SECURITIES AND EXCHANGE COMMISSION

NEWS DIGEST

A brief summary of financial proposals filed with and actions by the S.E.C.

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Washington 25, D.C.

FOR RELEASE August 22, 1962

VIOLATIONS CHARGED TO KAY & CO. The SEC has ordered proceedings under the Securities Exchange Act of 1934 to determine whether Kay & Company, 2316 South Main Street, Houston, Texas, engaged in practices which operated as a "fraud and deceit" upon certain persons or otherwise violated the Federal securities laws and, if so, whether its broker-dealer registration should be revoked.

Kay & Company ("registrant") is a partnership which has been registered with the Commission as a broker-dealer since February 26, 1960. Maurice Russell Karkowski, Edith Sukman Karkowski and Joseph Lee Karkowski are its general partners. In its order, the Commission recites charges of its staff that information developed in an investigation tends to show that from February 1960 to August 1962, registrant and said persons "engaged in transactions, practices and a course of business which would and did operate as a fraud and deceit upon certain persons," in that they accepted deposits of money and securities from customers and intended to and did thereafter appropriate such funds and securities to their own use and benefit. The staff also charges that registrant and said persons violated the anti-fraud provisions of the Federal securities laws in that they placed orders with brokers who are members of national securities exchanges for the sale of certain securities listed on the New York Stock Exchange while representing that registrant was acting as agent for a customer when, in fact, registrant sold said securities short for its own account and failed to deliver such securities, thereby causing the brokers to buy in such securities at losses.

Other violations charged by the staff include false and misleading representations made to purchasers and prospective purchasers of securities; failure of registrant to make and keep current certain books and records, as required, and the making of false and fictitious entries in registrant's books and records; conduct of a securities business while insolvent and without disclosing its insolvent condition to customers; and violation of the Commission's net capital rule. (The Commission in separate court action is seeking to enjoin similar violations by as well as the appointment of a receiver for registrant.)

A hearing will be held at 10:00 A.M. on September 13, 1962 at the Commission's Houston Office for the purpose of taking evidence on the foregoing to determine whether the staff charges are true and, if so, whether the broker-dealer registration of Kay & Company should be revoked. The hearing will initially concern itself with the question whether to suspend registrant's broker-dealer registration pending final decision on the question of revocation. The firm is a member of the National Association of Securities Dealers, Inc.; and one of the issues in these proceedings is whether it should be suspended or expelled from NASD membership.

LINCOLN FUND EXEMPTED. The SEC has issued an order under the Investment Company Act (Release IC-3526) granting an application of The Lincoln Fund, Incorporated, New Britain, Conn., for an order declaring that it has ceased to be an investment company. The Fund has no more than 28 beneficial stockholders. It intends to withdraw its Securities Act registration statement and does not presently propose to make a public offering of its securities.

SUBPOENA ENFORCEMENT ACTION FILED. The SEC New York Regional Office announced August 20th (Lit-2352) the filing of court action (USDC, Newark, N.J.) seeking to compel John A. Tricoli, Jr., president of F. S. Johns & Co., Inc., Union, N. J. broker-dealer firm, to respond to subpoena calling for the production of certain books and records.

CENTRAL TELEPHONE FILES FOR PREFERRED STOCK OFFERING. Central Telephone Company, 144 South 12th St., Lincoln, Nebr., filed a registration statement (File 2-20662) with the SEC on August 21st seeking registration of 250,000 shares of cumulative preferred stock ($25 par), to be offered for public sale through underwriters headed by Paine, Webber, Jackson & Curtis, 25 Broad St., New York, and two other firms. The dividend rate, public offering price and underwriting terms are to be supplied by amendment. The net proceeds from the stock sale will be applied to (1) the redemption of $730,500 of outstanding 5½% cumulative preferred shares, $800,000 of outstanding 5¼% general mortgage bonds, and such of its 4½% convertible subordinated debentures (maximum of $54,000) as have not been converted into common stock at the redemption date, (2) construction expenditures of the company including construction advances to subsidiaries (and further investment in their common stocks), and (3) other corporate purposes. Construction expenditures for the 20 months ending December 1963 are estimated at $25,000,000 (company) and $37,000,000 (consolidated). In addition to various indebtedness and preferred stock, the company has outstanding 2,657,476 shares of common stock, of which Western Power & Gas Company, a Delaware company, owns 57.2% and management officials as a group 1.6% (and 1.5% of the outstanding common stock of the parent). Max McGraw is board chairman and Judson Large is president.

