

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 60401 / July 30, 2009**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13566**

**In the Matter of**

**INTEGRAL SYSTEMS, INC.**

**Respondent.**

**ORDER INSTITUTING CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934, MAKING  
FINDINGS, AND IMPOSING A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Integral Systems, Inc. (“Integral Systems” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### Summary

These proceedings arise out of Integral Systems's failure to disclose to its shareholders for over seven years that Gary A. Prince ("Prince"), who had previously been convicted of conspiracy to commit securities and bank fraud and enjoined from committing securities fraud in a civil action brought by the Commission, was an executive officer of the Company. Integral Systems failed to disclose Prince's role at the company and his securities fraud background in its periodic reports and proxy statements filed from 1999 through August 8, 2006.

#### Respondent

1. **Integral Systems** is a Maryland corporation headquartered in Lanham, Maryland. It makes and sells satellite ground systems, including satellite communications systems and commercial off-the-shelf software products for satellite command and control. Its stock is registered under Exchange Act Section 12(b) and trades on the NASDAQ Global Select Market.

#### Background

2. From 1982 until 1995, Prince provided accounting and other services for Integral Systems on a part-time basis, and was the Company's Chief Financial Officer ("CFO") for much of that time. When Integral Systems's Chief Executive Officer ("CEO") Steven Chamberlain founded the Company in 1982, he hired Gary Prince as a vice president and appointed him a director. Prince's responsibilities included setting up the Company's accounting system and providing the Company with accounting and bookkeeping services as a part-time consultant. Prince performed these tasks for over a decade, during which time Chamberlain and he became close colleagues. In 1992, Prince was named CFO of Integral Systems.

3. While providing Integral Systems with accounting services on a part-time basis, Prince also served as the CFO of another public company, Financial News Network. Prior to 1992, Prince participated in a financial fraud at Financial News Network, involving improper recognition of revenue.

4. As a result of the financial fraud at Financial News Network, on August 18, 1994, Prince was permanently enjoined in an SEC action from violating the antifraud and lying-to-auditors provisions of the Exchange Act. [15 U.S.C. § 78j(b), 17 C.F.R. §240.10b-5, 17 C.F.R. §

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

240.13b2-2]. In 1995, in connection with the same conduct, Prince pleaded guilty to conspiracy to commit securities and bank fraud and to making false statements to SEC staff. He cooperated with investigators following his criminal plea, and was sentenced in 1997 to two months of incarceration, two months of home detention, and two years of probation.<sup>2</sup> On June 24, 1997, in an administrative proceeding instituted pursuant to Rule 102(e) of the Commission's Rules of Practice then in effect, [17 C.F.R. § 201.2(e)], the Commission permanently denied Prince the privilege of appearing or practicing before the Commission as an accountant.

### **PRINCE'S ROLE AT INTEGRAL SYSTEMS AS A DE FACTO OFFICER**

5. After Prince served a short prison term in 1998, Integral Systems's founder and then-CEO Steven Chamberlain re-hired Prince as a *de facto* officer of the Company, giving him broad authority and responsibility within the Company. Chamberlain, however, was careful not to give Prince a title that would raise questions about his status as an officer, fearing that Prince's criminal background would have to be disclosed to investors if Prince was perceived as an officer of the Company.

6. Notwithstanding his concerns about disclosing Prince's criminal background, Chamberlain immediately gave Prince substantial responsibility and authority within the Company. Chamberlain included Prince in a policy-setting group of the most senior officers of the Company, known at various times as the "G-6" and "G-7." Prince was a member of this group from 1998 until his termination in 2007. By early 2002, all G-6 members except for Prince had titles of "Executive Vice President" or higher. Like the executive vice presidents in the group, Prince reported directly to Chamberlain, appeared at the executive vice president level on internal organizational charts, and had his office in the senior corporate officers's executive suite. Prince also was recognized throughout the Company as one of Chamberlain's closest advisors.

7. From his 1998 hiring to his 2007 termination, Prince directed the Company's mergers and acquisitions program. He evaluated potential acquisitions and worked with outside lawyers and accountants to complete acquisition due diligence and close transactions. Prince oversaw the acquired companies after they became subsidiaries and each acquired Company's former CEO reported to Prince. He made operational decisions for the subsidiaries about spending, hiring, and firing. Prince was a director of the Integral Systems acquisition vehicle, ISI Merger Corp. and was chairman of the board of one subsidiary, Newpoint Technology.

