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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION

3 : 06 cv 0131

WALTER HERBERT RICE

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. MICHAEL E. PEPPEL, an individual, IRA H. STANLEY, JR. an individual, and DAVID J. WHITE, an individual, Defendants.	**COMPLAINT**

Plaintiff, Securities and Exchange Commission ("Commission") for its complaint against defendants Michael E. Peppel ("Peppel"), Ira H. Stanley, Jr. ("Stanley") and David J. White ("White"), alleges as follows:

1. Peppel, Stanley and White violated the federal securities laws by materially falsifying MCSi, Inc.'s financial statements through improper transactions.

JURISDICTION AND VENUE

2. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d) and 77v(a)] and Sections 21(d)(3), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d)(3), 78u(e) and 78aa].

3. Defendants, directly or indirectly, have made use of the mails, means or instruments of transportation or communication in interstate commerce, or means

or instrumentalities of interstate commerce in connection with the transactions, acts, practices and courses of business described in this Complaint.

4. Venue over this action is proper pursuant to Section 22(a) of the Securities Act and Section 27 of the Exchange Act [15 U.S.C. §§ 77v(a) and 78aa].

5. Certain of the transactions, acts, practices and courses of business constituting violations alleged herein occurred within the state of Ohio. MCSi's principal place of business was in Dayton, Ohio. Peppel, Stanley, and White engaged and transacted business within the state of Ohio. Peppel and Stanley reside or may be found within the District of Ohio.

INTRODUCTION

6. MCSi, Inc. ("MCSi"), through Peppel and Stanley and assisted by White, falsified its financial statements through a series of sham transactions, false journal entries, and improper applications of generally accepted accounting principles ("GAAP").

7. MCSi, a Maryland corporation, was formerly headquartered in Dayton, Ohio. MCSi's stock was quoted on the NASDAQ National Market System under the symbol MCSI.

8. Beginning with the first quarter of 2001 through the third quarter of 2002, MCSi's financial statements were materially falsified by its CEO, Peppel, and its CFO, Stanley. Peppel and Stanley falsified MCSi's financial statements in order to meet or exceed analysts' expectations and for their own personal gain.

9. For the year ended December 31, 2001, MCSi recognized over $52 million in fraudulent revenue. This revenue was created by means of four separate transactions with Federal Express Corporation ("FedEx"), Skytron Corporation

("Skytron"), Mercatum, Ltd. ("Mercatum") and ClearOne Communications, Inc. ("ClearOne"). Because some of this false revenue had no associated cost of goods sold, the effect on net income was material.

10. During the second quarter of 2001, MCSi improperly recognized $12 million in revenue from Skytron.

11. Beginning in mid-2000 through early 2002, MCSi made journal entries in its books that prematurely recognized revenue and other entries that recorded completely fictitious revenue from its business relationship with FedEx.

12. In December 2001, Peppel proposed to sell certain proprietary software to ClearOne for $2 million. Even though ClearOne refused to purchase the software and promptly returned it to MCSi, MCSi recorded $2 million as revenue from this transaction for the 2001 year.

13. In late 2001, Peppel entered into an agreement to sell MCSi inventory to Mercatum, a United Kingdom company, for $37.1 million. Although the arrangement was on a "pay as you resell" basis, and most of the inventory was obsolete and could not be resold by Mercatum, MCSi recognized $37.1 million as revenue from this transaction for the 2001 year, with no entry to relieve inventory or charge cost of goods sold.

14. In addition, in the first quarter of 2002 Stanley, at the instigation of Peppel, resorted to simply making up revenue by means of fictitious journal entries. Through this process, Stanley manufactured net income of over $13 million for the quarter.

15. Stanley, for his part, caused false journal entries to be included in the company's books concerning FedEx, Skytron, Mercatum, ClearOne, various rebates, "Major Projects" and "Major Projects 2." Stanley backdated the invoices for the Mercatum transaction in order to give the false impression that they had been prepared before the year end. He also concealed manual journal entries from MCSi's auditors, PricewaterhouseCoopers ("PwC").

16. Through this conduct, Peppel and Stanley enabled MCSi to stay within the range of analysts' expectations by materially overstating earnings.

STATUTES AND RULES ALLEGED TO HAVE BEEN VIOLATED

17. Defendants have engaged and, unless enjoined, will continue to engage, directly or indirectly, in transactions, acts, practices, and courses of business which constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Sections 10(b), 13(a) and 13(b) of the Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b), 78m(a) and 78m(b)] and Rules 10b-5, 12b-20, 13a-1, 13a-13, 13a-14, 13b2-1, and 13b2-2 thereunder [17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-13, 240.13a-14, 240.13b2-1 and 240.13b2-2].

18. Defendants' conduct occurred in connection with the purchase and sale of MCSi's securities.

DEFENDANTS

19. **Michael E. Peppel**, age 40, joined MCSi in 1996 and was the Chairman of the Board, President, and CEO of MCSi from 1998 until April 2003.

