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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

- against -

CHESTER HOLDINGS, LTD., formerly named
AQUA BUOY CORPORATION,
JOSEPH PIGNATIELLO,
CONSTANCE PIGNATIELLO, and
CHRISTOPHER WERNER,

Defendants.

FILED

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Hon. (MTB)

Civil Action No. 97-1654

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission"), for its complaint
against defendants Chester Holdings, Ltd. (formerly named Aqua Buoy Corporation) ("Aqua

Buoy"), which has its principal place of business at 145 Route 46 West, Wayne, New Jersey 07470, Joseph Pignatiello ("Pignatiello"), who resides at 5354 NW 77th Terrace, Coral Springs, Florida 33067, Constance Pignatiello, who resides at 5354 NW 77th Terrace, Coral Springs, Florida 33067, and Christopher Werner ("Werner"), who resides at 45 Hunter Avenue, Newport, Rhode Island 02840 (collectively, "Defendants"), alleges as follows:

SUMMARY OF VIOLATIONS

1. This case concerns a financial fraud involving the dissemination of materially false and misleading information about Aqua Buoy and sales of company stock at inflated prices by Pignatiello, Constance Pignatiello, and Werner, who were officers and directors of Aqua Buoy and who knew the truth behind the false picture of the company presented to the public. Between March 1991 and October 1992, Aqua Buoy made five acquisitions and Defendants made materially false or misleading statements to the public relating to those acquisitions. In press releases and Commission filings, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner misrepresented and omitted material facts concerning the assets or businesses acquired, overstated the value of the acquisitions, and overstated Aqua Buoy's assets and shareholders' equity. Also during this period of time, Pignatiello, Constance Pignatiello, and Werner obtained a total of approximately \$2 million in illicit profits by unlawfully selling approximately 1 million shares of Aqua Buoy common stock while possessing material, nonpublic information about the true value of the acquisitions and Aqua Buoy's falsely inflated financial condition. Eventually, in late 1993 after Pignatiello, Constance Pignatiello, and Werner were no longer associated with the company, Aqua Buoy disclosed to the public its true financial condition and the true value of the acquisitions.

JURISDICTION AND VENUE

2. The Commission brings this civil enforcement action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act, 15 U.S.C. § 77t(b), and Section 21(d)(1) of the Exchange Act, 15 U.S.C. § 78u(d)(1), seeking permanent injunctions, disgorgement of ill-gotten gains, prejudgment interest, and such other equitable relief the Court may order against the Defendants. The Commission also brings this action for civil penalties, pursuant to Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and Sections 21(d)(3) and Section 21A of the Exchange Act, 15 U.S.C. §§ 78u(d)(3) and 78u-1, against Pignatiello, Constance Pignatiello, and Werner. Finally, the Commission brings this action for orders barring Pignatiello, Constance Pignatiello, and Werner from servings as directors or officers of any public company, pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2).

3. Defendants, directly and indirectly, singly and in concert, have made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce or of the mails in, and in connection with, the acts, practices and courses of business alleged in this Complaint.

4. This Court has jurisdiction over this action, and venue is proper in this Court, pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C. § 78aa. In particular, defendant Aqua Buoy is located within the District of New Jersey.

DEFENDANTS

5. Aqua Buoy became a public company in 1989 and has its principal offices in Wayne, New Jersey. Its securities are registered with the Commission, pursuant to Section 12(g) of the Exchange Act, and are traded over-the-counter. During the relevant period of time, from March 1991 through October 1993, the price of Aqua Buoy's shares was quoted on the National Association of Securities Dealers Automated Quotation system ("NASDAQ"). In 1993, Aqua Buoy changed its name to Chester Holdings, Ltd.

6. Pignatiello, age 50, founded Aqua Buoy in 1988 and was the Company's first CEO, President and Chairman of the Board of Directors. He resigned as President in July 1990 and resigned as CEO and Chairman in May 1991. Following his resignations, however, Pignatiello continued to act as one of the Company's principal officers through early 1992, and negotiated the acquisitions that are described below. He lives in Coral Springs, Florida.

7. Constance Pignatiello, age 40, is Pignatiello's wife. She was Aqua Buoy's Secretary and Treasurer from June 1989 to July 1990, President from July 1990 to February 1992, and a director from June 1989 to June 1992. She lives in Coral Springs, Florida.

