

**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

SECURITIES AND EXCHANGE COMMISSION,
100 F Street N.E.
Washington, DC 20549

Plaintiff,

v.

GARY G. BELL,
JOSEPH GRENDYS,
ANTHONY HOLOHAN, and
MICHAEL SMITH,

Defendants.

Civil Action No.

COMPLAINT

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

NATURE OF THE ACTION

1. Defendant Gary G. Bell ("Bell") aided and abetted violations of the securities laws by signing, and returning, an audit confirmation letter pertaining to U.S. Foodservice ("USF"), a wholly-owned subsidiary of Koninklijke Ahold N.V. ("Royal Ahold" or "Ahold"), that Bell knew, or was reckless in not knowing, was materially false.
2. Defendant Joseph Grendys ("Grendys") aided and abetted violations of the securities laws by signing, and returning, an audit confirmation letter pertaining to USF that Grendys knew, or was reckless in not knowing, was materially false.
3. Defendant Anthony Holohan ("Holohan") aided and abetted violations of the securities laws by signing, and returning, four audit confirmation letters pertaining to USF that Holohan knew, or was reckless in not knowing, were materially false.

4. Defendant Michael Smith (“Smith”) aided and abetted violations of the securities laws by signing, and returning, three audit confirmation letters pertaining to USF that Smith knew, or was reckless in not knowing, were materially false.

5. Ahold is a publicly-held company organized in The Netherlands with securities registered with the SEC pursuant to Section 12(b) of the Securities Exchange Act of 1934 (“Exchange Act”). Ahold’s securities trade on the New York Stock Exchange and are evidenced by American Depositary Receipts.

6. On or about October 17, 2003, Ahold filed its Form 20-F for the fiscal year ended December 29, 2002, which contained restatements for the fiscal years 2000 and 2001, corrected accounting adjustments for fiscal year 2002, and restated amounts for fiscal years 1998 and 1999 included in the five-year summary data. The restatements indicate that, in its original SEC filings and other public statements, Ahold had overstated: (a) net income by approximately 17.6%, 32.6%, and 88.1% for the fiscal years 2000, 2001 and first three quarters of 2002, respectively; (b) operating income by approximately 28.1%, 29.4%, and 51.3% for the fiscal years 2000, 2001 and first three quarters of 2002, respectively; and (c) net sales by approximately 20.8%, 18.6%, and 13.8% for the fiscal years 2000, 2001 and 2002, respectively. Accordingly, Ahold made materially false and misleading statements in SEC filings and in other public statements for at least fiscal years 2000 and 2001, as well as for the first three quarters of 2002.

7. One reason for these misstatements was a large-scale fraud at Ahold's subsidiary, USF, a foodservice and distribution company with headquarters in Columbia, Maryland.

8. During the relevant period, USF's operating income and profit depended on vendor payments, usually called "promotional allowances" or "PAs," but also referred to as rebates, allowances, or program money. Promotional allowances were generally based on the volume of USF's purchases from a vendor. Sometimes these volume-based promotional allowances were paid as they were earned, but common practice was for the vendor to "pre-pay" on multi-year contracts at least some portion of the projected amounts that would be due if USF met all of the projected volume targets in the contract.

9. USF executives engaged in a scheme that materially inflated the amount of promotional allowances recorded by USF and reflected in operating income on USF's financial statements, which were included in Ahold's Commission filings and other public statements.

10. USF executives also provided their independent auditors with false and misleading information and personnel at many of USF's major vendors falsely confirmed overstated promotional allowances to the auditors in connection with year-end audits. Bell, Grendys, Holohan, and Smith provided substantial assistance in this process by signing material false audit confirmation letters.

11. The overstated promotional allowances aggregated at least \$700 million for fiscal years 2001 and 2002 and caused Ahold to report materially false operating and net income for those and other periods.

JURISDICTION AND VENUE

12. The SEC brings this action pursuant to Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 78u(d) and 78u(3)].

13. This Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa]. Defendants directly or indirectly made use of the means or 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. Certain transactions, acts, practices and courses of business that are the subject of this action, including filings with the SEC, occurred within this District, and venue is proper pursuant to Section 27 of the Exchange Act.

DEFENDANTS

14. During the relevant time, Gary G. Bell was Vice President for Business Development at Hunt-Wesson Foodservice and, in that capacity, arranged for the sale of product to USF. Bell is a resident of California.

