Casey Misled Investors on Agribusiness

By Dan Dorfman

A federal judge has ruled that William J. Casey, director of the Central Intelligence Agency, knowingly misled investors in a $3.5 million fund-raising effort for a now-defunct New Orleans company while serving as a board member and secretary of the firm.

Judge Charles E. Stewart Jr. of the Southern District of New York concluded that Casey was one of a number of officers and directors of Multiponics Inc. who permitted distribution of an offering circular that they knew contained false and misleading information and omitted material facts that were detrimental to the company's prospects.

The judge's findings, set forth in a "memorandum decision" May 19 that has until now escaped public disclosure, represent an outgrowth of a suit filed by unhappy Multiponics investors in October, 1974.

Multiponics was organized in January, 1968, to engage in farming operations, agribusiness and the acquisition of land. The company went bankrupt in February, 1971, after it was unable to raise sufficient financing to continue in operation. A public offering of stock had been contemplated, but never came to pass.

Casey, chairman of the Securities and Exchange Commission and head of the Export-Import Bank during the Nixon and Ford administrations, refused to comment on Judge Stewart's findings.

Casey's attorney, Arnold Jacobs, said it would be inappropriate for the CIA director to comment because a motion for reargument has been filed.

"We're asking him [Stewart] to reconsider and we're hopeful he'll reverse his position," said Jacobs.

Jacobs said that the circular in question, distributed to potential investors in October, 1968, was largely prepared by the now-defunct investment banking firm of Glore Forgan. Casey, Jacobs said, relied primarily on that draft.

Multiponics, originally known as Ivanhoe Associates, was formed by acquiring farm properties from the company's founders in exchange for capital stock.

Casey personally invested $145,614 in the company, and Multiponics, in acquiring his properties, took over his mortgage debt of $301,000. Multiponics also assumed the mortgage debts of all other founders — an amount that exceeded $2.7 million.

At no point in the offering circular were prospective investors informed that the company had assumed the multimillion-dollar debt of its founders.

In his findings, Stewart observed that because Multiponics stated in its offering circular that the company's growth and success depended on long-term financing, a potential investor was likely to be particularly interested in the indebtedness of the company.

The judge also was critical of what he regarded as another significant omission in the circular — the sizable amount of the proceeds from the proposed fund-raising effort that would be used to repay loans made to Multiponics by its officers and directors.

In a later prospectus, it was revealed that of some $1.35 million that would be used to retire short-term debt, $917,000, or 68 percent, would be used to repay such loans.

Whether Casey, who is said by Jacobs to have lost most, if not all, of his investment, made any such loans or received any repayment could not be immediately determined.

One of the judge's most telling findings, in which he concluded misstatement of facts, centers on a couple of disclosures in the circular about the company's farm properties.

The circular said, in brief, that

Company, Judge Rules

the company's properties included seven operating farm units and two tracts of as-yet-uncleared land, and that Ivanhoe Associates was formed through the merger of seven operating farm units and was operated until recently by an experienced group of agricultural, managerial and financial entrepreneurs.

Subsequent prospectuses filed by Multiponics in September, 1969, and July, 1970, raise serious questions about the validity of these statements.

In those prospectuses, it is stated that of the seven so-called operating farm units, two were not operating at all at the time they were acquired, two were operated by sharecroppers (farmers who lease the land and keep a chunk of the profits), and one was operating at a loss.

Judge Stewart observed that the defendants, including Casey, contend that the misstatements or omissions in the circular concerning the prior use of the farms "really had no significance in assessing the likelihood that Multiponics would succeed." Their reasoning: "The properties which Multiponics acquired were selected on the basis of their potential for large-scale 'agribusiness farming.' "

Rejecting this defense, Stewart asserted that the extent to which farms were operating at the time the company was formed would be significant in assessing present earnings capacity and capacity to raise capital necessary for expansion.

He added that the statements concerning the scope of the farming operations assume even greater significance when considered in the light of the undisputed facts that the company assumed substantial debt when it acquired the property.

The judge's findings note that the directors of Multiponics were present at a board meeting on Feb. 2, 1968, at which copies of a draft of the offering were distributed and discussed.

In his summation, Stewart observed that the defendants do not dispute that they knew material facts were misstated or omitted. Indeed, these defendants, he said, were personally involved in the underlying transactions.

Thus, he added, "there is no genuine issue of fact as to these defendants' knowledge of the material misstatements or omissions."

Presumably, the plaintiffs, at some point, will seek damages. Their attorneys declined comment.

The plaintiffs, according to court papers, consist of IIT, an international investment trust, and George Marshall Houx and others suing individually and on behalf of a class of all investors.

Aside from Casey, there are seven other defendants, all of whom served as directors of Multiponics at some point. They are Carl Biehl, Stanley Burkley, N. Leslie Carpenter, Alfred J. Moran, Lawrence Orbe, James Swinny and Joseph Zuccaro.