

SECURITIES AND EXCHANGE COMMISSION

NEWS DIGEST

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INVESTMENT COMPANY REPORTING FORM ADOPTED. The SEC today announced (Release IC-4151) the adoption of a revised annual report form (Form N-1R) for registered investment companies. Replacing Form N-30A-1, the new form will be effective for all fiscal years ending on and after December 31, 1964. It does not apply to companies which issue periodic payment plan certificates or to small business investment companies. Copies will be distributed next week to investment companies.

Many interested persons submitted views and comments upon the revision proposal following its initial publication in August 1964. Moreover, extensive discussions were had with industry representatives, both at the Commission and the staff level. From these comments and discussions the Commission obtained valuable assistance in resolving difficult problems of disclosure and reporting to investment company shareholders in a manner which would best serve the interests of investors while avoiding undue burden and expense upon reporting companies. Among those participating in these discussions were representatives of the Investment Company Institute, the Association of Mutual Fund Plan Sponsors, Inc., the Association of Closed-End Investment Companies, and the American Institute of Certified Public Accountants, as well as counsel for a group of no-load investment companies. Their cooperation was an important factor in the formulation of the new reporting and disclosure provisions.

The adoption of Form N-1R is considered an important step in improving the administration of the Investment Company Act. Its disclosure and reporting requirements are also expected to increase self-examination by management officials and thus lessen the regulatory burden. Reports on Form N-1R are required to be filed not later than 120 days after the close of the fiscal year; however, because of the increased scope of the new form, the due date of the first annual report on Form N-1R is being extended to not more than 180 days after the close of the fiscal year. Thus, companies whose fiscal year ended on December 31, 1964, must file their first report on Form N-1R not later than June 29, 1965.

Form N-1R reports are to be filed in two parts. Part I will be a public filing, and will provide for disclosure of additional information with respect to the operations of the particular investment company, as well as, in certain circumstances, with respect to the operations of other investment companies under the same general management. Among these additional disclosures are: (1) reporting of remuneration received by specified officers and directors from investment companies under the same general management, rather than from the particular investment company alone, plus, in specified circumstances, remuneration received from an investment adviser, principal underwriter, or broker; (2) affiliations of officers, directors, and certain key employees of the particular investment company with other investment companies under the same management, as well as with the investment adviser, principal underwriter, or regular broker for such investment company; (3) the existence, size, and type of fidelity bond; (4) certain information with respect to action of the board of directors of the investment company relating to the investment advisory or principal underwriting contract; (5) a listing of the various services provided to the investment company by the investment adviser; (6) portfolio turnover rates for each of the last three years; (7) a statement of the advisory fees, net underwriting discounts and commissions, and brokerage commissions received by the investment adviser, the principal underwriter, and certain affiliated brokers, from the particular investment company as well as from other investment companies under the same management; (8) disclosure of the practice followed by the investment company with respect to the degree of participation in brokerage commissions or other compensation on portfolio transactions by brokers and dealers; (9) disclosure of certain interests held by officers and directors of the investment company in the equity of the investment adviser, the principal underwriter, and certain brokers or dealers; and (10) the existence of any code of ethics or other policy by the investment company or the investment adviser with respect to trading in securities by directors, officers, or employees.

Part II will be filed with the Commission on a non-public basis. It calls for reporting to the Commission with respect to such matters as: (1) the degree of attendance of directors at formal meetings of the board; (2) the extent of in-and-out transactions in portfolio securities by the investment company within a six-month period; (3) transactions between the investment company and affiliated persons; (4) the remuneration of certain affiliated persons acting as agent in property transactions or as broker in securities transactions; (5) further information as to the fidelity bond, with particular reference to compliance with the Commission's rules; (6) the existence of cross-ownership and circular ownership; (7) the periodic calculation of the current net asset value per share of common stock of the investment company; (8) brokerage commissions paid by the investment company to the ten largest participating brokers, including "give-ups" received or paid by such brokers; (9) certain family relationships of officers and directors of an investment company with other officers and directors of such company or of the investment adviser or principal underwriter; (10) transactions between the investment adviser, principal underwriter, or certain brokers with unaffiliated directors or officers of the investment company; (11) the existence of any indebtedness owing by unaffiliated officers or directors of the investment company to the investment adviser or the principal underwriter; (12) the procedures followed with respect to sales, purchases, repurchases, or redemptions of the investment company's shares; and (13) the ten largest dealers in the shares of the investment company, including a statement of the brokerage commissions received by each such dealer from the investment company, together with "give-ups" received or paid by each such dealer. In addition, if the investment adviser or the principal underwriter meets certain specifications set out in the form, financial statements of such adviser or underwriter are required to be filed as exhibits to Part II of the report.

