

ORIGINAL

BLYTH & Co.

Kemper  
etal

OFFICIAL REPORT OF PROCEEDINGS  
BEFORE THE  
SECURITIES AND EXCHANGE COMMISSION

FILED

MAY 3 1962

SECURITIES & EXCHANGE COMMISSION

Docket No. \_\_\_\_\_

In the matter of SPECIAL STUDY OF THE SECURITIES MARKET

Place Washington, D. C.

Date May 2, 1962

Pages 1 thru 170

C. S. A. REPORTING CORPORATION  
Official Reporters  
939 D Street, N. W. Washington 4, D. C.  
National 8-3406



Blyth & Co.

Volume I

May 2, 1962

Pg 2-5, 7-10, 49-53

Background of Co. and its business

Pg 5-7

Principal vs. agency transactions

Pg 10-14, 15-17

Research dept. and its function

Pg 14-15, 18-29, 57-58, 67-70

Over-the-counter trading of listed securities

Pg 17-18

Securities that Blyth & Co. will trade

Pg 18, 82-83, 129-153, 159-164

Sponsorship

Pg 29-36, 48-49

Secondary distributions of listed securities and stabilizing bids

Pg 36-46, 55-57, 58-60, 62-63, 65-66

Secondary distributions of unlisted securities

Pg 46-48

Sale of mutual funds

Pg 53-55

Types of orders received from investment funds

Pg 61-62, 63-67, 137-138, 148-149

Extra commission to salesmen for selling securities in which Blyth has a position

Pg 66-67

Disposition of long position taken by trading dept.

Pg 70-75, 78

Give-up transactions for mutual funds

Pg 75-77

Portfolio business for mutual funds

Pg 79-82

Accumulation of long positions by trading dept.

Blyth & Co. - 2

Volume I May 2, 1962

Pg 83-87, 122-153

Trading as managing underwriter re: Grosset and Dunlop, (buying and selling on balance)

Pg 87-90

Activities by customers of managing underwriter in the after-market

✓ Pg 90-91, 92, 99-102

Customer orders before syndicate is closed

✓ Pg 91-99, 101

Lifting of trading restrictions re: Grosset and Dunlop

Pg 102-106, 117-119

Activities of public customer of other broker-dealers in the after-market re: Grosset and Dunlop

Pg 105-106, 107-119

Activities of broker-dealers and trading houses other than the managing underwriter in the after-market re: Grosset and Dunlop

Pg 119-122, 145-151

Activities of One William Street Fund in the after market re: Grosset and Dunlop

Pg 153-159

Effect of managing underwriter maintaining an orderly market without having a retail dept and without soliciting orders

Pg 164-166

Making a market when the firm is not managing underwriter

Pg 166-169

Making markets in issues where Blyth has made a secondary distribution

C E A REPORTING CORPORATION

to certify that the attached proceedings  
before the Securities and Exchange Commission in the matter  
of.

SPECIAL STUDY OF THE SECURITIES MARKET

(Name of Proceeding)

Washington, D. C. ; May 2, 1962

(Place and Date of Hearing)

were used as therein appears, and that this is the original  
transcript thereof for the files of the Commission.

C E A REPORTING CORPORATION  
Officials Reporters

*Cleanor Goodman* vR

*Clithe Puller* vR

Reporter

Fuller-7  
Smead

BEFORE THE

SECURITIES AND EXCHANGE COMMISSION

2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

----- :  
:   
SPECIAL STUDY OF THE SECURITIES MARKET :  
:   
----- :

Room 301-D, Securities and Exchange  
Commission Building,  
425 Second Street, N.W.,  
Washington, D.C.  
Wednesday, May 2, 1962

EXAMINATION OF MESSRS. KAMPERT, BRADY, SHEETS AND  
GLASSMEYER regarding the above-entitled matter was conducted in  
private conference, pursuant to notice, at 10 o'clock a.m.

APPEARANCES:

- MESSRS: EUGENE ROTGERG, STEPHEN J. PARADISE, GORDON  
HENDERSON, and DAVID SILVER, on behalf of the  
Securities and Exchange Commission.
- MESSRS. B.S. KAMPERT, NEIL BRADY, RALPH C. SHEETS, and  
EDWARD GLASSMEYER, Vice Presidents, Blyth & Co., Inc.
- OLIVER B. MERRELL, ESQ., Sullivan & Cromwell, on behalf  
of Blyth & Co., Inc.

P R O C E E D I N G S

1  
2 Mr. Rotberg: On the record.

3 This meeting is convened pursuant to General Order of  
4 the Securities and Exchange Commission which authorized certain  
5 Staff members to make a study and investigation of matters relat-  
6 ing to the rules of the NASD, the stock exchanges, the Securities  
7 laws and those laws, regulations and concepts which are necessary  
8 for the protection of the public investor.

9 Blyth & Company has kindly consented to come here today  
10 and tomorrow and discuss with us certain matters concerning our  
11 investigation.

12 I want to take this opportunity to thank them for coming  
13 down here. I am very pleased to see they are so happy to cooper-  
14 ate with the Commission in the study.

15 Perhaps the best way just to generally begin the discus-  
16 sion is for any one of you gentlemen to tell us briefly what the  
17 nature of the business of Blyth & Company is.

18 Mr. Glassmeyer: Blyth & Company is engaged in the  
19 business of investment banking. Its primary activity is the pur-  
20 chase from corporations of securities and the distribution there-  
21 of.

22  
23 In addition, it operates a trading department of national  
24 scope. We have twenty-eight offices from coast to coast. If I  
25 might break down the departments, as bidding or the originating  
department, the trading department, the municipal department,

1 the sales department, the department of operations and since  
2 April 15, our Government Securities Department.

3 Mr. Rotberg: About how many registered representatives  
4 are employed by Blyth?

5 Mr. Sheets: About 132.

6 Mr. Rotberg: Is all the trading done by Blyth in New  
7 York?

8 Mr. Brady: Not all of it, the greater majority of it  
9 is done in New York. We have position trading, local securities,  
10 Los Angeles, San Francisco and Seattle.

11 Mr. Rotberg: About how many securities do you make market  
12 in?

13 Mr. Brady: Roughly five hundred.

14 Mr. Rotberg: Do you have an estimate of how many are  
15 made in New York, how many outside?

16 Mr. Brady: Well over four hundred New York.

17 Mr. Rotberg: The most of those are in common stocks?

18 Mr. Brady: Yes.

19 Mr. Glassmeyer: May we furnish you with this list of  
20 the securities we trade?

21 Mr. Rotberg: That will be very helpful.

22 Mr. Glassmeyer: I might add to what Mr. Brady says,  
23 we are not members of any exchange. All of our trading is  
24 so-called position trading for our own account as principal. In  
25 almost all respects except where our customers desire to have us

act as agent.

1  
2 Mr. Rotberg: I take it there is a senior executive  
3 officer of Blyth in each of the offices which conduct trading  
4 operations?

5 Mr. Brady: You mean directly in the trading department?

6 Mr. Rotberg: No, there is a senior executive officer  
7 in each of the cities where there is trading operations conducted?

8 Mr. Brady: Yes.

9 Mr. Rotberg: In each of those cities out of New York,  
10 where there is a trading operation, who decides what securities  
11 are to be traded? That is, by Blyth?

12 Mr. Brady: You say outside of New York?

13 Mr. Rotberg: Yes.

14 Is it done by the office or must permission be received  
15 from New York?

16 Mr. Brady: Normally it is not necessary to get permis-  
17 sion from New York, because the greater majority, I believe, of  
18 securities we trade in those three offices are issues that Blyth  
19 has been associated in the offer, with the possible exception of  
20 the Seattle office.

21 They trade local issues.

22 We more or less go along on the theory that a stock  
23 must have a fairly broad trading interest or else it is not  
24 worthwhile to trade it.

25 However, when there is a stock of our own origination,



1 we nearly always do maintain a market.

2 Mr. Rotberg: Do the individual traders decide which  
3 securities they wish to make a market in, or is this reviewed by  
4 a higher authority of the company?

5 Mr. Brady: It is reviewed.

6 Mr. Rotberg: Mr. Glassmeyer mentioned for the most part  
7 all the transactions are executed on a principal basis?

8 Mr. Glassmeyer: Yes.

9 Mr. Rotberg: Suppose a customer comes into your office  
10 and wishes to buy a few thousand dollars worth of an over the  
11 counter security in which you are making a market, it is an unso-  
12 licited order. Do you execute that transaction on a principal  
13 basis usually?

14 Mr. Sheets: Yes, we would. We would ask, could we make  
15 an offering of the security and we would go in the market.

16 Mr. Rotberg: Suppose you are not making a market in  
17 that security, but he asks for, asks to buy a few thousand dollars  
18 worth of a security on which you are not making a market, what  
19 do you do with that?

20 Mr. Sheets: That would be passed on, if it were a local  
21 market, maybe Neal could answer this, I assume it would be  
22 executed in that local market. If it was a stock primarily in  
23 New York, it would be turned over to the trading department and  
24 executed in the business market.

25 Mr. Rotberg: Would you execute that transaction on a

1 principal basis also.

2 Mr. Brady: No.

3 Mr. Rotberg: You would not go out and buy it, put it  
4 in your trading account, mark it up, sell it to a customer?

5 Mr. Brady: When we have an order for it?

6 Mr. Rotberg: Yes.

7 Mr. Brady: No.

8 Mr. Rotberg: When you refer to principal transactions,  
9 you are only talking really about transactions in which you  
10 already have an inventory?

11 Mr. Brady: That is correct.

12 Mr. Rotberg: On which you are making a market.

13 Mr. Sheets: On which you are making a market. We  
14 might have a short position.

15 Mr. Rotberg: Possibly you're short and a customer  
16 asks for the security, do you go out into the open market to buy  
17 it and then mark it up, or might you just sell it to him and go  
18 further short?

19 Mr. Brady: The latter answer is correct. In other  
20 words, we are making the principal market. Whether we are long  
21 or short, that offer is good.

22 Mr. Rotberg: What price do you sell it to them at?

23 Mr. Brady: In our principal trading market?

24 Mr. Rotberg: Yes.

25 Mr. Brady: Say forty-five and a half and a half, six, ve

1 would sell it at 46.

2 Mr. Rotberg: You don't mark it up?

3 Mr. Brady: Occasionally.

4 Mr. Sheets: If we have a market on the stock and it is  
5  $45\frac{1}{2}$ -6, and the salesman solicits an order in that stock, and per-  
6 haps does some work in inducing the customer to buy something  
7 that we trade, which our sales organization does, and on the  $45\frac{1}{2}$ -  
8 6 market, if he sold twenty-five shares of that stock, he would  
9 not confirm that stock at 46. He would mark that up. He might  
10 sell it at  $46\frac{1}{2}$ .

11 Mr. Merrell: Forty-six is the professional.

12 Mr. Sheets: Forty-six is the inside professional market  
13 with principal dealers.

14 Mr. Paradise: This is a principal transaction?

15 Mr. Sheets: Yes.

16 Mr. Rotberg: In the situation where you don't have  
17 the solicited order and the customer walks in and asks for the  
18 stock, the quoted price is  $45\frac{1}{2}$ -46, I take it in that case you will  
19 sell it to the customer at 46?

20 Mr. Sheets: Yes. You might sell it to customer at  
21 46. Or he might spread the market if he is a private investor  
22 over the professional market.

23 Mr. Rotberg: In the questionnaire you submitted in  
24 connection with your general over-the-counter business, you note  
25 that 1961, Blyth did \$1,736,000,000 in over-the-counter stocks.  
And in exchange stocks traded by your firm over the counter.

1           May I ask if that figure included private placements  
2 with institutional type clients?

3           Mr. Kampfert: What page is that?

4           Mr. Rotberg: Page four.

5           Mr. Kampfert: No, that excludes private placements.

6           Mr. Rotberg: Let's assume that Blyth receives a second-  
7 dary, an order to make a secondary offering, non-registered by  
8 a pension fund or insurance company or mutual fund. And it makes  
9 the entire distribution within its own organization, that is, it  
10 does not have a group. So it does not use any stock exchange  
11 members to assist it in the distribution. Would those distribu-  
12 tions be included in that \$1,736,000,000?

13           Mr. Kampfert: No, they are excluded.

14           Mr. Rotberg: Okay.

15           Mr. Merrell: Where is that figure?

16           Mr. Rotberg: Page four, question four.

17           Mr. Merrell: This is on the C-3?

18           Mr. Rotberg: Yes. Look at page four. There it is.

19           Off the record.

20           (Discussion off the record.)

21           Mr. Rotberg: On the record.

22           Mr. Kampfert indicated if a block is relatively small  
23 for example, less than about three million dollars, it probably  
24 would be transferred into the trading department and thus be  
25 included in the one billion, seven hundred and thirty six million  
dollar figure.

1           Generally, if the block is a large sizable block, it  
2 will not go into the trading department and will not be included  
3 as part of the one billion seven hundred thirty six million  
4 dollar figure.

5           Does Blyth do any substantial selling to mutual funds?

6           Mr. Sheets: No, very little. I don't know any way I  
7 could put a size on it. It is a very minor part of our business.  
8 We don't discourage it.

9           Mr. Glassmeyer: Might I add we discourage the selling  
10 of mutual funds.

11          Mr. Rotberg: Can you tell us the reason for that?

12          Mr. Sheets: I think our primary business, we have an  
13 organization, our primary business being the issuing of securities,  
14 we want our salesman to devote our efforts to our own needs.

15                 We have a wide list of merchandise available from muni-  
16 cipal bonds and the most conservative investments up to very  
17 speculative securities out of our own principal position.

18                 So there he has ample merchandise available to him.  
19 About the only time he uses an investment trust chair is where  
20 he runs into a small account that might need diverse occasion  
21 the dollar volume of the account might be too small to get it  
22 through individual customers.

23                 In those cases we sell certain amounts of mutual funds.

24                 Mr. Rotberg: Do you render any advisory service on a  
25 fee paying basis to your clients?

1 Mr. Sheets: None at all. We were not registered under  
2 the Investment Advisers Act. We stay completely away from being  
3 an adviser.

4 Mr. Rotberg: You have no fee-paying clients?

5 Mr. Sheets: None at all.

6 Mr. Rotberg: You do, of course, have a sizable research  
7 department both in connection with your underwritings and in advis-  
8 ing your customers as to their portfolios?

9 Mr. Sheets: No, we do not make portfolio analyses.  
10 To that extent, we do not have a large what you might call  
11 counselor department. Our research department is concerned pri-  
12 marily with individual securities rather than with portfolio  
13 surveys and advice.

14 Mr. Rotberg: About how many people work in the research  
15 department of the company?

16 Mr. Sheets: Well, we have some scattered. We have one  
17 in Los Angeles, one in San Francisco, Chicago, three; and there  
18 are about ten in New York, excluding the people in our buying  
19 department who are researching new issues and underwriting affairs  
20 and make issues in which we seek to do business.

21 Mr. Rotberg: What is the function of these ten research  
22 people in New York? Who do they perform services for, how do  
23 they operate?

24 Mr. Sheets: Primarily for the sales organization and  
25 they also double in buying department activity. We will have bank

1 stock specialists in New York. If we are in the bank stock  
2 underwriting he will devote part of his time for the underwriting  
3 department, maybe assembling figures, comparisons, things like  
4 that.

5 The rest of the time during the year, if he is not  
6 active in that work, he will be assembling bank figures, writing  
7 reports on individual banks or the New York banks or banks across  
8 the nation.

9 The same thing is true of our insurance stock men, our  
10 utility men and our industrial man who devotes his time to indus-  
11 trials.

12 Mr. Rotberg: They write not only on industries but  
13 specific securities also?

14 Mr. Sheets: Yes, they do.

15 Mr. Rotberg: What do they do with their information?  
16 Do they disseminate it generally to the sales organization for  
17 their use and solicitation of customers?

18 Mr. Sheets: Yes.

19 Mr. Rotberg: Do their findings become publicly disseminate  
20 through any kind of a letter by Blyth?

21 Mr. Sheets: No, we have no market letter or market  
22 research letter as such. We do occasionally issue what we call  
23 a report to the investor which might be a study of one company  
24 that we have been connected with in one way or another, usually  
25 as an underwriter.

1 I would say over the course of a year we might get a  
2 dozen of those reports to the investor out.

3 Mr. Rotberg: I take it you make markets within the  
4 last year, I believe, in practically all the securities in which  
5 you acted as managing underwriter?

6 Mr. Brady: That is correct. Unless it goes off the big  
7 board, industrials.

8 Mr. Rotberg: I am speaking of just over-the-counter  
9 securities.

10 I take it also your research department does research  
11 as you say on those companies in a period subsequent to the under-  
12 writing, sir?

13 Mr. Sheets: Yes.

14 Mr. Rotberg: This information is made available to the  
15 salesman who will use it with intelligence in the solicitation of  
16 the customers who bought the stock in the original underwriting?

17 Mr. Sheets: That is right.

18 Mr. Rotberg: Is that the main function of these indi-  
19 viduals?

20 Mr. Sheets: Yes, it is.

21 Mr. Rotberg: Do you render any kind of service or make  
22 available the conclusions of your research department to institu-  
23 tional type clients such as investment companies?

24 Mr. Sheets: Only to the extent that the reports that  
25 are turned in to public reports would be available to institutions



1 as well as anyone else. We would advertise the fact that we had  
2 had a report on the Georgia-Pacific Corporation, Purex, or some  
3 other company we had been interested in. That is available to  
4 anyone.

5 As a matter of fact, we might well mail it to a list  
6 of institutions that might be on our mailing list.

7 Mr. Rotberg: Do you have a general institutional list  
8 who receive these services, these reports?

9 Mr. Sheets: Yes.

10 Mr. Rotberg: The list, I take it, is to assist the  
11 investment adviser, as an investment company, to intelligently  
12 buy or sell the securities for the fund which he administers?

13 Mr. Sheets: Yes, really an informative report rather  
14 factual. It is as comprehensive as we can make it. But it is not  
15 flamboyant. It does not recommend that stock be purchased im-  
16 mediately, that it is going to have a market move or anything like  
17 that. It is a very factual report similar to an annual report  
18 of the corporation.

19 Mr. Rotberg: Do you receive anything for this institu-  
20 tional report?

21 Mr. Sheets: No.

22 Mr. Rotberg: What do you expect to get in return?

23 Mr. Sheets: We expect to keep our clients informed.  
24 who may own this security. We expect to inform someone who  
25 does not own the security of the company and be sure that the issuer

1 and the corporation with whom we have done business were things  
2 he gets some public relations out of having his name and company  
3 better publicized.

4 Mr. Rotberg: Do you expect to receive a brokerage busi-  
5 ness from the institutional client who may receive the report?

6 Mr. Sheets: No.

7 Mr. Rotberg: Generally, do you find that Blyth receives  
8 any substantial amount of brokerage business from investment  
9 companies to whom they render these services?

10 Mr. Sheets: No, we do not.

11 Mr. Rotberg: Does Blyth do much Mutual Fund buying  
12 and selling of their portfolio securities?

13 Mr. Sheets: We get some business. I think the business  
14 that we get from the investment trust is primarily on our market.  
15 One is to the closeness of the spread, two, the size of those mar-  
16 kets is of interest to us. We will make bids or offerings for  
17 larger amounts from them, that is the basis we get our business  
18 from them.

19 We get no reciprocal business from them either from  
20 research or distribution of their shares.

21 Mr. Rotberg: Do you find your market on stock exchange  
22 securities is better than the stock exchange house?

23 Mr. Brady: Better than the market on the New York Stock  
24 Exchange?  
25

Mr. Rotberg: Yes.

1 Mr. Brady: We trade only a list of about thirty utility  
2 stocks, day in and day out at net prices.

3 Mr. Sheets: Of unlisted stocks.

4 Mr. Brady: You are speaking of listed stocks?

5 Mr. Rotberg: Yes.

6 Mr. Brady: Naturally to be competitive, our price  
7 has to be very close to that on the New York Stock Exchange at  
8 lease one side of our market. We will be either a buyer or  
9 seller of a certain security. To be competitive we have to be  
10 right on the market or at least it will be a waste of time in  
11 making a market.

12 Mr. Rotberg: Do you find you are getting any business  
13 from investment companies because your market is a bit better than  
14 the Exchange market?

15 Mr. Brady: There are two things involved there. We  
16 hope our market is as good or better than the Board market.  
17 At the same time we are dealing at net prices, which is to advan-  
18 tage to that kind of a fund or bank. Because they don't have to  
19 pay a commission.

20 Mr. Rotberg: Off the record.

21 (Discussion off the record.)

22 Mr. Rotberg: On the record.

23 In connection with the research reports, do you have  
24 any firm policy in respect to what the activity of your trading  
25 department should be prior to the dissemination of the report?

1 Mr. Sheets: I will let Mr. Brady answer that.

2 Mr. Brady: Yes, we have a very definite policy that  
3 is any time we bring out a report on a stock, that our trading  
4 position shall never be any larger than a normal trading position.

5 In other words, we do not go out and accumulate a block  
6 of stock, then release a report on a company.

7 Mr. Paradise: What would your normal trading position  
8 be?

9 Mr. Brady: It would depend on the stock naturally.  
10 I would say offhand a thousand, two thousand, three thousand  
11 shares, something like that.

12 Mr. Paradise: Do you remember what it was in the  
13 Stanley Corporation before you issued?

14 Mr. Brady: Yes, I do. It was about five hundred  
15 shares.

16 Mr. Rotberg: I take it when the report is disseminated  
17 there is some buying power which is generated?

18 Mr. Brady: You would assume some buying power might  
19 come from it, yes.

20 Mr. Rotberg: Do you find that buying power usually  
21 tends to drive up the price quite quickly because, one, it is  
22 concentrated? Two, it usually appears in the period after the  
23 report is disseminated?

24 Mr. Brady: I don't think so because any stock we trade  
25 must have a broad market or we would not trade it. With a broad

1 market in a normal market, why an order coming from, coming as a  
2 result of one of these analyses would not have too great an effect  
3 on the market.

4 Mr. Rotberg: You say you only trade securities which  
5 have broad markets? By that do you mean fairly active markets?

6 Mr. Brady: Yes.

7 Mr. Rotberg: You do not appear in the sheets of the  
8 National Quotation Service because the market is inactive in your  
9 securities and you feel it necessary to maintain the orderliness  
10 of the thin market?

11 Mr. Brady: No. We must have a broad, active market  
12 to make it worthwhile to trade.

13 Mr. Sheets: Could I say there might be some exceptions  
14 in this, Neal, where we have had a connection with a company?

15 Mr. Brady: Oh, yes.

16 Mr. Sheets: As an underwriter there may not be the  
17 breadth of market there for a normal trading position but because  
18 of connection, our connection with the company we would maintain  
19 a market.

20 Would that be true in Houston, Paul, or something like  
21 that?

22 Mr. Brady: Yes.

23 Mr. Rotberg: Even though the market might be thin?

24 Mr. Brady: Yes.

25 Mr. Rotberg: What is the National in making a market in

1 those securities?

2 Mr. Glassmeyer: May I answer that. We think it is a  
3 part of our function as an underwriter to provide in as orderly  
4 after market as we can in a security.

5 Mr. Rotberg: Is that with respect to the orderliness  
6 of the market for those who are in the sheets other than yourself?

7 Mr. Sheets: There are some instances where there are  
8 only a few others in the sheet.

9 Mr. Rotberg: You would go whether or not they are?

10 Mr. Glassmeyer: Yes.

11 Mr. Rotberg: Because of your relationship with the  
12 issuer, irrespective of the orderliness of the market, you are  
13 going in?

14 Mr. Glassmeyer: I would like to make it the activeness  
15 of the market rather than the orderliness. That is true.

16 Mr. Rotberg: I want to introduce you to Mr. Silver.

17 (Discussion off the record.)

18 Mr. Rotberg: Mr. Silver has some inquiries concerning  
19 the matter we have just been talking about, namely your activity  
20 in listing securities in the over-the-counter market.

21 Mr. Silver: About how many listed securities does the  
22 firm make a market in over the counter?

23 Mr. Brady: We would make a market, a continuous day to  
24 day market in roughly thirty to thirty-five utility companies  
25 only.

1 Mr. Silver: How do you decide which utilities will be  
2 on your list?

3 Mr. Brady: That is by more or less trial and error.  
4 The list we have had now has been in effect intact for some time.  
5 We arrive at what we trade by the activity that we can expect to  
6 get from the whole country.

7 Mr. Silver: Do you ever drop a utility from your list?

8 Mr. Brady: Oh, yes, if it becomes too inactive and  
9 the trading does not warrant it, we will drop it.

10 Mr. Silver: How long has this practice existed of  
11 trading with the securities, on a firm basis, with a firm list?

12 Mr. Brady: I would guess somewhere, as far as I can  
13 tell -- you mean over the counter?

14 Mr. Silver: Over the counter.

15 Mr. Merrell: Of listed securities.

16 Mr. Brady: 1929, the late twenties, there were stock  
17 traded over the counter that were listed on the Board, particularly  
18 bank stocks.

19 Mr. Merrell: Your stocks that are listed now.

20 Mr. Brady: How long we have done it?

21 Mr. Silver: Yes.

22 Mr. Brady: I would guess fifteen or twenty years.

23 Mr. Silver: How did you happen to get into that contin-  
24 uing business?

25 Mr. Brady: You are going to tax my memory on this.

If I recall, we were trading some of the utilities over the counter.

1 They went on the board on the New York Stock Exchange.

2           Rather than give up our affiliation with the stock we  
3 kept trading it. It more or less broadened down from there.

