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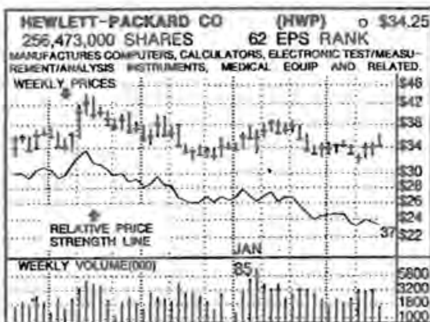
At The Analysts

Hewlett-Packard Will Miss Goals

By Sam Passow, *Investor's Daily*

NEW YORK — Hewlett-Packard Co. will not meet its 1985 growth goals, according to Chairman and Chief Executive John A. Young.



Young refused to speculate about how much the company would be off target this year. But he said the company, manufacturing at only 80% of capacity, is imposing stiffer hiring controls as a means of holding down costs.

He also noted the already depressed electronics market faces several uncertainties in the near term, such as the effect that possible congressional cuts in the proposed Defense Department budget would have on long-term research and development programs.

The Palo Alto, Calif.-based company, which is an international manufacturer of computer and measurement products and systems, is a major supplier to prime contractors for the military.

In addition, Young also noted that multinationals such as Hewlett-Packard have restructured their international operations to take advantage of the strong dollar. He said they now could suffer additional loss of earnings if the Federal Reserve Board continues to lower the discount rate, thus reducing interest rates and lowering the value of the dollar.

"Our international business has been stimulated by being local currency producers having a much better shot at export markets, so changing that around may alter their opportunities," he said. Overseas sales accounted for 42% of Hewlett-Packard's total sales in 1984.

Earnings for the fiscal second quarter ended April 30 were down 10.5% to 51 cents a share compared with 57 cents in the year-earlier period. Net income fell 12.2% to $129 million from $147 million, while sales rose 9.6% to $1.67 billion from $1.51 billion.

Young also said that development of the company's next-generation computer system, known as the "Spectrum project," is "on target," with a major announcement about the product expected late this year.

John L. Doyle, executive vice president, said that more than 100 prototype systems have been assembled. While he refused to disclose any performance, pricing or delivery information about the new system, he did say no shipments are slated this year.

The new system is expected to offer improved speed and efficiency over conventional computers by implementing the most often-used operating instructions in the hardware, rather than in the software.

Doyle said the new system "will extend, not replace" Hewlett-Packard's current line of business and technical computers. He said current users of the HP3000 business computers will find that shifting to the new system will be accomplished "with less disruption than the industry has usually seen."

For fiscal 1984, Hewlet-Packard earned $2.59 a share, up 53.2% from $1.69 in 1983. Net income rose 53.9% to $665 million from $432 million. However, the 1984 figures include a one-time increase in earnings of $118 million or 46 cents a share resulting from a change in the tax law. Sales increased 28.2% to $6.04 billion from $4.71 billion.

Hewlett-Packard closed yesterday at 34¼, off 1¾ on volume of 428,000 shares traded.

At The Analysts

Aetna Seeks Ailing Unit's Revival

By Sam Passow, *Investor's Daily*

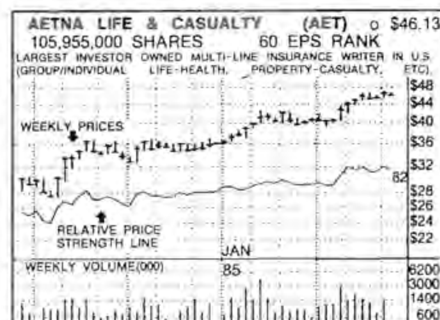
HARTFORD, Conn. — Aetna Life & Casualty Co. will need at least a second round of premium price increases before its commercial insurance operation, which lost $110 million last year, can return to profitability, said Chairman James T. Lynn.

Lynn said the overall effects of a first round of premium increases, which went into effect last July, will be reflected in the company's earnings in the second half of 1985.

He said early signs of this turnaround already were seen in the first quarter of this year, as premium income in the commercial insurance division rose 14% to $622 million. Lynn attributed this rise to price increases averaging 30%, plus a deliberate policy to restrict the firm's growth in business exposure.

"Collecting more premiums for what we believe to be less risk is the way to help the bottom line. If we get the second round of price increases this July, it should significantly help our earnings in 1986 and beyond," he said.

Lynn said Aetna's latest joint venture will play a major role in the firm's future improvement. The venture is a comprehensive nationwide health care program with Voluntary Hospitals of America, which by the end of this year will account for one out of every six hospital beds in the U.S., or 15% of total hospital revenues.



"We are looking at this joint venture, which was finalized last month, to not only expand the marketplace but to protect, if not expand, the profitability of the (Aetna) employee benefits division," said Lynn.

The corporation reported earnings for the first quarter of 1985, ended March 31, were up 292.3% to 51 cents a share compared with 13 cents in the same 1984 quarter. Net income soared 200% to $57 million from $19 million while revenue increased 18.1% to $4.3 billion from $3.64 billion.

The 1985 figures excluded $1.1 million of capital losses, compared to $3 million of realized capital gains a year earlier.

Aetna attributed the gain in the first quarter to a 20% increase in income from higher premiums. In addition, last year's earnings were hurt by a $25.1 million loss in businesses that have since been sold.

Earnings in 1984 were down 48% to $1.59 a share from $3.06 in 1983. Net income fell 63.4% to $128 million from $350 million, while revenue increased only 6.9% to 15.4 billion from $14.4 billion.

Lynn said Aetna's dismal earnings performance in 1984 was due in large part to substantial losses in its commercial casualty property and reinsurance businesses as a result of high claims and inadequate premium prices. These losses, which totaled over $110 million, more than offset the $76 million in profits from the employee benefits division and individual life and annuity lines.

Aetna's stock closed yesterday at 46⅛, down ¾ on volume of 124,600.

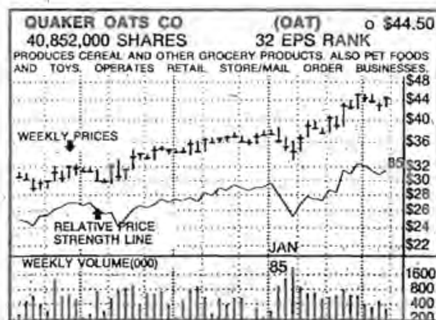
Tomorrow: Jamesway Corp.

At The Analysts

Quaker Oats 3rd-Qtr Net Up 34%

By Sam Passow, *Investor's Daily*

NEW YORK — Led by gains in its international grocery products and its Fisher-Price toys, The Quaker Oats Co. yesterday reported an earnings increase of 34.4% to 86 cents a share for the fiscal third quarter ended March 31. A year earlier, earnings were 64 cents a share.



Net income for the quarter was up 35.3% to $36.4 million from $26.9 million while net sales rose only 1.71% to $820.5 compared to $806.7 million for the same period a year earlier.

Speaking before the New York Society of Securities Analysts, the company's chairman and chief executive officer, William D. Smithburg, attributed the earnings jump to "improved operating income margins in the company's three largest lines of business and lower financial costs."

Total operating income for the quarter rose 26% to $86.8 million. Operating income in Quaker's international grocery-product lines was $21.3 million, a 60% increase over a year earlier, led by improved results in its Italian corn oil business as well as higher earnings in Mexico, the United Kingdom and West Germany. Reduced overheads due to consolidation of regional headquarters in Europe and in the Pacific also contributed to operating income gain. Overall unit volume for international grocery products increased by 10% during the quarter, while sales rose only 5% to $232.6 million as a result of the strength of the U.S. dollar.

Third-quarter operating income for Fisher-Price toys was up 55% to $6.8 million on sales of $84.2 million, a 13% rise over the same period last year. Factors contributing to the increase were lower than expected trade inventories following the Christmas selling period and a positive response to the 60 new products introduced at the Toy Fair trade show in February.

U.S. grocery products, which are the mainstay of the company, showed an operating income of $56.5 million, up

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20% over last year's the third quarter, due primarily to a 6% gain in sales to $453.4 million, and improved profit margins.

Although domsetic overall unit volume in the quarter was even with a year ago, volume for the first nine months of the year was 6% ahead of last year and Smithburg said "the year-to-date volume trends are indicative of Quaker's expectation for fiscal 1985 as a whole."

Since the Chicago-based firm sold off its chemical business last year, Quaker is concentrating on being solely a consumer goods and services company. The company has been trying to consolidate its market positions, and has already earned the No. 1 or No. 2 slots in the U.S. for seven of its products.

In its food lines, Quaker is counting on the continued recent successes of instant oatmeal — which has overtaken sales of traditional oatmeal; grain-based snack foods such as granola bars; the soft drink Gatorade — which has shown double-digit volume growth since it was acquired from Stokely-Van Camp in fiscal 1984; and Kibbles 'N Bits dry dog food.

Smithburg said Quaker plans to strengthen Fisher-Price's already preeminent position in infant and preschool toys "by continuing expansion into toys for older children such as Construx building sets and audio-visual toys."

He added, "growth at Fisher-Price will come at a moderate pace based on expansion of its core of strengths and the licensing of the Fisher-Price name, as in the case of juvenile clothing and our recent agreement with Walt Disney on their Gummi Bears television series, premiering this fall."

In fiscal 1984, Quaker's earnings were $6.71 a share, up 15.1% from $5.83 a year earlier. Net income was up 16.3% to $138.7 million from $119.3 million, while net sales rose 28% to $3.34 billion from $2.61 billion.

Yesterday Quaker closed at 44½, up 1, on 101,200 shares traded.

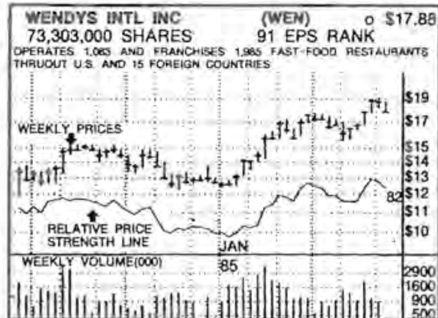
Investor's Daily ★ Friday, June 14, 1985

At The Analysts

Wendy's Predicts Sales Increase

By Sam Passow, *Investor's Daily*

NEW YORK — Wendy's International Inc.'s fast foods restaurants could realize per-store average sales of $1 million a year by the end of 1985, said Robert L. Barney, chairman and chief executive.



The company, whose "Where's the beef?" ad campaign last year slammed at McDonald's and Burger King, is about to fight another round with these two rivals when launches its latest and largest new product line — a nationwide fast food breakfast menu — with a multi-million-dollar media blitz starting July 1.

Barney estimated 95% of all adults in America would be exposed to Wendy's

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breakfast message at least 25 times during the introduction period. His commercials "should really heat up the battle of the breakfasts," he said.

Wendy's, which spent nearly $1 million and three years testing the breakfast product line, is counting on the new menu to boost its long-term profitability. It calculates the per-store break-even point for breakfast is between $1,000 and $1,400 a week.

Barney noted that in Columbus, Ohio, "where we've advertised breakfast on television for more than a year, we're doing $100,000 per restaurant annually — or 10% of total sales." He added, "Average sales in franchises exceeded $2,000 a week in Virginia, Kentucky, Oklahoma and San Francisco."

The Dublin, Ohio-based firm, which currently owns and franchises more than 3,100 fast food restaurants throughout the U.S. and in 15 other countries, reported first quarter earnings increased 11.1% to 20 cents a share from 18 cents during the same 1984 period. Net income rose 11.5% to $14.5 million from $13 million while revenue was up 15.1% to 236.5 million from $205.5 million.

Barney said second quarter results should be in line with Wall Street's expectation of 30 to 31 cents a share. However, he cautioned that sales growth in the restaurant industry as a whole has been slow in the second quarter "and competition for customers has been especially tough."

Nevertheless, Barney said Wendy's is "on track to meet our stated annual growth goal of 15% to 20% again this year." Outlining long-range development plans, Ronald P. Fay, president and chief operating officer, said Wendy's intends to open 350 stores this year and another 400 a year through the end of the decade. This expansion will increase the size of Wendy's system to about 4,000 outlets and boost the number of company-owned stores from 1,000 to 1,600.

In 1984, Wendy's earnings rose 23.8% to $1.25 a share from $1.01 the previous year. Net income increased 24.4% to $68.7 million from $55.2 million, while revenue was up 31.1% to $944.8 million from $720.4 million.

Wendy's stock closed yesterday at 17⅞, down ⅝ on volume of 142,400.

At The Analysts

Pennzoil To Cut Capital Spending

By Sam Passow, *Investor's Daily*

NEW YORK — Anticipating changes in the federal tax code which could seriously affect its liquidity, as well as a continued downward trend in oil prices, Pennzoil Co. will reduce its 1985 capital budget by $50 million to $377 million, cutting back on its domestic oil and gas production, while accelerating foreign operations, said J. Hugh Leidtke, the company's chairman and chief executive officer.

Speaking before the New York Society of Security Analysts, Leidtke said that if the Treasury Department's proposed tax changes are adopted, it "would mean a loss of the investment tax credit, loss of accelerated cost recovery, loss of current year expensing of intangible drilling costs, and loss of the ability to charge off a dry hole at the time it is drilled."

Leidtke noted that he was "not as pessimistic as some or optimistic as others" when it came to predicting how oil prices would range this year, but he said, "declining oil prices do not have as great an impact on our earnings and cash flow as might be supposed. . .

"Our studies indicate that for each

dollar per barrel the price of crude falls below $25, our book earnings per share will be reduced by only 8 cents. If the price of oil were to fall a full $8 from $25 to $17, after-tax cash flow would fall $24 million. . . . We do not anticipate such a decrease, but if it were to occur, it would be far from catastrophic," he said.

Nevertheless, Leidtke told *Investor's Daily*, he expects first-quarter earnings for 1985 to be "at least flat" compared with the same period in 1984 when earnings were $1.25 a share, net income $69.2 million on sales of $608.2 million.

In addition to the cutbacks in its domestic oil and gas operation, the Houston-based company said it plans to withdraw from base metals and potash mining, and has put those properties up for sale.

"These operations are viable and, in some years, highly profitable," said Leidtke, "but they no longer represent an attractive long-term growth area."

Bids for the companies are due by April 15, and Leidtke said "we hope to close a sale of these properties by the middle of the year."

Leidtke also said Pennzoil is studying various plans to dispose of its gold properties worldwide, but declined to say whether this would be achieved through public offerings or one or more tax-free spinoffs to shareholders.

In addition, Leidtke indicated that the company would continue its plan to buy back its own stock. Since last July, the company has repurchased approximately 16% of its outstanding common shares.

"Such a program increases reserves and earnings per share, and ensures that any discovery, purchase or other major event will have a substantially greater

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Pennzoil

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impact on value or earnings per share," he said.

Although the company has been involved in several takeover attempts of other oil companies, and has an unused line of credit of $2.5 billion, Leidtke denied rumors that Pennzoil will attempt to go after shares in Phillips Petroleum Co., saying "there are no plans at present to use those funds."

He told analysts that Pennzoil's exploratory positions in the Dutch North Sea and British North Sea have produced some discoveries and confirmation drilling continues.

The company also is drilling offshore in Tunisia and Indonesia and has a 25% interest in a wildcat well in Mobile Bay, off Alabama, with Chevron Corp. in which at least two more wildcats will be drilled this year.

In the fourth quarter, Pennzoil had earnings from continuing operations of 31 cents a share, 72.1% lower than the $1.11 a year earlier. Net income from continuing operations was $19 million, a 69.4% drop from the $62 million a year earlier.

For the full year, Pennzoil's earnings per share were $2.23, down 26.4% from $3.03 a year earlier, while net income declined 25.8% to $130.5 million from $164.2 million in 1983. Sales rose 13.7% to $2.34 billion from $2.06 billion.

Yesterday, Pennzoil closed at 48, up ½ on volume of 122,300 shares.

Tomorrow: Checkpoint Systems Inc., Northern States Power Co.

At The Analysts

Gannett To Continue Acquisitions

By Sam Passow, *Investor's Daily*

WASHINGTON — Gannett Co.'s purchase last week of the Register & Tribune Co. newspapers in Iowa and Tennessee is only the beginning: The giant media conglomerate intends to bid for more this year, its executives told analysts.

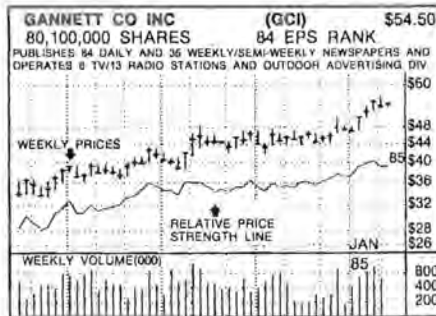
Gannett's vice chairman and chief financial officer, Douglas H. McCorkindale, said there are more than 10 major newspapers for sale in the U.S., and Gannett will be bidding on most of them.

In addition, he said, Gannett is looking at expanding into other communications fields such as magazines. It bid unsuccessfully last fall for the Ziff-Davis magazines that were up for sale.

The Arlington, Va.-based firm is the largest media group in the U.S. with 120 newspapers (85 dailies), 16 radio and seven TV stations, a satellite network and the largest outdoor advertising company in the U.S.

Last week's $200 million deal to acquire the Des Moines Register in Iowa and Jackson Sun in Tennessee as well as weekly papers in those two states owned by the Register & Tribune Co. is expected to be completed in June.

John J. Curley, Gannett's president



and chief executive, told Washington analysts the company expects to improve its cash flow by raising the cover price of some of its newspapers. Curley said Gannett would raise the cover price of USA Today to 50 cents this year to move the 2½-year-old paper toward the break-even point.

Gannett's newspapers last year accounted for 77% of the company's revenue, with an average daily circulation of 4.8 million readers. That represents the largest daily newspaper circulation of any single company, led by USA Today, which has a daily circulation of 1.3 million readers.

Curley said he expects the newspaper division to be as good this year as it was last year "but not much better." Contending that the second half of this year may see a downturn in the economy, he projects that overall advertising linage will be up by only about 2%, while national advertising will remain flat.

In 1984, total advertisement linage for the Gannett group was up 6%, led by a 9% rise in classified ads.

While the broadcast division accounts for only 12% of total revenue, it is beginning to dominate much of Gannett's long-term strategy.

Since last September, when the Federal Communications Commission relaxed its ownership rules to allow a single company to own 12 AM radio stations and 12 FM stations (up from seven AM & seven FM), a number of major broadcasting companies have become fair game for Gannett. "It would not be out of the question to discuss acquisitions of such broadcasting giants such as ABC, CBS, NBC, Cox Broadcasting and Taft Broadcasting," McCorkindale said.

The relaxed FCC limitations also have opened the door for acquisition of smaller diversified newspaper and media companies, which Gannett could not consider previously because it also owned a TV or radio station.

In addition, Gannett is trying to expand its television programming. It is

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Gannett

— Continued from page one

already involved in co-productions with Metromedia Inc. and Taft Broadcasting Co., which together with their own stations equal about 30% of the broadcast market.

The executives said Gannett would post its 69th consecutive quarterly earnings gains when it reports fourth-quarter results at the end of this week.

In the third quarter, earnings per share were 69 cents, up 19% over 58 cents a year earlier. Net income rose 19% to $54.90 million, up from $46.13 million. Revenue increased 14.7% to $473.22 million from $412.57 million.

McCorkindale said 1984 earnings would exceed analyst's expectations of $2.79 a share, a rise of 16.3% over the previous year. Sales are expected to hit $2 billion, while the company's long-term debt will be reduced to $180 million, down from $300 million in 1983.

Gannett closed yesterday at 54½, up ¾ on volume of 93,000.

At The Analysts

Sun Co. Predicts Modest Earnings Gain

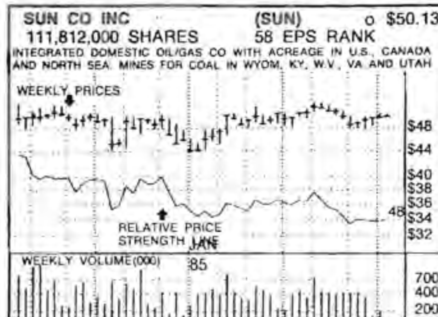
By Sam Passow, *Investor's Daily*

NEW YORK — Sun Co. Inc. expects to post a modest 8%-to-10% increase in earnings for the second quarter over the same period last year despite an overall flat sales performance, said John P. Neafsey, executive vice president and chief financial officer. In that period last year, Sun earned $1.17 a share on net income of $137 million, with sales of $3.94 billion.

Neafsey said oil and gas exploration and production earnings for the Radnor, Pa.-based energy company, the nation's 10th largest oil company, would be down substantially in the second quarter. Exaggerating the decline, he noted, is the fact that the 1984 quarter showed a one-time addition of $23 million for the reversal of a cash reserve as a result of a court decision of a natural gas pricing matter.

Neafsey also said declining crude oil prices and lower natural gas volumes will have an impact on earnings.

Sun, which is also the nation's 11th largest coal producer, announced that over-capacity in its mines — due to overstocking in anticipation of a coal stike that never materialzed — will result in a flat production level of about



1.9 million tons for the quarter. Therefore, it expects no increase in earnings compared with the same period last year.

On the bright side, Neafsey noted, "domestic refinery and marketing will prove to be the real strengths of our earnings." He attributed the upturn to better refiner margins, which he said were $2.50 a barrel above those of 1984. He added that Sun's acquisition of Victory Oil Co. and Exeter Oil Co. in California last year "are beginning to show results."

Sun's earnings for first-quarter 1985, ended March 31, were down 8.9% to $1.12 a share from $1.23 a year earlier. Net income declined 11.1% to $127 million from $143 million, while sales tumbled 14.5% to $3.62 billion from $4.15 billion.

For all of 1984, earnings were up 21.6% to $4.67 a share from $3.84 the prior year, while net income rose 18.8% to $538 million from $453 million. Revenue fell less than 1% in 1984, to $15.4 billion from $15.5 billion.

Commenting on the apparent failure by members of the Organization of Petroleum Exporting Countries last week to agree on an oil price structure, Sun Chairman Theodore A. Burtis said his company "will be managed with the best expectation that oil prices will be flat, with a possible downward pressure."

However, he said, proposed changes in the federal tax code pose a more immediate threat to the oil industry. While both the Treasury I Plan and the President's plan call for retaining the tax treatment for the recovery of intangible drilling costs, which he favors, Burtis feels Congress might sacrifice the provision "in the name of fairness to other industries."

Sun's stock closed yesterday at 50⅛, down ⅜ on volume of 66,300.

Tomorrow: South Jersey Industrial Inc.

At The Analysts

Oxford First Sees Major Earnings Rise

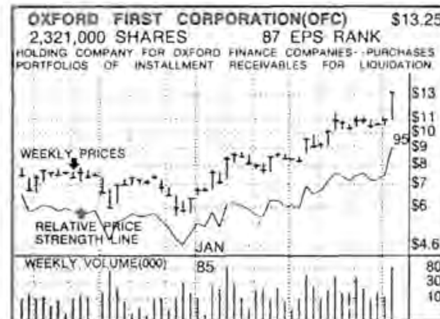
By Sam Passow, *Investor's Daily*

BOSTON — Oxford First Corp. projects second-quarter earnings will rise roughly 88% to about 45 cents a share compared with 24 cents a year earlier, said President Aaron A. Gold. He also forecast that earnings for the full year would grow by about 39% to at least $1.60 from last year's $1.15.

Gold said his calculation is based on the fact that, "since we have unearned income of $60 million over 4.5 years of liquidation, it's not hard to spit out what we are going to do."

The Philadelphia, Pa.-based financial services company buys portfolios of discounted installment notes, which are then liquidated. The notes are secured primarily by first mortgages on houses, land, mobile homes and vacation time-shares. The company also acts as a collection agency for other companies.

Oxford primarily finances operations with secured funds borrowed from banks, insurance companies and other institutional lenders. Its main backer is the Bank of Boston, said Gold. "It took their faith to put us back on our feet."



After taking a bath in the real estate boom of the early 1970s, Oxford made a dramatic recovery from backruptcy by concentrating almost entirely in the consumer receivables market, which Gold estimates is worth about $500 billion a year nationally. Between 1977 and 1983 the firm's net worth climbed to $27 million from $1.7 million; gross finance receivables rose to $101 million from $25 million.

Eighty percent of Oxford's business lies in four states, California, Texas, Florida and Georgia. Two weeks ago it opened a subsidiary in Irvine, Calif., which Gold predicted would be "a real money earner by next year."

Gold is also counting on the fact that proposed changes in the federal tax code to eliminate deductions on mortgage interest on second homes will stimulate the vacation time-sharing market. At present this market accounts for 16% of Oxford's portfolio, a figure the company is looking to increase to as much as 25%.

Oxford's earnings for first-quarter 1985 ended March 31 were up 65.2% to 38 cents a share from 23 cents a year earlier. Net income rose 39.2% to $731,000 from $525,000, while revenues were up 38.8% to $4.53 million from $3.26 million.

Earnings in 1984 soared 66.6% to $1.15 a share from 69 cents the prior year. Net income rose 33.1% to $2.67 million from $2.01 million, while revenue was up 31.8% to $13.73 million from $10.42 million.

Oxford's stock closed yesterday at 13¼, up ¾ on 35,600 shares traded, which was eight times normal daily volume.

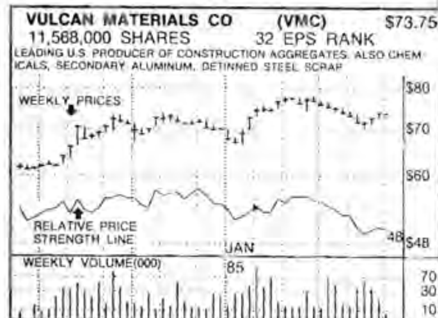
Investor's Daily ★ Wednesday, June 5, 1985

At The Analysts

Vulcan Materials Co.

By Sam Passow, *Investor's Daily*

NEW YORK — Vulcan Materials Co. may divest its oil and gas properties as well as its metals division if earnings in those two sectors don't improve significantly, said President Herbert A. Sklenar.



Vulcan has doubled to 14 the number of wells it's exploring and "we either have a big find or we will be making some tough decisions later this year on oil and gas," he said.

Sklenar also characterized Vulcan's 10-plant metals division, which lost $10.4 million last year, as a "no-growth business" and a "good candidate for divestiture."

Over the last five years the division has earned only about $17 million and it faces stiff import competition. Sklenar said the metals division has to repeat its 1981 performance, when it earned over $10.4 million, to remain viable.

Birmingham, Ala.-based Vulcan is the nation's largest producer of construction aggregates such as crushed stone, sand and gravel, and the world's second-largest producer of chlorinated solvents and other industrial chemicals. Construction materials earned $101.4 million on sales of $444.3 million last year and chemicals operations earned $46.9 million on sales of $301.9 million.

Vulcan's oil and gas exploration, development and production activities, conducted by a wholly owned subsidiary, Southport Exploration Inc., have estimated reserves of 633,000 barrels of oil and 16.5 billion cubic feet of gas. The operation has never shown a profit. Last year it lost $6.82 million, and over the last 10 years it has cost Vulcan nearly $70 million.

Oil and gas sales in 1984 were $15.1 million, up 25% from $12.1 million the previous year. However, with oil and gas prices declining, the company sees little chance of a sales increase this year.

Corporate earnings for the first quarter of 1985, ended March 31, were down 25.8% to 43 cents a share from 58 cents during the same period in 1984. Net income dropped 25.9% to $4.99 million from $6.74 million, while sales inched up 0.05% to $203.46 million from $202.39 million.

The latest quarter suffered in comparison with the previous year's, Sklenar said, because Vulcan registered one-time gains totaling $3.5 million in first quarter 1984.

Sklenar said he wished he were more certain about second- and third-quarter results, but predicted 1985 sales would top $1 billion and Vulcan would have a record year in earnings.

Earnings in 1984 rose 43.9% to $6.75 a share from $4.69 a year earlier. Net income increased 44.9% to $78.42 million from $54.18 million, while sales grew 19.7% to 982.87 million from $820.51 million.

Yesterday Vulcan Materials closed at 73¾, down ¼ on a volume of 3,400 shares traded.