20. **Ira H. Stanley**, age 55, was Vice President and CFO of MCSi from October 1998 through April 2003. From July 2000 through April 2003, Stanley also acted as a director of MCSi.

21. **David J. White**, age 43, is a citizen of the United Kingdom. In 1996, White founded Mercatum, a United Kingdom corporation.

BACKGROUND

22. MCSi was incorporated in 1980 as Miami Computer Supply Corporation under the laws of Maryland. MCSi went public in 1996. MCSi began by selling computer and audio-visual supplies, and then expanded its business into the area of audio-visual integration.

23. On December 18, 2001 MCSi carried out a public offering of its common stock. In that offering, MCSi sold 4.7 million shares at an offering price before underwriting commission of $22.875 a share. Peppel sold 300,000 shares in that offering for proceeds before expenses of approximately $6,862,500.

24. Beginning with the first quarter of 2001 and continuing through the third quarter of 2002, MCSi supplemented its revenue by means of fraudulent transactions and bookkeeping entries. As a result of the sham transactions, MCSi materially overstated its revenue and earnings. Without this additional fraudulent revenue, MCSi would have fallen well short of analysts' expectations.

THE FEDEX TRANSACTION

25. In the summer of 2000, FedEx, a global delivery company, began ordering computers from MCSi for sale to business owners who wished to weigh, ship and track their own FedEx shipments. This program was referred to by FedEx as the

"Powership" program. Under this program, MCSi put together a package consisting of a scale, bar code scanner, printer, CPU and monitor, and loaded the CPU with FedEx proprietary software, to fill orders.

26. When FedEx received an order under the Powership program, it notified MCSi electronically of the order. MCSi loaded the FedEx proprietary software onto a computer which was picked up by a FedEx courier and delivered to the customer. The individual FedEx orders were processed through the JD Edwards system, an automated accounting software system used by MCSi.

27. Even though the individual sales under the Powership program were booked automatically through the JD Edwards accounting system used by MCSi, Stanley made separate, manual revenue accrual entries relating to the program for each quarter, beginning in the quarter ended June 30, 2000 and terminating with the quarter ended March 31, 2002.

28. Stanley's manual journal entries related to the FedEx Powership program were improper because all legitimate sales were being recorded through JD Edwards.

29. As a result, Stanley's manual revenue accrual entries caused MCSi to overstate revenue from the FedEx Powership program in violation of GAAP.

30. In December 2001 the business relationship between FedEx and MCSi ended. All FedEx inventory was removed from MCSi warehouses by December 22, 2001, and no further sales took place after that date.

31. For the quarter and year ended December 31, 2001, Stanley made a manual journal entry related to the FedEx transaction, recording revenue of $16,810,280,

when no further inventory remained in the warehouse to be sold. This year-end revenue recorded by Stanley was fictitious.

32. Stanley made another manual journal entry related to the FedEx transaction for the quarter ended March 31, 2002, recording revenue of $14.2 million. This entry was fictitious for the same reason as was the revenue recorded for the 2001 year-end.

33. In the quarter ended September 30, 2001, Stanley instructed MCSi's controller to make a journal entry for $1.25 million that purported to represent income from a "FedEx rebate." Stanley fabricated this rebate to increase income in the third quarter.

34. Stanley used the FedEx manual journal entries to adjust revenue and income in each quarter.

THE SKYTRON TRANSACTION

35. Stanley recorded over $12 million of fraudulent revenue for the quarter ended June 30, 2001 and over $9 million of fraudulent revenue for the 2001 year stemming from the arrangement between MCSi and Skytron.

36. Skytron was a small company that designed large three-sided video screens ("trons") for installation in shopping mall food courts. The trons showed promotions for mall vendors and would be paid for with advertising revenues. Skytron hoped to eventually install the trons in 150 upscale malls across the country.

37. At first Skytron purchased parts from MCSi and assembled the trons on its own. Later, Skytron negotiated with MCSi for an agreement whereby MCSi would assemble, install and service the trons.

38. The average installed cost of each tron was approximately $85,000. The aggregate installed cost of the 150 trons that Skytron hoped to place in malls across the country was approximately $12 million.

39. At an initial meeting with Skytron representatives William and Joseph Salesky, Peppel discussed with them the fact that Skytron would not be able to pay MCSi to build and install the trons unless Skytron obtained outside financing. At that meeting Peppel agreed that MCSi would guarantee this financing. Ultimately, MCSi arranged for and guaranteed the financing Skytron used in paying MCSi for the trons.

40. Stanley knew that MCSi had agreed to guarantee Skytron's financing in order to enable it to pay MCSi for the trons.

41. Skytron prepared a purchase order to MCSi dated June 30, 2001, for the manufacture and installation of 150 trons, for an aggregate price of $12,035,247. The purchase order explicitly stated at the bottom that "purchase order requires appropriate approvals to be valid."

