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Seton Hall officials involved in probe of furniture company

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NEWARK – A professor at Seton Hall University and the monsignor who heads that Catholic school are among some 100 creditors and shareholders owed as much as \$9 million by a defunct furniture company state authorizes are investigating for a possible fraud.

At the Center of the probe is a Newark-based company that sold furniture primarily to low-income customers on credit, charging 30 percent interest, the maximum rate allowed in New Jersey. The company, Supreme Newark, Inc., sold furniture, air conditioners, television sets and other household goods through stores in Newark, New Brunswick, Perth Amboy and Jersey City.

Monsignor John J. Petillo, Seton Hall chancellor, and Michael S. Murray, an education professor and the school's former vice president of administrative services, are listed as creditors of Supreme, according to records in U.S. Bankruptcy Court, Newark. Murray, Supreme's last president who has a home in Sea Girt and is a former Manasquan High School teacher, was a shareholder with a controlling interest in the company. He filed for personal bankruptcy in May 1985, seven months after Supreme went out of business.

In a suit filed last year in state Superior Court, Newark, another supreme shareholder says Petillo converted his investment in the company into shares. However, the Seton hall chancellor maintains he was not an investor and was merely managing the finances of his parent's who were shareholders. He said his parents learned of Supreme through Murray, a close friend.

Now, a year and a half since Supreme's demise, the attorney general's office is investigating complaints that some Supreme representatives misled investors when they assured them the company was financially sound. Authorities, it has been learned, are trying to determine if there was collusion between certain Supreme officials and investors who may have profited at the expense of a majority of the creditors.

At issue is nearly \$9 million owed to banks, finance companies, suppliers and individual investors. Some \$2 million of that was solicited from people to whom Supreme issued short-term notes, promising 16 percent interest. The notes did not represent shares in the company.

Thomas W. Cannon, spokesman for the attorney general, would neither confirm nor deny an investigation is under way.

Records subpoenaed

Meanwhile, several investors acknowledge having received questionnaires from the attorney general's office over the past four months, and an ex-Supreme shareholder, Samuel Giresi, and his financial records have been subpoenaed by the state. The questionnaires asked about investors' income, education and knowledge of financial investments.

Dennis J. Drasco, a lawyer representing another Supreme shareholder, Charles Provini, said his client is cooperating with state investigators.

Some investors speculate high-living or extravagance on the part of Supreme officials may have caused the company's collapse, but most are at a loss to explain what happened.

During its three-year existence, 12 shareholders had ownership in Supreme, according to a deposition of Richard Childs. Childs, an ex-Newark policeman and former investigator with the attorney general's office, started Supreme. His sworn statement was filed in state Superior Court as part of an assignment for the benefit of creditors – a court procedure that distributed Supreme's remaining assets to a few creditors with priority claims before it was declared insolvent in October 1984.

In addition to Murray, Provini and Childs, other Supreme shareholders included a born-again Christian minister and a finance expert who joined the company after working for the same Washington brokerage firm as Provini and Childs.

It was Murray who informed people at Seton Hall about Supreme, including the Rev. James J. Sharp, Seton Hall's head librarian now on academic leave. Sharp, who is owed \$15,642, acknowledged Murray told him about Supreme.

Murray did not return several telephone messages left at his home and Seton Hall.

Petillo, who said he is unaware of court papers that name him as an investor, is identified in bankruptcy records as a creditor by Childs, who also declared personal bankruptcy after Supreme went out of business.

In a separate lawsuit, Provini says Petillo and Murray converted their investments into capital sometime in 1983 and received shares in Supreme. That account is in court papers in Superior Court, where Provini answers a suit brought by Midlantic National Bank. Midlantic sued Murray, Provini and Childs to recover repayment of a \$150,000 loan that had been made to Murray for Supreme.

“Richard Childs purchased the interest of Sam Giresi in Supreme Newark Inc...Certain investors, including the defendant Michael Murray and a certain John Petillo, converted their investments in Supreme Newark, Inc. into capital and received shares of said corporation,” Provini says in those papers.

In March 1984, when Provini was first advised of Supreme's severe financial trouble, he continues, "John Petillo, together with defendants Michael Murray and Childs, thereafter approached various lending institutions...to obtain financing to permit a financial workout."

Acknowledges helping

Petillo acknowledged he helped Murray get bank loans, but explained he was trying to "salvage" Supreme on behalf of his parents. Petillo said his mother died two years ago and his father is in a nursing home.

Childs does say in an 18-month-old deposition that it was Petillo's parents who were 7 percent shareholders in Supreme, and that the "Petillo family" converted sometime in March 1983 from a creditor to a shareholder for \$105,000. However, Childs' subsequent bankruptcy papers name "Monsignor John Petillo" as a creditor with an unspecified claim.

Provini lives in Utah and could not be reached through his lawyer, Drasco. Told that Petillo denies he was an investor, Drasco said the accuracy of his client's statement was "thoroughly reviewed."