15. During the relevant time, Anthony Holohan was a sales representative for C. F. Sauer Foods, Inc. (“C. F. Sauer”), which sold various products to USF. Holohan currently resides in Pennsylvania.

16. During the relevant time, Joseph Grendys was the owner of Koch Poultry, which sold frozen chicken commodities to USF. Grendys currently resides in Illinois.

17. During the relevant time, Michael Smith was Corporate Accounts Manager for Citrus World, which sold citrus products to USF. Smith resides in Florida.

STATEMENT OF FACTS

18. USF, a foodservice and distribution company with headquarters in Columbia, Maryland, is a wholly-owned subsidiary of Ahold. USF engaged in a scheme to report earnings equal to or greater than its targets, regardless of the company’s true

performance. The primary method used to carry out this fraudulent scheme was to improperly inflate USF's promotional allowance income and record completely fictitious promotional allowances sufficient to cover any shortfall from budgeted earnings.

19. In an attempt to keep the fraud from being discovered, USF convinced vendors to sign and return audit confirmation letters even though the vendors knew, or were reckless in not knowing, that the letters were false.

20. The promotional monies earned, paid and receivable as stated in many of the confirmations were grossly inflated and in many cases were simply fictitious, having no relationship to the actual promotional allowances earned, paid or receivable.

21. USF personnel contacted vendors and urged them to sign and return the false confirmation letters. In some cases, USF personnel encouraged the vendors by, for example, falsely representing that the confirmation was just "an internal number" and that USF did not consider the receivable reflected in the confirmation to be an actual debt that it would seek to collect. In other instances, USF personnel sent side letters to vendors, assuring them that they did not, in fact, owe USF amounts reflected as outstanding in the confirmation letters.

22. As a result of the schemes described here, USF materially overstated its operating income during at least fiscal years 2001 and 2002 and made false and misleading statements in filings with the Commission and other public statements.

BELL'S FALSE AUDIT CONFIRMATION LETTER

23. Bell knowingly provided substantial assistance to USF executives by signing and sending to USF's independent auditors a materially false confirmation letter.

24. For the audit of the fiscal year ending December 29, 2001, Bell received a confirmation letter dated January 23, 2002 from USF. It stated, in part:

In connection with the audit of our financial statements of U.S. Foodservice, Inc. (USF) for the year ended December 29, 2001, please confirm directly with our auditors, Deloitte & Touche, LLP, 100 South Charles Street 12th Floor, Baltimore, Maryland 21201, the following with respect to Marketing and Merchandising Allowances offered by you to U.S. Foodservice as of December 29, 2001:

Balance due to USF at December 30, 2000:	\$ 1,528,000
Less: Payments/Deductions made/allowed during 2001	(2,956,590)
Plus: Allowances earned during 2001	5,903,749
Ending Balance due to USF at December 29, 2001	\$4,475,159

At the end of the letter, and directly underneath the sentence "THE ABOVE INFORMATION IS CORRECT AS OF DECEMBER 29, 2001, except as noted below:"

Bell signed the letter without noting any exception, and then on or about February 6, 2002 returned the letter to USF's independent auditors.

25. The amounts reflected as "Ending Balance due to USF at December 29, 2001" and "Allowances earned during 2001" were materially misstated. Bell knew, or was reckless in not knowing, that these amounts were false.

26. The same confirmation letter also falsely stated that USF had purchased volume totaling \$49,000,000 under the base corporate program with Hunt Wesson. Bell knew, or was reckless in not knowing, that this representation was false.

27. Bell also knew, or was reckless in not knowing, that other information he confirmed in the January 23, 2002 audit confirmation letter was false despite the specific request in the confirmation letter to notify the auditors of any incorrect information in the space provided.

BELL'S SIDE LETTER

28. Shortly before Bell sent the false 2001 audit confirmation letter to USF's independent auditor on or about February 6, 2002, he drafted a side letter dated February 5, 2002. The side letter was signed by Bell and countersigned at Bell's request by USF.

