

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

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Accounting and Auditing Enforcement Release No. 151/
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SECURITIES AND EXCHANGE COMMISSION v. ALLEGHENY
INTERNATIONAL, INC.

United States District Court for the District of Columbia
Civil Action No. 87-2472.

The Securities and Exchange Commission ("Commission") today announced the filing of a civil action for permanent injunction and other equitable relief in the United States District Court for the District of Columbia against Allegheny International, Inc. ("AI"). AI, a Pennsylvania corporation with executive offices in Pittsburgh, Pennsylvania, is a provider of consumer products and industrial specialties and is involved in the manufacture and sale of technology. Its stock is listed for trading on the New York Stock Exchange. Simultaneous with the filing of the Complaint, AI consented to the entry of a Final Judgment of Permanent Injunction and Other Equitable Relief, as more fully described below.

The Commission alleges in its Complaint that AI violated the periodic reporting, proxy solicitation and record keeping - internal controls provisions of the Securities Exchange Act of 1934 ("Exchange Act"). The Commission's Complaint alleges that from at least 1981 through 1985, AI, directly and indirectly, failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected its transactions and disposition of assets. The Complaint also alleges that AI failed to devise and maintain an adequate system of internal accounting controls. In addition, the Complaint alleges that, in its proxy materials for 1981 through 1985, AI failed to report accurately all items of executive compensation and failed to report all related party transactions. The Complaint also alleges that, in its annual report for 1983, AI failed to include required information in the section on Management's Discussion and Analysis ("MD&A") of financial results.

Among other things, the Complaint makes the following allegations:

Allegations Regarding Books and Records and Internal Controls

(1) For the period 1980 through 1985 AI maintained up to five jet aircraft. During this time period, numerous personal trips were taken by certain AI executive officers and others at the direction or with the consent of certain AI executive officers. AI failed to make and maintain adequate records concerning this personal aircraft usage.

(2) In 1985 AI purchased a residence located near Ligonier, Pennsylvania, referred to as the Hunt Club Condominium, at a cost of about \$650,000. The Hunt Club Condominium was never used for any corporate function. AI did not maintain records of the use of this residence and it appears that while it was owned by AI, only AI's former Chairman and Chief Executive Officer, Robert J. Buckley ("Buckley") and his family members used the Hunt Club Condominium. In 1981, AI purchased a townhouse located in London, England for the exclusive personal use of an executive of an AI subsidiary at a cost of approximately \$50,000. AI kept virtually no records relating to the acquisition or personal use of the London townhouse.

(3) In 1981 and 1985 AI purchased over 200 cases of wine for approximately \$113,000. AI did not maintain records relating to the use of any of the wine purchased in these transactions. Moreover, from at least 1975 through 1985 AI paid for club dues and the cost of purchasing or leasing and maintaining automobiles for certain executives and imputed 10% of the costs of the club dues and automobiles to the executives' income as reflecting personal use. This 10% figure was chosen on an arbitrary basis and had no documented or other discernible relationship to actual personal use.

(4) In 1982 a group of AI officers formed several partnerships for personal investment purposes, referred to as the "Banff Partnerships". In the course of their employment or retention by AI, several AI employees and outside lawyers and accountants structured and administered, at AI's expense, the Banff Partnerships. The Banff Partnerships bore no relationship to any AI corporate purpose. No records of the resources devoted by AI to the Banff Partnerships were made by AI, and AI did not attempt to charge for or otherwise maintain accountability for these benefits.

(5) In 1981 AI purchased the Dover Hotel, located in New York City, at a cost of \$10.5 million. AI planned to rehabilitate the Dover Hotel. AI failed to employ effective internal controls with regard to the Dover Hotel project, which resulted in the Board of Directors not being alerted to cost overruns on that project.

(6) In 1980 and 1981 Buckley and certain other senior officers purchased condominium units in a complex known as LaMer, located in Vero Beach, Florida. In 1981, AI purchased a majority interest in the limited partner ("Kaimona") of LaMer for \$1.45 million. This purchase was not approved as required by the AI Board of Directors. Moreover, on several occasions a wholly-owned subsidiary of AI, Allegheny International Realty Development Company ("AIRDCO"), avoided obtaining required board approval for certain of its projects.

(7) From 1981 through 1985, certain AI executive officers did not properly complete proxy questionnaires by not reporting certain information regarding their personal use of corporate assets and their knowledge of related party transactions. These failures frustrated AI's internal controls and resulted in the omission from AI's proxy

material of required disclosures regarding affiliated transactions and personal benefits to certain officers and directors.

(8) In 1983 AI did not provide one of its internal auditors with necessary substantive records to properly examine aircraft usage as part of an audit of inventory utilization, and, in 1984, an internal audit report concerning the Dover Hotel, which uncovered cost overruns, related party transactions, and improper expense claims by employees, was not transmitted to the Board of Directors or to the Audit Committee.