funds to Realty and subsequently by converting such investment into excessive mortgages on properties acquired by Realty with funds obtained from Republic;

3) Fraudulently report material amounts of income of Republic which was in fact generated by Republic's advancing substantial sums to Realty which were immediately returned by Realty to Republic in interest payments on debt owed to Republic by Realty and affiliates and nominees of Realty; and

4) Overstate the assets of Republic in reports furnished to shareholders and to the Insurance Department of the State of Texas.

The court entered permanent injunctions against Republic, Realty, Peat Marwick, Westheimer and 8 of the 11 employees prohibiting future violations of the above securities law provisions. The defendants consented to the court's entry without admitting or denying the Commission's allegations.

<u>SEC v. Westgate - California Corporation, et al., Civil Action No. 73-217N (S.D. Calif, May 1973)</u>

The Commission's complaint alleges that Westgate - California corporation ("Westgate"); C. Arnholt Smith ("Smith"), chairman, chief executive officer and former president of Westgate; Philip Toft ("Toft"), president and director of Westgate, M. J. Coen ("Coen"); and others violated the registration, antifraud, reporting and proxy provisions of the federal securities laws.

This Complaint also alleged a second fraudulent course of business. The object of this second scheme was allegedly to manufacture earnings for Westgate in order to present a false appearance of profitability. It is alleged that in order to generate bogus earnings, Smith and Toft arranged for the sale of Westgate assets for cash, and for Smith to loan the purchasers the funds necessary to complete the transactions, funds Smith allegedly borrowed from the bank. The Complaint further alleges that the purchasers in these arranged sales were insulated from any losses or costs. According to the complaint, in many instances the purchasers were assured a profit resulting from an option arranged by Smith whereby the purchaser obtained the right to resell the asset at a gain. It is alleged that, as a result of this course of conduct, Westgate recorded many millions of dollars of profits over the last four years from sales which were not arms-length, were totally devoid of economic substantce, and which resulted in a distorted and misleading presentation of the company's profitability.

The Commission sought a permanent injunction against further violations by the defendants, the appointment of a receiver to conduct the operations of Westgate, an injunction against Smith and Toft prohibiting them from serving as officers or directors of any public company without sufficient assurance that they would not engage in similar misconduct, as well as an agreement from Smith and Toft to indemnify Westgate against any losses as a result of their actions.

On October 30, 1973, Final Judgments of Permanent Injunction were entered against Smith, Toft, Sovereign States Capital Corporation ("SSC"), British Columbia Investment Company ("BCIC"), Elsinore Royalty Inc. ("Elsinore") and U.S. Holding Company ("U.S. Holding") enjoining all of them from violations of the antifraud and reporting provisions of the federal securities laws and enjoining certain of them from violations of the registration provisions of the Securities Act. In addition, the judgments entered by the court provide that:

1) The board of directors of Westgate be reconstituted to seven persons, five of whom shall be appointed by the Court after consultation with the Commission and two of whom shall be nominated by U.S. Holding (the majority shareholder of Westgate) after notice to the Commission and approval by the Court;

2) A "Special Counsel" be appointed to conduct a full investigation into the previous affairs of Westgate, to report the results of such investigation to the Court, the Commission and the new board of Westgate, and to take all appropriate action on behalf of Westgate against responsible persons as indicated as a result of his investigation;

3) Smith and Toft immediately resign as directors and officers of Westgate and its subsidiaries and as officers and/or directors of any other public company in which they hold a position;

4) An executive committee of the board of directors of Westgate be created to consist at all times of a majority of court appointed directors; and

5) Westgate file within 180 days, or such later time as the Commission may permit, all necessary reports and all amendments and supplements to its reports on file as may be required.

The Order entered against U.S. Holding, the majority shareholder of Westgate, provided limitations on the future voting of its Westgate stock in that it may vote such stock only after notice to the Commission, Westgate and the Court of its proposed vote. U.S. Holding is prohibited by the order from voting its stock in such a way that among others, it would violate the securities laws, abridge the interests of minority shareholders, or amend, modify or frustrate the purposes or terms of the Court's Order. The defendants consented to the entry of these final judgments without admitting or denying the allegations contained in the Commission's Complaint.

An order permanently enjoining Coen from violations of the antifraud provisions of the Securities Act and the Exchange Act was entered on September 4, 1973. The Order further enjoined Coen from aiding and abetting violations of the periodic reporting and proxy provisions of the of the Exchange Act. Coen consented to the entry of the order without admitting or denying the allegations in the Commission's Complaint.

