

\$73.4 million for 1999, and \$123.6 million for 2000. In November 2000, AremisSoft had a market capitalization of more than \$1 billion. Eight months later, AremisSoft failed to file its second quarter 2001 Form 10-Q with the Commission. Shortly thereafter, as part of an internal investigation, PKF conducted a special forensic review, which found that AremisSoft could not confirm receipt of \$5.4 million in revenues on its most significant contract. Thereafter, AremisSoft announced that it could not substantiate approximately \$90 million of the revenues the Company reported in 2000. On March 15, 2002, AremisSoft filed for bankruptcy.

3. AremisSoft and its co-chairmen and co-CEOs Roys Poyiadjis (“Poyiadjis”) and Lycourgos Kyprianou (“Kyprianou”) (sued by the Commission in *SEC v. AremisSoft Corporation, Roys Poyiadjis, Lycourgos Kyprianou, et al.*, Civil Action No. 01 CV 8903 [S.D.N.Y.]) engaged in a number of fraudulent practices to make it appear as if AremisSoft was a sprawling international software company with accelerating sales growth. AremisSoft booked fictitious sales and accounts receivable and overstated earnings in two Cyprus-based subsidiaries, AremisSoft (EE.ME.A.) Ltd. (“EEM”) and L.K. Global Information Systems B.V. (“LK Global”). In its 2000 Form 10-K, AremisSoft reported that \$97.5 million of its \$123.6 million in revenues (nearly 80%) came from these two Cyprus-based subsidiaries, when, in fact, together, the two subsidiaries had just \$1.7 million in revenues for the year.

4. To hide its revenue and earnings shortfall in EEM and LK Global, AremisSoft reported acquisitions at inflated prices, making it seem as if cash AremisSoft collected from customers was used to purchase companies. In December 1999, AremisSoft announced that it had acquired a company called e-nnovations.com for \$14.5 million in cash. In its 2000 Form 10-K, AremisSoft reported that it had acquired two companies in December 2000, e-ChaRM Pvt Ltd. (“e-ChaRM”), for cash of \$10.9 million and Denon International Ltd. (“Denon”), for cash of \$7.34 million. In

September 2001, AremisSoft acknowledged in a press release that the three acquisitions had been reported at amounts not substantiated by information developed in the internal investigation. Rather than the \$7.34 million to \$14.5 million purchase prices reported, the actual prices paid ranged from approximately \$200,000 to \$400,000.

5. AremisSoft also grossly misstated its cash balance as of December 31, 2000. AremisSoft claimed to have \$33.33 million in cash, but \$9.98 million of that cash was actually in Kyprianou's personal bank account and \$10.7 million of it was received by AremisSoft in mid-January 2001. Accordingly, AremisSoft should have reported no more than \$12.65 million of cash at December 31, 2000, and should have reported a \$10.7 million reduction in stockholders' equity.

6. On March 22, 2001, PKF issued an unqualified audit report on AremisSoft's 2000 financial statements signed by Mead, which stated that PKF had conducted its audits in accordance with generally accepted auditing standards ("GAAS") and that AremisSoft's financial statements presented AremisSoft's consolidated financial position fairly, in conformity with generally accepted accounting principles ("GAAP").¹ The unqualified audit report was filed with the Commission as part of AremisSoft's Form 10-K for 2000.

7. Contrary to the representations in PKF's audit report, AremisSoft's 2000 financial statements did not conform to GAAP and the audit was not conducted in accordance with GAAS in effect at the time of the audit. On December 7, 2001, PKF advised AremisSoft that its audit reports "must no longer be associated with [AremisSoft's financial] statements and that such auditors' reports should no longer be relied on."

¹ In this Complaint, GAAP and GAAS refer to U.S. GAAP and U.S. GAAS, respectively.

8. By the conduct detailed in this Complaint, PKF violated Section 10A of the Securities Exchange Act of 1934 (“the Exchange Act”), 15 U.S.C. § 78k and Mead violated Section 10A(a) of the Exchange Act, 15 U.S.C. § 78k(a).

JURISDICTION AND VENUE

9. This Court has jurisdiction over this action pursuant to Section 27 of the Exchange Act, 15 U.S.C. §78aa.

10. The Defendants, directly and indirectly, made use of the means and instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged herein.

