SEC Charges CSC and Former Executives With Accounting Fraud

Company to Pay $190 Million Penalty

FOR IMMEDIATE RELEASE
2015-111

Washington D.C., June 5, 2015 — The Securities and Exchange Commission today charged Computer Sciences Corporation and former executives with manipulating financial results and concealing significant problems about the company’s largest and most high-profile contract. The SEC additionally charged former finance executives involved with CSC’s international businesses for ignoring basic accounting standards to increase reported profits.

CSC agreed to pay a $190 million penalty to settle the charges, and five of the eight charged executives agreed to settlements. Former CEO Michael Laphen agreed to return to CSC more than $3.7 million in compensation under the clawback provision of the Sarbanes-Oxley Act and pay a $750,000 penalty. Former CFO Michael Mancuso agreed to return $369,100 in compensation and pay a $175,000 penalty.

The SEC filed complaints in federal court in Manhattan against former CSC finance executives Robert Sutcliffe, Edward Parker, and Chris Edwards, who are contesting the charges against them. Sutcliffe was CSC’s finance director for its multi-billion dollar contract with the United Kingdom’s National Health Service (NHS).

The SEC alleges that CSC’s accounting and disclosure fraud began after the company learned it would lose money on the NHS contract because it was unable to meet certain deadlines. To avoid the large hit to its earnings that CSC was required to record, Sutcliffe allegedly added items to CSC’s accounting models that artificially increased its profits but had no basis in reality. CSC, with Laphen’s approval, then continued to avoid the financial impact of its delays by basing its models on contract amendments it was proposing to the NHS rather than the actual contract. In reality, NHS officials repeatedly rejected CSC’s requests that the NHS pay the company higher prices for less work. By basing its models on the flailing proposals, CSC artificially avoided recording significant reductions in its earnings in 2010 and 2011.

The SEC’s investigation found that Laphen and Mancuso repeatedly failed to comply with multiple rules requiring them to disclose these issues to investors, and they made public statements about the NHS contract that misled investors about CSC’s performance. Mancuso also concealed from investors a prepayment arrangement that allowed CSC to meet its cash flow targets by effectively borrowing large sums of money from the NHS at a high interest rate. Mancuso merely told investors that CSC was hitting its targets "the old fashioned hard way."

"When companies face significant difficulties impacting their businesses, they and their top executives must truthfully disclose this information to investors,” said Andrew J. Ceresney, Director of the SEC’s Division of Enforcement. "CSC repeatedly based its financial results and disclosures on the NHS contract it was negotiating rather than the one it actually had, and misled investors about the true status of the contract. The significant sanctions in this case against the company, CEO, and CFO reflect our focus on ensuring that such misconduct is vigorously pursued and punished.”
Stephen L. Cohen, Associate Director in the SEC’s Division of Enforcement, added, “The wide-ranging misconduct in this case spanned several countries and occurred over multiple years, reflecting significant management lapses and internal controls failures. We expect this settlement and the recommendations of an independent ethics and compliance consultant will help prevent future misconduct.”

In addition to the accounting and disclosure violations involving the NHS contract, the SEC’s investigation found that CSC and finance executives in Australia and Denmark fraudulently manipulated the financial results of the company’s businesses in those regions.

The SEC alleges that Parker, who served as controller in Australia, along with regional CFO Wayne Banks overstated the company’s earnings by using “cookie jar” reserves and failing to record expenses as required. They overstated CSC’s operating results by more than 5 percent in the first quarter of fiscal year 2009 and allowed the company to meet analysts’ earnings targets during that period. Banks agreed to settle the charges and pay disgorgement of $10,990 with prejudgment interest of $2,400, plus accept an officer-and-director bar of at least four years as well as a bar from practicing as an accountant on behalf of SEC-regulated entities for at least four years. The SEC’s case continues against Parker.

In CSC’s Nordic region, the SEC alleges a variety of accounting manipulations to fraudulently inflate operating results as finance executives there struggled to achieve budgets set by CSC management in the U.S. Among the misconduct was improperly accounting for client disputes, overstating assets, and capitalizing expenses. For example, Edwards, who was a finance manager, allegedly recorded and maintained large amounts of "prepaid assets" that CSC was required to actually record as expenses. This tactic guaranteed these expenses would not reduce CSC’s earnings. CSC’s finance director of the Nordic region Paul Wakefield also engaged in the accounting fraud, which overstated CSC’s consolidated pre-tax income in Denmark as much as 7 percent. CSC’s finance manager Claus Zilmer was involved in violations of the financial reporting and books and records provisions of the securities laws. Wakefield and Zilmer agreed to settle the charges, with Wakefield agreeing to accept an officer-and-director bar of at least three years as well as a bar from practicing as an accountant on behalf of SEC-regulated entities for at least three years. The SEC’s case continues against Edwards.

CSC and the five settling executives neither admit nor deny the findings in the SEC’s order instituting a settled administrative proceeding against them. CSC must retain an independent consultant to review the company’s ethics and compliance programs. The SEC particularly acknowledges the cooperation of Wakefield in its investigation, which was conducted by Shelby Hunt, David Miller, Ian Rupell, Robert Peak, and Joseph Zambuto Jr. The SEC appreciates the assistance of the United Kingdom’s Financial Conduct Authority.

###

**Related Materials**

- [SEC order - CSC and executives](http://www.sec.gov/news/pressrelease/2015-111.html)
- [SEC complaint - Parker](http://www.sec.gov/news/pressrelease/2015-111.html)