8. Werner, age 34, was Aqua Buoy's Controller from January 1989 to April 1991, Secretary-Treasurer from July 1990 until February 1993, and Chief Financial Officer from April 1991 until February 1993. He also served as a director of Aqua Buoy from April 1991 through February 1993. Werner lives in Newport, Rhode Island.

FACTS COMMON TO ALL CLAIMS

Summary of Conduct and Events

9. During 1991 and 1992, Aqua Buoy acquired the following assets and businesses: (1) a manufacturing facility for Aqua Buoy flotation devices, from a South African entity named Aqua Buoy International, Inc. ("ABI"); (2) Leven Oaks, a residential retirement hotel business in California; (3) a commercial building in Michigan, from a company named H & R Corporation ("H&R"); (4) certain assets of Lord Jeff Knitting Company, Inc. ("Lord Jeff"), a bankrupt sweater manufacturer; and (5) certain trademarks, tradenames, and equipment from Pearson Yachts Corporation ("Pearson"), a bankrupt boat manufacturer (collectively, the "Acquisitions"). Aqua Buoy paid for each acquisition with unregistered stock, plus some cash or a promissory note. The Acquisitions were announced in a series of press releases and reported in filings with the Commission.

10. As a result of the Acquisitions, Aqua Buoy's reported assets increased dramatically -- from \$461,000 as of June 30, 1990 to more than \$28 million as of March 31, 1992. Approximately \$22 million of the over \$27 million increase in reported assets was attributable to the Acquisitions. As described below, however, Aqua Buoy improperly assigned excessive value to the Acquisitions to inflate artificially its reported assets and shareholders' equity. In addition to reporting inflated assets and shareholders' equity, Aqua Buoy made materially false and misleading statements about the viability of these businesses.

11. The price of Aqua Buoy's publicly traded common stock rose 467% during the period Aqua Buoy publicized its false reports concerning the Acquisitions and the accompanying false increases in reported assets and shareholders' equity. On March 1,

1991, Aqua Buoy's stock closed at \$1.125 per share. By the end of February 1992, the closing bid on NASDAQ was \$6.375 per share. Pignatiello, Constance Pignatiello, and Werner sold Aqua Buoy common stock at artificially inflated prices while possessing undisclosed information concerning the true value of the Acquisitions and Aqua Buoy's financial condition.

The ABI Acquisition

12. On March 3, 1991, Aqua Buoy publicly issued a press release ("ABI Press Release"), which was prepared by Pignatiello and issued by Aqua Buoy at Pignatiello's direction, announcing its acquisition of the ABI manufacturing facility ("ABI Acquisition"). In the ABI Press Release, Aqua Buoy and Pignatiello falsely claimed that Aqua Buoy acquired the ABI manufacturing facility in exchange for \$1,353,000 in stock and cash -- 300,000 shares of unregistered common stock, supposedly worth \$1,200,000 (\$4.00 per share), and a \$153,000 promissory note. In fact, at the time of the ABI Acquisition, the market price for Aqua Buoy's unrestricted common stock was \$1.375 per share. Thus, Aqua Buoy and Pignatiello knew that the maximum value of the 300,000 restricted shares issued by Aqua Buoy in the ABI Acquisition was not more than \$413,000. Therefore, by valuing the ABI Acquisition at \$1,353,000, Aqua Buoy and Pignatiello overstated the value of the ABI Acquisition by at least \$787,000, or 139%.

13. Aqua Buoy and Pignatiello also misrepresented, in the ABI Press Release, business aspects of the ABI acquisition by stating that Aqua Buoy "intends to move the manufacturing facility to Colorado later this year and anticipates hiring approximately 50 new employees to manufacture and distribute the flotation aid." This representation was false and

misleading because Aqua Buoy and Pignatiello omitted to disclose that the manufacturing facility was non-operational and located in South Africa, and that Aqua Buoy lacked the resources needed to move the ABI manufacturing facility to the United States. The ABI manufacturing facility remained in South Africa, never became operational, and was abandoned by Aqua Buoy in 1993.

The March 1991 Form 10-Q

14. On April 29, 1991, Aqua Buoy filed its Form 10-Q for the quarter ended March 31, 1991 ("March 1991 Form 10-Q") with the Commission. Pignatiello and Werner prepared the March 1991 Form 10-Q, which Constance Pignatiello and Werner signed.