11. Venue is proper because certain of these transactions, acts practices and courses of business occurred in the Southern District of New York.

DEFENDANTS

12. **PKF**, an accounting firm that was based in the United Kingdom, was AremisSoft’s principal outside auditor from before AremisSoft was a public company until January 23, 2002. PKF is the eighth largest firm of accountants and business advisers in the United Kingdom, with more than 1,500 partners and staff operating from 25 offices in the United Kingdom.² PKF is a member firm of PKF International Ltd., a network of independent firms of accountants and business advisers with more than 430 member firm offices, which have 12,800 staff and partners in more than 100 countries.

13. **Mead**, age 64, was a partner of PKF until he took his standard retirement on April 6, 2002. He is a Fellow of the Institute of Chartered Accountants in England and Wales and was

² On May 23, 2005, PKF converted to PKF (UK) LLP, a limited liability partnership. For purposes of this complaint PKF will refer to PKF and PKF (UK) LLP.

the audit partner for PKF's audits of AremisSoft while AremisSoft was a public company. Mead had specific responsibilities for planning, supervising, and reviewing the audit work.

OTHER RELEVANT PARTIES

14. **Savvides & Partners/PKF Cyprus** ("PKF Cyprus") is an accounting firm with offices in Limassol, Cyprus and Nicosia, Cyprus. It is a member of PKF International Ltd. PKF Cyprus performed audit work on several AremisSoft subsidiaries during the year 2000 audit of AremisSoft.

15. **Pavlos Meletiou** ("Meletiou") was a partner of PKF Cyprus while AremisSoft was a public company. Meletiou was responsible for the audits and reviews of the AremisSoft subsidiaries that PKF Cyprus conducted. He was a certified accountant in Cyprus until his license was revoked by the Institute of Certified Public Accountants of Cyprus ("ICPAC") in June 2005 for, among other things, failing to comply with independence rules and failing to submit correct information to the ICPAC.

16. **AremisSoft**, a Delaware corporation headquartered in London, was an international software company with offices in New Jersey, London, Cyprus, and India. AremisSoft became a public company in April 1999 through an initial public offering of 3.3 million shares. Until trading in AremisSoft stock was halted on July 30, 2001, its shares (symbol: AREM) traded on the Nasdaq National Market System. On August 29, 2001, Nasdaq delisted AremisSoft's common stock from the Nasdaq system. In a settlement with the Commission, AremisSoft consented to a judgment enjoining it from violating the antifraud and reporting provisions of the federal securities laws. The judgment, entered on July 22, 2002, binds AremisSoft's successor, Softbrands, Inc. In the settlement, AremisSoft consented to the issuance of a Commission

Order revoking the registration of its common stock. The Commission's Revocation Order was issued on July 31, 2002. AremisSoft's fiscal year ended on December 31.

PKF's Involvement with AremisSoft

17. At the time of the 2000 audit, PKF had been AremisSoft's outside auditor for a number of years, including the period before AremisSoft's initial public offering in April 1999. PKF audited AremisSoft's annual financial statements and, beginning in 2000, conducted reviews of its quarterly financial statements.³ AremisSoft was PKF's only client to file with the Commission.

18. PKF used the work and reports of other auditing firms to report on AremisSoft's 2000 consolidated financial statements. One of the firms, PKF Cyprus, issued unqualified audit reports on EEM and LK Global. Meletiou, a PKF Cyprus partner, signed or directed the issuance of the audit reports for PKF Cyprus. PKF assumed complete responsibility under GAAS for the work of the other auditing firms during the 2000 audit and did not refer to the work of other auditors in its audit report or in AremisSoft's 2000 filing with the Commission.⁴

Anonymous Letter, Suspicious Contracts, and CFO Resignation

19. PKF had been AremisSoft's auditor until May 15, 1998, when the London office of a "Big Four" accounting firm was engaged to audit AremisSoft's financial statements in connection with AremisSoft's registration statement (Form S-1) filed with the Commission on

³ PKF also reviewed AremisSoft's financial statements as of and for the three months ended March 31, 2001, filed with the Commission on May 15, 2001.