At The New York Analysts'

Scientific Leasing Shows Growth

By Sam Passow, *Investor's Daily*

BOSTON — Intense marketing west of the Mississippi combined with changing demands in the medical profession accounted for a 93% increase in fiscal 1984 earnings at Scientific Leasing Inc., said Barry R. Bronfin, president and chief executive officer.

In the past year, the Connecticut-based high-technology leasing firm established a nationwide network of 20 marketing offices. "This move," Bronfin told a meeting of Boston analysts, "reflects a natural migration route of equipment from urban teaching-hospitals to smaller rural medical facilities and private diagnostic centers."

The strength of the leasing market in medical and scientific equipment is reflected in the company's portfolio, which rose 58% to $158.12 million in 1984 from $100.22 million a year earlier. Four years ago, when the company went public, its asset portfolio stood at $32.78 million.

But perhaps the most significant development for Scientific Leasing in the past year was its sale last March of 27% of its common stock to Hospital Corporation of America. HCA paid $25.50 a share, which netted Scientific

Leasing approximately $20 million. More important, it immediately gave the firm an entree into the 403 hospitals that are either owned or managed by HCA.

In the last quarter alone, the company secured $3 million in leases for medical equipment to HCA facilities. Bronfin said Scientific Leasing expects to quadruple that figure in the next fiscal year.

When asked by *Investor's Daily* whether Hospital Corp.'s move was a prelude to a possible takeover, W. Barry Tanner, Scientific Leasing's vice president in charge of finance replied, "HCA looked at the company as a good investment. They want to be of a health-

— See **SCIENTIFIC** / page 5

— **Continued from page one**

care department store, and it's only natural that a financial service is a part of being that health-care department store."

Bronfin then added, "We never said we would refuse a takeover offer. We will do what is in the best interests of the shareholders." Currently, only 12% of the stock is held by the company's management.

In the fourth quarter of fiscal 1984 ended June 30, earnings rose 26.4% to 43 cents a share compared to 34 cents for the same quarter in 1983. Net income rose 70.5% to $1.33 million from $783,000, while revenue increased 43.6% to $7.41 million in the last quarter, up from $5.16 million for the same period last year.

For the full fiscal year, earnings rose 42.3% to $1.85 a share, up from $1.30 a share. Net income totaled $4.65 million, a 92.9% increase over the previous year's $2.41 million. Revenue increased 44.4% to $25.91 million from $17.94 million in 1983.

As of the end of the 1984 fiscal year, Scientific Leasing had 1,008 outstanding leases contracted by 272 companies for an average term of 55 months. These leases can't be canceled, and ownership of the equipment passes to the user at the end of the lease. Tanner estimated that this accounts for one-tenth of 1% of the total market.

As the 16-year-old company matures, it faces a growing problem of recycling equipment whose leases have run out. At present, only 15% of their equipment comes back. But Bronfin sees a growing market for this equipment in the small 200-bed rural medical centers that "will increasingly take over some of the diagnostic work now done by the major metropolitan teaching hospitals." Hospital Corp. runs a number of these rural medical centers.

As an example, he cited plans by major medical centers to upgrade their body-scanning machines. The new magnetic resonance imaging systems are $2.5 million devices manufactured by Seimens in West Germany. They provide the diagnostician with whole-body three-dimensional images of organs and tissue, derived from the interaction of a strong magnetic field with radio frequency signals.

At present, the Food and Drug Administration has granted only premarket approval for the device, but, said Bronfin, "I think this is a moment in time which will change. In the long run I see as many as 500 of these machines in use in this country." Scientific Leasing already has leased its first MRI machine to the University of Minnesota. Bronfin indicated he expected Scientific Leasing would be able to lease machines using the older computer tomography system to the rural centers.

An indication of the company's success to date in dealing with the recycling problem lies in the fact that out of the $158 million of equipment in its portfolio, only $60,000 or 0.04% of equipment at current book value is inventoried and awaiting deployment.

While Scientific Leasing is strongly identified with the medical profession, (it leases more than $78 million worth of equipment to more than 190 hospitals and medical centers) it does an almost equal amount of business with some 80 research and development laboratories and technology-oriented industries. Their largest client in this field is Bell Telephone Laboratories, which in 1984 accounted for approximately 15% of the company's total revenue.

Scientific Leasing closed yesterday at 32¼, down ⅜ on volume of 2500 shares.

At The New York Analysts'

General Host Corp.

By Sam Passow, *Investor's Daily*

NEW YORK — General Host Corp.'s sales of its Van de Kamp's Frozen Foods Division and its Little General Stores operation could add as much as $6.70 a share to this year's earnings, chairman and chief executive officer Harris J. Ashton told a meeting of securities analysts here.

The frozen food sale will give General Host an after-tax gain of approximately $48 million, or $3.80 a share, while the Little General Stores deal will mean an after-tax gain of about $37 million, or $2.90 a share. General Host Corp. confirmed yesterday the previously announced sale of Van de Kamp's to the Pillsbury Co. for approximately $100 million in cash. The move is now subject to government approval prior to its scheduled close Nov. 5.

At the same time, Ashton also said the sale of the Little General Stores to the Circle K Corp. for $100 million in cash plus the elimination of $11 million in long-term debt should be final today.

Reviewing the effects of these divestitures on the company's financial structure, Ashton said, "the sale of these

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— Continued from page one

businesses is another step in our strategy to realize the true value of our assets. We have reacted to marketplace opportunities in an attempt to build a stronger and more profitable business.

"Using 1983 figures as a basis for comparison, our net worth will increase to approximately $233 million, and our long-term debt as a percentage of capitalization will be reduced to approximately 45%. Based on those figures, our book value should approximate $19 to $20 a share," he said.

General Host is a specialty retailer of food, nursery and craft products and a maker of specialty foods and agricultural products. Its operating units include Frank's Nursery & Crafts Inc., Flower Time Inc., Hickory Farms of Ohio, Hot Sam Cos., the All American Gourmet Co., Milk Specialties Co. and the American Salt Co.

Ashton said he was aware that the surfeit of cash gained from these two sales once again makes General Host a target for a hostile takeover. "If somebody thinks they can come along and buy a cash business at a discount, they are in for a rude awakening. We managed to survive when we had a lot of companies coming after us in the past," he said.

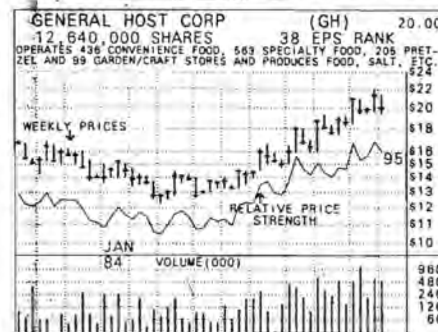
"What we are going to do with the cash is redeploy it in our existing businesses — the lion's share in the plant nursery and crafts business — in an effort to establish the first national chain of retail nursery and craft stores.

"The $65 million in capital expenditures projected for 1985 include approximately 100 new stores, 30 of which will be retail plant nurseries. In the next three years we have capital projects planned for about $200 million," he said.

Ashton also noted that the company will be looking for an acquisition in the direct mail area to accelerate the Hickory Farms direct mail business. Earnings for the second quarter ended Aug. 12 show a loss of eight cents a share against a two-cent gain in the second quarter of 1983. General Host reported a $973,000 second-quarter loss, compared with a $201,000 profit for the same period a year earlier. Second quarter sales, however, showed a 20% increase to $159.76 million in 1984 from $133.08 million in 1983.

In fiscal 1983, earnings rose 49% to $1.40 a share from 94 cents in fiscal 1982. Net income rose 85% to $17.94 million, up from $9.68 million, while sales climbed 43% to $658.20 million compared with $460.71 million a year earlier.

General Host closed yesterday at 20, unchanged, on volume of 150,400.



Investor's Daily ★ Wednesday, October 31, 1984

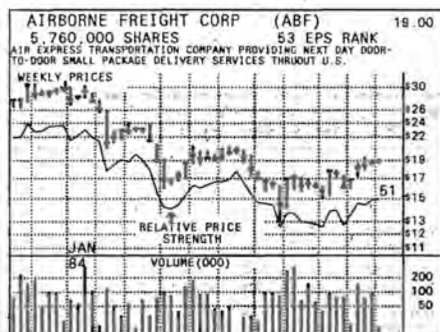
At The Analysts'

Airborne Freight Plans Expansion

By Sam Passow, *Investor's Daily*

Varian Associates Inc. ....page 5

NEW YORK — Airborne Freight Corp. is planning an $80 million to $90 million capital spending program for 1985-86 and doesn't plan to look to the equity market for financing, Robert S. Cline, chairman and chief executive officer, told the New York Society of Security Analysts.



The Seattle-based mail and package forwarder plans to purchase six to eight DC-9 aircraft, expand its sorting facility fourfold from its current level of 80,000 pieces a night and increase domestic stations by 10 to 12 a year. "Our internal cash flow and unused debt capacity should provide adequate financing resources during this period," said Cline.

Cline is basing this calculation on the expectation that Airborne's next-day delivery service (shipments of less than 100 pounds) will continue to grow by 20% to 25% a year over the next five years with an operating profit margin of around 9%. "We feel it is a segment that will continue to show rapid growth due to the changing nature of this country's economic makeup toward high-value and service-oriented industries," he said.

However, Airborne's third-quarter results are hardly encouraging. Net earnings of 48 cents a share were the same as in the third quarter of 1983. Net income remained flat at $2.81 million during that same period, while revenue rose 25.1% from $85.3 million to $106.7 million.

Cline attributed his company's stagnant results to the fact that a majority of its business currently comes from high-volume shippers on a discounted basis. "This has had the effect of constraining margin growth as the volume expands,

— See AIRBORNE / page 5

— Continued from page one

especially when coupled with the very competitive pricing atmosphere that exists," he said.

Airborne has been trying to offset this situation by going after smaller customers who don't have the leverage to demand lower rates. However, despite a two-year, multimillion-dollar media campaign, the company has been largely unsuccessful.

In August 1984, Federal Express accounted for 72.2% of the domestic market based on the number of units moved, while Airbone was second with 11.3%.

Airborne has also decided that it would be prudent not to compete head-on with Federal Express' new electronic mail service, ZapMail. However, Cline didn't rule out the possibility that Airborne might link-up with an existing electronic mail outfit as a service agent.

In 1983, Airborne earned $1.60 a share, up 108% from 77 cents a share a year earlier. Net income climbed 146% to $8.93 million from $3.62 million while revenue was $334.77 million, up 13.4% from $295.21 million in 1982.

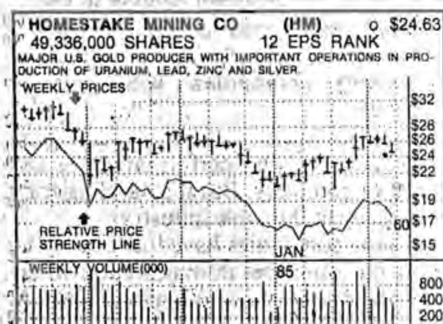
Airborne closed yesterday at 19, unchanged on volume of 4,400 shares.

At The Analysts

Homestake Mining's 1st Qtr Net Fell 70% On Gold Price Decline

By Sam Passow, *Investor's Daily*

NEW YORK — The continued depression in the precious-metals market resulted in a 69.6% drop in Homestake Mining Co.'s first-quarter earnings, said Richard W. Stumbo Jr., the company's vice president and chief financial officer.



The San Francisco-based firm, which is the largest gold producing and exploration company in North America, reported earnings of 7 cents a share, down 69.6% from 23 cents a share in the first quarter of 1984. Net income dropped 70.7% to $3.3 million from $11.3 million, while revenue fell 10.8% to $73.4 million from $82.2 million a year earlier.

Harry M. Conger, chairman and chief executive officer, said the drop "reflected a 22.1% decrease in the price of gold, depressing operating earnings from gold to $1.4 million from $8.4 million in 1984." The average price of gold during the first quarter was $299 an ounce, compared with $384 in the prior year.

Homestake's McLaughlin mine in California, which was started up in September 1983, already has cost the company $40 million more than it budgeted, driving up the price tag on the project to $280 million. As a result, the unit cost of an ounce of gold from the mine will be $300, $15 an ounce more than originally estimated.

The McLaughlin mine is expected to increase Homestake's annual U.S. gold production by nearly two-thirds to more than 500,000 ounces. Over its estimated 20-year life span, it's expected to yield a total of three million ounces.

Worldwide, the firm currently has annual gold production of 630,000 ounces.

Stumbo noted that every $10 drop in the price of gold results in a 6-cents-a-share drop in earnings, and when the McLaughlin mine starts producing to capacity by the end of this year, that figure will rise to 9 cents a share.

The first-quarter losses reflect a continuing decline in the company's fortunes since 1983. Earnings in 1984 dropped 49.1% to 59 cents a share from $1.16 in 1983. Net income fell 48.6% to $29.2 million from $56.8 million, while revenue in 1984 slid 7.3% to $319.7 million from $345 million.

Gold in 1984 averaged $361 an ounce compared with $423 in 1983. At year-end, it stood at $309 an ounce. In 1984, gold mining provided Homestake with 42% of its operating income, compared with 63% in 1983.

Of the company's total gold production, 68% came from Homestake's mine in Lead, S.D., and 25% from a partnership interest in Kalgoorlie Mining Associates in Western Australia. Conger told a meeting of the New York Society of Security Analysts that in view of the current low metal prices, and in order to conserve cash and mineral resources, the company is undertaking a number of cost-saving measures, which have affected its long-range diversification program.

"These are painful decisions that affect not only our company and shareholders, but equally our employees and the communities where we do business," said Conger.

Homestake has suspended production at its Bulldog Mountain silver mine in Colorado until silver prices improve to the point where operations can resume.

The company's long-term sales contracts in uranium, which have provided for a moderate profit above production costs, are due to expire in 1986 and 1987.

"The outlook beyond that is bleak," said Conger, adding, "to prepare for that, we have placed one of our two uranium mines — the Pitch mine in Colorado — on standby, and we are reducing production at out principal operation in New Mexico to the level of our existing contracts."

Conger said he hopes Homestake's venture in oil and gas through its Felmont subsidiary in the Gulf of Mexico will act as a counterbalance to the decline in demand for uranium.

The oil and gas operations accounted for $15.4 million, or 24%, of the company's total operating income in 1984.

Homestake Mining closed yesterday at 24⅝, down ⅜, on volume of 245,400 shares.

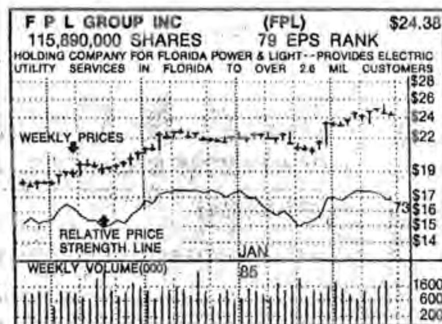
Investor's Daily ★ Thursday, May 30, 1985

At The Analysts

FPL Group Inc.

By Sam Passow, *Investor's Daily*

NEW YORK — FPL Group, Inc., the holding company for the Florida Power & Light Co., expects to generate at least 15% of its earnings from non-utility operations by the year 2000, according to Marshall McDonald, the group's president and chairman of Florida P&L.



McDonald said a McKinsey & Co. survey commissioned by the utility recommended that diversification into the service sector "would be compatible with the high marks for service given us by our customers."

Earlier this month, FPL Group completed its first acquisition with a $3.6 million buyout of Telecast Cablevision Inc., a subsidiary of American Communications & Television Inc. Telecast, based in Pompano Beach, Fla., serves more than 7,500 customers in Dade, Broward and Palm Beach counties.

McDonald acknowleged that the group's maiden effort at diversification in March — the acquisition of Rinker Materials Corp., Florida's largest concrete and building materials firm, based in West Palm Beach — fell through despite a letter of intent, after both sides "were unable to agree on considerations other than price."

The group's long-term diversification plans include branching into the health-care industry servicing Florida's huge retirement population; developing a fiber optic network for peninsular Florida with TECO Energy (the holding company for Tampa Electric Co.) and Florida Progress Corp. (the holding company of Florida Power Corp.); and exploring fuel and energy utilization technologies and alternative energy sources.

McDonald said formation of a new subsidiary has been approved to obtain debt financing for the diversification program and to make investments such as leveraged leasing.

A holding company, Miami, Fla.-based FPL Group was formed in 1984 to facilitate the expansion and long-range financial strength of the 60-year-old utility company, whose earning power is subject to government rate control. Florida P&L is one of the nation's largest investor-owned utilities, serving nearly 2.6 million customers.

The group also includes the W. Flagler Investment Corp., a real estate investment company, and Fuel Supply Service Inc, which provides construction management consulting to the Seabrook Nuclear Project in New Hampshire and computer software systems to other utilities.

Earnings in the first quarter, ended March 31, rose 66% to 78 cents a share from 47 cents in the same 1984 period. Net income was up 73.6% to $92,254 from $53,141 while revenues increased 16.2% to $990,951 from $852,233.

In 1984, earnings rose 4.4% to $2.62 a share from $2.51 the prior year, following a two-for-one stock split. Net income increased 13.3% to $302,729 from $267,255 while revenues were up 17.5% to $3.94 million from $3.35 million.

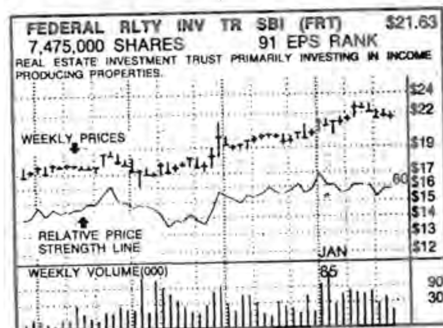
Yesterday, FPL Group's stock closed at 48⅞, +1 on volume of 44,000 shares traded.

At The Analysts

Federal Realty Investment Trust Co.

By Sam Passow, *Investor's Daily*

NEW YORK — Federal Realty Investment Trust Co. expects 1987 and 1988 to be years of significant income as a number of major anchor leases at urban shopping malls come due, said Steven J. Guttman, the company's president and chief executive officer.



Speaking before a private group of analysts, Guttman, whose Chevy Chase, Md.-based real estate investment trust owns 24 shopping centers, said rents on some major department stores, which were granted leases in the 1950s when

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Federal

— Continued from page one

the shopping centers were first opened, could increase by over 1,000%, which would "substantially increase the trust's cash flow."

In 1984, Federal Realty's income from rented commercial properties was $16.3 million, up 41.7% from 1983.

As an investment trust, Federal Realty pays no federal taxes if it distributes 95% of its net annual earnings to shareholders.

Guttman said the trust stands to benefit from proposed changes in the tax code which are already discouraging investment in real estate tax shelters. "These changes are steering more investors to real estate investment trusts and causing real estate syndicators to bid more cautiously on some properties," he said.

The major strategy of Federal Realty is to acquire older, well-located shopping centers, primarily in Pennsylvania, New Jersey, Virginia and the Washington, D.C., area, and to increase its cash flow and value through renovation, re-leasing and remerchandising.

Its latest purchases include shopping centers in Levittown, Pa., Philadelphia and Richmond and Fairfax, Va. Together these acquisitions, valued at about $40 million, add more than one million square feet of space to the trust's total of 4.4 million square feet.

Meredith A. Olson, vice president and director of acquisitions, said the trust is currently looking at four sites in Baltimore, Philadelphia, Cincinnati and New Jersey, and is hoping to conclude deals this year which will add an additional one million square feet to its inventory.

Earnings for the fourth quarter were 78 cents a share, up 20% from 65 cents in the same quarter a year earlier. Net income for the final quarter rose 42.5% to $5.43 million from $3.81 million, while revenue declined 1.19% to $7.45 million from $7.54 million for the same period in 1983.

For 1984, earnings per share were $1.66, up 20.2% from the 1983 level of $1.38. Net income for the year rose 28.7% to $10.3 million from $8 million, while revenue increased 28.9% to $27.2 million, up from $21.1 million.

Recently, the 23-year-old firm moved from the American to the New York Stock Exchange.

Federal Realty closed yesterday unchanged at 21⅝, on volume of 1,800 shares.

At The Analysts

First Chicago Expects Recovery

By Sam Passow, *Investor's Daily*

NEW YORK — Citing the company's third-quarter loss of $71.8 million as a "one-off event," First Chicago Corp. Chairman Barry F. Sullivan predicted that loan losses and earnings in the fourth quarter will recover to a level more comparable with that of the second quarter.

In the second quarter, per-share earnings were 98 cents, while loan losses were $49.3 million.

Speaking before the New York Society of Security Analysts, Sullivan said that the bank's current strategy is not to emphasize growth but to replace low yielding assets with higher yielding assets, which he expects to come from the consumer and small-business markets.

Sullivan said that First Chicago will submit a plan to the Comptroller of the Currency, C. Todd Conover, by mid-January showing how it plans to increase its capital ratio. Last week, the comptroller ordered First Chicago and Bank of America to substantially increase their capital by 1986.

Earlier this year following the Continental Illinois debacle, Conover made an example of First Chicago by ordering them to recognize and write-down their bad loans. In addition, he ordered the bank to improve its loan management control.

While Sullivan declined to go into specifics as to whether the company plans to emphasize a reduction of assets or to raise capital, he did admit that the company is considering selling its headquarters building in Chicago as well as some loans. He did not rule out the possibility of going to equity markets.

William J. McDonough, chief financial officer, reported that First Chicago's liquid assets as a proportion of total assets were second highest among the large banks. He added that the primary capital to total assets ratio for the bank holding corporation was 5.93%, but the ratio for the bank itself was only 5% as of Sept. 30.

In the third quarter, the company reported a loss of $1.79 a share compared with a $1.05 a share gain for the same quarter a year earlier. Net income

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for the 1983 quarter was $49.1 million, compared to the $71.8 million loss this year. Sullivan attributed the third-quarter loss primarily to a $308 million loan loss provision, up $273 million from the comparable year-earlier period.

Earnings per share for 1983 rose 17.7% to $3.92 from $3.33 a year earlier. Net income rose 34.1% to $183.5 million from $136.8 million, while net interest income was up 15% to $709.0 million, up from $615.8 million in 1982.

First Chicago's foreign loan activities currently are under investigation by the Securities and Exchange Commission, which, according to bank officials, is looking into the value First Chicago placed on the assets, which the SEC thinks might not have been traded at par value.

The SEC also will examine the company's earnings since Jan. 1, 1982, in an effort to determine if inadequate loan loss reserves allowed too much money to be reported as earnings. The investigation could force First Chicago to lower its earnings for those years.

Sullivan refused to set a percentage figure for the bank's loan loss reserve ratio, saying instead that it will judge loans in the future on an asset by asset basis. "In today's world, its the best way to handle loans," he said.

With its acquisition of Banker's Trust Co.'s Visa and Mastercard business in 1981, First Chicago became the third-largest credit card issuer in the country. The personal-banking department, which controls the low-cost credit card operation, accounts for about 25% of the bank's profit.

An intense mass-marketing campaign of the credit cards has given the bank a national reputation. In 1984 alone, Sullivan predicts that the bank will sign up 750,000 new card members bringing the total subscription roll up to 2.5 million.

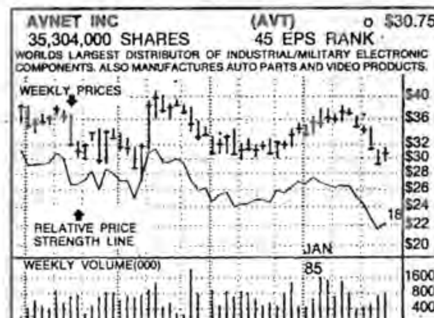
First Chicago closed yesterday at 20, up ¼, on volume of 99,900 shares.

At The Analysts

Avnet Predicts Sharply Lower Net

By Sam Passow, *Investor's Daily*

NEW YORK — Avnet Inc. is likely to report earnings of no more than 30 cents a share for the fiscal third quarter ending March 31, and that figure could drop to as low as 25 cents, warned Anthony R. Hamilton, the company's chairman and CEO. Last year, Avnet earned 64 cents in its fiscal third quarter.



Speaking before the New York Society of Security Analysts, Hamilton said the company's daily semiconductor shipments are still declining each month from their June 1984 peak. "With both semiconductor unit sales and prices dropping simultaneously, semiconductor dollar sales are declining more rapidly than if only one or the other were falling. As a result, Avnet's current quarter sales continue to fall at about the same rate as last quarter."

In the second quarter of fiscal 1985, ended Dec. 28, earnings were 34 cents a share down 43.3% from 60 cents for the same period a year earlier. Net income was down 43.4% to $12 million from $21.2 million, while revenue was flat at $395 million.

The New York-based firm is the world's largest distributor of electronic components and computer products for industrial and military customers. It also makes home entertainment products and distributes automotive electrical and electronic devices.

Looking ahead to the fourth quarter, Hamilton described the fiscal 1985 financial terrain as flat at best, saying "I haven't seen signs of a turnaround, and I don't see any substantial increase in shipments in the fourth quarter from the third." He added, "last June it was a seller's market, this June will be a buyer's market."

If this prediction holds true, fiscal 1985 earnings could well fall far below current analyts' forecasts of about $1.90 a share.

In fiscal 1984, Avnet's earnings were $2.44 a share, up 70.6% from $1.43 a year earlier. Net income rose 72.2% to $86.8 million from $50.4 million, while

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revenue gained 40.5% to $1.63 billion from $1.16 billion.

While noting that it's unusual for a high-growth industry such as semiconductors to falter at a time when the overall economy seems to be on the upswing, Hamilton attributed much of the current decline to speculation over proposals to change the federal tax code and the effects any changes could have on venture capital. "This has made people (in the electronics industry) pause to see what is going to happen," he said.

Industry figures show that semiconductor prices have been eroding — particularly for popular memory chips — to the point where they are now selling at half their November 1984 prices.

While saying that given the current state of business "it isn't easy to be optimistic," Hamilton said there have been some positive signs.

He supported this contention by saying that customers' rescheduling of deliveries and outright cancellations are declining and that manufacturers are shipping a greater percentage of their product directly to customers, rather than through distributors like Avnet, indicating inventories have been reduced to very low levels.

"The last time that happened was in October 1982, the month before the semiconductor rebound began," Hamilton said.

However, Hamilton sharply differed with Intel Corporation's chairman, Gordon Moore, who predicted in this month's issue of Electronic Business that the demand for semiconductors will pick up on May 15. Hamilton said he feels the upturn will take at least 12 to 18 months. "If prices stabilize, we could be at the bottom of a U-shaped, not a V-shaped, semiconductor sales curve."

Avnet closed yesterday at 30¾, up ¼, on volume of 214,900 shares.

A 3¢ Cadillac

"When I organized Hamilton Electro in 1957, the selling price of a single transistor on a silicon chip was $10 and the price of a Cadillac Limousine was $7,600.

Today, the price of a Cadillac limousine is $40,000, but 256,000 transistors on a single chip can still be purchased for $10. If the same cost-productivity ratio of semiconductor pricing had been applied to the Cadillac limousine, you could buy one today for 3 cents. Never forget that this economic concept is at the heart of the growth of the electronics industry."

— **Anthony R. Hamilton, Chairman and Chief Executive Officer of Avnet, Inc., speaking before the New York Society of Security Analysts.**

Investor's Daily ★ Thursday, September 5, 1985

At The Analysts

Flow Systems Sees 50% Earnings Gain

By Sam Passow, *Investor's Daily*

NEW YORK — Flow Systems Inc. projects a 50% increase in earnings in its current fiscal year, to 60 cents a share, said President Henry C. Massenberg.

Flow, which went public in March 1983, earned 40 cents a share in fiscal 1985 ended April 30, up 53.8% from 26 cents a year earlier. Net income rose 58.6% to $2.30 million from $1.45 million, while sales climbed 53.5% to $18.63 million from $12.13 million.

Earnings for the first quarter of fiscal 1986, which ended July 31, were up 60% to eight cents a share from five cents a year earlier. Net income gained 64.4% at $505,000 from $307,000, while sales rose 36.5% to $4.93 million from $3.61 million.

