

SEC v. Giant Stores Corp. et al., (DDC, Civ. Action No. 76-1641, Sept. 2, 1976). [The Complaint alleged that defendants were involved in schemes which involved stock manipulation, misappropriation of corporate funds, and the use of insider leases.]

SEC v. Solon Automated Services, Inc., et al. (DDC Civ. Action No. 77-0705, April 26, 1977). [The complaint alleged that defendants took deductions from certain monthly commissions owed to lessors of the company's machines without the knowledge of said lessors.]

UNAUTHORIZED MANAGEMENT PERQUISITES

SEC v. Walco National Corp & Frederick W. Richmond, (DDC, Civ. Action No. 82-3194, Nov. 9, 1982). [The Complaint alleged that corporate assets were used for the personal benefit of the individual defendant and that these expenditures were not disclosed in certain filings with the Commission.]

In the Matter of the Telex Corp., (Administrative Proceeding File No. 3-6123, Release No. 18694, April 29, 1982). [The investigation revealed that Telex's former Chief Executive Officer had used the company's assets individually, or for his other business interests.]

SEC v. Hermitite Corp., et al., (DDC, Civ. Action No. 82-1332, May 4, 1982). [The Complaint alleged that corporate funds which were unauthorized and/or unrelated to company business were diverted for use by management and its internal controls were insufficient.]

SEC v. W.S.C. Group, Inc. et al. (S.D. Tex., Civ. Action No. H-81-2844, Nov. 2, 1981). [The Complaint alleged that W.S.C. failed to disclose unauthorized compensation paid by W.S.C. to a director/officer and members of his family, unauthorized benefits to related entities and certain conflicts of interest.]

In the Matter of Playboy Enterprises, Inc., (Administrative Proceeding File No. 3-5951, Release No. 17059, Aug. 13, 1980). [The Commission found that Playboy had failed to adequately disclose certain forms of remuneration provided to its officers and directors.]

SEC v. American Financial Corp. et al., (DDC, Civ. Action No. 79-1701, July 2, 1979). [The Complaint alleged that the company had made certain loans to its officers without proper collateralization or scrutiny and that bonus payments made to a director had not been disclosed.]

SEC v. Marlene Industries, et al., (SDNY, Civ. Action No. 79-1959, April 17, 1979). [The Complaint alleged that corporate assets were diverted for the personal use of the company's principal officers/directors and that corporate controls were inadequate to monitor the expenditure of company assets.]

SEC v. Fashion Two Twenty, Inc. & Vernon G. Gochmeaur,
(M.D. Ohio, Civ. Action No. 79-448, March 23, 1979).
[The Complaint alleged that defendants had failed
to disclose that hundreds of thousands of dollars of
corporate funds were diverted for the personal use
of the Company's Chairman.]

SEC v. Moog, Inc., et al., (DDC, Civ. Action No.
79-0024, Jan. 5, 1979). [The Complaint alleged that
the company had failed to disclose that corporate
assets were used for the personal benefit of its
Chairman.]

In the Matter of Hycel, Inc., (Administrative Pro-
ceeding File No. 3-5494, Exchange Act Release No.
14981, July 20, 1978). [The Complaint alleged that
corporate funds were used for the personal benefit
of the company's Chairman, including personal travel
and entertainment.]

SEC v. IU International Corp., (DDC, Civ. Action
No. 78-0689, April 17, 1978). [The Complaint alleged
that the company had failed to disclose the payment
of certain legal fees for the benefit of three of
its officers and/or directors, and the existence of
a Swiss bank account used to transfer funds to its
Chairman.]

SEC v. Ammon S. Barnes & Max Candiotty, (DDC, Civ.
Action No. 77-1466-F) [The Complaint alleged that
defendants had failed to disclose material benefits
and conflicts of interest arising out of certain
loan transactions.]

SEC v. Charles Jacquin, et Cie Inc., et al., (DDC
Civ. Action No. 77-1794, Oct. 17, 1977). [The Com-
plaint alleged that two officers of Jacquin had,
without disclosure, diverted corporate funds for
their personal benefit and the benefit of their
families.]

SEC v. Inflight Services, Inc., et al., (SDNY,
Civ. Action No. 77-5011, Oct. 14, 1977). [The Com-
plaint alleged that certain charges had been made to
the business expense accounts without any documen-
tation, and that the company had paid for employees
personal entertainment.]

