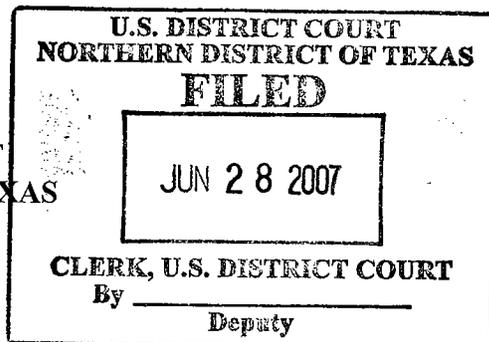


UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION



SECURITIES AND EXCHANGE COMMISSION, :

Plaintiff, :

v. :

MICHAEL W. SULFRIDGE, :

Defendant. :

Civil Action No.:

**307 - CV1173 - L**

COMPLAINT

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

**SUMMARY**

1. This is an accounting and financial fraud case. Defendant Michael W. Sulfridge participated in a scheme to overstate revenues and understate expenses of Image Entry, Inc., a wholly owned subsidiary of Sourcecorp, Inc., a Dallas-based document and information management company. The purpose of the scheme was to maximize the "earn-out" payment Image Entry's former owner, Billy David Deaton, was to receive from the sale of the company to Sourcecorp.

2. As part of the sale of Image Entry, Deaton received an annual bonus, or "earn-out" payment, if Image Entry achieved certain earnings targets. Sulfridge secretly negotiated an arrangement with Deaton that compensated Sulfridge based on how much Sulfridge's "creative accounting" tactics increased Image Entry's earnings – and thus Deaton's earn-out. Together, Sulfridge and Deaton orchestrated a fraudulent effort to maximize Deaton's earn-out payments. Among other things, Sulfridge and Deaton directed that Image Entry (a) recognize unearned

revenue from data entry contracts, and (b) prematurely recognize revenue from data entry contracts it had not yet been awarded. Sulfridge also routed certain expenses owed by Image Entry to other companies Deaton owned, thereby reducing Image Entry's expenses and increasing its earnings. Because these actions inflated Image Entry's earnings, this conduct also materially inflated Sourcecorp's reported earnings. For helping Deaton maximize his earn-out bonus, Sulfridge received approximately \$585,000 over the three-year earn-out period.

### **JURISDICTION AND VENUE**

3. This Court has jurisdiction over this action under Section 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §77u(a)] and Section 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§78u(e) and 78aa]. Defendant has, directly and indirectly, made use of the means or instrumentalities of interstate commerce and/or the mails in connection with the transactions described in this Complaint.

4. Venue is proper in this Court under Section 22(a) of the Securities Act [15 U.S.C. §77u(a)] and Section 27 of the Exchange Act [15 U.S.C. §§78u(e) and 78aa] because certain of the acts and transactions described herein took place in the Northern District of Texas.

### **DEFENDANT**

5. Michael W. Sulfridge, age 41, is a resident of Union Grove, Alabama. From 2001-2004, Sulfridge was Image Entry's controller, though he functioned as the company's chief financial officer. Along with Deaton, Sulfridge provided Sourcecorp with false representations that Image Entry's financial results were accurate.

### **FACTS**

6. Sourcecorp is a national business outsourcing services provider specializing in document and information management, and provides specialized knowledge-based processing

and consulting. During the relevant periods, Sourcecorp's common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act and traded on the Nasdaq National Market under the symbol, "SRCP."

7. Image Entry is a Kentucky corporation headquartered in London, Kentucky. Image Entry provides data entry services and is one of Sourcecorp's largest and most profitable subsidiaries. Sourcecorp acquired Image Entry in 2001.

8. As part of the 2001 agreement to sell Image Entry to Sourcecorp, Deaton agreed to remain as Image Entry's CEO until February 29, 2004. Under the contract, Deaton received annual "earn-out" payments if Image Entry reached certain financial targets, subject to a cap. The earn-out payments were calculated under a formula that essentially paid Deaton multiple dollars for every dollar Image Entry earned above its target.

9. Deaton hired Sulfridge as Image Entry's controller shortly before he sold Image Entry. In a memorandum dated May 25, 2001, Sulfridge and Deaton memorialized their agreement which compensated Sulfridge based on how much Sulfridge's "creative accounting" tactics increased Image Entry's earnings – and thus Deaton's earn-out. Sulfridge received approximately \$585,000 over the three-year earn-out period.

10. Image Entry processed data for several state and federal governmental agencies. Typically, the contracts permitted Image Entry to bill the agency by "keystroke," or each time an Image Entry operator struck the keyboard. To ensure accuracy, some contracts required Image Entry to employ a process called "double-key verification," whereby a second operator re-keyed the original data. When Image Entry double-key verified data, it could bill the agency for the original keystroke *and* the second, verifying one.