4           Mr. Silver: Have you added many in recent years or  
5 has the figure remained constant?

6           Mr. Brady: The overall figure remains pretty much con-  
7 stant. We have dropped some and added others. We may get an  
8 idea that certain stock will prove an active trader for us, we  
9 will ad it on.

10           Later on we may have to drop it.

11           Mr. Silver: Your decision to drop a stock is based  
12 purely on its activity?

13           Mr. Brady: Yes.

14           Mr. Silver: Who are your customers in the main for  
15 exchange stocks?

16           Mr. Brady: Well, it is a very broad list. We have many  
17 retail customers interested in utilities as a whole. We do a  
18 considerable business with institutions.

19           Mr. Silver: What kind of institutions, banks?

20           Mr. Brady: Banks, insurance, funds.

21           Mr. Rotberg: May I ask, is there any reason why you  
22 only make market in utilities?

23           Mr. Brady: Yes, there is. In the late forties, we  
24 thought we would try to trade the industrials also, and we had  
25 a selected list. I don't know whether it was twenty or thirty



1 stocks, such as steel, General Motors, et cetera, As a matter  
2 of fact, however, we did not find it too profitable. We made a  
3 little money on it but it almost killed us to try to keep up with  
4 the money. We just decided to give the whole thing up.

5 Mr. Glassmeyer: Because of the wider swings in these  
6 industrials.

7 Mr. Brady: Yes.

8 Mr. Glassmeyer: The utilities were more stable.

9 Mr. Silver: Is there any difference in the structure  
10 of your organization from that of Weeden and Company who seemingly  
11 has made a success in trading industrials over the counter?

12 Mr. Brady: Well, there is a great different in the two  
13 firms, yes. We cover many more facets of the business than they  
14 do. As far as their trading the industrials and being successful  
15 in it, their approach to the whole thing is entirely different.

16 Their trading is entirely different than ours.

17 Mr. Silver: Can you give us some of the differences?

18 Mr. Brady: Well, yes. We believe in buying something  
19 and selling it. They will go, I don't know whether this should  
20 be on the record or not. This is my own personal opinion and I  
21 cannot back it up.

22 I believe they will take a very heavy position in a  
23 stock and just stay with it.

24 Mr. Silver: You were not willing to do this which led  
25 you to not to go further or to drop your first attempts to get

1 into that business?

2 Mr. Brady: I think the answer there is yes.

3 Mr. Silver: Did you have any discussions with the  
4 Exchange with respect to this business?

5 Mr. Brady: I have never had any.

6 Mr. Silver: With Mr. Coyle or Mr. Funken?

7 Mr. Brady: I personally have never had any conversation  
8 with anybody about it.

9 Mr. Silver: Do you know if anybody in your firm has?

10 Mr. Brady: Not to my knowledge.

11 Mr. Sheets: I would think not.

12 Mr. Rotberg: Are the swings in the industrials on the  
13 Exchange any greater than the swings of the industrials in the  
14 over-the-counter market in which you make markets?

15 Mr. Brady: That is a tough question to answer. I would  
16 think you could say the over-the-counter swings are about in line  
17 with the board swings in certain stocks.

18 Mr. Rotberg: If that is the case, I assume that it is,  
19 it is a little unclear then of why the swings on listed securities  
20 caused you to back off from making markets in those, that you  
21 don't back off from making markets in securities which have just  
22 as great a swing in the over-the-counter market?

23 Mr. Brady: My answer there is the fact that we drop  
24 it because I say we could not keep up with the market.

25 You see, each individual trader has his own stocks, in'

1 over-the-counter stocks; much the same thing is true of what --  
2 when we were trading the listed stocks.

3 To trade the listed industrials, I trade the utilities,  
4 I told you, I have to watch the tape very carefully all the day  
5 long. The industrial trader who also was trading over-the-  
6 counter securities just could not concentrate enough on that tape  
7 to keep up with the position in his listed securities, and the  
8 over-the-counter securities. Then when you ran into a late tape,  
9 we found out that you could be hurt pretty badly.

10 What is on the tape is not what is on the floor. There  
11 are other people who made a practice of finding out what the floor  
12 market was, then try to come in, take advantage of your market  
13 which had not been changed due to the fact the tape was running  
14 late.

15 Mr. Silver: Can you link up a little more closely to  
16 what you said you believed to be Weeden's practice of taking  
17 heavy positions with your inability to continue in this business?  
18 In other words, what is there in the taking of heavy positions  
19 which allows them to succeed?

20 Mr. Merrell: Do you know much about what Weeden does?

21 Mr. Silver: Let's assume, apparently you do believe if  
22 they take heavy positions, it acts for some so-called difference,  
23 the difference being their ability to be successful in this business  
24 -- where would that have an effect?

25 Mr. Brady: Their ability to be successful in this

1 business would stem mainly because you have been in a up market  
2 for many years. Whether they buy a security, nearly always they  
3 get take up in a rising market irrespective of price. You are  
4 putting me a bit on the spot. It is a question of our method of  
5 doing business and Weeden's method of doing business.

6 We disagree to a great extent sometimes on well, how  
7 we do our business. I mean I am talking for individual traders  
8 now, not the company.

9 Mr. Silver: Do you find in your utility trading that  
10 the late tape has the kind of effect you were just talking about?

11 Mr. Brady: No, not normally.

12 Mr. Rotberg: Is that because it is a much thinner  
13 market?

14 Mr. Brady: It is a much stable market. You see,  
15 utility buying the last two days, utilities were rather weak, but  
16 normally speaking a late tape on it will not have much effect at  
17 all on utility stocks. They are much more solid. They don't  
18 move as fast.

19 Mr. Glassmeyer: Just look at the Dow Jones industrial  
20 average of utilities as against industrials. That will prove  
21 almost by inspection.

22 Mr. Silver: Do you carry in these utilities, what kind?

23 Mr. Brady: Sizes?

24 Mr. Silver: Yes.

25 Mr. Brady: I could be long a very small amount or I

1 could be long ten or fifteen thousand shares. It all depends  
2 on any feeling on it.

3 Mr. Silver: In your dealings, say, with Funds, what  
4 kind of transactions from a viewpoint of size is an average  
5 transaction on these utilities?

6 Mr. Brady: Well --

7 Mr. Merrell: You are still speaking of listed securities?

8 Mr. Silver: Listed stocks, yes.

9 Mr. Brady: That will vary. A bank, for instance,  
10 will get an order on a couple hundred shares or get an order for  
11 three or four thousand shares. Or it could even run considerably  
12 higher than that.

13 Mr. Silver: What market do you usually make?

14 Do you straddle the Exchange quote?

15 Mr. Brady: It all depends on your feeling in the market  
16 for one thing, your position for another thing. But normally,  
17 once, as I told Mr. Rotberg, one side of our market has to be  
18 in line with the Board or else we are not going to be competitive.  
19 In other words, the Board man telephone at 123. My market might be  
20 123 to a half. If I was a better buyer than a seller or advise  
21 better, I could make the market at  $122\frac{1}{2}$ -3, if I were selling.

22 We have to be competitive.

23 Mr. Silver: You try, but you believe you do succeed  
24 if you try in giving your market greater depth than the Exchange  
25 specialist does?

1 Mr. Brady: We believe our market, first of all, we  
2 have very close markets. And, as you say, the bare market is  
3 right on the board market one way or the other. We will stand up  
4 for size. As I told Mr. Rotberg, one of the great advantages is  
5 maintaining the high prices.

6 Mr. Silver: Do you believe your market has greater  
7 depth than the Exchange market?

8 Mr. Brady: No, in many cases, no. Probably a greater  
9 majority of the cases there might be a larger market on the floor  
10 than in over the counter.

11 Mr. Silver: What are the leading utilities on your list?

12 Mr. Brady: American Telephone.

13 Mr. Sheets: We have a list of them there.

14 Mr. Brady: Well, a whole list. They are not segregated.

15 Mr. Rotberg: They are not segregated on listed and over  
16 the counter.

17 Mr. Silver: I was going to ask a couple of general  
18 questions. You observe the tape very carefully in these stocks?

19 Mr. Brady: Oh, indeed.

20 Mr. Silver: Have you any opinion in general how good is  
21 the exchange market?

22 I know it differs from stock to stock. Just as a  
23 generalization, as far as size is concerned? What will move at  
24 an eight, five hundred shares, eight hundred shares, under normal  
25 trading conditions?

1           Mr. Merrell: That is to move the Stock Exchange  
2 market?

3           Mr. Silver: The Stock Exchange market in these high  
4 priced stocks. First, I will take high priced stocks. Is there  
5 any difference?

6           Mr. Brady: I don't know whether I can answer that. I  
7 can only observe from what I see in the tape. It would all  
8 depend on the type of order on the board or the size of the offer-  
9 ing or the size of the bid.

10          Mr. Silver: I believe you said that you try, you  
11 think you succeed in many cases of giving your market a greater  
12 depth than the corresponding Exchange market. So you must have  
13 some idea of the depth of the Exchange market to form that  
14 judgment.

15          Mr. Brady: Well, we know, at least I try to keep up  
16 with the market on the Board. I very rarely check the size of it.  
17 But I would say the Board market, it would have to be a fairly  
18 sizable order normally to move the utility stock to any great  
19 extent.

20          Mr. Silver: What would it usually take to move the  
21 Telephone stock?

22          Mr. Brady: Again the normal trading market, a quiet  
23 day, I think it would take probably a couple of thousand shares  
24 to move it a quarter of a point.

25          Mr. Silver: What are the largest transactions you nor-

1 mally run into in the ordinary course of your business in trading  
2 listed securities? A thousand shares, five thousand shares?

3 Mr. Brady: You ask me what is the largest transaction  
4 I have ever made in a listed utility?

5 Mr. Silver: Let's have the largest.

6 Mr. Brady: If I am not mistaken, it was fifty thou-  
7 sand shares.

8 Mr. Silver: That was a net price, one transaction?

9 Mr. Brady: It was one transaction, yes.

10 Mr. Silver: Was that with a bank or Fund?

11 Mr. Brady: I believe it was a Fund.

12 Mr. Henderson: Was that a purchase or sale?

13 Mr. Brady: It was a purchase.

14 Mr. Henderson: What would be your largest sale of un-  
15 listed?

16 Mr. Brady: There again it is the same trade.

17 Mr. Henderson: Who did you sell to from the Fund?

18 Mr. Brady: Beg pardon?

19 Mr. Henderson: Do I understand you bought that from a  
20 Fund?

21 Mr. Brady: Yes.

22 Mr. Henderson: Whom did you sell it to?

23 Mr. Brady: Another fund.

24  
25 Mr. Henderson: When you work with that kind of a  
deal, have you got your sale made before you make the purchase?



1 Mr. Brady: On a fifty thousand share trade?

2 Mr. Henderson: Yes.

3 Mr. Brady: Yes, indeed.

4 Mr. Henderson: You have a negotiated risk transaction  
5 before you go on either side of this?

6 Mr. Brady: On a transaction of that size, yes.

7 Mr. Silver: How fair was that from the Exchange price?

8 Mr. Brady: On the last sale?

9 Mr. Silver: Generally speaking, would you say that  
10 as the size of your transactions get larger, the price becomes a  
11 negotiated one, or do you still try to straddle the tape?

12 Mr. Brady: Well, on a transaction like that, it is  
13 definitely negotiated.

14 Mr. Silver: Generally speaking in these utilities,  
15 what is the size of your market? How big is your quote?

16 Mr. Brady: Five hundred shares at least.

17 Mr. Silver: Is this for any broker-dealer or any  
18 institution?

19  
20 Mr. Brady: For any dealer who can trade with us, yes,  
21 by that I mean a non-member. Not to a competitor now. I natu-  
22 rally won't make the same market to a competitor that I would  
23 an institution.

24 Mr. Silver: To change the subject a little, although  
25 you are not a member firm, I understand that the Exchange does  
as a matter of course look at your secondaries and pass on them

1 in the same sense they do for members; is that correct?

2 Mr. Brady: That is correct.

3 Mr. Silver: Is that Mr. Coyle's department?

4 Mr. Brady: I don't think so. I believe it is Mr.  
5 Shutz's. I don't believe Mr. Coyle is in that department.

6 Mr. Silver: How does it happen you as a non-member  
7 request permission of the Exchange to engage in a secondary?

8 Mr. Brady: Well, it is very necessary to have member-  
9 ship participation to make a secondary successful.

10 Mr. Rotberg: I take it that your answer would be that  
11 there is no discussion with Exchange officials if you don't use  
12 Exchange members to assist you in the distribution?

13 Mr. Brady: That would be the answer, yes.

14 Mr. Silver: Does that happen, as a matter of practice  
15 do you request the Exchange's consent when you are having parti-  
16 cipating members and do you have a practice not to consult the  
17 Exchange when you don't plan to have a participation of Exchange  
18 member firms?

19 Mr. Brady: There is really no way of answering that  
20 because we have not, in many, many years, attempted a secondary  
21 of a listed stock without the stock Exchange approval.

22 Mr. Silver: How often does it occur that the Exchange  
23 refuses consent?

24 Mr. Brady: Well, not too often. Of course, we realize  
25 that you cannot go in and expect to get approval unless the

1 block is of a size enough. Occasionally, we have thought we  
2 had a block large enough and it has been turned down which would  
3 indicate there was not enough buying power on the floor to absorb  
4 the stock without dropping the price.

5 Mr. Silver: Do you only discuss this with the official  
6 of the Exchange or is a specialist ever brought into the discus-  
7 sion?

8 Mr. Brady: The specialist is probably brought into the  
9 discussion through the officials of the Exchange.

10 Mr. Silver: You don't discuss it with him?

11 Mr. Brady: No, oh, no.

12 Mr. Rotberg: When you say there is buying power on  
13 the floor, are you only referring also to the work of the  
14 specialist or do you also refer to what the Exchange tells you  
15 might be the buying power by floor traders?

16 Mr. Brady: We are never given any answer for it. We  
17 are just given approval or denied approval. There is never any  
18 explanation.

19 Mr. Silver: Have you ever attempted to go ahead with  
20 if the Exchange has denied approval?

21 Mr. Brady: No.

22 Mr. Rotberg: I take it in the secondary which you are  
23 going to offer to the public after the close of trading on the  
24 floor at the price that then obtains, that you have found it  
25 necessary in some occasions to especially stabilize, prior to the

1 close?

2 Mr. Brady: Yes.

3 Mr. Rotberg: Who does the stabilizing, tell me how the  
4 stabilizing is done if you are not a member?

5 Mr. Brady: I do it.

6 Mr. Rotberg: In over the counter transactions?

7 Mr. Brady: No, on Stock Exchange stocks. You say  
8 when we are going to have a secondary of a listed security?

9 Mr. Rotberg: Yes.

10 Mr. Brady: If there is stabilizing to be done, I  
11 initiate it and handle it.

12 Mr. Rotberg: I see.

13 Mr. Sheets: You mean who pays for it?

14 Mr. Rotberg: What I am trying to get is whether or not  
15 you have one of the Exchange members do the stabilizing?

16 Mr. Brady: Oh, yes.

17 Mr. Glassmeyer: Bill gives the order.

18 Mr. Rotberg: It still is not clear. I am just not  
19 familiar with the practice. Could you explain exactly what is  
20 done?

21 Mr. Brady: Well, we are going to have an offering.  
22 We are going to give our sellers as good a price as we can get  
23 them. We will stabilize at a price, initiate stabilizing at a  
24 price, and continue to stabilize until the close or until such  
25 time as you are ready to go with a secondary.

1 Have I answered you?

2 Mr. Rotberg: In other words, you agree to buy any  
3 amount of securities that is needed at a specific fixed price?

4 Mr. Brady: No, we don't agree to buy any amount of  
5 security. We will buy an amount that we think is in line with  
6 the way the offering looks. We may not stay at the same price  
7 either. We may have to drop away.

8 Mr. Rotberg: Suppose there is heavy selling on the  
9 Exchange. And the special list is getting large sellers during  
10 the day, how do you, Blyth, how are you able to come in and pick  
11 up and buy the stocks that are going into a special list on the  
12 Exchange?

13 Mr. Brady: I don't think I follow you completely.  
14 However, say the stock would be General Motors, just, for instance.  
15 The stock is selling at  $52\frac{1}{2}$ . We are going to have a secondary  
16 at a hundred thousand shares.

17 All right, the announcement is made. Normally as you  
18 know, the stock will drop off somewhat. We have a price in mind  
19 at which we are going to offer it.

20 I mean a low price to the seller.

21 Mr. Rotberg: Say it is fifty one dollars a share.

22 Mr. Brady: The stock will naturally fall off normally.  
23 When we think it has gone as far as it may, then we will enter --  
24 initiate a stabilizing bid, take what stock we think is necessary  
25 at that price before we will drop away again. But we will try

1 to make the market as orderly as we can and still maintain the  
2 price at which we can offer the stock.

3 Mr. Rotberg: Do you usually have one member who handles  
4 the stabilizing bids?

5 Mr. Brady: We use many different brokers.

6 Mr. Rotberg: On the same secondary?

7 Mr. Brady: Oh, no, one broker on the secondary.

8 Mr. Rotberg: Does he give the order to the specialist,  
9 do you know?

10 Mr. Brady: I am sure he must. I don't know the  
11 floor procedure to be honest with you. I am sure he must.

12 Mr. Rotberg: Do you put in successive orders for a  
13 fixed number of shares?

14 Mr. Brady: I will put in an order at a price for a  
15 fixed number of shares.

16 Mr. Rotberg: Who pays for it?

17 Mr. Brady: Who pays for it?

18 Mr. Rotberg: Yes.

19 Mr. Brady: This is done for Blyth & Company.

20 Mr. Rotberg: In effect, Blyth is buying stock on the  
21 Exchange?

22 Mr. Brady: That is right, in a stabilizing bid.

23 Mr. Rotberg: Is the Exchange member acting as your  
24 broker?

25 Mr. Brady: Oh, yes.

1 Mr. Rotberg: Do they receive a commission?

2 Mr. Brady: Yes.

3 Mr. Rotberg: A Stock Exchange commission?

4 Mr. Brady: Yes, just the same as any other order he  
5 might receive.

6 Mr. Henderson: With such orders do you ever direct  
7 a give up of the Exchange commission or does the executing  
8 house always keep it, the whole commission?

9 Mr. Brady: I cannot remember when we gave up on any  
10 Stock Exchange commission.

11 Mr. Henderson: Does any house you primarily deal with  
12 on the Stock Exchange more frequently than other houses?

13 Mr. Brady: Yes.

14 Mr. Henderson: Yes?

15 Mr. Brady: Yes, Smith-Barney.

16 Mr. Rotberg: We will probably go back to this area  
17 in a little while in perhaps more detail.

18 Mr. Henderson: Could I ask another question?

19 Mr. Rotberg: Certainly.

20 Mr. Henderson: I notice in 1960 or 1961 you were a  
21 seller, I believe, in a special offering.

22 AS I recall, in 1960 or 1961, Blyth was the seller in  
23 a special offering on the Exchange of a block of Honolulu Oil  
24 stock. I think the offering was at a price of 61. I was  
25 wondering if you could tell us why the special offering device

1 Mr. Rotberg: When did you research the company, get  
2 the time to get the information on this company and send it out  
3 to your sales department?

4 Mr. Sheets: They can do this in the matter of an  
5 hour.

6 Mr. Rotberg: By looking it up in the Manuals?

7 Mr. Sheets: Yes, if there is a near incident of a  
8 quarterly report that has not been reported, if there is a near  
9 incident of a dividend date, then they call the company, see if  
10 there is information available on that. Other than that, if there  
11 would be a recent quarterly report and a recent dividend declara-  
12 tion, and there is nothing due on that immediately, they will  
13 feel no concern about what is going to happen the next quarter,  
14 the company won't give you the information on that.

15 Mr. Rotberg: The sales personnel get the information  
16 from the teletype which in effect is a summary of what is in  
17 Standard and Poor's and Moody's?

18 Mr. Sheets: That is correct.

19 Mr. Rotberg: They call up the companies and sell out  
20 the stock?

21 Mr. Sheets: That is right. Frequently there is a con-  
22 tact directly with the company to maybe ascertain how their busi-  
23 ness is running, maybe what their unfiled orders are or any other  
24 current information we might be able to add to what appears in  
25 the Services.



1 was used, and how you chose that method of disposing of that  
2 block.

3 Mr. Brady: Do you recall the size of it?

4 Mr. Henderson: I don't. I could look up the figure.  
5 But I don't recall.

6 Mr. Brady: I am just guessing now. I think the answer  
7 was it was too small a block for a secondary that we resorted to  
8 a special offering instead.

9 Mr. Henderson: Why would you use a special offering  
10 rather than trying to sell the stock over the counter?

11 Mr. Brady: There was no demand for it evidently.

12 Mr. Henderson: Would you recall if this was a block  
13 that came out of your own position that you had had in your posi-  
14 tion for a long time, or something that you had had for disposing  
15 of after immediate purchase?

16 Mr. Brady: I do not recall.

17 Mr. Rotberg: Generally, when you make a secondary  
18 distribution, of an over the counter security which is traded  
19 solely in the over the counter market, how do you disseminate the  
20 information to your sales offices all over the country and when  
21 do you disseminate the information concerning the fact that  
22 you are about to make a secondary?  
23

24 Mr. Brady: Well, normally, we just put out what we  
25 call a release. You are talking about a secondary to our  
retail only, or to other brokers?

1 Mr. Rotberg: To your retail?

2 Mr. Brady: We just put out a release to our sales  
3 department saying that we have a certain amount of stock avail-  
4 able.

5 Mr. Rotberg: Is it usually a teletype to the office?

6 Mr. Sheets: Yes, we have a teletype that appears in  
7 all offices. We put it in one machine, it appears in all the  
8 offices simultaneously. The wire will go in there we release ten  
9 thousand shares of XYZ stock.

10 Mr. Rotberg: Do you usually get rid of them in twenty-  
11 four or thirty-six hours after the initial contact by the vendor?  
12 Are they just as quick?

13 Mr. Brady: Using our own sales department all along.

14 Mr. Rotberg: Yes.

15 Mr. Brady: Sometimes yes, sometimes no.

16 Mr. Rotberg: How do your sales departments throughout  
17 the country get information about the company's stock that you are  
18 selling?

19 Mr. Sheets: That is done by the research department who  
20 will prepare a summary of the company with the latest information  
21 on its earnings, a five year record of its earnings, nature of  
22 its business, its capital structure, recent development in the  
23 company. It might be one page as long as a legal size page.  
24 That is put on our wire system. So at the time of the release  
25 they have a rather complete summary of the information on the

1 company at hand immediately.

2 One person digs it up, we disseminate it so everyone  
3 else is not required to go to the reference manuals that are  
4 available to them and dig it up themselves.

5 Mr. Rotberg: Don't the secondaries usually occur quite  
6 quickly, that is the vendor comes in on one day and says I will  
7 like to sell it immediately?

8 Mr. Sheets: Yes.

9 Mr. Brady: You asked me secondaries released only to  
10 our own retail organization. If there are other dealers involved,  
11 it is a little different procedure.

12 Mr. Rotberg: It may take a little longer, you have to  
13 hear from them as to the size of the commitment they can handle?

14 Mr. Brady: No, if there are dealers involved, it will  
15 probably be considerably faster nine times out of ten.

16 Mr. Rotberg: This then just accents the points I am  
17 making that the vendor might call you in the morning, might want  
18 to make a distribution of an over-the-counter stock as quickly  
19 as possible.

20 It is my understanding very often these take place the  
21 same day, perhaps even the next day for the most part.

22 Mr. Brady: Yes.

23 Mr. Rotberg: This is so in both over-the-counter stocks  
24 and listed stocks?

25 Mr. Brady: Yes.

1 Mr. Rotberg: It is fair to say, isn't it, that both  
2 your sales department and the customers who buy don't have a  
3 substantial amount of up to date information about that company?

4 Mr. Sheets: We don't have as much as would be in a  
5 prospectus. But they will have the bulk of the information that  
6 will be required for an investment decision on it.

7 Mr. Rotberg: Do you often sell companies which are non-  
8 reporting companies, of the 1934 Act, that is, they don't file  
9 reports with the Commission, because they have had less than two  
10 million dollars in outstanding shares?

11 Mr. Sheets: Very rarely would we have that.

12 Mr. Merrell: This is a secondary operation?

13 Mr. Rotberg: Yes.

14 Mr. Sheets: Very rarely do we have a secondary opera-  
15 tion in a company that small.

16 Mr. Rotberg: So the companies have filed periodic re-  
17 ports with the Commission?

18 Mr. Sheets: Yes.

19 Mr. Rotberg: Do you ever turn down a secondary?

20 Mr. Sheets: Many.

21 Mr. Rotberg: Do you ever turn them down because the  
22 vendor is selling on the basis of adverse information?

23 Mr. Sheets: No.

24 Mr. Rotberg: In other words, you don't feel it is your  
25 duty not to make the secondary if the vendor is selling on adverse

1 information on the company?

2 Mr. Sheets: We don't know why the vendor is selling.

3 Mr. Rotberg: Did you ask him?

4 Mr. Sheets: He won't tell us.

5 Mr. Rotberg: Would you ask?

6 Mr. Sheets: (Pause.) Well, if it is an investment  
7 trust, I don't believe we would ask. We would just know he would  
8 not tell you. He might not be -- he probably would decline to  
9 tell you.

10 If it were coming out of a trust department or an estate  
11 for tax purposes, this would be volunteered.

12 Mr. Rotberg: The answer would be more obvious if it were  
13 an estate?

14 Mr. Sheets: Yes.

15 Mr. Rotberg: If it were a pension fund or investment  
16 company or any institution which had a duty to someone to super-  
17 vise a portfolio, do you think that kind of institution probably  
18 would tell you why they are selling?

