

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

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US DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

JAMES MURPHY,
ROBERT LOCKWOOD, and
GILBOA PERETZ

Defendants,

CIVIL ACTION

NO. 00 11981 PBS

EXHIBIT # N/A
EXHIBIT \$ N/A
EXHIBIT REG. YES
EXHIBIT STATE A1
EXHIBIT STATE B1
EXHIBIT STATE C1
EXHIBIT STATE D1
EXHIBIT STATE E1
EXHIBIT STATE F1
EXHIBIT STATE G1
EXHIBIT STATE H1
EXHIBIT STATE I1
EXHIBIT STATE J1
EXHIBIT STATE K1
EXHIBIT STATE L1
EXHIBIT STATE M1
EXHIBIT STATE N1
EXHIBIT STATE O1
EXHIBIT STATE P1
EXHIBIT STATE Q1
EXHIBIT STATE R1
EXHIBIT STATE S1
EXHIBIT STATE T1
EXHIBIT STATE U1
EXHIBIT STATE V1
EXHIBIT STATE W1
EXHIBIT STATE X1
EXHIBIT STATE Y1
EXHIBIT STATE Z1
Eric Schlegel
9/26/00

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges that:

SUMMARY

1. This matter involves a financial fraud orchestrated by the senior management of Centennial Technologies, Inc. ("Centennial"), a Wilmington, Massachusetts high technology manufacturer, to overstate Centennial's financial results. Between April 1994 and December 31, 1996, Defendant James Murphy ("Murphy"), Centennial's former chief financial officer, and Emanuel Pinez ("Pinez"), the company's former chief executive officer, engaged in a fraudulent scheme to overstate the value of Centennial's revenues, net income, inventory, and fixed assets in public announcements and in financial statements filed with the Commission.

2. Murphy and Pinez effected this scheme with the assistance of Defendants Robert Lockwood ("Lockwood") and Gilboa Peretz ("Peretz"), who controlled certain Centennial customers. Lockwood and Peretz assisted in the fraud at Centennial by, among other things,

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falsely confirming fraudulent transactions to Centennial's auditors, signing false sales documentation, and/or by accepting, handling and paying for shipments of fake products from Centennial as if they were *bona fide* transactions. Overall, Centennial improperly recognized revenue totaling approximately \$21.2 million from at least 48 transactions during the period April 1994 through December 31, 1996.

3. Through the efforts of Murphy, Pinez, Lockwood, Peretz and others, Centennial reported positive net income for every quarter from the time of its initial public offering in April 1994 through the quarter ended December 31, 1996. In fact, Centennial did not earn a profit for any quarter during that period. Rather, the company incurred losses for each and every one of those quarters. However, based on the false financial information Centennial disseminated, the price of its stock rose sharply and consistently from its offering price of \$6.20 per share on April 12, 1994 to \$55.50 per share on December 30, 1996 (on a split-adjusted basis).

4. In January 1997, Centennial's auditors reviewed its financial statements for the quarter ended December 31, 1996. As a part of the review, a series of significant financial irregularities came to light, which were brought to the attention of the Centennial board. On February 11, 1997, Centennial announced that it had fired Pinez, relieved Murphy of his duties as the CFO, and would conduct an inquiry into the accuracy of its earnings announced for the quarter ended December 31, 1996 and its prior financial statements. That day, the NYSE halted trading in Centennial securities. When trading resumed on February 18, 1997, Centennial's stock price plunged 88%, closing at \$3 1/8 per share.

5. On January 27, 1997, Murphy sold 200 shares of Centennial common stock, generating proceeds of \$6,472.77. By trading ahead of Centennial's February 11, 1997

announcement that the company had begun an internal investigation of the financial irregularities at Centennial, Murphy avoided a potential loss of \$5,822.77.

6. On June 12, 1997, Centennial restated its financial results for fiscal years 1994 through the second quarter of fiscal year 1997. The restatement adjusted Centennial's revenues, inventory and other accounting categories, resulting in a reduction of net income of approximately \$40.2 million for this time period, erasing approximately \$12.2 million in previously-reported profits. Centennial acknowledged that it achieved its previously-reported sales figures using a number of irregular accounting practices.

7. By engaging in the transactions and practices alleged in this Complaint, Murphy violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] and Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b) and 78m(b)(5)] and Exchange Act Rules 10b-5, 13b2-1, and 13b2-2 [17 C.F.R. §§ 240.10b-5, 240.13b2-1, and 240.13b2-2]. Murphy, Lockwood, and Peretz aided and abetted Centennial's violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13]. In addition, Lockwood and Peretz aided and abetted Centennial's violation of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rules 10b-5 and 13b2-1 [17 C.F.R. § 240.10b-5 and 240.13b2-1].

