

**UNITED STATES OF AMERICA
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934
Release No. 57889 / May 30, 2008**

**ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2832 / May 30, 2008**

**ADMINISTRATIVE PROCEEDING
File No. 3-13047**

**In the Matter of

PAULA J. NORBOM, CPA,

Respondent.**

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO 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 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Paula J. Norbom, CPA (“Norbom” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“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 her 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 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 that:¹

A. RESPONDENT

1. From at least April 2002 until October 2003, Norbom, age 42, served as the Vice President of Finance for the SpineTech Division of Centerpulse Ltd. ("Centerpulse" or the "Company"), a Swiss medical devices manufacturer. The SpineTech Division ("Division") was one of four Centerpulse Divisions. In this position, Norbom was responsible for, among other things, maintaining accurate books and records at the Division, and for devising and maintaining an adequate system of internal accounting controls at the Division. In addition, Norbom is a Certified Public Accountant licensed in Wisconsin and was so while she was employed at Centerpulse.

B. SUMMARY

2. This matter arises out of a reserve release that Norbom directed during Centerpulse's fiscal third quarter 2002.² On September 17, 2002, Norbom improperly directed her staff to release \$2.4 million from a sales, use and property tax reserve which was being maintained on the SpineTech Division's books and records. The release, which was rolled up into the Company's consolidated financial statements, did not conform with Generally Accepted Accounting Principles in the United States ("U.S. GAAP"),³ and it caused a 12 percent overstatement of Centerpulse's consolidated fiscal third quarter 2002 pretax income. The overstatement was reported in the financial statements the Company included in the Form 6-K it furnished to the Commission on November 12, 2002.

3. By virtue of her conduct, Norbom violated Exchange Act Rule 13b2-1 by falsifying certain books and records. She also caused Centerpulse to violate Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B) by failing to keep accurate books and records, and by failing to devise and maintain an adequate system of internal accounting controls at the SpineTech Division.⁴

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

² Centerpulse's fiscal year ended on December 31 of each calendar year, and accordingly its fiscal third quarter 2002 ended on September 30, 2002.

³ While Centerpulse disclosed that its financial statements, which were consolidated in Switzerland, were reported in accordance with International Financial Reporting Standards, Centerpulse's accounting controls, and Norbom's practice, were to maintain the Division's accounts in accordance with U.S. GAAP.

⁴ The Commission filed a lawsuit against Urs Kamber, Stephan Husi and Richard Jon May (respectively, Centerpulse's former Chief Financial Officer, former Controller, and the former Group Vice President of Finance, Tax Counsel and Treasurer of Centerpulse USA Holding Company), alleging that they engaged in various improper accounting practices at Centerpulse during the third and fourth quarters of 2002. *SEC v. Urs Kamber et al.*, Civil Action No. 1:07-CV-01867 (JDB) (D.D.C.) (Oct. 17, 2007); *see also* Litigation Release No. 20336 (Oct. 17, 2007).

C. BACKGROUND

4. Originally named Sulzer Medica AG, Centerpulse was a publicly traded corporation headquartered in Switzerland that manufactured a variety of medical devices, including hip, knee, spine and dental implants. From at least January 2001 through October 2003, Centerpulse's American Depository Shares were registered with the Commission pursuant to Exchange Act Section 12(b) and were traded on the New York Stock Exchange under the symbol "CEP." As a foreign private issuer, Centerpulse filed annual reports with the Commission on Form 20-F and furnished other periodic reports to the Commission on Form 6-K. In October 2003, the Company was acquired by and merged with Zimmer Holdings, Inc., a U.S. medical devices company.

D. DESCRIPTION OF THE IMPROPER RESERVE RELEASE

5. Between at least 1997 and 2001, prior to Norbom's tenure at the SpineTech Division, the SpineTech Division did not comply with state laws regarding the collection and remittance of sales, use and property taxes to various jurisdictions. As a result, during the year-end 2001 closing process, certain SpineTech employees increased the reserve covering this tax exposure from \$200,000 to approximately \$6 million, which was the low end of their estimated range of liability. The reserve was increased periodically in the following months.

6. Norbom joined the SpineTech Division in April 2002. Around July 2002, Norbom and others at Centerpulse began to review the SpineTech Division's sales, use and property tax exposure. As part of this process, they engaged the services of an outside consulting firm. In late July 2002, tax consultants with the outside firm informed Norbom and others that SpineTech lacked exemption certificates, the filing of which was necessary to reduce the Company's sales tax exposure, in 49 of the 50 states. As a result, the Company still faced full tax exposure in these jurisdictions, plus penalties and interest.

7. A July 19, 2002 status report, which Norbom and others received from the outside tax consultants, stated that "there are very few exemption certificates on file for SPT [SpineTech] customers" and that "the only certificates found on file at SPT were for the state of Illinois and were in conjunction with a sales tax audit that occurred. Depending on the results of the taxability research, this could increase SPT's sales and use tax exposure in the states."

