

**Sixteenth Annual Report**  
of the  
**Securities and Exchange**  
**Commission**

**Fiscal Year Ended June 30, 1950**



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**SECURITIES AND EXCHANGE COMMISSION**

**Headquarters Office**

**425 Second Street NW.**

**Washington 25, D. C.**

**COMMISSIONERS**

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**DONALD C. COOK, *Vice-Chairman***

**RICHARD B. McENTIRE**

**PAUL R. ROWEN**

**EDWARD T. McCORMICK**

**ORVAL L. DuBois, *Secretary***

## LETTER OF TRANSMITTAL

SECURITIES AND EXCHANGE COMMISSION,  
*Washington, D. C., January 31, 1951.*

SIR: I have the honor to transmit to you the Sixteenth Annual Report of the Securities and Exchange Commission, in accordance with the provisions of section 23 (b) of the Securities Exchange Act of 1934, approved June 6, 1934; section 23 of the Public Utility Holding Company Act of 1935, approved August 26, 1935; section 46 (a) of the Investment Company Act of 1940, approved August 22, 1940, section 216 of the Investment Advisers Act of 1940, approved August 22, 1940, and section 3 of the act of April 25, 1949, amending the Bretton Woods Agreements Act.

Respectfully,

HARRY A. McDONALD,  
*Chairman.*

THE PRESIDENT OF THE SENATE,  
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES,  
*Washington, D. C.*



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## FOREWORD

This is the Sixteenth Annual Report of the Securities and Exchange Commission. It covers the year July 1, 1949 to June 30, 1950.

The report first outlines the activities of the Commission under the major statutes entrusted to it and, in later sections, deals with over-all activities that cut through statutory lines.

For the Securities and Exchange Commission the year was an extremely active one. Financing by industry, the major source of workload for the Commission, has continued at a high rate. The Commission's job in a particular financing may be the clearance of a registration statement under the Securities Act or the approval of the financing under the Public Utility Holding Company Act, or it may be, by formal or informal means, to issue an opinion as to whether the financing is exempted from these statutes. In any case the work must be done thoroughly and promptly—to guard the interest of investors and to be fair to business whose timing schedules may be closely geared to market conditions.

This balance of interests is, in our view, essential to the effectiveness of the laws. Thorough performance is a necessity in order to serve the investor whom the laws seek to protect. Unwarranted delays are a disservice to those who must live with and comply with the laws. The basic philosophy behind these statutes is that free enterprise is facilitated by honest and decent relations between investor and management. The Commission stresses the facilitative aspect of these laws.

Past reports of the S. E. C. have outlined its progress toward simplifying administration and compliance. Those efforts continue. They are—in the context of our disclosure laws—efforts to transform disclosure on paper into effective information of the investor. For example, the Commission has by dint of constant pressure succeeded in eliminating from prospectuses destined for investors a good deal of technical and confusing detail. This process of simplification has not yet reached the financial statements in prospectuses to the extent the Commission would like to see that done. The accounting profession has recently been invited to join the Commission in an effort to reduce the present formal presentation of information in balance sheets and income statements to homely and understandable terms.

Material problems have faced the Commission in its study of methods of revising the mechanics of prospectus distribution under the Securities Act. These difficulties have delayed the recommendation of statutory changes. However, the study has proved to be a fruitful one nevertheless. It has stimulated an active interest in the usefulness of the prospectus as a vehicle of investor information. It has prompted active attempts—with revisions already made and more in the offing—to change the prospectus into a piece of informative literature useful to the layman. It has led to a consideration of the possibilities of authorizing more informative identifying literature

to be used by distributors in advance of effectiveness of registration. It has resulted in a consideration of the possibility of encouraging preeffective use of adequate informative material. One possible rule now being discussed would allow this pre-effective material to be supplemented (after effectiveness) with a simple sheet giving missing information about price, yields, and spreads, so that the pre-effective material and the supplemental sheet together would constitute the prospectus. In this way the need for printing and distributing after effectiveness a wholly new prospectus (duplicating much of the information previously circulated) could be avoided.

These rule revisions are designed to encourage investors to read prospectuses and to stimulate distributor interest in making timely distribution of adequate information. Whether they are substitutes for a revision of the statute, which would make it mandatory to provide a prospectus before selling a security, cannot now be stated with any assurance.

Of particular significance in this report is the record of our progress under section 11 of the Public Utility Holding Company Act. That section requires the integration and simplification of holding company systems, and—under certain circumstances—the elimination of holding companies. These aims are accomplished by voluntary plans, approved by the Commission and, in many cases, by the courts, for disposal of holding companies' controlling interests in operating companies, for reorganization of system companies, or for dissolution of top or intermediate holding companies.

In the 12 years of active administration of these provisions over \$10,000,000,000 of assets have been released from jurisdiction under the Holding Company Act. There remain subject to the act about \$13,000,000,000 of assets in holding company systems; and it is guessed that the Commission will remain with a \$6,000,000,000 to \$7,000,000,000 industry to regulate under the standards of the act.

The completion of this vast program would bring administration of the Holding Company Act into a new phase. Enormous increases in utility construction in recent years have put a heavy demand on the staff for the processing of financing applications. The defense program will continue to require large outlays by the industry for capital expansion, and that work alone will draw heavily on personnel resources no longer committed to the section 11 phase of our work.

Of necessity many duties under the act have had to be rationed in order to concentrate on the task of integration and simplification. A resurvey of those duties is in progress.

On January 9, 1950, the Commission transmitted to the Congress a report recommending an amendment to the Securities Exchange Act of 1934 which would extend to investors in unregistered securities the protections afforded by the act in respect of the availability of public information, the provision of data necessary for intelligent exercise of the right to vote, and the regulation of insiders' short-term trading. This report supplemented and brought up to date an earlier report which had been submitted on June 19, 1946.

Economic development since 1946, the report indicated, had made more essential the need for this legislation. Individual holdings of cash, deposits, and U. S. Government securities were at a record high,

and yet investment in equity securities had not correspondingly increased. Where idle funds were used for the purchase of such securities, they were used largely to increase the investment in securities subject to the protections of the Securities Exchange Act. The lack of publicity about companies outside of the scope of the act has, in our view, been a substantial factor in the lack of investor interest in these securities. A survey of the financial manuals disclosed that there were approximately 1,800 companies which would be covered by the proposed legislation.

After the receipt of these recommendations by the Commission, there were introduced into the Senate by Senator Frear and into the House of Representatives by Representative Sadowski identical bills providing for the amendment of the Securities Exchange Act in accordance with the Commission's proposals. Hearings were held before the Senate Banking and Currency Committee, but no committee report was rendered to the Congress. Senator Frear explained in a speech delivered on the floor of the Senate that this was caused by the continuous emergency which faced the Banking and Currency Committee as a result of the Korean War. According to the Senator, it was decided that the subcommittee should further study the legislation with a view to action on it at the next session.

## COMMISSIONERS AND STAFF OFFICERS

(as of October 20, 1950)

### Commissioners

*Term expires  
June 5*

HARRY A. McDONALD, of Michigan, Chairman-----	1951
DONALD C. COOK, of Michigan, Vice Chairman-----	1954
RICHARD B. McENTIRE, of Kansas-----	1953
PAUL R. ROWEN, of Massachusetts-----	1955
EDWARD T. McCORMICK, of Arizona-----	1952

Secretary: ORVAL L. DuBois

### Staff Officers

BALDWIN B. BANE, Director, Division of Corporation Finance. ANDREW JACKSON, Associate Director.

MORTON E. YOHALEM, Director, Division of Public Utilities.

ANTHON H. LUND, Director, Division of Trading and Exchange. SHERRY T. McADAM, Jr., Associate Director.

ROGER S. FOSTER, General Counsel. LOUIS LOSS, Associate General Counsel.

EARLE C. KING, Chief Accountant.

MICHAEL E. MOONEY, Director, Division of Opinion Writing.

JEROME S. KATZIN, Executive Assistant to the Chairman.

NATHAN D. LOBELL, Executive Adviser to the Commission.

HASTINGS P. AVERY, Director, Division of Administrative Services.

WILLIAM E. BECKER, Director, Division of Personnel.

JAMES J. RIORDAN, Director, Division of Budget and Finance.

## REGIONAL AND BRANCH OFFICES

### Regional Administrators

- Zone 1—Peter T. Byrne, Equitable Building (Room 2006), 120 Broadway, New York 5, N. Y.
- Zone 2—Philip E. Kendrick, Post Office Square Building (Room 501), 79 Milk Street, Boston 9, Mass.
- Zone 3—William Green, Atlanta National Building (Room 322), Whitehall and Alabama Streets, Atlanta 3, Ga.
- Zone 4—Charles J. Odenweller, Jr., Standard Building (Room 1608), 1370 Ontario Street, Cleveland 13, Ohio.
- Zone 5—Thomas B. Hart, Bankers Building (Room 630), 105 West Adams Street, Chicago 3, Ill.
- Zone 6—Oran H. Allred, United States Courthouse (Room 103), Tenth and Lamar Streets, Fort Worth 2, Tex.
- Zone 7—John L. Geraghty, Midland Savings Building (Room 822), 444 Seventeenth Street, Denver 2, Colo.
- Zone 8—Howard A. Judy, Appraisers Building (Room 308), 630 Sansome Street, San Francisco 11, Calif.
- Zone 9—James E. Newton, 1411 Fourth Avenue Building (Room 810), Seattle 1, Wash.
- Zone 10—E. Russel Kelly, 425 Second Street NW., Washington 25, D. C.

### Branch Offices

- Federal Building (Room 1074), Detroit 26, Mich.
- United States Post Office and Courthouse (Room 1737), 312 North Spring Street, Los Angeles 12, Calif.
- Pioneer Building (Room 400), Fourth and Roberts Street, St. Paul, Minn.
- Wright Building (Room 327), Tulsa 3, Okla.
- United States Courthouse and Customhouse (Room 1006), 1114 Market Street, St. Louis 1, Mo.



## PART I

### ADMINISTRATION OF THE SECURITIES ACT OF 1933

The purpose of the Securities Act of 1933 is to provide full and fair disclosure and to prevent fraud in the sale of securities in interstate and foreign commerce and through the mails. To this end, the act requires that issuers of securities to be offered for such public sale must file with the Commission registration statements setting forth prescribed information about the securities; that investors must be furnished, at or before delivery of the security purchased, a copy of a required prospectus containing the more significant items of such information; and civil and criminal penalties are provided for securities frauds. The act does not authorize the Commission to pass on the investment merits of securities and it makes representations to the contrary unlawful.

#### THE REGISTRATION PROCESS

##### Purpose of Registration

Unless exempted from the Securities Act, securities offered for sale in interstate commerce or by the use of the mails must be registered. Securities for which such exemption is provided consist, in general, of government and municipal securities and the issues of banks, railroads, cooperatives and other organizations and associations specified in section 3 (a) of the act or covered by exemptions in rules and regulations adopted by the Commission, as discussed elsewhere in this report, pursuant to section 3 (b) of the act. In addition, while the act contains no exemption for securities of governmental or other foreign issuers as such, Public Law 142, 81st Congress, approved by President Truman on June 29, 1949, extended a specific exemption to securities issued or guaranteed by the International Bank for Reconstruction and Development from the registration requirements of both the Securities Act of 1933 and the Securities Exchange Act of 1934.

An integral part of each registration statement is the prospectus, which sets forth the more pertinent information about the security offering. As a basic method of direct disclosure to investors, the prospectus plays a vital role in carrying out the purpose of the act.

The registration statement as a whole discloses material facts dealing, among other things, with the character, size, and profitability of the business, its capital structure, the uses to which the company intends to put the proceeds realized from the sale of the securities, options outstanding against securities of the issuer, remuneration of officers and directors, bonus and profit-sharing arrangements, underwriters' commissions, and pending and threatened legal proceedings.

There must also be included in this document certified financial statements of the business enterprise.

The information contained in registration statements filed with the Commission is not only made available immediately for public inspection at the offices of the Commission but also forms the basis of widespread publicity released by financial news services, financial writers, and newspapers throughout the nation, which further accelerates the process of getting this information rapidly before a greatly enlarged field of potential investors.

While the purpose of registration is thus to secure full and fair disclosure of material facts about securities to enable prospective investors to judge the risk involved intelligently, it is not intended to remove the risk from investment decisions. The Commission is not authorized under the Securities Act of 1933 to pass on the investment merits of securities, and an effective registration statement does not imply that the Commission has in any way passed upon the merits of or given approval to the securities covered. Section 23 of the act makes it unlawful to make any contrary representation to any prospective purchaser.

#### **Examination Procedures**

One of the Commission's most important undertakings has been its development of procedures and techniques, which are constantly undergoing improvements as dictated by experience, for the fast and thorough examination of registration statements to determine compliance with the disclosure requirements of the act. The need for speed in the examination process arises not only from the statutory prescription of an effective date of the registration statement, in the ordinary case on the twentieth day after its filing, but also from the Commission's desire to avoid unnecessary interference with financing plans.

Where examination shows the registration statement to be inaccurate or incomplete in disclosure of material information, the Commission may resort to its power under section 8 of the act and issue an order preventing or suspending the effectiveness of the registration statement. However, the Commission has, during the past five years, continued its policy of exercising this power sparingly. Instead, it has relied for enforcement mainly upon the long-standing practice of securing an amendment to the registration statement. Accordingly, registrants are informally advised, as promptly as possible after the statements are filed, of any material misrepresentations or omissions found upon examination and they are afforded an opportunity to file correcting amendments before the statements become effective. This advice is furnished by means of an informal "letter of comment" which indicates what information should be corrected or supplemented to meet the disclosure standards.

Another informal procedure that has proved effective in speeding the registration process is the "pre-filing conference" between staff members and representatives of registrants and underwriters. In this manner registrants are encouraged to discuss problems in connection with the proposed filing for the purpose of determining in advance what types or methods of disclosure may be necessary under the circumstances. This has contributed to the marked reduction in the num-

ber of instances where the Commission has found it necessary to resort to stop-order proceedings or other formal action under section 8.

Neither the Commission, the issuer, nor the underwriter desires a statement to become effective unless it complies with the act. Often, the staff will ascertain that deficiencies exist in the registration statement as filed, or the issuer or underwriter may wish either to amend the statement or simply to delay its effectiveness because of changes in the securities market or for other business reasons. In such cases, if there is a danger that the registration statement may become effective in defective form or prematurely for the purposes of the issuer or underwriter, it is customary for the registrant to file a minor amendment, called a "delaying amendment," which starts the 20-day waiting period running anew.

#### Effective Date of Registration Statement

The 20-day waiting period between the filing and effectiveness of registration statements was provided by the Congress in order to permit widespread publicity among investors of the information contained in the registration statement before it becomes effective. The Commission is, however, empowered at its discretion to accelerate the effective date where the facts justify such action so that the full 20-day period need not elapse before the registration statement can become effective. In the exercise of this power, the Commission must have due regard to the adequacy of the information about the security already available to the public, to the complexity of the particular financing, and to the public interest and the protection of investors.

#### Time Required for Registration

For some years the Commission has made every effort to complete the registration process within the 20-day waiting period. This effort has been largely successful, and the median elapsed time from the filing date of a registration statement to its effective date has been progressively shortened from 30½ days in the 1947 fiscal year to 21 days in the 1950 fiscal year. A breakdown of this elapsed time for the 1950 fiscal year is contained in the following table:

*Time elapsed in registration process—1950 fiscal year*

	1949						1950					
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Total registration statements effective during month (number).....	24	24	36	42	39	25	38	33	65	59	67	36
Elapsed time (median number of days)												
From date of filing registration statement to first letter of comment.....	10	10	10	9	9	11	10	10	11	10	10	12
From date of letter of comment to first amendment by registrant.....	7	7	7	7	6	9	7	5	6	6	6	6
From date of first amendment to the effective date of registration.....	6	3	5	3	4	5	5	4	4	4	4	5
Total median elapsed time (days).....	23	20	22	19	19	25	22	19	21	20	20	23

Although the median elapsed time from filing to effectiveness was 21 days in the 1950 fiscal year, this time was 20 days or less in six months of the year, accounting for more than half of all the registration statements which became effective during the year. The Commission intends to continue its efforts to bring the total elapsed median time down to 20 days or less in all months.<sup>1</sup>

### THE VOLUME OF SECURITIES REGISTERED

#### Volume of All Securities Registered in Fiscal Year

	1950	1949
Total registered.....	\$5, 307, 077, 000	\$5, 333, 362, 000

The amount of securities effectively registered during the 1950 fiscal year was practically the same as that for the 1949 period.

The volume registered in the 1950 fiscal year was distributed over 487<sup>2</sup> statements covering 647 issues, as compared with 429 statements covering 588 issues for the 1949 fiscal year.

#### Volume of securities registered for cash sale

##### A. ALL SECURITIES

	1950	1949
Registered for cash sale for accounts of issuers.....	\$4, 381, 314, 000	\$4, 204, 008, 000
Registered for cash sale for accounts of others than issuers.....	304, 736, 000	193, 870, 000
Total registered for cash sale.....	4, 686, 051, 000	4, 397, 878, 000
Total registered for other than cash sale.....	621, 027, 000	935, 484, 000
Total of all registered securities.....	5, 307, 077, 000	5, 333, 362, 000

##### B. STOCKS AND BONDS REGISTERED FOR CASH SALE FOR THE ACCOUNTS OF ISSUERS

	1950	1949
Equity securities other than preferred stock.....	\$1, 786, 056, 000	\$1, 083, 117, 000
Preferred stock.....	467, 929, 000	325, 854, 000
Total all stock.....	2, 253, 985, 000	1, 408, 971, 000
All bonds.....	2, 127, 330, 000	2, 795, 036, 000
Total.....	4, 381, 314, 000	4, 204, 008, 000

<sup>1</sup> There is no necessary connection between the total time elapsed in the registration process and the 20 day waiting period required by the statute. Under section 8 of the Securities Act a registration statement becomes effective on the 20th day after filing (unless the Commission has accelerated effectiveness). The filing of an amendment to the registration statement begins the waiting period running anew, unless the Commission has consented to or required the filing of the amendment.

After due notice and hearing the Commission may refuse to permit a statement to become effective, or may issue a stop-order determining the effectiveness of the statement.

In view of the tradition of the Commission to rely on careful examination of registration statements and the procurement of corrections by voluntary means, emphasis in the registration process is upon correction in response to a staff letter of comment, rather than upon formal procedures to refuse or terminate effectiveness.

The total time elapsed in the registration process is not completely within the control of the Commission. As will be noted from the chart above, a substantial part of this total time includes the time taken by the registrant to make corrections pursuant to a letter of comment and the subsequent time taken to examine the amended statement.

As the chart shows the median elapsed time from the date of filing to the first letter of comment runs between 9 and 12 days. The remainder of the time is consumed by the registrant in making corrections and in a review of those corrections by the staff.

Customarily a statement is declared effective shortly after the receipt of the corrections made pursuant to the letter of comment. At times, however, more than one letter is necessary.

<sup>2</sup> This figure differs from the 488 shown in the table on p. 176 due to difference in classification as to time of effectiveness of registration statements. See appendix table 1, footnote 2 for details.

It should be noted that while the volume of bonds registered by issuers for cash sale decreased substantially, stock so registered showed a marked increase.

From September 1934 through June 1949 new money purposes represented 37 percent of the net proceeds expected from the cash sale of issues registered for the accounts of the issuers. In the 1950 fiscal year new money purposes represented 51 percent of the expected net proceeds for the year—large enough to raise the 16-year average 2 points to 39 percent.<sup>3</sup>

The table below shows the amount of each type of security registered for cash sale for the accounts of the issuers in each of the fiscal years 1935 through 1950 as well as the three 5-year totals. In addition to the totals of the new issues for cash sale, all registrations are shown for the same periods.

(Millions of dollars) <sup>1</sup>

Fiscal year ended June 30	All registrations	Total	Cash sale for account of issuers		
			Bonds and face amount certificates	Preferred stock	Common stock and certificates of participation
1935 <sup>2</sup> .....	913	686	490	28	168
1936.....	4,835	3,936	3,153	252	531
1937.....	4,851	3,635	2,426	406	802
1938.....	2,101	1,349	666	209	474
1939.....	2,579	2,020	1,593	109	318
1935-39.....	15,280	11,626	8,328	1,003	2,293
1940.....	1,787	1,433	1,112	110	210
1941.....	2,611	2,081	1,721	164	196
1942.....	2,003	1,465	1,041	162	263
1943.....	659	486	316	32	137
1944.....	1,760	1,347	732	343	272
1940-44.....	8,820	6,812	4,922	812	1,078
1945.....	3,225	2,715	1,851	407	456
1946.....	7,073	5,424	3,102	991	1,331
1947.....	6,732	4,874	2,937	787	1,150
1948.....	6,405	5,032	2,817	537	1,678
1949.....	5,333	4,204	2,795	326	1,083
1945-49.....	28,768	22,249	13,502	3,047	5,698
1950.....	5,307	4,381	2,127	468	1,786

<sup>1</sup> Dollar amounts are rounded to millions and will not necessarily add to totals.

<sup>2</sup> For 10 months ended June 30, 1935.

### C. ALL SECURITIES REGISTERED FOR CASH SALE FOR THE ACCOUNTS OF ISSUERS—BY TYPE OF ISSUER

Type of issuer	1950	1949
Electric, gas, and water companies.....	\$2,038,227,000	\$1,796,709,000
Financial and investment companies.....	1,067,692,000	680,600,000
Transportation and communication companies <sup>1</sup> .....	522,753,000	989,911,000
Manufacturing companies.....	506,304,000	679,447,000
Foreign governments.....	175,950,000	0
Extractive companies.....	33,027,000	33,495,000
Merchandising companies.....	25,370,000	14,675,000
Service companies.....	7,582,000	9,171,000
Real estate companies.....	4,409,000	0
<b>Total.....</b>	<b>4,381,314,000</b>	<b>4,204,008,000</b>

<sup>1</sup> Does not include companies subject to regulation by the Interstate Commerce Commission and therefore exempt from registration.

<sup>2</sup> See also appendix table 1, pt. 3.

Registrations of securities for cash sale by electric, gas, and water companies exceeded by 13 percent their previous high established in the 1949 fiscal year. Those for the financial and investment companies exceeded by 18 percent their previous high established in the 1946 fiscal year. These two groups accounted for 47 percent and 24 percent respectively of the total for the year. Manufacturing companies and transportation and communication companies registered about equal amounts, each 12 percent of the total, decreases of 25 and 47 percent, respectively, from the amounts of the 1949 fiscal year.

D. USE OF INVESTMENT BANKERS AS TO SECURITIES REGISTERED FOR CASH SALE FOR THE ACCOUNTS OF ISSUERS

Amount registered to be sold through investment bankers:		
Under agreements to purchase for resale.....	1950	1949
Under agreements to use "best efforts" to sell.....	\$2, 927, 787, 000	\$2, 758, 454, 000
	962, 830, 000	557, 361, 000
Total registered to be sold through investment bankers.....	3, 890, 617, 000	3, 315, 814, 000
Total registered to be sold directly to investors by issuers.....	490, 698, 000	888, 194, 000
Total.....	4, 381, 314, 000	4, 204, 008, 000

The Commission's Section of Operational Statistics continues to study the costs of flotation of security issues. The greatest part of these costs continues to be commissions and discount, which are the amounts paid to investment bankers, the balance being distributed among other expenses such as (a) those not affected by registration: exchange listings, Federal revenue, stamp taxes, State fees and taxes, trustees, transfer agents, etc., (b) those partly affected by registration: printing and engraving, legal fees and expenses, accounting fees and expenses, engineering, appraising, etc., and miscellaneous and (c) those entirely attributable to registration: the S. E. C. filing fee of one one-hundredth of 1 percent of the maximum offering price of the securities registered.

During the past 5 calendar years, 1945-49 inclusive, registrations of all types of securities (for cash sale and otherwise) amounted to approximately \$29,000,000,000. The cost of flotation of these securities was \$2.64 per hundred dollars of gross proceeds. Of this, compensation paid to underwriters amounted to \$2.12 and other expenses amounted to \$0.52.

In the 1950 fiscal year, investment bankers were used in the sale of 89 percent of the total registered for cash sale for the accounts of issuers as compared with 79 percent in the 1949 fiscal year. Commitments by investment bankers to purchase for resale involved 67 percent of the total registered for cash sale for the accounts of issuers, as compared with 66 percent in the 1949 fiscal year.<sup>4</sup>

That part of cost of flotation represented by commissions and discounts to investment bankers, but excluding other expenses, is shown for each type of security for each of the past 10 fiscal years. The

<sup>4</sup> See appendix tables 1 and 2 for a more detailed breakdown of the dollar volume of Securities Act registrations.

table below covers securities effectively registered for cash sale through investment bankers to the general public for the accounts of the registrants, but does not include securities sold to existing security holders of the issuers, securities sold to special groups, and securities of investment companies.

*Commissions and discounts to investment bankers*

(Percent of gross proceeds)

Fiscal year ended June 30	Bonds	Preferred stock	Common stock	Fiscal year ended June 30	Bonds	Preferred stock	Common stock
1941.....	1 8	4 1	14 4	1946.....	9	3 1	8 0
1942.....	1 5	4 1	10 1	1947.....	9	2 8	9 3
1943.....	1 7	3 6	9 7	1948.....	.6	4 5	10 2
1944.....	1 5	3 1	8 1	1949.....	8	3 8	7 1
1945.....	1 3	3 1	9 3	1950.....	.6	2 7	6 4

**ALL NEW SECURITIES OFFERED FOR CASH SALE <sup>5</sup>**

**Registered Securities**

Securities effectively registered under the Securities Act of 1933 and actually offered for cash sale during the 1950 fiscal year amounted to \$3,163,000,000. This total was less than the amount of securities offered in any of the postwar fiscal years; \$4,656,000,000 were so offered during the peak year ended June 1946. The amounts of such offerings in the last 2 years, valued at actual offering prices, are as follows: <sup>6</sup>

	1950	1949
Corporate (excluding investment companies).....	\$2,987,000,000	\$3,443,000,000
Noncorporate (Foreign Government).....	176,000,000	0
<b>Total</b> .....	<b>\$3,163,000,000</b>	<b>\$3,443,000,000</b>

**Unregistered Securities**

**CORPORATE**

Some \$3,006,000,000 of unregistered corporate securities are known to have been offered for cash sale by issuers in the 1950 fiscal year as compared with \$3,686,000,000 in the 1949 fiscal year. The basis for exemption of these securities from registration is as follows: <sup>7</sup>

Basis for exemption from registration:	1950	1949
Privately placed issues.....	\$2,211,000,000	\$2,904,000,000
Railroads and other common carriers..	572,000,000	621,000,000
Commercial bank issues.....	110,000,000	25,000,000
Intrastate offerings.....	6,000,000	5,000,000
Offerings under regulation A <sup>1</sup> .....	107,000,000	121,000,000
Other exemptions.....	0	10,000,000
<b>Total</b> .....	<b>\$3,006,000,000</b>	<b>\$3,686,000,000</b>

<sup>1</sup> Includes only offerings between \$100,000 and \$300,000 in size. See p. 9 for a more detailed discussion of regulation A offerings.

<sup>5</sup> See appendix for a detailed statistical breakdown of all securities offered for cash sale in the United States.

<sup>6</sup> The figures given in this section exclude securities sold through continuous offering, such as issues of open-end investment companies and employee purchase plans.

<sup>7</sup> Where a security may have been exempted from registration for more than one reason, the security was counted only once.

## NONCORPORATE

The total of unregistered governmental and eleemosynary securities offered for cash sale in the United States during the 1950 fiscal year was \$15,673,000,000 as compared with \$13,823,000,000 in the 1949 fiscal year. These totals consist of the following:

Issuer:	1950	1949
United States Government.....	\$12,068,000,000	\$11,135,000,000
State and local governments.....	3,482,000,000	2,512,000,000
Foreign governments.....	0	166,000,000
International Bank.....	101,000,000	0
Miscellaneous nonprofit organizations..	22,000,000	10,000,000
Total.....	\$15,673,000,000	\$13,823,000,000

**Total Registered and Unregistered Securities**

Proceeds from corporate securities flotations, both registered and unregistered, applicable to expansion of fixed and working capital amounted to \$3,940,000,000. This is considerably lower than the volume of securities sold for this purpose during the 1949 and 1948 fiscal years, the amount being approximately \$5,800,000,000 in each of these two periods. Electric and gas companies accounted for 41 percent of the new money financing, manufacturing firms 17 percent, communication companies 8 percent, railroads 9 percent, and all others 25 percent. Securities offered for retirement of outstanding securities and repayment of bank loans amounted to \$1,601,000,000 in the 1950 fiscal period compared with \$921,000,000 in the preceding year. The increase was due to a substantial rise in the amount of securities refunded, particularly by electric and gas utility companies.<sup>8</sup>

**REGISTRATION STATEMENTS FILED**

During the 1950 fiscal year 496 registration statements were filed covering proposed offerings in the aggregate amount of \$5,220,654,010.

*Number and disposition of registration statements filed*

	Prior to July 1, 1949	July 1, 1949 to June 30, 1950	Total as of June 30, 1950
Registration statements:			
Filed.....	8,043	496	8,539
Effective—net.....	6,663	1,488	8,151
Under stop or refusal order—net.....	182	0	182
Withdrawn.....	1,145	23	1,168
Pending at June 30, 1949.....	53		53
Pending at June 30, 1950.....			45
	8,043		8,539
Aggregate dollar amount:			
As filed.....	\$57,962,671,149	\$5,220,654,010	\$63,183,325,159
As effective.....	54,113,698,063	5,307,077,191	59,440,775,254

<sup>1</sup> Excludes 2 registration statements which became effective and were subsequently withdrawn and includes 1 registration statement previously under stop order.

<sup>2</sup> 7 registration statements which became effective prior to July 1, 1949 were withdrawn and are counted in the number withdrawn.

<sup>3</sup> During the fiscal year a stop order was issued against 1 registration statement and a stop order on another registration statement was lifted, making no change in the net number of stop order cases.

<sup>8</sup> See appendix table 4 for statistics in greater detail as to the use of net proceeds from the sale of securities.

*Additional documents filed in the 1950 fiscal year related to Securities Act registrations*

Nature of document:	Number
Material amendments to registration statements filed before the effective date of registration.....	764
Formal amendments filed before the effective date of registration for the purpose of delaying the effective date.....	421
Material amendments filed after the effective date of registration.....	638
<hr/>	
Total amendments to registration statements.....	1, 823
Supplemental prospectus material, not classified as amendments to registration statements.....	1, 112
Reports filed under section 15 (d) of the Securities Exchange Act of 1934 pursuant to undertakings contained in registration statements under the Securities Act of 1933:	
Annual reports.....	753
Current reports.....	2, 378

### EXEMPTION FROM REGISTRATION UNDER THE ACT

The Commission is authorized by section 3 (b) of the act to adopt rules and regulations granting exemptions from the registration requirements for issues of securities whose aggregate offering price to the public does not exceed \$300,000.

The Commission has adopted five regulations pursuant to this authority: Regulation A, a general exemption for small issues; regulation A-R, a special exemption for notes and bonds secured by first liens on family dwellings; regulation A-M, a special exemption for assessable shares of stock of mining companies; regulation B, an exemption for fractional undivided interests in oil or gas rights, and regulation B-T, an exemption for interests in oil royalty trusts or similar types of trusts or unincorporated associations.

Small offerings of securities may be made and sold to the public pursuant to a section 3 (b) exemption on the basis of a less complete disclosure than that required by the act in the case of a registered security. For example, regulation A provides for the filing of a simple letter of notification, containing limited information about the issuer and the offering, with the appropriate regional office of the Commission, and provides further that the offering may be made five business days thereafter.

It should be emphasized, however, that exemption from registration permitted under section 3 (b) carries no exemption from civil liabilities under section 12 for misstatements or omissions, or from the criminal liabilities for fraud under section 17. For the proper enforcement of these sections, the conditions for the availability of the exemptions provided under section 3 (b) include, with the exception of regulation A-R, the requirement that certain minimum information be filed with the Commission and that disclosure of certain information be made in sales literature, if any sales literature is used. While no prospectus need be used, selling literature must be filed in advance of its use.

#### Exempt Offerings under Regulation A

In the 1950 fiscal year 1,357 letters of notification were filed under regulation A, covering offerings in the aggregate amount of \$171,743,-472, compared with 1,392 filings totaling \$186,782,661 during the 1949

fiscal year. The 1950 fiscal year figures include 136 letters of notification covering stock offerings aggregating \$19,909,525 filed by companies engaged in some phase of the oil and gas business.

In addition to the 1,357 letters of notification filed in the 1950 fiscal year, 1,159 amendments to these letters of notification were received and examined and there were 1,844 filings of sales literature to be used in connection with such offerings.

Of 1,345 letters of notification covering completed offerings filed in the 1950 fiscal year, 787 covered proposed offerings of \$100,000 or less; 218 covered offerings for more than \$100,000 and less than \$200,000; and 340 covered offerings of more than \$200,000 but not more than \$300,000. Issuing companies made 1,134 of these offerings, stockholders made 199, and both issuers and stockholders joined in making the remaining 12. Commercial underwriters marketed 398 of the offerings, officers and directors or other persons not regularly engaged in the underwriting business handled 164, and there was no underwriting of the remaining 803.

The procedure for making an exempt offering under regulation A is simple. All that is necessary is to file the prescribed letter of notification, and such sales literature as the offeror intends to employ, with the appropriate regional office of the Commission five business days before the offering is to be made. In processing by the Commission this material is examined in the field and reviewed by the staff at the Commission's headquarters. This review involves a search for pertinent information in the Commission's extensive files and an examination to determine whether the exemption provided by the regulation is applicable to the particular case and whether the information filed discloses any violation of any of the acts administered by the Commission. The results of this review are made available promptly to the regional office. The Commission also follows the practice of cooperating with the proper local authorities in the States in which the securities are proposed to be offered by furnishing them significant data about the proposed offering.

#### **Exempt Offerings under Regulation A-M**

During the 1950 fiscal year the Commission received and examined 9 prospectuses covering an aggregate offering price of \$303,122 for assessable shares of mining corporations exempt from registration under this regulation.

#### **Exempt Offerings under Regulation B**

The Commission maintains a specialized unit in its headquarters office to administer regulation B and to advise and assist with technical phases of all offerings of oil and gas securities arising under other provisions of the Securities Act. In addition, the Commission maintains a petroleum geologist in Tulsa, Okla., who advises the Commission as to the development of tracts and wells in the Mid-Continent and Coastal regions. Development has been active in the Rocky Mountains during the 1950 fiscal year.

The exemption from registration provided by regulation B for fractional undivided interests in oil or gas rights is limited to a maximum aggregate offering price of \$100,000. Regulation B requires that

an offering sheet be filed with the Commission summarizing pertinent information regarding the security being offered.

In addition to 136 offerings under regulation A which covered oil and gas securities, 88 offering sheets and 61 amendments were filed under regulation B during the 1950 fiscal year. The following actions were taken on these filings:

*Action taken on filings under regulation B*

Temporary suspension orders (rule 340 (a)).....	14
Orders terminating proceedings after amendment.....	8
Orders consenting to withdrawal of offering sheet and terminating proceeding.....	1
Orders terminating effectiveness of offering sheet (no proceeding pending).....	8
Orders consenting to withdrawal of offering sheet (no proceeding pending).....	1
Orders accepting amendment of offering sheet (no proceeding pending).....	34
<b>Total orders.....</b>	<b>66</b>

*Confidential written reports of sales under regulation B.*—Another function of the Commission in the administration of regulation B is to determine from confidential written reports of actual sales that no violations of law occurred in the marketing of oil and gas securities exempted under this regulation. Such reports are required to be filed pursuant to rules 320 (a) and 322 (c) and (d) concerning sales made by broker-dealers to investors and by dealers to other dealers. During the 1950 fiscal year 1,132 such reports were received with respect to aggregate sales of \$829,875.

*Oil and gas investigations.*—Most oil and gas investigations arise out of complaints received by the Commission. They are conducted primarily to ascertain whether there has been any violation of section 5, which requires registration, or of section 17, which prohibits fraud in securities transactions.

A typical investigation was made in the 1950 fiscal year to determine whether certain claims of profits in sales literature used to sell oil royalties under regulation B were misleading. The offering circular claimed that the royalties would return a profit of 8 to 12 percent and would be a better investment than most stocks and bonds. The staff made an extensive study of the total income received from royalties sold by the offeror under offering sheets relating to as many as 46 tracts since 1940. Inasmuch as information as to production and income from these tracts was not a matter of published record, a large part of the necessary data was obtained from the producer and the purchaser of the oil. It was found that out of the 46 tracts under review, only 2 had returned the capital invested, with a profit; 4 should eventually do so, with a modest profit; and of the remaining 40 tracts only a very few can reasonably be expected ever to return even as much as the capital invested.

The offeror agreed to cease claiming an 8 to 12 percent yield, to cease comparing any return on these royalties with that available from stocks and bonds, and to describe his royalties as liquidating assets the return from which cannot be regarded as profit until the capital invested has been recovered by the purchaser.

The Commission instituted 10 new investigations involving oil and gas securities during the 1950 fiscal year and 23 such cases were closed. This brought the total pending during the year to 135 and the number pending at the close of the year to 112. As a result of evidence developed in two cases, the Commission secured injunctions in the courts restraining violations of the registration and antifraud provisions of the act. The facts in two other cases were referred to the Department of Justice for criminal prosecution, in which the Commission cooperated. The conviction of Claude Cleve Alfred in connection with fraudulent sales of oil securities is mentioned in another section of this report.

### FORMAL ACTION UNDER SECTION 8

The purpose of the Commission's informal procedures in processing registration statements is to get registration statements which comply with the requirements of the act before the statements become effective. In almost all cases conference and comment by letter are sufficient both for the needs of the registrant and for the adequate protection of investors. It is sometimes necessary, however, for the Commission to exercise its powers under section 8 in order to prevent a registration statement from becoming effective in deficient or misleading form or to suspend the effectiveness of a registration statement which has already become effective.

Under section 8 (b) the Commission may institute proceedings to determine whether it should issue an order to prevent a registration statement from becoming effective. Such proceedings are authorized if the registration statement as filed is on its face inaccurate or incomplete in any material respect. Under section 8 (d) proceedings may be instituted at any time to determine whether the Commission should issue a stop-order to suspend the effectiveness of a registration statement if it appears to the Commission that the registration statement includes any untrue statement of a material fact or omits to state any material fact required to be stated or otherwise necessary to make the statements included not misleading. Under section 8 (e) the Commission may make an examination to determine whether to issue a stop-order under section 8 (d).

#### Stop-order Proceedings under Section 8 (d)

Two stop order proceedings were pending at the beginning of the 1950 fiscal year and one was instituted during the year under section 8 (d). These cases are described below.

*Pan American Gold Limited (no personal liability)*—*File No. 2-7603*.—This Canadian company filed a registration statement covering 1,983,295 of its common shares, \$1 par value, to be offered at 45 cents per share and net about \$670,500 to the issuer. According to the registration statement, these proceeds were to be used (1) for the exploration of a gold mining prospect located in South Dakota, and (2) for the equipment of a South American gold placer mining property.

Upon examination the registration statement appeared to contain materially misleading representations, and in the 1949 fiscal year the Commission authorized a private examination under section 8 (e) to

determine the adequacy and accuracy of certain of these representations and to determine whether stop-order proceedings should be instituted. On the basis of testimony adduced at the examination, stop-order proceedings were instituted. Following these proceedings and after the registrant filed amendments to the registration statement which substantially corrected deficiencies, the Commission issued its opinion, deferring issuance of a stop-order pending correction by the registrant of the remaining deficiencies, at which time the registration statement could become effective.<sup>9</sup>

The Commission found that the original registration statement was materially misleading in numerous respects. The prospectus filed as a part of the original registration statement contained information to the effect that the registrant's South Dakota property is located along the southern border of the famous Homestake Mine. A map, forming a part of the prospectus, showed what purported to be the southeasterly "trend" of the Homestake gold ore bodies into and through the registrant's property. This representation was said to rest on the authority of United States Geological Survey Atlas Folio 219. The Commission found that the map was not supported by such folio and that the registrant had no factual basis for portraying the extension of the Homestake ore bodies into and through its property. The prospectus was amended to omit this unjustifiable claim and also to delete a report on the property which the Commission held to be materially inaccurate, inadequate, and misleading. In addition it was amended to show for the first time that the registrant was aware of several unfavorable geological reports made after exploratory drilling.

The South American property of the registrant was described originally in the registration statement as being ready for productive operation upon installation of mining equipment. The amount of commercial gravel said to be available for mining was estimated at a minimum of 5,000,000 cubic yards averaging \$1 per cubic yard in gold. The planned rate of production was said to be at least 1,000,000 cubic yards of gravel per year. The registrant stated that it believed that operations on the property should enable it to obtain steady earning power from this property. The amended registration statement discloses that the registrant made no investigation of the property, and has no factual information about the presence, extent, or character of gravel deposits on the property. The prospectus, as revised, shows that the registrant intends to test the property as an initial step in order to determine whether it warrants the installation of machinery for production. Specifically, it is stated in the revised prospectus: "If the further exploratory work and shafting as contemplated do not show sufficient values to justify further development, this property will be abandoned."

*The Maumee Oil Corporation—File No. 2-7976.*—This case was completed during the 1950 fiscal year although instituted previously. The company was incorporated in Ohio on July 30, 1947 and on May 11, 1949 filed a registration statement covering 8,000 shares of no par value common stock to be offered at \$100 a share. Its assets consisted

<sup>9</sup> Securities Act release No. 3368.

of assignments of oil and gas leases and an undivided one-half interest in four wells (two of which were not productive) in the Beddo field in the vicinity of Ballinger, Runnels County, Tex. After examination of the registration statement, stop-order proceedings were instituted on May 27, 1949.

From information developed at the hearing it appeared that the registration statement failed to disclose that the Beddo field was an inferior field which seldom, if ever, marketed more than 60 percent of its allowable production, and often much less, and that the number of dry holes in the field exceeded the number of producing wells. The registration statement also failed to provide adequate information with respect to the wells in which the registrant had an interest. The prospectus stated that two of the four wells were unproductive, but it failed to state that the other two producing wells had no reasonable chance of profitable production and were being operated on a day to day basis only because this was more economical than to abandon them.

At the time the registration statement was filed the registrant was in possession of two reports from geologists which indicated that, at best, only 5 percent of the registrant's acreage had a reasonable chance to produce oil in any amount. The Commission held that in such circumstances, where there had been significant exploration in the area indicating that the possibilities of success were extremely remote, it was misleading to imply a fair chance of profit by describing the offering as "speculative," or to state or imply that the area in which the registrant's properties were located had not been proved, or that the registrant's own acreage should be regarded as unproved. As to the registrant's plan for new drilling, to be financed with proceeds from the sale of the securities sought to be registered, it was held misleading for the registrant to characterize the projected wells as "exploratory" without disclosing the information in its possession indicating that since the projected wells were to be located in the vicinity of its existing unprofitable wells there was no reasonable factual basis for an expectation that new wells would be better than the existing wells.

The registration statement and prospectus failed to name Eldridge S. Price as a promoter although required to do so by the Commission's rules, and to provide a fair disclosure of the registrant's dealings with him. Price, although not an officer, director, or stockholder, sold assignments of oil and gas leases on some 2,677 acres of his holdings in Runnels County, Tex., to the persons who became the original shareholders of the company. Price received about \$290,340, about 92 percent of all the money obtained by the registrant from the sale of securities. The original amount paid to Price was \$43.75 an acre, but this was later raised to \$100 although Price was apparently at the same time acquiring additional acreage for about \$1 per acre.

The Commission's opinion mentions other omissions and inconsistencies in the registration statement relating to such matters as the amount of the offering, the liability of certain shareholders for assessment, the business experience of officers, inaccurate financial statements, and the failure to file material exhibits.<sup>10</sup> At the close of

<sup>10</sup> Securities Act release No. 3354.

the 1950 fiscal year the registrant had not attempted to correct the deficiencies found to exist in its registration statement and the stop order was still in effect.

*Ralph A. Blanchard and George P. Simons, doing business as Northwest Petroleum—File No. 2-8243.*—The registration statement filed in this case covered 350 “undivided Fractional Participating Interests (Oil)” to be offered for sale to the public at an aggregate price of \$175,000. The Commission, alleging generally that there is reasonable cause to believe that the disclosures contained in the registration statement and prospectus are inaccurate and incomplete in material respects, challenging 19 items specifically, instituted stop-order proceedings during the 1950 fiscal year that were still pending at the close of the year.<sup>11</sup>

#### DEFICIENCIES DISCOVERED IN EXAMINATION OF REGISTRATION STATEMENTS

The examination of registration statements during the waiting period brings to light many deficiencies in the registration statements which would, if undiscovered, be published and furnished to investors. These are sometimes corrected; often they are of such material character that the statements are withdrawn on discovery of the deficiency. The following are examples of deficiencies discovered in examination of registration statements.

##### Overstated Oil Reserves

An oil-producing company filed a registration statement covering \$2,937,254 of 4½ percent senior cumulative interest debentures, due January 1, 1965; \$1,147,150 of 5 percent junior income debentures, due January 1, 1970; 30,500 shares of \$5 cumulative class A preferred stock, no par; 51,000 shares of \$5 cumulative class B preferred stock, no par; and 2,000 shares of common stock, no par.

Prior to the formation of the company, the promoters of its predecessors had sold working interests in oil leases, in which the promoters retained overriding royalties, to some 350 investors in and around Boston. These royalties and other assets were subsequently conveyed to the company by the promoters. The company appears to have been continuously short of working capital although, in addition to substantial loans from insurance companies and banks, it had received additional funds from a syndicate composed of some of the original investors in the leases. A plan of reorganization was devised which provided for: (1) A large loan from the RFC; (2) the acquisition of additional oil properties; (3) the repayment of part of the outstanding loans; and (4) payments in cash and new securities for the properties owned and to be acquired. The Commission determined that the proposed offering of debentures, preferred stock, and common stock, in addition to cash, to the 350 investors was a public offering and required the filing of a registration statement.

It became apparent upon review by the Commission of the reports prepared by various petroleum engineers in respect of the company's oil and gas reserves, and after conference with such engineers, that

<sup>11</sup> Securities Act release No. 3367.

the reserve estimates were too high, that upon a reasonable estimate of these reserves there was no present value behind the securities proposed to be offered, and that the prospects of any future values were remote and contingent. Consequently the company proposed, in lieu of furnishing an estimate of oil and gas reserves in the registration statement, to state the fact that the securities being offered were without present value and of extremely remote and contingent future value, and also to make a more detailed statement of such facts on the second page of the prospectus. This amendment was made and resulted in furnishing to prospective purchasers in a readily understandable form the ultimate conclusion as to the effect of the factors of value—such as the estimated amount of reserves, the dollar value of oil, lifting costs, and rate of extractions—instead of a mere itemization of these factors themselves.

#### **Understatement of Liability**

The adoption of pension plans during the year presented new problems to some registrants as in the case of a registrant which adopted a 5-year plan to become effective on a date within an interim period for which unaudited financial statements were furnished as permitted by the rules. The company's financial statements filed with the Commission included a charge to profit and loss for the interim period proportionate to the total estimated cost for the 5-year period with an equivalent amount reflected in the balance sheet as a liability. Examination of the plan indicated that in the first year a much larger number of employees would be eligible under the plan than in the succeeding years due to the fact that all employees over the required age and term of service for eligibility could claim their pension rights immediately, although not all of them were expected to do so. When this feature was called to the attention of the registrant the financial statements were amended to increase the liability shown in the balance sheet under the pension plan from the previous estimate of approximately \$500,000 to \$2,000,000, of which \$400,000 was classified as current. The previously determined accrual was charged to profit and loss and the remaining \$1,500,000 was set up as a deferred charge to be allocated against future operations. A comprehensive footnote described the pension plan and indicated that the liability included in the balance sheet was based upon the best indication at the date of filing of the intention of eligible employees to retire within the terms of the plan.

#### **Restatement of Reserves**

A company filing a registration statement covering 76,983 shares of 4½ percent cumulative preferred stock owned several old established operating mining companies, which followed a widespread practice of making no provision for depletion of their mining properties. However, in its latest balance sheet accompanying the registration statement the parent company reflected a reserve for contingencies amounting to \$4,000,000, created by a charge to earned surplus "for the eventual write-off of its investment direct or indirect in mining property upon the exhaustion of any such property." It appeared to the staff that one of the mines, the mining property of which was carried at \$4,388,410, was practically in a salvage status. The reserve, previously described as a contingency reserve, was thereafter changed

to "Reserve for exhaustion of mining property," and shown in the company balance sheet as a deduction from the carrying value of the investments in the mining companies and in the consolidated balance sheet as a deduction from the carrying value of mining property. In each case, the carrying value was thereby reduced \$4,000,000 thus giving unambiguous recognition to the status at the balance sheet date, which in the original filing could be determined only by a very careful reading of pertinent parts of the text of the prospectus.

A significant amendment to the prospectus was also obtained in view of the indications in the text that one of the principal mines of the company was practically exhausted. The summary of earnings was amended to call attention to the present status of the company's principal revenue-producing mine.

#### **Statement of Potential Profits**

A company in the promotional stage included in its prospectus a statement indicating the company's estimate of annual production in units of the items to be manufactured and gave the estimated factor prices of the units, so that a gross sales estimate could have been calculated by a prospective investor. The estimated annual cost of operations was given in round figures, with a minimum of detail, and omitting certain important elements of cost such as depreciation, maintenance, repairs, and rents. The over-all effect was to imply that substantial profits might be realized by the company, despite the disclaimer contained in the prospectus to the effect that the company could not assure the rate of production upon which the estimates were based or that the prices quoted would be received for the product. When these uncertainties were pointed out the registrant deleted those elements of the presentation which provided the basis for possible misleading calculations of profit.

#### **Failure to Disclose History and Risks Involved**

A company, organized in 1947 as the successor to companies which have been engaged since 1945 in developing a small automobile, filed a registration statement on May 10, 1949 covering 5,000,000 shares of common stock to be offered to the public at \$1 per share through an underwriter pursuant to a "best efforts" arrangement. The prospectus stated that the registrant's first product was to be a station wagon.

As a result of inadequacies cited by the staff in its letter of comment, the prospectus was extensively revised and disclosed, among other things, that: (1) None of the registrant's 18 existing model cars met the exact specifications proposed for the car to be built, and additional testing was required which might result in substantial design changes, increased preproduction expense, and production delays; (2) the registrant and its predecessors in the period from October 8, 1945 to June 30, 1949 had received \$2,271,482 in cash, including \$1,476,633 for dealer and distributor franchise fees, and had paid out \$2,150,198, including \$656,351 for salaries and wages; (3) the registrant's balance sheet at June 30, 1949 showed assets in excess of liabilities of only \$12,026; (4) the registrant's cost estimates and production plans were predicated upon the attainment of an annual production and sales volume which represented approximately 70 percent of the entire

United States domestic station wagon market, based on production figures for the 18 months ended June 30, 1949; (5) if substantially all of the proceeds of the issue were not received it would be necessary to reduce the proposed production program and to raise the selling price of the car, in which event it might be difficult, or impossible, to overcome the resultant competitive disadvantages; and (6) there was no provision for the return of funds to the purchasers of the stock if the registrant were unable to sell all the shares being offered and carry out its plans. The registration statement as amended became effective October 3, 1949.

On February 17, 1950, the registrant filed a petition for reorganization pursuant to chapter X of the Bankruptcy Act, and was declared bankrupt May 19, 1950. No shares covered by the registration statement had been sold.

#### **Questionable Selling Activities**

A registration statement of a Montana corporation, proposing to engage in the manufacture and sale of ground wood pulp, became effective in August 1949. The corporation was in the promotional stage, its tangible assets consisting of a plant site in Montana and about \$150,000 obtained from the sale of securities in Montana several years before. The registration statement included a report of a forestry expert which indicated that the best source of timber for the project would be in Montana, north of the plant site. Shortly after the registration statement became effective, it was learned that the corporation was receiving extensive publicity in the Idaho-Washington area about a proposed purchase of land in Idaho for the purpose of constructing a paper and pulp plant there. Investigation by the Commission's regional office revealed that the land had been purchased and, moreover, that the corporation had been making sales of stock in Montana without using a prospectus required by the Securities Act and without a proper license from the State of Montana.

Following this investigation, the corporation filed an amended prospectus which referred to the purchase of land in Idaho, implying that it might be used for timber-storage purposes and justifying the purchase on the grounds that funds for that purpose had not been obtained from its offering of registered securities. The corporation was requested to reconcile the proposed use of the Idaho property with the above-mentioned report of its forestry expert, and to point out in the prospectus that the use of funds in Idaho was not consistent with representations made in selling literature employed in the original sale of securities in Montana, namely that all proceeds would be used to construct a plant in Montana. The registrant canceled its agreement to purchase the Idaho property and offered to make rescission to all purchasers of stock who had not received a proper prospectus.

#### **CHANGES IN RULES, REGULATIONS, AND FORMS AFFECTING EXEMPT SECURITIES**

*Regulation BW—Reports of International Bank for Reconstruction and Development.*—Section 15 (a) of the Bretton Woods Agreements Act, which was added to that act by the Eighty-first Congress and

approved by President Truman on June 29, 1949, exempts from registration under both the Securities Act of 1933 and the Securities Exchange Act of 1934 securities issued, or guaranteed both as to principal and interest, by the International Bank for Reconstruction and Development. However, the bank is required to file with the Commission such annual and other reports with respect to such securities as the Commission shall determine to be appropriate, in view of the special character of the bank and its operations, and necessary in the public interest and for the protection of investors. The Commission has heretofore expressed its opinion that an exemption is available under the Trust Indenture Act of 1939.

New rules and regulations were adopted on January 9, 1950, designated regulation BW, to require the bank to file with the Commission substantially the same information, documents, and reports as would be required if the bank had securities registered under the Securities Exchange Act of 1934. The bank is required also to file a report with the Commission not less than 7 days prior to the date on which any of its primary obligations are sold to the public in the United States. This report and the periodic reports filed make available at the Commission information quite similar to the information which would be required in a registration statement under the Securities Act of 1933. This carries out the intention which the Commission expressed to the Congress when the amendment to the Bretton Woods Agreement Act was under consideration.

The Commission announced at the same time that it was informed by the bank that no public offering of securities guaranteed by the bank was presently contemplated.<sup>12</sup> Accordingly, the new rules, insofar as they require the reporting of the proposed public sale of securities, were limited to the sale of primary obligations of the bank.

The Commission at the same time rescinded certain rules previously adopted under the Securities Act of 1933 and the Securities Exchange Act of 1934 with particular reference to the bank.

*Regulation A—General exemption for small issues.*—Three amendments to regulation A, which provides an exemption from registration under the Securities Act for certain small issues, were adopted by the Commission during the 1950 fiscal year.<sup>13</sup>

The first of these amendments raised from \$100,000 to \$300,000 the amount of the aggregate offering price of securities which may be offered by the estate of a deceased person for the purpose of paying taxes or other expenses of the estate. There are situations in which the deceased person did not stand in a control relation with the issuer but in which the executor or administrator (because of direct or indirect holdings of his own) does stand in such a relationship and would be prevented from selling without registration. The enlarged exemption is available, however, only if the deceased person was not in a control relationship with the issuer and would not have been required to register the securities if the offering had been made by him prior to his death.

<sup>12</sup> Bretton Woods Agreements Act release No. 1. For a further discussion see p. 164 of this report.

<sup>13</sup> Securities Exchange Act release Nos. 3352, 3370, and 3377.

The second amendment is intended to prevent the commencement or continuance of the sale of securities under regulation A during the pendency of injunction proceedings instituted by the Commission. Under a literal construction of the rule previously in effect, a person who had filed a letter of notification under which a portion of the securities thereby qualified remained unsold might continue to sell (insofar as the rule was concerned) such securities without registration despite the pendency of an action instituted by the Commission to enjoin the issuer or other person affiliated with the issuer from engaging in or continuing any conduct or practice in connection with the sale of any security of such issuer.

It is obviously inconsistent with the Commission's action in securing an injunction to prevent violations of the act to continue in effect a discretionary exemption which might tend to a substantial degree to nullify the relief being sought.

The third amendment makes it clear that the maximum aggregate amount of securities which may be sold under regulation A in any 12-month period is \$300,000 in actual gross proceeds from the public. The amendment was made to correct an erroneous impression in some quarters that if the initial offering price did not exceed that amount, the entire offering might be sold for an actual aggregate price to the public exceeding \$300,000.

### LITIGATION UNDER THE SECURITIES ACT

The bulk of litigation in connection with the enforcement of the Securities Act deals with persons who fail to register securities before offering them to the public as required by section 5 and persons who make fraudulent security sales in violation of section 17. Violations of section 5 deprive the public of information essential to intelligent investing and violations of section 17 involve outright deception of public investors. In either situation, maximum protection is afforded to the public by enjoining further sales. For this reason, it is customary for the Commission to enjoin the illegal activities promptly, even though criminal action may be instituted later.

Some cases involve violations of both sections of the act; some include also violations of other acts administered by the Commission, particularly the Securities Exchange Act of 1934, which contains antifraud provisions.

During the course of the year the Commission obtained temporary or permanent injunctions against further violations of section 5 in cases involving sales of securities of mining companies,<sup>14</sup> oil and gas corporations,<sup>15</sup> and other types of business.<sup>16</sup> As in the past, some

<sup>14</sup> *S. E. C. v. Pilot Silver-Lead Mines, Inc.*, Civil Action No. 747, E. D. Wash., Aug. 5, 1949; *S. E. C. v. Lucky Friday Extension Mining Co.*, Civil Action No. 714, E. D. Wash., Aug. 5, 1949; *S. E. C. v. Silver Creek Precision Corp.*, Civil Action No. 50-663, S. D. N. Y., July 8, 1949; *S. E. C. v. James R. Davies, Sr.*, Civil Action No. 2673, D. Idaho, Aug. 19, 1949, and *S. E. C. v. Alhambra Gold Mine Corp.*, Civil Action No. 11820, S. D. Calif., Aug. 1, 1950.

<sup>15</sup> *S. E. C. v. F. L. Rigney Co.*, Civil Action No. W 75, D. Kan., Feb. 24, 1950; *S. E. C. v. Aloha Oil Co.*, Civil Action No. 4463, W. D. Okla., June 30, 1949, and *S. E. C. v. H. A. Tucker*, Civil Action No. 4724, W. D. Okla., Feb. 28, 1950.

<sup>16</sup> *S. E. C. v. Westates Agricultural Chemical Co.*, Civil Action No. 582, E. D. Wash., Nov. 2, 1949; *S. E. C. v. Garrette W. Peck, et al.*, Civil Action No. 11337-WM, S. D. Calif., May 5, 1950 (laboratories); *S. E. C. v. Johnson Machine Works, et al.*, Civil Action No. 1892, N. D. Tex., Oct. 5, 1949; *S. E. C. v. Automatic Systems Corp., et al.*, Civil Action

of the securities sold were not in conventional form. For example, in the Chinchilla Chateau case<sup>17</sup> promoters offered unregistered investment contracts evidenced by purchase agreements for among other things, pairs of live chinchillas.

Some of the recurring types of misrepresentation are illustrated in the following cases. In *S. E. C. v. Helcolicon Mines, Inc., et al.*,<sup>18</sup> the court enjoined further sales of the stock of Helcolicon Mines upon a showing that the individual defendants had falsely represented, among other things, that tests in an area covered by the company's mining claims had established the existence of gold in sufficient quantities and value to justify large-scale operations and that the Reconstruction Finance Corporation and certain banks in Alaska had agreed to participate in production loans to the company aggregating \$1,000,000 as soon as minerals in the ground covered by its claims had been evaluated to the extent of \$2,000,000. In *S. E. C. v. Charles A. Howe and Maryland-Nevada Operating Co., Inc.*,<sup>19</sup> defendants were enjoined from violating both sections 5 and 17 of the act on the basis of a complaint charging that, in order to sell investment contracts, they falsely stated that they intended to operate certain mining equipment to recover, by using a special process, commercially valuable gold from about 100 miles of beach on the west coast of California. *S. E. C. v. Diamonds & Metals Exploration Co., Inc., et al.*<sup>20</sup> was another mining case where the defendants were enjoined from violations of both sections 5 and 17 of the act. Violation of both sections were also enjoined in several oil promotions during the past year.<sup>21</sup>

An injunction was issued in *S. E. C. v. Empire Insurance Agency and Jeff B. Burlison*<sup>22</sup> upon a complaint that the defendants made untrue statements with respect to the amount of stock of the corporate defendant subscribed during the first week of public offering, with respect to the retention of a sizable surplus after paying a dividend and with respect to leases entered into for occupancy of a building to be constructed.

Industrial promotions which resulted in injunctions for violations of both sections 5 and 17 included: *S. E. C. v. Claytonian Manufacturing Corp., Inc., et al.*,<sup>23</sup> *S. E. C. v. Co-op Insurance Co., et al.*,<sup>24</sup> *S. E. C. v. Alfred L. Lodge, et al.*<sup>25</sup> and *S. E. C. v. Trusteed Funds, Inc.*<sup>26</sup> An injunction based on violation of both these sections was

No. 1750, W. D. Tenn., Feb. 17, 1950; *S. E. C. v. Chinchilla Chateau, Inc., et al.*, Civil Action No. 419-50, D. N. J., June 19, 1950; *S. E. C. v. Ferrel Industries, Inc.*, Civil Action No. 28263H, N. D. Calif., Aug. 29, 1949 (weapons); *S. E. C. v. South Pacific Engineering Corp., et al.*, Civil Action No. 5135, D. Oreg., Jan. 12, 1950 (timber and mineral concessions in Ecuador).

<sup>17</sup> See footnote 16, *supra*.

<sup>18</sup> Civil Action No. 1401, W. D. Michigan, N. O. 8, 1949.

<sup>19</sup> Civil Action No. 1290, D. Del., Mar. 6, 1950.

<sup>20</sup> *S. E. C. v. Diamonds & Metals Exploration Co., Inc., et al.*, Civil Action No. 2468, W. D. Wash., Feb. 10, 1950.

<sup>21</sup> *S. E. C. v. William Seyler, et al.*, Civil Action No. 122 CD, D. S. D., Apr. 13, 1950; *S. E. C. v. The Stevens-Stephens Co., Inc., et al.*, Civil Action No. 1943, N. D. Tex., Feb. 24, 1950; *S. E. C. v. Alwyn H. Wild, et al.*, Civil Action No. 52-162, S. D. N. Y., Oct. 25, 1949; *S. E. C. v. Northwest Petroleum, Ltd., et al.*, Civil Action No. 5188, D. Oreg., disposition pending.

<sup>22</sup> Civil Action No. 1573, D. N. Mex., Dec. 8, 1949.

<sup>23</sup> Civil Action No. 50-180, D. Mass., Mar. 15, 1950.

<sup>24</sup> Civil Action No. 1496, D. Ariz., June 30, 1950.

<sup>25</sup> Civil Action No. 50-92, D. Mass., Feb. 9, 1950.

<sup>26</sup> Civil Action No. 8622, D. Mass., Sept. 9, 1949. Although the complaint alleged violations of the prospectus and antifraud provisions of the Securities Act, this case is described below at page 14 in connection with its Investment Company Act aspects.

also obtained in *S. E. C. v. James M. Cuzzo*<sup>27</sup> to terminate a "Ponzi" type scheme, the defendant having paid back as fictitious profits part of the proceeds from sales of investment contracts.

In *S. E. C. v. Cleo F. Ramsey*<sup>28</sup> a complaint seeking an injunction is presently pending to prevent further sales of stock in corporations which the defendant allegedly falsely represented to have extensive and valuable rights, concessions, and properties in Peru. Further action is also pending in *S. E. C. v. Mercer Hicks Corp.*,<sup>29</sup> a case in which a broker-dealer who had formerly operated as a sole proprietor attempted to continue his business in corporate form by selling the corporation's stock to the public. No section 5 violation was charged because a letter of notification had been filed pursuant to the requirements of the Commission's rules relating to the exemption of small offerings. But the complaint alleged that in the course of sales of stock there were many violations of section 17. Among them were failure to disclose the existence of substantial operating deficits and the fact that dividends had been paid out of capital surplus contributed by investors in the stock; falsely representing that the corporation was earning money when it was actually losing money; and appropriating customers' cash and securities without their knowledge or consent and substituting the stock of Mercer Hicks Corp. Subsequent to the close of the fiscal year a preliminary injunction was obtained by the Commission. The Commission also requested the appointment of a receiver but withdrew its motion when a receiver was appointed under the New York Martin Act.

As an aid to its investigative function, the Commission often finds it necessary to subpoena witnesses or their records. If Commission subpoenas are resisted the Commission applies to the courts for an order directing the production of the witnesses or documents. Two cases during the past year arose out of such applications to the court. They were *S. E. C. v. Coeur D'Alene Consolidated Silver-Lead Mines, Inc. et ano*<sup>30</sup> and *S. E. C. v. Alhambra Gold Mine Corp. et al.*<sup>31</sup> The Commission was successful in both instances and the documents requested were produced.

<sup>27</sup> Civil Action No. 8413, D. Mass., July 11, 1949.

<sup>28</sup> Civil Action No. 2233, W. D. Wash. (pending).

<sup>29</sup> Civil Action No. 5896, S. D. N. Y. (pending).

<sup>30</sup> Civil Action No. 836, E. D. Wash., Aug. 3, 1949.

<sup>31</sup> Civil Action No. 10843M, S. D. Calif., Jan. 4, 1950.

## PART II

### ADMINISTRATION OF THE SECURITIES EXCHANGE ACT OF 1934

The Securities Exchange Act of 1934 is designed to eliminate fraud, manipulation, and other abuses in the trading of securities both on the organized exchanges and in the over-the-counter markets, which together constitute the Nation's facilities for trading in securities; to make available to the public information regarding the condition of corporations whose securities are listed on any national securities exchange; to provide for the regulation of proxies respecting listed securities; and to regulate the use of the Nation's credit in securities trading. The authority to issue rules on the use of credit in securities transactions is lodged in the Board of Governors of the Federal Reserve System, but the administration of these rules and of the other provisions of the act is vested in the Commission.

The act provides for the registration of national securities exchanges, brokers, and dealers in securities, and associations of brokers and dealers.

#### REGULATION OF EXCHANGES AND EXCHANGE TRADING

##### Registration and Exemption of Exchanges

Section 5 of the act requires each securities exchange within the United States or subject to its jurisdiction to register with the Commission as a national securities exchange or to apply for exemption from such registration. Exemption from registration may be granted to an exchange which has such a limited volume of transactions effected thereon that, in the opinion of the Commission, it is not practicable and not necessary or appropriate in the public interest or for the protection of investors to require its registration.

At the close of the 1950 fiscal year the following 16 exchanges were registered as national securities exchanges:

Boston Stock Exchange	New York Stock Exchange
Chicago Board of Trade	Philadelphia-Baltimore Stock Exchange
Cincinnati Stock Exchange	Pittsburgh Stock Exchange
Detroit Stock Exchange	Salt Lake Stock Exchange
Los Angeles Stock Exchange	San Francisco Mining Exchange
Midwest Stock Exchange	San Francisco Stock Exchange
New Orleans Stock Exchange	Spokane Stock Exchange
New York Curb Exchange	Washington Stock Exchange

Four exchanges were exempted from registration at the close of the 1950 fiscal year. These were:

Colorado Springs Stock Exchange	Richmond Stock Exchange
Honolulu Stock Exchange	Wheeling Stock Exchange

In the latter part of 1949, the Chicago, Cleveland, and St. Louis Stock Exchanges, all registered national securities exchanges, and the Minneapolis-St. Paul Stock Exchange, an exempted exchange, entered

into an agreement providing for the consolidation of their membership and operations. The plan of consolidation became effective on December 1, 1949, and provided that the Chicago Stock Exchange would have the status of a continuing exchange with its name changed to the Midwest Stock Exchange. Accordingly, the registration of the Chicago Stock Exchange as a national securities exchange continued in effect for the new Midwest Stock Exchange; the other three exchanges were liquidated and the registration of the Cleveland and St. Louis Stock Exchanges and the exemption of the Minneapolis-St. Paul Stock Exchange were withdrawn. A majority of the members of the three liquidated exchanges acquired membership in the Midwest Stock Exchange, and a majority of the issuers of securities listed on such exchanges transferred their listing and registration to the new exchange. Headquarters of the Midwest Stock Exchange is in the city of Chicago, and branches have been opened in the cities of Cleveland and St. Louis. These branches are connected directly with the exchange floor in Chicago by private duplex teletype and buy and sell orders are transmitted from the branches over these wires to Chicago. These two branches serve also as local clearing offices for receipt and delivery between member firms, in their respective cities, of items which have been processed through the clearance department in Chicago. Thus, member brokers in branch office cities, as well as those in other cities using the clearing-by-mail plan (an innovation developed by the Chicago Stock Exchange during the past several years) are able to handle their own orders without the intermediary services of a Chicago correspondent clearing house member firm. The consolidation was intended to enlarge and broaden markets in the Midwest for stockholders in that section of the country.

Effective January 1, 1950, the Commission revised its forms and rules pertaining to the registration and exemption of exchanges.<sup>1</sup> The purpose of the revision was to simplify the application for registration as a national securities exchange, or for exemption from such registration, and to reduce the number of formal amendments required to be filed in keeping the information contained in such an application up to date. As in the previous form, the revised form of application requires an exchange to furnish information about its organization, rules of procedure, trading practices, membership requirements, and related matters. The revised application has eliminated the need for an exchange to duplicate in the statement, which is part of the application, many items of information which experience has shown are furnished in its constitution and rules filed as an exhibit to the application. Under the revised procedure an exchange ordinarily will be required to file a formal amendment only once each year. Changes effected during the year are to be reported by an exchange either by letter or by the filing of copies of notices made generally available to its members. In view of the substantial number of amendments which had been filed by each exchange to its original application in 1934, the Commission requested each registered and exempted exchange to file as an amendment a complete new application on the revised form prior to June 30, 1950.

<sup>1</sup> Securities Exchange Act release No. 4888.

Including the amendments containing the revised applications, the exchanges filed a total of 50 amendments during the fiscal year. While many of these amendments contained only periodic information required by the rules, such as membership lists, names of officers and directors of the exchange and financial statements of the exchange many other changes relating to the internal operations of the exchanges also were reflected in these amendments. Each amendment was reviewed to ascertain whether the changes reflected therein were in the public interest and complied with the provisions of the act. The nature of the changes effected in the exchanges' rules and trading practices varied considerably; some of the more significant changes occurring during the fiscal year are briefly outlined below:

Boston Stock Exchange amended its rules relating to the execution of odd-lot orders in securities having a primary market on another exchange. The amendment provides that unless otherwise specifically requested such orders involving less than five shares would be filled on the basis of the last reported round-lot transaction occurring on the exchange on which the primary market for the security exists. Previously all odd-lot orders were required to be executed on the basis of the next round-lot transaction occurring on the primary exchange.

Cincinnati Stock Exchange amended its rules with respect to the execution of odd-lot orders in securities dually traded on that exchange and either the New York Stock or New York Curb Exchange, to permit the execution of such orders on a round lot sale occurring on the Cincinnati Stock Exchange, subject to certain conditions. Previously all odd-lot orders in such securities were required to be executed on an appropriate round-lot sale occurring on a New York exchange.

Detroit Stock Exchange amended its rules to permit members to transact business for nonmembers who are members of the National Association of Security Dealers, Inc., at a commission rate of not less than 60 percent of the usual minimum nonmember commission rates. This follows a procedure adopted by several west coast exchanges some years ago.

Boston, New York, and San Francisco Stock Exchanges and New York Curb Exchange amended their rules to permit registered employees of members to be compensated on a commission basis as well as on a salary basis.

New York Stock Exchange amended its constitution to provide for an increase in the size of its board of governors and to change the composition thereof. This exchange also adopted new general qualifications for the listing of securities. It revised its schedule of listing fees and discontinued the optional method of permitting issuers to pay the listing fee for additional shares on a lump-sum basis rather than on an annual continuing fee basis. Its board of governors approved and submitted to the membership for vote a proposed general amendment to its constitution to provide for the permissive incorporation of members firms and the admission of corporations, under prescribed restrictions, as member corporations. The proposed amendment was disapproved by the membership.

After conferences between New York Stock Exchange and members of the Commission's staff, the exchange again modified its floor-trading rules which had been originally adopted in 1945. Shortly thereafter,

New York Curb Exchange revised its floor trading rules to conform with those of New York Stock Exchange. The revised rules removed certain restrictions on floor traders' purchases at prices below the previous day's close and permitted a limited amount of purchases above the last sale price even if this purchase price exceeded the previous day's close. Some restriction was placed for the first time on the number of purchases a floor trader could effect on his bid at rising prices. These exchanges also adopted a rule forbidding floor traders from congregating in or dominating the market.

#### **Disciplinary Actions by Exchanges Against Members**

Each national securities exchange, pursuant to a request of the Commission, reports to the Commission any action of a disciplinary nature taken by it against any of its members or against any partner or employee of a member for violation of the Securities Exchange Act of any rule or regulation thereunder, or of any exchange rule. During the past fiscal year five exchanges reported taking disciplinary action against 25 members, member firms, and partners of member firms.

The nature of the actions reported included fines ranging from \$25 to \$1,000 in seven cases, with total fines aggregating \$2,375; suspension of an individual from exchange membership; censure of individuals or firms for infractions of the rules, and warnings against further violations. The disciplinary actions resulted from violations of exchange rules, principally those pertaining to capital requirements, floor trading, partnership agreements, and handling of customers' accounts.

### **REGISTRATION OF SECURITIES ON EXCHANGES**

#### **Purpose and Nature of Registration**

Section 12 of the Securities Exchange Act forbids trading in any security on a national securities exchange unless the security is registered or exempt from registration. The purpose of this provision is to make available to investors reliable and comprehensive information regarding the affairs of the issuing company by requiring an issuer to file with the Commission and the exchange an application for registration disclosing pertinent information regarding the issuer and its securities. A companion provision contained in section 13 of the act requires the filing of annual, quarterly, and other periodic reports to keep this information up to date. These applications and reports must be filed on forms prescribed by the Commission as appropriate to the class of issuer or security involved.

#### **Examination of Applications and Reports**

All applications and reports filed pursuant to sections 12 and 13 are examined by the staff to determine whether accurate and adequate disclosure has been made of the specific types of information required by the act and the rules and regulations promulgated thereunder. The examination under the Securities Exchange Act, like that under the Securities Act of 1933, does not involve an appraisal and is not concerned with the merits of the registrant's securities. When examination of an application or a report discloses that material information has been omitted, or that sound principles have not been followed

in the preparation and presentation of accompanying financial data, the examining staff follows much the same procedure as that developed in its work under the Securities Act in sending to the registrant a letter of comment, or in holding a conference with its attorneys or accountants or other representatives, pointing out any inadequacies in the information filed in order that necessary correcting amendments may be obtained. Here again, amendments are examined in the same manner as the original documents. Where a particular inadequacy is not material, the registrant is notified by letter pointing out the defect and suggesting the proper procedure to be followed in the preparation and filing of future reports, without insistence upon the filing of an amendment to the particular document in question.

*Examination of financial data*—Applications and reports are examined to make sure that sound accounting principles have been followed in the presentation of accompanying financial data. At times extensive revisions become necessary. An example of accounting for fixed assets and depreciation arose during the year in connection with the financial statements of a large public utility holding company. The Division of Corporation Finance had commented to the effect that the accountants' certificate, which included the phrase "subject to the adequacy of the companies' provisions for property retirement as to which we are not in a position to express an opinion" was unsatisfactory under the Commission's rules. The company responded that its auditors were in the process of making comprehensive studies of the situation and that amendments could not be made until these studies were completed. In due course a conference was arranged with the staff of the division in which officers of the company, accompanied by their accountants and counsel, reported on the results of this study of the property and provisions for its retirement. Consequently the company effected a change in property retirement reserve appropriations and accumulated reserves, which resulted in an increase in the reserve balances of \$18,793,528, of which \$17,152,641 was charged to surplus and \$1,640,887 to current profit and loss. Thereupon the registrant filed amended financial statements in accord with this change.

In its 1948 annual report another registrant, engaged in paint and chemicals manufacturing, set up a reserve of \$750,000 on the liability side of the balance sheet with a corresponding charge to earned surplus, to provide for an indicated loss on sale of its investment in a subsidiary company at approximately \$750,000 less than the book value of the investment on the parent's books.

Since the reserve was clearly a valuation reserve, the Division of Corporation Finance requested that it be deducted from the investment account on the asset side of the balance sheet; and, since the charge was clearly a loss recognized in the year, the division requested that it be included in the profit and loss statement rather than earned surplus. The financial statements were amended, showing an increase from \$555,920.64 to \$1,305,920.64 in consolidated net loss for the year. The sale was consummated in 1949 at an aggregate loss of \$859,138.60 or \$109,138.60 in excess of the \$750,000 reserve provided in 1948.

*Coordination of annual reports to stockholders and filings with the Commission.*—Financial statements filed during the year revealed an

increasing trend toward the use of the same basic statements (balance sheet, income and surplus statements) in the annual reports to the Commission and in the companies' published annual reports to stockholders. The rules of the Commission permit the filing of the report to stockholders to meet the financial statement requirements of the Form 10-K annual report to the Commission insofar as the former substantially complies with the provisions of the latter form. A current example of this growing practice, which avoids duplication of reporting, may be found in the Form 10-K for the fiscal year ended June 30, 1949 of the Colorado Fuel & Iron Corp. and subsidiary companies in which the annual report to stockholders, when supplemented by schedules not included in the published report and covered by a signed certificate of the independent accountants, met the requirements of the form in all material respects.