8. Unless enjoined, Murphy, Lockwood, and Peretz are likely to commit such violations in the future. Accordingly, the Commission seeks entry of a permanent injunction against Murphy, Lockwood, and Peretz prohibiting further violations of the federal securities laws. The Commission also seeks civil monetary penalties against Murphy, Lockwood, and

Peretz. In addition, the Commission seeks disgorgement of ill-gotten gains from Murphy's insider trading, and a permanent bar prohibiting Murphy from serving as an officer or director of a public company.

JURISDICTION

9. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. §77v(a)] and Sections 21 and 27 of the Exchange Act [15 U.S.C. §§78u and 78aa]. Additionally, the acts and practices alleged herein occurred primarily within the District of Massachusetts.

10. The Commission brings this action pursuant to the authority conferred upon it by Sections 20(b) and (e) of the Securities Act [15 U.S.C. §§77t(b) and (e)] and Sections 21(d) and (e) of the Exchange Act [15 U.S.C. §§78u(d) and (e)].

11. In connection with the conduct alleged herein, Murphy, Lockwood, and Peretz directly and indirectly, made use of the means or instrumentalities of interstate commerce, of the mails, the facilities of national securities exchanges, and/or of the means and instruments of transportation or communication in interstate commerce.

PARTIES AND RELEVANT ENTITY

12. Murphy, 48 and a CPA, joined Centennial in December 1993 as a director and chief financial officer. As chief financial officer, Murphy assisted in the preparation of periodic reports Centennial filed with the Commission, and he signed multiple filings. In February 1997, he was fired by the board for his role in the Centennial fraud. On June 30, 1998, Murphy pleaded guilty to eight counts of securities fraud and one count of conspiracy to commit securities fraud

based on his conduct at Centennial. On May 17, 2000, Murphy was sentenced to 18 months imprisonment in a halfway house.

13. Lockwood, 52, is a close friend of Pinez who owned various companies that engaged in sham transactions with Centennial, including BBC Computers and Information Capture Corporation. On July 30, 1999, Lockwood was convicted by a federal jury on one count of conspiracy to commit securities fraud in connection with assistance he provided to Pinez in the Centennial fraud. On March 20, 2000, Lockwood was sentenced to 2 years, 3 months of imprisonment.

14. Peretz, 42, a Pinez associate, is the founder, president, and majority shareholder of PG Technologies, Inc. ("PG Tech"), a Centennial customer which was dissolved in 1999.

15. Centennial, headquartered in Wilmington, Massachusetts, is a high-technology company which manufactures computer parts. It was founded in 1987 and went public on April 12, 1994. Centennial issued additional stock pursuant to a secondary offering in March 1996, in which it raised \$22.1 million. During the relevant period, Centennial's securities were registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the American Stock Exchange and the New York Stock Exchange. It currently is delisted and has a listing application pending with the NASDAQ National Market.

FACTS

THE CENTENNIAL FINANCIAL FRAUD

Fiscal Year ended June 30, 1994

16. During the relevant period, Centennial's fiscal year ended on June 30 of each

year. Centennial's first quarter and fiscal year as a publicly traded company closed on June 30, 1994. On August 23, 1994, Centennial issued a press release for the fiscal year 1994 reporting sales of \$8.2 million, a 20% increase over the previous year, and net income of \$464,000, a 5% increase from the previous year. These representations were repeated in the Form 10-K that Centennial filed with the Commission on September 28, 1994, which also reported inventories of \$3.37 million and fixed assets of \$669,000.

17. Centennial's stated financial results for the fiscal year 1994 were materially false and misleading. Centennial's revenue, net income, fixed assets, and inventory for fiscal year ended June 30, 1994 were overstated by \$413,000, \$2,136,000, \$177,000, and \$1,790,000, respectively. To achieve the false and misleading figures, Pinez and Murphy orchestrated a series of accounting improprieties including, among other things, causing Centennial to recognize revenue from sales where customers, such as Lockwood and Peretz, were not obligated to pay for the product and adding non-existent products to its inventory list.

18. In June 1994, Murphy prepared the physical inventory list for the fiscal year ended June 30, 1994. When Pinez reviewed the list, he artificially inflated the value of Centennial's physical inventory by increasing the listed price of certain items, thereby proportionately increasing the overall value of the inventory. He also added non-existent products to the list. Murphy was aware that Pinez was adding non-existent products and artificially inflating the value of bona fide products thereby inflating the value of Centennial's inventory. For the year ended June 30, 1994, those additions accounted for approximately \$543,000 of the \$1.79 million in fraudulent inventory increases.

