil lines in the rapidly developing on-shore and off-shore oil producing areas along the Louisiana Gulf Coast.

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Riegel Textile Corporation, New York, today filed a registration statement (File 2-12970) with the SEC seeking registration of \$12,000,000 of Sinking Fund Debentures due 1977, to be offered for public sale through an underwriting group headed by Morgan Stanley & Co. The interest rate, public offering price and underwriting terms are to be supplied by amendment. Net proceeds to be received from the sale of the debentures will be added to the general funds of the company and will be used for the retirement of the company's Term Notes in the amount of \$4,400,000 and the balance will be used for the reduction of short term loans incurred principally to finance inventories and accounts receivable.

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Summary of Investment Company Act Release No. 2459

The Securities and Exchange Commission today denied an application filed under the Investment Company Act of 1940 by North River Securities Co., Inc., a registered investment company, seeking an exemption with respect to the acquisition by it from affiliated persons of the capital stock of Frank T. Budge Co., a wholesale hardware company in Miami, Florida, and other assets consisting principally of undeveloped land west of Ft. Lauderdale, Florida.

The proposed transactions are prohibited by Section 17(a) of the Investment Company Act, which makes unlawful transactions between a registered investment company and its affiliates, because of the cross-interests of Ira Guilden, a director of North River. Guilden owns or controls 31.18% of North River's stock and owns directly or indirectly all of Budge's second preferred stock, and has a 21% direct or indirect beneficial ownership in the corporations owning the real estate and related assets proposed to be acquired.^{1/} North River sought an exemption under Section 17(b) of the Act, which provides for exemption if, among other things, the proposed transaction is fair and does not involve overreaching and is consistent with the general purposes of the Act. The Commission stated that affirmative findings of fairness and conformity with the policy of the Act to prevent selection of investments by investment companies in the interest of affiliated persons rather than in the interests of all classes of security holders were prerequisite to the grant of an exemption.

Noting Guilden's substantial interests on all sides of the proposed transactions and that he would derive a substantial profit from consummation of these transactions, the Commission stated that it was necessary to subject the transactions to the closest scrutiny in determining whether the granting of an exemption was warranted.

The proposed transaction with Budge contemplated the issuance by North River of 107,000 shares of its common stock, having a net asset value of approximately \$400,000, and a market value of approximately \$320,000, in exchange for all outstanding stock of Budge, having a book value of approximately \$510,000. According to Budge's balance sheet as of April 30, 1956, Budge had current assets of \$937,000, current liabilities of over \$400,000, and only \$2,450 in cash. Its earnings had averaged only about \$10,000 for the past three years, and its earnings for the latest fiscal year were 1.6% of its net worth, 2.1% to 2.7% of the value of the 107,000 North River shares, and 1/2 of 1% of sales.

^{1/} The companies owning the assets to be acquired are: Dale Properties, Inc., Lauderdale Properties, Inc., Ft. Lauderdale Properties, Inc., Broward Properties, Inc., Broward Boulevard Properties, Inc.

For the real estate and related assets, consisting of mortgages and notes, proposed to be acquired by North River, it would issue 150,000 shares of its stock valued at from \$450,000 to \$560,000 and assume \$615,000 of liabilities.

With respect to the Budge transaction, the Commission found that the record presented serious uncertainties as to the value of Budge's inventory, which represented about 3/4 of the total balance sheet assets. The inventory was stated at replacement cost, rather than at the lower of cost or market, as had been done in prior years, and the accountants who prepared the figures and made the audit did not observe the inventory count. Under these circumstances, combined with Budge's recent low earnings and present unfavorable financial condition, and the uncertainties involved in Budge's proposed program for rehabilitation, consisting of a change from a diversified to a specialized operation and elimination of its industrial hardware inventory and business, the Commission was of the opinion "that the evidence does not establish a basis for the findings required in order to grant the exemption sought with respect to the Budge transaction."

With respect to the real estate transaction, the Commission noted that its fairness was dependent primarily on the value of the land to be sold. That land had been acquired in June 1955 at a cost of \$625,000. The keystone of applicants' showing with respect to the value of the land was the appraisals and testimony of two real estate appraisers, who placed valuations of \$1,312,000 and \$1,300,000, respectively, on the land. Pointing out that the record showed that both appraisers were retained by the sellers, that the second appraiser had seen the appraisal of the first before starting his own and that the fee to be received by one for his appraisal and by both for testifying was left open, the Commission held that under the circumstances the reliance which could be placed on the appraisals and the testimony was impaired to the extent that they did not offer a satisfactory basis for a finding as to fairness. It concluded that: "in passing upon an exemption sought with respect to a transaction of this type between affiliates it is essential to the proper exercise of our function to protect the non-affiliated stockholders under the standards of the Act that we act only on the basis of valuation evidence which is adequately insulated from the affiliated interests which otherwise dominate the transactions."