DIVISION OF CORPORATION FINANCE

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Subject: Types of Financing

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MR. EISENHART: I think the subject today may be divided into two parts: The first is the merchandise, or types of securities. The second is the way the merchandise is sold, or the types of underwriting and selling arrangements that are made.

At the outset I should like to warn you that all I have is a sort of broad outline. And since I believe in full and fair disclosure, I am going to tell you quite frankly that the outline is one you will find in the Table of Contents in any good book on corporation finance. I shall even be more specific and tell you that if you look in Dewing, Chapters 2 to 9, you will find the outline of the types of securities I shall discuss; and if you look at Chapters 33 to 36 in the Fifth Edition you will find the outline I am to use on the nature of underwriting and selling arrangements. The best advice I can give you this morning is to get a copy of Dewing and read it through.

Another warning at the outset: It is very easy to generalize on the topics to be discussed here, but any such generalizations are apt to be exceedingly dangerous. This warning can clearly be appreciated when the complexity and extensiveness of the relationships with which we are dealing are understood. They involve the corporation, its management, the security holders, etc., which, in turn, depend upon the certificate of incorporation, the by-laws, the indentures underlying debt securities, etc., all of which are interrelated. So, when you catch me generalizing, remember the dangers inherent in such statements.

With that warning I shall say that you can break corporate securities down into two broad classes: debt and equity securities. Once you do that, however, you will immediately find yourself in the position of trying to define subordinated debentures, subordinated so deeply that they begin to look like preferred stock. On the other hand, you will find preferred stock so supported by sinking fund arrangements that it appears about as strong as a debenture. At that point the attempted distinction between debt and equity securities is practically gone.

In addition to those, there are some outright hybrids in the scheme of things.

As to the exact type of security which a corporation might want to sell at any time, there are a number of factors to be considered. Here I must warn you again not to take my generalizations too seriously. Every one of them is subject to a good many exceptions. Also, in my outline no space is given to the business cycle which you will find runs through everyone of the sub-topics that I shall discuss.

The level of interest rates, of course, is to be considered. A low rate of interest, coupled with the fact that interest is deductable by the debtor for tax purposes, makes it very advantageous to raise capital by selling debt securities. A high rate of interest, such as during the past year, makes it entirely possible to raise money with common stock rather than with debt securities. The level will shift back and forth from time to time, and as in the past year and a half, will bring about a good many convertible issues which give the investor the advantage of the debt security as well as some of the tricks of the equity security, too. Management will always try to avoid having too much debt at any time and so will try to keep some sort of ratio between the amount of debt securities outstanding and the amount of underlying equity.

One important fact, however, is that you may reach a state in the economy, such as we had in 1931, 1932 and 1933, in which a company, which keeps its capitalization clean, with no debt securities outstanding, really needs money and nobody is willing to buy the debt securities, under any circumstances. As I said earlier, you are always in trouble if you try to generalize

One of the advantages of debt securities, from the management standpoint, is that they do not carry voting rights. The holders have no voice in the management, so they won't come around to stockholder meetings and make noises and they won't run to the S. E. C.

Preferred stock is a kind of in-the-middle situation. If there are voting rights, they are very carefully limited, so it offers advantages similar to the debt securities. It is apparently no longer fashionable in this country to fear a debt burden. The Federal debt is 278 billion dollars. Everybody seems to be taking on a great load of mortgages, installment payments on cars, TVs, etc. But somewhere in the thinking of any corporate management, it seems to me, there ought to be, and undoubtedly is, genuine concern about taking on a burden of fixed obligations to pay principal and interest, and where possible effort should be made to raise the funds by stock issues thereby avoiding the burden of debt and leaving the possibilities of borrowing for the future.

Another type of consideration lies in the kind of company involved. By law some companies such as bank and insurance companies cannot issue debt securities. The reason is obvious. The insurance company policy obligations are debts to start with; the bank deposits are debts; and so there is no real merit in introducing additional debt securities ahead of stock insituations of that kind. In a business which is subject to great fluctuations in earnings, there ought to be a reluctance to issue debt securities or at least in any great amounts. At the very time when the cash supply is needed to take care of the obligations, the cash might possibly not be there.

