UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 94591 / April 4, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-20810

In the Matter of

LLOYD D. REED,
Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Lloyd D. Reed (“Reed” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds1 that:

1 The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.
Summary

1. Lloyd D. Reed engaged in insider trading in the securities of Torotel, Inc. (“Torotel”) by trading on material, nonpublic information in breach of his duty of trust and confidence owed to his business partner (“Business Partner”), who was also a Torotel director and family member. Reed purchased Torotel stock in July and August 2019 based on information Business Partner gave him about Torotel’s plans to seek a business combination and after observing Business Partner’s increased activities with Torotel. Following a public announcement in December 2019 of Torotel’s agreement to be purchased for a premium of more than 400 percent, Reed sold all of his Torotel shares and realized a profit of more than $116,000. As a result of this conduct, Reed violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

Respondent

2. Lloyd D. Reed, age 57, is a resident of Lawrence, Kansas. Reed is a partner in several family-owned businesses, including multiple businesses co-owned with Business Partner. He has never held securities licenses or been registered with the Commission in any capacity.

Other Relevant Individual and Entity

3. Business Partner, age 58, is a resident of Lawrence, Kansas. Business Partner is Reed’s cousin and partner in multiple businesses. Business Partner was retained by Torotel as a strategic consultant in 2015 and served as a Torotel director from February 2018 until November 2020, when Torotel was purchased by another company. He has never held securities licenses or been registered with the Commission in any capacity.

4. Torotel, Inc. was a Missouri corporation based in Olathe, Kansas, that manufactured parts for the aerospace industry. On December 2, 2019, it was announced that Torotel and another company had entered into a definitive agreement for Torotel to be purchased for approximately $48 million in cash. Torotel was later acquired by a different entity. Prior to November 2020, Torotel’s securities were registered with the Commission pursuant to Section 12(b) of the Exchange Act, and its common stock traded on the NASDAQ OTC market under the ticker symbol “TTLO.”

Background

5. In early 2015, Torotel management retained Business Partner to conduct a strategic analysis of Torotel’s operations, customers and markets, and financial performance. In February 2015, Business Partner produced a thirteen page report outlining his findings and recommendations, including his analysis of a potential sale of the company and additional investments to prepare Torotel for sale in the future (the “2015 Report”).
6. In February 2018, Torotel appointed Business Partner to its Board of Directors (“Board”) as an independent director.

7. In December 2018, Torotel’s Board decided to pursue a strategic transaction for Torotel due to an increase in merger and acquisition activity and attractive valuations in the aerospace industry.

8. In the spring of 2019, Torotel was approached by several interested parties to discuss potential strategic transactions. As a result, in April 2019, Torotel’s Board formed an “ad hoc” committee, which included Business Partner, to explore the potential sale of the company. Then, in late May 2019, Torotel’s Board appointed a more formal “Special Committee,” which also included Business Partner, to oversee the process.

9. From July 2, 2019 through July 30, 2019, Torotel initiated discussions with many potential strategic partners and financial sponsors. By August 1, 2019, Torotel had received several “indications of interest” that included financial offers to purchase Torotel. On August 5, 2019, the Special Committee held a conference call to assess the proposals and narrow the group of potential acquirers. This process ultimately resulted in an acquisition agreement that was publicly announced on December 2, 2019.

10. All information concerning Torotel’s exploration of a potential strategic transaction, including Business Partner’s 2015 Report, the activities of the Board and the Special Committee in 2019, the existence and contents of bids to purchase Torotel, and Torotel’s subsequent decision to proceed with an acquisition agreement, constituted material, nonpublic information.

11. As a Torotel Board member and member of its Special Committee tasked with exploring the potential sale of the company, Business Partner knew that information about Torotel’s potential combination or strategic transaction was nonpublic and highly confidential.

Reed’s Relationship with Business Partner and Knowledge About Torotel

12. Reed and Business Partner were close family members and friends who lived in the same community. They also co-owned multiple businesses together. Reed knew that Business Partner focused his business activities on potential growth and other strategic transactions. In their business and personal relationship, Reed and Business Partner had a history, pattern, and practice of sharing confidences.

