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October 31, 1973

Securities and Exchange Commission
Division of Enforcement
500 No. Capitol Street
Washington, D.C. 20549

Attention: Richard Kraut, Esq.
Harold Halperin, Esq.
Charles Lerner, Esq.

Re : Vetco Offshore Industries –
Ragnar Option Co.

Dear Sirs:

As you know, we have represented Ragnar Option Co. (Ragnar) and Victor Sperandeo in connection with your investigation in certain trading practices in the stock of Vetco Offshore Industries (Vetco). In our initial contacts with the Staff on behalf of Ragnar we were informed that the Staff was primarily investigating the trading activities of one Irving Eisenberger and that the assistance of Ragnar and Mr. Sperandeo, as witnesses, was requested to explain the procedures in the Vetco option trading.

To that end Mr. Sperandeo has appeared before the Staff on three occasions and extensive testimony has been taken. Many documents were produced and the records of Ragnar were at all times open and available for inspection by the Staff. There can be no dispute that Mr. Sperandeo's testimony was at all times complete, candid and open. In addition, Ragnar and Sperandeo have at all times cooperated with the Staff in its efforts to ascertain the relevant facts concerning the Vetco option trading.

Accordingly, we were quite surprised to learn that you are considering recommending proceedings against Ragnar which would include allegations that Ragnar and/or Sperandeo participated in a manipulation in Vetco. You have indicated to us the general theory upon which your allegations rest and the circumstantial nature of your evidence. Based upon the facts as we know them, we believe your conclusion to name Ragnar in such a proceeding is unwise and unjust, and perhaps based upon a failure to place all the relevant facts in a proper perspective.

Accordingly, we are submitting herewith a statement on behalf of Ragnar and Sperandeo which we believe sets forth the facts as we understand them and the applicable considerations of law. We believe a fair and objective view of the facts leads to the conclusion that Ragnar and Sperandeo were no more than order takers for Eisenberger. Moreover, we believe the facts also show that Ragnar was given no reason to believe that the trading of Eisenberger or the market activity of Vetco, was inconsistent with legitimate investment decisions and market factors.

Lastly, given the uniqueness of the theories upon which any allegation of manipulation must rest and the circumstantial nature of any proof with respect to Ragnar, we trust that any proceeding against Ragnar would be a private proceeding. We cannot impress more strongly our belief, in this regard, that any public proceeding would be unfair, and unjust and unnecessarily bring about deleterious publicity for Ragnar.

We hope that this letter and the accompanying statement will convince you not to recommend a proceeding against Ragnar, but in the event the Staff recommends that such proceedings be instituted, it is requested that this letter and the enclosed statement be transmitted to the Commission in opposition to the Staff's recommendation.

Very truly yours,

Kenneth J. Bialkin

MBT:jn
Enclosure

cc: Stanley Sporkin, Esq.
Deputy Director

STATEMENT ON BEHALF OF RAGNAR
OPTION CO. AND VICTOR SPERANDEO

We have acted as counsel for Ragnar Option Co. ("Ragnar") and Victor Sperandeo in your investigations of certain trading in the stock of Vetco Offshore Industries ("Vetco"). The staff has advised us that it is considering recommending that a proceeding be brought against Ragnar and/or Mr. Sperandeo primarily on an allegation concerning manipulation of Vetco stock. On the basis of the facts available to us, we do not believe it would be just, equitable or in the public interest for the Commission to initiate administrative or legal proceedings against Ragnar or Mr. Sperandeo.

More specifically, the staff has indicated that it has reason to believe certain of Ragnar's customers were engaged in a manipulative practice to cause the stock of Vetco to be traded at an artificially inflated price. The staff has further indicated that it believes that Ragnar and Sperandeo knew of such a purpose in the trading of its customers and participated in that purpose. Other matters which have been considered are the computation of Ragnar's net capital requirements for December 31, 1972 and Ragnar's method of bookkeeping.

It is the purpose of this statement to set forth our understanding of the facts (based upon our attendance at the taking of the testimony of Sperandeo, examination of documents produced to the staff and conferences with our client) and explain why we believe any such proceeding against Ragnar or Sperandeo would be an injustice to them. We believe any conclusion that the activities of Ragnar was undertaken with the purpose of manipulating Vetco stock could only be reached as a result of viewing the facts through a prosecutorial prism and that an examination of the facts with any objective view, as they must have appeared to Ragnar, leads to a conclusion that Ragnar not only did not knowingly participate in a manipulation but also had no reason to believe that a manipulation was occurring.