<u>SEC v. Allegheny Beverage Corporation et al.</u>, <u>Civil Action No. 932-73 (DDC May 1973)</u>

The Commission's complaint alleges that Allegheny Beverage Corporation ("Allegheny"); Valu Vend Inc. ("VV"), Valu Vend Credit Corporation ("VVCC"), a subsidiary of Allegheny, four Allegheny officers, the company's auditors, the underwriters of a VVCC public offering, counsel for the underwriter, counsel for VVCC, Suburban Trust Company ("Suburban") and others violated the antifraud, reporting and registration provisions of the federal securities laws.

The Complaint alleged that various Allegheny financial reports disseminated to the public and filed with the Commission in 1971 and 1972 were materially false and misleading. The reports allegedly included income from improperly reported sales and materially [illegible]. Another portion of the complaint relates to a 1971 public offering of $25 million of VVCC debentures. The prospectus stated that $10 million of such debentures had to be sold and paid for within a specified period or all money received from subscribers, to be maintained in a special account at Suburban, would be returned. It is alleged that VVCC was able to sell only $500,000 of the debentures but entered into fraudulent arrangements, aided by certain of the defendants, to make it appear that $10 million had been sold.

On October 25, 1974, the Court permanently enjoined First Duso Securities ("First Duso") and its principal Miles A. Bahl ("Bahl") from violations of the antifraud provisions of the Exchange Act and the rules and regulations thereunder. In addition, First Duso and Bahl were enjoined from selling or delivering securities for which a registration statement had been filed with the Commisison unless the security is accompanied or preceded by a prospectus that meets the requirements of the Securities Act. First Duso and Bahl consented to the injunction permanently enjoining them without admitting or denying the allegations of the Complaint.

On January 8, 1975, injunctive, mandatory and ancillary relief was granted against Allegheny, VV, VVCC, and Morton Lapides, president of the defendant corporations, for violations of the federal securities laws. Specifically, the court enjoined ABC and Lapides from further violations of the antifraud, registration, reporting, and proxy provisions, VV from further violations of the antifraud, reporting and registration provisions, and VVCC from further violations of the antifraud and registration provisions of the Acts. The Court also enjoined Harry J. Conn, vice president of ABC, and Anthony J. Hering, treasurer of ABC, from further violations of the Securities Act and enjoined William W. Kane, former vice president of ABC from further violations of the registration provisions of the Securities Act. In addition to the injunctions, the court's order directed that:

1) Lapides pay $70,000 to ABC, reflecting gains from his use of corporate funds and his insider trading, $25,000 of which is to be set aside for compensation for losses to individual purchasers of ABC stock alleged to have been sold by Lapides, Conn and Kane in violation of the federal securities laws;

2) A special agent be appointed to confirm the return to ABC by Lapides of $540,000 of corporate funds alleged by the Commission to have been personally used by Lapides;

3) ABC establish an independent audit committee, composed of unaffiliated persons acceptable to the Commission and ABC and approved by the Court, to select independent certified public accountants to conduct ABC's annual audits; to approve or disapprove ABC's management decision to change such accountant; to determine the position and policy of ABC in any dispute or disagreement between ABC's management and the independent accountants; and to formulate the position of ABC's management, including Lapides, in any request by the accountants for any documents or information requested of Lapides by the accountants;

4) Lapides make available to ABC's accountants, if needed, in the audit of ABC, any personal documents or other materials requested by the accountants;

5) ABC, VV, VVCC and Lapides file with the Commission reports containing a full and accurate description of any future transaction, direct or indirect, between ABC and Lapides; and

6) ABC file with the Commission amended annual and periodic reports in accordance with the allegations of the Complaint.

The defendants consented to the judgments without admitting or denying the allegations of the Complaint.

On January 8, 1975, the court entered an order permanently enjoining Benjamin Botwinick & Co. ("Botwinick"), a firm of certified public accountants, and Alvin I. Mindes ("Mindes"), a partner thereof, from violating the antifraud and reporting provisions of the federal securities laws.

In addition, the Commission entered an Order pursuant to Rule 2(e) of its Rules of Practice providing that, for a ten month period commencing with the entry of the Commission's order, Botwinick will be barred from accepting any new public business, Mindes will be barred from practicing before the Commission except as a supervised employee of Botwinick and from being a partner of Botwinick, and Mindes will take 100 hours of continuing professional education in subjects involving public accounting and auditing. Further, a review of Botwinick's auditing practices involving public clients will be conducted by one or two AICPA-designated CPA's, who will make such recommendations to Botwinick for changes in its auditing practices as they see fit, and who, at the conclusion of their review, will submit a report to the Commission of their findings.

Botwinick and Mindes consented to the injunctive order and the Commission's Rule 2(e) order without admitting or denying the allegations contained in the Commission's Complaint. The Commission charged Botwinick and Mindes with violations of the antifraud and reporting provisions of the federal securities laws in connection with their certification of the 1981 year end financial statements of ABC and subsidiaries.

