

WASHINGTON SERVICE BUREAU, INC.	
NAME	The Signal Cos., Inc.
JOB DIVISION #	33-144
FILE # WITHIN DIVISION	122
Letter also listed in file guide under division(s):	33-4(1)
PUBLIC AVAILABILITY DATE	8-19-74

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DIVISION OF CORPORATION FINANCE

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

JUL 19 1974

Brewster L. Arms
Vice President and General Counsel
The Signal Companies, Inc.
9665 Wilshire Boulevard
Beverly Hills, California 90212

Act	33
Section	4(1)
File	144
Publ	
Date	8-19-74

Re: The Signal Companies, Inc.

Dear Mr. Arms:

This is with respect to your letter of May 23, 1974 regarding the application of the holding-period provision of Rule 144 under the Securities Act of 1933 to restricted securities acquired by employees of the Signal Companies, Inc. ("Signal") in 1969 pursuant to Signal's Stock Option and Restricted Stock Award Plan for Key Employees ("the Plan"). In the absence of the Division's Chief Counsel, John Heneghan, I am responding to your inquiry.

AVAILABLE 3-4-74

You note that in a previous letter on January 31, 1974 this Division took the position that the Rule 144 holding period for employee purchases under the Plan subject to the substantial risk of forfeiture provisions of Section 83 of the Internal Revenue Code did not begin to run until full consideration for the shares had been given as evidenced by the lifting of restrictions on transferability of the shares. You ask that the Commission clarify the January 31, 1974 letter by addressing the question of when the Rule 144 holding period begins for shares awarded prior to the effective date of the Tax Reform Act of 1969 enacting Section 83.

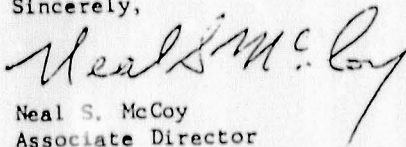
We understand the material facts as more fully set forth in your letters of December 20, 1973 and May 23, 1974, to be as follows: Certain key employees of Signal were granted in 1969 an aggregate of 100,000 shares of restricted Signal common stock. In conformance with pre-Section 83 structuring of such plans key employees granted the stock option rights received shares subject to transfer restrictions and to reacquisition rights held by Signal. During a ten year period after the granting of the shares, Signal would reacquire the shares at no cost to it if the employee left Signal's employ other than for reasons of retirement, death, or discharge not for good cause or under circumstances to which the Stock Option Committee of the Board of Directors consented. Additionally, the

transfer restrictions would expire in five equal annual installments beginning ten years after the date of the grant or after an employee termination of a type which did not trigger reacquisition by Signal.

You contend that the holding period for purposes of Rule 144 should begin at the time Signal's reacquisition rights lapse. You argue that the transfer restrictions applicable after the lapse of the reacquisition rights should have no effect upon the beginning of the Rule 144 holding period since those transfer restrictions are not geared to the performance of additional services and thus do not constitute additional consideration for the shares. Rather, you assert, the transfer restrictions applicable subsequent to the lapsing of the reacquisition rights are designed solely to impose a restriction "substantially affecting value" sufficient to permit deferral of the recognition of taxable income by the employee.

This Division is of the view that the transfer restrictions on shares purchased under employee stock purchase plans are relevant to the determination of a holding period only to the degree they indicate that full consideration has not yet been paid for the shares. Where, as is the case under plans structured to comply with Section 33, the transfer restrictions evidence the need for such additional consideration in the form of "the future performance of substantial services" the holding period will not begin until full consideration has been given as evidenced by the lifting of the restrictions. On the other hand where, as appears to be the case for the shares purchased by key Signal employees in 1969 under a Plan such as that described in your May 23 letter, the transfer restrictions merely represent a method of substantially affecting value and thereby permitting the deferral of tax obligations the holding period for purposes of Rule 144 remains unaffected. Consequently, with respect to the Signal arrangements described in your May 23 letter the Rule 144 holding period would begin when full consideration has been provided by the purchaser as evidenced by the lapsing of Signal's reacquisition rights without regard to the continuing applicability of transfer restrictions.

Sincerely,



Neal S. McCoy
Associate Director