29. The side letter that Bell signed said that Bell's employer, Hunt Wesson, did not agree with the January 23, 2002 letter from USF. Bell's side letter listed specific "areas of concern" with several amounts contained in the audit confirmation letter, including the annual purchase volume, the percentages and amounts paid under the corporate program, and the amounts purportedly due to USF on December 29, 2001 and December 30, 2000. In the side letter, Bell stated that the actual purchase volume was \$42,125,000, and that Hunt Wesson did not have an outstanding balance due to USF as of December 29, 2001 and December 30, 2000. All of these items contradicted the information Bell confirmed to USF's independent auditors.

30. One day after creating the side letter, Bell falsely confirmed to USF's independent auditors that Hunt Wesson owed \$4,475,159 to USF as of December 29, 2001 and \$1,528,000 as of December 30, 2000. Bell also falsely confirmed that USF's purchase volume from Hunt Wesson totaled \$49,000,000.

31. Bell did not disclose the side letter or its contents to USF's independent auditors.

32. Given the facts alleged above, Bell had a general awareness that USF was engaged in illegal activity. Bell was aware of several "red flags" or suspicious events, including without limitation that USF management explicitly encouraged him to sign and send to USF's independent auditors an audit confirmation letter that Bell knew, or was

reckless in not knowing, was (1) materially false, and (2) would misstate USF's books and records and mislead USF's independent auditors. In so doing, Bell knowingly provided substantial assistance to USF in the conduct of its illegal acts.

GRENDYS' FALSE AUDIT CONFIRMATION LETTER

33. Grendys knowingly provided substantial assistance to USF executives by signing and sending to USF's independent auditors a materially false confirmation letter.

34. For the audit of the fiscal year ending December 29, 2001, Grendys received a confirmation letter from USF dated January 24, 2002. It stated, in part:

In connection with the audit of our financial statements of U.S. Foodservice, Inc. (USF) for the year ended December 29, 2001, please confirm directly with our auditors, Deloitte & Touche, LLP, 100 South Charles Street, 12th Floor, Baltimore, Maryland 21201, the following with respect to Marketing and Merchandising Allowances offered by you to U.S. Foodservice as of December 29, 2001:

Balance due to USF at December 30, 2000:	\$ 1,650,000
Less: Payments/Deductions made/allowed during 2001	(2,315,725)
Plus: Allowances earned during 2001	3,850,000
Ending Balance due to USF at December 29, 2001	\$ 3,184,275

At the end of the letter, and directly underneath the sentence "THE ABOVE INFORMATION IS CORRECT AS OF DECEMBER 29, 2001, except as noted below:" Grendys signed the letter without noting any exception, and then returned the letter to USF's independent auditors.

35. The amounts reflected as "Ending Balance due to USF at December 29, 2001" and "Allowances earned during 2001" were materially misstated. Grendys knew, or was reckless in not knowing, that these amounts were false.

36. The same confirmation letter also falsely stated that USF had purchased 45,000,000 pounds under the base corporate program with Koch Poultry. Grendys knew, or was reckless in not knowing, that this representation was false.

37. Grendys also knew, or was reckless in not knowing, that other information he confirmed in the January 24, 2002 audit confirmation letter was false despite the specific request in the confirmation letter to notify the auditors of any incorrect information in the space provided.

GRENDYS' SIDE LETTER

38. On the day that Grendys sent the false 2001 audit confirmation letter to USF's independent auditor – February 7, 2002 – he obtained a side letter from USF that was signed by a Vice President of Purchasing for USF.

39. The side letter referred to the January 24, 2002 audit confirmation letter and purported to “clarify” it. The side letter, addressed to Grendys, stated,

The purpose of [the January 24, 2002 audit confirmation letter] was to have you confirm Marketing and Merchandising Allowances offered by you to USF as of December 29, 2001.

Koch Poultry owes \$68,075.97 to USF as of 12-29-01.

* * *

Volume purchased during Dec 31, 2000 to Dec 29, 2001 [was] 10,866,269 [pounds].

Despite this side letter, Grendys falsely confirmed to USF's independent auditors that Koch Poultry owed USF \$3,184,275 as of December 29, 2001. Grendys also falsely confirmed to USF's auditors that Koch Poultry sold 45,000,000 pounds of volume to USF from December 31, 2000 to December 29, 2001.

40. The side letter also stated that “any documented differences from the confirmation and actual activity during the time frame covered with the confirmation are not obligations of Koch Poultry and no payments will be requested of Koch Poultry now or in the future as part of the confirmation.”