On June 18, 1975, pursuant to stipulations and representations of David S. Klein and Barry L. Dahne, the court entered orders forbidding Dahne and Klein from aking any misleading statements or omitting material facts necessary in order to make the statements made not misleading in connection with the purchase or sale of any security. Such orders were consented to by the defendants, who neither admitted nor denied the charges against them. Dahne, who presently does not practice before the Commission, also agreed, by stipulation, to practice accounting before the Commission in the future unless he first notifies the Commission and the Commisson determines that it has no objection. Klein agreed pursuant to stipulation that for a period of 16 months, he will not practice law before the Commission, with the following exceptions: 1) he may continue his present full-time employment as corporate counsel, but must submit all significant securities matters to outside securities counsel for review during the full 16 month period; and 2) he may continue his present representation of four small outside clients, but must submit all significant securities matters to another securities counsel for review for the balance of 1975. The Commission agreed to dismiss its action against the law firm of Klein & Dahne in view of the representations made to the court by Klein and Dahne that the law firm has ceased to exist.

Pursuant to stipulations and undertakings, the court entered ordered against the law firm of Wright, Robertson and Dowell, G. Gordon Haines and Suburban Trust Company and the Commission terminated the action w'th respect to McLaughlin & Stern, Ballen and Miller ("MSBM") and A. Jeffry Robinson and instituted Rule 2(e) administrative proceedings which censured MSBM.

SEC v. Keller Industries, Inc. et al., Civil Action No. 71-143 (SDNY 1973)

The Commission's Complaint alleges that Keller Industries, Inc. ("Keller Industries"), Henry Keller ("Keller"), President and Chairman of the Board; and Norman Edelcup ("Edelcup"), Chief Financial Officer, violated the anti-fraud and reporting requirements of the Exchange Act. More specifically, the Complaint alleged that registration statement contained fraudulent, unaudited earning figures, the interim financial statements for 1967-1969 were false and misleading in that the earnings reported were inflated, and the semi-annual reports for the same time period were also false and misleading.

The Commission sought both preliminary and permanent injunctions against further violations of the anti-fraud and reporting provisions. The permanent injunction was granted. The Court also ordered Keller Industries to follow effective and uniform procedures in preparing the disclosure documents. The case against Keller and Edelcup was dismissed and Keller Industries consented to the Court's judgment without admitting or denying the Commission's allegations.

SEC v. Equity Funding Corporation of America, (C.D. Cal. April 16, 1973)

The Commission's Complaint alleges that Equity Funding Corporation ("Equity") violated the antifraud, periodic reporting and proxy requirements under the Exchange Act.

More specifically, the Complaint alleged that the books and records of the defendant were materially altered. For example, the books of and records of Equity Funding Life Insurance Company, a subsidiary, reflected the sales of insurance policies, the receipt of premium payments, the creation of assets and the establishment of reserves when in fact such policies had not been sold, premium payments had not been received, and reserves had not been established. The Complaint alleged that policies were issued to fictitious persons, persons whose policies had lapsed and persons who had applied for but were denied insurance, that policies were issued upon which no premiums were paid, and that the face amounts of existing policies were increased without customer knowledge. These fictitious policies were then sold or conveyed to company insurers or re-insurers for inflated prices. Equity would also collect death benefits and cash surrender values for these policies from these insurers. As a result, Equity's financial statements filed with the Commission were false and misleading, monies and assets were misappropriated, and there was a possibility of substantial contingent liability.

The company consented to the entry of a permanent injunction against further violations of the antifraud, periodic reporting and proxy provisions of the Exchange Act without admitting or denying the allegations in the Complaint. It also consented to the appointment by the Court of a new board of directors and a special investigator.

SEC v. VTR, Inc., Civil Action No. 190-73 (DDC, February 1, 1973)

The Commission's Complaint alleges that VTR, Inc. ("VTR") violated the reporting provisions of the Exchange Act by not filing its annual, 10-K reports with the Commission for the years 1970-1971 and its failure to file quarterly reports for the first three quarters of 1972.

The Court entered a Final Judgment of Permanent Injunction against VTR enjoining it from failing to timely and properly file annual, quarterly, and other reports with the Commission. It also ordered VTR to file certain delinquent reports with the Commission.

In 1975, VTR and David Jordan ("Jordan"), VTR's Chief Executive Officer, were found in civil contempt of the above injunction for failing to file the 1974 annual report and for failing to correct the 1973 annual report.

Fines were imposed and a limited receiver was appointed to both oversee the prompt preparation and filing of VTR's delinquent reports and to set up a program to assure VTR's future compliance with the injunction.

