

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10975 / September 2, 2021

SECURITIES EXCHANGE ACT OF 1934
Release No. 92866 / September 2, 2021

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4247 / September 2, 2021

ADMINISTRATIVE PROCEEDING
File No. 3-20522

<p>In the Matter of</p> <p style="text-align:center">PARETEUM CORPORATION,</p> <p>Respondent.</p>
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ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND 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 8A of the Securities Act of 1933 (“Securities Act”), and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Pareteum Corporation (“Pareteum” 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 it and the subject matter of these proceedings, which are admitted, and Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act and 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 finds¹ that:

SUMMARY

1. This case concerns accounting and disclosure fraud by Pareteum, a telecommunications company, spanning from 2018 through mid-2019 (the “relevant time period”). During this time, Pareteum’s public filings materially overstated revenue by approximately \$12 million for fiscal year 2018 (60% of the ultimately restated revenue), and by approximately \$30 million for the first and second quarters of 2019 (91% of the ultimately restated revenue).

2. These misstatements resulted from improper accounting practices, whereby certain now former executives directed that revenue be recognized based on non-binding purchase orders and prior to product shipment, which is not in accordance with generally accepted accounting principles (“GAAP”). Further, former senior accounting employees took steps to conceal these practices from Pareteum’s auditor.

3. On October 21, 2019, Pareteum issued a press release announcing that Pareteum’s financial results for 2018 and the first half of 2019 required restatement, and on December 14, 2020, Pareteum restated its financial results for 2018, reducing the full year revenue from \$32.4 million to \$20.3 million. On March 12, 2021, Pareteum reported its financial results for 2019, reporting a full year revenue of \$62.05 million, including restated quarterly financial results for the first half of 2019 – reducing its stated revenue for the first quarter of 2019 from \$23.04 million to \$13.07 million, and for the second quarter of 2019 from \$34.2 to \$16.9 million.

4. As a result of the conduct described herein, Pareteum violated Section 17(a) of the Securities Act and Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

5. After determining that a restatement was needed, Pareteum’s Audit Committee began an independent investigation that resulted in the separation of multiple Pareteum executives – comprising almost all of the senior management team and certain senior executives in sales and finance positions. Pareteum took additional remedial measures, including modifying and improving internal accounting controls and procedures to prevent recurrence of the misconduct. Pareteum also provided cooperation to the Commission staff during the staff’s investigation, including providing presentations to the staff summarizing facts developed during the course of its own internal investigation and identifying key documents.

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.

RESPONDENT

6. **Pareteum Corporation** is incorporated in Delaware with a principal place of business in New York, NY. Pareteum is a telecommunications and cloud software company. Its common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act, and traded on the NASDAQ exchange under the symbol “TEUM.” NASDAQ delisted Pareteum’s common stock on February 2, 2021 for its failure to timely file required periodic reports with the Commission. Pareteum’s common stock currently trades on the OTC Pink market as “TEUM.”

FACTS

Background

7. Pareteum is a telecommunications “Software as a Service” or “SaaS” company that offers various products such as SIM cards, WiFi service, and a Cloud platform. One portion of Pareteum’s business is its mobile bundled services line, which provides SIM cards with customizable service plan options. Pareteum’s customers then resell the SIM cards to consumers.

8. FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* (“ASC 606”), provides guidance for recognizing revenue for these type of sales agreements. ASC 606 requires entities to recognize revenue only when control of the promised goods or services is transferred to customers, and at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services where such transfer has been completed.

9. ASC 606 requires entities to take the following steps to assess whether and what revenue should be recognized: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the corresponding performance obligation(s); and (5) recognize revenue when or as the entity satisfies a performance obligation by transferring control of a promised good or service to a customer.

10. Consistent with this, Pareteum disclosed in its 2018 Form 10-K that starting on January 1, 2018, Pareteum was reporting revenue in accordance with ASC 606 which, Pareteum stated, “requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.”

