

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 3432 / July 17, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14950

In the Matter of

**CENTAUR MANAGEMENT
CO. LLC**

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTIONS 203(e) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Centaur Management Co. LLC (“Respondent” or “Centaur Management”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that

Summary

From January 1, 2006 until April 2, 2009 (the "Relevant Period"), Centaur Management, a registered investment adviser, directed its client, Argent Classic Convertible Arbitrage Fund L.P. ("Argent Classic"), to provide Centaur Management with approximately \$15 million in interest-free loans. The loans were made bi-weekly in amounts between \$133,000 and \$1,500,000. During the Relevant Period, the outstanding balance on the loans ranged from \$361,354 to \$3,872,146. Centaur Management used these loans to fund the payroll for employees who provided management and accounting services, not only for Argent Classic, but also for up to fourteen related funds (the "Related Funds").¹ No interest was paid on the vast majority of the loans from Argent Classic, and thus, Centaur Management deprived Argent Classic of the use of its capital.

Centaur Management failed to disclose adequately the loan practice to the Argent Classic investors. The loans were described in Argent Classic's audited financial statements as payroll receivables, but were not disclosed as loans directed by Centaur Management, that they were interest-free, or that they were being used to cover payroll expenses for funds other than Argent Classic.

As a result, Centaur Management violated Section 206(2) and Section 206(4) of the Advisers Act, and Rule 206(4)-8 promulgated thereunder.

Respondent

1. **Centaur Management Co. LLC**, formerly known as Argent Management Co. LLC (collectively "Centaur Management"), is a Delaware limited liability company with offices in Norwalk, Connecticut, and was registered with the Commission as an investment adviser from December 2005 until October 2011. Centaur Management belonged to a family of investment advisers and funds, which, during the Relevant Period, included five investment advisers managing twenty-three funds. From December 1995 through June 2009, Centaur Management provided investment advice to, and made investment decisions for, Argent Classic and at least five other funds. Centaur Management received fees from Argent Classic for providing investment advice to Argent Classic.

Other Relevant Entities

2. **Argent Classic Convertible Arbitrage Fund L.P.**, a Delaware limited partnership which invested in convertible securities, was formed in December 1995 by Centaur Management, its only general partner, and was closed in March 2009. At its peak in May 2007, Argent Classic had approximately \$118 million of partners' capital. Argent Classic was one of the largest client funds that Centaur Management advised.

¹ The majority of the Related Funds have since been closed.

Facts

The Interest-Free Loans

3. From December 2005 through March 2009, Centaur Management was the registered investment adviser for several funds. In its role as registered investment adviser, Centaur Management earned and collected management and performance fees from each fund.

4. During this period, Centaur Management determined to defer the collection of fees from certain funds. As a result of the decision to defer these fees, Centaur Management was required to seek alternative sources to meet its ongoing payroll obligations. Those payroll obligations constituted payroll expenses incurred directly by Centaur Management and payroll expenses incurred by Argent Classic and the Related Funds.

5. During the Relevant Period, Centaur Management obtained the money to meet its payroll expenses, including payroll for the Related Funds, by borrowing the funds from Argent Classic through a series of bi-weekly cash loans in amounts ranging from \$133,000 to \$1,500,000. In total, Centaur Management took at least 75 loans from Argent Classic.

6. Centaur Management paid no interest to Argent Classic on the loans it took, except for the last loan repayment made in April 2009 when the practice of borrowing monies from Argent Classic was discontinued.² Consequently, Centaur Management circumvented the conventional costs of borrowing at the expense of its client, Argent Classic.

7. Although ultimately repaid, most of the loans obtained from Argent Classic remained outstanding for at least two months, and several loans remained outstanding for over a year. Centaur Management's practice of taking interest-free loans from Argent Classic constituted an unauthorized use of Argent Classic's assets by Centaur Management. The practice deprived Argent Classic of the use of its capital.

8. As a direct result of these outstanding loans, during several periods in 2006 and 2007, Centaur Management owed Argent Classic as much as \$3,872,146. In multiple periods during 2008, the amount owed to Argent Classic by Centaur Management totaled over 8% of the partners' capital in Argent Classic as a result of the significant withdrawals of partners' capital and declining value of the Fund occasioned by the sharp contraction in the markets.

9. By borrowing from Argent Classic at an interest rate of zero, Centaur Management benefitted by avoiding paying interest of approximately \$172,438.³

10. As the investment adviser to Argent Classic, Centaur Management owed a fiduciary duty to its client. Centaur Management breached that fiduciary duty by inappropriately using

² Interest of \$13,841 was included with the last repayment amount of \$680,478.

³ The calculation of this amount is based on the net amount of loans from Argent Classic to Centaur Management offset by the performance and management fees owed to Centaur Management by Argent Classic.

Argent Classic funds to make no-interest loans and thus depriving Argent Classic of the use of those funds. As a result, Centaur Management willfully⁴ violated Section 206(2) of the Advisers Act, which prohibits fraudulent conduct by an investment adviser.⁵

Non-Disclosure of the Loans

11. Centaur Management, the general partner of Argent Classic and its registered investment adviser, failed to disclose adequately the interest-free loans and the terms of such loans to Argent Classic's investors. Argent Classic's audited financial statements described the money owed to Argent Classic from Centaur Management merely as "payroll receivables," without further explanation. In addition, Argent Classic's Agreement of Limited Partnership, Subscription Agreement, and Private Offering Summary omitted any mention of the loan practice. Centaur Management also failed to report that the interest-free loans were being used to cover payroll expenses for the Related Funds.

12. As a result of the above, Centaur Management willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-8 promulgated thereunder, which, in pertinent part, prohibit an investment adviser to a pooled vehicle from making any false or misleading material statements of facts or omitting to state material facts to any investor or prospective investor in the pooled investment vehicle.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Centaur Management cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 promulgated thereunder.

B. Respondent Centaur Management is censured.

C. Respondent shall, within thirty days of the entry of this Order, pay disgorgement of \$172,438 and prejudgment interest of \$41,884 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment shall be: (A) made by wire transfer, United States postal money order, certified check,

⁴ A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

⁵ Proof of scienter is not required to establish a violation of Section 206(2) of the Advisers Act. *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 195 (1963).

bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) if paid by money order or check, such payment shall be hand-delivered or overnight mailed to Enterprise Services Center, HQ Bldg, Room 181, AMZ-341, 6500 South MacArthur Blvd, Oklahoma City, OK 73169; and (D) submitted under cover letter that identifies Centaur Management as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Laura B. Josephs, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5010A.

D. Respondent shall, within thirty days of the entry of this Order, pay a civil money penalty in the amount of \$150,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Such payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) if paid by money order or check, such payment shall be hand-delivered or overnight mailed to Enterprise Services Center, HQ Bldg, Room 181, AMZ-341, 6500 South MacArthur Blvd, Oklahoma City, OK 73169; and (D) submitted under cover letter that identifies Centaur Management as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Laura B. Josephs, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5010A.

E. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the disgorgement, interest, and penalties referenced in paragraphs C and D above. Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Elizabeth M. Murphy
Secretary