UNITED STATES DISTRICT COURT
DISTRICT OF MARYLAND
SOUTHERN DIVISION

SECURITIES AND EXCHANGE COMMISSION, 450 Fifth Street, N.W. Washington, D.C. 20549 *Plaintiff*, -*v*.- EDWARD J. KILEY 329 Point to Point Road Bel Air, MD 21015 Harford County, MD *and* RICHARD N. ORZECHOWSKI 541 Sunset Drive Trafford, PA 15085-1624, *Defendants*.	**COMPLAINT** S01 CV2146

Plaintiff United States Securities and Exchange Commission (the "Commission") alleges:

SUMMARY

1. Defendants Edward J. Kiley and Richard N. Orzechowski directed and actively participated in a two-year financial fraud at Alcore, Inc. ("Alcore"), a wholly-owned subsidiary of Advanced Technical Products, Inc. ("ATP"). Throughout the relevant period – Alcore's and ATP's 1998 and 1999 fiscal years – Kiley was Alcore's chief executive officer and Orzechowski was Alcore's chief financial officer. The fraud the defendants directed at Alcore involved: 1) the systematic understatement of expenses; and 2) the systematic overstatement of assets and revenue. The fraud was achieved primarily by improperly capitalizing expenses, improperly and prematurely recognizing revenue, overvaluing inventory, and understating cost of goods sold. While the fraud

was ongoing, Kiley also sold a total of 3,000 shares of ATP stock at prices artificially inflated by Alcore's fraudulent financial results, which were consolidated into the financial statements ATP included in its public filings with the Commission and its quarterly earnings releases.

2. In May 2000, as a direct result of the fraud at Alcore, ATP restated its financial statements for the 1998 fiscal year (including each fiscal quarter of the year) and for the first three quarters of its 1999 fiscal year. The cumulative impact of the restatement was to reduce ATP's net income for its 1998 fiscal year from $5,687,000 (as originally reported) to $3,999,000 (as restated), and its net income for the first three quarters of its 1999 fiscal year from $4,906,000 (as originally reported) to a net *loss* of $229,000 (as restated). Thus, approximately 30% of ATP's reported earnings for fiscal year 1998 were overstated, and approximately 105% of its reported earnings for fiscal year 1999 were overstated. After ATP gradually disclosed the accounting problems at Alcore in early 2000, and ultimately quantified the necessary restatements in May 2000, ATP's stock price steadily plummeted from $14 per share in early January to less than $2 per share in August 2000.

3. By engaging in the financial fraud at Alcore, Kiley and Orzechowski violated Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rules 10b-5, 13b2-1 and 13b2-2 thereunder. In addition, by selling ATP stock during the financial fraud, Kiley violated Section 17(a) of the Securities Act of 1933 (the "Securities Act"). Unless enjoined by this Court, Kiley and Orzechowski are likely to commit such violations in the future.

JURISDICTION

4. This Court has jurisdiction over this action pursuant to Securities Act Sections 20 and 22(a) [15 U.S.C. §§ 77t and 77v(a)] and Exchange Act Sections 21(d) and (e) and 27 [15 U.S.C. §§ 78u(d) and (e) and 78aa].

5. In connection with the conduct alleged herein, Kiley and Orzechowski, directly or indirectly, made use of the means or instrumentalities of interstate commerce or the mails, and/or the facilities of a national securities exchange.

DEFENDANTS

6. Edward J. Kiley, age 51, was Alcore's president from 1993 until he was suspended and subsequently fired in January 2000.

7. Richard N. Orzechowski, age 62, was Alcore's chief financial officer from 1995 until he was suspended and subsequently fired in January 2000.

FACTS

8. ATP is a Delaware corporation headquartered in Roswell, Georgia. Through its operating subsidiaries, ATP designs, develops, and manufactures materials and products used in aerospace and defense equipment. ATP's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and trades on the Nasdaq National Market. At all relevant times, Alcore was one of ATP's five operating subsidiaries, and was wholly owned by ATP. During the relevant period, Alcore primarily designed and manufactured airplane components at several facilities located in Maryland, and accounted for a substantial portion of ATP's consolidated revenues and net income.

