

MEMORANDUM

March 14, 1941

Re: Conference on March 14 with Mr. Donovan, of Schroeder, Rockefeller and Company, New York, relative to transactions in GENERAL INDUSTRIES COMPANY common stock.

Mr. Donovan stated that his firm brought out an offering of 81,000 shares of the common stock of the above named company at $6\frac{1}{2}$ on December 15. This stock is not listed. The offering was made pursuant to a registration statement under the Securities Act. The offering was not an initial success, no over-allotment being made, and the syndicate was allowed to run for its full 90 days. During the life of the syndicate, which was not broken up until February 28, a syndicate bid of $6\frac{1}{4}$ was made. At the close of the syndicate, Schroeder, Rockefeller took up 17,000 shares, representing its pro rata portion of the unsold stock. There were two other participants with Schroeder, Rockefeller in the deal on an underwriting basis. About March 8 Schroeder, Rockefeller reoffered this unsold block of 17,000 shares through dealers at $6\frac{1}{2}$ less 1. During the second offering Schroeder, Rockefeller kept a stabilizing bid of $5\frac{3}{4}$. Schroeder, Rockefeller bought no stock on the bid. The second offering was completed on March 12, at which time Schroeder, Rockefeller had a short position of approximately 4,800 shares. According to Mr. Donovan, a substantially greater interest exists in this stock, primarily on the part of other dealers at a price of $5\frac{1}{2}$ to the dealers, than had been evident when the offering was first made in December. Mr. Donovan stated that his firm would like to maintain a trading interest in the stock, its buy and sell orders being given to another house which would act as broker for Schroeder, Rockefeller in buying and selling, but which would publish quotes under its own name. Schroeder, Rockefeller would like to retain over a period of time a short position approximating that which it now has. The purpose of retaining this short position is, at least in part, to keep the firm in a position where it could support the market in the event of any substantial down trend.

Mr. Donovan stated that he had discussed the situation with Mr. George Parlin of the New York office and had asked Mr. Parlin whether or when Schroeder, Rockefeller could commence to take a trading interest in the stock in the light of the above circumstances, at the same time continuing on a more or less inactive basis a short position of around 4,000 shares. Mr. Donovan stated that it was his impression from the conference with Mr. Parlin that the latter had told him, in effect, that any raising of market prices by the firm in the course of trading in the stock would, under these circumstances, be at least questionable and might affirmatively indicate violation of the anti-manipulative provisions applicable to the over-the-counter market. He said that he would like to discuss the situation with me in the light of Mr. Parlin's opinion.

I first questioned Mr. Donovan as to any factors which might give Schroeder, Rockefeller a motive to manipulate the price of the stock. Mr. Donovan stated that all

underwriters were completely sold out, and that he firmly believed all selling group dealers were sold out on both the first and second offerings referred to above. He said that no further financing was in contemplation. The firm has no option nor any intention of acquiring further stock for distribution. He said that his firm as banker for the issuer wanted to see broad distribution and an active dealer interest in the stock. His firm would desire to prevent the price of this stock from declining from present levels in any manner out of line with general market movements. He said that neither his firm nor the issuer had any desire to see the market price of the stock rise, nor, according to him, any purpose to raise the market price. On the other hand, both the issuer and his firm did wish to get other dealers interested in the stock, to "broaden" its market through what he had always considered was legitimate dealer trading in the course of making markets. I told Mr. Donovan that he could neither raise prices nor create activity for the purpose of thereby inducing purchase of the stock by others. I told him that, inasmuch as his firm still intended to support the market, albeit in a flexible manner, any raising of market prices incident to artificial support of the market would, of course, be questionable. On the other hand, I explained to Mr. Donovan that if the purpose of his firm was merely to maintain an over-the-counter market and to take profits represented by the spread between the firm's bid and asked prices, such prices reflecting supply and demand rather than some ulterior purpose of his firm to get the stock up, such trading would seem lawful since not undertaken for the purpose proscribed by law.

I told him that of course I could not express any opinion as to what his purpose may, in fact, be. I suggested that the longer the time lag between termination of distribution and raising of market prices in the course of making a market, the less it would look as though such raising of market prices had been undertaken to facilitate the distribution or avoid the "backwash" from the offering. I gathered from Mr. Donovan that Mr. Parlin had looked with considerable suspicion upon proposed trading so long as Schroeder, Rockefeller retained its existing short position. I therefore told Mr. Donovan that I was reluctant to express any opinions upon the matter, other than to restate and explain the statute itself, without knowing just what Mr. Parlin may have said. Accordingly, I suggested to Mr. Donovan that before any raising of the firm's bid price takes place, he should call again upon Mr. Parlin. I told him that Mr. Parlin and I could perhaps get together on the matter, either on the phone or by memorandum, on the basis of the factual situation which may exist when Mr. Donovan has a later conference with Mr. Parlin.

FTGreene/jjt

cc George Parlin
Mr Turman
Mr Poole