SEC v. Sharon Steel Corp., et al., (DDC, Civ. Action No. 77-1631, Sept. 20, 1977). [The Complaint alleged that certain of the officers/directors had caused the defendant companies to pay for certain non-business-personal expenses, including all travel, groceries, liquor, entertainment and rent.]

SEC v. Basic Foods Industries, Inc. et al., (DDC, Civ. Action No. 77-1787, Sept. 15, 1977). [The Complaint alleged that corporate funds were used to pay for personal and family travel and entertainment of the Chairman of the Board.]

SEC v. SCA Services, Inc., et al., (DDC, Civ. Action No. 77-1374, August 8, 1977). [The Complaint alleged that corporate funds had been diverted through cash advances and fraudulent transactions.]

SEC v. Ormand Industries, Inc., (DDC, Civ. Action No. 77-0790, May 9, 1977). [The Complaint alleged that the Chairman of the Board had caused Ormand Industries, Inc. to expend corporate funds for his personal use, including \$50,000 for home improvements.]

SEC v. Stephen Kneapler, et al., (S.D. Fla., Civ. Action No. 77-969, March 24, 1977). [The Complaint alleged that Kneapler, while Chairman had used corporate funds to pay for improvements to his home and had concealed the diversions of funds by falsifying the company's books and records.]

SEC v. Potter Instruments, et al., (DDC, Civ. Action No. 77-0394, March 9, 1977). [The Complaint alleged that the defendants had failed to disclose the expenditure of corporate funds for the personal benefit of its Chairman, including costs for the maintenance of a racing yacht and of his personal residence.]

SEC v. Emersons Ltd., et al., (DDC, Civ. Action No. 76-0808, May 11, 1976). [The Complaint alleged that two officers had diverted corporate funds for their personal benefit, including home improvements, furnishings, and other personal living expenses.]

SEC v. Medic-Home Enterprises, Inc., et al., (SDNY, Civ. Action No. 75-6277, Dec. 11, 1975). [The Complaint alleged that two officers and/or directors diverted corporate assets for their personal use by falsifying consulting services and structural repair services.]

SEC v. Kalvex, Inc., et al. (SDNY, Dec. 27, 1977).
[The complaint alleged that the company failed to disclose payments to its officers and director for expenses not properly chargeable to the company.]

In the Matter of Franchard Corp., 42 SEC 153 (1964). [The Complaint alleged that the company had failed to disclose material transactions between it and its controlling stockholder and Chief Executive Officer.]

FINANCIAL DISCLOSURE CASES

SEC v. Consolidated Publishing Inc. et al., Civil Action No. 83-2054-MRPK (C.D. Cal. April 27, 1983)

On April 27, 1983, the Commission filed a civil injunctive action against Consolidated Publishing Co. Inc., Steven M. Bernard, Edward L. Lambert and Bruce R. Ashton. The Complaint alleged that Consolidated violated Sections 10(b), 12(g), 13(a) and 13(b)(2) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder, that Bernard violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and aided and abetted violations of Sections 12(g), 13(a) and 13(b)(2) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder; and that Lambert and Ashton violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and aided and abetted violations of Sections 12(g) and 13(a) of the Exchange Act and Rules 12b-20 and 13a-1 thereunder. Consolidated, Bernard, Lambert and Ashton each consented to the entry of a final judgment of permanent injunction without admitting or denying the allegations in the Complaint.

More specifically, the Complaint alleged that between March 1978 and September 1980, Consolidated distributed to the market and filed with the Commission materially false and misleading financial statements for its 1978 and 1979 fiscal years. Bernard, the president, chairman of the Board, majority shareholder and sole managerial employee of Consolidated, knew the financial statements to be false and misleading at the time of their distribution. The Complaint further alleged that Ashton, a certified public accountant, issued audit reports in which he stated that he had examined the financial statements of Consolidated in accordance with generally accepted auditing standards; however, Ashton never examined the financial statements in accordance with generally accepted auditing standards. The Complaint also alleged that Lambert assisted Bernard in preparing the 1978 financial statements and directly participated in Ashton's fraudulent preparation of the audit report regarding the 1978 financial statement.