19. In fiscal 1994, Centennial recorded fixed asset additions of approximately \$500,000. Of these, approximately \$177,000 were bogus additions caused by Murphy to inflate fixed assets. For example, at Murphy's direction, accounting department personnel reclassified \$73,170 worth of inventory on Centennial's general ledger into fixed assets. Murphy also altered the subsidiary ledgers (which detail the fixed assets) to make them correlate with the general ledger by padding the subsidiary ledgers with modest (but non-existent) fixed assets and by increasing the value of legitimate fixed assets by relatively small amounts designed to escape detection by the auditors.

Fiscal Year Ended June 30, 1995

20. On October 13, 1995, Centennial filed its Form 10-K for the fiscal year ended June 30, 1995, in which it reported sales of \$12.4 million, a 51% increase over the previous year, and net income of \$874,000 when in fact it had incurred a net *loss* of income of \$5.8 million. Thus, Centennial's reported financial results for the fiscal year 1995 were materially false and misleading. Sales were overstated by \$3.5 million, or 39%. To achieve the false and misleading figures, Pinez and Murphy engaged in multiple improper financial transactions.

21. In mid-June 1995, Pinez created a fictitious licensing agreement pursuant to which Stanbridge, an off-shore entity he incorporated and controlled, agreed to pay Centennial \$285,000 for a license to use Centennial's "font library." This purported licensing agreement was memorialized in a June 15, 1995 letter from Pinez to Stanbridge. Murphy wrote the letter at Pinez's direction. On July 31, 1995, Centennial's accounting department generated invoices to Stanbridge totaling \$285,000, which were backdated to June 15, 1995, to conform with the date of Pinez's letter. Pinez also surreptitiously provided monies to Stanbridge, drawn from his

personal funds, to pay Stanbridge's obligations to Centennial. Through this sham transaction, Centennial improperly recognized revenue of \$285,000, which equaled 2.3% of Centennial's revenue for its fiscal year ended June 30, 1995.

22. On June 28, 1995, two days before the fiscal year ended, Pinez and Murphy met with Lockwood and drafted an agreement whereby Information Capture Corporation ("ICC"), a company Lockwood incorporated only two weeks earlier, agreed to buy aged inventory and overdue accounts receivables from Centennial. Lockwood as ICC agreed to pay more than \$2 million for these assets-- \$1 million for the outdated inventory and \$1.04 million for the receivables. This purchase price was significantly higher than the assets' true value. Pinez provided Lockwood with the monies, drawn from his personal funds, to make ICC's \$200,000 down payment to Centennial for the purported \$2 million purchase. For the fiscal year ended June 30, 1995, Centennial included the entire \$1 million from the sale of inventory to ICC as revenue, and recorded a \$250,000 gain. The bogus transaction also had the effect of removing approximately \$640,000 in old accounts receivable, much of which Centennial should have written off as bad debt.

23. During the audit of Centennial's 1995 fiscal year, the auditors questioned the collectibility of the remaining \$1.8 million debt arising from the ICC transaction after learning that ICC had been newly incorporated and had no substantive credit history. In furtherance of Pinez's fraudulent scheme to inflate Centennial's revenue, Lockwood took steps to convince the auditors that the transaction was legitimate. When the auditors visited the address for ICC provided on its incorporation papers, they found another Lockwood-owned entity, National Communications Corporation, at the address. To convince the auditors that ICC really existed -- and that

Centennial was holding a valid receivable -- Lockwood falsely assured the auditors that ICC was an offshoot of National Communications Corporation and that it was in the process of establishing separate headquarters. Subsequently, Lockwood paid \$999,193 of the outstanding ICC receivable with monies received, indirectly from Centennial and Pinez, through one of Pinez's friends.

24. Murphy also attempted to convince Centennial's auditors that the sale of receivables and inventory to ICC was a bona fide transaction. He created documents that falsely showed ICC was successfully making collections on the aged receivables purchased from Centennial.

25. In 1995, Murphy improperly recorded certain expenses and inventory as fixed assets. This accounting had the effect of falsely understating expenses and increasing fixed assets on Centennial's books. Murphy directed employees in the accounting department to make small, fictitious additions to the detailed schedule of fixed assets. Murphy also improperly increased the recorded value of legitimate fixed asset additions. Thus, for the fiscal year ended June 30, 1995, Centennial recorded approximately \$900,000 in fixed asset additions, of which approximately \$223,000 were bogus.