#### Statistics of Securities Registered on Exchanges

At the close of the 1950 fiscal year, 2,128 issuers had 3,544 security issues listed and registered on national securities exchanges. These securities consisted of 2,573 stock issues aggregating 3,147,684,318 shares, and 971 bond issues aggregating \$20,898,718,791 in principal amount. This represents increases of 182,312,982 shares and \$121,419,744 in principal amount, respectively, over the aggregate amounts of securities listed and registered on national securities exchanges at the close of the 1949 fiscal year. The following table shows the number of applications and reports filed during the fiscal year in connection with the registration of securities on national securities exchanges:

Applications for registration of securities on national securities exchanges.....	521
Applications for registration of unissued securities for "when issued" dealing on national securities exchanges.....	71
Exemption statements for trading short-term warrants on national securities exchanges.....	52
Annual reports.....	2,091
Current reports.....	8,814
Amendments to applications and reports.....	929

During the 1950 fiscal year 49 new issuers registered securities under the Securities Exchange Act on national securities exchanges, and the registration of all securities of 61 issuers was terminated, principally by reason of retirement and redemption and through mergers and consolidations. Included in these 61 issuers are 16 whose securities were removed from registration by reason of the termination of the registration of the Cleveland and St. Louis Stock Exchanges on December 1, 1949, such issuers having determined not to transfer the registration of their securities to the Midwest Stock Exchange.

#### TEMPORARY EXEMPTION OF SUBSTITUTED OR ADDITIONAL SECURITIES

Rule X-12A-5 provides a temporary exemption from the registration requirements of section 12 (a) of the act to securities issued in substitution for, or in addition to, securities previously listed or admitted to unlisted trading privileges on a national securities exchange. The purpose of this exemption is to enable transactions to be lawfully

effected on an exchange in such substituted or additional securities pending their registration or admission to unlisted trading privileges on an exchange.

The exchanges filed notifications of admission to trading under this rule with respect to 118 issues during the year. In some instances, the same issue was admitted to trading on more than one exchange, so that the total admissions to such trading, including duplications, numbered 211.

#### Special Offerings on Exchanges

Rule X-10B-2 under the Securities Exchange Act permits special offerings of large blocks of securities to be made on a national securities exchange provided such offerings are effected pursuant to a plan which has been filed with and approved by the Commission. A security may be the subject of a special offering when it has been determined that the auction market on the floor of the exchange cannot absorb a particular block within a reasonable period of time without undue disturbance to the current price of the security. A special offering of a security is made at a fixed price consistent with the existing auction market price of the security, and members acting as brokers for public buyers are paid a special commission by the seller which ordinarily exceeds the regular brokerage commission. Buyers of the security are not charged any commission on their purchases and obtain the security at the net price of the offering.

Since February 6, 1942, the date on which rule X-10B-2 was amended to permit special offerings, the Commission has declared effective special offering plans of the following nine exchanges on the date shown opposite each:

New York Stock Exchange.....	Feb. 14, 1942
San Francisco Stock Exchange.....	Apr. 17, 1942
New York Curb Exchange.....	May 15, 1942
Philadelphia-Baltimore Stock Exchange.....	Sept. 23, 1943
Detroit Stock Exchange.....	Nov. 18, 1943
Midwest Stock Exchange <sup>2</sup> .....	Mar. 27, 1944
Cincinnati Stock Exchange.....	June 26, 1944
Los Angeles Stock Exchange.....	May 28, 1948
Boston Stock Exchange.....	Sept. 15, 1948

<sup>2</sup> Formerly the Chicago Stock Exchange; name changed Dec. 1, 1949.

During the past year the New York Stock Exchange, New York Curb Exchange, and San Francisco Stock Exchange each submitted to the Commission proposed amendments to their special offering plans, and the Commission declared effective, for an experimental period ending December 30, 1950, the amended plans of each of these exchanges. The purposes of the amendments to the special offering plans of these exchanges were: (1) To permit the offeror to allot on a firm basis, to member firms engaged in the distributing business, not more than 50 percent of the securities involved in the offering. Up to this time when buy orders in a special offering exceeded the amount of the offering the entire amount of the offered securities was required to be allocated in reasonably proportionate amounts. Under the amendment only those shares not allotted to member firms on a firm basis must be allocated. (2) To permit members and member firms to retain the special commission applicable to securities received under

a firm allotment for the bona fide purpose of distribution even though their efforts to distribute such securities are unsuccessful. Under the old plans members and member firms were prohibited from retaining any part of the special commission in connection with purchases for their own account. This modification is designed to supplement and give effect to the provisions of the amendment mentioned under (1) above. (3) To provide that the special commission may not be less than a regular single nonmember commission based upon the per share rate of 100 shares at the price of the special offering. (4) To make it permissive rather than mandatory that certain specified factors be taken into consideration by the exchanges in determining whether a particular block of securities may be made the subject of a special offering. This will give the exchanges a certain administrative discretion in determining whether to permit the use of exchange facilities for a special offering. This amendment also reduces from 6 months to 1 month the period of time during which price range and volume of transactions in the particular security must be considered in making the necessary determination.

Each exchange with a special-offering plan in effect has been requested to report certain information to the Commission on each offering effected on the exchange under the plan. Such reports showed a total of 29 offerings effected on the New York Stock Exchange and New York Curb Exchange during the fiscal year ended June 30, 1950. These offerings involved the sale of 430,955 shares of stock with an aggregate market value of \$11,129,000 and ranging in market value from \$40,400 to \$1,293,800. Special commissions paid to brokers participating in these 29 offerings totaled \$266,000. By comparison, in the preceding fiscal year a total of 25 offerings involving 263,700 shares of stock having a market value of \$5,750,000 were effected on five exchanges, with special commissions paid to brokers totaling \$161,000. Further details of special offerings during the year are given in appendix table 10.

During the period February 19, 1942 through June 30, 1950, a total of 435 offerings have been effected. These offerings totaled 5,346,855 shares with a market value of \$155,464,000 and brokers have been paid special commissions totaling \$3,081,800.

#### **Secondary Distributions Approved by Exchanges**

A "secondary distribution," as the term is used in this section, is a distribution over-the-counter by a dealer or group of dealers of a comparatively large block of a previously issued and outstanding security listed or admitted to trading on an exchange. Such distributions take place when it has been determined that it would not be in the best interest of the various parties involved to sell the shares on the exchange in the regular way or by special offering. The distributions generally take place after the close of exchange trading. As in the case of special offerings, buyers obtain the security from the dealer at the net price of the offering, which usually is at or below the most recent price registered on the exchange. It is generally the practice of exchanges to require members to obtain the approval of the exchange before participating in such secondary distributions.

During the fiscal year ended June 30, 1950, 5 exchanges reported having approved a total of 78 secondary distributions under which 3,705,320 shares of stock with a market value of \$99,077,000 were sold. Further details of secondary distributions of exchange stocks are given in appendix table 11.

#### **Termination of Registration Under Section 19 (a) (2)**

Where it is found that the issuer of any security registered on an exchange has failed to comply with any applicable provision of the Securities Exchange Act or the rules and regulations thereunder, the Commission has authority under Section 19 (a) (2) of the act, after appropriate notice and opportunity for hearing, to deny, to suspend the effective date of, to suspend for a period of not exceeding 12 months, or to withdraw the registration of that security.

The Commission has little occasion to resort to formal action under this authority, and no such proceedings were instituted during the 1950 fiscal year. However, as noted in the fifteenth annual report, page 38, proceedings were pending in one case at the beginning of the year. This case involved the registration of Barnhart-Morrow consolidated common capital stock \$1 par value on the Los Angeles Stock Exchange. After successive postponements of the hearings at the request of the exchange and the issuer, the registrant filed, in connection with its annual reports required under the law, amended financial statements for the years 1945, 1946, 1947, and 1948, satisfactorily correcting the deficiencies cited. As a result the Commission dismissed the proceedings.

As originally filed, the balance sheets of the company for those dates had included under "Intangible assets" an item of about \$219,000 captioned "Capital stock issued for services and leases." This represented capital stock issued to the two organizers of the company for alleged services and for a lease interest acquired from the organizers but abandoned and quit-claimed by the company to the lessor in 1927. Furthermore, the company had been in receivership from 1931 to 1936. After objection was made by the staff to inclusion of the \$219,000 item it was deducted from the common stock account.

#### **Unlisted Trading Privileges on Exchanges**

A security, unless exempted, which is not registered on a national securities exchange under section 12 (b) of the Securities Exchange Act of 1934, may not be traded on such exchanges unless unlisted trading privileges are available under section 12 (f) of the Securities Exchange Act of 1934.

Section 12 (f) provides that upon application to and approval by the Commission a national securities exchange may: (1) continue unlisted trading privileges to which a security had been admitted on such exchange prior to March 1, 1934; (2) under certain conditions extend unlisted trading privileges to any security duly listed and registered on any other national securities exchange; or (3) extend unlisted trading privileges to any security in respect of which there is available from a registration statement and periodic reports or other data filed under the Securities Exchange Act of 1934, or the

Securities Act of 1933, information substantially equivalent to that filed in respect of a security duly listed and registered on a national securities exchange. The statute requires that appropriate notice be issued and an opportunity for hearing provided, and that the applicant exchange establish to the satisfaction of the Commission that there exists in the vicinity of that exchange sufficiently widespread public distribution and sufficient public trading activity in the security to render the extension of unlisted trading privileges on that exchange necessary or appropriate in the public interest or for the protection of investors.

The following summarizes the status of unlisted issues on the registered exchanges as of June 30, 1950:

	<i>Stocks</i>	<i>Bonds</i>
Listed on some other registered exchange-----	545	6
Not listed on any registered exchange-----	332	75
<b>Total</b> -----	<b>877</b>	<b>81</b>

Total, all stocks and bonds, 958 issues.

The first grant of an application by an exchange under section 12 (f) (2) for unlisted trading in stocks listed on some other registered exchange was in April, 1937. There have been 692 admissions of such stocks to the various exchanges. Stocks covered by 599 admissions were extant as of June 30, 1950. The number of actual issues involved is less than this figure because many issues have been admitted to unlisted trading on two or more exchanges. The numerous admissions, including the record number of 130 during the past fiscal year, have, however, barely maintained the ratio of listed stocks traded unlisted on other exchanges to all listed stocks. On June 30, 1945, for example, 21.8 percent of all registered (listed) stock issues and 54.9 percent of all registered shares were also admitted to unlisted trading on other exchanges, while 5 years later, after 396 section 12 (f) (2) admissions,<sup>3</sup> the comparable figures were 21.2 percent of the issues and 54.3 percent of the shares. During this 5-year period, the number of stocks listed on New York Stock Exchange and traded on other exchanges has declined from 51.6 to 49.8 percent of all stocks listed thereon. Securities registered on that exchange are the principal source of unlisted admissions under section 12 (f) (2). Listed stocks which are also traded unlisted on other exchanges, numbering 545 as of June 30, 1950, and were 554 on June 30, 1937. However, the 11 regional exchanges which have availed themselves of section 12 (f) in order to procure trading privileges in securities listed on other exchanges had only 84 more stocks to trade in on June 30, 1950, than they had on June 30, 1937, and 598 of the total stock issues traded on those exchanges in 1950 were admitted pursuant to section 12 (f) (2), without which it appears that these exchanges might have suffered a decline of more than 500 stocks:

<sup>3</sup> 33 in 1945, 78 in 1946, 71 in 1947, 46 in 1948, 38 in 1949, and 130 in 1950, all in fiscal years ending June 30. Part of the increase in 1950 is due to the Commission's requests for 12 (f) (2) applications rather than applications for determination of substantial equivalence pursuant to rule X-12 (f)-2 (b), in numerous cases where new issues were succeeding old ones in corporate changes and where the listed status of the issues made recourse to section 12 (f) (2) possible and appropriate.

	Stock available for trading <sup>1</sup>		June 30, 1950, excluding 12 (f) (2) admissions
	June 30, 1937	June 30, 1950	
Boston.....	370	383	275
Cincinnati.....	101	110	65
Detroit.....	119	206	4 128
Los Angeles.....	197	261	186
Midwest.....	* 517	454	379
Philadelphia-Baltimore.....	* 538	489	382
Pittsburgh.....	* 102	126	71
Salt Lake.....	107	100	100
San Francisco Stock.....	* 337	354	304
Washington.....	39	41	39
Wheeling.....	32	19	16
Total.....	2,459	2,543	1,945

<sup>1</sup> Includes many duplications of issues among the exchanges.

\* Includes issues of exchanges merged thereafter.

\* Includes 10 sec. 12 (f) (2) admissions.

\* The sole increase over 1937.

New York Curb Exchange does not trade in New York Stock Exchange issues. The single section 12 (f) (2) extant admission of a stock on the Curb is Utah-Idaho Sugar common, listed on Salt Lake Stock Exchange. Stocks available for trading on the Curb have declined from 1,149 in 1937 to 779 in 1950, both figures as of June 30. New York Stock Exchange does not have any section 12 (f) (2) admissions, since it does not permit trading in unlisted securities. Since the section 12 (f) (2) admissions of stocks to the regional exchanges are principally of issues listed on New York Stock Exchange, and since these admissions constitute an ever-increasing proportion of the stocks available for trading on the regional exchanges, their effect is to concentrate trading on the regional exchanges more and more in the national, as against the local issues.

The 332 stocks admitted to unlisted trading without being listed on any registered exchange aggregated 329,904,324 shares, or about 91½ percent of the total shares admitted to trading on the registered exchanges as of June 30, 1950. Reported volume of trading in the 332 issues for the calendar year 1949 was 21,715,000 shares, or about 41¼ percent of the total share volume on the registered exchanges. In this compilation "shares" include warrants, American depository receipts, voting trust certificates, etc. New York Curb Exchange accounted for about 93 percent of the 21,715,000 reported share volume, San Francisco Stock Exchange for about 6 percent and 1 percent was scattered among 6 other regional exchanges. Reported volumes are about seven-eighths of actual volumes on New York Curb Exchange, principally because odd lots are not usually reported on the ticker. Considering this factor and the volume in stocks removed from unlisted trading during 1949, it appears that approximately one-third of the share volume in that year on New York Curb Exchange was in unlisted stocks not registered pursuant to the Securities Exchange Act of 1934.

In June 1950, the stocks traded on an unlisted basis pursuant to section 12 (f) (3) were reduced to six, upon retirement of American Gas & Electric preferred.

Of 592 bond issues available for unlisted trading on exchanges as of June 30, 1937, only 81 were available on June 30, 1950. These aggregated \$879,231,350 face value and most of the issues were on New York Curb Exchange.

In addition to the unlisted issues discussed above on the registered exchanges, there were 35 stocks and 1 bond issue admitted only to unlisted trading on the Honolulu Stock Exchange, an exempted exchange.

#### Applications for Unlisted Trading Privileges

Pursuant to clause (2) of section 12 (f), a total of 131 issues were accorded unlisted trading privileges during the 1950 fiscal year.

Stock exchange applying:	Number of issues	
	Stocks	Bonds
Boston.....	31	-----
Cincinnati.....	16	-----
Detroit.....	14	-----
Los Angeles.....	15	-----
Midwest.....	20	-----
Philadelphia-Baltimore.....	15	-----
Pittsburgh.....	3	-----
San Francisco.....	15	1
Washington.....	1	-----
Total.....	130	1

#### Changes in Securities Admitted to Unlisted Trading Privileges

Rule X-12F-2 under the Securities Exchange Act provides for the case where a change is made in a security previously admitted to unlisted trading privileges. Under paragraph (a) of this rule if the change is in the title of the security or the name of the issuer, in the maturity, interest rate or outstanding aggregate principal amount of an issue of bonds, debentures or notes, or in the par value, dividend rate, number of shares authorized or the outstanding number of shares of a stock, the security as changed is deemed to be the security originally admitted to unlisted trading privileges on the exchange. The exchange is required to notify the Commission of such changes promptly after it learns of the change and many such notifications are received during the year.

Paragraph (b) of rule X-12F-2 provides for changes in a security admitted to unlisted trading privileges where the change is more comprehensive than those enumerated in paragraph (a) of the rule. In such case the exchange may file an application requesting a Commission determination of the effect of the change, describing each change effected in the security and furnishing copies of all written matter submitted by the issuer to its security holders relating to such changes. If the Commission determines that the security after such change is substantially equivalent to the security originally admitted to unlisted trading privileges, then the security as changed is deemed to be the security originally admitted to unlisted trading privileges on that exchange. Pursuant to the provisions of paragraph (b) of rule X-12F-2, the Commission granted four applications for a determination of substantial equivalence by New York Curb Exchange<sup>4</sup> and an application

<sup>4</sup> Middle States Petroleum Corp., Feb. 9, 1950; Northern Indiana Public Service Co., Feb. 9, 1950, Kansas Gas & Electric Co., Feb. 20, 1950.

by New Orleans Stock Exchange with respect to two stocks.<sup>5</sup> One application by New York Curb Exchange was denied.<sup>6</sup>

## DELISTING OF SECURITIES FROM EXCHANGES

### Securities Delisted by Application

Section 12 (d) of the Securities Exchange Act provides that upon application by the issuer or the exchange to the Commission, a security may be withdrawn or stricken from listing and registration on a national securities exchange in accordance with the rules of the exchange and subject to such terms as the Commission deems necessary for the protection of investors. In accordance with this procedure, six bond issues and three stock issues were stricken from listing and registration upon application by exchanges. All six bond issues<sup>7</sup> and one of the stock issues<sup>8</sup> were delisted by New York Stock Exchange, on the ground that the amounts of the issues remaining outstanding had been reduced to inconsequential proportions by reason of exchanges or redemptions. The two remaining stock issues were delisted by New York Curb Exchange (and one of them also by Philadelphia-Baltimore Stock Exchange<sup>9</sup>) by reason of reacquisition of most of the shares in the one case and liquidation in the other.<sup>10</sup>

The Commission granted the application by the receivers of one corporation to withdraw its common stock from registration and listing on New York Curb Exchange on the ground that the company was insolvent and in process of liquidation.<sup>11</sup> It granted the application of another corporation to withdraw its common stock from registration and listing on Chicago Board of Trade since the company had already registered and listed the same security upon Midwest Stock Exchange.<sup>12</sup>

### Securities Delisted by Certification

Securities which have been paid at maturity, redeemed, or retired in full, or which have become exchangeable for other securities in substitution therefor, may be removed from listing and registration on a national securities exchange if the exchange files a certification with the Commission to the effect that such retirement has occurred. The removal of the security becomes effective automatically after the interval of time prescribed by rule X-12D2-2 (a). The exchanges filed certifications under this rule effecting the removal of 152 separate issues. In some instances the same issue was removed from more than one exchange, so that the total number of removals, including duplications, was 181. Successor issues to those removed became listed and registered on exchanges in many cases.

<sup>5</sup> Ford Motor Co., Ltd., of Great Britain, Feb. 28, 1950.

<sup>6</sup> Jefferson Lake Sulphur Co., Mar. 23, 1950.

<sup>7</sup> The Long Island Railroad Co., Securities Exchange Act release No. 2484, (1949); Mortgage Bank of the Venetian Provinces, Securities Exchange Act release No. 4334, (1949); Chicago, St. Louis and New Orleans Railroad Co., Securities Exchange Act release No. 4426, (1950); State of San Paulo, Securities Exchange Act release No. 4426, (1950); City of Porto Alegre, Securities Exchange Act release No. 4426 (1950).

<sup>8</sup> The Joliet & Chicago Railroad Co., Securities Exchange Act release No. 4444 (1950).

<sup>9</sup> Cooper Distributing Co., Securities Exchange Act release No. 4275 (1949).

<sup>10</sup> Old Poindexter Distillery, Inc., Securities Exchange Act release No. 4335 (1949); Cooper Distributing Co., Securities Exchange Act release No. 4275 (1949).

<sup>11</sup> Leonard Oil Development Co., Securities Exchange Act release No. 4354 (1949).

<sup>12</sup> Centlivre Brewing Corp., Securities Exchange Act release No. 4443 (1950).

In accordance with the provisions of rule X-12D2-1 (d), New York Curb Exchange removed 16 issues from listing and registration when they became listed and registered on New York Stock Exchange. This rule permits a national securities exchange to remove a security from listing and registration in the event trading therein has been terminated pursuant to a rule of the exchange which requires such termination if the security becomes listed and registered and admitted to trading on another exchange. Removal under this rule is automatic, the exchange being required merely to notify the Commission of the removal.

#### **Securities Removed From Listing on Exempted Exchange**

A security may be removed from listing on an exempted exchange by such an exchange filing an appropriate amendment to its exemption statement setting forth a statement of the reasons for the removal. One exempted exchange removed two issues from listing thereon during the year, due in one case to the redemption of the security and in the other to the expiration of a voting trust agreement.

### **MANIPULATION AND STABILIZATION**

Sections 9, 10, and 15 of the Securities Exchange Act prohibit manipulation of securities prices. Section 9 forbids certain specifically described forms of manipulative activity. Transactions which create actual or apparent trading activity or which raise or lower prices are declared to be unlawful if they are effected for the purpose of inducing others to buy or to sell. Certain practices designated as "wash sales" and "matched orders" effected for the purpose of creating a false or misleading appearance of active trading or a false or misleading appearance with respect to the market for a security are declared to be illegal. Persons selling or offering securities for sale are prohibited from disseminating false information to the effect that the price of a security will, or is likely to, rise or fall because of market operations conducted for the purpose of raising or depressing the price of a security. Persons selling or buying securities are forbidden to make false or misleading statements of material facts, with knowledge of their falsity, or willfully to omit material information regarding such securities for the purpose of inducing purchases or sales.

Pursuant to its statutory authority, the Commission has adopted rules and regulations to aid it in carrying out the expressed will of Congress. Sections 9, 10, and 15, as augmented by the Commission's rules and regulations, are aimed at freezing our securities markets from artificial influence and maintaining fair and honest markets whose prices are established by supply and demand and are uninfluenced by manipulative activity.

#### **Manipulation**

The manipulation of securities prices which in previous years took millions of dollars annually from the public, was one of the principal reasons for the adoption of the Securities Exchange Act of 1934. In the early days of the Commission's existence, some market operators attempted to continue their manipulative activities. The Commission uncovered these activities and as a result various penalties were im-

posed upon certain operators, including expulsions from exchanges, jail sentences, and fines. As a result of the administration of the act, manipulation is believed no longer to be an appreciable factor in our markets. However, sporadic attempts artificially to raise or depress the prices of securities are still encountered, and it is evident that any relaxation of market surveillance on the part of the Commission would create a danger of reestablishment of many of the manipulative practices the act was designed to prevent.

During the fiscal year ended June 30, 1950, several actions arising out of manipulative investigations were undertaken. A permanent injunction was obtained against Henry M. Stanley on the basis of attempts to manipulate the market in the stock of Friars Ale Brewing Co. Public hearings were begun in Chicago to revoke the broker-dealer registration of Adams & Co., Bennett, Spanier & Co., and Ray T. Haas for their manipulation of the price of Mohawk Liqueur Co. stock. The registration of W. H. Bell & Co., Inc., was revoked for Securities Act violations in the stock of Bost, Inc. A series of frauds perpetrated on an investment trust resulted in the jailing of William A. Hancock and led to an action to revoke the registration of the firm of Junger, Anderson & Co. All of the above cases were discovered during investigations which arose out of the detection methods described in the following paragraphs. A clarification of certain issues involving the propriety of trading by underwriters was made in an opinion dealing with the underwriting of bonds of Northern Indiana Public Service Co.

In administering the antimanipulative requirements there is a premium on prompt action to prevent harm before it occurs, and on the avoidance of interference with the legitimate functioning of the markets. To accomplish this the Commission has continuously modified and sought to improve its procedures for the systematic surveillance of trading in securities. Methods used to detect manipulation have necessarily been flexible, since techniques employed by manipulators change constantly, increasing in subtlety and complexity.

The staff regularly scrutinizes price movements in approximately 8,500 securities, including about 3,700 issues traded on the exchanges and 4,800 which have the most active markets over the counter. Information maintained concerning these securities includes not only data reflecting the market action of such securities, but also includes news items, earnings figures, dividends, options, and other facts which might explain price and volume changes. In addition, monthly observations are made of the price movements of thousands of other issues which occasionally change hands in our public markets. The markets for securities about to be sold to the public are watched very closely. In this connection the markets for almost 1,400 issues in the amount of about \$172,000,000, offered under regulation A, were carefully checked for improper pricing or market grooming. Several hundred other securities were kept under special daily observation during the 1950 fiscal year, for periods ranging from 14 to 90 days, because a public offering under a registration statement was proposed and either the underwriter or the issuer had reserved the right to stabilize the market for the security. The issues actually offered had a public offering price in excess of \$3,000,000,000.

When no apparent explanation can be found for an unusual movement in a security or for an unusual volume of trading, the matter may be referred to one of the regional offices of the Commission for a field investigation. For reasons of policy the Commission keeps confidential the fact that trading in a given security is under investigation, for it has found that knowledge of the existence of such investigations may unduly affect the market or reflect unfairly upon individuals whose activities are being investigated. As a result, the Commission occasionally receives criticism for failing to investigate certain cases when, in fact, it is actually engaged in an intensive investigation.

The Commission's investigations of unusual market activity take two forms. The "quiz," or preliminary investigation, is designed to detect and discourage incipient manipulation by a prompt determination of the reasons for unusual market behavior. Often the results of a quiz point to a legitimate reason for the activity under review and the case is closed. Frequently, facts are uncovered which require more extended investigation, and in these cases formal orders of investigation are issued by the Commission. In a formal investigation, members of the Commission staff are empowered to subpoena pertinent material and to take testimony under oath. In the course of such investigations, data on purchases and sales over substantial periods of time are often compiled and trading operations involving considerable quantities of securities are scrutinized.

The Commission operates on the premise that manipulation should be suppressed at its inception. Many of the cases investigated never come to the attention of the public because the promptness of the Commission's investigations, through the quiz technique, stops the manipulation before it is fully developed. Losses by the public are seldom recoverable even though the perpetrator of a fraud is brought to justice. Therefore it is believed that these investigatory methods afford more protection to the public than allowing unlawful market operations to continue until it appears that sufficient evidence for a successful prosecution is obtainable.

*Trading investigations*

	"Quizzes"	Formal investigations
Pending June 30, 1949.....	137	18
Initiated in period July 1, 1949—June 30, 1950.....	117	3
Total to be accounted for.....	254	21
Closed or completed during fiscal year.....	174	10
Changed to formal during fiscal year.....	3	-----
Total disposed of.....	177	10
Pending at end of fiscal year.....	77	11

**Stabilization**

During the 1950 fiscal year many conferences were held with representatives of issuers and underwriters in order to assist them to avoid violation of the statutory provisions and rules of the Com-

mission dealing with stabilizing, manipulation, and fraud, and many written and telephone requests were answered. Formal Commission rules dealing directly with stabilization relate only to offerings "at the market" or at prices relating to market prices. The practice applicable to fixed price offerings is embodied in a wealth of interpretive material. It is the Commission's experience that such issuers and underwriters place great value on the immediate service which the Commission is able to render them by being at all times available to give them responsible advice as to problems dealing with proper stabilizing techniques in the offering of securities.

During the 1950 fiscal year the Commission continued the administration of rules X-17A-2 and X-9A6-1. Rule X-17A-2 and Form X-17A-1 (the form on which stabilizing transactions are reported) were amended in the interest of simplification and clarity. Rule X-17A-2 requires the filing of detailed reports of all transactions incident to offerings in respect of which a registration statement has been filed under the Securities Act of 1933 and where any stabilizing operation is undertaken to facilitate the offerings of securities registered on national securities exchanges, in which the offering prices are represented to be "at the market" or at prices related to market prices.

Of almost 500 registration statements filed during the 1950 fiscal year, 220 contained a statement of intention to stabilize to facilitate the offerings covered by such registration statements. Each of the latter filings was examined as to the propriety of the proposed method of distribution and market support and the full disclosure thereof. Because a registration statement sometimes covers more than one class of security, there were 252 offerings of securities in respect of which a statement was made, as required by rule 426 under the Securities Act, to the effect that a stabilizing operation was contemplated. Stabilizing operations were actually conducted to facilitate 59 of these offerings, principally stocks. Offerings of stock issues aggregating 20,369,462 shares with an aggregate public offering price of \$408,092,189 were stabilized, but only 1 bond offering, having a principal amount of \$4,000,000, was stabilized. In connection with these stabilizing operations, 7,990 reports were filed with the Commission during the fiscal year. Each of these reports has been analyzed to determine whether the stabilizing activities were within permissible limits.

## SECURITY TRANSACTIONS OF CORPORATION INSIDERS

### Reports of Transactions and Holdings

To give information to the public about transactions by corporation insiders in securities of their companies, certain reports are required to be filed with the Commission by persons closely identified with the management or control of industrial, utility, and investment companies under the conditions specified in three of the acts which the Commission administers—sections 16 (a) of the Securities Exchange Act of 1934, 17 (a) of the Public Utility Holding Company Act of 1935, and 30 (f) of the Investment Company Act of 1940. An initial report must be filed disclosing the amount of such security holdings, and thereafter a report must be filed for each month in which any change occurs in these holdings. The reports show the relationship

of the reporting insider to his named company; the date, number of shares, and security involved in each transaction; the character of the transaction (whether a purchase, sale, gift, exchange, etc.); and the nature of ownership (whether direct or indirect through a holding company, partnership, trust, etc.).

#### **Publication of Data Reported**

The reports filed by insiders are available for public inspection from the time they are filed. However, it is impossible for the majority of investors personally to inspect them either at the Commission or at the national stock exchanges, where additional copies of the reports are filed. Accordingly, the Commission issues a monthly Official Summary of Security Holdings and Transactions which summarizes these reports. Before the close of the 1950 fiscal year, as a part of the Commission's management-improvement program, a study was made to reappraise the service afforded by this publication. In that connection, a card was attached to each copy of the summary distributed in March asking subscribers what use was made of the summary and what value it afforded them, and inviting their suggestions for ways in which it might be improved for the benefit of investors.

More than 1,400 replies were received representing nearly 40 percent of the 3,814 subscribers circularized. The replies indicated, in general, that five out of six subscribers own corporate securities—and that those who are not stockholders consist mainly of newspapermen, teachers, students, librarians, and government and trade association officials. Moreover, it was indicated that each copy of the summary is used by an average of 8.4 persons. The indirect coverage resulting from its use by newspapermen as a source for news stories is incalculable (167 newspapermen are subscribers). It was also found that approximately 50 percent of the summary subscribers are engaged in some form of the securities business, that 20 percent are primarily investors, that 20 percent are lawyers, engineers, accountants and corporation executives, and that the remaining 10 percent are journalists, teachers, and persons engaged in a variety of miscellaneous occupations. By and large the returns demonstrate that the summary is deemed by its users to be important particularly in reflecting insiders' opinions of the prospects of the corporation implicit in their transactions and holdings.

Subscribers offered a number of specific suggestions for improvement of the summary. Some of the suggested changes have already been put into effect, and a number of other suggestions proposed by subscribers, as well as by members of the Commission's staff, are being given further consideration with a view to improving the usefulness of the summary and cutting down its publication costs.

#### **Preventing Unfair Use of Inside Information**

For the purpose of preventing the unfair use of information which may have been obtained by a corporation insider by reason of his relationship to his company, section 16 (b) of the Securities Exchange Act further provides that any profit he realizes from any purchase and sale, or sale and purchase, of any equity security of the company within any period of less than 6 months shall be recoverable through

court action brought by the issuer or by any security holder acting in its behalf. Corresponding provisions are contained in section 17 (b) of the Public Utility Holding Company Act of 1935 and in section 30 (f) of the Investment Company Act of 1940. The reporting provisions of these acts have in a number of instances brought to light transactions involving substantial profits from short-term trades which were recovered by or in behalf of the issuers, either through voluntary repayment or as a result of court action.

#### Volume of Reports Filed and Examined

Members of the staff examine all reports of insider holdings and trading to determine their compliance with the statutory requirements. Amended reports are obtained where inaccuracies or omissions appear. Details as to the volume and kinds of reports filed during the year are shown in the following table.

*Number of security ownership reports of officers, directors, principal security holders, and certain other affiliated persons filed and examined during the fiscal year ended June 30, 1950*

Description of report <sup>1</sup>	Original reports	Amended reports	Total
Securities Exchange Act of 1934:			
Form 4.....	14,705	858	15,563
Form 5.....	424	16	439
Form 6.....	2,269	43	2,312
Public Utility Holding Company Act of 1935:			
Form U-17-1.....	58	0	58
Form U-17-2.....	643	20	663
Investment Company Act of 1940:			
Form N-30F-1.....	118	7	125
Form N-30F-2.....	616	33	649
Total.....	18,833	976	19,809

<sup>1</sup> Form 4 is used to report changes in ownership; Form 5, to report ownership at the time any equity security is first listed and registered on a national securities exchange; and Form 6, to report ownership of persons who subsequently become officers, directors, or principal stockholders of the issuer of such a listed and registered equity security, under sec. 16 (a) of the Securities Exchange Act of 1934. Form U-17-1 is used for initial reports and Form U-17-2 for reports of changes in ownership of securities, under sec. 17 (a) of the Public Utility Holding Company Act of 1935. Form N-30F-1 is used for initial reports and Form N-30F-2 for reports of changes in ownership of securities, under sec. 30 (f) of the Investment Company Act of 1940.

#### SOLICITATION OF PROXIES, CONSENTS, AND AUTHORIZATIONS

The Commission is authorized under three of the acts it administers to prescribe rules and regulations concerning the solicitation of proxies, consents, and authorizations in connection with securities of the company subject to those acts.<sup>13</sup> Pursuant to this authority, the Commission has adopted regulation X-14, which is designed to protect investors by requiring the disclosure of certain information to them when their proxies are being solicited. The rules afford investors an opportunity for active participation in the affairs of their company. Under regulation X-14 each person solicited must be furnished with such information as will enable him to act intelligently upon each separate matter in respect of which his vote or con-

<sup>13</sup> Sections 14 (a) of the Securities Exchange Act of 1934, 12 (a) of the Public Utility Holding Company Act of 1935, and 20 (a) of the Investment Company Act of 1940.

sent is sought. The proxy rules set forth in this regulation also contain provisions which enable security holders who are not allied with the management to communicate with other security holders when the management is soliciting proxies.

### Statistics of Proxy Statements

During the 1950 fiscal year, material relating to 1,668 different solicitations of proxies and "follow-up" material used in connection with 186 of these solicitations was filed with the Commission, 1,653 proxy statements were filed during the 1949 calendar year, practically the same number as in each of the four preceding calendar years. The comparative numbers of proxy statements filed by management and nonmanagement groups and the principal items of business for which stockholders' action was sought in these solicitations is shown in the table below for each of the past five calendar years.

	Year ended Dec. 31				
	1945	1946	1947	1948	1949
Proxy statements filed by management.....	1,570	1,664	1,613	1,648	1,625
Proxy statements filed by others than management..	24	21	32	29	28
Total proxy statements filed.....	1,594	1,685	1,645	1,677	1,653
For meetings at which the election of directors was one of the items of business.....	1,350	1,407	1,461	1,534	1,536
For meetings not involving the election of directors..	213	244	149	115	97
For assents and authorizations not involving a meeting or the election of directors.....	31	34	35	28	20
Total proxy statements filed.....	1,594	1,685	1,645	1,677	1,653

The items of business other than that of election of directors were distributed among a somewhat wide variety of specific proposals as follows:

	Year ended Dec. 31				
	1945	1946	1947	1948	1949
Mergers, consolidations, acquisition of businesses, and purchase and sale of property.....	40	65	69	46	43
Issuance of new securities, modification of existing securities, recapitalization plans other than mergers or consolidations..	227	249	223	154	193
Employees pension plans.....	94	75	66	59	49
Bonus and profit-sharing plans, including stock options.....	51	52	60	32	20
Indemnification of officers and directors.....	25	36	22	21	12
Change in date of annual meeting.....	33	28	27	24	9
Other miscellaneous amendments to bylaws, and miscellaneous other matters.....	217	309	207	215	187
Stockholder approval of independent auditors.....	296	304	312	365	381
Number of management's proxy statements containing stockholder proposals.....	14	19	15	38	43
Number of such stockholder proposals.....	34	34	29	57	68
Net number of stockholders whose proposals were included in management's proxy statements (each stockholder is counted only once in each year regardless of the number of companies that included his proposals in proxy statements).....	17	9	13	18	21

### Examination of Proxies

While proxy examination work occurs throughout the year, it has a seasonal peak during the spring. Thus, of 1,517 annual meetings

for which proxy statements were filed during the 1949 calendar year, 1,085 meetings, over 70 percent of the total, were held during March, April, and May; 544 of the total, 36 percent, took place in April alone; 160 meetings were held in the last week of April; and as many as 65 meetings were scheduled for 1 day, the fourth Tuesday in April.

*Pension plans.*—An outstanding feature of the year was the number of cases in which pension plans were presented to stockholders for approval. While the plans in a single industry followed a somewhat general pattern, there were variations due to differences in the financial condition of the companies and the differing approaches of management. A common characteristic of many plans was the 5-year term under which some managements insisted that the company's liability ran only to employees who qualified and elected to go on pension during the term. One plan of this type, submitted to its stockholders by a large steel producer, provided for payments into a trust in five annual installments so that the last payment would be made 4 years after the final year of the plan. Estimates showing the cost, assuming that all eligible employees would elect to take pensions, were clearly presented in a table by maturing classes and payments to the fund. Assuming that the plan might well be renewed on its expiration, the inclusion of a statement in the proxy soliciting material was obtained indicating an approximate range of annual cost if the plan were so continued. This company disclaimed any intention of funding past service cost for employees who would not qualify for pensions during the 5-year term of the plan.

In contrast to the position taken by the above-mentioned company, one of the leading steel producers solicited proxies with a view to amending its existing plan to increase the benefits and broaden the coverage, and presented in its proxy statement its summary of costs on the assumption that the plan would continue indefinitely even though the contract covered only 5 years specifically. In this case the summary presented a comparison of lump-sum costs of past service and the estimated comparative annual costs during 1950 for the existing and proposed plans. Because of the very substantial figures presented and the technical character of the references to income tax laws, the staff requested and obtained in the management's introduction to the summaries of costs a clear statement that the figures for costs were presented before giving effect to income taxes.

## REGULATION OF BROKERS AND DEALERS IN OVER-THE-COUNTER MARKETS

### Registration

Brokers and dealers using the mails or other instrumentalities of interstate commerce to effect transactions in securities on over-the-counter markets are required to be registered with the Commission pursuant to section 15 (a) of the Securities Exchange Act of 1934; exemption, however, is granted to those brokers and dealers whose business is exclusively intrastate or exclusively in exempt securities. The following tabulation reflects certain data with respect to registration of brokers and dealers during the 1950 fiscal year:

*Registration of brokers and dealers under section 15 (b) of the Securities Exchange Act of 1934—fiscal year ending June 30, 1950*

Effective registrations at close of preceding fiscal year.....	3,924
Effective registrations carried as inactive.....	70
Registrations placed under suspension during preceding year.....	0
Applications pending at close of preceding fiscal year.....	23
Applications filed during fiscal year.....	493
<b>Total.....</b>	<b>4,510</b>
Applications withdrawn during year.....	13
Applications cancelled during year.....	0
Registrations withdrawn during year.....	418
Registrations cancelled during year.....	43
Registrations denied during year.....	0
Registrations suspended during year.....	0
Registrations revoked during year.....	12
Registrations expired by rule X-15B-3.....	1
Registrations effective at end of year.....	3,930
Registrations effective at end of year carried as inactive.....	<sup>1</sup> 70
Applications pending at end of year.....	23
<b>Total.....</b>	<b>4,510</b>

<sup>1</sup> Registrations on inactive status because of inability to locate registrant despite careful inquiry.

#### Administrative Proceedings

Section 15 (b) of the act provides that registration of a broker or dealer may be denied for specific types of misconduct on the part of an applicant. Registration may be revoked for such misconduct if the Commission finds after an appropriate record has been made that such denial or revocation is necessary in the public interest. The Commission's staff, therefore, examines all applications for registration and numerous other available sources of information to determine whether the applicant has engaged in any violations of law which would constitute a statutory basis for challenging the propriety of giving him the privileges of registration. When indications of such misconduct are discovered, the Commission orders proceedings to establish the facts. The applicant has full opportunity to be heard on the specified charges. Similar procedures are followed in revocation proceedings against registered brokers and dealers and in proceedings to determine whether to suspend or expel a broker or dealer from membership in a national securities exchange or association. The following tabulation reflects the number of proceedings instituted under sections 15 (b) and 15A <sup>14</sup> during the 1950 fiscal year and the disposition thereof.

*Record of broker-dealer registration proceedings and proceedings to suspend or expel from membership in a national securities exchange or association instituted pursuant to the Securities Exchange Act of 1934 for the 1950 fiscal year*

Proceedings pending at start of fiscal year to:	
Revoke registration.....	5
Revoke registration and suspend or expel from NASD.....	8
Deny registration to applicant.....	1
<b>Total proceedings pending.....</b>	<b>14</b>

<sup>14</sup> Section 15A of the Securities Exchange Act of 1934 provides for the registration of securities dealers associations and, among other things, outlines conditions of membership in such associations.

*Record of broker-dealer registration proceedings, etc.—Continued*

Proceedings instituted during fiscal year to :	
Revoke registration.....	13
Revoke registration and suspend or expel from NASD.....	10
Deny registration to applicants.....	9
Suspend or expel from NASD and exchanges.....	1
<b>Total proceedings instituted.....</b>	<b>33</b>
<b>Total proceedings current during fiscal year.....</b>	<b>47</b>

## DISPOSITION OF PROCEEDINGS

Proceedings to revoke registration :	
Dismissed on withdrawal of registration.....	1
Registration revoked.....	6
<b>Total.....</b>	<b>7</b>
Proceedings to revoke registration and suspend or expel from NASD : <sup>15</sup>	
Dismissed—registration and membership continued.....	2
Registration revoked and firm expelled from NASD.....	1
Registration revoked—no action taken on NASD membership.....	3
<b>Total.....</b>	<b>6</b>
Proceedings to suspend or expel from NASD and exchanges :	
Dismissed—memberships continued.....	1
<b>Total.....</b>	<b>1</b>
Proceedings to deny registration to applicants :	
Dismissed on withdrawal of application.....	2
Dismissed—registration permitted.....	6
<b>Total.....</b>	<b>8</b>
<b>Total proceedings disposed of.....</b>	<b>22</b>
Proceedings pending at end of fiscal year to :	
Revoke registration.....	11
Revoke registration and suspend or expel from NASD.....	12
Deny registration to applicants.....	2
<b>Total proceedings pending at end of fiscal year.....</b>	<b>25</b>
<b>Total proceedings accounted for.....</b>	<b>47</b>

<sup>15</sup> The National Association of Securities Dealers, Inc., is the only national securities association registered with the Commission.

As shown in the foregoing tabulation, nine proceedings involving the denial of registration as an over-the-counter broker or dealer were ordered during the 1950 fiscal year and one was pending at the beginning of the year. Two applications were withdrawn after the Commission had given notice of hearing. Six applications for registration were granted. Two proceedings were pending at the end of the year. One proceeding involved solely the question of suspension or expulsion from the NASD and various securities exchanges and in its findings and opinion the Commission determined that the imposition of a sanction was not necessary. Of the 23 revocation proceedings against registered brokers and dealers ordered during the fiscal year

and the 13 proceedings pending at the beginning of the year,<sup>16</sup> the Commission disposed of 13 as follows:

Registration revoked.....	9
Registration revoked and firm expelled from NASD.....	1
Proceedings dismissed and registration cancelled or withdrawn.....	1
Proceedings dismissed and registration continued in effect.....	2

*Registrations revoked (\* indicates expulsion from NASD was also ordered)*

<i>Firm</i>	<i>Securities Exchange Act Release No</i>
Wendell M. Weston.....	4312
F. H. Winter & Co.....	4280
Pennaluna & Co. (a partnership).....	4314
D. S. Waddy & Co.....	4322
Browning & Co.....	4333
Walter J. Manning.....	4446
N. James Elliott*.....	4409
W. H. Bell & Co.....	4292
S. T. Jackson & Co., Inc.....	4459
J. C. Flannery & Co.....	4459

Most of the proceedings brought against brokers and dealers stem at least indirectly from the Commission's routine fraud detection procedures designed to detect and prevent violations of law.

In proceedings brought by the Commission against Wendell Maro Weston, doing business as Weston & Co. and Assured Warranty Corp., for the revocation of their registrations as a broker-dealer and investment adviser, respectively, the Commission found that over a long course of conduct Weston systematically defrauded a client who reposed great trust and confidence in him.

The client turned over to Weston \$97,000 in cash for safekeeping, and Weston soon induced her to invest \$84,631 of this in securities. Thereafter, Weston organized Assured Warranty Corp., in which he took a controlling interest, which issued 200 shares of preferred stock in his name. He held the stock for the client and paid the corporation \$20,000 of her money. The client entered into an investment advisory agreement with Assured Warranty by the terms of which Assured Warranty might give orders for purchase and sale of specified securities on her behalf with Weston as broker. Weston thereupon bought and sold securities for her account, utilizing the services of members of the New York and Boston Stock Exchanges. From time to time during the course of these transactions, Weston obtained a total of \$50,000 more from the client's account which he used for the purchase of additional preferred stock in Assured Warranty.

The Commission found that the client was unaware that her funds were being syphoned out of her account for the purchase of stock in an unsuccessful promotional company. The total gross income of the company was \$7,074 in a period when its expenses amounted to \$68,090, of which \$27,000 was paid to Weston as salary and advances. The total net loss was over \$61,000, of which over 90 percent was borne by her.

The Commission stated that Weston stood in the relation of fiduciary to his client because of the trust and confidence reposed in him by the

<sup>16</sup> Some of these proceedings, as shown in the tabulation, included the question of suspension or expulsion from the NASD.

client and because of the more formal obligation which he owed to her as an investment adviser. As a fiduciary, Weston was required to act in the utmost faith in every phase of their relations, to invest her funds carefully, and to exercise any special authority granted to him in connection with an unusual venture only when accompanied by full disclosure of the exact nature of the proposition and the risks undertaken. The Commission found that in putting his client's money to a speculative use for his personal benefit, and in designedly concealing his scheme by elaborate deceptions, Weston pursued a course of conduct which operated as a fraud on the client within the scope of rules X-10B-5 and X-15C1-2 (adopted under sections 10 (b) and 15 (c) (1) of the Securities Exchange Act of 1934), and section 17 (a) of the Securities Act of 1933. The Commission further found that in failing to deliver confirmations of transactions to the client Weston had wilfully violated section 15 (c) (1) of the Securities Exchange Act and rule X-15C1-4 thereunder.

Weston filed annual financial reports in 1945 and 1946 in which he failed to reflect a substantial claim of the client for the return of her misused funds and his liability on a promissory note issued in settlement of this claim, which the Commission found to be in wilful violation of section 17 (a) of the Securities Exchange Act and rule X-17A-5 thereunder.

The Commission revoked the registration of Weston & Co. as a broker-dealer.

Finding that in its application for registration as an investment adviser and in supplemental reports Assured Warranty Corp, had wilfully made untrue statements and misleading omissions as to the ownership of its stock and the nature of its activities, the Commission revoked the registration of Assured Warranty Corp. as an investment adviser.

Three cases decided during the year involved, in part, violations of section 5 (a) of the Securities Act of 1933. These cases involved Green & Co., the S. T. Jackson & Co., Inc., and J. C. Flannery & Co. All three respondents were found to have distributed the common stock of Columbia Machinery & Engineering Corp. when no registration was in effect as to such securities. The Commission found that in 1946 six Columbia stockholders, who constituted members of a group in control of Columbia, sold all their holdings of Columbia stock, consisting of 142,600 shares of 200,000 outstanding shares of common stock and 1,600 shares of 2,000 shares of outstanding preferred stock. Of the common stock, 138,300 shares were sold by the three companies, and the preferred stock was all sold to Jackson & Co. and Flannery & Co. acting in joint account. The Commission noted that the selling stockholders, either directly or through their representatives in the Columbia management, constituted a cohesive group which had organized Columbia and directed its affairs through their control of its board of directors and management. The sales of Columbia stock by these stockholders were not unrelated independent transactions but were the culmination of continuing efforts by principal stockholders of Columbia to dispose collectively of their interest. These efforts were known to the respondent firms which, from early in 1946, had cooperated among themselves in the sales of the Colum-

bia stock, were close to Columbia, and in fact took a hand in directing its course.

The Commission concluded that the sales effected by the respondent companies were knowingly made on behalf of members of a group in control of Columbia, that the respondents were underwriters within the definition contained in section 2 (11) of the Securities Act, and that registration of the Columbia stock which they distributed was required by that act. It found, therefore, that the S. T. Jackson & Co. Inc., Stacy T. Jackson, J. C. Flannery & Co., and Joseph C. Flannery wilfully violated section 5 (a) of the Securities Act in the sale of the common and preferred stock of Columbia, and that Greene & Co. and William F. Thompson wilfully violated that section in the sale of Columbia stock. The S. T. Jackson & Co., Inc. and J. C. Flannery & Co., in addition, were found to have engaged in fraudulent practices in connection with their sales of Columbia common and preferred stock.<sup>17</sup>

On findings of wilful violations of the antifraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, and other provisions of the latter act, the Commission revoked the registration of the S. T. Jackson & Co., Inc. and J. C. Flannery & Co., and found Stacy T. Jackson and Joseph C. Flannery to be causes of such revocations.

Proceedings instituted against Halsey, Stuart & Co., Inc., ("Halsey") and Harold L. Stuart, involved market activities in the 3 $\frac{1}{8}$  percent series C first-mortgage bonds, due 1973, of Northern Indiana Public Service Co. and sales without delivery of prospectuses required by the Securities Act.

Halsey was syndicate manager of a group of 92 underwriters, which in 1943 purchased an issue of \$45,000,000 of the Northern Indiana Public Service Co. bonds from the issuing company. The bonds were registered under section 5 of the Securities Act but were not traded on any exchange.

When the underwriting syndicate terminated 12,561 bonds remained unsold. Halsey held 4,772, of these unsold bonds, most of them having been bought by Halsey from other underwriters at a bid slightly higher than cost to the underwriters. This bid had the effect of eliminating overhanging holdings in the hands of other underwriters, who might have thrown them onto the market with serious consequences to the distribution as a whole and in particular to Halsey's stake at that time of over \$2,000,000 in undistributed bonds.

In a period of about 400 business days Halsey published bids or invited offers of the bonds on 292 business days. In the earlier months following the close of the syndicate it was the heaviest known buyer in the dealer market and made most of its purchases from liquidating underwriters, often bidding and paying prices at increasingly higher levels. On the other hand, it sold comparatively few bonds in that market, confining most of its sales to customers. The post syndicate market developed in three stages: A first period marked by extensive

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<sup>17</sup> While the Commission did not minimize the violation by Greene & Co. and William F. Thompson of the registration requirements of the Securities Act, it did not think it necessary, in the public interest, to impose remedial sanctions and dismissed the proceedings with respect to Greene & Co. and William F. Thompson.

liquidation by underwriters and a fall in prices to about 101; a second period marked by a tightening supply, reduced rate of activity, net accumulation of additional inventory by Halsey, and a price rise to about 103; a third period in which general activity was further reduced and Halsey undertook a consistent liquidation of net inventory as prices rose to about 107. Thereafter Halsey's trading thinned out to insignificant proportions.

The Commission found that Halsey's activities in the market forced not only its own bids but independent bids as well to be raised in order to attract bonds. Beginning even prior to the close of the syndicate, Halsey drained off the potential market over \$4,000,000 of bonds. Thereafter, it was an active purchaser whose pattern of conduct resulted in draining off the supply that came into the market and channeling it to investors who were not likely to become active traders. Halsey's purchases demonstrably could not have been made to satisfy existing orders. Halsey's trading created active and apparent activity and at times it raised prices directly either by bids or transactions. In addition, throughout long periods following the close of the syndicate, its transactions gave support to the wholesale market and tended to fix price floors, because of their volume, because of the fact that Halsey made large purchases while others were relatively inactive, and because the general pattern of Halsey's trading was to remove overhang from the dealer market and to place the bonds with investors.

The Commission found that Halsey engaged in such practices for the purpose of inducing others to buy. The Commission stated, "It is undisputed that it desired, in the period following close of the syndicate, to preserve as much of its inventory as it could in the hope and belief that the price would improve. Hope, belief, and motive are not 'purpose' in the legal sense applicable to this case. But 'purpose' must be inferred when hope, belief, and motive are implemented by activity objectively resulting in market support, price raising, sales at higher prices, and the protection of inventory." The Commission pointed out that Halsey had received Securities Exchange Act release No. 3505, which deals with the legality of transactions by underwriters during the course of a distribution and states that conduct which would violate section 9 (a) (2) of the Exchange Act would also constitute a violation of section 15 of that act and section 17 of the Securities Act.

The Commission found that Halsey had wilfully violated section 17 (a) of the Securities Act and sections 10 (b) and 15 (c) of the Exchange Act and the rules thereunder.

The Commission further found that from September 11, 1944 through April 2, 1945, Halsey sold these bonds without delivery of prospectuses as required by section 5 (a) (2) of the Securities Act. The violation was not characterized as wilful since Halsey in practice treated the bonds as fungible and had used prospectuses for a year to cover all of its sales for the year.

Concluding that it would not be in the public interest to take no action against Halsey, if it still maintained the view that it was free to engage in the activities described, the Commission afforded Halsey an opportunity to assure the Commission that it would in the future

comply with the Commission's enunciated principles. Halsey filed a statement of compliance and the Commission thereupon dismissed the proceedings.

### Broker-Dealer Inspections

The broker-dealer inspection program, initiated by the Commission in 1940 under section 17 (a) of the Securities Exchange Act, which authorizes the Commission to make periodic, special, and other examination of the books and records of brokers and dealers, is one of the Commission's important procedures in the detection and prevention of violations of law by broker-dealers. These inspections are conducted by the staff of the Commission's regional offices. They are sometimes limited to a particular phase of a firm's operations, such as its financial condition or its method of handling particular accounts, but generally they involve full-scale examination of all characteristic activities, culminating in a report on the extent to which its operations are in compliance with the standards established by the act and rules.

Regional offices reported on 906 inspections during the year. In 59 inspections the question of financial condition was a matter for consideration; 56 inspections involved noncompliance with the Commission's hypothecation rules; in 15 inspections secret profits in agency transactions were reported; in 165 inspections noncompliance with regulation T was reported, involving chiefly the failure to comply with the provisions of the regulation respecting cash accounts; other infractions too scattered to classify were noted in 113 inspections.

As a result of the Commission's policy of explaining the application of its rules and regulations and of urging management controls which will afford strict compliance therewith, many violations, particularly those involving improper hypothecation of securities, or the rule relating to the capital position of the firm, are frequently cured before the inspection has been completed. However, in connection with more than 40 inspections post-inspection surveillance or investigation beyond the scope of the inspection became necessary—to ascertain whether corrections had been made as promised and to determine whether disciplinary or remedial action was necessary. Two of the firms inspected retired from business during investigation and revocation proceedings are pending as to three others.

In addition to inquiry into the various matters mentioned above, the inspection procedures call for a test check to determine whether the firm inspected deals fairly with customers at prices reasonably related to the current market. These test checks have a dual purpose—first to enforce the principle, judicially established in *Charles E. Hughes & Co., Inc. v. S. E. C.*,<sup>18</sup> that it is fraudulent for a dealer to sell securities to customers, or buy from them, at prices not reasonably related to the market unless he discloses the variation from the market, and second to determine the effectiveness of the rules of the NASD relating to fair prices and fair and equitable principles of trade.

<sup>18</sup> 139 F. 2d 434 (C. A. 1943) cert. den. 321 U. S. 786 (1944). On Nov. 25, 1944, the board of governors of the NASD adopted an interpretation of sec. 1 of art. III of its Rules of Fair Practice holding that transactions by dealers at prices not reasonably related to the market constitute conduct inconsistent with just and equitable principles of trade.

### Pricing Practices

The following tabulation reflects information obtained in inspections made during the year with respect to pricing practices in sales to customers:

	NASD members	Others	Totals
Number of inspections.....	654	252	906
Number of inspections reporting sales to customers in which the customer paid more than 5 percent above the current market <sup>1</sup> .....	242	32	274
Number of sales reported.....	16,682	1,559	18,241
Number of sales analyzed <sup>2</sup> .....	14,241	1,281	15,522
Number of sales in which the customer paid more than 5 percent above the current market.....	1,697	575	2,272

<sup>1</sup> For test purposes in the case of unlisted securities the high offer in quotations among dealers as of the date of the sale is used; on exchange securities the high sale on the date of sale, or if there was no sale, the asked price, as reported by the exchange on which the security is traded, is used.

<sup>2</sup> Market prices as of the date of sale are not readily available in all instances. This is often true of securities inactively traded and generally true of securities having only a local market. There were 2,719 transactions reported in these inspections on which no market prices were readily available.

A further breakdown of the last item in the above tabulation shows substantial concentration of the total 2,272 sales made by members and nonmembers of NASD at more than 5 percent mark-up.

One hundred and thirty-four inspections in which 8,143 sales were analyzed accounted for only 384 sales at mark-ups of over 5 percent, and in no instance was the number of sales at such mark-ups a substantial part of the test check. However, the remaining 1,888 sales at such mark-ups, accounted for in 140 inspections, constituted over 25 percent of 7,379 sales analyzed. In each of these test checks, the number of sales made by the firm at mark-ups of over 5 percent constituted 10 percent or more of the firm's sales analyzed. The concentration of such transactions was in the 140 firms as indicated below:

	NASD members	Others	Total
Number of inspections in which the sales to customers at a mark-up of more than 5 percent over the current market represented more than 10 percent of the sales analyzed.....	112	28	140
Number of sales analyzed in such inspections.....	6,192	1,187	7,379
Number of such sales made at a mark-up of more than 5 percent over the current market.....	1,319	569	1,888

### Financial Reports

Brokers and dealers are required by rule X-17A-5 to file reports of financial condition during each calendar year. During the 1950 fiscal year a total of 3,581 financial reports were filed. Each report is examined to determine, among other things, whether there has been any violation of rule X-15C3-1, which provides that the aggregate indebtedness of a broker or dealer shall not exceed 20 times his net capital. When deficiencies are found steps are taken immediately to secure compliance in this important phase of the Commission's activities in affording protection to customers.

Failure to file the reports as required is an infraction of the rule and may lead to disciplinary proceedings. Frequently, small firms doing

relatively little or no business fail to file reports on time. These are handled by a procedure for cancellation of registration when the registrant's inactivity is established. Informal procedures are frequently used to procure filing by those who do not furnish reports on time. In some instances action becomes necessary to revoke registration. Proceedings were instituted during the year to revoke the registrations of six firms for failure to file financial reports.

### SUPERVISION OF NASD ACTIVITIES

#### Membership

At the end of the 1950 fiscal year there were 2,784 members of the National Association of Securities Dealers, Inc. (NASD), the only national securities association registered as such with the Commission. This represented an increase of 89 members in the year, as the result of 246 admissions and 157 terminations of membership. At the same date there were 28,794 individuals, including generally all partners, officers, traders, salesmen, and other persons employed by member firms in capacities which involved their doing business directly with the public, an increase of 1,545 during the year. This increase was the result of 5,444 initial registrations or reregistrations and 3,899 terminations of registration.

#### Disciplinary Actions

The Commission received from the NASD during the 1950 fiscal year reports of final action in 25 disciplinary cases in which formal complaints had been filed against members. Three of these complaints were dismissed on findings by the NASD district business conduct committee of initial jurisdiction that there had been no violations of the rules of fair practice. In the remaining 22 cases the committees found violations of such rules and imposed various penalties.

In 13 such cases the complaints were directed solely against member firms. In 9 of these cases fines were levied ranging from \$100 to \$2,000 and aggregating \$4,000. Of these 9 firms fined, 5 were also censured and costs of the proceedings were charged in 4 cases. One such firm was fined, censured, and suspended from membership for 90 days. In the remaining 4 cases, 1 member was expelled, 2 firms were censured, and 1 complaint was disposed of by acceptance by the committee of a statement pledging future observance and compliance with the rules of fair practice.

In nine other cases complaints were directed not only against member firms but also against registered representatives of such firms. The significance of this type of action arises from the NASD bylaws and rules under which registered representatives have the same rights, duties, and obligations and are subject to the same disciplinary procedures, penalties, and disqualifications as members. Thus, for example, revocation of registration by the NASD of a registered representative would operate as a barrier to membership and to employment by or affiliation with a member unless the Commission finds it appropriate in the public interest to approve or direct to the contrary.

In three such cases the complaints were dismissed as to the member firms although one registered representative was censured and two representatives had their registrations revoked; one firm was censured

and its registered representative was fined \$200; one firm was censured and fined \$200 and the registration of its representative was revoked; another firm was fined \$500 and both the firm and the representatives were censured. One such complaint was disposed of by acceptance by the committee from the firm of a statement of future observance and compliance with the rules of fair practice and the expulsion of the representative (who had been a partner) and the revocation of his registration. Another complaint filed jointly against two member firms and the principal of one firm, who was also a registered representative, resulted in a decision by the district business conduct committee to expel each firm from membership and to revoke the registration, as registered representatives, of the principal named in the complaint and of two principals of the other firm. In addition, costs to the maximum allowable amount of \$500 were assessed against each firm. One firm and its two principals appealed this decision to the board of governors and this appeal was pending at the year end.

During the year the Commission continued its practice of referring to the NASD, for appropriate action, facts concerning the business practices of members where there was some indication of possible violations of the rules of fair practice. Five such references were made in the year here under review and one had been in process at the start of that year. Reports of disposition were received during the year on two of these cases, both of which involved formal complaint procedure and are included in the description of the disposition of such cases recited above. Four such cases were in process at the year end.

During the 1950 fiscal year the Commission was not called upon to act in any matter arising from denial of membership by the NASD or on a petition for approval of, or continuation in, membership. At the year end there was before the Commission, on appeal by the aggrieved member, one disciplinary decision by the NASD. This was the only such matter to come before the Commission in the year here reviewed.

#### CHANGES IN RULES, REGULATIONS, AND FORMS

During the 1950 fiscal year, the Commission made a number of important changes in its application and report forms and related rules and regulations under the Securities Exchange Act.

*Form 10.*—This form, the principal form for the registration on an exchange of securities of commercial and industrial companies, was completely revised. The revision merges into this form eight other registration forms previously prescribed for various classes of registrants. Among the more important changes made were the amplification of the items and instructions calling for a description of business and property so as to indicate more precisely the information required, the disclosure of material litigation, and the amendment of the remuneration items to correspond with the requirements of the Commission's proxy rules.

*Form 10-K.*—This is the principal form for annual reports of listed companies under the Securities Exchange Act and for registrants under the Securities Exchange Act required to report under section 15 (d) of the Securities Exchange Act. It was revised along lines similar to the revision of Form 10 and likewise supersedes several other forms previ-

ously prescribed for the annual reports of various classes of registrants. The revised form also eliminates certain duplication which had previously existed between the requirements of this form and Form 8-K for current reports.

Subsequent to this revision of Form 10-K, it was further amended to permit electric utilities and natural gas companies which file annual reports with the Federal Power Commission on that Commission's Form No. 1 or Form No. 2 to file copies of such reports with this Commission in satisfaction of most of the requirements of Form 10-K. This provision is optional and any company may file its report either in accordance therewith or on Form 10-K in accordance with the previously existing requirements.

*Form 8-K.*—This form prescribed for current reports was amended to require the reporting of certain events with respect to which reports had not previously been required. The principal additional events required to be reported are the acquisition or disposition of a substantial amount of assets; the institution or termination of important litigation; the guaranteeing of securities of other issuers; and defaults upon senior securities.

*Form 9-K.*—The Commission also adopted Form 9-K, a new quarterly report form, replacing item 11 of old Form 8-K for reporting gross sales and operating revenues. Except for providing a separate form for such reports and some amplification of the instructions to include certain administrative interpretations, this new form did not make any substantial change in the requirements with respect to such reports.

*Form 8.*—During the year the Commission also revised Form 8 which is a one-page form used as a cover or facing page for amendments to applications for registration, and annual, quarterly, and current reports filed under the Securities Exchange Act. Use of the form had previously been restricted to listed companies. However, under the revision, the form is also available for use by registrants under the Securities Act which are required to file annual and other reports under section 15 (d) of the Securities Exchange Act.

*Revision of rule X-12A-4—Exemption for certain short-term warrants.*—In addition the Commission adopted a revised rule X-12A-4. This rule exempts certain short-term warrants from registration under section 12 (a) of the Securities Exchange Act. Previously, the exemption had been limited to issued warrants, and under this revision the rule has been broadened to exempt unissued warrants as well. The Commission adopted at the same time a new Form AN-4, which is prescribed for the exemption statements required by rule X-12A-4, and rescinded Form 15-AN, heretofore prescribed for such statements.

#### LITIGATION UNDER THE SECURITIES EXCHANGE ACT

During the past year the Commission's litigation under the Securities Exchange Act consisted principally of injunction actions instituted by the Commission and its participation as *amicus curiae* in private suits involving important questions of construction of various provisions of the act and rules thereunder.

### Injunction Actions

A permanent injunction was obtained in *S. E. C. v. Walter G. Furlong*<sup>18</sup> against a broker-dealer who had not registered as required by section 15.<sup>19</sup> In addition to this violation, the complaint alleged that the defendant had falsely represented that he was employed by a brokerage firm, had obtained secret profits from its customers by selling securities at prices substantially above the prevailing market prices and had converted customers' funds to his own use.

A number of other injunctions were sought in cases involving registered broker-dealers.<sup>20</sup> Most of these were based on charges of failure to conform to required financial standards. The common element in *S. E. C. v. General Stock and Bond Corp.*<sup>21</sup> and *S. E. C. v. Adams & Co., et al.*<sup>22</sup> was solicitation of business by the defendants while their liabilities exceeded their assets. In the *General Stock and Bond* case, where a permanent injunction was obtained by consent, the complaint also charged violation of the Commission's rule X-15C3-1, in that the firm permitted its indebtedness to exceed 20 times net capital. Additional violations charged in the *Adams* case included the hypothecation of customers' securities without their consent.<sup>23</sup> In that case the company's affairs were placed in the hands of a receiver in order to obtain equitable treatment for its customers. An injunction was obtained in *S. E. C. v. Gordon B. Todd*,<sup>24</sup> where the defendant had violated the margin requirements and had failed to keep books and records in the manner required by law.

Violation of the antimaniipulation provisions of the act, sections 9 (a) (1) and (2), was enjoined in *S. E. C. v. Henry M. Stanley*.<sup>25</sup> The complaint alleged that Stanley effected a series of transactions in a security listed on the Detroit Stock Exchange to create actual and apparent trading in the security for the purpose of inducing others to purchase the stock and that he consummated "wash sales" and entered "matched" orders to cause a false and misleading appearance with respect to the market for the security.

The Commission's proxy regulations were involved in *S. E. C. v. John A. Topping*,<sup>26</sup> where a decree was obtained by consent permanently enjoining a shareholder of Certain-Teed Products Corp., a registered corporation, from further violation of section 14 (a) of the act and the rules and regulations issued thereunder. It was based upon the defendant's failure to file with the Commission letters to various common stockholders preliminary to a proposed solicitation of proxies<sup>27</sup> and certain false and misleading statements in this material.

<sup>18</sup> Civil Action No. C 862-49, D. N. J., Nov. 1949.

<sup>19</sup> For violation of the injunction in *S. E. C. v. Kirby*, Civil Action No. 25742, N. D. Ohio, Apr. 28, 1949, against acting as a broker-dealer without registration, referred to in 15 SEC Ann. Rep. 66, contempt proceedings were instituted during the fiscal year. See p. 151, *infra*.

<sup>20</sup> For litigation against broker-dealers under the criminal provisions of the Securities Act see pp. 150-151.

<sup>21</sup> Civil Action No. 50-236, D. Mass., Mar. 31, 1950.

<sup>22</sup> Civil Action No. 49 C 1145, N. D. Ill., July 18, 1949 (temporary restraining order issued and continued at various dates; final judgment still pending).

<sup>23</sup> The complaint also alleged violations of secs. 17 (a) (2) and (3) of the Securities Act of 1933.

<sup>24</sup> Civil Action No. 55, 384, S. D. N. Y., Feb. 10, 1950.

<sup>25</sup> Civil Action No. 9079, D. Mich., Mar. 13, 1950.

<sup>26</sup> Civil Action No. 50-79, S. D. N. Y., Sept. 27, 1949.

<sup>27</sup> See *S. E. C. v. Topping*, 85 F. Supp. 63 (S. D. N. Y., May 24, 1949); 15 S. E. C. Ann. Rep. 72.

The first litigated case in which the Commission relied on its power to bring an action in the United States district courts to enforce compliance with section 13 of the act and rules thereunder requiring the filing of annual and quarterly reports by a listed corporation registered under the act was *S. E. C. v. Atlas Tack Corporation*.<sup>28</sup> It was alleged that Atlas Tack Corp. had failed to file annual reports for the years 1947 and 1948, had submitted materially deficient annual reports for the years 1945 and 1946, had failed to file a number of quarterly reports and had made such tardy filing in most instances that investors were deprived of the timely information with which the statute is designed to provide them. The evidence was clear that the Commission had made repeated requests for the information before resorting to judicial compulsion. This litigation resulted in a decree after the close of the fiscal year compelling correction of the deficiencies in past filings and requiring the corporation to file reports at the times and in the manner prescribed by the statute and regulations.

#### Participation as *Amicus Curiae*

Most of the cases in which the Commission participated as *amicus curiae* involved construction of section 16 (b) of the act, which accords to a corporation the right to recapture short-swing (less than 6 months) profits realized from transactions in its equity securities by "insiders." Whether a production manager was an "insider" within the intent of section 16 (b) was the question posed in *Colby v. Klune*.<sup>29</sup> The district court in granting summary judgment for the defendant held that the employee involved was not an "officer" subjected to liability by the statute. The Commission, though taking no position upon the ultimate issue, appeared *amicus curiae* on the appeal and submitted a memorandum urging that whether a person is an officer depends upon the employee's "responsibility for the policy of at least a substantial segment of the corporation's affairs" and "participation in executive councils of the corporation as an officer." The appellate court remanded the case to the district court to take evidence on the question whether the defendant performed "important executive duties of such character that he would be likely, in discharging these duties, to obtain confidential information about the company's affairs that would aid him if he engaged in personal market transactions."<sup>30</sup>

An interpretation dealing with the valuation of stock purchase warrants was rendered in *Truncale v. Blumberg et al.*,<sup>31</sup> where plaintiff, a stockholder in Universal Pictures Co., invoked section 16 (b) to recover on behalf of the corporation profits which he alleged the defendants, who were officers and directors of the company, had made. It appeared that, pursuant to an employment contract, the defendants received 3,000 warrants for the purchase of stock of the company. At the time they were received, these warrants were worth \$11,500. Within 6 months prior to their receipt the defendants had sold, for \$120,688, 3,000 other warrants they owned. Plaintiff, contending that the warrants had a cost basis of zero, sought

<sup>28</sup> Civil Action No. 50-143, D. Mass., July 17, 1950.

<sup>29</sup> 83 F. Supp. 159 (S. D. N. Y., 1949).

<sup>30</sup> *Colby v. Klune*, 178 F. 2d 872 (C. A. 2, 1949).

<sup>31</sup> 88 F. Supp. 677 (S. D. N. Y., 1950), *aff'd per curiam sub nom. Truncale v. Scully*, unreported (C. A. 2, Jan. 23, 1950). For another phase of this litigation see *Truncale v. Blumberg, et al.*, 80 F. Supp. 387 (S. D. N. Y., 1948) discussed in 15 SEC Ann. Rep. 70.

to recover the entire sale price. The district court held no profit was realized. On appeal the Commission took the position that whether these warrants were considered as compensation or not there was no recoverable profit. As compensation their cost basis would be the value of the services performed which might properly be valued in excess of the sales price. If considered as an incentive payment, no profit was realized under the circumstances of this case because there was no causal relationship between the purchase and sale such as the statute was designed to reach. The court of appeals affirmed on the basis of the opinion of the district court.

The issue in *Arbetman v. Playford, et al.*,<sup>32</sup> in which the Commission appeared *amicus curiae*, was whether an insider must account for profits from a purchase and sale within a 6 months period, where the profit is realized by sale which follows registration but purchase preceded registration. The Commission took the position that an insider should be liable under such circumstances because a contrary construction would defeat the purpose of the statute by allowing an opportunity for abuse of inside information. No opinion on the merits was reached, however, because the litigation was terminated by a settlement between the parties.

In another case, *R. Hoe & Co., Inc. v. McCune*,<sup>33</sup> a corporation proposed to compromise a claim, based on section 16 (b), against one of its directors and by motion requested a district court to approve the settlement. In answer to an order to show cause, the Commission advised that the Court should not undertake to pass upon the adequacy of the settlement in any manner which would prejudice the right of action of plaintiff's shareholder to sue on behalf of the corporation for the full amount of the profit involved. This position was adopted by the court in its opinion.<sup>34</sup>

The Commission also participated as *amicus curiae* in *Robinson et al. v. Difford et al.*, E. D. Pa., Civil Action No. 10, 322, which invoked section 10 (b) of the act and rule X-10B-5 thereunder. The Commission opposed the contention, presented by a motion to dismiss the complaint, that the provisions do not apply to so-called private transactions in securities, i. e., transactions in securities not registered on an exchange nor traded over-the-counter by securities brokers and dealers. The fraudulent transactions charged in this case were purchases by a majority "control group" (including officers and directors) of a closely held corporation of the stock holdings of minority shareholders allegedly by means of fraudulent misrepresentations, half truths and omissions of material facts. As indicated above, the complaint did not aver that the stock was registered upon an exchange or had ever been the subject of trading by a broker or dealer. On July 14, 1950, shortly after the close of the fiscal year, the court denied the motion to dismiss in an opinion which upheld the Commission's view that the section was applicable.<sup>35</sup> The same question, among others,

<sup>32</sup> Civil Action No. 47-278 (S. D. N. Y.); see 83 F. Supp. 335 (S. D. N. Y., 1949).

<sup>33</sup> Civil Action No. 45-311 (S. D. N. Y.):

<sup>34</sup> *Ibid.*, (S. D. N. Y., Nov. 11, 1949).

<sup>35</sup> CCH Fed. Sec. L. Serv. par. 90,486. The court rejected the contention that there can be no private right of action for violation of rule X-10B-5, relying *inter alia* upon *Kardon v. National Gypsum Co.*, 69 F. Supp. 512 (E. D. Pa., 1946), and *Slavin v. Germantown Fire Insurance Co.*, 174 F. 2d 799 (C. A. 3, 1949), in both of which the Commission, as an *amicus curiae*, had successfully argued that such action could be maintained.

is now awaiting decision by the Delaware Federal district court in *Speed et al. v. Transamerica Corp.*, Civil Action No. 480, in which the Commission is also participating as an *amicus curiae*.<sup>36</sup>

### Appellate Proceedings

During the course of the year only one petition for review of an order of the Commission revoking a broker-dealer registration was filed, and the case was dismissed by order of the Court because of the petitioner's failure to prosecute the appeal.<sup>37</sup> The decision on the merits in *Norris & Hirshberg v. S. E. C.*, 177 F. 2d 228 (C. A. D. C., 1949), sustaining the revocation order of the Commission was handed down during the past fiscal year. This litigation has been discussed in previous annual reports.<sup>38</sup>

### THE KAISER-FRAZER INVESTIGATION AND THE LITIGATION WITH OTIS & CO.

Early in 1948, the Commission instituted an investigation into the circumstances surrounding the failure of a stock offering by Kaiser-Frazer Corp., and there ensued a series of administrative and court proceedings which, from the standpoint of sheer volume, have been among the most extensive in the history of the Commission. By June 30, 1950, the administrative and judicial proceedings (including private suits) aggregated nine in number, not counting numerous appeals, and attorneys for the Commission had prepared a total of 35 briefs or documents in the nature of briefs, and 43 other legal documents such as pleadings and affidavits. The history of these proceedings is discussed in some detail in the Fifteenth Annual Report of the Commission.<sup>39</sup>

During the past fiscal year the Commission obtained a decision in the Supreme Court of the United States<sup>40</sup> which left it free to commence hearings in an administrative proceeding under the Securities Exchange Act to determine whether Otis & Co., an investment banking concern, had violated the act and the rules thereunder in connection with the Kaiser-Frazer stock offering, and, if so, whether the registration of Otis & Co. as a broker-dealer should be revoked and whether it should be suspended or expelled from the National Association of Securities Dealers, Inc. (NASD).

After the disposition of various prehearing motions, the hearings were finally commenced in the Spring of 1950. Thereafter they were suspended while counsel attempted to settle the details involved in incorporation by reference of major blocks of testimony adduced in the Commission's earlier investigation, which had been conducted without cross-examination. This was the status of the hearings at the close of the fiscal year.

<sup>36</sup> For previous comment on the *Speed* case see 13 SEC Ann. Rep. 63, and 15 SEC Ann. Rep. 72. Oral argument in this case preliminary to judgment on the merits was held on June 22, 1950.

<sup>37</sup> *Southeastern Securities Corp. and Eugene F. Luck v. S. E. C.*, Civil Action No. 12947, C. A. 5, Mar. 29, 1950.

<sup>38</sup> See 13 SEC Ann. Rep. 35-36, 41; 13 SEC Ann. Rep. 61; 14 SEC Ann. Rep. 53; and 15 SEC Ann. Rep. 67-68.

<sup>39</sup> Pages 73-77.

<sup>40</sup> *S. E. C. v. Otis & Co.*, 338 U. S. 888 (1949).