Roman Catholic Canon Law, essentially the rules of the Catholic Church, says clerics should not, "personally, or through others, conduct business or trade either for their own benefit or that of others" without proper church authority.

A spokesperson for the archdiocese, Joanne Rizzolo, said the interpretation of that law permits priests to engage in the "profitable manipulation of more or less permanent investments." When Supreme's operations were described to Ms. Rizzolo to determine if the company would be considered a permanent investment,, she said the archdiocese saw no reason to comment because "there is really no problem with priests investing in a company."

Investors said it was the Seton Hall connection and the mention of priests that gave them confidence in Supreme.

"If Seton Hall got into it, there must be something on the level about it," recalled Anna O'Callahan., a 75-year-old Jersey City resident whom Supreme owes \$40,257. "I really feel it. I worked for 47 years and never did any investing in all those years."

Mrs. O'Callahan would only say she heard about Supreme through a "mutual friend," and he had assured her the company was financially sound, emphasizing those priests and teachers from Seton Hall were involved.

Supreme owes another \$34,374 to Lawrence Hall, who was the golf pro at Forest Hill Field Club in Bloomfield.

“He (Childs) got me. He cleaned me out,” said Hall. “Everything I had. We were all greedy. I guess that was what our problem was. He told me priests were involved. That was his selling point.”

A few months before Supreme was on the verge of bankruptcy, 72-year-old John Carchio, another employee of the golf club, said Childs had told him his \$52,083 investment was safe and that Supreme was in good financial shape and planned to open another store. Carchio said he has received a questionnaire from the attorney general’s office.

Letter optimistic

In early 1984, two months before their \$40,253 note was due, Supreme sent Marjorie and William Petuck of Union Township a promising New Year’s letter, signed by Childs, according to bankruptcy court records. The attorney general’s office also sent a questionnaire to the Petucks, who never received their money.

“Aside from rapid growth, Supreme is also swelling with fresh sales approaches,” Childs wrote. “As for you and your continued success in Supreme, let me just say for now that a lot of new financial programs are in the wings. In the meantime, have a happy, healthy and (of course) prosperous new Year.”

On Dec. 3, 1984, two other Florida investors, Antonio and Linda Laverde, won a \$46,818 judgment by default against Murray, Childs and Supreme’s secretary, Jean Pierre Guill, after the defendants failed to answer the complaint. In the lawsuit filed in Superior Court, the Laverdes charge the three men “falsely and with the intent to defraud” told them Supreme would stay in business and their investment was safe.

Childs declined to discuss the case.

“No thank you,” he said. “I’ll just talk to the attorney general if he’s investigating it.”

John Perez, his lawyer, also would not comment. “If there is an investigation,” he said, “I wouldn’t want to comment when there is an investigation taking place.”

In his deposition, Childs attributed Supreme’s financial problems to tight cash flow caused by collection problems. Supreme often was forced to pay collection expenses when borrowers defaulted on loans assigned to finance companies, he said. Supreme was forced to discount sales to pay for some of these expenses – giving the finance companies the bulk of the proceeds from company sales.

Two of Supreme’s largest creditors are finance companies, Data Factors in New York City, and Globe Acceptance Corp., Verona. Supreme owes Data \$2.5 million and Globe, \$2.3 million according to the Murray and Childs bankruptcy records. The

companies would lend Supreme money and Supreme, in turn, would assign them some of the installment loans for collection. A customer would make a down payment to Supreme, for example, and Supreme would write a loan for the balance.

Many of the individual investors drawn to the high-return notes said they did so through Supreme officials who were friends or relatives. Now they say they have little hope of recouping their money because whatever was left of Supreme's assets has been assigned to a handful of secured creditors.

Backgrounds of the investors are as varied as those of Supreme's shareholders – federal agents, widows, businesses, retirees, college teachers and priests. Supreme officials raised capital from among members of the Forest Hill club, on Seton Hall's campus and through a network of relatives.

Listed in both Childs' and Murray's bankruptcy papers is Murray's brother, Monsignor Harold Murray, who is owed \$65,000. Murray, formerly an administrator with the Newark archdiocese, is executive director of the National Shrine for the Immaculate Conception in Washington, D.C., a Catholic landmark.

Cousins Involved

Two others owed \$40,184 are Daniel Cordasco and his wife, cousins of Monsignor Petillo. Cordasco is director of resource development for Catholic Community Services, the Newark archdiocese's social service agency headed by Petillo before he joined Seton hall.

"We were investors in good faith," said Cordasco, who acknowledged Monsignor Petillo was also an investor. "Sometimes things just don't work out."

But Stephen Mills, a New York lawyer representing a federal Secret Service agent who lost \$34,444, said there are "certainly indications of potential fraudulent conduct." Mills said Supreme officials seemed to have "hawked high-value notes on the street" when they didn't have enough assets to cover them.