OVER

Both Parts I and II of the report will materially assist the Commission in the exercise of its regulatory responsibilities under the Investment Company Act, and facilitate the conduct of its inspection program. Gathering and reporting the additional information to the Commission on Part II is expected to serve the added purpose of laying before persons in responsible management positions information which will assist them in determining more readily whether the various statutory provisions are in fact being adhered to, and thus achieve a substantial degree of self-inspection.

At the same time, the Commission announced (Release IC-4152) that it had withdrawn its March 1964 proposal to amend Rule 20a-2 under the Investment Company Act, which related to certain financial and other information to be disclosed in proxy statements of registered investment companies. After considering the comments received upon this proposal, and in light of the adoption of the revised Form N-1R, the Commission determined not to adopt such amendment. A further review of the matter will be undertaken, including the extent to which the information called for by certain items of Part I of Form N-1R should be disclosed in proxy statements, prospectuses and reports to shareholders of registered investment companies.

LUM'S OFFERING SUSPENDED. The SEC has issued an order temporarily suspending a Regulation A exemption from registration under the Securities Act of 1933 with respect to a public offering of Class A common stock of Lum's, Inc., 1224 Normandy Drive, Miami Beach, Fla. The order provides an opportunity for hearing, upon request, on the question whether the suspension should be vacated or made permanent.

Regulation A provides a conditional exemption from registration with respect to the public offering of securities not exceeding \$300,000 in amount. In a notification filed on September 30, 1964, by Lum's Inc. (a restaurant chain), together with three selling stockholders, Stuart Perlman, Clifford Perlman and Aetna Securities Corporation, the selling stockholders proposed the public offering of 35,900 Class A shares at the market (but with a maximum offering price of \$200,000). The offering was commenced on November 4 and terminated December 3, 1964, at which time all but 3,915 shares had been sold. The Commission asserts in its suspension order that it has "reasonable cause to believe" that certain terms and conditions of Regulation A were not complied with, in that, according to the order: (A) certain sales literature used in connection with the stock offering was not filed with the Commission, as required; (B) a newspaper article based upon information supplied by Lum's and the selling stockholders and published during the course of the stock offering, omits to state material facts and contains a misleading presentation of facts (with respect to expansion, profits, expected future sales, and other matters); (C) the underwriter (Aetna Securities) engaged in manipulative acts and practices designed to raise the market price of the stock, in that it caused quotations for the stock to be published at bid prices rising from 1-7/8 to 9 prior to and during the offering; and (D) the said acts and practices of Lum's and the selling stockholders operated as a fraud and deceit upon purchasers of the stock.

VANGUARD INVESTMENT REGISTRATION REVOKED. The SEC today announced a decision under the Securities Exchange Act (Release 34-7516) revoking the broker-dealer registration of Victor R. Redstone, doing business as Vanguard Investment Company, 590 S. San Vincente Blvd., Los Angeles, for violations of the registration, anti-fraud and record-keeping provisions of the Federal securities laws. Harvey Sterman and Cyon J. Gibson were each found a cause of the revocation order.

The Commission's action was based upon findings that Sterman and Gibson while operating under the name Vanguard Investment Company, offered and sold stock of National Growth Corporation in violation of the Securities Act registration and anti-fraud provisions. The record further supports the conclusion, according to the decision, that Redstone either authorized the Vanguard operation (at an office on South Beverly Drive in Los Angeles) or was aware that a securities business was being conducted under his trade name; that he was under a duty to exercise control and supervision over such activities; and that he failed to perform that duty and must be deemed responsible for the violations which those activities entailed. There was also a failure to amend Redstone's registration application to reflect the change in the principal place of business, as well as fictitious entries in books and records of the firm.

MANAGED EQUITIES, INC., SUSPENDED. The SEC today announced the issuance of an order under the Securities Exchange Act (Release 34-7519) suspending Managed Equities, Inc., of Portland, Ore., from membership in the National Association of Securities Dealers, Inc., for a four-week period beginning February 1, 1965, for violations of the Commission's net capital and record-keeping rules. James I. Hessler, president, was found to be a cause of the suspension. The action was based upon an offer of settlement in which the respondents consented to the order. To prevent a recurrence of the violations, they further agreed to file with the Commission, for a period not exceeding 18 months, monthly trial balances prepared by a certified public accountant and showing which securities are then owed customers. In addition, they agreed to confine their activities to the sale of mutual fund shares unless and until they notify the Commission's staff to the contrary, to remit promptly all customers' monies received for the purchase or sale of such shares, and not to hold securities for customers or the proceeds of the sale of customers' securities. The Commission reserved jurisdiction to take appropriate action should respondents fail to perform such undertakings.