While the hearings were proceeding at the administrative level, the Commission was continuing its efforts to clarify certain issues raised in claims of *res judicata* advanced by Otis & Co. Following a decision on this point in the Court of Appeals for the District of Columbia Circuit,<sup>41</sup> (which the court indicated was intended to defer the issue for later consideration) the Commission applied to the Supreme Court (after the close of the fiscal year) for a petition for a writ of certiorari.<sup>42</sup>

Meanwhile the NASD had pressed to a conclusion a proceeding of its own to determine whether Otis & Co., a member of the Association, had violated the Association's rules in refusing, upon a claim of attorney-client privilege, to supply certain information to an investigating committee of the NASD which was also examining the Kaiser-Frazer stock offering. The outcome of this proceeding was a 2-year suspension of Otis & Co. from membership in the NASD. Otis & Co. appealed to the Commission under section 15A (g) of the Securities Exchange Act of 1934, which provides for an automatic stay of the NASD's action pending the Commission's decision. This appeal was still pending before the Commission at the end of the fiscal year.

Otis & Co. had unsuccessfully attempted in the courts to stay this NASD proceeding and to stay the Commission from taking any action in the matter as well. During the fiscal year Otis & Co. had continued its efforts in this direction by way of appeal to the United States Court of Appeals for the District of Columbia Circuit,<sup>43</sup> but this appeal was voluntarily dismissed following the Supreme Court decision above noted.

So far as concerns the stockholders' actions which were instituted against Kaiser-Frazer Corp. after the collapse of its stock offering in 1948, the Commission, in accordance with its usual practice, had not participated (except to the limited extent noted at page 77 of the Fifteenth Annual Report) because of the general absence of issues bearing on the construction of the securities laws. During the fiscal year, however, attempts were made by litigants in two of these actions to subpoena large numbers of interpretations rendered by the Commission in matters other than the Kaiser-Frazer stock offering. Upon the Commission's explanation of the public interest reasons which have caused it from its inception to keep such interpretations confidential except in very unusual circumstances, the subpoenas were quashed by the court.<sup>44</sup>

The various stockholders' actions, which involved largely overlapping claims, moved far towards a conclusion during the fiscal year when a proposed settlement in one of the suits was approved by the court after extensive hearings in which the parties to the other suits were heard on the question of the adequacy of the settlement.<sup>45</sup> After the close of the fiscal year, however, certain of the parties filed a notice of appeal from the order approving the settlement.

<sup>41</sup> *S. E. C. v. Harrison et al.* (No. 10043, C. A. D. C. 1950).

<sup>42</sup> *S. E. C. v. Harrison et al.* (No. 345, October Term, 1950).

<sup>43</sup> An application for an injunction pending the outcome of the appeal was denied on Sept. 9, 1949. *Otis & Co. v. NASD et al.* (No. 10397, C. A. D. C. 1949).

<sup>44</sup> *Stella v. Kaiser et al.* (Civil No. 45-750, S. D. N. Y. 1950); *In re S. E. C.* (No. M8-85 S. D. N. Y. 1950).

<sup>45</sup> *Pergament et al. v. Frazier et al.* (Civ. No. 7354, E. D. Mich. 1950).

### **PART III**

## **ADMINISTRATION OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935**

The Public Utility Holding Company Act of 1935 was passed by the Seventy-fourth Congress following an extensive investigation by the Federal Trade Commission. That investigation disclosed a variety of abuses in public-utility holding company finance and operations, the more significant of which are enumerated in section 1 (b) of the act: (1) Inadequate disclosure to investors of the information necessary to appraise the financial position and earning power of the companies whose securities they purchase; (2) the issuance of securities against fictitious and unsound values; (3) the overloading of operating companies with debt and fixed charges thus tending to prevent voluntary rate reductions; (4) the imposition of excessive charges upon operating companies for various services such as management, supervision of construction and the purchase of supplies and equipment; (5) the control by holding companies of the accounting practices and rate, dividend and other policies of their operating subsidiaries so as to complicate or obstruct State regulation; (6) the control of subsidiary holding companies and operating companies through disproportionately small investment; (7) the extension of holding company systems without relation to economy of operations or to the integration and coordination of related properties.

The statute provides for regulation of public-utility holding company systems which are engaged in the electric utility business or in the retail distribution of natural or manufactured gas. The provisions of the act are in two basic categories. The first deals with the financing and operations of holding company systems. These regulations, however, are carefully designed not to conflict with, but to supplement and strengthen State regulation. Thus, the jurisdiction of the act does not extend to rate making and does not authorize the Commission to prescribe accounting systems for operating subsidiaries, except in a comparatively few instances where there are neither State nor other Federal laws prescribing such accounting systems. The second area of regulatory jurisdiction under the act provides for the geographical integration and corporate simplification of holding company systems.

### **THE PUBLIC UTILITY INDUSTRY UNDER THE ACT**

Public utility properties subject to the Holding Company Act on June 30, 1950 continue to represent an important segment of the electric and gas utility industries of the United States, despite the release of 98 companies from the regulatory jurisdiction of the Commission during the past year. At the close of the fiscal year, there were registered with the Commission 46 holding company systems whose aggregate consolidated system assets on that date amounted to ap-

proximately \$12,822,000,000. These figures may be compared with 46 systems on June 30, 1949, having system assets of \$14,294,000,000.

The decrease of approximately \$1,472,000,000 represents a net change reflecting primarily the difference between divestments of companies which are no longer subject to the act with aggregate assets of \$2,231,000,000 and property additions totaling some \$600,000,000, which were occasioned by the tremendous growth in the industry in evidence since the close of World War II. Because of this expansion in plant facilities, not only by utility subsidiaries, but also by non-utility subsidiaries of holding company systems, it is not possible to present an intelligent comparison of those assets of registered holding company systems which were subject to the act when the statute was first enacted with the assets of systems subject to the act at the present time.

On June 30, 1950 there were 543 companies subject to regulation by the Commission under the act as registered holding companies and subsidiaries thereof. These included 68 holding companies, 223 electric and gas utility companies, and 252 nonutility companies. Corresponding data for June 30, 1949 showed 641 companies subject to regulation, consisting of 72 holding companies, 274 electric and gas utility companies, and 295 nonutility companies. The changes in the number of companies subject to regulation under the act during the past year, and for the entire period of the Commission's administration of the statute, are summarized in the following tables.

*Companies released from regulatory jurisdiction of the Commission*

	Total companies subject to act during period <sup>1</sup>	Absorbed by merger or consolidation	Sales dis-solutions and other divest-ments	Exemp-tion by rule or order	Other dispos-als	Total	Compa-nies sub-ject to act as of June 30
<i>Fiscal year ending June 30, 1950</i>							
Holding companies.....	73	2	1	2	-----	5	68
Electric and/or gas companies.....	275	11	37	4	-----	52	223
Nonutilities plus utilities other than electric and/or gas companies.....	307	1	52	2	-----	55	252
Total companies.....	655	14	90	8	-----	112	543
<i>Fiscal year ending June 30, 1949</i>							
Holding companies.....	78	-----	3	3	-----	6	72
Electric and/or gas companies.....	315	9	31	-----	1	41	274
Nonutilities plus utilities other than electric and/or gas companies.....	327	3	19	5	5	32	295
Total companies.....	720	12	53	8	6	79	641
<i>Period from June 15, 1938 to June 30, 1950</i>							
Holding companies.....	211	25	73	36	9	143	68
Electric and/or gas companies.....	919	147	436	64	49	696	223
Nonutilities plus utilities other than electric and/or gas companies.....	1,035	103	523	65	92	783	252
Total companies <sup>2</sup> .....	2,165	275	1,032	165	150	1,622	543

<sup>1</sup> Reflects company additions and classification adjustments during the period indicated.

<sup>2</sup> A few companies have been subject and not subject to the act a number of times. These instances contribute some insignificant duplication to the reported company totals.

While it is not possible at this date to predict accurately the ultimate disposition of all holding company systems it is estimated that, when all problems arising under section 11 (b) have been settled, there will remain subject to the Commission's continuing regulatory jurisdiction approximately 20 systems with aggregate assets of 6 or 7 billion dollars.

### PROGRESS UNDER SECTION 11—OVER-ALL SUMMARY

The fiscal year ended June 30, 1950 has been a significant year from the standpoint of consummation of reorganization and dissolution plans under section 11. Seventy-eight companies with aggregate assets of \$2,231,000,000 were divested by holding companies and, as a result, are no longer subject to the act. This compares with the divestment of 44 companies with assets of \$1,749,000,000 in the fiscal year 1949 and 111 companies with assets of \$1,244,000,000 in 1948. In addition, holding companies divested themselves of 52 other companies with assets aggregating some \$2,000,000,000 which continued subject to the act on June 30, 1950 as registered holding companies or subsidiaries thereof. Of this latter number, 25 companies with assets of approximately \$1,200,000,000 are expected to remain subject to regulation by the Commission indefinitely as components of simplified and integrated holding company systems meeting all of the requirements of section 11 (b).

During the entire 15-year life of the statute, 751 companies with assets of \$10,326,000,000 have been divested from holding company control and are, therefore, no longer subject to regulation by the Commission. Divested companies in the "still subject" category for the 15-year period number 233 with aggregate assets of \$5,692,000,000.

Of this number, 166 companies with assets of \$4,541,000,000 are presently expected to continue in operation as holding company systems subject to the Commission's regulatory supervision under the act.

Analyses of these divestments by types of companies and method of divestment are presented in the following tables.

*Electric, gas, and nonutility companies divested under the Public Utility Holding Company Act of 1935 (no longer subject to the act as registered holding companies or subsidiaries thereof as of June 30, 1950)*

Companies	Dec 1, 1935 to June 30, 1950		July 1, 1949 to June 30, 1950	
	Number of companies	Assets <sup>1</sup>	Number of companies	Assets <sup>1</sup>
Electric utility.....	245	\$8,488,717,201	28	\$1,953,578,329
Gas utility.....	147	696,168,110	10	137,363,968
Nonutility.....	359	2 1,141,536,507	40	2 140,015,340
Total.....	751	10,326,421,818	78	2,230,957,637

<sup>1</sup> As of divestment date or year end next preceding date of divestment.

<sup>2</sup> A small percentage of the assets of nonutility companies was included in the consolidated assets of the electric and/or gas utilities.

*Estimated future status of companies and assets divested from holding companies Dec. 1, 1935, to June 30, 1950, and still subject to the Public Utility Holding Company Act as registered holding companies and subsidiaries thereof as of June 30, 1950*

	Companies divested			Assets divested				Total
	Electric	Gas	Non-utility	Total	Electric	Gas	Nonutility	
A. Companies continuing in existence:								
1. Companies and assets expected to remain under the act.....	110	30	20	160	\$3,520,330,798	\$994,742,595	\$111,233,692	\$4,516,307,085
2. Companies and assets expected to be released from jurisdiction of the act.....	5	0	9	20	226,259,859	130,193,604	1,996,897	358,450,360
3. Future status of companies and assets under the act cannot be estimated at this time.....		3	41	44		389,423,854	409,759,395	779,183,249
Totals—companies and their assets subject to the act and continuing in existence.....	115	39	70	224	3,746,590,657	1,384,360,053	522,989,984	5,653,940,694
B. Companies dissolved or expected to dissolve; assets sold to other companies:								
1. Assets expected to remain under the act.....	5	1		6	25,016,892	415,000		25,431,892
2. Assets expected to be released from jurisdiction of the act.....	1			1	222,583			222,583
3. Future status of assets under the act cannot be estimated at this time.....	2			2	12,516,195			12,516,195
Totals—companies dissolved or expected to dissolve; assets sold to other companies.....	8	1		9	37,755,675	415,000		38,170,675
Grand totals—companies and assets.....	123	40	70	233	3,784,346,332	1,384,775,053	522,989,984	5,692,111,369
Summary—Total assets divested still subject to the act.								
1. Total assets expected to remain under the act.....					3,545,347,690	835,157,595	111,233,692	4,541,738,977
2. Total assets expected to be released from jurisdiction of the act.....					226,482,447	130,193,604	1,996,897	358,672,948
3. Total assets, the future status of which under the act cannot be estimated at this time.....					12,516,195	369,423,854	409,759,395	791,699,444
Grand totals—assets divested and sold; still subject to the act.....					3,784,346,332	1,384,775,053	522,989,984	5,692,111,369

*Divestments by sales of partial segments of properties under the Public Utility Holding Company Act of 1935 ( no longer subject to the act as of June 30, 1950)*

	Dec. 1, 1935 to June 30, 1950		July 1, 1949 to June 30, 1950	
	Number of companies involved	Consideration received	Number of companies involved	Consideration received
Electric utility.....	87	\$91, 172, 569	5	\$1, 661, 423
Gas utility.....	24	11, 205, 516	5	9, 464, 703
Nonutility.....	49	37, 074, 458		
Total.....	160	139, 452, 543	10	11, 126, 126

*Divestments of partial segments of electric and gas utility properties still subject to the Public Utility Holding Company Act as of June 30, 1950*

	Number of selling companies			Consideration received		
	Electric	Gas	Total	Electric	Gas	Total
<i>Dec. 1, 1935, to June 30, 1950</i>						
1. Purchasers expected to remain subject to the act.....	8	5	13	\$17, 295, 208	\$1, 607, 323	\$18, 902, 531
2. Purchasers expected to be released from jurisdiction of the act.....	2	2	4	317, 969	638, 000	955, 969
3. Future status of purchasers cannot be estimated at this time.....	2	2	4	2, 407, 899	2, 237, 500	4, 645, 399
Totals.....	12	9	21	20, 021, 076	4, 482, 823	24, 503, 899
<i>July 1, 1949, to June 30, 1950</i>						
1. Purchasers expected to remain subject to the act.....	3	1	4	15, 109, 801	196, 000	15, 305, 801
2. Purchasers expected to be released from jurisdiction of the act.....						
3. Future status of purchasers cannot be estimated at this time.....						
Totals.....	3	1	4	15, 109, 801	196, 000	15, 305, 801

Further evidence of the impact upon the utility industry of the transition in ownership of operating companies under section 11 is afforded by noting the increase in trading activity in common stocks of the classes A and B electric utilities, as classified by the Federal Power Commission. At December 31, 1939, there were 383 companies in these categories and, of this number, only 56 companies or 14.6 percent had common stock in which there was some evidence of trading activity. At December 31, 1949, the total number of companies in classes A and B had declined to 316, but of this number, 130 or 41.1 percent had all or a substantial proportion of their common shares in the hands of the public and hence were listed on an exchange or traded in the over-the-counter market. Eight additional stocks became available for public trading during the period from January 1 to June 30, 1950. A few of the companies in this group remained subject to the Holding Company Act because they are holding com-

panies as well as operating companies, or because a portion of their common stock was still held by a holding company subject to future divestment. Most of the 130 companies, however, are now independent operating utilities no longer subject to Commission jurisdiction.

Of the balance of 186 companies whose stocks were not actively traded at the close of 1949, 109<sup>1</sup> were still subject to the Holding Company Act, although this number has been further reduced by divestments, mergers, and exemptions which have occurred in 1950. Most of the companies which are now subject to the Holding Company Act, and whose common stocks are not traded, are expected to remain in that status as subsidiaries of continuing holding companies. In these instances, however, the public has access to the common stocks of integrated parent holding companies which have gone through the processes of section 11.

### PROGRESS UNDER SECTION 11—SURVEY OF INDIVIDUAL SYSTEMS

During the past year the task of bringing the holding company systems into conformity with section 11 has gone forward at a rapid pace. Many of the important interpretive problems, which in earlier years required extensive consideration by the Commission as well as frequent judicial review, are now resolved and the patterns for achievement of compliance are well established. In addition, the condition of the security market during the past year has been generally favorable to the consummation of necessary portfolio security offerings.

Outstanding among the section 11 (e) plans (or segments thereof) consummated during the past fiscal year were those of the Commonwealth & Southern Corp., American Power & Light Corp., Niagara Hudson Power Corp. and United Light & Railways Co. During the same period, the extensive reorganization plans of Long Island Lighting Co. and Pittsburgh Railways Co. were approved by the Commission and, with court approval, were expected to be consummated within a short time.

The Commission also issued three supplemental orders which determined the respective rights of the preferred stockholders of Electric Bond & Share Co. and Federal Light & Traction Co. and the prior lien preferred stockholders of New England Public Service Co. to receive certain cash payments in addition to the sum of involuntary liquidating values and accrued dividends.

The achievements in these and other systems are described in the following summaries which set forth with respect to each of 19 systems the historical developments and current progress toward compliance with section 11.

#### Cities Service Company

Cities Service Co., at the time of its registration in 1941, was the top holding company in a system containing 125 companies of which 49 were electric and gas utility companies with consolidated assets of

<sup>1</sup>The balance of the classes A and B electric utilities consists of companies which are not subject to the Holding Company Act and whose stocks are not actively traded. Generally speaking, these are either subsidiaries of holding companies exempt from the provisions of the act or are companies of small size whose stocks are closely held.

approximately \$1,000,000,000. This system owned or operated properties in each of the 48 States and in several foreign countries. Utility properties were held by three subholding companies, Cities Service Power & Light Co., Federal Light & Traction Co., and Arkansas Natural Gas Corp., each controlling one or more utility systems.

In proceedings under section 11 (b) of the act, the Commission found that Cities should be limited in its operations to those of a single integrated gas utility system and required Cities to dispose of its other interests.<sup>2</sup> However, Cities expressed a desire to retain instead its nonutility businesses and, accordingly, the Commission modified its section 11 (b) (1) order so as to permit Cities to effect compliance by disposing of all of its utility interests.<sup>3</sup>

Cities Service Power & Light Co., pursuant to a plan approved on March 14, 1944,<sup>4</sup> simplified its corporate structure by eliminating its debentures and preferred stocks. In August 1946, Power & Light liquidated and dissolved, transferring to Cities its portfolio holdings.<sup>5</sup> These consisted of an interest of approximately 65 percent in Federal Light & Traction Co., the common stocks of four operating utility companies, Ohio Public Service Co., Spokane Gas & Fuel Co., the Toledo Edison Co., and Doniphan County Light & Power Co., and other miscellaneous holdings.

Federal Light & Traction Co. has likewise completed liquidation proceedings. A number of its smaller properties were sold to individuals or other private purchasers and the stock of Tucson Gas, Electric Light & Power Co. was sold to underwriters for public distribution. Federal also merged four of its subsidiaries to form Public Service Co. of New Mexico and the stock of this company was distributed to Federal's common stockholders.

Federal distributed to its preferred stockholders \$100 per share plus accrued and unpaid dividends, but the Commission at that time reserved jurisdiction with respect to the right of the preferred stockholders to receive any additional amount. This right was evidenced by certificates of contingent interest. By order dated June 19, 1950, the Commission determined this reserved issue and ordered that holders of the certificates be paid \$10 per share together with compensation for delay in payment at the rate of 5.45 percent per annum from October 2, 1947.<sup>6</sup>

On January 26, 1950, Arkansas Natural Gas Corp. filed a new plan under section 11 (e) designed to effect compliance with the requirements of section 11 (b). It provides for simplification of the company's corporate structure and for the disposition by Arkansas Natural, as a partial liquidating dividend, of its stock holdings in Arkansas-Louisiana Gas Co., a natural gas utility subsidiary. Its other subsidiary, Arkansas Fuel Oil Co., will then merge with Arkansas Natural. This plan is still pending before the Commission.

On April 24, 1947, the Commission approved a section 11 (e) plan filed by Cities for the simplification of its corporate structure. This plan provided for the issuance of approximately \$115,000,000 prin-

<sup>2</sup> Holding Company Act releases Nos. 4489 and 4551.

<sup>3</sup> Holding Company Act release No. 5350.

<sup>4</sup> Holding Company Act release No. 4944.

<sup>5</sup> Holding Company Act release No. 6865.

<sup>6</sup> Holding Company Act release Nos. 9931 and 9981.

cipal amount of new debentures to the holders of Cities' outstanding preferred and preference stocks representing a principal amount equivalent to the redemption prices of the three series of preferred and preference stocks plus accumulated dividend arrears of approximately \$50,000,000.<sup>7</sup> In addition, provision was made for the immediate retirement of approximately \$40,000,000 of the company's previously existing long-term debt and for the application of anticipated proceeds from the disposition of its utility subsidiaries to the retirement of the remaining old debt plus a reduction in the amount of the new debentures. Since consummation of that plan in June 1947, Cities has disposed of its interests in the common stocks of Public Service Co. of New Mexico (acquired through liquidation of Federal Light & Traction Co.), Ohio Public Service Co., and the Toledo Edison Co. Proceeds derived from the sales of these holdings together with other available cash have been employed to reduce the outstanding debt of Cities by more than \$87,400,000.

### **The Commonwealth & Southern Corporation**

At the time of its registration as a public utility holding company in March 1938, the Commonwealth & Southern Corp. controlled a holding company system consisting of some 43 companies. Its principal subsidiaries were 11 public utility companies all of which rendered electric service and some of which also furnished gas, transportation, and other services. These companies conducted their operations in five Northern and six Southern States. Although some of the electric properties in the south were interconnected, the northern electric properties for the most part were situated in separate and distinct areas. The publicly held securities of the subsidiaries, consisting primarily of bonds and preferred stocks, aggregated about \$711,000,000 while Commonwealth's own debt securities and preferred stock totaled about \$52,000,000 and \$150,000,000 respectively. Thus the system had outstanding an extremely large amount of senior securities ranking ahead of Commonwealth's common stock. Dividends on this common stock had not been paid since March 1932 and dividends on the cumulative preferred stock had been paid at a reduced rate for several years resulting in dividend arrearages of about \$18,000,000.

Divestments from time to time eliminated from Commonwealth's holding company system all the transportation companies and nearly all the small nonutility companies. Commonwealth also sold its interests in three utility subsidiaries operating in Tennessee, South Carolina, and Indiana, and transferred its interests in the public utility companies which conduct integrated electric operations in Georgia, Alabama, Florida, and Mississippi to the Southern Co., a newly organized public utility holding company.

The past fiscal year witnessed the consummation of the final section 11 plan of Commonwealth, after its approval by this Commission<sup>8</sup> and upon order for enforcement by the District Court of the United States for the District of Delaware.<sup>9</sup> This plan, which became effec-

<sup>7</sup> Holding Company Act release No. 7368.

<sup>8</sup> Holding Company Act release No. 8633

<sup>9</sup> 84 F. Supp. 809 (D. Del., 1949).

tive on October 1, 1949, provided for the distribution of common stock of Consumers Power Co. and Central Illinois Light Co., together with \$1 per share in cash, in exchange for the preferred stock of Commonwealth, and for the distribution of Commonwealth's remaining assets, after provision for its liabilities, in exchange for Commonwealth's common stock. These remaining assets consisted chiefly of common stock of the Southern Co. and Ohio Edison Co. Pursuant to the plan, Commonwealth was dissolved as of October 1, 1949, and is in the final stages of liquidation.

Thus the original system of 43 companies has been resolved into a number of independent operating companies, and two integrated regional holding company systems which are expected to continue under the jurisdiction of the Commission. One of these systems consists of Ohio Edison Co. and its subsidiary, Pennsylvania Power Co.; the other is composed of the Southern Co. and its 4 interconnected public utility subsidiaries.

In connection with the consummation of Commonwealth's plan, the Commission, in September 1949, approved an application to change the mutual service company of Commonwealth's holding company system into an independent service company.<sup>10</sup> The Commission, at the same time, approved the organization of a new company, Southern Services, Inc., to become a mutual service company for the subsidiary companies of the Southern Co.

#### **Electric Bond and Share Company**

The Electric Bond & Share Co. system was the largest to register under the Holding Company Act. At the time of its registration in 1938, it controlled 121 domestic subsidiaries including 5 major subholding companies with combined assets of nearly 3½ billion dollars. These subholding companies were American & Foreign Power Co. Inc., American Gas & Electric Co., American Power & Light Co., Electric Power & Light Corp., and National Power & Light Co. Of these, American Gas & Electric and American Power & Light have been severed from the system. Electric Power & Light has been dissolved pursuant to a plan consummated in May and July 1949. National Power & Light has disposed of substantially all of its holdings and has few remaining assets.

Pursuant to plans filed in 1945 and 1946, which were approved by the Commission and ordered enforced by the district court, Bond & Share paid \$100 per share, or an aggregate amount of \$104,328,000, to the holders of its \$5 and \$6 preferred stocks and, in addition, delivered to each of such holders a certificate evidencing the right to receive any additional amounts which the Commission or the courts might approve or direct.<sup>11</sup>

On April 7, 1947, Bond & Share filed plan II-B in which it proposed that no further payment be made to the certificate holders. On June 19, 1950, after hearings and oral argument, the Commission issued its order in connection with plan II-B and held that the holders of certificates issued with respect to the \$6 preferred stock should

<sup>10</sup> Holding Company Act release No. 9362.

<sup>11</sup> Holding Company Act release No. 6768.

receive \$10 per share together with compensation for delay in payment at the rate of 5.45 percent from March 6, 1947, and that no further payments should be made to holders of certificates issued with respect to the \$5 preferred stock.<sup>12</sup>

In the past, Bond & Share had filed plans with the Commission which contemplated the divestment of all of its public utility holdings in the United States in order that its status might be changed to that of an investment company. However, in September 1949, Bond & Share applied to the Commission for relief from its commitment to dispose of the stock of United Gas Corp. received in connection with the dissolution of Electric Power & Light Corp.

The plan described in this application contemplates the disposition of all domestic utilities other than United Gas, the creation of a "pool of capital" by Bond & Share to be invested in special situations and the exemption of Bond & Share from the Holding Company Act except with respect to reorganization proceedings affecting American & Foreign Power Co., Inc. and with respect to distributions of securities not theretofore authorized by the Commission. Hearings have been completed in respect to that phase of the proceeding involving Bond & Share's request for relief of its commitment to dispose of its holdings in United Gas Corp.

During December 1949, Bond & Share distributed and sold its holdings of the common stock of Middle South Utilities, Inc. which had been received in connection with the dissolution plan of Electric Power & Light Corp.<sup>13</sup> Subsequent to the close of the past fiscal year, Bond & Share filed an application to acquire 381,067½ shares of common stock of the Southern Co. in exchange for its holdings of 254,045 shares of common stock of Birmingham Electric Co.<sup>14</sup>

#### **American & Foreign Power Company, Inc.**

American & Foreign Power Co., Inc. (an Electric Bond & Share subsidiary) controls a mutual service company and some 70 subsidiary companies located in Central and South America, Cuba, Mexico, China, and India. Since the operations of all of Foreign Power's subsidiaries are in foreign countries, the Commission's principal concern is with respect to the simplification of the company's corporate structure and its relationship to Electric Bond & Share Co. Foreign Power's capital structure at December 31, 1949, consisted of debentures, serial notes, bank notes, three classes of preferred stock with dividend arrearages of some \$410,000,000, common stock, and option warrants. Bond & Share holds all the serial notes and substantial blocks of the junior securities.

On October 24, 1944, Foreign Power and Bond & Share filed a plan for the reorganization of Foreign Power. After extensive hearings, this plan was amended by the two companies and on November 19, 1947, the Commission approved such amended plan after the filing of certain additional modifications.<sup>15</sup> The plan, as approved by the Com-

<sup>12</sup> Holding Company Act release Nos. 9931 and 9980.

<sup>13</sup> Middle South Utilities, Inc., was organized in the preceding fiscal year as a new registered holding company to acquire a group of electric utility companies operating in the South Central States which were formerly direct subsidiaries of Electric Power & Light Corp.

<sup>14</sup> It is contemplated that Birmingham will ultimately be merged into Alabama Power Co., a subsidiary of the Southern Co.

<sup>15</sup> Holding Company Act releases Nos. 7815 and 7849.

mission, was subsequently approved by the United States District Court for the District of Maine.<sup>16</sup>

However, because the company could not effectuate the financing necessary to consummate the plan, both the district court and the Commission vacated their orders approving it. On May 2, 1949, the Commission issued an order pursuant to section 11 (b) (2) of the act requiring Bond & Share and Foreign Power to take steps to reorganize Foreign Power in such a manner that its resulting capital structure will consist only of common stock plus such amount of debt as will meet the applicable standards of the act.<sup>17</sup>

During December 1949, pursuant to authority granted by the Commission, Bond & Share transferred to Foreign Power \$19,500,000 principal amount of past due 6 percent debentures of Cuban Electric Co. and \$30,000,000 principal amount of past due serial notes of Foreign Power in exchange for \$49,500,000 principal amount of new 6-year notes of Foreign Power. This step was taken to facilitate the reorganization of Foreign Power's Cuban subsidiaries and to enable Foreign Power to obtain a bank credit of \$15,000,000.<sup>18</sup>

Early in 1950, Foreign Power prepared and made available to representatives of its security holders detailed information concerning the operations of the company and its subsidiaries. It invited suggestions from security holders with respect to a new overall reorganization plan. As of the close of the fiscal year, the company was considering such suggestions and contemplated filing a new plan within the next few months.

#### **American Power & Light Co.**

On August 22, 1942, American Power & Light Co. (an Electric Bond & Share subsidiary) was ordered to dissolve on grounds similar to those set forth with regard to National Power & Light Co. At the time of the issuance of this dissolution order, American controlled directly or indirectly 35 subsidiaries, 16 of which were public utility companies. American's capital structure consisted of long-term debt, two classes of cumulative preferred stock with dividend arrearages of more than \$35,000,000, and common stock. By the close of the past fiscal year, this company had accomplished the major phases of its program of compliance with section 11 and controlled only 2 utility subsidiaries.

Earlier steps taken by American included disposition of its interest in Nebraska Power Co., Arizona Light & Power Co., and New Mexico Electric Service Co. and retirement of its long-term debt. In October 1945, the Commission approved the formation by American of a new Texas holding company, Texas Utilities Co., which acquired from American its interest in Texas Electric Service Co. and Texas Power & Light Co. and from Electric Power & Light Corp., the latter's interest in Dallas Power & Light Co.

In April 1947, two other subsidiaries, Northwestern Electric Co. and Pacific Power & Light Co. were merged with Commission authorization. The stockholdings of American in Kansas Gas & Electric Co.

<sup>16</sup> 80 F. Supp. 514 (D. Me., 1947).

<sup>17</sup> Holding Company Act release No. 9044.

<sup>18</sup> Holding Company Act release No. 9589.

were disposed of in two public offerings made in May 1948 and July 1949.

In October 1949, the Commission approved the section 11 (e) plan of American<sup>19</sup> which was subsequently ordered enforced by the United States district court. The plan was consummated on February 15, 1950 and pursuant thereto, American distributed to its preferred stock and common stockholders its holdings of stock of Texas Utilities Co.,<sup>20</sup> Florida Power & Light Co., Minnesota Power & Light Co., and the Montana Power Co., as well as shares of new common stock in American. Coincidentally with this distribution, settlement of claims against Bond & Share by American and its subsidiaries was accomplished through the payment to American of \$2,500,000 by Bond & Share. Part of this amount was contributed by American to a number of its subsidiaries.

Prior to consummation of this plan, American sold its holdings of common stock of Pacific Power & Light Co. to a group of underwriters for a cash consideration of \$16,125,000. It has since proposed to distribute the proceeds of this sale to its present stockholders. The distribution was approved by the Commission in June 1950<sup>21</sup> and following the close of the fiscal year has been ordered enforced by the United States district court.

At June 30, 1950, American's remaining assets consisted of the common stock of the Washington Water Power Co., the common stock of Portland Gas & Coke Co., a substantial amount of cash and other miscellaneous assets. Portland Gas & Coke Co. has on file with the Commission an extensive plan of reorganization. Proceedings on this plan are now in progress.<sup>22</sup>

#### **Electric Power & Light Corp.**

At the time the Commission issued its dissolution order against Electric Power & Light Corp. (an Electric Bond & Share subsidiary), this company controlled directly or indirectly 24 subsidiaries, 10 of which were public utility companies under the act. Electric's capital structure at that time consisted of long-term debt, 3 classes of cumulative preferred stock with aggregate arrearages of \$53,000,000, common stock and option warrants. Before consummation of the final section 11 plan, which resulted in the dissolution of Electric during the past fiscal year, it had already disposed of its holdings in Idaho Power Co. and Dallas Railway & Terminal Co. through sales to the public. Its holdings in Dallas Power & Light Co. had been sold to the new Texas Utilities Co. organized by American Power & Light Co. Its holdings in Utah Power & Light Co. were disposed of pursuant to a reorganization of the latter company which provided, in part, for the reclassification of Utah's preferred and common stocks into a new common stock.<sup>23</sup> United Gas Corp., Electric's principal subsidiary, was reorganized under section 11 in a proceeding which resolved all claims of United

<sup>19</sup> Holding Company Act release Nos. 9359-A and 9389.

<sup>20</sup> In April 1950, the Commission granted an exemption to Texas Utilities Co. from the provisions of the act. This exemption granted pursuant to section 3 (a) was based upon the intrastate character of its utility operations. Holding Company Act release No. 9786.

<sup>21</sup> Holding Company Act release No. 9948.

<sup>22</sup> Holding Company Act release No. 9366.

<sup>23</sup> Holding Company Act release No. 6212.

and Electric against Electric Bond & Share Co., arising out of the formation and financing of United.<sup>24</sup>

In 1945, Electric retired its outstanding long-term debt with the proceeds derived from the disposition of properties described above and from retained earnings. In addition, the accounts and capital structures of Electric's remaining subsidiaries were brought into compliance with the requirements of the act.

The dissolution plan filed by Electric and approved by the Commission on March 7, 1949<sup>25</sup> was subsequently approved by the United States district court and by the Court of Appeals for the Second Circuit.<sup>26</sup> Stays were denied by the court of appeals and by the Supreme Court<sup>27</sup> and the plan was consummated by the end of July 1949. Under the plan a new holding company, Middle South Utilities, Inc., was created. It acquired Electric's holdings of the common stocks of Arkansas Power & Light Co., Louisiana Power & Light Co., Mississippi Power & Light Co., New Orleans Public Service Co., Inc., and Gentilly Development Co. The common stocks of Middle South and of the United Gas Corp. previously held by Electric were then distributed to Electric's stockholders in exchange for its outstanding securities. At the same time, a settlement of all suits and claims against Bond & Share by and on behalf of Electric and its subsidiaries was consummated with a cash payment of \$2,200,000 by Bond & Share.

Thus the Electric system as such has been entirely eliminated. The only aspect remaining for determination arises in connection with applications for compensation and reimbursement of expenses, aggregating approximately \$1,300,000. These are now pending before the Commission.

#### **National Power & Light Co.**

On August 23, 1941, pursuant to proceedings instituted by the Commission, National Power & Light Co. (an Electric Bond & Share subsidiary), was ordered to dissolve, because it constituted an undue and unnecessary complexity in the Bond & Share system.<sup>28</sup> At the time of the issuance of this order, National had 27 subsidiaries, 9 of which were public utility companies. The work of bringing about National's ultimate dissolution is now nearing completion. All of its long-term debt has been retired through the use of treasury cash and its preferred stock has been retired partly through a voluntary exchange for common stock of Houston Lighting & Power Co. and in part by cash at the rate of \$100 per share derived from the sale of other shares of Houston stock. In May 1946, the Commission approved a plan for the settlement of all suits and claims against Bond & Share by or on behalf of National, its subsidiary and certain former subsidiaries, through payment of \$750,000 by Bond & Share.<sup>29</sup>

This settlement was subsequently approved by the United States district court and in August 1946, National distributed the common stocks of Pennsylvania Power & Light Co., Carolina Power & Light Co. and Birmingham Electric Co., its principal remaining subsidiaries,

<sup>24</sup> Holding Company Act release No. 5271.

<sup>25</sup> Holding Company Act releases Nos. 8889 and 8906.

<sup>26</sup> 176 F. 2d 687 (C. A. 2, 1949);

<sup>27</sup> 337 U. S. 903 (1949);

<sup>28</sup> 9 S. E. C. 978.

<sup>29</sup> Holding Company Act release No. 6663.

pro rata to its common stockholders, including Bond & Share. After distribution of these companies, National's only remaining subsidiaries were Lehigh Valley Transit Co., the Memphis Street Railway Co., and Memphis Generating Co.

National's interest in Memphis Street Railway was subsequently eliminated through a reorganization plan consummated in May 1949. In May 1950, its security holdings in Memphis Generating Co. were sold to the Tennessee Valley Authority for a consideration of \$1,405,000. In April 1950, National also entered into a contract for the sale of its holdings of common stock of Lehigh Valley Transit Co. (received as a result of the reclassification of that company's stock pursuant to a section 11 (e) plan) to Cincinnati, Newport & Covington Railway Co., a nonaffiliated company. Upon consummation of this sale, National's only remaining assets will consist of 34,156 common shares of Pennsylvania Power & Light Co. and approximately \$2,475,000 in cash.

#### **General Public Utilities Corp.**

This company is the top holding company emerging from reorganization of the former Associated Gas & Electric Co. system. Associated Gas & Electric Co. and its immediate subsidiary Associated Gas & Electric Corp. registered as holding companies on March 28, 1938. At that time, the system consisted of 164 companies, including 11 subholding companies, and was unequalled for the complexity of its corporate structure. Four of the utility companies were as many as 6 tiers of subholding companies removed from the top holding company. The system was engaged in business in 26 States scattered from Maine to Arizona and in the Philippine Islands; the businesses included such diverse activities as electric, gas, water, ice, street railway, bus, heating, hotel, insurance, real estate, engineering, marine towing, toll bridge, coal mining, and ferry operations. Associated Gas & Electric Co., itself, had outstanding 10 different kinds of fixed-interest debt obligations, several series of income debentures, a number of securities variously known as convertible debenture certificates and convertible obligations, two different classes of preferred stock, a class A stock, a class B stock, a common stock and warrants to purchase common stock.

Most of Associated's subsidiaries also had senior securities outstanding in the hands of the public. The consolidated assets of the system were stated at a little over \$1,000,000,000 and the corporate assets of Associated Gas & Electric itself were stated at approximately \$450,000,000.

In 1940, Associated Gas & Electric Co. and Associated Gas & Electric Corp. filed petitions for reorganization pursuant to chapter X of the Bankruptcy Act. In 1942, pursuant to the provisions of section 11 (b) (1) of the act, the trustees of Associated Gas & Electric Corp. were ordered to divest themselves of all their interests in some 114 companies located primarily outside the 3 States of New York, Pennsylvania, and New Jersey, no determination being made at that time as to the status of the majority of the properties in these last-named States.<sup>30</sup> Of the 114 companies, 112 have been divested. The two

<sup>30</sup> 11 S. E. C. 1115.

that remain operate in the Philippine Islands and as to these our divestment order has been temporarily suspended.

As at January 1, 1946, a comprehensive plan of reorganization of Associated Gas & Electric Co. and Associated Gas & Electric Corp. was consummated pursuant to chapter X and section 11 (f) of the act. In place of the two companies and their many securities there was substituted a single company, General Public Utilities Corp., which had a security structure consisting of 10-year convertible debentures, bank loans, and common stock. The debentures were redeemed in 1947 and at June 30, 1950, GPU had outstanding only \$3,950,000 of notes payable to banks, maturing during the period 1951 to 1955, and common equity of \$120,000,000.

After consummation of the plan of reorganization in 1946, the assets of GPU consisted primarily of securities of three subholding companies which in turn controlled the operating utility properties. Two of these subholding companies have since been dissolved, and during the past fiscal year, all debt securities of the third company, Associated Electric Co., totaling over \$52,000,000, have been retired.

Funds for this purpose were derived principally from the proceeds of sales made by GPU of its common stock holdings in New York State Electric & Gas Corp. (\$35,282,208), Rochester Gas & Electric Corp. (\$22,998,726), and its preferred holdings in Staten Island Edison Corp. (\$4,000,000). With these proceeds, GPU made capital contributions totaling \$49,000,000 to Associated Electric, less the amount of \$1,492,704 representing consideration paid for 107,000 of its common shares repurchased from Associated Electric and canceled.

In March 1950, the Commission approved the sale by GPU of its common stock interest in Staten Island Edison Corp. to Consolidated Edison Co. of New York, Inc. for \$10,720,000. In May, it also approved the merger of Edison Light & Power Co. into Metropolitan Edison Co. The latter company is a direct subsidiary of GPU.

Since June 1949, section 11 (b) (1) proceedings have been continuing before the Commission for the purpose of determining what further steps should be taken by General Public Utilities to bring its system into conformity with the standards of that section. While these proceedings have been in progress, GPU has completed the divestment of all of its New York companies and contends that it should be permitted to retain its present group of subsidiaries in New Jersey and Pennsylvania as one or more integrated public utility systems and incidental businesses.

#### **International Hydro-Electric System**

At the time of registration, International Hydro-Electric System (IHES), a Massachusetts voluntary association, owned directly Gatineau Power Co., a Canadian public utility company, and two wholesale electric utilities operating in the United States. It also owned the equity in New England Power Association, which since its reorganization is known as New England Electric System (NEES). NEES was a holding company in its own right and while the managements of the two companies were interrelated they functioned separately. Accordingly the reorganizations of the two companies were handled in separate proceedings.

Originally, IHES had outstanding debentures due in 1944, preferred stock, class A stock, class B stock, and common stock. The company was in a precarious financial position, having a huge deficit in its earned surplus account. It performed no functions for its subsidiaries and voting control was vested in the stock junior to the preferred stock. Moreover, NEES, its subsidiary holding company, had two layers of intermediate holding companies beneath it, with the result that the corporate structures of both IHES and NEES violated the "great-grandfather clause" of section 11 (b) (2) of the act.

The Commission initiated proceedings under section 11 (b) (2) with respect to IHES. The first important step in these proceedings was to cause the cancellation of the class B and common stock. Subsequently, in 1942, the Commission directed IHES to liquidate and and dissolve.<sup>31</sup> However, many system problems had to be resolved before the portfolio securities of IHES could be distributed. Among these were litigation of claims on behalf of IHES against its former parent, International Paper Co., the reorganization of NEES, and the merger of IHES's two New York subsidiaries into a single company. These matters were not fully disposed of until 1947, when the reorganization of NEES was completed and the sum of \$10,000,000, together with other considerations, was finally paid to IHES in settlement of the claims against International Paper Co.

The separate reorganization of NEES was, of itself, a major operation. NEES had five subholding companies, in two tiers, over its operating subsidiaries. Under a voluntary plan filed under section 11 (e) of the act the subholding companies were eliminated by the retirement of their securities in exchange for cash or new common stock of NEES.<sup>32</sup> NEES emerged from the reorganization with two classes of securities, debt and common stock, which replaced 18 classes of old securities. IHES now owns only 8 percent of the common stock of NEES, and is no longer a holding company with respect to it.

While it is contemplated that NEES will continue indefinitely as a registered holding company, steps are being taken toward the eventual liquidation and dissolution of IHES. During the past fiscal year, the Commission approved the second step of the Trustee's four phase plan of liquidation. This proposal was designed to eliminate all of IHES outstanding debentures which had previously been reduced by cash payments from \$1,000 to \$600 principal amount per unit. With the approval of the Commission<sup>33</sup> and the United States district court, the Trustee developed a plan which included (1) an exchange offer to the holders of the debentures of 600,000 shares of Gatineau Power Co. common stock, (2) an agreement for the underwriting of the sale or exchange of a minimum of 340,000 shares of Gatineau common with an option to the underwriters to purchase the balance of 260,000 shares and (3) the negotiation of a 2-year loan of not more than \$10,000,000 to secure the balance of funds required to retire the debentures not surrendered for exchange. Consummation of these transactions occurred at the close of the fiscal year.

<sup>31</sup> 11 S. E. C. 888.

<sup>32</sup> Holding Company Act release No. 6470.

<sup>33</sup> Holding Company Act release No. 9917.

**Long Island Lighting Co.**

On March 27, 1936, pursuant to section 3 (a) (1) of the act, the Commission granted Long Island, as a holding company, and each of its subsidiary companies as such, an exemption from all the provisions of the act.<sup>34</sup> However, on April 21, 1945, pursuant to section 3 (c), the Commission modified the exemption order so as to subject Long Island and its subsidiary companies to certain provisions of the act, particularly the reorganization provisions of section 11.<sup>35</sup> The order of modification was entered in view of the fact that the financial situation of Long Island and its subsidiaries had deteriorated materially since the entry of the exemption order. As the Commission noted in its opinion, Long Island, on December 31, 1935, was not in arrears on its preferred stock dividends whereas by September 30, 1944, an aggregate of \$10,384,075 of arrears had accumulated, which represented unpaid dividends for a period of 6½ years. Further, unpaid dividends on the publicly held preferred stocks of its public utility subsidiary companies had also accumulated to the extent of \$4,740,699. An analysis of the financial aspects of the system, including the foregoing accumulation of arrears, the grossly inflated property accounts, and the earnings history of the system, caused the Commission to conclude that the common stock of Long Island exercised voting control of the system with "disproportionately small investment."

In addition, Long Island, on December 16, 1944, after the Commission had instituted the modification proceeding, had filed in the office of the Secretary of State of the State of New York a certificate of reduction of capital which, among other things, provided for a reduction of 40 percent in the par value, redemption value, and future dividend rights of the preferred stock, and for the cancellation of the then existing common stock and the issuance of 503,800 shares of new common stock to its preferred and common stockholders on the basis of 1 share of new common stock for each share of preferred stock and for each 12 shares of common stock outstanding. Under such plan of recapitalization, the holders of the preferred stock would have received 50.38 percent of the new common stock and the holders of the common stock would have received 49.62 percent of the new common stock. The Commission commented on the plan, although the plan was not before it for determination, and the Commission stated that the plan failed to give adequate recognition to the rights and claims of the preferred stockholders and that it was extremely doubtful that the plan could be found to satisfy the "fair and equitable" standard of section 11 (e) or that the proposed capital structure could be approved under other standards of the act.

As a result of certain legal proceedings involving the Commission and Long Island, none of the certificates contemplated by the certificate of reduction of capital has been issued and none of the accounting entries contemplated in connection therewith has been made upon its books.<sup>36</sup> After the Commission entered its order modifying the ex-

<sup>34</sup> 1 S. E. C. 345.

<sup>35</sup> Holding Company Act release No. 5746.

<sup>36</sup> *S. E. C. v. Long Island Lighting Co.*, 59 F. Supp 610 (E. D. N. Y. 1944), affirmed 148 F. 2d 252 (C. A. 2, 1945), a judgment vacated and remanded to the district court to dismiss the complaint on the ground the cause became moot. 325 U. S. 833 (1945).

emption of Long Island, the company, on April 23, 1945, filed a notification of registration as a holding company pursuant to section 5 (a) of the act.

Thereafter, on October 25, 1945, pursuant to section 11 (e), Long Island filed a plan which, as amended, provided for the consolidation of itself with its two principal subsidiary public utility companies. On November 9, 1945, the Commission instituted proceedings under section 11 (b) (2) directed to Long Island and each of its public utility subsidiary companies in order to determine whether voting power was unfairly and inequitably distributed among the security holders of each of the companies and what action, if any, should be taken.

The two proceedings were consolidated and, on August 25, 1948, the Commission entered an order in the section 11 (b) (2) proceeding which ordered each of the companies to be recapitalized on the basis of a single class of stock, i. e., common stock, and that the new common stock be distributed among the holders of each company's preferred and common stock in a fair and equitable manner.<sup>37</sup> Subsequently, on November 16, 1949, the Commission approved the section 11 (e) plan which provided for the consolidation of the three companies, the resultant consolidated company to have outstanding only one class of new common stock, which was to be apportioned among the common stockholders of Long Island and the preferred stockholders of the three companies.<sup>38</sup> In place of the preferred stocks of the three companies, having an aggregate par value of \$34,792,200 with dividend arrears thereon totaling \$27,406,105 as at June 30, 1950, and of old common stock having a stated value of \$3,000,000, the consolidated company would have new common stock which at June 30, 1950, would have a stated value of \$33,650,848. The accounts of the consolidated company would be stated in such form as to exclude all items in its property accounts in excess of original cost and all its accounts would be stated in conformity with the requirements of the New York Public Service Commission.

The plan was approved and ordered enforced by the United States district court on February 17, 1950.<sup>39</sup> Upon appeal, by opinion entered June 1, 1950, the court of appeals affirmed the decision on all issues, except with respect to one item as to which the proceeding was remanded to the Commission.<sup>40</sup> On July 5, 1950, subsequent to the close of the fiscal year, upon the filing with the court of appeals by the Commission of a petition for modification of decision, the court of appeals modified its former opinion and affirmed the order of the district court in all respects.<sup>41</sup> A petition for certiorari was filed.

#### **The Middle West Corp.**

The Middle West Corp. (Middle West), successor in bankruptcy to Middle West Utilities Co., registered under the act in December 1935. At that time it had 152 subsidiaries, including 62 electric or gas utility companies and 15 subholding companies; 16 of the 152 sub-

<sup>37</sup> Holding Company Act release No. 8449

<sup>38</sup> Holding Company Act releases Nos. 9473 and 9510.

<sup>39</sup> 89 F. Supp. 513 (E. D. N. Y.).

<sup>40</sup> 183 F. 2d 45 (C. A. 2).

<sup>41</sup> 183 F. 2d 45, 52 (C. A. 2).

subsidiaries were themselves in process of reorganization under the Bankruptcy Act, and these, in turn, controlled an additional 74 of the system companies. In contrast, Middle West at June 30, 1950 had divested itself of every subsidiary company except United Public Service Corp. which is presently in liquidation.

As a result of proceedings under section 11 (b) (1) of the act, Middle West was ordered in January 1944 to sever its relations with all properties, operations, and companies except Central Illinois Public Service Co. and its subsidiaries, and Kentucky Utilities Co. and its subsidiaries, jurisdiction being reserved to consider the retainability of these companies.<sup>42</sup>

In 1947, however, the management of Middle West decided to dissolve the corporation and a resolution was presented to stockholders who voted in favor of the dissolution. Pursuant to this decision, Middle West distributed to its stockholders its principal assets, consisting of the common stocks of Central Illinois Public Service Co., Kentucky Utilities Co., Public Service Co. of Indiana, and Wisconsin Power & Light Co.<sup>43</sup> Many of its smaller properties were sold or merged into other companies in the system.

In April 1946, the Commission approved the creation of the Central & South West Corp. system<sup>44</sup> which is comprised of four electric utility companies of substantial size. The new system was formed by merging two subholding companies which between them had four outstanding issues of 6 and 7 percent preferred stock with dividend arrearages totaling about \$16,000,000. These shares were retired at the redemption price plus accrued dividends. The merger also resulted in increasing the combined common equity from 9.5 percent of total capitalization and surplus to 29.5 percent. The new Central & South West Corp. continues to be subject to the act as a registered holding company controlling an integrated electric utility system.

During the past fiscal year, Middle West has completed its divestment program by disposing of its interest in four service companies and selling its common stockholdings in Upper Peninsula Power Co. and in Middle West Utilities Co. of Canada, Ltd. In addition, Sand Springs Water Co., a nonutility subsidiary, sold its water plant and distribution system and is in process of liquidation. On June 5, 1950, the Commission approved the final plan of Middle West under which it will make an initial cash distribution to its stockholders and thereafter seek to convert all remaining assets to cash, in order to effect a final distribution after December 31, 1951, and bring about its liquidation and dissolution.<sup>45</sup> This plan was approved by the United States district court on June 29, 1950.

#### **National Gas & Electric Corp.**

National Gas & Electric Corp. (National) registered under the Holding Company Act in December 1935. It had nine subsidiary companies engaged in the production and sale of manufactured and natural gas and oil as well as the sale of electric energy. Its properties were scattered over the six States of Ohio, Michigan, Virginia,

<sup>42</sup> 15 S. E. C. 309.

<sup>43</sup> Holding Company Act releases Nos. 8642 and 8788.

<sup>44</sup> Holding Company Act release No. 6606.

<sup>45</sup> Holding Company Act release No. 9890.

North Carolina, South Carolina, and Colorado. At the time National registered with the Commission, the total assets of the system amounted to \$6,461,000. Thereafter, through the process of merging some properties and selling others, the system was reduced to four subsidiaries. A final plan under section 11 (e) was filed in June 1949. The Commission approved the plan on November 30, 1949,<sup>46</sup> after which it was ordered enforced by the United States district court.

The plan provided, among other things, for the merger of National into its subsidiary, National Gas & Oil Corp. (Gas & Oil), and for the distribution to National's common stockholders, in respect of each share held, of one share of new common stock of Gas & Oil and one-half share of new common stock of another subsidiary, National Utilities Co. of Michigan (Michigan).

The plan effected a divorce of Michigan from the system, eliminated National as a holding company and resulted in Gas & Oil, a nonutility, becoming the parent of Newark Consumers Gas Co., a utility, and the Fritz Oil & Gas Co., a nonutility. The surviving Gas & Oil and its two subsidiaries are all Ohio corporations and operate within the State of Ohio.

On June 16, 1950, the Commission issued an order exempting Gas & Oil and its subsidiaries from the provisions of the Holding Company Act pursuant to section 3 (a) (3).<sup>47</sup>

#### **New England Public Service Co.**

New England Public Service Co. (NEPSCO), at the time of its registration, had five major operating subsidiaries, of which two operated in Maine, one in New Hampshire and two in New Hampshire and Vermont. It also owned, through an industrial subsidiary, five textile mills, a paper company, and a forest products manufacturing company. The company was heavily overcapitalized, having outstanding two classes of prior lien preferred stock and, junior thereto, four classes of preferred stock. All these preferred issues had substantial dividend arrearages. As a result of simplification proceedings instituted by the Commission under section 11 (b) (2) of the act, the company was directed, in 1941, to reorganize on a one-stock basis, or, in the alternative at its election, to liquidate and dissolve.<sup>48</sup> The company did not appeal this decision and has elected to dissolve. The industrial companies were sold for cash. NEPSCO has merged Cumberland County Power & Light Co. into Central Maine Power Co. It has also caused Public Service Co. of New Hampshire to acquire the New Hampshire properties of the Twin State Gas & Electric Co. and Central Vermont Public Service Corp. to acquire the Vermont properties of the Twin State company.

In 1947, the Commission approved a modified plan under section 11 (e) as a result of which NEPSCO paid \$100 per share plus accrued dividends on its outstanding \$7 series and \$6 series prior lien preferred stocks and deposited in escrow the difference between these payments and voluntary redemption values on the two series. The Commission at that time reserved for future determination the question as to what

<sup>46</sup> Holding Company Act release No. 9531.

<sup>47</sup> Holding Company Act release No. 9929.

<sup>48</sup> 9 S. E. C. 239.

additional amounts, if any, should be paid on these shares. In June 1950 it acted on this issue and ordered that the \$7 series should receive an additional payment of \$12.25 per share and the \$6 series \$2.25 per share, together with compensation for delay in payment at the rate of 5.5 percent per annum from October 10, 1947.<sup>49</sup> Since the close of the fiscal year application has been made to the United States district court for enforcement of this order.

In February 1950, a motion was filed with the Commission by counsel for a protective committee for the holders of preferred stock requesting an order of the Commission affirmatively directing NEPSCO on or before May 15, 1950, to sell 200,000 shares of the common stock of Public Service Co. of New Hampshire, or, in the alternative, a sufficient number of shares of common stock of Central Maine Power Co. to raise an equivalent sum, and to apply the proceeds of such sale to the payment of outstanding notes payable to banks which then aggregated \$9,900,000.

Oral argument was held before the Commission on this motion after which the Commission issued a memorandum opinion<sup>50</sup> in which it afforded NEPSCO an opportunity to amend a pending declaration so as to effect a sale. Subsequently, NEPSCO filed a new declaration proposing to sell, at competitive bidding, 260,000 shares of its holdings of the common stock of Central Maine Power Co.

Superimposed on NEPSCO is Northern New England Co., a voluntary association, which owns approximately one-third of the former company's common stock. The Commission has approved a plan for the partial liquidation of this company by distribution of cash to its stockholders.<sup>51</sup> At the same time it directed that the company liquidate and dissolve. Northern New England Co. is awaiting the filing and approval of a final plan by NEPSCO, in which the participation to be accorded to the common stock of the latter company will be determined, before it can take the required steps to complete its liquidation.

#### **Niagara Hudson Power Corp.**

In 1942, the Commission instituted proceedings under section 11 (b) (2) in respect of the Niagara Hudson Power Corp. system at which time it included 26 corporate entities. Among the more important problems under section 11 (b) (2) were those related to the system's western companies, which were subsidiaries of Buffalo Niagara & Eastern Power Corp. (BNE), a holding company subsidiary of Niagara Hudson. In June 1944, an order was issued requiring BNE to recapitalize on a one-stock basis.

BNE and Niagara Hudson then filed plans providing for the consolidation of BNE and certain of its subsidiaries into Buffalo Niagara Electric Corp. as a surviving company.<sup>52</sup> To accomplish this reorganization, Niagara Hudson used funds totaling approximately \$63,000,000 in retiring the publicly held second preferred stock of BNE at its call price plus accrued dividends. These funds were obtained from bank loans, treasury cash, and proceeds from the sale of

<sup>49</sup> Holding Company Act releases Nos. 9931 and 9982.

<sup>50</sup> Holding Company Act release No. 9781.

<sup>51</sup> Holding Company Act release No. 8401.

<sup>52</sup> Holding Company Act release No. 6083.

certain of Niagara Hudson's portfolio securities. The total effect of plans and refinancing proposals was to eliminate, by June 30, 1949, 13 corporate entities from the system and to simplify security structures of the remaining subsidiaries.

During the past fiscal year Niagara Hudson carried forward its program of merger and consolidation which has now resulted in the formation of one of the largest utility operating companies in the United States. Preliminary steps in this program included the merger of Ticonderoga Electric Light & Power Co. into New York Power & Light Corp. in July 1949; and in September 1949, the mergers of Old Forge Electric Corp. into Central New York Power Corp. and Union Bag & Paper Corp. into New York Power & Light Corp.

On January 5, 1950, the "Consolidation plan" and the "Dissolution plan" of Niagara Hudson became effective pursuant to the order of this Commission<sup>53</sup> and the subsequent order of the United States district court.<sup>54</sup> An appeal taken in respect to one phase of the "Dissolution plan" is still in litigation. In accordance with these plans, the principal remaining subsidiaries of Niagara Hudson, Buffalo Niagara Electric Corp., Central New York Power Corp., and New York Power & Light Corp., were merged into a new operating utility company, Niagara Mohawk Power Corp. The common stocks of the former subsidiaries were converted into shares of Niagara Mohawk which were then reclassified into class A stock and new common stock.

Niagara Hudson also contributed to Niagara Mohawk its common stock holdings in its other subsidiaries including Frontier Corp., the Oswego Canal Co., and St. Lawrence Co., Ltd., together with miscellaneous investments.

The class A stock of Niagara Mohawk was distributed in exchange for the outstanding preferred stock of Niagara Hudson. Holders of Niagara Hudson common shares had the right until July 5, 1950, either to exchange their shares together with a cash payment for shares of Niagara Mohawk or to retain their shares until the final distribution of Niagara Hudson's holdings is effected. Cash payments made by holders effecting the immediate exchange were applied to the repayment of Niagara Hudson's outstanding bank loan.

After the closing date of the exchange period, July 5, 1950, Niagara Hudson still held 2,209,955 shares of Niagara Mohawk Power Corp. common stock as compared with 7,473,172 shares originally received. Its bank loan had been reduced from \$9,580,000 to \$1,500,000.

In application for a supplemental order in connection with the "Dissolution plan," filed after the close of the fiscal year, Niagara Hudson has proposed steps to expedite the liquidation of its remaining indebtedness and the distribution of its remaining holdings in Niagara Mohawk. The Commission issued its supplemental order on September 7, 1950<sup>55</sup> approving the final steps in connection with the consummation of the "Dissolution plan," and on September 28, 1950 the United States District Court of the Northern District of New York issued its order enforcing the supplemental order of the Commission.

<sup>53</sup> Holding Company Act release No. 9270.

<sup>54</sup> 86 F. Supp. 697 (N. D. N. Y., 1949), reversed and remanded, *sub. nom.*, *Leventritt v. S. E. C. et al.*, 179 F. 2d 615 (C. A. 2, 1950). Petition for cert. filed July 20, 1950.

<sup>55</sup> Holding Company Act release No. 10083.

**The North American Co.**

At its registration in 1937, the North American Co. was the top holding company in a system, which through several subholding companies, controlled 36 utility and 46 nonutility subsidiaries. Electric utility operations were conducted by system companies in 10 States and the District of Columbia; gas utility operations were conducted in 9 States. The consolidated balance sheet of North American and its subsidiaries showed assets of over \$900,000,000, and, through the direct and indirect ownership of securities, North American controlled an empire whose aggregate value was stated to be approximately \$2,200,000,000.

During the last 5 years, North American has taken substantial steps toward compliance with the Commission's section 11 (b) (1) order, which was issued in 1942.<sup>56</sup> By a number of means, including dividend payments in portfolio securities, outright distribution, the issuance of purchase warrants to its stockholders and sale at competitive bidding, North American has disposed of nearly all of its assets except Union Electric Co. of Missouri, Missouri Power & Light Co., and several minor nonutility subsidiaries.

Among major interests which have been divested are those in Pacific Gas & Electric Co., Cleveland Electric Illuminating Co., Wisconsin Electric Power Co., Potomac Electric Power Co., Detroit Edison Co., Illinois Power Co., St. Louis County Gas Co., Northern Natural Gas Co., Des Moines Electric Light Co. and Illinois Terminal Co.

During the past fiscal year North American sold its interest in the capital stock of Kansas Power & Light Co. and its holdings in Capital Transit Co. It distributed its investment in West Kentucky Coal Co. after transferring a portion of that company's assets to the Poplar Ridge Coal Co. which was organized as a subsidiary of Union Electric Co. of Missouri.

The North American Co. which, concurrently with its divestment program, eliminated all of its outstanding debt and preferred stock, has indicated its intention to submit to the Commission a plan designed to effect its merger into Union Electric Co. of Missouri its principal remaining utility subsidiary. However, no formal application in respect to such a program had been received at the close of the fiscal year.

**North Continent Utilities Corp.**

North Continent Utilities Corp. registered as a holding company in 1938 and, at that time, owned or controlled nine utility and eight non-utility subsidiary companies. The subsidiaries were engaged in the electric, gas (manufactured and natural), water, ice, cold storage, coal, coke, oil, feed, and telephone business. The operations of the subsidiary companies were conducted in seven widely separated States, Arizona, Colorado, Illinois, Kansas, Minnesota, Montana, and New Mexico, and in the provinces of Ontario and Alberta, Canada.

In 1943, North Continent filed a plan under section 11 (e) which, as amended, provided generally for the sale or distribution in kind of its interests in its subsidiaries and application of the proceeds to the retirement of its bonds and preferred stock. North Continent had

<sup>56</sup> 11 S. E. C. 194 (1942), affirmed *sub. nom. The North American Co. v. S. E. C.*, 133 F. 2d 148 (C. A. 2, 1943), affirmed 327 U. S. 686 (1946).

paid no dividends on its stock for a considerable time prior to a recapitalization effected in 1935 and had paid none thereafter. At the time the plan was filed the company was faced with the early maturity of its bonded indebtedness. The plan was consolidated with proceedings instituted by the Commission and was approved in November 1943,<sup>57</sup> the Commission ordering North Continent to take such steps as may be necessary to cause its liquidation and dissolution and reserving jurisdiction with respect of the treatment to be accorded the preferred and common stockholders.

The plan was enforced by a United States district court shortly thereafter.<sup>58</sup> Pursuant to the plan, North Continent disposed of six electric and gas companies, principally by piecemeal sales to cooperatives and municipalities, and two nonutility companies by sales of securities to the public. North Continent from time to time applied the proceeds from these sales to the reduction of its bonds and these were fully retired on July 1, 1947.

In February 1950, the Commission approved a supplemental plan<sup>59</sup> which provided for the allocation of North Continent's assets between its preferred and common stockholders and for the immediate distribution to its stockholders of all of its available cash and all of its portfolio securities, except its investment in one foreign public utility company which was not in distributable form. Pending disposition of the foreign subsidiary, North Continent was to be recapitalized on a one-stock basis. This program was ordered enforced by the United States district court in April and was consummated on June 1, 1950.

#### **Standard Power & Light Corp. and Standard Gas & Electric Co.**

The Standard holding company system presented in extreme degree the evils of corporate pyramiding and scatteration of properties which the integration and simplification provisions of the act were designed to eliminate. In 1936, the Standard system consisted of 105 active companies operating in 20 States and in Mexico; it contained 9 registered holding companies including the 2 top companies, Standard Power & Light Corp. and its subsidiary, Standard Gas & Electric Co. By June 30, 1950, the number of active companies had been reduced to 58 (including 43 street railway companies, which are part of one transit system) operating in 5 States. The important remaining utility subsidiaries of the system are Duquesne Light Co. (a subsidiary of Philadelphia Co.), Wisconsin Public Service Corp., and Oklahoma Gas & Electric Co.

The most significant developments in the Standard system during the last fiscal year were concerned with subholding companies of Philadelphia Co.

On October 10, 1949, the United States Court of Appeals for the District of Columbia unanimously affirmed an order of the Commission dated June 1, 1948, issued under section 11 (b) of the act, directing Philadelphia Co. to dispose of its interests in the gas utility and transportation business and thereafter to liquidate and dissolve.<sup>60</sup>

<sup>57</sup> 14 S. E. C. 656 (1943).

<sup>58</sup> 54 F. Supp. 527 (D. Del., 1944).

<sup>59</sup> Holding Company Act release No. 9682

<sup>60</sup> *Philadelphia Co. v. S. E. C.*, 177 F. 2d 720 (C. A. D. C., 1949).

In March 1950, Philadelphia Co. effected a reorganization of its natural gas subsidiaries by transferring its stockholdings in Kentucky-West Virginia Gas Co. and Pittsburgh & West Virginia Gas Co. to Equitable Gas Co.<sup>61</sup> and thereafter sold to underwriters the common stock of Equitable Gas Co. for \$45,755,000. Philadelphia Co. utilized the major portion of the proceeds from this sale to redeem all of its outstanding funded debt amounting to approximately \$36,000,000. In the reorganization of its former gas subsidiaries, Philadelphia Co. received \$17,500,000 principal amount of debentures of Equitable Gas Co. In June 1950, Philadelphia Co. sold \$11,000,000 of these debentures utilizing the proceeds to redeem all of its outstanding \$6 cumulative preference stock, aggregating \$10,000,000 in par value. Thus during the fiscal year Philadelphia Co. eliminated \$46,000,000 in face amount of its senior securities.

Substantial progress was also made toward the reorganization of Philadelphia Co.'s subsidiary, Pittsburgh Railways Co., which has been in bankruptcy since 1938. Pittsburgh Railways operates the transit system in the city of Pittsburgh under lease and operating agreements covering the properties owned by 55 separate corporations. Philadelphia Co. itself has guaranteed the payment of lease rentals, bond interest, taxes, and other obligations of some of the underlying companies. During 1949, hearings were held on a combined plan for reorganization of the railways system which was filed jointly by Philadelphia Co. and the trustee of Pittsburgh Railways under section 11 of the act and chapter X of the Bankruptcy Act. The plan provides for the formation of a new company to replace all the existing companies; the security structure of the reorganized company would consist of common stock, not more than \$6,000,000 principal amount of first mortgage bonds, and equipment obligations. Under the plan, Philadelphia Co. would be discharged from its guaranty obligations and would receive 51 percent of the common stock of the new company. The balance of the common stock, all the bonds and approximately \$17,000,000 of cash would be distributed to the public holders of securities of Pittsburgh Railways and its underliers.

The Commission approved the combined plan on March 27, 1950, subject to the subsequent reexamination of certain aspects of the plan<sup>62</sup> and on May 1, 1950, the United States District Court for the Western District of Pennsylvania entered its order approving the plan. Thereafter, the plan was submitted to the security holders for their approval. Subsequent to the close of the fiscal year, the necessary assents to the plan had been secured and it is expected that the plan will be consummated in the near future.

In October 1949, Standard Gas filed an amended plan for simplification of the corporate structure of the Philadelphia Co. system. It provided, among other things, for the elimination of the noncallable preferred stocks of Philadelphia Co. and its inactive subsidiary, The Consolidated Gas Co. of the City of Pittsburgh. Extensive hearings were held, but were adjourned pending consummation of the reorganization of the gas properties and the sale of the common stock of Equitable Gas Co. The plan was thereafter further amended to pro-

<sup>61</sup> Holding Company Act releases Nos. 9740 and 9766.

<sup>62</sup> Holding Company Act release No. 9759.

vide for the retirement of all of Philadelphia Co.'s remaining preferred stocks and the preferred stock of The Consolidated Gas Co. of the City of Pittsburgh, having aggregate par values of approximately \$31,700,000.

Standard Gas & Electric Co. in September 1949, also effected the sale of 250,000 shares of its common stock holdings in Louisville Gas & Electric Co. for \$7,441,250. Since this reduced Standard's voting interest in Louisville to less than 10 percent, that company is no longer a statutory subsidiary in the Standard system.

#### **The United Corp.**

The United Corp. registered as a holding company in March 1938, at which time its portfolio was comprised largely of the common stock of four holding company subsidiaries. These subsidiaries, with the percentage of voting control held by United, were as follows: The United Gas Improvement Co., 26.2 percent; Public Service Corp. of New Jersey, 13.9 percent; Niagara Hudson Power Corp., 23.4 percent; and Columbia Gas & Electric Corp. (now the Columbia Gas System, Inc.), 19.6 percent.

In June 1941, the Commission instituted proceedings with respect to United under sections 11 (b) (1) and 11 (b) (2) of the act. At that time the 125 companies in the United system operated in 22 States and in Canada. Their combined total assets approximated \$2,765,000,000. Subsequently, the Commission by order dated August 14, 1943, directed United to change its existing capitalization, which consisted of preferred and common stocks, to one class of stock and to cease to be a holding company.<sup>63</sup>

United has since retired all of its preferred stock by exchanging therefor certain portfolio securities and cash. Through the retirement of its preferred stock and sales of portfolio securities, United reduced its percentage of voting securities to 7.7 percent in UGI, 6.41 percent in Columbia and 5.71 percent in Public Service. Through the reorganization of Public Service it had, however, acquired another subsidiary, South Jersey Gas Co., 28 percent of whose voting securities it now holds.

On October 20, 1949, the Commission approved a plan filed by United whereby it distributed to its stockholders, as a special dividend, one-tenth of a share of common stock of its subsidiary, Niagara Hudson Power Corp., for each share of United common.<sup>64</sup> This distribution reduced United's holdings of the outstanding voting securities of Niagara Hudson from 28.5 percent to 14.1 percent. Approval of this plan was granted on condition that United undertake to file promptly a comprehensive plan under section 11 (e) detailing the remaining steps to be taken, and the timing thereof, to complete its transformation into an investment company. Such a plan was filed in December 1949.

Among the provisions contained in this proposed program, was the exchange by United of its holdings of preferred stock in Niagara Hudson for the class A stock of its successor, Niagara Mohawk Power Corp., and the exchange of its common holdings in Niagara Hudson,

<sup>63</sup> Holding Company Act release No. 4478.

<sup>64</sup> Holding Company Act release No. 9431.

together with the requisite amount of cash, for new common shares of Niagara Mohawk. It also proposed the prompt sale of the Niagara Mohawk class A stock to be received by United. These transactions were approved by Commission orders issued in February and April 1950.<sup>65</sup> Jurisdiction was reserved on other matters and the plan has been amended several times since initial filing.

As amended, the pending proposals include (1) the sale by United of its entire interest in South Jersey Gas Co.; (2) an offering to each qualified common stockholder of United, owning 99 shares or less, to purchase his shares for cash; (3) an offering to holders of more than 100 shares to exchange their stock for the common shares of Niagara Mohawk; and (4) the sale by United of sufficient shares of its holdings in the Columbia Gas System, Inc., the United Gas Improvement Co. and Niagara Mohawk Power Corp. to reduce its holdings in each to not in excess of 4.9 percent of the voting stock outstanding.

#### **The United Light & Railways Co.**

On February 18, 1938, the United Light & Power Co. registered as a holding company with a system comprised of 10 holding companies, 7 of which were registered holding companies, 21 electric and gas utility subsidiaries, 20 nonutility subsidiaries, and a service company. In 1941 the Commission directed the dissolution of United Light & Power Co. and United American Co., a subholding company.<sup>66</sup> By a subsequent order the Commission directed the divestment of the interests of United Light & Power Co. and the subholding companies in 22 subsidiaries in order to comply with the standards of section 11 of the act.<sup>67</sup>

After a series of transactions designed to enable United Light & Power to comply with the outstanding order of dissolution, the Commission approved a plan which provided, in substance, for the distribution of United Light & Power's remaining investment, the common stock of United Light & Railways Co., to its common stockholders.<sup>68</sup> The residual net assets of United Light & Power were transferred to United Railways, and United Light & Power was dissolved. Thus, United Railways became the system's top holding company with two principal subholding company systems, Continental Gas & Electric Corp., and American Light & Traction Co.

In June 1947 United Railways and American Light filed a plan which provided, among other things, for the divestment by United Railways of its entire interest in American Light and the continuation of the latter as a registered holding company "controlling" an integrated gas utility system. American Light had, in the interim, embarked on a program to finance and construct a large interstate natural gas pipeline from the operating areas of its natural gas subsidiaries to fields in the Hugoton area. Other more important provisions of the plan provided for the divestment of the common stock of Detroit Edison Co. and Madison Gas & Electric Co. held by American Light and United Railways and the retirement of the preferred

<sup>65</sup> Holding Company Act releases Nos. 9652 and 9821.

<sup>66</sup> 8 S. E. C. 837.

<sup>67</sup> 9 S. E. C. 833.

<sup>68</sup> Holding Company Act release No. 3242 and 10 S. E. C. 945.

stocks of the two holding companies. After appeals were taken by two stockholders, this plan was approved by the court of appeals in November 1948<sup>69</sup> and consummated early in 1949. American Light changed its name and is now known as the American Natural Gas Co.

In February 1949, United Railways and Continental publicly announced their intention to liquidate and dissolve and a plan under section 11 (e) was accordingly filed with the Commission. On December 30, 1949, the plan was approved by the Commission subject to certain amendments including provision for cumulative voting rights and the listing on a national securities exchange of the subsidiary stocks being distributed within 6 months after the date they became available for distribution.<sup>70</sup> The company filed appropriate amendments to comply with these requirements.

Pursuant to the plan, the common stocks of St. Joseph Light & Power Co. and Iowa Power & Light Co. have been distributed and the stock of Kansas City Power & Light Co. has been sold to the stockholders of United Railways pursuant to a rights offering. In addition, two mining company investments have been disposed of and Continental has been liquidated. Subsequent to the close of the fiscal year, distribution of the stocks of Eastern Kansas Utilities, Inc. and Iowa-Illinois Gas & Electric Co. was also effected. In connection with each of these divestments certain other transactions have been required which were designed to strengthen the capital structures of those operating utilities being freed from holding company control.

#### THE CONTINUING HOLDING COMPANY SYSTEMS

Although enforcement of the Holding Company Act is bringing about the complete liquidation of many of the multitiered and widely scattered holding-company systems of the past, it will not eliminate the holding company as a useful corporate device in the public utility field. A holding company system which can measure up to the physical integration and corporate simplification requirements of section 11 (b) is expressly permitted by the act to function and develop as a regional system. Such a system, of course, remains subject to the general, regulatory jurisdiction of the Commission with respect to financing, intercompany transactions, servicing arrangements, and other transactions in order to insure that there will be no recurrence of those abuses which reduced the holding company to a state of public disfavor prior to passage of the act.

A number of the continuing systems have completed their compliance programs; others still have important problems to solve. It has been estimated that about 20 regional systems with aggregate assets of \$6 or \$7 billion will remain permanently subject to the act. In general, these continuing systems are of three major types. The first is the electric holding company system, which usually consists of one holding company above a number of interconnected electric operating companies. In this category one finds such systems as those of the American Gas & Electric Co., Central and South West Corp., the Southern Co., and Middle South Utilities, Inc.

<sup>69</sup> *Panhandle Eastern Pipe Line Co. v. S. E. C.* 170 F. 2d 453 (C. A. 8, 1948) and *Levis v. S. E. C.* 170 F. 2d 467 (C. A. 8, 1948).

<sup>70</sup> Holding Company Act release No. 9587.

The second type is the natural gas holding company system which may control gas transmission as well as gas distribution companies. Typical of this group are Columbia Gas System, Inc., American Natural Gas Co., and Consolidated Natural Gas Co.

The third type is the operating-holding company system. The holding company in this group derives a substantial portion of its total income from its own utility operations, but also has one or more subsidiary operating companies. The Delaware Power & Light Co., Ohio Edison Co., and Interstate Power Co. are representative of this type.

The holding company system can be justified as a continuing enterprise only if its component companies are knit together as a compact group having basic functional relationships with one another. There must be a showing of important economies from group operation, and, in addition, each system should be able to meet the problems of plant expansion and to undertake the requisite financing on a sound and economical basis. Because it must approve all proposals for financing and supervise servicing arrangements and intercompany transactions, the Commission retains substantial jurisdiction over these systems.

The following summaries provide a review of the more important actions taken by the Commission during the past year in respect to several of the continuing holding-company systems. At this point it should be emphasized that a number of these systems still have residual problems to be solved under sections 11 (b) (1) and 11 (b) (2), and, in one or two cases, registered holding companies may eventually be able to qualify for exemption from the act pursuant to the provisions of section 3 (a).

#### **American Gas & Electric Co.**

With consolidated assets of over \$750,000,000, American Gas & Electric Co. is the largest of the continuing holding company systems. Its operations, almost wholly electric, extend over a seven State area from Kentucky to Michigan. As in other systems, the rapid post war expansion of electric power demand has required the operating subsidiaries of American to carry forward a tremendous program of new construction. This, in turn, has been accomplished by the undertaking of a large amount of financing by the subsidiary operating companies. Before granting approval of \$18,000,000 of bank borrowings by one major subsidiary, Appalachian Electric Power Co., the Commission in July 1949 gave careful consideration to the over-all financing program of American as well as to the program of Appalachian and devoted particular attention to the responsibility and intentions of the holding company to preserve the balance of underlying equity in the system.

