

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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NASD DISCIPLINARY ACTION AGAINST C. GILMAN JOHNSTON SUSTAINED. The SEC today announced a decision under the Securities Exchange Act (Release 34-7390) dismissing an appeal by C. Gilman Johnston of 3180 Monticello Blvd., Cleveland Heights, Ohio, from an order of the National Association of Securities Dealers, Inc. that found him a cause of the Association's expulsion of Johnston & Company, Inc., revoked his registration as a registered representative, and fined him \$5,000. The NASD found that the Johnston firm had recommended its own securities to customers for whom they were unsuitable, had sent erroneous confirmations to customers and posted incorrect figures to its ledgers, and had unlawfully extended credit to customers in connection with 21 transactions, and that S. Brooks Johnston and C. Gilman Johnston, the firm's officers and voting stockholders, were responsible for these violations.

The Commission found that the firm had made an aggressive effort to sell its securities to small investors at a time when its affairs were in a chronic state of confusion, its capital inadequate, and its losses heavy and continual. It noted that the firm's securities involved an extraordinarily high degree of risk and found that they were not suitable to the investment needs of at least some of the many small investors to whom they were sold, that neither the firm nor its salesmen had any reasonable basis for believing otherwise, and that it was not necessary to adduce evidence as to the investment needs of the particular investors involved.

The Commission rejected C. Gilman Johnston's contention that he was opposed to and uninvolved in the firm's recommendations of its securities. Although most of the sales were made at a time when he was assertedly inactive in the firm, the Commission found that he regularly visited the firm's offices, knew of the firm's efforts to sell its securities, and benefited financially from those efforts by continuing to draw his salary and by borrowing money from the firm. The Commission also noted that when Johnston later resumed an active role in the firm's management, he prepared and distributed to the salesmen a memorandum which praised the firm's securities in glowing terms. The Commission also held him responsible for the violations that did not relate to the unsuitable recommendations, stating that as an officer, director, and principal stockholder of the firm he was under a duty to see to it that the firm's business was carried on in compliance with applicable requirements.

JOHNSTON & COMPANY, INC. REVOKED. The SEC today announced a decision under the Securities Exchange Act (Release 34-7391), revoking the broker-dealer registration of Johnston & Company, Inc., 1330 Hanna Bldg., Cleveland, for violations of the anti-fraud, net capital, record-keeping, and other provisions of the federal securities laws. S. Brooks Johnston and C. Gilman Johnston, the firm's officers and voting stockholders, and Guy L. Ewing, Jr., Joseph S. Hepner, and Leo M. Miller, salesmen, were each found a cause of the revocation order.

The Commission found that the firm, its officers and its salesmen, had made false and misleading representations in the sale of the firm's own securities. Investors were not told of the firm's almost continuous operating losses. Instead, representations (none of which had any reasonable basis in fact) were made with respect to the firm's prosperity, its plans for expansion, for becoming a member of the Midwest Stock Exchange, and for paying a dividend, and to sharp and imminent increases in the value of its securities. Misleading comparisons were also made between the firm's securities and those of a large and well-known investment banking house. Customers were told that they could rescind their purchases, if they wished to do so, whereas in fact the firm was financially unable to comply with any significant number of rescission requests. In addition, the Commission found that the firm had permitted a customer's securities to be commingled with its own securities subject to a lien for a loan to it, had made false entries in its books, and had failed to amend its registration application so as to disclose certain changes in its officers and directors.

PROCEEDINGS AGAINST CARLETON SECURITIES DISCONTINUED. The SEC today announced the issuance of an order (Release 34-7392) permitting withdrawal by Carleton Securities Corp., 1025 Connecticut Avenue, N. W., Washington, D. C., of its registration as a broker-dealer under the Securities Exchange Act. At the same time the Commission discontinued proceedings on the question whether the company's registration should be revoked and whether Paul R. Smaldone, president and principal stockholder, should be found a cause thereof. The proceedings were based upon failure of the firm to make its books and records available for inspection by Commission representatives; however, such material was made available shortly after institution of these proceedings. According to the order, the National Association of Securities Dealers, Inc., has expelled the firm and revoked Smaldone's registration, and the firm is no longer engaged in the securities business.

COLUMBIA NATIONAL PROPOSES OFFERING. Columbia National Corporation, 17 S. High St., Columbus, Ohio, filed a registration statement (File 2-22680) with the SEC on August 7 seeking registration of 927,059 shares of common stock to be offered for sale (without underwriting) at \$5 per share. Of the proceeds from the stock sale, the company will retain 50¢ per share as selling commission and will pay 25¢ per share to Columbia National Service Company for administrative services connected with the offering and with the organization of the company and Columbia National Life Insurance Company. Also included in the registration

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statement are 72,941 shares of the company's common stock issued to Empire Life Insurance Company of America at \$4.25 per share in exchange for 31,000 shares of Columbia National Life; 115,000 shares subscribed for by Service Company at a purchase price of \$4.25 per share; 120,000 shares reserved for issuance upon the exercise of options; and, in addition, 300,000 shares of common stock of Columbia National Life Insurance Company

Organized under Ohio law in May 1964, the company intends to engage initially in holding all of the shares of Columbia National Life, an Ohio company organized in May 1963 as a legal reserve life insurance company. Net proceeds of the offering, after deduction of the 50¢ per share selling commission and 25¢ per share payment to Service Company, will be used for the purchase of the remaining 269,000 shares of Columbia National Life and for other investments. Leon Landon and R. W. Butler are president and vice president, respectively, of the company as well as of the Service Company and Columbia National Life.