⁴ GAAS require that an audit "report should contain a clear-cut indication of the auditor's work, if any, and the degree of responsibility the auditor is taking." See AICPA, CODIFICATION OF STATEMENTS ON AUDITING STANDARDS ("AU") 150.02. PKF could have referred to the work done by PKF Cyprus and the other audit firms in the audit report, thereby sharing audit responsibility with them. If a principal auditor refers to the work of another auditor, the report is expanded to indicate the division of responsibility and magnitude of the portion of the financial statements audited by the other auditor (AU 543, *Part of Audit Performed by Other Independent Auditors*). By not referring to the work of PKF Cyprus or other accounting firms involved in the audit, PKF took full responsibility for their work.

July 1, 1998.⁵ On July 14, 1998, the Big Four accounting firm received a copy of an anonymous letter addressed to the SEC. According to the letter:

AremisSoft wants to register statements to sell shares on the United States Nasdaq exchange. These statements will contain fraudulent information about revenue ... for large [sales] of management services and contracts. The chairman and managing directors and [lawyers] in the United Kingdom are [recording revenue] from some former directors, some customers, some not, to issue purchase notes of one million dollars or greater each for services to be provided This done to make future look good for sells [sic] of shares.

Review accounts and you will locate.

20. When the Big Four firm reviewed AremisSoft's draft financial statements for the six months ended June 30, 1998, it found that the financial statements included revenue from three contracts for more than \$1 million each. The contracts were purportedly being performed in AremisSoft's Indian office (which had no significant previous sales), and the customers were allegedly in Czechoslovakia and Croatia (where the Company had not previously done business). The Big Four firm immediately requested full details of the contracts, including agreements and customer correspondence, and consulted the underwriters; they had no knowledge of the contracts, despite having been provided a list of AremisSoft's work in the pipeline just four months earlier.

21. Based on this information, the Big Four firm undertook an investigation into the three contracts, which uncovered numerous irregularities, including: (1) all negotiations with customers on the contracts were undertaken by Kyprianou and communications were claimed to have been by e-mail, no copies of which were maintained; (2) copies of the contracts were held in Kyprianou's private office in Cyprus rather than the corporate offices in London; (3) all information relating to the contracts was in India; (4) no cash was received from the customers;

⁵ This registration statement never went effective.

(5) no payments were made to the consultants performing sub-contracting work on the contracts; and (6) the customer addresses appeared to be small offices rather than industrial concerns. Moreover, staff from one of the Big Four firm's Indian offices raised doubts as to whether the main subcontractor on the contracts was capable of performing the contract work.

22. As a result of its review, the Big Four firm concluded that AremisSoft's "percentage of completion" method of revenue recognition for the three contracts was improper. Rather, it determined, the "completed contract" method should be used, resulting in deletion of all revenue and gross profit related to the purported contracts from AremisSoft's income statement and deferred recognition until the contracts were completed and the related fees collected. AremisSoft agreed to the change.

23. On October 9, 1998, the Big Four firm received a telefax from AremisSoft's then chief financial officer ("CFO"), complaining of his inability to get "access to ... financial records" to "ensure that the [financial statements] are objective, true and fair." The CFO expressed concern about Kyprianou's "significant involvement and influence in the preparation of the [financial statements]." In a telephone conversation with the Big Four firm audit partner, the CFO denied having any knowledge of the three contracts prior to April 1998.

24. On October 15, 1998, representatives from the Big Four firm met with Poyiadjis, Kyprianou, AremisSoft's then CFO, and others, to discuss the CFO's allegations and the accounting for the three contracts. Also attending the meeting and introduced as a prospective director of AremisSoft was a corporate finance partner from PKF, who, according to AremisSoft's year 2000 Form 10-K, was then PKF's head of the United Kingdom and European mergers and acquisition group. There were heated exchanges concerning the contracts at the meeting. The PKF corporate finance partner stated that the Big Four firm was

unable to verify the contracts because it did not understand AremisSoft's business, and suggested that AremisSoft re-engage PKF to perform the audit work.

