

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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CRESCENT-PAKCO DECISION ISSUED. The SEC today issued its findings and opinion in administrative proceedings under the Securities Exchange Act involving Crescent Corporation ("Crescent") and Pakco Companies, Inc. ("Pakco") (Release 34-8200), in which it found that both companies had committed "repeated and flagrant" violations of the reporting requirements of Section 13 of the Exchange Act. Crescent, whose principal executive office is in New York City, has subsidiaries which, among other things, manufacture laboratory and electronic equipment. Pakco, whose principal office is in Hammonton, N.J., has subsidiaries which manufacture electronic and plastic items, engage in finance company operations, and conduct automobile and equipment leasing operations.

The Commission's findings were based on evidence taken by it and on offers of settlement submitted by both companies. In particular, the Commission ruled that reports filed by both companies for the years 1965 and 1966 failed to disclose that Lewis L. Colasurdo ("Colasurdo"), a controlling person of both companies, used his control position to effect a sale by Pakco to Crescent in June 1965 of a blueberry plantation for \$4,000,000 in order to generate funds to finance in part his acquisition of a controlling block of Crescent stock. The sale and channeling of funds to Colasurdo were effected through the use of dummy intermediary corporations, the Commission held, to conceal Colasurdo's interest and to give the transactions a false appearance of arm's-length dealing. The Commission also noted that, by pursuing his personal ends, Colasurdo subjected material amounts of Pakco's assets to risk without any compensating benefit to its shareholders.

The Commission also found that reports of both companies failed to disclose that a finance company, which at different times during 1965 and 1966 was a subsidiary of both Pakco and Crescent, recorded payments to certain debtors' accounts which were not made by the debtors and in order to conceal the actual condition of its receivables. Deficiencies in reporting transactions between Crescent and Pakco and several of Colasurdo's wholly-owned companies were also cited. The Commission also found Pakco's 1965 financial statements materially deficient in that, among other things, they substantially overstated assets, net income, and retained earnings. Revised financial statements showed that as of December 31, 1965, consolidated assets totaled \$9,963,063 instead of \$15,427,677 as originally reported, that there was a net loss in 1965 of \$685,837 rather than net earnings of \$5,441,992 originally reported, and that there was a retained earnings deficit of \$162,562 in contrast to retained earnings of \$4,877,690 originally reported.

The Commission concluded that the reports filed by Crescent and Pakco "were marked by numerous, serious and substantial deficiencies which, as the record established, reflected a studied pattern of corporate indirection, camouflage and concealment, particularly relating to transactions in which Colasurdo had a material interest. . . . Colasurdo and his associates, as corporate directors, officers and insiders, occupied positions of trust with fiduciary obligations to the corporations and their securityholders. They not only did not discharge their fiduciary obligations but concealed their conflicts of interest from other stockholders. . . ." It also observed that "A company such as Crescent, whose securities are listed on the New York Stock Exchange, not only has a statutory obligation to file certain reports with us and the Exchange, but also has voluntarily assumed certain commitments to the Exchange to keep the Exchange and the public informed of material events. Of particular significance to public stockholders are changes in control and membership on the board of directors and transactions in which persons in a position to exercise control or direction of corporate affairs have an interest. Where, as here, a majority of directors resigns within 11 days of a transfer of controlling blocks of stock, it is most important to the public stockholders that they obtain at the least prompt information with respect to the changes that have taken place. Indeed, to be fully effective, detailed information as to such changes should be given to stockholders before they are actually consummated, so that stockholders will be aware that a material alteration in the managerial structure of their company is about to take place and they will be alerted to the possible impact of the changes on their investment interests and be in a better position to take steps to protect those interests. Such disclosure would among other things make more difficult the concealment of transactions for the benefit of a controlling person of the type that occurred in the present case."

As part of the offers of settlement, the companies each filed with the Commission a report amending and correcting prior reports and supplying additional reports which had not previously been filed; and they undertook to distribute copies thereof to their respective shareholders.