COURT ACTIONS ANNOUNCED. The following litigation releases were inadvertently omitted from the SEC News Digest in early December 1964: (1) Release No. 3094a, containing an announcement of the SEC Atlanta Regional Office that Leon Gradsky of Miami, Fla., received a five-year prison sentence for fraud in the sale of securities of Franklin Acceptance Corporation and Franklin Fidelity Corporation. Robert W. Muir, Sr., of Los Angeles received a one-year prison sentence and Robert Sills of Miami two years, and William H. Morris was fined \$500; (2) Release No. 3094b, containing an announcement by the Denver Regional Office of the issuance of a Federal court order (USDC, Denver) permanently enjoining Paramount Holding Company of Jackson, Wyoming, and Eugene Whitworth, of Pocatello, Idaho, from violations of the Securities Act registration and anti-fraud provisions in the sale of securities of Paramount; and (3) Release No. 3094c, containing an

announcement of the Seattle Regional Office of the issuance of a Federal court order (USDC, Seattle) permanently enjoining Alaskan Pacific Fisheries, Inc., from further violations of the Securities Act registration requirements in the sale of its stock.

PENN ELECTRIC RECEIVES ORDER. The SEC has issued an order under the Holding Company Act (Release 35-15177) authorizing the Pennsylvania Electric Company, a Johnstown subsidiary of General Public Utilities Corporation, to acquire from the City of Erie, Pa., for \$1,030,000, a system of underground conduits known as Erie's "High Tension Conduit System." Such facilities are presently rented by Pennsylvania Electric and are used in connection with its underground electric distribution facilities in Erie.

MIDDLE SOUTH UTILITIES RECEIVES ORDER. The SEC has issued an order under the Holding Company Act (Release 35-15178) authorizing New Orleans Public Service Inc. (a public-utility subsidiary of Middle South Utilities, Inc.) to transfer \$790,298.60 from its earned surplus account, which amounted to \$16,791,629 on October 31, 1964, to its common capital stock account and to issue to Middle South an additional 79,029.86 common shares.

NEES SEEKS ORDER. New England Electric System, Boston, and certain of its public-utility subsidiaries, have applied to the SEC for an order under the Holding Company Act authorizing the subsidiaries to issue, from time to time through December 31, 1965, unsecured promissory notes to banks and/or to NEES in an aggregate amount not to exceed \$46,615,000 at any one time outstanding. The Commission has issued an order (Release 35-15179) giving interested persons until February 12 to request a hearing thereon. According to the application, the subsidiaries propose to issue notes to banks aggregating \$20,350,000 and to banks and/or to NEES totaling \$26,265,000. The proceeds derived from the sale of such notes, together with cash from operations and other sources, will be used by the subsidiaries to pay their then outstanding notes and to meet requirements of their 1965 construction expenditures (estimated at \$25,568,000) or to reimburse their treasuries therefor.

NEES also proposes to acquire during 1965 from two additional subsidiaries, Narragansett Electric Co. and New England Power Co., unsecured short-term promissory notes in aggregate amounts not exceeding \$4,800,000 and \$8,500,000, respectively, at any one time outstanding.

ISRAEL ENTERPRISES SEEKS ORDER. Israel Enterprises, Inc., New York, has applied to the SEC for an order under the Investment Company Act declaring that it has ceased to be an investment company; and the Commission has issued an order (Release IC-4148) giving interested persons until February 12 to request a hearing thereon. According to the application, Israel Enterprises was dissolved in June 1957; and there are three shareholders owning an aggregate of 70 common shares who have not yet surrendered such shares or received any distributions from the company.

CONTROL DATA FILES STOCK PLAN. Control Data Corporation, 8100 34th Ave. South, Minneapolis, Minn., filed a registration statement (File 2-23106) with the SEC on January 21 seeking registration of 2,640 shares of common stock, to be offered under its Assumed Employee Stock Options.

RUSS TOGS FILES STOCK PLANS. Russ Togs, Inc., 1372 Broadway, New York, filed a registration statement (File 2-23107) with the SEC on January 22 seeking registration of 146,282 shares of Class A stock, to be offered pursuant to its 1964 Qualified Stock Option Plan and its Restricted Stock Option Plan.

