

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK JUDGE ABRAMS

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

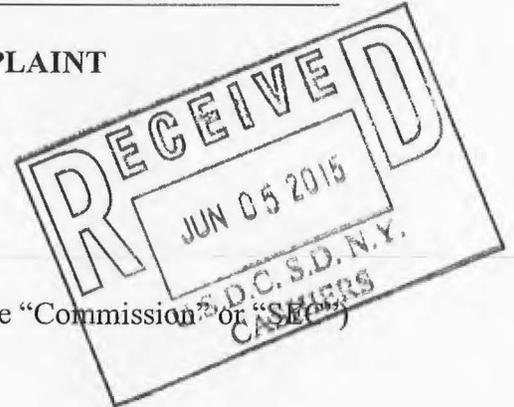
CHRISTOPHER EDWARDS,

Defendant.

Civil Action No.

15 CV 04339

COMPLAINT



Plaintiff Securities and Exchange Commission (the "Commission" or "SEC")

alleges as follows:

**NATURE OF THE ACTION**

1. The SEC brings this action to redress an accounting fraud at Computer Sciences Corporation, a public company listed on the New York Stock Exchange, that artificially and materially inflated the company's earnings in its fiscal year 2010. Defendant Christopher Edwards, who was a Finance Manager in CSC's Nordic region, perpetrated this fraud by recording and maintaining large amounts of "prepaid assets" that CSC was instead required to record as expenses. By doing so, Defendant Edwards guaranteed these expenses would not reduce CSC's earnings. As a Finance Manager, Defendant Edwards was responsible for ensuring that the company recorded these expenses consistent with Generally Accepted Accounting Principles ("GAAP"). Instead, Defendant Edwards's actions resulted in CSC fraudulently overstating its consolidated operating income by 5% for the first quarter of fiscal year 2010, and in the company materially overstating the operating income of one of its reportable segments in each quarter of that fiscal year.

2. By engaging in the conduct alleged herein, Defendant committed federal securities fraud.

### JURISDICTION AND VENUE

3. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d) and 22(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)] and Sections 21(d), 21(e), and 27 of the Securities Exchange Act of 1943 (“Exchange Act”) [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

4. Defendant, directly or indirectly, made use of the means and instrumentalities of interstate commerce or of the mails in connection with the acts, practices and courses of business alleged herein, certain of which occurred in the Southern District of New York. Venue is proper in this District pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

### DEFENDANT

5. **Christopher Edwards**, 32, a citizen and resident of the United Kingdom, was a Finance Manager in CSC’s Nordic region from December 2008 to June 2010. He left the company in October 2010. Defendant Edwards is a Chartered Accountant in the United Kingdom.

### RELATED ENTITY

6. **Computer Sciences Corporation** (“CSC”), a Nevada corporation headquartered in Falls Church, Virginia, sells information technology services. At all times relevant to the allegations in this Complaint, CSC’s common stock traded on the New York Stock Exchange.

### FACTS

#### **A. Defendant Edwards Fraudulent Accounting**

7. As a Finance Manager in Denmark, Defendant Edwards was responsible for ensuring that CSC’s Nordic region subsidiary appropriately accounted for certain costs that it

incurred. Included within his responsibilities was oversight of certain of the Nordic region's "prepaid" accounts.

8. Prepaid accounts are assets that represent amounts paid to vendors in advance of receiving a benefit.<sup>1</sup> Unlike a "current" expense, which is recorded on a company's income statement in the period in which it is incurred, and which reduces the company's earnings by the full amount paid, amounts that a company prepays are deferred. A prepayment is first recorded as an asset on a company's balance sheet. This does not affect a company's earnings. Companies generally recognize prepayments over some future period of time. They do so by reducing the value of the prepaid asset on the balance sheet and recording a corresponding expense on the income statement, usually in equal amounts over a defined period. It is only then that the company's earnings are reduced. In that scenario, a company's earnings are reduced by the amount transferred from the prepaid account to the expense account. Because prepaid expenses are recognized over time, rather than all at once like current expenses, this has the effect of avoiding large reductions in a company's earnings in one period for benefits the company will receive over multiple periods.

9. During CSC's fiscal year 2010, Defendant Edwards used prepaid accounts to artificially overstate CSC's earnings. In violation of GAAP, Defendant Edwards made and/or approved journal entries that transferred amounts CSC had recorded as expenses in each quarter to prepaid accounts when he knew or was reckless in not knowing that no prepayment had occurred.<sup>2</sup>

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<sup>1</sup> An example of a prepaid expense is an annual maintenance contract where the company pays for all twelve months at the beginning of the contract. The company records the payment in a prepaid asset account on its balance sheet. As each month lapses and the company realizes the benefits of the contract, one twelfth of the payment is recorded as an expense on the income statement (with a corresponding reduction in the amount of the prepaid asset on the balance sheet).