CONNECTICUT I&P SEEKS ORDER. The Connecticut Light and Power Company ("CL&P"), Berlin, Connecticut, has applied to the SEC for an order under the Holding Company Act authorizing it to issue and sell at competitive bidding \$20,000,000 of first and refunding mortgage bonds, Series T, due 1998, and 300,000 shares of preferred stock, Series G; and the Commission has issued an order (Release 35-15911) giving interested persons until December 28 to request a hearing thereon. Net proceeds of this financing will be used to repay some \$35,000,000 of outstanding bank loans, incurred to finance, in part, CL&P's construction program and to supply funds in 1967 for its investment in Connecticut Yankee Atomic Power Company and other nuclear generating companies. CL&P's 1968 construction program is estimated at \$61,000,000.

OVER

UNLISTED TRADING SOUGHT. The SEC has issued orders under the Securities Exchange Act (Release 34-8198) giving interested persons until December 19 to request a hearing upon applications of the Boston Stock Exchange for unlisted trading privileges in the common stocks of AMP, Incorporated, Amphenol Corporation (Delaware), Arizona Public Service Company, Atlantic Research Corporation, Automatic Sprinkler Corporation of America, Continental Air Lines, Incorporated, Crown Zellerbach Corporation, Eastern Utilities Associates, Manpower, Incorporated, Monogram Industries, Incorporated, Research-Cottrell, Incorporated, Scudder Duo-Vest, Incorporated, Signal Oil and Gas Company, L. S. Starrett Company, United Industrial Corporation, White Consolidated Industries, Inc., and Wilson & Company, Incorporated.

QUALITY COURTS FILES EXCHANGE PLAN. Quality Courts Motels, Inc. ("Quality"), Daytona Beach, Fla. 32015, filed a registration statement (File 2-27784) with the SEC on December 1 seeking registration of 200,000 shares of common stock and 100,000 common stock purchase warrants. In connection with a proposal to merge Park Consolidated Motels, Inc. ("Park") into the company, each share of Park will be converted into .696 shares of stock of Quality; upon the effective date of the merger, Quality has agreed to sell the 200,000 shares and 100,000 warrants to Stewart Bainum (a director of Quality and a principal stockholder of Park) for a cash consideration of \$2,000,000. Bainum will offer the securities for resale to the stockholders of Park on a pro rata basis; each stockholder of Park may purchase one unit, consisting of two shares of Quality common stock and one warrant, at \$20 per unit, for each 5.73538 common shares of Park held of record on November 3, 1967.

Quality was organized (1) to engage for profit in the business of owning, leasing, operating and franchising motels and of carrying on various related activities, and (2) to assume the servicing, advertising and other functions and activities of Quality Courts United, Inc., a non-profit membership corporation whose members were individuals who were, or represented, motel owners and operators. In addition to indebtedness, it has outstanding 302,884 common shares, of which John G. Lacock (who, as a result of the merger, will become board chairman) owns 5,000 shares and Stewart Bainum (who will become president), 5,712 shares. Park is engaged chiefly in the ownership and operation of motels for its own account, and operates, or leases to others for operation, restaurants, cocktail lounges and banquet rooms located on its motel properties; it also owns and operates apartment buildings.

DIAGNOSTIC RESEARCH PROPOSES OFFERING. Diagnostic Research, Inc., 342 Madison Ave., New York, filed a registration statement (File 2-27785) with the SEC on December 1 seeking registration of 200,000 shares of common stock, to be offered for public sale at \$4.00 per share. The offering is to be made through company representatives and NASD members, who will receive a 40¢ per share commission.

The company was organized on September 20, 1967 to manufacture and sell an enteric bacilli differential culture media to hospitals, medical and industrial laboratories and research facilities which are engaged in the precise identification of enteric bacteria. Of the net proceeds of its stock sale, \$85,000 will be used for leasehold improvements for a manufacturing facility; \$290,000 for the purchase of machinery and equipment; and \$150,000 an initial inventory of plates, bottles, tubes and related items; the balance will be used in connection with the company's operations and added to working capital. In addition to indebtedness, the company has outstanding 500,000 common shares, of which management officials own 94% (including 18% owned by William Rollender, president). Upon completion of the offering, the purchasers of the common shares will have paid \$800,000 for 200,000 shares (28-1/2% of the amount to be outstanding), while the present shareholders will have paid \$5,000 for 500,000 shares (71-1/2% of such stock). The book value as of October 20, 1967 was 1¢ per share; if all shares are sold, the book value will be \$1.15 per share.