42. Skytron did not intend the purchase order to function as an ordinary valid purchase order. Instead, Skytron intended the purchase order to be a good faith estimate of the value of its entire business relationship with MCSi. Skytron representatives anticipated that MCSi would use the purchase order as a basis to negotiate discounts with its suppliers.

43. Skytron wrote to MCSi indicating that the purchase order was not valid because terms remained open,

44. Skytron's agreement with MCSi was a "pay as you install" arrangement, that is, no payment would be due unless and until a tron was installed.

45. Peppel and Stanley knew that the purchase order was not a valid order for over $12 million of product. They knew that Skytron did not have financing to cover a purchase of that extent; that without such financing it did not have the ability to pay such an amount. In fact, as of the date of the purchase order Skytron owed MCSi a substantial amount of money.

46. Based on the receipt of this purchase order from Skytron, Stanley caused James R. Ahrns ("Ahrns"), MCSi's controller, to make a manual journal entry recording revenue and a receivable in the amount of $12,035,247 and to record a corresponding cost of goods sold and a payable in the amount of $7,822,911, for the quarter ended June 30, 2001. The net effect of the entry was to add $4,212,336 to MCSi's income before taxes for that quarter.

47. The $7,822,911 payable was classified as "received not vouchered" on the books of MCSi. Rather than showing a number of payables reflecting monies due to the different vendors whose products had been used to construct the tron, the books showed a single large payable to an unidentified payee.

48. Skytron negotiated with an equipment lessor for financing, but was not actually able to obtain funds under the equipment lease until late in 2001. As previously agreed, MCSi guaranteed this financing. During this time, MCSi continued to build and install trons even though Skytron made no payments to MCSi.

49. The entries related to the June 30, 2001 Skytron purchase order were fraudulent. MCSi had earned no revenue from the Skytron transaction as defined by GAAP. MCSi had not received a valid purchase order for $12,035,247. Skytron could not pay MCSi without financing, which it did not have, and which was not actually available for six months. Moreover, most of the trons covered by the purchase order had neither been manufactured nor installed.

50. As MCSi built and installed the trons, MCSi recorded the sale of the trons in the normal course of its business through the JD Edwards accounting system, separate and apart from Stanley's $12,035,247 manual journal entry.

51. Later that year, Stanley made another manual journal entry, recorded as of December 31, 2001, which reduced that previous Skytron revenue and receivable journal entry from $12,035,247 to $9,078,196 at year end. The year end effect was to overstate revenue and receivables by $9,078,196 and understate net loss before taxes by $3,177,368.

52. In late December 2001 Stanley instructed Mary Stewart, Vice President of Operations, to enter, and backdate to October 2, 2001, an invoice to Skytron for $9,078,796. Skytron never received the invoice.

53. At no time did Skytron owe MCSi either $12 million or $9 million reflected by Stanley's manual journal entries.

54. Stanley used the Skytron transaction to record fictitious revenue. The revenue from the Skytron manual journal entries boosted the company's net income before taxes in the second quarter of 2001 by $4.2 million; and for the 2001 year reduced its net loss by $3.2 million.

55. Skytron never installed more than 72 trons, and it filed for bankruptcy in May 2002. MCSi paid $2,828,891 to Skytron's two leasing companies under its guarantee.

56. After MCSi received the $12,035,247 purchase order from Skytron on August 7, 2001, MCSi issued a press release regarding the Skytron relationship. This release was headed "Skytron Grants MCSi $12 Million Exclusive Integration Services Contract" and stated that MCSi was to install and maintain trons at "over 500" shopping malls across the country.

57. The press release was materially misleading because MCSi failed to state that it had guaranteed Skytron's financing and that the purchase order was not valid. Moreover, at the time of the press release Skytron had reached tentative agreements with only 130 malls, not 500.

58. The MCSi press release was reviewed and approved by Peppel. Peppel knew the press release was materially misleading because he was personally involved in negotiations with Skytron and knew that MCSi had guaranteed Skytron's financing.

THE MERCATUM TRANSACTION

59. Peppel personally initiated and negotiated the Mercatum transaction with its principal, White. By selling a large quantity of obsolete inventory to Mercatum, recording no cost of goods sold, and by falsely portraying the transaction as a "bill and hold" to MCSi's auditor PwC, Peppel fraudulently added $37.1 million to MCSi's revenue and net income for the 2001 fiscal year.

60. White had been acquainted with Peppel since 1993 and had even worked briefly for MCSi in Michigan. In 1996, White returned to the U.K. and formed Mercatum, a computer and audio-visual supply wholesaler. Mercatum was based in Leeds, England, with an additional office in Dublin and an affiliate, CEM Overseas, Ltd. ("CEM Overseas") in Dubai.