9. Beginning no later than January 1998 and continuing through December 1999, Kiley and Orzechowski directed and actively participated in a scheme to artificially enhance Alcore's financial performance by understating Alcore's expenses and overstating Alcore's assets and revenues. Kiley and Orzechowski knew or were reckless in not knowing that their scheme was causing material overstatements of Alcore's assets, revenues, and net income, and that those material

overstatements were being consolidated into the financial statements that ATP was including in its public filings with the Commission and its quarterly earnings releases.

10. Kiley and Orzechowski carried out their fraudulent scheme in several ways. One method was by artificially altering Alcore's income statement and balance sheet to achieve pre-determined results. For example, beginning in the first quarter of fiscal year 1998 and continuing through the first three quarters of fiscal year 1999, Kiley and Orzechowski met with Alcore's controller shortly after the end of each fiscal month to discuss the month's financial statements. At these meetings, the controller provided Kiley and Orzechowski with a draft of Alcore's financial statement reflecting accurate, actual results. Kiley and Orzechowski then assessed the extent to which Alcore's actual results fell short of its forecasted EBITDA (earnings before interest, taxes, depreciation and amortization), and either directed the controller to make certain "adjustments," or made those adjustments themselves, in order to artificially achieve, or come closer to, the desired EBITDA number. These "adjustments" had no legitimate basis or justification under generally accepted accounting principles.

11. During each quarter of fiscal year 1998 and the first three quarters of fiscal year 1999, Kiley and Orzechowski also directed Alcore personnel to improperly capitalize certain expenses (such as labor, overhead, utilities, office expenses, general supplies and other operating, non-inventory expenses) into fixed asset accounts (such as the Work in Process ("WIP") Inventory and Non-Recurring Engineering ("Tooling") accounts). The improper capitalization of these expenses artificially removed the expenses from Alcore's income statement and placed them on the balance sheet as assets, thereby materially overstating Alcore's net income and assets.

12. Kiley and Orzechowski also caused Alcore to improperly recognize revenue during every quarter of fiscal year 1998 and each of the first three quarters of fiscal year 1999. Specifically, they directed Alcore personnel to: (a) invoice for products where no orders existed, (b) invoice for products on order but not yet manufactured, (c) invoice for products without shipping the goods, (d) invoice and ship products before the contract dates without customer approval, and (e) record non-recurring re-tooling revenue when contracts were signed (or cash was paid), but defer the costs associated with the re-tooling by capitalizing them in either the WIP Inventory or Tooling accounts. In addition, Kiley and Orzechowski routinely directed Alcore's accounting personnel to "hold the books open" in order to record revenue on products shipped after a particular month or fiscal quarter had already ended. This improper and premature recognition of revenue materially overstated Alcore's net income.

13. Kiley and Orzechowski also caused Alcore to overvalue its inventory, thereby materially overstating its assets. Among other things, Kiley directed Alcore personnel to carry obsolete inventory at full value, and both Kiley and Orzechowski directed Alcore personnel to mislead ATP's auditors so that they could not properly review Alcore's inventory.

14. Orzechowski also caused Alcore to understate its costs of goods sold. Among other things, Orzechowski directed Alcore's accounting personnel to override the company's automated cost of goods sold figures and manually enter lower cost of goods sold based on fixed cost ratios, thereby artificially decreasing expenses and materially overstating Alcore's assets and net income.

FIRST CLAIM

15. Paragraphs 1 through 14 are realleged and incorporated by reference.

16. As described above, defendants Kiley and Orzechowski knowingly or recklessly engaged in a scheme to defraud investors by materially overstating the assets, revenues, and net income of Alcore and its publicly-traded parent, ATP. In the course of that scheme, they knowingly or recklessly engaged in acts, practices, and courses of business that operated as a fraud or deceit upon the investing public.