25. Shortly thereafter, AremisSoft's CFO resigned and Poyiadjis assumed the CFO duties. In November 1998, the Big Four firm was informed that AremisSoft had made a decision to re-appoint PKF as its independent auditor and the engagement of the Big Four firm was discontinued as of December 16, 1998. PKF was then re-engaged as AremisSoft's independent auditor. The PKF corporate finance partner who attended the October 15 meeting became the relationship partner and Mead became the audit partner on the AremisSoft audit engagement. At or about this time, PKF obtained copies of the anonymous letter and the October 9 telefax from AremisSoft's CFO.

26. AremisSoft's financial statements eventually filed in connection with its initial public offering in April 1999 included the revenues and gross profit from the three large contracts, and employed the percentage of completion method. These financial statements were audited by PKF. AremisSoft continued to use that method throughout its existence as a public company.

27. The three large contracts were shams. AremisSoft never performed any services related to the contracts and never collected any revenues from the purported customers.

Warning Signs in Cyprus

28. Though AremisSoft's Cyprus-run operations represented just a fraction of its business before it went public, they accounted for nearly 80% of AremisSoft's revenues and over 50% of its assets by the time of the 2000 audit. Accordingly, and because PKF took responsibility for the entire audit, Mead assigned a PKF accountant to Cyprus in late January 2001 to work with Meletiou, the PKF Cyprus partner, on the Cyprus-based subsidiaries. But

that staff accountant was relatively junior and had no training or background in GAAP or GAAS.

29. Although AremisSoft's CEO and CFO had offices in Cyprus and EEM and LK Global were both headquartered there, the staff accountant learned upon his arrival in Cyprus that the contracts and accounting records for both subsidiaries were actually in India, not Cyprus. This made it impossible for the staff accountant to conduct substantive revenue testing in Cyprus, although the staff accountant did prepare audit work programs for Meletiou to use in performing the audit. The staff accountant notes show that he told Mead that documents necessary for testing were unavailable and alerted him to "shortcomings of the audits being performed, particularly the lack of documented testing, and address [sic] of fundamental issues such as debtor recoverability, cut-off testing, systems understanding, and post balance sheet event reviews." His notes also reflect that, when he advised Meletiou about his concerns, especially the limited audit testing, Meletiou "suggested that the testing be carried out after the audit, i.e., April/May 2001!!!" The staff accountant telephoned Mead regarding his conversation with Meletiou.

30. In early February 2001, the staff accountant returned with Mead to Cyprus to conduct the audit work he was previously unable to perform, including a review of previously unavailable documents. But no one from PKF ever reviewed any cash receipts related to purported contracts. Instead, PKF limited its testing based on its reliance on AremisSoft's internal control system. After the second trip to Cyprus, Mead sent a telefax to Meletiou enumerating a number of outstanding steps required to be completed prior to the audit close and emphasizing that Meletiou needed to travel to India to conduct audit tests on AremisSoft's

internal controls. Meletiou agreed he or someone on his staff would go to India for the systems testing, but no one from PKF determined whether such testing ever occurred.

Account Managers in 2000

31. PKF and Mead learned for the first time, during the January 2001 trip to Cyprus, that neither EEM nor LK Global had any regular contact with their customers. Rather, since 2000, both had purportedly used third party contractors -- called "account managers" -- to bill customers, collect funds due, and remit the difference net of expenses to AremisSoft, making "periodic reports" of gross sales and expenses for incorporation in AremisSoft's books and records. The EEM and LK Global general ledgers reflect that neither subsidiary recorded accounts receivable by customer; both relied only on reports of the account managers.

32. Despite the account managers' obvious importance to AremisSoft and their role as sole source for EEM and LK Global sales and expense data, PKF nor Mead ever (a) developed any audit procedures to examine transactions with the account managers; (b) reviewed payments from account managers; (c) communicated with account managers; (d) saw any of the "periodic reports;" (e) took any steps to audit transactions between AremisSoft and the account managers or between the account managers and AremisSoft's customers; or (f) designed any procedures to test AremisSoft's progress on contracts. Instead PKF and Mead relied solely on AremisSoft's representations with respect to the sham contracts and the review of the PKF Cyprus audit files, which included false documentation.