American, in response to this inquiry, placed before the Commission the details of its 3-year construction and financing program amounting to more than \$250,000,000. Proposed financing included \$86,000,000 of mortgage bond offerings, \$10,500,000 of temporary bank loans, and common stock financing to the extent of 913,150 shares. The Commission observed that the financing program " \* \* \* appears feasible and sound in the light of the standards of the act."<sup>71</sup>

<sup>71</sup> Holding Company Act release No. 9234.

An important step in this program was taken with the sale in October 1949 of 498,081 shares of its common shares by means of a rights offering. Of the proceeds derived from this sale approximately \$20,000,000 was earmarked for investment in the equity of Appalachian Electric Power Co.<sup>72</sup> The balance was to be used for equity investments in other subsidiaries and for other purposes. American contemplates the sale of the additional common shares in 1951.

In past years, American has effected several acquisitions of property in the interest of rounding out its service area. This program was continued during the fiscal year 1950 when its subsidiary, Indiana & Michigan Electric Co., negotiated an exchange of electric properties with its nonaffiliated neighbor, Public Service Co. of Indiana. The exchange of properties was arranged to promote more efficient service in each of the companies and to achieve certain economies of operation.<sup>73</sup> Another subsidiary, the Ohio Power Co., purchased from Public Service Co. of Indiana its interest in Union City Electric Co. for a cash consideration of \$294,000.<sup>74</sup>

In April 1950, the Commission approved the sale by American of \$27,000,000 of serial notes with maturities of \$500,000 in each of the years 1952 to 1955 and \$2,500,000 in each of the years 1956 to 1965.<sup>75</sup> Proceeds of the issue were used by American to redeem the company's 151,623 shares of outstanding preferred stock as well as to repay \$10,300,000 of outstanding serial bank loan notes. The Commission noted, among other things, that while it generally disfavors the issuance of senior securities by holding companies, having subsidiaries with publicly-held senior securities, the pending issue was, in effect a replacement of senior securities already outstanding. It noted also that the effect of the gradual retirement of debt would be to improve the consolidated capitalization ratios of the system and the end result would be the elimination of all corporate debt from the capital structure of American.

#### **American Natural Gas Co.**

On December 30, 1947, the Commission approved a plan pursuant to section 11 (e) of the act which provided, in part, that American Light & Traction Co. (now American Natural Gas Co.) would be divested by its former parent, United Light & Railways Co. and would undergo a comprehensive reorganization of its capital structure.<sup>76</sup> American also proposed to retire its 6 percent noncallable preferred stock, divest itself of certain nonretainable holdings and make a substantial investment in a newly organized gas transmission pipeline (Michigan-Wisconsin Pipe Line Co.) which was to bring natural gas from the Hugoton field in Texas to the gas utility subsidiaries of American.

The past 3 years have witnessed the consummation of these proposals and the rapid growth of Michigan-Wisconsin Pipe Line Co. as a major long-distance transmission system. Because of the heavy cash requirements and the absence of earnings income during the

<sup>72</sup> Holding Company Act release No. 9371.

<sup>73</sup> Holding Company Act release No. 9758.

<sup>74</sup> Holding Company Act release No. 9776.

<sup>75</sup> Holding Company Act release No. 9819.

<sup>76</sup> Holding Company Act release No. 7951.

construction period, the debt financing of Michigan-Wisconsin presented the Commission with difficult regulatory problems. In this instance, it permitted the initial bonding of property at 75 percent of net bondable value instead of the 60 percent rate usually required; it also granted an exemption from competitive bidding and permitted private placement of \$66,000,000 of first mortgage bonds.<sup>77</sup>

The first phase of this program is now substantially completed but American plans to expand the capacity of Michigan-Wisconsin and to undertake other system construction which, in total, will amount to approximately \$110,000,000 for the 2-year period 1950-51. This, in turn, will require some \$70,000,000 of additional system financing to be undertaken, subject to Commission approval.

In line with this rapid growth, American increased its common equity in November 1949<sup>78</sup> through the sale by means of a rights offering to common stockholders of 276,805 additional shares. A second offering of 380,607 shares was pending at the close of the fiscal year. On July 25, 1950, the Commission also permitted American's subsidiary, Michigan-Wisconsin Pipe Line Co., to enter a credit agreement with banks to cover note borrowing up to \$20,000,000. This is an interim step after which it is contemplated that additional bonds and common stock will be issued by the company.<sup>79</sup>

On January 24, 1950, the Commission approved the organization of American Natural Gas Service Co. and conduct of its business as a subsidiary service company in the American Natural holding company system.<sup>80</sup> The order was conditioned in several respects, however, to enable the Commission to review the company's cost allocations and operations at any future time and, if necessary, after notice and opportunity for hearing, to revoke, suspend, or modify the permission granted to continue operations.

#### **Central and South West Corp.**

Central and South West Corp. and its four electric utility subsidiaries were divested by Middle West Corp. in 1947 and have operated since that time as a separate holding company system, having complied with the integration and simplification requirements of section 11. They served a four-State area including communities in Texas, Oklahoma, Louisiana, and Arkansas.

To keep pace with the increased demand for electric service, the Central and South West system expended over \$33,000,000 during the past fiscal year for new construction. To finance this program some \$17,000,000 of senior securities were sold by the utility subsidiaries and the parent company in November 1949 undertook its second common stock rights offering which yielded approximately \$9,000,000 in proceeds.<sup>81</sup> As a result of this step, common stock equity of the system was increased to 34 percent of total capitalization and surplus.

#### **The Columbia Gas System, Inc.**

The Columbia Gas System, Inc. (formerly Columbia Gas & Electric Corp.) is the parent company in a large holding company system

<sup>77</sup> Holding Company Act release No. 8600.

<sup>78</sup> Holding Company Act release No. 9501.

<sup>79</sup> Holding Company Act release No. 9990.

<sup>80</sup> Holding Company Act release No. 9625.

<sup>81</sup> Holding Company Act release No. 9447.

engaged in the production, transmission, and distribution of natural gas in an area embracing seven States and the District of Columbia. Prior to the issuance of orders by the Commission under section 11 of the act, Columbia Gas was a subsidiary of the United Corp. and, in addition to its gas properties, controlled through subsidiaries substantial electric facilities in Ohio, Kentucky, and Indiana. The holdings of the United Corp. have since been reduced to less than 10 percent and divestment of Columbia's electric properties was completed in 1946. Columbia is expected to continue as a registered holding company system.

Financing procedure in the Columbia system differs somewhat from that of many other holding company systems. Instead of permitting subsidiary companies to undertake public senior financing when necessary Columbia retains complete ownership of all outstanding securities of its operating subsidiaries. Public financing of the system, both in respect to debt and equity requirements, is provided at the holding company level. Thus, the senior securities of Columbia Gas take the form of unsecured debentures having a broad claim on all system properties rather than the mortgage bond form generally employed by operating companies for debt financing. The Commission has approved this arrangement as long as overall system capitalization ratios are maintained in accordance with statutory standards.

During the postwar period, the Columbia system has carried forward an aggressive program of developing sources of gas supplies and expanding its transmission service and distribution facilities. It is presently initiating service to the city of Baltimore, Md.; Charlottesville, W. Va.; and Poughkeepsie, Newburg, Beacon, and Kingston in the State of New York. Other connections are in prospect.

This growth is reflected in its active program of financing which has continued without interruption. In January 1950, the Commission approved the sale by Columbia of 304,998 shares of its common stock.<sup>82</sup> On June 13, 1950, Commission approval was granted to Columbia to issue \$110,000,000 principal amount of debentures due 1975. Proceeds of this offering were to be used in part for refunding purposes; the balance for construction.<sup>83</sup> Another declaration proposing an additional offering of \$90,000,000 of debentures was filed with the Commission and approved by it just after the close of the fiscal year.<sup>84</sup>

#### **Consolidated Natural Gas Co.**

Consolidated Natural Gas Co. was organized in 1942 by Standard Oil Co. of New Jersey. Standard Oil then transferred to Consolidated its holdings in certain operating subsidiaries engaged in the transmission and distribution of natural gas. By a subsequent distribution of its holdings in Consolidated, Standard Oil completed divestment of its utility properties.<sup>85</sup>

Consolidated is expected to continue as a registered holding company system. It has operations in West Virginia, Ohio, Pennsylvania, and New York and reports assets in excess of \$360,000,000.

<sup>82</sup> Holding Company Act release No. 9611.

<sup>83</sup> Holding Company Act release No. 9920.

<sup>84</sup> Holding Company Act release No. 9993.

<sup>85</sup> Holding Company Act release Nos. 4617 and 4864.

Though the system has shared fully in the postwar growth of the natural gas industry, it has not been required to do as much public financing as other systems. This factor is explained in part by the conservative dividend policy of the management which has retained out of net income approximately \$20,000,000 during the past 3-year period.

However, Consolidated has sold, with Commission approval, 545,672 shares of common stock with net proceeds of \$20,270,000 in July 1947, and \$30,000,000 of debentures in 1948. In March 1950, the Commission approved the additional sale by Consolidated, pursuant to a loan agreement with four commercial banks, of an aggregate of \$14,000,000 of promissory notes to be issued during 1950.<sup>86</sup> This borrowing was undertaken as an interim step in Consolidated's long-range financing program. Proceeds will be used primarily to finance the construction and gas-storage programs of two of the operating subsidiaries. Consolidated had almost no indebtedness prior to the postwar expansion program, and, even with the \$54,000,000 of debt incurred during the past year, the present debt ratio of the system remains under 20 percent.

#### **Delaware Power & Light Co.**

Delaware Power & Light Co. is an operating-holding company subject to Commission jurisdiction because of its operations through subsidiaries in Maryland and Virginia. Delaware was formerly a subsidiary of United Gas Improvement Co., but achieved independent status in 1943 with the distribution by the latter of its stockholdings in the company.

Substantial growth in recent years has necessitated considerable financing activity by Delaware and, beginning in 1947, the Commission approved five proposals submitted by the company. In March 1947, the company sold \$5,000,000 of preferred stock at competitive bidding. This was followed by another \$5,000,000 in July 1949 together with \$10,000,000 of mortgage bonds. Offerings of additional common stock to shareholders were made in February 1949 and again in April 1950 with proceeds aggregating over \$9,000,000. These offerings enabled Delaware, while proceeding with necessary debt financing, to retain a ratio of common equity to total capitalization and surplus in excess of 33 percent.

#### **Interstate Power Co.**

Interstate Power Co. is an operating-holding company which together with its two subsidiaries is engaged principally in the electric utility business in Minnesota, Iowa, South Dakota, Illinois, and Wisconsin. Pursuant to a plan filed under section 11 (e) of the act, Interstate underwent a complete financial reorganization in March 1948.<sup>87</sup> Prior to this, the company was burdened with a very top-heavy capital structure, including excessive indebtedness and preferred stocks with large dividend arrearages.

Through operation of the reorganization plan, the former parent-subsidiary relationship existing between Ogden Corp. and Interstate

<sup>86</sup> Holding Company Act release No. 9727.

<sup>87</sup> Holding Company Act release No. 7955.

was eliminated and 944,961 shares of Interstate's new common shares were placed in escrow for the benefit of the holders (including Ogden) of its old securities junior to its old mortgage bonds. Proceedings relating to the plan for distribution of these escrowed shares are still in progress before the district court and the Commission.

Although Interstate's reorganization of March 1948 resulted in a substantially improved financial position, the exigencies of that reorganization nevertheless still left the company's capital structure far from ideal. This situation required that subsequent security sales by Interstate be carefully scrutinized by the Commission to assure that each successive financing operation, in connection with the company's large construction program, would bring about a strengthening of Interstate's common stock equity, preserve its financial integrity, and facilitate the economical financing of its expanding business.

In November 1949, Interstate's new money requirements were met, with Commission approval, by the sale of 300,000 shares of additional common stock.<sup>88</sup> In May 1950, after extensive preliminary conferences with the Commission's staff, the company consummated a broad financing program, which not only satisfied its capital requirements, but greatly strengthened its capital structure. This undertaking included the sale of \$3,000,000 of mortgage bonds, 100,000 shares of new preferred stock and 275,000 shares of additional common stock.<sup>89</sup> Proceeds were applied, in part, for construction needs and also to the retirement of certain outstanding debt securities. In addition, Interstate successfully negotiated with the holder of its \$5,000,000 outstanding 4¾ percent Debentures for a reduction of interest rate to 3¾ percent.

The rapid improvement in the company's credit rating is clearly indicated by a comparison of the annual interest cost of 4.5 percent on its mortgage bonds sold in October 1948 with those sold in May 1950 at a cost of 2.9 percent. This substantial change is due in large part to the fact that, in the period following Interstate's reorganization in 1948, its common equity, after giving effect to the sale of common stock in May 1950, has increased from 17 percent to 26.5 percent of total capitalization and surplus. If the new preferred issue is included, aggregate underlying equity as a percentage of capitalization and surplus has now reached 37.6 percent.

#### **Middle South Utilities, Inc.**

Middle South Utilities, Inc. is a registered utility holding company serving through its subsidiaries a three-State area including Arkansas, Louisiana, and western Mississippi. While its revenues are derived predominantly from sales of electricity, it is also engaged in the sale of natural gas and in transportation operations. The company was organized in May 1949 and acquired from Electric Power & Light Corp., the latter's holdings in four subsidiary utility companies and a small land company. Since the divestment by Electric and its parent, Electric Bond & Share Co., of their holdings in the company, Middle South has become an independent regional holding company system. The Commission has reserved jurisdiction, however, to insti-

<sup>88</sup> Holding Company Act release No. 9435.

<sup>89</sup> Holding Company Act release No. 9845.

tute such further proceedings under section 11 (b) with respect to Middle South as it may consider necessary or appropriate.

The construction program of the Middle South system has been estimated to require expenditures over the 2-year period 1950-51 of more than \$92,000,000. To finance the initial portion of these requirements, Middle South sold 640,000 shares of its common stock in January 1950 for which it received net proceeds of \$11,868,000.<sup>90</sup> In June 1950, the Commission approved additional financing proposals. These included the sale of mortgage bonds by two subsidiaries, the sale of new preferred stock by three subsidiaries and an offer by Middle South to holders of outstanding preferred in the three subsidiaries to exchange new shares of Middle South common for shares of outstanding preferred.<sup>91</sup> The sale of new preferred by the subsidiaries and the exchange offer by Middle South were proposed primarily to facilitate elimination of the high dividend preferred stocks of three subsidiaries and to provide funds for construction.

After submitting both the bond and preferred stock offerings to competitive bidding, sales of the two subsidiary bond issues were consummated promptly, yielding approximately \$13,500,000 in proceeds. However, all bids on the preferred offerings were rejected as not representing fair value for the securities offered. This, in turn, caused Middle South to request a suspension of action on other related proposals until a further amendment could be filed.

#### **National Fuel Gas Co.**

The construction program of National Fuel Gas Co., unlike most systems, has been on a modest scale and has not required any long-term financing during the past year. However, progress has been made in further simplifying the system by effecting a reduction in the number of subsidiary corporate entities and effecting through mergers and consolidations a number of operating economies.

On June 15, 1949 the Commission approved the merger of Iroquois Gas Corp. a gas utility subsidiary of National, with Wanakah Gas Corp., its wholly owned gas utility subsidiary.<sup>92</sup> The merger was effected on November 18, 1949. On August 12, 1949, the Commission also approved the dissolution of Hanover Gas Corp., a small producing subsidiary and the distribution of its remaining assets to National.<sup>93</sup>

In June 1950, National and five of its utility subsidiaries filed a joint declaration proposing the merger of the five subsidiaries into one gas utility company. On June 30, 1950, the Commission approved certain transactions proposed to be effected prior to the merger and reserved jurisdiction over all other aspects of the proposed transactions.<sup>94</sup>

#### **New England Electric System**

New England Electric System (NEES) has the largest number of subsidiary companies of all the registered holding company systems. As previously indicated, NEES underwent a major reorganization in

<sup>90</sup> Holding Company Act release No. 9595.

<sup>91</sup> Holding Company Act release Nos. 9916 and 9919.

<sup>92</sup> Holding Company Act release No. 9166.

<sup>93</sup> Holding Company Act release No. 9272.

<sup>94</sup> Holding Company Act release No. 9956.

1947 and, since that time, it has been confronted with the need for extensive system expansion, which is not expected to be completed until 1952.

Of direct concern to the Commission has been the approach of the system to its problems of permanent financing for this construction. In the middle of 1948 and early 1949, the Commission permitted 23 of the subsidiary companies to borrow on promissory notes as a temporary step in the financing program.<sup>95</sup> It was represented at that time that the subsidiaries would obtain a substantial amount of cash to retire a portion of their note indebtedness from the sale of common stock to NEES, and that NEES would purchase these shares, in part, out of proceeds derived from the sale of its own common stock.

In 1949, however, NEES indicated that, while it contemplated the issuance of common stock, it was not able to state when additional stock would be sold nor the amount to be sold. In April 1949, the Commission reconsidered its approval of the issuance of the promissory notes and ordered<sup>96</sup> that NEES, and the subsidiary companies involved show cause why its order should not be amended to the extent necessary to terminate, in whole or in part, its authorization with respect to notes not already issued, or to impose additional terms and conditions with respect to such notes. In a memorandum opinion<sup>97</sup> the Commission stated that the system had financed its needs almost wholly by the issuance of debt securities and stated that NEES should sell additional common stock. Subsequently, as part of its financing program for the current fiscal year, NEES made a public offering of common stock in the amount of \$7,029,000.

Subsequent to this offering, NEES submitted a general financing program proposing the sale of \$7,500,000 of convertible preferred stock and \$5,000,000 of debentures by the parent company. In a second memorandum opinion dated September 29, 1949,<sup>98</sup> the Commission found that the proposal was faulty in failing to provide for additional common equity to balance the large amount of senior securities proposed to be issued. It indicated that a minimum acceptable position might be reached if the \$7,500,000 now proposed to be raised through convertible preferred stock were raised instead through the sale of additional common shares.

#### **New England Gas & Electric Association**

New England Gas & Electric Association (NEGEA), a Massachusetts trust, registered as a holding company in 1938. Because of a top-heavy capital structure, which included five debenture issues and two classes of preferred shares with large arrearages, the Commission instituted section 11 (b) (2) proceedings against NEGEA in September 1941.<sup>99</sup> Added to the capitalization problem was the presence of a complex situation involving claims and counterclaims between NEGEA and the trustees of Associated Gas & Electric Co. and Associated Gas & Electric Corp. After lengthy hearings and extensive consideration by the Commission a second plan, which was

<sup>95</sup> Holding Company Act release Nos. 8253 and 8927.

<sup>96</sup> Holding Company Act release No. 8995.

<sup>97</sup> Holding Company Act release No. 9212.

<sup>98</sup> Holding Company Act release No. 9377.

<sup>99</sup> Holding Company Act release No. 3035.

an alternate to the initial plan of recapitalization,<sup>100</sup> was approved by the Commission and consummated in April 1947.<sup>101</sup> It is expected that NEGEA, which now has a simplified capital structure, more equitable voting rights for stockholders and restated investment accounts, will continue as a holding company system.

Like other systems, NEGEA is presently carrying on an extensive construction program to meet additional demands for service and to replace existing property. An estimate of net additions to be made in the period from 1949 to 1952 totals approximately \$23,700,000. On September 16, 1949, the Commission approved the sale by NEGEA of 124,601 shares of additional common stock for approximately \$1,400,000. At the same time it approved the sale of notes by seven subsidiaries.<sup>102</sup> A second sale of 173,126 common shares with proceeds of \$2,500,000 was approved by the Commission in May 1950.<sup>103</sup> Proceeds of the second stock sale were used by NEGEA to acquire additional common stock in its subsidiaries. Proceeds of the prior sale were used to retire outstanding bank debt previously incurred by the parent company for the same purpose.

During the past fiscal year, NEGEA participated with two other nonaffiliated companies in the organization of the Algonquin Gas Transmission Co.<sup>104</sup> The new company was organized for the purpose of building or participating in the building of a pipeline for the transmission of natural gas from points in New York, New Jersey, or Connecticut to the New England area. Participating with New England Gas & Electric are Eastern Gas & Fuel Associates and the Providence Gas Co. Other gas companies in New England have also been invited to invest in the new enterprise.

#### **Northern Natural Gas Co.**

The primary business of Northern Natural Gas Co. is the purchase, transmission, and wholesale distribution of natural gas which is carried from gas fields in Texas, Oklahoma, and Kansas to utility companies located principally in Minnesota, Iowa, and Nebraska. The company has one wholly owned gas utility subsidiary, Peoples Natural Gas Co., and as a holding company is therefore subject to regulation by this Commission. On September 25, 1950, however, Northern filed an application with this Commission pursuant to section 3 (a) (3) seeking exemption for itself as a holding company and for each subsidiary thereof as such from the provisions of the act.

Financing undertaken by the company to meet its construction needs has been planned so as to preserve the substantial equity ratio which has been a characteristic of the system for many years. Thus, in March 1949, the company sold 406,000 common shares pursuant to a rights offering and realized gross proceeds of \$11,977,000.<sup>105</sup> Again in May 1950, an additional 304,500 shares were sold in the same manner yielding proceeds of \$9,591,750.<sup>106</sup> Subsequent thereto, the company

<sup>100</sup> The original plan of recapitalization could not be consummated after its approval by the Commission and by the United States district court because of adverse market conditions.

<sup>101</sup> Holding Company Act releases Nos. 7181 and 7205.

<sup>102</sup> Holding Company Act release No. 9340.

<sup>103</sup> Holding Company Act release No. 9843.

<sup>104</sup> Holding Company Act release No. 9694.

<sup>105</sup> Holding Company Act release No. 8863.

<sup>106</sup> Holding Company Act release No. 9833.

completed its financing program for 1950 with the sale of \$40,000,000 of 2½ percent serial debentures after approval was granted by the Commission on May 29, 1950.<sup>107</sup>

#### **Northern States Power Co.**

Northern States Power Co. is a holding operating company engaged, either directly or through subsidiaries, in the electric and gas business in the States of Minnesota, Wisconsin, North Dakota, and South Dakota. Incorporated in Minnesota, it was formerly controlled by a company of the same name, organized in Delaware. The latter company was dissolved in December 1949.<sup>108</sup>

The construction program of Northern States (Minnesota), which in 1947 was expected to amount to \$96,000,000 over a 5-year period, has since been increased to the present estimate for the same period of \$160,000,000. During 1948 and 1949, mortgage bonds and preferred stocks totaling \$55,000,000 were issued by the system. Since the system had been financed for some time by the sale of senior securities, the staff of the Commission indicated its concern over the prospective deterioration of the system's capital structure and its lack of equity financing. Before the issuance of bonds was approved by the Commission, Northern States amended its declaration stating that it would offer common stock within the succeeding few months. On November 17, 1949, the company, with Commission approval, made a rights offering of 1,584,238 shares to its stockholders. The offering yielded proceeds of \$16,238,677.<sup>109</sup>

During the past fiscal year Northern States also accomplished a further step in the simplification of its system. Two subsidiaries, Interstate Light & Power Co. (Delaware) and Interstate Light & Power Corp. (Illinois) were merged with and into a third subsidiary, the Elizabeth Light & Power Co. Upon effectuation of the merger in August 1949, the name of the surviving company was changed to Interstate Light & Power Co. The latter company will continue as a direct subsidiary of Northern States.<sup>110</sup>

#### **Ohio Edison Co.**

Upon consummation of the section 11 (e) plan of Commonwealth & Southern Corp. on October 1, 1949,<sup>111</sup> Ohio Edison Co. became an independent operating-holding company, subject to the jurisdiction of this Commission by virtue of its stock ownership in Pennsylvania Power Co., its only subsidiary.

Shortly after its divestment by Commonwealth & Southern Corp., Ohio Edison made application to acquire from Cities Service Co., at a cost of \$35,000,000, the latter's holdings in Ohio Public Service Co. common stock as an initial step in a program to merge Ohio Public Service into Ohio Edison. Funds for this purchase were to be derived from an underwritten offering of additional common stock by Ohio Edison, subject to a rights offering to existing common stockholders. Ohio Edison also proposed an exchange offer of its com-

<sup>107</sup> Holding Company Act release No. 9890.

<sup>108</sup> Holding Company Act releases Nos. 7950 and 7976.

<sup>109</sup> Holding Company Act release No. 9484.

<sup>110</sup> Holding Company Act release No. 9305.

<sup>111</sup> Holding Company Act release No. 8633.

mon stock for shares of Ohio Public Service common stock held by the public.

In addition to financial problems posed by this application and declaration of Ohio Edison, substantial questions were present under section 10 (c) (2) of the act which provides that the Commission shall not approve an acquisition of securities unless it finds that "such acquisition will serve the public interest by tending towards the economical and efficient development of an integrated public utility system." On December 2, 1949, the Commission issued its findings and opinion approving the proposed transactions.<sup>112</sup> In reaching this decision, the Commission considered among other things, the fact that the operating areas of the two companies were contiguous for some 200 miles. Some interconnections had been made in the past and combined operation offered many possibilities for additional tie-ins. Evidence indicated that substantial economies could be effected through coordination of facilities and unified operations. Although the resultant system would be a large one, the Commission noted the populous and highly industrialized area of its operations and found it "not so large as to impair the advantages of localized management, efficient operation, and effectiveness of regulation."

In February 1950, after acquiring about 97 percent of the common stock of Ohio Public Service, Ohio Edison filed an application-declaration for authority to merge the two companies. This proposal involved the assumption of the debt of Public Service by Ohio Edison, an exchange of Ohio Edison preferred stock for Public Service preferred stock, and an exchange of Ohio Edison common stock for the remaining publicly held common stock of Public Service. The proposals were approved by the Commission on March 29, 1950,<sup>113</sup> and were consummated shortly thereafter. The resultant Ohio Edison Co. and its subsidiary, Pennsylvania Power Co., have a combined gross utility plant of about \$306,000,000 and annual operating revenues approximating \$80,000,000.

#### **The Southern Co.**

Like Ohio Edison Co., the Southern Co. became an independent holding company upon consummation of the section 11 (e) plan of the Commonwealth & Southern Corp. in October 1949. The integrated electric system which it controls furnishes service, through four electric utility subsidiaries, in Georgia, Alabama, Florida, and Mississippi. Consolidated system assets are about \$615,000,000 and annual electric revenues are in excess of \$115,000,000. It is second largest of the continuing holding company systems.

During the calendar year 1949, capital expenditures for the system total \$57,345,000 and the company expects to make additional expenditures during the period 1950-52 of approximately \$197,000,000. This rapid rate of expansion has given rise to substantial financing problems during the past fiscal year and will pose similar recurring problems for the management and the Commission in the years ahead. In November 1949, the Commission approved the sale by Southern of

<sup>112</sup> Holding Company Act release No. 9539.

<sup>113</sup> Holding Company Act release No. 9771.

1,500,000 additional shares of its common stock.<sup>114</sup> Proceeds realized from this sale at competitive bidding were in excess of \$17,300,000. As a result of this sale consolidated common stock equity in relation to total capitalization and surplus was raised from 26 percent to 29 percent.

In the early months of 1950, bond financings were carried out by three of the subsidiaries and at the close of the fiscal year there was pending a declaration filed by Southern covering the proposed sale of 1,000,000 additional common shares to assist further in the financing of construction expenditures by the subsidiaries. After a temporary postponement due to unsettled market conditions, this sale was consummated in October 1950 with proceeds of approximately \$10,950,000.

Subsequent to the close of the fiscal year, the Southern Co., together with Electric Bond & Share Co., filed applications and declarations proposing, among other things, that Southern acquire from Bond & Share the latter's common-stock holding in Birmingham Electric Co. through an exchange of the Southern Co.'s common shares. The exchange proposal was also to be made to the public stockholders of Birmingham. Alabama Power Co., a subsidiary of the Southern Co., proposed to acquire the outstanding shares of Birmingham's preferred stock through an exchange offer of its own preferred. Other steps contemplated the eventual disposition by Birmingham Electric of its transportation properties and the acquisition of that company's electric properties by Alabama Power through merger, liquidation or otherwise. Approval of these transactions was granted by the Commission on August 24, 1950.<sup>115</sup>

On September 23, 1949, the Commission approved Southern Services, Inc. as a mutual service company for the Southern system.<sup>116</sup>

While an appropriate showing was made that Southern Services would be operated economically and efficiently for the benefit of the companies which it proposes to serve, the Commission conditioned its order in several respects to permit a review of its cost allocations and operations at any future time.

#### **Utah Power & Light Co.**

Utah Power & Light Co. was removed from the control of Electric Power & Light Corp. as a result of its recapitalization plan approved by the Commission in 1945.<sup>117</sup> The company is an operating-holding company, subject to Commission jurisdiction by virtue of its ownership of securities in Western Colorado Power Co.

The expansion program of Utah Power & Light and its subsidiary calls for expenditures of \$61,000,000 during the period 1949 to 1953. During the past fiscal year, the parent company sold \$3,000,000 of mortgage bonds with Commission approval, as well as 148,155 common shares marketed pursuant to a rights offering to stockholders with proceeds of \$3,481,000.<sup>118</sup> In March 1950, the company received authorization to borrow up to \$10,000,000 from banks on a short-term

<sup>114</sup> Holding Company Act release No. 9503.

<sup>115</sup> Holding Company Act release No. 10055.

<sup>116</sup> Holding Company Act release No. 9362.

<sup>117</sup> Holding Company Act release No. 6212.

<sup>118</sup> Holding Company Act release No. 9309.

basis.<sup>119</sup> It was indicated that subsequent permanent financing to be undertaken later in 1950 would include the sale of additional common stock as well as mortgage bonds.

#### **The West Penn Electric Co.**

The West Penn Electric Co. is the parent company in a utility system which derives about 90 percent of its revenues from sales of electric power and services a territory located principally in Pennsylvania, West Virginia, and Maryland, also in small adjacent sections of Ohio and Virginia. West Penn was formerly a subsidiary of American Water Works & Electric Co., which was liquidated in January 1948.<sup>120</sup>

During the past fiscal year, West Penn has consummated a number of transactions designed to simplify the corporate structure of the system and, in addition, a thorough-going recapitalization of the parent company was successfully completed. Prior to July 1949, the common stock of West Penn Power Co. and the common stock of Monongahela Power Co., two of the three principal utility subsidiaries of West Penn, were held in two separate blocks within the system. Two-thirds of West Penn Power's common stock was owned by West Penn and 27.9 percent by West Penn Railways, with a small percentage publicly held; 45.3 percent of the common stock of Monongahela was owned by West Penn and 54.7 percent by West Penn Power. As a result of the section 11 (e) plan approved by the Commission on July 28, 1949,<sup>121</sup> all of the cross holdings of stock in West Penn Power and Monongahela have now been eliminated and all shares held by the system are owned by West Penn. In addition, the same plan provides for an accounting reorganization of West Penn Railways and the elimination of substantial inflation in the statement of its assets.

In September 1949, West Penn effected a complete recapitalization. Prior to this financing, the company had one class of debt securities, three classes of preferred stock, a "class A" stock and common stock outstanding. Upon consummation of the refinancing, West Penn had outstanding \$31,000,000 of 3½ percent sinking fund collateral trust bonds and 3,200,000 shares of common stock. A small issue of West Penn Traction Co. bonds, assumed by West Penn in connection with the corporate simplification, remained in its capitalization. The new collateral trust bonds are to be retired through annual sinking-fund payments over their 25-year life. The new common stock, to the extent of 388,274 shares, was offered to holders of preferred and class A stock, in exchange for their holdings; the remaining 468,621 shares were offered to the holders of common stock. In each instance the offers were oversubscribed and no shares remained for distribution by the underwriters. The approved plan also resulted in a downward adjustment by West Penn of its carrying value in subsidiary companies and necessitated charges to its earned surplus and capital surplus accounts of \$1,402,324 and \$14,078,119 respectively.

In its opinion approving the recapitalization,<sup>122</sup> the Commission commented "that the resulting consolidated common stock equity is substantially less than we consider appropriate for utility systems"

<sup>119</sup> Holding Company Act release No. 9731.

<sup>120</sup> Holding Company Act release Nos. 7091 and 7208.

<sup>121</sup> Holding Company Act release No. 9255.

<sup>122</sup> Holding Company Act release No. 9329.

and that "the issuance of debt by a holding company whose subsidiaries have substantial amounts of debt and preferred stocks in the hands of the public also raises a serious problem under the standards of the act." It noted, however, that the proposed sale of new common stock by West Penn was a substantial one which increased the number of outstanding common shares by 37 percent, and that the sinking-fund provisions on the new debt called for its complete retirement by maturity. Since the program also facilitated the future financing of system construction requirements, the Commission determined that it could be approved, indicating its intention, however, to require that future financings be designed to strengthen the common equity of West Penn in all possible ways.

#### ISSUES OF SECURITIES, ASSUMPTIONS OF LIABILITY, AND ALTERATIONS OF RIGHTS

During the past fiscal year, 319 applications and declarations covering issues of securities under sections 6 and 7 and assumptions of liabilities and alterations of rights under section 7 were filed with the Commission. Action was completed and Commission approval granted in 337 cases, including some which were instituted prior to that period. As in the preceding year, most applications under sections 6 and 7 were undertaken to enable electric and gas utility companies under the Commission's jurisdiction to proceed with their plans for extensive plant expansion. However, there was also a noticeable increase in the number of bond-refunding operations.

On an industry-wide basis, construction expenditures of electric and gas utilities, exclusive of expenditures by natural gas transmission companies, are estimated to have been in excess of \$2,500,000,000 in the past fiscal year. While it had been envisioned that these expenditures would begin to taper off within the near future as increased facilities approached power requirements, the recent trend of domestic and international events suggests that no early decline in the pace of growth is in sight.

The sustained volume of construction has, of course, necessitated a heavy program of financing. This is demonstrated by the following tabulation showing security sales of electric and gas utilities for the fiscal years 1948 to 1950.

*Security issues sold for cash and issued in exchange for refunding purposes by electric and gas utilities—fiscal years 1948 to 1950 (includes all issues subject to provisions of the Public Utility Holding Company Act of 1935 and to registration requirements under the Securities Act of 1933)<sup>1</sup>*

	July 1, 1947, to June 30, 1948	July 1, 1948, to June 30, 1949	July 1, 1949, to June 30, 1950
Bonds .....	\$1,087,266,075	\$899,434,729	\$953,782,240
Debentures .....	146,307,321	241,238,500	104,700,235
Preferred stock .....	229,443,828	192,779,280	362,015,050
Common stock .....	226,439,063	364,016,666	501,460,071
Total <sup>2</sup> .....	1,689,456,287	1,697,469,175	1,921,957,596

<sup>1</sup> This table is presented in order to give some data on an industry-wide basis. It includes financing effected by companies subject to the jurisdiction of the Commission under the Public Utility Holding Company Act as well as financing by other public utility companies whose securities were registered under the Securities Act of 1933. Since private placements are not registered under the latter act the chart does not include data with respect to private placements of public utilities not subject to the jurisdiction of the Public Utility Holding Company Act.

The amount of private placements by companies not subject to the act is estimated to have been in the area of \$300,000,000 during the last fiscal year.

<sup>2</sup> In addition, utility companies subject to the Holding Company Act, sold notes with maturities of 5 years or more in the following amounts:

1948 .....	\$79,200,000
1949 .....	\$62,090,000
1950 .....	\$23,200,000

Total financing during the past fiscal year was higher than that of the two preceding years, and a portion of this increase is attributable to a renewal of refinancing activity. Of particular significance, however, is the steady upward trend in the proportion of common stock financing from 13.4 percent for the fiscal year 1948 to 26.1 percent for the fiscal year 1950. This trend may be accounted for in part by the receptivity of the market to new common stock offerings during most of the past year, but it also reflects an awareness and responsiveness on the part of public utility management to the necessity of maintaining a strong foundation of equity capital. As a result, utility companies not only are assured of meeting their cash requirements for near term construction needs but are afforded protection against periods of market uncertainty when it becomes more difficult to obtain funds through offering of common stock.

As the program of integration and simplification under section 11 progresses and companies are divested from holding company systems, that segment of electric and gas utility financing subject to the provisions of sections 6 and 7 declines accordingly. Although some further contraction is anticipated new financing undertaken by those holding companies and subsidiary operating companies which are expected to remain subject to regulation by the Commission, will continue to represent a substantial portion of the industry total. The following tables set forth, in summary form, security sales approved under sections 6 (b) and 7 of the act for the fiscal years 1950 and 1949. Information is provided with respect to registered holding companies and their electric and gas subsidiaries and nonutility subsidiaries. These totals include all cash sales and refundings accomplished by direct exchanges. Sales from portfolios and issues offered in connection with reorganization under section 11 are excluded.

*Sales of securities and application of net proceeds approved under the Public Utility Holding Company Act of 1935 during the fiscal year July 1, 1949, to June 30, 1950*<sup>1</sup>

	Number of issues	Total security sales <sup>2</sup>	Application of net proceeds <sup>3</sup>		
			New money purposes	Refinancing of short-term bank loans <sup>4</sup>	Refunding
<b>Sales by electric and gas utilities<sup>4</sup></b>					
Bonds.....	39	\$402,095,635	\$219,628,040	\$103,853,561	\$73,618,144
Debentures.....	2	45,523,735	41,011,210	4,100,000	-----
Notes <sup>5</sup> .....	21	23,200,000	23,173,710	-----	-----
Preferred stock.....	15	58,064,970	42,812,177	9,869,959	4,018,743
Common stock.....	73	235,380,176	182,875,058	46,016,170	3,006,452
Total.....	150	764,264,516	509,500,195	163,839,690	80,643,339
<b>Sales by holding companies.</b>					
Bonds (collateral trust).....	1	31,783,060	8,633,353	-----	22,751,416
Debentures.....	2	125,883,050	30,990,034	-----	93,750,000
Notes <sup>5</sup> .....	1	27,259,568	53,887	-----	26,978,530
Common stock.....	12	114,983,705	87,911,631	3,492,201	19,717,423
Total.....	16	299,909,383	127,588,905	3,492,201	163,197,369
<b>Sales by nonutility companies</b>					
Bonds.....	4	48,010,000	43,891,620	4,001,850	-----
Notes <sup>5</sup> .....	12	17,600,000	17,594,779	-----	-----
Common stock.....	4	6,812,500	5,566,600	498,050	675,000
Total.....	20	72,422,500	67,053,059	4,499,900	675,000

<sup>1</sup> Data limited to sales by issuing companies; offerings from portfolio are not included.

<sup>2</sup> Difference between total security sales and total proceeds is represented by flotation costs to the issuing companies.

<sup>3</sup> Notes and bank loans of less than 5 years maturity, usually for construction purposes.

<sup>4</sup> Includes sales by registered operating-holding companies which derive a substantial proportion of income from their own operations, but which also may have one or more utility subsidiaries.

<sup>5</sup> With maturities of 5 years or more.

*Sales of securities and application of net proceeds approved under the Public Utility Holding Company Act of 1935 during the fiscal year July 1, 1948, to June 30, 1949*<sup>1</sup>

	Number of issues	Total security sales <sup>2</sup>	Application of net proceeds <sup>3</sup>		
			New money purposes	Refinancing of short-term bank loans <sup>4</sup>	Refunding
<b>Sales by electric and gas utilities.<sup>4</sup></b>					
Bonds.....	56	\$368,209,514	\$246,174,609	\$95,620,052	\$17,955,072
Debentures.....	5	106,551,165	46,615,225	41,358,800	17,303,000
Notes <sup>5</sup> .....	31	62,090,000	44,793,050	14,850,000	2,100,000
Preferred stock.....	17	74,859,040	43,062,350	26,254,700	4,000,000
Common stock.....	74	197,610,057	146,218,297	30,713,805	18,730,750
Total.....	183	809,319,776	526,863,531	208,797,357	60,088,822
<b>Sales by holding companies:</b>					
Debentures.....	2	33,878,815	20,646,890	-----	12,850,000
Notes <sup>5</sup> .....	6	18,272,500	3,272,500	-----	15,000,000
Common stock.....	8	69,893,184	68,546,045	-----	-----
Total.....	16	122,044,499	92,465,435	-----	27,850,000
<b>Sales by nonutility companies.</b>					
Bonds.....	4	49,295,080	43,807,210	5,000,000	-----
Common stock.....	8	9,875,000	9,279,301	-----	575,000
Total.....	12	59,170,080	53,086,511	5,000,000	575,000

<sup>1</sup> Data limited to sales by issuing companies; offerings from portfolio are not included.

<sup>2</sup> Difference between total security sales and total proceeds is represented by flotation costs to the issuing companies.

<sup>3</sup> Notes and bank loans of less than 5 years maturity, usually for construction purposes.

<sup>4</sup> Includes sales by registered operating-holding companies which derive a substantial proportion of income from their own operations, but which also may have one or more utility subsidiaries.

<sup>5</sup> With maturities of 5 years or more.

A comparison of the security sales by electric and gas utilities, approved under sections 6 (b) and 7, in the fiscal years 1949 and 1950 reflects a decline in the number of offerings from 183 to 150 and in the total dollar volume of sales from \$809,319,776 to \$764,264,516. Sales of both mortgage bonds and common stocks increased during 1950, whereas sales of other securities declined. Mortgage bonds, moreover, represented 52.6 percent of total security sales in 1950 as against 45.5 percent in the fiscal year 1949. The proportion of common stock financing climbed from 24.4 percent to 30.8 percent, and the relative proportions of other types of financing declined.

Because the common equity of so many utility subsidiary companies is wholly owned by the parent holding companies, the subsidiaries are primarily dependent on the holding companies as sources of equity capital. In the fiscal year 1949, registered holding companies purchased common shares of subsidiary companies to the extent of \$150,000,000. During 1950, this figure amounted to \$134,000,000. The availability of funds for these intrasystem stock purchases depends directly upon the adequacy and appropriateness of public financing undertaken by the holding companies.

In past years, substantial amounts of cash have been made available from the sale of nonretainable subsidiaries, but this source of funds ceases to be important as holding companies become streamlined. As a result, sales of common stock by registered holding companies are increasing. They rose from \$70,000,000 in 1949 to \$115,000,000 in the fiscal year 1950. (These figures exclude sales by operating-holding companies.)

The Commission must bear in mind standards designed to assure that the pressure of heavy cash requirements will not result in any over-all deterioration in the consolidated capital structure and in the quality of securities outstanding. By insisting that parent holding companies undertake common stock financing periodically to match increases in system debt financing, the Commission seeks to prevent a return of the high-leveraged, unwieldy structures which led to the legislation it now administers. Many holding companies have recognized their responsibilities in this respect and a number of the regulated systems have already reached a point where the market receptivity to their common stock offerings is almost comparable with that accorded to the stock of good quality operating companies.

#### COMPETITIVE BIDDING

Offerings of securities by issuing companies under sections 6 (b) and 7 of the act and portfolio offerings by holding companies under section 12 (d) are required to be made at competitive bidding in accordance with the provisions of rule U-50. Certain types of sales are automatically exempted from the requirement. In addition, the Commission retains the right to grant exemptions in other instances, when unusual circumstances make such action appropriate.

Securities sold at competitive bidding under rule U-50 from its effective date, May 7, 1941, to June 30, 1950, total in excess of \$6,216,000,000. A tabular presentation showing the various classes of securities, number of issues, and the respective amounts, is set forth below :

*Sales of securities pursuant to rule U-50—May 7, 1941, to June 30, 1950*

	Number of issues	Amount
Bonds.....	261	<sup>1</sup> \$4, 295, 679, 000
Debentures.....	30	<sup>1</sup> 614, 438, 000
Notes.....	5	<sup>1</sup> 52, 750, 000
Preferred stock.....	77	<sup>2</sup> 688, 064, 700
Common stock.....	62	<sup>3</sup> 564, 807, 536
Total.....	435	6, 216, 639, 536

<sup>1</sup> Principal amount.<sup>2</sup> Par value.<sup>3</sup> Proceeds to company.

While the experience of the Commission during the past 9 years has amply demonstrated the workability of rule U-50 and its effectiveness in achieving competitive conditions and minimum costs of flotation, the Commission has always recognized that appropriate administration of the rule requires flexibility of application. Thus, in the period since the rule became effective, a total of 192 security issues amounting to \$1,414,000,000 have been exempted by Commission order from competitive bidding requirements. This is exclusive of the automatic exemptions. The following table summarizes the exempted sales by type of security and also provides a breakdown of the total amounts showing those issues which were underwritten and those completed without an underwriting:

*Sales of securities pursuant to orders of the Commission granting exemptions from competitive bidding requirements under the provisions of paragraph (a) (5) of rule U-50<sup>1</sup>—May 7, 1941, to June 30, 1950*

	Underwritten transactions		Nonunderwritten transactions		Total—all issues	
	Number of issues	Amount <sup>2</sup>	Number of issues	Amount <sup>2</sup>	Number of issues	Amount <sup>2</sup>
Bonds.....	4	\$27, 027, 500	53	\$462, 484, 714	57	\$489, 512, 214
Debentures.....	3	83, 425, 000	5	36, 779, 939	8	120, 204, 939
Notes.....			19	32, 804, 158	19	32, 894, 158
Preferred stock.....	10	60, 868, 703	23	257, 610, 344	33	318, 479, 047
Common stock.....	31	275, 074, 100	44	178, 392, 341	75	453, 466, 441
Total.....	48	446, 395, 303	144	968, 161, 496	192	1, 414, 556, 799

<sup>1</sup> Exclusive of automatic exemptions afforded by clauses (1) through (4) of paragraph (a) of rule U-50.<sup>2</sup> Proceeds to the company.

As the foregoing table reveals, most of the exempted transactions were not underwritten. The major portion of the underwritten exempt sales consisted of common stock offerings aggregating \$275,074,100. While these exemptions may not be attributed to any single factor, they reflect the greater difficulties sometimes encountered in the marketing of common stocks owing to either the nature of the issue or to security market conditions. By comparison, however, common stock sales through underwriters at competitive bidding were twice as much in both amount and number of issues.

The substantial number of exemptions granted with respect to both underwritten and nonunderwritten preferred stock transactions represented principally the exchange of new lower dividend preferred stocks to refund outstanding shares of higher rate. Beginning with the Oklahoma Gas & Electric case in March 1946,<sup>123</sup> however, the Commission announced the policy that future preferred stock exchange offerings would be required to be made at competitive bidding. More recently, the limited receptivity accorded to medium grade preferred issues has also necessitated the granting of exemptions for some underwritten issues.

Most of the exempted nonunderwritten bond and debenture offerings are represented by private placements made by the issuers. The aggregate figure comprises a considerable number of issues of small size and a small group of very large offerings exempted because of unique circumstances present at the time of sale. Of the note offerings, exempted and not underwritten, only a small portion was placed with banks and insurance companies; the balance was represented by sales of an unusual nature to private persons or groups, to other utilities or holding companies, or to other parties. Exempted common stock sales which were not underwritten consisted mainly of (1) sales to other utilities, other holding companies, or to private persons or groups (portfolio sales) and (2) rights offerings to stockholders made without underwriting assistance.

Because rule U-50 covers not only sales by issuers under sections 6 (b) and 7 of the act, but also portfolio sales under section 12 (d), there is substantial variety in the nature of circumstances which, over the years, have necessitated the granting of exemptions. Each exemption request, however, has been appraised in the light of the particular situation under which it is made.

In general, rule U-50 is now recognized as a practical and successful aid to regulation. The Federal Power Commission during the past fiscal year adopted a similar rule.

#### **Cooperation With State and Local Regulatory Authorities**

Despite the fact that there were 100 fewer companies subject to regulation under the act on June 30, 1950 as compared with a year ago, activities involving cooperation with State and local regulatory authorities have continued undiminished. During the past year, there were six Holding Company Act proceedings before the Commission in which representatives of States or municipalities either participated or exchanged views on questions of mutual interest. This compares with seven such instances in the preceding year.

The cooperative efforts of the past year have encompassed a wide variety of problems. Several of the proceedings have dealt with financings, recapitalizations, and property sales or acquisitions, where the questions of mutual interest related to accounting, protective provisions of securities, and capital structures. An example may be found in a recent application made to this Commission by Milwaukee Gas Light Co. seeking approval of a \$3,500,000 bank-loan agreement. The proceeding raised four questions which required careful consideration by this Commission and by the Public Service Commission

<sup>123</sup> Holding Company Act release No. 6449.

of the State of Wisconsin. These pertained to: (a) The pending application of the company before the State commission for authority to amortize over a 10-year period the cost of converting to natural gas; (b) the question of immediate or accelerated retirement of the manufactured gas equipment; (c) adjustments in the company's present reserve for depreciation; and (d) the company's proposal for a permanent financing program. After a helpful exchange of views with the chief accountant of the Wisconsin commission, the questions raised by the application were disposed of to the satisfaction of both commissions. It was also agreed that a similar exchange of views would be sought when the company submits its permanent financing plan at a later date.

Early in 1950 Wisconsin Electric Power Co. presented an informal program for: (1) The acquisition by it of the electric properties of its subsidiary, Wisconsin Gas & Electric Co., at a purchase price of about \$13,800,000; (2) the redemption of the latter company's bonds in the principal amount of \$10,500,000; and (3) the issuance of \$15,000,000 principal amount of new bonds and 585,405 shares of new common stock by Wisconsin Electric.

After preliminary examination of the proposals, the staff concluded that the overall objectives were desirable, but that it would be necessary to work out certain accounting, indenture, and capital structure problems before recommending favorable action by this Commission. Since these problems were also of interest to the Public Service Commission of Wisconsin, they were discussed at length with the chief accountant of that commission and, as a result, the staffs of both commissions arrived at a mutually satisfactory position with respect to each point. The company amended its proposals to reflect these views, and thereafter the plans were approved by both commissions.

The Portland Gas & Coke Co. filed a voluntary plan of reorganization under section 11 (e) of the act proposing a reclassification of the outstanding preferred and common stocks into a single issue of new common stock. The Commissioner of Public Utilities for the State of Oregon was represented in the proceedings by his chief accountant who, at the request of counsel for the division of public utilities of this commission, testified with respect to matters over which the Oregon commissioner had jurisdiction and, in addition, participated in several conferences with the staff of the division. These exchanges of views have been very helpful to the Commission in its consideration of the complex issues in this proceeding.

Three other proceedings during the year involved cooperation with local authorities. In the first, it was proposed that the Interstate Light & Power Co. (Wisconsin), a subsidiary of Northern States Power Co. (Minnesota), sell its Platteville division to Wisconsin Power & Light Co., and that another subsidiary of Northern States Power Co., the Interstate Light & Power Co. (Illinois) sell all of its properties to Northwestern Illinois Gas & Electric Co. The city of Galena, Ill., in March 1950, submitted a request to this Commission that final approval of these proposals be deferred pending further investigation by the city to determine whether its interest would be adequately safeguarded. The Commission withheld action on the matter until June 1950, when it received notice from the city that it

would interpose no further objection to consummation of the transaction.

In last year's report reference was made to certain proposals by American Power & Light Co. as to the disposition of its interests in its two subsidiaries, Pacific Power & Light Co. and the Washington Water Power Co. In substance, the first plan provided that American donate its holdings in Pacific to Washington Water Power, and in the second American proposed that it be permitted to continue in existence as a holding company with respect to both of the companies. The Public Service Commission of the State of Washington and the Oregon commissioner were vitally concerned with these proposals and participated actively in the proceedings.

The plans met with considerable opposition and were withdrawn. Subsequently, American filed another plan with this Commission proposing the sale of its holdings of all the common stock of Pacific to a purchasing group which indicated an intention to sell the physical properties of Pacific on a piecemeal basis to municipalities or other interests. The Washington commission, the Oregon commissioner and the city of Portland were represented at the hearings. Representatives of the two State commissions testified in opposition to the plan on the ground that the disposition intended by the purchasing group would not be in the public interest.

This group then dissolved and a second purchase group sought authority to acquire the stock of Pacific, indicating an intention to dispose of it at a later date through public sale. This proposal was approved by the Commission and consummated. Recently, the purchase group sold the stock to a syndicate of underwriters for public distribution.

On February 15, 1950, American Power & Light Co. made effective a plan under which it distributed to its security holders all of its assets other than the common stocks of the Washington Water Power Co. and the Portland Gas & Coke Co., cash, and certain miscellaneous assets. In May 1950, the Washington Public Service Commission filed a petition requesting this Commission to enter an order requiring that American cease to be a holding company with respect to Washington Water Power Co. by causing American to either (a) distribute to its stockholders all of its holdings of Washington Water Power capital stock, or (b) offer the stock for sale at competitive bidding pursuant to rule U-50. The petition further requested that this Commission hold a hearing on the matter. At about the same time the Public Utilities Commission of Idaho filed a petition stating that it joined in, and adopted the petition of the Washington Public Service Commission. On June 9, 1950, this Commission ordered that oral argument on these petitions be heard on June 19, 1950, which date was later advanced to June 27, 1950. The two State commissions subsequently advised that it was not possible for them to enter appearance on that date, but this Commission advised them that it would be necessary to proceed with the argument as planned since the issues raised by their petitions had been presented in similar petitions by stockholders of American. The Commission indicated, however, that it would entertain any further requests by either of the State regulatory authorities subsequent to the date of the argument.

The argument was concluded and the proceeding is still pending before the Commission.

The cooperative efforts in connection with specific proceedings, however, tell only a part of the story. The entire Holding Company Act was designed to complement and strengthen local regulation. This objective is clearly set forth by the Congress in paragraph (c) of section 1 where it is expressly declared to be the policy of the act that all provisions thereof shall be interpreted to meet the problems and eliminate the abuses enumerated in paragraph (b). From the following quotation of paragraph (b), it is readily apparent that many of these evils and abuses were found to be harmful to local regulation and to stem directly from the imposition of unregulated holding companies upon operating utility companies.

The act has helped State regulation to exercise the powers necessary to meet local responsibilities. During the 15-year period in which the Holding Company Act has been in operation, 392 electric and gas utility companies, with assets aggregating some \$9,185,000,000 have been divested and, as a result, are now operating independently of holding-company control. Furthermore, this newly won independence is protected by the provisions of section 2 (a) (7) (B), 2 (a) (8) (B), 2 (a) (11) and 9 (a) which contain appropriate safeguards against the recurrence of detrimental holding company and affiliate relationships. Section 11 (b) limits the size, character of business and corporate structures of existing holding companies and sections 9 and 10 impose standards which must be met in the creation of new holding company systems or in the enlargement of existing systems. All of these last three sections are expressly geared to the preservation of the effectiveness of local management and local regulation.

Other sections of the act, principally sections 12 and 13, provide for comprehensive supervision over transactions between companies within a holding company system. Section 13 requires that all services rendered to operating utility subsidiaries by system service companies be rendered at cost, fairly and equitably allocated among the client companies and for the benefit of the client companies. Paragraph (e) of this section, limits the operation of affiliated servicing organizations and paragraph (f) provides for maintenance of competitive conditions and adequate disclosure of information by servicing organizations principally engaged in the performance of services for public utility and holding companies in interstate commerce. The statutory safeguards contained in sections 2, 9, 10, 11, 12, and 13, by their mere existence, serve as an effective barrier to any recurrence of those impediments to local regulation enumerated in section 1 (b) and, in the aggregate, they constitute what may be appropriately described as an important area of passive cooperation.

#### LITIGATION UNDER THE PUBLIC UTILITY HOLDING COMPANY ACT

During the 1950 fiscal year the Commission participated in 26 judicial proceedings involving issues arising under the Holding Company Act. Fifteen of these proceedings concerned the enforcement of voluntary plans filed under section 11 (e) of the act, 1 was to enforce a plan under section 11 (d), 9 were initiated by petitions to review orders

of the Commission, and 1 involved an application for an injunction to prevent a subsidiary of a registered holding company from filing with the Commission an amendment to a pending plan. The Commission's activity in the courts is shown in the following tables:

ACTIONS TO ENFORCE VOLUNTARY PLANS UNDER SEC. 11 (e)

Applications pending in United States district courts, July 1, 1949.....	2	
Applications filed, July 1, 1949, to June 30, 1950.....	13	
Plans approved and not appealed.....	9	
Plans approved and appeals taken to courts of appeal.....	14	
Applications pending, June 30, 1950.....	2	
	<hr/>	
Totals.....	15	15

Appeals from orders of district courts approving plans, pending in courts of appeal, July 1, 1949.....	4	
Appeals taken from orders of district courts approving plans, July 1, 1949, to June 30, 1950.....	4	
Appeals dismissed.....	2	
Orders of district courts affirmed.....	2	
Orders of district courts reversed or modified.....	2	
Appeals pending, June 30, 1950.....	2	
	<hr/>	
Totals.....	8	8

ACTIONS TO ENFORCE TRUSTEE'S PLAN UNDER SEC. 11 (d)

Applications filed, July 1, 1949, to June 30, 1950.....	1	
Plans approved and not appealed.....	1	
	<hr/>	
Totals.....	1	1

PETITIONS TO REVIEW ORDERS OF THE COMMISSION UNDER SEC. 24 (a)

Petitions pending in courts of appeal, July 1, 1949.....	4	
Petitions filed, July 1, 1949, to June 30, 1950.....	5	
Orders of S. E. C. affirmed.....	3	
Petitions dismissed or withdrawn.....	3	
Petitions pending, June 30, 1950.....	3	
	<hr/>	
Totals.....	9	9

PETITIONS FOR INTERVENTION

Applications filed, July 1, 1949, to June 30, 1950.....	1	
Commission permitted to intervene, and Injunction denied <sup>2</sup> .....	1	
	<hr/>	
Totals.....	1	1

<sup>1</sup> In the case of 1 plan, 2 appeals were taken from separate orders of the district court, and were pending at the end of the fiscal year.

<sup>2</sup> See discussion of Market Street Railway Co. proceedings, *infra*.

**Enforcement Proceedings Under Section 11 (e) of the Act**

Two applications for enforcement of voluntary plans under section 11 (e) were pending in United States district courts on July 1, 1949. The district courts approved the two plans during the fiscal year and appeals were taken in each case, both of which were pending on June 30, 1950.

The first of these two plans provided for the liquidation of the Commonwealth & Southern Corp. The district court approved the plan as submitted to it by the Commission.<sup>124</sup> An appeal was taken, objecting

<sup>124</sup> *The Commonwealth & Southern Corp.*, 84 F. Supp. 809 (D. Del., 1949).

to that part of the plan which provided that the holders of option warrants should not participate in the liquidation of Commonwealth & Southern, and this appeal was pending at the end of the fiscal year. Thereafter, the court of appeals affirmed the district court order.<sup>125</sup> After consummation of the plan, a securities dealer petitioned the district court for leave to intervene in the proceedings on behalf of persons who had traded in the prospective rights of security holders to the residual assets of Commonwealth & Southern, which, under the plan as amended prior to consummation, were to go to the Southern company. The district court denied the petition and an appeal was taken, which was pending in the third circuit court of appeals at the end of the fiscal year.

The second plan involved the liquidation of Federal Water & Gas Corporation. The district court had approved the plan except as to that part which accorded to certain former preferred stockholders of a predecessor company the limited amounts which had been approved by the Commission in an order, affirmed on appeal,<sup>126</sup> approving an earlier plan for the reorganization of the predecessor company. On January 11, 1950, the district court approved the latter portion of the plan.<sup>127</sup> An appeal was taken from that order of the district court and was pending in the third circuit court of appeals on June 30, 1950. Appellants also petitioned the Supreme Court for direct review of the district court order. Their petition for certiorari was denied after the close of the fiscal year.<sup>128</sup>

During the fiscal year 1950, the Commission filed 13 applications with the United States district courts seeking approval of voluntary plans under section 11(e). Nine of the plans were approved by the district courts and no appeals were taken from these orders. One of the nine plans involved the recapitalization of Interstate Power Co. Following approval thereof by the district court and a memorandum of the court granting certain objectors time to apply to the Commission for a rehearing,<sup>129</sup> the Commission requested that it be permitted to reconvene hearings upon the plan in order to determine whether circumstances had so changed as to make the plan no longer fair and equitable. The court granted the petition and the plan is now under further consideration by the Commission.

A second plan involved a discharge of Philadelphia Co. from its position as a guarantor on the debt of its underliers. This plan was combined with a plan of reorganization of Pittsburgh Railways Co. under chapter X of the Bankruptcy Act. Following the conclusion of hearings on the combined plan, the Commission made its findings, entered an order approving the plan of Philadelphia Co., and rendered an advisory report on the plan of Pittsburgh Railways. The district court approved the Philadelphia Co. plan under section 11 (e) and approved the plan of Pittsburgh Railways under chapter X.<sup>130</sup>

In one of the remaining seven cases, a holder of preferred and common stock of American Power & Light Co. objected to the plan

<sup>125</sup> — F. 2d — (C. A. 3, 1950):

<sup>126</sup> *S. E. C. v. Chenery Corp.*, 332 U. S. 194 (1947), rehearing denied, 332 U. S. 783 (1947).

<sup>127</sup> *In re Federal Water & Gas Corp.*, 87 F. Supp. 289 (D. Del., 1949).

<sup>128</sup> *Chenery Corp. v. S. E. C.*, — U. S. — (1950).

<sup>129</sup> *In re Interstate Power Co.*, 89 F. Supp. 68 (D. Del., 1950).

<sup>130</sup> *In re Philadelphia Co.*, unreported (W. D. Pa., No. 8676).

of that company for distribution of its assets on the ground that the plan was not fair. The district court rejected these objections and approved the plan.<sup>131</sup> A plan for recapitalization of Eastern Gas & Fuel Associates was objected to as unfair and inequitable by certain preferred and common stockholders. The district court, however, deemed the plan to be fair and equitable and overruled the contentions of stockholders that the Commission's valuation was not supported by substantial evidence.<sup>132</sup> Court enforcement of a plan for the merger of Iowa Public Service Co. into its parent, Sioux City Gas & Electric Co., and the acquisition by Sioux City of the properties and assets of its remaining three subsidiaries, was opposed by the secretary of state of the State of Iowa on the ground that the proposed merger did not comply with the law of the State of Iowa. The district court overruled the objections and approved the plan.<sup>133</sup> The remaining four plans, which provided, respectively, for the liquidation of the Middle West Corp., National Gas & Electric Corp., and North Continent Utilities Corp., and for the the elimination of cross-holdings in the West Penn Electric Co. system, were enforced without opposition.

District court approvals of two plans submitted during the fiscal year were appealed to United States court of appeals. One of these plans involved the reorganization of the Niagara Hudson Power Corp. system by merger of three major operating companies into a single operating-holding company, Niagara Mohawk Power Corp., and the liquidation and dissolution of Niagara-Hudson. The plan provided that holders of option warrants of Niagara-Hudson should not participate in the reorganization since the warrants had no value for reorganization purposes. The court of appeals reversed the district court, which had excluded the warrants from participation, and remanded the plan to the Commission for further consideration.<sup>134</sup> After the close of the fiscal year, the United States Supreme Court granted certiorari to review the court of appeals order.<sup>135</sup>

The other of these plans involved a reorganization of the Long Island Lighting Co. system which provided for the consolidation of Long Island and two of its subsidiaries to form a new operating-holding company. Common stockholders of Long Island appealed from the order of the district court<sup>136</sup> approving the plan on the ground, among others, that the Commission in arriving at its estimate of future earnings had failed to give consideration to savings which would result from consolidated operations. The court of appeals upheld the district court in all other respects, but remanded the plan to the Commission upon this sole issue.<sup>137</sup> The Commission petitioned for modification of the decision and filed its supplemental findings and opinion, clarifying its discussion of savings which resulted from consolidated operations. After the close of the fiscal year, the court of appeals granted the Commission's petition, modified its former opinion, and affirmed the order of the district court, and the

<sup>131</sup> *In re American Power & Light Co.*, unreported (S. D. N. Y., No. 52-324).

<sup>132</sup> *In re Eastern Gas & Fuel Associates*, 90 F. Supp. 955 (D. Mass., 1950).

<sup>133</sup> *In re Sioux City Gas & Electric Co.*, unreported (N. D. Iowa, W. D., No. 571).

<sup>134</sup> *Leventritt v. S. E. C.*, 179 F. 2d 615 (C. A. 2, 1950).

<sup>135</sup> *S. E. C. v. Leventritt*, — U. S. — (1950).

<sup>136</sup> *In re Long Island Lighting Co.*, 89 F. Supp. 513, (E. D. N. Y., 1950).

<sup>137</sup> *Common Stockholders Committee v. S. E. C.*, 183 F. 2d 45 (C. A. 2, 1950).

Supreme Court denied certiorari.<sup>138</sup> Two applications filed during the fiscal year were pending in the United States district courts on June 30, 1950.

Four appeals were pending at the beginning of the fiscal year from orders of United States district courts approving and enforcing voluntary plans under section 11 (e) which had been approved by the Commission. The first of these appeals was taken from an order of the district court directing that dividends paid by Illinois Power Co. on the shares of its common stock allocated to public stockholders of North American Light & Power Co., between the date of the enforcement order and the date of consummation, should be distributed to such stockholders along with the Illinois Power Co. stock. On appeal the order of the district court was affirmed.<sup>139</sup> The second plan involved the liquidation of Electric Power & Light Corp. and the organization of a new holding company, Middle South Utilities, Inc. Applications for a stay of consummation had been denied during the previous fiscal year.<sup>140</sup> Three appeals were taken; one was dismissed by the court of appeals, and in the others, the court of appeals affirmed the order of the district court.<sup>141</sup> The appeals pending at the beginning of the fiscal year in the other two cases, involving plans of Electric Bond & Share Co. and the United Corp., were dismissed without opinion.

#### Petitions to Review Orders of the Commission

Four petitions to review orders of the Commission were pending in court of appeals on July 1, 1949. One of these petitions, for review of an order of the Commission allowing fees, was dismissed during the fiscal year;<sup>142</sup> in the other three cases, the Commission's orders were affirmed. One of these cases involved an order of the Commission directing that Pennsylvania Edison Co. pay from an escrow fund, to the former holders of its preferred stock, the difference between the investment value of the stock found by the Commission to equal its call price, and the \$100 per share paid upon the retirement of the stock, together with compensation for the time elapsed between date of retirement and payment of the balances found to be due, at rates measured by the yields on the preferred stock.<sup>143</sup>

The second affirmance involved an order of the Commission denying effectiveness to a declaration of a common stockholders' committee of Long Island Lighting Co., proposing to solicit funds from the common stockholders of Long Island. The court held that the Commission had acted reasonably, and within the scope of its authority.<sup>144</sup> After the close of the fiscal year, the Supreme Court denied certiorari.<sup>145</sup>

The third case in which the Commission was affirmed was an appeal from an order directing, pursuant to section 11 (b), that Philadelphia Co. dispose of certain gas and transportation interests, and liquidate and dissolve. Philadelphia Co. urged that the gas and electric prop-

<sup>138</sup> — U. S. — (1950).

<sup>139</sup> *Appeal of North American Light & Power Co.*, 180 F. 2d 975 (C. A. 3, 1950).

<sup>140</sup> *In re Electric Power & Light Corp.*, unreported (C. A. 2, No. 49-347); 337 U. S. 903 (1949).

<sup>141</sup> *In re Electric Power & Light Corp.*, 176 F. 2d 687 (C. A. 2, 1949).

<sup>142</sup> *Cf. In re National Power & Light Co.*, 80 F. Supp. 759 (S. D. N. Y., 1948).

<sup>143</sup> *In re Pennsylvania Edison Co.*, 176 F. 2d 764 (C. A. 3, 1949);

<sup>144</sup> *Halseid v. S. E. O.*, 182 F. 2d 660 (C. A. D. C., 1950).

<sup>145</sup> — U. S. — (1950).

erties constituted a single system, and that their separation would involve a loss of substantial economies. The court rejected these contentions and affirmed the order of the Commission.<sup>146</sup>

During the fiscal year 1950, five petitions to review orders of the Commission were filed pursuant to the provisions of section 24 (a) of the act. One of these petitions was dismissed for lack of jurisdiction and a second was withdrawn when the petitioner instituted a parallel proceeding in a different circuit. The other three proceedings were pending at the close of the fiscal year.

#### **Petitions for Intervention**

In the action for an injunction to prohibit Market Street Railway Co. from filing with the Commission an amendment to its pending plan, the court granted the Commission's petition to intervene, dissolved a temporary restraining order, and denied the requested injunction, issuing (with the consent of all parties) an injunction against the execution of a certain release except pursuant to a court enforcement order in the plan proceedings.<sup>147</sup> Thereafter the amendment was filed by Market Street and approved by the Commission; the Commission then filed an application for court enforcement, which was pending at the end of the fiscal year.

<sup>146</sup> *Philadelphia Co. v. S. E. C.*, 177 F. 2d 720 (C. A. D. C., 1949).

<sup>147</sup> *Jones v. Market Street Railway Co.*, unreported (N. D. Calif., No. 29, 699).

## **PART IV**

### **PARTICIPATION OF THE COMMISSION IN CORPORATE REORGANIZATIONS UNDER CHAPTER X OF THE BANKRUPTCY ACT, AS AMENDED**

Chapter X of the Bankruptcy Act provides a procedure for reorganizing corporations (other than railroads) in the Federal courts. The Commission's duties under chapter X are, first, at the request or with the approval of the court to participate in proceedings to provide, for the court and investors, independent expert assistance, and second, to prepare for the benefit of the courts and investors formal advisory reports on plans of reorganization submitted to it by the courts. The Commission has no statutory right of appeal in a chapter X proceeding, although it may participate in appeals taken by others.

#### **COMMISSION'S FUNCTIONS UNDER CHAPTER X**

The role of the Commission under chapter X differs markedly from that under the acts which it administers. The Commission does not administer chapter X. It acts in a purely advisory capacity. It has no authority either to veto or to require the adoption of a plan of reorganization or to render a decision on any other issue in the proceeding. The facilities of its technical staff and its recommendations are at the services of the judge and the security holders, affording them the views of experts in a highly complex area of corporate law and finance.

During the year the immediate supervision of chapter X matters at the central office of the Commission was transferred from the Division of Corporation Finance to the Division of Public Utilities.

#### **THE COMMISSION AS A PARTY TO PROCEEDINGS**

Generally, the Commission has sought to participate only in proceedings in which there is a public investor interest; \$250,000 of publicly held securities is the rough guide used in deciding if there is enough public interest to make it worth while for the Commission to participate. Sometimes the Commission has entered smaller cases where public-security holders are not adequately represented, where it appears that the proceedings are being conducted in violation of important provisions of the act, or if the Commission may otherwise be useful by participating.

Because of its Nation-wide activity and its experience in chapter X cases the Commission is able to respond to requests for help in the interpretation and application of chapter X when it does not participate as a party.

## SUMMARY OF ACTIVITIES

The Commission actively participated during the 1950 fiscal year in 71 reorganization proceedings involving the reorganization of 98 companies with aggregate stated assets of \$965,157,000 and aggregate stated indebtedness of \$851,254,000.<sup>1</sup> During the year the Commission with court approval filed notices of appearance in 5 new proceedings under chapter X. These 5 new proceedings involved 9 companies with aggregate stated assets of \$24,985,000 and aggregate stated indebtedness of \$29,006,000. At the close of the year, the Commission was actively participating in 59 reorganization proceedings involving 83 companies with aggregate stated assets of \$950,862,000 and aggregate stated indebtedness of \$837,863,000.

**Activities Relating to the Trusteeship**

A fundamental feature of chapter X is that in every case involving a corporation of substantial size an independent trustee is appointed to be primarily responsible for the operation of the corporation's business during the proceeding, to examine and evaluate the reasons for the debtor's financial difficulties, to appraise the ability and fidelity of its management and to formulate and file a plan of reorganization. The success of the reorganization depends largely on the thoroughness, skill, and loyalty with which he and his counsel perform their tasks. The Commission usually examines the qualifications of trustees in the light of the standards of disinterestedness prescribed by the statute for trustees and their counsel.

In one case during the past fiscal year the Commission and a security holder petitioned for the removal of counsel for trustees on the ground that they were not disinterested as required by the statute.<sup>2</sup> The Commission contended that the attorneys had represented creditors of the debtor at the time of their appointment and that the formal termination of their representation of creditors could not eliminate the conflicts of interest engendered by their prior relationship. The Commission further pointed out that the danger of an active conflict of interests was accentuated in this case because actions taken by the creditors prior to the chapter X proceedings, when the attorneys represented them, gave rise to possible counterclaims on behalf of the estate which the attorneys as counsel for the trustees would be required to prosecute. In addition, issues had been raised between the creditors and other parties to the proceedings as to certain priorities and the validity of a pledge of certain assets which also involved adverse interests. The attorneys resigned prior to argument on the motion.

In reorganization proceedings involving two debtors, the Commission filed objections to the final accounts of a trustee who had resigned, and urged that he be surcharged upon the ground, among others, that he had knowingly permitted certain of his employees to trade in the securities of the debtors and their subsidiaries despite the fact that he was buying similar securities for the debtor.<sup>3</sup> These employees

<sup>1</sup> Appendix table 19 contains a complete list of reorganization proceedings in which the Commission participated during the year ended June 30, 1950. Appendix table 18, classifies these debtors according to industry.

<sup>2</sup> *In re Solar Manufacturing Co., D. N. J.*

<sup>3</sup> *In re Federal Facilities Realty Trust, National Realty Trust, N. D. Ill.*

had access to confidential information respecting the debtor, in some instances had actively run the debtors and subsidiaries, and had purchased bonds from the public and sold them to the trustee at a profit. After hearing, the special master agreed that trading in these securities was a breach of fiduciary duty and that the trustee's knowledge and acquiescence rendered him culpable and liable for surcharge to the extent of the profits. The district court approved the recommendation of the special master. On appeal, the court of appeals reversed the decision insofar as it surcharged the trustee. A petition for rehearing is pending.

#### **Problems in the Administration of the Estate**

A major defect of section 77B (the predecessor statute to chapter X) was its failure to provide assurance that judicial supervision of the reorganization process and creditor and stockholder participation therein would be based upon complete and impartial information regarding the affairs of the debtor. Chapter X endeavors to achieve this goal by requiring the independent trustee, at the direction of the court, to investigate the acts, conduct, property, liabilities, and financial condition of the debtor, the operation of its business, and the desirability of the continuance thereof, and to transmit a report of his investigation to creditors and stockholders. Such reports enable security holders and other parties to a proceeding to make helpful and effective suggestions for a plan of reorganization, aid the court in considering problems in the administration of the estate as well as the fairness and feasibility of a plan of reorganization, and give security holders the necessary information to determine the desirability of accepting a proposed plan.

The Commission has continued its policy of consultation through its staff with trustees in connection with their investigations and the preparation of their reports. On the basis of its own investigations and its wide experience the Commission has been able to supply data and suggestions useful to the trustee. It has also continued to assist trustees in their investigation of possible claims against the old management and other persons.

With respect to the operation of the companies in reorganization the Commission takes the position that important steps should not be taken except upon a complete disclosure to the court and the parties of all relevant factors. In one case, trustees had obtained competitive bids for certain paving work. However, they had delayed taking action on the matter and making a report to the court until the lowest bidder had withdrawn his bid and the work was assigned to and partially performed by another bidder. The Commission looked into and brought out all the facts when the question of approval of the contract came before the court. While the court approved the contract because it had been practically completed, it expressly reserved the question of the trustees' culpability in the matter.

A recurrent question is whether the enterprise should be liquidated through a sale or continued as a going concern through an internal plan of reorganization. The Commission does not support the sale type of reorganization merely because of its simplicity or certainty of result, but urges a decision based upon what will yield the largest

benefit for creditors and stockholders. Where the decision has been made to sell the assets of the debtor, there has been some tendency to attempt to complete the sale as an administrative matter prior to, and not as part of, a plan of reorganization with its attendant safeguards for investors. The Commission has urged that where substantially all the assets of the debtor are sold the sale should be part of a plan of reorganization, unless some emergency is involved, such as the need to dispose of perishable property.

This position was upheld by the Court of Appeals for the Third Circuit in the chapter X proceedings involving Solar Manufacturing Corp.<sup>4</sup> The court rejected the argument that an emergency situation can be created simply by a condition imposed by a prospective purchaser that his offer of purchase must be accepted within a very short time. It reversed the order of the district court which authorized the sale, saying that "the safeguarding provisions of chapter X are not to be ignored in the sale of the assets of a business unless an emergency exists." It may be noted that the abortive proposal involved a price of \$525,000, and that subsequently the assets were sold for \$815,000 pursuant to a plan of reorganization subject to competitive conditions.

#### Responsibilities of Fiduciaries

Assuring adherence to the high standards of conduct required of fiduciaries has continued to be one of the important activities of the Commission in chapter X proceedings. We have indicated above our concern that the independent trustee be free from any conflicts of interest. The Commission is concerned also with the qualifications of other fiduciaries in the proceeding, such as indenture trustees, committees, attorneys, and other representatives of security holders. In one case the Commission sought to disqualify members of a stockholders' committee on the ground that their interests conflicted with those of the stockholders.<sup>5</sup> The Commission contended that the conflicts of interest arose from the facts that: (1) The chairman and sponsor of the committee owned and controlled a large block of debentures, ranking prior to the stock, (2) the chairman had traded in the stock after assuming to act as chairman, (3) companies affiliated with the chairman were engaged in partial competition with the debtor and the debtor had claims against some of them, and (4) the chairman of the committee intended apparently, to acquire control of the debtor for purposes not necessarily compatible with the interests of stockholders. After the Commission filed a petition for disqualification with the court, the committee voluntarily dissolved and rescinded all authorizations, notifying stockholders of its action.

Where a fiduciary has traded in the securities of a debtor in reorganization, he has been considered guilty of a breach of trust which courts have punished by the denial of any fees or reimbursement of expenses. In such situations courts have also prevented fiduciaries from profiting by such trading through the limitation of their claims to cost or through an accounting for any profits. The application of the sanction of limitation to cost was advocated by the Commission in several cases in which the fiduciary purchased claims against the

<sup>4</sup> *In re Solar Manufacturing Corp.*, 176 F. 2d 493 (1949).