61. Mercatum's business was modest. Its revenue in 2000 was £1 million; in 2001 £2.5 million; and in 2002 £5.5 million. Mercatum factored all its receivables in order to purchase inventory, because its cash flow was very tight. Although Mercatum expanded into sales of audio-visual products, it never entered the higher-margin integration business.

62. In October or November 2001, White received a call from Peppel. Peppel proposed making a large sale of MCSi product to Mercatum, and asked whether, if MCSi provided support to Mercatum in its resale of the product, White could resell the goods.

63. White told Peppel that he could resell the product, provided it was of good quality and Mercatum received a price advantage from MCSi. The parties signed a letter dated November 30, 2001 in which Mercatum agreed to purchase $5 million of unspecified product from MCSi each quarter.

64. Peppel knew that Mercatum lacked the ability to pay for any amount of MCSi product up front, and would not be able to finance the transaction. White and Peppel agreed, therefore, that the transaction between MCSi and Mercatum would be entirely on a "pay-as-you-go" basis, meaning that Mercatum would only pay MCSi if, and when, it resold the product and collected from its customers.

65. White referred to the transaction as a "riskless" transaction for Mercatum because Mercatum had no obligation to pay for any goods until they were resold.

66. For the initial purchase under the new arrangement between MCSi and Mercatum, Peppel requested that White split the purchase from MCSi into three blank purchase orders, leaving open the dates and dollar amount. The purchase orders did not identify what product Mercatum purchased.

67. At Peppel's direction, White generated three blank purchase orders to MCSi from Mercatum (U.K.), Mercatum Ireland and CEM Overseas.

68. During December 2001, Peppel contacted White and told him that the amount of the transaction between MCSi and Mercatum would now be $13 million. White agreed to the new amount.

69. Some days later, Peppel called White again, to increase the amount of the transaction between MCSi and Mercatum from $13 million to $37.1 million. Again, White agreed. White was not troubled by the escalating amount of the transaction because it was a "pay-as-you-go" arrangement.

70. In early February 2002, Stanley asked Mary Stewart, MCSi's Vice President of Operations, to enter the three invoices representing the $37.1 million Mercatum transaction into the JD Edwards accounting system.

71. Stewart was one of the few employees whose expertise on the JD Edwards system enabled her to override its automatic date function. Stanley told Stewart to backdate the three invoices relating to the Mercatum transaction to December 4, December 4 and December 7, 2001, respectively, in the JD Edwards system.

72. Stanley provided Stewart with the addresses of the three Mercatum entities and amounts of the sales but told her to make up the purchase order numbers, which she did using a portion of the fax number she had been given for each offshore entity.

73. Stanley did not provide Stewart with any information regarding the product that was being sold to Mercatum.

74. Stewart generated the back dated invoices for the sale to Mercatum in early February 2002.

75. Normally when items are included on an invoice the JD Edwards system automatically relieves inventory of those items, charges cost of goods sold, and generates a shipping document and packing slip. In the case of the Mercatum transaction, however, no cost of goods sold was ever recorded and inventory was never relieved.

76. The shipment to Mercatum did not actually leave MCSi's main warehouse in Kentucky until mid-March 2002, and was sent to Dubai, rather than to the U.K., because there would be no obligation to pay value-added tax in that jurisdiction.

77. MCSi shipped obsolete, un-saleable and damaged products to Mercatum. When the shipping containers were opened by Mercatum staff in Dubai, they were full of miscellaneous products, some without any packaging at all. Some items were clearly returns and were labeled "faulty." The contents of the containers did not match the packing slips. Some of the product was not in compliance with European electronics standards, and could only be used in the U.S. In this condition, much of the shipment could not be resold at all.

78. In July or August 2002, White returned about half of the shipment to MCSi because little had been sold. In late 2002, he sold what remained of the shipment to a Dubai company controlled by one of his business associates, but when this individual was also unable to resell the product, it too was finally returned to MCSi.

79. Since the shipping date was well past year-end 2001, MCSi needed to create the illusion that the transaction met the definition of a bill-and-hold under GAAP, in order to recognize this revenue for the year ended December 31, 2001. In a valid "bill and hold" arrangement, title would have passed to Mercatum, with MCSi retaining possession of the goods for a limited time, past the end of the accounting period at the request of Mercatum.

80. Mercatum never requested that the transaction be treated as a bill and hold. Mercatum did not request that MCSi retain possession of the goods past year end and was ready to receive the MCSi shipment in mid-December 2001.

81. A valid bill and hold would require that all risks of ownership pass to Mercatum in December 2001. Title to the goods did not pass to Mercatum in December 2001. Instead, MCSi paid for all shipping, storage, insurance and marketing for the goods and for their return to MCSi in the summer of 2002. Mercatum invoiced MCSi just under $200,000 for these costs, which MCSi paid.

82. Peppel and White made misrepresentations in a letter to PwC to convince PwC that the transaction was a valid bill and hold arrangement which allowed MCSi to recognize the entire $37.1 million as revenue for the 2001 year.