19 Mr. Sheets: No, they probably would not tell you.  
20 There may be a multitude of reasons why they want to sell, besides  
21 why they want to sell the stock, they might be selling the stock  
22 to establish a capital gain.

23 There may be numerous reasons why they are selling,  
24 they would really be reluctant. They would tell us it is none  
25 of your business, do you want to bid or not.

1 Mr. Rotberg: Is it fair to say if they were selling  
2 because of the either adverse information which was of a confiden-  
3 tial nature or an opinion on their part that the company's poten-  
4 tial based on public information was hazardous, was very pessimistic  
5 that because of the length of time that you had to make up your  
6 mind and to sell it, you probably could not determine those facts  
7 independently?

8 Mr. Sheets: We would attempt to put our own appraisal  
9 on whether it was adverse. These are the ones we turn down if  
10 there is adverse news and we think it is not a judicious offering  
11 we would decline it, make a bid or probably make a bid that  
12 would be non-competitive.

13 Mr. Henderson: You mentioned just a moment ago a  
14 fund might be selling stock to establish a capital gain. Do you  
15 mean even though it might like the stock, it would be selling it  
16 just to generate a capital gain?

17 Mr. Sheets: They might. I have no knowledge of their  
18 actions. I think Mr. Brady gave you one example. The fact that  
19 a fund is selling is no deterrent to us from handling it. We do  
20 not impute to them a great deal more knowledge than we have.

21 The fact that they want to sell does not deter us. Mr.  
22 Brady cited one example where one fund wants to sell fifty  
23 thousand shares and another fund wants to buy fifty thousand  
24 shares which from a market standpoint, which way the stock is  
25 going to move, who is right there? We feel no hesitancy.

1           Mr. Rotberg: You say you don't impute more knowledge  
2 to the fund than that which you have. But certainly, the amount  
3 and care which went into their decision to sell is based usually  
4 on the decision of the investment adviser after they -- after  
5 theoretically a certain amount of research. Your firm is not  
6 equipped to do that kind of research nor does it have at its  
7 fingers that information with which to evaluate the information,  
8 whether or not the fund is selling because of a decision that the  
9 stock is no good anymore.

10           You don't have that information?

11           Mr. Sheets: Well, we think we have enough.

12           Mr. Rotberg: You think that Blyth on these lightening  
13 offerings by pension fund and investment companies of the thousands  
14 of stock they hold has at its fingertips about the same amount of  
15 information as the fund?

16           Mr. Sheets: I would say not at that as much, no, on  
17 all stocks as they might have on their specific holdings. We  
18 think we are at no disadvantage.

19           Mr. Henderson: Have you ever known of a case where you  
20 had known an institution had sold a stock and then begun buying  
21 it back relatively soon after it sold it?

22           Mr. Sheets: No, I don't know of any instances like  
23 that.

24           Mr. Silver: In your approach to the Exchange for per-  
25 mission to engage in a secondary, do they ask you if you have

1 enough information about the company which is not public or  
2 pessimistic news?

3 Mr. Brady: There is one sentence that says do you have  
4 any knowledge of any adverse information.

5 Mr. Silver: Since you say you don't ask the institu-  
6 tion, it is your practice not to ask the institution, then unless  
7 it is something you just happen to know, the answer is always  
8 no, you have no such information.

9 Mr. Brady: That is correct.

10 Mr. Henderson: What is your practice when the secondary  
11 officering is by a group of major shareholders or officers or  
12 directors of the company?

13 Mr. Rotberg: Assuming there is no need for registration  
14 under the 1933 Act.

15 Mr. Brady: You can answer that.

16 Mr. Merrell: I didn't hear that.

17 Mr. Glassmeyer: I can answer that. I don't recall any  
18 such secondary offering by officers or directors of the company  
19 that is not required to be registered under the 1933 Act.

20 Mr. Rotberg: I take it once it is registered under the  
21 1933 Act, you have done a significant amount of detailed research.

22 Mr. Glassmeyer: We have done a considerable amount of due  
23 diligence, yes, sir.

24 Mr. Rotberg: I take it that due diligence uncovers an  
25 enormous amount of material which was not known to you when the



1 when the deal was first brought to your attention?

2 Mr. Glassmeyer: Yes.

3 Mr. Merrell: This is on a registered stock.

4 Mr. Glassmeyer: Yes.

5 Mr. Rotberg: A registered offer. Both optimistic and  
6 pessimistic aspects?

7 Mr. Glassmeyer: Yes.

8 Mr. Rotberg: Why don't you assume that those same  
9 facts which you received because you had to go through the long  
10 process of filing the registration statement, also exists with  
11 respect to the non-registered offering, its being not registered  
12 merely because of an exemption under the Securities Act?

13 Mr. Glassmeyer: You referred to the example of direc-  
14 tors or officers selling?

15 Mr. Rotberg: That is correct.

16 Mr. Glassmeyer: Mr. Sheets is referring to these pro-  
17 fessionals that buy and sell from day to day as part of their  
18 business.

19 Mr. Rotberg: That is correct. Isn't it fair to assume  
20 that adverse and optimistic information exists in both cases?  
21 In one case you get it only because you had to file the registra-  
22 tion statement.

23 Mr. Glassmeyer: The answer to that is yes.

24 Mr. Rotberg: So really, to be quite objective, a  
25 situation where the information is not available to either Blyth  
or its customers optimistic or pessimistic and that this is caused

1 by the fact that you have got to make up your mind quickly and  
2 you have got to sell it quickly?

3 Mr. Merrell: That is true of any purchase on the  
4 exchange is it not? Where the issuer is not selling, you are  
5 not in a position to get the same type of information that you  
6 would get in a registered issue.

7 Mr. Rotberg: The only difference would be, of course,  
8 in the non-registered secondary, Blyth is engaging in a significant  
9 selling effort and is actively soliciting its customers to buy  
10 that stock which may pose upon them somewhat different obligation.

11 Mr. Sheets: Yes.

12 Mr. Rotberg: In executing an unsolicited order over  
13 the counter or on the Exchange.

14 Mr. Henderson: You mentioned earlier you do sell Mutual  
15 Fund although be it reluctant at times. How do you select the  
16 fund you would sell to a client?

17 Mr. Sheets: We would recommend any of them. As I say,  
18 we are not aggressive salesmen for mutual funds but we do per-  
19 mit our sealesmen to sell practically any. We have a long, a  
20 very long list of funds which are on what we call our authorized  
21 list, not only authorized because we have a sales agreement with  
22 them, I would say there are sixty funds on that list. If any  
23 salesman says that he likes Wellington Fund and Wellington Fund,  
24 Wellington happens to be on the list, well, if he has a fund that  
25 he is especially fond of, he will ask us to put it on the list

1 and sign a sales agreement with them. We will look at it.

2 If the fund has a reasonable experience and enough capital to  
3 provide adequate research, so forth, we would at the Boston Fund  
4 or any other fund of experience and merit on that list.

5 Mr. Rotberg: Do you have any closed end companies on  
6 the list?

7 Mr. Sheets: State Street is on the list. A closed  
8 end company we cannot stake it down. We make a market in State  
9 Street.

10 Mr. Henderson: Do you have any loads on your list?

11 Mr. Sheets: There would be no necessity to be a no  
12 load on the list. The list would be those which have a sales  
13 agreement. There is no necessity for a sales agreement with a  
14 no-load fund. We would prohibit him selling a scudder fund, if  
15 he wants to sell no-load funds. I expect we would do business  
16 with him.

17 Mr. Henderson: Do you have a policy as to which funds  
18 are the better funds to recommend to clients, when they seimply  
19 say they want a mutual fund?

20 Mr. Sheets: We don't recommend any fund.

21 Mr. Henderson: You make the client select the fund?

22 Mr. Sheets: The client or the salesman.

23 Mr. Henderson: He can select his own?

24 Mr. Sheets: He can select his own. We give no approval  
25 to any of them.

1 Mr. Henderson: You don't give your salesman any guid-  
2 ance on that aspect of the business?

3 Mr. Sheets: No, if we give him any guidance, it is to  
4 guide him away from it.

5 Mr. Rotberg: Off the record.

6 (Discussion off the record.)

7 MR. HENDERSON: Could we go back on the record?

8 MR. ROTBERG: Yes.

9 MR. HENDERSON: You mentioned E.F. McDonald is on your  
10 list. Were you in the original underwriting group in that stock  
11 when it was offered in the secondary list the middle of last  
12 year?

13 MR. SHEETS: No, we were not.

14 MR. HENDERSON: I believe--

15 MR. SHEETS: Barney was the managing underwriter.

16 MR. HENDERSON: When did you start making a market in  
17 that stock?

18 MR. BRADY: You are going to just have us guess at it.  
19 I would assume it was a broad trading market. We thought it was  
20 a good one to add to our list.

21 MR. HENDERSON: You don't recall when that was?

22 MR. BRADY: No.

23 MR. HENDERSON: The stock has only been out last year?

24 MR. SHEETS: Less than a year, as I recall it.

25 MR. HENDERSON: Have you ever sold to Mutual Funds

1 any significant block of MacDonald stock?

2 MR. BRADY: I couldn't answer.

3 MR. HENDERSON: What would be the source of your infor-  
4 mation about the company and its operations and so on, other than  
5 the registration statement filed on the original offering?

6 MR. SHEETS: One, there must have been a great deal  
7 published news on the company and their activities, with the  
8 plain stamp filed. The A and P is more recent in the registrat-  
9 ion statement. Regular sources of information would add a great  
10 deal to the prospectus, Standard Services; whether our research  
11 department has visited with the company and talked with the  
12 company or not, I couldn't say.

13 MR. HENDERSON: You wouldn't recall by the prices about  
14 what time you started making a market with MacDonald?

15 MR. BRADY: That is out of my category. I don't recall  
16 when we went to the market.

17 MR. HENDERSON: If we could take telephone stock for  
18 a moment and concentrate on the people to whom you sell and  
19 from whom you buy. What would be your largest category of pur-  
20 chasers and sellers in telephone stock? Would it be banks, would  
21 it be pension funds, life insurance companies, et cetera? Could  
22 you give us a picture of what the make-up of your customer area  
23 is on this kind of a stock.

24 MR. BRADY: I think actually the largest amount of  
25 trading we do it between other professionals and ourselves. Past

1 that, the largest amount of sales or purchases we make will be  
2 from banks or institutions.

3 MR. HENDERSON: What other professionals? You mean other  
4 dealer firms?

5 MR. BRADY: We would with Weeden, or Stuart Miller.

6 MR. HENDERSON: There is considerable inter-trading  
7 between over the counter houses?

8 MR. BRADY: Yes.

9 MR. HENDERSON: Take that category away, of the in-  
10 stitutional buyers and sellers, where do you have your biggest  
11 customer group? Is it banks?

12 MR. BRADY: I would guess, banks.

13 MR. HENDERSON: Banks?

14 MR. BRADY: Yes.

15 MR. HENDERSON: What would be the next largest? I am  
16 thinking, for example, this will be of some help; the categor-  
17 ies of banks, life insurance companies, other insurance companies,  
18 the investment companies, and so forth?

19 MR. BRADY: Gentlemen, I don't know what would follow  
20 the banks. I really don't.

21 MR. SHEETS: This may not be pertinent to your particu-  
22 lar inquiry into telephone. I would say the overall nature of  
23 our business is about half with institutions, about half with  
24 private investors. That may give you a lead. On the east  
25 coast, our business is about 80 per cent with institutions and

1 <sup>4</sup> about 20 per cent with private investors.

2 The west coast is about the opposite. There is about  
3 80 per cent with private investors, 20 per cent with institutions.

4 So that nationally, we balance about half and half.

5 MR. HENDERSON: You are including dealers and private  
6 investment?

7 MR. BRADY: No, this includes dealers.

8 MR. HENDERSON: Do you have much transaction of busi-  
9 ness with college endowments, for example?

10 MR. BRADY: Yes, we do. You are not relating this  
11 to Telephone alone. I can't answer as to Telephone, alone.

12 MR. HENDERSON: If we could get it on a general basis  
13 that would be better. How about Foundations, do you have business,  
14 much business?

15 MR. BRADY: Yes, we do.

16 MR. HENDERSON: Taking this group of institutions, is  
17 there any characteristics you could put your finger on as to  
18 the size of orders they give you? Do the banks, for example,  
19 tend to deal in smaller lots than insurance companies? Is there  
20 any way you can sort of tell how the business comes?

21 MR. SHEETS: I would say yes, very definitely. Banks  
22 deal for a great many trust accounts and customers' accounts of  
23 their own. The insurance company deals only for his own account,  
24 and consequently would be a much larger unit. The same thing would  
25 apply to Pension Funds, Foundations, anyone else. Large invest-

1 ment holdings would have to be a much larger unit than a bank and  
2 trust fund.

3 MR. HENDERSON: What would be the average size of the  
4 transaction from a bank; would it be a hundred share lot or two  
5 hundred share lot?

6 MR. SHEETS: Trading you are talking about?

7 MR. HENDERSON: I am talking about buying and selling.

8 MR. SHEETS: The whole business?

9 MR. HENDERSON: Yes. I am talking about now the list  
10 of stocks.

11 MR. KAMPERT: Maybe I can help on that one. We don't  
12 try to break it down on class of account. On overall business,  
13 an overall basis for 1961, our average transaction in our  
14 corporate trading department was 72 shares. That will give the  
15 average unit. We have large ones. Then large ones and small  
16 ones. The average is 72 share trades.

17 MR. HENDERSON: Would the banks do a great deal of odd  
18 lots trading with you?

19 MR. KAMPERT: Not a great deal.

20 MR. HENDERSON: Would your odd lot trading be primarily  
21 with individual accounts?

22 MR. BRADY: I would say yes.

23 MR. SILVER: Do you charge any equivalent differential  
24 there? Or do you just ignore the fact that there is a differen-  
25 tial when you go to the Exchange?



1 MR. BRADY: Normally we ignore it.

2 MR. SILVER: So, in other words, there, the net price  
3 improves for the customer to the extent of the differential?

4 MR. BRADY: Yes.

5 MR. MERRELL: Are we speaking of listed securities?

6 MR. SILVER: Yes, we would have to be, when talking  
7 about a differential.

8 MR. HENDERSON: Would you give us some kind of a pic-  
9 ture of the kind of orders you get from investment companies?  
10 How do they initiate a transaction with you? On the average,  
11 what size block would they be talking about, if they call you on  
12 the phone and say they want to buy or sell, take Telephone or  
13 one of your other listed stocks you have got a market on.

14 MR. SHEETS: You would know more about that.

15 MR. BRADY: I would say to begin with, you get very  
16 few orders as such from these investment funds. It is extremely  
17 competitive. You just have to make the best proposition to them,  
18 if you want to do the business.

19 MR. HENDERSON: What size block would they generally be  
20 talking about?

21 MR. BRADY: Normally, an investment trust is talking  
22 about a fairly good size. Sometimes they are just evening off  
23 a position. It might be five hundred or a thousand. Then it  
24 could be a big number of shares.

25 MR. HENDERSON: What is a good size? Would you say

1 three thousand shares?

2 MR. BRADY: As I say, it could be anywhere from 500  
3 to a thousand, three, five, ten, twenty-five.

4 MR. SHEETS: You are speaking of where they are on  
5 our trading market rather than making a market for a large  
6 block.

7 MR. HENDERSON: A fund decides to sell a large block  
8 of stock; they call you. How does this transaction look to you  
9 from your point of view? What news do you get? How does it  
10 come to you, so forth?

11 MR. BRADY: They come to us and want to know what we  
12 can pay for 50,000 shares of stock.

13 MR. GLASSMEYER: They really ask us for a bid.

14 MR. BRADY: Yes. They probably go to one or two others,  
15 ask them for a bid. Whoever makes the best proposition to them,  
16 they will do business with.

17 MR. HENDERSON: They will talk about the whole 50,000  
18 share block?

19 MR. BRADY: If they want to sell it. Again, you will  
20 realize how we get back into the secondary.

21 MR. SILVER: Do you suggest to them the secondary?

22 MR. BRADY: We would naturally try to run it out, if  
23 we could place the stock. If we were unable to place it quickly,  
24 we would have to submit a proposition for a secondary. They may  
25 not want a proposition for a secondary. In other words, they may

1 not want to give you that much leeway, away from the market.

2 MR. SILVER: Will the Fund, when there is a secondary,  
3 suggest participants?

4 MR. BRADY: Very rarely. I don't think they know a  
5 buyer, anyhow; otherwise, we wouldn't be doing business with  
6 to begin with.

7 MR. SHEETS: In other words, you are asking us what  
8 dealers become associated with us in that?

9 MR. SILVER: Yes.

10 MR. BRADY: We very rarely take any one in with us on  
11 one of this tremendous size.

12 MR. HENDERSON: Do you find any one coming to you piece  
13 meal asking for a thousand shares and a few days later asking  
14 you for a bid on another thousand shares?

15 MR. BRADY: Yes.

16 MR. HENDERSON: How do you handle that kind of a sit-  
17 uation? I assume you would be afraid there would be a large  
18 block of stock coming behind it.

19 MR. BRADY: You assume correctly. If we haven't been  
20 successful on the first thousand they sold us, they would back  
21 away from the next.

22 MR. ROTBERG: When you take the first thousand, do you  
23 take it on a principal basis?

24 MR. BRADY: Yes.

25 MR. ROTBERG: That increases your long position, assum-  
ing you haven't been selling during that period?

1 Mr. Brady: Yes.

2 Mr. Henderson: How do you get rid of it?

3 Mr. Brady: Simply by continuing your professional mar-  
4 ket, of course, advertising the fact to our retail that we have  
5 a block of stock available at the price, or we may go to some  
6 other dealer who we believe might be interested in it.

7 MR. SILVER: You might improve your offer?

8 MR. BRADY: Yes.

9 MR. SILVER: To become a better seller or buyer?

10 MR. BRADY: Yes.

11 MR. ROTBERG: Assume you are making your market 46-47; the  
12 Fund says, I want to sell. You know they are sellers. You take  
13 the thousand shares. You give them 46-47. You pay them \$46.  
14 You are now long in this security. I take it that you sometimes  
15 will solicit your retail customers to buy the stock?

16 MR. BRADY: Yes.

17 MR. ROTBERG: Is it correct that the information goes  
18 out to the country in general through your teletype indicating  
19 to the sales offices that you are long in this stock? Or every  
20 day do you have a general list of stocks which you are long in?  
21 How do you disseminate the information?

22 MR. BRADY: I won't say every day, but quite often we  
23 will send out a list of what stocks we have available and  
24 the size, for the sales department to work on. You see, part  
25 of our operation, apart from making professional markets and make

1 money doing that, is also act as a service department for our  
2 retail. It is up to us to supply them with saleable inventory,  
3 where they were also having a select group of securities that  
4 they can offer to their retail clients.

5 MR. SILVER: How do you price it to your retail custom-  
6 ers? I am talking about a listed stock now.

7 MR. Rotberg: My question is are we discussing over  
8 the counter stock?

9 MR. SILVER: Your question was indiscriminate, they do  
10 both.

11 MR. BRADY: We offer the stock at our market.

12 MR. ROTBERG: The case I gave you was \$47 a share.

13 MR. BRADY: Yes.

14 MR. ROTBERG: Of course, you wouldn't get it if the  
15 ask price, you wouldn't get \$47 if the New York Exchange tape is  
16 \$47 as a listed security, if it is not \$46?

17 MR. BRADY: You are confusing me a bit. I didn't  
18 realize you were talking about listed securities to begin with.

19 MR. SILVER: I told you we were talking about both.  
20 Then I restricted it to listed securities.

21 MR. BRADY: You mentioned we buy a thousand shares of  
22 stock from a fund at forty-six. It should have been a listed  
23 security we were buying at forty-six.

24 MR. SILVER: Both.

25 MR. ROTBERG: First, take the situation where it is

1 listed securities.

2 Mr. Brady: Then, you are saying the last sale is  
3 forty-six. We paid forty-six for it.

4 Mr. Rotberg: That is correct.

5 Mr. Brady: We could hardly hope to buy the stock at  
6 forty-seven when the last sale was forty-seven.

7 Mr. Sheets: Your market wouldn't be that broad. It  
8 wouldn't be competitive.

9 Mr. Brady: The last sale could be forty-six.

10 Mr. Sheets: And the market on the Board could be  
11 46-47, also. It would be very difficult to sell the stock at  
12 a point over the last sale.

13 Mr. Rotberg: Take the situation where it is over  
14 the counter stock. You take it at 46; you have an inventory.  
15 You don't see fit to keep it in inventory. You make known  
16 to your retail organization you have this stock. Do you tell your  
17 retail organizations what you paid for it?

18 Mr. Sheets: No.

19 Mr. Rotberg: Do they know when you bought it?

20 Mr. Sheets: Not necessarily.

21 Mr. Rotberg: At what price does your retail organi-  
22 zation sell the stock, assuming that you have not made a market  
23 in this security previously?

24 Mr. Brady: You are getting into another category. We  
25 are not trading as principal. In other words, this, in this

1 case, we would have made a bid for a stock of a thousand shares,  
2 we do not trade.

3 Mr. Rotberg: That is correct.

4 Mr. Brady: You are speaking of listed securities?

5 Mr. Rotberg: No, over the counter stock.

6 Mr. Brady: We made a bid for it for what we believed,  
7 of what we see of the market we might be able to turn the stock.  
8 We would hope we would get the ask side of the market. We would  
9 hope to get somewhere in between of the ask.

10 Mr. Rotberg: You would sell it on a principal basis?

11 Mr. Brady: Yes, we might get the price we asked for  
12 it.

13 Mr. Rotberg: If you have an inventory already, you  
14 are making a market in the security, you buy at 46; your retail  
15 organization knows within a few days that you have an increased  
16 long position. I take it that they will solicit customers and  
17 try to sell it to the customers at the ask-side, plus a mark-up?

18 Mr. Sheets: Some places, that might be true. I believe  
19 the normal procedure on that would be if the trading department,  
20 this is a stock that we do trade now, we normally trade.

21 Mr. Rotberg: Yes.

22 Mr. Sheets: This is over the counter stock. He is  
23 making a market 46 to 47. Some one comes in, say, in the trad-  
24 ing department, buys a thousand shares at 46. The trading  
25 department then, or the next day, if that made him in a long

1 position, greater than he normally would carry for dealings  
2 between dealers, he might put out a wire to our sales organizat-  
3 ion saying, we can offer 2500 shares of this stock at 47, with  
4 a half point sales credit. All right. The salesman then would  
5 try and recall whether he had any one that was interested in that  
6 stock. As far as a great amount of sales effort on the stock of  
7 that kind, with a half point in, unless he knew some place that  
8 that fitted, or some institution that was buying, this is where  
9 it normally would go.

10           Somebody in the organization knows that the Investors  
11 Syndicate has been buying that stock, or the University of  
12 California, or one of his private investors has been buying that  
13 stock, and he will go offer him the stock at 47, or maybe  
14 47-1/4. If he sells the stock, if it is a small investor,  
15 and he sells 15 shares of the stock and there is expense in-  
16 volved, he might add a quarter on to that, sell at 47-1/4 and  
17 have 75 cents sales credit to himself in it.

18           Mr. Rotberg: Am I correct that the trading department  
19 will tell the retail department the price the stock is to be  
20 sold at?

21           Mr. Sheets: Yes.

22           Mr. Rotberg: The individual doesn't have discretion  
23 on the base price from the company?

24           Mr. Sheets: The sales department will say we can  
25 offer 47, with a half.



1 Mr. Rotberg: What does that mean?

2 Mr. Sheets: It means a half dollar gross sales credit  
3 to the salesman. His commission is a half, his gross commission.

4 Mr. Rotberg: Does Blyth have a practice of paying the  
5 salesman an extra commission, or a commission "more than is  
6 normally paid", in connection with sale of certain of its secur-  
7 ities in over the counter market?

8 Mr. Sheets: Yes, for example, the items on the trading  
9 list of the salesman, he has an order in one of those items and  
10 executes it either on the buy or sell side, with the trading  
11 department. He will get a sales commission of ten cents per  
12 share..

13 Now, if the trading department has something with a  
14 greater profit than their normal trading spread, they will re-  
15 lease that with a sales credit to the salesman. So in the morn-  
16 ing, the salesman may get ten cents for selling a hundred shares  
17 of Pacific Gas and Electric, in the afternoon, if the trading  
18 department releases Pacific Gas and Electric at a price with a  
19 half point sales credit, he would make the half point sales  
20 credit at that point.

21 Mr. Rotberg: This would be because the trading depart-  
22 ment had paid what it considered to be a significant profit based  
23 upon what it bought it at and what the current market is.

24 Mr. Sheets: Yes. Or the trading department may decide  
25 that they know where some stock is. They might not even own it.

1 They might have had a large offering so they know where a  
2 supply is and would like to induce orders so they could go  
3 back and get that supply.

4 Mr. Rotberg: Why couldn't you sell that stock you know  
5 of a large block, why don't you sell it to your customers at  
6 or about that price?

7 Mr. Sheets: Well, maybe he does. He makes the release  
8 at or about that price.

9 Mr. Rotberg: I got the impression from your comment  
10 that the trading department knows of an available block at a  
11 certain price, that he might buy that stock in at that price.

12 Mr. Sheets: He might be willing to buy it all.

13 Mr. Rotberg: Then he will have customers buying the  
14 stock, he will induce customers to buy the stock at a signifi-  
15 cantly higher price by offering the salesman the extra half?