Pareteum’s Improper Revenue Recognition Practices Based on Non-Binding Purchase Orders

11. Despite disclosing that ASC 606 would be followed, Pareteum recognized revenue without confirming whether the criteria of ASC 606 had been fully satisfied. Instead, starting in or

around January 2018, Pareteum began recognizing the entire amount of a customer's initial purchase order with Pareteum, even though these purchase orders were non-binding and the product had not yet been shipped. Pareteum did not have sufficient procedures and controls in place to provide reasonable assurance that it was recognizing revenue in accordance with ASC 606, and instead, Pareteum's former accounting and finance executives allowed revenue to be recognized that was not in compliance with GAAP.

12. In practice, Pareteum's revenue recognition procedure for mobile bundled services customers during the relevant time period was as follows: (1) a new customer signed a contract and master services agreement, (2) a purchase order was drafted by Pareteum, providing the number of SIM cards the customer intended to purchase, as well as an estimated cost for the average monthly plan they were expecting to sell to downstream consumers; (3) the customer signed this purchase order, which in most cases indicated that the full cost listed was just an estimated forecasted amount that would not be due until the customer sold the product to downstream consumers; and (4) Pareteum recognized revenue for the entire amount listed in the purchase order. Pareteum recognized the total revenue of each purchase order regardless of whether the SIM cards had been shipped yet or whether a platform had been set up by Pareteum sufficient to even allow the SIM cards to work.

13. Under ASC 606, Pareteum should have satisfied its performance obligations under the purchase order prior to recognizing revenue. Specifically, Pareteum should have ensured that the SIM cards had been shipped, and that the platform had been created and was operational. Further, under the terms of most of the purchase orders, the SIM cards also had to have been sold to and activated by an end-user before the customer was obligated to pay Pareteum. In multiple instances, Pareteum failed to meet all of these requirements prior to recognizing revenue.

14. There were insufficient internal accounting controls in place at Pareteum to assess whether the required performance obligations had been met prior to revenue being recognized, and in practice, such checks were often not properly done. As a result, Pareteum recognized the amounts listed in the purchase orders based solely on the purchase order being signed by the customer without confirming whether these amounts were recognizable under ASC 606, resulting in the improper recognition of millions of dollars of revenue in contravention of ASC 606.

15. Pareteum's former leadership pressured employees to reach Pareteum's internal budgeted projections for revenue each month. Pareteum was only able to meet these projections by immediately recognizing revenue for the entire projected amount of a purchase order when it was signed – despite Pareteum having not met its performance obligations under the purchase order.

16. Recognizing the full amount of each purchase order once signed, rather than in accordance with GAAP, became standard practice for Pareteum's mobile bundled services line of business. One or more former Pareteum executives knew or were reckless in not knowing that the requirements for proper revenue recognition had not been met and yet continued to authorize or accept decisions to recognize millions of dollars of revenue improperly. Revenue recognized this way accounted for millions of Pareteum's revenue each quarter starting in 2018 and continued

through the first half of 2019, even though it was not yet owed by the customers. By August 2019, Pareteum had only collected a fraction of the tens of millions in revenue Pareteum had recognized for mobile bundled services customers.

Misstatements Made to Pareteum's Auditor

17. Because of the improper revenue recognition practices described above, Pareteum's accounts receivable balance ballooned by the end of 2018. For many, Pareteum was still completing its obligations, such as shipping the SIM cards or setting up the platform. For others, even if some SIM cards had been shipped, the customer had not yet become operational and had not sold any SIM cards to downstream consumers, and as such did not actually owe the accounts receivable amount to Pareteum.

18. When Pareteum's independent auditor performed its 2018 end-of-year audit testing in February 2019, it included Pareteum's accounts receivable as a main risk area. To test the validity of the accounts receivable amounts, the auditor sent out audit confirmations to many of Pareteum's customers asking the customers to sign that they agreed with Pareteum's record of how much was owed to Pareteum as of year-end 2018. These audit confirmations went out to the vast majority of the customers that accounted for the \$12 million in revenue that Pareteum improperly recognized in 2018.