15. The financial statements in the March 1991 Form 10-Q reflected the inflated valuation of the ABI Acquisition. As a result, both Aqua Buoy's reported total assets of \$1,976,000 and reported shareholders' equity of \$1,549,000 were overstated by at least \$787,000, or 66% and 103%, respectively.

16. In the March 1991 Form 10-Q, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner also misrepresented business aspects of the ABI acquisition. Specifically, they claimed that "the Company acquired the manufacturing facility for the Aqua Buoy flotation aid with the intent of manufacturing the Aqua Buoy flotation aid in the United States." This representation was materially false and misleading because Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner omitted to state that the ABI manufacturing facility was non-operational and located in South Africa, and that Aqua Buoy lacked the financial resources to relocate it to the United States.

The Leven Oaks Acquisition

17. On May 13, 1991, Aqua Buoy issued a press release ("Leven Oaks Press Release"), which was prepared by Pignatiello and issued by Aqua Buoy at Pignatiello's direction, announcing its acquisition of Leven Oaks ("Leven Oaks Acquisition"). In the Leven Oaks Press Release, Aqua Buoy and Pignatiello falsely claimed that Aqua Buoy purchased Leven Oaks for \$1,940,000 -- 146,230 shares of unregistered common stock, supposedly worth \$732,000 (\$5.00 per share), and the assumption of \$1,208,000 in debt. In fact, at the time of the Leven Oaks Acquisition, the market price for Aqua Buoy's unrestricted common stock was \$1.50 per share. Thus, Aqua Buoy and Pignatiello knew that the maximum value of the 146,230 restricted shares issued by Aqua Buoy in the Leven Oaks Acquisition was \$219,345. Therefore, by valuing the Leven Oaks Acquisition at \$1,940,000, Aqua Buoy and Pignatiello overstated the value of the Leven Oaks Acquisition by at least \$512,000, or 36%.

18. Aqua Buoy and Pignatiello also misrepresented, in the Leven Oaks Press Release, business aspects of the Leven Oaks Acquisition by stating that Leven Oaks "has been operating profitably under present management." This representation was materially false and misleading because Aqua Buoy and Pignatiello omitted to disclose: (a) Leven Oaks' then-existing management had operated Leven Oaks at a loss of at least \$22,000 for the fiscal year preceding the Leven Oaks Acquisition; and (b) Aqua Buoy and Pignatiello had no basis in fact to claim that Leven Oaks was profitable.

19. Aqua Buoy and Pignatiello omitted to disclose, in the Leven Oaks Press Release, that Aqua Buoy and Pignatiello intentionally failed to perfect Aqua Buoy's

ownership interest in Leven Oak's real estate in order to avoid triggering a "due on sale" clause contained in the first mortgage on such real estate. Thus, Aqua Buoy's and Pignatiello's representation that Aqua Buoy had "acquired" Leven Oaks was materially false and misleading. In 1993, Aqua Buoy discontinued all Leven Oaks' operations after the first mortgagee acquired the underlying real estate in a foreclosure action.

The 1991 Form 10-K

20. In July 1991, Aqua Buoy filed its Form 10-K for the year ended June 30, 1991 ("1991 Form 10-K") with the Commission. At the same time, Aqua Buoy filed its 1991 Annual Report to Shareholders ("1991 Annual Report") and issued a press release concerning the 1991 Form 10-K ("1991 Press Release"). Pignatiello and Werner prepared the 1991 Form 10-K and the 1991 Annual Report, which Werner signed. Constance Pignatiello also signed the 1991 Form 10-K and the 1991 Annual Report. Pignatiello prepared the 1991 Press Release, which Aqua Buoy issued at Pignatiello's direction.

21. In addition to the ABI and Leven Oaks Acquisitions, the 1991 Form 10-K described Aqua Buoy's acquisition, on June 21, 1991, of a commercial warehouse from H&R ("H&R Acquisition"). In the 1991 Form 10-K, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner falsely claimed that Aqua Buoy acquired the commercial warehouse from H&R for \$2,750,000 -- 433,000 shares of unregistered common stock, supposedly worth \$2,165,000 (\$5.00 per share), and the assumption of \$585,000 in debt. In fact, at the time of the H&R Acquisition, the market price for Aqua Buoy's unrestricted common stock was \$2.875 per share. Thus, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner knew that the maximum value of the 433,000 shares issued in the H&R Acquisition was

\$1,245,000. Therefore, by valuing the H&R Acquisition at \$2,750,000, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner overstated the value of the H&R Acquisition by at least \$920,000, or 50%.