James McLelland Smith, chief of New Jersey' Bureau of Securities, a unit of the attorney general's office, said Supreme may have issued notes in violation of securities laws.

There is no record of Supreme registering to sell public securities with the Securities and Exchange Commission in New York, which governs New Jersey. Companies are allowed to issue securities without SEC registration through private placements, Smith said, but Supreme's investors didn't seem to meet the necessary criteria.

The law requires that people who buy securities through private placements have substantial wealth and be sophisticated enough to they don't need the protection of the securities law, Smith explained.

Sharp, a Roman Catholic priest and Seton Hall librarian, said he had no idea his \$15,842 was being invested in a company that sold furniture at the highest permitted interest rates. "I'm embarrassed I was so stupid," he said, adding that he "didn't look into the management of the company closely."

Murray also introduced Supreme to Chester Jarzabek, a maintenance supervisor at the university. Jarzabek, who is owed \$6,175, said he was trying to set the interest aside for his children's college education.

Phyllis Russo and Kathy Murray, nursing instructors at the school, are respectively owed \$39,095 and \$30,437. They declined to discuss Supreme Newark.

A secretary to Seton Hall's governing Board of Regents, said his elderly mother wound up investing \$112,717 with Supreme upon his advice. "It definitely was a hurt for mom," said LoBablo, who added that he heard about Supreme from Murray.

His 73-year-old mother died two months ago in Lakewood, where she had lived since 1968. LoBalbo said his mother had planned to use her investment earnings to defray nursing home costs. LoBablo said he knew nothing about the company other than it was a furniture business.

While Murray is familiar to investors at Seton Hall, Childs appears to have been the most visible link to Supreme, according to court records and interviews with investors.

Childs' name listed

Supreme was incorporated on Nov. 11, 1981, and Childs is listed as director on state incorporation papers. His signature also appears as president on several notes issued to investors.

Before joining Supreme, Childs was a Newark police officer, certified public accountant, and investigator with the attorney general's office from 1977 to 1979 and finance director with Deak Perera, Inc., a brokerage firm specializing in foreign currency in Washington, D.C.

Because Childs was the one many investors has personal dealings with many direct their anger at him.

"I worked 15 years, seven days a week," said John Carchio, who worked at the Forest Hill club where Childs was a member. "If I ever ran into him (Childs), I'd shoot him. I had so much faith in the guy."

“He blitzed a bunch of people,” said Hall, Carchio’s former co-worker at the club. “When they take all your money to the tune of \$8 million, I think there’s a problem there.”

Hall said he was so bitter over Supreme he left Forest Hill to start his own business. The \$34,374 Supreme owes him represented all of his savings, he said.

Most of Supreme’s small number of shareholders knew one another before the company was formed. Childs knew the owners of a furniture company Supreme took over from his days as a Newark policeman. Murray knew Childs when he worked with Deak Perera. Petillo knew Provini from their high school days at Essex Catholic high School in Newark.

According to interviews and court records

– On Sept. 23, 1981, Childs left Deak Perera to become a partner in a Newark furniture business owned by three brothers

– Samuel, Theodore and John Giresi. – In 1982, Provini, who worked with Childs at Deak Perera, bought into Supreme. Provini, who is owed more than \$700,000, continued to invest in the company until its financial trouble surfaced in March 1984.

- In March 1983, Childs bought out the Giresis’ interest in Supreme and Murray and Monsignor Petillo converted their previous investments in the company into shares, according to Provini.

The management team was assembled to carry out what was, by Childs’ own account, an ambitious plan to expand Supreme’s operations beyond furniture selling. Besides financing receivables – essentially company assets representing money owed by customers – Supreme planned to buy receivables from their furniture dealers and finance companies.

The company’s financial condition worsened, and in June 1984, Supreme stock was redistributed among the officers.

Guill, three other shareholders and what was described in Childs’ deposition as the “Petillo family,” gave their ownership for the token payment of a penny because Supreme was essentially insolvent. Subsequently, Murray, Provini and Childs became the only shareholders and Murray was named president.

Firm assigns assets

Despite an infusion of as much as \$2 million from individual investors and the new configuration of officers Supreme didn’t pull out of its financial straits. On Oct. 16, 1984, the company assigned its remaining assets to a court-appointed receiver.

Samuel Giresi – a born-again Christian minister who headed Newark Furniture companies bought out by Supreme – explained he was anxious to get out of the business and build a church. He and his brothers had knows Childs while he was a police officer and patrolled near their Newark stores. So when Childs came along with plans to buy them out, they took him up on the offer, Giresi said.

Giresi, who is back selling furniture in Newark said he doesn't believe there was any wrongdoing involved.

“Maybe they lived a little too good but I never found anything wrong with Richie (Childs). I think he had the right idea.”

Said Petillo: “I didn't know much about it and I didn't care. From my understanding, everything was within the structure of the law.”

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