16 Mr. Sheets: Not a significantly higher price in  
17 relation to the market, but with relation to the cost of the  
18 stock he may be able to buy.

19 Mr. Rotberg: That is correct. He may still be  
20 selling it at the market?

21 Mr. Sheets: Yes.

22 Mr. Rotberg: That market might be considerably over  
23 the market at which he can buy it?

24 Mr. Sheets: Yes.

25 Mr. Rotberg: But Blyth feels if you receive knowledge

1 of a sizeable block which is being offered considerably below  
2 the market--

3 Mr. Sheets: I wouldn't accept "considerably". A dis-  
4 tributing profit is what they have to pay.

5 Mr. Rotberg: That you solicit your customers to pur-  
6 chase that stock at the competitive market price?

7 Mr. Sheets: Yes.

8 Mr. Rotberg: Suppose you have a long position in that  
9 stock, you don't like; you want to get rid of it. It is either  
10 too large or you draw the conclusion it is not going anywhere.  
11 What do you do? How do you get rid of it?

12 Mr. Sheets: If the position was something we didn't  
13 like, we wouldn't be long.

14 Mr. Rotberg: I take it at times your trader finds it  
15 is long in securities that he wishes it hadn't been long in.

16 Mr. Brady: That is correct.

17 Mr. Sheets: This is the market movement rather than  
18 evaluation of the merit?

19 Mr. Rotberg: Yes.

20 Mr. Sheets: Where he tries to maintain a market, he  
21 does get long larger than he would like to be.

22 Mr. Rotberg: He is buying on the house?

23 Mr. Sheets: He might make a release of that stock and  
24 say we can offer a larger than normal amount of this stock with  
25 a sales credit in it.

1           Mr. Rotberg: So if you have a stock that you are long  
2 in, that you would rather not be long in because you are buying  
3 on balance, for one reason or another, you had to, to maintain  
4 the orderliness of the market, as you put it, the trading depart-  
5 ment might release that stock and give the salesman a little  
6 something extra for selling it?

7           Mr. Sheets: Yes.

8           Mr. Rotberg: Even though Blyth as an investment banker  
9 made the decision that it wants to get rid of that stock?

10          Mr. Brady: I don't think that is quite true, sir. It  
11 is not Blyth and Company. This is a professional trader feeling  
12 of the thing. It has nothing to do with the company or the  
13 merits of the company.

14          Mr. Rotberg: I understand that. But the professional  
15 trader working for Blyth decides, I am too long in this stock,  
16 I have got to get rid of it, lower my long position. So what I  
17 will do is offer the salesman a little bit of extra incentive  
18 to sell it.

19          Mr. Sheets: Yes.

20          Mr. Rotberg: The salesman sells it to Blyth custom-  
21 ers?

22          Mr. Sheets: Yes.

23          Mr. Brady: It doesn't often work out that way.  
24  
25

1 MR. Rotberg: Sometimes the extra commission isn't  
2 enough to even cause the salesman to sell it?

3 Mr. Brady: That is right. You just have to resort  
4 to getting rid of it in the street market.

5 Mr. Rotberg: Why don't you do that all the time and  
6 just constantly sell it off by lowering your offer?

7 Mr. Brady: That is what we try to do. It doesn't  
8 always work, though.

9 Mr. Rotberg: What would you rather do, sell it to  
10 your customers at the price which is then the open market, and  
11 give the salesman a little bit of extra commission for doing it,  
12 or would you prefer to start selling the shares on balance, and  
13 losing money in the process?

14 Mr. Brady: Well, I think, naturally, the answer to  
15 that is we would prefer to sell it at the higher price.

16 Mr. Sheets: We prefer to have our salesman look up  
17 the retail market in this stock rather than put it in the pro-  
18 fessional market.

19 Mr. Rotberg: Because the retail market will give you  
20 the better price?

21 Mr. Sheets: Yes.

22 Mr. Rotberg: While the professional market may have  
23 come to the same conclusion about the marketability of that  
24 stock at the price then obtaining, that is, that it is not worth  
25 it?

1           Mr. Sheets: Well, price will beat the price down.  
2           A good example was Mr. Brady's statement of buying 50,000  
3           shares from one fund. If he had endeavored to put that 50,000  
4           shares into the market and hit all of the bids in the street,  
5           he would have ended up with a big loss.

6           If he can get another salesman to go find another  
7           fund to go take that 50,000, he can obtain a distributing profit  
8           in that.

9           Mr. Rotberg: That is a situation, though, where  
10          Blythe is in essence acting as a practical matter as a broker  
11          for two sides of a transaction irrespective of the bookkeeping  
12          way you handle the transaction, but the situation I am hypothe-  
13          sizing is one where you have a long position in your principal  
14          account that you acquired over many months that you don't like,  
15          that you want to get rid of.

16          Mr. Sheets: You say, don't like. This doesn't mean  
17          we don't like the security. We don't like the size of the  
18          position.

19          Mr. Rotberg: That is right.

20          Mr. Sheets: It is too large.

21          Mr. Rotberg: At that price.

22          Mr. Sheets: It is too large for his formal trading  
23          position. He might normally carry 2,000 shares in the security,  
24          and by reason of making a market in it, then he gets built up  
25          to 6,000 shares. This is larger than he might normally want.

1 So he would then make a release.

2 Mr. Rotberg: Why doesn't he like that position,  
3 that higher than normal position? Isn't it because he thinks  
4 it is a little dangerous in view of the condition of the com-  
5 pany and the company's prospects?

6 Mr. Brady: No. Let me say this. We as professional  
7 traders discourage--I discourage a trader ever using analytical  
8 background to trade the stock position. As you well know, the  
9 only thing that makes the market is the law of supply and demand.  
10 If a man gets warped on an idea what he knows a company is going  
11 to do and he trades against that, I won't say more, but that is  
12 one sure way to lose money.

13 Let me add this, in line with your questioning about  
14 we would be releasing stock with a larger sale to our sales  
15 department with the hope that we can dispose of it. You will  
16 find out in human nature salesman, even though he knows you  
17 have a good amount of stock, will not go out and do any work  
18 on the stock if there is only a 10-cent profit involved on it.  
19 But if you put a half point in front of him, even three-quarters  
20 of a point, then he will go to work and go out. He may have  
21 known all along where he could sell the stock, but he won't  
22 sell it until he has got a decent profit for himself. Unfortu-  
23 nately, it would work that way.

24 Mr. Silver: Do all these practices you are now dis-  
25 cussing also take place with the listed stocks which you trade

1 over the counter, in other words, where you have built up an  
2 inventory in a listed stock, do all these practices that we  
3 have been discussing about how and what prices you sell to  
4 your retail customers, they will take place with respect to  
5 listed stocks also?

6 Mr. Brady: Theoretically, yes. At the same time,  
7 when you go out to sell a block of listed utility stock, nine times  
8 out of ten, you are selling it to a professional, again.

9 Mr. Rotberg: Let's say a few transactions, I take it  
10 that occasionally your salesman will get an unsolicited order  
11 for telephone. What price do you sell to a retail customer,  
12 telephone?

13 Mr. Brady: I would normally, right on the market,  
14 possibly a quarter of a point away, something like that, depending  
15 on the size of it.

16 Mr. Rotberg: What does the salesman get?

17 Mr. Brady: He will get this, Mr. Sheets mentioned to  
18 you, a ten cent arbitrary profit, gross profit on the sale of  
19 the stock.

20 Mr. Henderson: When you say on the market, is this  
21 net so the retail customer is getting stock cheaper than a  
22 member firm?

23 Mr. Brady: That is correct.

24 Mr. Rotberg: Why do they all come to you, why don't  
25 they all come to you?



1 Mr. Brady: We wish they would.

2 Mr. Sheets: This is true with a professional buyer,  
3 our company has not only private investors, but professional  
4 buyers. This where our professional market comes in. If it is  
5 a small order from the retail private investor, he will not al-  
6 ways get the market that the professional will, for round amounts  
7 or larger amounts on the stock.

8 Mr. Silver: Take an odd lot, for example, suppose a  
9 customer came in, asked to buy 80 shares of telephone, what  
10 would he get?

11 Mr. Brady: He can buy it on the ask side of the market.  
12 You get down to the sixes and eights and four shares. Sometimes  
13 they will even ask a half point above the market. He is still  
14 a way head of himself, then.

15 Mr. Rotberg: Let's assume that telephone at a certain  
16 moment in the day is selling at 127, that is the last sale you  
17 take. An institution comes in, wants to buy 500 shares at the  
18 market. Another institution comes in, wants to sell 500 shares  
19 at the market. Will you execute both of those orders, assuming  
20 there has been nothing else on the tape, both at 127?

21 Mr. Brady: No.

22 Mr. Rotberg: You will only execute one of them at  
23 127?

24 Mr. Brady: I may execute neither. I have to do one  
25 thing or the other, according to what I was doing, but you

1 can't do both.

2 Mr. Rotberg: From what you say, you don't straddle  
3 the last quotation?

4 Mr. Brady: Sometimes.

5 Mr. Rotberg: You hit the quotations most of the time?

6 Mr. Brady: That is hard to say.

7 Mr. Rotberg: One side.

8 Mr. Silver: You hit one side?

9 Mr. Brady: Whatever is the position. If I am long,  
10 I will probably be offering stock lower, not lower than the  
11 last sale. I mean if I was long stock, I might offer stock at  
12 the last sale.

13 Mr. Sheets: Net.

14 Mr. Brady: Net. Or you may feel like you want to get  
15 a little short or something to that effect. There is no one  
16 method of the thing, that you do this or do that.

17 Mr. Henderson: On a transaction on an investment  
18 company, have investment companies ever made portfolio to Blythe  
19 through another broker-dealer?

20 Mr. Brady: I am sure they must have.

21 Mr. Henderson: Would you generally know of this, that  
22 the fund--

23 Mr. Glassmeyer: I don't think that is a clear ques-  
24 tion, Neil, do you mean we would give up part of our commission  
25 to another broker-dealer?

1 Mr. Henderson: No. I am wondering in a transaction  
2 where you know a fund is on the principal side, that it is either  
3 the buyer or a seller in a transaction, have you ever known  
4 situations like that, of a broker-dealer being in the picture  
5 as agent for the fund for sample?

6 Mr. Brady: Well, you could only suspect. That nor-  
7 mally would be, I would think, because the other, the dealer  
8 you are speaking of, his sales force was into the fund first.

9 Mr. Glassmeyer: We have no way of knowing that.

10 Mr. Brady: We have no way of knowing that, although  
11 I have bought stock from other dealers, then found out one of  
12 our customers was the seller, is that what you refer to?

13 Mr. Henderson: I am not sure that is what I refer to.  
14 If you have a transaction with another dealer, a broker-dealer  
15 firm, in which that firm is acting as an agent, you would know  
16 who the principal for the sale was, wouldn't you?

17 Mr. Glassmeyer: No, sir.

18 Mr. Merrell: You would deal with him, as principal,  
19 would you not?

20 Mr. Henderson: You deal with him as principal?

21 Mr. Brady: He might act as your agent instead of  
22 dealer.

23 Mr. Henderson: Have you had an instance where an  
24 institution has come to you directly and made a deal for some  
25 stock and then asked that you confirm through another broker-

1 dealer rather than direct to the institution?

2 Mr. Merrell: You say an institution, what do you mean?

3 Mr. Silver: Mutual Fund.

4 Mr. Henderson: Mutual Fund, Bank, Insurance Company.

5 Mr. Brady: I think I know what you mean.

6 Mr. Sheets: You are talking about open market securi-  
7 ties now in new issues where there is underwriting. This fre-  
8 quently happens where they will come to the managing under-  
9 writer, say we want to buy 50,000 shares, and we want so much  
10 from each of these dealers.

11 Mr. Henderson: No.

12 Mr. Rotberg: The Fund will come to the managaing  
13 underwriter?

14 Mr. Glassmeyer: Managing underwriter.

15 Mr. Rotberg: Will designate the dealer, which in  
16 effect he is just spreading out their reciprocal rate?

17 Mr. Sheets: Yes.

18 Mr. Glassmeyer: We cooperate reluctantly with that.  
19 This is on new issues, mind you.

20 Mr. Rotberg: Unless it had previously had no market?

21 Mr. Glassmeyer: Not necessarily, Ford did that.

22 Mr. Henderson: That is another animal. I am talking  
23 about stocks where you are making the market.

24 Mr. Sheets: Neil, really that is your end.

25 Mr. Glassmeyer: You would never give up any commisaion

1 on orders coming from Mutual Funds, isn't that it?

2 Mr. Rotberg: Is that correct?

3 Mr. Silver: You said you will never give up.

4 Mr. Glassmeyer: Do you give up commissions on orders  
5 from Mutual Funds?

6 Mr. Brady: No.

7 Mr. Silver: Will you confirm to another broker-dealer  
8 at the instance of the Fund, where the Fund has given you the  
9 order directly?

10 Mr. Brady: In the ordinary course of business during  
11 the day?

12 Mr. Silver: Yes.

13 Mr. Brady: No.

14 Mr. Henderson: What about extraordinary?

15 Mr. Glassmeyer: The extraordinary is new business,  
16 the answer is no.

17 Mr. Henderson: Has a Mutual Fund ever asked you to  
18 do this?

19 Mr. Brady: I am just trying to think. We have been  
20 approached on this, have we not?

21 Mr. Glassmeyer: I believe we were asked to give up  
22 a commission to another dealer, and the answer was no, we would  
23 not give up a part of our commission to another dealer. Whether  
24 we have ever been approached, I don't know. I am unaware of it.  
25 That is, to confirm to another dealer.

1           Mr. Brady: I think at one time we were asked to accu-  
2 mulate a block of stock and then cut in a group of dealers for  
3 a part of the commission on the thing.

4           Mr. Rotberg: That would be a give-up.

5           Mr. Glassmeyer: Yes and we said no.

6           Mr. Rotberg: Why not?

7           Mr. Brady: We don't approve of it.

8           Mr. Rotberg: What is it about it that you don't like?

9           Mr. Brady: I think the answer to it is, in a great  
10 many cases you do all the work and then give up most of the  
11 commission to somebody else. On top of that, I believe it is  
12 against the firm's feeling on the matter.

13           Mr. Henderson: You mean to say you would take a lower  
14 price, lower profit on that deal than on the normal deal?

15           Mr. Glassmeyer: The answer is no, because we don't  
16 do it.

17           Mr. Henderson: You assume you're being asked to do  
18 that?

19           Mr. Glassmeyer: Yes, that is what we are. We are  
20 being asked to carve up our commission into more than one part.

21           Mr. Rotberg: Do you ever receive give-ups?

22           Mr. Glassmeyer: No.

23           Mr. Rotberg: Do you ever get a check in the mail,  
24 or thank you very much?

25           Mr. Brady: No.

1 Mr. Rotberg: Off the record.

2 (Discussion off the record.)

3 Mr. Henderson: On the record?

4 Mr. Rotberg: Yes.

5 Mr. Henderson: Do you feel that you are being especial-  
6 ly protected from requests of this kind, that requests by insti-  
7 tutions of this nature are frequently made to other firms?

8 Mr. Glassmeyer: We don't know.

9 Mr. Rotberg: Off the record.

10 (Discussion off the record.)

11 Mr. Rotberg: On the record.

12 Mr. Silver: Do you do as much Mutual Fund business  
13 as you think you might do, except for reciprocal arrangements  
14 in which you don't participate?

1           Mr. Sheets: What do you mean by that? You don't  
2 mean, I gather, the sale of Mutual Fund shares by that, you  
3 mean portfolio business with them?

4           Mr. Silver: Portfolio business.

5           Mr. Sheets: I am sure the practice as of now is if  
6 they sold a lot more Mutual Funds shares than we do that there  
7 would be an effort to put more reciprocal business with Blyth  
8 and Company.

9           Mr. Silver: I mean a slightly different kind. I mean  
10 the situation where a stock exchange member firm which must  
11 charge a commission, and the full commission no matter who the  
12 customer is, as we know, they are in a position and they do give  
13 up portions of that commission to other Exchange members who  
14 sell Fund shares and indirectly to non-members, through various  
15 devices.

16           Now, you are in no position to do that and you don't.  
17 You refuse to engage in any kind of transaction which would  
18 even approximate that kind of result. Therefore, a Fund by en-  
19 gaging in portfolio transactions with you, will not be able to  
20 generate reciprocity or give-ups for its dealers. Do you think  
21 that you are being cut off from portfolio transactions because  
22 you are not in position to engage in that kind of reciprocity?

23           Mr. Sheets: I think the volume of business is reduced.

24           Mr. Silver: You think it is substantially reduced?

25           Mr. Sheets: Yes, but we do business with these Funds



1 primarily on the basis of our markets. It is the cheapest place  
2 to buy or sell.

3 Mr. Rotberg: Do you think you are getting an amount  
4 of business from the Funds which you should get in view of your  
5 markets or do you think that this lack of giving give-ups and  
6 being able to recipriate probably limits the amount of business  
7 you would otherwise do?

8 Mr. Sheets: I think the answer to that, it does limit.  
9 It does limit it.

10 Mr. Merrell: The extent would be hard to guess.

11 Mr. Glassmeyer: It is impossible to measure.

12 Mr. Rotberg: Certain companies sell Fund shares. Other  
13 companies sell or give research service, and other companies  
14 make broad and very good markets in return for which they might  
15 receive portfolio business. It is the latter of those three  
16 that your firm is most predominant in?

17 Mr. Sheets: That is right.

18 Mr. Rotberg: You feel that predominance is not re-  
19 warded as it might be because of your lack of give-ups in re-  
20 ciprocals? Is that about the substance of what we are saying?

21 Mr. Glassmeyer: We have already answered that, yes,  
22 in an amount you cannot measure.

23 Mr. Sheets: Yes.

24 Mr. Rotberg: The record is very clear the amount is  
25 not measurable for various reasons.

1 Mr. Henderson: Would you be able to state the posit-  
2 ion o f the NASD on the giving up or the splitting of commissions  
3 in over the counter trades? Are you familiar with this?

4 Mr. Glassmeyer: Our next governor, Mr. Sheets--

5 Mr. Sheets: Well, they are against it.

6 Mr. Henderson: It is your position that they take  
7 the position that is improper?

8 Mr. Sheets: Yes.

9 Mr. Rotberg: Off the record.

10 (Discussion off the record.)

11 Mr. Rotberg: On the record.

12 It is now 12:30. We will then come back at a quarter  
13 to two.

14 (Whereupon, at 12:30 p.m., a recess was taken until  
15 1:45 p.m.)

16 End Fuller  
17 Special  
18 Study.  
19 May2-

20 Goodman fls  
21 78

22 19

23 20

24 21

25 22

26 23

27 24

28 25

## AFTERNOON SESSION

1  
GOODMAN/jev2  
fols  
Fuller

1:55 p.m.

3 Mr. Rotberg: On the record.

4 Earlier this morning we discussed the situation  
5 where Blyth might find itself in a long position, having bought  
6 on valance over a period of time, and I was wondering if you  
7 could give us some of the circumstances which would have caused  
8 you to be a buyer on balance in securities which you were not  
9 buying to accumulate a long-term investment position?

10 Mr. Brady: You mean in the day-to-day trading?

11 Mr. Rotberg: Yes.

12 Mr. Brady: You want to know what conditions would  
13 cause us to buy a larger amount of stock than we normally would  
14 have?

15 Mr. Rotberg: Yes.

16 Mr. Brady: Well, if it was in a declining market,  
17 the chances are we accumulated it, in maintaining a trading  
18 market, even though we were dropping down all the time, why, there  
19 was evidently no opportunity to get rid of your position.

20 Possibly the trader might think the stock had gone  
21 down unduly fast, and it would recover, didn't make any attempt  
22 to dispose of his long position, and when he was proven wrong,  
23 the market continued to decline, you are still making a  
24 principal market, why it is inevitable that you are going to  
25 end up with a longer position than you normally desire to have

1 or normally would have.

2 Mr. Rotberg: In the situation where the market is  
3 declining, though, I take it that your traders don't buy very  
4 much on balance in a declining market?

5 Mr. Brady: You can't help very much but do it.

6 Mr. Rotberg: In all issues?

7 Mr. Brady: I take it you are speaking of one specific  
8 issue now, are you not?

9 Mr. Rotberg: Yes.

10 Mr. Brady: Where you accumulate more stock in that  
11 specific issue than your normal trading position would be, or  
12 than you desire to have.

13 Mr. Rotberg: Why can't you just open up your spread,  
14 so that you would not be a buyer on balance?

15 Mr. Brady: Well, then you would lose your competitive-  
16 ness. Once you lose your competitiveness --

17 Mr. Rotberg: That is right.

18 Mr. Brady: And in addition to that, why if you have  
19 a wider market than your competitors have, the chances are you  
20 will not even see the buyer, because if you are making a point  
21 and a half market, say, to avoid buying more stock, and someone  
22 else is making a half or three-quarters of a point market,  
23 and a buyer does come in the market, he is undoubtedly going  
24 to go to the man making the better market.

25 Mr. Rotberg: Well, wouldn't this be one way of

1 avoiding the increasing long position?

2 Mr. Brady: Well, in a sense, yes, but what I am  
3 trying to point out is that by so doing, then you lose your  
4 opportunity, perhaps, to dispose of stock when the buyer does  
5 appear in the market, because it is a mandate to go to the  
6 man making the better market and open up to him, rather than it  
7 is to go to the man making the wide market.

8 Mr. Rotberg: You would still have the availability  
9 of your retail account, to dispose of a long position which you  
10 had up to that point?

11 Mr. Brady: Well, theoretically speaking, yes, you  
12 always have the availability of your retail account.

13 Mr. Rotberg: Well, do you find that this buying  
14 on balance tends to occur in every security that is declining,  
15 or do you feel more of an obligation to buy on balance in issues  
16 where you are acting as managing underwriter?

17 Mr. Brady: You mean in the direct aftermarket?

18 Mr. Rotberg: Well, it could either be in the direct  
19 aftermarket, or six months later. If your answer is different  
20 for either of those periods --

21 Mr. Brady: Well, six months later, you feel no  
22 compunction at all about cushioning anything, no. It would be  
23 purely professional.

24 Mr. Rotberg: What about in the immediate aftermarket?

25 Mr. Brady: In the immediate aftermarket, the chances

1 are probably that we would try to soften the decline. We have  
2 an obligation to maintain as steady a market as you can, and  
3 you might not fall away as fast as you would otherwise.

4 Mr. Rotberg: Why don't you let the stock go all the  
5 way down, in the situation where you are managing underwriter,  
6 and it is in the immediate aftermarket? Why don't you just  
7 pull away?

8 Mr. Brady: Well, it is not consistent with our  
9 feelings in trading, to begin with. We also believe we have  
10 a responsibility to the issuer to maintain a reasonable, steady  
11 market; and furthermore, if we as originator, or underwriter,  
12 pull our market, it is going to pull everyone else down with  
13 us, because nearly everyone is trading against us anyhow, in  
14 that type of a market, if you understand me.

15 Mr. Rotberg: Well, of course, we are only talking  
16 here about the condition after the distribution is completed,  
17 and after trading.

18 Mr. Brady: Yes.

19 Mr. Glassmeyer: When we are free to trade.

20 Mr. Rotberg: I take it that your comment also  
21 applies to a situation where a security might even be trading  
22 above the offering price, but is declining.

23 Mr. Brady: Oh, yes, yes.

24 Mr. Rotberg: I take it also that you might take some  
25 of these securities which you are acquiring and during the time

1 of your acquisition recommend those securities through your  
2 retail organization to customers?

3 Mr. Brady: Well, that is an awfully broad question.  
4 I mean, if you are speaking of a stock that is up slightly  
5 above an offering price, undoubtedly we will recommend it. If  
6 it is up -- I have the feeling you are trying, intimating  
7 something about Grosset and Dunlap.

8 Mr. Rotberg: Well, I think we are just going to  
9 get a little background, then perhaps we will go into  
10 specifically Grosset and Dunlap.

11 Mr. Brady: There the price was up ten points from  
12 the offering price.

13 Mr. Rotberg: Yes, for a very short period.

14 Mr. Brady: Yes, we would not be out avidly trying  
15 to get retail orders at that price.

16 Mr. Rotberg: Well, perhaps we can discuss the  
17 aftermarket on Grosset and Dunlap first, and then perhaps we  
18 will go back to the original distribution, since we already  
19 are discussing the trading area.

20 Grosset and Dunlap was offered at \$29 a share, was  
21 it not?

22 Mr. Glassmeyer. Yes.

23 Mr. Brady: May I just say something before you go  
24 ahead?

25 Mr. Rotberg: Yes.

1           Mr. Brady: Now Grosset and Dunlap, a major part of  
2 the trading of that was supervised by Paul Devlin, who is our  
3 senior vice-president, and who is unfortunately ill and in  
4 Florida, recovering from a heart attack, so my answers to you  
5 are simply going to be answers that I have through looking  
6 back through the record come up with as being what I believe  
7 are the answers.

8           Mr. Rotberg: I can understand that, and I would  
9 just appreciate it if you are not clear, or don't even  
10 recollect, or don't have the information, just indicate that,  
11 and we won't pursue it.

12           Mr. Brady: I will give you all the answers I can.

13           Mr. Rotberg: Apparently the stock was offered at  
14 29, and the first quotation, which was, I believe, on May 11,  
15 1961, was about \$39 a share.

16           Do you know what happened by the second and third  
17 day?

18           Mr. Brady: Well, let me give it to you as best I  
19 can remember. I believe you are correct when you say the  
20 initial transactions took place around 39. If I am not mistaken,  
21 that ran up to around 44, that initial day of trading.

