UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11166 / March 14, 2023

SECURITIES EXCHANGE ACT OF 1934
Release No. 97140 / March 14, 2023

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4391 / March 14, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21342

In the Matter of **DXC TECHNOLOGY COMPANY,** **Respondent.**	**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 DXC Technology Company ("DXC" 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, Respondent consents to the entry of this 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 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. This matter concerns material misstatements made by DXC in its reporting and disclosures of non-GAAP financial performance measures, including non-GAAP net income and non-GAAP diluted earnings per share ("EPS"), in multiple quarterly and annual Exchange Act reports and earnings releases. From the end of the company's fiscal year 2018 through the third quarter of its fiscal year 2020 ("relevant period"),[2] DXC disclosed that it excluded transaction, separation, and integration-related ("TSI") costs from its non-GAAP net income, non-GAAP EPS, and other non-GAAP measures. DXC described TSI costs as those "related to integration planning, financing, and advisory fees associated with" the merger that formed DXC, other acquisitions, and the spin-off of a business. But on a quarterly basis, DXC materially increased its non-GAAP earnings by negligently misclassifying tens of millions of dollars of expenses as TSI costs and improperly excluding them in its reporting of non-GAAP measures. As a result, in multiple periods, DXC failed to describe accurately the scope of expenses included in the company's adjustment for TSI costs in its disclosure, and therefore its non-GAAP net income and non-GAAP diluted EPS in periodic reports and earnings releases were materially misleading.

2. Throughout the relevant period, the company presented non-GAAP measures for the stated purpose of providing investors with meaningful supplemental financial information to evaluate its core operating performance, excluding one-time or non-recurring expenses. However, DXC did not have a non-GAAP policy or adequate disclosure controls and procedures in place specific to its non-GAAP financial measures. DXC also had insufficient processes to ensure that its business practices for classifying costs as TSI were consistent with the plain meaning of the company's own description of those costs in its periodic reports filed with the Commission and in its earnings releases. The absence of a non-GAAP policy and specific disclosure controls and procedures caused employees within the business units and in the Financial Planning & Analysis area ("FP&A") to make subjective determinations about whether expenses were related to an actual or contemplated transaction, regardless of whether the costs were actually consistent with the description of the adjustment included in the company's public disclosures. As a result, DXC negligently misclassified certain internal labor costs, data center relocation costs that were unrelated to the merger, and other expenses as TSI costs.

3. During the relevant period, DXC's controller's group ("controllership") was responsible for reviewing and approving TSI costs for inclusion in the company's quarterly and annual Exchange Act filings and earnings releases. However, the controllership was unable to perform adequate reviews concerning the classification of such costs as TSI, in part, because DXC had insufficient disclosure controls and procedures concerning the review, approval, and classification of TSI costs. In two quarters during the relevant period, the controllership was

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[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

[2] DXC's fiscal year is three quarters ahead of the calendar year. For example, DXC's fiscal year 2018 ended on March 31, 2018, with the company filing its Form 10-K for that year on May 29, 2018.

unable to obtain supporting information about certain TSI costs from FP&A, yet DXC still issued its earnings releases and filed its Forms 10-Q that included those costs in its non-GAAP measures.

4. During the relevant period, DXC's controllership and disclosure committee negligently failed to evaluate the company's non-GAAP disclosures adequately, particularly concerning TSI costs, and failed to implement an appropriate non-GAAP policy and to maintain disclosure controls and procedures. TSI costs were, therefore, not identified, reviewed, approved, or disclosed in a manner consistent with a plain reading of the description of the TSI adjustment included in earnings releases and in periodic filings. As a result, DXC's non-GAAP disclosures did not comply with Rule 100(b) of Regulation G of the Exchange Act. Both the controllership and the disclosure committee failed even to recognize that, for years, DXC did not have a non-GAAP policy and adequate disclosure controls and procedures.

