

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

JUDGE SULLIVAN

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

WILFRED ROBERT SUTCLIFFE,

Defendant.

Civil Action No.

COMPLAINT

15 CV 04340

Plaintiff Securities and Exchange Commission (the "Commission" or "SEC")
alleges as follows:

NATURE OF THE ACTION

1. The Commission brings this action to redress an accounting fraud that caused Computer Science Corporation ("CSC"), a public company listed on the New York Stock Exchange, to overstate its earnings by approximately \$200 million in the second quarter of its fiscal year 2010 ("Q2FY2010"). Defendant Wilfred Robert Sutcliffe perpetrated this fraud by manipulating one of CSC's accounting models after he learned that the company was likely to lose money on its largest contract. As the Finance Director for CSC's contract with the United Kingdom's National Health Service ("NHS"), Sutcliffe was responsible for leading a team that prepared accounting models for CSC's multi-billion-dollar contract with the NHS. The contract required CSC to build and deploy an electronic patient records system across the UK. In September 2009, Sutcliffe learned that the NHS contract was likely to generate a loss. Prior accounting models had reflected that the contract would result in a 16% profit margin. Under the governing accounting standards, this change in the forecasted profit margin required CSC to record a charge that would have significantly reduced its earnings. To avoid this result, Sutcliffe

took a series of inappropriate steps to artificially inflate the company's profit margin to its previous level. He did this by adding new revenue and pricing assumptions into the accounting model that had no basis in reality. This allowed CSC to report \$221 million in operating profit in Q2FY2010. But for Sutcliffe's fraud, the company would have reported a materially lower amount for that quarter.

2. By engaging in the conduct alleged herein, the 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. **Wilfred Robert Sutcliffe**, age 51, is a citizen and resident of the United Kingdom. He was CSC's Finance Director for the NHS Account from April 2004 until May 2012. His primary job responsibilities included supervising the preparation of budgets and forecasts relating to the NHS contract, as well as the accounting models from which CSC derived its profit margin. CSC terminated Sutcliffe's employment in 2013. Sutcliffe studied accounting and business

finance at Manchester University. He is an associate of the Chartered Institute of Management Accountants (CIMA) 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. CSC has approximately 150 million common shares in circulation.

FACTS

A. Background of CSC’s Contract with the NHS

7. Having launched a plan in 2003 to electronically integrate patient medical records across the United Kingdom, the NHS awarded long-term contracts to CSC and other IT contractors to build and deploy an electronic patient records system by 2013. The project experienced technical problems and delays almost from the start. As other contractors abandoned the project, the NHS encouraged and approved of CSC expanding its role. By 2007, CSC had assumed responsibility for the project throughout most of the UK.

8. CSC had the potential to earn up to \$5.4 billion in revenue if it were able to satisfy the terms of the NHS contract. However, CSC earned revenue under the contract only to the extent that it delivered products and services to the NHS under the timeframes and volumes set forth in the contract’s deployment plan. To incentivize CSC to meet the contract’s deployment targets, the contract penalized CSC up to \$160,000 per day for missed deadlines.

9. CSC experienced substantial difficulty developing the software required to run the patient medical records system. Because of its delays in performing as required under the contract, and the UK government’s expansion of CSC’s role in the project, CSC sought contract

amendments to reset the deployment plan and to waive the penalties CSC was required to pay. Following UK government approval, CSC and the NHS entered into an amended contract, which the parties called “SARPA,” in April 2009. But by the time the parties executed SARPA, CSC was already beginning to fall behind the new deployment schedule.

10. Falling behind the SARPA deployment schedule posed a significant risk to CSC’s ability to earn revenue under the contract. Under SARPA, CSC earned two types of revenue: deployment revenue and service revenue. CSC earned deployment revenue when it deployed the software products to the NHS. CSC then earned service revenue by running and maintaining those products until the contract expired. Because the contract had a fixed term, product delays could cause CSC to run out of time in which to complete all of the deployments contemplated in the contract, triggering a loss in potential deployment revenue. Further, product delays compressed CSC’s run-and-maintain period, leading to a loss in potential service revenue. Finally, product delays (and the bad press associated with them) could lead to reduced demand for CSC’s products among NHS constituents, triggering further losses in potential deployment and service revenue. Such a loss in revenue created a significant risk to CSC’s expected profit margin on the contract.

B. Background of CSC’s Use of Percentage of Completion Accounting

11. From the start of the project in 2003, CSC reported its financial results for the NHS contract using the percentage of completion (“POC”) method of accounting.¹ As long as a company’s estimates are reasonably dependable, POC accounting allows the company to derive a profit margin on a contract based on its estimates of total costs and revenues over the life of a

¹ See generally Construction-Type and Production-Type Contracts (ASC 605-35) (formerly “AICPA Statement of Position 81-1”).

long-term contract. Generally Accepted Accounting Principles (“GAAP”) requires companies using POC accounting to revise their estimates of expected costs and revenues continually as the work progresses.² These estimates are prepared in the form of accounting models. CSC’s practice was to update its accounting models for the NHS contract in March and September of each year.