March 1996 Secondary Public Offering

26. On February 5, 1996, Centennial filed with the Commission a Registration Statement on Form S-3 to register shares of its common stock to initiate a secondary public offering. The registration statement included financial statements for the fiscal years ended June 30, 1994 and 1995, which contained materially false and misleading information. Among other things, Centennial overstated revenue by \$413,000 and net income by \$2.1 million, respectively, for fiscal 1994, and overstated revenue and net income by \$3.5 million, and \$6.7 million, respectively, for fiscal 1995. The offering went effective on March 20, 1996.

27. Murphy signed the Form S-3 filing as Centennial's Director and Chief Financial Officer on February 5 1996.

28. Murphy engaged in a series of accounting improprieties and multiple improper financial transactions, as described in ¶¶ 16 through 25, which resulted in the materially false representations in the 1994 and 1995 financial statements included in Centennial's February 1996 Registration Statement on Form S-3.

Fiscal Year Ended June 30, 1996

29. On August 21, 1996, Centennial issued a press release announcing its financial results for the year ended June 30, 1996. Centennial reported sales of \$37.8 million, a 204% increase from its reported sales for fiscal year 1995. It also reported net income of \$4.9 million, a 461% increase over the previous year. These representations were repeated in the Form 10-K that Centennial filed on September 30, 1996, which also reported inventories of \$18.2 million and fixed assets of \$4.7 million.

30. The financial results reported in Centennial's press release and its Form 10-K were materially false and misleading. Sales for fiscal 1996 were overstated by \$4.4 million, or 13%; inventories were overstated by \$9.98 million, or 121%; fixed assets were overstated by \$2.7, or 131%; and Centennial had in fact incurred a net *loss* of income of almost \$4.3 million. These false financial reports resulted from improper activities by Pinez, Murphy, Lockwood and others.

31. For fiscal year ended June 30, 1996, Centennial improperly recognized \$1.6 million from sales of a PC card called Flash 98, which did not exist. Flash 98 was created on Centennial's computerized inventory system in December 1995 at Pinez's direction. Between February 16, 1996 and June 10, 1996, Pinez and Murphy caused Centennial to issue \$1.6 million in invoices for

purported sales of Flash 98 cards to another of Lockwood's companies, called BBC Computers. Even though the products that BBC computers "bought" did not exist, Lockwood paid for them with funds Pinez provided to yet another Lockwood entity, St. Jude Management Corp. Lockwood caused St. Jude Management to remit more than \$1.7 million, received from Pinez, to Centennial, which was then applied, at Murphy's direction, towards payment of BBC Computers' purported 1996 purchase of Flash 98 cards.

32. In the spring 1996, Pinez and Murphy directed Centennial employees to manufacture and include approximately 27,000 dummy PC cards in inventory to be counted by Centennial's auditors for the 1996 audit. The dummy PC cards constituted approximately one-third of the \$9.98 million in fraudulent inventory Centennial reported on its balance sheet for the fiscal year ended June 30, 1996.

33. For fiscal 1996, Murphy also caused the overstatement of Centennial's inventory by overvaluing its work-in-process. Murphy selected bills of materials (the listing of all of the parts needed to produce one unit of a finished product) for certain work-in-process items and directed former Centennial materials manager to increase the number of chips supposedly required by those items. At Murphy's direction, Centennial's records were altered to reflect inaccurately that a PC card utilized twenty memory chips instead of the four chips actually required. As a result, the value of each individual PC card was falsely increased and the value of that portion of inventory was correspondingly overstated.

34. For fiscal 1996, Murphy inflated the recorded value of Centennial's fixed assets by directing accounting department employees to reclassify \$820,000 of inventory as fixed assets. Murphy then falsely told the auditors that Centennial had delivered \$820,000 worth of products to

a Centennial customer for demonstration purposes. To support this deception, during the 1996 audit Murphy directed an employee to create four itemized inventory listings dated in March, April, and June 1996 and attached them to altered packing lists from previous shipments to the customer. The customer, in fact, received less than \$100,000 worth of goods from Centennial that year, nowhere near the \$820,000 worth of product reflected in the fabricated receipts. For fiscal 1996, Centennial recorded approximately \$3.9 million in fixed assets additions, of which approximately \$2.3 million was fraudulent.

Quarter Ended September 30, 1996

35. On November 6, 1996, Centennial issued a press release announcing its revenue and income for the quarter ended September 30, 1996. Centennial reported sales of \$19.5 million, a 206% increase over revenue in the first quarter of fiscal 1996, and net income of \$2.4 million, also a significant increase from the previous year. These representations were repeated in the Form 10-Q the company filed on November 14, 1996, which also reported inventory of \$24.7 million and fixed assets of \$8.2 million for the quarter ended September 30, 1996.