<sup>5</sup> *In re Norwalk Tire & Rubber Co.*, D. Conn.

corporation at a discount prior to the institution of the chapter X proceedings but during a period when the corporation was insolvent. The Commission expressed the view that the fundamental basis of the rule, the clash of adverse interests created by the trading in claims against the debtor, is applicable whether the corporation is not actually in reorganization, but is insolvent and in need of rehabilitation with respect to its liabilities, or is actually undergoing judicial reorganization. The Supreme Court, however, in a case under chapter XI of the Bankruptcy Act, in which the Commission filed a brief as *amicus curiae*, rejected this position as applied to a purchase by directors of "unmatured obligations of a corporation which, though technically insolvent, remains nevertheless a going concern."<sup>6</sup> The court held that, on the record, the probability that an actual conflict of loyalties arose from the opportunity to purchase claims of the debtor, while it was a going concern, was not great enough to warrant the limitation of the purchaser's claims to cost. The court pointed out, however, that the possibilities of a conflict of interests in the purchasing director are intensified as the corporation becomes less a going concern and more a prospective subject of judicial relief, adding the following significant language to its opinion:

"A word of caution as to the scope of our decision is desirable in view of Judge Learned Hand's opinion below. He suggested that if in fact liquidation had been imminent at the time of respondents' purchases or if it were fairly demonstrable, as a matter of experience, that a director free from all potential self-interest would be more likely to initiate liquidation proceedings or to effect a debt settlement than one not wholly disinterested, a court of equity should explore such issues and not dismiss them out of hand. This decision is not meant to negative the relevance of these issues when raised by a proper record. We mention these matters because the Securities and Exchange Commission urges the importance of a decision in this case for questions that may well arise in proceedings under chapter X. In such proceedings the Securities and Exchange Commission, acting as the statutory advisor to the court, would be within its rightful function in submitting to the court the light of its experience in dealings of the general kind disclosed in this case."

In another case where the Commission had urged limitation to cost, the Court of Appeals for the Seventh Circuit affirmed the decision of the court below which limited to cost a claim based on bonds purchased by a member of a bondholders' committee.<sup>7</sup> In this case, the debtor had defaulted on its interest payments and a bondholders' committee had designated one of its own members to manage its property, when the purchases were made. The chapter X proceedings were not commenced until 5 years after the purchases although rehabilitation or reorganization was in contemplation throughout the period of the purchases. The court held that the rule that a trustee can make no profit out of his trust was absolute and should be applied in the circumstances of this case. The court, as urged by the Commission, relied upon section 212 of chapter X which provides that

<sup>6</sup> *Manufacturers Trust Co. v. Becker*, 338 U. S. 304 (1949).

<sup>7</sup> *In re Franklin Building Co.*, 178 F. 2d 805 (1949), certiorari denied, June 1950.

the judge may limit claims acquired by fiduciaries "in contemplation or in the course of the proceeding."

The court in the *Franklin Building* case did not, however, accept the Commission's contention that close relatives of members of the bondholders' committee should also be limited to cost. In another case the district court rejected contentions of the Commission similar to those made in *Manufacturers Trust Co. v. Becker* and permitted a director and his business associate to participate for the full amount of securities purchased prior to the chapter X proceeding although the company was insolvent.<sup>8</sup> The court did, however, limit to cost claims based upon securities purchased by the director at a time when the chapter X proceeding was in contemplation.

#### Activities With Respect to Allowances

The Commission in its advisory capacity endeavors to protect the estate from exorbitant and inequitable charges for fees and expenses while at the same time providing fair treatment to applicants which will adequately compensate them for services rendered and encourage legitimate creditor and stockholder participation in the reorganization process.

The Commission itself receives no allowances from estates in reorganization. It attempts to obtain a limitation of the aggregate fees to an amount which the estate can feasibly or should fairly pay. In each case, the applications are carefully studied and recommendations are made in the light of applicable legal standards and, in general, on the basis of beneficial contributions to the administration of the estate and to the adoption of a plan of reorganization. Specific recommendations are made to the courts in cases in which the Commission has been a party and in which it is familiar with the services of the various parties and all significant developments in the case.

The role of the Commission with respect to the recommendation of allowances was clearly delineated by the Court of Appeals for the Second Circuit in the *Childs Co.* case.<sup>9</sup> Claimants had requested fees aggregating over \$1,400,000; the Commission recommended approximately \$750,000; and the district court awarded a total of approximately \$965,000. On appeal, the court of appeals pointed out that the allowances granted by the judge amounted to 10 percent of the value of the estate and 26 percent of the net income received during the reorganization; that in a reorganization proceeding the aggregate of fees must bear some reasonable relation to the estate's value and, hence, attorneys cannot always expect to be compensated at the same rate as in litigation of the usual kind. The court referred also to evidence of duplication in the representation of creditors and stockholders and wasteful labor in matters involving the administration of the estate which the trustee was handling more than satisfactorily. Indicating its view that the amounts allowed were excessive, the court stated:

"We should have had more doubts as to our conclusions just stated, had they not been re-enforced by those of the Securities and Exchange

<sup>8</sup> *In re Wade Park Manor Corp.*, N. D. Ohio.

<sup>9</sup> *In re Finn v. Childs Co.*, 181 F. 2d 431 (1950).

Commission. In a reasoned statement discussing each petition the Commission presented grounds for limiting the various allowances to sums totaling \$750,000. These amounts individually and collectively seem to us quite generous, indeed, perhaps more so than some of us would have granted as judges of first instance. They appear to support the statement of the Commission's able spokesman that these are not intended as minima to be increased by the court, but that in fact the Commission has raised its standards to match the compensation awarded by other judges in other cases. \* \* \*

"Since the Commission's recommendations represent the expert opinion of a disinterested agency skilled and experienced in reorganization affairs, they should be a valuable aid to a judge in performing a difficult task. 6 Collier on Bankruptcy pp. 13.02, p. 4498, 14th Ed. 1947. Some courts have refused to give S. E. C. recommendations as to fees more weight than the suggestions of any other party, *e. g.*, *Cooke v. Bowersock*, 8 Cir., 122 F. 2d 977, 985; *In re Detroit International Bridge Co.*, 6 Cir., 111 F. 2d 235, 237-8. True, the Commission's function in a reorganization proceeding is purely advisory; and it does not have the power to fix a maximum amount for fees which it has with regard to the reorganization of public utility holding companies under § 11 (f) of the Holding Company Act, 15 U. S. C. A. § 79k (f), and which the Interstate Commerce Commission has with regard to a railroad reorganization under § 77 (c) (2), (12) of the Bankruptcy Act, 11 U. S. C. A. § 205 (c) (2), (12). Nevertheless the figures presented by the S. E. C. are not 'mere casual conjectures,' but are 'recommendations based on closer study than a district judge could ordinarily give to such matters.' Frank, *supra*, 18 N. Y. U. L. Q. Rev. 317, 1941. We agree with District Judge Kirkpatrick's apt statement "that the Commission is about the only wholly disinterested party in the proceeding and that, while it may not be entirely familiar with 'the problems of making both ends meet in a law office' referred to by counsel, its experience has made it thoroughly familiar with the general attitude of the courts and the amounts of allowances made in scores of comparable proceedings." *In re Philadelphia & Reading Coal & Iron Co.*, D. C. E. C. Pa., 61 F. Supp. 120, 124. See also Note, 18 N. Y. U. L. Q. Rev. 399, 469-70, 1941, which suggests that the recommendations as to fees of the S. E. C. may be the only solution to the 'very undesirable subjectivity with variations according to the particular judge under particular circumstances' which has made the fixing of fees seem often to be 'upon nothing more than an *ipse dixit* basis.' And see Securities and Exchange Commission, Tenth Annual Report 148, 1944, Fourteenth Annual Report 85-6, 1948."

The court remanded the applications for allowances "for the further consideration of the district judge, particularly in the light of the recommendations made by the Commission," and directed that those recommendations should not be exceeded without definite findings and conclusions showing why this step is deemed necessary. To expedite the reconsideration of the fees, the court stated that the Commission's recommendations, if adopted, would be considered affirmatively reasonable and properly allowable.

In the reorganization proceedings involving Chicago Surface Lines<sup>10</sup> and Chicago Rapid Transit Co. the requests for fees and expenses totaled \$6,774,695 and \$1,043,235 respectively. Previous amounts allowed in these cases, primarily to trustees, receivers, and their counsel were extremely large, totaling \$5,000,686 and \$1,296,590 in the respective proceedings. The Commission, in a detailed memorandum, recommended \$1,918,139 and \$362,673 respectively. The special master designated to hear the applications recommended \$3,605,616 and \$656,375. The reason for the substantially lesser amounts recommended by the Commission was partially due to the fact that the Commission believed that many applicants were not entitled to a fee or reimbursement of expenses as a matter of law. The Commission was of the opinion that certain applicants were barred from receiving an allowance because they represented conflicting interests in the proceedings, because they bought or sold securities during the proceedings in contravention of section 249 of chapter X or of the equitable rule which the section codifies, because they represented classes of securities excluded from any participation in the reorganization and could show no benefit to the estate or contribution to the plan; and because of other reasons. The special master's reports in these cases and the objections of the Commission and others thereto are pending before the district court for decision.

Another issue decided in the *Childs Co.* case, discussed previously, involved the application of section 249. The Commission argued that two preferred stockholders, seeking compensation for services rendered in the proceeding, and who had traded in the stock of the debtor, should be denied any compensation because their activities in connection with the reorganization placed them in a "representative capacity" within the meaning of section 249. The Commission also argued that the interests of the applicants were not entirely consistent with other stockholders of their class in that they were seeking to obtain control of the reorganized company with its accompanying perquisites, and emoluments of management. The district court rejected these contentions but the court of appeals agreed that the applicants had acted in a "representative capacity" and were therefore barred from receiving any compensation under the provisions of section 249. The court stated that the record was clear that applicants had created a bloc of stockholders amenable to their directives, had maintained its unity by frequent communication, asserted its strength during the formulation and confirmation of a plan, and exerted its power to assure the selection of a new management satisfactory to themselves. The court reiterated the rule in chapter X that one who undertakes to act on behalf of any part of a class becomes the representative of the whole class, and may not deal for any part of it alone.

The court did not sustain the Commission's position on a different point in the *Childs Co.* case. The Commission was of the view that a certain stockholders' committee and its counsel had contributed directly to the reorganization proceedings and rendered services of benefit to the estate although they were rendered prior to the re-

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<sup>10</sup> The constituent companies are Chicago Railways Co., Chicago City Railway Co., and Calumet & South Chicago Railway Co.

organization proceeding. The court pointed out that the services had consisted principally of defeating a voluntary reorganization and the dismissal of a prior involuntary petition in chapter X on the ground that it was collusive, and the court concluded that such activity did not seem to have been of benefit to the estate. The court held that chapter X did not sanction awards for uncertain and somewhat problematical benefits resulting from activities prior to the reorganization and in order to be compensable such services must not only be clearly beneficial but specifically directed to the rehabilitation of the debtor which then actually occurs.

In *Berner v. Equitable Office Building Corp.*,<sup>11</sup> the Court of Appeals for the Second Circuit held that the disclosure by an attorney of private information regarding the reorganization proceeding to his brother-in-law, on the basis of which his brother-in-law had profited by the purchase of stock of the debtor, was a breach of trust. It held, however, that it was within the discretion of the district court to determine to what extent any fees earned by the attorney should be reduced because of this breach. The court suggested that the amount of reduction might well be not less than the loss to those who had sold stock to the brother-in-law. On remand the district judge held that the attorney would have been entitled to a fee of \$100,000, and that this amount should be reduced by the losses incurred by the sellers of stock to the brother-in-law, plus an amount to make up for the cost to the estate of the litigation that grew out of the breach of trust, an aggregate of \$30,000. The resulting figure of \$70,000 was substantially in excess of the Commission's recommendation of \$15,000, although the court accepted the Commission's suggestions as to the amount of the loss. The judge sustained the Commission's view that the fact that the purchases were made from short sellers was not material, particularly since most of those selling stock owned other securities of the debtor. The judge stated that a court of equity should not be overly astute in an endeavor to relieve a tort-feasor from responsibility to his trust.

The doctrine of the *Berner* case was followed in *Silbiger v. Prudence Bonds Corp.*, decided by the Court of Appeals for the Second Circuit in March 1950. The opinion recognized that, in ordinary litigation, an attorney who has served conflicting interests must be denied all compensation but indicated that a more lenient rule could be applied in corporate reorganizations. In such cases the court suggested that it is reasonable not to impose an entire forfeiture of the allowance when the allowance is to be paid by a group which was not prejudiced by the attorney's divided allegiance rather by those who might have been. The court indicated that those affected by the attorney's disloyalty were probably adequately represented but that the attorney failed in his duty when he did not present the matter to the court and asked to be freed of his responsibility. The court remanded the case to the district court to fix the extent to which the attorney's allowance should be reduced. It stated that in its view a reduction of less than one-third would be an abuse of discretion, although it did not wish to indicate that it believed that a reduction of one-third was enough.

<sup>11</sup> 175 F. 2d 218 (C. A. 2, 1949).

A petition to the Supreme Court for a writ of certiorari has been filed by the successor corporation and the Commission has filed a memorandum as *amicus curiae* in support thereof. The Commission's view is that any allowances of a fee to an attorney who represents conflicting interests in a corporate reorganization is in direct conflict with the rule laid down by the Supreme Court in the landmark case of *Woods v. City Bank Co.*, 313 U. S. 262 (1941). The Commission feels that in making an exception to the requirements of loyal and disinterested service by fiduciaries as an absolute prerequisite to receiving any compensation whatsoever the decision of the court departs from the fundamental principles of equity; that the nature of a corporate reorganization proceeding is such that, rather than affording a reason for laxity, it requires the application of the highest standards of fiduciary conduct.

#### **Institution of Chapter X Proceedings**

In accordance with the legislative spirit and intent with which chapter X was enacted, the Commission generally strives for a liberal interpretation of its provisions in order to make the benefits and safeguards of chapter X fully available to security holders. The Commission opposed a motion to dismiss the chapter X reorganization proceeding involving New Union Building Co.<sup>12</sup> Against a contention that there was no need for relief because 98 percent of the bonds had been deposited with a committee which had made no demand for payment although principal and interest were past due, the Commission argued that the insolvency of the debtor and its inability to meet its debts as they matured were sufficient to show the need for relief and that reorganization under chapter X would preserve going-concern value for the benefit of all creditors. The Commission also argued that the fact that a large bondholder, who was also a director and committee member, was charged with instituting the proceedings to gain control of the property and avoid a foreclosure, and to continue to buy bonds at a discount, constituted no basis for a finding of lack of good faith. The Commission pointed out that the desire to effectuate a plan which would be binding upon dissenters, if two-thirds of the bondholders approved, was hardly a circumstance indicating bad faith since such a result was one of the purposes sought to be achieved by the reorganization statute to remedy a recognized deficiency in receivership proceedings. As to the trading activities of the bondholder, the Commission alluded to the broad and flexible powers of the chapter X court as a court of equity with jurisdiction to prevent or punish any inequitable or unjust conduct by any insider or fiduciary in the proceeding. The district court sustained the Commission's position and denied the motion to dismiss. The moving party appealed but, after the Commission had filed its brief, the appeal was withdrawn.

#### **PLANS OF REORGANIZATION UNDER CHAPTER X**

The formulation and consummation of a fair and feasible plan of reorganization is, of course, the primary purpose of the proceeding

<sup>12</sup> E. D. Mich.

under chapter X. Accordingly, the most important function of the Commission under chapter X is to aid the courts in achieving this objective.

### Fairness of Plan

Basic to the Commission's approach to questions involving the fairness of reorganization plans under chapter X is the fixed principle, firmly established by Supreme Court decisions, that full recognition must be accorded to claims in the order of their legal and contractual priority either in cash or in the equitable equivalent of new securities and that junior claimants may participate only to the extent that the debtor's properties have value after the satisfaction of prior claims or to the extent that they make a fresh contribution necessary to the reorganization of the debtor. A valuation of the debtor is essential to provide a basis for judging the fairness as well as the feasibility of proposed plans of reorganization. In its oral statements and in its advisory reports the Commission has continued to urge that the proper method of valuation for reorganization purposes is primarily an appropriate capitalization of reasonably prospective earnings. An exception to this general position was dealt with during the 1950 fiscal year by the Commission in an advisory report in the proceedings involving Central States Electric Corp., discussed below.

In connection with the fairness of plans and the treatment of claims against the estate, the Commission has given careful consideration to situations where because of mismanagement or other misconduct on the part of a parent company or a controlling or affiliated person the claims of the parent or affiliate should be subordinated to the claims of the public investors or these claims limited to cost. All the facts and circumstances in these instances are investigated since they form an integral part of the concept of the "fair and equitable" plan. Plans of reorganization involving problems of this type during the past fiscal year were considered by the Commission in the following proceedings: *Pittsburgh Railways Co.*,<sup>13</sup> *Industrial Office Building Corp.*,<sup>14</sup> *International Railway Co.*,<sup>15</sup> *International Power Securities Corp.*,<sup>16</sup> *Silesian-American Corp.*,<sup>17</sup> and the related cases of *American Fuel & Power Co.*, *Inland Gas Corp.*, and *Kentucky Fuel Gas Co.*,<sup>18</sup> In the first three of these proceedings, settlements and compromises of the subordination and limitation issues were approved by the court, the Commission supporting the result in the first two proceedings and opposing the result as inadequate in the third. A compromise offer in the fourth of the foregoing proceedings is presently the subject of hearings before the district court. In the *Silesian-American* case, discussed below, plans of reorganization were the subject of an advisory report.

In the related *American Fuel*, *Inland Gas*, and *Kentucky Fuel* cases the Court of Appeals for the Sixth Circuit had previously ruled that the controlling person, Columbia Gas & Electric Corp., should be subordinated to claims of public investors. The question of the extent

<sup>13</sup> W. D. Pa.

<sup>14</sup> D. N. J.

<sup>15</sup> N. D. N. Y.

<sup>16</sup> S. D. N. Y.

<sup>17</sup> D. N. J.

<sup>18</sup> E. D. Ky.

of such subordination is presently the subject of an appeal. Inland Gas Corp. owns practically all the assets of the system. A plan of reorganization for that company subordinates Columbia's claims to those of publicly held claims of Inland but permits Columbia a participation in Inland's assets prior to the claims of creditors of American Fuel and Kentucky Fuel. The Commission urged, in an advisory report, that the inequities which gave rise to the decision that Columbia be subordinated to the public creditors of Inland also require that Columbia be subordinated to public creditors of American Fuel and Kentucky Fuel, which companies own practically all of the stock of Inland.

In the *Pittsburgh Railways Co.* case, hearings on over \$76,000,000 of claims of the parent company, Philadelphia Co., had commenced before a special master in 1947. Objections to these claims had been raised, based upon alleged misuse by Philadelphia Co. of its control over the Pittsburgh Railways System (consisting of Pittsburgh Railways Co., Pittsburgh Motor Coach Co., a wholly owned subsidiary, and 53 so-called "underlier" companies linked to the System through intricate lease and operating arrangements). It was contended that Philadelphia Co.'s claims should be completely subordinated to the \$27,000,000 of publicly held claims and stock interests of the system, or that its claims should be limited to cost. By the end of 1948, Philadelphia Co. had not completed its affirmative case of showing that its claims were free from infirmity although the record contained over 10,000 pages of testimony and hundreds of exhibits. The primary burden of investigating the claims of Philadelphia Co., the circumstances of their acquisition and the enormously complex history of over 50 years of control over the railways system was carried by the Commission's staff. This was particularly necessary since the former "independent" trustee had filed a cursory report concluding that Philadelphia Co. should not be subordinated. Subsequently the Commission and others initiated proceedings to remove this trustee alleging, among other matters, that the trustee had permitted his report to be prepared for the most part by an officer of the debtor, associated with the parent company, and, hence, that it could hardly be expected to be an impartial study, or the trustee be considered independent. The trustee resigned May 31, 1949, after a special master had rendered a report recommending his removal.

Beginning in January 1949, the Commission's staff and other interested parties explored the possibilities of settling the Philadelphia Co. subordination litigation as well as the numerous other conflicting claims and problems which had already delayed the reorganization for 10 years and gave promise of delaying it for a further long period. As a result of these discussions, Philadelphia Co. submitted a compromise proposal, agreed to by the new disinterested trustee, by various parties, and the Commission's staff. On the basis of this offer, a "combined plan" was filed by the trustee, contemplating a single company to take over the various properties comprising the Pittsburgh Railways system. The new company will issue up to \$6,000,000 of bonds in addition to new common stock and the estate will distribute not less than \$17,000,000 in cash. To the extent that more cash is distributed less bonds will be issued. Holders of bonds and stocks

secured by guarantees of Philadelphia Co. will be paid in full by receipt of cash of almost \$11,000,000, approximately equal to the principal amount and par value outstanding, no interest or dividends being in arrears; holders of bonds of the system not affected by guarantees will receive cash and new bonds aggregating \$11,700,000, equal to the principal amount outstanding, and will receive also 14 percent of the new stock, interest being in arrears; holders of unguaranteed stock with a par value of \$4,500,000 will receive \$450,000 in cash and 35 percent of the new stock; Philadelphia Co. for all its claims and interests will receive 51 percent of the new stock and will be discharged from all its guarantees.

The "combined plan" was submitted to the Commission for its approval under sections 11 (e) and 11 (f) of the Public Utility Holding Company Act. Section 11 (e) was applicable insofar as the plan related to the discharge and cancellation of the guarantees of Philadelphia Co., a company subject to the Holding Company Act. Section 11 (f) was applicable since that section provides for the Commission's prior approval of a plan of reorganization for a company subject to the Holding Company Act. Litigation regarding the validity of the Commission's modification of an exemptive rule which had excluded Pittsburgh Railways Co. from the purview of the Holding Company Act had, in the meantime, been settled by the withdrawal by Philadelphia Co. of its objections to the modification. After notice and hearing, the Commission concluded that the "combined plan" was fair and feasible and on March 27, 1950 entered an order approving it.

Finding a value of \$17,000,000 for the new company, after giving effect to the proposed cash payments, the Commission analyzed the treatment accorded to the claimants in the light of the contentions as between Philadelphia Co. and public security holders, as among public security holders themselves and as between claimants not holding securities and the estate or security holders. The Commission stated that it was impossible to treat each of the 55 companies of the system as a separate entity or to identify the property of each company in view of the intermingling of assets, failure to keep separate records, and operation of the system as a single unit for approximately 50 years. The Commission approved the realistic approach of the "combined plan" in dealing with the system as an integral whole. As to the major problem of the standing of Philadelphia Co.'s claims, the Commission referred to the staff's summary of the various contentions relating to the subordination issue and an extensive statement of facts derived from the record before the special master presented in an appendix to the staff's recommended findings. The Commission observed that there was evidence supporting the claim of misuse of control by Philadelphia Co.; on the other hand, it noted Philadelphia Co.'s denials, its voluntary adjustments in the system structure with alleged benefits to security holders and its defense of *laches*.

The participations accorded by the plan to Philadelphia Co. and to public security holders were compared with parity treatment in the estate. Under parity treatment, Philadelphia Co. with two-thirds of the outstanding bonds and stocks would receive \$22,667,000 of the \$34,000,000 estate and would still be liable on its guarantees of close to \$11,000,000; while public security holders would receive \$11,333,000.

Under the plan, Philadelphia Co. receives 51 percent of the stock of the new company and is discharged of its guarantees; public security holders receive an aggregate of \$23,000,000 in cash and new bonds and 49 percent of the stock. The improvement in the position of the public security holders was considered to represent a reasonable settlement of difficult and intricate litigation. Upon approval of the "combined plan" by the Commission, it was submitted to the district court which likewise gave its approval. The plan was then submitted to security holders for a vote, the material sent including a report prepared by the Commission under section 11 (g) of the Holding Company Act to assist them in deciding whether to accept the plan. Security holders overwhelmingly accepted the plan.

#### **Feasibility of Plan**

A prerequisite to the court's approval of a plan of reorganization is its feasibility. In order to assure sound reorganizations, which will not result in the company's return under the "chancellor's umbrella", because of financial difficulties, the Commission gives a great deal of attention to factors affecting feasibility. The Commission is thus concerned with the adequacy of working capital, the relationship of funded debt and the capital structure as a whole to property values, the adequacy of corporate earning power in relation to interest and dividend requirements, the necessity for capital expenditures, and the effect of the new capitalization upon the company's prospective credit. The Commission's views on feasibility as relating to particular types of enterprise have been published in some detail during the past fiscal year in several advisory reports dealing with a transit company, a motor transportation company, an investment company and a company organized to liquidate frozen assets.

#### **Consummation of Plan**

The Commission gives detailed scrutiny to the corporate charters, bylaws, trust indentures, and other instruments which are to govern the internal structure of the reorganized debtor. In general the Commission strives to assure to investors the inclusion of protective features and safeguards which its experience has shown to be desirable.

The Commission's interest in the entire reorganization process includes not only the consummation of the plan and the winding up of the affairs of the trusteeship (which may occur many years after a plan has been consummated) but may also extend to the execution of the terms of the plan by the reorganized company. In the proceedings involving Pittsburgh Terminal Coal Corp. the need for such continued interest has been dramatically highlighted. The plan of reorganization in that case, as an alternative to bankruptcy liquidation or forced sales at an inopportune time, provided for the creation of a realization corporation to liquidate the assets in an orderly manner. The plan, which was consummated in 1945, incorporated certain safeguards for investors: The life of the corporation was limited to 5 years to assure reasonably expeditious liquidation, the purpose of the corporation was restricted to liquidation of its assets, and total compensation to officers and directors was not to exceed \$5,000 per annum. These provisions were incorporated in the plan over the opposition of

a large preferred stockholder and his associates who apparently anticipated getting control of the new corporation.

Despite the explicit nature of these provisions, evidence was obtained by the trustee and the Commission's staff indicating that the plan was being flouted, that salaries far in excess of \$5,000 were being paid to near relatives of the controlling stockholder, that the reorganized company, instead of liquidating, intended to finance near relatives of the controlling stockholder in mining operations on the company's property, that the cost of operation of the realization corporation exceeded what might be expected of that type of company, and that the controlling stockholder intended to change the bylaws of the company to remove the \$5,000 restriction so as to enable him to receive indirectly as a bonus compensation for his services during the reorganization proceedings as chairman of a preferred stockholders' committee, compensation which he did not request the court to allow and which might have been barred under section 249 of chapter X by reason of the fact that he and his family had traded in the debtor's stock.

At about the time this evidence was obtained, a special meeting of stockholders had been called to amend the bylaws of the reorganized company to extend the company's existence for a period of 5 years and to increase the salary limit. Before the date of the meeting, the Commission filed a petition with the chapter X court for an order authorizing an investigation of the trading activities of members of the preferred stockholders' committee. At the same time, the trustee, with the Commission's support, asked for an injunction restraining the holding of the stockholders' meeting and for an order authorizing an investigation to determine whether the terms, intent, and purpose of the plan of reorganization were being carried out. The court granted both petitions in December 1949, although permitting the company's existence to continue for another year.

Pittsburgh Terminal Realization Corp., the reorganized company, appealed from the order staying the stockholders' meeting and authorizing the investigation sought by the trustee on the ground that the reorganization court did not have jurisdiction to supervise the affairs of a going enterprise which had emerged from reorganization. The Commission, in its brief in support of the district court's decision, pointed out that the reorganization court has jurisdiction to protect its decrees, to prevent interference with the execution of the plan and to aid in its operation. The Commission contended that the facts alleged in the trustee's petition and in related affidavits clearly warranted the relief granted by the district judge to assure that the objectives of a plan painstakingly formulated and consummated under judicial supervision with carefully thought-out legislative safeguards should not thereafter be thwarted.

In an incisive opinion, the Court of Appeals for the Third Circuit affirmed the order enjoining the stockholders' meeting and authorizing the investigation.<sup>19</sup> Holding that the reorganization court has jurisdiction to see that a plan is carried out, the court stated that, in view

<sup>19</sup> *In re Pittsburgh Terminal Coal Corp.*, — F. 2d — (July 17, 1950).

of the charges made, which were not seriously disputed, the trustee "would have been remiss in his duty if he had not brought this matter to the attention of the court and urged that the charges be investigated." The court held that the charges concerned an important phase of the plan in the process of being carried out, that the charges were serious and substantial and that, under the plain mandate of the corporate reorganization law, the problem was definitely within the jurisdiction of the court.

### ADVISORY REPORTS

The preparation of advisory reports pursuant to section 172 of chapter X does not represent the major part of the activities of the Commission in chapter X proceedings. Nevertheless, because they often deal with complex or novel legal and analytical problems, and because they are usually filed in the larger cases with a greater public interest, the advisory reports occupy a prominent position in the reorganization field. In effect they represent a means whereby the Commission's views on chapter X matters are made known to the public. In fact, however, the Commission has not filed formal advisory reports in the bulk of the cases in which it has participated, but in all these cases it has advised the court in detail, orally or by memorandum, of its views with respect to the various plans of reorganization proposed in the proceeding.

During the year the Commission prepared and filed three advisory reports and five supplemental reports. Two of these supplemental reports dealt with the trustees' plan of reorganization in the proceedings involving International Railways Co., with respect to which the Commission had issued an advisory report during the previous fiscal year. The supplemental reports related to amendments which had been filed to the trustees' plan. Most of these amendments were in accordance with suggestions made in the advisory report, covering matters such as cumulative voting in the election of directors and preemptive rights to subscribe to new stock. However, certain other suggestions recommended by the Commission and proposed by a bondholders' committee were not adopted by the trustees and the Commission reiterated its position in this respect. These recommendations were that nominees for the new board of directors be selected by creditors in accordance with their interests in the estate, and that bondholders who had not collected interest prior to the chapter X proceedings receive this uncollected interest in cash rather than in new securities in order to place them on an equal footing with all other bondholders. The second supplemental report suggested a method for distribution among public bondholders and creditors of certain of the new stock of the reorganized company which was to be turned back to the estate as part of a settlement of a subordination proceeding against former controlling persons. The suggestion made by the Commission were thereafter substantially adopted.

Another supplemental report related to a revision of the trustee's plan in the Inland Gas Corp. proceedings, with respect to which the Commission had issued an advisory report during the previous fiscal year. The major points dealt with concerned a provision for creating a capital surplus which purported to provide a cushion for the new

debt of the reorganized company, as well as for its stock, and to improve the feasibility of the plan. The Commission pointed out that the creation of the capital surplus out of the residuary equity would not in fact effect any additional protection for security holders but might on the contrary supply the means by which some of the existing equity cushion for bondholders could be dissipated through payment of unearned dividends or purchase of outstanding stock. In addition it was pointed out that the provision was unfair to the recipient of the residual equity since it transferred part of this equity into surplus in which other security holders also receiving stock under the plan would have a proportionate interest. The plan was thereafter amended to exclude the provision for capital surplus.

Another point dealt with related to the purchase of property by the reorganized company valued at \$400,000 in exchange for stock of the reorganized company having a par value of \$600,000. In its original advisory report the Commission indicated that the proposed step-up of 50 percent over the value of the property was excessive, although it agreed in principle that since the property was to be paid for in stock rather than cash, it was appropriate to issue a greater amount of stock. However, the Commission had recommended that the stock to be issued in excess of the value of the property should be taken on a pro rata basis from the shares of stock which would otherwise have been allocated to the security holders of the debtor in order to avoid the use of watered stock. The plan as amended followed this suggestion in its endeavor to avoid the aspect of stock watering but placed the entire burden upon the recipient of the residual equity in the case rather than upon all of the new stockholders of the reorganized company. The Commission's supplemental report pointed out what appeared to it to be the inequity of the proposed procedure. Nevertheless, the plan was approved as amended. In this respect, as well as in others, the order approving the plan of reorganization for Inland Gas Corp., has been appealed, and the matter is pending before the Court of Appeals for the Sixth Circuit.

In the proceedings involving Keeshin Freight Lines, Inc., and three subsidiary debtors, the district court requested the Commission to participate in the reorganization and to submit an advisory report on two plans of reorganization.<sup>20</sup> The Commission issued its advisory report on these plans in August 1949. The primary matter dealt with by the Commission was the valuation of the debtor. Reviewing the evidence relating to prospective earnings of the enterprise and to an appropriate rate of capitalization, and considering the expert testimony, the Commission concluded that the valuation of the debtor, including a small amount of excess working capital, was about \$2,200,000. On this basis, the Commission concluded that the trustees' plan of reorganization which provided for a sale of the property at an upset price of about \$1,400,000 was unfair, the price being grossly inadequate.

The Commission concluded that the other plan of reorganization was unfair in that it gave to creditors of the parent company new securities worth less than they were entitled to. Noting that the parent company creditors and certain creditors of the subsidiaries,

<sup>20</sup> N. D. Ill.

consisting of a few large business corporations and individuals, had voluntarily agreed to receive treatment under this plan different from that which they were entitled to under the terms of their claims, the Commission stated that since these persons did not constitute members of the investing public, it could see no objection to their agreement to receive less than that which fairness required. The Commission also considered the feasibility of the second plan since it provided for the issuance of new securities in part to the creditors of the debtor and its subsidiaries. The Commission concluded that while the capital structure proposed under the plan was initially top-heavy and complicated and should be simplified, it appeared to be feasible, particularly since a good part of the proposed debt obligations would be retired within a relatively short time under the program envisaged by the plan.

The district court disagreed with the Commission's conclusions as to valuation and reached a determination that the property was worth only \$1,700,000. The court concluded that both plans were unfair and that in addition the second plan was unfeasible. The trustees' plan providing for sale at an upset price was amended to conform to the court's determination of value. However, before this plan could be acted upon, an offer to purchase all the assets of the debtor and its subsidiaries was received from another trucking concern which had purchased all the claims against the parent company. Under this plan all creditors of the subsidiaries would be paid in full. While the total effective price to be paid by the purchaser could not be determined, because the amount of claims against the subsidiaries could not be determined until objections to claims were passed upon, the maximum commitment of the proposed purchaser exceeded \$2,000,000. A plan of reorganization embodying the proposed purchase was approved and confirmed by the court.

In the proceedings involving Central States Electric Corp., the Commission's advisory report covered five plans of reorganization. The issue arising in the case were both varied and complicated. On the subject of valuation, the Commission departed from the customary procedure of capitalizing the reasonably expected earnings of the enterprise, on the ground that an investment company which deals in marketable securities, none of which represents a controlling interest, cannot be valued on this basis. The Commission rejected as sheer prophesy arguments that future capital gains had to be considered, and pointed out that a capitalization of earnings would result in a lower figure than a market valuation. It was further held that the pyramided structure of the system of the debtor, which has two subsidiaries, American Cities Power & Light Corp. and Blue Ridge Corp., the former holding 42 percent of the stock of the latter added no additional value to the enterprise. It was the Commission's view that there is no justification or economic basis for piling one investment company upon another, with needless increase in expenses, duplication, and potentialities for abuse; that the common stockholders of the top company might have some speculative advantage at the expense of senior security holders but that all investors in the aggregate do not benefit therefrom.

The Commission severely criticized four of the proposed plans because they involved retention of the three-tiered system of investment companies, having as its objective the interposition of debt obligations or preferred stock in the bottom and intermediate company so as to increase the leverage, or speculative potentialities, of the common stock of the top company if the stock market should rise. The Commission also criticized the failure of these four plans (proposed by the junior classes of the debtor, with little or no equity on the basis of market values) to provide adequate asset coverages for the bonds and preferred stocks contemplated by their plans. In considering both of these economic problems, the Commission recommended that the court should impose as minimum standards of feasibility, those provisions of the Investment Company Act of 1940 regarding asset coverage for senior securities and prohibition of pyramiding even though that act itself provided exemption in the case of a reorganization. The Commission pointed out that the exemption did not modify the findings of the Congress that the interests of investors are adversely affected by the undue speculation resulting from the issuance of excessive senior securities and from pyramiding and the abuses flowing therefrom.

The trustees' plan of reorganization, contemplating the emergency of a single investment company with a single class of stock, after the dissolution of American Cities Power & Light Corp. and the merger of Blue Ridge Corp. with Central States Electric Corp., was considered to be sound and feasible. The claim of the 7 percent preferred stock, next in rank to the debentures, will be measured by its liquidating preference and accrued dividends. The Commission expressed the opinion that this treatment was required in equity and by judicial precedent. A lawsuit against the former controlling person of Central States was segregated, the suit to be handled by the trustee and any recovery to be distributed to those classes of securities which had not been paid, in part or in full, in the order of their priority. The Commission considered this appropriate and fair in order not to delay the reorganization, pointing out that continued delay in consummating the reorganization places in jeopardy the interests of the senior securities and permits the junior interests to speculate at the risk of the seniors. Since the proceedings have been pending 8 years, any further unnecessary delay was considered inequitable. The Commission discussed each of the other proposed plans in detail and concluded that they were unfair in that, in general, they provided for participation by junior classes at the expense of senior security holders.

The district court thereafter adopted the recommendations of the Commission, approved the trustees' plan, subject to suggested modifications, and disapproved all plans proposed by the junior interests. The trustees thereupon amended their plan accordingly and the Commission in a supplemental report stated that the plan was fair and feasible in all respects. The court approved the plan and directed that it be sent to security holders for a vote. In the meantime, the question of the dissolution of American Cities Power & Light Corp. came before the court. The Commission urged that that company be dissolved immediately as an administrative step in the proceeding be-

cause it was an uneconomic and unjustified complexity in the Central States system. The junior interests argued for a delay on the ground that their plans were based on the continued existence of American Cities and that the *status quo* should be maintained pending appeals from the order disapproving their plans. The Commission pointed out, however, that the insistence that American Cities be retained in the system could only mean that the junior interests intended to reinstate the highly complicated, speculative system that had originally brought financial collapse to the debtor and imposed heavy losses on security holders; and that in no event could any plan be considered feasible that did not eliminate American Cities as an unwarranted corporate monstrosity. The district court denied the stay and authorized the trustees of Central States to vote the stock of American Cities in favor of the proposed dissolution. The Court of Appeals for the Fourth Circuit affirmed the approval of the trustees' plan and the authorization to proceed with the dissolution of American Cities, and dissolved the stay it had granted pending appeal. Applications to stay the proposed dissolution pending the filing of petitions for writs of *certiorari* to review the approval of the trustees' plan were filed in the Supreme Court.

In the proceedings involving Silesian-American Corp.,<sup>21</sup> the questions confronting the Commission in reporting on various plans of reorganization were primarily legal questions. The debtor was promoted as an aftermath of World War I by W. A. Harriman & Co and Anaconda Copper Mining Co. It acquired its principal asset, a Polish mine, from a German mining company which received \$5,000,000 of the debtor's preferred stock and 49 percent of its common stock as well as a \$6,000,000 loan from the debtor. The promoters received \$7,000,000 of the debtor's preferred stock and 51 percent of its common stock for a cash contribution of less than \$38,000. The promotion was financed by selling \$15,000,000 of the debtor's bonds to the public. In 1937, the German mining company ceased making payments on its indebtedness to the debtor, now amounting to \$5,000,000.

After World War II, the Polish properties of the debtor were taken by Poland without compensation and at present the debtor has only a claim for compensation under the Polish nationalization law. Certain transactions occurring during the war, however, giving rise to additional claims on behalf of the estate, were uncovered. When World War II broke out, Germany seized the Polish properties of the debtor and placed them under the supervision of the German company, which exploited them until hostilities ceased in 1945. Soon after the seizure, the German company and the Hitler government developed a scheme for the German repatriation of the American interest in the Polish mine and the indebtedness from the German company. To accomplish this scheme, an arrangement was made with a syndicate of Swiss banks, to whom the German company was also indebted, to act as a cloak for the Germans. Funds for the repatriation were to be supplied by shipments to Switzerland of zinc extracted from the Polish and German mines. With the consent of the Swiss and German Governments, the proceeds of the metal shipments were

<sup>21</sup> S. D. N. Y.

exempted from the restrictions of the Swiss-German clearing treaty, thus leaving the proceeds with the Swiss banks.

As an initial step in the repatriation scheme, the Swiss banks acquired \$640,000 of the debtor's bonds. These purchases, however, caused market rises in the price of the bonds which rendered it impracticable and unprofitable to the Swiss banks (whose profit depended upon the price of the bonds) to continue the acquisitions. Accordingly, the Swiss banks entered into negotiations with the Anaconda-Harriman promoters, who held a majority of the debtor's stocks, for a cash purchase of their interest and full payment of the remaining bonds outstanding against the debtor. This transaction required licenses from the United States Treasury Department, from whom the Swiss banks concealed the German interest. The licenses were denied.

Despite this obstacle to consummation of the German repatriation program, the zinc shipments to the Swiss banks continued until Germany's surrender. The shipments were made as a result of representations to the German Government that the repatriation had been effected in part and would be completed as soon as feasible. The net proceeds of the shipments approximated \$6,000,000. Out of these funds, the Swiss banks reimbursed themselves at par for the \$640,000 of the debtor's bonds although the securities had been purchased at prices ranging from 28½ to 71. Additionally, they used substantial portions of the funds as credits against principal and interest on prewar obligations of the German company to them. During the same period, the debtor received nothing on its unpaid indebtedness from the German company.

After the termination of hostilities, a Dr. Schulte, who had originally conceived the repatriation plan in his capacity as the German company's chief executive, worked with the Swiss banks to come to some agreement with the trustee of the debtor. The remainder of the funds accumulated in Switzerland (approximating \$1,700,000 in cash plus the \$640,000 of the debtor's bonds) had been exempted from Swiss-German clearing for the express purpose of acquiring the debtor's securities. It was feared that unless used for the intended purpose, the moneys would be regarded as German assets subject to seizure by the Swiss Government. If an arrangement with the trustee could be effectuated, it would be represented that the objectives of the clearing exemption had been achieved and the Swiss banks would be free to use the remainder of the fund for their own purposes. The trustee's plan embodied a Swiss proposal under which about \$650,000 would be released for a cash distribution to bondholders. For this, the Swiss banks would receive first-lien securities on a parity with the balance due to public bondholders (over \$2,000,000); for the \$640,000 of the debtor's bonds, they would receive second-lien securities.

By reason of the questions raised in the case as to the possible liability of the promoters of the debtor arising from its organization, the issuance of its securities, and the management of its affairs, and as to the claims against the Swiss banks, the Commission's advisory report portrayed in some detail the history of the debtor as revealed by an

extensive and largely documented record, though lacking the completeness that can usually be attained in a domestic situation. In an appendix to the report the Commission set forth the evidentiary facts surrounding the promotion and organization of the company and in another appendix the history of the transactions involving the shipment of metals to Switzerland and the activities of the Swiss banks and the German mining company in relation thereto. Against this background the Commission concluded that the trustee's plan was neither fair nor feasible.

The report concluded that the plan was unfair in the following principal respects: It embodied an inadequate compromise of claims which were believed to be legally and practicably enforceable against the Swiss banks;<sup>22</sup> it accorded to the Swiss banks a dominant interest in the reorganized company on terms unfair to public bondholders; it made participation of stockholders dependent upon an arbitrary value for the Polish claim instead of giving stockholders certificates of interest contingent upon possible recoveries after satisfaction of creditors; it failed to provide for prosecution by the trustees of causes of action against the promoters of the debtor and instead recognized their bonds, stock, and other claims in full; it failed to provide for the prosecution by the trustee of claims against the German mining company; it failed to limit to cost bonds acquired by certain insiders during the proceeding; it disfranchised security holders through the creation of a voting trust. The trustee's plan was also considered not feasible in that it provided for the issuance of interest-bearing debt obligations with a fixed maturity although there is no assurance or basis for expecting that the interest and principal will be paid when due. The plan also failed to provide adequate working capital to enable the proper prosecution of claims constituting the primary assets of the estate.

The Commission considered that a plan proposed by a bondholders' committee was fair in rejecting the Swiss compromise and in providing for the prosecution of causes of action against the Swiss banks, the promoters, and the German mining company, but it suggested that the plan might appropriately provide for the issuance of contingent certificates of interest to stockholders in the event that a sufficient recovery was had upon the claims against Poland and others. The plan was

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<sup>22</sup> As to the Swiss transactions, the Commission concluded from the record that Dr. Schulte's connection with the negotiations was for the probable purpose of salvaging an interest for the German company in these funds as well as to aid in getting some participation for the Swiss banks in the debtor's reorganization. The proposal embodied in the trustee's plan, which the United States Office of Alien Property regarded as in furtherance of the German repatriation scheme and thus violative of the Trading with the Enemy Act, was considered the culmination of these negotiations. The Commission pointed out that the record showed that the funds in controversy were derived in substantial part from metals extracted from the Polish mines belonging to the debtor; that they were intended to be used for the benefit of the debtor's security holders; and that they were accumulated by a German company heavily indebted to the debtor. It was also pointed out that the \$840,000 of bonds, originally purchased by the Swiss banks, were paid for out of these funds and, at a minimum, as property of the German company, were subject to cancellation on account of the unpaid obligations to the debtor.

On the merits of the Swiss proposal, the Commission concluded:  
"In view of what has already been said, we believe the so-called compromise must be rejected. The bait which it holds out in the form of an immediate partial cash distribution to public bondholders, who have long been deprived of any return on their investment, cannot be permitted, in the light of the facts as they now appear, to serve as a lure for approval of a proposal deficient in satisfying objective equitable standards. What may appear on the surface as a benefit is shown by analysis and inquiry into the facts to be a means of accomplishing a gross preference in favor of the Swiss banks. If the Swiss banks are not willing to make a superior proposal, the machinery is at hand to deal with them promptly in the reorganization court."

considered not feasible, however, because it failed to provide adequate working capital. Other plan proposals offered by the debtor and stockholders were considered unfair and unfeasible for reasons substantially similar to the reasons for considering the trustee's plan unfair and unfeasible.

Despite the views urged by the Commission in its advisory report, the district court in April 1950 approved the trustee's plan, subject to certain minor modifications, and disapproved all other proposals. The trustee then filed an amended plan which was submitted to the Commission for a supplemental report. The supplemental report, filed in May 1950, found the plan still unfair and unfeasible. Some of the modifications met certain objections raised by the Commission but these related to relatively small matters. The basic features of the trustee's plan, unfair and unfeasible in the Commission's view, remained the same.

A bondholders' committee, among others, appealed from the order approving the plan. Contending that certain aspects of the voting on the plan contemplated by the trustee were unfair, the committee moved for a stay of the voting pending the appeal from the plan approval as well as the manner of voting. The Commission supported the motion for a stay on two principal grounds. The Commission objected to the classification of the \$640,000 of bonds held by the Swiss banks in the same category as publicly held bonds because of the direct conflict of interest of the two groups. The manifest unfairness which would result if the votes of the Swiss banks were considered in determining whether bondholders wished to accept the offer of the Swiss banks was discussed. Additionally, the refusal to permit the bondholders' committee to communicate with bondholders regarding acceptance or rejection of the plan concurrently with the trustee was urged as another reason for the stay. The statute, judicial precedents, and the equity of the case were relied upon to support the Commission's view that an equal opportunity to the committee was required and that the procedure contemplated by the trustee was unjust. The Court of Appeals for the Second Circuit granted the stay without opinion.

**PART V**  
**ADMINISTRATION OF THE TRUST INDENTURE**  
**ACT OF 1939**

The Trust Indenture Act of 1939 requires that bonds, notes, debentures, and similar securities publicly offered for sale, sold, or delivered after sale through the mails or in interstate commerce (except as specifically exempted by the act) be issued under an indenture which meets the requirements of the act and which has been qualified with the Commission.

**NATURE OF TRUST INDENTURE REGULATION**

Individual holders of bonds, notes, debentures, and similar debt securities often find it difficult and expensive to enforce their rights under indentures and generally must rely upon the trustee named in the trust indenture to protect them. The Trust Indenture Act of 1939 requires the inclusion in the trust indenture of specified provisions which facilitate the protection and enforcement of such rights. Thus, there must be a corporate trustee free from stated conflicts of interest; such trustee must not after default, or within 4 months prior thereto, improve its position as a creditor to the detriment of the indenture securities; it must make annual and periodic reports to bondholders; it must maintain bondholders lists to provide a method of communication between bondholders as to their rights under the indenture and the bonds; and it must be authorized to file suits and proofs of claims on behalf of the bondholders. The act prohibits exculpatory clauses used in the past to eliminate the liability of the indenture trustee to the indenture security holders and imposes on the trustee, after default, the duty to exercise the rights and powers vested in it, and to use the same degree of care and skill in their exercise, as a prudent man would use or exercise in the conduct of his own affairs. Specified evidence must be supplied by the obligor to the indenture trustee with respect to the recording of the indenture and with respect to conditions precedent to action to be taken by the trustee at the request of the obligor.

**INTEGRATION WITH SECURITIES ACT OF 1933**

The exemption provisions of the Trust Indenture Act of 1939 incorporate most of the exemptions contained in the Securities Act of 1933 and include certain other exemptions. The provisions of these acts are so integrated that registration pursuant to the Securities Act of 1933 of securities to be issued under a trust indenture and not exempt from the Trust Indenture Act of 1939, is not permitted to become effective unless the indenture conforms to the requirements of the latter act, and such an indenture is automatically "qualified"

when registration becomes effective as to the securities themselves. An application for qualification of an indenture, covering securities not required to be registered under the Securities Act of 1933, which is filed with the Commission under the Trust Indenture Act is processed substantially as though such application were a registration statement filed pursuant to the Securities Act of 1933.

### STATISTICS OF INDENTURES QUALIFIED

There was a drop in the number and dollar amount of debt securities for which qualification under the Trust Indenture Act was sought in the 1950 fiscal year. Thus, during the year there were 96 new indentures filed representing an aggregate dollar amount of \$1,741,775,670, compared with corresponding figures in the 1949 fiscal year of 127 new filings representing \$2,605,823,365. However, the addition of the year's new filings to the 9 indentures (aggregating \$298,141,600), which were pending at the beginning of the period makes a total of 105 indentures aggregating \$2,039,917,270 which required examination by the staff during the past year and which were disposed of as shown in the table below:

*Total number of indentures filed under the Trust Indenture Act of 1939*

	Number	Aggregate amount
Indentures pending June 30, 1949.....	9	\$298, 141, 600
Indentures filed during fiscal year.....	96	1, 741, 775, 670
<b>Total.....</b>	<b>105</b>	<b>2, 039, 917, 270</b>
Disposition during fiscal year:		
Indentures qualified.....	97	1, 865, 254, 799
Amount reduced by amendment.....		3, 130, 596
Indentures deleted by amendment or withdrawn.....	4	116, 531, 875
Indentures pending June 30, 1950.....	4	55, 000, 000
<b>Total.....</b>	<b>105</b>	<b>2, 039, 917, 270</b>

During the 1950 fiscal year the following additional material relating to trust indentures was filed and examined for compliance with the appropriate standards and requirements:

Statements of eligibility and qualification under the Trust Indenture Act.....	121
Amendments to trustee statements of eligibility and qualification.....	13
Supplements S-T, covering special items of information concerning indenture securities registered under the Securities Act of 1933.....	90
Amendments to supplements S-T.....	17
Applications for findings by the Commission relating to exemptions from special provisions of the Trust Indenture Act of 1939.....	15
Reports of indenture trustees pursuant to sec. 313 of the Trust Indenture Act of 1939.....	608

**PART VI**  
**ADMINISTRATION OF THE INVESTMENT COMPANY**  
**ACT OF 1940**

The Investment Company Act of 1940 requires registration and provides for certain types of regulation of investment companies—companies engaged primarily in the business of investing, reinvesting, and trading in securities. Among other things, the act requires disclosure of the finances and investment policies of these companies in order to afford investors full and complete information with respect to their activities; prohibits such companies from changing the nature of their business or their investment policies without the approval of the stockholders; bars persons guilty of security frauds from serving as officers and directors of such companies; regulates the means of custody of the assets of investment companies and requires the bonding of officers and directors having access to such assets; prevents underwriters, investment bankers, and brokers from constituting more than a minority of the directors of such companies; requires management contracts in the first instance to be submitted to security holders for their approval; prohibits transactions between such companies and their officers and directors except on the approval of the Commission; forbids the issuance of senior securities of such companies except in specified instances; and prohibits pyramiding of such companies and cross-ownership of their securities. The Commission is authorized to prepare advisory reports upon plans of reorganizations of registered investment companies upon request of such companies or 25 percent of their stockholders and to institute proceedings to enjoin such plans if they are grossly unfair. The act requires face amount certificate companies to maintain reserves adequate to meet maturity payments upon their certificates.

**REGISTRATION UNDER THE ACT**

During the 1950 fiscal year, 26 new investment companies registered under the Investment Company Act of 1940—predominantly open-end management companies (companies which redeem their shares on presentation by the stockholders). During the nearest comparable period for which data are available, the 12 months ended March 31, 1950, about 196 registered open-end management and closed-end management investment companies reported to the Commission sales to the public of approximately \$440,000,000 of their securities, and redemptions and retirements of approximately \$135,000,000, leaving a net investment by the public in such companies over the period of approximately \$305,000,000. As of June 30, 1950, 366 investment companies were registered under the act, and of that date it is estimated that the value of their total assets was approximately \$4,700,000,000

This represents an increase of \$1,000,000,000 in such valuation over the corresponding total at the beginning of the year.

The 26 investment companies registered during the 1950 fiscal year are classified as follows:

Management open-end.....	18
Management closed-end.....	4
Unit.....	4
Total.....	26

The 366 investment companies registered at June 30, 1950, are classified as follows:

Management open-end.....	150
Management closed-end.....	105
Unit.....	95
Face amount.....	16
Total.....	366

#### TYPES AND INVESTMENT POLICIES OF COMPANIES FORMED

As indicated above, most of the investment companies formed during the period have been of the open-end type, investing primarily in common stocks. Three of these companies have adopted a policy of investment in so-called "growth stocks" (variously defined by each of them) and one company has adopted a policy of investing primarily in companies owning or engaged primarily in the development of natural resources.

The year was also marked by the appearance of brokers and dealers as direct sponsors and investment advisers of open-end companies formed primarily as an investment medium for customers of the firms and characterized by either the absence, or only a nominal amount, of, sales load. Two such companies were formed, one in New York by a member firm of the New York Stock Exchange and one in Boston. Another interesting development during the year has been the formation of funds designed to enable investors to purchase on the installment plan over a period of 10 years common stock of a single company in whose securities there is local interest. For example, a fund has been formed in Washington, D. C., for investment in the common stock of Potomac Electric Power Co. on the installment plan; a similar fund was formed in Winston-Salem, N. C., for investment in the common stock of R. J. Reynolds Tobacco Co. Both plans were characterized by the fact that over a half of the first year's installment payments were not invested in the underlying stock, but were absorbed as selling loads and other charges.

#### Selling Literature

The act requires literature (other than the statutory prospectus) used by issuers or underwriters in selling open-end investment company shares to be filed with the Commission within 10 days after such literature is first employed as selling material. During the 1950 fiscal year there was a substantial increase in the use of both literature purporting to describe investment companies generally and literature purporting to describe a specific company. Of considerable concern to the Commission was the fact that in a substantial number of cases

this literature used by issuers, underwriters, and dealers to attract investors might be materially misleading in many respects. In addition, there was serious doubt that certain of such literature could be generally circulated under the Securities Act of 1933. Accordingly, during the year the Commission with the cooperation of the National Association of Securities Dealers undertook a study of such literature in an attempt to eliminate any misleading elements contained therein. After the close of the year there was promulgated, as a result of the cooperative effort of the Commission and the National Association of Securities Dealers, a statement of policy governing the contents of such literature.

#### Other Data

The number of documents filed under the act by registered investment companies during the 1949 and 1950 fiscal years, together with other related statistics, are tabulated below:

	Fiscal year ended June 30—	
	1949	1950
<b>Number of registered investment companies:</b>		
Beginning of year.....	359	358
Registered during year.....	12	26
Terminations of registrations during year.....	13	18
Number of companies registered at end of year.....	358	364
Notifications of registration.....	12	26
Registration statements.....	12	26
Amendments to registration statements.....	31	51
Annual reports.....	228	224
Amendments to annual reports.....	46	23
Quarterly reports.....	788	818
Periodic reports, containing financial statements sent to stockholders.....	662	637
Reports of repurchase of securities by closed-end management companies.....	72	73
Copies of sales literature.....	1,910	2,121
Applications for exemption from various provisions of the act.....	49	77
Applications for determination that registered investment company has ceased to be an investment company.....	14	18
Amendments to applications.....	35	38
<b>Total applications:</b>		
Beginning of year.....	44	32
Filed during year.....	63	95
Disposed of during year.....	75	93
Pending at end of year.....	32	34

#### APPLICATIONS FILED

One of the functions of the Commission under the act is to pass on applications by investment companies for exemptions which the act permits under appropriate standards.

Some of the most complex problems arise out of the provisions of the statute which forbid, in the absence of approval by the Commission, purchases or sales of property or securities among investment companies and their affiliated persons. To approve such transactions the Commission must find that they are fair as to price and involve no overreaching. As a result, the applications in many instances involve unusual questions of valuation and inside influence. During the year 30 applications of this type were filed.

During the year 95 applications were filed under the various provisions of the act, 77 of these for orders of the Commission relating to

exemption from requirements of the act, and the remaining 18 for a determination by the Commission that the applicant has ceased to be an investment company within the meaning of the act. At the beginning of the year 32 applications were pending, which (together with the 95 filed during the year) made a total of 127 applications requiring examination and consideration by the Commission during the year. As a result of the Commission's action 93 of these applications were disposed of during the year and 34 were pending on June 30, 1950. The various sections of the act under which these applications were filed, and the disposition of the applications during the fiscal year, are shown in the following table (since an application may involve more than one section of the act, the numbers are not totaled) :

*Nature and disposition of various applications filed under the Investment Company Act of 1940 during year ended June 30, 1950*

Section of the act under which application was filed	Number pending at June 30, 1949	Filed during year	Disposed of during year	Number pending at June 30, 1950
3 (b) (2) Determination that applicant is not an investment company.	1	1	0.....	2
6 (b) Employees' security company exemption.	1	1	1 granted.....	1
6 (c) Various exemptions not specifically provided for by other sections of the act.	8	27	25 granted, 3 withdrawn...	7
8 (f) Determination that a registered investment company has ceased to be an investment company.	3	18	16 granted, 2 withdrawn...	3
9 (b) Exemption of ineligible persons to serve as directors, officers, etc.	13	2	1 granted.....	14
10 (f) Exemption of certain underwriting transactions.	-----	1	1 granted.....	-----
11 (a) Approval of terms of proposed security exchange offers.	-----	2	2 granted.....	-----
17 (b) Exemption of proposed transactions between investment companies and affiliates.	7	30	30 granted, 2 withdrawn...	5
17 (d) Approval of certain bonus and profit-sharing plans.	2	16	13 granted, 1 withdrawn...	4
23 (c) (3) Terms under which closed-end investment company may purchase its outstanding securities.	1	4	4 granted.....	1

#### LITIGATION UNDER THE INVESTMENT COMPANY ACT

In only two instances during the 1950 fiscal year did the Commission resort to injunction proceedings to enforce the obligations devolving on investment companies and their officers under the Investment Company Act. In *S. E. C. v. F. L. Andrews Investment Trust* (Civil Action No. 8845, D. Mass. Nov. 30, 1949) the officer, who served as president, treasurer, and sole trustee of the investment company, caused the company to make unsecured loans to various business corporations which he controlled. According to the complaint, he received rebates, secret profits, and commissions for arranging these loans, and received salaries from both the investment company and the corporations he controlled for serving as an officer of these enterprises. The Commission brought an action which sought to prohibit the officer from being employed by any investment company in any capacity, and a consent decree was entered granting the relief re-

requested. In addition, on motion of the Commission, the court appointed a receiver to hold the assets of the investment company subject to an order to liquidate and distribute them.

In *S. E. C. v. Trusteed Funds, Inc.* (Civil Action No. 8622, D. Mass., Sept. 9, 1949) an action was brought to enjoin the sponsor and principal underwriter of an investment company from selling its securities by means of sales literature which had not been filed with the Commission and which contained the false statement that the investment company was guaranteed against loss by the United States Government. In this case, too, an injunction was entered as requested and a receiver was appointed.<sup>1</sup>

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<sup>1</sup>The complaint also charged violation of the prospectus standards, sec. 5 (b) (2), and the antifraud provisions, sec. 17 (a) (1), (2) and (3), of the Securities Act of 1933.

**PART VII**  
**ADMINISTRATION OF THE INVESTMENT ADVISERS**  
**ACT OF 1940**

The Investment Advisers Act of 1940 requires the registration of investment advisers, persons engaged for compensation in the business of advising others with respect to securities. The Commission is empowered to deny registration to or revoke registration of such advisers if they have been convicted or enjoined because of misconduct in connection with security transactions or have made false statements in their applications for registration. The act makes it unlawful for investment advisers to engage in practices which constitute fraud or deceit; requires investment advisers to disclose the nature of their interest in transactions executed for their clients; prohibits profit-sharing arrangements; and, in effect, prevents assignment of investment advisory contracts without the client's consent.

*Statistics of investment adviser registrations, 1950 fiscal year*

Effective registrations at close of preceding fiscal year.....	1, 044
Applications pending at close of preceding fiscal year.....	14
Applications filed during fiscal year.....	119
<b>Total</b> .....	<b>1, 177</b>
<b>Registrations cancelled or withdrawn during year</b> .....	<b>116</b>
Registrations denied or revoked during year.....	1
Applications withdrawn during year.....	4
Registrations effective at end of year.....	1, 043
Applications pending at end of year.....	13
<b>Total</b> .....	<b>1, 177</b>

Approximately 242 registered investment advisers represent in their applications that they engage exclusively in supervising their clients' investments on the basis of the individual needs of each client. The services of about 335 others are chiefly through publications of various types; 232 investment advisers are registered also as brokers and dealers in securities. Most of the remainder offer various combinations of investment services.

**Administrative Proceedings**

Two proceedings, involving investment advisers, one of which was pending at the beginning of the 1950 fiscal year and the other which was instituted during the year, were determined during the year. The latter case, Assured Warranty Corp., is discussed in the section of this report on the regulation of brokers and dealers under the Securities Exchange Act.

In the other case, the Commission brought action to determine whether it was necessary in the public interest to revoke the registration of Frederick N. Goldsmith, doing business as F. N. Goldsmith Financial Service, who was permanently enjoined by a decree of the supreme court of New York from acting as an investment adviser, broker, or dealer. At the hearing, Goldsmith stipulated the facts and filed a notice of withdrawal.

Goldsmith's subscribers were led to believe that he was a skilled investment adviser applying his judgment to generally accepted objective data and that he was in a position to obtain additional or advance information by his close contacts with particular issuers and large holders of securities. In view of these representations, the Commission found that his dissemination of advice, admittedly based in part on the comic strips in which he believed there existed a code which, interpreted by him, would reflect future movements of certain securities on the stock exchanges, was fraudulent, reckless, and without concern for the public welfare. However, the Commission concluded that, under all the circumstances, including Mr. Goldsmith's advanced age of 84 years and the fact that there had been no previous complaints about the conduct of his business, it would be consistent with the public interest to permit him to withdraw from registration as an investment adviser. The Commission noted that the existence of the injunction would supply a statutory basis for reviewing the public interest if he should seek re-registration at some future time.

**PART VIII**  
**OTHER ACTIVITIES OF THE COMMISSION UNDER**  
**THE VARIOUS STATUTES**

**THE COMMISSION IN THE COURTS**

**Civil Proceedings**

Complete lists of all cases in which the Commission appeared before a Federal or State court, either as a party or as *amicus curiae*, during the fiscal year, and the status of such cases at the close of the year, are contained in the appendix tables.

At the beginning of the 1950 fiscal year there were pending in the courts 20 injunctive and related enforcement proceedings instituted by the Commission to prevent fraudulent and other illegal practices in the sale of securities, 34 additional proceedings were instituted during the year and 36 cases were disposed of, so that 18 of such proceedings were pending at the end of the year. In addition, the Commission participated in a large number of reorganization cases under chapter X of the Bankruptcy Act;<sup>1</sup> in 22 proceedings in the district courts under section 11(e) of the Public Utility Holding Company Act and in 38 miscellaneous actions, usually as *amicus curiae*, or intervenor, to advise the court of its views regarding the construction of provisions of statutes administered by the Commission which were involved in private lawsuits. The Commission also participated in 53 appeals. Of these, 12 came before the courts on petition for review of an administrative order; 14 arose out of corporate reorganizations in which the Commission had taken an active part; 4 were appeals in actions brought by or against the Commission; 12 were appeals from orders entered pursuant to section 11 (e) of the Public Utility Holding Company Act; and 11 were appeals in cases in which the Commission appeared as *amicus curiae* or intervenor.

Certain significant aspects of the Commission's litigation during the year are discussed in the section of this report devoted to the statute under which the litigation arose.

**Criminal Proceedings**

The statutes administered by the Commission provide for the transmission of evidence of violations to the Attorney General who may institute criminal proceedings. The Commission, largely through its regional offices, investigates suspected violations and, in cases where the facts appear to warrant criminal proceedings, prepares detailed reports which are forwarded to the Attorney General. The Commission, primarily through its employees who have participated in the investigation, also assists the United States attorneys in many of

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<sup>1</sup>For comment on some of these cases see section herein on the participation of the Commission in corporate reorganizations under chapter X.

these cases in the presentation to the grand jury, the conduct of the trial, and the preparation of briefs on appeal. It also transmits parole reports prepared by its investigators relating to convicted offenders. Where the investigation discloses violations of statutes other than those administered by the Commission, reference is made to the appropriate Federal or State agency.

Indictments were returned against 2,601 defendants in 453 cases developed by the Commission prior to June 30, 1950.<sup>2</sup> This includes 37 defendants in 22 cases in which indictments were returned during the past fiscal year. At the close of the fiscal year 422 cases had been disposed of as to one or more defendants, and convictions had been obtained in 370 cases<sup>3</sup>—over 87 percent—against a total of 1,271 defendants. Convictions were obtained against 20 defendants in 15 cases during the past year.<sup>4</sup> In addition, criminal contempt proceedings were instituted during this period against two defendants in two cases. One such defendant was convicted and the other is awaiting trial.<sup>5</sup> Judgments of conviction were affirmed on appeal as to two defendants during the year, and one case involving a single defendant remained pending in the court of appeals at the close of the fiscal year.

Criminal cases developed and prosecuted by the Commission during the past year covered a wide variety of promotions. In general, they included fraudulent promotions of various mining ventures, fraud in the sale of securities relating to oil and gas properties, new businesses and inventions, and frauds perpetrated by securities brokers and dealers and their representatives. Frequently, the defendants, in employing these fraudulent schemes, wilfully avoided compliance with the registration provisions of the Securities Act of 1933, which are designed to provide investors with a full and fair disclosure of material facts about the securities being sold. As a result, a number of fraud cases involved violation of these registration provisions.

In one of the cases dealing with mining securities the fraudulent representations made to investors were characterized by the trial court as more fantastic than the tales of Baron Munchausen (*U. S. v. Ingwald S. Steensland* (D. Minn.)). Steensland was convicted of defrauding investors of an estimated \$100,000 in connection with the promotion of what he represented to be a coal mining and timber project in British Columbia, Canada. The defendant sold securities in a fictitious corporation claimed to have been organized under a "Canadian Secret Corporations Act." There is no such statute. According to the testimony of investors, the defendant represented to them that the late President Roosevelt was obligated to an associate in the venture by reason of his services in recovering for the Federal Government some \$23,000,000 from persons who had committed frauds against the Government. Investors were told that as a result of the intercession of the late President on behalf of the venture and because of their gratitude for American participation in World War II, the

<sup>2</sup> The status of all criminal cases pending during the past fiscal year is set forth in appendix tables. Condensed statistical summaries of all criminal proceedings developed by the Commission is set forth in the appendix.

<sup>3</sup> The 52 remaining cases, which resulted in acquittals or dismissals as to all defendants, included a number where the indictments were dismissed because of the death of defendants involved.

<sup>4</sup> One of these cases is still open as to six defendants.

<sup>5</sup> The criminal contempt proceedings are set forth in the appendix.

British and Canadian authorities had approved a grant of 10,000 square miles of British Columbia land to the defendant containing vast coal and ore deposits and tremendous timber reserves. Investors were told that the governments of China, Australia, India, and New Zealand were interested in the project and that the World Bank would advance many millions of dollars to finance it.

Other convictions involving mining promotions were obtained during the past year in *U. S. v. William A. Snyder et al.* (D. Colo.) and *U. S. v. Walter A. Stogsdill* (N. D. Okla.). The first involved sales of the stock of the Southern Potash Co., an insolvent company, as to which it was charged misrepresentations were made regarding, among other things, the status and value of the company's leases of acreage from which it proposed to extract potash. In the second case the conviction was obtained on a plea of *nolo contendere* to charges of violation of the registration provisions of the Securities Act of 1933 in selling interests in a purported lead and zinc mining venture known as the Little Beaver Mining Co.

Convictions were obtained in several cases involving the fraudulent sale of securities relating to the promotion of oil and gas properties. The indictments in such cases alleged false representations concerning, among other things, the options and leases purportedly owned by the corporation and the status of its oil production and earnings (*U. S. v. Robert L. Burch et al.*, N. D. Tex.);<sup>6</sup> the use to which money received from investors would be put (*U. S. v. Galen B. Finch*, S. D. Cal.), and the qualifications of a geologist (*U. S. v. Claude Cleve Alfred*, E. D. Tenn.). In the *Finch* case the defendant was charged with diverting to his own use funds which he represented would be used solely for the purpose of drilling wells. The defendant in the *Alfred* case told investors that he had been a geologist in the Federal Government, that he had discovered an oil pool in a particular area, and that in the past he had drilled 42 wildcat oil wells of which 40 were commercially producing wells. An additional conviction was obtained during the year in the *Cactus Oil Co.* case<sup>7</sup> where the charges against the defendants included the payment of corporate "dividends" out of capital for the purpose of inducing investors to make repeated purchases of stock.

The fraudulent sale of securities in the promotion of a so-called "kickless automatic sport shotgun" was the basis for the conviction during the past year in *U. S. v. William Ray Baldwin* (D. Del.). Among other things, it was charged that Baldwin falsely informed investors that the promotional corporation shortly would receive from the United States Government some \$800,000 for the use of patents owned by the corporation which would make it possible for the corporation to pay dividends to stockholders and that the money received from the sale of securities would be used to develop and manufacture a new sport shotgun. It was alleged that the defendant

<sup>6</sup> Three individual defendants were convicted. On motion of the United States attorney the indictment was dismissed as to the corporation, the remaining defendant.

Misrepresentations respecting the quantity of oil being produced are included in the charges in *U. S. v. George E. Baldwin* (N. D. Ill.), a pending case, in which an indictment was returned during the past year.

<sup>7</sup> See 14th Annual Report of Securities and Exchange Commission, p. 101. Subsequent to the conviction of the two individual defendants the indictment as to the corporate defendant was dismissed.

omitted to disclose to investors that the corporation was insolvent, that all money received from them was being used for the promoters' personal use and benefit, and that the Government had advised that it did not owe any money to the corporation.

Other allegedly fraudulent activities involving the promotion of mechanical devices were the subject of indictments obtained in the past year in *U. S. v. Doak Norwood*, (N. D. Ill.) (desk pad device) and *U. S. v. Philip M. Carter et al.* (S. D. N. Y.) (acoustical material), both of which cases are pending.

Other business promotions resulting in criminal proceedings during the past year were involved in *U. S. v. Alfred L. Lodge et al.* (W. D. Okla.) (production, manufacture, and sale of brooms), *U. S. v. Jim May* (S. D. Tex.) (grain trading venture), and *U. S. v. Paul A. Schumpert et al.* (M. D. Tenn.) (small loan company). The defendants in the first two cases were indicted during the year and convictions were obtained after the close of the fiscal year. In the *Schumpert* case convictions were obtained during the year on an earlier indictment,<sup>8</sup> and another indictment was returned during the year against additional defendants. In the *Lodge* case the misrepresentations included such matters as the use to be made of the proceeds obtained from securities sales, the profits and property owned by the corporations, and the approval of the securities by the Commission. Both the *May* and *Schumpert* cases involved, among other things, a "Ponzi" type of swindle where, to induce further investment, capital was returned to investors in the guise of profits.

Convictions involving securities brokers and dealers and their representatives were obtained during the past year in *U. S. v. D. S. Waddy* (W. D. Ark.), where the defendant operated a securities business while insolvent, converted customers' funds and securities, filed false and misleading financial statements with the Commission, and failed to keep the books and records required by section 17 (a) of the Securities Exchange Act of 1934 and by the Commission's rules thereunder; in *U. S. v. Louis A. Starling et al.* (W. D. Va.), where the defendants, under the pretense of rendering impartial investment advice, induced their customers to purchase the defendants' personally owned shares of a tobacco company by misrepresenting, among other things, the financial condition of the company and by failing to disclose that the stock was being sold for the personal profit of the defendants; and in *U. S. v. Stanley M. Brown* (D. D. C.), *U. S. v. Alvis Roy Davis* (W. D. Mo.), and *U. S. v. Otto F. Herald* (N. D. Ill.), in which cases the conversion of customers' money or securities constituted a part of the frauds charged. The defendant in the *Herald* case was convicted also of violating the broker-dealer registration provisions of the Securities Exchange Act of 1934, since he had engaged in the business of effecting securities transactions without being registered with the Commission as required by section 15 (a) of the act.

Indictments involving securities brokers and dealers are presently pending in *U. S. v. Frederick F. March* (N. D. Ill.), *U. S. v. Edwin R. Hawley* (D. Ariz.), and *U. S. v. Eugene F. Luck* (S. D. Fla.). March is accused of fraudulently selling interests in a purported investment

<sup>8</sup> See 15th Annual Report of Securities and Exchange Commission, p. 165.

plan to be operated by him by misrepresenting, among other things, the nature of the investment plan and the profits which investors would make on their investments in this plan. In fact, according to the indictment, the defendant converted to his own use and benefit, and used for gambling purposes, a large part of the money which he obtained from investors. In addition, the indictment charges him with paying back to investors, as "profits" resulting from the operation of his plan, portions of their capital contributions. The frauds charged in the *Hawley* and *Luck* cases involve, among other things, the conversion of customers' funds and securities. As a part of the alleged fraud employed in the latter case, it is charged that the defendant forged various documents and sold stock of his securities brokerage firm to his customers by means of various false representations.

Criminal contempt proceedings were instituted during the year in *U. S. v. James Nelson* (S. D. Cal.) and *U. S. ex rel. SEC v. Josiah Marshall Kirby* (N. D. Ohio). Nelson was convicted for violating a 1944 injunction decree which enjoined him from selling securities in violation of the registration provisions of the Securities Act of 1933. Despite this decree, Nelson sold securities, which had not been registered with the Commission, relating to certain syndicates known as the "Apache Golden Treasure Syndicate" and the "Tayopa Golden Treasure Syndicate." The contempt proceeding in the *Kirby* case is pending. The petition alleges that Kirby continued to act as an over-the-counter securities broker and dealer, without registration under section 15 (a) of the Securities Exchange Act of 1934, in violation of preliminary and final injunction decrees obtained in 1948 and 1949 respectively.

In the only appellate case involving criminal prosecution decided during the fiscal year, *Nemec et al. v. U. S.*, 178 F. 2d 656 (C. A. 9, 1949), *certiorari* denied 339 U. S. 985, the conviction of defendants for the fraudulent sale of securities in connection with the promotion of a purported gold mining venture was sustained.

### COMPLAINTS AND INVESTIGATIONS

The Commission is authorized under the acts it administers to investigate possible violations. Among the sources of information about violations are the examination by the staff of material filed with the Commission (e. g., ownership reports indicating transactions in equity securities by officers and directors) information furnished by other governmental agencies, better business bureaus, State authorities, and complaints made by members of the public. Complaints from the public provide the chief source of leads with respect to such violations. During the 1950 fiscal year 9,335 letters were received by the principal office relating to possible violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. This volume of complaints represented an increase over the preceding year of more than 30 percent.

Investigations are classified generally as preliminary or docketed investigations. A preliminary investigation is one instituted for the purpose of determining whether probable violations have occurred and this type of investigation is carried on largely through corre-

spondence, office research, or limited interviews. If the information developed in the preliminary investigation indicates such violations of the law as to require a full-scale field investigation, the case is transferred to a docketed investigation. In a great many instances, however, the preliminary investigation discloses that the violation, if any, is of a minor nature warranting neither a full-scale investigation nor the imposition of any of the sanctions provided by law. These include situations in which the violation comes to the attention of the Commission shortly after its inception, where the violation appears to be inadvertent, and where immediate steps have been taken by the offender to comply with the law.

The Commission has subpoena powers and designates officers for the purpose of conducting investigations, issuing subpoenas, and administering oaths. Subpoenas are used only where the investigation cannot be concluded without their use and only after a preliminary report and reasons for the necessity of issuance of the subpoenas have been presented to the Commission. During the 1950 fiscal year the Commission authorized use of subpoenas by issuance of formal orders for investigation in 35 cases.

The extent of the investigatory activities of the Commission during the 1950 fiscal year under the Securities Act of 1933, the Securities Exchange Act of 1934, sections 12 (e) and (b) of the Public Utilities Holding Company Act of 1935, the Investment Company Act of 1940, and the Investment Advisers Act of 1940 is shown in the following table:

*Investigations of violations of the acts administered by the Commission*<sup>1</sup>

	Preliminary <sup>2</sup>	Docketed <sup>3</sup>	Total
Pending at June 30, 1949.....	536	1,050	1,586
Opened July 1, 1949 to June 30, 1950:			
New cases.....	341	159	500
Transferred from preliminary.....		50	50
Total number of cases to be accounted for.....	877	1,259	2,136
Closed.....	511	718	1,229
Transferred to docketed.....	50	50	50
Pending at June 30, 1950.....	316	541	857

<sup>1</sup> These figures include oil and gas investigations which are separately tabulated and discussed elsewhere in this report.