### **Recognition of unearned data entry revenue**

11. Along with Deaton, Sulfridge instructed Image Entry employees to stop double-key verifying certain contracts. Even though it did not double-key verify, however, Image Entry continued to bill the agencies – and recognize revenue – as though it had. For one particular contract, Deaton and Sulfridge also instructed employees to insert a surcharge into the billing program. The surcharge adjusted for software inconsistencies in counting keystrokes, but it was improperly applied to all keystrokes, not just those that were under-counted. Basically, this surcharge increased the number of keystrokes billed by between 15% and 30%. The billing program randomly varied the exact surcharge, making it extremely difficult to detect.

12. Recognizing revenue for work not done violates generally accepted accounting principles. To be recognized, revenue must be earned. Revenue is earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

13. As a result of the conduct described above, Sulfridge caused Image Entry (and, by extension, Sourcecorp) to recognize revenue that it had not earned.

### **Recording revenue from a contract not yet awarded**

14. Along with Deaton, Sulfridge also caused Image Entry's staff to perform work on a data entry contract that Image Entry had not yet been awarded. This work primarily added new data fields to work Image Entry already had done for an existing customer. Months before Image Entry was finally awarded the new contract, Sulfridge instructed Image Entry's staff to begin keying data into the anticipated fields. Image Entry recorded this work as work-in-process ("WIP") revenue.

15. Sulfridge and Deaton, however, incorrectly anticipated which data fields would get added, thus rendering most of the work worthless and the WIP recorded from it un-billable. After the contract was finally executed, Image Entry operators were forced to re-key most of this data.

16. Sulfridge hid the prematurely recorded revenue from Sourcecorp by sending inquiring company executives a fictitious invoice dated March 31, 2004, suggesting Image Entry had billed the government agency. This invoice, however, was never sent because Sulfridge knew Image Entry could not bill the agency for work under a contract that had not yet been awarded.

17. To be recognizable under generally accepted accounting principles, revenue must be “realized” and “earned.” Revenue is realized when services are exchanged for cash or claims for cash. Revenue is earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

18. Image Entry neither realized nor earned the revenue on the anticipated work during the periods it was initially recorded. It had not realized the revenue because it could not exchange the work it did for cash or claims for cash, since it had no contract for that work. Indeed, Image Entry could not bill for this work and ultimately had to discard most of it as useless because the contract called for different data fields.

19. Image Entry also did not earn these revenues during the periods they were initially recorded. Because there was no contract when this work was done, and since the final contract mandated different data fields, Image Entry had not substantially accomplished the work necessary to get paid for the work. This work therefore should not have been recorded as revenue.

### **Diversion of Image Entry expenses to other entities**

20. Sulfridge also increased Deaton's earn-out by shifting expenses owed by Image Entry to other companies Deaton controlled (usually Trinity Group LLC). In particular, Sulfridge required Image Entry's accounts payable clerk to provide him all of Image Entry's invoices upon receipt. From this stack of invoices, Sulfridge randomly selected several – typically those for office supplies – and re-routed them to Trinity for payment. Image Entry did not record these expenses in its financial statements. Sulfridge also improperly shifted Image Entry labor expense to other Deaton companies. Despite knowing certain employees were full-time Image Entry employees – including the manager responsible for one of Image Entry's largest contracts – Sulfridge caused these employees to be put on the other companies' payroll.

### **Sulfridge falsely certified that Image Entry's financial results were accurate**

21. One of Sourcecorp's internal controls required Sulfridge to certify on a quarterly and annual basis that Image Entry's financial statements for those periods were accurate. Specifically, each quarter and year from January 1, 2002 through June 30, 2004, Sulfridge represented that, among other things:

- he was “responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with generally accepted accounting principles”;
- there was “no violation or possible violation of laws or regulations”; and
- Image Entry's “accounting records support the financial statements, and all accounts [were] properly reconciled.”

22. These representations were false and misleading. Sourcecorp's accounting department relied on Sulfridge's certifications in preparing Sourcecorp's financial statements and public filings.

**Sourcecorp included these material misstatements in Commission filings and public earnings releases**

23. As a result of the foregoing, Sourcecorp's 2001 net loss was understated by \$2.5 million, or 13.8%; its 2002 net income was overstated by \$7.5 million, or 27%; and its 2003 net income was overstated by \$7.9 million, or 28.8%.