22. The financial statements contained in the 1991 Form 10-K, contained in Aqua Buoy's 1991 Annual Report and described in the 1991 Press Release, reflected the artificially inflated valuations of the ABI, Leven Oaks, and H&R Acquisitions, as set forth above. As a result, in the 1991 Form 10-K, the 1991 Annual Report, and in the 1991 Press Release, both Aqua Buoy's reported total assets of \$7,539,000 and shareholders' equity of \$4,909,000 were overstated by at least \$2,219,000, or 42% and 82%, respectively.

23. The financial statements contained in the 1991 Form 10-K and the 1991 Annual Report were audited by Bogner & Company ("Bogner"), Aqua Buoy's outside auditor. In connection with the audit, Werner falsely told Bogner that Aqua Buoy had valued the ABI, Leven Oaks, and H&R Acquisitions by using the "pooling of interests" method of accounting for acquisitions when, as Werner knew, Aqua Buoy had actually used the "purchase" method of accounting to value these acquisitions. In addition, Werner knowingly provided Bogner with a falsified appraisal in connection with the Bogner's review of the H&R Acquisition.

The Lord Jeff Acquisition

24. In September 1991, Aqua Buoy publicly issued a press release ("Lord Jeff Press Release"), prepared by Pignatiello and issued by Aqua Buoy at Pignatiello's direction, announcing its acquisition of Lord Jeff, a closely-held sweater manufacturer that then existed as a debtor-in-possession in a Chapter 11 bankruptcy proceeding ("Lord Jeff Acquisition").

In the Lord Jeff Press Release, Aqua Buoy and Pignatiello misrepresented Lord Jeff's business because they stated that Lord Jeff had annual revenues of more than \$30 million in the five years prior to the acquisition. This statement was materially false and misleading because Aqua Buoy and Pignatiello omitted to disclose that, nearly one year before the acquisition, Lord Jeff had ceased manufacturing operations and its subsequent revenues arose from a run-off of inventory. Aqua Buoy and Pignatiello also omitted to disclose in the Lord Jeff Press Release that Lord Jeff had a negative net worth of approximately \$5 million immediately prior to its acquisition by Aqua Buoy. After the Lord Jeff Acquisition, Aqua Buoy never operated Lord Jeff as an ongoing business and, during 1993 and 1994, Aqua Buoy sold or abandoned all of Lord Jeff's assets.

The Pearson Acquisition

25. On October 21, 1991, Aqua Buoy publicly issued two press releases ("Pearson Press Releases"), prepared by Pignatiello and issued by Aqua Buoy at Pignatiello's direction, announcing its acquisition of certain assets owned by Pearson ("Pearson Acquisition"). In the Pearson Press Releases, Aqua Buoy and Pignatiello represented:

Pearson Yachts will operate as a wholly owned subsidiary of The Aqua Buoy Corporation. The Company anticipates the manufacturing of the Pearson boats from the current facility and intends to negotiate for the lease/purchase of the facility with Grumman Allied Industries.

The Pearson Yacht Corporation, located in Portsmouth, Rhode Island, is the oldest and largest continuous production builder of fiberglass sailboats in the USA and was started in 1956.

In the Pearson Press Releases, Aqua Buoy and Pignatiello misleadingly omitted to disclose the following material facts: (a) Pearson was bankrupt and non-operational; and (b) Aqua Buoy did not acquire any manufacturing equipment for making any boats from the molds

acquired in the Pearson Acquisition or any inventory. In fact, Aqua Buoy never utilized the assets acquired from Pearson to manufacture any boats and Aqua Buoy sold all of these assets in 1993 at a loss.