<sup>2</sup> GAAP prohibits recording current period expenses as prepaid expenses. See ASC 340-10-5-4, "Other Assets and Deferred Costs" (defining prepaid expenses as a category of assets that are paid in advance of their use or

In other words, Edwards took a portion of the company's expenses that should have reduced its earnings, and avoided this result by instead labeling those amounts as prepaid assets on CSC's balance sheet. In other circumstances, Defendant Edwards did not transfer amounts that had legitimately been included in prepaid accounts to expense accounts as required. As a result of these actions, Defendant Edwards was able to artificially increase the company's income.

10. Defendant Edward's misconduct resulted in approximately \$31 million of expenses inappropriately recorded as prepaid assets as of CSC's fiscal year end 2010. After discovering this fraud in fiscal year 2011, CSC corrected these entries.

11. To effect his manipulation of the prepaid accounts, Defendant Edwards provided fictitious descriptions in journal entries to make it appear as though those costs had been prepaid. When CSC's outside auditor requested support for certain prepaid entries, Defendant Edwards provided false explanations. For example, in March 2010, the outside auditor asked Defendant Edwards for support for a \$9.2 million entry in a prepaid account. Defendant Edwards provided the outside auditor with a contract and invoice to corroborate the entry. Defendant Edwards claimed that CSC had prepaid the invoice and that the \$9.2 million expense would be deferred over thirteen months. The invoice he provided, however, did not relate to the \$9.2 million prepaid entry.

12. In his role as Finance Manager, Defendant Edwards had responsibility for "reconciling" the prepaid accounts at the end of CSC's financial periods. This required Defendant Edwards to confirm that the prepaid balances were recorded correctly and had appropriate support. Defendant Edwards knew or was reckless in not knowing that the prepaid accounts included \$31 million in unsupported entries. This was a substantial amount for the Nordic region: it was

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consumption and providing that prepaid expenses should be deferred and expensed over time in the period in which they are utilized).

almost 50% of the total prepaid assets on its balance sheet and 4% of that region's total assets at that time.

**B. Defendant Edwards's Actions Materially Misrepresented CSC's Operating Results**

13. The Commission's Regulation S-X [17 C.F.R. § 210.4-01(a)(1)] mandates that financial statements and the accompanying notes filed by public companies such as CSC be presented in conformity with GAAP. Financial statements not prepared in accordance with GAAP are presumed to be "misleading or inaccurate." Defendant Edwards knew or was reckless in not knowing that he misstated CSC's earnings by manipulating the company's prepaid accounts to reduce the expenses the company recorded in its fiscal year 2010.

14. These misstatements were material. Defendant Edwards' fraud overstated CSC's reported consolidated operating income by 5% in its first quarter fiscal year 2010. Consequently, CSC's discussion of its financial results in its Form 10-Q for the first quarter of fiscal year 2010, which was filed with the Commission, was materially misleading.

15. In addition, Defendant Edwards's fraud overstated operating income in a major CSC line of business called the Managed Services Sector ("MSS").<sup>3</sup> CSC reported MSS's operating income to investors in its periodic filings with the SEC. Defendant Edwards's fraud materially overstated MSS reported operating income by 8.4%, 4.6%, 2.1%, and 6% for CSC's first, second, third, and fourth quarters, respectively, in CSC's Forms 10-Q and 10-K for fiscal year 2010.

**C. CSC'S INTERNAL CONTROLS**

16. The federal securities laws required CSC to maintain a system of internal accounting controls sufficient to assure compliance with GAAP. The misconduct described above

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<sup>3</sup> In its Form 10-K and Forms 10-Q for fiscal year 2010, CSC disclosed and discussed MSS financial results. During the relevant time period, MSS comprised 40% of CSC's revenue.

reflects that CSC did not have a system of internal controls that was sufficient to assure compliance with GAAP. Defendant Edwards, who had responsibility for reconciling the balance sheet accounts that he oversaw, played a key role in CSC's internal controls in the Nordic region. Defendant Edwards knowingly circumvented those internal controls. He also knowingly falsified CSC's books and records by mislabeling expenses as prepaid assets.

### **FIRST CLAIM**

#### **Violations of Section 17(a)(1) and (3) of the Securities Act**

17. Paragraphs 1-16 are realleged and incorporated by reference as if set forth fully herein.

18. By reason of the conduct alleged above, Defendant Edwards, directly or indirectly, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, and in connection with the offer or sale of securities, has: (a) knowingly or recklessly employed devices, schemes or artifices to defraud and/or (b) knowingly, recklessly, or negligently engaged in one or more transactions, acts, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers.