Flow Systems is the world's leading supplier of custom-designed, ultra-high-velocity waterjet cutting systems used in automated factories. With more than 550 customers in 32 countries, the Kent, Wash., company, near Seattle, believes it has 75% of the world market. The remaining 25% is divided among six major competitors.

The company sees long-term growth potential in a new computer-controlled system for electronics manufacturers to cut so-called populated printed circuit boards. The system is being used by International Business Machines in the U.S. and Blaupunkt in West Germany, among others.

Flow expects electronics to supplant the automotive industry as its second-largest market this year. Manufacturers of disposable diapers are its largest market.

The waterjet knife forces tap water through a patented nozzle at three times the speed of sound, resulting in a cutting pressure of 55,000 pounds per square inch.

By the end of this fiscal year, Flow expects to have shipped about 25 of its latest product, the Paser abrasive-jet cutting system. This relatively new system introduces an abrasive material into the waterjet to cut hard substances such as steel, graphite composites and glass. Initial customers are in the aerospace, heavy equipment manufacturing and building materials industries.

Flow signed an agreement in March giving the People's Republic of China an exclusive license to manufacture non-proprietary parts of cutting systems for sale in China and for demonstration equipment. The contract is estimated to be worth between $2 million and $5 million over five years. Flow retained the rights to sell the Chinese-made equipment to other Far Eastern countries.

Although Flow acquired its initial technology base from Flow Industries Inc., from which it was spun off in 1983, it has developed its own R&D program, on which it spends more than 12% of its annual revenue.

Massenberg said his labs are developing a waterjet cutter that would sell for about $10,000 — well below the current range of $60,000 to $750,000. "If we can cut the cost of the product, we will widen the market considerably," he said.

Flow's stock closed yesterday at 18⅝, unchanged on volume of 7,900.

Investor's Daily ★ Wednesday, May 15, 1985

At The Analysts

Enzon Inc.

By Sam Passow, *Investor's Daily*

NEW YORK — Enzon Inc. has been awarded a $400,000 grant by the Defense Department to develop a new drug to counteract the effects of chemical warfare, according to the company's president, Abraham Abuchowski.

Although he could not say when the drug would be available for use, Abuchowski estimated its potential market at $1 billion a year, which, he claimed, is the amount the U.S. Army currently spends on drugs to combat chemical warfare.

The South Plainfield, N.J.-based

Enzon

— Continued from page one

research and development company will base the new drug on a patented compound called PEG-enzymes, which is used in a process that stabilizes enzymes with polyethylene glycol.

Speaking before the New York Society of Security Analysts, Abuchowski said "the occurrence of emergencies such as the recent Union Carbide disaster in Bhopal, India, could be minimized by detoxifying harmful chemicals through the use of PEG-enzymes."

In addition to its work for the military, Enzon is in the final stages of developing for leukemia and lymphoma cancer patients a drug called Leukenon, which is a combination of the patented substance PEG and the existing drug Asparaginase. The drug has been approved by the Food and Drug Administration for clinical evaluation of safety and the tolerance of patients. The trials are due to be completed in 18 months.

Abuchowski said his four-year-old company, which raised $4.2 million in working capital in 1984 from a public offering, does not expect to make a profit on its new drugs for at least another two years.

"I would say our first priority is not to make commercial revenues, but to make the best drug we can," he told analysts.

In a 10-K filling with the Securities and Exchange Commission for the period of June 30, 1984, to March 31, 1985, Enzon showed a loss of 8 cents a share on a total income loss of $702,272. Sales were $6,285 on total revenues of $314,438, the vast majority of which is income on interest.

For the first full year of operation ended June 30, 1984, the company showed a loss of 9 cents a share, or $554,078. Sales were $10,105, while total revenues were $146,114, of which $101,397 was interest income and $34,612 grant revenue.

Abuchowski told analysts that, in addition to the $400,000 government contract, the company has $2.4 million remaining from the public offering.

He also said Enzon was "seriously negotiating" with industrial users of enzymes, such as detergent manufacturers and the makers of industrial cleaners, to license its patents.

Abuchowski disputed an analyst's suggestion that it would cost $30 million to launch a new drug, saying that "it will cost less than a half-million dollars to market Leukenon, because it is a replacement of Asparaginase, it is not a new drug. In addition, 14 years of research went into the drug before the company was formed."

The original patent for the PEG-enzyme is held by Rutgers University in New Jersey, where Abuchowski and others at Enzon worked on its development. Enzon has been given exclusive assignment of the patent.

Abuchowski said his scientists are also testing PEG-enzymes for their ability to treat gout and arthritis.

The arthritis drug market alone, which affects about 20 million Americans, is estimated by Abuchowski to be worth about $600 million in 1990 to theraputic enzyme manufacturers.

Yesterday Enzon closed at 4¼, unchanged on volume of 12,900 shares.

Investor's Daily ★ Monday, June 3, 1985

At The Analysts

Assoc. Dry Goods: Big Expansion

By Sam Passow, *Investor's Daily*

NEW YORK — Associated Dry Goods Corp. plans to add 115 new stores as part of a $1.4 billion expansion program over the next five years, said Chairman and Chief Executive Joseph H. Johnson.

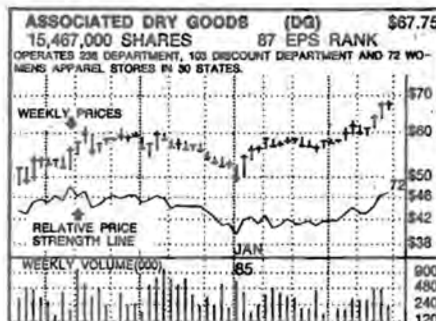
But the immediate future looks rather bland, with modest profit gains and an 8% sales improvement expected in the current quarter, the firm said.

The New York-based general merchandise retailer operates 11 quality department store divisions, with 152 stores, including the Lord & Taylor and J.W. Robinson chains. It also operates 178 discount stores through the Caldor and Loehmann's chains.

Johnson said $600 million of its capital spending from 1985 to 1989 would go to ADG's department store division. That would involve 30 new stores, mostly in the Lord & Taylor, J. W. Robinson and Robinson's of Florida chains.

A further $200 million would go to the discount store chain and translates into 50 new stores for Caldor and 35 for Loehmann's.

Johnson said the $600 million balance of the capital budget would be for working capital and dividends. ADG plans to finance these needs primarily through internally generated funds, he said, but "we always reserve the right to fund out our commercial paper indebtedness when longer-term rates look attractive."



ADG's earnings for first quarter 1985, ended May 4, rose 80.7% to 47 cents a share from 26 cents during the same period last year. Net income was up 84.8% to $9.38 million from $5.07 million while sales climbed 14.2% to $935.92 million from $819.10 million.

ADG President David P. Williams said the first-quarter results represented "the smallest portion of the year's sales and profits."

He noted that retail sales comparisons for the industry have been, and probably will continue to be, lackluster through at least the second quarter. As for ADG, Williams said, "Second-quarter plans call for about an 8% overall sales increase for the total company, which should produce a modest improvement in operating profits. Most of the industry will still be in the process of bringing inventories in line with sales in the second quarter, a task which should be accomplished by the beginning of the third quarter."

He projected the ADG department store division's sales over the next five years would grow at an 11% compounded annual rate while profits increase at a 13% pace.

Earnings in 1984 rose only 2% to $6.07 a share from $5.95 a year earlier. Net income rose only 4.4% to $120.65 million from $115.52 million while sales increased 10.4% to $4.10 billion from $3.71 billion.

Associated Dry Goods' stock closed Friday at 67¾, up 1⅜ on volume 70,300.

Tomorrow: Lily-Tulip Inc., Fries Entertainment

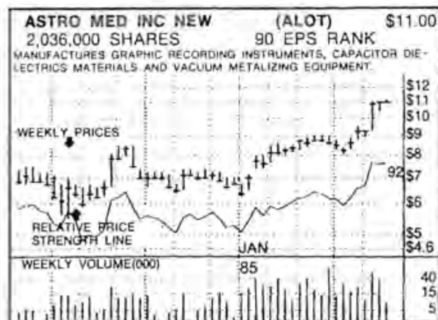
Investor's Daily ★ Tuesday, May 21, 1985

At The Analysts

Astro-Med Sees 40% Sales Jump

By Sam Passow, *Investor's Daily*

NEW YORK — Astro-Med Inc.'s 98% increase in first-quarter net income is an "excellent indication" sales will grow 40% to about $14 million this year, said Chairman and Chief Executive Albert W. Ondis.



Results for the first quarter of fiscal 1986 ended May 4 showed earnings up 114% to 15 cents a share from 7 cents during the same period in fiscal 1985. Net income rose 98.1% to $325,000 from $164,000 while sales grew 55% to $3.04 million from $1.96 million during

See Worthington Industries / page 7

the same period.

Ondis attributed the earnings rise to "the shifting balance" in the end-user market in aerospace, telecommunications, automotive and electronic component testing from the company's traditional base of original equipment manufacturers, most of whom are in the medical field. The West Warwick, R.I., firm makes high-speed graphic recording systems for medical, scientific and industrial applications.

In fiscal 1985 ended Jan. 31, earnings rose 17.5% to 47 cents a share from 40 cents the prior year. Net income was up 19.3% to $863,000 from $723,000, while sales rose 24.1% to $9.90 million from $7.98 million.

Ondis said 60% of Astro-Med's business formerly was with medical OEM customers, a $12 million market with a 10% annual growth rate. He noted his company has 40% of that market with its graph printers for such equipment as cardiac, fetal and blood monitors.

Meanwhile, Ondis estimated the end-user market to be $60 million, of which Astro-Med has less than a 10% share. However, he contended, the company's future will be based on developing applications of its latest generation of digital recording systems called Astro-Graph.

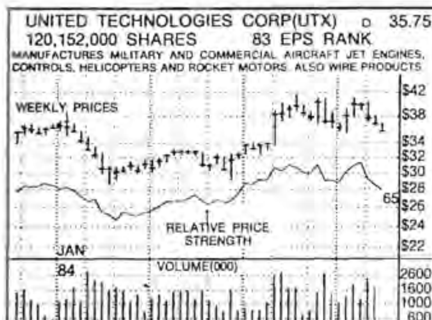
An end-user version of the Astro-Graph will be on the market in October. The company already plans to market the technology to OEMs, such as International Business Machines Corp.

At The Analysts

United Tech Sees Sound Future

By Sam Passow, *Investor's Daily*

PHILADELPHIA — United Technologies Corp., one of the nation's leading defense contractors, is confident that any congressional cutbacks to the Reagan administration's defense plans will have little impact on their overall profitability.



Speaking tO Philadelphia anaylsts, Harry J. Gray, United Technologies chairman and chief executive officer, said "the programs we are already in are programs which have matured. And most of our business now is in spare parts, which will be sound for at least the next four years.

"Even if the Congress was to cut the MX missile program for which we have the control systems contract, it would not affect us greatly," he said.

Addressing anaylst's concerns that the company could stand to lose about $125 million in 1986 if it failed to get the contract to supply Pratt & Whitney engines for the Navy's F-15, F-16 and F-18 jet fighters, Gray said "we anticipate that the engine contracts will be awarded on a 50-50 split. The Navy wants a second source for its engines, preferably at opposite ends of the country."

United Technologies executives at the meeting confirmed that the Navy had chosen their Sikorsky CV-Hilo helicopter for its anti-submarine warfare unit over two other competitors and said they expect to conclude the expected $1.2 billion contract negotiations for the 175-craft order by February 1985.

The Hartford, Conn.-based firm manufactures Pratt & Whitney jet engines, Sikorsky helicopters and Norden flight system products, as well as Carrier air conditioning equipment, Otis elevators and escalators and industrial products, including wire and cable, intergrated circuits and automotive and other products.

In 1983, U.S. government contracts accounted for 31% of United Technologies's sales. Overseas operations accounted for 20% of sales and 28% of profits, a trend Gray contends will last

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as long as "the U.S. government continues to arm its allies."

Third-quarter results showed earnings rose 57.3% to $1.40 a share from 89 cents a share in the same quarter in 1983. Net income rose 59.2% to $192.70 million from $121.02 million, while sales climbed 10.2% to $3.88 billion from $3.52 billion during the same three month period last year.

In 1983, earnings increased 15.6% to $3.71 a share from $3.21 on fully diluted earnings in the preceding year. Net income was down to $509.17 million from $533.72 million, while sales rose 8.03% to $14.66 billion from $13.57 billion. The figures have been adjusted to reflect a 2-for-1 stock split.

Gray projected that United Technologies' revenue would top $16 billion at the end of fiscal 1984. When asked to forecast per-share earnings for this year, Gray replied, "we don't feel uncomfortable with the Goldman, Sachs prediction of $4.40 a share."

Gray said he feels that many people do not understand the company's diversification program. "We are not in anything from chickens to jet engines," he said. "We are multi-industry, but there is a coherency to the application of technology."

As an example, he cited a deal with the Ford Motor Co. to supply an electronic system in the steering column of some 170,000 1987-model Lincolns, which will enable the driver to operate all the systems in the car, from wiper blades to the radio, without removing his hands from the steering wheel.

This technology was developed by the aerospace division for pilots and "could have a major impact on the company if it is widely accepted by the automotive industry," said Gray.

United Technologies is raising its research and development budget from $900 million in 1984 to $1 billion next year.

United Technologies closed yesterday at 35¾, down ⅝, on volume of 193,700.

At The Analysts

Napco To Market Anti-Shoplifting Units

By Sam Passow, *Investor's Daily*

NEW YORK — In a move to capitalize on its success in the burglar-alarm market, Napco Security Systems Inc. is entering the highly lucrative yet relatively untapped anti-shoplifting systems field, said President Kenneth Rosenberg.

He said Napco has signed a two-year, exclusive agreement to market Hicksville, N.Y.-based Knogo Corp.'s Sentinel System, an economical electronic article surveillance (EAS) system used by clothing stores and other soft goods retailers for protection against shoplifting. The system employs reusable plastic tags affixed to an item, which triggers an alarm hooked up to detectors at exits if a shoplifter tries to leave a store without paying for the merchandise.

Napco is relying on its national network of nearly 2,000 dealers, serviced by 120 wholesalers, to sell the system to small retail outlets that already buy Napco burglar alarms.

The firm will buy each Sentinel System at $1,400 and resell it to wholesalers for $2,500. The system's retail price is expected to be $4,000, a fraction of current systems' costs that range from $15,000 to $25,000. Such high price tags often have exceeded the

value of merchandise lost through theft by small-shop keepers.

Rosenberg contended the devices can stop up to 90% of store thefts and that the system will pay for itself within four months. He estimated only about 5,000 stores nationwide use the electronic tags, in a potential market of 500,000.

"It will take us six months from now to see if we made the right decision," said Rosenberg. "But it's possible that this could end up being our largest-selling item."

His Long Island, N.Y.-based firm develops, manufactures and distributes hi-tech security alarm products for commercial and residential use. Its main product is a range of alarm control centers using microcomputer technology. It also produces infra-red heat-seeking, photo-electric beam and vibration detectors.

Rosenberg noted improvements in Napco's gross margin during the past two years has been the result of a newly automated manufacturing process, an increase in product mix, and the spread of fixed overhead over higher sales volume.

He also said Napco, which spends about 6% of its gross sales on research and development, is looking to diversify into the access control systems — computerized devices which control traffic flow through doorways. "We have been hearing too much about this to ignore that market," he said.

Napco's earnings for the third fiscal quarter ended March 31 were up 27.7% to 23 cents a share from 18 cents a year earlier. Net income rose 29.1% to $665,095 from $515,023 while sales increased 28.7% to $5.28 million from $4.10 million.

In 1984, earnings rose 165.5% to 85 cents a share from 32 cents in 1983. Net income was up 163.6% to $1.64 million from $625,613, while sales grew 53.3% to $14.20 million from $9.26 million.

Napco's stock closed yesterday at 13¾, down ¼ on volume of 400.

Tomorrow: Sun Co.

Investor's Daily ★ Monday, February 4, 1985

Reagan Enters Budget Battle Stronger As Alternative From Senate GOP Falters

By Sam Passow, *Investor's Daily*

WASHINGTON — The battle of the budget officially commences Monday when the president submits his spending plans for fiscal 1986 to Congress. However, even before the first rounds have been fired, it appears President Reagan has won an initial skirmish by defusing a potential revolt from within his own party.

Advance details of the president's fiscal 1986 budget, which will be made public at noon Monday, show the administration's strategy is to hold the overall level of federal spending in 1986 to 1985 levels without touching Social Security while still allowing the defense budget to increase 5.6% to $277.5 billion.

According to published reports, the total outlays will be $973.7 billion with an estimated deficit of $178 billion. If so, it represents a 1.5% increase in government spending, which would be the lowest growth rate in federal spending since 1965.

White House spokesman Larry Speakes said the overall plan is in keeping with the president's wishes to freeze overall government spending.

The budget — the first of Reagan's second term — contains no call for a tax increase, and the president is expected to send Congress a plan later this year to simplify the income tax code.

For fiscal 1985, the president asked for $925.5 billion in spending, but outlays are actually expected to total $959.1 billion. At that level, the deficit would top $200 billion this year. The deficit hit a record $195 billion in 1983, followed by a $175 billion shortfall in 1984.

While few lawmakers in either party disagree with the need to make drastic cuts in the budget before the fiscal year begins Oct. 1, many favor a comprehensive freeze that would spread the burden of cuts among all programs, including defense spending and Social Security.

Senate Republicans led by Majority Leader Robert Dole of Kansas fear that Congress will not swallow further budget cuts that affect only the lower- and middle-classes.

Senate Republicans led by Majority Leader Robert Dole of Kansas fear that Congress, which already is looking ahead to the 1986 and 1988 elections, will not swallow further budget cuts that affect only the lower- and middle-classes. They had planned to send this message to the White House last Friday in the form of an alternative budget. It is believed that such a plan would have broken ranks with the president by recommending cuts in Pentagon funding and eliminating Social Security cost-of-living increases for one year.

However, the plan failed to materialize because it required budget slashing agreements from several committee chairmen, and Armed Forces Committee chairman Barry Goldwater opposed the estimated $20 billion in defense cuts sought by his colleagues. Sen. Goldwater, who appeared to be convinced by the administration's argument that national defense would be jeopardized by substantial defense cuts, said he would not submit a proposal to trim the Pentagon's spending until after the president's budget is formally sent to Congress.

Both the White House and the Senate GOP are seeking to reduce the deficit to 4% of the gross national product in 1986, 3% in 1987 and 2% in 1988. Those targets require about $266 billion in budget savings over the next three years and at least $50 billion in 1986.

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However, they break ranks over how to achieve those cuts.

The Senate GOP plan targets the military for 40% to 50% of the sought-after savings. About 25% would come from social programs under the Finance Committee's jurisdiction and the remaining 25% to 35% from other agencies such as Agriculture and Commerce.

Administration sources said other proposals in the president's budget include an end to the $4.6 billion revenue-sharing program; a 5% pay cut for federal workers; a $1 billion cut in Medicaid plus higher premiums and deductibles as well as a one-year freeze on doctor and hospital bills; elimination of the Small Business Administration, Legal Services for the poor and urban development grants; near elimination of mass-transit aid and an end to Amtrak subsidies; near elimination of new housing for the poor, elderly and handicapped tenants; reduced college loans; a freeze on food stamps and tightened eligibility for welfare recipients.

Investor's Daily ★ Tuesday, February 5, 1985

Budget Hits Middle Class The Hardest While Defense Spending Increases 8.3%

By Sam Passow, *Investor's Daily*

WASHINGTON — "The day of reckoning has arrived, and (the cuts) are controversial," Budget Director David Stockman said yesterday as the Reagan administration began its defense of the president's proposed $973.7 billion budget for fiscal 1986.

"We can't wait a moment longer to get our federal budget under control," President Reagan emphasized.

"If we lose the budget battle, if we allow all the lessons of all the decades of unchecked government spending to go unheeded, we consign ourselves and our children to the tyranny of a government that respects no boundaries and knows no limits," Reagan warned members of Congress.

Despite its call for $51 billion in spending cuts, the president's proposed budget contains a deficit of $180 billion and would raise the national debt to about $2 trillion.

Most of the deficit-cutting effort comes at the expense of curtailing domestic spending programs, especially those that help the middle class. Among the casualties are Medicare, a two-year halt in housing subsidies for the poor and elderly, and a huge increase in fees paid by people borrowing money under programs run by the Veterans Administration and the Federal Housing Administration.

"There are no real alternatives," Stockman said. "I think Congress will discover that when they get on with the next stage of the process. If we do nothing and allow the budget to remain on automatic pilot, we will see deficits in 1986 in the range of $230 billion, with larger numbers in succeeding years," he said at a briefing yesterday as the president's budget was presented to Congress.

Most of the deficit-cutting effort comes at the expense of curtailing domestic spending programs, especially those that help the middle class.

The budget also proposes a one-year freeze in both cost-of-living adjustments and funding and for many programs. Social Security recipients, however, would get their cost-of-living increase, which is expected to be about 4.1%. More than 25 programs would be eliminated under the proposal, including the Small Business Administration and direct loans for the Export-Import Bank. The proposed budget also calls for a 5% pay cut for civilian government employees.

The Pentagon's budget, however, would increase 8.3% in fiscal 1986, which begins Oct. 1.

The 1986 spending total represents a 1.5% increase over the $959.1 billion expenditures for fiscal 1985 and is the lowest growth rate in federal spending since 1965.

In his official message to Congress, the president served notice on the lawmakers — as he did two weeks ago in his inaugural address and is expected to do again tomorrow in his State of the Union address — that he is prepared to fight for his conservative policies because the voters have given him a mandate to make these changes.

"The proposals contained in this budget will build on the accomplishments of the last four years and put into action a philosophy of government that is working and that has received the overwhelming endorsement of the American people," the president said in his budget message.

"There will be substantial political resistance to every deficit reduction measure proposed in this budget ...

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however, the question must be raised: 'Where is the political logrolling going to stop?'

"The single most difficult word for a politician to utter is a simple, flat 'No.' The patience of the American people has been stretched as far as it will go. They want action. They have demanded it," he said.

The president proposed additional budget cuts of $83 billion in fiscal 1987 and $105 billion in fiscal 1988 which, if enacted, would reduce the deficit projected for fiscal 1987 to $165 billion and fiscal 1988 to $144 billion. Reagan conceded that his budget was "still a far cry from our goal of a balanced budget, but a significant step in the right direction."

However, the projection also falls far short of the administration's initial target of reducing the deficit to $100 billion by the end of its term.

The projected deficits would drive the gross national debt in 1986 to an estimated $2 trillion. By the end of Reagan's term the national debt is projected to rise to $2.5 trillion.

In his first term, Reagan — who sailed into office on the promise to balance the budget and reduce the size of the federal government — has, in fact, increased government spending 41.4% from the fiscal 1981 level of $678.2 billion to an estimated $959.1 billlion in the current fiscal year. During that time, the deficit has widened by $143.3 billion, from $78.9 billion in fiscal 1981 to what will probably be about $222.2 billion by the end of this fiscal year. The national debt will grow a projected 83.3% in the same period, from $1 trillion in fiscal 1981 to an estimated $1.84 trillion by the end of the current fiscal year.

Speaking to reporters at a press briefing yesterday, newly confirmed Treasury Secretary James A. Baker said the method of closing the deficit was as important as the goal. "It would be wrong to go back to our old way of pushing up taxes, either legislatively or by 'bracket creep' in a non-indexed system. In our view, the tax reductions of the past several years have been largely responsible for the turnaround in economic performance. This means that deficit reduction must be accomplished from the spending side."

No Tax Hikes

In his budget message, the president also signaled his intention to introduce a tax-simplification program later this year. But he warned those who might see a change in the tax structure as a way to offset the deficit that "the proposals will not be a scheme to raise taxes — only to distribute their burden more fairly and to simplify the entire system. By broadening the base, we can lower rates," he said.

In fiscal 1986, the government hopes to raise $793.7 billion to pay for its programs. Of that total, individual and corporate income taxes are expected to account for $433 billion, or 54.5%; Social Security contributions an estimated $289.4 billion, or 36.5%; and excise taxes $35 billion, or 4.4%. Estate and gift taxes, custom duties and miscellaneous receipts would be about $36.3 billion, the remaining 4.6% of the total.

Of each budget dollar spent in fiscal 1986, 41 cents will go to direct benefit payments for individuals, 29 cents for national defense, 15 cents for interest payments, 10 cents for grants to states and local agencies, and 5 cents to other federal operations.

With the exception of national defense and science and technology — the latter of which includes the space program — the proposed fiscal 1986 spending levels for all other areas of government would either be held at this fiscal year's spending levels or would be reduced. Some entitlement programs, however, would be adjusted upward to include cost-of-living increases.

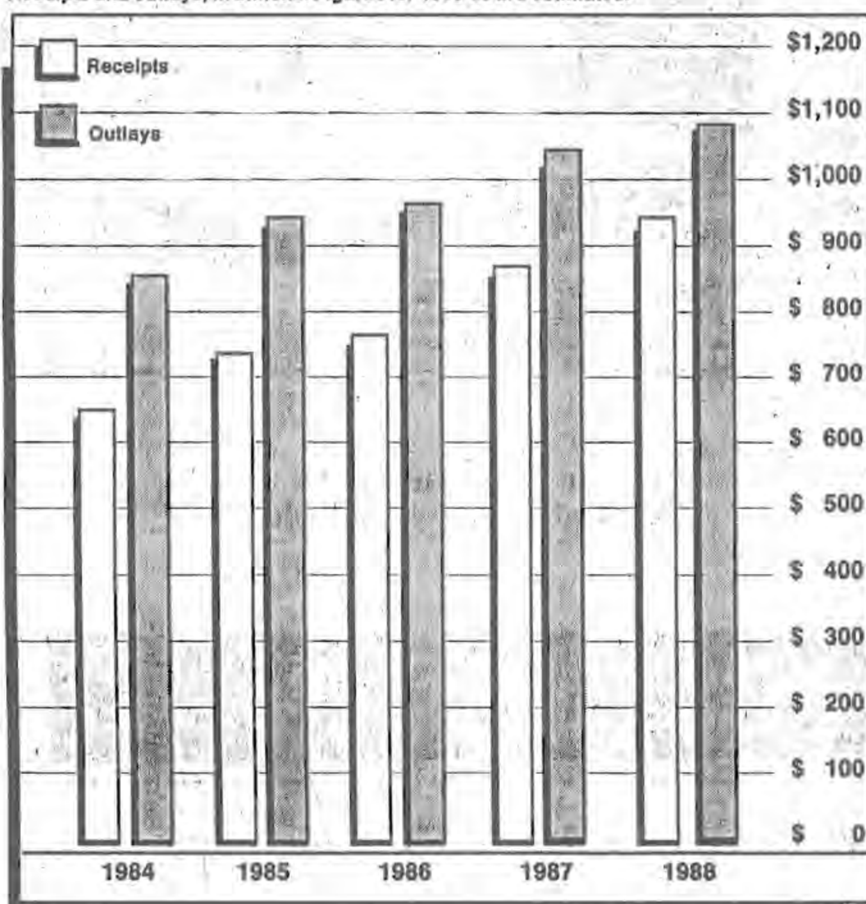
SBA, Others Eliminated

The proposed budget would eliminate the Small Business Administration, the Economic Development Administration, the Legal Services Corp., revenue sharing, mass transit subsidies, federal support for Amtrak and sewage treatment construction grants. It also would sharply cut farm price supports, rural electricity subsidies, student aid, Medicare, veterans' benefits and the lending program of the Export-Import Bank.

In brief, the administration's projections for 1986 over 1985 include:

■ National defense: $285.7 billion, up 12.5% from $253.8 billion.

■ Social Security and Medicare:



$269.4 billion, up 4.6% from $257.4 billion.

■ Interest on the national debt: $142.5 billion, up 9.2% from $130.4 billion.

■ Health, including Medicaid: $34.9 billion, up 2.9% from $33.9 billion.

■ General science, space and technology: $9.3 billion, up 6.8% from $8.7 billion.

■ Income security: $115.8 billion, down 9% from $127.2 billion.

■ Education, training, employment and social services: $29.3 billion, down 3.6% from $30.4 billion.

■ Veterans' programs: $26.8 billion, down 0.4% from $26.9 billion

■ Transportation: $25.9 billion, down 4% from $27 billion.