The September 1991 Form 10-Q

26. On October 29, 1991, Aqua Buoy publicly issued a press release, prepared by Pignatiello and issued by Aqua Buoy at Pignatiello's direction, announcing its financial results for the quarter ended September 30, 1991 ("September 1991 Press Release"). At the same time, Aqua Buoy filed with the Commission a report on Form 10-Q for the period ending September 30, 1991 ("September 1991 Form 10-Q"). Pignatiello and Werner prepared the September 1991 Form 10-Q, which was signed by Constance Pignatiello and Werner. In the September 1991 Press Release and September 1991 Form 10-Q, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner stated: (1) "Shareholders equity increased to \$19,061,046," compared to only \$306,439 for the prior year's corresponding quarter; and (2) Aqua Buoy's total assets amounted to \$22,919,354, compared to only \$448,097 for the prior year's corresponding quarter. The September 1991 Form 10-Q also compared the total asset and shareholders' equity figures to those reported at June 30, 1991, thereby highlighting an increase in assets of approximately \$15 million and an increase in shareholders' equity of approximately \$14 million during that quarter.

27. The substantial \$14-15 million increase in total assets and shareholders' equity during the quarter ended September 30, 1991 was attributable primarily to the \$14,088,000 valuation of the Lord Jeff Acquisition in Aqua Buoy's financial statements. These financial statements were prepared by Pignatiello and Werner. The \$14,088,000 valuation of the Lord

Jeff Acquisition was based on a payment by Aqua Buoy of \$88,000 in cash and, supposedly, 4 million shares of Aqua Buoy common stock valued at \$3.50 per share. This valuation was improper because, as described above, Aqua Buoy issued only 1.375 million shares of common stock to acquire Lord Jeff. Thus, Aqua Buoy, Pignatiello, and Werner falsely inflated the value of the Lord Jeff acquisition by at least \$9,187,000, or 191%.

28. The financial statements contained in the September 1991 Form 10-Q and described in the September 1991 Press Release reflected the inflated valuations of the Lord Jeff Acquisition, the H&R Acquisition, the Leven Oaks Acquisition, and the ABI Acquisition. As a result, both Aqua Buoy's reported total assets of \$22,929,000 and reported shareholders' equity of \$19,061,000 were overstated by at least \$11,406,000, or 99% and 149%, respectively.

The Pearson Form 8-K

29. In January 1992, Aqua Buoy filed with the Commission a Form 8-K concerning its acquisition of Pearson ("Pearson Form 8-K"), which was prepared by Pignatiello and Werner and signed by Constance Pignatiello. In the Pearson Form 8-K, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner falsely claimed that Aqua Buoy made the Pearson Acquisition for \$1,250,000 in cash and stock -- 173,077 shares of unregistered common stock, supposedly worth \$1,125,000 (\$6.50 per share), and \$125,000 in cash. In fact, at the time of the Pearson Acquisition, the market price for Aqua Buoy's unrestricted common stock was \$5.00 per share. Thus, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner knew that the maximum value of the 173,077 restricted shares issued by Aqua Buoy in the Pearson Acquisition was \$866,000. Therefore, by valuing the Pearson

Acquisition at \$1,250,000, Aqua Buoy, Pignatiello, Constance Pignatiello, and Werner overstated the value of the Pearson Acquisition by at least \$259,000, or 21%.

The December 1991 Form 10-Q

30. On February 18, 1992, Aqua Buoy filed its Form 10-Q for the quarter ended December 31, 1991 ("December 1991 Form 10-Q") with the Commission. Werner prepared the December 1991 Form 10-Q, which was reviewed by Pignatiello and Constance Pignatiello.

31. The financial statements in the December 1991 Form 10-Q reflected the inflated valuations of the Acquisitions. As a result, both Aqua Buoy's reported total assets of \$24,690,000 and reported shareholders' equity of \$20,688,000 were overstated by at least \$11,665,000, or 90% and 129%, respectively.

The March 1992 Form 10-Q

32. On May 12, 1992, Aqua Buoy filed its Form 10-Q for the quarter ended March 31, 1992 ("March 1992 Form 10-Q") with the Commission. Werner prepared and signed the March 1992 Form 10-Q, which was reviewed by Pignatiello and Constance Pignatiello.

33. The financial statements in the March 1992 Form 10-Q reflected the inflated valuations of the Acquisitions. As a result, both Aqua Buoy's reported total assets of \$28,223,000 and reported shareholders' equity of \$24,159,000 were overstated by at least \$11,665,000, or 70% and 93%, respectively.