SEC v. National Student Marketing Corporation, Civil Action No. 225-72 (DDC, February 3, 1972)

The Commission's Complaint alleges that National Student Marketing Corporation ("NSMC"); Cortes Randell ("Randell"), former President of NSMC; John Davies ("Davies"), former Chief Internal Counsel; James Jay ("Jay"), former Director and Vice President; Bernard Kurek ("Kurek"), former Chief Accounting Officer; Roger Walther ("Walther"), former Vice President, President and Chief Executive Officer; Peat Marwick, Mitchell & Co. ("Peat, Marwick"); Anthony Natelli ("Natelli"), partner in Peat Marwick; Joseph Scansaroli ("Scansaroli"), former employee of Peat Marwick; White and Case, law firm of NSMC's; Marion Epley III ("Epley"), partner of White and Case; Robert Katz ("Katz"), attorney; Cameron Brown ("Brown"), Chairman of the Board of Directors, current President and Chief Executive Officer; Paul Allison ("Allison"), Director of one of NSMC's subsidiaries; William Bach ("Bach"), Director of a subsidiary of NSMC; Robert Tate ("Tate"), Director of subsidiary of NSMC; Lord, Bessell & Brook ("Lord"), law firm for one of NSMC's subsidiaries; Max Meyer ("Meyer"), partner at Lord; and Louis Schauer ("Schauer"), partner at Lord, violated the antifraud provisions of the Federal securities laws. NSMC, Randell, Davies, Jay Kurek, White and Case, Epley, Katz, Peat Marwick, Natelli, and Scansaroli were also charged with violations of the reporting provisions of the Federal securities laws.

More specifically, the Complaint alleged that false and misleading financial statements were issued and disseminated to the press; material facts concerning NSMC's financial condition, business operations and transactions with certain directors and employees of NSMC were not disclosed; and false and misleading reports, proxy statements and registration statements were filed with the Commission. The Complaint alleged that the financial data was false and misleading in that sales and income were overstated. Furthermore, the Commission alleged that the comfort letter from Peat Marwick was false and misleading in that it was not prepared in conformity with generally accepted accounting principles.

The Court entered Final Judgments of Permanent Injunction against Natelli, Katz, and Epley and a settlement was reached with Peat Marwick. Natelli was enjoined from further violations of the antifraud, reporting and proxy provisions. Katz was enjoined from issuing false and misleading legal opinions and had to give prior notice to the Commission if he planned to practice before the Commission. Epley was enjoined from future securities laws violations, issuing certain legal opinions, and practicing before the Commission for 180 days. White and Case entered into a stipulation of settlement with the Commission and agreed to set up better internal controls for client representation. Peat Marwick agreed to adopt certain additional procedures in its auditing practices. Defendants NSMC, Randell, Scansaroli, Walther, and Ferguson, without admitting or denying the allegations in the Commission's Complaint, consented to the entry of Final Judgments of Permanent Injunction. Three defendants were granted summary judgment.

Following a trial on the merits with respect to other defendants including the president of an insurance company acquired by NSMC in 1969, a director of the insurance holding company who was a partner in a law firm, another partner in the law firm and the law firm, the Court determined that the defendants violated the securities laws, but that an injunction was not warranted.

In 1975, a federal grand jury indicted Randell, Kurek, Bushnell, Kelly and Davies for conspiracy to violate the federal mail and wire fraud statutes, the antifraud provisions and the reporting provisions of the Federal securities laws.

SEC v. Liberty Equities Corporation, Civil Action No. 70-2351 (DDC August 6, 1970)

The Commission's Complaint alleges that Liberty Equities Corporation ("Liberty"); C. Wyatt Dickerson, Jr., ("Dickerson"), Richard McMurray ("McMurray"), Murray B. Weiner ("Weiner"), Edward A. White ("White"), all officers and directors of Liberty; Peat, Marwick, Mitchell and Co. ("Peat Marwick"), National Savings and Trust Co ("NST"); Edward Kennedy ("Kennedy"); Kennedy Investments Inc. ("Kennedy Investments"); White and Co., Inc. ("White and Co"); Edward Mason and Co., Inc. ("Mason and Co."); and Allen and Co., Inc. ("Allen and Co.") violated the registration, reporting, proxy and antifraud provisions of the federal securities laws.

More specifically, the Complaint alleged that certain of Liberty's financial statements certified by Peat Marwick were false and misleading in that certain non-negotiable, non-interest bearing certificates of deposits purchased from NS&T were classified as current assets. The Complaint further alleged that the certificates were pledged as collateral for the loan but the pledge was not disclosed in the certified statements, and that the entire transaction was a sham, entered into only to lend the appearance of bolstering the company's financial position.

The court entered a Final Judgment of Permanent Injunction against Liberty, Dickerson, White, NS&T, prohibiting further violations of the statutory provisions involved. These defendants consented to the entry without admitting or denying the allegations. Furthermore, Peat Marwick withdrew its certification of the false and misleading financial statements.