■ International affairs: $18.3 billion, down 6.6% from $19.6 billion.

■ Agriculture: $12.6 billion, down 38% from $20.2 billion.

■ Natural resources and environment: $11.9 billion, down 8.5% from $13 billion.

■ Community and regional development: $7.3 billion, down 15% from $8.6 billion.

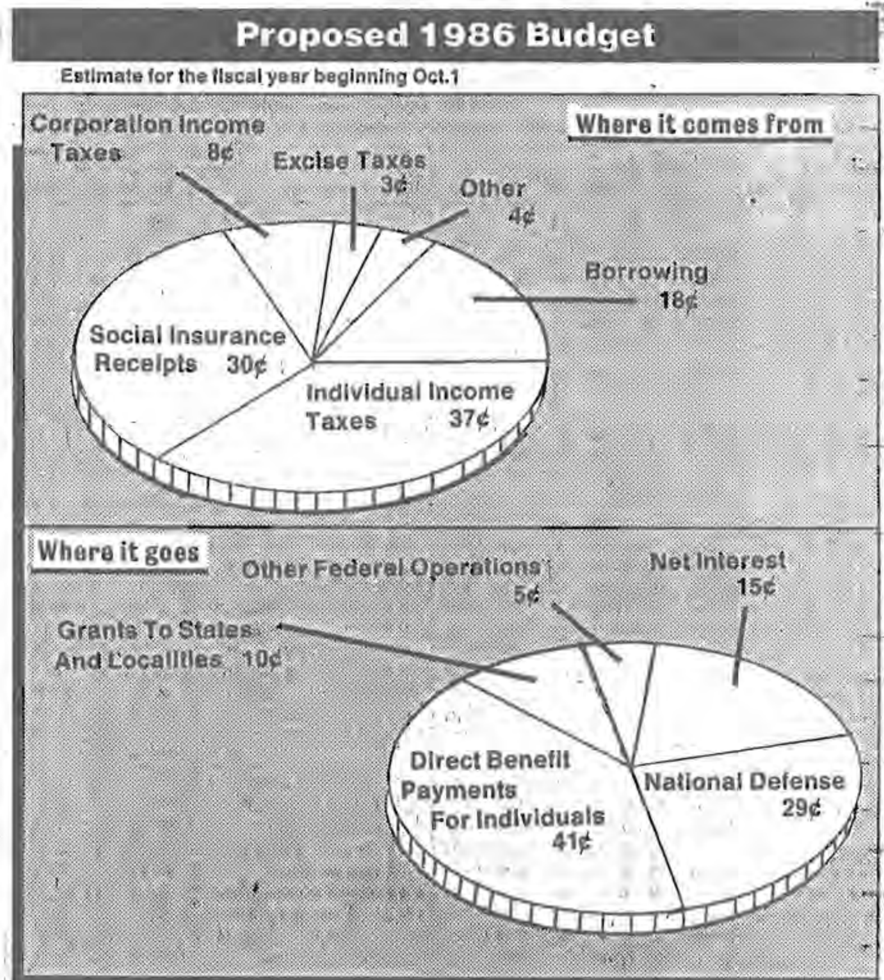
■ Justice: $6.6 billion, down 1.5% from $6.7 billion.

■ General government, including the administration of Congress: $4.8 billion, down 17% from $5.8 billion.

■ Energy programs: $4.7 billion, down 43% from $8.2 billion.

■ General purpose fiscal assistance: $2.8 billion, down 58% from $6.6 billion.

■ Commerce and housing credit: $2.2 billion, down 63% from $6 billion.



Source: Office of Management and Budget

Dependent On Many Factors

Budget receipts and outlays depend directly on the level of economic activity, inflation, interest rates, unemployment and other economic factors, and in his message to Congress, President Reagan said he was "proud of the state of the economy."

In constructing the budget, the administration based its proposals on the following economic assumptions, which are calculated on calendar rather than fiscal years.

■ Real GNP is projected to grow at a 4% annual rate from 1987 through 1988, but to moderate to 3.8% in 1989 and 3.6% in 1990. Underlying the projected real growth rate are assumptions that an increase in employment will occur and that output per hour in the non-farm business sector will grow at an average rate of 2% over the 1985-90 period.

■ Inflation as measured by both the GNP deflator and the consumer price index is projected to grow at an annual rate of 4.1% in 1987, 3.8% in 1988, 3.5% in 1989 and 3.2% in 1990.

■ Unemployment is expected to fall gradually to 6.5% in 1987, 6.2% in 1988, 6% in 1989 and 5.7% in 1990.

■ Personal income growth will begin to decline from 7.5% in 1987 to 7.2% in 1988 and 1989 and down to 6.5% in 1990.

■ Growth in wages and salaries will rise about 8.3% in 1987 and 8.4% in 1988, then dip to 8.2% in 1989 and 7.6% in 1990 as lower inflation moderates demand.

■ Corporate profits are expected to grow more slowly as the decade ends. In 1987, corporate profits are projected to rise 17.5% to $336 billion, but in 1988 they are expected to grow only 7.1% to $360 billion, dipping to 4.7%, or $377 billion, in 1989 and 5%, or $396 billion, in 1990.

■ Real interest rates are expected to return gradually to their long-term average level by 1990. Short-term interest rates as measured by 91-day Treasury bills are expected to continue their downward trend from 7.2% in 1987 to 5.9% in 1988 to 5.1% in 1989 and 5% in 1990. But long-term interest rates measured by 10-year Treasury notes are expected to drop faster, from 9.3% in 1987 to 7.3% in 1988 to 5.7% in 1989 and 5.5% in 1990.

Reagan's fiscal 1986 figures not only reflect budget cuts but projected savings by virtue of projected lower interest payments on the national debt and the $8.7 billion in defense "savings" that do not represent cuts but a reduction from a draft Pentagon budget.

The president, possibly anticipating congressional moves to hold down the growth in Pentagon spending, said he would "not exclude other economies that Congress may devise, so long as they do not imperil my fundamental constitutional responsibilities to look after the national defense and the general welfare of the American people."

Reagan Sees Growth Through Decade, Modest Inflation If Policies Continue

By Sam Passow, *Investor's Daily*

WASHINGTON — President Reagan yesterday promised more of the same rosy economic outlook — if lawmakers and the Federal Reserve Board cooperate.

In his annual Economic Report of the President, Reagan took credit for the "strongest recovery in 30 years" and blamed the Fed for making the recession that marred his first term worse than it needed to be.

The Fed, monetary policy and fiscal policy figured prominently in the report and in the economic analysis by Reagan's Council of Economic Advisers.

Noting that his new budget assumes steady economic growth through the end of the decade, the president said, "We know that economic recoveries have not been stable in either duration or magnitude, in part because monetary and fiscal policies have often been erratic."

But, the report said, with cooperation on fiscal and monetary policies there is no reason to believe that business expansions die of old age; and when a recession comes, it would be no more than a "mild and temporary interruption."

President Reagan blamed the Fed's previous monetary policies for the 1981-82 recession. "On occasion," he wrote, "the rate of money growth has been quite volatile, contributing instability in interest rates and declining economic activity. The sharp reduction in money growth through mid-1982, for example, undoubtedly added to the length and severity of the 1981-82 recession. And a similar reduction in money growth in the second half of 1984 contributed to the temporary slowing of economic growth late in the year."

In his annual Economic Report of the President, Reagan took credit for the 'strongest recovery in 30 years'

The CEA also took a swipe at the Fed by warning that trying to cushion the effects of interest-rate fluctuations due to changes in the budget through monetary policy might be counterproductive. "A monetary policy directed toward stable money growth will ensure that interest rates can adjust readily to changed market conditions," it said.

One step toward such stability, apparently, is a recommendation in the report that the Fed calculate this year's expansion of the nation's money supply from a different year-end 1984 base than it has used. The change would have the effect of expanding the board's money-growth targets this year by $5 billion.

That adjustment, arcane to most Americans, seems intended to forestall any Fed monetary restraint, which some officials fear could cramp the recovery.

The report also recommends that the Fed focus on the basic M1 money supply rather than the broader aggregates (M2 and M3) when setting policy, noting that "evidence suggests that of the available monetary aggregates and credit measures, M1 is the most closely and reliably related to economic activity and inflation."

The battle over who controls monetary policy was waged in the first Reagan term and appears to still be high on the agenda.

William Niskanen, the only remaining member of the Council of Economic Advisers, said after presenting the document to Congress that the administration is considering changes in the "institutional arrangements" of the traditionally independent Fed. He said

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one idea, supported by Chairman Paul Volcker, is to make the chairman's term run concurrently with the president's.

Niskanen also said that the idea of pushing for White House representation on the board — as suggested by new presidential Chief of Staff Donald Regan, among others — has not been considered at high levels of the administration.

Pressed for elaboration, Niskanen said only, "It suggests that we may have something else in mind."

Volcker Jabs Back

Meanwhile, Volcker, in his first public remarks since the fiscal 1986 budget was released, took a jab at the president's efforts to take credit for the economic recovery. Volcker told the Joint Economic Committee that the current big deficits probably played a legitimate role in helping lift the economy out of a 1982 recession.

In a related financial matter, the CEA report contends that a strengthened dollar, fueled by the economic recovery, has made the task of bringing inflation under control considerably easier and has lowered interest rates and raised the real value of investments.

While it concedes that some industries that rely on exports have been hurt, on the whole, a strong dollar has been beneficial to the economy. "The strong dollar has stimulated production and investment in sectors less involved in international trade. In other industries, competition from imports has prompted more expenditure on plant and equipment as well as greater attention to controlling wages and other costs," the report said.

It also urged a new round of international talks to lower trade barriers on goods and services ranging from high-technology products to agriculture, steel and textiles.

Trade Talks Stressed

The proposal was not in itself new. But it was spelled out in somewhat greater detail in a chapter which is the most comprehensive statement of trade policy so far in President Reagan's second term.

The report says the U.S. should "push aggressively forward on comprehensive multilateral trade negotitions under auspices of GATT" — the General Agreement on Tariffs and Trade, a Switzerland-based organization that oversees world trade.

"At a more concrete level," the report says, "the United States itself must be committed to comprehensive trade liberalization."

Unlike previous reports by the CEA, the 1986 document hardly differs from the administration's view of the economy. And it certainly isn't the pessimistic report issued last year when Martin Feldstein was chairman of the council. He has since resigned, as has William Poole, the third member of the CEA.

Investor's Daily ★ Tuesday, November 20, 1984

Major Utilities Prepare To Profit By Providing Access Lines For Fiber Optic Telecommunications

By Sam Passow, *Investor's Daily*

WASHINGTON — The nation's leading utility companies could be on the verge of a multibillion-dollar growth spurt by linking their resources with the major telecommunication firms.

According to the Energy Daily, a newsletter, utilities providing right-of-way access lines for the new generation of communication links — fiber optic cables — could produce billions of dollars in revenue between now and the end of the century.

Experts quoted in the report warn that as telecommunication companies frantically attempt to secure new modes of transmission, "utilities will have to move with uncharacteristic speed if they want to exploit this opportunity."

One energy consultant goes so far as to predict "that a year from now the window of opportunity for (utility) companies to get into the lucrative telecommunications business will have vanished."

Federal deregulation, the divestiture of American Telephone & Telegraph Co., and the revolution in micro-electronics have combined to produce an urgent need for new telecommunication facilities throughout the nation.

AT&T's Expansion

The extent of the coming explosive growth in telecommunications can be gauged by New York-based AT&T's recent announcement that it plans to spend $2 billion by the end of the decade on the expansion of its fiber optic network. The expansion will include new routes totaling almost 21,000 miles and will link 120 metropolitan centers in the U.S.

This new move will undoubtedly be matched by AT&T's competitors, MCI Communications Corp., GTE Corp.'s Sprint and Satellite Business Systems, which already have clawed away about 10% of the so-called long-lines traffic away from the former monopoly and are likely to win even more.

"Our estimate," said Mitchell Diamond, a principal with consultants Booz-Allen & Hamilton in Bethesda, Md., "is that as the market continues to grow, AT&T's share is going to drop and that some 30% or 40% of the market will be shared by these new folks." Booz-Allen believes that the volume of the U.S. telecommunications market in the year 2000 will be five time greater than it is now, generating annual traffic revenue of $70 billion by 1990.

Unlike satellite or microwave systems, fiber optic cables are small, lightweight, immune to electrical or radio interference and carry an enormous amount of information. They even have regulatory advantages because they need no license from the Federal Communications Commission or, as is the case with microwave, tower permits from the Federal Aviation Administration.

Fiber Often Cheaper

Recent technical developments now allow fiber optic cables to be incorporated into the ground wire or phase conductor of electrical transmission lines, and as both fiber and terminal costs decline, a fiber optic system is often cheaper than any rival technology.

So how does a utility get in on the telecommunications business during the "window of opportunity" that Diamond thinks will last little more than a year? "There are several ways they can participate," he said. "The simplest way, and the way the telecommunications companies might find most attractive, is for the utilities to offer simple, straightforward leases, with a cash payment up-front for use of the right-of-way. That way they take the money with no risk, but essentially there's no participation either in the growth of the market."

If they prefer, the consultant explained, utilities can take a far more active role either by developing their own fiber optics right-of-way system or by entering into joint ventures with telecommunication companies. He targeted six such utility companies: Pacific Gas & Electric Co., Southern California Edison Co., American Electric Power Co., the Southern Co., Consolidated Edison Co., and Commonwealth Edison Co.

Picking Partners

But picking a partner could prove to be a major headache. "There are lots of different people approaching utilities and offering them deals," said Diamond. "Some of them are stronger than others. Some of them are more likely than others to gain market share, so that the asset can realize its potential. Others may end up investing money but never gaining enough market share to let the asset realize any kind of value."

Many utility executives think that spectacular failures in fiber optics telecommunications are inevitable. "Like the small computer business, there's going to be a shakedown," said Euel Wade, senior vice president with Southern Company Services Inc., the Birmingham, Ala. subsidiary of Southern Co. "A lot of people that will be in the business a year from now will probably not be in the business three years from now. We're going to have to move with speed, but also with caution."

But fiber optics offer an unusual safety net. Even if a utility's partner never manages to attract sufficient traffic to its system and finally goes out of business, said Booz-Allen's Ann Todd, the effort will not entirely be wasted.

In the fast growing market, "some other company will likely want to buy up the links and equipment. "There's no question there will be some overcapacity in the high-traffic areas in the next five or six years," she said.

Banks Eager To Lend

"Companies will go bankrupt and the equipment may lay fallow for a while. But in another 10 years, we anticipate no problem. Someone will be there buying up the capacity," said Todd.

For that reason, Booz-Allen's analysts contend that banks are now happy to lend money for fiber optic ventures. Despite its comforting, risk-free nature, few utility executives recommend that their companies should take the first option of simply leasing out their right-of-way to telecommunication firms since the flat per-mile rental could turn out to be unrealistically low in relation to the amount of revenue that might be generated.

SoCal Edison's manager of telecommunications, Jim Newport, argued that the Rosemead, Calif.-based utility should enter the fiber optics market via an unregulated subsidiary. "That's the way you make the most money," he said. "We feel our rights-of-way are very, very valuable. And there is no way we're going to allow some specialized carrier to build fiber on our right-of-way and then give us the use of one fiber. I don't want that. I want to make money."

If SoCal Edison's top management decides to enter the business, added Newport, he would recommend wholesaling fiber optic links in 90 megabit channels. Given the go-ahead, he believes, the utility could string fiber optic links at a rate of some 16,000 feet a day.

Generating Revenue

Nationwide, Newport speculated, the revenue from private telecommunications traffic might some day exceed even electric revenue. From his own research, he said, "it looks promising that I could justify the expenditure on a fiber optic link on the first customer that signs a five-year lease."

Washington lawyer Charles Meehan, who is general counsel to the Utilities Telecommunications Council, offered another reason why utilities should avoid simply leasing their rights-of-way to telecommunication companies. "There is always the concern that if common carriers operate their systems on utility rights-of-way, the utilities could eventually find themselves in the same position as investor-owned electric utilities with cable television attachments on their distribution poles."

The FCC now regulates the rates utilities and telephone companies charge cable TV companies for their pole attachments. Many utility executives worry that efforts by a utility to increase the rent charged to a telecommunication company for use of a right-of-way would simply prompt the company concerned to seek a regulatory cap on rates.

Investor's Daily ★ Monday, December 31, 1984

Congress May Make Life Harder For Securities Industry In 1985

By Sam Passow, *Investor's Daily*

WASHINGTON — The securities industry can expect to find as little support for its cause in the upcoming 99th Congress as it did in the last one.

Efforts to tackle the budget deficit and overhaul the tax code will undoubtedly dominate the congressional agenda in 1985. These issues could well have a severe impact on the securities industry in what Sen. Donald Riegle, D-Mich., describes as "a watershed year for investment bankers and brokers."

To date, the three major tax reform plans — the Treasury Department's, the Democrat's Bradley-Gephardt plan and the Republican's Kemp-Kasten proposals — all favor in one form or another scrapping much of the preferential treatment now accorded to capital gains. Such a move could end up taxing security income at the higher ordinary income rate of about 35% as opposed to the current rate of 20%.

In addition, a change in the capital gains law would severely affect such tax shelters as real-estate investments and could well discourage venture capitalists from funding emerging companies, especially in the high-tech industry.

The Reagan administration also is proposing the elimination of investment tax credits and an end to accelerated depreciation rates for plant and equipment. Such a move could seriously affect corporate profitability.

Legislators will once again wrestle with what parts of the financial community to regulate and what to deregulate in 1985. The trend toward integrating the nation's banks into the free-market system is expected to continue, but with federal regulators intervening on tender offers and insider trading.

Senate Banking Committee Chairman Jake Garn, R-Utah, plans an early reintroduction of the Financial Services Competitive Equity Act, which passed in the last session of the Senate by an overwhelming vote of 89-5 but failed to clear the House.

The comprehensive legislation, which would greatly expand bank powers and force fundamental changes in the financial community, is vigorously opposed by the Securities Industry Association, which prefers the current barriers between different types of financial insitutions.

Among the proposed changes, the Senate bill would allow depositary institutions, through separate subsidiaries of holding companies, to underwrite and deal in revenue bonds, mortgage-backed securities and commercial paper.

According to sources within the Senate Banking Committee, Garn plans to speed the bill through committee in as few as two days, limiting testimony to written submissions by those who had previously testified on the subject. More than 8,000 pages of testimony came out of the original committee hearings in 1983.

Aides to Garn said he is determined to get a vote on the bill before the Senate gets bogged down in the budget and tax reform debates, which should get into full swing by the end of March.

As is the case with the last Congress, once the Senate banking bill gets to the House it's anyone's guess as to the final form. House Banking Committee Chairman Fernand J. St Germain, D-R.I., holds most of the cards in the House on banking matters, and so far, he hasn't revealed his hand.

Sources in the Senate Banking Committee expect a "substantial" portion of their amendments to be thrown out by the House, resulting in a compromise

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bill. However, even in the compromise procedure, these sources believe that on the whole, those measures adversely affecting the securities industry will remain intact. This view is supported by the Federal Deposit Insurance Corp.'s November ruling giving state banks that are not members of the Federal Reserve System freedom to enter the field of securities underwriting.

Potential White Knight

One potential white knight for the securities industry is Rep. Timothy E. Wirth, D-Colo., chairman of the Telecommunications, Consumer Protection and Finance Subcommittee of the House Energy and Commerce Committee, which has jurisdiction over securities industry matters. Wirth is reportedly prepared to offer amendments that would strengthen the divisions between banking, securities and other commercial activities.

Another piece of legislation affecting the securities industry that the Senate Banking Committee is likely to consider is a bill providing for capital assistance for thrifts. The current law authorizing the assistance expires Oct. 31.

Sen. Alphonse D'Amato, R.-N.Y., is expected to propose changes in tender offer and insider trading laws. D'Amato, who chairs the banking subcommittee on securities, proposed a number of amendments on these two controversial subjects last term, but his efforts were defeated in committee.

D'Amato said he intends to hold public hearings beginning Jan. 7 in New York in an attempt to draft new legislation on tender offers. It would update the Shareholder Protection and Elimination of Takeover Abuses Act, known as the Willliams Act, and make it more difficult for hostile takeovers to occur.

Tackling Insider Trading

Later in the year, D'Amato plans to tackle the question of insider trading by developing a broader definition of what constitutes criminal activity in that area. Questions ranging from what the government's role in hostile takeovers should be to whether "golden parachute" provisions guaranteeing executive salaries and other compensation in the event of a corporate takeover are acceptable are expected to be considered at the hearings.

There is a considerable difference of opinion between the Securities and Exchange Commission and the Congress in how to regulate tender offers. In testimony before the securities subcommittee last October, SEC Chairman John S.R. Shad reiterated three proposals for legislation that the agency had presented to Congress last May.

Those proposals called for: a reduction to two days — from the current 10 — of the period an investor has to report ownership of 5% of a company's shares; a ban on "golden parachutes" and management stock issuance or purchases to fend off tender offers; and a prohibition on "greenmail," or high-priced buyouts of acquisition-minded investors, unless shareholders approve or are offered the same price.

Reintroducing Changes

At the same time, Shad came out against four congressional amendments to the proposed Equity Act, all of which were later defeated in committee, but could well be reintroduced again in this Congress. These amendments called for longer minimum periods on tender offers, banned most partial tender offers in favor of full ones, required directors to own 1,000 company shares and called for a redefinition of the so-called "Business Judgement Rule," which allows management to do almost anything they define as being in the company's interest.

On the question of insider trading, Sen. D'Amato said he would like to come up with a definition of the crime that would include not only officers of a company who have a fiduciary responsibility to shareholders, but anyone who is privy to proprietary information, be they lawyers, accountants, printers or possibly even journalists.

The SEC tried unsuccessfully last year to come up with a similar definition and in the end, decided that it was best to leave it to the courts. D'Amato has put it on the back burner as well, conceding that "maybe we will not be able to come up with a broad definition and will have to allow it to rest on court cases."

Investor's Daily ★ Wednesday, January 2, 1985

Takeover Rules, Insider Trading To Keep SEC, Courts Busy In '85

By Sam Passow, *Investor's Daily*

WASHINGTON — The Securities and Exchange Commission's five commissioners face a hectic, and even among themselves, contentious year in 1985.

At stake are such thorny questions as: Should the federal government regulate tender offers? Can insider trading rules be extended to cover anyone who illegally trades on proprietary information? Should financial newsletter publishers who are registered as investment advisers be prohibited from publishing certain stories? Is a person who buys all of a company's stock entitled to the same anti-fraud protection as someone who just buys a piece of a company?

All these questions are due to be decided this year by courts around the country, and their outcomes will surely influence the regulatory and enforcement direction of the SEC. However, one thing that is apparent from the outset is that in almost all these debates, there is hardly any unanimity of opinion among the commissioners.

The tender offer debate in the last two years has found a forum in an SEC advisory committee report, which made 50 specific recommendations and several legislative proposals that were unsuccessful in both the House and the Senate.

Commissioner James C. Treadway Jr. told *Investor's Daily* that "we are back to square one. There are so many constituencies out there that the commission will be sorely tested, and it is going to be very difficult to come up with legislative proposals that will be widely accepted by anybody."

In testimony before Congress in 1984, SEC Chairman John S.R. Shad came out strongly against "golden parachutes" and the defensive issuance or re-acquisition of securities by targeted companies. He also said he objected to "greenmail" offers unless approved by a majority of shareholders.

Treadway contends that Shad feels very strongly that the tender offer system needs to be changed because it is substantially overregulated. But he added: "I would not say that the five commissioners as a body have a unified view on what is the perfect tender offer regulatory scheme. We have conflicting views on a number of things."

One trial in 1985 that could affect SEC thinking on the tender offer issue is its case against Carter Hawley Hale Stores Inc., which will be heard by the Ninth Circuit Court of Appeals in California. In an effort to stem a partial tender offer by Columbus, Ohio-based Limited Inc., Carter Hawley offered to purchase more than 17.9 million of its shares on the open market — more than 50% of its common stock — for the avowed purpose of defeating the takeover move.

The case raised the question of when does an open market purchase program become so broad and aggressive that it becomes a tender offer. The SEC contends that Carter Hawley placed undue pressure on its shareholders to sell their stock back to the company.

Another court case that might affect the SEC's thinking regarding tender offers will be the U.S. Supreme Court's ruling in Schreiber vs. Burlington Northern Inc., which concerns public-disclosure and whether deception is in fact a necessary element in making a tender offer.

In a related matter, an investor's rights also will be the subject of a major court case in California when the appeals court rules on the Landreth Timber Co. case, in which the purchaser of all of a company's stock later sought protection under SEC anti-fraud regulations, which until now have extended only to purchasers of less than 100% of the shares outstanding.

Perhaps the second most controversial issue for the securities industry to be settled in court in 1985 is the sensitive question of how broad the definition of stock market "insiders" should be. Will the barrier of corporate personnel be broken to include outside lawyers, accountants, printers and journalists who might also be privy to proprietary information? A prominent test will come up in January when the SEC takes its case against former Wall Street Journal reporter R. Foster Winans before the U.S. Court of Appeals for the Second Circuit in New York.

Last October, the same court upheld the SEC's "misappropriation theory" in a case involving a financial printer. The court held that an investor violates federal security law if he makes a trade on the basis of confidential information that is misappropriated from his or her employer, regardless of whether it is the

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employer's own securities that are traded.

Previously, the courts had upheld charges of insider trading only against individuals who traded in securities of the company that employed them.

Awaiting High Court Test

SEC lawyers admit that the real test of this theory will have to wait until an Appeals Court's ruling is challenged in the U.S. Supreme Court. However, the fact that the Second Circuit has jurisdiction over Wall Street will influence the attitudes of members of Congress, who may attempt to incorporate such rulings into legislative proposals, they said.

Commissioner Treadway conceded that as a result of the publicity surrounding the Winans case, the SEC has gained a reputation in recent months of trying to knock down the First Amendment, but he insisted that isn't so.

Nevertheless, securities regulation and the right of freedom of speech will come before the Supreme Court in the case involving the SEC vs. Christopher L. Lowe, a financial newsletter publisher whose license as an investment adviser was revoked by the SEC for criminal misconduct activities in New York and New Jersey. The SEC sought an injunction prohibiting Lowe from publishing his investment advice without a license. The license was denied by a lower court in New York, which ruled that portions of the Investment Advisers Act of 1940 were unconstitutional because they infringed on the First Amendment. The ruling was subsequently overturned by the Court of Appeals.

The search for solutions to problems never ends neatly, and the impact of a number of major statements by SEC commissioners in the past few weeks will undoubtedly be felt in 1985.

The first such impact was the warning to brokerage houses given by Commissioner Aulana L. Peters that the SEC will not hesitate to discipline trading firms that fail to enforce supervisory controls to ensure that managements are not creating a climate of relaxed trading standards in their efforts to increase profitability.

She told the annual convention of the Securities Industry Association in November that actions have been taken against several big firms that were accused of abusive sales tactics, such as failing to apply the "know your customer" rule, which requires that a broker not push people into investments that don't suit their financial needs and circumstances. Others were punished for "churning" — the practice of repeatedly buying and selling securities to generate increased commissions — and for not making adequate disclosures in the options market.

Raising Listing Standards

Another statement made at year's end that will be felt in the new year is SEC Chairman Shad's call on the National Association of Securities Dealers and the American Stock Exchange to consider raising listing standards for companies whose stock trading they supervise. While Shad declined to outline specific proposals, at issue are various anti-takeover measures practiced by corporations, which some critics contend are detrimental to shareholders.

Particularly controversial are separate classes of common stock that companies issue to give disproportionate voting rights to parties who management expects will vote in their favor. Shareholders must approve these stock issues.

Commissioner Treadway has already expressed concern over Shad's request, saying: "I think we may be taking on an issue that is greater than the tender offer process. In my view, what we are really saying here is that we are pressing for a form of federal charter. That is an enormous step that is a pre-emption of state law."

Investor's Daily ★ Tuesday, October 30, 1984

Regan Says Future Interest-Rate Cuts Hinge On Fed Moves

By Sam Passow, *Investor's Daily*

WASHINGTON — Treasury Secretary Donald T. Regan predicted yesterday that interest rates would continue to drop if the Federal Reserve Board would ease its restraints on money supply growth.