The 1992 Form 10-K

34. On October 16, 1992, Aqua Buoy filed its Form 10-K for the fiscal year ended

June 30, 1992 ("1992 Form 10-K") with the Commission. Werner prepared and signed the 1992 Form 10-K.

35. In the 1992 Form 10-K, Aqua Buoy and Werner restated the value of Aqua Buoy's total assets, which had been reported in the March 1992 Form 10-Q at approximately \$28.2 million, to approximately \$16.2 million and attributed approximately \$8 million in asset value reduction to restatements of the Lord Jeff and Pearson Acquisitions. Aqua Buoy and Werner reduced the valuation of the Lord Jeff Acquisition from approximately \$14.1 million to \$6.7 million and reduced the valuation of the Pearson Acquisition from \$1,250,000 to approximately \$730,000.

36. Even with this restatement, Aqua Buoy and Werner continued to falsely inflate Aqua Buoy's assets and shareholders' equity in the 1992 Form 10-K as follows. First, Aqua Buoy and Werner continued to overstate the valuation of the Lord Jeff Acquisition by at least \$1,799,000 because Aqua Buoy and Werner falsely claimed that 2 million shares had been used to acquire Lord Jeff when, in fact, only 1.375 million shares were used for that purpose. Second, Aqua Buoy and Werner continued to overstate the aggregate valuations of the ABI, Leven Oaks, and H&R acquisitions by at least \$2,219,000 because no reduction in valuation was made as to any of these acquisitions. As a result, both Aqua Buoy's reported total assets of \$16,277,000 and reported shareholders' equity of \$12,290,000 were overstated by at least \$4,018,000 or, 33% and 49%, respectively.

37. The financial statements contained in the 1992 Form 10-K were audited by Bogner. In connection with the audit, Werner falsely told Bogner that Aqua Buoy had issued 2 million shares of common stock in the Lord Jeff Acquisition.

The 1993 Form 10-K

38. In November 1993, Aqua Buoy filed a Form 10-K for the year ended June 30, 1993 ("1993 Form 10-K") with the Commission. The 1993 Form 10-K further restated the value of Aqua Buoy's total assets, implicitly acknowledging the prior false valuations of the 1991 and 1992 acquisitions. Specifically, in the 1993 Form 10-K, Aqua Buoy reduced its total assets, which had been reported in the 1992 Form 10-K financial statements as \$16.3 million, to \$11 million and expressly attributed at least \$3.8 million of this reduction to "adjustment for valuation of previously acquired companies for stock" during 1991 and 1992.

**Pignatiello, Constance Pignatiello, and Werner
Sell Aqua Buoy Common Stock While Knowing The
Truth Concerning Aqua Buoy's Falsely Inflated Assets**

39. Between April 1991 and May 1991, Pignatiello sold approximately 43,000 shares of Aqua Buoy common stock held in an account in the name of Aqua Buoy for approximately \$65,000 in approximately 6 different transactions.

40. Between April 1991 and September 1993, Constance Pignatiello sold approximately 619,000 shares of Aqua Buoy common stock held in an account in her name and in an account in the name of her son for approximately \$1.2 million in approximately 20 different transactions.

41. Between April 1991 and April 1992, Pignatiello and Constance Pignatiello jointly sold approximately 340,000 shares of Aqua Buoy common stock held in an account in the name of Jovijuco Investments, Inc. for approximately \$1.6 million in approximately 23 different transactions.

42. Between August 1991 and January 1993, Werner sold approximately 27,000

shares of Aqua Buoy common stock for approximately \$98,000 in approximately 14 different transactions.

43. When Pignatiello, Constance Pignatiello, and Werner sold shares of Aqua Buoy common stock, as alleged in ¶¶ 39-42, they each possessed material, nonpublic information concerning the Acquisitions and Aqua Buoy's true financial condition.

FIRST CLAIM FOR RELIEF

Violations of Section 10(b) of the Exchange Act and Rule 10b-5

(Fraudulent Filings with the Commission
and Press Releases -- All Defendants)

44. The Commission repeats and realleges the allegations in paragraphs 1 through 43 above as though fully set forth herein.

45. Defendants, directly and indirectly, singly and in concert, knowingly or recklessly, by use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the purchase or sale of Aqua Buoy securities:

- (a) employed 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 light of the circumstances under which they were made, not misleading; and
- (c) engaged in acts, practices and courses of business which operated as a fraud or deceit upon purchasers of Aqua Buoy securities and other persons.