36. These announced results were false and misleading. Sales were overstated by \$4.4 million, or 29%; net income was overstated by \$5.1 million; inventory was overstated by \$10.6 million, or 75%; and fixed assets were overstated by \$2.6 million, or 48%. To achieve the false financial figures, Pinez and Murphy engaged in a series of improper activities, including recognition of revenue from sales of phony product, double-counting inventory, and, once again, including dummy PC cards in inventory.

37. In September 1996, Pinez and Murphy fabricated a sale of 2660 PC cards to Stanbridge. On about September 10, 1996, Pinez told Centennial personnel that Stanbridge had

placed an order for 1,500 PC cards, and that the cards should be shipped by the end of the month to a third party, Media Jet, Inc., on Stanbridge's behalf. Media Jet, Inc. was owned by Bond Fletcher ("Fletcher"), a Pinez friend and associate. On September 30, 1996, Centennial shipped five boxes containing 1,660 dummy PC cards to fill the order. Upon receiving the shipment, a Media Jet, Inc. employee called Murphy and questioned him about the bogus shipment. Murphy told the employee that Fletcher knew about it. Pinez then instructed Centennial employees to alter the sales orders to Stanbridge to reflect a sale of 2,660 cards (rather than the 1,660 cards -- albeit dummy cards -- actually shipped) to Stanbridge. Stanbridge was invoiced for 2,660 cards and Centennial improperly recognized \$662,340 in revenue for this bogus transaction.

38. In September 1996, Pinez and Murphy improperly inflated the book value of Centennial's inventory by instructing personnel to double-count certain inventory. They accomplished this by having work-in-process counted and included in inventory both as items on the production floor and as finished goods in the perpetual inventory. Previously, work-in-process had been counted manually during inventory audits as items on the production floor and had not been included in the perpetual inventory. As a result, work-in-process was double-counted in inventory thereby inflating Centennial's total inventory.

39. For the quarter ended September 30, 1996, Murphy again caused thousands of dummy PC cards to be included as real product in Centennial's inventory. The dummy cards were stored in a trailer outside Centennial's building. At Murphy's instruction, Centennial employees removed the dummy cards from the trailer and stored and counted them with the inventory of real products. The dummy cards constituted a significant portion of the \$10.6

million in fraudulent inventory Centennial reported on its Form 10-Q for the quarter ended September 30, 1996.

Quarter Ended December 31, 1996

40. On January 30, 1997, Centennial issued a press release announcing its financial results for the three months ended December 31, 1996. It reported sales of approximately \$31.7 million, a 273% increase from the previous year, and net income of approximately \$3.5 million, a 247% increase from the same period for the previous fiscal year.

41. The reported financial results for the quarter ended December 31, 1996, were materially false and misleading, and resulted from the continuing fraud at the company. Sales were overstated by \$9.7 million, and Centennial actually experienced a net *loss* of income of \$13.5 million. To achieve these falsified results, Pinez, with the assistance of Murphy, Peretz and others, caused Centennial to engage in a series of fictitious sales transactions.

42. On or about November 25, 1996, Pinez instructed Gilboa Peretz, a friend and associate who was the president of a company named PG Technologies ("PG Tech"), to place an order with Centennial to purchase 2,500 Flash PC cards at a cost of \$500,000. On or around November 25 and 27, 1996, Centennial shipped 1,000 dummy PC cards to PG Tech and thereafter billed PG Tech \$500,000, as if it had sent the company 2,500 real PC cards. Peretz knowingly signed documents indicating that this partial shipment of worthless cards fully satisfied PG Tech's order. Pinez subsequently provided Peretz \$500,000, drawn from his personal funds, which Peretz used to pay Centennial for the bogus sale to PG Tech. Centennial improperly recognized revenue from this transaction during the quarter ended December 31, 1996.

43. Just before the end of the quarter, on about December 23, 1996, Pinez told Murphy that he had received large orders for Centennial PC cards from companies owned by his old friends and clients. Pinez directed Murphy to send these friends fruit baskets, accompanied by product invoices, as a joke. Murphy created fictitious sales orders for the purported sales of Centennial PC cards, and directed Centennial employees to package and ship fruit baskets against these sales orders. The "fruit basket" transactions resulted in the recording of false sales of \$250,000 to Media Jet, Inc., \$400,000 to P.A. Technologies, \$600,000 to Stanbridge, and \$500,000 to P.G. Tech.

44. As a result of the fraudulent sales recorded in connection with the delivery of fruit baskets, Centennial improperly recognized income of approximately \$1.75 million for the quarter ended December 31, 1996.