EEM and LK Global Audit File Deficiencies

33. On March 9, 2001, Meletiou brought the EEM and LK Global audit files to PKF's London office. Mead spent five hours reviewing the EEM audit files and assigned a second PKF partner, who had no knowledge of AremisSoft, to review the LK Global audit files.⁶

34. Mead found numerous problems in the EEM audit file, including serious deficiencies in two significant audit areas: cash and accounts receivable. Mead's notes show the workpapers included only copies, not originals, of cash confirmations, and both cash and accounts receivable confirmations were "apparently not received directly by PKF [Cyprus]." Moreover, confirmations of deposits and payables purportedly from numerous different customers and vendors were "poor copies," not originals, and inventory confirmations were provided by AremisSoft management rather than third parties.

35. The second PKF partner found multiple problems in the LK Global audit file including similar problems with cash and accounts receivable. His three page hand-written notes to Mead noted that:

- LK Global had no bank account;
- The file contained copies of accounts receivable confirmations, not originals;
- The file contained no evidence of how accounts receivable confirmations were carried out;
- The file contained no evidence of an overall analytical review;

⁶ Approximately two and one-half weeks earlier, on February 20, 2001, AremisSoft's audit committee held a telephone conference call concerning its earnings release for the 2000 year. PKF participated in the call and expressed no objection to the release. The next day, February 21, AremisSoft issued its year 2000 earnings release.

- The file contained no evidence of audit planning, an adopted audit approach, or a risk assessment;
- The file contained no evidence of a review of internal controls;
- The file included no evidence of a subsequent events review; and
- There was no engagement letter in the file.

36. Late that same night, the second PKF partner wrote Mead an e-mail from his home computer that concluded:

I suppose I am nervous about the fact that we have a company generating \$20 million + [sales] and quite significant profits, all of it being on paper with no evidence of any cash – it just seems suspicious. The more I think about it, the more unusual the whole thing seems and I think we need convincing explanations before sign off.

37. On March 20, 2001, Mead received an e-mail from Meletiou asserting that “[a]ll outstanding points that should be dealt with before signing the report have been completed except the management letter which is under preparation.” But no one from PKF ever collected any documents or other evidence to support Meletiou’s contention.

EEM and LK Global General Ledger Irregularities

38. The EEM and LK Global general ledgers included in PKF’s files showed obvious irregularities. Most of the ledger entries simply reflect assets netted against liabilities to eliminate account balances. All of the entries appear to have been created at the same time, after AremisSoft’s year-end. Moreover, the ledgers reflected cash receipts of only \$4.3 million for the entire year, even though EEM and LK Global reported more than \$97 million in combined sales that year.

Questionable AremisSoft Acquisitions

39. AremisSoft reported in its 1999 and 2000 Forms 10-K that it paid over \$32 million in cash to acquire three companies -- e-nnovations.com., e-ChaRM, and Denon. However, PKF and Mead failed to examine any documents purportedly evidencing the payments. Had PKF or Mead matched the transactions to payment documents, it would have been discovered that, rather than the \$7 to \$14.5 million purchase prices reportedly paid for these companies, the actual prices ranged from approximately \$200,000 to \$400,000.

Inadequate Third Party Confirmations

40. At no time during its audit did PKF or Mead obtain original accounts receivable or cash confirmations, verify that the confirmations had been sent directly to PKF Cyprus or PKF, or review subsequent cash receipts to corroborate that the receivables in fact existed. No one from PKF reviewed accounts receivable remittance advices or attempted to contact any of AremisSoft's purported customers. Had PKF or Mead taken any of these steps, they would have learned that the accounts receivable and associated revenues were fraudulent. And while the PKF Cyprus audit workpapers reviewed by PKF included confirmations from LK Global creditors, in what should have been an obvious irregularity that should have warranted heightened scrutiny, all creditors confirmed that they owed money to LK Global rather than the other way around.

41. The accounts receivable confirmations in the PKF Cyprus audit workpapers reviewed by PKF and Mead evidence additional irregularities that should have warranted heightened scrutiny. None are originals; many have identical or similar handwriting; and, according to the dates printed on the top of each, eight of seventeen were returned on the same two dates -- February 2 or February 5, 2001. The accounts receivable confirmations also were

addressed to customers of AremisSoft rather than to account managers, despite the Company's claim that the account managers, not the end users, were indebted to AremisSoft.