46. As part of and in furtherance of this violative conduct, the Defendants, directly

or indirectly, made misrepresentations and omissions in Aqua Buoy's public filings with the Commission and in press releases, as set forth in paragraphs 9 through 37 above.

47. Defendants knowingly or recklessly made the misrepresentations and omitted to disclose the facts described in paragraphs 9 through 37 above.

48. The misrepresented and omitted information was material.

49. By reason of the foregoing, the Defendants violated and, unless permanently enjoined, will again violate 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.

SECOND CLAIM FOR RELIEF

Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11 And 13a-13

(False Reporting Violations by Aqua Buoy)

50. The Commission repeats and realleges the allegations in paragraphs 1 through 41 above as though fully set forth herein.

51. Aqua Buoy failed to file with the Commission, in accordance with the rules and regulations prescribed by the Commission: (a) such information and documents as the Commission required 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, 15 U.S.C. § 78l; (b) such annual reports, certified by independent public accountants, and such quarterly reports, as the Commission has prescribed; and (c) in addition to the information expressly required to be included in a statement or report, such further material information as was necessary to make the statements made, in light of the

circumstances in which they were made, not misleading.

52. As part of and in furtherance of this violative conduct, Aqua Buoy filed the March 1991 Form 10-Q, the 1991 Form 10-K, the September 1991 Form 10-Q, the December 1991 Form 10-Q, the March 1992 Form 10-Q, and the 1992 Form 10-K with the Commission.

53. As described in paragraphs 9 through 37 above, the March 1991 Form 10-Q, the 1991 Form 10-K, the September 1991 Form 10-Q, the December 1991 Form 10-Q, the March 1992 Form 10-Q, and the 1992 Form 10-K were materially false and misleading.

54. By reason of the foregoing, Aqua Buoy has violated and, unless permanently enjoined, will again violate Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, 13a-11, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13.

THIRD CLAIM FOR RELIEF

Liability Under Section 20(a) of the Exchange Act

(Pignatiello, Constance Pignatiello, and
Werner As Controlling Persons of Aqua Buoy)

55. The Commission repeats and realleges the allegations in paragraphs 1 through 54 above as though fully set forth herein.

56. At all times relevant hereto, Pignatiello, Constance Pignatiello, and Werner actively participated in the management and operation of Aqua Buoy.

57. At all times relevant hereto, Pignatiello, Constance Pignatiello, and Werner knowingly or recklessly participated in Aqua Buoy's fraudulent reporting and false reporting

violations.

58. At all times relevant hereto, Pignatiello, Constance Pignatiello, and Werner were controlling persons of Aqua Buoy for the purposes of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a).

59. By reason of the foregoing, Pignatiello, Constance Pignatiello, and Werner are each liable as controlling persons, pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. §78t(a), for Aqua Buoy's violations of Sections 10(b) and 13(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78m(a), and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13, as described above.

60. Unless enjoined, Pignatiello, Constance Pignatiello, and Werner, will again engage in conduct that will render them liable, as controlling persons, pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. §78t(a), for violations of Sections 10(b) and 13(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78m(a), and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11 and 240.13a-13.

FOURTH CLAIM FOR RELIEF

Violations of Exchange Act Rule 13b2-2

(Liability of Werner For Providing False And Misleading Information To Aqua Buoy's Auditor)

61. The Commission repeats and realleges the allegations in paragraphs 1 through 38 above as though fully set forth herein.

62. Werner, directly and 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 statements made, in the light of the circumstances under which such statements were made, not misleading to an accountant in connection with an audit or examination of the financial statements of an issuer to be filed with the Commission, in violation of Rule 13b2-2, 17 C.F.R. § 240.13b2-2, promulgated under the Exchange Act.

63. As part of and in furtherance of this violative conduct, Werner gave false information to Aqua Buoy's auditor in the course of the audits of Aqua Buoy's financial statements for the years ended June 30, 1991 and 1992, as set forth in paragraphs 23 and 37 above.

64. By reason of the foregoing, Werner has violated and, unless permanently enjoined, will again violate Rule 13b2-2, 17 C.F.R. § 240.13b2-2, promulgated under the Exchange Act.