SEC v. Numex Corporation, et al., Civil Action No. 83-0919 (DDC, March 30, 1983)

On March 30, 1983, the Commission filed a civil injunctive action against Numex Corporation, David Duquette, William Laskarzewski and James Duquette. The individual

defendants are officers and directors of Numex. The Complaint alleges violations of the antifraud provisions of the Securities Act by each of the defendants and violations of the antifraud, reporting and recordkeeping provisions of the Exchange Act by Numex, David Duquette and Laskarzewski.

The Complaint alleged that from at least nine months prior to its registered public offering of common stock in September 1980 through June 1981, Numex maintained a bank account which was not reflected on its books and records. It is alleged that customer payments were diverted to the off-books account and ultimately transferred from the off-books account to the company by means of improperly booked transactions including related party transactions between Numex and its executive officers. The Complaint further alleged that these activities violated the terms of the company's loan agreement with its commercial lender as well as the provisions of the securities laws. It is further alleged that Numex, David Duquette and Laskarzewski concealed the existence of the off-books account from the company's independent accountants in connection with the registered public offering of securities. It is further alleged that when the company's independent auditors came to suspect the existence of the account during the year-end audit following the public offering, Numex, David Duquette and Laskarzewski forged bank account documents and intercepted and forged confirmations sent by the auditors to the bank in order to conceal the duration and extent of use of the off-books account. The Complaint also alleges that David Duquette and Laskarzewski made material misstatements to the independent auditors concerning the off-books account and the forged documents. It is alleged that as a consequence of these transactions the company's filings with the Commission were materially false and misleading. The Complaint also alleged that Numex at the direction of David Duquette and Laskarzewski prematurely recognized revenues during the quarter ending September 30, 1980 by booking sales which did not take place until a subsequent fiscal period, thereby overstating revenues.

Simultaneous with the filing of the Complaint, the defendants consented, without admitting or denying the allegations of the Complaint, to the entry of Final Judgments of Permanent Injunction.

SEC v. Harry Scharf et al., Civil Action No.
83-0891 (DDC March 29, 1983)

On March 29, 1983, the Commission filed an action for civil injunctive and other equitable relief against Harry Scharf, Stanley I. Miller, Marvin Koppelman, J.M. Home & Office Products, Incorporated, and Pentron Industries. The Complaint alleges violations of the antifraud, reporting, recordkeeping and proxy provisions of the Exchange Act.

The Commission's Complaint alleges that, from about July 1973 to about July 1976, Scharf, the former president, and Miller, a former sales manager, of Pentron, engaged in a scheme to divert funds from Pentron by issuing checks to Miller which were recorded on Pentron's books as sales promotion expenditures. Although Scharf and Miller claimed they were buying business with these funds, it is alleged that they in fact divided the proceeds from these checks between themselves for their personal use and benefit.

The Complaint further alleges that from July 1976 through March 1982, Scharf and Miller entered into a scheme with Koppelman and J.M., one of the Pentron's sales representatives located in New York City, to divert funds from Pentron to J.M., in the guise of commissions and reimbursements for expenses, and, upon receipt of such diverted funds, to divide them among Scharf, Miller and Koppelman. The Complaint further alleges that as a result of such activities, Pentron's annual and quarterly reports and its proxy solicitation materials for the years 1973 through 1982 were rendered false and misleading and that, in furtherance of the defendants' scheme, Scharf, Miller, Koppelman, and J.M. falsified and caused the falsification of books, records, and accounts of Pentron.

Concurrently with the filing of the Complaint, the Court entered a Final Judgment of Permanent Injunction against Pentron, enjoining it from further violations of reporting, recordkeeping, and proxy provisions of the Exchange Act. Pentron consented to the entry of the Final Judgment without admitting or denying the allegations in the Commission's Complaint.

SEC v. Paradyne Corporation, Civil Action No. CA-83-351 CIV-T-10 (M.D. Fla. March 25, 1983)

On March 25, 1983, the Commission filed a civil injunctive action against Paradyne Corporation. The Complaint seeks preliminary and permanent injunctions restraining and enjoining Paradyne from further violations of the antifraud and periodic reporting provisions of the federal securities laws. The Complaint also seeks a mandatory injunction requiring Paradyne to correct its filings with the Commission.