SEC v. A.M. International, Inc., Civil Action No. 83-1256 (DDC May 2, 1983)

The Commission filed a civil injunctive action against A.M. International, Inc. ("AMI"), alleging violations of the antifraud, reporting, and accounting provisions of the federal securities laws. Without admitting or denying the allegations in the Complaint, AMI consented to the entry of a Final Judgment of Permanent Injunction and other Equitable Relief ("Final Judgment"), as described below.

According to the Commission's Complaint, during the period covered by the Complaint, AMI was engaged in the development, manufacture, sale and service of machines and supplies relating to document reproduction, graphics and information management. AMI's common stock was listed for trading on the New York Stock Exchange and other exchanges. For its 1980 and 1981 fiscal years (ended July 31) AMI reported revenues of $909 million and $652 million and pre-tax losses, before special items, of $1.5 million and $81 million, respectively. For the same periods, AMI reported net income of $5.8 million and a net loss of $245 million, respectively. On April 14, 1982, AMI voluntarily filed a Debtor Petition under Chapter XI of the U.S. Bankruptcy Code in the Northern District of Illinois.

The Commission's Complaint alleged that throughout its 1980 fiscal year and continuing in its 1981 fiscal year, AMI misrepresented to its shareholders and the public its consolidated financial condition and results of operations by improperly and arbitrarily making adjustments to certain of its allowance and accrual accounts and to its gross profit, attributing certain expenses and charges to periods other than those to which the expenses and charges were attributable, and inflating revenues and results of operations. Moreover, according to the Complaint, AMI failed to record on its books and records material amounts of adjustments to its results of operations which were necessary to present properly consolidated results of operations.

According to the Complaint, as a result of the above-described courses of business, AMI's consolidated financial statements were materially false and misleading in that results of operations, assets and shareholders' equity were overstated, liabilities understated, and statements of changes in financial position were misstated. Moreover, various notes to AMI's consolidated financial statements were false and misleading concerning, among other things, AMI's accounting policies, interim results of operations, unusual income, acquisitions, bank loans and long term debts and the income and financial condition of AMI's finance subsidiary.

During fiscal 1980, AMI artificially structured certain transactions to reduce its foreign income taxes. For example, AMI caused its Belgium subsidiary, which was experiencing increased earnings, to transfer over $600,000 in income to AMI subsidiaries in other countries by improperly creating and issuing artifical credits for defective merchandise. As a result of this transaction alone, AMI's 1980 fiscal year net results of operations were overstated by approximately $300,000.

AMI consented to the entry of a Final Judgment restraining and enjoining AMI from violating Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a) and 13(b)(2) of the Securities Exchange Act of 1934 and Rules 10b-5, 12b-20, 13a-1, and 13a-13 promulgated thereunder. AMI has also undertaken, for a period of three years from the entry of the Final Judgment, to maintain an audit committee of nonmanagement members of its board of directors and to appoint no later than 90 days after confirmation of AMI's plan of reorganization two persons to serve as additional members of its board of directors and on its audit committee. In addition, AMI has undertaken to retain its independent auditors for a three year period to report on AMI's accounting system and procedures to assess the adequacy of its system of internal controls.

<u>SEC v. Mid Continent Systems, Inc. et al.</u>, Civil Action No. 83-1533 (DDC May 31, 1983)

The Commission filed a civil injunctive action against Mid Continent Systems, Inc. ("MCS"), of West Memphis, Arkansas, and D. G. Seago, Jr. ("Seago"), chairman of the board and chief executive officer of MCS, alleging violations of the antifraud, reporting, beneficial ownership, proxy and accounting records and controls provisions of the federal securities laws. Without admitting or denying the allegations in the Complaint, MCS and Seago consented to the entry of final orders restraining and enjoining them from further violations of the provisions of the federal securities laws they were alleged to have violated, and providing for other equitable relief.

The Complaint alleges that in 1981 and 1982, Seago caused MCS to engage in a series of contrived transactions which were designed to manipulate and alter the financial position and results of operations reported by MCS in its year-end financial statements as of December 31, 1981 and 1982. In December 1981 MCS sold $6.7 million of fuel to its customers with the expectation and agreement that the fuel that was invoiced and recorded as a sale would never be shipped and would be repurchased. MCS repurchased the fuel at the same price after the close of the fiscal year. The impact of these transactions was to inflate sales, recognize a LIFO liquidation related to inventory and to overstate income by approximately $3.5 million. Also, on December 31, 1981 a wholly owned MCS finance subsidiary tendered a check for $6.7 million to MCS as payment on its intercompany balance. In January 1982 the funds were transferred back to the subsidiary. The impact of this transaction was to increase cash and working capital of MCS by $6.7 million on its year-end financial statements. The independent accountants retained for the 1981 audit discovered and reversed these accounting improprieties prior to the filing of the financial statements, and were later dismissed. In the 1982 audit the new independent accountants discovered and reversed similar accounting entries.