45. In January 1997, Centennial's auditors arrived at the company to review its financial numbers for the quarter ended December 31, 1996. The auditors met with Pinez and Murphy and inquired about various transactions, including the "fruit basket" transactions that had been recorded as sales of Centennial products. Despite the fact that the transactions had no substance, both Pinez and the Murphy misrepresented to the auditors that they were legitimate.

**Centennial Issues Restatement for Fiscal Year 1994
through the Quarter Ended December 31, 1996**

46. In early February, faced with reports of accounting irregularities, Centennial's board confronted Pinez, who admitted that he had engaged in certain accounting improprieties. On February 11, 1997, Centennial announced that it had fired Pinez, relieved Murphy of his duties as chief financial officer, and would conduct an inquiry into the accuracy of its earnings announced for the quarter ended December 31, 1996, and its prior financial statements.

Following this announcement, the NYSE halted trading in Centennial securities. When trading resumed on February 18, 1997, Centennial's stock price plunged 88%, closing at \$3 1/8 per share.

47. On June 12, 1997, Centennial issued restatements in which it disclosed downward adjustments to sales revenues, inventory and other accounting categories, resulting in a reduction of earnings of approximately \$40.2 million for fiscal years 1994 through the second quarter of fiscal year 1997. These restatements erased the approximately \$12.2 million in previously-reported profits for those periods. Centennial acknowledged that it achieved its previously-reported sales figures using a number of irregular accounting practices.

Murphy's Insider Trading

48. On January 27, 1997, Murphy sold 200 shares of Centennial common stock, generating proceeds of \$6,472.77.

49. Murphy sold Centennial stock while in possession of material, nonpublic information that Centennial's stock price was artificially inflated, and that its true financial condition was substantially worse than publicly reported as a result of the financial fraud he and others had conducted at Centennial since April 1994.

50. By trading ahead of Centennial's February 11, 1997 announcement that Pinez had been dismissed, that Murphy had been relieved of his duties as the CFO, and that the company had begun an internal investigation of the financial irregularities at Centennial, Murphy avoided a potential loss of \$5,822.77.

FIRST CLAIM

Fraud in the Offer or Sale of Securities by Murphy (Violations of Securities Act § 17(a))

51. Plaintiff Commission repeats and realleges paragraphs 1 through 50.

52. From April 1994 through December 1996, Murphy engaged in fraudulent activities resulting in material overstatements of revenue, net income, inventory and fixed assets in Centennial's public announcements, its filings with the Commission and in the Registration Statement that Centennial filed with the Commission in connection with its secondary public offering of common stock in March 1996.

53. By reason of the foregoing, Murphy, singly or in concert with others, directly or indirectly, in the offer or sale of securities, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails: (1) employed devices, schemes, or artifices to defraud; (2) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (3) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchaser of securities in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

SECOND CLAIM

Fraud in the Purchase or Sale of Securities by Murphy (Violations of Exchange Act § 10(b) and Rule 10b-5)

54. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

55. From April 1994 through December 1996, Murphy engaged in fraudulent activities resulting in material overstatements of revenue, net income, inventory and fixed assets in Centennial's public statements and in its filings with the Commission.

56. By reason of the foregoing, Murphy, singly or in concert with others, directly or indirectly, in connection with the purchase or sale of securities, by the use of any means and instrumentalities of interstate commerce, or of the mails, or any facility of any national securities exchange: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon any persons, including purchasers or sellers of Centennial's securities in violation of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] thereunder.

57. Murphy's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

THIRD CLAIM

Unlawful Insider Trading by Murphy (Violations of Securities Act § 17(a))

58. Plaintiff Commission repeats and realleges Paragraphs 1 through 50 above.

59. On January 27, 1997, Murphy sold 200 shares of Centennial common stock at \$33.375 a share, generating proceeds of \$6,472.77. At the time he sold the stock, Murphy was in possession of material nonpublic information that Centennial's reported financial condition was materially different from what it was publicly represented to be. By trading ahead of Centennial's February 11, 1997 announcement that Pinez had been dismissed, that Murphy had been relieved

of his duties as the CFO, and that the company had begun an internal investigation of financial irregularities at Centennial, Murphy avoided a loss of \$5,822.77.

60. By reason of the foregoing, Murphy, singly or in concert with others, directly or indirectly, in the offer or sale of securities, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails: (1) employed devices, schemes, or artifices to defraud; (2) obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (3) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchaser of securities in violation of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

FOURTH CLAIM

Unlawful Insider Trading by Murphy (Violations of Exchange Act § 10(b) and Rule 10b-5)

61. Plaintiff Commission repeats and realleges Paragraphs 1 through 50 above.

62. On January 27, 1997, Murphy sold 200 shares of Centennial common stock at \$33.375 a share, generating proceeds of \$6,472.77. At the time he sold the stock, Murphy was in possession of material nonpublic information that Centennial's reported financial condition was materially different from what it was publicly represented to be. By trading ahead of Centennial's February 11, 1997 announcement that Pinez had been dismissed, that Murphy had been relieved of his duties as the CFO, and that the company had begun an internal investigation of financial irregularities at Centennial, Murphy avoided a loss of \$5,822.77.