"A 12% prime rate in a time of 4% inflation and 4% real growth is out of line with any historical perspective," he said.

Claiming that the nation's basic measurement of the money supply, M1, has grown by only 1.5% since last June and by less than 1% in the last 13 weeks, Regan said: "By anyone's yardstick, that's not loose money. It leaves a lot of room for the Fed to ease."

Speaking before the U.S. League of Savings Institutions, Regan conceded that the pace of the nation's economic growth, which averaged 8.5% in the first two quarters of 1984, was "unsustainable" and predicted that the fourth quarter will show a growth rate of 4.3%. He said growth is expected to continue at a 4% level for 1985.

Regan also addressed the immediate concerns of savings and loan associations as to the role government will play in restructuring deposit-insurance schemes following 70 bank and 20 S&L failures this year. "Deposit insurance should not encourage risky behavior by depositary institutions," he said, warning: "They should not make bad loans on the assumption that government will bail them out."

In one of the few breaks from the administration's apparent free-market policy, Regan said: "Another of our governing principles is that the operation of the deposit insurance system should be controlled by rules, not discretion. In that way, the private sector can plan in an environment of predictability and security. Extraordinary circumstances may demand discretionary actions, but only to stabilize the financial system."

However, he flatly denied that this constitutes a bail-out program.

He also chided large depositors to "know something about the despository institutions they deal with," saying they "should be prepared to take their business elsewhere if they do not think the institution is sound."

Regan said a study on the deposit insurance system by the Cabinet Council on Economic Affairs will be released soon, but was indefinite on a date or on the content. But he said the proposals would be sufficiently flexible to permit experiments with state and private schemes.

In addition, Regan said, the reforms will be structured to minimize subsidies provided by the taxpayer. Reform proposals will be held to the test of cost. They should also be judged on the basis of frequency and magnitude of payouts.

"An actuarially sound system financed by depositors is vastly preferable to a system carried out by taxpayer subsidies," he said.

Investor's Daily ★ Tuesday, October 30, 1984

Savings Institutions' Lending Volume Fell 28% In September

By Sam Passow, *Investor's Daily*

WASHINGTON — New home mortgages made by the nation's savings institutions dropped 28% in September to $11 billion, the lowest level since last February when savings institutions reported a similar lending volume.

A nationwide survey by the United States League of Savings Institutions released yesterday shows the average interest rates offered on adjustable-rate mortages was 12.02% on Oct. 5, down from 12.42% on Sept. 7, while the nationwide average of interest rates on fixed-rate loans during that same period dropped to 14.14% from 14.44%.

These latest figures contrast sharply with the monthly record lending level of $18.4 billion reached last June and the $15.3 billion lending figure by savings institutions in August. For the year to date, lending volume still is up substantially. The volume of mortgage loans by savings institutions in the first nine months of 1984 totaled $127.4 billion, compared with $100 billion for the first nine months of 1983.

While noting that the September lending volume confirms that the economy weakened in the third quarter, William B. O'Connell, president of the United States League of Savings Institutions, said, "We see a strengthening of mortgage lending activity in the coming months because our monthly survey of about 1,000 savings institutions shows an easing in home loan rates offered in early October.

"If the current sharp drop in market interest rates is sustained, we could see even lower mortage rates in the months ahead," he said.

However, O'Connell's optimism is not shared by his own staff of economic planners. "We see the drop in mortgage rates as an aberration and not as a permanent trend," said Mike L. Wilson, an economist for the association.

"The amount of lending by savings institutions will probably continue to decline or at best stabilize as the economy continues its strong growth and credit demand remains strong from government, consumers and the business sectors."

Wilson also viewed with skepticism Treasury Secretary Donald Regan's assessment that the economy would only continue to grow at an annual rate of 4% over the next three years. Regan made that prediction at the savings institutions' annual conference in Washington yesterday.

Investor's Daily ★ Tuesday, February 5, 1985

Closing SBA Wouldn't Hinder Most Businesses, Reagan Says

By Sam Passow, *Investor's Daily*

WASHINGTON — In keeping with his fundamental philosophy that the economy should rely on private rather than public sector financing, President Reagan is asking Congress to terminate the Small Business Administration as part of an overall $5.7 billion cutback in subsidy programs outlined in the fiscal 1986 budget.

The administration's rationale for axing the 30-year-old agency is that it is used by a relative handful of "government-wise" loan seekers and that loan subsidies go mostly to "economic straphangers" — weak businesses that get repeated loans.

The SBA contributed $7.9 billion to the federal deficit over the last six years and would add another $7.9 billion over the next six years under current services, a background report on the agency said.

Savings Of $1.4 Billion

Eliminating the agency will mean an estimated savings for the government of $1.4 billion in 1986 and $5.3 billion through fiscal 1988. If approved by Congress, the existing portfolio would be transferred to the Treasury Department for liquidation over a four-year period.

Of the 14.3 million small businesses in the U.S., some 21,000 use SBA aid. In 1983, less than 2% of the 600,000 new small businesses applied to the agency for assistance.

"Most small businesses get along fine without SBA assistance or credit subsidies," the administration report said. "The surge of private venture capital due to tax reforms and incentives is a far more appropriate and effective source of small business investment funds."

'Uncreditworthy Companies'

"Guarantees go to firms too uncreditworthy to get regular bank loans or venture capital," said an administration spokesman, who defended the cutback. "This reduces the credit supply to stronger firms and creates subsidized competition for 99% of small business which pay their own way in the marketplace."

Over the last 10 years, the Treasury has paid out $4 billion on defaulted loans.

The administration plans to supplement aid to small business currently given by the SBA through a new government agency — the Administration for Enterprise Development and Opportunity, which would be part of the Commerce Department.

New Agency

Its function would be to speak for the interests of small businessess within the executive branch and ensure that small businesses continue to be assured of fair government procurement, sales and innovation research. It would also ensure that minority small businesses continue to receive contractual, financial and managerial assistance to make them competitive.

According to government documents, in 1982 only one-third of 1% of SBA guaranteed loans went to computer, semiconductor and pharmaceutical manufacturing industries — those considered on the cutting edge of U.S. economic growth, technological progress and job creation.

The largest single category of loans in 1982 went to restaurants and bars, which received $153 million, or 7% of the total loans.

Created in 1953, the SBA provides guaranteed, direct, or immediate participation loans to small business concerns to help them finance plant construction, conversion, or expansion and acquire equipment, facilities, machinery, supplies or materials. The SBA also provides them with working capital.

Victims of floods, riots, civil disorders and other catastrophes are provided with loans to aid them in repairing, rebuilding, or replacing their homes, businesses, or other property.

The agency — with 4,900 employees and 119 regional, district and branch offices — spent $221 million in 1984 in salaries and expenses.

Investor's Daily ★ Friday, March 29, 1985

Reagan Visits NYSE In Bid To Wring Out Bearish Sentiments

By Sam Passow, *Investor's Daily*

NEW YORK — President Ronald Reagan took his bullish view of the economy to Wall Street yesterday, seeking support for his tax reform and budget proposals that he claimed will "drive the bears back into permanent hibernation."

In a visit to the New York Stock Exchange, Reagan described the American economy to an enthusiastic crowd of brokers and exchange officials as "a race horse that's begun to gallop in front of the field."

He then took a swipe at this country's trading partners, chiding them for their protectionist trading practices, saying "other nations, hobbled by high tax rates and weighed down by oversized government spending, have been slow to catch up" with the U.S. economic recovery.

The President finished his remarks on cue, 15 seconds before the 10 a.m. start of the trading day, and then rang the opening bell. As traders scurried back to their positions on the floor, Reagan thanked them, saying "what you've done for me is better than a hot tip."

In a brief forum with 220 members of the NYSE, chief executive officers of NYSE-listed companies and CEOs or senior partners of NYSE-member organizations, Reagan said he is "more optimistic about the state of the economy than the first-quarter flash figure" of 2.1% growth in the gross national product. He indicated that he is looking for 4% growth in GNP this year.

Weirton Steel's Workers Mark Special Anniversary

By Sam Passow, *Investor's Daily*

It's still early to certify this experiment a success, but in its first 11 months of operation Weirton Steel posted a pretax profit of $57.83 million on sales of $1 billion.

WEIRTON, W. Va. — If it weren't for the clouds of smoke billowing from towering stacks, one might overlook this small steel town nestled in the hills. But today Weirton is capturing national attention as it marks the first anniversary of being the country's largest 100% employee-owned company.

An ESOP — Employee Stock Ownership Plan — allowed the 7,700 workers of Weirton Steel Corp. to buy out the stake of National Steel Corp., the U.S.' fifth largest steel company, and keep their jobs in face of Pittsburgh-based National Steel's March 2, 1982, shutdown order.

It's still too early to certify this industrial experiment a success, but in its first 11 months of operation Weirton Steel posted a pretax profit of $57.83 million on sales of $1 billion. Those profits came at a time when nearly every other U.S. steelmaker was struggling to break even.

Because of the company's impressive start, Weirton Steel officials said other companies are considering the ESOP as a way to stave off plant closures or, in some cases, hostile takeover bids.

However, warns Carl L. Valdiserri, Weirton Steel's executive vice president, an "ESOP will not make a sick company well. You have to start out with a decent, if not good, company, and then there are gains to be made through employee participation and the tax advantage. An ESOP merely refinances a good company."

The major tax advantage is the option of writing off 25% of the company's annual payroll and reinvesting that amount before paying any taxes.

Weirton's ESOP 'An Exception'

Several factors make Weirton Steel's ESOP an exception rather than the rule for such employee buyouts. First, Weirton (population 26,000) has been a one-industry town since 1909, when Ernest T. Weir opened a steel plant on the Ohio River.

Joe Mayernick, the director of Weirton's Chamber of Commerce, notes, "It would be difficult to do this is an urban environment. Communities like Weirton provide a unique mind-set. Even the dozen or so other companies in the area are connected in some way to the steel industry. We all need each other."

The town's steel operation is West Virginia's largest single-location employer and its largest taxpayer and utility user. Those elements stimulated support for the ESOP across the political spectrum — a rare occurrence when unions and management butt heads over plant closures.

But according to Valdiserri, the key factor in Weirton Steel's initial success is that "we started with a good customer base of around 800, who wanted to continue to do business with us if we could get our costs in line."

Robert L. Loughhead, Weirton Steel's president and chief executive officer, has conceded that "even under National we would have made a small profit."

Under Weirton Steel's ESOP, any employee who worked at least one hour after the buyout took effect Jan. 11, 1984, will have shares allocated to his or her account beginning this year. Actual stock distribution won't begin until 1989.

The first equity threshold for profit-sharing is $100 million. When that level is reached, a third of that year's profits will be distributed the following year. When equity reaches $250 million, profit-sharing reaches 50%.

Worker Concessions

In return for keeping their jobs and accepting a leaner pension plan, the workers also agreed to a one-time, 20% pay cut and a six-year wage freeze. Weirton workers average $20 an hour compared with U.S. Steel Corp.'s $24 an hour.

As shareholders, workers also gave up the right to change management for five years under the deal approved by the company's bankers. The management team at Weirton Steel is the same as when the company was a division of National Steel, with the exception of Loughhead, who until 1983 was president of the Copperweld Steel Co. of Warren, Ohio.

"We are workers for eight hours an day and owners for the other 16 hours, but the company has to be run like any other company," Valdiserri said. The only way the group could convince the consortium of banks, led by Citicorp, to lend it the $120 million needed for the $386 million buyout package was if it could guarantee the lenders some sort of stability. "The ESOP was meant to maintain the status quo," Valdiserri said.

Nice Folks

Weirton Steel's initial success reflects the general character of the Weirton Valley's residents. Most are family-oriented, financially conservative people accustomed to pulling in their belts during hard times.

"If children who were unemployed ... could not meet the payments on their house, their parents would (do it) for them. There are so many generations here that people do not want to break up the family," said Linda Caleffie, vice president of operations at Citizens Bank of Weirton. Her family has lived in the valley since the late 1700s.

"We had a lot of deliquency on unsecured personal loans of up to $10,000 when National started laying off people a few years ago," said Donald C. Granato, general manager of the Steel Works Community Federal Credit Union. "We tried to carry them through the tough times, and when they went back to work under the ESOP they came in a paid their bills."

Weirton Steel's management tightened the corporate belt to demonstrate the company's viability to bankers and to make it more competitive. Of the company's $57.8 million in pretax profit, $27 million came from cutting costs for energy, utilities, raw materials and scrap metals, Valdiserri said. Management hopes to keep costs 10% below competitors' this year with another $17 million in reductions.

But for all its apparent advantages, Weirton Steel's ESOP also has its down side.

Continued cost-cutting — combined with an expected decline in demand for tin plate as the food and beverage industry switches to non-metal containers — could push back the profit-sharing target date. That prospect makes some workers anxious, despite general enthusiasm for the project.

And not everyone is enthusiastic. Douglas Patterson, a 16-year veteran of the production planning department, said over a beer, "Other than pay cuts and a loss of various benefits (such as the original pension plan), not much has changed, contrary to the intent."

At the first shareholders meeting in November, Loughhead seemed to dampen expectations when he warned, "We do not know for sure when we will reach the first threshold, but we can see reaching it no later than 1986. However, that is only a forecast."

Valdiserri told *Investor's Daily* this week, "We are not promising a pot of gold at the end of a rainbow. We think (the 1986 target date) is feasible, but we do not control the market, so we can't promise it."

Also clouding the horizon is a shortfall in revenue despite increased steel shipments, which totaled 1.98 million tons through Nov. 30 compared with 1.83 million tons for all of 1983. Prices are declining because of foreign competition and the highly competitive market.

Lower revenue in turn forced the company to scale back the recapitalization program outlined in the ESOP strategy plan prepared by McKinsey & Co. The management consulting firm projected spending $100 million a year for 10 years to refurbish the steel works, but 1984 spending totaled only $62 million. This year's spending should total $60 million.

As Loughhead told the shareholders meeting, "A major factor in determining Weirton Steel's viability at the outset was consideration of the need for tremendous capital investment for at least 10 years. We don't believe we can engineer and spend at the McKinsey level, but we do believe we can invest at levels of those of 1984 and 1985."

Proposal To Eliminate Capital Gains Exclusion From Tax Code Draws Fire From Securities Group

By Sam Passow, *Investor's Daily*

BOCA RATON, Fla. — The Treasury Department's proposals to reform the tax code have sent shock waves through the securities industry.

"We believe the proposals to eliminate capital gains exclusion is mistaken and inconsistent with what the Reagan administration has been proposing," said Robert F. Shapiro, president of Wertheim & Co. and the new chairman of the Securities Industry Association.

The SIA represents about 500 investment banking firms in the U.S. and Canada.

Speaking at the group's annual convention here, Shapiro said: "Our unequivocal position is that the capital gains tax under the present tax code is essential to this country. We do not agree that the ultimate result of these proposals will be constructive."

The Treasury proposals include elimination of the investment tax credit, curtailment of accelerated depreciation schedules and removal of much of the preferential treatment accorded capital gains, including scrapping the recently approved reduction on the long-term capital gain holding period.

Severe Impact On Real Estate

The elimination of the preferential tax rate on capital gains would severely affect real estate, the focus of many tax shelters, according to observers.

"I think that the motive that underlies all of this is a very constructive one (to address the long-term future of the economy)," Shapiro said. But "a number of people question whether the result would be that which was intended," he said.

"It's a harbinger of what's coming," warned Robert E. Linton, chairman and chief executive of Drexel Burnham Lambert Inc. "At our firm we have already scrapped two deals because of the proposals and pending proposals. In one case, we were asked to finance a very successful real estate company in the Southwest, the bulk of whose business is building second homes. We knew there was a threat to the deductability of mortgage interest — that has been in every one of the proposed legislations in the last three years — and we turned that financing down." He said his firm probably would have handled the deal if the legislation wasn't pending.

"We had another real estate transaction just this week in our tax shelter department which we felt couldn't be sold because of the threat of the proposed changes.

"There is an ongoing, real-world, day-to-day effect when you have these kinds of proposals, whether they actually become law or not," Linton said.

'Disaster' For High-Tech

Thomas I. Unterberg, chairman and senior managing director of L.F. Rothschild, Unterberg, Towbin, said the new proposals for capital gains tax and the elimination of deductions for state and local taxes "would be a disaster for emerging high-technology companies that need new capital."

He noted that "before the current capital gains tax code was introduced, the level of pre-public venture-capital investment was around $100 million a year. Now under the present code, it's nearly $3 billion.

"What would be the incentive for someone to invest in venture capital if they are going to be taxed at the same rate as their dividend income from General Motors?"

Linton also said the changes will affect reported corporate earnings. "You have a mass of companies that report their earnings on a theoretical tax basis, and they defer their taxes. If the tax rate goes down drastically, the reported earnings of all those companies will go up considerably at the same time their cash flow is going down considerably because their actual tax payments will be . . . higher than they are now."

The Treasury Department released the tax reform proposals five days early because of news leaks and uncertainty over how the speculation might affect the stock market. Treasury is expected to release the details of the plan later this week.

However, the uncertainty isn't likely to go away soon. Shapiro contends that "one thing the market likes least is indecision, and the market will reflect this period of indecision while the tax code is sorted out in Congress."

The SIA is particularly upset by the proposal to eliminate the holding period for capital gains and treat capital gains as ordinary income. Earlier this year, the association won its battle to reduce the long-term holding period to six months. Richard H. Jenrette, chairman and chief executive of Donaldson, Lufkin & Jenrette and past-chairman of the SIA, said: "The six-month holding period victory turned out to be just a six-month victory. We may be back to square one.

"The new system would tax security profits at a higher rate. Right now it's 20%. Under the new proposals, if taxed as ordinary income, it might go as high as 35%."

Jenrette also took exception with Treasury's rationale for the change. "What they have done in the name of simplification has been offset by the 'indexation' proposals. It seems to me that the proposal to index the cost basis of securities to determine the gain has the effect of complicating the transaction."

On the other hand, Shapiro said there was a silver lining to the 'indexation' scheme. "If you were to have 'indexation,' which is some protection against the erosion of inflation, it would give people a greater incentive to want to invest."

John E. Chapoton, who served as assistant secretary for tax policy at Treasury from 1981 until this year, told *Investor's Daily* that department economists had dismissed SIA contentions that the six-month holding period for long-term capital gains would spur investment and raise additional tax revenue.

Brokers See Further Drop In Interest Rates

By Sam Passow, *Investor's Daily*

BOCA RATON, Fla. — Leaders in the securities industry are in agreement that interest rates will come down even further in the first quarter of next year.

At a breakfast meeting here yesterday at the annual conference of the Securities Industry Association, Robert Linton, chairman of Drexel Burnham Lambert Inc., said he thinks interest rates will be "considerably lower than anticipated" and added that he doesn't subscribe to forecasts that interest rates are at or near a low point.

He said the common belief is that business activity will pick up next spring, but that banks "are not going to lend money abroad. They are looking for decent domestic loans."

Robert F. Shapiro, president of Wertheim & Co. and the new chairman of the association, said, "the psychology of the bond market is much more positive today than in the past."

Richard Jenrette, chairman of Donaldson Lufkin & Jenrette Inc. and outgoing chairman of the SIA, believes long-term Treasury bonds will yield 10% in next year's first quarter, compared with the current return of about 11.3%.

Jenrette said he based his forecast on continued slow economic growth and efforts to reduce the budget deficit.

The SIA is a trade group representing about 500 investment banking firms in the U.S. and Canada.

SEC Official Raps Firms For Relaxing Trading Standards

By Sam Passow, *Investor's Daily*

BOCA RATON, Fla. — Securities and Exchange Commissioner Aulana Peters chided brokerage firms yesterday for creating a climate of relaxed trading standards in their efforts to increase profitabilty.

Speaking at the Securities Industry Association's annual conference, Peters said that companies are reacting to tough economic times by introducing compensation plans that reward registered representatives who generate big commissions and penalize those who fail to produce above a minimum level of commissions.

The commissioner noted that a broker's compensation is usually a percentage of gross revenue he or she brings in, and that the payout increases on a sliding scale. However, some firms recently have reportedly reduced payouts for those at the low end of the commission scale while maintaining payout schedules for those at the upper end.

She said there are reports that one firm reduced payouts for brokers producing less than $100,000 to 25% from 34% and that another brokerage house reduced payouts to 30% from 37% for smaller producers.

Firing Less-Productive Brokers

In other cases, some firms reportedly have fired or threatened termination of brokers producing less than $250,000 in gross commissions a year.

Speaking for herself rather than for the SEC as a whole, Peters said, "I am very much concerned that this type of pressure to improve productivity among your salesmen may also provide incentive to relax supervisory controls already in place.

"This environment provides a greater opportunity for sale practice abuses and, in fact, may encourage them."

Peters confirmed that actions have been brought against several big producers who were accused of abusive sales tactics such as failing to apply the "know your customer" rule, which requires that a broker not push people into investments that don't suit their financial needs and circumstances. Others were punished for "churning" — the practice of repeated buying and selling of securities to generate increased commissions — and for not making adequate or complete disclosures in the options market.

In each of these cases, the brokerage houses did not discipline their traders or stop the abuses until after the SEC got involved.

However, she could not elaborate on any of these incidents as SEC enforcement actions remain confidential until litigation is filed. But, she added, "We have authorized investigations in a couple of these cases."

More SEC Involvement Possible

Asked if the SEC might tighten its grip on brokerage houses in an effort to stem abuses, Peters replied that the agency may have to step in more frequently if economic conditions worsen. She said she saw no need at present for new government constraints to prevent abuses. But should evidence of such practices proliferate in the future, she said, new government action might become advisable.

Separately, Peters said she had "sincere and severe reservations" about a proposed rule change at the Chicago Board Options Exchange that would allow a plurality of four members to elect a chairman of the executive committee, who would also serve on the board, if more than one candidate applied for the position.

Peters said the change "might set the stage for divisiveness in the CBOE" or similar exchanges that attempted to alter its rules.

"In these coming times of great change and uncertainty, one thing the industry does not need are internal power struggles," she said.

Peters also has doubts about another CBOE proposal to allow it to increase its board by adding three new floor directors to its membership.

She questioned whether approval of these proposals would set a precedent for greater floor control and "therefore reverse a trend that has been going for the past 10 years to achieve more balanced boards of directors by having public members... as well as member-directors."

1984 Tough Year, SIA President Says

BOCA RATON, Fla. — This year will turn out to be the toughest year for the securities industry's profits since 1977, according to Edward I. O'Brien, president of the Securities Industry Association.

Speaking on the third day of the SIA's annual convention here, O'Brien estimated that the industry's after-tax return on equity this year will range between 7% and 9%. In 1977, the after-tax return was 6.9%.

By way of comparison, the industry earned almost 20% after taxes last year and 22% in 1982.

"It looks as if profitability bottomed out in the second quarter and has been improving since then as cost reduction efforts have taken hold," he said.

"If interest rates continue to moderate, and we get some improvement in the market, 1985 could be a considerably better year than 1984 in terms of the industry's bottom line," he said.

Securities Trade Group To Discuss Industry Concerns

By Sam Passow, *Investor's Daily*

BOCA RATON, Fla. — Top brass of the securities industry are gathering here this week at a lush, oceanside, Spanish-style resort hotel to unwind from the daily rigors of the marketplace and focus on the industry's more pressing problems.

The occasion is the 13th annual convention of the Securities Industry Association, a trade group comprised of firms accounting for about 95% of the securities business in North America. In between golf and tennis tournaments, cocktail parties and formal dinner dances, delegates will explore problems ranging from contentious tax and banking legislation to ownership threats and potential trading abuses.

Some of those issues aren't new, yet they're still awaiting resolution. The SIA, which includes about 500 investment banking concerns in the U.S. and Canada, will continue its campaign to try and stem the banking industry's rapid expansion into full financial services, including the sale of stocks and bonds.

At stake is the interpretation by the courts of the Glass-Steagall Act, a 1933 law prohibiting banks from engaging in certain securities activities. Specifically, Section 20 of the legislation forbids banks that are Federal Reserve System members from affiliating with an organization "engaged principally" in the "public sale" of stocks or other securities.

Bank Encroachment

In a series of ongoing legal battles, the SIA has argued that the banks, with the blessing of federal regulators but without the authority of Congress, are encroaching on activities reserved by law and tradition to brokers.

The association will also have a few words on the Reagan administration's capital gains tax proposals, which are expected to be released next Saturday. There must be a "significant distinction between the capital gains tax and ordinary income tax in order to encourage investment," said Robert F. Shapiro, president of Wertheim & Co. and the SIA's chairman-designate.

However, there is concern among SIA's members that any plans to liberalize the current tax restrictions further will be spoiled by either the administration's efforts to raise revenue without hiking taxes or by congressional budget-wrangling.

The reduction earlier this year of the holding period for long-term capital gains to six months from one year will spur investment and raise additional tax revenue, the SIA contends. Supporting this argument is a research report showing that if the six-month holding period had been in effect between 1979 and 1981, the government would have garnered an extra $250 million in revenue.

Whether this evidence is persuasive enough to force the hand of either the administration or Congress could well rest on the results of the first six-month holding period, which ends Dec. 31.

Ownership Changes

Another major issue facing the estimated 1,000 delegates is the changing ownership patterns within the industry — the increasing number of mergers of established brokerage firms with financial institutions, as well as takeovers of brokerage firms by insurance companies. The Equitable Life Assurance Society of the U.S. acquired Donaldson, Lufkin & Jenrette Securities Corp. two weeks ago, while Mutual of Omaha purchased Kirkpatrick, Pettis, Smith, Polian Inc. of Omaha last year.

Also of growing concern is the involvement of foreign governments and companies in Wall Street. For example, this summer the French government reportedly became Merrill Lynch, Pierce, Fenner & Smith Inc.'s largest single shareholder after receiving 3% of the brokerage firm's outstanding shares when Merrill Lynch acquired A.G. Becker Paribas from the Banque du Paris et de Pays, a nationalized company.

The delegates will also spend time trying to keep their own house in order. They will explore the issues raised by proposals to allow side-by-side trading, in which a market-maker or specialist trades in both an option and the underlying security.

While SIA believes both the stock exchanges and the National Association of Securities Dealers should be permitted to trade the proposed options on Over-The-Counter stocks, it is also concerned about protecting consumers and the integrity of the market.

"At the moment, both Over-The-Counter and exchange trades have protective mechanisms within their structure, but in the blending of these systems such protection tends to be obscured," an SIA spokesman said.

'Soft Dollar' Payments

Another internal debate will focus on third-party soft dollar payments for research. This is the process in which institutional trading is directed to certain brokerage houses as compensation for independent research. For instance, when a research firm that can't execute trades calls clients to recommend a stock, it will steer them toward a certain brokerage firm for the actual purchase of the security.

Although the brokerage house receives the commission for the sale, it charges the customer a research fee, which the broker passes on to the research firm. At issue is whether services other than research are being charged by the broker in his commission. The SIA will attempt to determine the actual practices that are in use and whether the system is being abused.

Delegates will also formally approve a new slate of officers. Shapiro will succeed Richard H. Jenrette of Donaldson, Lufkin & Jenrette as chairman. Anthony A. LaCroix, chairman and chief executive of Advest Group Inc., and Donald B. Marron, chairman and chief executive of PaineWebber Group Inc., will serve as vice chairmen. John W. Bachmann, managing partner of Edward D. Jones & Co., St. Louis, will become treasurer. Edward I. O'Brien, a paid officer, will continue as president of the association.

SEC Charges Firm In $20 Mil 'Free-Riding' Case

By Sam Passow, *Investor's Daily*

NEW YORK — The Securities and Exchange Commission filed suit in U.S. District Court yesterday against a New York investment tax and consulting firm that allegedly bought and sold nearly $20 million in securities without paying for them.

Ira Lee Sorkin, regional administrator of the SEC's New York office, called the suit "the largest case of free-riding in terms of orders being placed which has come to our attention," but added that free-riding "is a practice which we know is becoming more prevalent."