The Complaint alleges, among other things, that Paradyne procured its largest single order, currently valued at approximately \$100 million, from the United States Social Security Administration in Baltimore, Maryland, by deceiving the Social Security Administration in the contract process. The Complaint also alleges that Paradyne thereafter concealed this conduct and enhanced its business prospects by making misleading statements and omitting to state material facts in registration statements and reports filed with the Commission and in reports to shareholders while pronouncing the expected and actual benefits from the contract.

SEC v. William E. Nashwinter, Jr., Civil Action No. 830064-R (E.D. Va. March 24, 1983)

On March 24, 1983, a Final Judgment of Permanent Injunction was entered enjoining William E. Nashwinter, Jr. ("Nashwinter") from violating and aiding and abetting violations of Section 13(b)(2)(A) of the Exchange Act and Rules 13b2-1 and 13b2-2, provisions relating to the maintenance of accurate books and records. The Court also enjoined Nashwinter from aiding and abetting violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13, the periodic reporting requirements. Nashwinter consented to the entry of the injunction without admitting or denying the allegations of the Commission's Complaint.

The Complaint alleged that Nashwinter, a former vice president of Doughtie's Foods ("Doughties") and general manager of its wholly owned subsidiary, William F. Gravins Division ("Gravins") falsified Gravins' inventory reports by more than \$650,000 during 1978 through June 1982. It further alleged that Nashwinter

submitted false inventory reports and made other misrepresentations to Doughties' independent auditors during the 1980 and 1981 audits. As a consequence, periodic reports filed by Doughties with the Commission from 1980 through the first six months of 1982 were alleged to be materially incorrect and the net income of the company was materially overstated. Further Doughties' books, records and accounts allegedly failed to accurately and fairly reflect its transactions and dispositions of its assets.

SEC v. Charles M. Stange and Herbert E. Burdett,
Civil Action No. 83-0762 (DDC March 17, 1983)

The Commission filed a civil injunctive action against Charles M. Stange and Herbert E. Burdett, former officers of Security America Corporation. Security America is a holding company whose sole operating subsidiary was until 1981 a multiple line casualty and property insurance company. In late 1981, the insurance company was placed in liquidation by order of an Illinois state court.

The Commission alleged in its Complaint that the defendants caused false and misleading financial statements to be included in a registration statement filed by Security America in connection with a November 1980 public offering of 2.75 million shares of its common stock aggregating \$16.5 million through an underwriting syndicate managed by John Muir & Co. The Commission alleged that the loss reserves for both assumed (reinsured) workers' compensation claims and direct insurance business in the financial statements in the registration statement were materially understated and that Security America should have reported a substantial loss and deficit net worth. The Commission alleged that the reserves for workers' compensation claims were materially understated due to the use of an outdated mortality table to estimate life expectancies of claimants, the use of lower estimated annual medical costs than reported or recommended by the primary issuers, failure to consider the effect of inflation in estimating future claims, failure to consider unpaid billings from primary insurers in analyses of paid claims used to establish reserves and the arbitrary reduction in reserves for claims on business from one primary insurer.

The Commission also alleged deficiencies in disclosures of cash flow problems and of a proposed settlement with a major primary insurer that required a material reduction in net worth and income.

The Commission further alleged in its Complaint that the defendants caused the arbitrary removal of reserves for reported claims in order to make up an apparent deficiency in reserves for incurred but not reported claims. The Commission also alleged that the defendants made or caused to be made materially false or misleading statements, or omitted to make necessary disclosures to Security America's accountants.

Simultaneous with the filings of the Complaint, the defendants, without admitting or denying the allegations in the Commission's Complaint, consented to the entry of final judgments of permanent injunction enjoining them from further violations of the antifraud provisions of the federal securities laws and provisions of the Exchange Act relating to records and representations to accountants.

SEC v. Jerald H. Maxwell and Larry A. Rasmusson,
Civil Action No. 4-83 Civil 62 (D. Minn. January 20,
1983)

On January 20, 1983, the Commission filed a civil injunctive action against Jerald H. Maxwell, former President and Chairman of the Board of Med General, Inc., and Larry A. Rasmusson, former Executive Vice President of Med General. The Complaint seeks permanent injunctions enjoining the defendants from further violations of the antifraud, periodic reporting and recordkeeping provisions of the federal securities laws.