22           Mr. Rotberg: I think that is correct.

23           Mr. Brady:  
24           /Now what happened between that first day of trading  
25 and -- I believe, the 16th is the day that we initiated trading,  
am I right, Bert?



1           Mr. Glassmeyer. That is correct. I have our record  
2 from the 16th in front of me.

3           Mr. Brady: Now not too much happened in those four  
4 or five days, because the stock was still 35.5 bid, on the  
5 morning of the 16th, which is still 6 points-plus above the  
6 offering, but it is down about 9 or 10 from the high sale.

7           Now what trading went on in the street in that period  
8 of those four or five days I am not in a position to comment on.

9           Mr. Merrell: You mean the days before you got into  
10 the trading?

11          Mr. Brady: Before the 16th, when we were able to  
12 initiate trading.

13          Mr. Rotberg: When you say "initiate trading," you  
14 mean Blyth buying for firm account?

15          Mr. Glassmeyer: As trading account.

16          Mr. Brady: Blyth buying as trading account, not for  
17 the firm, but for the straight trading.

18          Mr. Sheets: But it was for the firm's account.

19          Mr. Brady: Yes.

20          And at that time, it was simply another trading item  
21 with us.

22          Mr. Rotberg: Do I understand, then, that Blyth did  
23 not buy any shares for a firm account on the 11th of May?

24          Mr. Brady: We could have executed an order in the  
25 market on an agency basis.

1           Mr. Rotberg: I assume, and perhaps incorrectly,  
2 from your records, that you were buying for firm account.  
3 Now on May 11th, I find an indication of about a hundred shares  
4 on May 11th, 410 shares on May 12th, just those two small  
5 transactions. Could they have been isolated transactions in  
6 which you executed a customer's order, but did so on a principal  
7 basis?

8           Mr. Brady: It could have been on a principal basis,  
9 but --

10          Mr. Rotberg: It was very small.

11          Mr. Brady: But I would think it would have been on  
12 an agency basis.

13          Mr. Rotberg: Now it is correct, though, that your  
14 customers -- you were executing customers's transactions on  
15 an agency basis starting on May 11th?

16          Mr. Brady: Yes.

17          Mr. Rotberg: Now looking back, retroactively, to  
18 May 11th, the first day, do you know if there was any  
19 significant public demand for the security at \$39 a share?

20          Mr. Brady: I would have no way of knowing what the  
21 volume of trading in the over-the-counter market was in those  
22 days.

23          Mr. Sheets: What day was trading restrictions  
24 removed?

25          Mr. Rotberg: I don't know that.

1 Mr. Merrell: It should be the 16th.

2 Mr. Sheets: It should be the 16th, the first time  
3 we were permitted to trade it for our own account.

4 Mr. Glassmeyer: Termination date was May 15th,  
5 so the first time we were privileged to trade it would be the  
6 following day, May 16th.

7 Mr. Rotberg: Okay, is it fair that say when  
8 you were the managing underwriter, that usually, in an issue  
9 like this, most of the indications of interest are from your  
10 own customers as distinguished from customers of other firms,  
11 to buy stock in the aftermarket?

12 Mr. Sheets: May I -- this might be my question. I  
13 am not quite clear on it. Was this during the period of  
14 registration, before it has become effective?

15 Mr. Rotberg: No.

16 Mr. Sheets: No.

17 Mr. Rotberg: Let me clarify it, perhaps, by a little  
18 hypothetical.

19 If you were to find that 500 customers bought stock  
20 on the first day of trading in the aftermarket, would you say  
21 that most of the 500 customers who buy stock in the aftermarket  
22 are usually customers of the managing underwriter? or do you  
23 find from your experience and your knowledge of the street that  
24 the buying power in the aftermarket is not the customers of  
25 the managing underwriter, but might be customers of other

1 big warehouses, such as Merrell, Lynch, or Walston, or Bache,  
2 who may or may not be participants in the distribution?

3 Mr. Sheets: Are we talking about this specific issue  
4 or is this a general question?

5 Mr. Rotberg: It is a general question, and perhaps  
6 the answer might be different for different kinds of issues.

7 Mr. Sheets: It is.

8 Mr. Rotberg: I thought it was.

9 Mr. Sheets: I would say if the market is at a very  
10 large premium, over the original offering price, I think you  
11 will find that most of the orders originate away from the  
12 managing underwriter. If the market happened to be at or near  
13 the original issue price, you might find that the managing  
14 underwriting, firm's sales organization were still willing to  
15 retail stock at that level, but if there was a very large  
16 premium, they would be disinclined to do that, I think.

17 Mr. Rotberg: Well, in the cases where the offering  
18 was at a sizable premium, do you find that, or do you think  
19 that most of the customers are coming from, if not the managing  
20 underwriter, the other underwriters and selected dealers,  
21 that is, the participants in the distribution, as distinguished  
22 from a warehouse who was not in the distribution?

23 Mr. Sheets: Well, I don't know whether we would have  
24 knowledge on that. I would, in general, suspect that is right,  
25 because their customers would be more informed on the issue,

1 and of its qualities and so forth, than just a general market,  
2 the public that might be wanting to speculate.

3 Mr. Rotberg: Do you know how many of your customers  
4 bought Grosset and Dunlap on the first day of trading, May 11th?  
5 Can you estimate a guess?

6 Mr. Merrell: Of Blyth's?

7 Mr. Rotberg: Of Blyth's customers.

8 Mr. Sheets: I don't know that.

9 Mr. Brady: There wouldn't be any way you could  
10 possibly know.

11 Mr. Kampert: Excuse me. In the questionnaire we  
12 submitted some forms. Where would that be?

13 Mr. Rotberg: That would be on form D. They would  
14 be aftermarket purchases.

15 Mr. Merrell: Is your question, Mr. Rotberg, how many  
16 were purchased through Blyth on the first day of trading?

17 Mr. Rotberg: Yes.

18 Mr. Kampert: Well, now, so far, I have gone through  
19 several pages. I have found no sales until May 16th, which I  
20 think was the first day of trading.

21 Mr. Brady: Yes. Mr. Rotberg said he had two items  
22 there.

23 Mr. Sheets: No, his question here relates to the  
24 16th, though.

25 Mr. Rotberg: No, my question related to the 11th.

1 Mr. Sheets: Oh.

2 Mr. Rotberg: Let me go off the record for a moment.

3 (Discussion off the record.)

4 Mr. Rotberg: On the record.

5 We have examined these sheets, and made some  
6 compilation of how many people are buying how many shares,  
7 from the various underwriters, and the records indicated that  
8 apparently four customers of Blyth bought the stock, probably  
9 on an agency basis, on the first day of trading, that is,  
10 May 11th, 1961.

11 Mr. Brady: You don't mean necessarily through  
12 Blyth?

13 Mr. Rotberg: Through Blyth.

14 Mr. Brady: We executed the order.

15 Mr. Rotberg: That is correct. Now do you have  
16 a firm policy about not executing orders for a certain period  
17 of time after the effective date?

18 Mr. Brady: No.

19 Mr. Rotberg: If you received back your telegrams  
20 from the selected dealer group and the underwriters  
21 distribution is complete, will you execute a customer buy order  
22 immediately?

23 Mr. Merrell: Unsolicited order?

24 Mr. Rotberg: Unsolicited.

25 Mr. Sheets: I would say no reason why we couldn't

1 execute an order, an unsolicited order for a customer. If  
2 there was a trading market there.

3 Mr. Rotberg: Well, let's go back a moment. Perhaps  
4 we can look at the provisions of the underwriting industry  
5 which govern the lifting of trading restrictions. What is  
6 Blyth's policy with respect to when it lifts trading  
7 restrictions?

8 Mr. Glassmeyer: Well, our policies when the  
9 distribution is completed.

10 Mr. Rotberg: Now what are the objective standards  
11 that you use to measure that?

12 Mr. Glassmeyer: Generally the standards are the  
13 market in relation to the offering price. If there is a  
14 substantial premium which existed in Grosset and Dunlap, we  
15 lifted it --

16 Mr. Sheets: Plus the knowledge that each underwriter  
17 has completed his distribution, and so advised us.

18 Mr. Glassmeyer: Yes. We normally send out telegrams,  
19 and those come back to us, and then we always repurchase those  
20 unsold shares for the syndicate, so that the syndicate is  
21 even, that is, before we terminate trading restrictions.

22 Mr. Rotberg: That, of course, didn't happen in this  
23 case.

24 Mr. Glassmeyer: No.

25 Mr. Rotberg: I assume that you did not over-allot

1 in this case, either?

2 Mr. Glassmeyer: Well, the record shows through a  
3 cancellation, we were short what -- less than a hundred shares.

4 Mr. Rotberg: I think five shares.

5 Mr. Glassmeyer: Five shares.

6 Mr. Rotberg: But you did not deliver the over-  
7 allotted issue?

8 Mr. Glassmeyer: We did not.

9 Mr. Kampert: Incidentally, I have just checked the  
10 other side of those two trades on May the 11th, and they were  
11 agency trades, where we sold the stock for two individuals.

12 Mr. Rotberg: They were.

13 Mr. Kampert: At 36. We didn't charge commission.

14 Mr. Rotberg: You sold the stock for two individuals,  
15 and two other individuals bought it?

16 Mr. Kampert: Well, we sold the stock for two  
17 individuals, a total of 135 shares at 36.

18 Mr. Rotberg: Did any of your customers buy stock?

19 Mr. Kampert: No, the other side, the purchaser,  
20 of these two cases was a dealer, a New York dealer, and we  
21 didn't charge a commission on either side. We acted as agent.

22 Mr. Rotberg: Let's go back down to the lifting of  
23 trading restrictions. Is it your policy to send out the  
24 telegram on the day of the offering to the participants?

25 Mr. Glassmeyer: Normally, the night of the day of



1 the offering, not the night after the day of the offering,  
2 and we get responses back within 24 hours after that.

3 Mr. Rotberg: And I take it that in an offering like  
4 Grosset and Dunlap you received all the responses back the  
5 next day, saying that the participants had completed the  
6 distribution?

7 Mr. Glassmeyer: That is correct.

8 Mr. Rotberg: And that it was successful?

9 Mr. Glassmeyer: That is right.

10 Mr. Rotberg: Now could you tell us whether it is  
11 your policy, aside from Grosset and Dunlap, to lift trading  
12 restrictions immediately upon receipt of those telegrams,  
13 or do you look at the market?

14 Mr. Glassmeyer: We look at the market. For example,  
15 we have had two recent issues. One was Howard Johnson, which  
16 was brought out successfully at the time at 51. The market  
17 was trading higher than that away from us. We checked all  
18 of our underwriters through telegrams, received responses  
19 not all in the negative, but those that were positive we  
20 repurchased, and we terminated trading restrictions, I believe,  
21 four days after the offering. Delivery was to have taken place  
22 at least a week after that. We got into a market that we  
23 did not anticipate, if you recall. If you recall, the market  
24 eroded substantially, and right now, as a matter of interest,  
25 the stock is selling about ten points below the offering price.

1           Now we have another recent issue of Morris Shoe  
2 Company.

3           Mr. Rotberg: What do you do in that case?

4           Mr. Glassmeyer: In Morris?

5           Mr. Rotberg: No, in Howard Johnson's. You had  
6 already removed trading restrictions?

7           Mr. Glassmeyer: We had already removed trading  
8 restrictions, in our own judgment, that the market, that the  
9 distribution was a success, and that other houses would be  
10 free to trade as well as ours, the distribution was even.

11           Then we ran into this unanticipated general market  
12 decline that started just about the day after we terminated  
13 trading restrictions.

14           Mr. Rotberg: Do you distinguish between a completed  
15 distribution and a successful distribution?

16           Mr. Glassmeyer: I believe they are one and the same.

17           Mr. Rotberg: Is it fair to say that one of the reasons  
18 that you wait to look at the market for three or four days,  
19 even though you have previously received the telegrams, is to  
20 determine whether or not there are significant cancellations  
21 upon the receipt of the confirmation, which cause underwriters  
22 to still have an unsold allotment which they didn't expect,  
23 or because of a ratio of selling for the three-day interval,  
24 which drives the price down below the offering?

25           Is that the reason for the delay between receipt of

1 the telegram and the time that you decide to lift trading  
2 ~~re~~strictions?

3 Mr. Glassmeyer: Well, isn't it fair to say, Mr.  
4 Kampert, that we normally do not get cancellations on issues?  
5 I don't know what you are driving at there. We don't wait  
6 and see the cancellations coming in. We don't expect  
7 cancellations. Our salesmen sell for investment, and not  
8 with a view toward cancelling soon, or selling their stock  
9 in the aftermarket a day or two after the offering at a  
10 premium.

11 Mr. Rotberg: Well, why don't you then remove  
12 trading restrictions immediately when you receive back the  
13 telegram that the underwriters have ~~sold out~~ all their stock?

14 Mr. Glassmeyer: Sometimes we do.

15 Mr. Rotberg: But you say that you always check that  
16 market -- and I am referring, by the way, to new issues, which  
17 have no previous market. I want to get that clear, that I am  
18 not talking about issues which have had a floating supply.

19 Mr. Sheets: Which would exclude Howard Johnson as  
20 an example.

21 Mr. Rotberg: Yes, that is correct.

22 Mr. Glassmeyer: I believe that the termination of  
23 trading restrictions coincided with delivery, in this case. I  
24 just want to be sure; and we had watched this premium on the  
25 opening, and its rather steady deterioration from -- we have a

1 high of 41, incidentally.

2 Mr. Rotberg: We havd found transactions executed  
3 at about 44 in isolated instances.

4 Mr. Glassmeyer: Down there, and we just thought we  
5 would watch the market for several days, which was the  
6 difference between May 11 and May 16, but it is more -- Mr.  
7 Devlin is the one that made the decision in this case. He is  
8 not here.

9 Mr. Rotberg: What I am trying to get a feel for is  
10 why you are watching the market? Is it because you think it  
11 might go down to \$2?

12 Mr. Glassmeyer: It might, yes.

13 Mr. Rotberg: And if it did, what would you do? start  
14 to stabilize?

15 Mr. Glassmeyer: We might.

16 Mr. Rotberg: So that in essence, what we are saying  
17 is that although you may have received confirmations back from  
18 the participants in the distribution that they sold all their  
19 stock, if in the subsequent days after that distribution,  
20 customers are reselling back into the market, you will hold  
21 open the lifting of trading restrictions until you are pretty  
22 sure that the selling will not drive the price down to the  
23 offering?

24 Is that about what the essence of what you are saying?

25 Mr. Kampert: If I may add this, I think we are

1 confused on dating. I happen to have a 1961 calendar here.  
2 May 11 was a Thursday. I think you said May 15th, late in  
3 the day, you lifted trading restrictions. There were only two  
4 business days between the offering date, which was May 11.  
5 Just two business days, so you probably waited over the weekend  
6 to get the response from the underwriters as to whether they  
7 had any unsold stock.

8 Mr. Glassmeyer: We waited over the weekend.

9 Mr. Kampert: And you must have determined that they  
10 didn't around the afternoon of the 15th, and then you sent out  
11 your advice that trading restrictions were removed, and then  
12 we began trading it the next day, which was --

13 Mr. Sheets: On a Tuesday.

14 Mr. Kampert: -- Tuesday the 16th.

15 Mr. Rotberg: I want to go back again to my main  
16 question: Is that a fair statement, though, of Blyth's policy  
17 with respect to when it will remove trading restrictions?

18 Mr. Glassmeyer: I believe it is a fair statement of  
19 our policy that if we are assured at the time that the  
20 distribution has been completed, and after looking at the  
21 market to confirm that through whatever premium attaches, the  
22 distribution is completed, that we would then terminate trading  
23 restrictions, yes.

24 Mr. Rotberg: Don't you mean, though, in the second  
25 part of your sentence that the distribution has been completed,

1 and -- and I accent the word "and" -- and it is a successful  
2 distribution, in that the price has not subsequently declined  
3 below the offering price?

4 Mr. Glassmeyer: Yes.

5 Mr. Rotberg: I note that you treat the words  
6 "completed" and "successful" as synonymous, but for this purpose,  
7 I want to --

8 Mr. Glassmeyer: Well, we know they are completed,  
9 because we have evidence through these telegrams that none  
10 of the underwriters or selected dealers have long positions  
11 in the stock.

12 Mr. Rotberg: All right, now during the period  
13 between the effective date and the time that you lift trading  
14 restrictions, what is the purpose of keeping trading  
15 restrictions applicable?

16 Mr. Glassmeyer: You mean, what is the purpose of  
17 not permitting underwriters to trade?

18 Mr. Rotberg: Yes.

19 Mr. Glassmeyer: So that the manager may wish to  
20 release more stock with the profit, to dealers and other  
21 underwriters, which he is not empowered to do once trading  
22 restrictions are removed.

23 Mr. Rotberg: You mean to permit the managing  
24 underwriter to go short?

25 Mr. Glassmeyer: Yes.

1           Mr. Rotberg: During this period in which trading  
2 restrictions are still applicable, I take it that you will  
3 accept unsolicited buy orders. Is that correct? And buy  
4 unsolicited, without defining what is an unsolicited order,  
5 for this purpose, I mean that the customer walks off the street  
6 and says, "I am a customer of Blyth, I have an open account;  
7 I would like to buy some."

8           Mr. Glassmeyer: That is correct.

9           Mr. Merrell: That is correct.

10          Mr. Rotberg: Would your answer still be the same  
11 if the customer who wanted to buy in the aftermarket had been  
12 previously solicited through the sending him a prospectus  
13 to buy at the original offering price, and he had so bought?  
14 Would your answer still be the same, that you would execute  
15 that kind of an order?

16          Mr. Sheets: Yes.

17          Mr. Rotberg: All right, suppose a customer in this  
18 period where trading restrictions are still applicable, and  
19 they have not been removed, a customer says, "I received a  
20 confirmation, or a telephone call that I received an allotment  
21 of stock. I would like to sell it." And he walks into your  
22 office the day after the distribution has been made, say in  
23 Grosset and Dunlap, and the price is \$36 a share. Now will  
24 you execute that order for him, or will you tell him to go  
25 elsewhere?

1 Mr. Sheets: No, we would execute it.

2 Mr. Merrell: This is a sales order.

3 Mr. Rotberg: Yes.

4 During the period of trading restrictions being still  
5 operative, will you solicit retail customers to buy the stock?

6 Mr. Sheets: During the period that trading  
7 restrictions are operative?

8 Mr. Rotberg: Yes, they haven't been lifted yet.

9 Mr. Sheets: Will we solicit? Yes, we might. It  
10 depends on the deal, and the price at which it is selling.

11 Mr. Rotberg: I assume it is selling at a premium,  
12 and you have received your telegrams, but you haven't lifted  
13 restrictions.

14 Mr. Merrell: You mean that the original allotment  
15 has been sold out.

16 Mr. Rotberg: Oh, yes.

17 Mr. Sheets: And there is an aftermarket developed?

18 Mr. Rotberg: Yes.

19 Mr. Sheets: But our trading restrictions are still  
20 on?

21 Mr. Rotberg: Let's say it would be on Friday of  
22 the Grosset and Dunlap issue.

23 Mr. Sheets: I doubt very much if we would solicit  
24 orders at that time. Principally, there is no attraction to  
25 the salesman to solicit an order there. He has no profit in it.



1 We would have to act as an agent in the execution of the order,  
2 and there would be a very modest if any profit in that, and  
3 he would be very unlikely to be soliciting orders at a time  
4 when we had no stock with a profit, and we are not trading  
5 the stock. I doubt very much if we would solicit any orders  
6 then.

7 Mr. Rotberg: And can you explain a little further  
8 for the record why the transaction could not be executed on  
9 a principal basis?

10 Mr. Sheets: We would have nothing to execute it  
11 from. In other words, that would be a trading, which is  
12 prohibited.

13 Mr. Rotberg: You have no inventory?

14 Mr. Sheets: No, we are clear, and we wouldn't be  
15 willing to short, if we had no inventory, and execute the order  
16 by going short, but this we are not permitted to do. We are  
17 not permitted to trade for Blyth's account. Any buying and  
18 selling at that level is done for syndicate account, if I am  
19 not mistaken. If the syndicate account is short, we might be  
20 covering a short.

21 Mr. Rotberg: That is what I wanted to clarify,  
22 that during the period in which trading restrictions are still  
23 operative, you are permitted to go short for the syndicate  
24 account.

25 Mr. Sheets: For the syndicate account.

1           Mr. Rotberg: But you would not be permitted for  
2 Blyth's account to go short to enable you to execute a  
3 principal transaction for a customer.

4           Mr. Sheets: No, that is right.

5           Mr. Rotberg: Although, of course, you can execute,  
6 as you operate an agency transaction for that customer.

7           Mr. Sheets: Yes.

8           Mr. Rotberg: Off the record, just a moment.

9           (Discussion off the record.)

10          Mr. Rotberg: On the record.

11          The records of the Commission show that there were  
12 approximately 50 individuals who bought stock of Grosset and  
13 Dunlap on May 11th from the aggregate of all of the underwriters  
14 and all of the selected dealers in your distribution.

15          Do you consider that a sizable demand for the security?

16          Mr. Sheets: You say there were 50?

17          Mr. Rotberg: 50. From all of the well over a  
18 hundred participants in the distribution.

19          Mr. Sheets: I am not quite clear on your question.  
20 There were only 50 people that bought stock from all of the  
21 underwriters and all of the participants.

22          Mr. Merrell: In the aftermarket.

23          Mr. Sheets: In the first day of trading in the  
24 aftermarket.

25          Mr. Sheets: Oh.

1           Mr. Glassmeyer: But to respond properly, what  
2 aggregate number of shares did that involve, roughly?

3           Mr. Rotberg: Our records show --

4           Mr. Merrell: This, if I understand you, was from  
5 all underwriters and all selling group members.

6           Mr. Rotberg: I might have to change that.

7           Mr. Sheets: And was this on May 16th?

8           Mr. Merrell: This was May 11th.

9           Mr. Glassmeyer: After the offering was completed.

10          Mr. Rotberg: Better strike that, because there is  
11 one bit of interpretation I have to make on this that I am  
12 not clear on. I will check on it right now, in fact.

13           The 52 persons have bought a total of approximately  
14 4300 shares on May 11th. Would you consider that sizable  
15 demand for the stock?

16          Mr. Brady: That is an average of 80 shares per  
17 trade?

18          Mr. Sheets: Yes. It would be nearly a hundred.  
19 Ninety.

20          Mr. Rotberg: Approximately. For an issue of this  
21 size, with this amount of publicity?

22          Mr. Sheets: I don't know how you would measure that.  
23 I wouldn't know, and I would -- what was the level of the stock  
24 at that time? I think that would have an influence on it.

25          Mr. Rotberg: It was about \$39 a share.

1           Mr. Sheets: Yes. Well, I would say that might  
2     will be an average amount. I don't know how anyone knows an  
3     answer to a question like that, but having had public stock  
4     available at 29 the day before, it would seem to me that it  
5     would be a rather limited number of people that would pay 39  
6     for stock the following day.

7           Mr. Rotberg: Would you estimate that there was more  
8     selling than the amount of buying on that first day?

9           Mr. Sheets: Well, I would guess there was, yes.  
10    By individual investors.

11          Mr. Rotberg: Keeping in mind there were only 52  
12    buyers, and 4300 shares are being bought, it is your best  
13    judgment that there is probably more selling in the aggregate?

14          Mr. Sheets: I would guess so. There is some of  
15    it finding its way into dealer positions.

16          Mr. Rotberg: Well, if there is more selling by  
17    customers than buying, how do you rationalize the fact that  
18    the security went up ten points?

19          Mr. Brady: That is what I was trying to understand.  
20    I don't see how you could say that there was more selling than  
21    buying, and have the stock appreciate from the initial trading.  
22    It doesn't stand up.

23          Mr. Rotberg: It shouldn't.

24          Mr. Brady: No. But I think this 4300 was probably  
25    a very small amount of the day's trading by all the dealers

1 involved.

2           Mr. Rotberg: Well, I am only talking now, of course,  
3 of public customers who were buying, and I am cutting out  
4 purchases for firm account by the participants in the distribu-  
5 tion.

6           Mr. Brady: You are saying whether was there more  
7 selling by individuals than buying by individuals on that day?

8           Mr. Rotberg: That is correct.

9           Mr. Sheets: It is easy for me to understand how  
10 there could have been more buying than that. Otherwise, if  
11 there was only that much selling by the individuals -- and  
12 this is the only source of stock, is people that have bought it  
13 on the initial issue, because there was none outstanding --  
14 that that means that every dealer in the street who was trading  
15 the stock was net even, the industry. Now the likelihood is  
16 that the dealers would have a long position, in this case.

17           Mr. Rotberg: And that the difference between the  
18 long position and the amount that the securities were sold out  
19 to the public represented this net buying?

20           Mr. Sheets: Yes, so what I can see is their net  
21 buying, compared to what individual buying and selling was.

22           Mr. Rotberg: Well, aren't we saying, then, that  
23 the premium is caused not by public buying on balance, which  
24 is in excess of the total selling, but is also very  
25 substantially affected by broker-dealer buying?

1 Mr. Sheets: Could well be, in my opinion.

2 Mr. Rotberg: So that when we talk of the demand  
3 being greater than the supply on a so-called hot issue, we are  
4 talking perhaps not only of public demand for the stock in the  
5 aftermarket, but also of dealer demand.

