I.

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

II.

In anticipation of the institution of these proceedings, Renjilian 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 it and the subject matter of these proceedings, which are admitted, Renjilian consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.
III.

FACTS

On the basis of this Order and Renjilian’s Offer, the Commission finds\(^1\) that:

A. **Respondent**

Renjilian, age 47, resides in Lafayette, Colorado. He was Head of Emerging Market Sales at Quovadx from November 2002 until April 2004. Renjilian is currently self-employed.

B. **Related Party**

Quovadx, Inc. (“Quovadx”), a Delaware corporation based in Englewood, Colorado, is a software company that sells software licenses and related services to the health care industry. Quovadx’s stock was registered with the Commission under Section 12(g) of the Exchange Act during the relevant period and traded on the NASDAQ National Market. During 2002 and 2003, Quovadx derived about one-third of its reported revenue from sales of software licenses, with the rest coming from maintenance and service contracts. Quovadx separately reported its software licensing revenue, which included sales of both software and licenses.\(^2\)

C. **Summary**

Between 2002 and 2003, Quovadx improperly recognized over $12 million in revenue from software licensing deals with four of its customers and materially overstated its software licensing revenues in its filings with the Commission. As a result of these transactions, Quovadx violated the reporting provisions of the Exchange Act. Renjilian was involved in the negotiations for Quovadx in connection with the transactions involving two of the four customers, Sourceworks and Infotech, and knew or should have known that Quovadx could not have recognized revenue from these transactions. Accordingly, Renjilian was a cause of Quovadx’s reporting violations.

On March 15, 2004, when it could not collect payment from Infotech for transactions it had previously booked as revenue, Quovadx announced that it would restate its prior results to decrease revenue by approximately $11 million. Quovadx’s stock price fell 29%, and dropped further after Quovadx announced on May 13, 2004, that it was reviewing two additional contracts. By August 16, 2004, when Quovadx restated its results for the second time to correct for additional transactions, including Sourceworks, Quovadx’s stock was trading at $1.65 per share.

\(^1\) 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.

\(^2\) Throughout this Order, “software sales” and “software license sales” are used interchangeably.
D. **Applicable Accounting Principles for Software Sales**

As a public company, Quovadx was required to file quarterly and annual reports with the Commission that presented its financial results in conformity with Generally Accepted Accounting Principles ("GAAP"). AICPA Statement of Position 97-2, *Software Revenue Recognition* ("SOP 97-2") governs the recognition of revenue for sales of software and software licenses.

Under SOP 97-2, a company may not recognize revenue from a software license sale unless and until there is: persuasive evidence of an arrangement; delivery of the software; a fixed or determinable seller’s fee; and a reasonable probability of collecting the accounts receivable. Further, if payment is substantially contingent on the buyer’s success in distributing the product to the end user, either due to the terms of the deal or because the buyer is so undercapitalized that it cannot pay until it sells the product, the seller may not recognize the software license revenue at the time of sale.

Between 2002 and 2003, in a series of transactions with four different customers, Quovadx recognized revenue that was not in conformity with SOP 97-2 and that materially overstated the company’s financial results.

E. **The Sourceworks Transaction**

In early 2003, Renjilian solicited the Veterans’ Administration ("VA") to buy licenses for Quovadx’s Insurenet software, a product for processing patient medical insurance information. The VA refused to buy the licenses, but expressed an interest in using the software and periodically paying Quovadx a fee based on the number of insurance transactions that it processed. Quovadx was not interested in this proposal. Renjilian therefore suggested a plan, approved by members of Quovadx’s then senior management, whereby Quovadx would sell the licenses to a third-party, which would then enter into a contract with the VA to offer the software on a per-use basis.