<sup>2</sup> Investigations carried on through correspondence and limited field work.

<sup>3</sup> Investigations assigned to field investigators.

### Canadian Situation

During the 1950 fiscal year illegal offerings in the United States of oil and mining securities emanating from Canada continued to be of grave concern to the Commission. Practically all of these offerings are made by mail from Toronto, Ontario. Complaints from the public, better business bureaus, and State authorities have been received in large numbers from all parts of the United States. State authorities have continued to issue cease and desist orders where solicitations have been made in violation of their securities laws. Newspapers and magazines have performed a valuable service by warning the public about these violations. The Post Office Department has continued to cooperate with the Commission in trying to prevent the losses caused

by these illegal mass mail campaigns. During the year the Post Office Department issued orders against 14 individuals and firms who have conducted such mail campaigns, based upon the use of fictitious names. In addition, the Post Office Department, based upon information furnished by the Commission, issued fraud orders to stop the delivery of mail to 27 firms in Toronto who, were offering shares by means of fraudulent representations and omissions.

All of these cases involved violations of the registration provisions of the Securities Act of 1933. Every full investigation has shown that unregistered securities being offered and sold in the United States from Toronto have been offered and sold by means of false and fraudulent representations.

It is believed that the vigorous campaign by the Commission, with the cooperation of other governmental agencies, has been effective in reducing these violations. However, they have not been completely eliminated. The Commission has continued its efforts to improve the extradition provisions of our treaties with Canada so as to enable the Government of the United States to bring the fraudulent operators to trial.

#### **Section of Securities Violations**

In the first year of its existence the Commission established a section of securities violations for assistance in the enforcement of the various statutes which it administers and to provide a further means of preventing fraud in the purchase and sale of securities. This section has developed files which provide the basis of maintaining a clearing house of information concerning persons who have been charged with violations of various Federal and State securities statutes. The specialized information in these files has been kept current through the cooperation of the United States Post Office Department, the Federal Bureau of Investigation, parole and probation officials, State securities commissions, Federal and State prosecuting attorneys, police officials, and members of the United States Chamber of Commerce. By the end of the 1950 fiscal year these records contained data concerning 53,162 persons against whom Federal or State action had been taken in connection with securities violations.

During the past year alone additional items of information relating to 6,324 persons were added to the records of this section, including information concerning 1,997 persons not previously identified therein.

Extensive use is made of this clearing house of information. During the past year, in connection with the maintenance and preventive application of these records, the Commission received 4,298 "securities violations" letters or reports (apart from those which are classified as "complaint enforcement") and dispatched 3,007 communications in turn to cooperating agencies.

#### **ACTIVITIES OF THE COMMISSION IN ACCOUNTING AND AUDITING**

Many of the reports or documents required to be filed each year with the Commission contain financial data, mostly in the form of financial statements and related schedules. These are always a vital, often the most significant, element of the information the investor must have upon which to predicate investment decisions. Because

the Congress recognized that accounting and accountants perform such an important role in achieving the statutory purpose of disclosure, and because financial statements lend themselves readily to misleading inferences or even deception, whether or not consciously intended, the statutes administered by the Commission deal extensively with accounting, and activities of the Commission in the field of accounting are necessarily significant.

Thus, for example, the Securities Act not only provides for inclusion in prospectus of balance sheets and profit and loss information "in such form as the Commission shall prescribe,"<sup>9</sup> but authorizes the Commission to prescribe "the items or details to be shown in the balance sheet and earning statement, and the methods to be followed in the preparation of accounts. \* \* \*"<sup>10</sup> Similar authority is contained in the Securities Exchange Act,<sup>11</sup> and more comprehensive power is embodied in the Investment Company Act<sup>12</sup> and the Holding Company Act.<sup>13</sup>

The Securities Act provides that the required financial statements shall be certified by "an independent public or certified accountant."<sup>14</sup> The other three statutes above mentioned provide that the Commission may require that such statements be accompanied by a certificate of independent public accountants.<sup>15</sup> The Commission's rules require that statements filed pursuant to the Securities Exchange Act and the Investment Company Act be so certified. The value of certification has for many years been conceded but the requirement as to independence, long recognized by some individual accountants, was for the first time authoritatively and explicitly stated by its introduction into the statutes. Out of this initial provision in the Securities Act and the resulting rules established by the Commission<sup>16</sup> there have grown concepts that have materially strengthened the protection afforded investors by eliminating certain unhealthy accountant-client relationships which theretofore were quite common.

Although the statutes administered by the Commission give it wide rule-making power, accounting, based as it is largely upon convention and existing financial and business concepts, is of such a nature that the Commission has not yet found it necessary or desirable in most areas to establish extensive accounting rules and regulations dealing with accounting problems. The Commission has prescribed uniform systems of accounts for certain public utility holding companies and for public utility mutual and subsidiary service companies. It has adopted rules under the Securities Act governing accounting and auditing of exchange members, brokers, and dealers. In the wider area dealing with industrial, commercial, and investment companies under the Securities Act, Securities Exchange Act, and Investment Company Act the form and content of most financial statements are governed by the Commission's regulation S-X.

<sup>9</sup> Sec. 10 (a) (1) (Schedule A, par. 25, 26).

<sup>10</sup> Sec. 19 (a).

<sup>11</sup> Sec. 13 (b).

<sup>12</sup> Secs. 30, 31.

<sup>13</sup> Secs. 14, 15.

<sup>14</sup> Sec. 10 (a) (1) (Schedule A, par. 25, 26).

<sup>15</sup> Securities Exchange Act, sec. 13 (a) (2); Investment Company Act, sec. 30 (e); Holding Company Act, sec. 14.

<sup>16</sup> See, for example, rule 2-01, regulation S-X.

The rules and regulations thus established do not prescribe the accounting to be followed except in certain basic respects. In the large area not covered by such rules the Commission's principal reliance for the protection of investors is on the determination and application of accounting standards which are recognized as sound and which have come to have general acceptance. This policy of the Commission is expressed in accounting series release No. 4 (1938) (one of the series of such releases inaugurated in 1937 to publish accounting statements and opinions which are of general interest).

One of the inevitable results of this policy has been constant contact and cooperation between the Commission and other governmental agencies and accountants both individually and through such groups as the American Institute of Accountants, the American Accounting Association, the Controllors Institute of America, the National Association of Railroad and Utilities Commissioners and others. The importance of this cooperation is emphasized by the great influence and responsibility inherent in the Commission's authority over the several thousand financial statements filed every year with it by most of the important commercial and industrial companies in the United States.

The accounting staff of the Commission is organized to handle the many day-to-day accounting problems that arise in the course of its work and to provide central responsibility for aiding the Commission in matters of accounting policy. The chief accountant has general supervision with respect to accounting and auditing policy and its application. He is assisted directly by a staff of trained accountants, and, in addition, by assistant chief accountants assigned to and responsible for the examination of financial data and other operating work in the Division of Corporation Finance, Division of Trading and Exchanges and Division of Public Utilities.

#### **Examination of Financial Statements**

The majority of the accounting problems with which the Commission is concerned arise from examination of financial statements or other data required to be filed with the Commission. In general, deficiencies revealed by examination are called to the attention of the registrant by letter. These letters of comment and the correspondence or conferences that follow have proved to be a most convenient aid in effecting corrections and improvements in financial reporting. Few matters involve prolonged discussion or dispute in spite of the tremendous volume of financial data reviewed each year by the Commission; and it is only in rare instances that formal procedures are necessary in order to procure disclosure.

Many problems arise as a result of inquiry by representatives of registrants, their accountants or counsel in advance of the actual filing of the material involved. Advance discussion of this kind is encouraged and experienced practitioners regularly follow this procedure in dealing with unique problems—thus saving valuable time for themselves and their clients. As a natural outgrowth of the fact that the Commission studies and is the repository of a vast reservoir of financial data, the staff is frequently called on to aid in the preparation

of studies of current problems such as those involved in formulating the background of legislative proposals.

#### **Proposed Amendment of Regulation S-X**

Regulation S-X is the Commission's basic accounting regulation relating to the form and content of financial statements filed under the Securities Act, the Securities Exchange Act, and the Investment Company Act. This regulation was promulgated in February 1940 and in many respects simply brought together requirements theretofore contained in the separate registration and annual report forms. The only major changes in the regulation since its issuance in 1940 have been the addition in 1942 of article 6A relating to unit investment trusts, the complete revision in 1946 of article 6 relating to management investment companies and a new article 5A, adopted in 1948, applying to commercial, industrial, and mining companies in the promotional, exploratory, or development stage.

Many accounting and reporting problems have arisen during the 10 years that have elapsed since the adoption of regulation S-X. Both the incidence and solution of some of these matters have involved changed viewpoints, not only of industry and the accounting profession, but also of the Commission. Furthermore, entirely new situations have developed requiring the establishment of new procedures. For these reasons it has been thought desirable to revise the regulation.

When the present proposal to amend regulation S-X was made in September 1949, copies of the preliminary draft were sent to 325 persons and an additional 75 or more were sent to persons who requested copies, mostly as a result of an item in the October 1949 Journal of Accountancy which invited readers to obtain and comment upon the preliminary draft. Several accounting firms and professional groups requested additional copies so that, in all, approximately 600 copies were sent out. Approximately 175 persons, including 46 controllers or principal accounting officers of corporations, submitted comments.

The large number of comments and recommendations received was given a great deal of careful study. Amendments originally proposed were reconsidered as a result of these comments and the final revision of the proposed amendments was sent out and formal notice of amendment was given under the Administrative Procedures Act on July 12, 1950. In view of the great importance of the regulation, the most careful consideration will be given to the additional comments and suggestions expected to be received before enactment of amendments.

#### **Other Developments in Accounting and Auditing**

The Commission's fifteenth annual report mentioned the disclosure and accounting problem that arose from the increasingly popular form of financing by means of long-term leases or more particularly the sell-and-lease-back device. To a considerable extent the Commission's disclosure requirements applicable to such transactions have been in existence for a number of years. Thus, item 5 of the schedule of "Supplementary Profit and Loss Information," rule 12-16 of regulation S-X, requires that there be stated certain minimum data as to annual rentals, if significant. In view of the very important nature

of lease-type financing, particularly the fixed character of the commitment undertaken, the Commission has in the past several years asked that there also be given, by a brief reference in a footnote to the balance sheet, the principal details of significant transactions occurring within the year or years covered by the report. The Commission also has indicated that where the transaction is such that it is in substance a purchase of property, the transaction must, despite the lease form, be accounted for as a purchase. The principles were also adopted in the recommendation of the Committee on Accounting Procedure, American Institute of Accountants, in its Accounting Research Bulletin No. 38 issued in October 1949.

Although the Commission had earlier indicated its position with respect to accounting for the obligations created by corporate pension plans, during the current year it was found desirable to give further consideration to the matter. This did not involve the one-time troublesome question of the proper disposition of expenditures to fund payments or liabilities determined upon the basis of past services of employees. The propriety of charging such amounts direct to income rather than to surplus is no longer challenged. Accounting Research Bulletin No. 36 in November 1948 by the American Institute of Accountants is, in principal, in agreement with the Commission's view.

However, there arose again the problem of the accounting for possible or implicit liabilities associated with past service elements of pension plans where the corporation is under no contractual obligation to continue the plan beyond the current year or few years immediately following. In the case of actual liability arising from an irrevocable commitment to the future payment of pensions it was not difficult to conclude that any unfunded liability for past service benefits, actuarially determined, should, under accepted accounting principles, be set up in the accounts. At the date of adoption of the plan such liability would, of course, relate not only to employees actually retired or qualified for retirement but also to the past service of those employees who would not qualify for retirement until a future date.

Such completely irrevocable commitments apparently occur rarely, if at all. In recent months union-management negotiations, particularly in the steel industry, have led to the adoption of various plans which might not legally bind the employers to fund past-service elements even though in a typical instance the plan is, by contract, to continue for 5 years. Question arose as to the extent of disclosure required to be given in proxy statements coming before the Commission for examination.

As an accounting matter the Commission had earlier concluded that even though there is no contract, or the pension contract may run for a short period only, it would be unrealistic to ignore the probability that, once having installed a plan or entered into a short-term contract, the company will continue it. Accordingly it was believed that there should be disclosed in a brief footnote to the balance sheet not only the important terms of the plan, including estimates of amounts payable annually, but also the company's best estimate of the amount that would be necessary to fund, or complete the funding of, past service obligations at the balance sheet date on the assumption that the plan

is to be continued. In the case of employees who have retired or are eligible to retire, an equally realistic approach seems to require that, apart from any question as to legal liability, balance sheet provision should be made in an amount equal to the sum necessary to fund the obligation.

Upon request, in connection with the proxy material filed with it, the Commission informally reconsidered its position and concluded that it could find no sound and reasonable basis for a different view than that held earlier as to the appropriate treatment in financial statements. The Commission also indicated that the disclosure requirements in proxy material, to be furnished to stockholders as a basis for stockholder action on the pension plan, are essentially the same as in the case of financial statements and that therefore substantially the same treatment should be given to the facts.

In September 1949, the British Government announced a very material devaluation of its currency in terms of the United States dollar. Devaluations were almost immediately announced by many other foreign governments with the result that a large number of domestic corporations engaged in business in these countries were presented with problems as to how to state the accounts of their foreign subsidiaries and branches in terms of United States currency. Since many of these corporations publish quarterly financial data for the benefit of stockholders and others, prompt decisions were necessary. Although the Commission generally does not exercise jurisdiction over stockholders' reports as such, many inquiries as to the Commission's views were received from registrants in anticipation of the later filing of their annual reports.

The first problem presented in many instances was whether to continue the previous practice of consolidating foreign and domestic operations. The Commission recognized that the decision on this point is one primarily to be reached by the company and its independent accountants, having due regard for all the facts, and having in mind the objective of most clearly exhibiting the financial condition and results of operations of the parent company and its subsidiaries. While not then called upon to make a decision in any particular case, the staff, in answer to a number of inquiries, indicated its general conclusion that the consolidation question might well be determined upon the basis of the degree of integration of the foreign operations with domestic operations.

If such foreign operations are essentially an arm or extension of domestic operations, and are actively being conducted, the view held is that there is a presumption in favor of the consolidation thereof, despite the probable impact upon the foreign operations of unfavorable political and economic factors. If, in an instance of this kind, remittances to the parent company are restricted, appropriate disclosure of the facts would be necessary and the consolidated profit and loss statement should reflect only earnings of foreign subsidiaries which are available to the parent in terms of United States dollars. If, on the other hand, the foreign operations constitute a complete and separate business unit in and of themselves, and serious economic problems are presented, nonconsolidation would generally appear to be indicated. In the examination of reports filed with the Commission since these

developments it has been observed that in a substantial number of cases foreign operations previously included in consolidation have been removed therefrom and, where falling within the Commission's tests of significance, have been reported on separately.

A more persistent question was whether, as a result of widespread devaluations and foreign conditions generally, any new principles were applicable with respect to the conversion of foreign assets into a dollar equivalent. It was the staff's opinion, expressed in numerous instances, that no new problem existed and that the well-established practices of the past are quite adequate and appropriate to cope with any situation that has come to its attention. The general principles applicable in the case of conversion of foreign net assets are well expressed in Accounting Research Bulletin No. 4 (1939) of the American Institute of Accountants. Question arose, however, concerning the extent to which losses recognized in connection with the devaluation should be recognized by charges against income. The staff's position, concurred in by the Commission in a recent informal ruling, is that losses of this nature, even though large in amount, are a risk incident to doing business and are therefore proper charges against income. This conclusion was arrived at independently of the general question of the propriety of charges and credits to earned surplus.

Among the proposed amendments to regulation S-X are provisions dealing in certain important respects with the above described problems as to long-term lease commitments, pension plans, accounting for operations of foreign subsidiaries, and the impropriety of direct charges to earned surplus.

Several of the annual reports of the past few years have commented upon a group of accounting cases that arises in the administration of rules X-17A-3 and X-17A-5 under the Securities Exchange Act, governing securities brokers and dealers. As has been noted, most of the difficulties encountered in this field of regulation are due to the large number of small firms and the fact that many of the required audits are performed by accountants unfamiliar with the Commission's requirements and apparently not well trained in the improved procedures of brokerage accounting and auditing practice. During the past year the Commission's staff, through correspondence and through direct contact by regional office representatives, continued to devote considerable time to improvement in this area. In most cases it was apparent that inexperience rather than deliberate evasion was the cause of the unsatisfactory reports filed. There were a number of cases involving certifying accountants, however, in which, although formal proceedings under rule II of the rules of practice were not necessary, the audit work failed completely to approach generally accepted auditing standards and required that informal action, usually warning or admonition, be taken.

The various changes by the Commission in its forms are described in the preceding sections discussing the administration of the various acts. There were no material changes affecting the work of accountants although of interest was the elimination of the well-known Form 1-MD and the extension of Form 10-K to annual reports pursuant to both sections 13 and 15 (d) of the Securities Exchange Act.

**DIVISION OF OPINION WRITING**

The Division of Opinion Writing aids the Commission in the preparation of findings, opinions, and orders promulgated by the Commission in contested and other cases arising under the Securities Act of 1933, the Securities Exchange Act of 1934, the Holding Company Act of 1935, the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940. These statutes provide for a wide variety of administrative proceedings which require quasi-judicial determination by the Commission. Formal opinions are issued in all cases where the nature of the matter to be decided, whether substantive or procedural, is of sufficient importance to warrant a formal expression of views.

The Division of Opinion Writing is an independent staff office which is directly responsible to the Commission. It receives all assignments and instructions from and makes recommendations and submits its work to the Commission directly. It is headed by a director, who is assisted by an assistant director, supervising attorneys, and a staff of drafting attorneys and a financial analyst.

While engaged in the preparation of opinions assigned to the Division of Opinion Writing, the members of this division are completely isolated from members of the operating division actively participating in the proceedings and it is an invariable rule that those assigned to prepare such an opinion must not have had any prior participation in any phase of the proceedings with respect to which the opinion is to be prepared. Commission experts are from time to time consulted on technical problems arising in the course of the preparation of opinions and findings, but these experts are never individuals who have participated in the preparation of the case or testified at the hearing.

The director or assistant director of the Division of Opinion Writing, together with the members of the staff of the division who are assigned to work on a particular case, attend the oral argument of the cases before the Commission and frequently keep abreast of current hearings. Prior to the oral argument, the division makes a preliminary review of the record and prepares and submits to the Commission a summary of the facts and issues raised in the hearings before the hearing officer, as well as in any proposed findings and supporting briefs, the hearing officer's recommended decision, and exceptions thereto taken by the parties. Following oral argument or, if no oral argument has been held, then at such time as the case is ready for decision, the Division of Opinion Writing is instructed by the Commission respecting the nature and content of the opinion and order to be prepared.

In preparing the draft of the Commission's formal opinion, the entire record in the proceedings is read by a member of the staff of the Division of Opinion Writing and in some cases he prepares a narrative abstract of the record. Upon completion of a draft opinion and abstract of the record, and after review and revision of the opinion within the Division of Opinion Writing, they are submitted to the Commission. If the study of the record in the case by the Division of Opinion Writing has revealed evidence of violations warranting a reference to the Attorney General for criminal prosecution, or has disclosed the desirability or the need for any changes in

administrative procedures or techniques, appropriate recommendations are made to the Commission at the time the draft opinion in the case is submitted.

The draft opinion as submitted may be modified, amended, or completely rewritten in accordance with the Commission's final instructions. When the opinion accurately expresses the views and conclusions of the Commission, it is adopted and promulgated as the official decision of the Commission. In some cases concurring or dissenting opinions are issued by individual Commissioners who wish to express their separate views on matters covered by the opinion adopted by the majority of the Commission. In such cases the Division of Opinion Writing is occasionally instructed to prepare drafts of such concurring or dissenting opinions and confers respecting them with the individual Commissioners involved, submits drafts directly to them, and makes such modifications and revisions as are directed.

The findings of fact, opinions, and orders adopted and promulgated by the Commission serve as an aid and guide to the bench and bar. With minor exceptions (e. g., certain opinions dealing with requests for confidential treatment) all are publicly released and distributed to representatives of the press and persons on the Commission's mailing list. In addition, the findings and opinions are printed and published by the Government Printing Office in bound volumes under the title "Securities and Exchange Commission Decisions and Reports."

The creation of the Division of Opinion Writing as an independent staff unit in 1942 was based on the view that the fair exercise of the Commission's adjudicatory functions in many types of cases made it appropriate that it be assisted in that function by members of its staff who were independent of units engaged in investigation or prosecution of cases. Originally initiated as a matter of Commission policy, the desirability of this arrangement was subsequently given express recognition in specific provisions of the Administrative Procedure Act, which in certain types of cases requires that there be a complete separation of function between quasi-prosecutory functions and quasi-judicial functions. The existence of the Division of Opinion Writing thus made it possible for the Commission, even before the passage of the Administrative Procedure Act, to meet fully the separation of function requirements contained in sections 5 (c), 7 and 8 of the act.

The Commission, through its revised rules of practice, has sought to provide a flexible procedure which will be suited to the needs and desires of the participants in the proceeding before it, as well as guarantee to them the procedural safeguards required by the general principles of due process and the provisions of the Administrative Procedure Act. Thus, at the request of some participants, the Commission has in many cases availed itself of the assistance of the Division of Opinion Writing in the preparation of its findings even though separation of functions was not required by law.

Further, under rule III of the Commission's rules of practice, the moving party may, subject to a contrary determination by the Commission, specify the procedures considered necessary or appropriate in the proceedings, with particular reference to (1) whether there

should be a recommended decision by a hearing officer; (2) whether there should be a recommended decision by any other responsible officer of the Commission; (3) whether the interested division of the Commission's staff, or only the Division of Opinion Writing may assist in the preparation of the Commission's decision; and (4) whether there should be a 30-day waiting period between the issuance of the Commission's order and the date it is to become effective. Other parties may object to the procedures or specify other procedures, but in the absence of such objection or specification of additional procedures they may be deemed to have waived objection to the specified procedure and to the omission of any procedure not specified.

In addition to its primary function, the Division of Opinion Writing is also given assignments of a general nature which are not inconsistent with the objective of the separation of the investigatory and quasi-judicial functions. Thus, the division has been assigned continuing joint responsibility with the office of the General Counsel in dealing with problems arising under the Administrative Procedure Act. It has also been given the responsibility of preparing a compilation of administrative decisions and other authorities under the various statutes administered by the Commission.

The Division of Opinion Writing assists the operating divisions of the Commission in the preparation of opinions in certain uncontested cases where participation by the operating division in the decisional process is proper under the Administrative Procedure Act. In some instances members of the Division of Opinion Writing are assigned to assist the Office of the General Counsel in connection with court appeals taken from Commission decisions initially drafted in the Division.

Some of the more significant opinions issued by the Commission during the year are commented upon in this report under the discussions of the various statutes.

#### **FOREIGN FINANCIAL AND ECONOMIC MATTERS—THE INTERNATIONAL BANK**

Registration statements covering \$230,738,915 of securities issued by foreign issuers, private and governmental, were filed during the fiscal year 1950 under the Securities Act of 1933. About \$190,000,000 of these securities were issued by governments; and about \$175,000,000 of these governmental issues emanated from Canada.

Upon the outbreak of World War II United States national securities exchanges suspended dealings in all securities of German, Japanese, Italian, and other axis origins. Shortly thereafter the Commission, after consultation with the Departments of State and Treasury, requested that brokers and dealers refrain from effecting transactions in these securities. Following the filing of a registration statement by the Republic of Italy in December 1947, covering an offer of exchange for outstanding dollar bonds of the Kingdom of Italy and certain municipal and corporate obligations, the Commission withdrew its cease-trading request as it affected Italian securities.

In recognition of the interest of United States bondholders the Commission has consulted with the Departments of State, Treasury, Justice, and with the Armed Services on the questions involved in the eventual resumption of trading in German, Japanese, and other former Axis issues. Events which have taken place since these bonds were suspended from trading have been reviewed. The uncertain status of prewar dollar obligations of Germany, the lack of a peace treaty, and the substantial dollar obligations it had incurred during the period of occupation have been noted.

Through the supreme commander of the Allied Powers the Commission has (in consultation with the Ministry of Finance of the Japanese Government) endeavored to get current information filed with respect to the status of Japanese dollar bonds which were outstanding prior to the war. The Japanese Government has expressed the intention of complying with the Commission's requirements for the filing of data so that United States investors will be fully informed as to the status of these bonds. The public availability of reliable information of this kind is a necessary condition of any resumption of dealings in the bonds.

The Commission has continued its representation on the staff committee of the National Advisory Council on International Monetary and Financial Problems and has continued to cooperate with other agencies concerned with the development of the Government's foreign economic program.

The Commission has also contributed to the development of the President's Point IV program for the provision of technical assistance to and the encouragement of private investment in underdeveloped countries. It has participated in studies relating to the revival of private foreign investment for developmental projects. It has also consulted with the Department of State on the inclusion in Treaties of Friendship, Commerce and Economic Development of clauses intended to protect investors in foreign securities.

The Commission, as a member of the Board of Visitors of the Foreign Bondholders Protective Council, Inc., continued consultation with the Department of State on problems referred to the Board by officers of the Council.

The Commission has during the year had discussions with representatives of several foreign governments on the laws, regulations, and procedures applicable to the issuance of and trading in foreign securities in United States capital markets.

By amendment to the Bretton Woods Agreements Act securities issued or guaranteed as to principal and interest by the International Bank for Reconstruction and Development are deemed to be exempted securities under the Securities Act of 1933<sup>17</sup> and the Securities Ex-

<sup>17</sup> Because of the exemption from the Securities Act the bank is not required to register its securities in connection with any public offering thereof, nor does it have to register securities guaranteed by it as to principal and interest.

The criminal sanctions for fraudulent sales of securities under the Securities Act continue to apply to transactions in the bank's securities and in securities guaranteed by the bank—in spite of the exemption. However, the exemption has the effect of eliminating civil liabilities under the Securities Act. Since the civil liabilities provisions of section 11 apply only in cases of inadequate registration statements, and those of section 12 (1) apply only in the event securities are sold in violation of the registration provisions, exemption of these securities from registration has the effect of avoiding the application of these sanctions.

change Act of 1934.<sup>18</sup> The Commission in consultation with the National Advisory Council on International Monetary and Financial Problems is authorized to suspend the provisions of this amendment at any time.

Pursuant to regulation BW, adopted by the Commission under the amendment to the Bretton Woods Agreements Act, the bank files with the Commission information comparable to that which would be required if its securities had been registered under the Securities Act of 1933 and the Securities Exchange Act of 1934. The amendment requires the Commission to include in its annual reports to Congress such information as it shall deem advisable with regard to the operation and effect of the amendment, and in connection therewith to include any views submitted for such purpose by any association of dealers registered with the Commission. The Commission has received no views from such association of dealers.

In January 1950, the bank refunded \$100,000,000 of its outstanding 10-year 2¼ percent bonds by selling an issue of serial bonds in the same amount. The 2¼ percent bonds, originally issued at par in 1947, were replaced by a 2 percent issue and the refunding bonds were originally sold at a premium resulting in a net interest cost to the bank of 1.92 percent.

The refunding bonds were sold at competitive bidding. Syndicates consisting of investment houses, securities dealers, and banks, with a wide geographical distribution, participated in the bidding. The winning syndicate consisted of 37 commercial banks and 99 securities dealers located in 25 States and the District of Columbia. In all, bidding groups had an aggregate membership of 393—of which 63 were commercial banks and 330 were securities dealers.

The bank made available to bidders and to participating dealers copies of a prospectus relating to the new serial bonds giving information about the bank's structure and operations and including audited financial statements. The bank thus gave effect to representations made by it in connection with the adoption of the amendments to the Bretton Woods Agreements Act which exempted securities issued and securities guaranteed as to principal and interest by the bank. In connection with the adoption of this legislation its proponents had

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Section 12 (2) provides for civil liabilities for sales of securities (whether or not registered) made through material misrepresentations and omissions. However, securities exempted by section 3 (a) (2) of the Securities Act do not fall within the provisions of section 12 (2). Since the amendment to the Bretton Woods Agreements Act requires these securities to be deemed exempted "within the meaning of" section 3 (a) (2), the effect of that amendment is to eliminate civil liability pursuant to section 12 (a).

<sup>18</sup>The amendment to the Bretton Woods Agreements Act requires that securities issued or guaranteed as to principal and interest by the bank shall be deemed to be exempted within the meaning of section 3 (a) (12) of the Securities Exchange Act of 1934.

The effect of this exemption is to take these securities out of the purview of rules fixing margin requirements and of rules relating to borrowings on securities by brokers and dealers. As exempted securities, these securities may be traded on exchanges without the formalities of registration or literal compliance with information requirements or other exemptive provisions.

Brokers or dealers doing a business exclusively in the bank's exempted securities and other exempted securities, would not be required to register with the Commission.

Section 10 (b) of the Securities Exchange Act makes it unlawful to use deceptive or manipulative devices, in contravention of rules and regulations of the Commission, in connection with the purchase or sale of securities—whether or not registered on a securities exchange. Pursuant to this provision the Commission has adopted rules which apply whether or not securities are exempted.

Recent litigation has emphasized the possibility that these rules afford civil relief as well as a basis for criminal action.

The exemption of the bank's securities does not affect the operation of this provision.

stated to the Congress that the bank intended to give purchasers full information about the bank and its securities.

A fuller discussion of the operations of the bank is contained in the second special report of the National Advisory Council on International Monetary and Financial Problems (May 1950).

Since this issue is the only issue of the bank's bonds effected since enactment of the amendment the Commission does not, in this report, comment upon the operation and effect of the amendment.

#### ADVISORY AND INTERPRETATIVE ASSISTANCE

The Commission has continued to make freely available to the public the informal advisory and interpretative assistance of its professional and technical staff, on matters arising under the statutes. Correspondence, conference, and telephone inquiries are handled by staff experts familiar with the problems involved. It is impossible to estimate the number of inadvertent violations forestalled as a result, or the amount of time that goes into work so intimately related to the regulatory duties of the Commission.

#### CONFIDENTIAL TREATMENT OF APPLICATIONS, REPORTS, OR DOCUMENTS

Under five of the acts which it administers—the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Investment Advisers Act of 1940, and the Investment Act of 1940—the Commission is authorized to grant confidential treatment, upon application by registrants, to information contained in reports, applications, or documents which they are required to file under these statutes. Under the Securities Act of 1933 the Commission has adopted rule 580, which provides that information as to material contracts, or portions thereof, will be held confidential by the Commission if it determines that disclosure would impair the value of the contracts and is not necessary for the protection of investors. The other four statutes, in general, empower the Commission to hold confidential under certain conditions any information contained in any reports required to be filed under those statutes. Disclosure of information confidentially filed under the latter statutes is made only when the Commission determines that disclosure is in the public interest.

The following table indicates the number of applications for confidential treatment received and acted upon during the 1950 fiscal year and the number pending at its close:

*Applications for confidential treatment—1950 fiscal year*

Act under which filed	Number pending July 1, 1949	Number received	Number granted	Number denied or withdrawn	Number pending June 30, 1950
Securities Act of 1933 <sup>1</sup>	1	15	16		
Securities Exchange Act of 1934 <sup>2</sup>	10	26	24	4	8
Investment Co. Act of 1940 <sup>3</sup>		65	65		
Total	11	106	105	4	8

<sup>1</sup> Filed under rule 485, Securities Act of 1933.

<sup>2</sup> Filed under rule X-24B-2 and rule X-13A-6B, Securities Exchange Act of 1934.

<sup>3</sup> Filed under rule N-45A-1, Investment Company Act of 1940.

Registrants may seek judicial review of decisions made by the Commission regarding confidential treatment adverse to them, but no such petition for judicial review was filed during the past year.

### STATISTICS AND SPECIAL STUDIES

In general, the statistical activities of the Commission relate to (a) data of general application on groups of companies subject and not subject to the legislation administered by the Commission and (b) operational data derived from official filings with the Commission. The purpose of the latter studies is to organize and present in meaningful form the masses of information filed with the Commission.

#### **Saving Study**

The Commission continued its series of quarterly releases on the volume and composition of individuals' saving in the United States. These releases show the aggregate volume of individuals' saving as well as the components contributing to the total, such as changes in securities, cash, insurance and consumers' indebtedness, etc. These data have been extremely useful in the determination of fiscal policy and as a measurement of the inflationary potential.

#### **Financial Position of Corporations**

The Commission, together with the Department of Commerce, continued the joint series of quarterly releases on the plant and equipment expenditures of United States business other than agricultural. Shortly after the close of each quarter these releases present industry totals on the actual capital expenditures of that quarter and anticipated expenditures for the next two quarters. In addition a survey is made at the beginning of each year of the plans of business as regards expansion during that year. These data have provided a useful index of present and future activity in the capital markets and of business in general. In view of the volatile nature of capital expenditures and their relation to the level of production and employment, the series has been of considerable importance for business management and in the formation of government policy.

The series of quarterly releases on the working capital position of all United States corporations exclusive of banks and insurance companies was also continued. These releases show the principal components of current assets and current liabilities and an abbreviated analysis of the sources and uses of corporate funds. These data are important in measuring the liquid position of the corporate segment of the economy taken as a whole.

The Commission, together with the Federal Trade Commission, continued the joint series of quarterly industrial financial reports. These reports developed as an extension of the working capital series and present a complete balance sheet and an abbreviated income account for manufacturing corporations as a whole. In addition the data are shown for various size groups of corporations and for minor industry groups. The financial report program includes data on manufacturers' profits, which are extremely important in the formulation of a tax program and renegotiation policy. The data are basic to any appraisal of corporate financial position and any analysis of corporation finance and the capital markets.

**Capital Markets**

The Commission has also continued its monthly series on new securities offerings published in the Statistical Bulletin, and a quarterly series published together with a brief analysis in release form. These data show the volume and character of all securities offerings in the United States, both registered and unregistered, public offerings, and private placements. Collateral studies based on these data have been undertaken from time to time pursuant to the Commission's needs and requests from other branches of the government, and the public. These included a study of the cost of flotation of privately placed securities and a survey of issues offered under regulation A.

Operational statistics (in reality organized and segregated data on a basis necessary for an understanding of the over-all facts revealed by filings with us) are regularly collected with respect to the following matters and, except for those marked with an asterisk are regularly published:

- Registration statistics.
- Underwriting statistics.
- Cost of flotation.
- Broker-dealer financial data.
- Investment company data.
- Accounting and financial characteristics of registrants.\*
- Balance sheet and plant data.\*

**PERSONNEL**

As of June 30, 1950, the personnel of the Commission consisted of the following:

Commissioners.....	5
Staff:	
Headquarters office.....	677
Regional offices.....	316
	— 993
<b>Total.....</b>	<b>998</b>

During the fiscal year 1950, a limited appropriation required a reduction-in-force of 60 employees. Further staff reductions resulted by allowing positions left vacant through resignations to remain unfilled. The 998 employees on duty as of June 30, 1950, represents a reduction of 129 from the total of 1,127 as of June 30, 1949. During the last 5 years the Commission's average employment has dropped from 1,204 during the 1946 fiscal year to 1,043 for the fiscal year just ended.

The division of personnel is responsible for the administration of the Commission's personnel program. Its regular work embraces placement and separation; job evaluation and classification; employee relations and services; training; operation of various committees and boards such as the Committee of Expert Examiners (which conducts examinations for positions peculiar to the Securities and Exchange Commission); wage administration; the uniform efficiency rating system; administration of Commission regulations governing the personal securities and commodities transactions of its personnel; and processing, recording, and reporting of all personnel matters. Following the reduction of four employees early in the fiscal year, these

functions were carried out with a staff of 8 employees—a ratio of 1 personnel employee per 130 Commission employees.

In addition, the division of personnel is responsible for the conduct of preappointment character investigations, leave administration and accounting, retirement counseling, and the maintenance of an emergency medical unit staffed by a registered nurse. Four additional employees are assigned to the division of personnel to carry out these functions.

While the volume of appointments and other personnel transactions was considerably below normal during the fiscal year, the reduction-in-force and related developments created many personnel problems. For example, every effort was made to assist employees released in the reduction-in-force in locating suitable employment. One of the major personnel problems was that of allocating and reassigning available personnel to achieve maximum operating efficiency throughout the Commission. In the sustained effort to preserve vital services, employees were interchanged, reassigned and shifted from unit to unit as the pressure of work dictated. Supervisory officials cooperated in this effort by releasing sorely needed employees to units where the work program was at the moment the most critical.

Just prior to the beginning of the fiscal year the Bureau of the Budget's personnel records system was installed. The system was tested during the entire fiscal year and has contributed substantially to the efficient operation of the personnel program. Under the system paper work and record keeping are reduced to a bare minimum, conserving time and money for the more productive phases of personnel administration.

## FISCAL AFFAIRS

### Appropriations and Expenditures

The following is a summary of the appropriation and expenditures for the 1950 fiscal year:

Appropriation.....	\$5, 878, 250
Expended.....	5, 873, 450
Unexpended balance.....	4, 800

### Receipts

The Commission receives fees (a) for the registration of securities under the Securities Act of 1933 (1/100th of 1 percent of the maximum price at which securities are proposed to be offered); (b) from registered national securities exchanges (1/500th of 1 percent of the aggregate dollar volume of the sales of securities on such exchanges); (c) for applications for the qualification of indentures under the Trust Indenture Act of 1939 (\$100 for each application); (d) for the sale of photocopies of documents or portions thereof filed by corporations under one or more of the acts the Commission administers; and (e) various receipts, such as a bonus for the award of the contract for stenographic reporting services, for which \$27,000 was received during the fiscal year 1950, and from other sources, such as the sale of excess or surplus Government property, the sale of waste papers, etc.

The following is the amount of fees received in the 1950 fiscal year:

Character of fees:	<i>Amount</i>
Registration of securities issues.....	\$520, 420
Qualification of trust indentures.....	800
From registered exchanges.....	228, 867
Sale of copies of documents or portions thereof.....	12, 411
Miscellaneous receipts.....	27, 545
<b>Total.....</b>	<b>790, 043</b>

Fees and other receipts must be turned in to the General Fund of the Treasury and are not available for expenditure by the Commission.

## PUBLICATIONS

### Public Releases

Releases of the Commission consist primarily of official announcements of filings under and actions taken pursuant to the several acts which it administers. These include notices of filings, hearings, orders, decisions, regulations, and related matters issued by the Commission. The Commission has endeavored to improve its service and to effect economies in connection with its mailing lists by (1) a reclassification of releases enabling persons to select releases on a particular subject without receiving nonrelated matter and (2) by issuing digests which set forth briefly the subject matter of the more voluminous releases. This procedure avoids the full-scale distribution of all releases except to those persons who are sufficiently interested to make a special request therefor.

The announcements issued during the 1950 fiscal year included 33 releases under the Securities Act of 1933; 193 under the Securities Exchange Act of 1934; 754 under the Public Utility Holding Company Act of 1935; 170 under the Investment Company Act of 1940; and 4 under the Investment Advisers Act of 1940. In addition, nine releases were issued concerning the Commission's activities in corporate reorganization under Chapter X of the Bankruptcy Act, and four releases were issued under the Trust Indenture Act of 1939. The following breakdown of the releases for the month of June 1950 is fairly illustrative of the general nature of releases issued throughout the year:

Announcements of filings, orders for hearing, and notices giving opportunity to request hearing.....	32
Interim and final decisions and orders.....	55

The balance of the Commission's releases were of an informational nature, the following having been issued during the year: seventy-five announcements of publication of reports on corporate survey and statistical studies; 76 reports of court actions in injunction and criminal prosecution cases initiated by the Commission; and 5 miscellaneous announcements regarding appointments of Commissioners, staff officials, and related matters.

### Other Publications Issued During the 1950 Fiscal Year

**Daily Registration Record:** Registration statements filed with the Commission.

**Monthly Statistical Bulletin:** Statistics on capital markets and securities exchanges. Bound volume 16 of the Decisions and Reports, May 15, 1944 to September 30, 1944: Decisions and reports issued by the Commission.

Twelve monthly issues of the Official Summary of Securities Transactions and Holdings of Officers, Directors, and Principal Stockholders: Summary of security ownership data required to be filed with the Commission.

The Fifteenth Annual Report of the Commission: The Commission's annual report to the Congress.

List of Securities Traded on Exchanges under the Securities Exchange Act of 1934, as of December 31, 1949.

List of Companies Registered under the Investment Company Act of 1940, as of December 31, 1949.

Accounting Series Release No. 68, July 1949.

Proposal to Safeguard Investors in Unregistered Securities, Supplemental Report to Congress, 1950: Proposed legislation to require disclosures of information by companies meeting certain standards.

Registered Public Utility Holding Companies, June 30, 1949: List of companies registered under the Public Utility Holding Company Act of 1935.

Securities Registered under the Securities Act of 1933, Cost of Flotation—1950, first quarter: Study of the costs of issuing and selling securities registered under the Securities Act of 1933.

Volume and Composition of Individuals Saving: Quarterly estimates of individuals' saving.

Plant and Equipment Expenditures of Business: Quarterly series showing actual and planned expenditures for plant and equipment.

Quarterly Industrial Financial Report: Quarterly balance sheet and income account for all manufacturing corporations classified by size of company and industry.

Net Working Capital of Corporations: Quarterly estimates of the net working capital and components for all corporations.

New Securities Offered for Cash: Quarterly compilations of new securities offerings, public and private, registered and nonregistered, as well as use of proceeds.

#### **Information Available for Public Inspection**

The Commission maintains public reference rooms at the central office in Washington, D. C., and in its regional offices in New York City, N. Y. and Chicago, Ill. Copies of all public information on file with the Commission contained in registration statements, applications, reports, declarations, and other public documents are available for inspection in the public reference room in Washington. In addition to providing facilities for personal inspection of registered public information, the public reference room handled thousands of letters and telephone calls from persons requesting public information and copies of forms, releases, and other material of a public nature. During the 1950 fiscal year 4,195 persons visited this public reference room seeking such information. Through the facilities provided for the sale of photocopies of public registered information, 1,813 orders involving a total of 134,783 pages were filled. In addition to the sale of photocopies, the Commission mailed 1,096,555 pieces of mail containing releases, forms, acts, etc., to persons requesting them.

In its New York regional office, located at 120 Broadway, facilities are provided for the inspection of certain public information on file with the Commission. This includes copies of (1) applications for registration of securities on all national securities exchanges except the New York Stock Exchange and the New York Curb Exchange, together with copies of annual reports, supplemental reports, and amendments thereto, and (2) annual reports filed pursuant to the provisions of section 15 (d) of the Securities Exchange Act of 1934 by issuers having securities registered under the Securities Act of 1933. During the 1950 fiscal year 13,324 persons visited the New York public reference room and about 7,000 telephone calls were received from persons seeking registered public information, copies of forms, releases, and other material.

In the Chicago regional office at 105 West Adams Street, copies of applications for registration of securities on the New York Stock Exchange and the New York Curb Exchange, together with copies of all annual reports, supplemental reports and amendments thereto, are available for public inspection. During the 1950 fiscal year 3,301 members of the public visited this public reference room and approximately 1,434 telephone calls were received from persons seeking registered public information, forms, releases, and other material of a public nature.

In addition to the material which is available in the New York and Chicago public reference rooms, copies of all prospectuses used in public offerings of securities effectively registered under the Securities Act of 1933 are available in each of the Commission's regional offices. Duplicate copies of applications for registration of brokers or dealers transacting business on over-the-counter markets, together with supplemental statements thereto, filed under the Securities Exchange Act of 1934, and duplicate copies of applications for registration of investment advisers and supplemental statements thereto, filed under the Investment Advisers Act of 1940, are available for inspection in the regional office having jurisdiction over the zone in which the registrant's principal office is located. Also, inasmuch as letters of notification under regulation A (which provides an exemption from small issues of securities from the registration requirements of the Securities Act of 1933), may be filed with the regional office of the Commission for the region in which the issuer's principal place of business is located, copies of such material are available for inspection at the regional office where filed.

In the Commission's San Francisco regional office, in which complete facilities are provided for registration of securities and qualification of indentures, copies of registration statements and applications for qualification of indentures filed at that office are available for public inspection. Copies of all applications for permanent registrations of securities on national securities exchanges are available for public inspection at the respective exchange upon which the securities are registered.

## PUBLIC HEARINGS

The following number of public hearings were held by the Commission under the indicated acts during the 1950 fiscal year:

Securities Act of 1933.....	1
Securities Exchange Act of 1934.....	24
Public Utility Holding Company Act of 1935.....	71
Trust Indenture Act of 1939.....	1
Investment Advisers Act of 1940.....	1
Investment Company Act of 1940.....	1
<b>Total</b> .....	<b>98</b>
<b>Formal hearings under Commission's Rules of Practice which were made public during fiscal year</b> .....	<b>1</b>
<b>Formal hearings under Commission's Rules of Practice which were not made public during fiscal year</b> .....	<b>1</b>
<b>Total</b> .....	<b>2</b>
<b>Total hearings for year</b> .....	<b>100</b>

**PART IX**

**APPENDIX**

**STATISTICAL TABLES**

TABLE 1.—Registrations fully effective under the Securities Act of 1933

PART 1.—DISTRIBUTION BY MONTHS, FISCAL YEAR ENDED JUNE 30, 1950

[Amounts in thousands of dollars] <sup>1</sup>

Year and month	All effectively registered			Proposed for sale for account of issuers		
	Number of statements	Number of issues	Amount	Number of statements	Number of issues	Amount
<i>1949</i>						
July.....	25	52	412,778	25	50	399,052
August.....	24	29	275,081	22	25	262,597
September.....	32	44	336,857	23	27	271,965
October.....	39	57	258,209	30	44	219,252
November.....	41	50	389,247	38	43	303,821
December.....	28	37	199,761	26	33	153,858
<i>1950</i>						
January.....	39	50	558,344	31	34	484,188
February.....	32	37	293,488	32	36	269,409
March.....	63	78	707,735	48	54	523,319
April.....	58	86	590,831	56	78	435,476
May.....	62	78	732,002	55	64	536,939
June.....	44	49	582,743	34	38	527,440
Total fiscal year 1950.....	2 487	647	5,307,077	420	526	4,381,314

PART 2.—BREAKDOWN BY METHOD OF DISTRIBUTION AND TYPE OF SECURITY OF THE VOLUME PROPOSED FOR CASH SALE FOR ACCOUNT OF THE ISSUERS, FISCAL YEAR ENDED JUNE 30, 1950

[Amounts in thousands of dollars] <sup>1</sup>

Method of distribution and group to whom offered	Type of security					
	All types	Secured bonds	Unsecured bonds	Preferred stock	Common stock	Other types <sup>2</sup>
All methods of distribution.....	4,381,314	959,933	1,023,524	467,929	1,540,578	389,350
To general public.....	3,383,498	959,933	934,021	334,614	786,811	368,119
To security holders.....	903,669	-----	79,515	129,227	694,927	-----
To other special groups.....	94,148	-----	9,988	4,088	58,841	21,232
Through investment bankers.....	3,890,617	955,933	1,003,536	454,404	1,120,687	356,056
By purchase and resale.....	2,927,787	955,933	1,000,536	447,720	523,598	-----
To general public.....	2,365,089	955,933	921,771	321,383	166,002	-----
To security holders.....	560,279	-----	78,765	126,337	355,177	-----
To other special groups.....	2,419	-----	-----	-----	2,419	-----
On best efforts basis.....	962,830	-----	3,000	6,685	597,089	356,056
To general public.....	949,871	-----	3,000	6,685	584,130	356,056
To security holders.....	12,959	-----	-----	-----	12,959	-----
To other special groups.....	-----	-----	-----	-----	-----	-----
By issuers.....	490,698	4,000	19,988	13,524	419,892	33,294
To general public.....	68,538	4,000	9,250	6,847	36,679	12,062
To security holders.....	330,431	-----	750	2,590	326,790	-----
To other special groups.....	91,729	-----	9,988	4,088	56,422	21,232

See footnotes at end of table.

TABLE 1.—Registrations fully effective under the Securities Act of 1933—Continued  
 PART 3.—PURPOSE OF REGISTRATION AND INDUSTRY OF REGISTRANT, FISCAL YEAR ENDED JUNE 30, 1950  
 [Amounts in thousands of dollars]<sup>1</sup>

Purpose of registration and use of proceeds	Industry							Other groups
	All Industries	Extractive	Manufacturing	Financial and investment	Merchandising	Transportation and communication	Electric, gas, and water	
Number of statements.....	3,487	15	81	154	14	24	177	22
Number of issues.....	647	22	104	228	17	28	218	30
For all purposes of registration (estimated value).....	5,307,077	40,667	805,691	1,176,449	32,277	538,403	2,506,596	4,208,995
Less: Not for cash sale.....	621,027	7,641	241,114	97,135	2,331	15,014	238,738	19,054
For account of issuers.....	576,982	7,641	235,184	77,076	2,331	10,261	225,437	19,054
Reserved for conversion.....	228,371	3,273	190,093	10,307	1,898	4,694	48,137	---
Reserved for option.....	46,667	---	---	46,667	---	---	---	---
For substitution.....	18,709	---	---	---	---	---	---	---
For exchange for other securities.....	274,907	5	14,105	---	---	---	---	4,599
For other purposes.....	8,337	4,363	60,986	20,111	463	5,566	173,325	14,455
For account of others than issuers.....	44,045	---	5,980	20,060	---	4,753	13,362	---
For cash sale (estimated gross proceeds).....	4,686,051	33,027	564,577	1,079,314	29,946	523,389	2,267,837	187,941
Less: For account of others than issuers.....	304,736	---	58,273	11,622	4,576	635	229,930	---
For cash sale for account of issuers.....	4,381,314	33,027	506,304	1,067,692	25,370	522,753	2,038,227	187,941
Less. Cost of flotation.....	197,058	2,789	30,693	79,560	1,103	14,964	64,436	3,663
Commission and discount.....	175,349	2,289	27,519	77,773	804	13,464	50,219	3,262
Expenses.....	21,709	451	3,175	1,787	299	1,510	14,218	270

TABLE 1.—Registrations fully effective under the Securities Act of 1933—Continued  
 PART 3.—PURPOSE OF REGISTRATION AND INDUSTRY OF REGISTRANT, FISCAL YEAR ENDED JUNE 30, 1950  
 [Amounts in thousands of dollars] <sup>1</sup>

Purpose of registration and use of proceeds	Industry							
	All industries	Extractive	Manufacturing	Financial and investment	Merchandising	Transportation and communication	Electric, gas, and water	Other groups
Expected net proceeds from cash sales for account of issuer.....	4,184,267	30,287	475,611	988,362	24,268	507,760	1,928,761	164,378
New money purposes.....	2,149,798	23,420	339,047	38,510	10,661	643,176	1,285,167	9,967
Plant and equipment.....	1,984,836	19,264	232,469	5,931	5,931	643,124	1,280,892	3,154
Working capital.....	157,980	624	106,217	38,510	4,509	52	1,365	6,813
Other new money purposes.....	6,943	3,632	361	-----	-----	-----	2,950	-----
Retirements.....	886,705	21	106,546	939	8,529	63,115	534,073	173,681
Funded debt.....	655,651	-----	8,291	-----	2,698	60,261	11,043	173,388
Other debt.....	172,302	21	96,461	924	-----	510	74,263	132
Preferred stock.....	68,752	-----	1,794	15	5,831	2,344	48,707	-----
Purchase of securities.....	1,201,513	-----	4,384	905,652	1,049	1,498	148,393	597
For investment.....	964,339	-----	-----	945,652	150	-----	18,000	597
For affiliation.....	137,174	-----	4,384	-----	899	1,498	130,393	-----
Purchase of intangible assets.....	-----	-----	-----	-----	-----	-----	-----	-----
Miscellaneous and unaccounted for.....	61,231	6,846	25,633	3,032	4,249	-----	6,728	393

<sup>1</sup> Dollar amounts are rounded and will not necessarily add to the totals.  
<sup>2</sup> The 487 statements shown in this table as "fully effective" differs from the 498 shown in the text by reason of (a) the exclusion of 1 statement which became effective during the 1950 fiscal year subject to an amendment which was not filed by the end of the 1950 fiscal year; (b) the exclusion of 1 statement originally effective in 1936 which, after issuance of a stop order, became reeffective during the 1950 fiscal year; and (c) the inclusion of 1 statement which became effective during the preceding fiscal year subject to an amendment which was filed during the 1950 fiscal year.  
<sup>3</sup> Consists of face amount certificates and certificates of participation. Of the \$143,873,000 of face amount certificates \$133,847,000 were registered for sale through investment bankers on a best-efforts basis and \$10,026,000 for direct sale by issuers. Of the \$246,478,000 of certificates of participation, \$222,209,000 were registered for sale through investment bankers on a best-efforts basis and \$23,269,000 for direct sale by issuers.  
<sup>4</sup> Included in this classification are securities of foreign governments in the amount of \$190,405,000. Industries represented by the remaining \$16,690,000 are real estate and services.  
<sup>5</sup> Consists of voting trust certificates.

TABLE 2.—Classification by quality and size of new bond issues registered under the Securities Act of 1933 for cash sale to the general public through investment bankers during the fiscal years 1948, 1949, and 1950

PART 1.—NUMBER OF BOND ISSUES AND AGGREGATE VALUE

[Amounts in millions of dollars] 1

Fiscal year ended June 30—	Size of issue (\$100,000)	Quality:												All bonds					
		First grade		Second grade		Third grade		Fourth grade		Fifth grade		Below fifth		Unrated		Num-ber of issues	Aggre-gate value		
		Num-ber of issues	Aggre-gate value																
1948.....	50 and over.....	6	418.2	5	416.5	2	250.0	0	---	0	---	0	---	0	---	0	---	12	1,084.7
	20-50.....	4	105.6	5	172.6	7	205.0	4	109.5	0	---	0	---	0	---	0	---	20	592.7
	5-20.....	1	27.3	14	134.2	27	256.0	8	76.5	3	25.1	0	---	1	6.8	1	1.8	54	585.9
	1-5.....	0	---	3	10.6	11	36.1	6	17.6	0	---	0	---	0	---	1	2.8	21	66.1
	Under 1.....	0	---	0	---	0	---	0	---	2	1.5	0	---	0	---	5	2.8	7	14.3
	All sizes.....	10	551.1	27	733.9	47	747.1	18	203.6	5	26.6	0	---	7	11.4	114	2,273.7		
1949.....	50 and over.....	3	183.9	9	703.1	3	160.9	1	50.4	0	---	0	---	0	---	0	---	16	1,098.3
	20-50.....	1	40.5	5	131.3	5	160.9	3	85.0	0	---	0	---	1	27.8	15	455.6		
	5-20.....	0	---	15	147.8	28	246.7	11	106.1	2	16.5	0	---	0	---	0	---	56	517.1
	1-5.....	0	---	5	16.2	10	29.9	2	6.2	1	3.0	0	---	2	5.5	20	60.8		
	Under 1.....	0	---	0	---	0	---	0	---	0	---	0	---	0	---	4	1.5	4	1.5
	All sizes.....	4	224.4	34	968.4	46	598.4	17	257.7	3	19.5	0	---	7	34.8	111	2,133.3		
1950.....	50 and over.....	2	211.4	3	383.4	2	172.0	1	60.7	0	---	0	---	0	---	0	---	8	827.0
	20-50.....	0	---	8	254.4	5	174.5	2	48.3	0	---	0	---	0	---	0	---	16	509.0
	5-20.....	6	87.0	11	107.6	19	206.5	6	62.3	1	6.0	0	---	1	9.1	44	478.6		
	1-5.....	0	---	3	9.4	10	29.8	3	10.1	2	5.3	0	---	2	7.0	21	65.5		
	Under 1.....	0	---	0	---	0	---	0	---	0	---	1	4.0	0	---	0	---	0	---
	All sizes.....	8	298.5	25	754.8	36	833.0	12	181.4	4	43.0	1	4.0	3	16.1	89	1,890.7		

See footnotes at end of table.

TABLE 2.—Classification by quality and size of new bond issues registered under the Securities Act of 1933 for cash sale to the general public through investment bankers during the fiscal years 1948, 1949, and 1950—Continued

PART 2.—COMPENSATION<sup>1</sup> TO DISTRIBUTORS

[Percent of gross proceeds]

Fiscal year ended June 30—	Size of issue (\$000,000)	Quality <sup>2</sup>								
		First grade	Second grade	Third grade	Fourth grade	Fifth grade	Below Fifth	Unrated	All bonds	
1948	50 and over.....	0.5	0.6	0.4	1.2					0.5
	20-50.....	.6	.4	.7	1.3					.7
	5-20.....	.1	.5	.6	1.5	2.5			0.4	.8
	1-5.....		.5	.6	1.5				7.2	1.0
	Under 1.....					3.0			7.5	6.1
	All sizes.....	.5	.5	.6	1.3	2.6		3.2		.6
1949	50 and over.....	.4	.7	.9	.4					.7
	20-50.....	.5	.4	.9	1.3				5.7	1.1
	5-20.....		.5	.5	1.3	3.1				.7
	1-5.....		.3	.5	.6	4.0			5.3	1.1
	Under 1.....								7.6	7.6
	All sizes.....	.5	.6	.7	1.1	3.3		5.8		.8
1950	50 and over.....	.6	.6	.6	1.6					.7
	20-50.....		.5	.5	.5	.9				.5
	5-20.....		.5	.5	2.0	2.0			4.5	1.7
	1-5.....		.5	.6	1.2	2.0			3.7	1.4
	Under 1.....									
	All sizes.....	.6	.5	.6	1.0	1.2		5.0	4.2	.6

<sup>1</sup> Dollar amounts are rounded and will not necessarily add to the totals.

<sup>2</sup> The grades are according to the classification of the bonds by investment rating services: "first grade" corresponds to Moody's Aaa, Standard & Poor's A1+, "second grade" to Aa, A1, etc.

<sup>3</sup> The compensation figures are based on the data reported in the registration statements as of their effective dates. They do not, therefore, include additional compensation that may have been realized later from the exercise of options that had no realizable value on the effective dates.

TABLE 3.—New securities offered for cash sale in the United States<sup>1</sup>

PART I.—TYPE OF OFFERING

[Estimated gross proceeds in thousands of dollars]<sup>2</sup>

Calendar year or month	All offerings			Public <sup>3</sup>			Private			
	Registered	Exempt because of—		Registered	Type of issue or issuer <sup>1</sup>	Size of issue <sup>2</sup>	Intrastate offering	Registered	Exempt because of—	
		Type of issue or issuer <sup>1</sup>	Size of issue <sup>2</sup>						Type of issue or issuer <sup>1</sup>	Purchase by limited group <sup>4</sup>
1934										
July.....	4,909,642	4,692,392	0	0	0	0	0	0	1,464	90,257
August.....	6,853,345	1,872,433	0	0	0	0	0	85,066	85,066	379,512
September.....	9,982,185	3,455,269	0	0	0	0	0	21,258	21,258	292,284
October.....	5,327,644	1,784,120	0	0	0	0	0	14,078	14,078	304,764
November.....	5,925,877	1,449,032	0	0	0	0	0	6,461	6,461	623,750
December.....	6,687,184	1,319,327	0	0	0	0	0	100,047	100,047	677,563
1935.....	6,564,210	1,689,414	0	0	0	0	0	32,638	32,638	736,902
1936.....	15,157,000	1,498,066	0	0	0	0	0	33,570	33,570	672,046
1937.....	32,435,094	698,586	0	0	0	0	0	7,786	7,786	414,442
1938.....	44,618,165	34,416,210	0	0	0	0	0	21,829	21,829	350,032
1939.....	66,300,992	43,992,468	0	0	0	0	0	69,433	69,433	710,233
1940.....	54,711,831	753,197	0	0	0	0	0	4,370	4,370	1,017,320
1941.....	18,685,693	1,790,839	0	0	0	0	0	21,984	21,984	1,890,729
1942.....	18,640,927	4,165,884	0	0	0	0	0	8,888	8,888	2,227,001
1943.....	20,249,983	3,323,650	0	0	0	0	0	21,780	21,780	3,210,019
1944.....	21,110,063	3,210,580	0	0	0	0	0	25,730	25,730	2,690,716
1945.....	2,364,626	3,048,760	15,419,673	107,864	7,325	0	0	0	0	183,945
1946.....	2,701,600	287,703	1,903,479	9,500	0	0	0	0	0	99,665
1947.....	1,700,453	188,596	1,803,593	10,093	1,951	0	0	0	704	155,610
1948.....	1,703,425	90,469	1,443,785	5,708	1,160	0	0	0	4,731	176,396
1949.....	1,493,639	187,639	1,268,094	5,628	0	0	0	0	5,300	198,775
1950.....	1,492,639	102,925	976,187	9,315	0	0	0	0	4,913	292,631
1951.....	1,842,000	236,947	1,299,364	7,155	990	0	0	0	0	0
1952.....	2,098,208	442,510	1,578,106	5,320	0	0	0	0	1,150	71,115
1953.....	1,630,640	97,005	1,374,077	8,423	0	0	0	0	6,604	142,660
1954.....	1,866,113	249,986	1,369,250	8,082	0	0	0	0	6,980	240,876
1955.....	1,299,904	288,805	840,527	9,980	0	0	0	0	4,693	155,749
1956.....	1,078,143	383,214	1,086,925	14,466	2,240	0	0	0	1,867	189,401
1957.....	2,311,166	399,566	1,389,895	12,457	1,000	0	0	0	4,353	303,605

See footnotes at end of table, p. 183.

TABLE 3.—New securities offered for cash sale in the United States 1.—Continued

## PART 2.—TYPE OF SECURITY

[Estimated gross proceeds in thousands of dollars]

Calendar year or month	All types of securities						Bonds, debentures, and notes			Preferred stock	Common stock
	All issuers		Corporate		Noncorporate		All issuers	Noncorporate	Corporate		
	All issuers	Noncorporate	Corporate	Noncorporate	Corporate						
1934.....	4,909,642	4,512,402	397,240	4,863,880	4,512,402	371,478	6,272	19,490			
1935.....	6,683,345	4,351,715	2,331,630	6,676,232	4,351,715	2,224,517	85,566	21,547			
1936.....	9,982,185	5,410,505	4,571,690	9,439,431	5,410,505	4,028,925	270,702	272,002			
1937.....	5,327,644	3,018,120	2,309,524	4,636,286	3,018,120	1,618,166	405,955	285,403			
1938.....	6,925,877	3,771,213	2,184,664	6,815,217	3,771,213	2,044,004	86,100	24,651			
1939.....	6,687,184	3,523,177	2,164,007	5,502,713	3,523,177	1,979,536	97,688	86,794			
1940.....	6,664,219	3,887,046	2,677,173	6,273,059	3,886,871	2,386,188	183,000	108,160			
1941.....	15,157,000	12,490,113	2,666,887	14,879,866	12,490,113	2,389,753	167,320	109,814			
1942.....	35,438,064	34,375,776	1,062,288	35,202,499	34,375,776	916,723	112,020	33,545			
1943.....	44,518,166	43,348,474	1,169,692	44,335,346	43,348,474	988,872	123,729	56,091			
1944.....	56,309,992	53,108,101	3,201,891	55,777,347	53,108,101	2,699,246	369,471	163,173			
1945.....	54,711,831	48,700,895	6,010,935	53,556,340	48,700,895	4,855,445	768,676	387,864			
1946.....	18,685,493	11,786,848	6,899,646	16,667,972	11,785,848	4,882,124	1,126,667	890,855			
1947.....	19,940,927	13,364,103	6,576,824	18,400,411	13,364,103	5,036,308	778,557	613,509			
1948.....	20,249,938	13,172,168	7,077,820	19,144,943	13,172,168	5,972,776	491,535	613,509			
1949.....	21,110,068	15,058,518	6,051,550	19,940,018	15,058,518	4,890,500	424,662	736,388			
July.....	2,384,026	1,852,085	532,540	2,326,260	1,852,085	474,176	12,714	45,652			
August.....	2,104,000	1,484,384	220,216	2,036,422	1,484,384	152,038	22,099	46,079			
September.....	1,700,453	1,228,247	272,206	1,638,735	1,228,247	210,488	26,870	34,848			
October.....	1,633,422	1,219,949	413,474	1,528,029	1,219,949	308,080	44,331	61,013			
November.....	1,292,539	960,546	331,993	1,211,844	960,546	251,298	36,311	44,383			
December.....	1,842,000	1,267,748	574,252	1,983,685	1,267,748	415,836	36,468	121,947			
January.....	2,098,208	1,484,068	614,139	1,984,460	1,484,068	500,361	69,883	43,805			
February.....	1,630,540	1,371,387	259,153	1,570,969	1,371,387	109,512	12,560	47,081			
March.....	1,866,113	1,319,590	546,523	1,771,709	1,319,590	452,119	30,060	64,314			
April.....	1,299,894	809,615	490,279	1,102,623	809,615	263,008	61,257	136,014			
May.....	1,678,143	1,009,514	668,628	1,529,822	1,009,514	520,307	72,201	76,120			
June.....	2,311,166	1,241,962	1,069,204	2,054,853	1,241,962	812,571	96,139	160,463			

PART 3.—TYPE OF ISSUER

[Estimated gross proceeds in thousands of dollars.]<sup>2</sup>

Calendar year or month	Corporate <sup>7</sup>							Noncorporate					Foreign government <sup>8</sup>	Electionary agency and other non-profit
	Total corporate	Electric gas and water	Com-muni-cation	Trans-portion other than railroad	Manu-facturing	Com-mercial and miscellaneous	Railroad	Real estate and financial	Total non-corporate	U. S. Gov-ernment (including agency issues guaranteed)	Federal agency (issues not guar-anteed)	State and municipal		
1934.....	387,240		133,165		66,881	170,423	20,772	4,512,402	3,535,478	31,913	939,453	4,978	580	
1935.....	2,351,630		1,283,702		797,005	126,081	124,831	6,512,715	2,937,866	115,838	1,231,840	68,050	7,525	
1936.....	4,571,680		2,040,477		1,332,251	707,456	401,495	6,410,520	4,087,722	64,696	1,207,682	85,763	61,647	
1937.....	2,309,524		1,120,315		344,257	74,427	77,703	3,771,213	2,901,910	36,442	1,107,617	152,614	19,472	
1938.....	2,154,664		1,234,175		847,914	54,873	17,703	2,479,514	2,479,514	114,698	1,128,448	53,706	15,678	
1939.....	2,154,007		1,270,864		604,067	185,707	103,269	3,523,177	2,332,111	13,020	1,237,982	41,030	8,568	
1940.....	2,677,173		1,203,091		891,567	323,912	158,602	3,887,046	2,516,699	108,548	1,237,982	4,120	23,807	
1941.....	2,066,887		1,357,112		847,888	368,313	95,574	12,490,113	11,466,139	37,900	955,988	0	23,966	
1942.....	1,062,288		471,697		658,577	47,726	4,283	34,375,776	33,845,564	1,406	523,705	0	5,112	
1943.....	1,169,692		477,417		606,712	161,179	21,384	43,348,474	42,814,597	1,856	435,223	89,700	7,098	
1944.....	3,201,891		1,422,384		1,060,849	609,360	109,297	53,108,101	52,424,316	1,185	690,610	19,398	2,593	
1945.....	6,010,985		2,319,380		2,026,270	211,314	48,700,805	47,352,965	505,886	794,741	46,212	2,092	2,405	
1946.....	6,899,640		2,157,961		3,701,320	711,119	329,246	11,786,848	10,216,598	336,825	1,156,900	53,210	2,405	
1947.....	6,570,834		3,236,705		2,741,764	283,680	292,684	13,364,103	10,589,439	0	2,334,098	443,195	7,370	
1948.....	7,077,820		3,086,867		2,773,957	623,348	563,649	13,172,168	10,326,937	0	2,689,719	150,000	5,512	
1949.....	2,187,390		901,663	151,924	2,225,757	414,090	563,619	13,172,168	10,326,937	0	2,689,719	150,000	5,512	
1949.....	2,319,828		971,080	340,315	1,414,176	347,064	459,962	15,098,518	11,804,320	215,538	2,907,028	116,250	15,383	
July.....	532,540		26,639	51,770	203,668	11,129	51,393	1,852,085	1,606,349	0	245,195	0	341	
August.....	220,216		96,042	11,730	45,386	26,477	20,162	1,884,384	1,607,900	0	174,981	0	1,464	
September.....	272,206		63,744	4,325	25,938	55,247	15,618	1,428,247	894,399	215,538	317,605	0	705	
October.....	413,474		186,207	12,912	84,493	38,143	41,262	1,119,949	977,645	0	238,105	0	4,989	
November.....	331,993		135,777	16,650	66,438	25,150	9,816	9,900,540	707,280	0	251,134	0	2,432	
December.....	574,252		305,117	4,167	33,799	37,043	85,380	1,267,748	1,011,030	0	254,915	0	1,803	
1960.....	614,339		212,001	206,199	31,756	82,384	20,458	1,484,068	1,117,901	30,000	234,831	109,686	650	
January.....	259,353		117,678	285	64,290	26,227	24,072	1,371,387	810,403	0	545,967	18,017	0	
February.....	209,826		17,719	11,255	50,431	16,922	1,310,390	889,138	560,338	0	365,819	60,083	6,960	
March.....	460,479		239,133	32,276	36,215	34,747	86,593	1,309,615	833,070	0	175,810	0	735	
April.....	668,623		317,286	18,460	188,711	30,106	31,695	1,009,514	688,860	0	318,533	0	2,021	
May.....	624,967		347,467	15,633	173,622	45,652	128,502	1,241,962	881,638	0	358,916	0	1,388	
June.....	1,069,204		566,092	15,633	173,622	45,652	128,502	1,241,962	881,638	0	358,916	0	1,388	

See footnotes at end of table, p. 183.



<sup>1</sup> The data in these tables cover substantially all new issues of securities offered for cash sale in the United States in amounts over \$100,000 and with terms to maturity of more than 1 year. The figures represent offerings, not actual sales. However, the proportion of the total remaining unsold is believed to be quite minor. Included in the coverage are issues privately placed as well as issues publicly offered, and unregistered issues as well as those registered under the Securities Act of 1933. Excluded are: Intercompany transactions; U. S. Government "special series" issues, and other sales directly to Federal agencies and trust accounts; notes issued exclusively to commercial banks; and corporate issues sold through continuous offering, such as issues of open-end investment companies. The chief sources of data are the financial press and documents filed with the Commission. Data for offerings of State and municipal securities are from totals published by the *Commercial and Financial Chronicle*; these represent principal amounts instead of gross proceeds. All figures are subject to revision as new data are received.

<sup>2</sup> Gross proceeds are derived by multiplying principal amounts or numbers of units by offering prices, except for municipal issues where principal amount is used. Discrepancies between the sum of figures in the tables and the totals shown are due to rounding.

<sup>3</sup> Issues sold by competitive bidding directly to ultimate investors are classified as publicly offered issues.

<sup>4</sup> Issues exempt because of type of issue or issuer include offerings of Federal, State, and local governments, banks, issuers subject to regulation by the Interstate Commerce Commission, and eleemosynary and other nonprofit institutions.

<sup>5</sup> Issues in this group include those between \$100,000 and \$300,000 in size which are exempt under regulation A of the Securities Act of 1933, as amended May 21, 1946. Securities for which registration under the Securities Act of 1933 would be required if they were publicly offered.

<sup>6</sup> A more detailed classification of industry of issuer is available beginning with the year 1948, with figures for 1948 presented according to both the old and new classifications. Prior to 1948 all electric, gas, water, telephone, street railway, and bus company issues were grouped together under the heading "Public Utility." The yearly totals of such issues are given for the years 1934 through 1948 in order to provide a rough comparison with current data. Similarly, manufacturing, commercial, and miscellaneous companies were grouped together under the heading "Industrial and Miscellaneous," and figures for that classification are inserted for the years 1934 through 1948. An exact comparison of these old and new groups cannot be made because some companies formerly classified "Industrial and Miscellaneous," such as radio and aviation companies, would now fall under the "Communication" and "Transportation" groups. No changes were made in the "Railroad" and "Financial and Real Estate" classifications for the entire period.

<sup>7</sup> Includes bonds of the International Bank for Reconstruction and Development.

<sup>8</sup> Excludes issues sold by competitive bidding directly to ultimate investors.

TABLE 4.—Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States

PART I.—ALL CORPORATE

[Amounts in thousands of dollars]<sup>1</sup>

Calendar year and month	Proceeds		New money			Retirements				All other purposes
	Total gross proceeds †	Total net proceeds ‡	Total new money	Plant and equipment	Working capital	Total retirements	Funded debt	Other debt	Preferred stock	
1934.....	397,240	383,547	57,453	31,729	25,724	314,927	231,164	83,764	0	11,168
1935.....	2,331,630	2,265,760	207,649	111,246	96,404	2,034,963	1,793,734	170,194	71,035	23,147
1936.....	4,571,680	4,430,522	895,233	390,460	477,773	3,522,837	3,142,570	164,414	225,857	49,452
1937.....	2,309,524	2,238,786	990,542	573,949	416,594	1,421,763	910,570	111,422	189,771	36,480
1938.....	2,154,664	2,109,519	681,303	504,084	177,219	1,421,190	1,119,045	215,403	86,743	7,026
1939.....	2,164,007	2,115,012	324,839	170,145	154,743	1,763,842	1,636,755	68,504	58,584	26,281
1940.....	2,677,173	2,615,279	568,834	423,968	144,915	2,027,681	1,725,751	173,571	128,368	18,714
1941.....	2,666,887	2,623,199	868,288	660,904	207,385	1,726,753	1,482,968	144,227	99,558	28,157
1942.....	1,062,288	1,042,556	473,652	287,039	186,613	533,703	365,819	137,543	30,341	35,201
1943.....	1,169,692	1,146,914	307,953	140,889	107,069	811,065	666,657	72,538	72,490	27,271
1944.....	3,201,891	3,141,847	656,987	251,757	405,210	2,438,063	2,037,505	49,071	351,486	46,818
1945.....	6,010,985	5,901,744	1,079,844	637,803	442,042	4,868,823	4,116,897	134,009	437,917	133,076
1946.....	6,899,646	6,756,582	3,278,828	2,114,146	1,164,146	3,246,302	2,391,919	378,786	475,597	231,452
1947.....	6,576,824	6,466,053	4,590,540	3,408,523	1,182,017	1,707,931	1,165,961	356,304	196,486	167,862
1948.....	7,077,820	6,959,046	5,929,280	4,220,880	1,708,400	1,708,400	1,239,961	488,278	67,484	234,044
1949.....	6,051,550	5,959,260	4,606,320	3,724,165	882,100	1,038,099	360,424	637,133	40,542	314,835
July.....	532,540	525,820	461,483	426,787	34,696	54,923	18,318	36,068	548	9,414
August.....	220,216	214,999	164,263	133,053	31,201	46,222	16,948	28,600	675	4,523
September.....	272,206	267,923	163,465	100,025	54,439	61,091	19,296	21,800	19,905	43,367
October.....	413,474	407,229	260,144	214,492	45,652	98,064	57,811	37,430	2,823	49,021
November.....	331,993	327,153	270,109	158,687	111,432	40,700	17,170	23,524	0	16,544
December.....	574,252	565,178	331,459	223,361	108,098	150,610	111,034	37,454	2,152	83,110
January.....	614,139	605,300	453,081	405,405	47,676	104,497	39,077	62,997	12,423	47,623
February.....	259,153	254,612	190,393	130,070	60,323	46,005	30,117	12,866	2,963	18,214
March.....	546,523	438,226	370,863	241,697	129,265	150,338	138,210	11,209	9,919	16,925
April.....	900,279	479,829	344,175	294,981	49,195	36,181	12,289	36,971	13,978	9,365
May.....	668,628	667,892	305,815	211,877	93,839	340,864	164,110	136,971	39,774	11,222
June.....	1,060,204	1,055,260	624,753	451,052	173,681	381,431	311,079	64,908	5,443	49,135

PART 2.—PUBLIC UTILITY

[Amounts in thousands of dollars]<sup>1</sup>

PUBLIC UTILITY 1934-48 \*

1934.....	133,165	129,676	10,766	2,802	7,964	111,129	77,140	33,989	0	7,792
1935.....	1,243,762	1,249,586	30,355	26,205	4,160	1,218,255	1,144,549	28,747	44,959	7,975
1936.....	2,040,477	1,986,829	62,810	41,724	21,086	1,916,422	1,853,192	19,191	44,039	7,897
1937.....	1,770,625	1,760,606	89,286	79,052	9,634	1,652,927	1,592,811	41,877	88,239	8,393
1938.....	1,234,175	1,208,126	179,658	142,143	37,515	1,027,133	987,086	84,368	55,689	1,333
1939.....	1,270,964	1,246,237	42,898	32,105	10,702	1,197,734	1,099,852	41,170	66,782	6,695
1940.....	1,360,440	1,340,440	245,210	228,713	16,487	1,092,170	982,856	7,286	39,039	6,060
1941.....	1,357,112	1,340,019	316,788	302,963	13,795	1,019,308	956,363	26,135	36,810	3,983
1942.....	471,697	464,166	145,088	138,851	6,237	310,960	278,227	18,519	13,914	8,408
1943.....	477,417	469,122	21,645	15,837	5,807	439,082	411,659	16,207	11,216	7,386
1944.....	1,422,984	1,398,535	39,577	24,520	15,059	1,344,437	1,165,903	1,102	187,431	15,522
1945.....	2,319,880	2,290,603	89,359	60,794	8,596	2,182,235	2,051,873	23,492	106,869	39,009
1946.....	2,167,961	2,129,275	785,063	714,326	70,737	1,295,452	1,013,852	46,869	237,751	45,760
1947.....	3,266,705	3,211,842	2,185,262	2,035,020	153,242	977,048	1,013,375	37,795	96,877	40,532
1948.....	3,086,867	3,039,400	2,744,141	2,710,959	33,152	248,850	94,171	102,748	51,931	46,409

ELECTRIC, GAS, AND WATER 1948-50 \*

1948.....	2,187,390	2,149,672	1,871,931	1,840,699	31,331	231,819	93,018	87,431	51,370	45,923
1949.....	2,310,828	2,275,898	1,837,545	1,818,560	18,986	332,303	198,478	98,913	34,912	106,050
July.....	117,727	115,448	110,966	110,688	378	3,732	2,165	1,677	0	760
August.....	96,042	93,754	89,923	89,822	101	3,811	7,309	3,136	675	0
September.....	93,744	91,392	57,614	54,175	3,489	27,904	42,160	749	19,905	5,815
October.....	196,207	192,879	101,503	101,049	454	66,089	3,533	21,941	2,688	24,687
November.....	135,777	132,824	109,047	109,877	1,170	14,767	94,744	11,235	0	9,009
December.....	305,117	298,946	130,295	129,546	6,749	102,256	0	5,992	1,570	60,396
January.....	212,001	207,621	147,617	147,617	0	29,981	4,893	15,930	9,158	30,024
February.....	117,678	115,893	84,100	80,826	3,274	31,602	25,806	2,800	2,993	19,192
March.....	209,825	206,018	129,584	128,969	616	47,400	57,667	9,750	0	9,017
April.....	239,133	233,751	189,047	188,694	452	44,217	34,013	3,840	6,347	3,505
May.....	317,292	312,411	110,502	106,565	3,937	199,387	131,133	34,059	34,195	2,523
June.....	560,095	559,843	369,887	369,248	6,639	174,672	157,352	13,855	3,465	15,284

See footnotes at end of table, p. 190.