6 Mr. Sheets: Yes.

7 Mr. Rotberg: Which may be just for firm account  
8 position.

9 Mr. Sheets: Yes, trading account.

10 Mr. Rotberg: That is right.

11 Mr. Sheets: Yes.

12 Mr. Rotberg: Do you think that dealers who buy  
13 stock on the first day are the large retail organizations who are  
14 buying it for their firm account, or do you find that most of  
15 the firm account buying is by the wholesale traders, such as  
16 Troster; Singer, Bean; Greene and Company, et cetera?

17 Mr. Glassmeyer: Well, I will answer to that that most  
18 of the large retail organizations were underwriters, and were  
19 prohibited from buying.

20 Mr. Paradise: On someone else's new issue, will  
21 your trading department go out the first day and take a position  
22 one way or the other, just as a speculation?

23 Mr. Brady: It would not as a speculation, no,  
24 because of course trading is a speculation.

25 Mr. Paradise: No, to make a profit, not with any

1 idea of putting customers in it, just for the trading account,  
2 trading department to make a profit for itself.

3 Mr. Brady: Yes.

4 Mr. Paradise: Do you often go short in order to do  
5 this?

6 Mr. Brady: Well, it could be either way, but as  
7 far as your first statement, do we often go in the market the  
8 first day, the chances are the answer is probably no, because  
9 we have certain specifications as to what we will trade, and  
10 normally, any issue that meets these specifications, we are in  
11 as a participant, and can't trade.

12 Mr. Paradise: In other words, do you think other  
13 broker-dealers do this? will go in the first day for their  
14 trading department to make a profit, and go short or long  
15 themselves in order to try and make a quick profit in this way?

16 Mr. Brady: I would say the answer is yes.

17 Mr. Sheets: Make a spread between the bid and the  
18 ask on active trading.

19 Mr. Paradise: Now do you feel that in a new issue,  
20 maybe your own or someone else's, that the majority of the  
21 activity during the first week or ten days are these broker-  
22 dealers who are going in and trying to make a quick profit by  
23 themselves, one going long, one going short, and speculating  
24 for their own accounts?

25 Mr. Brady: I think it would be fair to assume that

1 a market of the trading following an offering is done by the  
2 professional traders, yes.

3 Mr. Paradise: There is no real public customer  
4 behind the trade?

5 Mr. Brady: No, I wouldn't agree with that. It  
6 depends on the premium involved, to begin with. And that is  
7 an awfully broad --

8 Mr. Paradise: Well, an issue that goes to, say,  
9 a ten point premium, or a seven point premium.

10 Mr. Brady: I think you are correct, such as  
11 Grosset, when you say that the majority of the trading was  
12 done by the trader.

13 Mr. Rotberg: I think that to further amplify on  
14 Mr. Glassmeyer's remark, the records show, of course, that none  
15 of the participants in the distribution bought for firm account  
16 on May 11th, that there was some buying for firm account on  
17 May 11th, but that was done by -- practically all of it --  
18 was done by Singer, Bean, and Saxton, to wholesale trading  
19 houses. And also, A. P. Montgomery, another trading house.

20 Mr. Merrell: None of whom were part of the group.

21 Mr. Rotberg: None of whom were part of the group.  
22 They purchased approximately 5,000 shares on the first day.  
23 As I have indicated before, customers from the distribution  
24 purchased about 4300 shares the first day, which means that  
25 there was a demand for about 9500 shares from customers of the



1 distribution and from the trading community.

2 Mr. Sheets: No duplication in those figures, is  
3 there? Is it possible that there could be any duplication in  
4 those figures, overlapping?

5 Mr. Rotberg: These are broken down so there was no  
6 duplication.

7 Mr. Sheets: Yes.

8 Mr. Rotberg: Now do you think that it is likely that  
9 even if you added up the buys for dealer accounts, such as  
10 by the wholesale trading houses, and the buys by retail  
11 customers, who are the customers of those in the distribution  
12 who bought, that even that sum total was still less than the  
13 amount of selling in the open market?

14 Mr. Brady: I didn't follow. Would you repeat that?

15 Mr. Rotberg: Sure.

16 Mr. Sheets: I think I have got the gist of it.

17 Mr. Rotberg: Go ahead.

18 Mr. Sheets: Did the long position that the dealers  
19 added on the buying of the general public exceed the amount  
20 that was available?

21 Mr. Rotberg: Do you think it did, or do you think  
22 it still was less than the amount that was available?

23 Mr. Sheets: Or was it less than the amount that was  
24 available. Well, the only basis that we have got to make a  
25 guess on that even is the market action.

1 Mr. Rotberg: It went up.

2 Mr. Sheets: The market action says that the buying  
3 was greater than the amount available, and that otherwise,  
4 the buying -- if there was more selling pressure than buying  
5 pressure, it would have run the market down, it would seem.

6 Mr. Rotberg: Now your analysis would be applicable  
7 if the market made by the wholesale traders in New York was  
8 a perfect market, and was exactly in town with the demand and  
9 supply.

10 Mr. Brady: Well, that is just what I was going to  
11 ask you.

12 Mr. Rotberg: It does assume that, I think, your  
13 answer.

14 Mr. Sheets: Yes.

15 Mr. Brady: You said that Saxton bought about 5,000  
16 shares.

17 Mr. Rotberg: Saxton; Singer, Bean; and Montgomery,  
18 yes.

19 Mr. Brady: How much did they sell?

20 Mr. Rotberg: I have the record of what they sold,  
21 also.

22 Mr. Brady: They must have sold, I would guess,  
23 approximately the same as they bought.

24 Mr. Rotberg: I haven't worked out the record on  
25 what they sold, but the question I am posing is if our study

1 shows that there was much more than 9,000 shares sold on the  
2 open market throughout the whole country on the first day,  
3 might it not be that the trading houses who on the first day  
4 are making the market are not really reflecting for one reason  
5 or another the true operation of demand and supply, but are  
6 reflecting more or less an arbitrary price?

7 Mr. Glassmeyer: Could I respond to that, if I may?

8 Mr. Rotberg: Yes.

9 Mr. Glassmeyer: I have before me the quotation of  
10 Pocket Books on May 11, 41 to 4. That was the range of high  
11 and low prices, this is a distributed issue, and there was  
12 almost a direct correlation between the depreciation, if you  
13 will, of value, from the price of whatever it is -- 38 as of  
14 May 11th -- right on through May and June, and I don't know  
15 what you are getting at, but I believe it would be most  
16 difficult to prove that this price of 38 was artificially low  
17 in relation to the existing investment alternatives as of  
18 that date.

19 Mr. Rotberg: Well, the only point that I am raising  
20 is not a comparison between Grosset and Dunlap and Pocket  
21 Books, or even an examination of the status of the market in  
22 general. I am just trying to test whether or not the  
23 explanation that markets go up because there is more demand  
24 and supply is not premised on the assumption that the trading  
25 houses in making a quotation are reflecting perfectly the

1 demand and supply?

2 Mr. Sheets: The trading house is part of the demand.  
3 If they feel that the market on this stock is going up, why  
4 aren't they part of the demand of buying and holding for their  
5 own account?

6 Mr. Brady: Mr. Rotberg.

7 Mr. Sheets: Does that get at your point?

8 Mr. Rotberg: Well, this assumes, of course, I think,  
9 that the trading house in New York has a sufficient contact or  
10 awareness of the selling pressures all over the country in  
11 this stock, and that they predicate their decision on what  
12 price to bid for the stock based on a complete awareness of  
13 the outstanding supply which is available in the open market.

14 I am just wondering if they do have that kind of  
15 information?

16 Mr. Brady: I believe that you will find out that  
17 either Singer, Bean; or Saxton, who we will say -- they were  
18 two of the houses that initiated trading in this -- if they  
19 initiated trading with a 39 bid, I would feel very sure in my  
20 own mind that they had an order, or they knew where they could  
21 get 39 and a half for it.

22 In other words, there was a legitimate bid somewhere,  
23 a legitimate demand for the stock, but how you arrive at a  
24 thing like that, I don't know.

25 Mr. Rotberg: I couldn't agree with you more, and I

1 don't mean to imply that there was not a demand, perhaps for  
2 shares at 39, and maybe a hundred shares, maybe 500 shares,  
3 but I am just throwing open the question whether or not that  
4 price of 39 is the conclusion reached after a complete analysis  
5 of the total outstanding floating supply, and its pressure on  
6 the market.

7 Mr. Glassmeyer: Are you implying that these houses  
8 would be checking with each other and other people throughout  
9 the country to find out what the supply and the demand is --  
10 because if you are, you had better address this to Mr. Brady --  
11 but I would answer that the answer is no.

12 Mr. Rotberg: I think that is the only point I am  
13 trying to make is that while we may have an order for a hundred  
14 shares or 500, because of just the nature of the over-the-  
15 counter market, that price might not be a reflection of exactly  
16 or even nearly how much supply there really is available.

17 Mr. Brady: Well, I think that is a fair assumption.

18 Mr. Rotberg: For instance, if it showed that there  
19 were 20,000 shares sold on the open market by customers on  
20 May 11, and there were only 10,000 shares bought by both  
21 customers and dealers, that would indicate something imperfect  
22 about the price of 39.

23 Mr. Brady: Yes.

24 Mr. Sheets: Where did the other ten go? Who did  
25 they sell them to?

1           Mr. Rotberg: The other ten might have been purchased  
2 by broker-dealers throughout the country who have retail houses,  
3 who purchase the stock on an agency basis for their customers  
4 who are not participants in the distribution.

5           Mr. Sheets: I see. You are excluding them from  
6 this class of dealer-brokers, the three professionals by  
7 themselves, and other dealer-brokers are over in another  
8 category?

9           Mr. Rotberg: That is correct.

10          Mr. Brady: But aren't you wrong in assuming that  
11 if there was only ten thousand bought, that ten thousand, that  
12 extra ten thousand that you say was executed by broker-  
13 dealers, actually were buy orders, even though they acted as  
14 an agent?

15          Mr. Rotberg: The number of shares bought by non-  
16 reporting broker-dealers was about 3400 shares. That is, if  
17 you took all the reporting broker-dealers, which is your whole  
18 distribution list.

19          Mr. Merrell: When you say reporting, you mean who  
20 have reported to you?

21          Mr. Rotberg: Who have reported to the Commission,  
22 and you took every single share which they sold to someone other  
23 than the underwriters and selected dealers, the total number of  
24 shares bought by every other broker-dealer in the country who  
25 was not a participant in this distribution equalled about 3400

1 shares, which of course is buying power. They may be buying  
2 for a firm account. They might be buying for the accounts of  
3 customers.

4 Again, the only question that I am posing is after  
5 you add up all the possible sources of buying, if it turns out  
6 that there was more supply available, would this not be an  
7 indication that there was something imperfect about the market  
8 being made by the trading house?

9 Let me go on, though, to this second day of trading.  
10 Can you identify the company Stewart, Eubanks?

11 Mr. Kampert: Yes, they are in San Francisco. They  
12 are members of the New York Stock Exchange.

13 Mr. Rotberg: Were they a participant in the  
14 distribution, do you know?

15 Mr. Glassmeyer: I can tell you right away. Is  
16 Stewart the first name, or --

17 Mr. Kampert: It is Stewart, Eubanks, and Myers.

18 Mr. Brady: S-t-u-a-r-t, I think.

19 Mr. Kampert: S-t-e-w-a-r-t.

20 Mr. Glassmeyer: I do not see them in the selling  
21 group, and I do not believe they are an underwriter, but let  
22 me check that.

23 Mr. Rotberg: We don't have --

24 Mr. Paradise: Stewart, Eubanks, Meyerson & Co. was  
25 an underwriter in the amount of 1500 shares.

1 Mr. Rotberg: Okay. I just wanted them identified.  
2 The Commission's records show that on May the 12th,  
3 all of the participants in the distribution of Grosset and  
4 Dunlap sold to only 24 customers in the 24-hour period of  
5 May 12th. Again, a very slight buying power, at least as shown  
6 by the public customers of the many, many participants in your  
7 distribution, which include the large retail houses.

8 Mr. Merrell: How many shares was that, Mr. Rotberg?

9 Mr. Rotberg: It was about 2,000 shares.

10 Our records show that of those 24 customers, 6 were  
11 Blyth's, who purchased about 620 shares. Would you know if those  
12 customers were solicited to buy the stock? Can you?

13 Mr. Sheets: I wouldn't know, unless their records  
14 would indicate that we acted as agent, and I would guess it  
15 would have certainly had to have been an unsolicited order for  
16 us to have executed it on May 12th.

17 Mr. Rotberg: And again on that same day, May 12th --

18 Mr. Sheets: We have only executed agency orders  
19 that were unsolicited during this non-trading period.

20 Mr. Rotberg: Again on that same day, May 12th,  
21 practically the entire trading market is being made by Saxton;  
22 Singer, Bean; and Vilas and Hickey.

23 Mr. Kampert: Yes. Well, I see some of these trades  
24 here. We acted as agent, and Vilas and Hickey, and also Singer  
25 and Bean were the buyers.



1           Mr. Rotberg: In other words, Singer, Bean and the  
2 other firms are trading two, three, and four thousand shares  
3 each, now, by the second day. That is, they are buying that  
4 number of shares, and of course, they are selling actively also.

5           The question which arises, of course, is to whom are  
6 they selling? Since few customers of the underwriters are  
7 buying, do you have any idea who the large trading houses are  
8 selling to, or do you think they are accumulating a long position?

9           Mr. Brady: Well, in answer to your first question,  
10 I have no idea.

11           In answer to your second question, why it would be  
12 just a guess on my part, but knowing both houses, and  
13 particularly Saxton, I would doubt that they were accumulating  
14 a long position at a premium of 10 to 12 points.

15           Mr. Paradise: Do you think they are selling to  
16 other trading houses?

17           Mr. Brady: They could be.

18           Mr. Sheets: We know where 630 shares of it went,  
19 where Blyth acted as agent, through them, and maybe portions  
20 of this other may have gone the same way, with the underwriting  
21 and distributing houses out of the market, and able only to  
22 execute orders with someone who was trading in it.

23           Mr. Rotberg: Well, on the next day of trading,  
24 which is May 15th, 32 customers purchased less than 3,000  
25 shares. On that same day, Saxton is trading, buying about

1 5,000 shares, and Singer is buying close to two or three  
2 thousand shares, and another broker-dealer, John E. Samuels,  
3 is buying close to 4,000 shares.

4 Mr. Brady: My guess is that most of that was agency  
5 order.

6 Mr. Rotberg: But it must have been agency order of  
7 firms other than the participants in the distribution.

8 Mr. Brady: For instance, now, you have mentioned  
9 that one name there, and I would make a very good calculated  
10 guess as to who he was buying it for, that it was a fund,  
11 not a retail customer.

12 Mr. Rotberg: It would be buying power, then, that  
13 does exist, at least up to this point, doesn't exist either  
14 through customers of the underwriters or even, since trading  
15 restrictions are still applicable, from the firm account of  
16 the underwriters, but the buying power is coming from the  
17 trading houses themselves, who are either buying on long  
18 position or are selling it out to houses which were not  
19 participants in your distribution.

20 Mr. Glassmeyer: Or to institutions, as Mr. Brady  
21 pointed out.

22 Mr. Brady: Because I am sure that one lot there,  
23 I could tell you who bought it.

24 Mr. Glassmeyer: Well, let's do it off the record. I  
25 don't think we should put that in the record.

1 Mr. Rotberg: Pardon me?

2 Mr. Brady: I was not going to mention it, anyhow.

3 Mr. Rotberg: Well, we probably have it here.

4 Mr. Brady: I would be glad to bring it up off the  
5 record.

6 Mr. Rotberg: Which house are you referring to?

7 Mr. Brady: Off the record?

8 Mr. Rotberg: Off the record.

9 (Discussion off the record.)

10 Mr. Rotberg: On the record.

11 Mr. Brady: That was probably, I imagine, that  
12 Saxton was selling to them also.

13 Mr. Rotberg: Is it fair to say that the institutional,  
14 single investor might account for the substantial part of the  
15 buying power in the few days after the effective date?

16 Mr. Brady: It could be.

17 Mr. Rotberg: Off the record.

18 (Discussion off the record.)

19 Mr. Rotberg: On the record.

20 During the pre-effective period, did Lehman Brothers  
21 ask you for a sizable allotment of the Grosset and Dunlap for  
22 the account of One William Street?

23 Mr. Sheets: I couldn't answer that. I wouldn't  
24 have any recollection of whether they did or not.

25 Mr. Rotberg: Do you know if they received an

1 allotment or whether One William designated a broker-dealer  
2 for an allotment of Grosset?

3 Mr. Sheets: My recollection is we were under a  
4 broad distribution arrangement here with the issuer, or were  
5 we not, on this one?

6 Mr. Glassmeyer: We were not. We said we would do  
7 our best efforts, but it wasn't formalized.

8 Mr. Sheets: Did we have group sales in this issue?

9 Mr. Glassmeyer: We had one group sale, to Morgan,  
10 Guaranty.

11 Mr. Sheets: Then not to One William?

12 Mr. Glassmeyer: Not to my knowledge.

13 Mr. Sheets: Then it may well be that One William  
14 did not ask us for one, or they might have been included in  
15 the group sale. If we apply a group sale to one account, I  
16 don't know why we would not to another.

17 Mr. Rotberg: I take it that whether or not you gave  
18 any shares to One William, they wanted more than that which  
19 they received?

20 Mr. Sheets: Yes.

21 Mr. Rotberg: Now prior to the effective date, do  
22 you have any recollection of discussing with Lehman Brothers  
23 the fact that One William would be a substantial buyer in the  
24 aftermarket? Any of you gentlemen?

25 Mr. Glassmeyer: No. May I say that One William did

1 their own talking to our retail people, that follow One William.  
2 We don't talk to Lehman Brothers, isn't that right?

3 Mr. Sheets: No, One William would call the salesman  
4 that handles their account, and their discussions would be with  
5 our salesmen.

6 Mr. Rotberg: Do you know if there were any  
7 discussions prior to the effective date?

8 Mr. Glassmeyer: I do not know.

9 Mr. Sheets: I do not know.

10 Mr. Rotberg: Well, is it the normal practice to  
11 discuss the fact that One William would be interested in buying  
12 a sizable bloc in the aftermarket?

13 Mr. Sheets: Oh, yes -- not in the aftermarket.  
14 No one knows until the aftermarket develops.

15 Mr. Rotberg: Do you have any recollection at this  
16 time whether from the 11th to the 15th you knew that either  
17 Lehman Brothers or One William Street was a heavy buyer in  
18 the aftermarket?

19 Mr. Sheets: I have no recollection of that, that  
20 we know that, and to me, it would be unlikely that we would  
21 know it, being not in the market.

22 Mr. Brady: They knew we had no stocks, and couldn't  
23 do anything with it.

24 Mr. Sheets: There would be no reason for them to  
25 come to us during this period.

1           Mr. Rotberg: And it is your understanding that  
2 although certain of your departments would know of the  
3 interest of One William in getting an original piece of the  
4 offering, they would not know as to what One William's intentions  
5 were with respect to aftermarket purchases?

6           Mr. Sheets: Not during the period where we were  
7 not trading. They might not disclose that to us. After we  
8 started trading, they would be in and show if they had a  
9 buying interest, to see what sort of an offering we could  
10 make, but as far as having an order from them, in advance of  
11 as far as trading developed, this would be most unusual for  
12 anybody to have that, until the level at which the stock traded  
13 was established.

14           Mr. Rotberg: The records of the Commission, which  
15 of course are merely a composite of the broker-dealer records,  
16 show that by May 16th, the same dealers are making the market,  
17 Samuel about 2500 shares on that day, Singer, Bean about over  
18 3,000 shares, Saxton about 1500 shares, and that there still are  
19 less than 40 customers of all of the underwriters put together  
20 buying on that day.

21           On that day, I believe trading restrictions were  
22 removed. Do you know if any firms who were participants in  
23 the distribution bought heavily as soon as trading restrictions  
24 were removed in the open market?

25           Mr. Brady: On May 16th?

1 Mr. Rotberg: Yes. Aside from yourself.

2 Mr. Brady: Well, from my recollection of looking  
3 over the trading on it, nobody bought very heavily after we got  
4 in the market, because we got in initially on the 16th, with  
5 an initial purchase at 35.5, and if I am not mistaken, it  
6 closed that night 34.25, 34.75, so there wasn't any very heavy  
7 buying.

8 Mr. Rotberg: Are you familiar with the activity of  
9 Hooker & Fay?

10 Mr. Brady: San Francisco.

11 Mr. Rotberg: San Francisco, in the aftermarket.

12 Mr. Brady: I am not.

13 Mr. Rotberg: You don't recollect at this time any  
14 concerted buying or selling on their part?

15 Mr. Brady: I wouldn't know.

16 Mr. Rotberg: Off the record.

17 (Discussion off the record.)

18 Mr. Rotberg: Back on the record.

19 On May 16th, apparently Blyth was a buyer of close  
20 to 9,000 shares in the open market. Do you know how many  
21 shares that represented as buying on balance?

22 Mr. Brady: Do you mean to say how many did we end  
23 up the day --

24 Mr. Rotberg: Yes, do you have a record of your  
25 position?

1 Mr. Brady: No, I am sorry, I do not.

2 Mr. Glassmeyer: I do. 2651 was our long position  
3 as of the close of business May 16th.

4 Mr. Brady: I was going to guess 2500.

5 Mr. Rotberg: Generally, by classes, who were you  
6 selling to?

7 Mr. Brady: I can't answer it. I don't know who we  
8 were selling it to on that date.

9 You see, I looked over our trading sheets, and you  
10 can't be too exclusive, because the names of the dealers which  
11 we show are only the New York, the eastern dealers. In other  
12 words, everyone else would just show another city.

13 Mr. Rotberg: Were you selling, do you think, mostly  
14 to wholesale trading houses, or do you think you were selling  
15 to other retail houses?

16 Mr. Brady: I think it was both.

17 Mr. Rotberg: Why did you end up on a 3500 share long  
18 position? Why didn't you end up even?

19 Mr. Brady: Why didn't we end up even? Well, of  
20 course we are not -- we never are trying to keep an even position.

21 Mr. Rotberg: Yes.

22 Mr. Brady: But we started out, our first trade was  
23 a purchase, and we kept buying, as you can see, more than we  
24 were able to sell in a declining market, with the stock down  
25 over a point that day, and we ended up with a long position of,



1 as Mr. Glassmeyer says, 3600 shares.

2 Mr. Rotberg: That was about approximately a hundred  
3 thousand dollars long? Is that correct?

4 Mr. Glassmeyer: Yes.

5 Mr. Paradise: Were you buying on this day to keep  
6 an orderly decline of the market, or were you --

7 Mr. Brady: Well, we actually didn't believe we were  
8 in a declining market. We knew it was down from its high,  
9 yes, but we were in the market on that initial day just like  
10 we were trading anything else, as a professional, making a  
11 bid and ask, and hoping to make money in the end.

12 Mr. Paradise: You were in as a professional, as  
13 differentiated from a managing underwriter, sponsoring a  
14 security and trying to have an orderly decline in the market.  
15 Is that what you are saying?

16 Mr. Brady: No, I say that we entered in the market  
17 in Grosset and Dunlap, making a trading market in it as a  
18 principal for Blyth and Co., and putting no more significance  
19 on that stock than the other four or five hundred that we trade.

20 As it turned out, of course, we have responsibilities,  
21 and as the stock started to decline, well then, it put a little  
22 different aspect on it.

23 Mr. Paradise: Well, on that day, though, your  
24 trading was not in accordance with these responsibilities which  
25 you would feel in a rapidly declining market?

1 Mr. Brady: No, I mean a point decline is not too  
2 much.

3 Mr. Paradise: I understand.

4 Mr. Rotberg: Did you usually find yourself ending  
5 up on the first day of trading in a hundred thousand dollars  
6 long position?

7 Mr. Brady: That isn't much.

8 Mr. Glassmeyer: That is not uncommon.

9 Mr. Rotberg: That is not uncommon?

10 Mr. Brady: Our position runs anywhere from 7, 10,  
11 12, 15 million dollars consistently.

12 Mr. Glassmeyer: Each day.

13 Mr. Rotberg: Yes. Is that long and short combined?

14 Mr. Brady: Yes, but it is 95 percent long.

15 Mr. Rotberg: Let me ask you now specifically with  
16 respect to Grosset, why didn't you lower your bid slightly,  
17 so that you wouldn't be taking such a long position?

18 Mr. Brady: Well, if you will see, we started out  
19 bidding 35.5, and by the close of business that night, we were  
20 down to 34.25, if my memory is correct.

21 Mr. Rotberg: Am I correct that the reason you don't  
22 lower it more quickly to 34 and a half, or don't lower it to  
23 34 or 33 and 7/8 is because you don't want to participate or  
24 cause a further decline in the price?

25 Mr. Brady: Probably -- the answer probably is that

1 our judgment wasn't very good in the initial trading, and  
2 when you go into an issue fresh, it may take you a day or two  
3 to really -- it shouldn't take that long -- but it could take  
4 you a day or two to grasp the trend that is involved.

5 Mr. Rotberg: I notice that by the 17th, you were  
6 buying about 4300 shares. Do you have your net balance at  
7 the end of the day?

8 Mr. Glassmeyer: 3507.

9 Mr. Rotberg: Which means that you are doing very  
10 little selling, and you are constantly buying?

11 Mr. Merrell: No, it remained the same.

12 Mr. Glassmeyer: We were doing quite a bit of selling.

13 Mr. Sheets: Sold all we bought.

14 Mr. Rotberg: Even on the day --

15 Mr. Glassmeyer: A little more so.

16 Mr. Paradise: Who were you selling to, during this  
17 period of time?

18 Mr. Brady: Here, again, you asked me the first day,  
19 and I can't tell you.

20 Mr. Paradise: Do you recall, though, whether your  
21 customers' men were soliciting customers, or whether you were  
22 selling to other broker-dealers?