63. By reason of the foregoing, Murphy, singly or in concert with others, directly or indirectly, in connection with the purchase or sale of securities, by the use of any means and instrumentalities of interstate commerce, or of the mails, or any facility of any national securities exchange: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon any persons, including purchasers or sellers of Centennial's securities in violation of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] thereunder.

64. Murphy's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

FIFTH CLAIM

Circumvention of Internal Controls and Falsification of Accounting Records by Murphy (Violations of Exchange Act § 13 (b) (5) and Rule 13b2-1)

65. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

66. By reason of the foregoing, Murphy knowingly circumvented Centennial's system of internal accounting controls; and, directly or indirectly, falsified, or caused to be falsified, Centennial's books, records and accounts in violation of Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

67. Murphy's conduct involved fraud, deceit, or deliberate or reckless

disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

SIXTH CLAIM

**Murphy's Misrepresentations to Auditors
(Violation of Exchange Act Rule 13b2-2)**

68. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

69. By reason of the foregoing, Murphy, directly or indirectly, made or caused to be made materially false or misleading statements, or omitted to state, or caused another person to omit to state material facts necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading, to an accountant in connection with (i) any audit or examination of the financial statements of the issuer or (ii) the preparation or filing of documents or reports required to be filed with the Commission in violation of Rule 13b2-2 [17 C.F.R. § 240.13b2-2] promulgated under the Exchange Act.

70. Murphy's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

SEVENTH CLAIM

**Lockwood and Peretz Aided and Abetted Centennial's Financial Fraud
(Aiding and Abetting Violations of Exchange Act § 10(b) and Rule 10b-5 Thereunder)**

71. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

72. From April 1994 through December 1996, Centennial made material overstatements of revenue, net income, inventory and fixed assets in its public statements and in its filings with the Commission.

73. Lockwood, for the fiscal years 1995 and 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial during the fiscal years 1995 and fiscal 1996, he knowingly and substantially assisted Centennial to materially overstate its financial condition in its public statements and in its Forms 10-K for fiscal years ended June 30, 1995 and June 30, 1996.

74. Peretz, for the quarter ended December 31, 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial during the quarter ended December 31, 1996, he knowingly and substantially assisted Centennial to materially overstate its financial condition in the January 30, 1997 press release announcing its financial results for the quarter ended December 31, 1996.

75. By reason of the foregoing, Lockwood and Peretz aided and abetted Centennial's violation of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5] and therefore are liable for such violations pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)]

76. The conduct of Lockwood and Peretz involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

EIGHTH CLAIM

**Murphy, Lockwood and Peretz Aided and Abetted Centennial's Reporting Violations
(Aiding and Abetting Violations of Exchange Act § 13(a)
and Rules 12b-20, 13a-1, and 13a-13 Thereunder)**

77. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

78. Centennial reported materially false and misleading information in its Forms 10-K for fiscal years ended June 30, 1994 through June 30, 1996 and Forms 10-Q for fiscal quarters ended September 30, 1996 and December 31, 1996. Each of those filings contained financial statements that inaccurately reported Centennial's revenue, net income, inventory and fixed assets.

79. Murphy, knew, or was reckless in not knowing, that Centennial's conduct was improper, and he knowingly and substantially assisted Centennial to report materially false and misleading information in its public announcements and in its filings with the Commission for the fiscal years 1994 through 1996 and for the fiscal quarters ended September 30, 1996 and December 31, 1996.

80. Lockwood, for fiscal years 1995 and 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial to report materially false and misleading information in its public announcements and in its filings with the Commission for the fiscal years 1995 and 1996.

81. Peretz, for the quarter ended December 31, 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial to report materially false and

misleading information in its January 30, 1997 press release for the quarter ended December 31, 1996.

82. By reason of the foregoing, Murphy, Lockwood and Peretz aided and abetted Centennial's violation of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13], and therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)]

83. The conduct of Murphy, Lockwood and Peretz involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

NINTH CLAIM

**Murphy, Lockwood and Peretz Aided and Abetted
Centennial's Books and Records Violations
(Aiding and Abetting Violations of Exchange Act § 13 (b) (2) (A))**

84. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

85. Centennial maintained false and misleading books, records and accounts which, among other things, materially overstated the company's revenue and net income for fiscal years ended June 30, 1994 through June 30, 1996, and for fiscal quarters ended September 30, 1996 and December 31, 1996.