19. Despite the fact that the customers did not yet owe the amounts on the audit confirmations, most of these customers did eventually sign the audit confirmations. One or more former Pareteum officers or senior accounting executives knowingly or recklessly directed Pareteum sales employees to encourage customers to sign the audit confirmations by falsely telling them that the confirmation amounts listed were just for forecasts or estimates and did not represent amounts that the customers were actually committed to paying. With these assurances, most of these customers signed the audit confirmations and returned them to Pareteum's auditor, thereby unknowingly providing false audit evidence.

Pareteum's Improper Recognition of Revenue From an Unsigned Purchase Order, and Related Cover-up Steps

20. In addition to the improper revenue recognition practices discussed above, Pareteum also improperly recognized millions in revenue based on an unsigned, mid-negotiation purchase order for International Mobile Subscriber Identity numbers, or IMSIs, which was never ultimately agreed to by the customer.

21. Unlike SIM cards, IMSIs are "virtual," and do not require the shipment of any physical product – instead, Pareteum would deliver IMSIs by assigning and emailing the relevant IMSI numbers to the customer once the necessary platform had been developed and created by Pareteum.

22. In late January 2019, Pareteum and a customer were negotiating an IMSI purchase order. A former Pareteum sales employee drafted a purchase order for 6.3 million euros and circulated an unsigned version internally to others at Pareteum for approval.

23. Despite the fact that the 6.3 million euro purchase order had not been finalized or agreed to by the customer, at the direction of one or more former Pareteum executives, Pareteum recognized revenue for 20% of the order, or approximately \$1.4 million, for January 2019.

24. The former Pareteum sales employee ultimately finalized the purchase order with the customer in February 2019 – but for 630,000 euros, not 6.3 million. Notwithstanding this change in the purchase order, at the direction of one or more former Pareteum executives, Pareteum continued to recognize revenue off of the unsigned draft purchase order for 6.3 million euros. Pareteum recognized another 20% of revenue from the draft purchase order in February 2019, and another 20% in April 2019. Ultimately, in the first and second quarter of 2019, Pareteum recognized a total of approximately \$4.4 million in revenue based on this unsigned draft purchase order when the final signed purchase order was only for 630,000 euros, or approximately \$750,000.

25. Even if the 6.3 million euro purchase order had been finalized and signed, Pareteum’s revenue recognition would not have been in accordance with GAAP. At the time that this revenue was recognized, the platform for these IMSIs was not yet functional and Pareteum was still working on setting it up properly. Further, there was no reasoning or support for recognizing 20% of this purchase order three separate times. One or more former Pareteum executives knew, or were reckless in not knowing, that this was not proper under ASC 606 and as such was not in accordance with GAAP.

26. In August 2019, Pareteum received a subpoena from Commission staff in connection with its investigation into this conduct. At or around this time, multiple former Pareteum executives became aware that the 6.3 million euro purchase order had never been signed, and that a 630,000-euro purchase order had been signed instead. At first, rather than report this issue to more senior management, former Pareteum sales and accounting executives attempted to get a backdated purchase order signed retroactively to cover up the mistake. Though these former sales and accounting employees were successfully able to get a replacement backdated purchase order signed, Pareteum ultimately identified and self-reported the existence of the backdated purchase order.

Pareteum’s Restatement, Independent Investigation, and Cooperation with Commission Staff

27. On October 21, 2019, Pareteum publicly announced that it would be issuing financial restatements for all of 2018 and the first two quarters of 2019, and that it expected the restatements to reduce the reported revenue by \$9 million for all of 2018 and \$24 million for the first half of 2019. After this announcement, Pareteum’s Audit Committee began an independent investigation.