83. Those misrepresentations include among others, that as of December 31, 2001, Mercatum owed MCSi $37,100,000 due and payable under normal terms and conditions and not subject to discount or any other arrangements; that the product was ordered on a bill and hold basis; and Mercatum had title to all products and the risk and rewards of ownership of the goods.

84. In June 2002, Mercatum was acquired by MCSi and was renamed MCSi Europe. Soon, however, MCSi became unable to provide Mercatum with the funding it needed for operations. In October 2003, White repurchased Mercatum, including certain inventory, from MCSi for $650,000.

85. The $37.1 million Mercatum transaction was not a valid bill-and-hold transaction. Instead the transaction with Mercatum was simply a consignment transaction consisting of mostly obsolete inventory that Mercatum would be unable to resell. Nevertheless, in violation of GAAP, MCSi recorded the entire amount from the Mercatum transaction as revenue, with no associated cost of goods sold, in December 2001.

THE CLEARONE TRANSACTION

86. In December 2001, Peppel called Frances Flood ("Flood"), ClearOne's CEO and said MCSi had a proprietary software system developed by a MCSi subsidiary, AV Associates, to track price and systems integration orders. Peppel suggested that ClearOne might be interested in purchasing that software. Flood told Peppel she was interested in reviewing the software to see if it would meet ClearOne's needs.

87. Peppel asked Flood to provide him with a $2 million purchase order before he would ship the software to ClearOne. Although Flood complied with his request, ClearOne never intended at that time to purchase the software. In fact, Flood told Peppel she did not even have the authority to purchase the software as ClearOne's board of directors would need to give final approval, and she would also need to involve engineers and IT staff.

88. During the last week of 2001, Joe Dasco ("Dasco"), the head of AV Associates, received a telephone call from Peppel. Peppel instructed Dasco to ship to ClearOne the software that AV Associates had developed.

89. Peppel told Dasco that the price for the software would be $2 million. Dasco did as Peppel instructed and shipped the software to ClearOne.

90. As shipped, the software and binder did not include the source code for its use. Without the source code and some instruction from personnel at AV Associates, the software would not have been usable.

91. MCSi recorded the $2 million purported sale of the software to ClearOne as revenue for the fiscal year ended December 31, 2001. MCSi did not record a corresponding cost of goods sold. As a result, the transaction with ClearOne artificially increased MCSi's net income from continuing operations by $2 million for the 2001 year.

92. When Flood finally inspected the binder that accompanied the software in mid-January 2002, she realized the software would not be useful to ClearOne, and promptly shipped the software back to MCSi. Flood also called Peppel and left a

message saying that ClearOne did not want the software and that it was being returned.

93. Flood never heard from Peppel again regarding the transaction, and MCSi never sent ClearOne an invoice or statement, and never tried to collect the $2 million in any other way. ClearOne never recorded the transaction as a purchase on its books.

94. By February or March 2002, Dasco and his partner were beginning to wonder when they would be paid the $2 million for the software sent to ClearOne. Peppel told Dasco that he should take no collection efforts, and that Peppel would personally collect the $2 million from ClearOne. In the end, the $2 million receivable from ClearOne was transferred to another, unrelated, account on the books of MCSi.

95. For the quarter ended September 30, 2002, MCSi again used the ClearOne relationship to increase revenue. Stanley instructed Ahrns to enter a manual journal entry in the JD Edwards system for a "ClearOne rebate" in the amount of $1.3 million. At no time did ClearOne owe, or issue, MCSi a rebate. As he had with FedEx, Stanley used a purported rebate to increase income for the quarter.

96. By October 26, 2001 MCSi had reported third quarter earnings of $.32, up 10% over the same period in the prior year. Its integration business was up 49% over the prior year. Based on these results, one of the primary analysts following the company raised his 12-month estimate for the stock to $30 a share, while forecasting earnings of $1.24 for 2001. Peppel and Stanley created the sham transactions to meet analyst expectations.

ADDITIONAL FRAUDULENT JOURNAL ENTRIES

97. During the first quarter of 2002 Peppel instructed Stanley to be more aggressive on certain percentage-of-completion entries to be made that quarter on MCSi's books. Peppel was concerned that, if the company did not perform well for a year after a stock offering, the new stockholders might object to the fact that management (including Peppel) had sold a substantial amount of stock in the offering.

98. For the quarter ended March 31, 2002, Stanley instructed Ahrns to make two manual journal entries on the books of MCSi that resulted in the recording of $30,203,901 of revenue and $16,432,341 of cost of goods sold, for additional net revenue before taxes of $13,771,560 for the quarter. These entries were simply referenced as "Major Projects" and "Major Projects 2" and were entirely fictitious.

99. Ahrns entered these items into the general ledger even though he did not understand them, and that as an accounting matter the entries made no sense.