FIFTH CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5

**(Insider Trading By Pignatiello,
Constance Pignatiello, and Werner)**

65. The Commission repeats and realleges the allegations in paragraphs 1 through 43 above as though fully set forth herein.

66. Pignatiello, Constance Pignatiello, and Werner, in the offer or sale of Aqua Buoy securities, by use of the means or instruments of transportation or communication in, or the instrumentalities of interstate commerce, or by use of the mails:

- (a) employed devices, schemes, and artifices to defraud;

- (b) obtained money or property by means of, or otherwise made, untrue statements of material facts 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; and
- (c) engaged in transactions, practices, and courses of business which operated as a fraud or deceit upon purchasers of Aqua Buoy securities.

67. As part of and in furtherance of this violative conduct, Pignatiello, Constance Pignatiello, and Werner, sold Aqua Buoy common stock during the period from April 1991 through September 1993.

68. During the period that they sold Aqua Buoy common stock, Pignatiello, Constance Pignatiello, and Werner possessed substantial information concerning the Acquisitions and Aqua Buoy's true financial condition, as described above.

69. The information possessed by Pignatiello, Constance Pignatiello, and Werner concerning the Acquisitions and Aqua Buoy's true financial condition was material and nonpublic.

70. Pignatiello knowingly or recklessly breached a fiduciary duty or other similar duty of trust and confidence by selling Aqua Buoy stock during the period from April 1991 through September 1993.

71. Constance Pignatiello knowingly or recklessly breached a fiduciary duty or other similar duty of trust and confidence by selling Aqua Buoy stock during the period from April 1991 through September 1993.

72. Werner knowingly or recklessly breached a fiduciary duty or other similar

duty of trust and confidence by selling Aqua Buoy stock during the period from August 1991 through January 1993.

73. By reason of the foregoing, Pignatiello, Constance Pignatiello, and Werner, singly and in concert, directly and indirectly, violated, and unless enjoined, will again violate Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and 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.

PRAYER FOR RELIEF

WHEREFORE, plaintiff Securities and Exchange Commission respectfully requests that this Court enter a final judgment:

I.

Permanently restraining and enjoining Joseph Pignatiello, Constance Pignatiello, Christopher Werner, and Chester Holdings, Ltd., directly or indirectly, singly or in concert, in connection with the purchase or sale of any security, by the use of any means or instrumentalities of interstate commerce or of the mails, from violating 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.

II.

Permanently restraining and enjoining Chester Holdings, Ltd., directly or indirectly, singly or in concert, from violating 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.

III.

Permanently restraining and enjoining Joseph Pignatiello, Constance Pignatiello, and Christopher Werner, directly or indirectly, from engaging in conduct as controlling persons that would render them liable pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a), for 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.

IV.

Permanently restraining and enjoining Christopher Werner, directly or indirectly, singly or in concert, from violating Rule 13b2-2, 17 C.F.R. § 240.13b2-2, promulgated under the Exchange Act.

V.

Permanently restraining and enjoining Joseph Pignatiello, Constance Pignatiello, and Christopher Werner, directly or indirectly, singly or in concert, in the offer or sale of any securities, by the use of any means or instruments of transportation or communication in interstate commerce, or by use of the mails, from violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

VI.

Ordering Joseph Pignatiello, Constance Pignatiello, and Christopher Werner to disgorge all funds and benefits they obtained as a result of the violations alleged in this Complaint, estimated to exceed \$2 million, and to pay prejudgment interest thereon.

VII.

Ordering Joseph Pignatiello, Constance Pignatiello, and Christopher Werner to pay civil monetary penalties pursuant to Section 20(d) of the Securities Act, 15 U.S.C. §77t(d), and Sections 21(d)(3) and 21A of the Exchange Act, 15 U.S.C. §§ 78u(d)(3) and 78u-1(a).

VIII.

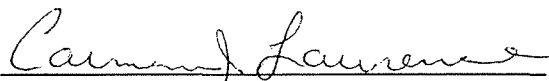
Permanently barring Joseph Pignatiello, Constance Pignatiello, and Christopher Werner each from serving as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d), pursuant to Section 20(e) of the Securities Act, 15 U.S.C. § 77t(e), and Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2).

IX.

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


Dated: New York, New York
April 1, 1997

SECURITIES AND EXCHANGE COMMISSION

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