8. Prince also trained and supported the inexperienced CFOs who succeeded him. Prince had access to the Company's financial databases and often suggested how accounting entries should be handled. Prince prepared the Company's quarterly financial forecasts. He drafted the MD&A sections of periodic filings, and he also reviewed and edited the entirety of each filed periodic report.

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<sup>2</sup> See, *U.S. v. Prince*, No. CR 95-771 (Central District of Cal.); see also, *SEC v. Bolen*, 93 Civ. No. 93-1331 (D.D.C.). Prince's judgment of conviction was entered on September 22, 1997.

9. In August 2005, Prince became head of the contracts department—a responsibility that formerly belonged to the CFO. All major contracts were reviewed by Prince and required either CEO Chamberlain’s or his approval. Major Company expenditures also required either Prince’s or Chamberlain’s approval.

10. Starting in at least 2000 and continuing through 2006, Prince attended board of directors meetings and regularly gave presentations to the board, including regular presentations involving potential acquisitions or the Company’s previously-acquired subsidiaries, and less regular presentations on the Company’s financial forecasts. The only other officers that gave regular board presentations were Chairman and CEO Chamberlain and CFO Elaine M. Brown. Prince also recommended to Chamberlain salary increases and bonuses for all senior managers.

11. Prince’s compensation was equal to that of the top named officers. Prince was the fourth highest compensated employee in 1999 and 2000, and the fifth highest compensated employee in 2001, 2004, and 2005. In some years he was paid more than other G-6 members, including the CFO. Like other officers, Prince was awarded stock option grants. Prince received options grants for at least 29,000 shares beginning as early as 2000.

### **INTEGRAL SYSTEMS’S CONCEALMENT OF PRINCE**

12. Integral Systems made some disclosures about Prince’s legal problems in the mid-1990s as they occurred. The Company filed a Form 8-K on July 9, 1993 stating that the SEC had charged Prince with securities fraud. In its Form 10-KSB for 1994, the Company disclosed that Prince had settled with the SEC. In 1995, when Prince signed a plea agreement, the Company announced that he had resigned his titles for personal reasons, but made no mention of the plea agreement. However, all disclosures about Prince’s status as an officer and his criminal background stopped after 1995 and did not occur again until August 2006 when Integral Systems disclosed in a Form 8-K that Prince was an Executive Vice President and Managing Director of Operations and also disclosed his criminal background.

13. From calendar year 1999 through mid-2006, Integral Systems filed seven annual reports on Forms 10-K or 10-KSB. The annual reports listed executive officers, but did not list Prince. The annual reports listed highly compensated officers and employees, but did not list Prince. The annual reports stated that all officers were current in filing required disclosures regarding their holdings and transactions in Company shares—or explained why certain officers were not current—but failed to disclose that Prince had not filed such disclosures.

14. From 2000 through mid-2006, Integral Systems filed seven proxy statements to give notice of its annual meetings and to solicit for the election of directors. The proxy statements listed executive officers and highly compensated persons “serving as officers,” and represented that certain officers had complied with the disclosure provisions regarding officers’ stock holdings and transactions. The proxy statements, however, made no mention of Prince. The proxy statements also incorporated the Company’s annual filings from 1999 through 2005.

15. Integral Systems failed to disclose Prince's *de facto* executive officer status and his securities fraud background in its annual reports filed for the fiscal years 1999 through 2005, and in its Schedule 14A Proxy Statements filed from 1999 through 2006.

16. As a result of the conduct described above, Integral Systems violated Section 13(a) of the Exchange Act and Rules 13a-1 and 12b-20 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents and annual reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

17. Also as a result of the conduct described above, Integral Systems violated Section 14(a) of the Exchange Act and Rule 14a-9 thereunder, which make it unlawful for any person to solicit any proxy, consent or authorization, in respect of any security registered pursuant to Section 12 of the Exchange Act, in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors, and which mandate that no solicitation shall be made by means of a proxy statement containing any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading.

#### **RESPONDENT'S REMEDIAL EFFORTS**

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Integral Systems' Offer.

Accordingly, it is hereby ORDERED that:

Pursuant to Section 21C of the Exchange Act, Respondent Integral Systems cease and desist from committing or causing any violations and any future violations of Sections 13(a) and 14(a) of the Exchange Act and Rules 12b-20, 13a-1, and 14a-9 thereunder.

By the Commission.

Elizabeth M. Murphy  
Secretary