86. Murphy, knew, or was reckless in not knowing, that Centennial's conduct was improper, and he knowingly and substantially assisted Centennial to maintain false and misleading

books, records and accounts for fiscal years ended June 30, 1994 through June 30, 1996 and for fiscal quarters ended September 30, 1996 and December 31, 1996.

87. Lockwood, for fiscal 1995 and fiscal 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial to maintain false and misleading books, records and accounts for the fiscal years 1995 and 1996.

88. Peretz, for the quarter ended December 31, 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial to maintain false and misleading books, records and accounts for the quarter ended December 31, 1996.

89. By reason of the foregoing, Murphy, Lockwood and Peretz aided and abetted Centennial's violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)], and therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

90. Murphy, Lockwood and Peretz's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

TENTH CLAIM

Murphy, Lockwood and Peretz Aided and Abetted Centennial's Failure to Maintain Internal Controls (Aiding and Abetting Violations of Exchange Act § 13(b)(2)(B))

91. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

92. Centennial failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the Company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") during the fiscal years ended June 30, 1994 through June 30, 1996, and during the fiscal quarters ended September 30, 1996 and December 31, 1996.

93. Murphy, knew, or was reckless in not knowing, that Centennial's conduct was improper, and he knowingly and substantially assisted Centennial's failure to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP during the fiscal years ended June 30, 1994 through June 30, 1996, and during the fiscal quarters ended September 30, 1996 and December 31, 1996.

94. Lockwood, for fiscal 1995 and fiscal 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial's failure to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP during the fiscal years 1995 and 1996.

95. Peretz, for the quarter ended December 31, 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial's failure to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the

company's transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP during the quarter ended December 31, 1996.

96. By reason of the foregoing, Murphy, Peretz and Lockwood aided and abetted Centennial's violations of Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)], and therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

97. Murphy, Peretz and Lockwood's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

ELEVENTH CLAIM

Lockwood and Peretz Aided and Abetted Centennial's Falsification of Accounting Records (Aiding and Abetting Violations of Exchange Act Rule 13b2-1)

98. Plaintiff Commission repeats and realleges paragraphs 1 through 50 above.

99. For fiscal years ended June 30, 1994 through June 30, 1996, and for fiscal quarters ended September 30, 1996 and December 31, 1996, Centennial falsified its books, records and accounts.

100. Lockwood, for fiscal 1995 and fiscal 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with Centennial, he knowingly and substantially assisted Centennial to falsify its books, records and accounts for the fiscal years 1995 and 1996.

101. Peretz, for the quarter ended December 31, 1996, knew, or was reckless in not knowing, that Centennial's conduct was improper, and by engaging in fictitious transactions with

Centennial, he knowingly and substantially assisted Centennial to falsify its books, records and accounts for the quarter ended December 31, 1996.

102. By reason of the foregoing, Lockwood and Peretz aided and abetted Centennial's violation of Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1], and therefore are liable pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)]

103. Lockwood's and Peretz's conduct involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and resulted in substantial loss or significant risk of substantial loss to other persons, within the meaning of Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court issue a Final Judgment:

I.

Permanently enjoining Murphy from violating, directly or indirectly:

- a. Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)];
- b. Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder;
- c. Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1]; and
- d. Exchange Act Rule 13b2-2 [17 C.F.R. § 240.13b2-2];

II.

Permanently enjoining Defendant Murphy from aiding and abetting violations of:

- a. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13];
- b. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)]; and
- c. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)];

III.

Permanently enjoining Lockwood and Peretz from violating, directly or indirectly:

- a. Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder; and
- b. Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

IV.

Permanently enjoining Lockwood and Peretz from aiding and abetting violations of:

- a. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13];
- b. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)];
- c. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)]; and

V.

Permanently prohibiting Murphy from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 781] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

VI.

Requiring Murphy to disgorge his ill-gotten gains from his insider trading, including prejudgment interest thereon, with said monies and interest to be disbursed in accordance with a plan of distribution to be ordered by the Court.

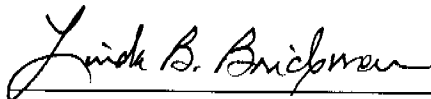
VII.

Requiring Murphy, Lockwood and Peretz to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] in amounts to be determined by the Court.

VIII.

Ordering such other and further relief as this case may require and the Court deems appropriate.

Respectfully submitted,



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Dated: September 26, 2000

J:\share\BRIDGMAN\PINEZ\PLEADING\COMPLT\Murphy.et.al\CMP4\fraud.wpd