12. Under POC accounting, if a company’s accounting model reflects that its profit margin on a contract will be different than previously forecasted, it must make an “inception-to-date” adjustment in the current period to reflect the change in the estimated amount of total gross profit earned to date.³ And if a company’s accounting model reflects that a contract will result in a loss to the company, GAAP requires the company to record the entire anticipated loss on the contract in the current period.

C. Sutcliffe Recognizes That the NHS Contract Accounting Model is “Non-Sustainable” (June 2009)

13. On June 25-26, 2009, CSC’s UK account team for the NHS contract held a two-day meeting to discuss the status of the contract. Based on revised deployment estimates, Sutcliffe reported to his colleagues (but not to CSC corporate executives in the United States) that the company would fall over \$1 billion short of the original \$5.4 billion revenue target for the contract. He reported further that the account had “no basis” for holding its operating income and revenue forecasts, and that its accounting model was “non-sustainable.”

² *Id.* at ¶ .27.

³ For example, assume a company has previously recorded \$10,000,000 in operating income using a 10% profit margin. If the company’s accounting models reflect the margin is likely to be only 9%, the company must include a negative \$1,000,000 offset in current period operating income to adjust for the impact of the lower margin on prior periods.

D. Sutcliffe Manipulates the Accounting Model to Preserve CSC's Profit Margin on the NHS Contract (September 2009)

14. In early September 2009, Sutcliffe and a team of junior executives working under his direction updated the accounting model for the NHS contract, using current deployment estimates. This was CSC's first updated model since executing SARPA. Whereas pre-SARPA models had forecasted CSC would earn a 16% profit margin on the NHS contract, the initial calculation showed the contract was no longer profitable and would generate a negative 5.2% operating loss.

15. According to Witness A (a former Finance Manager on the NHS account), the "gravity" of the numbers led Sutcliffe to "fast track" a discussion with Witness B (the day-to-day operational lead executive on the NHS account), regarding the fact that the updated accounting model showed the NHS contract was now in a "loss-making position."

16. During the subsequent discussion, Witness B (who had no accounting background) proposed reinserting into the accounting model £178,862,000 (approximately \$286 million) of projected revenue associated with a software product known as "Lorenzo GP."⁴ Previously, this amount had been removed from the model because CSC had stopped all development work on Lorenzo GP, and the NHS had indicated it no longer wanted to purchase the product. According to Witness A, "[A]ll of the teams involved, the development team for one, the deployment team for two, and the infrastructure team for three – we were all in agreement that [Lorenzo GP] wasn't happening and they all took it out of their cost numbers." Nonetheless, Sutcliffe directed his team reinsert the Lorenzo GP revenue into the accounting model.

⁴ Lorenzo GP was a software product originally scheduled for deployment to thousands of general practitioners in the United Kingdom.

17. Sutcliffe also instructed his team to reinsert into the accounting model an additional £56,336,000 (approximately \$90 million) in projected revenue that had been removed due to CSC's lack of any current plans to develop the associated software products.

18. Witness A described walking into Sutcliffe's office while he and other team members were implementing the changes to the model – "I looked up on the screen to see the spreadsheet being worked on.... They had forced all this [revenue] back in. And I remember being surprised that this had happened with such a simple mechanic change." According to Witness A, "I expressed kind of dismay, to be honest, that the numbers had just been increased with little or no backing." Sutcliffe, however, continued to implement the changes.

19. The revised model still did not support a 16% profit margin. At a meeting on September 8, 2009, Sutcliffe reported to Witness B and other account executives that the accounting model now reflected a "best case" margin of 13.4%. To close the remaining "gap" from 13.4% to a 16% profit margin, Sutcliffe directed his team to "assume" in the accounting model that the NHS would agree to future price increases sufficient to maintain CSC's target margin of 16%.

20. There was no factual basis of any kind for the assumption that the NHS would agree to future price increases. Rather, the assumed price increases were, according to Witness A, simply a "mechanic means of bringing the [revenue] variance back to zero." Indeed, Sutcliffe's handwritten diary entry for the September 8, 2009 meeting contains the annotation "assume a pricing change to keep [revenue] whole."

21. Following these machinations, on September 11, 2009, a new "version 3" summary of the accounting model was circulated among Sutcliffe and his team. The new version reflected a 16% profit margin. Both the circulation email and the attached spreadsheets

indicated that service unit prices had been “re-priced” in order to “hold total contract value” in comparison to the original SARPA projection. According to Witness A, the whole point of the exercise was to “get back” to the 16% target margin.

