

SECURITIES AND EXCHANGE COMMISSION NEWS DIGEST

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



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SEC RULE EXEMPTS CERTAIN INVESTMENT COMPANY ACQUISITIONS

The SEC today announced the adoption of a new rule (Release 40-2797) permitting registered investment companies to make purchases in limited amounts of securities involved in public distributions through underwriters with which they may be affiliated. Accordingly, advance application to and issuance of an exemption order by the Commission in individual cases will no longer be required if the investment company acquisition meets the conditions prescribed by the rule.

Section 10(f) of the Investment Company Act prohibits investment company purchases of securities involved in a public offering during the existence of an underwriting syndicate, if one of the principal underwriters is affiliated with the investment company. The law permits the Commission by rule or order to exempt any such purchase from the statutory prohibition, if and to the extent that such exemption is consistent with the protection of investors.

Numerous applications for exemption of such acquisitions have been granted by Commission order in the past. The experience gained in the consideration of these cases, according to the Commission, indicates that a general exemptive rule would be appropriate and that investor protection may be adequately insured by the conditions and safeguards specified in the new rule. These include limitations with respect to the consideration paid, as related both to the total amount of the offering and the assets of the purchasing investment company. In addition, no purchase may be made from an affiliated underwriter, underwriters' commissions may not exceed stated amounts, and the offering must be registered under the Securities Act.

Under the terms of the general exemption prescribed by the new rule, (among others), the underwriting commission may not exceed 7% of the offering price if the offering consists of common shares (lesser maximum commissions apply to other securities); the amount of securities which an investment company may purchase shall not exceed 3% of the amount of the securities being offered; and the consideration paid by the investment company shall not exceed 3% of the total assets of the purchasing company, provided that, if such consideration shall exceed \$1,000,000, it shall not exceed 1% of its total assets.

ADVANCED RESEARCH ASSOCIATES PROPOSES STOCK OFFERING

Advanced Research Associates, Inc., 4130 Howard Avenue, Kensington, Md., filed a registration statement (File 2-14566) with the SEC on December 1, 1958, seeking registration of 400,000 shares of Common Stock. Public offering of the stock is to be made at \$6 per share through Wesley Zaugg and Company of Kensington and Williams, Widmayer Incorporated of Washington. The latter has agreed to sell and pay for not less than 17,000 shares; and except for such commitment the offering is on a "best efforts" basis. The selling commission is to be 85¢ per share. Shares are to be offered to company employees and independent sales representatives at \$5.15 per share, on which no selling commission is payable.

Organized under Maryland law in May 1957, the company is said to be engaged in the advanced electronics industry. Its founders, controlling stockholders and principal promoters are Norman K.

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Walker, president, and Williams, Widmayer and Company. It has established a small organization of scientists, production and management personnel, "for the design, development and production, for the most part on a proprietary basis, of complex, highly advanced electronic systems and components, with particular reference to the avionic field." No products of the company are in commercial production, although three proprietary items are said to be currently in pilot production and are now being sold to governmental agencies and major industrial users, primarily for evaluation purposes, namely, an airborne vehicle-radio control system, a composite transistor, and direct current or direct voltage transistorized servomechanisms. Williams, Widmayer and Company will serve as the management firm and provide executive officers and certain key personnel other than the president. It is a limited partnership controlled by its general partners, Don F. Widmayer, executive vice president, and Richard N. Williams, secretary.

If all the shares are sold, net cash proceeds to the company will approximate \$2,010,000. Of this amount, \$835,000 is to be reserved for working capital; \$450,000 will be used to finance initial commercial production of transistors and other products, \$250,000 to finance an accelerated research and development program; \$150,000 to purchase additional electro-mechanical and other testing equipment; \$125,000 to finance the initial efforts of the company's newly formed English subsidiary, Walker, Widmayer Ltd.; \$100,000 to finance the expansion of laboratory facilities; and \$100,000 for advertising in support of the company's sales organization. The English subsidiary was formed to engage in advanced electronics research and to act as a foreign sales agent.

The company has outstanding 307,800 common shares and \$125,000 of 5% Guaranteed Bearer Convertible Debentures due 1963. Of these securities, investors in prior financings purchased 97,000 common shares at \$1 per share and \$120,000 of the debentures, of which shares Williams, Widmayer and Company acquired 19,400; Walker purchased 100,800 common shares and \$3,000 of debenture for a total investment of \$12,000, of which 30,000 shares were sold to Williams, Widmayer and Company; and the latter originally purchased 105,000 common shares and \$2,000 of debentures, for an original investment of \$32,000, paid an additional \$72,800 for the 19,400- and 30,000-share blocks above referred to. It also guaranteed payment of the interest and principal on the debentures.

ISRAEL INVESTORS FILES FOR STOCK OFFERING

Israel Investors Corporation, 19 Rector St., New York, filed a registration statement (File 2-14567) with the SEC on December 1, 1958, seeking registration of 46,260 shares of its Common Stock. The company proposes to offer this stock for public sale at \$100 per share. No underwriting is involved.

The company was organized under Delaware law on October 14, 1958, by American citizens and residents "for the primary purpose of investing in private industries located in the State of Israel." It has registered with the Commission under the Investment Company Act of 1940 as a closed-end, non-diversified management investment company. The subscription price for its shares may be paid in cash, or by transferring to the company certain State of Israel Bonds, or by a combination of such methods. The company intends to invest substantially all of the net proceeds of the stock sale in private investment opportunities in Israel in accordance with its investment policies. As a fundamental policy, the company will concentrate its investments in enterprises located or doing business in Israel and in enterprises located or doing business elsewhere which further the development of the Israeli economy.

The prospectus lists Samuel Rothberg of Peoria, Ill., as president and owner of 1,000 (26.7%) of the outstanding shares of Israel Investors common stock. Boyar Foundation of Los Angeles holds a like amount of the shares.

FINANCING PROPOSED BY FLORIDA BUILDERS

Florida Builders, Inc., 700 43rd Street South, St. Petersburg, Fla., filed a registration statement (File 2-14568) with the SEC on December 1, 1958, seeking registration of \$4,000,000 of 6% Fifteen Year Sinking Fund Subordinated Debentures and 40,000 shares of common stock. It is
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proposed to offer \$100 of debentures with one common share attached at an offering price of \$110 per unit (\$10 for the common share). Underwriting commissions are listed at \$5.30 per unit.

The activities of the company and its subsidiaries include (1) general construction contracting; (2) sub-division development; (3) commercial construction; (4) erection of housing projects; (5) design, manufacture and distribution of home and commercial building packages and components; and (6) design, manufacture and distribution of small out-board boats. The main business of the company is the development of its concept of prefabrication ("utilization of mass production procedures to build large numbers of custom designed homes of wide appeal"), and applying this concept to the building of complete family housing projects.

Of the proceeds of this financing, \$765,000 is to be used for the purchase and development of subdivision land, including shopping center sites; \$350,000 for new equipment and project site facilities; \$1,760,000 for financing and expanding the company's component parts business; \$575,000 for liquidation of bank loan and installment obligation; and \$650,000 unallocated, but will be utilized in the general contracting field.

The prospectus lists J. T. Haynsworth of Plant City as board chairman and J. C. Shelton of St. Petersburg as president. The company has outstanding, in addition to some \$575,000 of indebtedness, 8,000 shares of preferred stock (7,200 shares held by Haynesworth), and 160,000 common shares held in equal amounts by Haynsworth and Shelton.

SEC INVESTMENT COMPANY SIZE STUDY QUESTIONNAIRE ANNOUNCED

The Securities and Exchange Commission today announced that, in connection with its study of problems incident to the size of investment companies authorized by the Investment Company Act of 1940, copies of a questionnaire have been distributed to open-end investment companies eliciting various information required in connection with the study. A questionnaire will be distributed soon to closed-end investment companies. Only those companies with assets of \$1 million or more are included in the study.