TABLE 4.—Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States—Continued

PART 2.—PUBLIC UTILITY.—Continued  
[Amounts in thousands of dollars]¹

COMMUNICATION 1948-50²

Calendar year and month	Proceeds		New money			Retirements				All other purposes
	Total gross proceeds ²	Total net proceeds ³	Total new money	Plant and equipment	Working capital	Total re-tirements	Funded debt	Other debt	Preferred stock	
1948.....	901,663	891,373	870,321	868,470	1,850	21,031	1,153	19,317	581	21
1949.....	571,080	566,566	504,657	502,679	1,877	60,865	47,175	11,578	2,102	1,164
July.....	26,939	26,448	23,942	23,695	247	2,597	0	2,597	0	0
August.....	11,730	11,451	11,100	11,100	0	10,351	10,296	115	0	0
September.....	4,925	4,207	4,227	4,227	0	1,780	188	1,582	0	0
October.....	12,912	12,864	11,470	11,367	103	236	0	236	0	1,160
November.....	16,650	16,451	14,447	14,145	302	2,000	0	2,000	0	4
December.....	4,167	4,089	4,019	4,019	0	40	0	40	0	0
1950.....	206,199	204,758	202,414	202,414	0	2,344	0	0	2,344	0
January.....	285	282	282	282	0	0	0	0	0	0
February.....	17,719	17,606	17,606	17,461	45	0	0	0	0	0
March.....	23,276	23,011	22,076	22,032	44	888	78	510	0	348
April.....	12,967	12,773	12,548	12,103	448	224	125	99	0	0
May.....	64,467	63,903	3,482	3,453	0	60,421	60,421	0	0	0
June.....										
July.....										
August.....										
September.....										
October.....										
November.....										
December.....										
1948.....	131,924	130,918	128,483	114,705	11,788	3,989	745	3,244	0	468
1949.....	340,315	338,686	302,320	298,868	3,455	36,284	272	36,012	0	90
July.....	81,770	81,414	81,414	80,913	501	0	0	0	0	0
August.....	13,570	13,471	13,471	13,471	0	0	0	0	0	0
September.....	18,031	17,898	17,898	17,898	0	0	0	0	0	0
October.....	24,060	23,879	23,879	23,879	0	0	0	0	0	0
November.....	16,289	16,151	16,151	16,151	0	0	0	0	0	0
December.....	47,454	47,323	22,330	22,330	0	24,993	0	24,993	0	0
1950.....	17,123	16,987	16,987	16,987	0	0	0	0	0	0
January.....	13,959	13,848	13,819	13,722	97	10	0	10	0	19
February.....	11,255	11,186	11,186	11,186	0	0	0	0	0	0
March.....	39,278	38,979	38,979	38,956	23	0	0	0	0	0
April.....	18,460	18,340	18,245	18,245	45	96	0	96	0	0
May.....	15,683	15,565	15,166	14,651	495	409	0	409	0	0
June.....										

TRANSPORTATION OTHER THAN RAILROAD 1948-50³

PART 3.—INDUSTRIAL AND MISCELLANEOUS  
 [Amounts in thousands of dollars] 1  
 INDUSTRIAL AND MISCELLANEOUS 1934-48 2

1934.....	66,881	61,776	25,266	7,766	17,490	35,132	34,106	1,026	0	1,388
1935.....	797,005	774,091	73,984	27,985	45,999	679,668	623,784	129,808	29,076	20,489
1936.....	1,332,261	1,279,934	438,768	208,183	230,854	811,075	823,381	100,384	137,310	30,092
1937.....	1,120,315	1,079,100	616,468	298,682	346,805	440,896	273,204	68,270	100,422	21,736
1938.....	847,914	831,232	469,351	337,631	131,720	366,778	201,941	131,009	23,823	6,102
1939.....	604,067	584,498	188,037	83,083	134,954	380,037	351,718	26,736	1,582	16,425
1940.....	991,567	960,771	166,817	81,820	84,995	652,267	652,267	45,669	85,467	18,065
1941.....	847,888	827,828	244,012	105,285	138,747	783,342	492,867	103,136	59,748	18,612
1942.....	638,572	627,185	292,651	116,399	176,252	207,741	73,290	119,024	16,427	26,793
1943.....	509,712	497,439	227,687	79,065	148,522	262,659	83,916	83,916	61,275	17,193
1944.....	1,060,849	1,033,392	453,664	124,961	328,704	561,617	346,078	47,969	187,574	28,111
1945.....	2,026,270	1,969,294	810,516	460,879	346,637	1,107,002	719,519	96,651	290,832	69,216
1946.....	3,701,820	3,600,777	2,200,869	1,265,903	943,965	1,280,693	756,688	250,152	223,883	169,216
1947.....	2,741,764	2,685,963	1,973,818	1,127,890	845,928	1,049,565	363,074	296,342	89,549	62,520
1948.....	2,773,987	2,715,707	2,154,469	1,011,510	1,142,978	425,937	64,880	350,046	10,451	136,231

MANUFACTURING 1948-50 3

1948.....	2,225,767	2,180,095	1,726,297	762,778	963,519	363,537	49,498	299,667	4,422	100,211
1949.....	1,414,176	1,390,872	1,851,257	542,078	309,180	422,030	41,563	378,627	2,730	116,684
July.....	203,663	201,650	175,313	109,006	16,307	26,031	1,050	24,083	299	305
August.....	45,386	44,300	21,989	9,989	12,000	18,684	0	16,684	0	3,627
September.....	25,938	25,533	19,517	12,639	6,878	5,824	3,789	2,035	0	1,191
October.....	84,493	82,590	41,406	24,516	10,360	18,684	15,650	3,034	0	22,500
November.....	36,465	35,700	24,306	5,140	19,107	7,894	15,347	7,647	0	3,500
December.....	63,790	62,957	49,212	21,876	27,335	10,023	4,769	4,939	315	3,722
January.....	31,755	30,977	26,990	4,338	22,652	3,108	800	1,450	888	878
February.....	64,290	63,139	46,793	9,093	37,606	14,061	4,308	9,743	0	2,325
March.....	50,431	48,977	38,015	12,636	25,409	10,635	8,858	5,853	919	2,287
April.....	36,216	34,426	24,307	11,070	13,237	7,105	0	5,961	1,234	2,924
May.....	186,711	185,961	79,585	26,839	52,746	102,869	1,827	95,453	6,579	3,217
June.....	173,622	169,400	109,409	44,209	65,260	52,457	35,019	10,387	7,431	7,414

See footnotes at end of table, p. 190.

TABLE 4.—Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States—Continued

PART 3.—INDUSTRIAL AND MISCELLANEOUS—Continued

[Amounts in thousands of dollars]<sup>1</sup>

COMMERCIAL AND MISCELLANEOUS 1948-50 \*

Calendar year and month	Proceeds		New money			Retirements				All other purposes	
	Total gross proceeds †	Total net proceeds ‡	Total new money	Plant and equipment	Working capital	Total retirements	Funded debt		Other debt		Preferred stock
							Funded debt	Other debt			
1948.....	414,090	403,049	303,619	135,917	167,701	64,411	14,648	43,734	0	6,029	35,020
1949.....	347,064	338,317	228,801	77,513	151,288	85,565	27,489	57,535	0	541	23,951
1949											
July.....	11,129	10,593	9,110	1,645	7,464	763	113	402	0	249	720
August.....	26,477	25,964	18,912	5,401	13,511	6,665	0	6,665	0	0	368
September.....	55,247	54,920	27,319	5,199	22,120	25,523	8,000	17,523	0	0	2,078
October.....	38,143	37,845	30,432	5,436	24,997	7,310	0	7,310	0	0	104
November.....	25,150	24,620	6,200	1,672	4,528	16,039	13,297	2,743	0	0	2,381
December.....	37,043	36,168	22,911	12,153	10,758	8,310	1,800	1,510	0	0	9,947
1950											
January.....	32,384	31,334	25,322	6,166	19,156	2,698	2,698	0	0	0	3,315
February.....	26,227	25,470	21,497	11,054	10,443	230	0	230	0	0	3,744
March.....	16,922	16,221	14,623	10,053	4,570	201	0	201	0	0	1,396
April.....	34,747	33,291	21,255	7,350	13,905	9,083	549	2,703	0	5,831	2,953
May.....	30,106	28,866	19,148	9,277	9,872	7,217	1,168	6,049	0	0	2,501
June.....	45,632	45,018	20,282	4,511	15,782	18,907	9,498	7,912	0	1,497	5,819

PART 4.—RAILROAD  
[Amounts in thousands of dollars] <sup>1</sup>

1894.....	176,423	172,215	21,190	21,161	29	151,025	119,768	31,258	0
1895.....	126,031	120,268	57,094	56,755	339	62,023	53,653	8,376	1,145
1896.....	797,456	773,773	138,702	130,222	8,480	635,072	554,683	76,671	0
1897.....	344,573	338,260	227,671	224,620	3,050	110,580	109,744	76,845	0
1898.....	54,873	64,309	24,300	24,300	0	30,000	30,000	0	0
1899.....	185,707	182,235	84,946	84,907	39	97,289	97,077	212	0
1940.....	323,912	318,081	114,563	113,092	1,411	203,589	185,856	18,039	289
1941.....	366,313	361,035	252,073	252,672	0	108,362	105,802	3,000	0
1942.....	47,726	47,091	31,788	31,788	0	15,302	15,302	0	0
1943.....	161,179	159,524	45,987	45,987	0	113,537	113,537	0	0
1944.....	609,360	602,301	102,276	102,276	0	500,025	600,025	0	0
1945.....	1,454,021	1,435,603	114,838	114,838	0	1,320,665	1,319,649	387	619
1946.....	711,119	703,550	129,186	129,186	0	574,364	571,061	3,303	0
1947.....	285,680	282,845	239,658	237,684	1,094	37,002	35,342	1,660	5,965
1948.....	623,348	616,758	545,871	486,694	60,177	70,887	65,726	15,161	0
1949.....	459,982	459,553	441,392	441,392	0	14,961	11,104	3,797	0
1949									
July.....	51,393	50,941	50,941	50,941	0	0	0	0	0
August.....	20,162	19,983	19,971	19,271	0	6,712	6,712	0	0
September.....	15,618	15,502	15,502	15,302	0	0	0	0	0
October.....	41,252	40,943	40,943	40,943	0	0	0	0	0
November.....	9,816	9,745	9,745	9,745	0	0	0	0	0
December.....	31,263	30,684	29,532	29,532	0	4,452	4,452	0	0
1950									
January.....	94,218	93,353	27,388	27,388	0	65,966	30,686	35,279	0
February.....	12,640	12,533	12,533	12,533	0	0	0	0	0
March.....	108,062	106,679	84,994	84,994	18,449	21,684	21,684	0	0
April.....	31,038	30,770	27,008	26,884	123	3,762	3,762	0	0
May.....	69,408	66,732	38,875	38,875	0	28,856	29,856	0	0
June.....	76,236	74,123	14,857	14,857	0	40,000	40,000	0	0
									79,266

See footnotes at end of table, p. 100.

TABLE 4.—Proposed uses of net proceeds from the sale of new corporate securities offered for cash in the United States—Continued

PART 5.—REAL ESTATE AND FINANCIAL  
[Amounts in thousands of dollars]<sup>1</sup>

Calendar year or month	Proceeds		New money				Retirements				All other purposes
	Total gross proceeds <sup>2</sup>	Total net proceeds <sup>2</sup>	Total new money	Plant and equipment	Working capital	Total retirements	Funded debt	Other debt	Preferred stock		
1934	20,772	19,880	251	0	251	17,641	150	17,491	0	1,988	
1935	124,881	121,816	46,216	300	46,916	76,011	71,748	3,263	0	588	
1936	401,495	389,986	217,923	380	218,303	160,269	111,334	8,165	40,770	11,763	
1937	74,427	70,820	57,117	14	57,131	7,351	5,811	430	1,110	6,352	
1938	17,033	16,853	7,984	18	8,002	7,279	35	7,225	7,225	691	
1939	103,289	102,042	9,098	60	9,158	88,783	88,129	385	7,269	4,161	
1940	168,692	165,387	42,355	343	42,698	111,280	4,869	102,669	3,863	1,753	
1941	95,574	94,317	54,845	2	54,847	33,332	18,376	14,956	0	6,139	
1942	4,288	4,124	4,124	0	4,124	0	0	2,415	0	1,682	
1943	21,384	20,829	12,740	0	12,740	6,407	3,942	2,415	0	3,184	
1944	109,237	106,619	61,480	0	61,480	41,984	35,503	13,469	6,481	39,697	
1945	211,314	206,344	85,130	1,282	86,412	78,922	25,856	78,402	13,963	16,476	
1946	329,246	322,980	168,711	14,267	182,978	142,793	60,368	20,807	10,010	52,545	
1947	282,684	285,663	188,802	7,949	196,751	44,316	13,900	19,722	6,102	52,403	
1948	693,649	587,180	484,779	12,717	497,496	49,998	25,174	50,670	267	66,906	
1949	699,105	592,559	440,453	48,079	397,374	85,200	34,263	6,890	0	7,639	
July	40,214	39,327	9,798	0	9,798	21,890	15,000	6,890	0	7,608	
August	6,249	6,097	5,689	0	5,689	0	0	0	0	35,283	
September	59,304	58,471	22,198	1,185	23,383	5,146	0	5,146	0	581	
October	11,407	11,257	5,510	2,302	3,208	5,146	0	0	0	1,449	
November	91,872	91,662	90,212	3,968	86,255	5,536	5,269	0	267	9,045	
December	86,380	84,741	70,160	6,906	63,254	5,536	5,269	0	0	1,449	
January	20,488	20,069	6,364	496	5,868	399	0	337	62	13,806	
February	23,447	11,401	8,943	2,588	8,943	112	0	112	0	11,684	
March	182,307	131,548	74,924	2,229	74,695	50,989	50,000	899	0	6,225	
April	86,683	85,601	21,605	94	21,411	61,462	1,542	69,364	466	2,634	
May	31,695	31,110	26,913	119	27,032	1,216	0	1,216	0	2,981	
June	128,602	127,447	91,560	83	91,476	34,535	8,190	24,345	0	1,852	

<sup>1</sup> Slight discrepancies between the sum of figures in the tables and the totals shown are due to rounding.

<sup>2</sup> Total estimated gross proceeds represent the amount paid for the securities by investors, while total estimated net proceeds represent the amount received by the issuer after payment of compensation to distributors and other costs of flotation.

<sup>3</sup> A more detailed classification of industry of issuer is available beginning with the year 1948, with figures for 1948 presented according to both the old and new classifications. Prior to 1948 all electric, gas, water, telephone, street railway, and bus company issues were grouped together under the heading "Public Utility." The yearly totals of such

issues are given for the years 1934 through 1948 in order to provide a rough comparison with current data. Similarly, manufacturing, commercial, and miscellaneous companies were grouped together under the heading "Industrial and Miscellaneous," and figures for that classification are inserted for the years 1934 through 1948. An exact comparison of these old and new groups cannot be made because some companies formerly classified "Industrial and Miscellaneous," such as radio and aviation companies, would now fall under the "Communication" and "Transportation" groups. No changes were made in the "Railroad" and "Financial and Real Estate" classifications for the entire period.

TABLE 5.—A 17-year summary of corporate bonds<sup>1</sup> publicly offered and privately placed in each year—1934 through 1950—by calendar year

[Millions of dollars]

Year	Total offerings	Publicly offered	Placed privately	Percent of total placed privately
1934	372	280	92	24.7
1935	2,225	1,840	385	17.3
1936	4,029	3,660	369	9.2
1937	1,618	1,291	327	20.2
1938	2,044	1,353	691	33.8
1939	1,979	1,276	703	35.5
1940	2,386	1,628	758	31.8
1941	2,389	1,578	811	33.9
1942	917	506	411	44.8
1943	990	621	369	37.3
1944	2,670	1,892	778	29.1
1945	4,855	3,851	1,004	20.7
1946	4,882	3,019	1,863	38.2
1947	5,036	2,889	2,147	42.6
1948	5,973	2,965	3,008	50.4
1949	4,890	2,437	2,453	50.2
1950 <sup>2</sup>	5,206	2,966	2,240	43.0

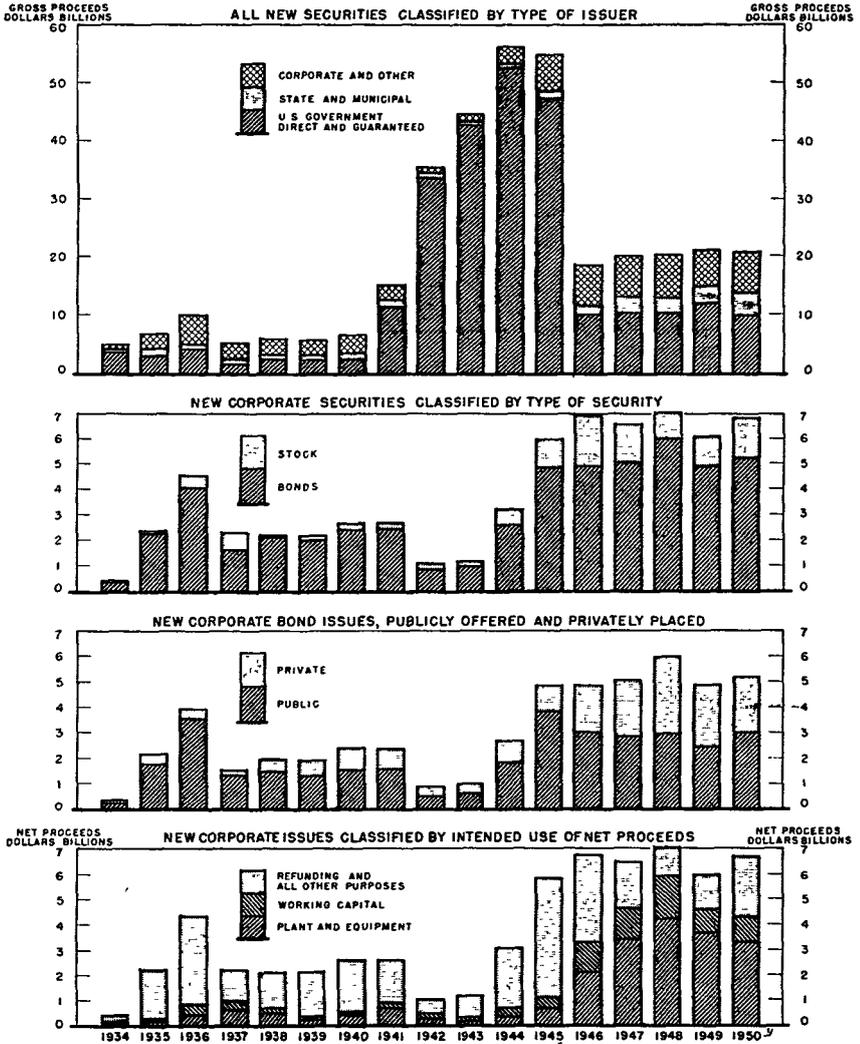
<sup>1</sup> Bonds, notes, and debentures.

<sup>2</sup> Preliminary figures estimated on basis of figures through July 1950.

TABLE 6

**A SEVENTEEN-YEAR SUMMARY OF NEW SECURITIES OFFERED FOR CASH IN THE UNITED STATES**

AS TO TYPE OF ISSUER, TYPE OF SECURITY, WHETHER PUBLICLY OFFERED OR PRIVATELY PLACED, AND THE INTENDED USE OF THE PROCEEDS--1934 THROUGH 1950, BY CALENDAR YEAR



<sup>U</sup> PRELIMINARY FIGURES ESTIMATED ON BASIS OF DATA THROUGH JULY 1950.

TABLE 7.—Brokers and dealers registered under section 15 of the Securities Exchange Act of 1934.—Effective registrations as of June 30, 1950, classified by type of organization and by location of principal office

Location of principal office	Number of registrants			Number of proprietors, partners officers etc.†			Number of employees				Number of branch offices					
	Total	Sole proprietorships	Partnerships	Corporations‡	Total	Sole proprietorships	Partnerships	Corporations‡	Total	Sole proprietorships	Partnerships	Corporations‡	Total	Sole proprietorships	Partnerships	Corporations‡
Alabama.....	20	7	6	7	52	7	18	27	58	12	28	18	5	1	2	2
Arizona.....	11	9	2	0	16	0	7	0	32	21	11	0	0	0	0	0
Arkansas.....	18	9	3	6	39	9	6	24	31	5	10	16	0	0	0	0
California.....	230	79	90	61	828	79	363	386	3,573	176	1,980	1,417	223	5	115	102
Colorado.....	62	33	19	20	160	33	32	95	283	24	1,000	1,169	0	0	4	8
Connecticut.....	48	19	15	14	142	19	50	73	619	41	299	279	23	3	3	12
Delaware.....	7	3	2	2	36	3	26	7	269	1	265	3	0	0	0	0
District of Columbia.....	67	28	14	25	230	28	54	148	679	32	300	347	9	1	8	1
Florida.....	33	15	7	11	81	15	17	49	104	44	26	34	2	1	1	0
Georgia.....	26	9	5	11	87	9	20	58	355	13	239	103	24	0	18	6
Idaho.....	10	7	1	2	18	7	2	9	40	13	15	12	0	2	0	1
Illinois.....	225	63	75	87	879	63	320	495	4,041	81	2,317	1,643	191	0	142	49
Indiana.....	60	20	7	23	144	20	12	109	130	19	10	101	0	0	0	0
Iowa.....	31	10	5	16	96	10	15	74	161	10	31	113	7	0	0	7
Kansas.....	40	22	5	13	109	22	11	76	134	28	25	81	9	0	1	8
Kentucky.....	14	4	4	6	44	4	4	16	107	11	59	37	2	0	2	0
Louisiana.....	59	35	17	7	114	35	52	27	217	41	137	39	10	1	6	3
Maine.....	34	16	3	15	80	16	8	56	109	25	10	65	2	1	0	0
Maryland.....	45	20	18	7	133	20	80	63	568	11	618	39	0	1	0	10
Massachusetts.....	219	99	46	74	792	99	252	441	3,889	235	2,410	1,275	106	4	69	33
Michigan.....	62	31	24	30	241	8	93	140	727	15	338	27	0	0	15	12
Minnesota.....	51	10	8	33	219	10	27	182	3,195	54	166	2,974	26	0	8	18
Mississippi.....	13	6	5	2	21	6	10	5	19	10	9	0	4	4	1	0
Missouri.....	94	21	30	43	424	21	142	261	1,539	31	793	715	83	0	31	52
Montana.....	4	1	1	2	10	1	7	7	226	0	0	0	0	0	0	0
Nebraska.....	32	13	1	15	192	13	2	87	226	13	1	212	2	0	0	9
Nevada.....	7	5	0	3	22	5	3	5	15	3	0	4	0	0	0	0
New Hampshire.....	11	7	1	9	22	7	7	12	11	48	71	97	15	2	6	7
New Jersey.....	114	69	22	23	226	69	61	96	1,111	3	13	97	15	0	0	0
New Mexico.....	9	5	3	1	15	5	6	4	21	3	13	4	0	0	0	0
New York State (excluding New York City).....	234	169	25	40	404	169	73	162	577	140	228	211	24	5	7	12
North Carolina.....	25	10	2	13	99	10	4	82	137	26	2	109	11	1	0	10
North Dakota.....	3	2	0	1	3	2	0	3	1	1	0	0	0	0	0	0

See footnotes at end of table, p. 164.

TABLE 7.—Brokers and dealers registered under section 15 of the Securities Exchange Act of 1934—Effective registrations as of June 30, 1950, classified by type of organization and by location of principal office—Continued

Location of principal office	Number of registrants			Number of proprietors partners officers etc.²			Number of employees				Number of branch offices					
	Total	Sole propri- etor- ships	Part- ner- ships	Corpo- rations³	Total	Sole propri- etor- ships	Part- ner- ships	Corpo- rations³	Total	Sole propri- etor- ships	Part- ner- ships	Corpo- rations³	Total	Sole propri- etor- ships	Part- ner- ships	Corpo- rations³
Ohio.....	140	41	39	60	482	41	169	272	1,173	67	685	520	41	0	18	23
Oklahoma.....	60	40	4	6	75	40	8	28	56	22	20	7	1	0	0	1
Oregon.....	22	6	7	0	58	6	17	35	95	24	7	51	3	0	0	2
Pennsylvania.....	220	70	85	65	691	79	355	257	2,614	115	1,794	705	86	0	61	25
Rhode Island.....	28	12	11	5	62	12	31	19	102	11	102	13	1	1	0	0
South Carolina.....	28	11	8	0	69	11	24	34	91	21	27	43	5	0	1	4
South Dakota.....	2	0	0	1	4	1	0	3	2	0	0	0	0	0	0	0
Tennessee.....	33	0	7	17	117	0	22	86	245	0	85	150	21	0	0	12
Texas.....	149	86	29	34	348	86	79	183	468	89	338	239	10	0	10	0
Utah.....	19	10	4	2	41	11	0	23	259	22	223	14	13	1	12	0
Vermont.....	2	0	0	4	11	0	0	11	7	0	0	0	0	0	0	0
Virginia.....	30	14	0	7	97	14	39	39	168	26	62	79	10	0	3	12
Washington.....	81	44	8	29	215	44	22	149	460	55	50	355	10	1	0	0
West Virginia.....	8	3	3	2	34	3	0	24	84	4	18	18	11	0	2	0
Wisconsin.....	63	16	5	32	196	16	23	151	337	20	79	238	12	1	3	8
Wyoming.....	6	0	0	0	6	6	0	0	5	0	0	0	0	0	0	0
Total (excluding New York City).....	2,778	1,212	676	800	8,331	1,212	2,597	4,572	28,266	1,085	13,618	12,963	1,066	34	578	454
New York City.....	1,181	880	585	210	4,540	380	2,990	1,194	28,218	441	24,102	3,675	1,842	13	669	17
Total.....	3,959	1,692	1,261	1,100	12,921	1,592	5,583	5,736	56,484	2,126	37,720	16,638	1,908	47	1,237	624

¹ Domestic registrants only, excludes 41 foreign.  
 ² Includes directors, officers, trustees, and all other persons occupying similar status or performing similar functions.  
 ³ Includes all forms of organizations other than sole proprietorships and partnerships.

TABLE 8.—Market value and volume of sales effected on securities exchanges for the three 6-month periods ended June 30, 1950

PART 1.—6 MONTHS ENDED JUNE 30, 1949

ON ALL REGISTERED EXCHANGES

[In thousands]

Exchange	Total market value (dollars)	Stocks <sup>1</sup>		Bonds <sup>2</sup>		Rights and warrants	
		Market value (dollars)	Number of shares	Market value (dollars)	Principal amount (dollars)	Market value (dollars)	Number of units
All registered exchanges.....	4, 973, 402	4, 631, 816	206, 232	321, 881	443, 074	19, 705	16, 793
Baltimore <sup>3</sup> .....	481	414	23	67	129	-----	-----
Boston.....	73, 333	72, 297	1, 865	4	6	1, 032	879
Chicago Board of Trade.....	134	134	14	-----	-----	-----	-----
Chicago Stock.....	79, 737	79, 531	3, 171	0	0	206	214
Cincinnati.....	6, 014	5, 978	192	0	0	36	71
Cleveland.....	6, 602	6, 569	230	-----	-----	33	55
Detroit.....	18, 048	18, 026	1, 281	-----	-----	22	23
Los Angeles.....	57, 983	57, 742	4, 206	36	35	205	256
New Orleans.....	295	253	10	42	40	-----	-----
New York Curb.....	399, 922	376, 379	29, 692	18, 133	24, 959	5, 410	3, 119
New York Stock.....	4, 193, 387	3, 878, 782	149, 263	302, 526	416, 787	12, 079	11, 322
Philadelphia.....	24, 651	24, 522	856	128	127	1	57
Philadelphia-Baltimore <sup>4</sup> .....	27, 523	27, 056	986	169	261	298	325
Pittsburgh.....	6, 679	6, 642	372	0	0	37	46
St. Louis.....	5, 189	5, 164	177	3	3	22	20
Salt Lake.....	879	879	5, 690	-----	-----	-----	-----
San Francisco Mining.....	243	243	2, 515	-----	-----	-----	-----
San Francisco Stock.....	68, 279	67, 815	4, 570	640	601	324	406
Spokane.....	799	799	968	-----	-----	-----	-----
Washington.....	3, 224	3, 091	121	133	127	-----	-----
Breakdown of 6-month totals by months							
<i>1949</i>							
January.....	915, 095	853, 531	36, 546	60, 686	80, 599	878	523
February.....	772, 313	719, 267	30, 841	52, 009	70, 080	1, 037	668
March.....	809, 738	751, 761	34, 692	56, 225	80, 637	1, 752	2, 223
April.....	905, 742	845, 336	37, 750	53, 189	76, 590	7, 217	2, 934
May.....	816, 042	760, 298	33, 135	50, 767	67, 997	4, 977	4, 276
June.....	754, 472	701, 623	33, 268	49, 005	67, 171	3, 844	6, 169
ON ALL EXEMPTED EXCHANGES							
All exempted exchanges.....	3, 734	3, 721	348	13	14	-----	-----
Colorado Springs.....	94	94	120	-----	-----	-----	-----
Honolulu.....	2, 029	2, 016	161	13	14	-----	-----
Minneapolis-St. Paul.....	1, 024	1, 024	83	-----	-----	-----	-----
Richmond.....	295	295	5	0	0	-----	-----
Wheeling.....	292	292	9	-----	-----	-----	-----
Breakdown of 6-month totals by months							
<i>1949</i>							
January.....	704	698	65	6	6	-----	-----
February.....	701	699	44	2	2	-----	-----
March.....	594	594	56	0	0	-----	-----
April.....	510	509	74	1	2	-----	-----
May.....	648	647	69	1	1	-----	-----
June.....	577	574	40	3	3	-----	-----

See footnotes at end of table, p. 197.

**TABLE 8.—Market value and volume of sales effected on securities exchanges for three 6-month periods ended June 30, 1950—Continued**

PART 2.—6 MONTHS ENDED DEC. 31, 1949

ON ALL REGISTERED EXCHANGES

[In thousands]

Exchange	Total market value (dollars)	Stocks <sup>1</sup>		Bonds <sup>2</sup>		Rights and warrants	
		Market value (dollars)	Number of shares	Market value (dollars)	Principal amount (dollars)	Market value (dollars)	Number of units
All registered exchanges.....	6,469,931	6,082,574	271,666	381,589	489,879	5,768	21,035
Boston.....	79,934	79,911	2,034	4	6	19	41
Chicago Board.....	40	40	7	-----	-----	-----	-----
Chicago Stock <sup>4</sup> .....	73,673	73,483	2,884	189	176	1	138
Cincinnati.....	7,108	7,108	203	0	0	-----	-----
Cleveland <sup>4</sup> .....	5,214	5,214	181	-----	-----	-----	-----
Detroit.....	23,801	23,671	1,797	-----	-----	130	654
Los Angeles.....	65,058	65,016	4,404	14	13	28	47
Midwest <sup>4</sup> .....	32,377	32,370	1,283	6	6	1	7
New Orleans.....	481	481	23	0	0	-----	-----
New York Curb.....	545,390	521,427	38,333	20,270	24,898	3,693	3,663
New York Stock.....	5,480,612	5,119,042	204,112	359,886	463,390	1,684	14,908
Philadelphia-Baltimore.....	62,309	61,537	2,295	595	782	177	1,463
Pittsburgh.....	6,995	6,995	497	0	0	-----	-----
St. Louis <sup>4</sup> .....	4,670	4,670	160	0	0	-----	-----
Salt Lake.....	544	544	5,352	-----	-----	-----	-----
San Francisco Mining.....	112	112	1,854	-----	-----	-----	-----
San Francisco Stock.....	78,148	77,918	5,225	195	180	35	114
Spokane.....	527	527	905	-----	-----	-----	-----
Washington.....	2,938	2,508	117	430	428	-----	-----
Breakdown of 6-month totals by months							
<i>1949</i>							
July.....	698,347	624,733	33,028	72,616	87,224	998	4,923
August.....	867,865	806,674	38,453	60,737	78,549	454	604
September.....	918,344	870,487	39,811	47,468	59,560	389	646
October.....	1,134,148	1,081,952	48,613	51,480	68,959	716	2,842
November.....	1,286,948	1,220,770	49,081	64,646	84,467	1,532	6,165
December.....	1,564,279	1,477,958	62,680	84,642	111,120	1,679	5,855
ON ALL EXEMPTED EXCHANGES							
All exempted exchanges.....	3,385	3,351	305	34	35	-----	-----
Colorado Springs..... <sup>5</sup>	81	81	94	-----	-----	-----	-----
Honolulu.....	1,726	1,692	149	34	35	-----	-----
Minneapolis-St. Paul <sup>4</sup> .....	923	923	48	-----	-----	-----	-----
Richmond.....	408	408	7	0	0	-----	-----
Wheeling.....	247	247	7	-----	-----	-----	-----
Breakdown of 6-month totals by months							
<i>1949</i>							
July.....	489	469	31	20	21	-----	-----
August.....	491	487	42	4	4	-----	-----
September.....	585	580	60	5	5	-----	-----
October.....	668	668	59	0	0	-----	-----
November.....	654	653	46	1	1	-----	-----
December.....	498	494	67	4	4	-----	-----

See footnotes at end of table, p. 197.

TABLE 8.—Market value and volume of sales effected on securities exchanges for three 6-month periods ended June 30, 1950—Continued

PART 3.—6 MONTHS ENDED JUNE 30, 1950

ALL REGISTERED EXCHANGES

[In thousands]

Exchange	Total market value (dollars)	Stocks <sup>1</sup>		Bonds <sup>2</sup>		Rights and warrants	
		Market value (dollars)	Number of shares	Market value (dollars)	Principal amount (dollars)	Market value (dollars)	Number of units
Total all exchanges.....	10, 876, 534	10, 330, 139	422, 268	527, 264	652, 446	19, 131	25, 156
Boston Stock.....	117, 833	117, 817	2, 895	13	10	3	3
Chicago Board.....	18	18	2				
Cincinnati.....	13, 129	12, 344	316	0	0	785	163
Detroit.....	41, 446	41, 443	2, 427			3	17
Los Angeles.....	108, 493	108, 225	7, 371	135	131	133	282
Midwest.....	243, 990	243, 593	9, 114	9	10	388	189
New Orleans.....	392	389	18	3	3		
New York Curb.....	792, 088	762, 413	58, 045	19, 888	27, 364	9, 787	4, 181
New York Stock.....	9, 317, 797	8, 804, 105	320, 418	506, 262	623, 767	7, 430	18, 878
Philadelphia-Baltimore.....	96, 784	96, 357	3, 115	349	615	78	195
Pittsburgh.....	12, 425	12, 423	778	1	1	1	1
Salt Lake.....	795	795	8, 161				
San Francisco Mining.....	185	185	2, 364				
San Francisco Stock.....	127, 571	126, 643	6, 373	427	370	501	998
Spokane.....	549	549	735				
Washington.....	3, 039	2, 840	136	177	175	22	249
Breakdown of 6-month totals by months							
1950							
January.....	1, 770, 942	1, 662, 225	71, 911	107, 958	144, 088	759	1, 895
February.....	1, 441, 484	1, 373, 028	57, 261	67, 512	84, 939	944	1, 979
March.....	1, 778, 623	1, 688, 006	67, 872	88, 493	116, 471	2, 124	5, 682
April.....	1, 385, 385	1, 800, 521	81, 301	77, 916	97, 114	6, 948	5, 038
May.....	1, 950, 917	1, 860, 689	73, 184	84, 941	96, 720	5, 287	7, 905
June.....	2, 049, 183	1, 945, 670	70, 739	100, 444	113, 114	3, 069	2, 657

ALL EXEMPTED EXCHANGES							
Exchange	Total market value (dollars)	Market value (dollars)	Number of shares	Market value (dollars)	Principal amount (dollars)	Market value (dollars)	Number of units
Total all exchanges.....	3, 161	3, 127	471	34	39		
Colorado Springs.....	131	131	185				
Honolulu.....	2, 443	2, 409	272	34	39		
Richmond.....	374	374	8	0	0		
Wheeling.....	213	213	6				
Breakdown of 6-month totals by months							
1950							
January.....	450	448	61	2	2		
February.....	550	546	78	4	4		
March.....	670	670	129	0	0		
April.....	358	358	41	0	0		
May.....	541	539	97	2	2		
June.....	592	566	65	26	31		

<sup>1</sup> "Stocks" includes voting trust certificates, American depository receipts, and certificates of deposit.<sup>2</sup> "Bonds" includes mortgage certificates and certificates of deposit for bonds. Since Mar. 18, 1944, United States Government bonds have not been included in these data.<sup>3</sup> The Baltimore Stock Exchange and the Philadelphia Stock Exchange effected a plan of merger of the businesses of the two exchanges which resulted in the termination of the activities of the Baltimore Stock Exchange with the close of business Mar. 5, 1949. Effective Mar. 7, 1949, the name of the Philadelphia Exchange was changed to the Philadelphia-Baltimore Stock Exchange. A branch office is in operation in Baltimore.<sup>4</sup> The Chicago Stock Exchange, the Cleveland Stock Exchange, the Minneapolis-St. Paul Stock Exchange, and the St. Louis Stock Exchange effected a plan of merger of the four exchanges. This resulted in the termination of activities of the four exchanges with the close of business Nov. 30, 1949, and in the formation of the Midwest Stock Exchange on Dec. 1, 1949, with main offices in Chicago and branch offices in Cleveland, Minneapolis, and St. Louis. Earlier data for the Minneapolis-St. Paul Exchange are included in exempted exchanges totals. The other three merged exchanges were registered exchanges.

NOTE.—Value and volume of sales effected on registered securities exchanges are reported in connection with fees paid under sec. 31 of the Securities Exchange Act of 1934. For most exchanges the figures represent transactions cleared during the calendar month. Figures may differ from comparable data in the Statistical Bulletin due to revisions of data by exchanges.

TABLE 9.—Special offerings effected on national securities exchanges for fiscal year ended June 30, 1950<sup>1</sup>

Exchange	Number made	Number of shares			Value of shares sold (thousands of dollars)	Aggregate special commission (thousands of dollars)	Number of offerings by duration		
		In original offer	Subscribed	Sold			Terminated in 15 minutes	Others terminated same day	Not terminated same day
All exchanges: Total.....	29	440,908	534,142	430,955	11,129	266	11	15	3
Completed.....	26	397,838	503,512	400,325	10,654	254	11	14	1
Not completed.....	3	43,070	30,630	30,630	475	12	0	1	2
New York Curb Exchange: Total.....	1	26,970	21,005	21,005	168	7	0	1	0
Completed.....	0	0	0	0	0	0	0	0	0
Not completed.....	1	26,970	21,005	21,005	168	7	0	1	0
New York Stock Exchange: Total.....	28	413,938	513,137	409,950	10,961	259	11	14	3
Completed.....	26	397,838	503,512	400,325	10,654	254	11	14	1
Not completed.....	2	16,100	9,625	9,625	307	5	0	0	2

<sup>1</sup> See part II of text for a description of special offerings.TABLE 10.—Secondary distributions of listed stocks approved by national securities exchanges for fiscal year ended June 30, 1949<sup>1</sup>

Exchange	Number made	Number of shares			Value of shares sold (thousands of dollars)	Number of secondaries by duration		
		In original offer	Available for distribution	Sold		Terminated same day	Others terminated next day	Not terminated next day
All exchanges: Total.....	78	3,624,327	3,708,773	3,705,320	99,077	49	18	11
Completed.....	76	3,610,927	3,695,373	3,698,475	98,857	49	17	10
Not completed.....	2	13,400	13,400	6,845	220	0	1	1
Chicago Stock Exchange: Total.....	3	27,650	27,650	27,650	617	1	1	1
Completed.....	3	27,650	27,650	27,650	617	1	1	1
Not completed.....	0	0	0	0	0	0	0	0
Detroit Stock Exchange: Total.....	3	19,388	19,388	19,388	284	3	0	0
Completed.....	3	19,388	19,388	19,388	284	3	0	0
Not completed.....	0	0	0	0	0	0	0	0
Midwest Stock Exchange: Total.....	8	158,380	162,230	162,230	2,421	4	1	3
Completed.....	8	158,380	162,230	162,230	2,421	4	1	3
Not completed.....	0	0	0	0	0	0	0	0
New York Curb Exchange: Total.....	22	659,483	680,963	677,510	17,597	13	5	4
Completed.....	20	646,083	667,563	670,665	17,377	13	4	3
Not completed.....	2	13,400	13,400	6,845	220	0	1	1
New York Stock Exchange: Total.....	42	2,759,426	2,818,542	2,818,542	78,158	28	11	3
Completed.....	42	2,759,426	2,818,542	2,818,542	78,158	28	11	3
Not completed.....	0	0	0	0	0	0	0	0

<sup>1</sup> Secondary distributions which exchanges have approved for member participation and have reported to the Commission. See pt. II of text for a description of secondary offerings.

TABLE 11.—*Classification by industry of issuers having securities registered on national securities exchanges as of June 30, 1949 and as of June 30, 1950*

Industry	As of June 30, 1949	As of June 30, 1950
Agriculture	7	6
Beverages (distilleries, breweries, soft drinks)	49	45
Building and related companies (including lumber building materials, and construction)	91	94
Chemicals, drugs, and allied products	88	87
Financial and investment companies	127	130
Food and related products	104	102
Foreign governments and political subdivisions thereof	71	72
Foreign private issuers other than Canadian, Cuban, and Philippine	56	55
Iron and steel (excluding machinery)	77	76
Machinery and tools (excluding transportation equipment)	207	207
Merchandising (chain stores, department stores)	167	162
Mining, coal	19	20
Mining, other than coal	223	224
Miscellaneous manufacturing	40	40
Oil and gas wells	53	52
Oil refining and distributing	36	36
Paper and paper products	40	42
Printing, publishing, and allied industries	21	21
Real estate	15	15
Rubber and leather products	36	34
Services (advertising, amusements, hotels, restaurants)	52	51
Textiles and related products	68	66
Tobacco products	18	18
Transportation and communication (railroads, telephone, radio)	236	228
Transportation equipment	172	169
Utility holding companies (electric, gas, water)	26	27
Utility operating-holding companies	12	13
Utility operating	83	90
Total	2,194	2,182

TABLE 12.—*Number and amount of securities classified according to basis for the admission to dealing on all exchanges as of June 30, 1950*

## STOCKS

	Column I <sup>1</sup>		Column II <sup>2</sup>	
	Issues	Number of shares	Issues	Number of shares
Registered	2,573	3,147,684,318	2,573	3,147,684,318
Temporarily exempted from registration <sup>1</sup>	20	8,634,386	20	8,634,386
Admitted to unlisted trading privileges on registered exchanges	877	2,038,851,048	332	329,904,324
Listed on exempted exchanges	116	117,013,924	78	33,149,815
Admitted to unlisted trading privileges on exempted exchanges	40	6,681,419	35	3,093,606
Unduplicated total of stock issues and number of shares admitted to dealing on all exchanges			3,038	3,522,466,449

See footnotes at end of table, p. 200.

TABLE 12.—Number and amount of securities classified according to basis for the admission to dealing on all exchanges as of June 30, 1950—Continued

	BONDS			
	Issues	Principal amount	Issues	Principal amount
Registered <sup>1</sup> .....	971	\$20,898,718,791	971	\$20,898,718,791
Temporarily exempted from registration <sup>2</sup> .....	4	51,848,000	4	51,848,000
Admitted to unlisted trading privileges on registered exchanges.....	81	829,231,350	75	596,528,150
Listed on exempted exchanges.....	7	22,250,000	7	22,250,000
Admitted to unlisted trading privileges on an exempted exchange.....	1	140,000	1	140,000
Unduplicated total of bond issues and principal amount admitted to dealing on all exchanges.....			1,058	21,586,293,681

<sup>1</sup> The purpose of column I is to show the number and amount of securities admitted to dealing under the various bases for the admission of securities to dealing on exchanges under the act. (Issues exempted from registration under sec. 3 (a) (12) of the act, such as obligations of the United States, States, counties, cities, and United States-owned corporations, are not shown in this table.) Each security is counted once under each basis for its admission to dealing. Thus, a security which is registered on 2 exchanges and also admitted to unlisted trading privileges on 3 exchanges would be counted once under "registered" and once under "admitted to unlisted trading privileges." Because of such duplications, column I is not totaled.

<sup>2</sup> The purpose of column II is to show the unduplicated total of all securities admitted to dealing on all exchanges. Each security is counted only once, and the elimination of the duplication in column I is made in column II in the order in which the various bases for admission to dealing is given above.

<sup>3</sup> Includes securities for which the Commission has granted, by general rules, temporary exemption from registration for stated periods and under certain conditions, such as stock issues of certain operating banks and securities resulting from modification of previously listed securities.

<sup>4</sup> Includes 8 bond issues in pounds sterling in the aggregate amount of £16,808,740. This amount in sterling has been excluded from the amount in dollars given above.

TABLE 13

PART 1.—NUMBER AND AMOUNT OF SECURITIES CLASSIFIED ACCORDING TO THE NUMBER OF REGISTERED EXCHANGES ON WHICH EACH ISSUE WAS ADMITTED TO DEALING AS OF JUNE 30, 1950

	Stocks		Bonds	
	Issues	Shares	Issues	Principal amount
1. Registered on 1 exchange.....	1,608	1,113,280,658	892	\$17,597,834,391
2. Unlisted on 1 exchange.....	321	305,999,574	75	596,528,150
3. Registered on 2 or more exchanges.....	420	325,456,936	73	3,068,181,200
4. Unlisted on 2 or more exchanges.....	11	23,904,750		
5. Registered on 1 exchange and unlisted on 1 exchange.....	208	216,376,795	5	82,385,500
6. Registered on 2 or more exchanges and unlisted on 1 exchange.....	66	148,148,738	1	150,317,700
7. Registered on 1 exchange and unlisted on 2 or more exchanges.....	167	706,659,413		
8. Registered on 2 or more exchanges and unlisted on 2 or more exchanges.....	104	637,761,778		
9. Temporarily exempted from registration on 1 exchange.....	16	2,125,205	3	45,106,000
10. Temporarily exempted from registration on 2 or more exchanges.....	4	6,509,181	1	6,742,000
Total.....	2,925	3,486,223,028	1,050	21,547,094,941

PART 2.—PROPORTION OF REGISTERED ISSUES THAT ARE ALSO ADMITTED TO UNLISTED TRADING PRIVILEGES ON OTHER EXCHANGES AS OF JUNE 30, 1950

1. All registered issues (pt. 1, lines 1, 3, 5, 6, 7, and 8).....	2,573	3,147,684,318	971	\$20,898,718,791
2. Registered issues that are also admitted to unlisted trading privileges on other exchanges (pt. 1, lines 5, 6, 7, and 8).....	545	1,708,946,724	6	232,703,200
3. Percent of registered issues that are also admitted to unlisted trading privileges on other exchanges.....	21.2	54.3	.6	1.1

TABLE 13—Continued

## PART 3.—PROPORTION OF ISSUES ADMITTED TO UNLISTED TRADING PRIVILEGES THAT ARE ALSO REGISTERED ON OTHER EXCHANGES AS OF JUNE 30, 1950

	Stocks		Bonds	
	Issues	Shares	Issues	Principal amount
1. All issues admitted to unlisted trading privileges (part 1, lines 2, 4, 5, 6, 7, and 8).....	877	2, 038, 851, 048	81	\$829, 231, 350
2. Unlisted issues that are also registered on other exchanges (part 1, lines 5, 6, 7, and 8).....	545	1, 708, 946, 724	6	232, 703, 200
3. Percent of issues admitted to unlisted trading privileges that are also registered on other exchanges....	62.1	83.8	7.4	28.1

## PART 4.—PROPORTION OF ALL ISSUES ADMITTED TO DEALING ON REGISTERED EXCHANGES THAT ARE ADMITTED TO DEALING ON MORE THAN 1 REGISTERED EXCHANGE AS OF JUNE 30, 1950

1. All issues admitted to dealing on registered exchanges (pt. 1, total).....	2, 925	3, 486, 223, 028	1, 050	\$21, 547, 094, 941
2. Issues on more than 1 exchange (pt. 1, all lines except 1, 2, and 9).....	980	2, 064, 817, 591	80	3, 307, 626, 400
3. Percent of all issues admitted to dealing on all registered exchanges that are admitted to dealing on more than 1 registered exchange.....	33.5	59.2	7.6	15.4

TABLE 14.—Number of issuers having securities admitted to dealings on all exchanges as of June 30, 1950, classified according to the basis for admission of their securities to dealing

Basis of admission of securities to dealing	Column I <sup>1</sup>	Column II <sup>2</sup>
	Number of issuers	Number of issuers
1. Registered.....	2, 182	2, 182
2. Temporarily exempted from registration.....	22	18
3. Admitted to unlisted trading privileges on registered exchanges.....	847	307
4. Listed on exempted exchanges.....	100	67
5. Admitted to unlisted trading privileges on exempted exchanges.....	38	34
6. Total number of issuers having securities admitted to dealing on all exchanges.....		2, 608

<sup>1</sup> The purpose of column I is to show the number of issuers having securities admitted to dealing on exchanges under the various bases for the admission of securities to dealing under the act. (Issuers whose securities are exempted under sec. 3(a) (12) of the act, such as obligations of the United States, States, counties, cities, and United States-owned corporations, are not shown in this table.) Each issue is counted once under each basis for admission of securities to dealing. Thus, an issuer having securities registered on two or more exchanges and unlisted on 2 or more exchanges is counted once under "registered" and once under "unlisted." Because of these duplications, column I is not totaled.

<sup>2</sup> The purpose of column II is to show the net number of issuers having securities admitted to dealing on all exchanges under the act. Each issuer is counted only once, and the elimination of the duplications in column I is made in column II in the order of the various bases for admission to dealing given above.

TABLE 15.—Number of issuers having stocks only, bonds only, and both stocks and bonds admitted to dealings on all exchanges as of June 30, 1950

	Number of issuers	Percent of total issuers
1. Issuers having only stocks admitted to dealings on exchanges.....	2, 123	81.4
2. Issuers having only bonds admitted to dealings on exchanges.....	262	10.0
3. Issuers having both stocks and bonds admitted to dealings on exchanges....	223	8.6
Total issuers.....	2, 608	100.0
4. Issuers having stocks admitted to dealings on exchanges (lines 1 plus 3).....	2, 346	90.0
5. Issuers having bonds admitted to dealings on all exchanges (lines 2 plus 3).....	485	18.6

TABLE 16.—For each exchange as of June 30, 1950, the number of issuers and securities, basis for admission of securities to trading, and the percentage of stocks and bonds, admitted to trading on one or more other exchanges

Name of exchange	Total issuers	Total issues	Stocks					Bonds					Total stocks traded on 1 or more other exchanges	Total bonds traded on 1 or more other exchanges	Percent traded on 1 or more other exchanges			
			Basis of admission to trading <sup>1</sup>					Basis of admission to trading <sup>1</sup>										
			R	X	U	XL	XU	R	X	U	XL	XU						
Boston.....	354	404	110		273						21				21	87.7	21	66.7
Chicago Board of Trade.....	22	23	18		5											23	5	100.0
Cincinnati.....	96	115	63	2	45						4	1			4	63.2	6	100.0
Colorado Springs <sup>2</sup> .....	14	15				15										15		
Detroit.....	185	206	114		92											206		
Honolulu <sup>2</sup> .....	86	103				57		37								94		
Los Angeles.....	232	266	141		116						4				4	24.5	1	100.0
Los Angeles.....	393	465	375	3	76						11				11	90.0	6	81.8
Midwest.....	74	21	21		14											18		33.3
New Orleans.....	14	868	420		346											72.0	2	4.6
New York Curb.....	1,269	2,410	1,479	5	882						11			78	11	27.8	3	89
New York Stock.....	1,439	545	1,107								922	4			922	49.8	828	8.2
Philadelphia-Baltimore.....	116	127	64		72						1				1	85.3	56	67.9
Pittsburgh.....	20	28	28			28										28		
Richmond <sup>2</sup> .....	98	100	96		4											21.4	1	
Salt Lake.....	41	42	42													8.0	8	100.0
San Francisco Mining.....	303	374	191	4	159						20				20	14.3	20	100.0
San Francisco Stock.....	29	32	24		8											26.1		
Spokane.....	33	52	30	0	2						11				11	31.7	11	54.4
Washington, D. C.....	17	19				16		3								52.6		
Wheeling <sup>2</sup> .....																		

<sup>1</sup> R—Registered, X—temporarily exempted from registration; U—admitted to unlisted trading privileges on a registered national securities exchange; XL—listed on an exempted exchange; XU—admitted to unlisted trading privileges on an exempted exchange.

Issues exempted under sec. 3 (a) (12) of the act, such as obligations of the United States, States, counties, cities, and United States-owned corporations, are not shown in this table.

<sup>2</sup> Exempted from registration as a national securities exchange.

TABLE 17.—Number of issues admitted to unlisted trading pursuant to clauses 2 and 3 of sec. 12 (f) of the Securities Exchange Act of 1934 and volume of transactions therein<sup>1</sup>

[Stock volumes in shares; bond volumes in dollars of principal amount]

Name of stock exchange	Number of issues		Volume reported for the calendar year 1949	Percent of total 1949 volume on each exchange in stocks and bonds respectively	Aggregate volume reported for the calendar years 1937 to 1949, inclusive
	Admitted total	Remaining June 30, 1950			
<b>Stocks pursuant to clause 2:</b>					
Boston.....	118	<sup>2</sup> 108	546,313	14.0	4,768,326
Cincinnati.....	46	45	155,050	39.2	991,280
Cleveland.....	35	0	199,051	48.5	980,048
Detroit.....	85	78	533,275	17.3	4,271,109
Los Angeles.....	<sup>3</sup> 82	<sup>4</sup> 75	943,420	11.0	5,518,391
Midwest.....	<sup>5</sup> 82	<sup>6</sup> 75	2,071,189	28.2	13,685,528
New York Curb.....	6	1	194,325	.3	6,870,635
Philadelphia-Baltimore.....	117	<sup>7</sup> 107	583,933	14.0	3,473,026
Pittsburgh.....	70	<sup>8</sup> 55	127,009	14.6	1,603,358
St. Louis.....	6	0	61,975	18.4	157,683
Salt Lake.....	1	0	0	0	35,633
San Francisco Stock.....	55	<sup>9</sup> 50	597,377	6.1	3,961,634
Washington.....	2	2	28,222	11.9	34,084
Wheeling.....	6	<sup>10</sup> 3	1,598	10.0	17,692
<b>Total.....</b>	<b>692</b>	<b>599</b>	<b>5,962,737</b>		<b>46,368,427</b>
<b>Stocks pursuant to clause 3:</b>					
Midwest.....	1	1	16,714	.2	30,700
New York Curb.....	9	6	1,631,529	2.4	4,508,415
Salt Lake.....	1	1	4,971	.05	11,684
<b>Total stocks.....</b>	<b>703</b>	<b><sup>11</sup> 607</b>	<b>7,615,951</b>		<b>50,919,226</b>
<b>Bonds pursuant to clause 2:</b>					
Los Angeles.....	1	1	\$47,400	100.0	\$63,400
New York Curb.....	3	1	\$317,000	1.6	\$14,928,000
San Francisco Stock.....	4	0	\$769,500	98.5	\$3,423,600
<b>Bonds pursuant to clause 3:</b>					
New York Curb.....	45	15	\$17,824,000	35.8	\$162,163,000
<b>Total bonds.....</b>	<b>53</b>	<b>17</b>	<b>\$19,457,900</b>		<b>\$180,578,000</b>

<sup>1</sup> For enactment of clauses 2 and 3 and procedure thereunder, see tenth annual report under "Unlisted Trading Privileges on Securities Exchanges." For volume reported in each of the years 1937 through 1944, see eleventh annual report appendix table 18. For subsequent volumes see tables in subsequent reports.

<sup>2</sup> Only odd-lot trading is permitted in 6 of these issues.

<sup>3</sup> Includes 19 issues acquired from Cleveland Stock Exchange and the volumes therein subsequent to the merger of Dec. 1, 1949. The 692 admitted total excludes this duplication. The 599 remaining total is the sum of the figures as shown.

<sup>4</sup> Only odd-lot trading is permitted in 1 of these issues.

<sup>5</sup> Includes San Francisco Curb figures prior to the 1938 merger.

<sup>6</sup> Wheeling is an exempted exchange. All others shown are registered.

<sup>7</sup> This figure included duplications arising from admission of various issues to unlisted trading on more than 1 exchange.

**TABLE 18.—Reorganization cases instituted under chapter X and sec. 77-B of the National Bankruptcy Act in which the Commission filed notice of appearance and in which the Commission actively participated during the fiscal year ended June 30, 1950**

## DISTRIBUTION OF DEBTORS BY TYPE OF INDUSTRY

Industry	Number of debtors		Total assets <sup>1</sup>		Total indebtedness <sup>1</sup>	
	Princ- ipal	Subsidi- ary	Amount (thousands omitted)	Percent of grand total	Amount (thousands omitted)	Percent of grand total
Agricultural.....						
Mining and other extractive.....	3	1	\$6, 476	0.67	\$1, 485	0.17
Manufacturing.....	13	2	25, 001	2.59	17, 793	2.09
Financial and investment.....	5	1	124, 222	12.87	121, 078	14.22
Merchandising.....	2	1	1, 452	.15	1, 720	.20
Real estate.....	24	3	87, 337	9.05	75, 528	8.87
Construction and allied.....						
Transportation and communication.....	9	12	404, 750	41.94	328, 469	38.59
Service.....	6	1	25, 043	2.59	13, 070	1.54
Utilities—electric, water, and gas <sup>2</sup> .....	9	6	290, 876	30.14	292, 111	34.32
Other: Religious, charitable, etc.....						
Grand total.....	71	27	965, 157	100.00	851, 254	100.00

<sup>1</sup> As of latest dates figures are available.

<sup>2</sup> Includes no electric utility companies. Represents principally investment and holding companies and gas pipeline companies and a few gas distributing companies.

**TABLE 19.—Reorganization proceedings in which the Commission participated during the fiscal year ended June 30, 1950**

Debtor	District court	Petition		Securities and Exchange Commission notice of appearance filed
		Filed	Approved	
Aireon Manufacturing Corp.....	D. Kans.....	Nov. 22, 1947	Nov. 22, 1947	Jan. 7, 1948
American Acoustics, Inc.....	D. N. J.....	Mar. 21, 1947	May 5, 1947	Apr. 21, 1947
*American Fuel and Power Co.....	E. D. Ky.....	Dec. 6, 1935	Dec. 20, 1935	May 1, 1940
Buckeye Fuel Co.....	do.....	Nov. 28, 1939	Nov. 28, 1939	Do.
Buckeye Gas Service Co.....	do.....	do.....	do.....	Do.
Carbreath Gas Co.....	do.....	do.....	do.....	Do.
Inland Gas Distributing Co.....	do.....	do.....	do.....	Do.
American Silver Corp.....	S. D. Calif.....	May 6, 1948	May 7, 1948	May 11, 1948
Bankers Building, Inc.....	N. D. Ill.....	Sept. 21, 1943	Oct. 5, 1943	Oct. 19, 1943
*Bellevue-Stratford Co.....	E. D. Pa.....	Oct. 31, 1936	Oct. 31, 1936	Feb. 24, 1939
Brand's Restaurant Control Corp.....	S. D. N. Y.....	Aug. 2, 1939	Aug. 10, 1939	Aug. 30, 1939
Broadway Garage, Inc.....	S. D. Ohio.....	Apr. 26, 1946	Apr. 26, 1946	June 24, 1946
Calumet & South Chicago Railway Co.....	N. D. Ill.....	June 29, 1944	Sept. 18, 1944	Oct. 20, 1944
Central States Electric Corp.....	E. D. Va.....	Feb. 26, 1942	Feb. 27, 1942	Mar. 11, 1942
Cenwest Corp.....	S. D. N. Y.....	Mar. 17, 1942	Apr. 3, 1942	Mar. 21, 1942
Chicago City Railway Co.....	N. D. Ill.....	Nov. 27, 1939	Sept. 18, 1944	Oct. 20, 1944
Chicago Railways Co.....	do.....	Oct. 15, 1938	do.....	Do.
Chicago & West Towns Railways, Inc.....	do.....	June 30, 1947	July 1, 1947	July 24, 1947
Childs Co.....	S. D. N. Y.....	Aug. 26, 1943	Aug. 27, 1943	Aug. 26, 1943
Cosmo Records, Inc.....	E. D. N. Y.....	Jan. 27, 1947	Jan. 27, 1947	Jan. 30, 1947
Cosmopolitan Records, Inc.....	do.....	do.....	do.....	Do.
Automatic Industries, Inc.....	do.....	do.....	do.....	Do.
Dorbank Corp.....	do.....	do.....	do.....	Do.
Diversey Hotel Corp.....	N. D. Ill.....	May 29, 1947	June 13, 1947	June 13, 1947
Douglas Mill, Inc.....	N. D. Ga.....	Sept. 7, 1949	Sept. 7, 1949	Oct. 12, 1949
Drake Stadium & Field House Corp.....	S. D. Iowa.....	Dec. 27, 1947	Dec. 27, 1947	Feb. 16, 1948
80 John Street Corp.....	S. D. N. Y.....	Sept. 14, 1945	Sept. 14, 1945	Oct. 8, 1945
Equitable Office Building Corp.....	do.....	Apr. 10, 1941	Apr. 10, 1941	Apr. 14, 1941
*Federal Facilities Realty Trust.....	N. D. Ill.....	Dec. 26, 1934	Apr. 25, 1935	Oct. 29, 1940
Franklin Building Co.....	E. D. Wis.....	May 5, 1947	May 5, 1947	Aug. 18, 1947
General Public Utilities Corp. (formerly Associated Gas & Electric Co.).....	S. D. N. Y.....	Jan. 10, 1940	Jan. 10, 1940	Jan. 15, 1940
Associated Gas & Electric Corp.....	do.....	do.....	do.....	Do.
Gramott Corp.....	do.....	Mar. 1, 1946	Mar. 4, 1946	Mar. 21, 1946
*Hotel Martin Co. of Utica.....	N. D. N. Y.....	June 6, 1935	June 19, 1935	June 24, 1939

See footnote at end of table, p. 205.

TABLE 19.—*Reorganization proceedings in which the Commission participated during the fiscal year ended June 30, 1950—Continued*

Debtor	District court	Petition		Securities and Exchange Commission notice of appearance filed
		Filed	Approved	
*Hotels Majestic, Inc.	E. D. Pa.	Oct. 30, 1936	Oct. 31, 1936	Feb. 26, 1942
Industrial Office Building Corp.	D. N. J.	Oct. 3, 1947	Oct. 3, 1947	Oct. 10, 1947
*Inland Gas Corp.	E. D. Ky.	Oct. 14, 1935	Nov. 1, 1935	Mar. 28, 1939
International Mining & Milling Co.	D. Nev.	June 29, 1939	June 29, 1939	Aug. 7, 1939
Mount Gaines Mining Co.	do	do	do	Do.
International Power Securities Corp.	D. N. J.	Feb. 24, 1941	Feb. 24, 1941	Mar. 3, 1941
International Railway Co.	W. D. N. Y.	July 28, 1947	July 28, 1947	Aug. 4, 1947
Isham Garden Apartments	S. D. N. Y.	Apr. 7, 1943	Apr. 8, 1943	Apr. 13, 1943
Keeshin Freight Lines, Inc.	N. D. Ill.	Jan. 31, 1946	Jan. 31, 1946	Apr. 25, 1949
Keeshin Motor Express Co., Inc.	do	do	do	Do.
Seaboard Freight Lines, Inc.	do	do	do	Do.
National Freight Lines, Inc.	do	do	do	Do.
Kellett Aircraft Corp.	E. D. Pa.	Oct. 18, 1946	Oct. 18, 1946	Dec. 4, 1946
*Kentucky Fuel Gas Corp.	E. D. Ky.	Oct. 25, 1935	Nov. 1, 1935	Mar. 28, 1939
Majestic Radio & Television Corp.	N. D. Ill.	Mar. 31, 1948	Nov. 24, 1948	Sept. 15, 1948
Manufacturers Trading Corp.	N. D. Ohio	Oct. 15, 1948	Oct. 15, 1948	Oct. 25, 1948
Manufacturers Discount Corp.	do	do	do	Do.
*Midland United Company	D. Del.	June 9, 1934	June 9, 1934	Jan. 10, 1940
*Midland Utilities Company	do	do	do	Do.
Momence Milk Cooperative Association.	E. D. Ill.	June 18, 1949	June 18, 1949	Sept. 12, 1949
Moorhead Knitting Co.	M. D. Pa.	June 19, 1941	June 24, 1941	Aug. 6, 1941
*National Realty Trust	N. D. Ill.	Dec. 26, 1934	Apr. 25, 1935	Oct. 29, 1940
Neville Island Glass Co., Inc.	W. D. Pa.	Mar. 1, 1948	Mar. 1, 1948	Mar. 17, 1948
New Union Building Co.	E. D. Mich.	May 5, 1949	May 6, 1949	June 20, 1949
Northwest Carolina Utilities Co.	W. D. N. Car.	July 8, 1942	July 8, 1942	Mar. 3, 1943
Novo Tire Co.	E. D. Mich.	Mar. 14, 1949	Mar. 14, 1949	Apr. 25, 1949
Norwalk Tire & Rubber Co.	D. Conn.	May 20, 1949	May 20, 1949	June 8, 1949
P. R. Holding Corp.	S. D. N. Y.	Apr. 24, 1942	May 21, 1942	May 21, 1942
*Pittsburgh Railways Co.	W. D. Pa.	May 10, 1938	May 10, 1938	Jan. 4, 1939
*Pittsburgh Motor Coach Co.	do	do	do	Do.
Pittsburgh Terminal Coal Corp.	do	Dec. 4, 1939	Jan. 2, 1940	Jan. 6, 1940
Portland Electric Power Co.	D. Oreg.	Apr. 3, 1939	Apr. 3, 1939	Apr. 16, 1939
Pratt's Fresh Frozen Foods, Inc.	D. N. J.	Apr. 13, 1948	Apr. 13, 1948	May 29, 1948
Pratt's Distributors, Inc.	do	May 17, 1948	May 17, 1948	Do.
Quaker City Cold Storage Company	E. D. Pa.	Dec. 17, 1941	Feb. 13, 1942	Jan. 28, 1942
R. A. Security Holdings Inc.	E. D. N. Y.	May 7, 1942	July 31, 1942	May 22, 1942
Realty Associates Securities Corp.	do	Sept. 28, 1943	Sept. 28, 1943	Oct. 4, 1943
Espade Realty Corp.	do	Mar. 17, 1944	Mar. 20, 1944	Apr. 19, 1944
Silesian American Corp.	S. D. N. Y.	July 29, 1941	July 29, 1941	Aug. 1, 1941
Solar Manufacturing Corp.	D. N. J.	Dec. 14, 1948	Dec. 14, 1948	Dec. 27, 1948
South Bay Consolidated Water Co., Inc.	S. D. N. Y.	Apr. 26, 1949	Apr. 26, 1949	May 23, 1949
Third Avenue Transit Corp.	do	Oct. 25, 1948	Oct. 25, 1948	Jan. 3, 1949
Surface Transportation Corp.	do	June 21, 1949	June 21, 1949	July 7, 1949
Westchester Street Transp. Co., Inc.	do	do	do	Do.
Westchester Electric Railroad Co.	do	do	do	Do.
Warentas Press, Inc.	do	Sept. 8, 1949	Sept. 8, 1949	Oct. 24, 1949
Yonkers Railroad Co.	do	June 21, 1949	June 21, 1949	July 7, 1949
32 West Randolph Corp.	N. D. Ill.	Apr. 15, 1946	Apr. 29, 1946	May 20, 1946
Thomascoler Inc.	S. D. Calif.	June 20, 1949	June 21, 1949	Aug. 5, 1949
Trinity Buildings Corp. of New York	S. D. N. Y.	Jan. 18, 1945	Jan. 18, 1945	Feb. 19, 1945
Union League Club of Chicago	N. D. Ill.	Feb. 14, 1950	Feb. 14, 1950	Apr. 10, 1950
U. S. Realty & Improvement Co.	S. D. N. Y.	Feb. 1, 1944	Feb. 1, 1944	Feb. 7, 1944
*Van Rensselaer Estates, Inc.	do	July 12, 1935	July 12, 1935	Jan. 12, 1941
*Van Sweringen Corp.	N. D. Ohio	Oct. 13, 1936	Oct. 15, 1936	July 23, 1940
*Cleveland Terminal Buildings Co.	do	do	do	Do.
Wade Park Manor Corp.	do	June 28, 1947	June 30, 1947	July 28, 1947
Warner Sugar Corp.	S. D. N. Y.	June 7, 1940	July 9, 1940	Oct. 9, 1940
Washington Gas & Electric Co.	do	Sept. 29, 1941	Sept. 29, 1941	Oct. 14, 1941
Wilkes Barre Railways Corp.	M. D. Pa.	July 1, 1943	July 1, 1943	July 15, 1943
Wilkes Barre Railway Co.	do	do	do	Do.
Wilkes Barre Trackless Trolley Co.	do	do	do	Do.
Wyoming Valley Autobus Co.	do	do	do	Do.
Wyoming Valley Public Service Co.	do	do	do	Do.
Windsor Wilson Liquidation Trust	N. D. Ill.	Mar. 18, 1941	May 28, 1941	June 12, 1941

\* Instituted under sec. 77-B.

TABLE 20.—*Summary of cases instituted in the courts by the Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Investment Company Act of 1940, and the Investment Advisers Act of 1940*

Types of cases	Total cases instituted up to end of 1950 fiscal year	Total cases closed up to end of 1950 fiscal year	Cases pending at end of 1950 fiscal year	Cases pending at end of 1949 fiscal year	Cases instituted during 1950 fiscal year	Total cases pending during 1950 fiscal year	Cases closed during 1950 fiscal year
Actions to enjoin violations of the above acts.....	570	554	16	18	32	50	34
Actions to enforce subpoenas under the Securities Act and the Securities Exchange Act.....	51	49	2	2	2	4	2
Actions to carry out voluntary plans to comply with sect. on 11 (b) of the Holding Company Act.....	83	71	12	10	12	22	10
Miscellaneous actions.....	13	11	2	2	1	3	1
Total.....	717	685	32	32	47	79	47

TABLE 21.—*Summary of cases instituted against the Commission, cases in which the Commission participated as intervenor or "amicus curiae", and reorganization cases on appeal under chapter X in which the Commission participated pending during the fiscal year ended June 30, 1950*

Types of cases	Total cases instituted up to end of 1950 fiscal year	Total cases closed up to end of 1950 fiscal year	Cases pending at end of 1950 fiscal year	Cases pending at end of 1949 fiscal year	Cases instituted during 1950 fiscal year	Total cases pending during 1950 fiscal year	Cases closed during 1950 fiscal year
Actions to enjoin enforcement of Securities Act, Securities Exchange Act and Public Utility Holding Company Act with the exception of subpoenas issued by the Commission.....	64	64	0	0	0	0	0
Actions to enjoin enforcement of or compliance with subpoenas issued by the Commission.....	8	8	0	0	0	0	0
Petitions for review of Commission's orders by circuit courts of appeals under the various acts administered by the Commission.....	153	149	4	7	6	13	9
Miscellaneous actions against the Commission or officers of the Commission and cases in which the Commission participated as intervenor or <i>amicus curiae</i> .....	136	131	5	24	11	35	30
Appeal cases under chapter X in which the Commission participated.....	107	100	7	4	10	14	7
Total.....	468	452	16	35	27	62	46

TABLE 22.—*Injunctive proceedings brought by the Commission, under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Advisers Act of 1940, and the Investment Company Act of 1940, which were pending during the fiscal year ended June 30, 1950*

Name of principal defendant	Number of defendants	United States District Court	Initiating papers filed	Alleged violations	Status of case
Adams & Co.	4	Northern District of Illinois.	July 18, 1949	Secs. 15 (c) (1) and 10 (b), 1934 act; secs. 17 (a) (2) and (3), 1933 act	Temporary restraining order entered July 18, 1949, and receiver appointed. Application for temporary and permanent injunction denied. Pending.
Alhambra Gold Mine Corp.	10	Southern District of California.	June 28, 1950	Sec. 5 (a), 1933 act.	Injunction by consent June 30, 1949. Closed.
Aloha Oil Co.	2	Western District of Oklahoma.	June 28, 1949	do.	Interlocutory decree by consent, November 1949, permanently enjoining the defendants and appointing permanent receiver. Pending.
Andrew, F. L., Investment Trust.	2	Massachusetts.	Nov. 30, 1949	Secs. 13 (a) (2) and (3) and 21 (a) and (b), IOA of 1940.	Motion for summary judgment filed by Commission. Pending.
Atlas Teack Corp.	1	do.	Mar. 2, 1950	Sec. 13, 1934 act.	Injunction by consent Feb. 17, 1950. Closed.
Automatic Systems Corp.	3	Western District of Tennessee.	Feb. 17, 1950	Sec. 5 (a), 1933 act.	Injunction by consent June 7, 1949. Receiver appointed. Pending.
Caplan, Gabriel.	6	Southern District of New York.	Feb. 15, 1949	Sec. 17 (a) (1), 1933 act; sec. 10 (b) and rule X-10B-6, 1934 act.	Injunction by consent as to 1 defendant Mar. 10, 1949. Injunction by consent as to 4 defendants May 3, 1949. Action against defendant, Caplan, discontinued on May 17, 1949, because of his death. Closed.
Carver, H. P., Corp.	1	Massachusetts.	Sept. 24, 1948	Secs. 10 (b) and 15 (c) (3) and rules X-10B-5 and X-10C3-1, 1934 act.	Injunction by consent Sept. 27, 1948. Receiver appointed. Pending.
Chinchilla Chateau, Inc.	2	New Jersey.	May 23, 1950	Sec. 5 (a), 1933 act.	Final judgment by consent June 19, 1950. Pending.
Claytonian Manufacturing Corp.	2	Massachusetts.	Mar. 15, 1950	Secs. 5 (a) and 17 (a), 1933 act.	Injunction by consent Mar. 15, 1950. Closed.
Co-op Insurance Co.	5	Arizona.	June 28, 1950	Secs. 5 (a) (1) and (2) and 17 (a) (3), 1933 act.	Injunction by consent June 30, 1950, as to one defendant. Pending.
Cuozzo, James M., dba Cuveil & Co.	1	Massachusetts.	June 7, 1949	Secs. 5 (a) and 17 (a), 1933 act.	Temporary restraining order entered June 7, 1949. Final judgment by consent July 11, 1949. Closed.
Davies, James R., Sr.	2	Idaho.	July 7, 1949	Sec. 5 (a), 1933 act.	Final judgment by consent July 11, 1949. Closed.
Diamonds & Metals Exploration Co., Inc.	2	Western District of Washington.	Feb. 10, 1950	Secs. 5 (a) and 17 (a), 1933 act.	Injunction by consent Feb. 10, 1950. Closed.
Dixieland Petroleum Corp.	3	Southern District of New York.	Mar. 11, 1948	Sec. 5 (a), 1933 act.	Temporary restraining order entered May 31, 1949. Injunction by consent Mar. 28, 1948, against 2 defendants. Action against defendant, Stratton, discontinued because of his death. Closed.
Ellenburger Exploration Enterprises, Inc.	2	Northern District of Texas.	May 31, 1949	Secs. 5 (a) and 17 (a), 1933 act.	Temporary restraining order May 31, 1949. Injunction by consent June 8, 1949. Closed.
Empire Insurance Agency, Inc.	2	New Mexico.	Nov. 3, 1949	Sec. 17 (a) (2) and (3), 1933 act.	Judgment by default Dec. 8, 1949. Closed.
Feret Industries, Inc.	2	Northern District of California.	Aug. 18, 1948	Secs. 5 (a) (1) and (3), 1933 act.	Final judgment by default against defendant company Jan. 26, 1949. Temporary restraining order against remaining defendant Jan. 27, 1949. Temporary injunction June 6, 1949. Final judgment by consent Aug. 29, 1949. Closed.