8. A July 26, 2002 status report, which Norbom and others received, likewise stated that the tax consulting firm "has received verification that the only exemption certificates available and on file for SPT are for the state of Illinois." This lack of exemption certificates was listed as one of the "Important issues/concerns" in the status report and was assigned a "High" priority.

9. On August 2, 2002, Norbom attended a meeting with the outside tax consultants and others. According to Norbom's hand-written notes from this meeting, the consultants informed her that the "#1 problem" with SpineTech's sales and use tax exposure was that "there are no exempt certs on file," and there was a "\$6.25M liability because there are not certs. on file." At this time, the tax consultants provided Norbom and others at Centerpulse with a report that estimated the SpineTech Division's sales and use tax exposure at \$6.25 million, not

including penalties and interest. At this time, the SpineTech Division's sales, use and property tax reserve was just over \$6.4 million.

10. On August 30, 2002, Norbom was informed by email that the SpineTech Division's sales for August were going to miss the budgeted amount by approximately \$2.8 million, and that Centerpulse's Chief Financial Officer, Urs Kamber, had informed Norbom's superior that the result was "not very satisfactory." Among other things, the \$2.8 million sales miss was going to negatively affect the Company's anticipated revenue, operating income and pretax income for the third quarter of 2002. Norbom was also aware at that time that Centerpulse's financial results were being reviewed by a group of banks because the Company was seeking financing for the settlement of a massive products liability litigation.

11. On September 16, 2002, Richard May (the Group Vice President of Finance, Tax Counsel and Treasurer of Centerpulse USA Holding Company) wrote an email to Norbom after he learned of her intention to reduce the reserve to \$3 million. May wrote, "I am not sure I understand the \$3M number--I think it is more like \$4M. But in any regard, I do not think we can or want to reverse any of it yet--we should revisit this at yearend--but for now, without the exemption certificates in place, we still have the full exposure (or most of it anyway)."

12. On or about September 17, 2002, Norbom instructed a SpineTech employee to release over \$2.4 million from the reserve, which took the reserve below the SpineTech Division's estimated liability of over \$6.4 million. There was no supporting documentation or analysis attached to the journal entry under which the release was made.

13. The release was improper because it was contrary to the quantification of the liability that the tax consultants had given Norbom.

14. Although it was released on September 17, 2002, Norbom directed that the release be given a "list date" of August 23, 2002, which was the last fiscal day of August 2002 and, thus, the last day the release could be included in SpineTech's August financial results.

15. An internal Centerpulse e-mail sent by Norbom's superior to Kamber on September 22, 2002 indicated that the \$2.4 million reserve release was one of the "changes to our earlier reported August results" which had been discussed with Norbom. The email also noted that the release increased SpineTech's August 2002 operating income by \$415,000 and its net income by nearly \$2 million. The release offset much of the negative effects on SpineTech's operating income and pretax income that had been caused by the \$2.8 million shortfall in August sales.

16. As a result of the reserve release, Centerpulse falsely reported in an interim report for the third quarter of 2002 that it had earned approximately \$21.9 million in pretax income for the third quarter of 2002 instead of at most approximately \$19.5 million, an overstatement of approximately 12 percent. That interim report was subsequently furnished to the Commission on November 12, 2002 in a Form 6-K.

E. LEGAL DISCUSSION

17. Exchange Act Section 13(b)(2)(A) requires issuers with securities registered under Exchange Act Section 12 to make and keep books, records and accounts that accurately and fairly reflect the transactions and dispositions of their assets. Exchange Act Section 13(b)(2)(B) requires such registrants to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements, and to maintain the accountability of assets. Exchange Act Rule 13b2-1 prohibits any person from directly or indirectly falsifying or causing the falsification of any book, record, or account subject to Exchange Act Section 13(b)(2)(A). No showing of scienter is necessary to establish violations of these provisions. See, e.g., SEC v. McNulty, 137 F.3d 732, 740-41 (2d Cir.), cert. denied sub nom., Shanklin v. SEC, 525 U.S. 931 (1998).

18. Norbom violated Exchange Act Rule 13b2-1 and caused Centerpulse to violate Exchange Act Section 13(b)(2)(A) when she directed her staff to improperly release \$2.4 million from the SpineTech Division's sales, use and property tax reserve. As a result, Centerpulse's third quarter 2002 books and records were false because they reflected an overstatement of the Company's consolidated income. The improper release also constituted a failure to devise and maintain an adequate system of internal accounting controls at the SpineTech Division which in turn caused Centerpulse to violate Exchange Act Section 13(b)(2)(B).

IV.

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

Accordingly, it is hereby ORDERED that:

Pursuant to Section 21C of the Exchange Act, Respondent Norbom cease and desist from committing or causing any violations and any future violations of Exchange Act Rule 13b2-1 and from causing any violations and any future violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B).

By the Commission.

Florence E. Harmon
Acting Secretary