The complaint alleges that from April 1983 to February 1984, the two principals of Investment & Tax Counselors Inc., Benjamin Chamis and Robert Malfi, in collusion with a former credit manager for Nomura Securities International Inc., Michel Erlichson, placed orders to purchase and sell about $19.8 million of securities. These orders included $11.8 million worth of shares in Chevron Oil's Gulf Oil Corp. subsidiary, Unocal Corp. and Mobil Oil's subsidiary Superior Oil — all targets of takeover bids during this period.

False Credit Information

The illegal transactions reportedly were made through ITC's accounts with seven major brokerage houses, which accepted payment for the securities in the form of checks later returned unpaid. The SEC said Erlichson provided false credit information to the brokerage houses, which they relied on in opening their accounts with ITC.

The case involves a common practice on Wall Street in which a customer with a good credit rating opens a delivery-versus-payment (DVP) account. This allows the customer to request that the broker deliver on settlement date all purchased stock to another securities firm, called a receive-versus-payment (RVP) broker. The RVP broker has been designated by the customer to the DVP broker as someone who will pay for and accept delivery of the securities.

In order to circumvent this system, there usually must be someone working from the inside who can mask the transactions. In this case, according to the SEC complaint, Erlichson used his position as credit manager at Nomura to execute ITC transactions when ITC had either not made payments; had knowingly tendered checks which he knew would bounce; or used the proceeds from the sales of the securities to cover previously tendered checks, an illegal practice known as "free-riding."

In all, the ITC principals attempted to cash nine checks worth $8.6 million, which were eventually returned by the Japanese firm for insufficient funds.

Brokerages Sustained Losses

A number of major brokerage houses were said to have sustained losses in the case, including Donaldson, Lufkin & Jenrette Securities Corp., which reportedly lost $91,151; E. F. Hutton & Co. Inc., $69,773; Bear Stearns & Co., $33,865; L.F. Rothschild, Unterberg, Towbin, $30,610; and Merrill Lynch, Pierce, Fenner & Smith, Inc., $12,841.

Smith Barney, Harris Upham & Co. Inc. and Gruntal & Co. Inc. were also targets, according to the suit, but reportedly did not sustain losses.

The complaint further alleges that Nomura Securities sustained losses of about $158,000 on purchases of approximately $8.3 million worth of exchange-listed securities for ITC.

In a related action, Sorkin said the SEC also simultaneously instituted and settled public administrative proceedings against Nomura after determining that from April 1983 to February 1984 the firm failed to reasonably supervise its margin department and had inadequate supervisory and compliance policies. It also alleged that Nomura improperly extended credit to a customer. Without admitting or denying the findings of the violations, Nomura, which began trading securities in the U.S. in 1969, consented to the order and agreed to improve its credit procedures.

Control Risks Ltd. Report Raises Renewed Concerns Over Terrorist Extortion Moves, Led By Kidnapping

By **Sam Passow,** *Investor's Daily*

NEW YORK — A new study released this month by the London-based political risk firm Control Risks Ltd. raises a worrisome specter for businessmen and their families, especially for those who work for companies with operations abroad.

"Businessmen will increasingly become the victims of short-term abductions to raise funds for terrorist activities. . . particularly in Third World countries," the report says.

Although such incidents cannot be totally prevented, they can be anticipated. That anticipation can reduce the chance that a successful threat can be carried out. Faced with outbreaks of extortion in its various forms, executives are quick to review security measures covering employees and their families as well as plant and product protection.

Kidnapping, however, is considered the greatest threat because it poses the most immediate danger to human life.

The Control Risks report warned that families of these executives — particularly their children — are especially at risk. This risk is intensified if the executive is easy to find and has ready access to sufficient funds to meet a ransom demand.

During the next two years, the report said, "the risk of businessmen becoming kidnap victims is highest in Colombia, Guatemala, Italy, Angola, Hong Kong and the Philippines. Foreign businessmen are, however, at highest risk only in Colombia, Guatemala and Angola." In the remaining countries, prominent local businessmen or company managers will be considered key targets.

Countries considered a "moderate risk" for both foreign and local businessmen include El Salvador, Chile, Honduras, Peru, France, West Germany, the Republic of Ireland, Spain, Mozambique, Sudan and Bangladesh.

With the increasing interplay among terrorist organizations, the threat of transnational kidnappings — the abduction of one foreign national by another foreign national in a third country — could well surface in the U.S., Britain, France, West Germany, Holland, Belgium, Australia, Costa Rica and Honduras, the study said.

The report also noted that terrorist organizations could be encouraged by legitimate governments to abduct businessmen. These regimes include the countries of Cuba, Haiti, Iran, Iraq, Libya, Angola, Ethiopia, Liberia, Nigeria, Uganda, Zaire and Zimbabwe.

The last reported kidnapping of an American executive abroad occurred in Colombia in April 1983, when Kenneth Bishop, Texaco's country general manager, was held for a ransom demand of $10 million. He was released unharmed after 28 days for a reported payment of $1.25 million.

According to Western intelligence sources, the top five "kidnap and ransom markets" for the first six months of 1984 were Colombia with 80 incidents, Guatemala with 13, and Italy with 12. Six such incidents occurred in Spain. The U.S., Angola and El Salvador were all in fifth place, with four incidents each. In all but two cases, the victims were eventually rescued by authorities or returned when a ransom was paid.

In Colombia, the threat is mainly against executives of national businesses and the ranching community. In recent months, however, there has been a rising number in attacks against the Jewish community in Bogota (many of whom own highly visible manufacturing plants) because they have acquired a reputation of paying ransoms quickly with little negotiation.

The scale of demands and payments differs greatly in Colombia. In the cities, the average demand is $7 million and the average payment is $750,000. Several payments of more than $1 million have been reported. In rural areas, however, the average demand is only $720,000 and the average payment is $300,000.

In Guatemala, nearly all the cases have occurred in Guatemala City, where demands have been reported as high as $2 million and the average payment $50,000.

In Italy, virtually all the cases involved organized crime and are commonly termed "criminal fund-raising." The average demand there is $3 million and the average payment is $2 million. Because of the low level of police response, criminal gangs have found kidnapping a high-yield, low-risk crime (even safer than bank robbery), and are estimated by Control Risks' U.S. office to have extorted an estimated $200 million in the last 10 years.

Some Italian families have been repeated targets. One highly publicized case involved the Bulgari family, which paid $2 million in 1975 for the release of a cousin and last year paid $2.5 million for the release of Anna Bulgari Calissoni and her son.

In Spain, the average ransom payment is half the amount paid in Italy, and all the incidents so far have involved local nationals in the Basque region of the country.

In the U.S., the four incidents this year involved a Chinese restaurant owner in Maryland, the wife of a Cintex Corp. executive who was attending a bridge tournament in Washington, D.C., the wife of a Raymond International executive, and a Colombian couple in Los Angeles. In all these cases, the ransom was paid and later recovered by the FBI.

The most spectacular case this year involved the kidnapping of 16 British nationals and a Portuguese national in Angola. They were held captive for 79 days by the insurgent group UNITA and were released after the British government dispatched a senior diplomat to meet with the rebel group's leader.

In general, when the level of political violence erupts into open conflict, as in El Salvador, the number of kidnappings tends to drop because security forces usually shoot first and ask questions later. That policy makes lengthy negotiations and the possibility of escaping with a ransom more difficult.

Between 1978 and 1980, when many foreigners still lived in El Salvador and kidnappings averaged about 20 a year, terrorist group Fuerzas Armadas Revolucionaires Nacional accumulated more than $40 million by kidnapping expatriate executives from five multinational corporations. Those corporations were based in Japan, the Netherlands, Sweden, Britain and the U.S.

"What can be learned from these statistics," said Dr. Richard Clutterbuck, a British academic whose book, "Kidnap and Ransom," is viewed by many in the security field as the best on the subject, "is that in 90% of the cases worldwide, terrorists view kidnapping as a business transaction, where the eventual return of the victim is necessary in order to consummate the deal."

Undercover Firms Also Profiting As Businesses Try To Stop Crime

By Sam Passow, *Investor's Daily*

NEW YORK — A manager at a Southeastern electronics manufacturing firm suspected drug use among his work force but didn't know who was involved, to what extent, or the damage, if any, that resulted from the abuse. So he hired an undercover agent and placed him on the assembly line at the point where the finished electronic product was packaged.

Within six weeks, the agent not only identified several employees who were constantly 'mellow' on marijuana, but also discovered the drug dealer. In addition, he found numerous boxes containing finished goods that had been vandalized by the suspected abusers.

The story is just one of many from the files of the estimated 5,000 private undercover agents who operate every day in U.S. industrial plants, offices, department stores, hotels and restaurants. The agents blend in with the rest of the work force while they try to ferret out crimes ranging from theft in a warehouse to computer fraud.

Randolph D. Brock III, president of IntelliSearch, a security consulting firm in Middlebury, Vt., which specializes in undercover work, calculated that private security firms rake in about $2 million a week from undercover operations.

The need for this type of service is apparent. Washington lawyer August Bequai, an analyst of white-collar crime, estimated that U.S. companies currently lose about $800 million a week due to internal thefts. U.S. Department of Commerce experts contend that guess is on the conservative side.

Edward A. Sundberg, president of Ogden Security Inc. in Summerville, Mass., noted that 30% "of business failures are caused by losses created by criminal activity."

Drug Abuse Main Problem

And a majority of that criminal activity can be traced to drug abuse. William R. McGraw, executive vice-president of the Tennessee-based security firm, Guardsmark, said that "nearly two-thirds of the undercover cases we have worked on are drug-related."

It is not surprising, therefore, to learn that many of the large retail chains budget up to one-half million dollars a year on undercover operations, and that many smaller firms willingly pay an average of $5,500 a case to quietly sort out a problem.

By its very nature undercover work is risky, but it is less so in the private sector than in government operations such as the recent case involving auto manufacturer John Z. DeLorean. Unlike government law enforcement agents, private undercover agents cannot "commit" a crime such as dealing drugs or selling stolen goods in efforts to enforce the law. They also lack the authority to arrest.

Another major difference is that in private undercover investigations, companies use the information more often as grounds for dismissal rather than prosecution. But should a company decide to prosecute, it generally can assume evidence gained by an undercover agent will withstand judicial scrutiny.

"Of the thousands of cases which have been brought to a court as a result of information obtained during covert operations, only a few have been thrown out on grounds of entrapment," said New York lawyer J. Joseph Bainton, partner in the firm of Reboul, MacMurray, Hewitt, Maynard & Kristol.

Crackdown On Counterfeiting

Bainton is legal counsel to the leather goods firm of Louis Vuitton, which pressed charges resulting in the conviction last May of six people for counterfeiting its brand-name merchandise. The conviction was the culmination of a privately funded $500,000 sting operation.

The case — known as Bagscam because it used the services of Mel Weinberg, the undercover agent in the 1980-81 Abscam investigation — affirms that "the courts will continue to allow this type of activity as long as it's done properly," Bainton said.

The Vuitton case is cited by a number of corporate lawyers as evidence of the increasing sophistication of industry's response to counterfeiters. Brand name counterfeiting costs American manufacturers an estimated $8 billion in lost revenues annually, according to government figures.

Investor's Daily ★ Wednesday, May 29, 1985

Rorer Group's Directors Override Balloting Against 'Poison Pill'

By Sam Passow, *Investor's Daily*

NEW YORK — Claiming that the threat of a takeover still exists, Rorer Group Inc.'s board yesterday voted unanimously to override a proxy motion that called for it to rescind a "poison pill" offer to shareholders.

In explaining the decision, Rorer's assistant vice president, Joseph H. Parsons Jr., said the board of directors thought the share-purchase rights plan was in the best interest of the company and shareholders "because the whole general takeover climate, which started back in February, hasn't died down."

The proxy motion — a non-binding resolution — was introduced by Cooper Laboratories Inc., the company's second-largest stockholder, at Rorer's annual meeting last month.

The vote on the Cooper motion, which marked the first time investors were able to voice an opinion on a poison-pill defense, was adopted 53.2% to 42.1%. Parsons, however, reaffirmed management's contention that the vote represented only 42% of the outstanding shares.

"The plan was put in to protect all the shareholders," Parsons said, "and we prefer to look at all the outstanding shares, of which they did not get a majority."

The share-purchase rights plan was instituted by Rorer Feb. 25, two weeks after Cooper Labs made a friendly takeover cash offer of $35 a share. The plan gave shareholders the right to buy newly issued common shares at $90 a share if an outside buyer accumulated or offered to buy at least 20% of the firm's stock. In certain circumstances holders of such rights could buy a hostile bidder's holdings at a 50% discount.

Given the number of outstanding shares — about 21.4 million — the plan would add an estimated $380 million to the cost of a hostile takeover.

Palo Alto, Calif.-based Cooper Labs, which holds just under a 5% stake in Rorer, was backed in its fight by Dow Chemical Co., Rorer's largest shareholder with a 9.5% stake, and by the third-largest stockholder, Eugene C. Dooner, a private investor in Florida who owns 1.7% of the shares.

Last week Cooper Lab's chairman, Parker G. Montgomery, agreed to halt his federal court challenge of the poison pill plan, saying that he wanted the Rorer board to make a decision free of any legal threats.

Montgomery is traveling in Europe and was unavailable for comment. Other senior managers at Cooper Labs also declined to comment on the Rorer moves.

Yesterday Rorer closed at 29¾, down ⅝ on a volume of 50,300 shares traded.

Investor's Daily ★ Wednesday, April 24, 1985

Rorer Annual Meeting Ends Without Definite Winners

By Sam Passow, *Investor's Daily*

FT. WASHINGTON, Pa.— There were no clear winners as the proxy fight at Rorer Group Inc. came to a head at the company's annual meeting here yesterday.

At issue was a "poison pill" anti-takeover measure devised by management to deter hostile bidders and adopted by the board in February without a vote by shareholders. At least one major shareholder and one potential marriage mate want the plan rescinded.

Yesterday was shareholders' first opportunity to vote on the issue, but the results won't be known for several weeks.

The complicated affair started as a courtship and now more closely resembles a divorce proceeding.

It began last September when Rorer informally proposed a merger with CooperVision Inc., an eye-care company owned by Cooper Laboratories Inc. until 1983. Discussions reportedly broke down over accounting difficulties and personal conflicts between John W. Eckman, Rorer's chairman and Parker G. Montgomery, chairman of Cooper Labs and CooperVision.

Whatever caused the rift, by February things were acrimonious. On Feb. 7, the Rorer board approved a Share Purchase Rights plan, or poison pill, after breaking off discussions with Cooper, which by then had made a friendly cash offer of $35 dollars a share for Rorer.

Cooper Labs, which is the second largest shareholder in Rorer with a 4.96% stake, is backed in its fight by Dow Chemical Co., Rorer's largest shareholder with a 9.5% stake.

Non-Binding Vote

Yesterday's vote is a non-binding one that obliges management to inform the board of the outcome but doesn't direct them to act on it.

However, it's the first time investors have been in a position to vote directly on a poison pill and could give an indication about how big institutions in particular view such devices.

Neither Eckman nor Montgomery would predict the outcome of the vote.

In a lively two-hour meeting, Eckhman denied persistent charges from shareholders that the company had in fact been concealing over a period of four years numerous takeover offers.

"The only offers we have had have been offers of assistance from 'white knights,'" he said.

Eckman denied that the Rorer managment had adopted an anti-takeover posture. However, he also refused to place a value on the company when questioned by a shareholder.

Rorer's poison pill would make a hostile bidder issue to Rorer holders stock of its own worth twice what it would get in return.

The Rorer move, if approved, would distribute to shareholders of record rights to buy newly issued common shares at $90 a share if an outside buyer accumulates or offers to buy at least 20% of the firms stock. In certain circumstances, rights holders could buy a hostile bidder's holdings at a 50% discount of the value of that stake.

Given the outstanding number of shares involved, about 21.4 million, it is estimated that such a plan, if adopted, would add an additional cost of $380 million to any hostile takeover bid.

Cooper Labs' Challenge

Rorer's poison pill was countered by a motion from Cooper calling on Rorer's directors to redeem the Share Purchase Rights issued to shareholders on Feb. 25, and that no further rights, or similar securities or rights, be used.

Montgomery said at yesterday's meeting that if Cooper Labs loses the proxy fight, it will continue its challenge against Rorer's plan in federal court.

Also up for a vote at yesterday's meeting was a motion by Gene C. Dooner, a Florida-based private investor, asking that the company's directors inform the shareholders by mail of any takeover offers before such an offer is dismissed by the board.

Dooner, who owns 1.72% of the company's stock contends that Rorer "is an ideal candidate for a takeover."

Rorer's 1985 first-quarter results were released at the meeting, and showed no change over the same period last year at 29 cents a share. Net income rose only 0.49% to $6.11 million from $6.08 million on a sales increase of 9.97% to $117 million compared with $106.39 million for the same quarter in 1984.

Rorer President Robert E. Cawthorn, who will also assume the role of chief executive officer May 1, said net income for the first quarter would have been 23% higher had it not been for an 18% loss in earnings due the adverse affect of the strong dollar on its overseas sales as well as 5% of earnings the company had to spend in the quarter in its attempt to fend off the takeover bid by Cooper Labs.

The Pennsylvania-based health care and pharmaceuticals company, once almost entirely dependent on its popular Maalox antacid line, has diversified it product line to include asthma drugs, motor-driven surgical tools and lenses for cataract patients.

Rorer closed up ¼ at 31¼ yesterday on volume of 8,400 shares.

Rorer Holders Voted To Repeal 'Poison Pill,' Cooper Labs Says

By Sam Passow, *Investor's Daily*

NEW YORK — Cooper Laboratories Inc. said yesterday that Rorer Group Inc. shareholders approved its resolution to rescind Rorer's "poison pill" anti-takeover measures.

A preliminary tally released by Rorer's vote inspectors, Delaware-based C.T. Corp., showed that nearly 51.5% of the ballots were in favor of the resolution, 42.1% were against and just under 6.5% abstained, Cooper Labs said.

The vote, held at the company's annual meeting in Ft. Washington, Pa., on April 23, marked the first time investors were able to cast their opinion on a poison-pill defense.

The Cooper Labs resolution, which is non-binding, calls on Rorer's directors to redeem the share-purchase rights issued to shareholders on Feb. 25 and asks that no further rights or similar securities or rights be used.

The Rorer plan gave shareholders the rights to buy newly issued common shares at $90 a share if an outside buyer accumulated or offered to buy at least 20% of the firm's stock. In certain circumstances, holders of such rights could buy a hostile bidder's holdings at a 50% discount.

Given the outstanding number of shares involved, about 21.4 million, it is estimated that the plan would add an additional $380 million cost to any hostile-takeover measure.

Cooper Labs' chairman, Parker G. Montgomery, said the vote was "a victory not only for the Rorer shareholders but for the process of shareholder democracy."

However, the outcome was disputed by Rorer's assistant vice president, Joseph H. Parsons Jr., who said that the results announced by Cooper Labs represented only 82% of the shareholders who voted on the resolution, not the total number of outstanding shares.

"When you consider the total number of outstanding shares, the Cooper motion only received 42% of the vote," Parsons said. "This plan was put in to protect all shareholders, and we prefer to look at all the outstanding shares, of which they did not get a majority."

Joseph A. Dornig, vice president and secretary of Cooper Labs, said, "To say we did not win is the same as saying Reagan did not win by a landslide because 25% of all eligible voters did not vote."

Parsons said the results of the vote will be certified and reviewed by the Rorer Group board at its next meeting on May 28th. He would not speculate whether action on the company's rights plan would be taken at that time.

Dorning said Cooper would wait to see what actions the Rorer board would take before deciding whether or not to continue its challenge of the rights plan in federal court.

Cooper Labs, which is the second-largest shareholder in Rorer with just under a 5% stake, was backed in its fight by Dow Chemical Co., Rorer's largest shareholder with a 9.5% stake, as well as the company's third-largest stockholder, Eugene C. Dooner, a Florida-based private investor who owns 1.7% of the shares.

Rorer closed yesterday up ⅝ at 30 on 104,000 shares traded.

Cooper Laboratories Drops Challenge To Rorer's 'Poison Pill'

By Sam Passow, *Investor's Daily*

NEW YORK — Cooper Laboratories announced yesterday it will drop its federal court case challenging the legality of Rorer Group's "poison pill" anti-takeover measure.

Tuesday the Rorer board will meet to discuss the outcome of a non-binding resolution, introduced by Cooper at the Rorer annual meeting last month, that calls on the company to rescind the share-purchase rights offer instituted in February.

The proxy motion, which marked the first time investors were able to cast their opinion on a poison-pill defense, was adopted by 53.2% of voting shareholders.

Cooper Chairman Parker G. Montgomery said the vote showed that Rorer shareholders don't want the poison-pill defense.

A Rorer assistant vice president, Joseph H. Parsons Jr., previously said the Cooper motion received only a 42% favorable vote of shares outstanding.

The Rorer plan, which was instituted two weeks after Cooper made a friendly takeover cash offer of $35 a share, gave shareholders rights to buy newly issued common shares at $90 a share if an outside buyer accumulated or offered to buy at least 20% of the firm's stock. In certain circumstances holders of such rights could buy a hostile bidder's shares at a 50% discount.

With 21.4 million shares outstanding, the plan would add an estimated $380 million to the cost of a hostile takeover.

Palo Alto, Calif.-based Cooper, which with just under 5% of the shares outstanding is the second-largest shareholder, was backed in its fight by Dow Chemical Co., Rorer's largest shareholder with 9.5%, and the third-largest holder, Eugene C. Dooner, a Florida-based private investor who owns 1.7%.

Rorer closed yesterday at 30⅝, up ⅛ on a volume of 35,300 shares traded.

Investor's Daily ★ Monday, July 29, 1985

Institutional-Retail Activity Report Set For Two Exchanges

By Sam Passow, *Investor's Daily*

NEW YORK — The Securities Industry Association will introduce a monthly index this week that measures the percentage of institutional and retail trading activity on the New York and American Stock Exchanges.

The last time any figures on this activity were compiled was in the fourth quarter of 1980, when the NYSE sampled its member firms and concluded that institutions accounted for two-thirds of all publicly traded issues.

The SIA Institutional-Retail Activity Report will be based on information supplied by the nation's depository trust companies, which keep tabs on 1,528 reporting broker-dealers and 4,377 institutions.

Figures for June in the SIA's initial report show that institutions accounted for 62.2% of publicly traded shares on the NYSE and retail sales accounted for 37.8%. However, of all trades made on the Big Board last month, institutional activity accounted for 46%, retail activity 28% and member trading 26%.

According to Jeffrey M. Schaefer, SIA senior vice president and director of economic research, the figures show that the percentage of retail trading is larger and the individual investor is more important than commonly thought.

On the American Stock Exchange in June, retail activity outpaced institutional trading, 63.5% to 36.5% of publicly traded shares. As a proportion of total volume, retail trading accounted for 51.4% of the activity, institutions 29.6% and member trading 19%.

The SIA index, which was nine months in the planning, will cost $500 a year for members and $1,000 for non-members. It will come out on the 10th day of the following month.

Schaefer said the SIA may upgrade the index to include weekly reports with statistics on daily volume activity of the previous week.

Appeals Court Backs SEC Effort To Broaden Definition Of Insider

By Sam Passow, *Investor's Daily*

NEW YORK — The Securities and Exchange Commission appears to be succeeding in its efforts to broaden the definition of stock market "insiders" to include lawyers, accountants, financial printers and journalists who come into contact with proprietary information.

In a civil action this week, the U.S. Court of Appeals for the Second Circuit upheld a lower court ruling against Anthony Meteria, an employee of Bowne of New York City Inc., a financial printer.

According to the SEC, Materia made illegal profits of about $100,000 by trading in the securities of at least four companies whose identities he obtained from draft tender offer documents printed by his employer during 1980-82.

As is the case in civil actions, the court has issued an injunction barring Materia from engaging in such further activities and will order him to turn over the money he earned from the deals. If the injunction is ignored, Materia will be liable to criminal prosecution.

The legal precedent that has been upheld is termed the "misappropriation theory." It holds that an investor violates federal securities law if he makes a trade on the basis of confidential information that is either misappropriated or stolen from his or her employer, regardless of whether it is the employer's own securities that are bought or sold.

Previously, the courts have upheld charges of illegal insider trading only against individuals who traded in securities of the company that employed them.

The SEC developed the "misappropriation theory" five years ago after discovering the agency was powerless to pursue securities fraud cases that appeared to involve insider trading activity but did not involve employees of the companies whose securities were being traded.

According to Arnold S. Jacobs, chairman of the securities regulation committee of the New York City Bar Association, "this is a comforting decision. It affirms the minority view expressed in the U.S. Supreme Court 1980 decision in the Chiarella case (which overturned a lower court conviction), and it is the second time the the Second Circuit Court has upheld the 'misapproriation theory.'" In 1981, the court ruled in favor of the government in the criminal case of the U.S. vs. Newman, which involved illegal inside trading activities by employees of investment bankers Morgan Stanley.

"It will make more people think twice before they engage in such activity," Jacobs said.

Not everybody agrees. William J. Fitzpatrick, legal counsel for the Securities Industry Association, contends that the latest ruling "has the potential to reach out further than the federal security laws were intended to reach out.

"This theory has widened the scope of the insider information, which was meant to govern the conduct of corporate officers who have a fiduciary responsibility to the corporation," Fitzpatrick said. "Now you are putting a pebble in the stream and widening the circle by going after people who have no obligation to a corporation."

In the most recent case, the SEC has accused R. Foster Winans Jr., a former reporter for the Wall Street Journal, of illegal insider trading. Winans is suspected of passing on confidential information obtained in his capacity as a newspaper reporter to others, who in turn made illegal profits in the stock market. There are several other pending cases involving employees of financial printers and law firms.

Investor's Daily ★ Tuesday, July 9, 1985

Securities Industry Reports Best Quarterly Advance In Two Years

By Sam Passow, *Investor's Daily*

NEW YORK — The U.S. economy may have slowed to a crawl in the first quarter of the year, but things were different on Wall Street.

According to a Securities Industry Association report, 83% of New York Stock Exchange member-firms doing public business reported profits in the first quarter of 1985, the highest quarterly advance in nearly two years.

The last time the securities industry painted such an optimistic picture was in the second quarter of 1983.

The SIA surveyed national full-line brokerage houses, large investment banks, New York City-based regional brokerages and discounters for the survey.

Ira Epstein, assistant director of research for the SIA, said that while it will be difficult to duplicate the unprecedented profitability the industry enjoyed from 1979 to 1983, factors are in place for return on equity to rise appreciably in 1985.

Citing cost containment programs instituted by member firms as well as a reduction in interest rates, Epstein noted that improvement is already evident in the first quarter of 1985 as the industry's annualized after-tax return on investment rose to 16%, compared with 7% in 1984.

According to the SIA, commissions of the firms surveyed climbed 22% in the first quarter of 1985, accounting for 32% of the rise in non-interest revenue.

Other first-quarter SIA figures show trading profits jumped 24% and represented 37% of the increase in non-interest revenue.

Trading profits on debt securities increased 18% and were responsible for 21% of the rise in non-interest revenue as interest rates on government bonds declined early in the quarter before rising in the latter half of the quarter.

Underwriting revenue increased 3%; revenue from equities jumped 99%; and revenue from debt declined by 6%. Common stock underwriting volume climbed by 90%, but decreases occurred in both corporate debt volume (9%) and municipal volume (15%).

According to the SIA, mutual-fund sales revenue soared 72%, accounting for 11% of the rise in proximate non-interest revenues. First-quarter sales of mutual funds other than short-term funds were a record $20 billion and consisted of $18.4 billion of new sales and $1.6 billion of reinvested dividends. Sales of equity funds amounted to $6.5 billion; combination equity and bond funds $6.9 billion; corporate bond funds $1.6 billion, municipal bond funds $4 billion and option funds $1 billion.

On the NYSE, the American Stock Exchange and regional exchanges, average daily share volume rose 30% to 142.2 million shares from 111.4 million in the same period in 1984, the SIA report said.

Similarly, the dollar value of shares traded increased 30% to $296.2 billion from $226.6 billion a year earlier.

SEC Reportedly OKs Secrecy For Options Being Developed

By Sam Passow, *Investor's Daily*

BOCA RATON, Fla — The Securities Exchange Commission reportedly approved a Securities Industry Association plan that would allow the exchanges and the National Association of Securities Dealers to keep their new product ideas, including options, confidential until they are introduced.