Section 14(b) of the Investment Company Act authorized the Commission to make a study and investigation of the effects of size on the investment policy of investment companies, on the security markets, on the concentration of control of wealth and industry, and on companies in which investment companies are interested and to report the results of its studies and investigations and its recommendations to the Congress. The Commission has retained the Securities Research Unit of the Wharton School of Finance and Commerce, University of Pennsylvania, to make a fact finding survey of the subject matter and to report to the Commission in its independent consultant capacity. It is anticipated that this survey will enable the Commission to determine whether the increased size of investment companies has created any problems which require remedial legislation.

The questionnaire has been divided into five parts, replies to each part being required at different dates, commencing January 15, 1959, with the last section due May 30, 1959. Included among the items of information required are details regarding the purchase and sale during designated periods of time within the past five years of thirty common stocks selected as the most prevalent in the portfolios of investment companies. Other items pertain to securities holdings, portfolio turnover, investment policy, trading practices and marketing channels employed, and control over portfolio companies.

SEC RULE ON INVESTMENT COMPANY SALES LOAD ADOPTED

The SEC today announced the adoption of a new rule (Release 40-2798) with respect to possible reductions in the sales load of redeemable securities offered for public sale by registered investment companies. The purpose of the rule (Rule N-22D-1) is to codify certain administrative interpretations of Section 22(d) of the Investment Company Act of 1940 and exemptions from its provisions granted by Commission orders under Section 6(c) of the Act. The rule will become effective January 20, 1959.

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Section 22(d) prohibits a registered investment company, its principal underwriter or a dealer in its shares from selling such shares to any person except "at a current public offering price described in the prospectus." The purposes of the prohibition are to prevent discrimination among purchasers and to provide for orderly distribution of such shares by preventing their sale at a price less than that fixed in the prospectus. Prior exemption orders of the Commission pursuant to Section 6(c) have related to permissible variations in the sales load. The new rule will require a number of changes in current practices, including restrictions on the availability of a quantity discount for group purchases.

One provision of the new rule will codify a 1941 opinion of the Commission's General Counsel and related interpretations and exemptive orders so as to permit graduated reductions in the sales load dependent upon the quantity of shares purchased, if such quantity discounts are clearly described in the prospectus and available to any member of the public on a non-discriminatory basis. Investment companies will be allowed to reduce sales charges for a single purchase, or the aggregate of the shares previously acquired and then owned plus shares being purchased, or pursuant to a statement or letter of intent covering purchases within a period of no more than 13 months, subject to specified conditions.

For the purpose of granting a quantity discount to "any person" under the provisions of the new rule, that term is defined as including an individual, or an individual, his spouse and their children under the age of twenty-one, purchasing securities for his or their own account, or a trustee or other fiduciary purchasing for a single trust estate or fiduciary account.

Reductions in the sales load for group purchases is disallowed by the new rule. The Commission stated that in reviewing industry practices, it is apparent that in many instances the grouping has been solicited or encouraged by the investment company, its principal underwriter or the distributors of its shares, who are prohibited by the law from discriminatory pricing policies. Even where a grouping has not been solicited or encouraged, it is evident that they have knowledge that under such plans the purchaser is not a single person but an agent for many individual security holders. The Commission is of the view that there is no sufficient basis under the statute for exempting such group purchases.

The new rule also contains provisions covering reductions in the sales load on offerings to stockholders involving reinvestment of dividends or capital gains distributions; continues the Commission's practice of permitting sales at a reduced load pursuant to a uniform offer made to tax exempt organizations; and codifies the practice reflected in prior exemption orders of permitting sales for investment purposes at a reduced load or no load to officers, directors, and employees of an investment company, its principal underwriter and investment advisor, and to the trustees of qualified pension and profit-sharing plans for the benefit of such persons, on condition that written assurance is obtained that the purchase is made for investment purposes and that the securities will not be resold except through redemption or repurchase by the issuer.