23 Mr. Brady: To the best of our --

24 Mr. Sheets: I would think we were doing very little  
25 soliciting of business at this price level.

1           Mr. Rotberg: Our records show that on that day,  
2 May 17th, only one customer of your firm bought the stock,  
3 and on the previous day, May 16th --

4           Mr. Sheets: The first day of trading.

5           Mr. Rotberg: -- no customer bought the stock, so  
6 that you were accumulating a long position without putting  
7 your customers into the stock, and to the extent that you were  
8 selling, you were not selling through your public customers,  
9 of yours.

10          Mr. Brady: Of ours.

11          Mr. Rotberg: Now a few moments ago, you said that  
12 within a few days, certain obligations became apparent, and  
13 that certain duties that you considered yourself to have were  
14 made known to you, or you realized might become operative.  
15 Would you extend your comment of that?

16          Mr. Brady: Well, if I could only remember the day-  
17 by-day fluctuation, but I know it was continuously down.

18          Mr. Rotberg: Yes, it was.

19          Mr. Brady: And as the volume kept coming in on the  
20 sell side, and it got nearer to our offering price, we did not  
21 let it drop off maybe as quickly as we ordinarily would,  
22 and for professional trading account, because we were trying  
23 to curb on it to some extent, and make it orderly.

24          Mr. Rotberg: That would be about the 33, \$34 level?

25          Mr. Brady? May 16th. You see, according to this,  
why by the 19th, it is down to 32. And by the 22nd, it is

1 down to 29, 30. So we weren't standing there. We were making  
2 it as orderly as we could, but we still had to fade away with  
3 the supply.

4 Mr. Paradise: Well, when would you assume your  
5 duties other than as a professional trader? At what point  
6 here?

7 Mr. Brady: Well, if we were not the underwriter,  
8 we certainly wouldn't have stayed there and accumulated.

9 Mr. Paradise: I understand that, but at what point  
10 do you come in here and take your duties as managing under  
11 writer as opposed to those as a professional trader? What  
12 point in the decline?

13 Mr. Brady: Well, it is --

14 Mr. Rotberg: I know it must be general.

15 Mr. Sheets: I would say around the issue price, and  
16 when it gets back down to around the issue price, then the firm,  
17 I think, would feel some obligation to try and support that  
18 price for the benefit of the issuer, our own customers, our  
19 relationship with the issuer. If we could possibly do it.

20 Mr. Rotberg: Is it fair to say that the typical way  
21 of doing that is by bidding just slightly over the rest of the  
22 market for the security?

23 Mr. Brady: No.

24 Mr. Rotberg: Well, how do you do it, then?

25 Mr. Sheets: You mean, when it gets down to the issue

1 price?

2 Mr. Rotberg: Oh, yes. Isn't that the way that it  
3 is done?

4 Mr. Brady: You don't have to bid above the rest of  
5 the Street.

6 Mr. Rotberg: What do you do?

7 Mr. Brady: Well, the issue price is 29 out, we --

8 Mr. Sheets: You might bid the same, but most of the  
9 orders gravitate to the managing underwriter, on the same market,  
10 the managing underwriter might buy most of the stock.

11 Mr. Rotberg: Are you saying, really, that you just  
12 walk into your market and take more shares? Instead of taking  
13 a hundred shares, the Street knows that you are good for as  
14 much as they put to you. Is that what it amounts to?

15 Mr. Brady: Well, there are 2500, or maybe 2,000,  
16 but ordinarily, where you maybe take a hundred and drop back  
17 down, ordinarily, you are trying to curb on, and you may know  
18 the stocks, you believe you are buying good merchandise, and  
19 you will stand there and take a sizable position.

20 Mr. Rotberg: More than you ordinarily would have  
21 taken?

22 Mr. Brady: Yes.

23 Mr. Paradise: In this particular situation, are you  
24 a price leader, or a price follower? Are you following the  
25 market, or is the market following you?

1 Mr. Brady: The market is followng us.

2 Mr. Glassmeyer: Normally, we have the best market  
3 in the Street. The best market, the closest market between the  
4 bid and ask, and that is why most of the business comes to us,  
5 as opposed to other people.

6 Mr. Rotberg: Is it fair to say that when you are  
7 a managing underwriter in a declining market, the Street senses  
8 your responsibility, and keeps putting larger and larger blocs  
9 to you, which you believe you have some obligation to take?

10 Mr. Brady: That is right.

11 Mr. Glassmeyer: I wouldn't put the question that way.  
12 I think that is unfair. The Street doesn't sense any  
13 responsibility residing in us; they sense that we have the best  
14 market for whatever shares are coming in, but I don't believe  
15 there is a sense that they are sensing our responsibility.

16 Mr. Rotberg: Well, then, why don't the shares go  
17 to some other broker-dealer?

18 Mr. Glassmeyer: Because we are the only one that  
19 is willing to buy them in that volume, but they don't equate  
20 that with a sense of responsibility.

21 Mr. Sheets: And they may go to some broker-dealer,  
22 and then come in on our bid.

23 Mr. Paradise: If you weren't managing underwriter,  
24 would you take it in that volume?

25 Mr. Sheets: No.

1 Mr. Paradise: Does the Street know this?

2 Mr. Rotberg: I think that is a semantic problem.

3 On May the 18th, your buying begins to pick up,  
4 apparently, and you are buying about 8,000 shares. What is  
5 your balance, on May 18th?

6 Mr. Brady: 1900.

7 Mr. Rotberg: That is the aggregate balance?

8 Mr. Glassmeyer: Closing balance, yes.

9 On May 19th, you are buying about 5700 shares. Do  
10 you know what your balance is?

11 Mr. Brady: 714 shares.

12 Mr. Rotberg: In other words, between the 16th and  
13 the 19th, although you say that you are beginning to feel  
14 this responsibility as the price is going down, apparently you  
15 still are being able to sell off large amounts of what you are  
16 taking in.

17 Mr. Brady: In those four days, we must have, yes.

18 Mr. Rotberg: And so even though you are acquiring  
19 sizable amounts --

20 Mr. Sheets: This was all at a premium over the offering  
21 price.

22 Mr. Glassmeyer: It is still at a premium.

23 Mr. Rotberg: That is right. By the 22nd you purchase  
24 approximately 4200 shares. Do you have your balance there?

25 Mr. Brady: We ended up long 3700.



1           Mr. Rotberg: In other words, that seemed to be a  
2 turning point?

3           Mr. Brady: That is right.

4           Mr. Rotberg: And those shares that you took were kept  
5 substantially in your inventory?

6           Mr. Brady: We were not making the sales.

7           Mr. Rotberg: In other words, on that day, the market  
8 began to get very close to the offering price, and more and  
9 more shares began to be put to you.

10          Mr. Brady: Yes.

11          Mr. Rotberg: Do you find that as this security and  
12 as other securities begin to approach that premium price --

13          Mr. Sheets: You mean premium price or offering price?

14          Mr. Rotberg: Excuse me, the offering price -- that  
15 the selling begins to increase, because the customers feel  
16 they don't have any more profit, and they may as well get out  
17 of it?

18          Mr. Brady: I think it probably happens.

19          Mr. Rotberg: The records, by the way, still show  
20 that your customers aren't being put into the stock.

21                 On the next day, which is May 23rd, you are buying  
22 close to ten thousand shares. What is your balance at that  
23 time?

24          Mr. Brady: 6860 shares.

25          Mr. Rotberg: It is increasing.

1 Mr. Brady: It is increasing.

2 Mr. Sheets: That is 4,000 shares that day.

3 Mr. Rotberg: On May 24th, you very sharply cut down  
4 your buying to about 2400 shares. What is your balance?

5 Mr. Brady: 8,030 shares.

6 Mr. Rotberg: In other words, practically everything you  
7 bought, you kept and couldn't get rid of.

8 Mr. Brady: That is right.

9 Mr. Rotberg: What is the market price on that day?

10 Mr. Brady: Twenty-nine and a quarter bid.

11 Mr. Glassmeyer: These are not market. These are  
12 the last bid and ask, at the close of the day.

13 Mr. Sheets: Twenty-nine and a quarter.

14 Mr. Brady: Twenty-nine and a quarter to twenty-nine  
15 and three-quarters.

16 Mr. Rotberg: We will take a little break.

17 (Whereupon, a short recess was taken.)

18 Mr. Rotberg: On the record.

19 On May 25th, Blyth bought approximately 3900 shares.  
20 What was your balance at the end of that day?

21 Mr. Brady: 10,200.

22 Mr. Sheets: That was up 2,200.

23 Mr. Rotberg: The next day you bought about 2,000  
24 shares. What was your net balance?

25 Mr. Brady: 11,300.

1 Mr. Rotberg: You are now about \$300,000 long?

2 Mr. Brady: That is right.

3 Mr. Rotberg: I take it that this is becoming  
4 substantial?

5 Mr. Brady: It is.

6 Mr. Rotberg: For even Blyth.

7 Mr. Brady: Yes.

8 Mr. Rotberg: The next day -- and by the next day,  
9 it is May 31st -- you buy only a thousand shares, approximately.

10 Mr. Brady: Yes, and we went up a hundred shares.  
11 11,479.

12 Mr. Rotberg: On June 1st, you purchase about 1500  
13 shares?

14 Mr. Brady: 11,600.

15 Mr. Rotberg: You increased just slightly.

16 Mr. Sheets: 200 shares.

17 Mr. Rotberg: The next day, you buy about 1200 shares?

18 Mr. Brady: 11,868.

19 Mr. Rotberg: These figures, of course, for the record,  
20 are the net cumulative balance in long position.

21 Mr. Brady: That is correct.

22 Mr. Sheets: At the end of the day.

23 Mr. Rotberg: Yes. On June 5th, our records indicate  
24 that your purchased about 2,000 shares. What was your net  
25 balance?

1 Mr. Brady: 13,358.

2 Mr. Rotberg: Practically all of it, then, went  
3 into long position.

4 Mr. Brady: Yes.

5 Mr. Rotberg: What price are you buying at, approxi-  
6 mately, at this time?

7 Mr. Brady: It looks like 28-3/4.

8 Mr. Rotberg: And June 6th, you purchase about 2500  
9 shares. What was your balance?

10 Mr. Brady: There is something wrong somewhere,  
11 because we show balance of June 6th of 20,000, 948, up about  
12 7,000 shares.

13 Mr. Glassmeyer: That must be an error.

14 Mr. Sheets: That could be an error, because the next  
15 day, it is 11,000.

16 Mr. Glassmeyer: Probably 10,000, 948.

17 Mr. Sheets: That doesn't look correct, does it?

18 Mr. Brady: There is something wrong, yes.

19 Mr. Sheets: It doesn't look correct.

20 Mr. Rotberg: On June 7, our records show that you  
21 buy only 80 shares.

22 Mr. Brady: Well, our balance is down to 11,333.

23 Mr. Rotberg: From what previous balance?

24 Mr. Brady: Well, we will have to go back to June 15,  
25 because I think that sixth figure must be wrong, 13,658, so

1 we actually lost 2,000 shares on balance.

2 Mr. Rotberg: Do you know how you were able to lose  
3 2,000 shares on balance between the 6th of June and the 7th  
4 of June, when you only -- do you know how you were able to do  
5 that?

6 Mr. Brady: If my recollection is correct, I believe  
7 that on one of those days, we had a substantial retail order,  
8 and I am just guessing, now, but I think that is right.

9 Mr. Rotberg: To refresh your memory, isn't it more  
10 possible that your retail department and its sales offices  
11 received some kind of a price benefit for selling the stock  
12 to customers at this time?

13 Mr. Sheets: Your retail release?

14 Mr. Brady: It is conceivable.

15 Mr. Rotberg: The reason I say that is that up until  
16 June 6th, that is from May 16th to June 6th, our records don't  
17 show a single Blyth customer buying stock in the aftermarket  
18 through Blyth. On June 7th, 31 of your customers buy Grosset  
19 and Dunlap, for a total of over 1500 shares.

20 Now is it fair to assume that this was a result of a  
21 direct, specific, solicitation for this many customers to  
22 occur on that one day, and none in the previous five weeks?

23 Mr. Sheets: That is very possible. This record  
24 here does not indicate anything like that, but this is very  
25 possible that this happened, and my recollection is that we did

1 have a release on stock with a larger sales credit than the  
2 normal ten cent sales credit, as the stock got back down to  
3 the issue price, and we were long stock, and I believe we had  
4 a special release of stock with a larger than normal profit in  
5 it. Now this record doesn't indicate it.

6 Mr. Brady: Well, I don't know whether it was on  
7 June 6th or June 8th.

8 Mr. Paradise: Why did you do this?

9 Mr. Sheets: Because our position there was longer  
10 than we normally like to carry, and by this time, the price of  
11 the stock was back to its original issue price, which was the  
12 value we thought originally it was worth, and at that level,  
13 we were willing to retail stock.

14 Mr. Rotberg: What was the price?

15 Mr. Glassmeyer: 29. The market was 28-1/4, 9.

16 Mr. Sheets: What day are you talking about, now?

17 Mr. Rotberg: June 7th.

18 Mr. Sheets: Market was 28-1/2, 9. Closing bid and ask.

19 Mr. Rotberg: May I ask if you would buy on balance  
20 as you did toward the end of May and beginning of June if  
21 a security was dropping, say, from 42 or 43 down to 37, 38?

22 In other words, do you justify the buying on balance  
23 only with a decline that is approaching the offering price, or  
24 would you also consider it appropriate where the decline is  
25 knocking off some of the top of the premium, but still is

1 substantially above the offering price?

2           Mr. Sheets: Well, I think Mr. Brady's answer at  
3 this point, a little bit, that initially, when he got the trade,  
4 he was trading this as an operation to make a profit, trading  
5 profit between the bid and ask by buying and selling, and when  
6 the stock was at a substantial premium, there was a considerable  
7 activity in it that he hoped to make a trading profit out of.

8           At some time along in this level, I am sure that he  
9 got to the point where he thought it had gone from 44 to 37,  
10 maybe the stock will bounce back up, maybe I should be long a  
11 little at 37, and I can get the ask side of the market very  
12 easily in the Street, but up until it gets back down to the issue  
13 price, it is primarily an attempt to make a trading profit out  
14 of this.

15           Now as a managing underwriter, we might also have  
16 had some interest in an orderly market, rather than big gaps  
17 in a down market, but primarily, it was an attempt to make a  
18 trading profit, but when it gets back down to issue price, it  
19 is there we commence to feel a little responsibility to our  
20 clients that we have sold it to at 29, and to the issuer, plus  
21 the fact that we have originally thought this was worth \$29 a  
22 share, and we haven't seen any reason to change our mind, at  
23 this point, and then we go out and retail it in order to reduce  
24 the position that is inordinately large.

25           Mr. Rotberg: What would have happened if you didn't

1 buy on balance? Toward the end of May?

2 Mr. Sheets: If the stock had gotten down to 29 or  
3 below the issue price, and we had no balance?

4 Mr. Rotberg: No, I think that it was around 30 or 31  
5 when you began to accumulate a fairly substantial long position.  
6 What would have happened if you didn't do that?

7 Mr. Sheets: To the market?

8 Mr. Rotberg: Yes.

9 Mr. Brady: It would have probably gone considerably  
10 lower.

11 Mr. Sheets: It might have gone down faster.

12 Mr. Rotberg: That is the point I want to get at.  
13 Do you think it would have gone lower, or just got to the 29  
14 level a little faster?

15 Mr. Sheets: Would have got there faster, would be  
16 my guess; now Neal has got a much better opinion on that.

17 Mr. Brady: You see here those first four trading  
18 days of ours, we had a very small position, relatively speaking,  
19 ranging from 3700 to 714 shares. It wasn't until the stock  
20 got down to 29, 30 that we became a little more aggressive  
21 in holding this stock at around the issue price.

22 Mr. Rotberg: What do you think would have happened  
23 if you didn't do that?

24 Mr. Brady: If we had not -- say, in other words,  
25 if we had not been in the market?



1           Mr. Rotberg: Or if you had just acted as you do in  
2 issues where you have no feeling of responsibility to the  
3 underwriter?

4           Mr. Brady: There is no question in my mind the stock  
5 would have been considerably lower.

6           Mr. Rotberg: You think it would have perhaps dropped  
7 to 25 or less?

8           Mr. Brady: It could have, very easily. You see,  
9 you lose your sponsorship to begin with. The market has no  
10 sponsorship.

11          Mr. Rotberg: Well, what do you mean by that?

12          Mr. Brady: Well, the underwriter is more or less  
13 to be considered the sponsor, the underwriter of the issue,  
14 and he is in the market, making a primary market, the rest of  
15 the Street, in a declining market, will trade around our market,  
16 because he knows or feels fairly sure that we will stand up to  
17 our market to a greater degree than anybody else.

18          Mr. Rotberg: Did you find that toward the end of  
19 May and beginning of June that substantially you were the  
20 market? There was no one else?

21          Mr. Brady: I am just grasping this from what I can  
22 read here, see. Remember, I did not trade this stock, and I  
23 can only go by what I see here.

24          Mr. Rotberg: Yes.

25          Mr. Brady: There is no doubt about it, that we were

1 the leader in it.

2 Mr. Rotberg: I should say, of course, that from our  
3 analysis of the records, the dealers who were in the sheets  
4 originally either dropped out or very much lessened their  
5 participation.

6 Mr. Brady: Yes.

7 Mr. Rotberg: If you say the price would have gone  
8 down lower, let us say, to the 25 or 23 level, you would, of  
9 course, consider it an even better buy at that price than at 29,  
10 would you not?

11 Mr. Brady: Surely.

12 Mr. Rotberg: Why don't you let it go down to 23 or  
13 25 and then recommend it to your customers, and solicit them  
14 to buy it?

15 Mr. Sheets: Well, I think I can comment on that.

16 One, we have sold -- I don't know, we may have retailed  
17 a hundred thousand shares of this stock to our customers at 29.

18 Now in the light of hindsight, the market just kept  
19 on going down, but we could go back and find other instances  
20 where faulty distribution can be corrected by the retailing or  
21 redistributing a relatively small floating supply of stock,  
22 and thereby make your previous customer whole and happy. And  
23 the market would hold at 29.

24 Mr. Rotberg: So that you consider your duty not only  
25 to your new customer, to recommend the stock at say 29, where

1 your prior investment decision had indicated it was a good,  
2 solid price, but you also consider you have a duty to the  
3 customers whom you put into the stock at 29, to prevent it  
4 from going down to 23 or 25?

5 Mr. Sheets: That is right, yes.

6 Mr. Rotberg: Well, how do you distinguish that from  
7 pegging or establishing a price? Or is it the same?

8 Mr. Sheets: Well, I would think that activity would  
9 have some limits of stabilization in the price, yes. By  
10 pegging, I see as the market fluctuated, or during the day,  
11 in other words, there is not a single fixed price at which we  
12 stand there and take stocks, so pegging sounds to me like a  
13 single price, stabilizing as an orderly market.

14 Mr. Glassmeyer: Or cushioning. I think that is a  
15 better word.

16 Mr. Sheets: Yes.

17 Mr. Rotberg: I don't mean by the use of any of these  
18 words to draw any conclusion as to whether this kind of  
19 activity is appropriate or necessary, or required. It is just  
20 that there are general generic terms used to describe the  
21 activity, and since we all understand what is being done, and  
22 the fact of what is happening, it is not too critical to stick  
23 the label on it.

24 On June 8th, I notice that you buy only about 450  
25 shares. Does your balance start declining some more off the

1 11,000 shares?

2 Mr. Brady: It is still 11,508.

3 Mr. Rotberg: What was it the previous day again?

4 Mr. Brady: 11,333.

5 Mr. Rotberg: The record indicates that you sold  
6 about 1675 shares to 25 customers on that day. I was wondering  
7 why your balance didn't drop more substantially.

8 Mr. Glassmeyer: We may have bought more.

9 Mr. Rotberg: You only bought 400 shares?

10 Mr. Brady: Well, we must have bought a total of  
11 2,000 shares, if we sold 1600.

12 Mr. Sheets: And ended up long 4 more.

13 Mr. Rotberg: Okay. Do you have your balance for  
14 June 9th?

15 Mr. Brady: Yes, I have the balance here for June  
16 9th, 98 shares.

17 Mr. Rotberg: You sold approximately 11,000 shares,  
18 then, overnight?

19 Mr. Sheets: During the day.

20 Mr. Rotberg: Off the record.

21 (Discussion off the record.)

22 Mr. Rotberg: Let's go back on the record.

23 You are now about 11,000 shares long, and from our  
24 records, it doesn't appear that you are putting your customers  
25 into the stock after June 12th. Your records indicate, however,

1 that you substantially reduced and extinguished your long  
2 position.

3 From your best recollection, can you tell us generally  
4 how you were able to reduce this 11,000 shares long position on  
5 or about June 10th?

6 Mr. Brady: As I tell you, we retailed approximately  
7 20,000 shares of stock, which established a short of about  
8 10,000 shares.

9 Mr. Rotberg: Can you tell us to whom you retailed  
10 the 20,000 shares?

11 Mr. Brady: I did.

12 Mr. Rotberg: That was off the record.

13 Mr. Brady: I am sorry. 10,000 to Morgan Guaranty.

14 Mr. Rotberg: Was that for the account of a pension  
15 fund, or was it for the firm account?

16 Mr. Brady: I have no idea. 5,000, I believe, to  
17 One William Street, and 5,000 to roughly 15 retail accounts in  
18 varying amounts.

19 Mr. Rotberg: Were these sales made at below the  
20 current market for the security?

21 Mr. Brady: They were made at the market. The market  
22 was 28-1/4, 3/4, and the stock was sold at 28-3/4, net.

23 Mr. Rotberg: These transactions, I take it, were  
24 not recorded in your trading account as such, which is the  
25 reason they don't reflect on our records?

1           Mr. Brady: That is correct, they were -- the sales  
2 were not made out of your trading account.

3           Mr. Rotberg: I take it that the stock was taken out  
4 of the trading account, your long position, and transferred to  
5 another account, and then on to your retail distribution, as  
6 you have described?

7           Mr. Brady: That is right.

8           Mr. Rotberg: This, then, put you into an approximate  
9 10,000 share or 9,000 share short position around June 12th,  
10 or June 13th?

11          Mr. Brady: Somewhere in there.

12          Mr. Rotberg: Now the records that you submitted to  
13 us show that on June 13th you sold 452 shares to about 13  
14 customers.

15          Excuse me, that was June 12th, not June 13th. And  
16 that from June 13th through June 20th, none of your retail  
17 customers buy any stock in Grosset and Dunlap, either on a  
18 solicited or unsolicited basis.

19          On June 14th, you buy 1400 shares. What is your net  
20 balance?

21          Mr. Brady: Well, this net balance shows 1363 shares.

22          Mr. Rotberg: Long or short?

23          Mr. Brady: Long.

24          Mr. Rotberg: How did you get rid of your 10,000  
25 share short?

1           Mr. Brady: You see, this is what is difficult for  
2 me to explain, because -- I don't know where this came from.

3           May I just give you a resume here, as I recall the  
4 situation?

5           Mr. Rotberg: Yes.

6           Mr. Brady: On approximately June 8th, we were short  
7 in this other account for the firm about 10,000 shares.

8           Mr. Rotberg: Short or long?

9           Mr. Brady: Short.

10          Mr. Rotberg: Yes.

11          Mr. Brady: Now irrespective of what this says here,  
12 as I recall it, in the next ten trading days, roughly, that  
13 short position was covered, in the market, when actually our  
14 national trading division I don't believe was just making an  
15 ordinary trading market, but we were covering the short for the  
16 other account. And it took about ten days to cover that short.

17          Mr. Rotberg: Where were they getting the stock from?

18          Mr. Brady: The Street.

19          Mr. Rotberg: Were they soliciting customers to sell?

20          Mr. Sheets: No.

21          Mr. Brady: We weren't soliciting anybody. This  
22 came from just where we had been accumulating all the stock,  
23 from other dealers.

24          Mr. Rotberg: You just kept accumulating, only this  
25 time, it was covering your short position.

1 Mr. Brady: That is right.

2 Mr. Paradise: Then I assume that you stopped  
3 listing your customers and took away that premium commission  
4 to the salesmen?

5 Mr. Brady: That is right. What we were attempting  
6 to do at that point, we still believe the stock to be very  
7 attractive, and at the same time, we realized that the stock  
8 was still in supply, so we made these sales, and thereby were  
9 able to maintain a more orderly market.

10 A Mr. Paradise: What made you stop recommending this  
11 stock to your customers, since it was still below the premium  
12 price? and at approximately the same price that you had  
13 previously been recommending to them at?

14 Mr. Sheets: Well, I don't say that we were not  
15 recommending it as such. We withdrew the premium profit to  
16 the salesmen, because the position had been reduced down to  
17 a satisfactory level. In fact, a short level.

18 Mr. Rotberg: As you say, human nature being what it  
19 is, if you don't give them the extra premium, they wouldn't  
20 sell it?

21 Mr. Sheets: That is right.

22 Mr. Rotberg: So is it fair to say that even though  
23 you still considered the stock a good buy at the 28, 29 level,  
24 because Blyth had a short position it wanted to cover --

25 Mr. Brady: Yes, that is what I wanted to bring out.



1           Mr. Rotberg: It had to stop the active solicitation  
2 and recommendation to customers.

3           Mr. Brady: We felt that we had established our  
4 position so that we were now in a position to maintain a more  
5 orderly market. We didn't want to be short more than we had,  
6 than that, we thought that was a sufficient short, and that is  
7 the reason why we withdrew the profit. We never stopped  
8 recommending the stock.