FLETCHER CAPITAL PROPOSES OFFERING. Fletcher Capital Fund, Inc., 314 W. Sixth St., Los Angeles, Calif. 90014, filed a registration statement (File 2-27779) with the SEC on December 4 seeking registration of 2,500,000 shares of common stock, to be offered for public sale at net asset value plus a sales charge of 8.50% on purchases under \$25,000 (the estimated offering price of \$10.00 per share maximum*).

The company was organized under Delaware law on November 20, 1967, as a diversified open-end investment company to seek long-term capital appreciation. Shareholders Management Company is the investment adviser and principal distributor. Douglas B. Fletcher is the organizer and president of the Fund and is also president and principal stockholder of the adviser. All of the Class A common stock of the adviser is owned by Fletcher (76%) and Myron D. Winkler, vice president of the Fund and executive vice president of the adviser (24%), each of whom also owns more than 10% of the Class B common stock.

FIRST PARAMOUNT EQUITY PROPOSES OFFERING. First Paramount Equity Corporation, 15 Morris Ave., Bryn Mawr, Pa. 19010, filed a registration statement (File 2-27788) with the SEC on December 4 seeking registration of 416,666 shares of Class A Series II common stock, to be offered for public sale at \$6.00 per share. The offering is to be made on a best efforts basis through company salesmen and representatives, who will receive a 72¢ per share selling commission.

The company was organized under Delaware law on September 27, 1967 for the purpose of aiding in the formation of or investing in insurance companies of all kinds, other financial institutions, and real estate operations, companies and ventures. The company initially will be a holding and service company for Paramount Life Insurance Company of Pennsylvania, an insurance company to be formed under Pennsylvania law. Of the net proceeds of the stock sale, \$1,350,000 will be invested in the proposed Pennsylvania life insurance subsidiary the balance will be available for general corporate purposes and may be used in the acquisition of a mutual fund management company, the formation of a data processing division or company, the formation of or acquisition of securities or assets or life insurance companies, and for other investments. In addition to indebtedness, the company has outstanding 101,895 Class A Series I subordinate common stock (acquired by the company's organizers at \$2 per share) and 6,819 Class B convertible common shares (acquired at \$2.20 per share). Edward H. Held is board chairman and president of the company and a director of the proposed Paramount Life Insurance Company.

AMERICAN FOUNDERS PROPOSES OFFERING. American Founders Fund, Inc., 314 W. 6th St., Los Angeles, Calif. 90014, filed a registration statement (File 2-27778) with the SEC on December 4 seeking registration of 2,000,000 shares of common stock, to be offered for public sale at net asset value plus a sales charge of 8.8% on purchases under \$25,000 (the estimated offering price of \$5.00 per share maximum*).

The company was organized as a diversified open-end investment company to seek long-term capital appreciation. Shareholders Management Company is the investment adviser and principal distributor. Douglas B. Fletcher is president of the company and the adviser. All of the Class A common stock of the adviser is owned by Mr. Fletcher (76%) and Myron D. Winkler, vice president of the Fund and executive vice president of the adviser (24%), each of whom also owns more than 10% of the Class B common stock.

L. M. ROSENTHAL PROPOSES OFFERING. The L. M. Rosenthal Fund, Five Hanover Square, New York 10004, filed a registration statement (File 2-27787) with the SEC on December 1 seeking registration of 500,000 shares of common stock, to be offered for public sale at \$10.00 per share. The offering is to be made through underwriters headed by L. M. Rosenthal & Company, Inc., of the above address, which will receive an 85¢ per share commission.

Organized under Delaware law on December 1, 1967, the company is a fully-managed diversified investment company whose investment objective is long-term appreciation. Upon completion of this offering, it will become an open-end investment company. L. M. Rosenthal & Company, Inc. is underwriter and investment adviser of the Fund, and Lawrence M. Rosenthal is president of both.