TABLE 22.—*Injunctive proceedings brought by the Commission, under the Securities Exchange Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Company Act of 1940, and the Investment Company Act of 1940, which were pending during the fiscal year ended June 30, 1950*—Continued

Name of principal defendant	Number of defendants	United States District Court	Initiating papers filed	Alleged violations	Status of case
Furlong, Walter G.	1	New Jersey	Nov. 3, 1949	Secs. 15 (a), 15 (c) (1), 10 (b) and Rule X-10B-5 (3), 1934 act.	Temporary restraining order entered Nov. 3, 1949. Preliminary injunction Nov. 14, 1949. Final judgment by consent Nov. 17, 1949. Closed.
General Stock & Bond Corp.	1	Massachusetts	Mar. 31, 1950	Secs. 10 (b) and 15 (c) (3); rules X-10B-5 and X-1503-1, 1934 act.	Injunction by consent Mar. 31, 1950. Closed.
Halcolcon Mines, Inc.	2	Western District of Michigan	Oct. 12, 1949	Sec. 17 (a), 1933 act.	Injunction by consent Nov. 8, 1949. Closed.
Howe, Charles A.	2	Michigan	Dec. 15, 1949	Secs. 5 (a) (1) and (2) and 17 (a) (1) and (2), 1933 act.	Preliminary injunction entered Jan. 10, 1950. Final judgment by default entered Mar. 6, 1950. Closed.
Johnson Machine Works, Inc.	3	Delaware	Sept. 27, 1949	Sec. 5 (a) (1) and (2), 1933 act.	Temporary restraining order entered Sept. 27, 1949. Final judgment by consent Oct. 5, 1949. Closed.
Kirby, Josiah Marshall	1	Northern District of Ohio	July 15, 1948	Sec. 15 (a) 1934 act.	Preliminary injunction entered Aug. 31, 1948. Final judgment by this court Apr. 28, 1949. Closed.
Lodge, Alfred L.	4	Massachusetts	Feb. 9, 1950	Secs. 5 (a) and 17 (a), 1933 act.	Injunction by consent Feb. 9, 1950. Closed.
Lucky Friday Extension Mining Co.	6	Eastern District of Washington	Mar. 18, 1948	Secs. 5 (a) (1) and (2), 1933 act.	Preliminary injunction against all defendants Mar. 30, 1948. Final judgment Aug. 6, 1949, as to 4 defendants. Complaint dismissed as to 2 remaining defendants. Closed.
Mercer Hacks Corp.	1	Southern District of New York	May 12, 1950	Sec. 17 (a) (3), 1933 act.	Temporary restraining order entered on May 12, 1950. Defendants answer filed on June 10, 1950. Pending.
Northwest Petroleum, Ltd.	3	Oregon	Dec. 14, 1949	Secs. 5 (a) (1) and 17 (a), 1933 act.	Preliminary injunction entered Jan. 17, 1950. Amended complaint filed June 12, 1950. Defendants' answer to amended complaint filed June 28, 1950. Pending.
Oil Traders Bureau, Inc.	2	Kansas	June 20, 1949	Secs. 5 (a) (1) and 17 (a) (1), (2) and (3), 1933 act.	Injunction by consent June 20, 1949. Closed.
Peck, Garrette W.	2	Southern District of California	Mar. 29, 1950	Sec. 5 (a), 1933 act.	Preliminary injunction by default entered Apr. 17, 1950. Final judgment by default entered May 5, 1950. Pending.
Pilot Silver-Lead Mines, Inc.	6	Eastern District of Washington	June 3, 1948	Secs. 5 (a) (1) and (2), 1933 act.	Preliminary injunction against 4 defendants June 11, 1948. Final judgment by consent Aug. 5, 1949, as to 4 defendants. Complaint dismissed as to 2 remaining defendants. Closed.
Puget Sound Products Co.	3	Western District of Washington	Feb. 20, 1950	Sec. 5 (a), 1933 act.	Defendants' answer filed Feb. 27, 1950. Pending.
Ramsay, Cleo F.	1	Idaho	Apr. 8, 1949	Sec. 17 (a), 1933 act.	Pending.
Rigney, F. L., Co.	4	Kansas	Feb. 14, 1950	Sec. 5 (a) (1), 1933 act.	Temporary restraining order entered Feb. 14, 1950. Final judgment by consent Feb. 24, 1950. Closed.
Rose, Charles E.	1	Southern District of Indiana	Apr. 13, 1949	Secs. 10 (b) and 15 (c) (1), 1934 act; secs. 17 (a) (2) and (3), 1933 act.	Injunction by consent Apr. 13, 1949. Closed.

Saylor, William.....	South Dakota.....	Feb. 6, 1950	Secs. 5 (a) and 17 (a), 1933 act.....	Injunction by consent Apr. 13, 1950 Pending.
Silver Creek Precision Corp.....	Southern District of New York.....	July 8, 1949	Secs. 5 (a) (1) and (2), 1933 act.....	Injunction by consent July 8, 1949. Closed.
Sound Cities Gas & Oil Co., Inc.....	Western District of Washington.....	Oct. 10, 1945	Sec. 5 (a), 1933 act.....	Complaint dismissed July 8, 1949, on motion of the Com- mission. Closed.
South Pacific Engineering Corp.....	Oregon.....	Nov. 7, 1949	.....do.....	Preliminary injunction entered Dec. 27, 1949. Final judgment by default entered Jan. 12, 1950. Closed.
Stanley, Henry M.....	Eastern District of Michigan.....	Mar. 13, 1950	Secs. 9 (a) (1), (a), (b) and (c) and 9 (a) (2), 1934 act	Injunction by consent Mar. 13, 1950. Closed.
Stevens-Stophens Co., Inc., The.....	Northern District of Texas.....	Feb. 16, 1950	Secs. 5 (a) and 17 (a), 1933 act.....	Injunction by consent as to 3 defendants Feb. 21, 1950. Action dismissed as to remaining defendant. Closed.
Todd, Gordon B.....	Southern District of New York.....	Feb. 10, 1950	Secs. 7 (c) (1), 8 (c), 11 (d) (2), 15 (a) and 17 (a), 1934 act	Injunction by consent Feb. 10, 1950. Closed.
Topping, John A.....	.....do.....	Apr. 29, 1949	Sec. 14 (a) and regulation X-14, 1934 act	Final judgment by consent entered Sept. 27, 1949. Closed.
Trusteed Funds, Inc.....	Massachusetts.....	Sept. 1, 1949	Secs. 5 (b) (2), 17 (a) (1), (2) and (3), 1933 act; secs. 24 (b) and 35 (a), Investment Co. Act of 1940.	Injunction by consent as to 8 defendants, Sept. 9, 1949. Special counsel appointed. Pending.
Tucker, H. A.....	Western District of Oklahoma.....	Feb. 21, 1950	Sec. 5 (a) (1), 1933 act.....	Temporary restraining order entered Feb. 21, 1950. Final judgment by consent entered Feb. 28, 1950. Closed.
Walters, John K., & Co., Inc.....	Delaware.....	May 10, 1949	Secs. 15 (c) (1), 17 (a), 20 (b), and rules X-15C1-2 and X-17A-3, 1934 act.	Final judgment by court entered July 1, 1949. Closed.
Westates Agricultural Chemical Co.....	Eastern District of Washington.....	Nov. 2, 1949	Sec. 5 (a), 1933 act.....	Injunction by consent Nov. 2, 1949. Closed.
Wild, Alwyn H.....	Southern District of New York.....	Sept. 10, 1949	Secs. 5 (a) (2) and 17 (a) (2) and (3), 1933 act	Preliminary injunction entered Sept. 27, 1949. Final judg- ment by consent entered Oct. 25, 1949. Closed.
Wimer, Nye A.....	Western District of Pennsylvania.....	Oct. 23, 1947	Secs. 5 (a) (1) and (2) and 17 (a) (2), 1933 act.	Temporary restraining order entered Oct. 29, 1947. Pre- liminary injunction entered Nov. 18, 1947. Defendant's motion to dismiss complaint denied Mar. 3, 1948. Pend- ing.
Wix, Ernest T.....	Northern District of Illinois.....	Oct. 18, 1944	Secs. 5 (a) and 17 (a), 1933 act.....	Injunction by consent as to 3 defendants Dec. 1, 1944. Pending as to remaining defendant, Wix. Pending.

TABLE 23.—Indictments returned for violation of the acts administered by the Commission, the Mail-Fraud Statute (sec. 1341, formerly sec. 938, title 18, U. S. C.), and other related Federal statutes (where the Commission took part in the investigation and development of the case) which were pending during the 1950 fiscal year

Name of principal defendant	Number of defendants	United States District Court	Indictment returned	Charges	Status of case
Alfred, Claude Cleave (Missouri Oil & Mineral Co.).	1	Eastern District of Tennessee.	Dec. 6, 1948	Sec. 17 (a) (1) of 1933 act; sec. 1341, title 18, U. S. C. (1948 ed.)	C. C. Alfred pleaded nolo contendere to sec. 17 (a) (1) count, remaining counts were dismissed. Defendant sentenced to 2 years imprisonment
Allen, James A. (Lucky Friday Extension Mining Co.).	3	Eastern District of Washington.	May 6, 1948	Sec. 17 (a) of 1933 act; secs. 338 (now sec. 1341), and 88 (now sec. 371), title 18, U. S. C.	Defendants Keane and Grismer withdrew their pleas of not guilty and Keane pleaded nolo contendere to all counts; Grismer pleaded nolo contendere to conspiracy count, all other counts dismissed; and Allen withdrew his previous plea of nolo contendere and pleaded not guilty. Allen found guilty by jury on the conspiracy count and acquitted on remaining counts. Keane placed on probation for 4 years and fined \$1,500; Grismer placed on probation for 4 years and fined \$1,500; and Allen sentenced to 18 months. Appeal by Allen, pending. Defendant not apprehended. Pending.
Baker, Henry L.	1	Southern District of California.	Mar. 25, 1939	Sec. 17 (a) (1) and (3) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendant entered plea of not guilty. Awaiting trial.
Baldwin, George E. (Secure Oil Co.).	1	Northern District of Illinois.	Dec. 19, 1949	Sec. 17 (a) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendant pleaded nolo contendere to three 17 (a) counts and not guilty to all other counts. Sentence was suspended and he was placed on probation for 2 years.
Baldwin, William Ray.	1	District of Delaware.	Apr. 27, 1950	Sec. 17 (a) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Seven defendants pleaded not guilty and were released on bond. Two remaining defendants, Cosmo Records, Inc. and E. F. Gillespie & Co., Inc., have not entered a plea. Pending.
Bank, Harry W. (Cosmo Records, Inc.).	9	Southern district of New York.	Dec. 6, 1948	Sec. 17 (a) (1) of 1933 act; secs. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	Bauer pleaded guilty on Apr. 12, 1948, and was sentenced to 1 year and 60 days imprisonment. Javies pleaded guilty on Feb. 2, 1949, and was sentenced to 15 years imprisonment. Defendant also sentenced as to Del Tulo, remaining defendant, because of death. Defendants not apprehended. Pending.
Bauer, Kenneth Leo	3	District of New Jersey.	Mar. 24, 1948	Sec. 17 (a) (1) of 1933 act.	
Broadley, Albert E. (Hudson Securities).	5	Western District of New York.	July 17, 1947	Secs. 5 (a) (1), (2) and 17 (a) (1) of 1933 act; secs. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	5 defendants previously convicted and 1 acquitted. Case dismissed as to Hart and nolo pressed as to Thomas the remaining defendant.
Bronson, Edmond B. (Bagdad Copper Corp.).	8	Southern District of New York.	Mar. 8, 1939	Sec. 17 (a) of 1933 act; larceny after trust "22-2203 D. C. code" embezzlement "22-1202 D. C. code."	Defendant pleaded guilty to 17 (a) count, remaining counts were dismissed. Sentence to 1 to 5 years imprisonment, execution of sentence was suspended and defendant was placed on probation provided he made restitution and did not reenter the securities business.
Brown, Stanley	1	District of Columbia.	Oct. 3, 1949		

Burch, Robert L. (Ellenburger Exploration Enterprises, Inc.)	Feb. 14, 1950	Northern District of Texas.	Sec. 17 (a) of 1933 act; sec. 1341, title 18, U. S. C. (1948 ed.).	Defendants, Burch, Huff, and Martin entered pleas of nolo contendere. Defendant corporation entered pleas of not guilty and was dismissed on motion of the Government. Burch and Huff were sentenced to 13 months and fined \$500 each; sentences suspended and placed on probation for 1 year. Martin fined \$500 which was suspended and placed on probation for 1 year.
Cactus Oil Co., Inc.	Jan. 21, 1948	District of Delaware.	Secs. 5 (a) and 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendants Husson and Anderson withdrew their pleas of not guilty and pleaded guilty. Husson pleaded guilty to 1 sec. 17 (a) (1) count and 1 mail fraud count, and Anderson to all counts. Both defendants placed on probation for 1 year. Indictment dismissed as to Cactus Oil Co., Inc. Pending.
Carter, Phillip M. (American Acoustics, Inc.)	Apr. 14, 1949	Southern District of New York.	Sec. 17 (a) of the 1933 act; sec. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	Defendants have been arrested and both have posted a \$5,000 bond. Pending.
Davies, James R., Sr. (Toney Curprill Mine)	June 16, 1950	District of Idaho.	Secs. 5 (a) and 17 (b) of 1933 act; sec. 1341 and 371 (1948 ed.), title 18, U. S. C.	Defendant pleaded guilty and was sentenced to 18 months on each count, sentences to run concurrently.
Davis, Alvis Ray	Feb. 10, 1950	Western District of Missouri.	Sec. 10 (b) and Rule X-10B-5 of 1934 act; sec. 1341, title 18, U. S. C. (1948 ed.)	DePalma apprehended Dec 17, 1947, and released on \$40,000 bond, pending his arraignment on Jan. 26, 1948, in the United States District Court in Cleveland, Ohio. The defendant's bail was forfeited, when he failed to appear in court on that date and he is presently a fugitive. Pending. Defendant not apprehended.
DePalma, Albert Edward (A. E. DePalma & Co.)	June 11, 1947	Northern District of Ohio.	Secs. 5 (a) (1), (2) and 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendant withdrew his plea of not guilty and pleaded guilty to two 17 (a) (1) counts of the indictment. He was sentenced to 2½ years on 1 count and granted probation on other count. Remaining counts were dismissed.
Elliott, N. James	Sept. 29, 1948	Southern District of New York.	Sec. 17 (a) (1) and (2) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendant pleaded guilty and was sentenced to 1 year and 1 day on each of the remaining 9 counts, sentences to run concurrently. Execution of sentence on counts 2 through 9 suspended and placed on probation for 6 months, running from completion of sentence on count 1.
Finch, Galen B. (Finch Oil Co.)	Apr. 13, 1949	Southern District of California.	Sec. 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendants have been previously convicted. Indictment nolle prossed as to Brooks on Nov. 29, 1946. Indictment dismissed as to Frahm the remaining defendant, on motion of U. S. attorney.
Hawley, Edwin	Nov. 10, 1949	District of Arizona.	Sec. 17 (a) (3) of 1933 act and sec. 32 (a) of 1934 act.	Herald withdrew not guilty plea and pleaded nolo contendere to all counts except 1, 3, 5, and 8 which were dismissed. He was sentenced to 5 years on mail fraud counts and 2 years on the 1934 act counts, sentences to run concurrently.
Hancock, William A.	Apr. 27, 1949	Southern District of New York.	Sec. 10 (b), 15 (a) and rule X-10B-5 of 1934 act; sec. 338 (now sec. 1341), title 18, U. S. C.	
Haynes, Melvan D. (Benner Owens & Co.)	Oct. 19, 1936	Eastern District of Michigan.	Secs. 17 (a) (1) and (2) of 1933 act; sec. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	
Herald, Otto F. (Fiscal Service Corp.)	July 29, 1949	Northern District of Illinois.	Secs. 10 (b), 15 (a) and rule X-10B-5 of 1934 act; sec. 338 (now sec. 1341), title 18, U. S. C.	

TABLE 23.—Indictments returned for violation of the acts administered by the Commission, the Mail-Fraud Statute (sec. 1941, formerly sec. 938, title 18, U. S. C.), and other related Federal statutes (where the Commission took part in the investigation and development of the case) which were pending during the 1950 fiscal year—Continued

Name of principal defendant	Number of defendants	United States District Court	Indictment returned	Charges	Status of case
Herek, John.....	6	Eastern District of Michigan.	July 30, 1942	Sec. 17 (a) (1) of 1933 act; secs 338 (now sec. 1341), and 88 (now sec. 371), title 18, U. S. C.	Herek entered plea of not guilty. Remaining defendants are fugitives. Pending as to all defendants.
Do.....	1	do.....	do.....	Sec. 5 (a) of 1933 act.	
Do.....	5	do.....	do.....	Sec. 5 (a) (1) and (2) of 1933 act; sec. 88 (now sec. 371), title 18, U. S. C.	
Hildebrand, Glen Jerome (Hildebrand-Osborne & Co.).	3	Southern District of Illinois.	June 9, 1945	Secs. 15 (a) (1), 8 (c) and 17 (a) of 1933 act; secs. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	Hildebrand entered a plea of guilty and on Mar. 19, 1946 was placed on 5 years' probation, on the condition that restitution be made in the amount of \$3,000. Frank was found guilty on June 21, 1948, and placed on probation for 6 years and ordered to make restitution in the amount of \$1,600. Case pending as to the remaining defendant, Hildebrand-Osborne & Co.
Knowles, Noel H. (LaSalle Yellowknife Mines, Ltd.).	3	Eastern District of New York.	Oct. 1, 1946	Secs. 5 (a) (1), (2) and 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Knowles pleaded not guilty on June 21, 1948, and released on \$25,000 bail. Knowles bond forfeited, N. Y., 1948. Case dismissed as to Newman on Mar. 15, 1949. Indicting Case returned from Western District of Oklahoma to District of Massachusetts, where defendant, Lodge, entered a plea of guilty. On July 28, 1950, after the close of this fiscal year, defendant, Lodge, was sentenced to 3 months' imprisonment on 17 (a) (1) count and placed on probation for 3 years on all other counts, subject to condition that he not engage in any form of the securities business. Pleas of guilty were entered also on behalf of the 3 corporate defendants and they were each fined \$1 on all counts.
Lodge, Alfred L.....	4	Western District of Oklahoma.	Apr. 25, 1950	do.....	Case pending as to Low and Hardie, who are fugitives.
Low, Harry (Trenton Valley Distillers Corp.).	2	Eastern District of Michigan.	Feb. 3, 1939	Sec. 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendant entered a plea of not guilty. Awaiting trial.
Luck, Eugene F. (Southeastern Securities Corp.).	1	Southern District of Florida.	Sept. 28, 1949	Sec. 10 (b) and rule X-10B-5 of 1934 act; sec. 1341, title 18, U. S. C. (1948 ed.).	Defendant apprehended and posted a bond of \$2,000. Pending.
March, Frederick F.....	1	Northern District of Illinois.	June 30, 1950	Sec. 17 (a) (1) of 1933 act; sec. 1341, title 18, U. S. C. (1948 ed.).	
May, Herbert R. (Washington Chemical & Salt Co., et al.).	2	Western District of Washington.	Aug. 26, 1948	Secs. 5 (a) and 17 (a) (1) of 1933 act; secs. 338 (now sec. 1341), and 88 (now sec. 371), title 18, U. S. C.	May was acquitted by jury on 8 counts. Jury was unable to agree on remaining count (sec. 5 (a) of 1933 act) and this count was dismissed by United States attorney. Daily was permitted to withdraw his previous plea of <i>nolo contendere</i> and entered a plea of not guilty. On motion of the Government, the charges against Daily were dismissed.

May, Jim.....	Southern District of Texas.	May 9, 1950	Secs. 5 (a) (1) and 17 (a) of 1933 act; sec. 1341, title 18, U. S. C.	May arrested and released on \$1,000 bond. Pending
E. M. McLean & Co. (Devon Gold Mines, Ltd.). Do.....	Eastern District of Michigan.	Oct. 21, 1941	Sec. 15 (a) of 1934 act.....	Case pending as to first indictment. Kaufman and Niditch were convicted after trial on second and third indictments. Kaufman's conviction affirmed on appeal by CA-6 on July 14, 1947. Certiorari denied Mar. 15, 1948. Kaufman's sentence reduced from 7 years and \$1,000 fine to 2 years on May 10, 1948. Lewis pleaded guilty to 1 count in the second and third indictments and was fined. Pending as to 9 persons and firms, remaining defendants on the second and third indictments
Do.....	do.....	do.....	Secs. 5 (a) (1) and (2) of 1933 act; sec. 88 (now sec. 371), title 18, U. S. C.	Defendant entered a plea of not guilty and bond set at \$10,000. Pending.
Mills, Homer C. (Dutch Oven Mining Co.).	Northern District of Illinois	Nov. 2, 1949	Sec. 17 (a) of 1933 act; sec. 1341, title 18, U. S. C. (1948 Ed.).	Indictment dismissed as to Collier and Treicher on Mar. 23, 1946. Pending as to Moore, who has not been apprehended.
Moore, Lloyd T. (Fitzsum Mining Co.).	District of Montana.....	June 18, 1943	Secs. 5 (a) (1), (2) and 17 (a) (1) of 1933 act; secs. 338 (now sec. 1341), and 88 (now sec. 371), title 18, U. S. C.	
Muchow, William M. (Flossy Dental Corp.).	Northern District of Illinois.	Dec. 2, 1949	Sec. 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	On June 2, 1950, the jury found Muchow guilty as to one 17 (a) (1) count, and not guilty to remaining counts; also found Hart not guilty on all counts. On June 22, 1950, Judge LaBuy set aside the verdict of guilty on count 1 and directed a verdict of acquittal as to Muchow.
Nemec, F. E. (Romaele Engineering Co., Ltd.).	Eastern District of Washington.	Jan. 10, 1948	Sec. 17 (a) of 1933 act; secs. 338 (now sec. 1341), and 88 (now sec. 371) title 18, U. S. C.	All defendants arraigned and pleaded not guilty. Rector withdrew his not guilty plea and pleaded guilty to conspiracy count at opening of trial. Nemec and Dawson were found guilty of Securities Act, mail fraud, and conspiracy violations. Richardson and Clarke convicted on the conspiracy count. Carpenter and Schwartz the remaining defendants in the conspiracy count were acquitted. The following sentences were imposed: Nemec, total of 4 years imprisonment; Dawson, 18 months concurrent sentence; Rector 3-year sentence suspended and placed on probation; Clarke, 3 months imprisonment; Richardson, 3 years probation and fined \$1,000. Notice of appeals filed by Richardson, Clarke, Dawson, and Nemec. Appeals of Clarke and Richardson were not prosecuted. Clarke's sentence was reduced to 2 months. Convictions of F. E. Nemec and Dawson affirmed by CA-9. Petition for writ of certiorari denied. Defendant pleaded not guilty. Awaiting trial.
Norwood, Deak.....	Northern District of Illinois.	Dec. 2, 1949	Secs. 5 (a) (2) and 17 (a) (1) of 1933 act; sec. 1341, title 18, U. S. C. (1948 Ed.).	Defendant, Poynter, pleaded guilty to 1 mail fraud count of the second indictment, remaining counts were nolle prossed. Poynter sentenced to 2 years imprisonment. First and second indictment dismissed as to remaining defendants.
Poynter, Aubrey M.....	District of Louisiana.....	Apr. 23, 1947	Sec. 17 of 1933 act; sec. 338, title 18, U. S. C. (now sec. 1341).	Rubinstein pleaded not guilty and released on \$50,000 bond. Bliss pleaded not guilty and released on \$5,000 bond. Pending.
Do.....	do.....	do.....	do.....	
Rubinstein, Serge.....	Southern District of New York.	Dec. 16, 1948	Secs. 5 (a) (1) and 17 (a) of 1933 act; sec. 9 (a) (4) of 1934 act; sec. 338 (now sec. 1341), title 18, U. S. C.	

TABLE 23.—Indictments returned for violation of the acts administered by the Commission, the Mail-Fraud Statute (sec. 1341, formerly sec. 338, title 18, U. S. C.), and other related Federal statutes (where the Commission took part in the investigation and development of the case) which were pending during the 1950 fiscal year—Continued

Name of principal defendant	Number of defendants	United States District Court	Indictment returned	Charges	Status of case
Rubinstein, Serge	2	Southern District of New York	Feb. 7, 1949	Sec. 88 (now sec. 371), title 18, U. S. C.	
Schumpert, Paul A. (National Loan Guaranty Co., Inc.)	1	Middle District of Tennessee	Jan. 26, 1949	Sec. 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Schumpert and Lansford withdrew their previous pleas of not guilty. Schumpert pleaded guilty to 6 counts of the first indictment and 2 counts of the second indictment and was sentenced to 22 years and fined \$10,000. Lansford pleaded guilty to 2 counts of the second indictment and was sentenced to 2 years prison term. Remaining counts dismissed as to both defendants. Remaining defendant in second indictment, Morris, acquitted by the court. Pending as to all defendants in last indictment.
Do	3	do	Feb. 25, 1949	Secs 338 (now sec 1341), and 88 (now sec 371), title 18, U. S. C.	
Do	6	do	Aug. 17, 1949	Sec. 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), and 88 (now sec. 371), title 18, U. S. C.	Pending as to all defendants in last indictment.
Schumpert, Paul A. (National Acceptance Corp.)	3	Southern District of Mississippi	June 8, 1949	do	All defendants apprehended and released on bail. Pending.
Smith, Raymond P.	1	District of Columbia	July 5, 1949	D. C. code "22-1301"	Indictment dismissed against Smith on motion of U. S. attorney.
Snyder, William A. (Southern Potash Co.)	2	District of Colorado	Sept. 16, 1949	Secs. 5 (a) (2) and 17 (a) of 1933 act; sec. 338 (now sec. 1341), and 88 (now sec 371), title 18, U. S. C.	Snyder and Drusedow pleaded <i>nolo contendere</i> to all counts except 3 and 6 which were dismissed. Drusedow having withdrawn previous plea of not guilty. Defendants received a concurrent sentence of 1 year and 1 day imprisonment and were each fined a total of \$7,000. Execution of the prison sentences subsequently was suspended because of the physical condition of the defendants.
Starling, Louis A. (R. L. Swain Tobacco Co., Inc.)	2	Western District of Virginia	Oct. 24, 1949	Sec. 17 (a) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Defendants withdrew their pleas of not guilty and pleaded <i>nolo contendere</i> to the information. Each was sentenced to pay a fine of \$3,000 and placed on probation for 3 years.
Steenland, Ingwald S. (Canadian-American, Inc., et al.)	1	District of Minnesota	Sept. 9, 1949	do	Steenland pleaded guilty to 1 mail fraud and one 17 (a) count, remaining counts dismissed. Sentenced to 5 years' probation.
Stogdill, Walter (Little Beaver Mining Co.)	1	Northern District of Oklahoma	Sept. 22, 1949	Secs. 5 (a) (1), 17 (a) of 1933 act.	Defendant pleaded <i>nolo contendere</i> to sec. 5 (a) (1) count, and other counts were dismissed. Sentenced to 1 year and 1 day.
Tucker, Preston T., Sr. (Tucker Corp.)	8	Northern District of Illinois	June 10, 1949	Sec. 17 (a) of 1933 act; sec. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	All defendants were found not guilty on all counts.
Waddy, David S. (D. S. Waddy & Co.)	1	Western District of Arkansas	Aug. 25, 1949	Sec. 17 (a) of 1933 act; sec. 10 (b), and X-17A-3 of 1934 act.	Waddy pleaded guilty to all counts of the information. Sentence was deferred and defendant placed on probation for 3 years.
White, Jack R.	1	District of Nebraska	Mar. 24, 1949	Sec. 17 (a) (1) of 1933 act; sec. 338 (now sec. 1341), title 18, U. S. C.	Indictment dismissed without prejudice to reindictment because of improper impaneling of grand jury.
Wimer, Nye A. (Tennessee Schuylkill Corp.)	1	District of New Jersey	Aug. 3, 1948	Secs. 5 (a) (2) and 17 (a) (1) of 1933 act; Secs. 338 (now sec. 1341) and 88 (now sec. 371), title 18, U. S. C.	Pending.

TABLE 24.—Petitions for review of orders of Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Company Act of 1940, pending in circuit courts of appeals during the fiscal year ended June 30, 1950

Petitioner	United States Circuit Court of Appeals	Initiating papers filed	Commission action appealed from and status of case
Associated Electric Co.	Third	Dec. 10, 1948	Order of Oct. 15, 1948, requiring payments to be made out of the escrow fund to Pennsylvania Edison Co. preferred stockholders. Pennsylvania Edison Co. preferred stockholders committee granted leave to intervene. Order affirmed Aug. 31, 1949. Closed.
Israel Beckhardt (Electric Bond & Share Co.)	Second	Mar. 26, 1948	Order of Feb. 27, 1948, awarding \$2,000 to Israel Beckhardt, petitioner, for services. Petition for review dismissed Nov. 9, 1949, pursuant to stipulation. Closed.
Halsted, J. Donald	Court of Appeals for the District of Columbia.	May 28, 1949	Order of Mar. 31, 1949, denying effectiveness to posteffective amendment respecting a proposed solicitation of voluntary contributions of funds from holders of common stock of Long Island Lighting Co. Opinion Apr. 24, 1969, affirming order of Commission. Pending.
Hughes, Arleen W., d/b/a E. W. Hughes & Co.	do	Apr. 29, 1948	Order of Apr. 1, 1948, revoking the registration of E. W. Hughes & Co. as a broker and dealer under sec. 15 (b) of the 1934 act. Order affirmed May 9, 1949. Petition for rehearing denied July 8, 1949. Closed.
M. Victor Leventritt	Second	Sept. 12, 1949	Order of Aug. 25, 1949, approving second amended plan of Niagara Hudson Power Co. Petition for review dismissed Dec. 24, 1949, for lack of jurisdiction. Closed.
Norris & Hirtshberg, Inc.	Court of Appeals for the District of Columbia.	Apr. 29, 1946	Order revoking broker-dealer registration for violation of antifraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. Application to the Court of Appeals for a writ of certiorari directed to the Commission to secure the completion and perfection of the record filed June 28, 1946. Order entered remanding record to Commission and perfection of New transcript filed Sept. 23, 1947. Motion by petitioners for judgment on the record filed Oct. 6, 1947. Denied Nov. 19, 1947. Motion for rehearing filed Dec. 4, 1947. Denied Jan. 5, 1948. Petition for writ of certiorari filed in Supreme Court. Denied Apr. 3, 1948. Argument on the merits heard in Court of Appeals June 11, 1948. Commission order affirmed Sept. 6, 1948. Closed.
Randolph Phillips	Second	Nov. 10, 1949	Order of Oct. 20, 1949, approving a plan for distribution by the United Corp. of 1 share of common stock of the Niagara Hudson Power Corp. for every 10 shares of common stock of the United Corp. Petition for review withdrawn Nov. 10, 1949. Closed.
Do	Court of Appeals for the District of Columbia.	Nov. 14, 1949	Order of Oct. 20, 1949, approving a plan for distribution by the United Corp. of 1 share of common stock of the Niagara Hudson Power Corp. for every 10 shares of common stock of the United Corp. Leave to intervene granted the United Corp. Pending.
Do	do	Apr. 10, 1950	Order of Feb. 9, 1950, approving an application authorizing the exchange by the United Corp. of shares of stock of the United Corp. for shares of stock of the Niagara Mohawk Power Corp. Leave to intervene granted the United Corp. Pending.
Protective Committee for Class A Stockholders of International Hydro-Electric System.	Second	Feb. 3, 1950	Order of Dec. 6, 1949, approving Part II of trustee's second plan and denying application of Part III. Told for modification of Commission's liquidation and dissolution order of July 21, 1942. Pending.

**TABLE 24.**—Petitions for review of orders of Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, and the Investment Company Act of 1940, pending in circuit courts of appeals during the fiscal year ended June 30, 1950—Continued

Petitioner	United States Circuit Court of Appeals	Initiating papers filed	Commission action appealed from and status of case
Standard Gas & Electric Co.; Philadelphia Co. and certain of its subsidiaries.	Court of Appeals for the District of Columbia.	July 20, 1948	The Commission issued orders of June 1, 1948, and June 30, 1948. The first order directed pursuant to sec. 11 (b) (1) of the 1933 act that Philadelphia Co. dispose of its direct and indirect interests in its natural gas and transportation properties, and directed further pursuant to sec. 11 (b) (2) that Philadelphia Co. be liquidated and dissolved. The second order denied petitions for rehearing and for leave to adduce additional testimony. Petitions for review were filed by Philadelphia Co. and certain of its subsidiaries and by Standard Gas & Electric Co., the corporate parent of Philadelphia Co. By order of the Court of Appeals dated Oct. 20, 1948, both review proceedings were consolidated. Order of Commission approved Oct. 19, 1949. Issuance of judgment and opinion stayed until Dec. 15, 1949. Closed.
Southeastern Securities Corp.	Fifth.....	Aug. 29, 1949	Order of June 30, 1949, revoking petitioners' registration as a broker and dealer under sec. 15 (b) of the 1934 act. Petition for review dismissed Mar. 29, 1950. Closed.

**TABLE 25.**—Contempt proceedings pending during the fiscal year ended June 30, 1950

PART 1.—CIVIL CONTEMPT PROCEEDINGS

Principal defendants	Number of defendants	United States District Court	Initiating papers filed	Status of case
Artemisa Mines, Ltd., and Oliver O. Kendall.	2	Arizona.....	June 28, 1943	Order Nov. 15, 1943, adjudging Oliver O. Kendall, president of Artemisa Mine, Ltd., an Arizona corporation, in contempt for failure to comply with order of court dated May 18, 1943, requiring the corporation to produce certain documents and papers. Defendant, Kendall, presently out of the United States. Pending.

PART 2.—CRIMINAL CONTEMPT PROCEEDINGS

Nelson, James.....	1	Southern District of California.	Aug. 2, 1949	Defendant withdrew plea of not guilty and pleaded <i>nolo contendere</i> . He received a suspended sentence and was placed on probation for 5 years.
Kirby, Josiah Marshall.....	1	Northern District of Ohio.	Apr. 3, 1950	Trial set for Sept. 18, 1950.



TABLE 26.—Cases in which the Commission participated as intervenor or as *amicus curiae*, pending during the fiscal year ended June 30, 1950—Continued

Name of case	Court	Date of entry	Nature and status of case
<i>Austrian and Butcher as Trustees of Central States Electric Corp. v. Harrison Williams</i> .	U. S. District Court (Southern District of New York).	Nov. 8, 1945; Nov. 4, 1946; Apr. 10, 1947; Nov. 5, 1947.	Trustees of debtor Central States Electric Corp., appointed by district court in Virginia pursuant to ch. X of the Bankruptcy Act, brought suit in New York Federal court to recover from defendants who, as officers, directors, controlling stockholder of debtor and in other capacities had allegedly defrauded and otherwise wronged the corporation. Action was instituted following investigation by trustees under Bankruptcy Act and pursuant to order of ch. X court. No allegation of diversity of citizenship or reliance thereon to establish jurisdiction. Defendants moved to dismiss on grounds that (1) Federal court in New York lacked jurisdiction and (2) cause of action was barred by New York State statute of limitations. Commission filed memoranda as <i>amicus curiae</i> in opposition to defendant's motions for dismissal and summary judgment taking position that jurisdiction was conferred upon court by Bankruptcy Act and sec. 24 (1) of Judicial Code, that State statute of limitations was not applicable and that such action is not barred until after discovery of causes of action which have been fraudulently concealed by defendants. District court dismissed complaint, holding that it had no jurisdiction. As to statute of limitations, court stated it would have denied motion on this ground because issues of fact would have to be determined before legal questions could be decided. Notices of appeal by trustees to 4-2 filed June 19, 1946. Brief filed by Commission as <i>amicus curiae</i> Nov. 4, 1946. Opinion rendered Dec. 10, 1946, reversing district court and holding that trustees have right to bring suit in Federal court on a jurisdiction ground in the Bankruptcy Act. Petition for writ of <i>certiorari</i> filed Jan. 4, 1947, and granted Feb. 10, 1947. Commission filed brief as <i>amicus curiae</i> Apr. 10, 1947. On June 16, 1947, the Supreme Court affirmed the court of appeals decision. On Nov. 5, 1947, Commission filed brief as <i>amicus curiae</i> in opposition to defendant's second motion for dismissal. On July 8, 1948, the district court denied defendant's motion, without prejudice to renewal before trial judge. Closed.
<i>Clayton v. Missouri-Kansas-Texas Railroad Co.</i>	U. S. District Court (Southern District of Florida).	Action instituted Apr. 4, 1946, but no brief filed. SEC listed as party defendant.	Action for a declaratory judgment to determine the liability of an insider pursuant to sec. 16 (b) of the Securities Exchange Act of 1934. Notice of dismissal. Closed.
<i>Coby v. Klune</i> .....	U. S. Court of Appeals (Second Circuit).	Oct. 31, 1949.....	Appeal from a summary judgment involving a construction of sec. 16 of the Securities Exchange Act of 1934. Commission filed brief as <i>amicus curiae</i> holding that failure by the Commission to take action requiring the filing of reports specified in sec. 16 (a) should not be construed as an administrative determination that defendant is not an "officer" within the meaning of sec. 16 (a). Opinion rendered Dec. 27, 1949, reversing and remanding the proceeding to the district court. Closed.
<i>Dedrick, suing on behalf of himself and all other stockholders of North American Light &amp; Power Co. v. The North American Co. and North American Light &amp; Power Co.</i>	U. S. District Court (Southern District of New York).	Aug. 8, 1942.....	Derivative suit instituted in October 1941 to have the North American Co. declared agent and trustee of its subsidiary, Light & Power, in the acquisition by former of debentures and preferred stock of its subsidiary at prices below principal amount and liquidation value; to compel parent to sell and subsidiary to reacquire stock at their cost price to parent; and for an accounting.

amicus curiae (in support of dismissal) of action. Commission filed brief as jurisdiction to hear and determine the issues, and why court should not take proceedings under sec. 11(b) (1) of the Public Utility Holding Company Act of 1935 with respect to North American and subsidiaries, including Light & Power. On Dec. 2, 1941, the Commission had instituted proceedings under sec. 11 (b) (2) of the act with respect to Light & Power. On Dec. 30, 1941, the Commission ordered winding up of Light & Power. Action stayed pending determination of proceedings before the Commission. Plan approved and affirmed November 1948 and February 1950. Closed.

Motion by 1 of the director defendants to assess his attorneys' fees and disbursements against Childs Co. The Commission orally stated its views that the matter was exclusively within the jurisdiction of the ch. X court and also that it supported the trustee's position that application of these provisions of the New York corporation law to a trustee's action is an undue interference with the Bankruptcy Act. Argument had and decision reserved. Defendants motion to dismiss court III of the complaint, which court is created upon a petition of this Commission's rule X, chapter 10, under the Federal Securities Act of 1934, raises the question whether that motion validly be applied to transactions in the registered security not effected with or through the medium of a broker-dealer. Commission filed brief as amicus curiae answering the question affirmatively. Opinion 24 1949, the court entered a ruling overruling defendants' motion to dismiss court III of complaint. Closed.

Suit under sec. 16 (b) of the Securities Exchange Act of 1934 to recover profits from short-term trading in securities by an insider. Defendant moved to dismiss for improper venue. Commission filed a memorandum in support of venue as laid. On April 2 1947, court denied motion to dismiss. On June 15, 1948, defendant filed an application for approval by the special master of a proposal for settlement and disposition of action. The Commission filed an answer June 21, 1948. Special master's report filed May 25, 1949. Judgment entered Nov. 18, 1949, confirming the master's report. Closed.

Suit under sec. 16 (b) of the Securities Exchange Act of 1934 to recover profits from short-term trading in securities by an insider. The district court denied defendant's motion to dismiss, made on the ground that venue was improperly laid and that the court lacked jurisdiction. Defendant then moved to dismiss on the grounds that the statute of limitation barred the action and that the corporation had not been given the opportunity to institute the suit. This motion to dismiss was denied July 3, 1947. Closed.

Suit under sec. 16 (b) of the Securities Exchange Act of 1934 to recover profits from short-term trading in the equity securities of the plaintiff. Thereafter plaintiff applied to the court for an order approving settlement and compromise of the action. The Commission, which was served with a copy of the order to show cause why the action should not be settled, appeared as amicus curiae and argued that the court should not pass upon the merits of the settlement in any manner which would prejudice the right of action of security holders of the plaintiff under sec. 16 (b) to sue the defendants on behalf of the corporation. Order entered Nov. 22, 1949, denying approval of settlement, without prejudice. Closed.

<i>Flynn v. Empire Trust Co. (Childs Co., et al.)</i>	do	June 15, 1950.	
<i>Grand Lodge of International Association of Machinists v. Robert T. Highfield, et al.</i>	U. S. District Court (District of Columbia).	December 1948	
<i>Gratz v. Claughton</i>	U. S. District Court (Southern District of New York).	May 20, 1946.	
<i>Grossman and Termin (L. A. Young Spring and Wire Corp.) v. Young.</i>	do	Aug. 26, 1946.	
<i>R. Hoc &amp; Co. v. McCune, et al.</i>	do	October 1949.	

TABLE 26.—Cases in which the Commission participated as intervenor or as *amicus curiae*, pending during the fiscal year ended June 30, 1950—Continued

Name of case	Court	Date of entry	Nature and status of case
<i>Kardon v. National Gypsurp Co.</i> .....	U. S. District Court (Eastern District of Pennsylvania).	Oct. 23, 1946.....	Private action founded on alleged violations of sec. 10 (b) of the Securities Exchange Act of 1934 and rule X-10B-5 thereunder. The Commission filed as <i>amicus curiae</i> taking the position that such action for damages resulting from a violation of sec. 10 (b) and rule X-10B-5 is maintainable by application of the general common law rule and under the express provisions of sec. 29 (b) of the act. Motions to dismiss denied Dec. 2, 1946. Argument set for July 15, 1947. On Sept. 9, 1947, a decree was entered directing defendants to produce all records covering the transactions under question, and appointing a special master. On Jan. 2, 1948, an order was entered directing defendants to file an account in debit and credit form and to afford plaintiffs opportunity to inspect the books and records. Closed.
<i>Kogan v. Arthur D. Schulte, &amp; al.</i> .....	U. S. District Court (Southern District of New York).	No brief filed.....	Suit brought May 15, 1945, under sec. 16 (b) of the Securities Exchange Act of 1934 in behalf of Park & Tilford, Inc., to recover profits realized from short-term trading in securities by insiders. Notice of motion for summary judgment filed by Kogan on Oct. 16, 1945. Motion submitted Oct. 20, 1945, by plaintiff in opposition to motion to dismiss. Decision reserved. In view of recovery on same claim in <i>Park &amp; Tilford, Inc. v. Schulte, et al.</i> , as trustees, this case is now moot. Petition filed June 18, 1946, by counsel for plaintiff for allowance of counsel fees and expenses. Allowance made on June 18, 1948. Closed.
<i>Jones v. Market Street Ry Co.</i> .....	U. S. District Court (Northern District of California).	May 2, 1950 (motion to intervene).	Jones obtained a temporary injunction restraining the directors of Market Street from taking any action upon reconsideration of a resolution of the board of directors of Market Street with respect to a further amendment of a plan of reorganization pending before the Securities and Exchange Commission until after a decision in respect to an order to show cause why a receiver or trustee in liquidation should not be appointed, and why Market Street or its representatives should not be permanently enjoined from interfering either directly or indirectly with the action pending in the District Court of New Jersey in which Charles T. Jones, et al, were suing Standard Power & Light Corp. on behalf of the stockholders of Market Street Ry. The Commission intervened and an order was issued by the U. S. District Court, Northern District of California, dissolving the restraining order and enjoining Market Street from releasing Standard Power in connection with any liability owing to Market Street until that court had entered an order for the enforcement of the amended plan of reorganization pursuant to sec. 11 (c) of the Public Utilities Holding Company Act of 1935 filed by Market Street Ry. Co. Closed.
<i>Kogan v. David A. Schulte</i> .....	U. S. District Court (Southern District of New York).	March 1945; Apr. 16, 1945....	Suit instituted Sept. 12, 1944, under sec. 16 (h) of the Securities Exchange Act of 1934 to recover profits from short-term trading in securities by an insider. On Mar. 14, 1945, plaintiff moved for partial summary judgment for profit realized on sale of common stock acquired on option to convert shares of preferred stock. Commission filed briefs as <i>amicus curiae</i> on proper construction of sec. 16 (b). District court, although denying motion for partial summary judgment due to difficulty of determining recoverable profit on available evidence, held that exercise of conversion option was a nonexempt "purchase"



TABLE 20.—Cases in which the Commission participated as intervenor or as *amicus curiae*, pending during the fiscal year ended June 30, 1950—Continued

Name of case	Court	Date of entry	Nature and status of case
<i>Park &amp; Tilford, Inc. v. Arthur D. Schulte et al.</i>	U. S. District Court (Southern District of New York).	Oct. 5, 1945; Mar. 14, 1946; Oct. 14, 1946; Feb. 12, 1947; Aug. 5, 1947.	Suit brought Nov. 17, 1944, under sec. 16 (b) of the Securities Exchange Act of 1934 to recover profits realized from short-term trading in securities by an insider. The Commission, as <i>amicus curiae</i> , filed a brief taking the position that the acquisition of common stock by conversion of preferred is a "purchase" within meaning of act. The United States intervened in support of constitutionality of section. On Sept. 13, 1945, Marjorie D. Kogan, a minority stockholder, sought leave to intervene as party plaintiff, supported by Commission brief as <i>amicus curiae</i> . Intervention was denied on Oct. 23, 1945, and Kogan appealed. The trial court entered judgment for plaintiff on Jan. 31, 1946, from which defendant appealed. Kogan then sought leave in the Circuit Court of Appeals, Second Circuit, for leave to intervene, supported by Commission as <i>amicus curiae</i> . Leave was granted on Mar. 23, 1946, and the appeals by Kogan and defendant were consolidated. On Jan. 8, 1947, CA-2 reversed the order denying intervention to Kogan, vacated the judgment, and remanded the action to the district court for the entry of an increased judgment. Petition of defendants for rehearing filed Jan. 22, 1947, and denied Mar. 26, 1947. Petition for writ of <i>certiorari</i> filed in the Supreme Court June 21, 1947. Commission filed brief as <i>amicus curiae</i> Aug. 5, 1947, in opposition. <i>Certiorari</i> denied Oct. 13, 1947. Petition filed June 18, 1947, by counsel for plaintiff for allowance of counsel fees. Allowance made on June 18, 1948. Closed.
<i>Robinson, et al. v. Difford, et al.</i>	U. S. District Court (Eastern District of Pennsylvania).	Feb. 13, 1950.	Private action founded on alleged violations of sec. 10 (b) of the Securities Exchange Act of 1934 and rule X-10B-5 thereunder. Motion filed by defendants to dismiss the complaint. The Commission filed as <i>amicus curiae</i> taking the positions (1) that the Securities Exchange Act of 1934 was sufficiently broad to cover the instant situation whether or not the security involved was listed on a stock exchange and whether or not the security was sold through a broker-dealer and (2) that rule X-10B-5 could afford the basis for a private lawsuit. Commission therefore requested that defendant's motion to dismiss should be denied. Pending.
<i>Swain, et al. v. Germantown Fire Insurance Co., et al.</i>	U. S. District Court (Eastern District of Pennsylvania); U. S. Court of Appeals (Third Circuit).	Dec. 4, 1946; Apr. 3, 1948; June 23, 1948.	Shareholders' derivative action alleging fraud under rule X-10B-5 pursuant to the Securities Exchange Act of 1934. Motion to dismiss complaint denied Dec. 5, 1946. Final judgment dismissing complaint entered Nov. 12, 1947. On Apr. 1, 1949, CA-3 reversed judgment of district court and directed cause be remanded with direction to enter judgment for defendants. Closed.
<i>Speed, et al. v. Transamerica Corp.</i>	U. S. District Court (Delaware).	Feb. 19, 1947; Oct. 14, 1948; Jan. 14, 1949.	Class suit for damages alleging fraud both at common law and under rule X-10B-5 pursuant to the Securities Exchange Act of 1934. Complaint dismissed as to the common law count, but upheld as to counts under rule X-10B-5. May 9, 1947. Defendant's petition for rehearing denied. June 25, 1947. Trial on merits completed and case taken under advisement by court. Pending.
<i>Stella v. Henry J. Kaiser, et al.</i>	U. S. District Court (Southern District of New York).	July 24, 1948	Derivative suit instituted May 10, 1948, charging violations of various anti-fraud and anti-manipulation provisions of the 1933 and 1934 acts, breach of the defendants' fiduciary obligations, and deliberate or negligent waste of corporate assets. The Commission filed brief as <i>amicus curiae</i> July 24, 1948,

<p><i>Tyffet v. Mentin</i> (Ansonia House, Inc., in re).</p>	<p>U. S. Court of Appeals (Second Circuit).</p>	<p>Brief not filed.</p>	<p>discussing the issue of stabilization and other problems of statutory construction. On Aug. 2, 1916, the district court denied all motions made by defendants to dismiss the suit. On Dec. 2, 1916, defendants' motion for an order requiring plaintiff to give security for defendants' expenses incurred in connection with the defense of this suit, was denied without prejudice to a renew thereof. Closed.</p>
<p><i>Truncate v. Elumporg, et al.</i></p>	<p>U. S. District Court (Southern District of New York).</p>	<p>Oct. 1, 1916</p>	<p>Appeal from order of July 12, 1916, which granted an interim allowance in corporate reorganization proceedings under chapter X of the Bankruptcy Act to the trustee of the debtor. Appellants contend that interim chapter X trustee fees may not be paid out of income from the debtor's mortgaged assets. Commission filed a motion on or leave to file a brief as amicus curiae. Appeal withdrawn Mar. 8, 1920, on stipulation.</p>
<p><i>Truncate, et al. v. Scully, et al.</i></p>	<p>U. S. Court of Appeals</p>	<p>May 1, 1920</p>	<p>Action brought by a stockholder of Universal Pictures Co., Inc. pursuant to section 16 (b) of the Securities Exchange Act of 1934, to recover profits allegedly realized by certain officers and directors of the company. Commission took the view that the making of a gift to a charity did not result in a profit recoverable under sec. 16 (b). Motion of defendant Cowdin for summary judgment dismissing the complaint as moot was granted and plaintiff's motion for summary judgment was denied by Judge Mead, Circuit Court of Appeals, Opinion rendered Jan 31, 1919, in favor of defendants, and finding that no profits within the meaning of sec. 16 (b), have been realized and no damages are recoverable. Closed.</p>

Appeal from a district court order dismissing action for failure to prove any damages. Commission took the position as amicus curiae that the court below did not err in ruling that the issuance of the warrants to defendants was a purchase but that no profit was realized by the sale and purchase involved. On June 23, 1926, the Court of Appeals affirmed the district court order. Closed.

TABLE 27.—Proceedings by the Commission, pending during the fiscal year ended June 30, 1950, to enforce subpoenas under the Securities Act of 1933 and the Securities Exchange Act of 1934

Principal defendants	Number of defendants	United States District Court	Inhibiting papers filed	Section of act involved	Status of case
Alhambra Gold Mine Corp.....	5	Southern District of California.....	Jan. 4, 1950	Sec. 22 (b) of 1933 act.....	Order Jan. 4, 1950, requiring defendants to appear and produce certain documentary evidence described in subpoena <i>duces tecum</i> . Records produced on Feb. 6, 1950. Dismissal entered Mar. 31, 1950. Closed.
Artemisa Mines, Ltd.....	2	Arizona.....	Apr. 8, 1943	.....No.....	Order May 18, 1943, required Artemisa Mines, Ltd., to appear before an officer of the Commission on June 28, 1943, and produce the records described in subpoena <i>duces tecum</i> . Court dismissed application to enforce subpoena <i>duces tecum</i> . Court dismissed application to enforce subpoena with respect to Mines de Artemisa, S. A., a foreign corporation for lack of jurisdiction on Sept. 19, 1944. June 26, 1945, C-19 reversed the district court. Aug. 1, 1945, order entered requiring Mines de Artemisa, S. A., to respond to the subpoena. Pending. (See appendix table on civil contempt proceedings.)
Copar d'Almeida Consolidated Silverlead Mines, Inc.	2	Eastern District of Washington.....	Aug. 3, 1949	Sec. 22 (b), 1933 act.....	Order entered Sept. 2, 1949, dismissing action and vacating hearing, this defendant having produced required records. Closed.
Harrison, Marvin C., and Hull, Allan.	2	District of Columbia.....	June 25, 1948	Sec. 21 (c), 1934 act.....	Complaint filed for an order by the district court directing the defendants to respond to subpoena <i>duces tecum</i> . Otis & Co. and C. H. S. Eaton intervened July 6, 1948. On July 9, 1948, defendants and intervenors filed counterclaim seeking injunction against Commission's public investigation of Kaiser-Frazer stock offering. On Sept. 2, 1948, Judge Keen issued temporary restraining order against proceedings by SEC. Temporary injunction to same effect granted by Judge Leets, Sept. 21, 1948. Also, on same date, Judge Leets granted temporary injunction restraining SEC broker-dealer proceeding pending action of district court in subpoena-enforcement action. SEC appealed this temporary injunction, and its motion to vacate same as moot was pending at close of 1949 fiscal year in the Court of Appeals for the District of Columbia, as was a motion for the appellees to dismiss the appeal. On Oct. 28, 1948, the district court entered an order denying

enforcement of subpoena and dismissing counterclaim; this order was not appealed by either side, then Feb. 21, 1950, court of appeals ruled on the appeals from the temporary injunction of Judge Lettis, denying the motion by the Commission to vacate the judgments below and granting the motion of the appellees to dismiss the appeal. On Mar. 8, 1950, the Commission filed with court of appeals a petition for rehearing. Pending.

TABLE 28.—Miscellaneous actions against the Commission or employees of the Commission during the fiscal year ended June 30, 1950

Plaintiff	Court	Initiating papers filed	Status of case
Otis & Co.....	U. S. District Court (District of Columbia).	Nov. 10, 1948.....	Action to enjoin the Commission from considering certain issues in a broker-dealer revocation proceeding on ground of <i>res judicata</i> . Judgment of district court on Nov. 12, 1948, denied plaintiff's motion for preliminary injunction and dismissed complaint. Appeal taken by plaintiff. Judgment of Nov. 12, 1948, set aside by court of appeals for the District of Columbia on June 1, 1949. Petition for writ of <i>certiorari</i> filed Aug. 9, 1949. Decision of court of appeals reversed Oct. 17, 1949. Closed.
Do.....	do.....	Jan. 25, 1949.....	Action to enjoin the Commission and N. A. S. D. from taking any action to compel disclosure of communications between plaintiffs and their attorneys, and to enjoin holding of a disciplinary proceeding by N. A. S. D. Opinion dismissing complaint rendered by district court on June 7, 1949. Otis & Co appealed to Court of Appeals for District of Columbia Circuit and moved for injunction <i>pendente lite</i> . Its motion denied by the court, Sept. 7, 1949, and on Dec. 5, 1949, the appeal was dismissed by agreement of the parties. Closed.
In re Securities Exchange Commission ( <i>Pergament et al. v. Frazer, et al.</i> )	Southern District of New York.	Apr. 5, 1950.....	Subpoena <i>duces tecum</i> served Mar. 22, 1950 on Anthony H. Lund in aid of the taking of a deposition in <i>Pergament et al. v. Frazer, et al.</i> (Eastern District of Mich.) On May 9, 1950 the court granted motion of Commission to quash subpoena insofar as it was in the nature of a subpoena <i>duces tecum</i> . Closed.
Tucker, Preston T.....	Northern District of Illinois.	Mar. 21, 1950.....	Action against United States attorney and his assistants, and a member and employees of against Preston T. Tucker, et al. Motion to dismiss complaint granted May 29, 1950. Appeal pending.

TABLE 29.—Actions to enforce voluntary plans under sec. 11 (e) to comply with sec. 11 (b) of the Public Utility Holding Company Act of 1935

Name of case	United States District Court	Initiating papers filed	Status of case
American & Foreign Power Co., Inc.	Maine	Nov. 20, 1947	Order Oct. 11, 1948, approving plan. Notices of appeal filed by Harriet E. Weinstein et al., Samuel J. Levinson, John F. McKenna, and the Norman Johnson group of second preferred stockholders, the Johnson group also appealing from court's order of Sept. 16, 1948. Motions to vacate and remand proceeding to the Commission filed. Appeals dismissed pursuant to stipulation Jan. 4, 1949. Order Jan. 4, 1949, vacating order of Oct. 11, 1948, and remanding proceeding to Commission. Notice of appeal filed by Samuel J. Levinson from portion of order of Jan. 4, 1949, which denied motion to abandon plan. Appeal stayed pending determination of proceeding before Commission. Pending.
American Power & Light Co.	Southern District of New York.	Oct. 5, 1949	Order Nov. 14, 1949, approving plan as fair, equitable, and appropriate. Closed.
American Power & Light Co.	Maine	June 30, 1950	Pending.
Commonwealth & Southern Corp.	Delaware	Nov. 23, 1948	Order July 15, 1949, approving plan. Petition of Alfred J. Snyder and Elizabeth C. Lownsbury for rehearing denied. Appeal Sept. 1, 1949, by Adelaide H. Knight. Pending.
Do	do	May 3, 1950	Order June 14, 1950, denying petitions of J. S. Farlee & Co., Inc. and Alfred J. Snyder for leave to intervene. Notice of appeal filed June 28, 1950, by J. S. Farlee & Co., Inc. Pending.
Eastern Gas & Fuel Associates	Massachusetts	Mar. 13, 1950	Order June 29, 1950, approving plan as fair, equitable, and appropriate. Pending.
Electric Bond & Share Co.	Southern District of New York.	May 27, 1946	Order July 12, 1946, approving plan. Notice of appeal by Eli Auerbach filed Aug. 9, 1946. Supplemental application for order approving portion of plan pertaining to fees and expenses. Order Oct. 19, 1948, approving portion of plan pertaining to fees and expenses. Notice of appeal by Eli Auerbach and Israel Beckhardt filed Nov. 15, 1948. Appeal dismissed pursuant to stipulation dated Jan. 31, 1950. Closed.
Electric Power & Light Corp.	do	Mar. 7, 1949	Order Apr. 22, 1949, approving plan. Appeals taken by Christian A. Johnson, et al., Jacob Sincoff, et al., and Eva Limer. Motions of Johnson, et al., and Sincoff et al., for stay denied by CA-2 on May 5, 1949, and by Supreme Court on May 16, 1949. Order of district court affirmed Aug. 9, 1949, by CA-2 and appeal of Eva Limer dismissed. Closed.
Engineers Public Service Co., Inc.	Delaware	Jan. 9, 1947	Order May 29, 1947, enforcing plan except insofar as it provided for the payment of more than the liquidation preferences of the preferred stock. Notice of appeal by the Commission filed June 3, 1947. Notice of appeal by Thomas W. Streeter et al., filed May 29, 1947. Notice of appeal by the Home Insurance Co. filed about June 5, 1947. Opinion Mar. 19, 1948, vacating order of district court and remanding cause with directions to enter order disapproving plan and remanding to the Commission. Petitions of all appellants for rehearing denied June 11, 1948. Petitions for writ of certiorari filed by the Commission and Thomas W. Streeter et al. on Aug. 16, 1948, by Home Insurance Co. et al., on Aug. 18, 1948, and by Central Illinois Securities Corp. et al., on Sept. 4, 1948. Supreme Court, on June 27, 1949, reversed judgment of CA-3 and remanded case to district court for further proceedings. Motion of Alfred Herman for stay of mandate denied July 9, 1949. Closed.
Federal Water & Gas Corp.	do	July 23, 1948	Order Aug. 19, 1948, approving plan with the exception of sec. 3. Order Jan. 11, 1950, approving sec. 3 of the plan. Appeal to CA-3 taken by Chenery Corp. Petition of Chenery Corp. for writ of certiorari filed on May 22, 1950. Pending.

Illinois Power Co.	do.	May 2, 1947.	Order May 28, 1947, approving portion of plan I. Supplemental application July 3, 1947. Order Nov. 6, 1947, approving amended plan I. Appeal taken by Nellie Walters, et al., Feb. 4, 1948, and dismissed Feb. 17, 1948. Appeal taken by Jane Scattergood, et al., Jan. 23, 1948. Order Nov 5, 1948, affirming order of district court. Order June 29, 1949, directing North American Light & Power Co. to pay to its former public stockholders dividends which accrued on Illinois Power Co. stock, distributed to such stockholders since Dec. 18, 1947. Appeals taken by North American Light & Power Co. and the North American Co. Order of district court affirmed Feb. 23, 1950. Closed.
Interstate Power Co.	do.	Jan. 24, 1947.	Order Apr. 27, 1937, approving plan. Supplemental application filed Dec. 31, 1947. Order Jan. 7, 1948, approving alternate plan. Appeal of John F. Errington, et al., dismissed pursuant to stipulation dated Aug. 12, 1948. Supplemental application II filed July 1, 1949. Plan approved Feb. 23, 1950. Order May 18, 1950, granting petition of Commission to reconvene hearings. Pending.
Long Island Lighting Co.	Eastern District of New York.	Nov. 19, 1949	Order Feb. 17, 1950, approving plan. Opinion June 1, 1950, modifying decision of district committee and Louis W. Gordon. Order May 18, 1950, granting petition of court. Petition of Commission for modification of decision accepted June 16, 1950. Pending.
Market Street Ry. Co.	Northern District of California.	May 3, 1950.	Pending.
Middle West Corp., The	Delaware.	June 7, 1950.	Order June 29, 1950, approving plan as fair, equitable, and appropriate. Pending.
National Gas & Electric Corp.	do.	Dec 1, 1949.	Order Dec. 19, 1949, approving plan as fair, equitable, and appropriate. Closed.
New England Public Service Co.	Maine.	July 3, 1947.	Order Aug 6, 1947, approving plan. Appeals taken by Esther Vogel et al., State Street Investment Corp., and Russell B. Stearns. Pending.
Niagara Hudson Power Corp.	Northern District of New York.	Aug. 28, 1949	Order Nov 4, 1949, approving plan. Appeal taken by M. Victor Leventritt. Order Feb. 1, 1950, by CA-2 reversing order of district court and remanding case to Commission for further proceedings. Petitions of Commission and Niagara Hudson Power Corp for rehearing denied, Feb. 23, 1950. Time for filing petitions for writs of certiorari extended to July 22, 1950. Pending.
North Continent Utilities Corp.	Delaware.	Reopened Feb. 23, 1950.	Supplemental application filed Feb. 23, 1950. Order Apr. 4, 1950, approving plan. Closed.
Philadelphia Co.	Western District of Pennsylvania.	Mar. 27, 1950.	Proceedings in the matter of Pittsburgh Rys Co under ch. X of the Bankruptcy Act and proceedings in the matter of Philadelphia Co. under the 1938 act consolidated. Order May 1, 1950, approving plan. Pending.
Sioux City Gas & Electric Co.	Northern District of Iowa.	Sept. 8, 1949	Order Oct. 24, 1949, approving plan as fair, equitable and appropriate. Closed.
United Corp.	Delaware.	Aug. 10, 1948	Order Feb. 15, 1949, approving plan. Appeals taken by committee of holders of \$3 cumulative preference stock, Norman Johnson on behalf of Louise D. Johnson, stock shareholders, Randolph Phillips, and Irving Schiff. Order May 8, 1949, granting motion of United Corp. to make attachment to district court for order supplementing Feb. 15, 1949, order. All appeals dismissed. Closed.
West Penn Electric Co.	Southern District of New York.	July 29, 1949	Order Aug. 23, 1949, approving plan as fair, equitable, and appropriate. Closed.

TABLE 30.—Actions under sec. 11 (d) of the Public Utility Holding Company Act of 1935 to enforce compliance with the Commission's order issued under sec. 11 (b) of that act

Name of case	United States district court	Initiating papers filed	Nature and history of case
International Hydro-Electric System.	Massachusetts.....	Aug. 12, 1943.....	Action by Commission, with consent of company, under secs. 11 (d), 18 (f), and 25 of the 1935 act to enforce its order of July 21, 1942, requiring dissolution of the company. The court was asked (1) to take exclusive jurisdiction of the company and its assets; (2) to enjoin interference; (3) to compel compliance with the Commission's order; and (4) to appoint a special counsel to investigate an intercompany claim against International Paper Co., Aug. 12, 1943, temporary order entered by court and on Oct. 11, 1943, an interlocutory decree and order was entered in which court took exclusive jurisdiction, granted injunction and appointed special counsel as requested. Nov. 13, 1944, special counsel appointed trustee of estate of company and directed to institute suit on claim against International Paper Co., Nov. 13, 1945, this suit settled, as well as 2 stockholders' suits against International Paper Co., Dec. 28, 1945, district court approved settlement and termination of these suits and notices of appeal from this approval were filed Jan. 25, 1946, in CA-1. Nov. 14, 1946, opinion rendered affirming judgment of district court. Petition for writ of <i>certiorari</i> denied Feb. 10, 1947. Petition for rehearing denied Mar. 10, 1947. Closed.
Do.....	Do.....	Dec. 23, 1949.....	Petition for approval of pt. II of trustee's second plan to liquidate and dissolve International Hydro-Electric System filed Dec. 23, 1949. Plan approved Jan. 26, 1950. Order June 14, 1950, on trustee's petition filed June 2, 1950, for approval of terms and conditions for consummation of pt. II of trustee's second plan.. Pending.

TABLE 31.—*Reorganization cases under ch. X of Bankruptcy Act pending during the fiscal year ending June 30, 1950, in which the Commission participated when appeals were taken from district court orders*

Name of case and United States Circuit Court of Appeals	Nature and status of case
Central States Electric Corp (Fourth)...	Consolidated appeals from order of Apr 24, 1950, approving plan of reorganization and order of May 24, 1950, authorizing trustees of Central States to proceed with liquidation of American Cities, a subsidiary holding company of Central States. On June 14, 1950, CA-4 granted stay of order of May 24, 1950, but scheduled oral argument for July 6, 1950 on both appeals. Pending.
Childs Co., debtor; Childs Co., petitioner-appellant (Second).	Appeal from order of Aug 5, 1949, fixing final allowances for services. Commission filed brief taking position that total allowances were too high and that compensation should be wholly denied to certain applicants. On Apr 5, 1950, CA-2 reversed order of the district court in part and remanded cause for further proceedings. Petition for recall of mandate dated Apr 21, 1950, filed by John F. X. Finn, et al, petitioners-appellees. Pending.
Equitable Office Building Corp., debtor, Aranow, Brodsky, Einhorn & Dann, petitioner-appellant (Second).	Appeal from Jan. 14, 1949, order which denied petitioner compensation for services rendered in connection with the reorganization of the debtor under ch. X of the Bankruptcy Act. Commission filed a brief taking the position that the district court properly denied compensation to petitioner. On July 1, 1949, CA-2 affirmed order. Petition for rehearing denied July 11, 1949. Closed.
Equitable Office Building Corp., debtor; T. Roland Berner, petitioner-appellant (Second).	Appeal from Jan. 14, 1949, order which denied petitioner compensation for services rendered as attorney for 2 common stockholders in the ch. X bankruptcy reorganization of debtor. Commission filed brief Apr 10, 1949, in support of district court order. On June 9, 1949, CA-2 reversed order and remanded case for reconsideration of request for allowance in light of opinion. Petitioner applied for rehearing which was denied June 27, 1949. Closed.
Franklin Building Co. (seventh).....	Appeals from orders of Dec 30, 1948, Dec. 31, 1948, and Jan. 4, 1949, relating to claims based on bonds of the debtor. Commission filed brief taking position that order limiting claim of Lena Simonsen to cost should be affirmed and that order allowing in full the claims of Mollie Schroeder, June Kuptz, and Robert W. Schroeder should be reversed and participation on their claims limited to cost. Orders of district court affirmed Dec. 8, 1949. Petition of Lena Simonsen for rehearing denied Jan. 16, 1950. Petitions of Lena Simonsen and John W. Emmerling for writs of <i>certiorari</i> filed Apr. 10, 1950, and Apr. 17, 1950, respectively. <i>Certiorari</i> denied June 5, 1950. Closed.
Inland Gas Corp, debtor (sixth).....	Consolidated appeals from order of Oct. 1, 1949, approving plan of reorganization. Commission filed brief in support of appellants primarily with regard to the claims of the Columbia Gas System, Inc. which were subordinated under the plan only to claims of other creditors of Inland and not to creditors of Inland's parent companies, American Fuel & Power Co. and Kentucky Fuel Gas Corp. Pending.
International Mining & Milling Co.— <i>Rosin v. Hart</i> (ninth).	Appeal from order of June 28, 1949, disallowing attorney fees to appellant. Commission filed brief Mar. 3, 1950, in support of district court order. On May 29, 1950, CA-9 affirmed order of district court. Petition for rehearing denied June 21, 1950. Pending.
National Realty Trust, debtor— <i>Sullivan, Trustee et al, appellants v. Mosser, successor trustee et al, appellees</i> (seventh).	Appeals from Dec. 10, 1948, and Feb 15, 1949, orders alleging that the district court in nominating and appointing successor trustees committed substantial error in executing the mandate of CA-7. Commission filed a memorandum supporting motion to dismiss appeal or to affirm orders. On June 1, 1949, CA-7 affirmed orders of district court, with costs. Closed.
National Realty Trust— <i>Darrow v. Mosser, Guild v. Darrow</i> (seventh).	Appeals from order of Apr. 12, 1949, approving the findings of fact, conclusions of law, and recommendations of the special master on the account and report of Paul E. Darrow, trustee. Commission filed brief in support of district court order. Pending.
New Union Building Co., debtor, Leo and Alfred Kuschiński, appellants (sixth).	Appeal from order of July 15, 1949, denying motion of appellants to dismiss petition for reorganization. Commission filed brief Jan. 9, 1950, in support of district court order. Appeal dismissed Jan. 30, 1950, pursuant to stipulation. Closed.
Pittsburgh Terminal Coal Corp, debtor, Pittsburgh Terminal Realization Corp, appellant (third).	Appeal from order of Dec. 9, 1949, preliminarily enjoining, pending final hearing, proposed action of the Realization Corp at a stockholders' meeting and authorizing the trustee to conduct an investigation of the business and affairs of the Realization Corp. Commission filed brief in support of district court order. Pending.

TABLE 31.—*Reorganization cases under ch. X of Bankruptcy Act pending during the fiscal year ending June 30, 1950, in which the Commission participated when appeals were taken from district court orders—Continued*

Name of case and United States Circuit Court of Appeals	Nature and status of case
Silesian-American Corp., debtor (second).	Appeal from order of May 29, 1950, approving the trustee's amended plan of reorganization. Motion for stay filed by bondholders committee. Memorandum in support of stay filed by Commission in which it took position that classification for voting purposes was erroneous and communicating between security holders unduly restricted. Pending.
Solar Manufacturing Corp. (third).	Appeal from order of July 19, 1950, authorizing trustees to accept offer of Sprague Electric Co. for assets of Solar Manufacturing Corp. Commission filed brief in support of appellants. Opinion Aug. 24, 1949, reversing order of district court and remanding case. Closed.
Third Avenue Transit Corp., debtor (second).	Appeal by debtor and 2 creditors from Mar. 16, 1949, order denying motion for dismissal of the amended petition for reorganization. Closed.

TABLE 32.—*A 17-year summary of criminal cases developed by the Commission—1934 through 1950, by fiscal year*

[See separate chart for classification of defendants as broker-dealers, etc.]

Fiscal year	Number of cases referred to Department of Justice in each year	Number of persons to whom prosecution was recommended in each year	Number of such cases in which indictments were obtained by United States attorneys	Number of defendants indicted in such cases <sup>1</sup>	Number of these defendants convicted	Number of these defendants acquitted	Number of these defendants as to whom proceedings were dismissed by United States attorneys	Number of these defendants as to whom cases are pending <sup>2</sup>
1934.....	7	36	3	32	17	0	15	0
1935.....	29	177	14	149	84	5	60	0
1936.....	43	379	34	368	164	46	158	0
1937.....	42	128	30	144	78	32	34	0
1938.....	40	113	33	134	75	13	44	2
1939.....	52	245	47	292	199	33	59	1
1940.....	59	174	51	200	96	38	66	0
1941.....	54	150	47	145	94	15	36	0
1942.....	50	144	46	194	108	23	48	15
1943.....	31	91	28	108	61	10	33	4
1944.....	27	69	24	79	47	6	19	7
1945.....	19	47	18	61	36	10	13	2
1946.....	16	44	14	40	13	8	3	16
1947.....	20	50	13	34	9	5	12	8
1948.....	16	32	15	29	19	3	5	2
1949.....	27	44	25	57	15	10	3	29
1950.....	18	28	11	19	5	1	2	11
Total.....	550	1,951	453	2,085	1,120	258	610	97

<sup>1</sup> The number of defendants in a case is sometimes increased by the Department of Justice over the number against whom prosecution was recommended by the Commission. For the purpose of this table, an individual named as a defendant in 2 or more indictments in the same case is counted only as a single defendant.

<sup>2</sup> See separate chart for breakdown of pending cases.

<sup>3</sup> 4 of these references as to 7 proposed defendants were still being processed by the Department of Justice as of the close of the fiscal year.

<sup>4</sup> 422 of these cases have been completed as to 1 or more defendants. Convictions have been obtained in 370 or 87.5 percent of such cases. Only 52 or 12.5 percent of such cases have resulted in acquittals or dismissals as to all defendants.

<sup>5</sup> Includes 42 defendants who died after indictment.

TABLE 33.—*Summary of criminal cases developed by the Commission which were still pending at June 30, 1950—by fiscal year*

	Cases	Number of defendants in such cases	Number of such defendants as to whom cases have been completed	Number of such defendants as to whom cases are still pending and reasons therefor		
				Not yet apprehended <sup>1</sup>	Awaiting trial	Awaiting appeal
Pending, referred to Department of Justice in: <sup>2</sup>						
1938.....	1	2	0	2	0	0
1939.....	1	1	0	1	0	0
1940.....	0	0	0	0	0	0
1941.....	0	0	0	0	0	0
1942.....	2	18	3	14	1	0
1943.....	2	8	4	3	1	0
1944.....	2	8	1	7	0	0
1945.....	2	4	2	1	1	0
1946.....	4	16	0	16	0	0
1947.....	3	9	1	8	0	0
1948.....	2	4	2	1	0	1
1949.....	10	32	3	15	14	0
1950.....	7	11	0	3	8	0
Total.....	<sup>3</sup> 36	<sup>3</sup> 113	16	71	25	1

## SUMMARY

Total cases pending <sup>1</sup> .....	40
Total defendants <sup>2</sup> .....	120
Total defendants as to whom cases are pending <sup>3</sup> .....	104

<sup>1</sup> Almost without exception these defendants are residents of Canada and cannot be extradited.

<sup>2</sup> Fiscal year ended June 30 of the year indicated.

<sup>3</sup> Except for 1950, indictments have been returned in all pending cases. Indictments have not yet been returned as to 7 proposed defendants in 4 cases referred to the Department of Justice in 1950. These are reflected only in the recapitulation of totals at the bottom of the table.

TABLE 34.—*A 17-year summary classifying all defendants in criminal cases developed by the Commission—1934 to July 1, 1950*

	Number indicted	Number convicted	Number acquitted	Number as to whom cases were dismissed by United States attorneys	Number as to whom cases are pending
Registered broker-dealers <sup>1</sup> (including principals of such firms).....	328	203	23	91	11
Employees of such registered broker-dealers.....	107	55	15	36	1
Persons in general securities business but not as registered broker-dealers (includes principals and employees).....	686	349	55	254	28
All others <sup>2</sup> .....	964	513	165	229	57
Total.....	2,085	1,120	258	610	97

<sup>1</sup> Includes persons registered at or prior to time of indictment.

<sup>2</sup> The persons referred to in this column, while not engaged in a general business in securities, were almost without exception prosecuted for violations of law involving securities transactions.

TABLE 35.—A 17-year summary of all injunction cases instituted by the Commission 1934 to July 1, 1950, by calendar year

Calendar year	Number of cases instituted by the Commission and the number of defendants involved.		Number of cases in which injunctions were granted and the number of defendants enjoined. <sup>1</sup>	
	Cases	Defendants	Cases	Defendants
1934	7	24	2	4
1935	36	242	17	56
1936	42	116	36	108
1937	96	240	81	211
1938	70	152	73	153
1939	57	154	61	165
1940	40	100	42	99
1941	40	112	36	90
1942	21	73	20	54
1943	19	81	18	72
1944	18	80	14	35
1945	21	74	21	57
1946	21	45	15	34
1947	20	40	20	47
1948	19	44	15	26
1949	25	59	24	55
1950 (to June 30)	18	53	16	38
Total	570	1,689	521	1,304

## SUMMARY

	Cases	Defendants
Actions instituted	570	1,689
Injunctions obtained	514	1,304
Actions pending	8	30
Other dispositions <sup>4</sup>	48	355
Total	570	1,689

<sup>1</sup> These columns show disposition of cases by year of disposition and do not necessarily reflect the disposition of the cases shown as having been instituted in the same years.

<sup>2</sup> Includes 7 cases which were counted twice in this column because injunctions against different defendants in the same cases were granted in different years.

<sup>3</sup> Includes 6 defendants in 3 cases in which injunctions have been obtained as to 12 codefendants.

<sup>4</sup> Includes (a) actions dismissed (as to 294 defendants); (b) actions discontinued, abated, vacated, abandoned, or settled (as to 51 defendants); (c) actions in which judgment was denied (as to 7 defendants); (d) actions in which prosecution was stayed on stipulation to discontinue misconduct charged (as to 3 defendants).