100. During the 2002 audit of MCSi, PwC requested that Ahrns provide it with all the manual journal entries for the year. Because Stanley had instructed Ahrns not to give the auditors any manual journal entries without his express permission, Ahrns always went to Stanley first and told him about the request. Stanley asked Ahrns to give him the binder of manual journal entries, and Stanley, in Ahrns' presence, removed certain entries from the book, closed it, gave it back to Ahrns, and instructed Ahrns to provide the binder to PwC without the missing pages. Ahrns did as Stanley instructed.

101. Stanley's conduct of removing manual journal entries from the books of the company before the auditors could see them had also taken place during the 2000 and 2001 audits.

102. The entries that Stanley removed during the 2002 audit were those referencing "Major Projects" and Major Projects 2."

103. Stanley instructed MCSi employees never to give PwC, MCSi's auditors, anything without clearing it with him first, and was adamant that PwC was not entitled to see details of the general ledger during its audit.

104. Consequently, Ahrns did not disclose to the auditors that Stanley had instructed him to record fraudulent transactions into the books of the company and that Stanley had altered the books of the company.

105. Stanley and Peppel monitored analysts' projections about the company's stock. It was their goal to meet these projections. Stanley periodically reported to Peppel where the company stood as the quarter progressed, in order to warn Peppel if the company was going to fall short of expectations and, if so, by how much. The failure to meet analyst expectations prompted Stanley and Peppel to fabricate transactions in order to artificially increase revenue to meet analysts' expectations.

106. MCSi ultimately reported revenue for the 2001 fiscal year of only $810.3 million, 15% below expectations. Nevertheless, it achieved earnings per share for the year of $1.30, far in excess of analysts' expectations, which were $1.24 a share. Peppel and Stanley were able to achieve this result by creating revenue in the fourth quarter without recording any cost of goods sold. They did so by

concocting the fraudulent $37.1 million Mercatum transaction and the $2 million ClearOne transaction.

107. During the time Peppel, Stanley and White created these sham transactions, MCSi carried out a public offering of its common stock. In this offering Peppel sold 300,000 shares of stock for gross proceeds of $6,862,500.

108. Both Peppel and Stanley signed the registration statement for the public offering on behalf of MCSi, and signed management representation letters to the auditors during the audits for the years 2000 through 2002.

109. When he sold these shares on December 21, 2001, Peppel knew that, absent fraudulent transactions such as Mercatum, ClearOne, FedEx and Skytron, MCSi would have fallen far short of analysts' expectations throughout 2001.

110. In fact, without these four transactions MCSi would have reported a net loss of over $13 million for 2001 rather than net income of $19,078,000 (before discontinued operations and restructuring charges).

MCSI'S FINANCIAL STATEMENTS CONTAIN MATERIAL MISSTATEMENTS

111. As a result of the conduct described above, MCSi's financial statements contained materially overstated revenue, income and accounts receivable in violation of GAAP.

112. MCSi improperly recognized revenue from the transactions with FedEx, Skytron, Mercatum, and ClearOne. It falsified journal entries, fabricated rebates, backdated invoices and created revenue from thin air.

113. Peppel and Stanley caused MCSi to materially overstate revenue and to either overstate net income or understate net loss before taxes in each quarter of 2001 and in the first and third quarters of 2002.

114. For the 2001 year, Peppel and Stanley caused MCSi to report net income before taxes from continuing operations of $18,690,000 when, using GAAP, MCSi should have actually reported a loss of $23,505,630. For the quarter ended March 31, 2002, MCSi overstated its gross revenue by approximately $28 million and reported net income before taxes from continuing operations of $10,246,000 instead of a loss of $3,195,112. Those misstatements were material.

115. Materially misstated financial statements were included in MCSi's Forms 10-Q filed with the Commission for the quarters ended March 31, 2001, June 30, 2001, September 30, 2001, March 31, 2002, June 30, 2002 and September 30, 2002 and in the Form 10-K for its year ended December 31, 2001. MCSi also incorporated by reference those materially misstated financial statements into a Form S-3 registration statement filed December 4, 2001 and an amendment thereto filed December 18, 2001.

FIRST CAUSE OF ACTION

EMPLOYMENT OF A DEVICE, SCHEME OR ARTIFICE TO DEFRAUD
Violation of Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)]

116. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

117. Defendants Peppel and Stanley, and each of them, by engaging in the conduct described in paragraphs 1 through 115 above, directly or indirectly in the offer or sale of MCSi's securities, by the use of the means or instruments of transportation

or communication in interstate commerce or of the mails, with scienter, employed devices, schemes, or artifices to defraud.

118. By reason of the foregoing, defendants Peppel and Stanley, directly or indirectly, violated, and unless restrained and enjoined will continue to violate Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)].