9           Mr. Paradise: But you knew that if there was no  
10 premium to the salesmen, that they weren't going to recommend  
11 it to their customers, and in fact, they would probably  
12 recommend some other stock where there was a premium to them?

13           Mr. Sheets: That is precisely correct. We have a  
14 wide list of merchandise with profit with it, and the salesman  
15 will usually work to sell something that he has got a profit in.

16           Mr. Paradise: Yes.

17           Mr. Rotberg: Is it, then, really fair to say that  
18 at the point that you acquired your short position, you were  
19 more interested in making sure that that short position did  
20 not increase, because of buying by customers, than you were in  
21 recommending it to the customers?

22           Mr. Brady: As I say, I feel sure, the way I recollect  
23 this, is that that was a sufficient short in our mind. As a  
24 matter of fact, we probably thought it might even be possibly  
25 a little dangerous, being short ten thousand shares, because

1 we didn't expect the stock to keep going down, down, down.  
2 We thought there was a point where it would turn around.

3 Mr. Rotberg: As a matter of fact, your belief that  
4 it might be dangerous was implemented by your taking away the  
5 premium to salesmen?

6 Mr. Brady: That is correct. A

7 Mr. Rotberg: Even though the stock was the same  
8 company, Grosset and Dunlap, and the price was still the same  
9 \$29 a share?

10 Mr. Sheets: That is right.

11 Mr. Rotberg: Can you trace for us briefly the  
12 subsequent market history of what happened to Grosset, after  
13 late June 1961?

14 Mr. Brady: Well, according to these records here,  
15 the stock got down to a low of 24, 5, around July 1st, and  
16 appreciated on the 6th -- for what reason I don't know -- to  
17 27 and a quarter, 28 and a quarter.

18 Mr. Rotberg: Were you buying or selling particularly  
19 heavy on balance during this period?

20 Mr. Brady: No. On July 3rd, we had a net position  
21 of 800 shares.

22 Mr. Paradise: Do you know if when it reached the  
23 24 level whether you again put on a premium for the salesmen  
24 to solicit?

25 Mr. Brady: I couldn't answer that. I don't know.  
I doubt it.

1 Mr. Sheets: I don't believe that we did.

2 Mr. Paradise: Why not?

3 Mr. Sheets: Our position here was running around  
4 a thousand shares.

5 Mr. Paradise: But I assume you thought it was even  
6 a better buy at 24 than at 29?

7 Mr. Sheets: Well, this doesn't necessarily follow.  
8 the markets may change, and once it has broken the offering  
9 level, supply might come in and the firm might feel the stock  
10 may well go lower. At the original issue price, there might  
11 have been some hope that it could be sustained there by a  
12 redistribution. Once that point is passed, you might well  
13 change your mind that it is not as attractive a value at 24.  
14 Comparable securities may have sold down even more sharply  
15 until this one might have looked over-valued at that point, so  
16 that I don't believe you can draw the conclusion that because  
17 it was attractive at 29, it is much more attractive at 24. This  
18 isn't always the case.

19 Mr. Rotberg: But as far as you know, the company had  
20 not issued any adverse --

21 Mr. Sheets: No change to the company's position for  
22 ones that were --

23 Mr. Glassmeyer: But there was a substantial change  
24 in the company's position for other values, yes.

25 Mr. Paradise: Do you know if at this point many of

1 your company customers who had received the original allocation  
2 had sold out?

3 Mr. Sheets: I don't know that, no; maybe our records  
4 would indicate the ones that had sold through us only, would  
5 be the only knowledge we would have of it.

6 Mr. Rotberg: After July, is it fair to say that there  
7 were no significant heavy positions or short positions by Blyth  
8 in this security?

9 Mr. Brady: This only goes up to July 14th, at which  
10 time we were long 4,000 shares, which is not anything out of  
11 the ordinary.

12 Mr. Glassmeyer: But to your recollection, we did  
13 not have any significantly heavy positions?

14 Mr. Brady: No.

15 Mr. Rotberg: You had no significant redistribution,  
16 as you call it, after July, as you remember, I mean?

17 Mr. Sheets: I don't think we did.

18 Mr. Paradise: From your past experience with other  
19 securities, would your customers, who received the original  
20 allocation in a security whose price action had gone in the  
21 way that Grosset and Dunlap had, have sold out by the time the  
22 stock reached 24, considering the period of time involved?

23 Mr. Sheets: No, I think a great majority of them  
24 would still be holding it. There would have been some that  
25 were possibly traders, that would have become disappointed

1 once the stock broke the offering price on the down side, and  
2 sold their stock, but I think it would have been a small  
3 minority of our clients would have done that.

4 Mr. Rotberg: May we assume that if you were not the  
5 managing underwriter, but were just co-underwriter in an issue  
6 such as this, that you would not have reacted in this way with  
7 respect to buying on balance and redistribution?

8 Mr. Sheets: Yes, I think that is a fair assumption.

9 Mr. Rotberg: Now do you think that a managing  
10 underwriter can perform what you consider to be this obligation  
11 under these circumstances, to buy on balance, if he does not  
12 have a retail department which will be able to solicit  
13 customers, institutional and otherwise, in order to lower or  
14 limit that long position? Do you think you can do it without,  
15 if you weren't a retail house?

16 Mr. Sheets: Well, there are other ways.

17 Mr. Glassmeyer: I would say yes, by putting out a  
18 fat selling group commission and having other dealers  
19 participate.

20 Mr. Sheets: Having other dealers do his distribution,  
21 have no retail organization, do it through other dealers, at  
22 a profit to the dealer, a discount from the market.

23 Mr. Rotberg: And use that as a method of getting rid  
24 of your long position?

25 Mr. Sheets: Of distribution.

1           Mr. Brady: As a matter of theory, though, I don't  
2 think I know of a house that brings out common stocks that does  
3 not have a retail distribution, too, retail department.

4           Mr. Glassmeyer: Morgan Stanley bring out common stock  
5 issues.

6           Mr. Rotberg: There are houses which have retail  
7 distribution for purposes of underwriting only, but do not use  
8 any of their retail outlets for purposes of aftermarket business.  
9 They are usually much smaller houses than yours, of course.

10          Mr. Brady: Yes.

11          Mr. Rotberg: Would it seriously interfere with your  
12 operations if you were prohibited from soliciting the purchase  
13 of stocks in which you were acting as managing underwriter,  
14 where you held a long position acquired at a premium over the  
15 offering price?

16           I mean, to make it clearer, suppose you just were not  
17 permitted to solicit your retail customers to buy stock that  
18 you had acquired in a long position while the security was at  
19 a premium. Would that seriously interfere with what you  
20 consider to be your function in the aftermarket? That is, you  
21 had to take it in long position, and either sell it out to  
22 other dealers, or get stuck with it?

23          Mr. Glassmeyer: That is above the offering price?

24          Mr. Rotberg: That is correct.

25          Mr. Sheets: Well, I can respond to that, I believe.

1 This depends entirely on the situation. There are some  
2 securities that come out and sell above the offering price  
3 that we might think are still very good values, and as soon  
4 as trading restrictions were removed might take a position in  
5 that stock for our own account and trade it, and get out and  
6 solicit orders in it, because we thought -- it was offered at  
7 25, and it was selling at 27 -- and we thought it was still a  
8 good value at 27, and we would get out and sell it.

9 Mr. Rotberg: That is issues where you are the  
10 managing underwriter?

11 Mr. Sheets: Not where we are the managing underwriter.  
12 I don't think we have done that.

13 Mr. Rotberg: When you are the managing underwriter,  
14 I would assume that you would bring the issue out at 27 to  
15 begin with, if that is the case.

16 Mr. Sheets: Well, as I say, I have one instance in  
17 mind where we did this, but not as a managing underwriter.

18 Mr. Rotberg: Well, suppose you just couldn't solicit  
19 retail purchasers in the aftermarket?

20 Mr. Brady: For how long?

21 Mr. Rotberg: Six months.

22 Mr. Sheets: Now solicit retail purchasers at a  
23 premium price?

24 Mr. Rotberg: Let's first take the case where you  
25 wouldn't be allowed to solicit the purchase when the security

1 is still at a premium price. For, say, a six-month period.

2 Mr. Sheets: My own reaction is six months is far too  
3 long. There might have been considerable changes in its value  
4 within six months.

5 Mr. Rotberg: Let's say, prior to the issuance of a  
6 financial statement, other than that which appears in the  
7 prospectus.

8 Mr. Sheets: That, too, is not very good. Prior to  
9 some development that might increase its value. I can only  
10 think of something such as McDonnell & Co., in which they might  
11 bring the stock out at 19. We were not an underwriter in the  
12 issue. Between the time they brought it out and the stock was  
13 trading at a premium of five or six points, and they got a  
14 contract to put their stamps into the A & P system. This was  
15 a tremendous development. No financial statement, nothing  
16 that you could put in as a restriction, but it had certainly  
17 improved the prospects of that stock.

18 Mr. Rotberg: Did you have a long position at that time?

19 Mr. Sheets: No, we didn't.

20 Mr. Rotberg: Again, considering the hypothetical  
21 as one where you would have a long position?

22 Mr. Sheets: Well, we would have a long position if  
23 we offered it for retail and solicited orders.

24 Mr. Rotberg: I am training to limit the proposal  
25 to the situation where you have a long position, the stock is



1 at a premium, and the proposal would contemplate that you could  
2 not solicit retail customers to take the long position off  
3 your hands for a specific period of time.

4 Mr. Brady: This is only the house of origination?

5 Mr. Rotberg: Only the house of origination.

6 Mr. Brady: Not the underwriters associated with it?

7 Mr. Rotberg: No, I am just trying to get a feel for  
8 how much you would consider this detrimental, or unimportant  
9 to your operation. I mean, is it so important to your operation  
10 that you have to solicit retail customers?

11 Mr. Sheets: No, but as far as I am concerned, I  
12 would hate to see us denied that privilege, if we thought we  
13 wanted to do it.

14 Mr. Rotberg: You can appreciate, of course, that  
15 where you have a long position, and where you are buying on  
16 balance, you are to some extent protected because of the  
17 knowledge that you can get rid of it to retail customers,  
18 by soliciting their purchase, which may, under certain circum-  
19 stances, be a source of abuse.

20 Mr. Sheets: Yes, I can see that.

21 Mr. Rotberg: And on the other hand, you point out,  
22 of course, that if the stock is worth a few points more than the  
23 premium, and you happen to have a long position, you have a  
24 duty to your customers, perhaps, to offer it to them.

25 The question is, in balancing the equities, would it

1 be such a rule which would do damage, seriously, to your  
2 operation?

3 Mr. Sheets: I think that could be of damage, and  
4 you will notice in this instance, we didn't do it. We didn't  
5 solicit orders at a premium in this.

6 Mr. Rotberg: That is correct.

7 Mr. Sheets: I think you need to leave that to the  
8 underwriter. If you put that restriction on him -- and this  
9 is not only Blyth, it is any other managing underwriter --

10 Mr. Rotberg: Yes.

11 Mr. Sheets: -- I think that there might be times  
12 when he could with complete fairness do exactly that, solicit  
13 orders at a premium over the original offer price.

14 Mr. Rotberg: Where you have a long position?

15 Mr. Sheets: Where he had a long position.

16 Mr. Rotberg: I take it that you are even more certain  
17 of your answer where the security is as in Grosset and Dunlap  
18 at the offering price or below, then even more so, you would  
19 want the right to solicit customers?

20 Mr. Sheets: Yes, even if we had acquired it at a  
21 premium, as we did in this instance.

22 Mr. Rotberg: There your solicitation is only a method  
23 of lowering your long position and at the same time giving  
24 customers stock at the offering price?

25 Mr. Sheets: Yes.

1           Mr. Rotberg: Do you consider yours is in some ways  
2 very similar to a specialist in an exchange, in the transactions  
3 that we have been describing in connection with the acquisition  
4 on balance of Grosset and Dunlap?

5           Mr. Brady: I can't answer that, because I don't  
6 know what a specialist does.

7           Mr. Rotberg: Well --

8           Mr. Brady: I mean, we are both, theoretically, trying  
9 for the same thing, and that is to maintain an orderly market.  
10 That is as far as I can go.

11           Mr. Merrell: You mean I don't know the rules under  
12 which he operates?

13           Mr. Brady: No.

14           Mr. Rotberg: Do you believe that there should be  
15 any segregation of the investment banking functions, and by  
16 that I mean the function of underwriting and selling off to  
17 other broker-dealers, from the function of selling to retail  
18 public customers? Do you think that a company should have to  
19 choose whether they are going to be selling to other broker-  
20 dealers, or to retail customers, or do you think that you see no  
21 problems in being able, as you are now, to sell both to other  
22 dealers and to public customers?

23           Mr. Glassmeyer: We see no problems in being able  
24 to perform the two functions that you just described.

25           Mr. Rotberg: Are you aware of any responsible belief

1 on the part of any other houses inconsistent with yours?

2 Mr. Glassmeyer: We are not.

3 Are you?

4 Mr. Sheets: No.

5 Mr. Merrell: Could I just ask off the record?

6 Mr. Rotberg: Off the record.

7 (Discussion off the record.)

8 Mr. Rotberg: On the record.

9 Now do you believe that it is the necessary function  
10 of the managing underwriter to make a trading market after  
11 the distribution is completed? You may want to answer that  
12 in terms of in every case, or in some cases, it must be done,  
13 and we don't know which, or whatever way you please.

14 Mr. Glassmeyer: Well, we believe that it is part  
15 of the services that we render our clients, and in only a  
16 few instances do we not make a market in the securities of  
17 companies whose common stocks we offer.

18 Mr. Sheets: Unless a market exists elsewhere, like  
19 on the stock exchange.

20 Mr. Rotberg: I am speaking of only over-the-counter  
21 securities.

22 Mr. Glassmeyer: I am qualifying that, markets in  
23 securities in which we sponsor for the first time.

24 Mr. Paradise: Is this a necessary service?

25 Mr. Glassmeyer: We think it is a necessary service.

1 Mr. Paradise: Why?

2 Mr. Glassmeyer: Well, may I go back? As a matter  
3 of policy -- and of course there are exceptions to this -- we  
4 do not underwriter companies whose earnings are less than a  
5 million dollars a year, and we recommend, as a matter of  
6 policy that a certain minimum of shares be issued, and in our  
7 judgment this minimum is a number that can support other dealers  
8 and others who will trade in the market after the original  
9 issuance, and give this the activity and volume that will be  
10 a meaningful one, where buyers can buy stocks and sellers can  
11 sell without having too much of a swing one way or the other.

12 Mr. Rotberg: Well, if you bring just those kinds of  
13 issues to market -- and buy "those kinds" I mean issues which are  
14 substantial in size, number of shares, and generat national  
15 interest -- by definition, wouldn't this create an active  
16 dealer market, which could exist without your appearance?

17 Mr. Glassmeyer: Yes, but your original question was,  
18 Do we as a matter of part of our service believe in principal  
19 in trading in the securities of these companies.

20 Mr. Rotberg: Well, no, I think that that is your  
21 conclusion in answer to our question of why you think it is  
22 necessary.

23 Mr. Paradise: Why is it necessary?

24 Mr. Sheets: Well, could I --

25 Mr. Glassmeyer: Go ahead.

1           Mr. Sheets: Well, one of the attributes of a stock  
2 is its liquidity, and this is one of the desirable things that  
3 an investor hopes to have. If we stay out of the market, as  
4 the original underwriter and one with the most knowledge about  
5 it, it might induce other people to stay out of the market.

6           This is one point, and the second point is that in  
7 trading activity, we expect to make some money, between the bid  
8 and the ask.

9           Mr. Rotberg: Aside from the latter, you of course  
10 recognize that there are many issues which are brought to market  
11 in which the managing underwriter does not appear in the sheets.

12           Mr. Sheets: Oh, yes.

13           Mr. Glassmeyer: Yes, we have the machinery for  
14 conducting a nation-wide trading operation. We have had this  
15 for many years.

16           Mr. Rotberg: Well, do you think that in the issues  
17 where the managing underwriter does not go into the sheets,  
18 that there market suffers?

19           Mr. Glassmeyer: If Blyth and Co. with its existing  
20 machinery did not go into the sheets, yes, this might well.

21           Mr. Rotberg: Because the Street expects you to?

22           Mr. Glassmeyer: The Street could expect Blyth and Co.  
23 to make a market in the securities which it sponsors.

24           Mr. Rotberg: So that if it does not, that might be  
25 a psychological effect which might be detrimental to the price

1 of the security. Is that what you are trying to say?

2 Mr. Glassmeyer: Perhaps.

3 Mr. Sheets: And with an organization that is set up  
4 for this. If we had no trading organization, as Morgan Stanley  
5 has no trading organization, this would be different, there  
6 is no detriment to Morgan Stanley's offerings.

7 Mr. Rotberg: Well, again, then, to pinpoint it, what  
8 I think you are saying is that Blyth has the organization, it  
9 has been doing it in the past, everybody expects it to do it,  
10 and if all of a sudden, for a few issues, they decided not to,  
11 there would be a general feeling in the Street that something  
12 is wrong; is that the substance of it?

13 Mr. Glassmeyer: Yes.

14 Mr. Sheets: Yes.

15 Mr. Rotberg: Well, suppose, rather than leaving the  
16 choice to Blyth, you are prohibited from doing it, and the  
17 whole Street knew that managing underwriters don't go in the  
18 sheets, thereby avoiding this psychological effect. Do you  
19 think that your issues would suffer?

20 Mr. Brady: We would like to think that, yes, because  
21 we believe that we make the finest markets in the country. The  
22 closest markets, the closest markets of any size, and we believe  
23 that if we were not in there, making that kind of a market,  
24 that the market would suffer, yes.

25 Mr. Rotberg: And for whose benefit is this, for the

1 record, this close market?

2 Mr. Brady: For both's benefit.

3 Mr. Sheets: The customers. The customers' liquidity  
4 at a small cost.

5 Mr. Rotberg: Do I assume, then, that in issues where  
6 you are not the managing underwriter, and you are just a co-  
7 underwriter, and you don-t appear in the sheets, that your  
8 customers suffer?

9 Mr. Sheets: No, but if the managing underwriter  
10 isn't in there, we may well be the market.

11 Mr. Rotberg: But even if the managing underwriter is  
12 in there, because of your previous statement, you make the best  
13 market, relatively, at least, if you are out of it, your  
14 customers aren't getting quite as good a deal?

15 Mr. Brady: Well, the only reason we would be out  
16 of it would be because the issue was not of great enough size  
17 for us to go in it and maintain a trading market.

18 Mr. Glassmeyer: Let me respon differently. We will  
19 rarely go into an underwriting under other people's leadership  
20 that is so small that we, Blyth and Co., would not be willing  
21 to trade the stock.

22 Mr. Rotberg: But you don't usually go in the sheets,  
23 do you, when you are just a co-underwriter, in the last few  
24 years?

25 Mr. Glassmeyer: Oh, yes. Well, look, there are a



1 lot of companies on this list that they are a co-underwriter.

2 Mr. Sheets: Or a non-underwriter, even.

3 Mr. Glassmeyer: Yes, or a non-underwriter, Anheuser  
4 Busch, that is somebody else's business.

5 Mr. Rotberg: But you are not in the sheets in that  
6 issue for the same reason that you were in the sheets when you  
7 are a managing underwriter?

8 Mr. Brady: I think we are, because we are in there  
9 for one purpose, and that is the fact that we are maintaining  
10 a close market in the stock.

11 Mr. Paradise: What percentage of the securities  
12 where you are a co-underwriter do you make a market in?

13 Mr. Sheets: May I ask clarification of that? A co-  
14 manager, or just a participating underwriter?

15 Mr. Glassmeyer: No.

16 Mr. Paradise: Participating underwriter.

17 Mr. Rotberg: In the last five years.

18 Mr. Glassmeyer: Let me answer that by saying rarely  
19 would we accept a position as a participating underwriter  
20 in any issue which we would not be willing to trade.

21 Mr. Paradise: But how many do you in fact trade?

22 Mr. Brady: Of the issues that we have been an under-  
23 writer?

24 Mr. Rotberg: This can be a very approximate percentage.

25 Mr. Brady: I would think most of them.

1           Mr. Sheets: I would say, no, no, not most of them,  
2 Neal. Would you think so?

3           Mr. Glassmeyer: I would say more than three-quarters  
4 of them.

5           Mr. Sheets: Where we are an underwriter, we also  
6 trade. We might be willing, but we don't.

7           Mr. Brady: A lot of them go on the board.

8           Mr. Sheets: A lot of them go on the board.

9           Mr. Paradise: We are not talking about stocks that  
10 are listed, we are talking about unlisted securities.

11          Mr. Rotberg: Off the record.

12          (Discussion off the record.)

13          Mr. Rotberg: On the record.

14          Apparently we don't have all of the data available  
15 to see how many stocks you participated in just as an under-  
16 writer which are traded solely in the over-the-counter market,  
17 and in which you also make a trading market.

18          Perhaps just as a matter of information, you could  
19 supply to us for the last three or four years, when you go  
20 back to New York, the basic information which would give us a  
21 breakdown on that.

22          May I ask whether you make trading markets in  
23 securities in which you complete secondary non-registered  
24 distributions in over-the-counter securities?

25          Mr. Sheets: Was the question there do we attempt

1 to maintain a trading market in over-the-counter issues  
2 in which we participate in the secondary, or had a secondary?

3 Mr. Rotberg: Yes.

4 Mr. Sheets: No, we wouldn't. I don't believe we  
5 would necessarily feel any obligation to have a trading market  
6 in that.

7 Mr. Rotberg: Your customers are buying that stock  
8 in substantial amounts, are they not?

9 Mr. Sheets: Yes.

10 Mr. Rotberg: Why don't you consider it a duty to  
11 make a market, then, in those cases?

12 Mr. Sheets: I might say substantial, much less  
13 substantial than in an underwriting, much less substantial.

14 Mr. Rotberg: Why don't you make a market there?

15 Mr. Brady: Well, the only thing I can answer is that  
16 probably because we don't feel that it is a broad enough market  
17 for us to trade in day in and day out.

18 Mr. Rotberg: Even though it might be a seasoned  
19 security?

20 Mr. Brady: Yes.

21 Mr. Rotberg: In fact, it would be by definition.

22 Mr. Brady: Yes.

23 Mr. Paradise: Do you feel your customers are getting  
24 hurt by your not making a market?

25 Mr. Brady: No, I don't think so, because we

1 weren't in the market prior to the secondary, and there is no  
2 reason to go in afterwards.

3 Mr. Rotberg: Even though by definition, you are  
4 staying out of a market which is very thin, and this is the  
5 reason you are not in it?

6 Mr. Brady: Well, no, that isn't quite true. You  
7 see, in our trading, we have arrived at a fact that a stock  
8 should have close to a half a million shares outstanding for  
9 it to have a consistent, active, close market.

10 Now we have found out by trading the others, smaller  
11 issues, that over a period of a year, it just doesn't pay. The  
12 market isn't there all the time.

13 Mr. Sheets: When you say "market," you mean turnover?

14 Mr. Brady: Yes, I mean the activity isn't there,  
15 unless there is that much stock. Now we just found that out  
16 through trial and error.

17 Mr. Rotberg: Yes. But is it not true that the more  
18 activity there is, which is what you are aiming for in bringing  
19 an issue to market, the less the reason for your being in the  
20 sheets in the first place, because the market can exist without  
21 you, because of the activity?

22 Mr. Sheets: But we can't make any money, not trading  
23 the stock, and the trading department in its trading activity  
24 is a money-making department.

25 Mr. Rotberg: That is right, but in an issue like

1 Grosset and Dunlap, you specifically were not buying on  
2 balance when that market was declining with the honest  
3 expectation that you were going to be making money on that  
4 buying on balance when the price was going down.

5 Mr. Brady: You never buy on balance on the way down  
6 if you can avoid it.

7 Mr. Rotberg: That is right, so you were not doing  
8 that as a profit-making venture; you were doing it for a  
9 completely different reason.

10 Mr. Brady: No, now I disagree with you, sir. We  
11 were buying it because we thought -- and as I mentioned before,  
12 our judgment was faulty -- because we thought that we could  
13 make money from the position that we were accumulating, but  
14 it certainly proved that we were wrong.

15 Mr. Rotberg: It is approaching five o'clock, and  
16 I think it is time, in view of the discussion in the last hour  
17 and a half or two hours, for me to make a comment which  
18 perhaps I should have made earlier, and that is that in putting  
19 forth some of these hypothetical proposals of rules, I implore  
20 you not to assume that the staff or the Commission has accepted  
21 them, or is even considering them, but it is just Mr. Paradise's  
22 way, and my way, of pinpointing and isolating exactly your  
23 practices and your opinions, and if at times the suggestions  
24 might seem extreme, either in practicality or in necessity,  
25 I want you to just understand that it is a method by which we

1 can test both the consistency of your opinions, and the logic  
2 behind them, and the general opinions of your firm, so I  
3 want you to take them in that sense, and understand them to be  
4 just that, and nothing more.

5 As we have indicated, we have another appointment  
6 in about an hour. I am quite sure that we will finish tomorrow,  
7 and let me take this opportunity at this point to thank you,  
8 so far, for your kindness and cooperation.

9 Perhaps we can meet a little earlier, at 9:30 tomorrow  
10 morning, for the next session.

11 (Whereupon, at 4:50 p.m., the hearing in the  
12 foregoing matter was recessed, to be reconvened at 9:30 a.m.,  
13 Thursday, May 3, 1962.)

14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25