Renjilian then contacted a Colorado-based venture capital firm and proposed that the firm buy the Insurenet licenses from Quovadx. Renjilian told the venture capital firm that, in return, Quovadx would negotiate a contract for the venture capital firm to license the software on a per-use basis to the VA. As the end of the second quarter of 2003 approached, the venture capital firm agreed in principle to this proposal. However, because it was not a software reseller, the firm repeatedly said that it would not pay for the Insurenet licenses unless and until Quovadx obtained the promised user contract. Renjilian expressed confidence that Quovadx would obtain the contract with the VA early in the third quarter. With that understanding, the venture capital firm created a company, Sourceworks USA LLC, in late June 2003 to buy the Insurenet licenses from Quovadx and enter into the user contract with the VA. On June 30, 2003, Quovadx and Sourceworks executed a contract requiring Sourceworks to pay Quovadx $600,000 for the Insurenet licenses. The contract, which gave Sourceworks six months to pay Quovadx, did not indicate that Sourceworks’ payment to Quovadx was contingent upon Quovadx successfully negotiating a VA deal for Sourceworks.
Despite the fact that Sourceworks presented financial statements to Quovadx that showed it could not pay for the Insurenet licenses unless the venture capital firm provided the funds, which in turn depended upon securing the VA contract, Quovadx recognized the entire $600,000 in the second quarter, based upon the June 30, 2003 contract. It issued a press release on July 23, 2003, touting the company’s second quarter financial results, which included the Sourceworks revenue. For the next eight months, Quovadx attempted to secure a contract for Sourceworks. However, these negotiations ultimately failed. As a result, other than one $30,000 payment in August 2003, Sourceworks did not pay Quovadx for the Insurenet licenses. Because Sourceworks did not pay the remaining $570,000, Quovadx’s new senior management and auditor reviewed the Sourceworks transaction in the Spring of 2004 and reversed the revenue as part of the company’s second restatement.

As a result of its improper recognition of the Sourceworks revenue, Quovadx overstated its software licensing revenues by $570,000, or approximately 9%, in the second quarter of 2003. 4

F. The Infotech Transactions

In the third and fourth quarters of 2003, Quovadx improperly recognized a total of $11.1 million in software licensing revenue from a series of transactions with Infotech Network Group (“Infotech”), a company based in India. Because each of these transactions had material contingencies and the collection of payment was not probable, Quovadx was precluded from recognizing this revenue. Moreover, even after Infotech did not pay for its third quarter 2003 purchases, Quovadx shipped additional software to Infotech and recognized revenue on those sales in the fourth quarter of 2003. Renjilian was involved in negotiating these deals with Infotech and knew or should have known about the material contingencies and the improbability of collecting payment from Infotech.

1. The Third Quarter Transactions

In early September 2003, Quovadx and Infotech executed two related agreements. Under the first (“the distributor agreement”), Infotech agreed to buy $5 million of software licenses from Quovadx and to be the exclusive distributor of Quovadx products in India. Under the second agreement (“the outsourcing agreement”), Quovadx agreed to pay Infotech to perform certain services and conduct various research and development projects, pursuant to Statements of Work that would be subsequently negotiated. The agreements required both parties to fund letters-of-credit to guarantee the payment of their respective obligations. The

3 Sourceworks has since demanded that Quovadx return the $30,000; Quovadx has not done so. Sourceworks, in turn, has rejected Quovadx’s demand for payment of the $570,000 balance due on the purchase of the licenses.


5 Infotech Network Group represented itself to Quovadx as a consortium of major Indian companies that sought outsourced research and development projects from U.S. software companies.
distributor agreement required that Infotech fund a $5.46 million letter-of-credit before Quovadx shipped any software to it.

As required by the outsourcing agreement, Quovadx immediately funded a letter-of-credit for $2.46 million to pay Infotech as it rendered outsourcing services. By mid-September, Infotech had not funded its letter-of-credit. Quovadx nevertheless shipped the $5 million of software licenses to Infotech. In an attempt to meet Quovadx’s quarterly revenue goals, Renjilian was directed to solicit Infotech to buy more software licenses before the end of the third quarter. Infotech agreed to do so, on the condition that Quovadx guarantee pre-payment of outsourcing funds. On September 30, 2003, the parties signed supplemental contracts under which Infotech was to buy $2.1 million of software licenses and Quovadx was to pre-pay Infotech over $1 million for unspecified outsourcing work. Quovadx shipped the additional $2.1 million in software to Infotech on the last day of the quarter. Quovadx, with the concurrence of its outside auditor, offset the revenue from these two purported sales by its estimated outsourcing obligation to Infotech and recognized approximately $4.6 million in revenue for the quarter. Quovadx planned to recognize the remaining revenue as Infotech performed outsourcing services.

