

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

PRICEWATERHOUSECOOPERS LLP,

Defendant.

Civil Action No. 04 CV 3573 (HB)

COMPLAINT

Plaintiff Securities and Exchange Commission (the “Commission”) alleges as follows:

SUMMARY

1. This case involves the conduct of PricewaterhouseCoopers LLP (“PwC”) in aiding and abetting the issuance of a misleading annual report by a PwC client, The Warnaco Group, Inc. (“Warnaco”). The conduct at issue is described in detail in the Commission’s Order Instituting Public Administrative Proceedings Pursuant to Rule 102(e) of the Commission’s Rules Of Practice, Making Findings, and Imposing a Censure, issued on or about May 10, 2004.

2. PwC has consented, without admitting or denying the allegations of this Complaint, except as to personal and subject matter jurisdiction, which PwC admits, to the entry of a Final Judgment ordering it to pay a civil penalty of \$2.4 million pursuant to Section 21(d)(3) of the Securities Exchange Act of 1934 (“Exchange Act”).

JURISDICTION AND VENUE

3. This Court has jurisdiction over this matter pursuant to Sections 21(d)(3)(A) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d)(3)(A) and 78aa].

DEFENDANT

4. PwC is a national public accounting firm with its headquarters in New York, New York. PwC audited Warnaco's financial statements and provided various consulting services to Warnaco for the period 1995 through November 1999.

FACTS

5. Warnaco is a Delaware corporation with its headquarters in New York, New York. Warnaco's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and trades on the NASDAQ National Market.

6. On April 2, 1999, Warnaco filed its annual report on Form 10-K for fiscal 1998. In this annual report, Warnaco restated its financial results for the previously-reported periods 1996, 1997, and the first three quarters of 1998. The restatement decreased 1998 net income by \$49 million; turned a \$23 million net profit in 1997 into a \$12 million net loss; and increased Warnaco's net loss for 1996 from \$8.2 million to \$31 million.

7. Warnaco described the revisions as involving "start-up related production and inefficiency costs that had previously been deferred." Warnaco also asserted that these costs had been identified in connection with the company's early adoption of SOP 98-5, which required that pre-operating costs relating to the start-up of new manufacturing facilities or businesses be expensed as incurred. The disclosure misleadingly suggested that Warnaco was revising its previously reported financial statements as part of its write off of previously deferred "start-up related" costs in connection with the company's adoption of SOP 98-5 when, in fact, the restatement was related to an inventory overvaluation. By its conduct, Warnaco violated Section

13(a) of the Exchange Act and Rules 12b-20 and 13a-1 thereunder [15 U.S.C. § 78m(a); 17 C.F.R. §§ 240.12b-20 and 240.13a-1].

8. PwC audited the financial statements contained in Warnaco's fiscal 1998 Form 10-K and issued an audit report containing an unqualified opinion dated March 2, 1999. During its audit, PwC determined that the inventory overvaluation identified by the company was not start-up costs and could not be written off pursuant to Warnaco's adoption of SOP 98-5. PwC also concluded as part of its audit that the inventory overstatement most likely resulted from a series of internal control deficiencies and accounting errors that failed to reduce properly over a period of years the inventory value recorded on Warnaco's books. PwC failed to object to Warnaco's mischaracterization of the inventory overstatement as involving "start-up related costs." PwC also incorporated the misleading description of the restatement into its own audit report on Warnaco's fiscal year 1998 financial statements.

CLAIM FOR RELIEF

**Aiding and Abetting Section 13(a) of the Exchange Act and
Rules 12-20 and 13a-1 thereunder**

9. Plaintiff realleges and incorporates by reference paragraphs 1 through 8.

10. By issuing an audit report containing an unqualified opinion that incorporated Warnaco's misleading disclosures and inaccurately stated the company's financial statements "presented fairly, in all material respects" Warnaco's financial position, PwC aided and abetted Warnaco's violations of Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-1 thereunder [15 U.S.C. § 78m(a); 17 C.F.R. §§ 240.12b-20 and 240.13a-1].

PRAYER FOR RELIEF

11. WHEREFORE, the Commission respectfully requests that this Court enter a Final Judgment ordering PwC to pay a civil penalty pursuant to Section 21(d)(3) of the Exchange Act in the amount of \$2.4 million.

Respectfully submitted,

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