The Complaint alleges that the defendants made untrue statements of material fact and omitted to state material facts in periodic reports filed with the Commission in an offering circular, in a prospectus and in the dissemination of information regarding Med General's sales and financial condition to Med General's shareholders, investment bankers and others. The alleged misstatements concerned the inflation of Med General's sales through the inclusion of post-quarter sales in reported quarterly sales figures, the improper deferral of expenses, the failure to report material credit terms of sales, the intentional misshipment of goods, and the recording of fictitious sales.

SEC v. Robert C. Kenney, et al., Civil Action No. 83-0425 (SDNY January 14, 1983)

On January 17, 1983, the Commission filed a Complaint against Robert C. Kenney ("Kenney"), Clifton D. West ("West"), and Maurice Mattatia ("Mattatia"), alleging violations of the anti-fraud provision, reporting, recordkeeping and proxy provisions of the Exchange Act. Simultaneous with the filing of the Complaint, West and Mattatia consented to the entry of Final Judgments of Permanent Injunction without admitting or denying the allegations contained in the Commission's Complaint. On April 27, 1983, Kenney also consented to the entry of a final judgment of permanent injunction.

The Commission's Complaint alleges that present and former officers and employees of Saxon Industries, Inc. ("Saxon"), including Kenney, the former Vice President and Treasurer of Saxon, West, the Executive Vice President of Saxon's Blake, Moffitt & Towne Division and Mattatia, the former Controller of Saxon Paper-New York, engaged in a scheme to falsify the books and records of Saxon. The Commission's Complaint further alleges that this scheme began as early as 1968 and continued through Saxon's filing for reorganization under Chapter 11 of the Bankruptcy Code in April 1982. According to the Complaint, the scheme was primarily carried out by the creation of false inventory on the records of various divisions of Saxon, including Blake, Moffitt & Towne, headquartered in San Francisco, California, and Saxon Paper-New York, located in Long Island City, New York, both paper distribution divisions. The falsifications occurred by creating false inventory count sheets and generating computer runs which reflected non-existent inventory. The Commission also alleged that some of this false inventory was later transferred to other Saxon divisions, including Saxon Realty Corp., thereby causing the receiving division's books and records to be false. The Commission alleged that in 1979, \$6 million of non-existent inventory was added to the records of Blake, Moffitt & Towne, while in 1980, \$2.5 million was added. In 1980 \$10 million of non-existent inventory was added to Saxon Paper-New York's records.

The Commission's Complaint further alleged that, as a result of the falsification of inventory, among other things, the financial information contained in annual and quarterly reports filed with the Commission by Saxon, on Forms 10-K and 10-Q, was materially false and misleading. The Complaint charges Kenney, West and Mattatia with aiding and abetting such violations. Additionally, the Complaint alleges that Kenney and West solicited proxies during a proxy contest in 1981. The solicitations were based upon the false and misleading financial information.

SEC v. McCormick and Company Inc., et al., Civil Action No. 82-3614 (DDC, December 21, 1982)

The Commission's Complaint alleges that McCormick and Co., Inc. ("McCormick") and David B. Michels ("Michels"), a former member of McCormick's Board of Directors and general manager of McCormick's Grocery Products Division violated the reporting and record-keeping provisions of the Exchange Act and the Rules promulgated thereunder.

More specifically, the Complaint alleges that McCormick and Michels were engaged in a scheme to inflate the company's reported earnings to meet profit objectives mandated by corporate management. The scheme was accomplished through improper accounting practices including the systematic deferral of the recognition of substantial amounts of promotional and advertising expenses; and the recognition of sales revenues in one fiscal period when goods were not shipped until a later fiscal period. The Complaint further alleges that these practices were concealed from the company's auditors by the making of false statements, the maintenance of two sets of records and by providing the auditors with access to only the fictitious books, and the alternation of various documents. The Complaint also alleges that as a result of this practice, the required reports filed with the Commission during 1977-1980 contained financial statements that were false and misleading in that sales revenues were overstated and net income and retained earnings were materially overstated.

Simultaneously with the filing of the Complaint, the defendants, without admitting or denying the allegations in the Complaint, consented to the entry of Final Judgments of Permanent Injunction against

them, enjoining them from violating and aiding and abetting violations of certain of the reporting and the accounting provisions of the Exchange Act, and the rules promulgated thereunder.