19. By reason of the conduct alleged above, Defendant Edwards violated Section 17(a)(1) and (3) of the Securities Act [15 U.S.C. § 77q(a)(1) and (3)].

### **SECOND CLAIM**

#### **Violations of Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c)**

20. Paragraphs 1-19 are realleged and incorporated by reference as if set forth fully herein.

21. By reason of the conduct alleged above, Defendant Edwards, directly or indirectly, knowingly or recklessly, by the use of any means or instrumentality of interstate

commerce or of the mails, and in connection with the purchase or sale of securities, has: (a) employed devices, schemes or artifices to defraud and/or (b) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon any person.

22. By reason of the conduct alleged above, Defendant Edwards violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5(a) and (c) promulgated thereunder [17 C.F.R. § 240.10b-5(a) and (c)].

### **THIRD CLAIM**

#### **Violations of Section 13(b)(5) of the Exchange Act**

23. Paragraphs 1-22 are realleged and incorporated by reference as if set forth fully herein.

24. By reason of the conduct alleged above, Defendant Edwards knowingly circumvented or knowingly failed to implement a system of internal accounting controls or knowingly falsified, directly or indirectly, or caused to be falsified books, records and accounts of CSC that were subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

25. By reason of the foregoing, Defendant Edwards violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)].

### **FOURTH CLAIM**

#### **Violations of Rule 13b2-1 promulgated under the Exchange Act**

26. Paragraphs 1-25 above are realleged and incorporated by reference as if fully set forth herein.

27. By reason of the conduct alleged above, Defendant Edwards, directly or indirectly, falsified or caused to be falsified, books, records, or accounts described in Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

28. By reason of the foregoing, Defendant Edwards violated Rule 13b2-1, promulgated under the Exchange Act [17 C.F.R. § 240.13b2-1].

#### **FIFTH CLAIM**

##### **Aiding and Abetting Violations of Sections 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder**

29. Paragraphs 1-28 above are realleged and incorporated by reference as if fully set forth herein.

30. By reason of the conduct alleged above, CSC filed with the Commission materially false and misleading annual reports on its Forms 10-K, and materially false and misleading quarterly reports on its Forms 10-Q, during the relevant time period.

31. By reason of the conduct alleged above, CSC failed to file with the Commission such financial reports in accordance with such rules and regulations as the Commission has prescribed in violation of Sections 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1 and 13a-13 thereunder [17 C.F.R. §§ 240.13a-1 and 240.13a-13].

32. Defendant Edwards knowingly or recklessly provided substantial assistance to CSC in the commission of these violations of Sections 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1 and 13a-13 thereunder [17 C.F.R. §§ 240.13a-1 and 240.13a-13].

33. By reason of the foregoing, Defendant Edwards aided and abetted CSC's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1 and 13a-13 [17 C.F.R. §§ 240.13a-1 and 240.13a-13], promulgated thereunder, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

#### **SIXTH CLAIM**

##### **Aiding and Abetting Violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act**

34. Paragraphs 1-33 above are realleged and incorporated by reference as if fully set forth herein.

35. By reason of the conduct alleged above, CSC failed to make and keep books, records, and accounts that, in reasonable detail, accurately and fairly reflected the transactions and disposition of its assets.

36. By reason of the conduct alleged above, CSC failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles, or any other applicable criteria, and to maintain accountability for assets.

37. By reason of the conduct alleged above, CSC violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

38. Defendant Edwards knowingly or recklessly provided substantial assistance to CSC in the commission of these violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

39. By reason of the foregoing, Defendant Edwards aided and abetted CSC's violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)], pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

#### **PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

(a) Finding that Defendant Edwards violated the securities laws and rules promulgated thereunder as alleged against them herein;

(b) Permanently restraining and enjoining Defendant Edwards, his agents, servants, employees and attorneys and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them from, directly or indirectly, from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(2)(B), and 78m(b)(5)] and Rules 10b-5, 13a-1, 13a-13, and 13b2-1 [17 C.F.R. §§ 240.10b-5, 240.13a-1, 240.13a-13, and 240.13b2-1], promulgated thereunder;

(c) Directing that Defendant Edwards be permanently barred from acting as an officer or director of any public company pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)];

(d) Retaining jurisdiction of this action 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; and

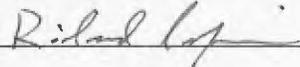
(e) Granting such other and further relief as the Court may deem appropriate.

**JURY DEMAND**

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the Commission demands trial by jury in this action as to all issues so triable.

Dated: June 5, 2015

SECURITIES AND EXCHANGE COMMISSION

By 

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