The most serious proposed accusation, of course, is that Ragnar knowingly participated in a manipulative device or scheme. The staff has conceded that its accusations in this regard are purely circumstantial; that is, that it is based on an interpretation of a series of facts. Many of the facts from which the accusation is drawn are not in dispute. Accordingly, while we do not attempt in this submission to argue the veracity of many of these facts, we do set forth our view of the facts applicable to Ragnar and attempt to place them in perspective with some other facts which may not be known to you.

GENERAL BACKGROUND

In July of 1971 Sperandeo and a partner formed Ragnar as a broker-dealer to engage primarily in the buying and selling of options as a dealer. Prior to this time, Sperandeo had been an option trader with Filler, Bullard & Smyth, U.S. Options and Marsh Block and Leibler. At Ragnar, Sperandeo had primary responsibility for the option trading.

Sperandeo first learned of Irving Eisenberger while he was with U.S. Options in 1970 and learned of Eisenberger's reputation as a large purchaser of options, almost exclusively call options. Sperandeo also learned that Eisenberger was investment adviser to the Vatican and in that capacity managed substantial sums of money. Sperandeo further learned that Eisenberger enjoyed the reputation for being a sophisticated investor who had dealings with many option dealers and member firms without any hint of impropriety.

Sperandeo also dealt with and knew of Michael Batterman prior to their dealings in Vetco. Batterman also enjoyed a reputation as being a highly sophisticated investor in options, primarily as a seller. Batterman had sold large quantities of options on numerous issues in the past, including options on American Telephone, Fanny Mae, Solitron, Allegheny Air Lines, Tool Research and as with Eisenberger, enjoyed a good reputation. Sperandeo had no reason to believe that Batterman had ever been accused of engaging in questionable conduct.

Ragnar has also enjoyed a good reputation for integrity and good business dealings. Sperandeo had always made an effort at Ragnar to avoid any transactions where he felt any doubt about the integrity of its customers or the legality of the transactions. Thus, Ragnar refrained from dealings with Power Conversion because of Sperandeo's doubts upon the integrity of the option trading. Ragnar also avoided any dealings with Options on Shorer. Similarly, Sperandeo did not permit Ragnar to become involved in any suspicious transactions with N. B. James. Thus, the transactions in Vetco are not part of a pattern of questionable transactions and must be viewed in the context of Ragnar's general business ethics.

As to the transactions in Vetco, Eisenberger first commenced purchasing calls in Vetco from Ragnar in or about July of 1972 while Vetco was trading at a price of about \$57 per share. Sperandeo did not commence large trading in Vetco without undertaking his own investigation. Thus, Sperandeo did some research on Vetco and satisfied himself both of its investment merit and tradeability for purposes of options selling. Thus, Sperandeo learned Vetco has approximately 3,000,000 total shares issued, was held by over twenty institutional investors and had enormous potential in a growth field. In this connection, Sperandeo knew that there were only approximately four other stocks listed on the American Stock Exchange which were held by over twenty institutional investors.

Sperandeo could readily distinguish Vetco from a closely held, thinly capitalized, unknown over-the-counter stock in which other option dealers were writing options. That there could be no doubt that a sophisticated investor could have legitimate interests in Vetco was further demonstrated by the general overall success of other off-shore drilling companies such as Halliburton Co., Schlumberger, Ltd. And Sedco, Inc.

The purpose of this general background information discussed above is both to set the stage for a discussion of some of the specific items and to establish the context in which Sperandeo approached his dealings in Vetco.

TRADING IN VETCO

While we believe the general climate in which Sperandeo was operating with Vetco could not reasonably give rise to any suspicion that anything untoward was occurring, to further disabuse the staff of its view that Sperandeo was participating in a manipulation, we think it important to discuss some of the specific items which the staff have concentrated on in your investigation. The staff asked Sperandeo repeated questions as to whether he considered that Eisenberger might have been using call buying and the concomitant conversion buying as a price support for Vetco Stock. Sperandeo has repeatedly indicated that he did not believe it at the time and that even by hindsight cannot reasonably conclude that such was the case. Indeed, there are many reasons why Sperandeo would not have come to the conclusion.

First, as was indicated, Vetco was held by a significant number of institutional investors, all of which, insofar as known by Sperandeo, held the stock without any strings from Eisenberger and all of which could have sold the stock should it have acted poorly. In fact, when Vetco's fourth quarter earnings were announced on July 24, 1972, approximately 168,200* shares traded and Vetco was down 5-1/4 points that day. On July 25, another 101,800* shares traded and Vetco was down another 4-7/8 that day. Thus, Sperandeo had reason to believe that no amount of buying by Eisenberger would hold the price of Vetco at an artificial level; for, a stock which could react so sharply and so severely to a report of flat earnings (\$.10 v. \$.09) was not in Sperandeo's view a stock which offered a manipulative opportunity. In Sperandeo's view,

* Adjusted to reflect 2 for 1 split.

for Eisenberger to have absorbed the selling which resulted on the report of flat earnings, Eisenberger would have had to purchase 2600 papers in a two day period. (In the history of Ragnar's dealings with Eisenberger, the most papers that he had purchased in any one day was approximately 150.)