There is a shift, too, in the investors' regard for various companies. During the latter part of the nineteenth and early part of the twentieth centuries, it was thought that railroads could carry a high debt load just as it is now thought that electric operating utilities can. Railroads' earnings were regarded as stable because the economy could not operate without railroads to carry the freight. There was a great change in thinking in the 1930's as a result of which the debt ratio in railroad companies is now considerably lower. Some of them I know have reduced the debt ratio by 50% or more. In terms of utilities, the electric operating companies are usually regarded not only as stable but as growth industries. Everybody recognizes the fact that electric companies are not only steady earners, but that electric loads are growing. As a result of that, there is, generally speaking, a very high ratio of debt in the total capitalization of these companies.

In addition to debt, there are preferred issues usually in the utility capitalization. There has been a good deal of talk recently about the so-called 60-10-30 formula -- 60% debt, 10% preferred, and 30% common. It really means this: that the debt should not go above 60%; the common should be maintained around 30% -- should not be allowed to go below that; and that leaves 10% in the middle available for preferred stock. That 10% can be shifted back and forth.

A quick look at the Potomac Electric Power ratio shows 47% bonds, 12% debentures -- a total of 59% debt; 6% preferred; and 35% for the common stock and surplus. That is probably a little bit on the conservative side, compared with many other companies.

The gas pipeline companies probably have the highest ratio of senior securities of any of the companies with which we are now dealing. Tennessee Gas Transmission, for instance, has a ratio of debt 63-1/2%; preferred, 17%; and the common stock and surplus, 18.9%.

When considering industrial companies, I would say flatly that any generalization about debt ratios is completely impossible. Looking at the steel companies, there are about 20 or 24 of them listed in Standard and Poor's, and every one of them has some debt. But it is also true, all the way through, that those debt ratios are low. U.S. Steel, for example, has a debt of only 10%; the preferred is 12.6% and the common is 77%. Interestingly enough that preferred is an old non-callable 7%, and if it were callable, it would probably have been eliminated some time ago.

Curiously enough, companies with a strong profit record, such as General Motors and General Electric, are apt to have the lowest debt ratios. If they have sufficient profits to finance the expansion from their own funds, they are apt to have common stock which sells high enough to make common stock financing feasible. So, in General Motors you find only 6-1/2% debt, 6% preferred, and 87-1/2% in common stock and surplus. General Electric got along for years without debt, but about a year ago sold $300,000,000. Even after that issue the debt ratio was only 21 or 22%, the common 78 or 79%.

As I indicated earlier, there is a shift in the economic position of industries back and forth over the years; and there is the shift of investor interest that is tied up with, but sometimes runs beyond, it. The trolley car companies, both urban and interurban, were very popular early in the century, being regarded as stable industries very much like operating electric companies are now. But as you look around, I doubt that there is an electric interurban line left. The urban trollies have all had a bad time, with the adbent and almost entire replacement by buses. Also, the railroad securities which were so popular down to the late 20's took a beating in the 30's. And they never have regained the popularity that they enjoyed earlier. It is very difficult to say how to evaluate the investor interest and consequent popularity of an industry. In the last few years you have seen the opposite of the recent railroad situation (or dilemma) in the situation of the chemical and electronic companies which have been touted all over the land as the great growth companies. They have reached some fantastic heights with the price of stock sometimes reaching 20 or 30 times its earnings per share.

Now, without getting into any detailed legal description, let's discuss the actual types of securities that can be introduced into public financing. First, there is the common stock. It, of course, carries the basic right to vote and control the management. It has all the residual rights to share in the earnings and dividends after the senior security holders have been satisfied. A third attribute of the power it carries is to prevent changes in the certificate of incorporation without consent. That means that the holder has the power to veto any change in the type of business, and to prevent changes in the capitalization insofar as they are related to, or must be authorized by, the certificate of incorporation. It was discovered quite a few years ago that you could introduce tricks into the exercise of common stock rights and powers by classifying the stock in two or more classes. So, today, you find Class A and Class B. When you analyze these, you will usually find that this method of classification has been introduced for the purpose of retaining control by a comparatively small group of shareholders while offering the public participation in a slightly different class of common stock, one which does not have the voting power, but ordinarily will have a dividend preference in order to compensate for the absence of voting rights.

Next up the line, ahead of the common stock, is the class generally called preferred or, possibly, preference stock. It has a senior position, as to dividends and liquidating rights, over the common as a rule. The dividend right is usually cumulative, which means if it is not paid for a while because of poor earnings, it must be made up later. The non-cumulative type simply is not issued any more, except in very rare cases. There is usually a "call" feature in it so that the company can call it at a specified price in the event that that capital is no longer needed or can be refunded on a more advantageous basis. It is not customary, but you will sometimes find sinking fund provisions for retirement of preferred, so that, at that point, it begins to take on some of the characteristics of a junior debt security. The advantage of the preferred, of course, is that it introduces a security senior to the common. It avoids those fixed money obligations to pay interest and principal that are present in debt securities. It also has a disadvantage, from the standpoint of taxes, in that the dividends ordinarily are not tax deductible; thus it costs more to finance by preferred stock than it would be debt.