17. By engaging in such conduct, Kiley and Orzechowski violated Exchange Act Section 10(b) [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

SECOND CLAIM

18. Paragraphs 1 through 14 are realleged and incorporated by reference.

19. At all relevant times, ATP's books, records, and accounts, including those of its Alcore subsidiary, were subject to Exchange Act Section 13(b)(2) (A). As described above, defendants Kiley and Orzechowski knowingly falsified those books, records, and accounts, and directed subordinates to do so as well.

20. By engaging in such conduct, Kiley and Orzechowski violated Exchange Act Section 13(b)(5) [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

THIRD CLAIM

21. Paragraphs 1 through 14 are realleged and incorporated by reference.

22. While engaged in the fraudulent scheme described above, defendants Kiley and Orzechowski misled ATP's accountants, and directed subordinates to mislead ATP's accountants, in connection with the audit of ATP's financial statements for the fiscal year ended December 31, 1998 and in connection with the preparation of ATP's quarterly and annual filings with the Commission for the fiscal year ended December 31, 1998 and the fiscal quarters ended March 31, 1998, June 30,

1998, September 30, 1998, March 30, 1999, June 30, 1999, and September 30, 1999. Among other things, Kiley and Orzechowski directed Alcore's accounting personnel to falsely tell ATP's auditors that certain inventory records did not exist, and to delete or alter information in spreadsheets before giving them to auditors.

23. By engaging in such conduct, Kiley and Orzechowski violated Exchange Act Rule 13b2-2 [17 C.F.R. § 240.13b2-2].

FOURTH CLAIM

24. Paragraphs 1 through 14 and 22 are realleged and incorporated by reference.

25. On July 7, 1999, defendant Kiley sold 500 shares of ATP stock at $12.9375 per share. On December 27, 1999, Kiley sold another 2,500 shares of ATP stock at $13.625 per share. Kiley sold these shares during the time he was engaging in a financial fraud at Alcore, knowing that the price he received for his shares was artificially inflated by the fraudulent Alcore financial results that were consolidated into the financial statements in ATP's public filings with the Commission and quarterly earnings releases. Thus, Kiley was unjustly enriched by these sales.

26. By engaging in such conduct, Kiley violated Securities Act Section 17(a) [15 U.S.C. § 77q(a)], Exchange Act Section 10(b) [15 U.S.C. § 78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

PRAYER FOR RELIEF

Wherefore, the Commission respectfully requests that the Court:

A. Enter a judgment against defendant Kiley that:

1. enjoins Kiley from violating Securities Act Section 17(a), Exchange Act Sections 10(b) and 13(b)(5), and Exchange Act Rules 10b-5, 13b2-1, and 13b2-2;

2. orders Kiley to pay an appropriate civil penalty pursuant to Securities Act Section 20(d) and Exchange Act Section 21(d)(3) [15 U.S.C. §§ 77t(d) and 78u(d)(3)];

3. orders Kiley to disgorge, with prejudgment interest, the amount by which he was unjustly enriched as a result of his unlawful sales of ATP stock as described above; and

4. prohibits Kiley from acting as an officer or director of any issuer that has a class of securities registered pursuant to Exchange Act Section 12;

B. Enter a judgment against defendant Orzechowski that:

1. enjoins Orzechowski from violating Exchange Act Sections 10(b) and 13(b)(5) and Exchange Act Rules 10b-5, 13b2-1, and 13b2-2 thereunder;

2. orders Orzechowski to pay an appropriate civil penalty pursuant to Exchange Act Section 21(d)(3) [15 U.S.C. § 78u(d)(3)]; and

3. prohibits Orzechowski from acting as an officer or director of any issuer that has a class of securities registered pursuant to Exchange Act Section 12; and

C. Grant such other and further relief as the Court may deem just and proper.

Respectfully submitted,

United States Securities and Exchange Commission

Dated: July 23, 2001

By: ______________________

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