Respondent

5. DXC Technology Company, a Nevada corporation, with its principal executive offices in Ashburn, Virginia, is a multi-national information technology company. DXC stock is registered under Section 12(b) of the Exchange Act. In April 2017, DXC was created by the merger of Computer Sciences Corporation ("CSC") with most of the Enterprises Services ("ES") business of Hewlett Packard Enterprise Company ("CSC-ES Merger"). In June 2015, in a matter unrelated to the conduct at issue in this Order, CSC was charged with violating anti-fraud and other provisions of the federal securities laws, and ordered to cease and desist from future violations. Since the CSC-ES Merger, DXC stock has traded on the New York Stock Exchange under the ticker "DXC."

Facts

Background

6. After the completion of the CSC-ES Merger, most of CSC's then-senior executives, as well as the former controller, filled the same roles at DXC. Before the CSC-ES Merger, CSC had a practice of reporting non-GAAP measures, which excluded transaction and integration-related costs. Following the CSC-ES Merger, DXC continued that practice and adopted disclosure language concerning such costs that was similar to CSC's disclosures.

7. In May 2018, in reporting its fiscal year 2018 ("FY2018") results, DXC amended its TSI disclosure to include certain costs associated with the then-pending separation of its U.S. Public Sector business ("USPS"). As a result, during the relevant time period, DXC included the following description of TSI costs in its filings with the Commission and in its earnings releases:

> *Transaction, separation and integration-related costs* – reflects costs related to integration planning, financing, and advisory fees associated with the HPES Merger and other acquisitions and costs related to the separation of USPS.

8. DXC management understood that the non-GAAP measures, and the company's related guidance, were material to market participants when evaluating the company's earnings releases and results of operations. In its Commission filings and earnings releases, DXC noted

that management believed "these non-GAAP measures allow investors to better understand the financial performance of DXC exclusive of the impacts of corporate-wide strategic decisions. . . [and provide] investors with additional measures to evaluate the financial performance of our core business operations on a comparable basis from period to period." DXC management also believed that "the non-GAAP measures provided are also considered important measures by financial analysts covering DXC, as equity research analysts continue to publish estimates and research notes based on our non-GAAP commentary, including our guidance around non-GAAP EPS."

DXC's Identification and Review of TSI Costs

9. After the CSC-ES Merger, DXC's controllership recognized the need for a non-GAAP policy that included disclosure controls and procedures specific to non-GAAP reporting. During DXC's FY2018, the controllership circulated numerous non-GAAP policy drafts internally and to DXC's independent auditor. However, neither the controllership nor the disclosure committee approved or adopted a policy or disclosure controls and procedures specific to such non-GAAP measures.

10. During the relevant period, DXC had no formal guidance that employees could consult to determine which costs could be classified as TSI, to ensure that such costs were appropriate to exclude from its non-GAAP measures, and to ensure consistency with the company's own disclosure language. Instead, DXC relied on an informal process under which expenses could be included as TSI costs even though they were beyond the scope of costs described in the company's disclosures.

11. As described below, although DXC's public description of TSI costs remained unchanged for two full years, the company had no process by which its employees evaluated whether proposed TSI costs were consistent with the description of TSI costs included in its non-GAAP disclosure. In turn, there was similarly no process by which the individuals and reviewers responsible for the TSI disclosure actually assessed the nature of specific TSI costs to determine whether the description in the disclosure matched DXC's practices.

12. During the relevant period, DXC's FP&A group was responsible for the initial approval of the classification of expenses that were proposed by the company's business units as potential TSI costs, which were excluded from the units' internal profit-and-loss figures. Thus, if FP&A approved a cost as TSI, that expense would be removed from a unit's financial performance, thereby increasing the unit's internally-reported profitability.

13. FP&A did not require the business units to document the basis on which a proposed expense might be classified as a TSI cost, how the expense related to a transaction or integration project, or the expected amount or duration of the cost. FP&A also did not consistently document the reason for its own approvals of TSI cost classification. Consequently, and because of turnover within business units and FP&A, previously-approved TSI cost classifications were not reassessed from year-to-year to determine if the continued classification was appropriate. It was unclear on what basis some costs had been approved as being TSI, when, or by whom; approved costs were coded as "integration" or related to a "transaction," and the

expenses simply rolled up in FP&A's quarter-end aggregation of company-wide TSI costs that FP&A provided to the controllership.

14. In this process, FP&A did not evaluate whether the classification of such costs was consistent with the description of TSI costs in the company's public disclosures or if the costs otherwise should not have been included in the company's non-GAAP measures. In fact, some employees in FP&A who were responsible for initially approving the classification and aggregation of TSI costs believed that FP&A's role involved limited or no oversight and analysis, and that the controllership was responsible for determining which costs were appropriate to include as TSI in the company's filings with the Commission and in its public disclosures. Within the controllership, the individuals responsible for reviewing and approving the classification of TSI costs for non-GAAP reporting purposes believed that FP&A had more robust procedures than it actually did for analyzing and vetting the TSI costs before forwarding the aggregated costs to the controllership.

DXC Controllership Failed to Perform Adequate Reviews of TSI Costs

15. During the relevant period, DXC's controllership reviewed the company's various non-GAAP measures, including TSI costs, for accuracy and compliance with SEC requirements. After the end of each fiscal quarter, FP&A provided a large spreadsheet with tens of thousands of TSI cost line items for review and approval by the controllership before the inclusion of such costs in DXC's public non-GAAP measures. Given the sheer number of TSI cost line items, the lack of project and cost descriptions in the spreadsheets, and the limited period within which to scrutinize the costs, the controllership was unable to perform adequate reviews during the relevant period.

16. Further, some controllership employees, particularly the former Assistant Corporate Controller for External Reporting ("ACC"), questioned certain costs that had been characterized as TSI, but they either did not receive supporting documentation or, at times, were provided with inaccurate or incomplete information. Communications related to the controllership's questions about certain TSI costs were often addressed only orally, without adequate written records of how particular issues were resolved. In some periods, the former ACC also noted concerns about certain TSI cost issues in responding to the company's quarterly sub-certification surveys, though the former ACC ultimately certified, with comments, the company's financial reporting in those periods.

17. During the company's FY2019, DXC's former ACC questioned tens of millions of dollars in quarterly costs that were characterized as TSI and raised concerns to the former controller. During the review of TSI costs for Q2FY2019, for example, the former ACC emailed the former controller:

> I know I bring this up every quarter but it is concerning to see branding and other integration efforts included in non-gaap as add backs. They continue to include internal labor for which this quarter is $19 [million] of labor and $5.2 [million] of tax expense. We requested additional details and support on how these adjustments are in compliance with the SEC requirements and the breakdown by project.

18. The former ACC did not receive the requested additional details or the breakdown by project. In a sub-certification for Q2FY2019, which was executed after DXC issued its earnings release and the day before it filed its Form 10-Q, the former ACC noted:

> We have not received all supporting documentation surrounding non-gaap adjustments to assess appropriateness of adjustments in the financials but this would not impact GAAP numbers. [W]hen brought to the Controllers attention, [the Controller] agreed to require a thorough review of the process for the parties compiling the information and its compliance with SEC regs.

19. For the controllership's review of TSI costs for Q3FY19, the former ACC again questioned tens of millions in quarterly expenses that were included in FP&A's quarter-end TSI costs spreadsheet. The result was the same as in the prior quarter: the controllership did not complete an adequate review, and in a sub-certification executed after DXC issued its earnings release and the day before it filed its Form 10-Q, the former ACC wrote:

> I have asked again for supporting information to address the non-gaap adjustments and how they meet the CDI to ensure compliance with non-GAAP SEC Regs. I have not received responses and these non-gaap measures are heavily relied upon by investors. We simply require an explanation for the items as outlined in several requests to Management/FPA. I have provided this information to [the controller] for his assessment.

20. Beginning in Q4FY19, DXC enhanced the process to require earlier review of non-GAAP items, including more regular information exchanges between FP&A and the controllership. However, DXC still did not implement a policy for the classification of TSI costs or for non-GAAP disclosures. In addition, DXC's review and approval of the classification of TSI costs continued to be untethered from the plain language of the company's description of those costs in its public disclosures. Although FP&A provided the controllership with TSI cost spreadsheets before quarter-end, the data in those spreadsheets was insufficient to determine whether many costs were appropriately characterized as TSI.

21. In performing the controllership's review for Q4FY19, the former ACC again questioned the classification of tens of millions in TSI costs, including expenses that the former ACC had questioned—and did not receive adequate documentation for—in previous quarters. Although FP&A provided more timely responses for Q4FY19, the information on some costs was inaccurate, incomplete, or not consistent with the descriptions of work set forth in the actual vendor contracts and project descriptions. For example, DXC had hired a consulting firm to evaluate and calculate historic research-and-development tax credits so that DXC could amend its earlier tax returns to claim credits going back to 2015. FP&A informed the controllership that this work was to standardize the tax credit methodology for the merged company and, on that basis, included the costs as TSI. However, the contractual statement of work referred to identifying incremental tax credits, and contained no work related to policy or methodology standardization.

22. Other "integration" projects were included as TSI costs even though they were unrelated to the CSC-ES Merger, an acquisition, or the separation of USPS. In six consecutive

quarters during the relevant period, DXC included a total of over $38m in "integration" expenses – and thus, TSI costs – related to the closure of a legacy CSC data center and transition of its operations to a nearby legacy ES data center. However, before the merger, the landlord of the data center informed CSC that it was redeveloping the property and would not renew the lease. Thus, CSC—and, subsequently, DXC—was forced to relocate the data center and incur related expenses, regardless of whether the merger occurred. At some point in FY2018, FP&A approved the classification of the relocation expenses as TSI costs, though there was no documentation of a request, evaluation, or the bases for the approval.

23. In reviewing TSI costs during FY2019, the former ACC asked multiple times about the data center relocation costs and was informed that the costs were previously approved as an integration of two legacy facilities following the merger. Although this explanation was technically correct, it omitted the fact that, before the merger, the relocation expense was a known, future, operating cost that was required whether or not a merger or acquisition occurred. This information, if known to the former ACC, would have impacted the former ACC's assessment of including the relocation expenses as TSI costs.

24. In Q1FY20, DXC continued to classify recurring expenses from earlier quarters as TSI costs, including "special audit fees" (part of which were fees above a certain level paid to its independent accountant for the company's required integrated audit), costs for complying with a new GAAP leasing standard, and expenses in connection with potential divestitures that never closed. In Q1FY20, DXC also classified as a TSI cost a portion of a litigation settlement with a former executive who had been terminated. These costs were inconsistent with DXC's public disclosure of TSI costs.

DXC Made Material Misstatements

25. As a result of its negligence, DXC made materially misleading statements about its TSI costs during the relevant period by misstating the nature and scope of those costs. As DXC disclosed in its periodic reports to the Commission and in earnings releases issued during the relevant period, the company recognized that the non-GAAP measures were material because they allowed investors to better understand the core performance of the company.

26. DXC's misclassification of certain expenses as TSI costs materially impacted its reported non-GAAP net income for three quarters as follows: (1) *Q2FY19*: non-GAAP net income of $573 million overstated by at least $29 million; (2) *Q4FY19*: non-GAAP net income of $589 million overstated by at least $30 million; and (3) *Q1FY20*: non-GAAP net income of $472 million was overstated by at least $24 million.

27. Reasonable investors would have considered the foregoing information to have been material in deciding whether to purchase DXC securities during the relevant period.

DXC Offered and Sold Securities during the Relevant Period

28. During the relevant period, DXC offered and sold securities, including offering shares to employees in employee benefit plans, issuing restricted stock as compensation to certain employees under incentive plans, and public offerings of debt securities.

DXC's Disclosure Controls and Procedures Failures

29. Exchange Act Rule 13a-15(a) requires issuers such as DXC to "maintain disclosure controls and procedures . . . as defined in paragraph (e) of this section." Paragraph (e) defines disclosure controls and procedures to include, among other things, "procedures . . . designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the [Exchange] Act . . . is recorded, processed, summarized, and reported[] within the time periods specified in the Commission's rules and forms." As described above, DXC lacked company-wide disclosure controls and procedures to ensure that TSI costs were identified, reviewed, and approved for appropriate inclusion in the TSI adjustment in a manner consistent with their disclosure.

Violations

30. As a result of the conduct described above, DXC violated Sections 17(a)(2) and 17(a)(3) of the Securities Act. Section 17(a)(2) prohibits any person from obtaining money or property in the offer or sale of securities by means of an untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Section 17(a)(3) of the Securities Act prohibits any person from engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser. Negligence is sufficient to establish violations of Sections 17(a)(2) and 17(a)(3). *Aaron v. SEC*, 446 U.S. 680, 697 (1980).

31. As a result of the conduct described above, DXC violated Section 13(a) of the Exchange Act and Rules 13a-1, 13a-11, 13a-13, and 12b-20 thereunder, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, and annual, current, and quarterly reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

32. As a result of the conduct described above, DXC violated Rule 13a-15(a) of the Exchange Act, which requires that every issuer of a security registered pursuant to Section 12 of the Exchange Act maintain disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act.

33. As a result of the conduct described above, DXC violated Rule 100(b) of Regulation G of the Exchange Act, which prohibits registrants from making public a non-GAAP financial measure that contains an untrue statement of material fact or omits to state a material fact necessary in order to make the presentation of the non-GAAP financial measure, in light of the circumstances under which it is presented, not misleading.

DXC's Cooperation and Remedial Efforts

34. In determining to accept DXC's Offer, the Commission considered the cooperation it provided during the Commission's investigation, as well as remedial measures undertaken by DXC.

35. Respondent provided substantial cooperation during the course of the investigation. Respondent voluntarily undertook a robust review of its TSI practices, voluntarily and promptly produced documents and made witnesses available, and compiled and presented information in the form requested by the staff on multiple occasions.

36. Respondent also undertook affirmative remedial steps in response to the issues identified during the investigation, which included reviewing and supplementing its procedures concerning non-GAAP adjustments and reporting, and proactively enhancing its disclosures of TSI costs. Subsequent to the relevant period, DXC also reduced the volume of its TSI costs in more recent quarters. DXC has replaced nearly all of its senior executive and financial leadership personnel who were present during the relevant period.

Undertakings

37. Respondent has undertaken to develop and implement policies and disclosure controls and procedures:

a. for the disclosure of its non-GAAP financial performance such that its non-GAAP financial measures, including expenses, are described accurately in future periodic filings and public statements, and that its non-GAAP disclosures are consistent with the company's actual processes for identifying, reviewing, and approving non-GAAP adjustments, including, but not limited to costs;

b. for its disclosure committee, or other charged committee, to review and document, on a periodic basis, the company's non-GAAP policy to assess consistency with its non-GAAP disclosures and its publicly-reported non-GAAP financial performance measures;

c. for controllership staff who are familiar with SEC reporting requirements and DXC's non-GAAP policy and non-GAAP disclosures to approve and document the classification of items included in non-GAAP adjustments; and

d. for timely reviewing, considering, and addressing negative Sub-Certification Survey comments relating to GAAP and non-GAAP financial results or disclosures, or that may impact Management's Discussion and Analysis of Operations.

38. DXC will comply with these undertakings within 120 calendar days from the entry of this Order. DXC will then certify, in writing, compliance with these undertakings. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Jeff Leasure, Assistant Director, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

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

Accordingly, it is hereby ORDERED that**:**

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent DXC cease and desist from committing or causing any violations and any future violations Section 17(a)(2) and (3) of the Securities Act and of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, 13a-13, and 13a-15(a) thereunder, and Rule 100(b) of Regulation G.

B. Respondent shall comply with the undertakings enumerated in Section III, paragraphs 37 and 38, above.

C. Respondent shall, within 28 days of the entry of this Order, pay a civil money penalty in the amount of $8,000,000.00, 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). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. 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 DXC Technology Company 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 Mark Cave, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-6561.

D. 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