Second, the market price of Vetco itself offered no evidence that any manipulation was contemplated or in process. Thus, in July through December, while Eisenberger was purchasing significant numbers of call options, the price of Vetco went from the mid 50's to the low 40's and back to a high of approximately 60. Rather, the stock reacted as would any other stock, poorly with rather unfavorable earnings reports, and strongly with favorable earnings reports. Thus, since October 1972 Vetco has consistently announced improved earnings and the price of the stock has been steadily rising.

Third, at no time during the course of Ragnar's trading with Eisenberger did Eisenberger demand Ragnar to produce options; in fact, there were many orders for options which Ragnar could not fill. At no time did Eisenberger demand that sellers of options hold Vetco stock out of the market during the course of the option. At no time did Eisenberger instruct Sperandeo to purchase options to drive up the price of Vetco artificially. At no time did Sperandeo have reason to believe that Eisenberger was both selling and buying options. By way of summary, none of the trading in Vetco was in any way inconsistent with legitimate market activity and, accordingly, could not have given Sperandeo reason to believe Eisenberger was manipulating the price of Vetco.

The specific trading practices of which the staff concentrated its questions are all consistent with legitimate investment decisions. In the examination of Sperandeo the staff specifically asked Sperandeo about the following trading practices: (1) Eisenberger's desire, at a certain period in time, to match the execution of sales on expiring options with that of the

purchase of new options at the opening of trading; (2) Eisenberger's requirement in certain cases that a seller of options to him buy stock on the market; and (3) Certain matching on conversion buying with block sales of Vetco stock during the course of a trading day.

We believe that each of the above items is readily explainable and was understood by Sperandeo to be justified by Eisenberger's desire to get the best price and execution for his Vetco options.

As to the matching of purchases of new options with the execution of old options at the opening of trading, Eisenberger explained that necessity to Sperandeo as follows. If he did not contemporaneously sell the exercised stock and purchased the new options, he would be subject to the Vetco specialist's tendency of taking the stock down on sales and running it up on purchases. Thus, if the transactions were done at different times, Eisenberger's clients would receive less for the stock they sold and pay more for the options they bought, all to the profit of the specialist. However, by matching the transactions at the opening, Eisenberger's clients received the best price for execution on both sides of the trade. Sperandeo accepted this explanation in good faith and still believes it to be true. The staff has also asked why Eisenberger did not extend the options if his desire was to buy new options at the exercise or expiration of old ones. The answer is two-fold. First, Eisenberger did attempt on many occasions to have options extended and, in fact, Sperandeo did arrange to have the sellers extend certain options. However, the seller was not always agreeable to the extension and, accordingly, the extension could not automatically be obtained. Second, by exercising old options, Eisenberger was able to realize appreciated profits and apply the same to increase his leverage on new options whereas an extension of an old option would leave the profits unrealized.

There is also a legitimate business purpose in Eisenberger's requiring sellers of options to him to purchase Vetco Stock. Eisenberger explained this requirement to Sperandeo in terms of assuring a fair striking price on his options. Indeed, Eisenberger told Sperandeo that he stopped

dealing with another option dealer, M. C. Adams, because Eisenberger continually was given striking prices higher than the last price at which the stock traded. This is possible because of the manner in which option dealers trade with sellers. Apparently, many sellers will take a bid “firm” from an option dealer, watch the market, and then call back the option dealer and state that the options were written on a previous trade. Under this system, Eisenberger told Sperandeo he was getting striking prices which varied from ½ to a full point from the market price of Vetco stock. To avoid this practice and to assure the integrity of the price, Eisenberger instituted the requirement for a limited period of time that his sellers buy stock. It is significant to note that Eisenberger, to Sperandeo’s knowledge, required this of the other option dealers with which he dealt. It is also significant to note that, once Eisenberger developed trust in Sperandeo’s trading practices, he no longer required Sperandeo to stipulate to the sellers that stock be bought. In addition, at no time did Eisenberger demand that his sellers hold Vetco stock after the sale or that the sellers not short Vetco stock at or about the same time as they purchased Vetco stock.