13. One of the companies that Reed and Business Partner co-owned provided consulting and other services in the aerospace industry. Reed knew that Torotel’s compensation to Business Partner was ultimately payable to this entity.

14. In or around February 2015, Reed knew that Business Partner had been retained by Torotel to analyze Torotel’s business strategy. At that time, Business Partner provided Reed with a copy of the confidential, nonpublic 2015 Report, which outlined Business Partner’s conclusions, including his recommendations about preparation for a possible sale of Torotel.
15. From at least 2015 forward, Reed continued to be aware of Business Partner’s work for Torotel. Reed knew of Business Partner’s appointment to the Torotel Board in 2018, and that Business Partner continued to perform work for Torotel throughout 2018 and 2019. In June 2019, in particular, Reed understood that Business Partner was frequently unavailable to meet or discuss shared business interests because Business Partner had become unusually busy on Torotel-related matters. Additionally, on August 5, 2019, Business Partner sent Reed an email (the “August 5th Email”) about a potential Torotel merger. The email referenced the internal pseudonym for Torotel’s search for bidders and identified a document summarizing the bids Torotel had received.

16. Given Reed and Business Partner’s history, pattern, and practice of sharing confidences, Reed knew or reasonably should have known that Business Partner expected Reed to maintain the confidentiality of information Reed obtained related to Torotel, including the 2015 Report, the nature of Business Partner’s ongoing work for Torotel, and the August 5th Email.

Reed’s Unlawful Trading in Torotel Stock

17. From July 2, 2019 through August 7, 2019, on the basis of the material, nonpublic information that Business Partner provided to him and that he learned from his relationship with Business Partner, Reed purchased Torotel shares on twelve separate trading days at prices ranging from $0.825 per share to $1.39 per share. Reed purchased a total of 17,950 Torotel shares during this period.

18. Reed purchased 6,800 of his Torotel shares after receiving the August 5th Email referencing Torotel’s merger negotiations. Shortly after he received the August 5th Email, Reed informed Business Partner for the first time that Reed had purchased Torotel stock and asked Business Partner not to provide him with additional information about Torotel in light of his holdings.

19. After the markets closed on December 2, 2019, the announcement was made that Torotel would be acquired for $7.77 per share, which represented a 432 percent premium over the closing price for Torotel shares on that date. This announcement caused the price for Torotel stock to increase from its December 2, 2019 closing price of $1.46 per share to approximately $7.60 per share on December 3, 2019. On December 3 and 4, 2019, Reed sold all of his shares of Torotel stock and realized a net profit of $116,295.69.

20. Reed knew or was reckless in not knowing that the information he had about Torotel pursuing a strategic transaction was material and nonpublic. Reed also knew or was reckless in not knowing that his purchases of shares in Torotel were in breach of a duty of trust and confidence to Business Partner to refrain from trading Torotel’s securities on the basis of material, nonpublic information indicating that Torotel was pursuing a strategic transaction.
Violations

21. As a result of the conduct described above, Reed violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions proposed in Respondent Reed’s Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Reed cease and desist from committing or causing any future violations of Section 10 of the Exchange Act and Rule 10b-5 thereunder.

B. Respondent Reed shall pay a civil money penalty in the amount of $232,591.38 to the United States Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: $60,000 upon entry of the Order; $60,000 within 120 days after entry of the Order; $60,000 within 240 days after entry of the Order; the remaining balance within one year after entry of the Order. Payments shall be applied first to post order interest, which accrues pursuant to 31 U.S.C. 3717. Prior to making the final payment set forth herein, Respondent shall contact the staff of the Commission for the amount due. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
Payments by check or money order must be accompanied by a cover letter identifying Lloyd D. Reed as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Associate Director Jason A. Burt, Division of Enforcement, Securities and Exchange Commission, 1961 Stout Street, Suite 1700, Denver, CO 80294-1961.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent’s payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary