

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

JUDGE RAMOS

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

vs.

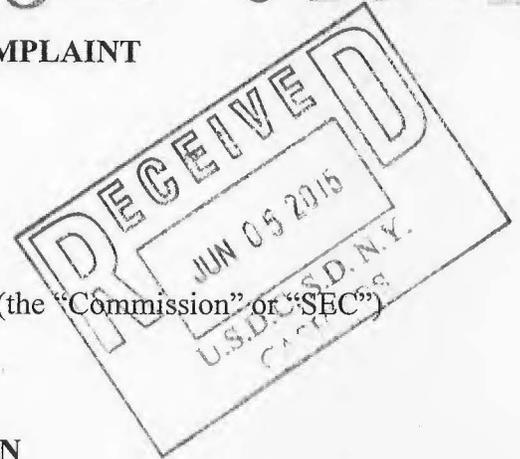
EDWARD PARKER,

Defendant.

Civil Action No.

15-cv-04341

COMPLAINT



Plaintiff Securities and Exchange Commission (the "Commission" or "SEC")

alleges:

**NATURE OF THE ACTION**

1. The SEC brings this action to redress an accounting fraud at Computer Sciences Corporation ("CSC"), a public company listed on the New York Stock Exchange, that artificially and materially inflated its earnings in the first quarter of fiscal year 2009 ("Q1FY2009"). Defendant Edward Parker, who was the Controller of CSC's Australian subsidiary, along with that subsidiary's Chief Financial Officer, perpetrated this fraud by using a series of improper "cookie jar" reserves to manipulate the company's earnings and by failing to record expenses as required. As the subsidiary's Controller, Defendant Parker was responsible for ensuring that the subsidiary's financial reports complied with Generally Accepted Accounting Principles ("GAAP"). Rather than fulfill this vital gatekeeping responsibility, however, Parker took various actions that fraudulently overstated CSC's consolidated pretax income by over 5%. But for Parker's misconduct, CSC would have missed analysts' earnings targets for Q1FY2009.

2. By engaging in the conduct alleged herein, Defendant committed federal securities fraud.

### JURISDICTION AND VENUE

3. This Court has jurisdiction over this action pursuant to Sections 20(b), 20(d), and 22(a) of the Securities Act [ 15 U.S.C. §§ 77t(b), 77t(d), and 77v(a)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

4. The Defendant, directly or indirectly, made use of the means and instrumentalities of interstate commerce or of the mails in connection with the acts, practices and courses of business alleged herein, certain of which occurred in the Southern District of New York. Venue is proper in this District pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

### DEFENDANT

5. **Edward Parker**, 42, a citizen and resident of Australia, was CSC Australia's Controller from 2007 until the company suspended him in August 2011. He left the company in October 2012. Parker has been a licensed Chartered Accountant in Australia since 1994.

### RELATED ENTITY

6. **Computer Sciences Corporation**, a Nevada corporation headquartered in Falls Church, Virginia, sells information technology services. At all times relevant to the allegations in this Complaint, CSC's common stock traded on the New York Stock Exchange.

### FACTS

#### **A. CSC Australia's "Cookie Jar Reserves" and Failure to Recognize Expenses**

7. CSC Australia had a successful fiscal year 2008 in which it exceeded its budgeted profit target set by corporate headquarters in the United States. However, rather than record all the profit CSC Australia earned in fiscal year 2008 as required by GAAP, Defendant Parker and

the CFO agreed to “save” some of this profit to help meet future budget targets.<sup>1</sup> Defendant Parker and the CFO did this by transferring a portion of the subsidiary’s fiscal year 2008 profits into reserve accounts that the company held as assets on its balance sheet. Defendant Parker and the CFO then carried these reserves into the next fiscal year so they could use them to offset future expenses, and thereby increase the company’s profits in future periods.

8. These excess accruals — commonly known as “cookie jar” reserves — violated fundamental accounting principles, which require companies to report profits in the periods in which they were earned. Yet, according to Parker’s own admission to officers of the Commission during investigative testimony, “in [fiscal year 2008] we’d overachieved on profitability and the view was that if we could bank some of that profit to the balance sheet that it would provide relief in the next financial year, hence the overprovisioning at the end of FY08.” Parker knew or was reckless in not knowing that “banking” the fiscal year 2008 funds to manage earnings in future periods violated GAAP.

9. Parker and the subsidiary’s CFO maintained excess accruals in four different reserve accounts that related to gift cards for company employees, bonuses, corporate restructuring, and labor.

#### The Improper Reserves in CSC Australia’s “Gift Card” Account

10. CSC Australia had a practice of providing its employees gift cards in recognition of their efforts in meeting annual budget targets.

11. Defendant Parker admitted during investigative testimony to using the employee “gift card” account as a cookie jar reserve in fiscal years 2008 and 2009. Near the end of fiscal

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<sup>1</sup> GAAP prohibits companies from maintaining excess accruals or “general reserves.” See ASC 450-20-25-2. The subsidiary’s CFO has entered into a settlement with the SEC related to the conduct discussed herein.

year 2008, Parker informed the subsidiary's CFO, "while it's likely we'll pay [AUD] \$150 per employee [in gift cards], we have booked an accrual equivalent to [AUD] \$350 per employee, largely as a mechanism to carry forward a provision into FY09."

12. Contrary to GAAP, this resulted in an improper excess reserve balance of approximately AUD \$1 million. Defendant Parker subsequently released this excess accrual in Q1FY2009 to boost CSC Australia's earnings in that period when it appeared the subsidiary was falling short of targets.

#### The Improper Reserves in CSC Australia's Bonus Account

13. As with the gift card accounts, Defendant Parker fraudulently created approximately AUD \$2.25 million in excess reserve balances in fiscal year 2008 in accounts related to employee bonuses. In violation of GAAP, Defendant Parker accrued AUD \$590,000 for bonuses when he knew or was reckless in not knowing that CSC Australia had no obligation or intention to pay the bonuses.<sup>2</sup> This bonus account, along with the gift card reserve account discussed above, were included on a tracking sheet maintained by one of Parker's subordinates that Parker admitted was kept "to track central provisions which could be used in future financial periods to offset any downsides or shortfalls to budget."

14. In Q1FY2009, Parker released AUD \$250,000 from the bonus accrual account to improperly increase the company's earnings. No employee bonuses were paid, however, and there was no obligation or understanding that the bonuses would be paid.

#### The Improper Reserves in CSC Australia's Restructuring Account

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<sup>2</sup> Under the applicable accounting standards, a loss contingency should be recorded only if the loss is probable and reasonably estimable. *See* ASC 450-20-25-2.

15. Similarly, at the end of fiscal year 2008, CSC Australia improperly accrued AUD \$1.65 million for corporate restructuring costs related to a reduction in its workforce. GAAP requires that management commit to a plan of termination and notify employees prior to recording such a reserve.<sup>3</sup> Parker knew or was reckless in not knowing, however, that CSC Australia did not have a plan of termination and had not notified the affected employees.

16. In Q1FY2009, CSC Australia released approximately AUD \$1.6 million from this reserve to artificially improve its earnings in this period.

#### The Improper Reserves in CSC Australia's Labor Account

17. Defendant Parker also created improper excess accruals in CSC Australia's labor accounts in each quarter in FY2008. CSC Australia estimated labor costs each month and accrued for those expected costs. Parker reviewed reconciliations of the labor accounts on a monthly basis that showed any differences between the amounts accrued and the amounts spent. Though Defendant Parker knew CSC Australia's actual labor costs were significantly lower than the subsidiary had estimated and accrued, Defendant Parker continued to maintain those excess amounts in the labor account throughout FY2008 for future use.

18. Parker also created additional excess accruals in CSC Australia's labor accounts by reserving AUD \$300,000 for fictitious training costs.

19. In Q1FY2009, Parker released AUD \$5.4 million in improperly accrued labor costs to artificially improve CSC Australia's reported results.

#### The Failure to Record Required Expenses

20. Defendant Parker further misstated CSC's Q1FY2009 earnings by failing to record costs as required. GAAP permitted CSC Australia to capitalize "contract acquisition

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<sup>3</sup> ASC 420-10-25-4.

costs,” which are expenses the company incurred in attempting to win business.<sup>4</sup> However, if CSC Australia were unable to win this business, GAAP required the company to expense these costs in the period that it learned the business would be awarded to another company.<sup>5</sup> Parker admitted that he knew in Q1FY2009 that CSC Australia had failed to win a contract with a potential customer on a project that had AUD \$1.5 million in contract acquisition costs. Nevertheless, Parker and the subsidiary’s CFO did not expense the AUD \$1.5 million as GAAP required.

**B. Parker’s Actions Materially Misstated CSC’s Operating Results**

21. The Commission’s Regulation S-X [17 C.F.R. § 210.4-01(a)(1)] mandates that financial statements and the accompanying notes filed by public companies such as CSC be presented in conformity with GAAP. Financial statements not prepared in accordance with GAAP are presumed to be “misleading or inaccurate.”<sup>6</sup> Defendant Parker, a licensed Chartered Accountant in Australia, was CSC Australia’s controller and was responsible for the accurate preparation of its financial reports.

22. Defendant Parker knew or was reckless in not knowing that he misstated CSC’s earnings by using general reserves and failing to recognize expenses as required.

23. These misstatements were material. Defendant Parker’s fraud overstated CSC’s reported consolidated pretax income by 5.4% in its Form 10-Q for Q1FY2009 (filed August 13, 2008). CSC also reported these overstated results its Form 10-K for fiscal year 2009 (filed May 29, 2009). A reasonable investor would consider it important that the senior finance executive in

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<sup>4</sup> See ASC 605-20-25-4 and ASC 310-20-35-2; see also SAB Topic 13.A.3(f).

<sup>5</sup> *Id.*

<sup>6</sup> See Regulation S-X, Section 4-01(a).

Australia responsible for ensuring the subsidiary's financial reports complied with GAAP intentionally misstated the company's results using cookie jar reserves, calling into question the integrity not only of CSC's financial reporting process, but its annual and quarterly results as well.

24. Parker personally benefited from his fraudulent acts, receiving an incentive-based cash award for fiscal year 2009 tied, in part, to CSC Australia's operating income.

**C. CSC's Internal Controls**

25. The federal securities laws required CSC to maintain a system of internal accounting controls sufficient to assure compliance with GAAP. The misconduct described above reflects that CSC did not have a system of internal controls that was sufficient to assure compliance with GAAP. As Controller, Defendant Parker played a key role in CSC's internal controls in Australia. Defendant Parker knowingly circumvented those internal controls. He also knowingly falsified CSC's books and records by creating fraudulent reserve accounts and failing to record expenses as required.

**FIRST CLAIM FOR RELIEF**

**Violations of Section 17(a) of the Securities Act**

26. The Commission realleges and reincorporates paragraphs 1 through 25 above as if fully set forth herein.

27. By reason of the conduct alleged above, Parker, directly or indirectly, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, and in connection with the offer or sale of securities, has (a) knowingly or recklessly employed devices, schemes, or artifices to defraud; (b) knowingly, recklessly, or negligently obtained money or property by means of untrue statements of material fact or omissions of material facts necessary to make the statements, in light of the circumstances under

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

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

### **SECOND CLAIM FOR RELIEF**

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

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

30. By reason of the conduct alleged above, Parker, directly or indirectly, knowingly or recklessly, by the use of any means or instrumentality of interstate commerce or of the mails, and in connection with the purchase or sale of securities, has: (a) employed devices, schemes, or artifices to defraud and/or (b) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon any person.

31. By reason of the conduct alleged above, Parker violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5(a) and (c) promulgated thereunder [17 C.F.R. § 240.10b-5(a) and (c)].

### **THIRD CLAIM FOR RELIEF**

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

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

33. By reason of the conduct alleged above, Parker knowingly circumvented or knowingly failed to implement a system of internal accounting controls or knowingly falsified,

directly or indirectly, or caused to be falsified books, records and accounts of CSC that were subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

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

#### **FOURTH CLAIM FOR RELIEF**

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

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

36. By reason of the conduct alleged above, Parker, directly or indirectly, falsified or caused to be falsified, books, records, or accounts described in Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

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

#### **FIFTH CLAIM FOR RELIEF**

##### **Aiding and Abetting Violations of Section 17(a) of the Securities Act**

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

39. By reason of the conduct alleged above, CSC, directly or indirectly, by the use of the means and instruments of transportation or communication in interstate commerce or by the use of the mails, and in connection with the offer or sale of securities, has (a) knowingly or recklessly employed devices, schemes, or artifices to defraud; (b) knowingly, recklessly, or negligently obtained money or property by means of untrue statements of material fact or omissions of material facts necessary to make the statements, in light of the circumstances under

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

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

41. Parker knowingly or recklessly provided substantial assistance to CSC in the commission of these violations of Section 17(a) of the Securities Act.