With respect to the matching of conversion buying with sale of stock controlled by Eisenberger, the following must be noted:

At no time during the course of Sperandeo’s dealings with Eisenberger did Sperandeo know that Eisenberger controlled any large selling of Vetco stock. As far as Sperandeo knew, all selling by, or under the control of Eisenberger, was done via the exercise of calls and, as to this selling, Sperandeo himself placed orders for the trades. At no time did Eisenberger demand that Ragnar sell him an option, and, indeed, there were many instances where Eisenberger’s orders went unsatisfied. Sperandeo did know that Eisenberger wanted to buy options when there was significant selling Vetco and understood from Eisenberger and by his own experience that such a time was the best time to buy options at the cheapest prices. Vetco was a legitimate stock, (a stock which is just now reaching new prices without the assistance of Mr. Eisenberger) and a logical stock in which Eisenberger might choose to invest heavily. As with any other stock, the

best way to accumulate large positions is to buy stock when there is selling. Thus, Sperandeo could see nothing manipulative in a desire to buy stock at the lowest price possible.

Sperandeo's relationship with Batterman has not been discussed earlier because the staff of the Commission has not informed us where that relationship fits in the allegation of manipulation. It is true that Batterman was Rangar's most prolific seller of Vetco options but Sperandeo also bought large quantities from Shearson, Hammill and others. As was indicated earlier, Batterman had a history of being a large seller of options and Sperandeo knew that Batterman would be interested in selling options at the right price. Sperandeo believed Eisenberger and Batterman did not know of each other's existence prior to Eisenberger's involvement in Vetco and, even after Eisenberger and Batterman came to know each other, Sperandeo had no reason to believe that Eisenberger and Batterman had any "special arrangements" or that their dealings were other than legitimate trading in Vetco options.

It is also important to note that Sperandeo had no significant personal contacts with either Eisenberger or Batterman. In fact, Sperandeo only met Batterman once and Eisenberger twice, and these meetings were described by Sperandeo as social occasions without serious business discussion.

NET CAPITAL AND RECORD KEEPING REQUIREMENTS

The staff has alleged that the December 31, 1972 computation of Ragnar's net capital is erroneous and that a proper computation reveals that Ragnar had a net capital violation. Specifically, there are 170 options which the staff believes were held short in Ragnar's account as of December 31, 1972 which should have been included in Ragnar's computation and were not. 76 of these options were call options which are represented in Ragnar's order tickets as part of a strap on Ticket #016063. We believe the testimony clearly indicates that this transaction was made on January 3, 1973 and as evidence thereof we note that the options were the common

year and 10 days options which, written in December would not have had the expiration date of January 14, 1973. Moreover, the ticket also bears two time stamps on January 3, 1973 which, given Sperandeo's testimony of his procedures for the stamping order tickets, is also inconsistent with a December trade date. In addition, the ticket itself reveals that Batterman purchased the stock which underlies the option in January and not in December. Thus, the ticket has on the buy side under the designation "Volume" the quantity of 15,200 shares. The 15,200 shares represent 76 calls on a pre-split basis. Consistent with Ragnar's practices, had Sperandeo confirmed 76 calls to Eisenberger in December, there would have been conversion buying or other buying in December in the pre-split stock. However, even if our factual contention as to these 76 options is not accepted, we do believe that the staff's computation of the net capital requirements is erroneous. The December 31 figures for Ragnar indicate that Ragnar has a net capital of \$331,667. Even if all 170 options are included as short options in Ragnar's account, there is no net capital violation unless you totally ignore the premiums received by Ragnar on such trades.* Thus, before a customer can exercise on any of its options, he will be required to pay the premium. Accordingly, Ragnar cannot be charged for an open contractual commitment on a short option and at the same time ignore the fact that, prior to any execution, the premium would have to be paid.

With respect to the record keeping requirements, there were a series of trades where there was some question as to when the trade was actually executed with DuPont. In each of these instances, Sperandeo was only able to tell with certainty when he received confirmation from DuPont's back office. We note, in this connection, that, with no exceptions member firms do not consider themselves bound on option trades until the option department has itself approved the transaction. Thus, even with Batterman, Sperandeo did not have an enforceable commitment

* Even then the staff is deducting approximately \$306,000 from Net Capital and totally ignoring that the short puts and calls would substantially cancel each other out.

from DuPont until DuPont's option department confirmed the trade to Ragnar. Subsequent to this investigation, Ragnar has instituted a new computerized order ticket form. We believe that with the new form, Ragnar's old record keeping deficiencies, if any, have been cured. We do believe, however, that further consultation with the staff is necessary to define the proper method of record keeping for option dealers and look forward to discussing the matter with the staff, but hope the same can be done outside the context of a formal proceeding.

CONCLUSION

It is submitted that further examination by the staff of all the facts, given the viewpoint we have offered herein, will lead to a conclusion that a proceeding against Ragnar is not warranted under the circumstances, and we urge that none be brought.

Respectfully submitted,

WILLKIE FARR & GALLAGHER