In early October 2003, before Quovadx filed its quarterly report for the third quarter, Infotech told Renjilian and others at Quovadx that it did not have enough money to fund its required letters-of-credit. Quovadx agreed to wire $410,000 to assist Infotech in making a margin payment to an Indian bank, purportedly to establish and fund the required letters-of-credit. In return, Infotech gave Quovadx a letter from the Indian bank expressing confidence that Infotech’s letter of credit would be opened (not funded) by October 21, 2003. Quovadx relied on this letter as support for Infotech’s supposed ability to pay and recognized revenue on the third quarter Infotech transactions.

On October 22, 2003, Quovadx issued both a press release announcing the distribution and software development agreement with Infotech and a preliminary earnings release touting a 183% increase in software licensing revenue over the third quarter of 2002. The Infotech transaction accounted for approximately 60% of Quovadx’s reported third quarter software licensing revenue. Quovadx’s share price increased over 25% on the news of the third quarter results.

2. The Fourth Quarter Transactions

By mid-December 2003, although it appeared to Quovadx that Infotech had established one letter-of-credit, Infotech still had not funded the required letters-of-credit and had not paid for either of its third quarter purchases. Infotech told Renjilian that the software had still not been released from customs in India, which Infotech claimed was necessary before it could fund its letter-of-credit. Despite these significant issues, Quovadx, hoping to meet Wall Street expectations, asked Infotech to make another software purchase. Infotech told Renjilian that it was unwilling to agree to another software purchase unless Quovadx immediately wired

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6 In fact, unbeknownst to Quovadx, Infotech never used the money to establish and fund a letter-of-credit.
$500,000 to it as part of the outsourcing prepayment to which Quovadx had committed at the end of the third quarter. Quovadx made this payment, even though Infotech had not met the conditions for prepayment under the outsourcing agreement for $440,000 of this amount. To preserve its legal remedies, Quovadx also sent Infotech a default letter for failing to pay for its third quarter purchases. Thus, by mid-December Quovadx had sent $910,000 to Infotech, yet Infotech had not paid for any of the software licenses that it had bought from Quovadx. 7

On December 31, 2003, Infotech signed a contract, to buy $6.5 million of software licenses from Quovadx. Quovadx simultaneously signed a supplemental agreement to pay Infotech up to $1.94 million for any outsourcing work that Infotech actually performed through August 2004. Renjilian negotiated both contracts on behalf of Quovadx. Quovadx also provided Infotech assurances that it would increase Quovadx’s outsourcing to Infotech significantly over the coming year.

On February 11, 2004, Quovadx issued its preliminary fourth quarter earnings release (attached to a Form 8-K filed the same day), which included the $6.5 million in Infotech revenue. Quovadx issued this release even though Infotech had not paid for the third quarter purchases and Infotech’s ability to pay for the fourth quarter purchases depended on its ability to resell the software licenses. The earnings release claimed that Quovadx’s total annual revenue for 2003 had increased about 30% and that its year-over-year software licensing revenue had grown about 173%. The Infotech transactions accounted for virtually the entire increase in Quovadx’s software licensing revenue. After this announcement, Quovadx’s stock price increased by about 10%, closing at $6.66 per share on February 12.