42. By reason of the foregoing, Parker aided and abetted CSC's violations of Section 17(a) of the Securities Act, pursuant to Section 15(b) of the Securities Act.

#### **SIXTH CLAIM FOR RELIEF**

##### **Aiding and Abetting Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder**

43. The Commission realleges and reincorporates paragraphs 1 through 42 above as if fully set forth herein.

44. By reason of the conduct alleged above, CSC, directly or indirectly, knowingly or recklessly, by the use of any means or instrumentality of interstate commerce or of the mails, and in connection with the purchase or sale of securities, has (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material fact or omissions of material fact necessary to make the statements, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon any person. By reason of the conduct alleged above, CSC violated Section 10(b) of the Exchange Act and Rule 10b-5.

45. Parker knowingly or recklessly provided substantial assistance to CSC in the commission of these violations of Section 10(b) of the Exchange Act and Rule 10b-5.

46. By reason of the foregoing, Parker aided and abetted CSC's violations of Section 10(b) of the Exchange Act and Rule 10b-5, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

### **SEVENTH CLAIM FOR RELIEF**

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

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

48. By reason of the conduct alleged above, CSC filed with the Commission materially false and misleading reports on its Form 10-Q for Q1FY2009 and on its Form 10-K for fiscal year 2009.

49. By reason of the conduct alleged above, CSC failed to file with the Commission such financial reports in accordance with such rules and regulations as the Commission has prescribed in violation of Sections 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1 and 13a-13 thereunder [17 C.F.R. §§ 240.13a-1 and 240.13a-13].

50. Parker knowingly or recklessly provided substantial assistance to CSC in the commission of these violations of Sections 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1 and 13a-13 thereunder [17 C.F.R. §§ 240.13a-1 and 240.13a-13].

51. By reason of the foregoing, Parker aided and abetted CSC's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1 and 13a-13 [17 C.F.R. §§

240.13a-1 and 240.13a-13], promulgated thereunder, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

**EIGHT CLAIM FOR RELIEF**

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

52. The Commission realleges and reincorporates paragraphs 1 through 51 above as if fully set forth herein.

53. By reason of the conduct alleged above, CSC failed to make and keep books, records, and accounts that, in reasonable detail, accurately and fairly reflected the transactions and disposition of its assets.

54. By reason of the conduct alleged above, CSC failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles, or any other applicable criteria, and to maintain accountability for assets.

55. By reason of the conduct alleged above, CSC violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

56. Parker knowingly or recklessly provided substantial assistance to CSC in the commission of these violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

57. By reason of the foregoing, Parker aided and abetted CSC's violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)], pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)].

### **PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

- (a) Finding that the Defendant violated the securities laws and rules promulgated thereunder as alleged against them herein;
- (b) Permanently restraining and enjoining the Defendant, his agents, servants, employees and attorneys and all persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, and each of them from, directly or indirectly, violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(2)(B), and 78m(b)(5)] and Rules 10b-5, 13a-1, 13a-13, and 13b2-1 [17 C.F.R. §§ 240.10b-5, 240.13a-1, 240.13a-13, and 240.13b2-1], promulgated thereunder;
- (c) Ordering the Defendant to disgorge ill-gotten gains obtained through the unlawful conduct described above, plus prejudgment interest;
- (d) Directing that the Defendant be permanently barred from acting as an officer or director of any public company pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)];
- (e) Retaining jurisdiction of this action to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court; and
- (f) Granting such other and further relief as the Court may deem appropriate.

### **JURY DEMAND**

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the Commission demands trial by jury in this action as to all issues so triable.

Dated: June 4, 2015

SECURITIES AND EXCHANGE COMMISSION

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