SEC v. Golden Triangle Royalty & Oil, Inc., et al.,
Civil Action No. 1-82-118 (N.D. Tex. Dec. 13, 1982)

On December 13, 1982, the Commission filed a civil injunctive action against Golden Triangle Royalty & Oil, Inc. ("GTRO"), International Royalty & Oil Company ("IROC"), Black Giant Oil Company ("BGOC"), Robert Kamon, Ivan Webb, Richard Hare, Smith Verett & Parker, Victor L. Verett, Lloyd L. London, Carbis Walker & Associates and John Fulena Jr. The Commission's Complaint alleged that on April 7, 1980, GTRO, IROC and BGOC improperly issued restricted stock to each other and that the officers of the three companies arranged the transactions to inflate the assets carried on each company's balance sheets. Smith, Verett & Parker and Carbis Walker & Associates, public accounting firms, along with two partners, Victor Verett and John Fulena, were alleged to have violated the antifraud and reporting provisions in connection with audits conducted of the three companies following the transactions.

On December 13, 1982, the Court entered Final Judgments and Orders of Permanent Injunction against GTRO, IROC, BGOC, Ivan Webb, and Hare enjoining them from violations of the anti-fraud, reporting and proxy provisions of the Exchange Act. The Court also entered Final Judgments of Permanent Injunction against Smith Verett & Parker and Victor Verett and Carbis Walker & Associates and John Fulena enjoining them from violations of the anti-fraud and reporting provisions of the Exchange Act. Lloyd London was also permanently enjoined from violations of the antifraud provisions.

On February 25, 1983 the Court entered a Final Judgment and Order of Permanent Injunction against Robert Kamon enjoining him from violations of the anti-fraud, proxy, and reporting provisions of the Exchange Act and requiring him to disgorge \$715,000 representing profits he realized from the sale of stock in GTRO.

Additionally, the companies were ordered to amend all filings with the Commission since April 7, 1980 and to disseminate current financial statements to their shareholders. Each of the defendants consented to the entry of the Judgments and Orders without admitting or denying the allegations in the Commission's Complaint.

SEC v. Saxon Industries, Inc., Stanley Lurie, Alfred Horowitz and Arthur Monteil, Civil Action No. 82-5992 (SDNY, September 9, 1982)

The Commission's Complaint alleges that Saxon Industries, Inc., ("Saxon"), Stanley Lurie ("Lurie"), Alfred Horowitz ("Horowitz") and Arthur Monteil ("Monteil") violated Sections 10(b), 13(a), 13(b)(2) and 14(a) of the Exchange Act as well as the rules promulgated thereunder.

The Complaint alleges that these violations occurred as a result of the knowing and willful falsification of the books and records of Saxon by Lurie, Horowitz, and Monteil, all past or present officers of Saxon. These activities began in 1968 and continued through April 15, 1982 when Saxon filed for reorganization under Chapter 11 of the Bankruptcy Code. Through these activities, the defendants were able to create approximately \$75 million in non-existent inventory on the records of various divisions of Saxon. As a result of this falsification of inventory, Saxon's annual and quarterly reports filed with the Commission were false and misleading, and Saxon's proxy solicitation in 1981 was also false and misleading.

Each of the defendants, without admitting or denying the allegations in the Commission's Complaint, consented to the entry of Final Judgments of Permanent Injunction enjoining them from further violations of the federal securities laws.

SEC v. Flight Transportation Corporation, et al., Civil Action No. 4-82-874 (D. Minn. June 18, 1982)

The Commission's Complaint alleges that Flight Transportation Corporation ("Flight"), two of its wholly owned subsidiaries, FTC Executive Air Charter, Inc. ("Executive") and FTC Caymen Ltd. ("Caymen") and William Rubin ("Rubin") violated the antifraud, filing, and recordkeeping provisions of the federal securities laws.