Robert F. Shapiro, president of Wertheim & Co. and the new SIA chairman, said SEC chairman John Shad told representatives at the association's annual convention here that "the commission responds favorably to the report and that it is up to the industry to effectively make it work."

Under the plan, the exchanges and the NASD — called "self-regulatory organizations," or SROs — would be able to gain regulatory approval for new options without worrying that their competitors would introduce a similar product simultaneously.

Richard H. Jenrette, chairman and chief executive of Donaldson Lufkin & Jenrette Inc. and former chairman of the SIA, said: "The SROs would be able to undertake product development confident that they would enjoy the benefits of a market lead."

The SIA's Options Task Force, headed by Shapiro, also recommended that each SRO appoint a committee consisting exclusively of representatives of the marketing departments of its member firms. The role of such a committee would be to advise the exchange of the level of member support for a specific new product.

If a majority of the marketing committee fails to provide marketing resources for a product, the proposal says the exchange will know that it will have to bear increased expenses and effort in marketing the new product.

While Shapiro claimed that the SROs willingly cooperated in drafting the plan, the SIA's legal counsel, William Fitzpatrick, said "there may be resistance on the part of the SROs to formalizing the marketing committees."

Fitzpatrick observed that the current state of the stock market seems to have all but taken care of the problem for the SROs, "as few are introducing new products."

In May 1983, the SIA Options and Derivative Products Committee informed SROs that products were being introduced too rapidly for the member firms to provide necessary marketing support.

As new narrow-based index options were introduced following others that had failed to generate significant trading volume, the firms had no incentive to reconsider their original decision not to expand marketing those options.

The marketing departments of member firms generally haven't been the primary source of comment for designing new index options. Instead, index options have been created by exchange staffs, often in consultation with traders and floor members. Marketing departments also haven't been consulted by the exchanges to determine the resources those departments intended to devote to marketing proposed new products.

A report by Richard L. Teberg, a Los Angeles lawyer and special consultant to the SIA, said "since the exchanges had no assurance of member firms' marketing support, they expended substantial sums developing, obtaining regulatory approvals for, and advertising new products.

Investor's Daily ★ Monday, December 24, 1984

Corporate Angels Lending Their Wings To Help Cancer Patients and Families

By Sam Passow, *Investor's Daily*

NEW YORK — In the usual jargon of Wall Street, an "angel" is a financial backer. But there is another kind of angel in the heavens above Corporate America. In fact, there are dozens.

Michael Burnett met one on Christmas Eve three years ago.

For Michael, it was anything but a time to be jolly. The 19-year-old from Trenton, Mich., had just lost part of his right leg to cancer and was undergoing chemotherapy treatment at New York's Memorial Sloan-Kettering Hospital. He wanted desperately to be with his family, but with the staggering cost of the treatment, he couldn't afford the plane fare.

When all seemed lost, his corporate angel appeared — not with money, but with a plane — a 10-passenger turboprop belonging to the Safe Flights Instrument Corp., of White Plains, N.Y.

Michael spent that Christmas with his family, and today he's marching down a football field as a professional drummer in a Toledo, Ohio, drum and bugle corps called the Toledo Glassmen.

Since that trip, hundreds of cancer patients around the country have shared the same good fortune as Michael through the Cancer Angel Network (CAN). About 320 corporations nationwide have volunteered the use of approximately 800 company airplanes to the non-profit CAN to transport cancer patients without charge whenever the planes are making routine business flights. The planes are primarily jets and turboed aircraft, based in 40 states, including two Boeing 727's in Alaska.

CAN is the brainchild of Priscilla H. Blum, 60, a freelance writer and pilot who had a mastectomy in 1969. Having gone through the experience herself, she knew that cancer patients exhausted a great deal of their funds on commercial flights in search of the best treatment possible. She also knew that those expenses are rarely covered by medical insurance.

Having her own plane at Westchester County Airport, one of the most widely used runways for corporate air traffic in the country, she was equally aware that many company jets had empty seats when they took off.

"I approached Leonard Greene, president of Safe Flight Instrument Corp. and owner-pilot of Super King Air, to ask if there were any insurmountable problems connected with the use of those empty seats for cancer patients," said Blum. "His reaction was an enthusiastic, thumbs-up 'Go for it!' "

To get the plan off the ground, she enlisted the aid of Jay N. Weinberg, 66, also a former cancer patient, and owner of the local Avis car-rental franchise, who now works on the project almost full-time.

Getting corporate sponsors to sign up was difficult at first. The turning point came in January 1983 when David Mahoney, chairman of Norton Simon, was forced to cancel a corporate flight that was to carry a cancer patient to the West Coast.

In an effort to make amends, Mahoney wrote a personal letter to the heads of 1,500 leading companies urging them to help CAN, and the program finally took off.

Among the participating corporations are American Express Co., Avco Corp., Bristol Meyers Co., CBS Inc., Celanese Corp., Chase Manhattan Bank, Chemical Bank, Coca-Cola Co., Columbia Pictures Industries, E.F. Hutton & Co., General Foods, General Mills, Gulf and Western Industries, Martin Marietta Corp., Merrill Lynch & Co., Norton Simon, PepsiCo, Texasgulf Inc., TRW Corp., Union Carbide Corp., Volkswagen of America, Warner-Lambert Co. and Xerox.

Working out of their headquarters at Westchester County Airport in hangar space donated by Champion Interna-

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Angels

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tional Corp., CAN operates on a budget of $75,000 with one paid worker and a dozen unpaid volunteers.

"Cancer patients often call the network themselves (914-328-1313), or are referred by a doctor, a social worker at a hospital or the American Cancer Society," said Weinberg.

"Once a request is made for a flight, the details are fed into a computer, which lets CAN match lists of all flights that corporations will be making with the departure and destination cities requested by the patients."

In about 25% of the cases, notes Weinberg, a mutually convenient flight is arranged.

"Coordination between the corporation and CAN is just a matter of anticipating when the two parties' schedules dovetail. They call me up, give me the time, date and number of people, and all I have to do is say 'yes' or 'no' or I'll check with you and let you know," said Thomas R. Sheehan, assistant manager in charge of the Chemical Bank's Hawker Siddeley. "It's a very simple process. I think that's why they have been so successful."

Two years ago, a young man entered the Scripps Clinic in La Jolla, Calif., with a leukemia diagnosis. His brother, who lived in Chicago, was needed for a lifesaving bone marrow transplant. TRW's plane in Cleveland, Ohio, had scheduled a trip to the coast and generously made an intermediate landing in Chicago to pick up the donor.

Later, the mother of the patient wrote to CAN saying: "Without your help, we faced a 56-hour bus trip. My son's severe illness has been very taxing emotionally on our whole family, but thanks to you and TRW Corporation, you helped ease the pressure."

Growing Services

In its first year, CAN flew only 24 patients, it now arranges more than that a month. So far, it has flown more than 400 patients over more than 900,000 miles.

The free-flight service is available to patients and one member of the family regardless of the patient's financial circumstances.

The only pre-conditions are that the patient be ambulatory (patients on crutches or wheelchairs are eligible); be able to sit up during the flight, and not be on a life-support system.

As CAN has matured, heartwarming spinoffs have taken place. A dozen privately owned limousine services in New York and Connecticut have offered ground transportation to CAN passengers.

Avis Rent-a-Car has guaranteed a car and a driver, on a nationwide basis if necessary, and the Marriott Hotel in Westchester has offered overnight accomodations on a space-available basis to CAN patients and their escorts. One company even gave a discount on jet fuel to an aircraft with a patient aboard.

The program has also received public recognition. Last May, it was awarded the President's Volunteer Action Award.

John Ball, senior-vice president at Champion International, described the CAN program this way: "Everyone — the patients, the pilots and the company officals who fly with them — come away from the experience a little bit better person."

Investor's Daily ★ Monday, March 11, 1985

Canada, UK Adoption Of U.S. Stock Disclosure Rules Predicted

By Sam Passow, *Investor's Daily*

NEW YORK — Sir David Nicholson, who two weeks ago was named by the New York Stock Exchange as its British and European consultant, said it is "inevitable" that European and Canadian exchanges will move into line with U.S. stock disclosure rules.

"There will be great advantages to a unified approach" among exchanges worldwide, he said.

Sir David, who is also chairman of Wertheim & Co. U.K. Ltd., estimated that about 66% of all European overseas investments are now in the U.S., while only about 40% of U.S. overseas investments are in Europe. And he sees further expansion from European businesses into the U.S. as their economies improve and their need for capital increases.

That's one of the major reasons for a Securities and Exchange Commission proposal asking for comment from the industry on whether stock prospectuses for the U.S., Canadian and U.K. stock exchanges should be standardized or whether they should be mutually acceptable without changes.

At issue is whether in the effort to facilitate the growing trend toward 24-hour global trading, foreign companies, which operate under less-stringent reporting requirements, should be able to compete in U.S. markets for capital with less disclosure than is required of American companies. Currently, foreign firms seeking to issue public offerings must comply with the same regulations as U.S. firms.

Two Alternatives Proposed

The SEC's division of corporate finance has proposed two alternatives. The first is the so-called "reciprocal approach" by which all three countries would accept the disclosure requirements of the other countries. In other words, if a British company wanted to make a public offering in the U.S., it could distribute the same prospectus here as it would in the U.K.

The second is the "common approach," which would harmonize the disclosure requirements of the three nations to a mutually acceptable level.

Both systems have their advantages. On the one hand, the common prospectus would make it easier for investors and analysts to compare financial data and would serve as the foundation for an international database for security trading. On the flip side, SEC chairman John Shad questions: "If the U.S. has the highest standards . . . do we lower ours or raise theirs?"

The reciprocal approach has the advantage that it would reduce the costs and time involved in multinational stock issues, but it's complicated by the different financial accounting standards in each country.

Pearce Bunting, president and chief executive of the Toronto Stock Exchange, says he favored the common approach, but he dismissed Shad's concern that the end might result in a mediocre compromise. "Our reporting requirements are just as high as anywhere in the world, and it's arguable that harmonization would lower the U.S. standards."

SIA Talks Planned

The Securities Industry Association will formally tackle the question in May at a meeting of the Corporate Finance Committee. However, committee chairman Terry R. Connelly, a vice-president at Salomon Bros. Inc., said that of the two, the reciprocal approach seems more palatable because it allows each party to work with documents they know best.

He also contended that it would be easier to reach an agreement using exisiting regulations rather than "thrashing out a new set of rules in a common approach."

Donald N. Malawsky, senior vice-president of the New York Stock Exchange, said he favors a system that would "upgrade the reporting requirements in other countries," but he didn't rule out a possible compromise of U.S. standards that could result in a common approach.

However, like others in the U.S. securities industry, he is concerned that different accounting methodology in the various countries could complicate negotiations.

The SEC intends to move relatively quickly on the issue. The comment period expires July 15th, and the commission will use the results as the basis for a formal proposal later this year.

Sir David said the London Stock Exchange will act on some regulatory reform this year in its effort to come to grips with rapidly expanding international trading. The boundaries are shrinking even within Europe, he said, pointing out that later this year all European exchanges will be linked by computer.

Investor's Daily ★ Monday, June 10, 1985

NYSE Faces Threatened Strike With Plans For Smooth Trading

By Sam Passow, *Investor's Daily*

NEW YORK — Members of the New York Stock Exchange are confident that Tuesday's planned strike by pages, clerks and transaction reporters will have little impact on trading, but, just in case, the exchange has a fall-back plan.

Members of Local 153 of the Office and Professional Employees International Union voted Friday to strike the Big Board effective with the start of business Tuesday. It's the first strike in nearly 40 years at the NYSE.

In the walkout proceeds as planned, the NYSE has made the following changes:

■ A special ID card, in addition to the current pass, will be required to enter the NYSE. No visitors will be allowed during the strike;

■ Members and member organizations will be permitted to have additional employees on the floor to perform clerical and messenger duties. All page and squad service on the trading floor will be discontinued, as will the pneumatic tube system;

■ Specialists will be asked to oversee the reporting of sales and audit trails in their registered stocks. Each specialist unit will be asked to consider assigning one of the partners or clerks to the task of insuring that transactions are reported on time and accurately;

■ The computerized Direct Order Transaction (DOT) system, Intermarket Trading Ssystem (ITS) and Questioned Trade Service desks will operate, but at reduced levels.

■ No outside delivery services will be permitted.

Depending on the overall volume, the greatest effect probably will be felt in the first and last half-hours of business, when the need to record information is greatest, most traders interviewed said.

NYSE vice president and chief spokesman, Richard Torrenzano said that several hundred management employees are ready to take over the jobs of the pages, clerks and transaction reporters.

Reporters, called "Blue Jackets" for the blue cloth coats they wear on the exchange floor, listen to transactions and enter data into an electronic reader that converts the information into a video version of the ticker tape.

Neither side is showing any sign of conciliation to avert the walkout. The union's secretary and treasurer, Michael Goodwin, said no new negotiations are planned.

The union, which represents 950 employees at the NYSE and 350 employees at the Securities Information Accounting Corp., is seeking a 21% pay increase, back-dated to when the present contract expired last November, and job security for 110 senior members whose jobs are threatened by plans to further automate the exchange.

Torrenzano said that although exchange negotiators are at the call of the federal mediator, "our last offer is on the table."

Management has offered a 9.5% pay hike but has refused to either back-date the award or guarantee jobs.

Most traders figure it will be business as ususal. However, one independent trader, Michael Epstein of Richard A. Rosenblatt & Co. Inc, said that "by 10:30 a.m. on Tuesday, no one except the people on the floor will be aware things have changed. And by Wednesday, even we won't be aware of it."

John H. Libaire Jr., president of his own company and an institutional trader, voiced some concern over the inexperience of the management-trained personnel who will stand in for the regular exchange reporters: "If the volume goes beyond 180 million shares a day at the start of the strike, we may get information falling through the cracks, or inaccurate information on quotes and sizes getting on the tape."

Investor's Daily ★ Tuesday, June 4, 1985

Union Delays NYSE Strike Vote To Study New Management Plan

By Sam Passow, *Investor's Daily*

NEW YORK — A decision on a threatened walkout by 1,300 unionized workers at the New York Stock Exchange has been put off until Friday, said union officials.

Representatives of Local 153 of the Office and Professional Employees International Union postponed a vote on a proposed contract yesterday morning, giving workers 72 hours to review management's revised contract proposal. But they predicted the members would reject the plan Thursday and follow that with a strike.

Trading was uninterrupted, said Richard Torrenzano, vice president and chief spokesman for the exchange. "Everything is normal here," he said.

He vowed that trading would go on as usual if there is a strike. "Since August we have trained hundreds of management-level employees to take over all the essential duties in the event of such action," he said.

The NYSE's new proposal includes an offer of a 9.5% pay rise over the next three years. It previously offered an 8.5% raise over three years. The union is seeking a pay increase of 21%.

According to union official Michael Goodwin, the key sticking point in the talks was management's plan to lay off up to 300 workers through automation on the trading floor. The union wants a written guarantee that the jobs of 110 people who have been employed for 20 years will be phased out through attrition.

Management has rejected that plan. It did offer to improve severance benefits from one week's pay for each year of employment to 1.25 week's pay for each year over 10 years.

The union leader also claimed that management wants to extend the working hours of clerical workers at the exchange from 35 to 37.5 hours without an increase in pay.

Torrenzano said, "Under the worst case scenario, about 300 trading floor jobs could be eliminated through automation. Some cuts would be offset by newly created jobs, and attrition would be favored over layoffs."

In addition, he noted, management has offered to help laid-off employees through job counseling and retraining, aptitute testing and financial planning.

"We feel that if the union properly presented the package to its membership, it would be accepted by employees," Torrenzano said.

Both sides met with a federal mediator in an all-night bargaining session Sunday to seek an agreement before the Monday deadline, when the union said it would cut off the talks. Union members have been working without a contract since November.

The three-year contract covers 950 employees at NYSE and the New York Futures Exchange, as well as 350 employees at the Securities Information Accounting Corp.

Management claimed its total package, including fringe benefits, represented an increase worth more than 15% over three years. The benefits to which management agreed included a 25% increase in severance pay, which is currently one week's salary for each year of employment, increases in life insurance and long-term disability pay, and the establishment of a deferred-payment savings plan.

Most pages, and reporters — nicknamed "blue jackets" for the blue cloth coats they wear on the exchange floor — earn an average of $560 a week. A floor worker with seven years' experience earns just under $30,000 for a 31.5-hour week.

Pages run messages from one trader to another and reporters listen to transactions and enter the data into an electronic reader that converts it into the video version of ticker tape.

Phillips Combatants Take Their Offers Before New Institutional Owners Group

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By Jim Bates and
Sam Passow, *Investor's Daily*

The battle over Phillips Petroleum Co. went before a council of pension funds yesterday in an extraordinary session that may signal a new assertiveness by institutions in corporate takeover battles.

At a meeting in New York with the newly formed Council of Institutional Investors, all four of the major parties involved in the battle presented their sides, including Phillips Chairman William Douce, financier Carl C. Icahn, arbitrageur Ivan Boesky and T. Boone Pickens Jr., chairman of Mesa Petroleum Co.

The fact that the council, which controls $100 billion in assets, could attract the top people involved to one session is a sign that its clout is already well respected, even though it has been active barely a month.

Said Pickens, "There is an accountability that has been lost in corporate America. I appreciate the interest that is being shown here." The council, which is currently centered on several major public-employee pension groups, is seeking to have these traditionally passive stockholders take a more active role in takeover battles and other decisions affecting their interests.

The meeting sets the stage for a free-for-all next Friday in Phillips' hometown of Bartlesville, Okla., in which shareholders will vote on the complex, controversial recapitalization plan that Phillips put together in December to end a takeover bid by Pickens and his partners. (The Pickens group disclosed a few hours after yesterday's session that it has another target — Unocal Corp. — and has bought 7.9% of its outstanding shares.)

Under the restructuring plan, Phillips would repurchase 38% of its stock with securities having a face value of $60 a share, sell its employees a controlling interest in the company and sell $2 billion of its assets.

Among the developments yesterday:

■ Icahn told a news conference after making his presentation that even if the recapitalization plan is approved he will launch a proxy battle to unseat Phillips' directors at the company's annual meeting April 30.

■ Boesky confirmed to reporters that he is a "sizable shareholder" in Phillips, although he refused to disclose how large a stake he owns.

■ Minneapolis financier Irwin Jacobs, in an interview with *Investor's Daily*, noted that he still has the voting rights to shares he recently sold because he owned them on the date of record, Feb. 1. He declined to say how he would vote.

■ Douce expressed confidence that the company plan will be passed, noting that it has been better received since the proxy material was sent out to shareholders. "The initial skepticism on Wall Street to the plan was due to a lack of information," he said.

■ Pickens restated his support for the recapitalization plan, although he said he is interested in seeing what Icahn comes up with. He would not comment specifically on Icahn's offer.

Icahn was freed to proceed with his bid after a federal judge in Tulsa, Okla., blocked two courts in the state from carrying out orders that barred the offer from proceeding. U.S. District Judge H. Dale Cook also issued a temporary order yesterday to block enforcement of a new Oklahoma law that would make it tougher to buy an oil company.

Meanwhile, Phillips began an advertising campaign asking, "Is Icahn for real?" Phillips is questioning Icahn's ability to finance his plans, noting that he can't buy shareholders' stock unless he raises the money, eliminates the "fair price" clause in Phillips' bylaws and defeats the recapitalization.

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Combatants

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Icahn is expected to disclose details on the $4 billion in financing he needs to buy 70 million shares of Phillips at $60 each, enough to give him control of the company. If successful, he plans to buy the rest for securities worth about $50 a share.

Icahn said he told the council they don't have to support his plan, but that they should vote against Phillips' recapitalization plan. "I think the recapitalization plan is worth very much less than I am offering. The stock you will be left with will be in a minority position to the ESOP (Employee Stock Ownership Plan), which is a 40% holder." He added that management would not be answerable to shareholders if the plan is passed.

Boesky also said the ESOP section of the Phillips proposal is not in the best interest of the bulk of stockholders. If approved, Boesky said, a takeover of Phillips will be virtually impossible.

In other statements, Icahn pledged that if his slate of directors is elected, he will offer to sell the company at a "fair price" back to its employees through the ESOP that Phillips is creating as part of the recapitalization plan. If that fails, he said, he will offer Phillips to another company.

He also disclosed that if he succeeds in buying Phillips, he will sell its North Sea oil interests, some of its refineries and the Aminoil Inc. assets the company bought for $1.7 billion last year from R.J. Reynolds Industries Inc.

Jacobs' Voting Rights

Jacobs, who was not at the meeting, remains a major factor in the Phillips battle even though he had sold his shares within the past two weeks. Jacobs is believed to have owned seven million Phillips shares, to which he retains the voting rights. He declined to say why he sold the shares.

Council members weren't available after the meeting to discuss how the various presentations had been received.

It also remains unclear just how many Phillips shares the institutions represented in the meeting own. Two California pension funds — the Public Employees' Retirement System and the State Teachers' Retirement System, own 1.5 million shares. With $38 billion in assets, they are among the largest pension funds in the nation.

Phillips closed at 49 yesterday on the New York Stock Exchange, down ¾ on volume of 1,769,100.

Phillips Pete Adviser Predicted Rejection Of ESOP Proposal

By Sam Passow, *Investor's Daily*

NEW YORK — The adviser to Phillips Petroleum Co. on an owner-participation plan, which was rejected by shareholders earlier this month during a takeover battle, said he warned the company before the offer was made that it had little chance of success.

Speaking at a seminar here on employee stock ownership plans, Joseph S. Schuchert, managing partner of Kelso & Co., a New York-based firm which specializes in setting up ESOPs, said he told the oil company that the plan was "really only a defensive tactic when you buy out the whole company."

"I did not think that the transaction would work because of the price. Shareholders will not respond to something that is economically inferior to another offer. The arbitrage community and big market investors like (Carl) Icahn and (Irwin) Jacobs were looking for values above that which was provided in the transaction," he said.

Schuchert said Phillips should have gone after a 100% ESOP. "It would have been tough. There would have been a lot of leverage, but I think they could have accommodated enough debt to do this . . . The economics of the plan were right, they just needed a few more dollars on the deal, and (they needed to) buy more from the public to give them an opportunity to cash out," Schuchert said.

35% Of NYSE Firms Reported Unprofitable

By Sam Passow, *Investor's Daily*

NEW YORK — Thirty-five percent of New York Stock Exchange firms doing public business were unprofitable in 1984, according to a new report by the Securities Industry Association.

"Profitability plunged in 1984 because of rising interest rates and investors' fears over a clash between monetary and fiscal policies," said Ira Epstein, SIA assistant research director.

The after-tax return on equity for the securities industry dropped to 7.2%, its lowest level since 1977. In comparison, the average net return for manufacturing was 12.8% in 1984.

Ten firms categorized as large investment banks received 72% of the industry's pretax income and enjoyed an after-tax return of 16.8%. The return on equity for the rest of the industry was a dismal 2.9%.

Other findings of the report showed commissions fell 15% to $7.1 billion in 1984 and accounted for only 23% of total revenue. This is the lowest percentage recorded since such data have been tabulated.

Underwriting revenue dropped 24% in 1984 to $2.7 billion, largely because of a 67% drop in revenue from underwriting equity securities.

Trading profit increased 11% in 1984 to a record $7.5 billion, primarily through the trading of government bonds during a period of falling interest rates.

These profits were, for the first time, the largest revenue source on an annual basis.

The study also noted that employment expenses declined 3% in 1984 because management limited employment and salary increases.

Account executive compensation fell due to the drop in total gross commissions.

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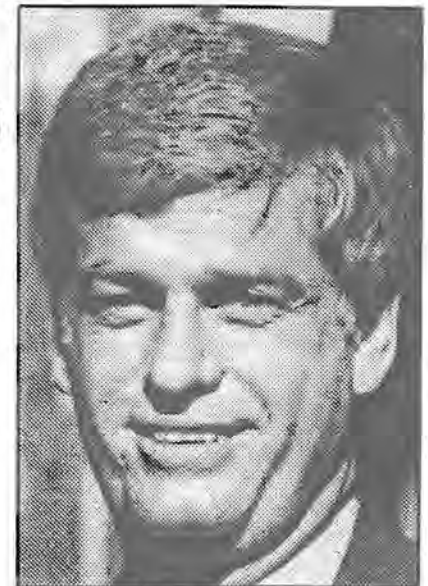
Money Managers / Mario Gabelli

Gamco Investors' Gabelli Sees Attractive Regulatory Changes For Cable-TV Issues



Mario J. Gabelli

By Sam Passow, *Investor's Daily*

NEW YORK — A year ago, Mario J. Gabelli, chairman of New York-based Gamco Investors Inc., chided Wall Street for "missing the structural changes going on in the broadcasting industry," claiming that within two years the industry's stocks would be overpriced.

Since that broadside was fired, regulatory changes by the Federal Communications Commission have stimulated a number of media marriages, dramatically driving up the value of those shares.

Gabelli's conviction on the broadcast issues, and the 16.4% return on investment enjoyed by his clients, made him the 10th-best independent investment counselor in the country last year, according to data compiled by Silver Spring, Md.-based Computer Directions Advisors Inc.

In the first quarter, his $500 million portfolio, 30% of which is invested in broadcast issues (including Cox Enterprises, Storer Communications and Gulf Broadcasting), climbed 17.9%.

A composite of the value of his accounts, three-quarters of which are tax-free pension funds, was up 11.7% in the first quarter, compared with a 9.2% advance in the Standard & Poor's 500 for the same period. Last year, his composite advanced almost 17.3% while the market was up only 6.1%.

"Private market value" is the key to Gabelli's investment strategy.

"In looking at any company, we look at cash flow, and primarily what the company would be worth to an informed industrialist who knew the industry and would be willing to buy 100% of the company.

"If we are doing that kind of analysis in an area we don't know anything about, then we ask ourselves what we would buy the company for if we were doing a leveraged buyout — although that number tends to be less than what an informed investor would pay," Gabelli said.

In all of his investments, Gabelli looks for a 50% rate of return, which when adjusted for inflation and taxes, represents annual increases of between 10% and 15%. He also favors U.S. companies that are good cash earners and that have a franchise operation.

"A great example would be MTV — a spin-off from Warner Communications Inc. It's a fabulous cash generator, a great franchise which no one else will be able to duplicate, and they are carving out a market," said Gabelli, whose Warner stake represents the largest single investment in the Gamco portfolio.

Franchises hold a particular attraction for Gabelli because "we can not only earn a 10% rate of return on our original investment, but we can sell that because some other guy likes the business."

Gabelli, 42, comes from a background as a brokerage analyst. A summa cum laude graduate of Fordham University in 1965, he received an MBA from Columbia University two years later. He began his career as an analyst at Loeb Rhoades & Co.

In 1977, he launched his own brokerage firm, Gabelli & Co., after earning a reputation for picking undervalued stocks. By the end of that year, he began managing money through Gamco.

"What we try to do is pick stocks," Gabelli said. "We don't do a top-down analysis or try to pick sectors of the economy that are going to do well. We don't try to find growth opportunity.

"We just go out and see companies. When we like a company, and we can buy that business at 50 to 60 cents to the dollar to what somebody else would pay, we want to work toward accumulating as big a position in that company as we can."

His non-broadcast portfolio includes substantial investments in Warner Communications, Transway International Corp., MGM-Grand Hotels Inc., GenCorp, Tonka Corp., Curtis-Wright Corp., Bundy Corp. and Diamond Crystal Salt Co.

Gabelli's latest prediction has "wedding bells tolling" for the cable TV industry. "There's been a change in the regulatory aspects of cable that's extremely positive, and the list of the top 100 multiple system operators will soon be cut down to 50.

"The existing cable operator will be buying aggressively other existing cable operators. It's easy to analyze but difficult to invest in. Nevertheless, there are a lot of opportunities," he said.

Gabelli's favorites in the cable field include Rollins Communications and United Cable Television.

He contends that "management isn't doing a particularly inspiring job" at Rollins Communications, which he values at about $32 a share. He owns more than one million of the 14.6 million outstanding shares.

Gabelli considers United Cable "the most attractive pure cable TV play I can find." He estimates its private market value at around $50 a share.