SECOND CAUSE OF ACTION

FRAUD IN THE OFFER AND SALE OF SECURITIES
Violations of Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. § 77q(a)(2) and (3)]

119. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

120. Defendants Peppel and Stanley, and each of them, by engaging in the conduct described in paragraphs 1 through 115, directly and indirectly, in the offer and sale of MCSi's securities, by the use of the means or instruments of transportation or communication in interstate commerce or of the mails, obtained money or property by means of untrue statements of material fact or by omitting 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 engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers of such securities.

121. By reason of the foregoing, defendants Peppel and Stanley, directly or indirectly, violated, and unless restrained and enjoined will continue to violate, Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and (3)].

THIRD CAUSE OF ACTION

FRAUD IN CONNECTION WITH THE PURCHASE AND SALE OF SECURITIES

Violations 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]

122. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

123. Defendants Peppel, Stanley, and White, and each of them, by engaging in the conduct described in paragraphs 1 through 115 above, directly or indirectly, in connection with the purchase and sale of securities, by the use of means or instrumentalities of interstate commerce or of the mails, with scienter: (1) employed devices, schemes or artifices to defraud; (2) made untrue statements of material facts 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; or (3) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon other persons.

124. By reason of the foregoing, defendants Peppel, Stanley, and White, directly or indirectly, violated and unless restrained and enjoined, will continue to 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].

FOURTH CAUSE OF ACTION

AIDING AND ABETTING BOOKS AND RECORDS VIOLATIONS AND FALSE FILINGS WITH THE COMMISSION

Violations of Section 13(a) and 13(b)(2)(A) and (B)of the Exchange Act [15 U.S.C. §§ 78m(a) and78m(b)(2)(A) and (B)] and Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. 240.12b-20, 240.13a-1, and 240.13a-13]

125. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

126. Section 13(a) and Rules 12b-20, 13a-1 and 13a-13 require companies filing periodic reports with the Commission to file truthful reports that do not omit material information that would otherwise make the information in the filings not misleading.

127. MCSi violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder by filing materially misleading quarterly and annual reports for reporting periods throughout 2001 and for the first three quarters of 2002.

128. Section 13(b)(2)(A) of the Exchange Act requires companies to keep accurate books, records and accounts which reflect the transactions entered into by a company and the disposition of its assets. Rule 13b2-1 also requires that a company's books and records not be falsified by any person.

129. Section 13(b)(2)(B) requires companies 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 or any other criteria applicable to such statements and to maintain accountability for such assets.

130. MCSi failed to make and keep books, records and accounts that provided reasonable assurances that transactions it had entered into had been accounted for properly in accordance with GAAP and not falsified. MCSi did not devise or maintain a system of internal accounting controls that assured that revenue was properly recorded on its financial statements.

131. As a result of the conduct set forth above, MCSi violated Sections 13(b)(2)(A) and (B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

132. Peppel and Stanley were generally aware that their roles in MCSi's violations of Sections 13(a) and (b)(2) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 were improper.

133. Stanley and Peppel falsified MCSi's books and records by improperly recognizing revenue from the FedEx, Skytron, Mercatum and ClearOne transactions, falsifying journal entries and fabricating rebates.

134. White was generally aware that his role in MCSi's violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder was improper.

135. White misrepresented Mercatum's $37.1 million transaction with MCSi to PwC enabling MCSi to recognize $37.1 million in fraudulent revenue in December 2001.

136. Peppel and Stanley provided substantial assistance to MCSi in its violations of Sections 13(a) and (b)(2) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

137. White provided substantial assistance to MCSi in its violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

138. By reason of the foregoing, Peppel and Stanley, and each of them, directly or indirectly, aided and abetted, and unless restrained and enjoined will continue to aid and abet violations of Section 13(a) and 13(b)(2)(A) and (B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

139. By reason of the foregoing, White, directly or indirectly, aided and abetted, and unless restrained and enjoined, will continue to aid and abet violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder.

FIFTH CAUSE OF ACTION

PROVIDING FALSE AND MISLEADING INFORMATION TO ACCOUNTANTS
Violations of Rule 13b2-2 under the Exchange Act [17 C.F.R. § 240.13b2-2]

140. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

141. Peppel and Stanley, directly and indirectly, made and caused to be made materially false and misleading statements, and omitted to state and caused other persons 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 accountants in connection with PwC's audits of MCSi's financial statements for the fiscal year ended December 31, 2001, the first quarter of 2002 ended March 31, 2002, the third quarter ended September 30, 2002 and the fiscal year ended December 21, 2002.

142. Specifically, Stanley concealed manual journal entries from PwC, instructed Ahrns to sign a letter to PwC that MCSi's management had provided complete and accurate disclosure to the auditors, instructed MCSi employees to fabricate invoices, and made false entries in the JD Edwards system.

143. Peppel misrepresented the economic substance of the transaction between Mercatum to PwC. Peppel knew that he agreed to a pay as you sell arrangement with Mercatum, however, he misrepresented to PwC that the transaction with Mercatum met the requirements of a bill and hold arrangement.