JUNESS INDUSTRIES PROPOSES OFFERING. Juness Industries, Inc., 21-16 44th Road, Long Island City, N. Y. 11101, filed a registration statement (File 2-27786) with the SEC on December 1 seeking registration of 100,000 shares of common stock, to be offered for public sale at \$5.00 per share. The offering is to be made on a "best efforts, all or none" basis through underwriters headed by Willard Securities, Inc., 445 Park Ave., New York 10022, which will receive a 50¢ per share selling commission. The company has agreed to issue to the underwriter (without cost) 20,000 five-year common stock purchase warrants, exercisable initially at \$5.50 per share, and to pay \$15,000 to the underwriter for expenses; in addition, it will pay Rubin Newman \$6,000 as a finder's fee and issue to him without cost 5,000 warrants.

The company is engaged in the business of manufacturing and selling ladies' leather handbags. Net proceeds of its stock sale will be applied entirely to the reduction of the amounts advanced to it under an accounts receivable financing agreement (aggregating \$442,438 as of November 20, 1967) and thus to increase working capital. In addition to indebtedness, the company has outstanding 170,000 common shares, of which Sol Klayminc (president) and Seymour Egan (executive vice president) each own 43.5%.

MED-CITY BAPTIST CHURCH, OTHERS, ENJOINED. The SEC Fort Worth Regional Office announced November 30 (LR-3878) the entry of a Federal court order in New Orleans on November 21, permanently enjoining Mid-City Baptist Church, Inc., J. Paul Driscoll, Jessie M. Ray (a/k/a Jimmy Ray), all of New Orleans, Trinity Church Bonds, Inc., Paul D. McMillan, Charles T. King, Southland Church Contractors, Inc. and Clyde L. Rabun, all of Houston, from further violations of the anti-fraud provisions of the Securities Act in the offer and sale of 7% first mortgage bonds of Mid-City Baptist Church, Inc. The defendants, upon advice of counsel, consented to the entry of the decree and the appointment of a conservator-receiver for Mid-City. On November 30, the court appointed John L. Toler, New Orleans Attorney, as the conservator-receiver.

WOLFSON AND GERBERT SENTENCED. The Federal court in New York City on November 28 sentenced Louis E. Wolfson to a one-year prison term and \$100,000 fine, and Elkin B. Gerbert to a six-month prison term and \$50,000 fine, following their conviction on one count of conspiracy and 18 counts alleging the sale of unregistered stock of Continental Enterprises, Inc. (LR-3879).

KENTUCKY POWER SEEKS ORDER. Kentucky Power Company ("Kentucky"), Ashland, Ky. subsidiary of American Electric Power Company, Inc., has applied to the SEC for an order under the Holding Company Act authorizing Kentucky to acquire from Mountain Investment, Inc., for a cash consideration of \$200,000, the electric distribution system serving the incorporated community of Wheelwright, Ky.; and the Commission has issued an order (Release 35-15910) giving interested persons until December 21 to request a hearing thereon. The system serves approximately 400 customers.

JERSEY CENTRAL P&L RECEIVES ORDER. The SEC has issued an order under the Holding Company Act (Release 35-15912) authorizing Jersey Central Power & Light Company ("JCP&L"), Morristown, N. J. subsidiary of General Public Utilities Corporation, to issue up to \$33,800,000 of notes to banks. Net proceeds of its note sale will be used by JCP&L for construction expenditures, repayment of other short-term borrowings, and the temporary reimbursement of its treasury for construction expenditures provided therefrom.

SECURITIES ACT REGISTRATION STATEMENTS. During the week ended November 30, 1966, 45 registration statements were filed, 41 became effective, 6 were withdrawn, and 505 were pending at the week-end.

SECURITIES ACT REGISTRATIONS. Effective November 30: Index Fund of Boston, Inc., 2-26124. Effective December 4: American Investors Life Insurance Co. Inc., 2-26476 (90 days); Fuqua Industries, Inc., 2-27509 (40 days); The Marquardt Corp., 2-27636 (40 days); May Petroleum, Inc., 2-27262 (90 days); Pancoast, Inc., 2-27210 (90 days); Penn-Pacific Corp., 2-26242 (90 days); U.S. Plywood-Champion Papers, Inc. 2-27408.

NOTE TO DEALERS. The period of time dealers are required to use the prospectus in trading transactions is shown above in parentheses after the name of the issuer.

*As estimated for purposes of computing the registration fee.