SEC Accuses ITT Firm Of Misleading Profit Data

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The Securities and Exchange Commission yesterday accused Avis, Inc., the rent-a-car firm controlled by International Telephone and Telegraph Corp., of misleading investors on the nature of its profits.

It was the second major regulatory action against ITT or a subsidiary in as many days. On Tuesday, the Internal Revenue Service revoked a controversial tax ruling that cleared the way in 1969 for ITT's acquisition of Hartford Fire Insurance Co. tax-free.

In a suit filed in New York, the SEC charged yesterday that Avis not only provided allegedly misleading information to stockholders and the public but also gave "inside" information to a private gathering of analysts.

The main SEC charge is that Avis failed to inform stockholders of a sharp decline in its car rental profits during the first three months of 1973. Instead, the SEC charged, the firm let them believe such profits were substantial when in fact most earnings came from selling off old cars in the Avis fleet.

The SEC also charged Rudman Associates, a New York limited investment partnership, and Venture Advisers, investment adviser to New York Venture Fund with taking advantage of inside information about the true nature of the profits.

All the parties named in the suit declined to comment until they have studied the allegations.

Under a 1971 consent agreement with the Justice Department, ITT is selling all its Avis stock, but it still owns 52 per cent of some 6 million shares. The rest must be sold by Sept. 24.

Securities lawyers said the SEC complaint marked the first time the commission has sought penalties because a firm did not provide separate data on important divisions of a firm's overall operations.

The SEC said the quarterly report in question did not disclose that 70 per cent of Avis' profits came from the sale of cars.

The SEC said Avis statements "gave the misleading impression" that foreign operations and car leasing had contributed substantially to earnings.

On May 16, 1973, the SEC continued, about a dozen stock market analysts attended a private meeting at the Avis headquarters on Long Island. There, it said, Avis officers first reported that rental earnings had deteriorated and that many cars had been sold in Florida to reduce its fleet.

The news didn't get to the general public until June 6, 1973, the SEC said.

In the meantime, the SEC alleged, Rudman Associates—which had been represented at the secret analysts meeting—profited through "a short-selling"—contracting to sell stocks at current prices and buying stocks to meet the contracts when the price is low.

According to the SEC suit, Rudman made $85,125 this way.

During the period of insider sales, the SEC said, Avis stock dropped from $33.50 a share to $18.25 a share.

Yesterday, the New York exchange halted trading in Avis upon news that the SEC suit was coming. It was last quoted at $16.625 a share, down from $18.25 on Wednesday—when trading also was halted because of an Internal Revenue Service reversal of a ruling on ITT's acquisition of Hartford Fire Insurance Co.

Former Stockholders To be Repaid by ITT

The approximately 17,000 former stockholders of Hartford Fire Insurance Co. will be paid back by International Telephone and Telegraph Corp. for any losses they may suffer from the retroactive revocation of an Internal Revenue Service ruling, ITT announced yesterday.

The IRS ruling, made in 1969, cleared the way for an ITT-Hartford merger by enabling Hartford stockholders to receive ITT shares in a tax-free exchange. The revocation, announced by ITT Wednesday, could make the shareholders liable to capital gains taxes of about $35 million according to ITT, or about $100 million according to critics of the original ruling and the merger.

In yesterday's announcement, ITT said it continues to believe the acquisition was tax-free and that the "technical points of law" at issue will be sustained in a court review to be sought by the conglomerate corporation.

"Failing that, we will reimburse Hartford shareholders for any net tax they might incur as a result of the IRS action," ITT said. The amount would have "no material effect on the corporation's earnings or continued growth," a spokesman added.