The Complaint alleges that Flight falsely reported revenues as well as total revenue miles flown in 1980 and 1981. The Complaint further alleges Rubin misappropriated Flight stock, used corporate funds to pay his personal debts, and overcharged Flight in the sale of his airplanes. The Commission sought a temporary restraining order, and preliminary and permanent injunctions, a freeze of defendants' assets, and an accounting. The Court entered a temporary restraining order enjoining the defendants from violating the federal securities laws, and from destroying or altering the Corporate books. It also froze the defendants' assets. A further hearing was scheduled on the Commission's request for a preliminary injunction.

SEC v. Quality Care, Inc., Civil Action No. 82-1438 (DDC May 25, 1982)

On May 25, 1982, the Commission filed a civil injunctive action in the United States District Court for the District of Columbia against Quality Care, Inc. ("Quality Care"), alleging violations of the antifraud and registration provisions of the Securities Act and the reporting requirements of the Exchange Act.

Simultaneous with the filing of the Complaint, Quality Care consented to the entry of a Final Judgment of Permanent Injunction without admitting or denying the allegations of the Commission's Complaint.

The Commission's Complaint alleges that Quality Care prematurely recognized as revenue, in fiscal years 1978 and 1979, funds received in connection with the sale and management of health care franchises. Quality Care's recognition of the franchise fee as revenue contravened generally accepted accounting principles because Quality Care had a continuing obligation to make loans to its franchises and because of the uncertain collectibility of those loans. The Complaint alleges that the practice just described rendered Quality Care's annual and quarterly financial statements for fiscal years 1978 and 1979 materially false and misleading in that it inflated Quality Care's earnings for those years by material amounts and concealed losses that Quality Care otherwise would have reported.

The Complaint further alleged that Quality Care's materially false and misleading 1978 and 1979 financial statements were transmitted to its franchises and interests therein and were filed with the Commission as part of Quality Care's annual and quarterly reports in violation of the reporting provisions of the Exchange Act.

The Complaint also alleged that from 1977 to 1979 Quality Care sold securities in the nature of investment contracts styled as investor owned franchises and that Quality Care failed to register these securities with the Commission in violation of the registration provisions of the Securities Act.

SEC v. Flow General Inc., Civil Action No. 82-9674
(DDC May 17, 1982)

On May 17, 1982, the Commission filed a civil action for injunctive relief against Flow General Inc. ("Flow General"), a company engaged in the design, manufacture and marketing of biochemical, communications and testing products, and the performance of a variety of technological research and analysis services.

The Complaint alleges that Flow General, in connection with a public offering of its common stock in September 1980, filed with the Commission a registration statement and transmitted and utilized a prospectus which failed to contain the information required by Sections 7 and 10 of the Securities Act of 1933. The Complaint alleged that on September 15, 1980, the presidents of Flow General and Gelman Sciences, Inc. signed a memorandum of understanding for Flow General to acquire Gelman Instrument, S.p.A., an Italian subsidiary of Gelman Sciences, subject to certain conditions. The registration statement, which became effective on September 25, 1980, and final prospectus stated that the net proceeds of the offering would be used for general corporate purposes including working capital and possible acquisitions. The registration statement and final prospectus also stated that "[i]nvestigations of acquisitions to strengthen its existing lines of business are continually pursued by the Company but have not resulted in any agreements at this time." The Commission alleged that the registration statement and prospectus failed to disclose the material facts and circumstances relating to the agreement in principle between Flow General and

Gelman Sciences and the intended financing of the acquisition. The Complaint alleged that approximately \$8 million of the approximately \$23 million of net proceeds from the public offering was used to acquire the Italian subsidiary. The acquisition of the Italian subsidiary was completed on November 11, 1980.

Simultaneous with the filing of the Complaint, the Court entered a Final Order prohibiting Flow General from filing or causing to be filed any registration statement under the Securities Act which fails to contain the information, and to be accompanied by the documents required by Section 7 of the Act and not to transmit or use any prospectus which fails to contain the information required by Section 10 of the Act and rules thereunder. Flow General consented to the entry of the Final Order without admitting or denying the allegations in the Commission's Complaint.

SEC v. Ronald Tash, et al., Civil Action No. 81-C5477 (N.D. Ill. May 6, 1982)

On May 6, 1982, the United States District Court for the Northern District of Illinois permanently enjoined Carlo Ponti ("Ponti") and Sostar, S.A. a/k/a Etablissement Sostar ("Sostar"), from further violations of the antifraud provisions of the Securities Act and the Exchange Act. Ponti and Sostar consented to the entry of the Judgment without admitting or denying the allegations contained in the Commission's Complaint. Also on May 6, 1982, the Court entered Default Judgments of Permanent Injunction enjoining JAM Production Company, TAB Production Company, BAT Production Company, Jeremy Production Company and MGL Production Company from further violations of the registration and antifraud provisions of the Securities Act and the Exchange Act.

The Commission's Complaint alleges that since August 1974 to at least the date of the filing of the action the named defendants employed devices, schemes and artifices to defraud and engaged in transactions, practices, and a course of business which operated as a fraud and deceit upon investors in five motion picture partnerships against which default judgments were entered. Specifically, it was alleged that the defendants, among other things, devised documents designed to create the appearance that certain nonrecourse

financing had been obtained on behalf of the partnerships in order to support certain proposed tax deductions, when, in fact, no such financing was obtained; disseminated tax return information on behalf of the partnerships based, in part, upon these documents; disbursed funds for purposes not disclosed in the offering circulars and made certain false and misleading representations in offering circulars and otherwise concerning, among other things, the profits and tax benefits of investing in the defendant partnerships.

SEC v. Hermetite Corp., et al., Civil Action No. 82-1223 (DDC May 4, 1982)

On May 4, 1982, the Commission filed a Complaint seeking injunctive and other equitable relief against Hermetite Corp., Morton Ladge, Sheldon I. Avratin and Samson Gilman. The Complaint alleges that Hermetite, Ladge and Avratin violated the antifraud, reporting, recordkeeping and shareholder information provisions of the Exchange Act. Simultaneous with the filing of the Complaint Hermetite, Ladge and Avratin, without admitting or denying the allegations of the Complaint, consented to the entry of Judgments of Permanent Injunction restraining and enjoining each of them from violations of those provisions of the securities laws which they were alleged to have violated.

The Commission's Complaint alleges that Hermetite, Ladge and Avratin filed or caused to be filed with the Commission materially false and misleading Annual Reports on Form 10-K concerning the method utilized by Hermetite for imputing the value of inventories and disseminated or caused to be disseminated materially false and misleading Information Statements to Shareholders concerning the direct and indirect remuneration paid to officers and directors of Hermetite.

In addition to the entry of judgments of permanent injunction, Ladge and Avratin undertook to repay to Hermetite \$30,000 and \$12,000 respectively representing funds they allegedly received from Hermetite which were unauthorized and/or for personal expenses unrelated to Hermetite's business.

On September 15, 1982, a Final Judgment of Permanent Injunction was entered against Gilman enjoining him from further violations of the recordkeeping provisions of the Exchange Act. Gilman consented to the entry of the Judgment without admitting or denying the allegations contained in the Commission's Complaint.

SEC v. Jack Friedland, et al., Civil Action No. 82-1748 (E.D. Pa. April 21, 1982)

On April 21, 1982, the Commission filed a Complaint in United States District Court for the Eastern District of Pennsylvania against Jack Friedland, Harold Friedland and Leo DiCandilo all former officers and/or directors of Food Fair, Inc.

Simultaneous with the filing of the Complaint, the defendants, without admitting or denying the allegations contained therein, consented to the entry of Final Judgments of Permanent Injunction. The Judgments permanently enjoin Jack Friedland from violations of the antifraud provisions of the Securities Act and the antifraud, reporting, recordkeeping, internal accounting control and proxy provisions of the Exchange Act; Harold Friedland from violations of the proxy provisions; and Leo DiCandilo from future violations of the antifraud, reporting and internal accounting control provisions of the Exchange Act.

The Complaint alleges that from in or about October 1974 through 1978, defendants Jack Friedland and Leo DeCandilo violated and aided and abetted violations of the antifraud and reporting provisions of the Foreign Corrupt Practices Act with respect to the periodic reports filed with the Commission by Food Fair. The Complaint alleges, among other things, that such reports did not disclose the true amounts of accounts payable and the nature of and support for certain accounting entries and adjustments. The Complaint further alleges that for the period of December 1977 through June 1978 such reports did not disclose that Food Fair was unable to meet its current financial obligations on a timely basis, and that Food Fair did not devise and maintain an adequate system of internal accounting controls sufficient to provide reasonable assurance that transactions were recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.