



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

Karoly Law Offices, P.C.
c/o John Karoly, Jr., Esq.
1555 N. 18th Street
Allentown, Pennsylvania 18104

JUN 27 2005

RE: MUR 5504
Karoly Law Offices, P.C.

Dear Mr. Karoly:

On August 10, 2004, the Federal Election Commission notified Karoly Law Offices, P.C. ("Karoly Law Offices") of a complaint alleging violations of certain sections of the Federal Election Campaign Act of 1971, as amended ("the Act"). A copy of the complaint was forwarded to you at that time.

Upon further review of the allegations contained in the complaint, the Commission, on June 21, 2005, found that there is reason to believe that Karoly Law Offices knowingly and willfully violated 2 U.S.C. § 441b(a) and 2 U.S.C. § 441f, provisions of the Act. The Factual and Legal Analysis, which formed a basis for the Commission's finding, is attached for your information.

Karoly Law Offices may submit any factual or legal materials that it believes are relevant to the Commission's consideration of this matter. The Office of General Counsel is requesting that Karoly Law Offices submit all documents relating to each payment that it made to Jayann Brantley, Theodore Brantley, Eric Dalius, John Karoly, Jr., Joshua Karoly, Heather Kovacs, Peter Karoly, Rebecca Karoly, Christina Ligotti, Matthew Ligotti, Gregory Paglianite and Maryellen Paglianite from April 1, 2003 through January 31, 2004, including but not limited to salaries, bonuses, incentives, salary increases, reimbursements, advances, stipends and gifts, and state the reason or purpose for each such payment. Please submit these documents and other factual or legal materials within 30 days of receipt of this letter. Where appropriate, statements should be submitted under oath. In the absence of additional information, the Commission may find probable cause to believe that a violation has occurred and proceed with conciliation.

If Karoly Law Offices is interested in pursuing pre-probable cause conciliation, you should so request in writing. See 11 C.F.R. § 111.18(d). Upon receipt of the request, the Office of the General Counsel will make recommendations to the Commission either proposing an agreement in settlement of the matter or recommending declining that pre-probable cause conciliation be pursued. The Office of the General Counsel may recommend that pre-probable

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cause conciliation not be entered into at this time so that it may complete its investigation of the matter. Further, the Commission will not entertain requests for pre-probable cause conciliation after briefs on probable cause have been mailed to the respondent.

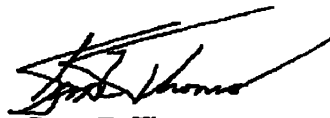
Requests for extensions of time will not be routinely granted. Requests must be made in writing at least five days prior to the due date of the response and specific good cause must be demonstrated. In addition, the Office of the General Counsel ordinarily will not give extensions beyond 20 days.

If Karoly Law Offices intends to be represented by counsel, please advise the Commission by completing the enclosed form stating the name, address, and telephone number of such counsel, and authorizing such counsel to receive any notification or other communications from the Commission.

This matter will remain confidential in accordance with 2 U.S.C. §§ 437g(a)(4)(B) and 437g(a)(12)(A) unless you notify the Commission in writing that you wish the matter to be made public.

If you have any questions, please contact Delbert K. Rigsby, the attorney assigned to this matter, at (202) 694-1650.

Sincerely,



Scott E. Thomas
Chairman

Enclosures

Designation of Counsel Form
Factual and Legal Analysis

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FEDERAL ELECTION COMMISSION
FACTUAL AND LEGAL ANALYSIS

Respondent: Karoly Law Offices, P.C.

MUR: 5504

I. INTRODUCTION

The complaint in this matter alleged that Karoly Law Offices, P.C. ("Karoly Law Offices") reimbursed law firm employees and other individuals for their contributions to Gephardt for President ("Gephardt Committee"), Richard Gephardt's presidential campaign committee. For the reasons set forth below, the Commission finds reason to believe that Karoly Law Offices, P.C. knowingly and willfully violated 2 U.S.C. §§ 441b(a) and 441f in connection with an alleged conduit contribution scheme in which reimbursements may have come from the law firm's corporate treasury.

II. FACTUAL AND LEGAL ANALYSIS

A. Factual Background

According to complainant, a former employee of Karoly Law Offices, the Gephardt Committee faxed a notice to John Karoly, Jr. in September 2003 regarding his pledge to raise an additional \$15,000 for the Gephardt Committee. Complainant alleges that it was his understanding that, on a day when the complainant was not in the office, John Karoly, Jr., the managing partner of Karoly Law Offices, "instructed" four employees, Gregory Paglianite, Jayann Brantley, Christina Ligotti and Heather Kovacs, to contribute to the Gephardt Committee, and reimbursed them and certain of their spouses for their contributions. Without saying how, complainant states "I am fully aware that the money was reimbursed from company funds . . . by the Secretary, Jayann Brantley, who was instructed by Mr. Karoly to reimburse the campaign

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money." Further, complainant alleges that John Karoly, Jr.'s two sons collected checks from the employees and from outside sources. Complainant states he witnessed the employees' reimbursement, and saw two checks from employees written to the Gephardt Committee, including one from Heather Kovacs, Mr. Karoly's secretary. An "Addendum" attached as the last page of the complaint states: "This is to confirm that on June 25, 2004 at approximately 10:00 p.m., I had a conversation with Heather Kovacs during which she confirmed to me that she was in fact reimbursed for the money which is referred to in this complaint."¹