WESTERN RESERVE LIFE ASSURANCE OF OHIO FILES FOR OFFERING AND SECONDARY. Western Reserve Life Assurance Co. of Ohio, 335 Euclid Ave., Cleveland, Ohio, filed a registration statement (File 2-22682) with the SEC on August 12 seeking registration of 313,352 shares of capital shares, of which 200,000 shares are to be offered for public sale by the company and 113,352 shares (being outstanding stock) by a selling stockholder. The offering is to be made through underwriters headed by McDonald & Co. and Ball, Burge & Kraus, both located at Union Commerce Bldg., Cleveland. The public offering price (\$25 per share maximum*) and underwriting terms are to be supplied by amendment.

The company is engaged in writing life insurance and annuities in eight states. Net proceeds from its sale of additional stock will be added to the company's general funds and will ultimately be used to acquire other insurance companies which may become available for acquisition in whole or in part for cash. The company has outstanding 652,434 shares of common stock, of which management officials as a group own 76,829 shares of record and 6,276 shares beneficially. The prospectus lists the selling stockholder as National Industries, Inc. Upon the merger of Pilgrim National Life Insurance Company of America into the company, Funded Security Corporation, which owned 99.87% of the outstanding shares of Pilgrim, received 113,352 of the company's shares. By terms of the agreement pertaining to that merger, these shares were deposited in a ten-year voting trust of which the trustees have been W. Scane Bowler (company board chairman), W. D. Callaghan, Jr., (president) and Lyman H. Treadway III. Although Funded Security Corporation is the record owner of the voting trust certificates issued with respect to these shares, National Industries, into which it was merged about June 1, 1964, is the present owner of such voting trust certificates.

PRINCETON CHEMICAL PROPOSES OFFERING. Princeton Chemical Research, Inc., Somerset County, N. J., filed a registration statement (File 2-22683) with the SEC on August 14 seeking registration of 70,000 shares of common stock, of which 66,500 shares are to be offered for public sale through the underwriter, Andresen & Co., 30 Broad St., New York. At the request of the company, the underwriter has reserved 3,500 shares of stock for allotment at the public offering price to company officers and employees. The company has also agreed to sell to the underwriter 5-year warrants to purchase a total of 7,000 common shares at a price equal to the current public offering price. The public offering price (\$6 per share maximum*) and underwriting terms are to be supplied by amendment.

Organized under New Jersey law in 1959, the company performs contract research and development work in the fields of plastics and catalytic processes. Net proceeds from its stock sale will be used to purchase and install new capital equipment capable of producing pyromellitic dianhydride, a chemical intermediate used in the manufacture of plastics with higher temperature applications. The company has outstanding 252,000 shares of common stock, of which management officials as a group own 46.43%. Calvin N. Wolf, president, owns 39.68% of the outstanding common stock, which he purchased for \$20,000 at the time the company was organized.

COLUMBIA GAS PROPOSES DEBENTURE OFFERING. The Columbia Gas System, Inc., 120 E. 41st St., New York, filed a registration statement (File 2-22684) with the SEC on August 14 seeking registration of \$40,000,000 of debentures due 1989, to be offered for public sale at competitive bidding. The company, an interconnected natural gas system, will apply the net proceeds from the debenture sale to its 1964 construction program, estimated at \$144,000,000.

LORE NOTO PROPOSES OFFERING. Lore Noto, 527 Lexington Ave., New York, filed a registration statement (File 2-22685) with the SEC on August 14 seeking registration of \$300,000 of Limited Partnership interests, to be offered for public sale in \$6,000 units. The interests relate to The Yearling Company, a Limited Partnership, to be formed for the purpose of managing and producing the dramatico-musical play presently entitled "The Yearling". The Partnership is to be formed under New York law following the successful completion of this offering. Subscribers are subject to a 20% overcall. The offering is not underwritten.

Note will produce the musical-drama, which was written by Herbert E. Martin and Noto and based upon the Pulitzer Prize novel of the same name by Marjorie Kinnan Rawlings. Music is by Michael Leonard with lyrics by Herbert E. Martin. The plot concerns a boy who grows up in the wild scrub country of Central Florida during the years following the Civil War and his transition from childhood into manhood. Noto and such other persons as he may designate will act as the General Partners and will manage the Partnership. The General Partners, who will make no cash contribution, will receive (a) 50% of any net profits, (b) 1% of the gross receipts as a management fee, and (c) \$350 per week office expenses for each company presenting the musical.

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