Moving on up in the scale of seniority, we come to debt securities. There the basic rights of the securities are going to be defined by some form of indenture. The common and preferred that we have been talking about require analysis of the certificate of incorporation and the by-laws (subject, of course, to state law). But in debt securities an indenture is the basic instrument used to define rights. Ordinarily debt securities are broken down into two categories: bonds, which are secured by some form of lien on property; and debentures, which are unsecured general credit obligations. In both cases you have a promise to pay a specified amount of money as interest and principal on specified dates.

Generally in the case of bonds, as previously stated, there is usually specific property subject to a lien and bondholders (or their trustee) can foreclose in the event of default. Ordinarily the mortgage is "open-end" which means additional property can be put under the mortgage later and serve as the basis for additional issues of debt securities in the future. Years ago railroads had first and second mortgages and began inventing divisional liens on a part of their property so that in some cases there were three or four layers of mortgages. It got too confusing -- nobody could analyze the situation -- and now everybody tries to get away from that complication.

Bonds ordinarily have some sort of sinking fund provision, and the bond sinking fund usually will not be as heavy as ordinary debenture sinking funds. A 30% to 35% sinking fund in case of bonds seems to be fairly common. The debenture sinking funds run up much higher than that. There was one trick used in this country to a considerable extent years ago -- now largely gone by the board -- and that was to have a kind of bond secured by a lien on other securities. It should always be referred to as a "collateral trust" bond, the property under such bond consisting of other securities. Operators like Hopson and Associated Gas, for example, pledge the common stock of underlying companies and create debt for the top company which, of course, was never any better than the underlying common stock of subsidiaries in the first place. If you ever see those in a registration statement, by all means get then clearly designated for what they are, with full description of the type of underlying securities.

Debentures, as generally defined, are not secured by any lien on property. Debentures are general unsecured credit obligations. To compensate for that you usually have, as I indicated, heavier sinking fund provisions to take care of a larger portion of them prior to maturity. You have some other protective safeguards, ordinarily. There will be restrictions on the amount of other debt which can be issued both as to bank loans and debentures with possibly some provision that consent can be later obtained to change that amount.

Another common protective feature is a prohibition on the creation of mortgage debt without securing the debentures ratably. In other words, if mortgage debt is thereafter created, debentures must also be secured by the same mortgage. In the recent case of May Stores, they wanted to issue some mortgage bonds but they had debentures outstanding which required that the bonds be ratably secured. The method used to avoid extending the mortgage to outstanding debentures was to set up a wholly owned subsidiary which issued the bonds. Thus the May Stores debentures did not have to be secured since the mortgage indebtedness was created by a different entity. So you can see that a provision in a debenture requiring ratable security if a new mortgage indebtedness is created, is not always too meaningful.

There is a class of securities which are clear-cut hybrids. These are the income bonds or income debentures. The gimmick in these is that the interest won't be payable unless it is earned, and it must be declared earned by the board of directors. In that respect these securities are almost identical with preferred stock. The income bonds or income debentures were not created for public sale, so far as I know, but came about only as the result of a reorganization or some type of recapitalization. In any event, these securities will still hang around and be a plague for years. As a matter of fact, the legal position of one of such income bonds may be little if any better than preferred stock with a sinking fund, and, actually you get a better security with a preferred stock in a strong company than with an income bond in a weaker company, even though the interest obligation may be made cumulative similar to preferred stock.

A thing that has been quite popular in the past year or so is the device of a convertible security, either convertible debentures or convertible preferred stock. This offers initially the advantages of debt or preferred securities but permits the holders to convert into common stock. It appeals to people who look for capital gains, and makes it possible to sell preferred stock, for example, on a convertible basis at a lower dividend cost than would be possible on a straight preferred. In the Kaiser Aluminum issue about a year ago the convertible preferred was sold on a 4-1/8 dividend rate at a time when another straight preferred was selling at 4-3/4 to 5 dividend basis in the same company, so they were able to save the difference in the dividend rate. Curiously enough, on the day the registration statement became effective the price of the common stock touched 56, which was the conversion basis, and it continued to climb in subsequent months to 70. So the offering was well timed. Ordinarily the conversion price is aimed at around 10 or 12% higher than the market price of the common stock at the time the deal is set up. If the common is selling around 50, the conversion price will be 55 or 56 in the usual type of arrangement. That is exactly the way Kaiser planned it, but they did not plan on the strong market they were to have for the common stock. Obviously the conversion right can be very valuable. The convertible security, appealing to people who want not only interest or dividend return but the possibility of a capital gain, has been quite popular.