42. PKF and Mead understood from the PKF Cyprus audit files that EEM maintained a Swiss bank account containing \$9.98 million of AremisSoft's cash (nearly 30% of total cash) on December 31, but PKF did not obtain satisfactory audit evidence concerning the bank account that was included as cash on AremisSoft's consolidated financial statements. The unnumbered Swiss bank account, which nowhere appears on EEM's ledger until December 23, 2000, suddenly materialized immediately before AremisSoft's year end. The only evidence obtained by either PKF Cyprus or PKF from third parties related to the account is an irregular confirmation letter to Meletiou from a Swiss bank dated March 20, 2001 (the same day as PKF's audit report) which states, without explanation, that "since 29th of December 2000, we hold an amount of \$9.980.000 blocked in favor of [EEM]." AremisSoft had no such account at any time during or before 2000. But Kyprianou did have bank accounts at the Swiss bank. Kyprianou deposited proceeds of his AremisSoft stock sales in those accounts.

43. Finally, neither PKF nor Mead obtained cash confirmations for AremisSoft's cash held at U.S. banks at December 31, 2000, even though the Company reported \$10.7 million in a U.S. bank as of that date. But the \$10.7 million was not in a U.S. bank account as of December 31, 2000. PKF's workpapers show that the money was due to AremisSoft from Kyprianou and Poyiadjis stock options exercises in mid-December 2000. PKF and Mead accepted the treatment of these funds as cash "in transit" as of December 31. But the cash was not transferred from Poyiadjis' Swiss bank accounts until mid-January. Therefore those funds should not have been included in AremisSoft's cash balance at December 31, 2000.

FIRST CLAIM FOR RELIEF

Violation of Section 10A of the Exchange Act

44. Paragraphs 1 through 43 are hereby realleged and incorporated by reference.

45. Section 10A of the Exchange Act, 15 U.S.C. § 78k, requires a public accountant conducting an audit of a public company: (i) determine whether it is likely that an illegal act occurred and, if so; (ii) determine what the possible effect of the illegal act is on the financial statements of the issuer; and (iii) if the illegal act is not clearly inconsequential, inform the appropriate level of management and assure that the Audit Committee of the client is adequately informed about the illegal act detected. If neither management nor the Audit Committee takes timely and appropriate remedial action in response to the auditor's report, the auditor is obliged to take further steps, including reporting the likely illegal act to the Commission.

46. During its 2000 audit of AremisSoft, PKF became aware of information indicating that illegal acts had or may have occurred but did bring that information to the attention of AremisSoft's management, its board of directors, or its audit committee.

47. By reason of the foregoing, defendant PKF violated Section 10A of the Exchange Act.

SECOND CLAIM FOR RELIEF

Violation of Section 10A(a) of the Exchange Act

48. Paragraphs 1 through 43 are hereby realleged and incorporated by reference.

49. Section 10A(a) of the Exchange Act, 15 U.S.C. § 78k(a), requires each audit of the financial statements of an issuer to include, in accordance with generally accepted auditing standards, as modified or supplemented, procedures designed to provide reasonable assurance

of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts.

50. During the 2000 audit of AremisSoft, Mead failed to design appropriate audit procedures to determine whether or not senior management of AremisSoft had committed fraud.

51. By reason of the foregoing, defendant Mead violated Section 10A(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court enter an Order:

- (i) enjoining PKF from violating Section 10A of the Exchange Act, 15 U.S.C. § 78k;
- (ii) directing that PKF disgorge all profits realized from the unlawful conduct alleged herein, plus prejudgment interest;
- (iii) directing PKF to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];
- (iv) enjoining Mead from violating Section 10A(a) of the Exchange Act, 15 U.S.C. § 78k(a);
- (v) directing Mead to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];

(vi) granting such other relief as this Court may deem just and equitable.

Dated: April 10, 2006

Washington, D. C.

By: _____
Alan M. Lieberman (AL-6517)
Attorney for Plaintiff
United States Securities and
Exchange Commission
100 F. Street N.E.
Washington, D. C. 20549-4030
Tel: 202-551-4474
Fax: 202-772-9363

Of Counsel:

Paul R. Berger
Mark Kreitman
Robert B. Hanson
Janene Smith