

## SEC v. International Systems & Controls Corp., J. Thomas Kenneally, Herman M. Frietsch, Raymond G. Hofker, Albert W. Angulo, & Harlan M. Stein (D.D.C. 1979)

### Nature of the Business.

International Systems & Controls Corporation (“International Systems”) is a Delaware corporation with its headquarters in Texas that provides services and products for the development of energy, agriculture, and forestry resources and for the processing, storage, and handling of natural resource and agricultural products. During the relevant time, International Systems registered its common stock with the SEC pursuant to Section 12(b) of the Exchange Act. Thomas Kenneally was the former Chairman of the Board and Chief Executive Officer of International Systems. Herman Frietsch was a Senior Vice President of International Systems. Raymond Hofker served as International Systems’ General Counsel and as a Vice President. Albert Angulo was the Executive Vice President of International Systems’ former subsidiary, Black Sivalls & Bryson, Inc., prior to its sale to another publicly owned corporation. Harlan Stein was the President of International Systems’ Engineering Group.

### Influence to be Obtained.

According to the SEC’s complaint, from approximately 1970 to 1979, the defendants made more than \$23 million in improper payments to senior government officials, including the ruling families, in several Middle Eastern, African, and Southern American countries. At the time of the Complaint, International Systems also had made promises to pay approximately \$10 million in additional payments as part of the scheme. International Systems and the defendants sought to secure certain contracts by making the illicit payments.

To facilitate the payments, International Controls made payments through its international subsidiaries, either directly to government officials or through their agents or third-party intermediaries. International Systems also failed to provide any information or supporting documents for numerous payments to government officials. Alternatively, International Controls used a system of inflated invoices and kickbacks to effect the scheme.

According to the SEC, International Systems engaged Special Counsel to conduct an investigation into these improper payments and disclosed the investigation in its SEC filings, but only after the SEC had instigated its own inquiry. The SEC also alleged several other misstatements in International Systems’ required filings.

### Enforcement.

International Systems and two individual defendants (who were the officers of International Systems) consented to the entry of permanent injunctions prohibiting future violations of the FCPA. Ancillary relief included the amendment of International Systems’ filings and appointment of an Audit Committee and a Special Agent.

### Key Facts

**Citation.** *SEC v. Int’l Sys. & Controls Corp.*, No. 79-cv-1760 (D.D.C 1979).

**Date Filed.** July 9, 1979.

**Country.** Saudi Arabia, Iran, Algeria, Ivory Coast, Nicaragua, Chile.

**Date of Conduct.** 1970 – 1979.

**Amount of the Value.** Approximately \$23 million.

**Amount of Business Related to the Payment.** Approximately \$750 million.

**Intermediary. Subsidiaries; Agents/Consultants.**

**Foreign Official.** Senior foreign government officials, including a Saudi government official, Iranian government officials, a senior Algerian military official, the Iranian Ambassador to the U.S. and Minister of Finance, President of Nicaragua, and members of the Chilean Junta.

**FCPA Statutory Provision.** Books-and-Records; Internal Controls (International Systems).

**Other Statutory Provision.** Securities Fraud (Exchange Act Section 10(b), Securities Act Section 17(a)); Materially False Filings (Exchange Act Section 13(a)); False Proxy Statements (Exchange Act Section 14(a)); Aiding and Abetting (Securities Fraud; Materially False Filings; False Proxy Statements).

**Disposition.** Consent Order (International Systems, Kenneally, Frietsch); None (Hofker, Angulo, Stein).

**Defendant Jurisdictional Basis.** Issuer (International Systems); Agent of Issuer (Kenneally, Frietsch, Hofker, Angulo, Stein).

**Defendant’s Citizenship.** United States (International Systems); Not Stated (Kenneally, Frietsch, Hofker, Angulo, Stein).

**Total Sanction.** None.

**Compliance Monitor/Reporting Requirements.** Special Agent; Audit Committee.

**Related Enforcement Actions.** None.

**Total Combined Sanction.** None.