At the time of Quovadx’s year-end audit in mid-February 2004, Infotech still had not funded a letter-of-credit or made any payments for either the third or fourth quarter software purchases. In early March 2004, Quovadx’s auditor advised it that the company would have to reverse the Infotech revenue from both the third and fourth quarters unless Infotech made a substantial payment before Quovadx’s annual report was due to be filed. On March 8, 2004, therefore, Quovadx, following negotiations in which Renjilian participated, authorized Infotech to draw down the $1.94 million balance on Quovadx’s outsourcing letter-of-credit, with the understanding that Infotech would use these funds to arrange bank financing to pay Quovadx for the software purchases. Immediately after receiving the $1.94 million, Infotech told Quovadx that it believed it was entitled to this money under the outsourcing agreement and would not use it to pay Quovadx for the software. When Quovadx requested that Infotech return the money, Infotech refused. Infotech never returned the money or paid for the software.

On March 15, 2004, Quovadx announced that it would reverse all revenue on sales to Infotech in the third and fourth quarters of 2003. On March 18, Quovadx filed its annual report for 2003 which restated its financial results for the third and fourth quarters of 2003 and removed $11.1 million in revenue from transactions with Infotech. In response to these events, the Quovadx board of directors commenced an investigation into the Infotech relationship which

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7 During the fourth quarter, Quovadx provided Infotech with about $10,000 in outsourcing work, and trained some Infotech subcontractors on the use of Quovadx software. Infotech eventually performed outsourcing work for Quovadx worth about $500,000 based on the December 2003 prepayments.
subsequently encompassed two other transactions, including Sourceworks. Shortly thereafter, Quovadx’s chief executive officer and chief financial officer resigned. On May 14, 2004, Quovadx filed a Form 8-K in which it indicated that, as a result of its internal investigation, Quovadx had discontinued any further severance payments to its former chief executive officer and chief financial officer and demanded the return of severance payments already paid and prior compensation, including bonuses. Quovadx also indicated that it had terminated its executive vice president of sales.

IV.

LEGAL CONCLUSIONS

Reporting Violations

Section 13(a) of the Exchange Act and Rules 13a-1, 13a-11, and 13a-13 thereunder require that issuers with securities registered under Section 12 of the Exchange Act, such as Quovadx, file annual and quarterly reports with the Commission and keep this information current. These reports must be complete and accurate in all material respects. *United States v. Bilzerian*, 926 F.2d 1285, 1298 (2d Cir. 1991); *SEC v. Savoy Indus., Inc.*, 587 F.2d 1149, 1165 (D.C. Cir. 1978), *cert. denied*, 440 U.S. 913 (1979). Rule 12b-20 of the Exchange Act requires that an issuer’s periodic reports include any additional information “necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.” The issuer’s legal obligation “extends not only to accurate quantitative reporting of the required items in its financial statements, but also to other information, qualitative as well as quantitative, needed to enable investors to make informed decisions.” *In re Sony Corp. and Sumio Sano*, 67 SEC Docket 1609, 1998 WL 439898 at *4 (Aug. 5, 1998).

Quovadx improperly recognized revenue from the transactions with Sourceworks and Infotech. As a result, Quovadx’s annual report for 2003, quarterly reports for the second and third quarters of 2003, and earning releases for the second, third, and fourth quarters of 2003 contained materially false and misleading statements concerning Quovadx’s software licensing revenue. Accordingly, Quovadx violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

Because he was involved in negotiating the transaction with Sourceworks, Renjilian knew or should have known that Sourceworks could not and would not pay for the Insurenet software license unless and until Quovadx negotiated a contract between Sourceworks and the VA for the use of the software. Similarly, Renjilian was involved in negotiating the deals between Quovadx and Infotech in third and fourth quarters of 2003. Renjilian was also aware that Infotech had not funded the required letters-of-credit for these purchases and, accordingly, knew or should have known that Quovadx was not reasonably likely to collect payment from Infotech. Accordingly, Renjilian was a cause of Quovadx’s violations of Sections 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.
V.

FINDINGS

Based on the foregoing, the Commission finds that Renjilian was a cause of Quovadx’s violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

VI.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Renjilian’s Offer.

Accordingly, IT IS HEREBY ORDERED that:

Pursuant to Section 21C of the Exchange Act, Renjilian cease and desist from causing any violations and any future violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

By the Commission.

Nancy M. Morris
Secretary