22. On or around September 16, 2009 Sutcliffe briefed CSC regional executives concerning the status of the NHS contract accounting model. His briefing materials omitted any reference to “version 1” (negative 5.2% operating loss) or “version 2” (13.4% profit margin) of the model, showing only the final “version 3” (16% profit margin).

23. On or around September 23, 2009 Sutcliffe briefed CSC’s outside audit firm, Deloitte & Touche LLP, concerning the status of the NHS contract accounting model. Again, his briefing materials omitted any reference to the prior versions of the accounting models.

E. Sutcliffe’s Actions Materially Misstated CSC’s Operating Results

24. The Commission’s Regulation S-X mandates that financial statements and the accompanying notes filed by public companies such as CSC must be presented in conformity with GAAP. Financial statements not prepared in accordance with GAAP are presumed to be “misleading or inaccurate.”⁵

25. There was no basis in GAAP for reinserting into the NHS contract accounting model revenue associated with products that CSC had stopped developing and/or that the NHS had indicated it no longer intended to purchase. Nor was there any basis in GAAP for incorporating into the model assumed price increases that were not even under discussion with, let alone agreed to by, the NHS.

26. Sutcliffe knew or was severely reckless in not knowing that his actions violated GAAP and resulted in material misstatements to CSC’s financials. He is an associate of the

⁵ See Regulation S-X, Section 4-01(a).

Chartered Institute of Management Accountants (CIMA) in the United Kingdom with significant POC accounting experience on behalf of U.S. public issuers, including over five years preparing NHS contract accounting models prior to engaging in the September 2009 gap closing exercise.

27. But for Sutcliffe's improper acts, CSC would have had to record an approximately \$200 million negative adjustment to operating income during a quarter in which the company reported \$221 million in net income. Consequently, Sutcliffe's improper acts caused CSC's quarterly (Q2FY2010) and annual (FY2010) financial statements, both of which were filed with the Commission, to be materially misleading.

28. Sutcliffe personally benefited from his improper acts, receiving an incentive-based cash award in fiscal year 2010 tied to NHS contract financial performance metrics. The metrics included revenue, operating income, and performance cash flow, each of which was substantially inflated as a result of Sutcliffe's improper acts. But for his improper acts, Sutcliffe would not have received any cash award for fiscal year 2010.

FIRST CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act

29. The Commission realleges and reincorporates paragraphs 1 through 28 above as if fully set forth herein.

30. By reason of the conduct alleged above, Sutcliffe, 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; (b) knowingly, recklessly, or negligently obtained money or property by means of untrue statements of material fact or omissions of material facts necessary to make the statements, in light of the circumstances under

which they were made, not misleading; and/or (c) knowingly, recklessly, or negligently engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon purchasers.

31. By reason of the conduct alleged above, Sutcliffe violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

SECOND CLAIM FOR RELIEF

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

32. The Commission realleges and reincorporates paragraphs 1 through 31 above as if fully set forth herein.

33. By reason of the conduct alleged above, Sutcliffe, 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.

34. By reason of the conduct alleged above, Sutcliffe 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 FOR RELIEF

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

35. The Commission realleges and reincorporates paragraphs 1 through 34 above as if fully set forth herein.

36. By reason of the conduct alleged above, Sutcliffe 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)].

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

FOURTH CLAIM FOR RELIEF

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

38. The Commission realleges and reincorporates paragraphs 1 through 37 above as if fully set forth herein.

39. By reason of the conduct alleged above, Sutcliffe, 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)].

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

FIFTH CLAIM FOR RELIEF

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

41. The Commission realleges and reincorporates paragraphs 1 through 40 above as if fully set forth herein.

42. By reason of the conduct alleged above, CSC filed with the Commission a materially false and misleading quarterly report on its Form 10-Q for Q2FY2010

43. By reason of the conduct alleged above, CSC filed with the Commission a materially false and misleading annual report on its Form 10-K for fiscal year 2010.

44. 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].

45. Sutcliffe 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].

46. By reason of the foregoing, Sutcliffe 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 FOR RELIEF

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

47. The Commission realleges and reincorporates paragraphs 1 through 46 above as if fully set forth herein.

48. 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.

49. 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.

50. 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)].

51. Sutcliffe knowingly 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)].

52. By reason of the foregoing, Sutcliffe 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 the Defendant violated the securities laws and rules promulgated thereunder as alleged against them herein;

(b) Permanently restraining and enjoining the Defendant, 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) Ordering the Defendant to disgorge ill-gotten gains obtained through the unlawful conduct described above, plus prejudgment interest;

(d) Directing that the Defendant 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)];

(e) 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

(f) 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

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