41. Grendys’ side letter went on to list, in one column, what the January 24, 2002 confirmation letter said and, in an adjacent column, what the real numbers were. For example, the side letter shows that Grendys confirmed a \$.05 Base Program for Marketing Programs, but in fact the correct number was \$.03.

42. Grendys did not disclose the side letter or its contents to USF’s independent auditors.

43. Given the facts alleged above, Grendys had a general awareness that USF was engaged in illegal activity. Grendys was aware of several “red flags” or suspicious events, including without limitation that USF management explicitly encouraged him to sign and send to USF’s independent auditors an audit confirmation letter that Grendys knew, or was reckless in not knowing, was (1) materially false, and (2) would misstate USF’s books and records and mislead USF’s independent auditors. In so doing, Grendys knowingly provided substantial assistance to USF in the conduct of its illegal acts.

HOLOHAN’S FALSE AUDIT CONFIRMATION LETTERS

44. Holohan also knowingly provided substantial assistance to USF executives by signing and sending to USF’s independent auditors two materially false confirmation letters relating to the fiscal year ending December 29, 2001 and another two materially false confirmation letters relating to the fiscal year ending December 28, 2002.

Holohan's 2002 Audit Confirmation Letters

45. The two false confirmation letters that Holohan signed for the fiscal year ending December 28, 2002 were dated January 29, 2003 and February 7, 2003 and were addressed to "CF Sauer Foods" and "CF Sauer Condiments," respectively.

46. Holohan received a confirmation letter dated January 29, 2003 from USF addressed to him as Regional Sales Manager of CF Sauer Foods. The letter stated, in part:

In connection with the audit of our financial statements of U.S. Foodservice, Inc. (USF) for the year ended December 28, 2002, please confirm directly with our auditors, Deloitte & Touche, LLP, 100 South Charles Street, 12th Floor, Baltimore, Maryland 21201, the following with respect to Marketing and Merchandising Allowances offered by you to U.S. Foodservice as of December 28, 2002:

Balance due to USF at December 29, 2001:	\$ 3,900,000
Less: Payments/Deductions made/allowed during 2002	(4,518,545)
Plus: Allowances earned during 2002	20,400,000
Ending Balance due to USF at December 28, 2002	\$ 19,781,455

At the end of the letter, and directly underneath the sentence "THE ABOVE INFORMATION IS CORRECT AS OF DECEMBER 28, 2002, except as noted below:" Holohan signed the letter without noting any exception and returned the letter to USF's independent auditors.

47. In the January 29, 2003 audit confirmation letter pertaining to CF Sauer Foods, the amount reflected as "Ending Balance due to USF at December 28, 2002" was materially overstated. Holohan knew, or was reckless in not knowing, that this amount was false.

48. The January 29, 2003 audit confirmation letter also stated:

All amounts paid to USF during 2002 and all amounts due to USF as of December 28, 2002 as shown in the above table, have been fully earned by USF and are not contingent upon USF performing any additional duties or responsibilities in the future.

49. Holohan knew, or was reckless in not knowing, that his employer, C. F. Sauer, had paid substantial amounts to USF that were not fully earned by USF. Holohan knew, or was reckless in not knowing, that C. F. Sauer had paid substantial amounts to USF that were contingent upon USF's future performance.

50. Holohan also knew, or was reckless in not knowing, that other information he confirmed in the audit confirmation letter dated January 29, 2003 was false.

51. Holohan also received a confirmation letter dated February 7, 2003 from USF addressed to him as Regional Sales Manager of CF Sauer Condiments. The letter stated, in part:

In connection with the audit of our financial statements of U.S. Foodservice, Inc. (USF) for the year ended December 28, 2002, please confirm directly with our auditors, Deloitte & Touche, LLP, 100 South Charles Street, 12th Floor, Baltimore, Maryland 21201, the following with respect to Marketing and Merchandising Allowances offered by you to U.S. Foodservice as of December 28, 2002:

Balance due to USF at December 29, 2001:	\$ 4,450,000
Less: Payments/Deductions made/allowed during 2002	(6,489,165)
Plus: Allowances earned during 2002	16,250,000
Ending Balance due to USF at December 28, 2002	\$ 14,210,835

At the end of the letter, and directly underneath the sentence "THE ABOVE INFORMATION IS CORRECT AS OF DECEMBER 28, 2002, except as noted below:"