Recently, he sold his 250,000-share stake back to United Cable at $40 a share for a $3 million gain.

Software Offers Users Wall Street-Style Expertise

By Sam Passow, *Investor's Daily*

NEW YORK — Computerization continues to chip away at some of the sacred preserves of the institutional investors who command Wall Street.

A new software package called Winning Investor is being launched this week and its developer, DeskTop Broker Inc., of San Francisco, claims the package will give individual investors the same kind of quantitative analysis available to the largest professional portfolio managers.

The DeskTop program joins a long list of financial software available to investors using personal computers.

Designed for a 256K memory IBM personal computer or compatible system equipped with a telephone modem, the DeskTop program uses 11 criteria to determine the daily rankings of under- and over-valued stocks. They include earnings strength, dividend yield, capital expenditures/price ratio, book/price ratio, asset/liability ratio and three comparisons to the Standard & Poor's 500 stock index.

An "opportunity index" takes those rankings and applies them to the individual's investment approach to determine the stock's suitability to the investor. The investment approaches are: "aggressive" for an investor willing to accept higher volatility in exchange for the highest return; "income" for someone looking for the greatest possible income compatible with relative safety, and "growth" for an investor seeking long-term growth with minimal concern for dividend return.

The program is accessed via a local phone call and linked directly to the database of Interactive Data Corp. in Waltham, Mass., a subsidiary of Chase Manhattan Bank, which is reported to be the world's largest and most comprehensive financial database. For this program, IDC ranks 1,620 securities in 120 industry groups. This total represents 95% of the total capitalization of listed public companies in the U.S.

The sign-up fee for the 24-hour service is $200, with a $45 minimum monthly charge that includes 20 screens of information. Each additional screen costs $2.50. There are no on-line charges, or disk storage or printing fees.

The program is the brainchild of Derek Anderson, 44, who founded C.D. Anderson & Co., a discount brokerage in San Francisco. In 1983, he started a real-time stock and option order entry system for personal computers with the DeskTop broker program. Last June, he sold his stake in the brokerage house to Security Pacific Corp. to concentrate on developing the software company.

Anderson estimated that within the next 18 months, 2,000 computer users will sign up for the service, and that within three years he will have 4,000 subscribers. He projects the average user will generate a bill of $720 a year in addition to the sign-up fee.

Anderson is basing these figures on a 1984 study conducted by the New York-based Simmons Market Research Inc. that estimated there are 3.7 million personal computer owners who use their machines for personal financial management, including 1.5 million who use IBM or IBM compatiable machines. He estimates that his program's potential market is 30% of those IBM users, or 450,000.

"People are intimidated by computer programs, yet they really want in-depth, actionable analysis to help them make investment decisions," Anderson said. "We believe this program will set the benchmark for a new market standard and give the individual investor an advantage equal or superior to the billion-dollar money managers."

In an interview, Anderson contended that with the combination of computerized discount brokerage trading and computerized information available to the investor on a personal computer, "there is no need anymore to go through a broker."

Anderson said that in an independent test run by Berkeley, Calif.-based investment firm consulting firm Barra, a subsidiary of Ziff-Davis Publishing Inc., the Winning Investor program outperformed the S&P 500 at an annual rate of 17%.

Investor's Daily ★ Wednesday, May 15, 1985

REFAC Technology Discovers Pot Of Gold By Pursuing Patent-Infringement Suits

By Sam Passow, *Investor's Daily*

NEW YORK — One day in November 1981, Philip Sperber was on his way to work when he realized that he hadn't shaved. As he was buying some razor blades in a drug store across the street from his office, he noticed a Timex display of blinking digital watches.

What happened next is the stuff of which fortunes are made.

Sperber realized that his company, REFAC Technology Development Corp., of which he is vice-president, held the obscure patent rights to the circuits in digital timepieces that used a periodically flashing colon or other indicators. But no one had every paid them a penny in royalties.

In short, he sighted a pot of gold at the end of the rainbow, and he's been running for it ever since.

Infringement Suits Filed

In February 1984, after two years of letter-writing in which digital watch manufacturers and retailers were politely asked to recognize U.S. Patent No.3,855,783, REFAC filed a patent infringement suit against 26 major corporations with the District Courts in New York and New Jersey.

Last month, REFAC sued an additional 96 companies.

The suit, which has yet to come to trial, is claiming damages based on 2% to 5% of the gross sales of all digital timepieces for the past six years, as well as a percentage of future profits as a continuing royalty rate.

Sperber estimates that in 1983 alone, the digital watch industry grossed more than a quarter of a billion dollars. And that doesn't include videotape recorders, calculators and clocks, which also infringe the patent. If REFAC wins the suit, Sperber estimates the company could make "tens of millions" of dollars.

Since the lawsuits were initiated, 14 of the 122 companies cited, as well as several others, have settled out of court, agreeing to pay between 2% to 5% of gross sales.

Among those who have settled are Armitron Corp., Bulova Watch Co., Canon USA Inc., Casio Inc., Citizen's Watch Corp., Omega Watch Corp. and Tiffany & Co.

"Now that these companies have recognized our patent, I'm confident we will win the case," says Sperber. "We now have more income than we need from these settlements alone to continue the fight."

Banks Next Target

Now it's found another giant to tackle — the retail banking and service industry. REFAC is suing them over patent rights that protect credit-card reading and verification devices used in automatic teller machines.

That patent, No.3,612,687, which was approved in October 1971, covers the technology that senses, either optically or electronically, the encoded identification number imbedded in the credit card and converts it into a digital code so that it can be matched up with the personal identification number keyed into the machine by the consumer.

In all, 39 producers and users of electronic funds transfer and point-of-sale machines were named in a lawsuit filed April 29 in the District Court in New Jersey. The list includes International Business Machines Corp., NCR Corp., Burroughs Corp., Diebold Inc., Citicorp, Chevron Corp., American Express Co., Avis Inc. and Holiday Inns Inc.

Like the digital watch case, REFAC is seeking six years' back royalties and 1% to 3% of gross sales. However, once the patent has been recognized by settlement or litigation, the fee will go up to between 3% and 5% of gross sales.

Sperber estimates that there are currently about 75,000 credit-card reading units in use in the U.S. with an average manufacturer's selling price of $25,000, depending on the types of services transacted by the machine. If this figure holds true, the gross sales of this market would be worth around $1.87 billion.

Users To Be Licensed

In addition, REFAC plans to license users, such as banks, on a percentage of each transaction conducted by the machines. In its lawsuit, REFAC has filed complaints against 18 major banks, claiming that after a year or two of operations, the banks' savings personnel costs alone offset the cost of the ATMs and should be considered profit from which a royalty could be derived.

Steven W. Demaree, associate research manager for the Bank Administration Institute in Chicago contends there are about 60,000 ATMs in the country, and that each machine conducts on average about 5,000 transactions a month.

Although a number of the firms involved in the court action are unofficially aware of the pending case, none would officially comment because court papers have yet to be served.

REFAC's principal business is to establish its clients in overseas markets through manufacturing licenses and joint ventures. In the process, it also undertakes to license undeveloped or unexploited patents on behalf of individual inventors and companies. Since 1952, the New York City-based company has handled over 350 patent licenses.

REFAC's track record in patent litigation is so far based on its lone victory in 1982 defending Virginia physicist Gordon Gould's 1977 patent of the laser beam. This David-and-Goliath struggle pitted them against the likes of AT&T, IBM and General Motors.

While being prohibited by law from disclosing the terms of the settlement, it is estimated from public corporate records that REFAC has so far earned over $600,000 in royalties from the companies it settled with, and a further $2.75 million worth of stock in the Ardmore, Pa.-based Patlex Corp. in consideration for REFAC's 20% ownership interest in the Gould patént and its 40% share of the gross royalty income. At the same time, REFAC retained 20% stake of all future royalties from the laser patent.

REFAC, Gould and Patlex, which now controls 60% of the royalty revenue, were partners in the case.

$1 Million For Gould

Neither Patlex nor Gould would comment on how much it has made from the settlement, but Sperber estimates that Gould has so far made over $1 million from his claim.

In 1984, REFAC, which trades Over-The-Counter, earned 59 cents a share, up 145% from 24 cents a year earlier. Net income, which reflected final settlement of the laser case, rose 148% to $2.14 million from $864,000, while revenues rose 28% to $10.42 million from $8.13 million in 1983.

The company takes on only two or three of every 100 solicitations for help in developing or protecting patent rights.

It acquired the patent for the watches when it bought out Edison, N.J.-based Optel Inc. in 1978. "We knew they had some basic patents in this area, but at the time it was hard to know their potential," said Sperber. "They were really ahead of their time because their patents came out before the digital watch industry really took off."

However, under the law a company has protection of its patent rights for 17 years.

Sperber contends that companies in the watch industry did pay royalties to other patent holders such as RCA and Seiko. "If they knew about our patents, they certainly weren't going to contact us and pay royalties until we came to them.

"Companies will ignore patents until such time as they are contacted. Their feeling is that even if the patent looks close, their product is probably not infringing it. And even if they are, the patent is probably invalid," he said.

"In general, manufacturers do not voluntarily contact the holders of patents that look close, because they feel why should they get involved and pay royalties if they don't have to," Sperber said.

Investor's Daily ★ Friday, June 7, 1985

NYSE, Union Await Vote Count

By Sam Passow, *Investor's Daily*

NEW YORK — Voting continued late into last night on a new three-year contract for 1,300 unionized workers at the New York Stock Exchange, and if the membership goes along with the union's recommendation, the result could be a strike beginning next week.

The outcome of the vote is to be announced today. The balloting, which ended around midnight, followed a 72-hour delay imposed by the union leadership to give its members time to study management's latest, and it says last, offer.

The union says the offer is "inadequate" and has recommended that its members reject it. If so, a strike would begin Tuesday. The last time the workers went on strike was in 1947.

Michael Goodwin, secretary and treasurer of Local 153 of the Office and Professional Employees International Union, told *Investor's Daily* that he expects the 950 employees at the NYSE and the 350 members at the Securities Information Accounting Corp. to follow the union's recommendation.

The management offer includes a 9.5% pay increase, a 25% increase in severance pay and increases in fringe benefits including life insurance, long-term disability pay and the establishment of a deferred payment savings plan.

The union wants a 21% pay raise and written assurance of job protection for 110 of its members at the NYSE. The exchange plans to phase out more than 300 positions through automation.

The NYSE management has refused to concede to this demand, saying only that cuts would be offset by newly created jobs and that attrition would be favored over layoffs. In addition, management has offered to help laid-off employees through job counseling and retaining.

NYSE Vice President and chief spokesman Richard Torrenzano said yesterday that if a strike were called Tuesday, trading would go on as normal. The exchange has spent the last 10 months "training hundreds of management-level employees to take over all the essential duties in the event of such action," he said.

Elk Industries Sues IBM, Rolm Over Patents For Phone System

By Sam Passow, *Investor's Daily*

NEW YORK — A young Florida scientist, who claims he invented a method of converting a voice message into a digital signal and back to natural sound, filed a patent infringement suit yesterday against International Business Machines and its subsidiaries, Rolm Corporation and the Rolm Corporation of Florida.

Rob Elkins, 30, of Fort Lauderdale, Fla, said that IBM and Rolm are marketing a system called "Phone Mail" that directly infringes on his 1978 patent, entitled Audio Storage and Distribution System.

According to the lawsuit, filed by Elk Industries Inc., of which Elkins is a major shareholder, the IBM/Rolm system is the same system that the two companies rejected as useless when Elkins first tried to market it in the 1970s.

Simplified, the system gives a caller access to an electronic storage system through a touch-tone telephone. The caller's voice is converted to a digital representation that is stored or distributed for future use. Another person can receive the message through a reverse process.

Elkins' lawyer, Charles M. Levy, who is also an officer of Elk Industries, said that "both Rolm Corp. and IBM have been previously notified in writing of the patent infringement."

A spokesman for IBM said yesterday that the company was aware legal action had been taken, but the company would not comment until it received the court papers.

Elk Industries, a fledgling telecommunications and electronics firm, is demanding a final injunction against continued infringement and award of damages, including but not limited to treble damages.

10 Years After May Day, All's Well On Wall Street

By Sam Passow, *Investor's Daily*

NEW YORK — There is no May Day parade down Wall Street. Yet, it is an occasion stock brokers commemorate.

Today is the 10th anniversary of negotiated commissions, an event that triggered the first shot in a financial revolution that is far from over.

Since May 1, 1975, when the Securities and Exchange Commission allowed brokerage firms to set their own commission rates, fierce competition in a host of new products and services has transformed the securities industry.

Fixed commissions were the oldest Wall Street tradition, dating back to the Buttonwood Tree Agreement of 1792, which established the first stock market in the U.S.

Ten years ago, when fixed commissions came to an end, there were those who predicted that it would mean the end of the exchange and the ruin of brokerage houses. But that never happened.

There are more member firms at the New York Stock Exchange today than there were a decade ago, 625 vs. 506, and technological advances now make it possible for the exchange to handle, on average, more than a hundred million shares a day, four times the volume in 1975.

A seat on the NYSE, bought for $80,000 at the end of April 1975, is now worth $365,000.

Capital Base Swells

The major trading houses have grown through mergers and acquisitions, with the likes of American Express Co., (which bought Shearson Loeb Rhoades Inc. in 1981 and Lehman Brothers in 1984) Prudential Insurance Co. (which bought Bache Halsey Stuart Shields Inc. in 1981) and Sears, Roebuck & Co. (which bought Dean Witter Reynolds in 1981) swelling Wall Street's capital base from $3.4 billion in 1975 to $16.8 billion at the end of 1984.

The abolition of fixed commissions has significantly helped institutional investors — pension funds, mutual funds, insurance companies and the like — which account for about two-thirds of the nation's stock transactions. Institutional investors have had more money to play with, as the rates they are charged have plummeted from 25 cents a share to 8 cents.

This transition, however, has not helped individual investors who trade in odd lots or blocks of 100 shares or so. Their commission rates have risen 40%, from an average of 30 cents a share 10 years ago to about 42 cents a share today.

The discrepancy has forced millions of independent investors to seek out discount brokers whose commissions are usually about 75% less than those of full-service brokerage firms.

Discounters Gaining

About 40 of every 100 new retail customers entering the stock market today do so through 150 no-frills discount brokerage firms and 3,000 bank branches nationwide. Garnering an estimated $750 million in revenue in 1984, discount firms are the fast-growing segment of the securities industry.

Mark D. Coler, president of Discount Brokerage Advisory of New York, a consulting and publishing company specializing in the discount trade, estimates that "within five years, a third of all new retail accounts will be handled by discount brokers."

For full-service brokers, the competition in discounted rates, especially for the institutional accounts that dominate the market, has made equity trading a break-even business at best. Discounters have forced full-service firms to devise new services and products for their customers — cash-management accounts, money-market funds, individual retirement accounts, stock-index options or zero-coupon bonds — many of which enjoy higher commissions than stocks.

The Securities Industry Association estimates that brokerage commissions now account for only about 23% of Wall Street revenues, down from nearly 50% in 1975. In 1974, for example, stock commissions accounted for 36% of Merrill Lynch's revenue. In 1984, the nation's largest brokerage house derived only 20% of its revenue from stock commissions.

Harbinger Of Change

In retrospect, May Day was just the beginning of a process of deregulation and modification on Wall Street, which among other things has seen the erosion of the Glass-Steagall Act allowing banks to enter the discount brokerage industry; foreign broker-dealer membership in the NYSE; creation of the Intermarket Trading System and the New York Futures Exchange; automation of odd-lot trading; the development of NASDAQ; and the current moves to 24-hour global trading.

Richard H. Jenrette, chairman of Donaldson, Lufkin & Jenrette Inc., whose prestigious 26-year-old firm was taken over last year by Equitable Life, says that these changes would have occurred anyway, "but the momentum certainly accelerated when the commission structure was changed."

"For the survivors, it created a healthier sense of competition," said Robert F. Shapiro, president of Wertheim & Co. and president of the Securities Industry Association. But, he noted, "The essential elements of competition have always been there—the opportunity for making substantial amounts of money, and individual ego."

Lazard Freres Prepared To Sue On Direct-Trading Screen Issue

By Sam Passow, *Investor's Daily*

NEW YORK — Despite the threat of legal action, negotiations between Lazard Freres & Co. and government securities dealers are continuing this week over access to direct-trading screens showing wholesale quotes.

Lazard lawyer Garrett Rasmussen confirmed yesterday that he has drawn up a formal complaint that he is prepared to file with the U.S. Justice Department's antitrust division. But Rasmussen would not say when he might submit it.

In late December, Lazard sent a letter to four of the major government securities brokers asking for access to the screens. The brokers were Fundamental Brokers Inc., Garban Ltd., RMJ Securities and Chapedelaine Government Securities.

If the case does eventually go to the Justice Department, Rasmussen said, Lazard not only will ask for access to the screens, but also will seek as much as 120 million in compensation for lost business. But Rasmussen told *Investor's Daily* that the compensation issue is negotiable as long as Lazard is given access.

In the government securities market, 36 firms which are recognized as primary dealers trade securities anonymously through six brokers who act as a kind of exchange. Customers and firms outside this market, for the most part, do not have access to the brokers' prices, although there are no legal restrictions denying such access.

The exclusivity of the "club" is not really limited to the 36 firms accepted by the Federal Reserve Board as reporting dealers. In the past few years, New York-based Dillon, Read & Co. and the Bank of Boston have had broker's screens and the ability to trade on the inside quotes, mainly because they have expressed their intent to become primary dealers.

A primary dealer accepts the responsibility of buying and distributing new government securities as well as reporting detailed proprietary financial information to the Federal Reserve system.

A spokesman for Lazard said the firm sold an estimated $26 billion worth of bonds in the last two years as a secondary trader and has no plans to become a primary dealer. A secondary trader does not have to comply with Federal Reserve reporting requirements.

The Justice Department's antitrust division began an investigation nearly two years ago to determine if competition in government bond trading is being unfairly restricted by the group of 36 primary government dealers.

Investor's Daily ★ Friday, May 31, 1985

Big Board Tops 50 Billion Shares

By Sam Passow, *Investor's Daily*

NEW YORK — The New York Stock Exchange chalked up another milestone yesterday as it surpassed 50 billion shares of stock available for trading.

Separately, the Big Board also reported that first-quarter earnings doubled from the year-earlier period.

The share milestone was passed when the Toronto-based TransCanada Pipelines Ltd., a major Canadian energy company, listed 111,129,416 shares of common stock, trading under the ticker symbol TRP.

TransCanada is the 40th new company to list on the exchange this year, bringing to 1,543 the number of firms traded on the NYSE. In the past five years, 388 companies have been listed.

On the earnings front, the exchange said that more than four out of five firms reported a profit.

Net income for the January through March 1985 period totaled $490 million, up 143% from $202 million earned in the first quarter of last year. The upturn also represented a 192% increase from fourth-quarter earnings of $168 million, the exchange said.

Out of 387 firms reporting for the quarter, 321 posted profits while 66 reported losses.

Net income for the profitable firms amounted to $520 million, while the losses of the unprofitable firms amounted to $30 million.

First-quarter profit represented an 11.6% annual return on member firms' average net worth of $16.9 billion during the period. Pretax earnings for the three months amounted to $933 million, while revenue rose 5.4% to a record $8.9 billion.

Meanwhile, talks aimed at averting a walkout by more than 1,000 unionized workers on the NYSE appear to have made little progress.

According to John Brady, business representative of Local 153 of the Office and Professional Employees International Union, "there is more than a possibility of a strike very soon. We have had further meetings with the management over the last week, but unfortunately we have not had any success."

The union claims the dispute centers around the management's plans to lay off up to 319 people because of automation. Their three-year contract expired last November.

A NYSE spokesman refused to comment on the negotiations, but said yesterday that if a strike were called it would not affect the exchange's floor or clerical operations in any way as hundreds of non-union employees have been trained to take over essential duties in the event of such action.

Late yesterday afternoon, both sides met with an independent federal mediator.

Investor's Daily ★ Friday, September 6, 1985

Union Carbide Taps New Saftey Czar

By Sam Passow, *Investor's Daily*

NEW YORK — Union Carbide Corp., in an effort to shore up its tarnished image of public safety, appointed Cornelius C. Smith Jr. to the newly created position of vice president for community and employee health, safety and environment.

In recent months, the Danbury, Conn.-based chemical company has been beset by a string of industrial accidents. The worst, a gas leak at a pesticide plant in Bhopal, India, last December killed more than 2,000 persons and injured thousands of others. Last month, a similar but less serious leak occurred at the company's plant in Institute, W.Va., injuring 135 people.

On Wednesday, Carbide Chairman Warren M. Anderson said the company, which faces lawsuits claiming billions of dollars in damages as a result of the accidents, plans to spend $220 million to improve safety at its plants.

Announcing Smith's appointment yesterday, Anderson said, "Our goal is to achieve and maintain a level of health, safety and environmental protection in all our operations that is second to none."

Smith will report directly to Anderson and be responsible for environmental risk assessments and control, as well as coordinating Carbide's operations worldwide to insure compliance with newly developed corporate standards for community and employee health and safety.

Smith's appointment will supercede the role of Jackson B. Browning, the current vice president for health, safety and environmental affairs. Browning, who will stay at his post until his scheduled retirement in August 1986, will continue to serve as the company's spokesman in this area.

Smith was assistant general counsel in the company's legal department, and was considered Carbide's top environmental lawyer. He is a founder of the Chemical Industry Superfund Counsel's Group and a founding fellow of the College of American Environmental Lawyers. Smith joined Carbide in 1978.

Investor's Daily ★ Monday, July 8, 1985

Poll Finds Purchasing Managers Anticipate Weakening Economy

By Sam Passow, *Investor's Daily*

NEW YORK — Industrial buyers are signaling that the economy is in trouble, according to the latest monthly business survey by the National Association of Purchasing Management.

Robert J. Bretz, director of corporate purchasing for Pitney Bowes Inc., and chairman of the NAPM's business survey committee, said, "the economy definitely has problems based on the information we are receiving from our members. The continued decline of the Purchasing Managers Index and the weaknesses exhibited in production, inventories, prices and vendor deliveries are of serious concern."

The June report shows the index fell to 46.7% from 47.3% in May. The figure marked the fifth consecutive month the index has been below 50, and is at the lowest level since December 1982, which was during the early stages of the current recovery.

A reading below 50 generally indicates the economy is in a declining phase. A figure above that mark is a sign the economy is expanding.

The index is a seasonally adjusted figure based on five components calculated by the Commerce Department. They are: new orders, production, vendor deliveries, inventory and employment. The survey of 250 companies in 21 industries asks managers to evaluate the overall picture compared with the previous month.

While the results showed no net increase in the number of purchasing managers reporting new orders, it was an improvement over May's decrease of 4%. The percentage of managers who thought the new order picture was getting worse declined to 24% from 29% in May.

Purchasers continued to report significantly lower inventories in June, with three times as many reporting lower stock levels as those reporting higher inventories. The report notes that "typically, companies reduce inventories when they anticipate decreased demand or are uncertain of the future ahead."

As a result of a sharp decline of new orders in May, production in June fell again. The number of those reporting better production decreased to 18% from 23%.

While vendor deliveries showed no net increase, the speed at which vendors delivered their orders improved in June — a signal that vendors are having no difficulty in keeping well ahead of demand.

In employment, the number of those firms reporting an increase rose to 13% from 9% in May, the highest total since February 1983. However, June was the ninth consecutive month that more firms reported lower rather than higher employment.

Investor's Daily ★ Wednesday, June 12, 1985

It's Slow-Go At The Trade Show As Retailers Play It Conservative

By Sam Passow, *Investor's Daily*

NEW YORK — If trade shows are in any way a barometer of an industry's prospects, then retailers will continue to find 1985 a tough sell.

That seems to be the conclusion of both buyers and sellers at the Mid-Year Variety Merchandise Show here, which features popularly priced merchandise in some 90 product categories.

According to merchandisers like Irwin Siegal of Brooklyn, N.Y.-based Lovee Doll & Toy Co., "Stores are still sitting with stuff, and it's going to take a while to get it off the shelves."

Siegal said sales at the four-day show, which ends today, were slow. Other merchandisers concurred.

Most merchandisers feel that buyers are waiting to see which way the economy goes before committing themselves.

"People are buying only what they absolutely need, and there is not much business in that," said one salesman.

Salesmen like William Jackson of Lewiston, Idaho, who sells $500,000 a year in health foods, appliances and health-care products, said the current economic slowdown combined with widespread price discounting by retailers, has taught consumers to delay spending until merchandise is marked down.

"We deal with doctors, lawyers, farmers and workers, who once thought nothing of dropping $200," he said. "Now they spend $50 reluctantly."

Several buyers for single-unit mom-and-pop operations said they could be driven out of business this year if chain stores continue to promote steep markdowns on some of the popularly priced merchandise, such as secondary brand-name electronic goods from Taiwan and South Korea.

High overhead, such as rent, often precludes them from offering similar discounts, they say. This has forced many shopkeepers to adopt a strategy of constantly changing inventory in order to offer a different range of products from chain stores, which buy in bulk.

"Inventory-control is vital for a successful business," said Sy Stadtmauer, a buyer for Rojay Party Supplies in Mt. Vernon, N.Y. Noting that widespread discounting can often hurt the smaller specialty retailer, Stadtmauer said, "You have to buy more aggressively. I go to every show to look for the best products at the best prices."

Last year, more 11,800 buyers from all over the country attended the show, and organizers said they expect to exceed that number this year. The number of exhibitors at this year's show topped 1,000, twice as many as in 1984.

Northern States Make Headway Providing Pro-Business Climates

By Sam Passow, *Investor's Daily*

NEW YORK — While America's manufacturers still rank the Sun Belt as having the best business climate in the country, a new survey shows that the Frost Belt region of the North is displaying a new-found attractiveness.

In fact, the six-state Great Lakes region showed the biggest improvement nationally last year in attracting manufacturing businesses, although it remained in last place among the eight regions studied in an annual business survey.

According to the Chicago-based accounting firm of Alexander Grant & Co., the movement of high technology into high volume consumer goods has again made the manufacturing skills of the Great Lakes and New England regions more attractive to companies.

The report cites as an example the Detroit-Ann Arbor corridor in Michigan, which is on its way to becoming the robotic industries' equivalent of California's Silicon Valley. Of the nearly 60 U.S. robotics companies, nearly all, including nine of the 10 largest, operate offices or plants in the 500-square mile area, which makes up "Automation Alley."

Hundreds of other companies support the robot makers with facilities for writing software, building vision sensors and providing engineering talent to install automation systems, according to the report.

In New England, which is now dotted with high-tech firms, Connecticut, Massachusetts and New Hampshire are among the top 10 states cited as the best environment for small businesses.

The Southeastern and Southwestern states that make up the two Sun Belt regions again placed first and second, respectively, in terms of attractiveness to manufacturers, the Grant survey showed.

However, South Dakota replaced Florida as the state with the best overall manufacturing climate among the 48 contiguous states studied. Florida, which had been ranked first for three consecutive years, slipped to third behind North Dakota.

The other top 10 states in order were Nebraska, Utah, Mississippi, Arkansas, North Carolina, Georgia and Tennessee.

Michigan, ranked last in 1983, remained at the bottom of the 48-state list in 1984, the only one of six states in the improving Great Lakes region to fail to move up at least two places.

The rankings were based on an evaluation of 22 factors that included energy costs, wages, unionization, employment benefits, taxes, education and population changes. Energy costs were the top priority listed by the associations, according to the survey, followed closely by wages paid to workers.

Also among the factors considered were state and local taxes and government fiscal policies, and the availability and productivity of the local work force.

The Grant survey also found that manufacturing union membership decreased in each of the eight regions, with declines of more than 10% in eight states. Maine was the only state to register an increase of more than 10% in union membership in manufacturing companies.

Nationally, union membership slipped from 29% of a total manufacturing employment of 5.3 million workers in 1983 to 27.2% of a total manufacturing employment of 5.2 million in 1984, the survey reported.

In the Grant study, regions are composed of areas that have similar conditions for manufacturing operations and include neighboring states that share similar economic, geographic and working conditions.

Elk Industries Sues IBM, Rolm Over Patents For Phone System

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