144. Peppel and Stanley signed false management representation letters and provided those letters to PwC.

145. By reason of the foregoing, Peppel and Stanley, and each of them, directly or indirectly, violated and unless restrained and enjoined, will continue to violate Rule 13b2-2 under the Exchange Act.

SIXTH CAUSE OF ACTION

FALSIFICATION OF BOOKS AND RECORDS
Violation of Rule 13b2-1 under the Exchange Act [17 C.F.R. § 240.13b2-1]

146. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

147. MCSi was required to maintain and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect its transactions and dispositions of assets. Rule 13b2-1 also requires that a company's books and records not be falsified by any person.

148. Peppel falsified MCSi's books, records and accounts by causing MCSi to improperly recognize revenue from its transactions with Mercatum and ClearOne.

149. Stanley falsified MCSi's books, records and accounts by improperly recognizing revenue from the FedEx, Skytron, Mercatum and ClearOne transactions, fabricating journal entries and rebates, and backdating invoices.

150. By reason of the foregoing, Peppel and Stanley, and each of them, directly or indirectly, violated and unless retrained and enjoined will continue to violate Rule 13b2-1 under the Exchange Act.

SEVENTH CAUSE OF ACTION

KNOWING FALSIFICATION OF BOOKS AND RECORDS AND CIRCUMVENTION OF SYSTEM OF INTERNAL CONTROLS

Violations of Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)]

151. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

152. Stanley knowingly falsified MCSi's books and records and knowingly circumvented MCSi's system of internal controls.

153. Stanley circumvented the internal controls employed by MCSi and its JD Edwards accounting system by manually entering revenue accrual entries for the FedEx transaction; recording fictitious FedEx transactions; making manual revenue, receivable, and cost of goods sold entries for Skytron equipment that had not been manufactured, shipped or sold; overriding the automatic date function to allow for the entry of backdated invoices; and false sales information related to "Major Projects" and "Major Projects 2".

154. By reason of the foregoing, Stanley, directly or indirectly, violated and unless restrained and enjoined, will continue to violate Section 13(b)(5) of the Exchange Act.

EIGHTH CAUSE OF ACTION

FALSE CERTIFICATIONS OF A QUARTERLY REPORT
Violations of Rule 13a-14 of the Exchange Act [17 C.F.R. § 240.13a-14]

155. Plaintiff Commission repeats and realleges Paragraphs 1 through 115 above as though fully set forth herein.

156. MCSi's Form 10-Q for the quarter ended September 30, 2002 included fraudulent revenue from Stanley's manual journal entries made in the first quarter of 2002 as well as the $1.3 million ClearOne rebate.

157. Peppel and Stanley certified MCSi's Form 10-Q for the quarter ended September 30, 2002.

158. As set forth above, Peppel and Stanley knew that MCSi's financial statements included in the From 10-Q for the quarter ended September 30, 2002 contained materially false and misleading information and transactions that were recorded in violation of GAAP.

159. By reason of the foregoing, Peppel and Stanley, directly or indirectly, violated and unless restrained and enjoined, will continue to violate Rule 13a-14 of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that the defendants committed the violations charged herein.

II.

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, orders permanently enjoining defendants Peppel and Stanley, and their officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in the transactions, acts, practices and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Section 17 of the Securities Act.

III.

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, orders permanently enjoining defendants Peppel, Stanley, and White, and their officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in the transactions, acts, practices and courses of business described herein, and from engaging in conduct of similar purport and object in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

IV.

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, an order permanently enjoining defendant Peppel, and his officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in the transactions, acts, practices and courses of business described herein, and from engaging in conduct of similar purport and object in aiding and abetting violations of Sections 13(a) and 13(b)(2) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder and in violation of Rules 13a-14, 13b2-1 and 13b2-2 thereunder.

V.

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, an order permanently enjoining defendant Stanley, and his officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in the transactions, acts, practices and courses of business described herein, and from engaging in conduct of similar purport and object in aiding and abetting violations of Sections 13(a) and 13(b)(2) and (5) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder and in violation of Section 13(b)(5) of the Exchange Act and Rules 13a-14, 13b2-1 and 13b2-2 thereunder.

VI.

Issue in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, an order permanently enjoining defendant White, and his officers, agents, servants, employees, attorneys, and accountants, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, and each of them, from engaging in the transactions, acts, practices and courses of business described herein, and from engaging in conduct of similar purport and object in aiding and abetting violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

VII.

Permanently bar defendants Peppel and Stanley 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, as amended [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)].

VIII.

Enter an order directing defendants Peppel and Stanley to disgorge all ill-gotten gains received during the period of violative conduct and pay prejudgment interest thereon.

IX.

Enter an order directing defendants Peppel, Stanley, and White to pay civil money penalties pursuant to Section 20(d) of the Securities Act and Section 21(d)(3) of the Exchange Act.

X.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

Dated this 1st day of May 2006.

Karen L. Martinez

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