The Complaint further alleges that MCS temporarily deposited at year-end (1982) $400,000 (and other amounts at prior year-ends) to a bank of which a director and chairman of the audit committee of MCS was president, for the sole purpose of increasing the recorded deposits of that bank on the last day of its fiscal year for financial statement reporting purposes. Prior to 1983 no disclosures were made by MCS of these transactions between MCS and the bank affiliated with a director of MCS.

Without admitting or denying the allegations in the Commission's Complaint, MCS and Seago have consented to the entry of final orders of the Court which enjoin them from violating the provisions of the securities laws they were alleged to have violated. MCS has also undertaken, among other things to: (1) maintain an independent audit committee with a newly appointed independent director as chairman thereof, which will pass on all future proposed related party transactions between MCS and Seago; and (2) correct its annual and periodic reports filed with the Commission since 1977 to reflect the matters set forth in the Commission's Complaint, and obtain and file with the Court and Commission, affidavits from all present officers and directors of MCS identifying and describing all related party transactions with MCS since 1977 for the purpose of assisting MCS in correcting its public filings. Seago had undertaken to file an affidavit with the Court describing all of his and his family's related party transactions with MCS from 1977 to present and use his best efforts to effectuate the terms of MCS undertaking.

In the Matter of Clabir Corporation, Securities Exchange Act Release No. 34-19504 issued Feb. 16, 1983

The Commission issued an Order Instituting Proceedings pursuant to Section 15(c)(4) of the Exchange Act and Conclusions and Order of the Commission with respect to Clabir Corporation. Clabir consented to the entry of the Commission's Conclusions and Order without admitting or denying any of the matters contained therein.

Clabir, in connection with its Quarterly Report on Form 10-Q for the quarter ended October 31, 1981, determined the market value of certain marketable securities on the basis of oral offers to purchase such securities which it stated it had received. In its Order, the Commission concluded that Statement of Financial Accounting Standards No. 12 ("FAS") requires that marketable equity securities included in a company's financial statements are to be valued at the lower of cost or market value. The Commission concluded that market value under FAS 12 is the aggregate of the sales price or bid and ask price currently available on a national securities exchange or in the over-the-counter market of a single share of a security times the number of shares in the portfolio. The Commission concluded that, under the circumstances of this case, Clabir could not determine the market value based upon a price other than the price then available in the national securities exchange on which these securities were traded. In addition, the Order concluded that Clabir should have disclosed in its October 31, 1981 10-Q, the specific basis for its accounting treatment, the NYSE quoted price for the marketable equity securities being valued and the fact that a figure other than the NYSE quoted price was used in determining the market value for such securities.

In the Matter of Ronson Corporation, Securities Exchange Act Release No. 34-19212 issued Nov. 4, 1982

The Commission issued an order instituting proceedings pursuant to Section 15(c)(4) of the Exchange Act to determine whether certain of Ronson Corporation's ("Ronson") filings with the Commission failed to comply in any material respect with the provisions of Section 13(a) of the Exchange Act and the rules promulgated thereunder.

products prior to shipment and in some cases, prior to completion of the product. This was done to increase the company's sales figures to meet predetermined sales goals. The Commission entered findings that with respect to this practice Ronson failed to adequately disclose that the prerecognition of sales practice resulted in the existence of "off the books" inventory and the value of such, the lack of control at RHUCOR over that inventory and that, at times, the inventory had been concealed from Ronson's auditors' during the physical inventory; failed to disclose the methods used to restate the financial statements; disclosed in Current Reports on Form 8-K that its previous financial statements were inaccurate due to prerecognition of sales of completed but unshipped products when in fact in later periods a material portion of the prerecognized sales related to incomplete products; and disclosed in certain filing that its financial statements were restated due to a change in accounting method when, in fact, this was not true.

Simultaneously with the institution of the proceedings, Ronson submitted an Offer of Settlement without admitting or denying the Commission's allegations. The Commission accepted the offer and ordered Ronson to comply with the Exchange Act reporting requirements, to include a copy of the Commission's findings in the next current report on Form 8-K and to include in its next quarterly report a summary of the proceedings.