So much for the survey, and I call it merely an outline of the subject. I ask you by all means to take a look at Dewing's Chapters 3 through 9 to find out more about these topics.

MR. BLACKSTONE: What is your reaction to brand new promotional companies that come in with a registration statement offering debentures? We have had situations where a promotional company will make a wide public offering of debentures with no sizeable amount of equity as a cushion.

MR. EISENHART: Aside from the equity cushion that ought to exist for such debt, I feel very strongly that no debt securities ought ever to be sold except on the basis of an earnings record, and it's nonsensical to try to sell debt securities in a new promotion. Principal and interest payments depend upon earnings.

MR. BLACKSTONE: So your reaction would be that we ought to make registrants say that where it is applicable?

MR. EISENHART: That's what we ought to make them say.

The other part of the subject is the method of selling the merchandise after it is decided what type of merchandise is to be sold. As a generalization once more, we habitually divide the underwriting arrangements into two categories: One of these we sometimes call the "firm commitment." I don't like that term and would prefer to call it the "purchase arrangement." A purchase arrangement may be on a stand-by basis in a rights offering with an agreement by the underwriter to purchase anything left at the end of the rights offering. In any event, the thing that characterizes a purchase arrangement is that at some point the underwriters must purchase the securities and thereby accept the responsibility of either reselling them or taking the loss in the event resale is not possible.

The second broad type of underwriting is simply an agency arrangement known as the "best efforts" agreement. Here there is never any acceptance of risk by the underwriting group. They merely agree to use their best efforts to sell the issue. If they are successful, they collect a commission for selling; if unsuccessful, they collect no commission, but also have no other obligation of any kind.

I am not going to mention specifically the competitive bidding because it goes through a different form of mechanics -- but it results in a purchase by which the underwriting group does purchase the securities and does have the risk of resale.

There are three types of agreements which underlie the arrangements for resale in a purchase agreement type of underwriting. The key to all is the agreement among the underwriters. That, of course, is always subject to the purchase agreement between the issuer and the manager of the underwriting group. There is usually a third document (though not always) called the selling group agreement, in which the participants are not underwriters buy merely dealers who receive as an allowance, a portion of the underwriting spread, for selling the securities at retail in smaller lots.

The agreement among the underwriters defines basically the relationship between the manager of the group (in some cases there is more than one) and the other members of the syndicate. It will state the amount of the spread and the amount of the manager's commission (if he is to get one independently of the spread). It will outline the conditions under which the members and the selling group, if there is one, may resell the securities, and it will define the limits on stabilization, or over-allotment, which is commonly used. The dominant position, of course, is occupied by the person who is the manager of the underwriting syndicate.

The second document is the purchase agreement. It will define the terms under which the company sells to the underwriting group, stating the prices, closing date, indemnification provisions (which are always there), and also any other conditions that govern the obligation of the underwriter. I think it is rather important to keep in mind that these are elaborately drawn arrangements. The underwriters who bear this immense risk are usually engaged in a fervent campaign to be sure that risk goes somewhere other than to them. Hence the elaborate indemnification provisions, so that if the underwriters get clipped under the Securities Act for any liability, they can go back to the company which furnished them the information in the first place. Moreover, there is usually a set of elaborate conditions for the underwriters to withdraw at some point of time.

Here is a set of conditions that I pulled out of a recent stock offering just to show you how carefully they watch these matters. First of all, it provided for effective registration by a specified date. That of course, is routine. Secondly, it provided for a favorable opinion by the underwriter's counsel as to various legal matters in connection with the securities and with the company, Thirdly, it provided for a very elaborate opinion by company counsel, which in turn, had first to state that the corporation was validly in existence and was authorized to do the kind of business it was doing in the various states and that the stock was validly issued, fully paid, and nonassessible; second, to state that the underwriting agreement was valid and that the selling stockholder participating in the offer had marketable title to the stock he was selling. Then, the nub of the matter, the company counsel had to give an opinion as to whether the registration statement complied with the Securities Act as to form and content.