RECENT FORM 8-K FILINGS. The companies listed below have filed Form 8-K reports for the month indicated and responding to the item of the Form specified. Photocopies thereof may be purchased from the Commission's Public Reference Section (please give News Digest's "Issue No." in ordering). Invoice will be included with the requested material when mailed. An index of the caption of the several items of the form was included in the January 4 News Digest.

Banner Industries, Inc, Dec 64, (12)

Amer Mach & Foundry Co, Dec 64, (7,8,13)
Broadway Hale Stores, Inc, Dec 64, (2)

Avis Industrial Corp, Dec 64, (2,13)

Balt Gas & Elec Co, Dec 64, (10)
Basic Products Corp, Dec 64, (3)

Husky Oil Co, Dec 64, (1,2,4,8,11,13)

Allis-Chalmers Mfg Co, Dec 64, (3)

Ceco Steel Products Corp, Dec 64, (7,11,13)
 Cinerama Incorporated, Dec 64, (3,13)
 Hazeltine Corp, Dec 64, (11)
 Northrop Corp, Dec 64, (11,13)
 Northwestern Bell Telephone Co, Dec 64, (7)

Continental Independent Telephone Corp, Dec 64,
 (11,13)
 Levine's, Inc, Dec 64, (13)
 United Artists Corp, Dec 64, (4,7,8,13,)

Chicago & North Western Ry Co, Jan 65, (7)
 City Products Corp, Dec 64, (2,13)
 Mid-Continent Telephone Corp, Dec 64, (2,7,13)
 Screw and Bolt Corp of America, Dec 64, (2,13)
 Shoe Corporation of America, Dec 64, (4,7,13)

CTS Corp, Dec 64, (2,7,13)
 Cutler-Hammer, Incorporated, Dec 64, (3)
 Diamond International Corp, Dec 64, (12)
 Intex Oil Co, Dec 64, (12,13)
 Rex Chainbelt Inc, Dec 64, (2,7,11,13)
 Thompson Ramo Wooldridge Inc, Dec 64,
 (4,7,9,11,13)

Diamond Laboratories Inc, Dec 64, (4,7,13)
 Kerr-McGee Oil Industries Inc, Dec 64,
 (8,12,13)
 National Can Corp, Dec 64, (12)
 S-D Company, Inc. - Formerly: Smith Douglas
 Co, Inc., Dec 64, (2,8,11,12,13)

Hart Schaffner & Marx, Dec 64, (2,7,13)
 United Gas Corporation, Dec 64, (12,13)
 Vanadium Corp of America, Sept 64, (8)

Canadian Javelin Ltd, Dec 64, (2,12,13)
 Consumers Power Co, Dec 64, (12)
 Honeywell, Inc, Dec 64, (11,12,13)
 Trans World Airlines, Inc (Dec 64, (7)

Continental Oil Co (Dec 64, (7,13)
 Fansteel Metallurgical Corp, Dec 64, (12,13)
 General Development Corp, Dec 64, (3,7,8,9,
 12,13)

Kennecott Copper Corporation, Dec 64, (12,13)
 Times Mirror Co, Dec 64, (11)

Highway Trailer Industries, Inc, Dec 64,
 (9,12,13)
 Sports Arenas, Inc, Dec 64, (13)

Cox Broadcasting Corp, Dec 64, (2,4,7,13)

Hertz Corporation, Dec 64, (12)

Rusco Industries, Inc, Dec 64, (2,7,11,12,13)
 Zenith Radio Corp, Dec 64, (12,13)

Cenco Instruments Corp, Dec 64, (13)
 Husky Oil Canada Ltd, Dec 64, (12)
 Polaroid Corp, Dec 64, (7,9,11,13)
 Texas Oil & Gas Corp, Dec 64, (7,11)

Globe-Wernicke Industries, Inc, Dec 64, (7,13)
 Stauffer Chemical Co, Dec 64, (7,13)

Diamond Alkali Co, Dec 64, (3)

SECURITIES ACT REGISTRATION STATEMENTS. During the week ended January 21, 1965, 22 registration statements were filed, 21 became effective, 2 were withdrawn, and 257 were pending at the week-end.

SECURITIES ACT REGISTRATIONS. Effective January 25: East Coast Insurance Co. (File 2-22774); Levin-Townsend Computer Corp. (File 2-22834); Mercantile National Life Insurance Co. (File 2-22900).

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