In the Matter Of CGA Computer Associates, Inc., Securities Act Release No. 33-6378 issued Jan. 27, 1982

On July 16, 1981 the Commission issued an Order Instituting Proceedings pursuant to Section 8(d) of the Securities Act with respect to a Registration Statement filed on Form S-1 by CGA Computer Associates, Inc. The proceedings were instituted to determine whether a stop order should issue suspending the effectiveness of the registration statement. The Commission's staff alleged that CGA's acccounting treatment for the acquisition of Allen Services Corporation on a pooling-of-interests basis was inconsistent with generally acccepted accounting principles and that such accounting treatment of the acquisition had a materially misleading effect on the financial statements contained in the Registration Statement.

CGA submitted and the Commission accepted an offer of settlement which provided for CGA to comply with various undertakings. Certain of the undertakings provide for the following: (1) The company will supplement its registration statement to present financial statements which will account for the acquisition on a purchase method of accounting; (2) The company will file a Form 8 amending its Annual Report on Form 10-K for the fiscal year ended April 30, 1981 to present financial statements of the company which will account for the acquisition on the purchase method of accounting; (3) The company will account for the acquisition on the purchase method of accoounting in all financial statements and selected financial data during the time period such financial statements reflect a material difference in net income as a result of using the purchase method of accounting, as distinguished from any other accounting method, which the Company also intends to and will file or disseminate in registration statements filed with the Commission, in periodic reports, proxy statements, and annual reports to shareholders; and (4) The Company will treat the acquisition as a purchase in financial statements which are required to be audited, in press releases, and other written communications to shareholders which refer to the Company's results of operations or financial condition.

In the Matter of Donaldson, Lufkin and Jenrette, Inc., Securities Exchange Act Release No. 34-17554, issued Feb. 18, 1981

The Commission, in an administrative proceeding, found that certain of DLJ's reports filed with the Commission from 1973 to the present failed to comply in certain material respects with the reporting requirements of the federal securities laws. DLJ submitted an Offer of Settlement without admitting or denying the Commission's findings, and the Commission determined to accept the Offer of Settlement and, accordingly, issued the Order.

The Commission found DLJ's disclosure to be inadequate concerning the nature of long term corporate development investments and the amount of earnings which resulted from unrealized appreciation or depreciation of such long term investments as compared to the amount of earnings which resulted from unrealized appreciation or depreciation of marketable securities held for sale in the ordinary course of business. In addition, the Commission found DLJ's disclosure to be inadequate, for the period from 1975 to the present, concerning a plan to dispose of its investment in Meridian Investing and Development Corporation, a subsidiary of DLJ, which resulted in DLJ not consolidating Meridian's operations with those of DLJ for financial reporting purposes.

<u>In the Matter of Peabody International Corporation</u>, Securities Exchange Act Release No. 34-16938, June 27, 1980

The Commission issued an Order Instituting Proceedings Pursuant to Section 15(c)(4) of the Exchange Act and Findings and Order of the Commission against Peabody International Corp. ("Peabody"). In its Order, the Commission found that Peabody failed to comply in several material respects with the reporting provisions of the Exchange Act and Rules 13a-1 and 13a-13 thereunder in connection with reports for the fiscal year ended September 30, 1979 and the quarter ended December 31, 1979. Specifically, Peabody did not have a sufficient basis upon which to defer certain contract costs attributable to an alleged breach of contract or avoid recognition of the anticipated future costs on this contract and, by reason of the accounting treatment employed, overstated its income in filings with the Commission. Further, the Commission found that Peabody's disclosures concerning these matters in filings with the Commission were misleading and that Peabody omitted to disclose material matters.

The Commission ordered Peabody to comply with the reporting requirements of the Exchange Act, to amend its reports currently on file with the Commission. Peabody also undertook to restate certain financial statements and amend its filings accordingly; immediately issue a release concerning the Commission's proceeding which sets out the restated figures; and develop appropriate procedures and policies concerning the deferral of certain costs. Peabody also undertook to defer costs only if in accordance with generally accepted accounting principles, approved by its audit committee and disclosed in specified filings and report to shareholders.

In the Matter of Gelco Corporation, Securities Exchange Act Release No. 34-16424, December 13, 1979

On December 13, 1979, the Commission authorized the institution of proceedings pursuant to Section 15(c)(4) of the Exchange Act against Gelco Corporation on account of Gelco's erroneous treatment, in fiscal years 1975, 1976, 1977 and 1978, of a purchase discount known as used truck allowance ("UTA"). Gelco had treated UTA as an item of gain, which treatment resulted in inflation of Gelco's earnings in the year in question by as much as 15%. Gelco consented to the 15(c)(4) order simultaneous with the issuance thereof and restated its earnings for the year in question.