The fourth condition called for a letter from the certifying accountant regarding the financial statements in the registration statement so that all the responsibility for the financial data rested upon the certifying accountant. The underwriter was not to be responsible for that either. Next they required the company's officers to certify: first, that no stop-order had been issued or was threatened; second, that there was no material adverse change or transaction which was not reflected in the prospectus; third, that there was no material contingent obligation which was not disclosed; and fourth, that the company was not in default under any agreements or contracts of any kind.

After all that, there was still the condition that prior to closing no Federal or state action shall suspend or limit trading on exchanges in the securities or in the over-the-counter market, nor shall any bank moratorium be imposed. Now that last is the feature that customarily is called "the market out" in loose terminology. In some cases it has taken a very broad form, that is, leaving it to the underwriter's discretion as to whether the market looks good enough to go ahead with the issue or to call off the deal at any to closing. In other words, if it is that broad (and you want to read these agreements carefully to see how broad they are), then the arrangements we call a firm commitment simply is not firm at all. The underwriter, at any time up to closing, can decide that the issue has not sold well enough and, therefore, the securities markets are not good enough for him to through with the deal and can end it right there. I hope I am not sounding too bitter in putting it that way. At times I feel a little bitter about some of these people. I have seen registration statements and Regulation A offerings go through here in which I am sure the underwriters, having signed up to sell the securities, just sat back and left all the investigating, that they should have done themselves, up to the staff of the Securities and Exchange Commission. In other words, the underwriters see to it that an elaborate set of conditions are put into the underwriters' agreement, shifting the burden to the company and its counsel and accountants, and then, instead of making an independent investigation, sit back and say, "The people at the S.E.C. are very good, we can rely on them to see that everything is fine."

MR. BLACKSTONE: In that regard, would you say that underwriters backing out because of changes in the market conditions is a common occurrence? There have only been one or two spectacular cases of that in the past.

MR. EISENHART: As a matter of fact, the clause giving the underwriters the opportunity to back out of the financing because of changes in market conditions is not used much any more. The discretionary clauses in the underwriting agreements giving the underwriters the right to back out of the financing is usually put in specific terms: a banking moratorium, suspension of trading the securities of the company, etc.

An example of a situation where the discretionary clause was used was in connection with the financing by Kaiser-Frazer. One of the discretionary clauses in the underwriting agreement was that a suit shall not have been filed against the company prior to the closing date. Early in the morning of the closing date, someone filed such a suit and thus the protracted litigation in connection with the Kaiser-Frazer financing began.

In the usual case, however, since the underwriter and the company have labored over the financing for weeks and months, neither of the parties are going to walk out of the financing so easily. Something very serious must happen before either party takes such action and it is for that very reason the broad scope of this discretionary power is not often used. However, my reason for discussing the broad discretionary power to walk out of the financing is to impress upon you that you have an obligation to read the underwriting agreements to find out about the underwriting arrangements with the view to obtaining full disclosure of such provisions in the prospectus.

The third type of underlying document in the purchase agreement type of underwriting is the selling group agreement, or the selected dealer agreement. That is not always used, but very frequently there is an agreement with a number of dealers who do not occupy the position of underwriters. They simply get a selling commission to retail their portion of the issue. They don't undertake any of the risks involved in joining in the agreement among underwriters. They simply get a commission for selling. The important thing, of course, to the dealer is the amount of that allowance, for if he can make some money selling the securities, he will.

Now on the "best efforts" or agency agreement, there are none of the obligations that are involved in a purchase agreement. There is no risk to the underwriter. He is merely going to sell for a commission. You will find this type of thing used principally in lower grade securities where the marketability is doubtful and possibility of resale uncertain. Those of you who are familiar with Regulation A issues know that these are standard types of selling arrangements for promotional-type companies filing under Regulation A.

A variation of the purchase agreement type of underwriting relates to rights offerings. I shall confine this for the moment to a rights offering related to common stock issued to common stockholders. In times past, of course, a company making such an offering wanted to be sure that the entire issue would be taken, so they made agreements of one kind or another with an underwriter. The agreement, usually termed a "stand-by", stated that the underwriters had a commitment to take up anything unsold at the end of the subscription period which would run two, three, or four weeks. This obviously left the underwriters in a very uncomfortable position as they had to wait for two, three or four weeks while the market fluctuated, never knowing how much they were going to be responsible for at the end of the rights period. This old-fashioned-type of straight stand-by has not been used very much since about 1948 because a couple of other arrangements have been set up to aid in getting the underwriters out from under any serious risk.