As an attachment to the complaint, complainant provided a list of contributions. The list was apparently derived from public sources, but was annotated with his comments. The list shows contributions by Karoly Law Office employees, their spouses, a law firm client, and John Karoly, Jr.'s family members to the Gephardt Committee in 2003. Those contributions total \$23,000. All of the employee-related contributions were reported as received by the Gephardt Committee on September 30, 2003. Mr. Paglianite, Ms. Brantley and Ms. Kovacs each contributed \$2,000 and Ms. Ligotti contributed \$1,500 to the Gephardt Committee. The spouses of Mr. Paglianite and Ms. Brantley, Maryellen Paglianite and Theodore Brantley, contributed \$2,000 each and Matthew Ligotti, spouse of Christina Ligotti, contributed \$1,500. In his annotations, complainant states that Gregory Paglianite was a paralegal at Karoly Law Offices, and that his and his wife's contributions were reimbursed by one check for \$4,000. His annotations also state that Ms. Ligotti is a medical paralegal at the law firm.

Complainant's attachment also lists five \$2,000 contributions received by the Gephardt Committee in April 2003, apparently derived from public disclosure records. These include

¹ The complaint was filed with the Commission on August 3, 2004. According to complainant's handwritten notation on the first page of the complaint, it appears that the complaint was dated November 17, 2003 and updated on June 25, 2004. It appears that page 7 of the complaint, which is entitled "Addendum," was the updated material.

contributions from Eric Dalius, allegedly a law firm client, John Karoly, Jr., and John Karoly, Jr.'s wife, son and brother, Rebecca Karoly, Joshua Karoly, and Peter Karoly, respectively.

Complainant states in his attachment that he is not certain whether the April 2003 contributions were also a "scheme."

The Commission is in possession of identical statements from John Karoly, Jr. and each of the alleged conduits except Peter Karoly. Each statement is sworn and notarized by Heather Kovacs, except her own, which is not notarized. Each states "My contribution to the Richard Gephardt campaign was not based upon any reimbursement and I received no reimbursement for same."

The Commission is also in possession of a statement by Peter Karoly in which he describes the circumstances of his and his wife's contributions to the Gephardt Committee, but the statement does not address reimbursement. Respondent Karoly Law Offices did not separately respond to the complaint or file a designation of counsel.

B. Analysis

The complaint alleges a corporate reimbursement scheme that, if shown to exist, might constitute knowing and willful violations of 2 U.S.C. §§ 441b(a) and 441f by Karoly Law Offices.² There is no separate response by the respondent law firm denying any of the allegations nor did the law firm designate counsel to represent it, and Mr. Karoly does not purport specifically to be representing the firm.

² The knowing and willful standard requires knowledge that one is violating the law. *See Federal Election Commission v. John A. Dramesi for Congress Committee*, 640 F. Supp. 985, 987 (D. N.J. 1986). A knowing and willful violation may be established "by proof that the defendant acted deliberately and with knowledge that the representation was false." *United States v. Hopkins*, 916 F.2d 207, 214 (5th Cir. 1990). An inference of a knowing and willful act may be drawn "from the defendant's elaborate scheme for disguising" his or her actions. *Id.* at 214-15.

Some of the complainant's allegations are purportedly based on personal knowledge. In his "Addendum" he states that in a conversation on June 25, 2004, Heather Kovacs confirmed to him that she had been reimbursed. There is no statement on behalf of the law firm denying that Heather Kovacs or any other of the alleged conduit contributions were reimbursed, nor does the statement in the Commission's possession from Ms. Kovacs address the alleged conversation. In addition, complainant states that he "witness[ed] the office employees' reimbursement." Further, he states on his annotated list of contributions that the contributions of Gregory and Maryellen Paglianite were reimbursed by a single \$4,000 check.

The statements in the Commission's possession do not completely rebut the allegations. They contain no details concerning the circumstances under which the contributions were made or transmitted. While it might be said that the statements address the central allegation that the contributions were reimbursed, their terseness leaves room for other possibilities, such as that the funds were advanced, rather than reimbursed. Moreover, the FEC disclosure base shows that none of the law firm employees or their spouses ever made a contribution to a federal candidate before their September 2003 contributions.

Most significantly, it would appear that the complainant's very specific allegation about his conversation with Ms. Kovacs, wherein she supposedly admitted reimbursement, and her statement denying reimbursement cannot both be correct. Thus, there is a basis for investigating whether the contributions at issue were reimbursed.

Moreover, according to the Pennsylvania Secretary of State's office, Karoly Law Offices, based in Allentown, Pennsylvania, was incorporated in Pennsylvania in 1986, so that any contributions it funded would be prohibited pursuant to 2 U.S.C. § 441b(a). If there were any

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corporate reimbursements of conduit contributions in this matter, the complaint's allegations indicate they came from the law firm. *See* footnote 3, *supra*.

Therefore, there is reason to believe that Karoly Law Offices, P.C. knowingly and willfully violated 2 U.S.C. § 441b(a) and 2 U.S.C. § 441f.

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