24. Sourcecorp included these misstatements in its 2001, 2002 and 2003 Forms 10-K; in its Forms 10-Q for each quarter from the second quarter of 2001 through the second quarter of 2004; and in several Forms 8-K filed during these periods in which earnings were announced. Moreover, Sourcecorp's misstated 2001 Form 10-K and first through third quarter 2002 Forms 10-Q were incorporated by reference in a registration statement on Form S-8 that Sourcecorp filed with the Commission on November 27, 2002. The Form S-8 also deemed incorporated Sourcecorp's subsequently misstated 2003 Form 10-K, and its Forms 10-Q for 2003 and the first two quarters of 2004. In addition, Sourcecorp included misstatements and omissions pertaining to Sulfridge's misconduct in public earnings releases covering the relevant periods.

**FIRST CLAIM**  
**Violations of Securities Act Section 17(a)**

25. Paragraphs 1 through 24 are realleged and incorporated by reference.

26. Defendant, in the offer or sale of securities, has (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud or deceit upon purchasers, prospective purchasers, and other persons.

27. Defendant engaged in the conduct described in this claim knowingly or with severe recklessness. In addition, Defendant was negligent as he engaged in the conduct described in this claim.

28. By reason of the foregoing, Defendant violated, and unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. § 77q].

**SECOND CLAIM**  
**Violations of Exchange Act**  
**Section 10(b) and Rule 10b-5**

29. Paragraphs 1 through 24 are realleged and incorporated by reference.

30. Defendant, in connection with the purchase or sale of securities, has: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices and courses of business which operate as a fraud or deceit upon purchasers, prospective purchasers, and other persons.

31. Defendant engaged in the conduct described in this claim knowingly or with severe recklessness.

32. By reason of the foregoing, Defendant violated, and unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

**THIRD CLAIM**  
**Violations of Exchange Act**  
**Section 13(b)(5) and Rule 13b2-1**

33. Paragraphs 1 through 24 are realleged and incorporated by reference.

34. Defendant violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] by knowingly circumventing or overriding or knowingly failing to implement a system of internal accounting controls at Sourcecorp and knowingly falsifying Image Entry's books and records.

35. Additionally, Defendant violated Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1] by, directly or indirectly, falsifying or causing to be falsified, the books, records or accounts of Sourcecorp subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

36. Unless enjoined, Defendant will continue to violate these provisions.

**FOURTH CLAIM**  
**Aiding and Abetting Sourcecorp's Violations of Exchange Act**  
**Section 13(a) and Rules 12b-20, 13a-1, 13a-11 and 13a-13**

37. Paragraphs 1 through 24 are realleged and incorporated by reference.

38. Based on the conduct alleged herein, Sourcecorp violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder.

39. Defendant, in the manner set forth above, knowingly or with recklessness provided substantial assistance to Sourcecorp's violations of these provisions, as an issuer of a security registered pursuant to Section 12 of the Exchange Act, in its failing to file with the Commission, in accordance with rules and regulations the Commission has prescribed, information and documents required by the Commission to keep reasonably current the information and documents required to be included in or filed with an application or registration statement filed pursuant to Section 12 of the Exchange Act and annual reports and quarterly reports as the Commission has prescribed.

40. By reason of the foregoing, Defendant aided and abetted Sourcecorp's violations of, and unless restrained and enjoined, will aid and abet further violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13].

**FIFTH CLAIM**  
**Aiding and Abetting Sourcecorp's Violations of Exchange Act**  
**Sections 13(b)(2)(A) and 13(b)(2)(B)**

41. Paragraphs 1 through 24 are realleged and incorporated by reference.

42. Based on the conduct alleged herein, Sourcecorp violated Section 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

43. Defendant, in the manner set forth above, knowingly or with recklessness provided substantial assistance to Sourcecorp in connection with its failure to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected Sourcecorp transactions and dispositions of its assets.

44. Defendant, in the manner set forth above, knowingly or with recklessness provided substantial assistance to Sourcecorp in connection with its failure to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles.

45. By reason of the foregoing, Defendant aided and abetted Sourcecorp's violation of, and unless restrained and enjoined, will aid and abet further violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78m(b)(2)(A) and (b)(2)(B)].

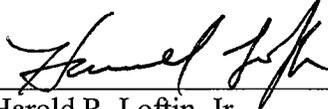
## **REQUEST FOR RELIEF**

The Commission respectfully requests that the Court enter a judgment:

- (a) permanently enjoining Sulfridge from violating Section 17(a) of the Securities Act and Sections 10(b) and 13(b)(5) of the Exchange Act, and Rules 10b-5 and 13b2-1 thereunder, and aiding and abetting violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder;
- (b) ordering Sulfridge to disgorge all ill-gotten gains, with prejudgment interest;
- (c) ordering Sulfridge to pay a civil penalty under Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)];
- (d) prohibiting Sulfridge under Section 20(e) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78l], from acting as an officer or director of any issuer that has a class of securities registered under Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports under Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)]; and
- (e) granting such other relief as this Court may deem just or appropriate.

Dated: June 28, 2007

Respectfully submitted,



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