One of these devices is generally called the Shields Plan. In essence it is really just a stand-by coupled with an arrangement which gives power to the underwriters (under the control of the manager) to purchase rights, starting immediately after the effective date of the registration statement, in the open market during the rights period. Buying the rights in the market, of course, permits the underwriters immediately to exercise the rights to purchase shares and resell those shares during the rights period. They wind up at the end of the rights period without an open-end obligation to take an amount of stock which is indeterminable up to that time. In other words, if they run this plan carefully, they can come out just about where they wish at the end of the rights period, with no sizeable block of shares to take down and resell at that time.

The second device to control that problem of the unsubscribed stock rights offering is the one that is sometimes called the "dealer-manager" plan, sometimes called the "participating dealers" plan, and quite often called the "Columbia Gas Plan" because it was used in a Columbia Gas offering about 1948. In this plan typically there is no stand-by. Nobody is obligated to buy anything that is left over at the end of the rights period. But there is an arrangement whereby brokers and dealers are compensated for securing subscriptions of the original stockholders. In other words, a commission or fee is made available to any broker or dealer who gets his name on the warrant which exercises rights to subscribe. And for that fee, of course, the broker or dealer will make an effort to get his clients to subscribe to the rights offering. As a second phase of this, there is a possibility that he can be authorized to sell stock short, then purchase rights from persons who don't want to exercise them, then exercise those rights to cover his short sales. Typically, as I say, there is no stand-by agreement to take up the unsubscribed stock.

Sometimes the participating dealer arrangement is coupled with the Shields Plan offering and the stand-by that accompanies the Shields Plan, so you can have various combinations of the two methods.

Another variation of this has been introduced as the so-called participating dealer plan which permits the manager of the syndicate (and for the purpose of control, only the manager) to buy the rights and to make the stock available to dealers so they can, then, sell it for a commission.

Some rights offerings take place without any sort of underwriting arrangement or dealer help. In such cases the issuer is reasonably certain that most of the shares offered to stockholders will be subscribed either because the offering of the new stock is at a price substantially below the market so that every stockholder having subscription rights will think he is getting a bargain, or because there will be some sort of an agreement by the major shareholders through which they will exercise their subscription rights. The telephone company (A.T. & T.) last fall had a $570,000,000 offering of common stock. The market price at the time of the offering was $182. 5,700,000 new shares were offered at $100 per share -- $82 below the market price. There was no additional or oversubscription privilege; so it was a straight rights offering. It was almost 99% successful because of the price, $100 in the rights offering as compared to $182 on the market. Dewing points out that, in this connection, it takes, even with a wide price differential, widespread investor interest to make such success possible.

Another example is a small company that has a mercury die-casting technique which has never been very successful. Its stock is not widely held. Atlas Corporation, Thompson Products, and one or two others own fairly substantial blocks of it. The Company made a rights offering last year on a ratio of two new shares for each three shares held. They had an unlimited additional oversubscription privilege in that offering and with it was coupled an agreement by the major shareholders to exercise their basic rights and an agreement by one, Atlas Corporation, to use the additional subscription rights to take up everything that was not taken by any other shareholder. Atlas, which started with roughly 20% of the stock, could conceivably increase its proportionate interest in the company to about 50% as a result of the deal. Unfortunately I don't remember exactly how it worked out, but I think Atlas had to take up a substantial block of the offering. In that case the subscription price was set at 3 when the market was about 4, but even that differential was substantially less than in the A.T. & T. offering.

Additional subscription or oversubscription privileges are rather frequent in the underwritten rights offerings whether on a Shields Plan or participating dealer plan basis. This oversubscription privilege is generally used now to help along the success of the offering.

By way of footnote I should mention that we have a number of registrations for sales of securities by controlling shareholders. The term that is frequently used is "bail out," which to some people suggests that it is immoral for anyone having an investment in a company to sell it. Any one of the underwriting methods outlined previously can be used in selling stock of a controlling security holder just as in the sale of a new issue by the company. The point I should like to emphasize is that, generally, controlling shareholders are selling securities of a company which at least has some sort of an operating record and a financial position upon which the security can be analyzed. It is unlike the matter mentioned earlier where the public is being offered a raw promotion without any operating record. To that extent it is much better than a promotion. So I think we ought to be a little careful with the sneer we put into our voices when we talk about "bail out." Also, I think we ought to recognize that selling shareholders often have one or more perfectly valid reasons for selling a portion of their stock. It is a rare case in which controlling shareholders bail out completely and walk away, leaving the company in the hands of others. Usually the stock is placed in a block to be taken over in its entirety by new shareholders who by so doing become controlling shareholders.