

Hogan & Hartson Faulted in Report On Vesco Actions

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A court-appointed special attorney charged that the powerful Washington law firm, Hogan & Hartson, was aware that a corporate client once controlled by fugitive financier Robert L. Vesco doctored company minutes but did nothing about it — a charge the law firm promptly denied.

In a 785-page report to a federal district court in New York City filed on Tuesday, special counsel David M. Butowsky said H&H attorneys were deeply involved with both Vesco and his company, International Controls Corp., at the time the financier was seizing control of the scandal-plagued Investors Overseas Services Ltd. IOS was founded and headed by international financial promoter Bernard Cornfeld.

Butowsky, a former Securities and Exchange Commission attorney now in private practice, spent 4½ years looking into the Vesco case. His report was written as part of a settlement of an SEC suit against ICC, the New Jersey-based electronics firm once controlled by Vesco.

The report ranges over the broad and complex affairs of ICC and Vesco, including their relationship with H&H.

H&H issued a 147-page rebuttal Tuesday accusing Butowsky of making "malicious misstatements" and "libelous" assertions.

The law firm suggested that Butowsky had a financial motive in writing a critical report because the special counsel, in the report, sought court permission to have his law firm retained to "prosecute claims against H&H," among others. "Needless to say, the legal fees for such a lawsuit would be very substantial," H&H states in its critique of Butowsky's work.

Yesterday, after the report was released, ICC filed a \$2.9 million lawsuit against H&H, also naming Merle

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Thorpe Jr., a partner in the firm, as a defendant.

But what troubled H&H most was that the report had the "imprimatur" of the court. For a week before its publication, the law firm used the appeals process in an attempt to divorce the report from its court origins.

H&H also argued that its rights had been violated because it had not been able to confront its accusers. It sought a stay of publication of the report to permit court hearing on the allegations.

After its request was denied, H&H issued its own version of what happened from the mid-1960s until March, 1972, when it was congl to ICC and also to Vesco.

In its response, H&H not only denies allegations made by the special counsel but also contends that lawyers for the firm actually blocked many Vesco schemes before they could be implemented. For example, the firm directly contradicts Butowsky's claim that they allowed minutes of board of directors meetings to be doctored.

Beginning in 1970 Vesco used ICC to gain control of Investors Overseas

Services Ltd., then a \$2.5 billion financial conglomerate based in Switzerland. Vesco looted IOS, making off with an estimated \$500 million of investors' funds. He has since invested the money in various ventures from his adopted homeland of Costa Rica, where he is immune from extradition.

In his report, Butowsky states: "Robert Vesco is a thief. He and a small group of accomplices bilked the investing public to an extent seldom paralleled in corporate history."

H&H attorneys were deeply involved with Vesco and with ICC at the very time that Vesco was using the modest-sized company to launch one of the most elaborate frauds of all time.

Not only did H&H act as council both to ICC and Vesco, who owned 25 per cent of the company, but an H&H partner Merle Thorpe, was on the ICC board of directors and remained there until March, 1972. According to the Butowsky report one of the H&H lawyers viewed Vesco as a personal friend.

Butowsky concluded that H&H, by representing the company and Vesco during a period when he was using the company's assets to enrich himself,

was in a "conflict of interest" that "constituted malpractice."

H&H collected \$2.5 million in legal fees from ICC from 1969 through 1972, Butowsky said. Vesco owed the firm \$14,000 for personal estate and tax legal work, but "he never paid those bills," Butowsky said, and "H&H would not press for payment since Vesco was the controlling person . . . of an important client (ICC)."

The SEC, in its recent enforcement actions against companies for bribery and political payments, has suggested that both outside accountants and law firms should act as policemen to their corporate clients.

Butowsky, in his report, suggests the same thing. "Certainly no later than the beginning of 1972, it must have been clear to H&H that Vesco intended to engage in self-dealing transactions for his own benefit with corporations he or ICC controlled."

But Butowsky quotes H&H attorneys as saying they knew of no fraud, and "in the absence of fraud, it was not considered H&H's responsibility to 'go to the SEC' nor to 'circularize the board as a whole.'"

But Butowsky points out that H&H's position was complicated by the fact

that it had its own man on the board of directors.

In its version, H&H calls the Butowsky suggestion that the firm should have policed Vesco's use of corporate assets "a radical departure" from the traditional principle on the function of a lawyer.

H&H argued that the function of a lawyer in a business transaction is to "analyze the legal implications of the fact given him . . . and advise the client of the legal considerations. . . . The decision whether to go forward with the business transaction is not that of the lawyer."