In the Matter of Movie Star, Inc., Securities Exchange Act Release No. 34-15129 issued Sept. 6, 1978

The Commission institued administratie proceedings against Movie Star Inc. ("MSI") to determine whether MSI's filings with the Commission pursuant to Section 13(a) of the Exchange Act and the rules and regulations promulgated thereunder were deficient with respect to MSI's inventory valuation practices. More specifically, MSI's annual reports and periodic reports from 1971 through 1976 were deficient in that they omitted to state: 1) the amount of certain inventory reserves and the effect of the changes in these inventory reserves on the financial statements of MSI; 2) the unsystematic method in determining the amount of inventory reserves and how they were utilized and 3) the lack of supporting documentation as to the purpose of the inventory reserves and the reason for changes from prior periods.

Simultaneous with the institution of the proceedings, MSI submitted an offer of settlement whereby, MSI, without admitting or denying any of the facts or findings set forth in the Order, consented to the issuance of the Order. The Commission further ordered that MSI: 1) correct the deficient reports on file with the Commission 2) establish and maintain procedures for the determination of provisions for inventory markdowns and reserves; 3) disclose in future annual reports the amount of inventory reserves for the current period and prior periods; and 4) establish an audit committee consisting of independent outside directors to review financial controls and accounting practices, review all future reports filed with the Commission and press releases.

In the Matter of Louis Pokat, Securities Exchange Act Release No. 34-18976 issued August 18, 1982

Public administrative proceedings were instituted pursuant to Rule 2(e) of the Commission's Rules of Practice naming as respondents the accounting firm of Louis Pokat, P.A., P.C. and Louis Pokat of Waltham, Massachusetts. Simultaneous with the institution of the proceedings, the Commission accepted offers of settlement in which the respondents, without admitting or denying the alleged violations, consented to the entry of an Opinion and Order of the Commission permanently denying them the privilege of appearing or practicing before the Commission and providing that they may after five years apply to resume appearing and practicing before the Commission upon a showing that certain specified conditions have been satisfied by the respondents.

In its Opinion and Order, the Commission concluded that in connection with their audits and certifications of Hermetite Corp.'s financial statements, Louis Pokat engaged in unethical and improper professional conduct within the meaning of Rule 2(e)(1)(ii) and that Louis Pokat and Louis Pokat P.A., P.C. violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and aided and abetted violations of Sections 13(a) and 14(c) of the Exchange Act and Rule 13a-1 thereunder, within the meaning of Rule 2(e)(1)(iii).

The audits were deficient in that they failed to properly audit inventory, cash and accounts payable. There were also no overall planning, supervisory and review procedures used during the audits. And, as a result of these deficient audits, the firm did not become aware of a material embezzlement of corporate funds.

Finally, Pokat engaged in unethical conduct by not reporting the embezzlement discovered by his firm, by causing work papers to be altered, by making false reports and statements to officers of Hermatite, and by falsely identifying workpapers produced to the Commission. Moreover, Pokat was not independent with regard to the audits of Hermetite.

In the Matter of Arthur Andersen & Co., Securities Exchange Act Release Nos. 34-17878 issued June 22, 1981

The Commission issued an Opinion and Order in administrative proceedings against Arthur Andersen & Co. ("AA & Co."), a partnership engaged in the practice of public accounting. The proceedings, instituted pursuant to Rule 2(e) of the Commission's Rules of Practice, arise out of audit of the 1971 and 1972 financial statements of Mattel, Inc. a major toymaker, and of the 1971-1974 financial statements of Geon Industries, Inc., an importer and distributor of foreign car replacement parts. The Opinion and Order which censured AA & Co. discusses five general problems which affected AA & Co.'s audits of Mattel and Geon during the years in question and caused various specific audit deficiencies addressed therein. AA & Co. submitted an Offer of Settlement in which it consented to the issuance of the Opinion and Order without admitting or denying any statements or conclusions contained therein.

In the Matter of Kenneth Leventhal & Company and Joseph F. King, ASR No. 288 issued Feb. 26, 1981

The Commission issued an Opinion and Order in administrative proceedings instituted against Kenneth Leventhal & Company, a partnership engaged in the practice of public accounting, and Joseph F. King, a certified public accountant and partner in charge of its Washington, D.C. office. The proceedings, instituted pursuant to Rule 2(e) of the Commission's Rules of Practice, arose out of audits of the fiscal 1972, 1974 and 1975 financial statements of Emersons, Ltd. conducted under the direction of King. The Opinion and Order discussed deficiencies in seven specific areas during the audits of these financial statements and concluded that the audit work fell short of professional standards. The Commission censured Kenneth Leventhal & Company. The Opinion and Order also required the firm to comply with its undertaking to install a new managing partner in the Washington, D.C. office. The Opinion and Order also provides that King shall not, until August 26, 1981, be involved in any audit engagement of any client, any of whose financial statements are reasonably expected to be filed with the Commission. The Opinion and Order provides that the restriction against King will be lifted if, before August 26, 1981, the Commission's Office of Chief