28. On November 5, 2019, Pareteum announced it had appointed an Interim Chief Financial Officer (“CFO”), while the former CFO’s status was “under review.” On November 25, 2019, Pareteum announced it had terminated and replaced the Executive Chairman and Chief Executive Officer (“CEO”) of Pareteum. In addition to the CEO and CFO, in 2020, Pareteum terminated its Chief Commercial Officer and Chief Revenue Officer and replaced its Controller.

29. On December 14, 2020, Pareteum filed a restated Form 10-K for 2018, reducing the full year revenue from \$32.4 million to \$20.3 million. On March 12, 2021, Pareteum restated its financial results for 2019, reporting a full year revenue of \$62.05 million – reducing its stated revenue for the first quarter of 2019 from \$23.04 million to \$13.07 million, and for the second quarter of 2019 from \$34.2 to \$16.9 million.

30. During the staff’s investigation, after new management was installed, Pareteum and its Audit Committee voluntarily met with the staff on multiple occasions, presented detailed factual summaries of relevant information, and provided information and documents both on their own initiative and at the staff’s request.

VIOLATIONS

31. As a result of the conduct described above, Respondent violated Section 17(a) of the Securities Act, which prohibits fraudulent conduct in the offer or sale of a security.

32. As a result of the conduct described above, Respondent violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

33. As a result of the conduct described above, Respondent violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11 and 13a-13 promulgated thereunder, which require issuers of securities registered pursuant to Section 12 of the Exchange Act to file periodic and other reports with the Commission, including annual, quarterly and current reports, on the appropriate forms and within the period specified on the form that must contain any material information necessary to make the required statements made in the report not misleading.

34. As a result of the conduct described above, Respondent violated Exchange Act Section 13(b)(2)(A) which requires issuers of securities registered pursuant to Section 12 of the Exchange Act to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of assets.

35. As a result of the conduct described above, Respondent violated Exchange Act Section 13(b)(2)(B) which requires issuers of securities registered pursuant to Section 12 of the Exchange Act to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to, among other things, permit preparation of financial statements in accordance with GAAP.

PARETEUM'S REMEDIAL EFFORTS AND COOPERATION

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

UNDERTAKINGS

37. Respondent undertakes to:
- a. Cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in this Order;
 - b. Use its best efforts to cause Respondent's current and former employees, officers, and directors to be interviewed by the Commission staff at such times and places as the staff requests upon reasonable notice;
 - c. Use its best efforts to cause Respondent's current and former employees, officers, and directors to appear and testify truthfully and completely in such investigations, depositions, hearings or trials as may be reasonably requested by the Commission's staff;
 - d. Accept service by mail or email or facsimile transmission of notices or subpoenas issued by the Commission to Respondent for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff;
 - e. Appoint its undersigned attorneys as agents to receive service of such notices and subpoenas;
 - f. With respect to such notices and subpoenas, waive the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the interview or testimony reimburses the travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and
 - g. Consent to personal jurisdiction over it in any United States District Court for purposes of enforcing any such subpoena.

In determining whether to accept Respondent's Offer, the Commission has considered these undertakings.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Pareteum cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

B. Respondent shall pay a civil money penalty in the amount of \$500,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments:

- Due within 14 days of the entry of this Order: \$75,000
- December 31, 2021: \$33,333
- March 31, 2022: \$33,333
- June 30, 2022: \$33,334
- September 30, 2022: \$81,250
- December 31, 2022: \$81,250
- March 31, 2023: \$81,250
- June 30, 2023: \$81,250

Payments shall be applied first to post order interest, which accrues pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondent shall contact the staff of the Commission for the amount due. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Pareteum as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Scott Thompson, Co-Acting Regional Director, Division of Enforcement, Securities and Exchange Commission, Philadelphia Regional Office, 1617 John F. Kennedy Boulevard, Suite 520, Philadelphia, PA 19103.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary