

SEC says stock manipulated to influence Texas solons

DALLAS (AP) — U. S. Dist. Judge Sarah Hughes granted a temporary restraining order Tuesday preventing 15 individuals, banks and companies from selling unregistered securities in a case blossoming into a state-wide investigation.

The U. S. Securities and Exchange Commission alleged in a civil suit of which the restraining order is a part that some of the defendants engaged in "manipulative and deceptive" practices in the sale of securities.

House Speaker Gus Mutscher and two of his top aides acknowledged Tuesday they bought and sold shares of a stock the government alleges was used as an inducement to win passage of a state bank deposit insurance bill which Gov. Preston Smith vetoed.

The government alleges in the

suit that a plan was put through the Texas Legislature to allow private insuring of state bank deposits.

To get the bill passed, the SEC petition claims, "certain legislators, legislative employees and members of the executive branch" were loaned large amounts of money to buy stock in National Bankers Life.

Some of the officials commenting said they lost money on the stock while others gained.

The SEC claimed that Ling and Co., headed by Michael Ling of Dallas, manipulated stock to its and others advantage, citing one life insurance stock selling at \$9 a share. The SEC said this was manipulated to \$29 a share and now sells at \$3.

Judge Hughes further ordered the banks and companies named to abstain from "directly or in-

directly appropriating, dissipating, converting or wasting of any funds, securities or other assets or property."

The restraining order will be in effect until Jan. 29, when Judge Hughes is expected to extend it.

A hearing on the next step, a preliminary injunction, is set for Feb. 8, Judge Hughes said.

No date for a full-scale trial was set. It is at that trial that the question of a permanent injunction will be decided.

The judge made her decision at an informal hearing attended by about 20 lawyers.

No evidence was presented at the Tuesday hearing.

Deposited with Judge Hughes was a number of large boxes of documents bearing on the case, including depositions from a large number of persons.

Some of the lawyers sought to obtain copies of the documents, but were unable to do so immediately.

The SEC said the investigation began with a routine broker-dealer registration check of Ling and Co., a broker firm operated by Michael F. Ling, one of the defendants. Ling's broker-dealer registration was revoked Jan. 14 and he was suspended from operating for 90 days.

Frank W. Sharp, a Houston builder, developer and financier, was one individual against whom the suit was directed.

One of those named was Waggoner Carr, a former Texas House Speaker. He denied any wrongdoing in connection with the case.

"Recently I have been associated with various businesses in which a lot of well known business men were involved," Carr said. "There were many transactions carried on over which I had no knowledge or control."

"I was personally not involved in any stock trading in the companies mentioned in the complaint. I am sure the hearing will bear this out."

In its complaint the SEC alleges the defendants engaged in a scheme to defraud and misrepresented material facts and omitted to state other material facts in the purchase and sale of stock in National Bankers Life Insurance Co. and Master Control, Inc., both of Dallas, and Olympic Life Insurance Co. of Fort Worth — three of the companies named in the suit.

Other individual defendants listed in the suit are J. Quincy Adams, Joseph P. Novotny, Tom Max Thomas, Sam Stock, Michael F. Ling, Donald S. Akins, Philip I. Proctor, William B. Strange, James Farha, David Hoover, Audy Byram and J. S. McCain, all of Dallas; and John Osorio of Austin and Frank W. Sharp of Houston.

Companies against whom the injunction also was obtained are Employes Retirement Plan, Nashwood Corp., Flap, Inc., South Atlantic Co., Dallas Bank & Trust Co. and City Bank & Trust Co., all of Dallas; and Sharpstown

Realty Co., Oak Forest Investment Co. and Sharpstown State Bank, all of Houston.

"The purchase was strictly from an individual's initiative and was not correlated with anyone else's efforts . . . It was strictly and completely a legal transaction," Mutscher asserted.

"The bill advanced strictly on its own merits," Mutscher said. He said he thought he bought the stock in July 1969, sold some and still has some.

"Much to my regret, it resulted in a bad investment, a loss," he said, adding that he did profit from sale of some of the stock.

Shannon said he bought about 4,000 shares at 11 and sold about 3,500 shares less than six months later at 20.

"Ling & Co. of Dallas was the broker, and I got all my billing from them on it. The loan was through Sharpstown State Bank in Houston," Shannon said.

He said he had "heard this was a stock that was likely to increase and there would be an opportunity to make some money."

Where did you learn of the stock?

"Just through my association with the speaker, Sonny Schulte (a speaker's aide) and Rush McGinty (another speaker's aide)," Shannon replied.

Shannon said he thought the SEC suit "is ridiculous as far as any state official is concerned."

He said he sponsored the deposit insurance bill "because I thought it was good for the bank depositors of Texas, and I still think it is good."

Shannon said he was unaware of any dealings like those mentioned in the suit.

"If I had been aware of it, I would not have had any part in it. I would not have been involved in any way," he said.

Lt. Gov. Ben Barnes denied ever owning stock in National Bankers Life. He said nobody ever talked with him about the stock and said he does not even remember the bill.

Mutscher, aides implicated

(continued from page 1)

much was sold and how much they still own. They also did not have figures on their profits or losses from the stock.

Each of the three House officials said they borrowed the money to buy the stock from Sharpstown State Bank. Baum said he and Smith also had borrowed from Sharpstown to buy the stock.

Mutscher said he knew of no influence by any of the defendants in the SEC suit on behalf of the deposit insurance bill.

He declined to elaborate on what motivated him to buy the stock, other than to say he had indications it would increase in value.

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Where did he learn of the stock?

"Just through my association with the speaker, Sonny Schulte, a speaker's aide and Rush McGinty," Shannon replied.

"Rush and Gus and some of the people around here are dealing and buying and selling stocks all the time," Shannon added.

He said he was unaware of

any attempt to use the insurance stock to get the bill passed.

"If I had been aware of it, I would not have had any part in it. I would not have been involved in any way," Shannon said.

In another Austin development, the State Securities Board said the SEC had kept it informed on matters under investigation which appeared to be within the state agency's jurisdiction. These included "the alleged misconduct of certain licensed securities dealers and their registered representatives."

"We are conducting a thorough examination into those cases and expect that administrative proceedings and possibly other proceedings will follow in the near future with regard to any material misconduct documented in the course of our investigations and examinations," the board said.

National Bankers Life's most recent report dated Dec. 31, 1969, to the State Insurance Board shows Osorio as president.

Sharp is shown as board chairman. The Sharpstown Realty Co.—another defendant in the SEC suit—controls 54 per cent of the company, the 1969 statement

several persons with the same name as defendants in the SEC suit also are listed as officers or directors of the insurance company, including Sam Stock, secretary, and director Joseph P. Novotny.

AM State Insurance Board source said former Gov. Allan Shivers controlled the company at one time. Osorio was one of Shivers' aides when he was governor.

The source said National Bankers Life was last examined by the insurance department in 1967 and was now under examination. He said he did not know why the examination was being made, although it appeared to be time for a routine check.

National Bankers Life was scrutinized by a Senate investigating committee in the late 1950s. The committee conducted hearings into certain alleged transactions between certain officials of National Bankers Life and insurance promoter Benjace BJ Cage, who fled to Brazil and never was extradited. The committee found that Cage negotiated unsuccessfully for control of National Bankers Life.

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