TRADING BAN IN TWO STOCKS CONTINUED. The SEC has issued orders under the Securities Exchange Act suspending exchange and over-the-counter trading in the common assessable stock of Industrial Enterprises, Inc., and the Class A stock of Automated Procedures Corp., for the additional ten-day period August 23 through September 1, 1962.

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TEN SENTENCED IN "8%" CASE. The SEC Atlanta Regional Office announced August 20th (Lit-2351) that prison sentences of 20, 15 and 15 years, respectively, had been imposed upon Norman Gradsky, Robert Grene and Leonard L. Glaser by the U. S. District Court in Orlando, Fla., for fraud in the sale of securities of and by Credit Finance Corp. Six others received sentences ranging from 1 to 12½ years, while the tenth received a 5-year suspended sentence and five years' probation.

PUTNAM MANAGEMENT FILES FOR SECONDARY. The Putnam Management Company, Inc., 60 Congress St., Boston, today filed a registration statement (File 2-20664) with the SEC seeking registration of 150,000 outstanding shares of common stock (nonvoting), to be offered for public sale by the holders thereof through underwriters headed by Paine, Webber, Jackson & Curtis, 24 Federal Street, Boston, and Kidder, Peabody & Co., Inc., 20 Exchange Place, New York. The public offering price (maximum $14 per share*) and underwriting terms are to be supplied by amendment.

The company is investment adviser and principal distributor for two open-end investment companies, The George Putnam Fund of Boston and The Putnam Growth Fund. In addition to certain indebtedness, it has outstanding 100,000 common and 900,000 nonvoting common shares. Charles M. Werly, board chairman, owns 18.05% of each class. In addition, George Putnam, Jr., president and Gipp L. Ludcke, a vice president, own 13.30% of each class and William M. Hunt and A. Theodore Lyman, Jr., vice presidents, 10.9% of each class. Management officials as a group own 97.5% of each class. The prospectus lists 10 selling stockholders, including Werly who proposes to sell 27,769 shares, Putnam and Ludcke 20,462 shares each, and Hunt and Lyman 16,808 shares each. Others propose to sell amounts ranging from 3,846 to 14,615 shares.

EQUITY ANNUITY LIFE FILES FOR STOCK OFFERING. The Equity Annuity Life Insurance Company, 2480 16th St., N.W., Washington, D. C., filed a registration statement (File 2-20663) with the SEC on August 21st seeking registration of 150,000 shares of common stock, to be offered for public sale at $7 per share. No underwriting is involved. Such shares will be offered to existing stockholders in proportion to their present holdings and then to the public.

The company is licensed as a life insurance company in seven states, the District of Columbia and the Canal Zone, and engages primarily in the sale of individual, pension trust, and group variable annuity contracts. It intends to apply for licenses to do business in other jurisdictions and eventually to operate in all jurisdictions where it can be licensed to sell variable annuity contracts. The $1,025,000 estimated net proceeds from the stock sale will be used primarily to expand and develop the company's business in other states and to provide the company with additional capital and surplus. The company has been operating for six years and, according to the prospectus, has incurred a net operating loss each year. It has outstanding 100,000 shares of common stock (acquired for an aggregate of $700,000 cash), of which George E. Johnson owns 13.5%. Benjamin H. Dorsey is president. Sale of new stock to the public at $7 per share will result in an increase in the book value of stock outstanding from $3.25 to $5.40 per share with a resulting dilution of $1.60 per share in the book equity of stock purchased pursuant to this offering.

SECURITIES ACT REGISTRATIONS. Effective August 22: Canale Chemical Corporation (File 2-20460); Holiday Mobile Home Resorts, Inc (File 2-19735): Jos. Schlitz Brewing Company (File 2-19887); Maxwell Industries, Inc. (File 2-20629); Sage International, Inc. (File 2-20303). Withdrawn August 21: Cost Plus, Inc. (File 2-20370); Ridgewood Financial Corporation (File 2-20122). Withdrawn August 22: Lewiston-Gorham Raceways, Inc. (File 2-19942); Merco Enterprises, Inc. (File 2-20265).

*As estimated for purposes of computing the registration fee.

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