

SEC sues Washington Archdiocese's CFO for alleged fraud while at AOL

WASHINGTON - J. Michael Kelly, chief financial officer of the Archdiocese of Washington, is among eight former America Online executives who have been named in civil lawsuits filed by the Securities and Exchange Commission in connection with an alleged accounting scheme that inflated the company's reported advertising revenues.

The SEC filed one suit against Mr. Kelly, former CFO at AOL Time Warner, and three other former executives May 19 in federal court in New York City. A second lawsuit named four other former executives, but the SEC said that group settled the suit.

Attorneys for Mr. Kelly and the others named with him chose not to settle their lawsuit because they said they did not participate in any illegal activity, according to published reports.

Archdiocesan communications director Susan Gibbs told Catholic News Service May 20 that news about the lawsuit became known soon after it was filed.

She said Mr. Kelly has been associated with the archdiocese and has served on the archdiocesan Catholic Charities board for two years. He has worked pro bono as archdiocesan CFO for the last year and has been assisting with the reorganization of the finance department as a permanent CFO moves into the position, she explained.

"He has rendered significant assistance to the archdiocese where he is respected and where his help is greatly appreciated," Ms. Gibbs said in a follow-up e-mail to CNS May 20. "As Mr. Kelly addresses this civil suit, he does so with our prayers for him and his family."

Also named in the suit with Mr. Kelly were Steven Rindner, former senior executive in AOL's business affairs unit; Joseph Ripp, former CFO for the company's AOL division; and Mark Wovsaniker, former head of accounting policy.

The SEC reported that the four other former executives settled their lawsuit for about \$8 million without admitting or denying the allegations in the complaint. The others are David Colburn, former head of the business affairs unit; Eric Keller, former senior manager of business affairs; James MacGuidwin, former controller; and Jay Rappaport, former senior manager of business affairs.

The SEC charged that the eight executives were involved with fraudulent transactions between 2000 and 2002 in which the company funded its own advertising revenue. The alleged scheme inflated the online firm's revenues by more than \$1.2 billion, providing erroneous information to investors and analysts, the lawsuit claimed.

The SEC accused each of the executives of participating in one of three types of "sham advertising transactions":

- Vendor transactions in which AOL agreed to pay inflated prices or forgo discounts on goods and services it purchased in exchange for the purchase of online advertising by the vendors in amounts matching the markup or a forgone discount.
- Business acquisitions in which AOL increased the price it paid to acquire businesses in exchange for the sellers' purchase of online advertising in amounts equaling the rise in the purchase price.
- Settlements of business disputes in which AOL converted the settlements and legal claims into online advertising revenue.