Bateman Eichler, Hill Richards
Los Angeles, California

March 29, 1968

Mr. Orval L. DuBois, Secretary
Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

Re: Proposed Rule 10b-10

Dear Mr. DuBois:

The above-proposed Rule would, in our opinion, have a detrimental effect upon a large segment of the Securities Industry and its ability to properly serve its clients, upon the Mutual Fund Industry and the investors in such Mutual Funds and, in addition, upon all public investors owning securities.

The various reasons for coming to this conclusion have already been ably outlined by certain organizations and securities firms. Therefore, we will not repeat those reasons in this letter but rather, we wish to relate the direct and immediate effects which the imposition of this Rule would have upon our organization.

First, on give-ups -- during 1967, give-ups represented approximately 40% of our net income before Federal and State taxes and approximately 45% of our income after such taxes. Obviously, this was and is an integral part of our over-all operations. For the most part, such give-ups were the result of our constant contacts with Mutual Funds both in the sale of such Funds and, in turn, in the solicitation of their business relative to the employment of the monies so raised.

To what use were the earnings so generated from give-ups put? During 1967 we either remodeled or built completely new quarters for 8 of our Branches and in so doing, we spent roughly $400,000 for furnishing, fixturizing, equipping et cetera. This resulted in having at present 62 unoccupied desks in our Branch System which means a step-up in our already relatively heavy Training expense. Last year we spent approximately $200,000 in training new Account Executives. Because of our profitable operation in 1967, we budgeted $350,000 for such Training Program in 1968. To fill all 62 spaces with trainees, the cost to this organization would be about $1,000,000.

The amount which this organization received from give-ups provided only 50% of the fund's needed last year for Branch Office remodeling plus the amount budgeted for Training expense for this year. Such earnings, therefore, had a tremendous impact upon our decision to do both in order to better serve our present clients and our hoped-for future clientele.

It is important to realize that in 36 years of operations, dividends have not been paid to the stockholders of this organization but rather all retained earnings have been plowed back into the business in order to provide not only the facilities but also the financial stability to strengthen and properly serve our clients. A large part of that investment would never be realized by our stockholders if at some point our operations had to be curtailed and cut back sharply along with those of other regional firms.

Five years ago our organization had approximately 30 Account Executives and a total of 60 employees. Today, we have, over 200 Account Executives and approximately 475 employees. Such growth was necessary to serve the expanding investment community throughout the State of California. We can assure you that if a large portion of our reciprocal business were eliminated, our Training Program would be cut in half -- our expenditures for Branch Offices would be reduced even further and there would be a general curtailment of our investment service -- rather than our planned expansion.

The net effect of the proposed Rule would be not only the elimination of give-ups but also placing much of the Mutual Fund business -- and perhaps other institutional business -- on a competitive bidding basis for the lowest cost execution. If the basic premise is that the commission schedules as presently constituted are not right, would it not be better for a study in depth to be made of such schedules in order to determine rates which would be fair and equitable to all parties. Then, in addition to the establishment of such reasonable commission schedules, the rules should permit the continued sharing of such equitable commissions with brokers who perform various functions. In that manner, no investor would be hurt as the orders would be placed in a manner which would provide the best executions and the maintenance of the broadest and most vigorous markets.

Under the proposed Rule the orders would either be concentrated in the hands of a relatively few lead brokers to the detriment of a broad group of smaller regional brokers or the orders would be fragmented in a cumbersome and inefficient method, resulting in improper executions.

While we are most interested in solving this apparent problem, we do not concede that the interests of the Investment Industry and the public investor are inimical but rather feel that over the long pull, that which benefits fairly and properly the one benefits the other, taking into consideration not only the cost of execution but also the quality of execution and the quality of all services which can and will be rendered to large and small investors by a healthy Investment Securities Industry. These goals can be arrived at through continued exploration and study on the part of both the Regulatory Bodies and the Investment Industry if such studies are entered into with no preconceived ideas as to what the solution should be.

We must not forget that the present method of raising capital and giving to such capital liquidity is the finest method ever devised for the largest number of people and for the broadest number of industries and companies. To tamper with such mechanism -- highly-structured, ranging from the very large firm to the small dealer, each in its own way serving its clientele -- may well have effects detrimental to all parties.

We urge that proper studies be made before and not after action is taken in the hope of improving an already good system.

Yours very truly,

Willard G. DeGroot
Chairman of the Board
and
Chief Executive Officer

P. S. Because of the figures concerning our operation, we will appreciate it if this letter is not made public.