

White Collar Defense and Investigations



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If you have any questions regarding the matters discussed in this memorandum, please contact the following attorneys or call your regular Skadden contact.

Anita B. Bandy

Partner / Washington, D.C.
202.371.7570
anita.bandy@skadden.com

Andrew M. Lawrence

Partner / Washington, D.C.
202.371.7097
andrew.lawrence@skadden.com

Mayra C. Suárez

Counsel / Washington, D.C.
202.371.7364
mayra.suarez@skadden.com

Hannah Henderson

Associate / Boston
617.573.4878
hannah.henderson@skadden.com

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One Manhattan West
New York, NY 10001
212.735.3000

1440 New York Ave., NW
Washington, DC 20005
202.371.7000

500 Boylston St.
Boston, MA 02116
617.573.4800

SEC Recent Public Company Settlement Provides Guidance for Corporate Resolutions Under the Current Administration

Executive Summary

- **What's new:** The SEC filed a settled enforcement action against a company and two executives in connection with books-and-records and internal accounting controls failures, notably imposing no corporate penalty despite a lack of self-reporting.
- **Why it matters:** The settlement underscores that while the SEC is stepping away from untested theories for charging internal controls violations, the agency is continuing to pursue "back-to-basics" financial reporting issues against companies and their executives, even when the conduct does not result in material errors.
- **What to do next:** Companies will want to consider if they have robust accounting controls and policies that are consistently followed, and when internal controls uncover a potential issue, company management and audit committees should review and remediate promptly.

On April 20, 2026, the Securities and Exchange Commission (SEC) filed a settled enforcement action against Key Tronic Corporation (Key Tronic) and two of its executives, Key Tronic's CFO during the misconduct period and current CEO, and Key Tronic's senior vice president of U.S. operations. To resolve the matter, Key Tronic agreed to cease and desist from committing or causing any violations of the books-and-records and internal accounting controls provisions of the securities laws, but, notably, did not pay any civil monetary penalty or disgorgement. The two executives agreed to pay a combined total of \$35,000 in civil money penalties, but, given the lack of fraud charges, were not subject to officer and director bars.

The settlement underscores that public companies remain subject to potential enforcement risks for failing to meet books-and-records and internal controls requirements under the Securities and Exchange Act of 1934 (Exchange Act), despite statements from SEC Chairman Atkins and Division of Enforcement leadership that they are primarily focused on bringing enforcement actions in matters that involve intentional fraudulent conduct. The settlement is also a reminder that the SEC can pursue internal controls and record-keeping charges even in instances, as in Key Tronic, where the conduct is deemed immaterial to financial reporting and is aged conduct. The settlement further indicates that while the SEC is stepping away from untested theories for charging internal controls violations, the commission is continuing to pursue "back-to-basics" financial reporting issues, including net income and earnings per share (EPS) reporting, as in this case.

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This settlement also reflects how current SEC officials view remedies for securities violations by a public company. This case represents the SEC's continued — and renewed — focus on whether a company benefited from the alleged violation. The case also illustrates (a) the SEC's continued attention on whether a company has remediated and self-policed, as here, and (b) a flexibility in the decision whether to impose a penalty in the absence of a self-report. From an individual liability perspective, the case also indicates a willingness to impose relatively lower penalties on executives, even where they are alleged to have directed some of the misconduct.

Facts of the Case

The SEC order finds that Key Tronic violated, and the two executives caused Key Tronic to violate, the books-and-records and internal accounting controls provisions of the securities laws, in connection with improper expense management at a Key Tronic manufacturing facility and the company's response to an internal complaint concerning that facility just hours before Key Tronic was scheduled to release quarterly earnings. From approximately July to December 2020, Key Tronic employees allegedly generated false entries in the facility's inventory system, which resulted in Key Tronic recording an increase in the value of the inventory, decreasing manufacturing expenses and increasing income. The entries were then reversed after the end of the period. The SEC order states that the company's senior vice president of operations was aware of and directed some of this misconduct.

The SEC order further explains that when Key Tronic received an internal complaint regarding the expense management issues described above, on the morning of its scheduled quarterly earnings release in January 2021, Key Tronic informed the board and its auditor, investigated the allegations and, upon validating the allegations, quantified the quarterly impact and corrected Key Tronic's second quarter financial statements for the improperly moved inventory. With regard to materiality, the order reflects that the corrective adjustments "fell below the company's revenue-based materiality threshold," but the company's EPS growth would have been reduced.

Takeaways From the Settlement

1. **The SEC remains willing to bring books-and-records and internal controls-only cases.** SEC Chairman Atkins and Division of Enforcement leadership have made clear that they are primarily focused on bringing enforcement actions in matters that involve intentional fraudulent conduct. The Key Tronic settlement, however, indicates that the SEC may bring cases that involve only books-and-records and internal controls violations that can impact core areas of financial

reporting such as net income, EPS and inventory. For instance, here, the SEC alleged that, even when a controller expressed concerns regarding Key Tronic's practice of moving materials into a work-in-progress (WIP) category in the company's inventory system when employees did not intend to begin production of those materials (which had the effect of improperly inflating absorption and income and contravened Key Tronic's own policies), the practice continued for several months. The SEC requires that companies not only have robust accounting controls and policies, but that those controls and policies are consistently *followed*. When internal controls uncover a potential issue, company management and audit committees should review the issue and remediate promptly, rather than "phasing out" an issue gradually over an extended period of time, and Key Tronic's prompt action appears to have been credited by the SEC. Further, the lack of materiality to financial accounting did not prevent the SEC from charging Key Tronic for its failure to conduct a sufficient materiality analysis during the relevant time.

2. **The SEC may focus on corporate benefit when determining a corporate penalty.** Though not explicitly stated in the settlement, the SEC's decision not to impose a corporate penalty, despite allegations of expense management, likely indicates that the SEC could not identify a corporate benefit to Key Tronic stemming from its alleged misconduct. This contrasts other settlements during the second Trump administration where the SEC has imposed significant penalties in cases that included accounting and controls failures, likely at least in part because the misconduct resulted in a corporate benefit. A focus on corporate benefit has long been a priority of SEC Chairman Atkins, dating back to the 2006 "[Statement of the Securities and Exchange Commission Concerning Financial Penalties](#)" (2006 Penalty Statement), which was published when Atkins was a commissioner. The 2006 Penalty Statement included "the presence or absence of a direct benefit to the corporation as a result of the violation" as one of two principal considerations (with other factors also considered) in determining the appropriateness of a penalty on a corporation. The SEC generally takes a broad view of corporate benefit, considering whether there was a clear artificial stock price inflation resulting from the misconduct that resulted in the company securing, for example, access to credit on better terms, beneficial pricing terms in stock-based acquisition activity and higher pricing in an equity or debt public offering. The SEC's analysis can also factor in market activity that could in effect net out the corporate benefit, including the company disclosing negative news or engaging in a stock buy-back where the repurchase of shares was at an artificially higher price.

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The SEC views the existence of a corporate benefit as weighing in support of a corporate penalty, in an effort to divest the company of the improper gain tied to violative conduct and to restore the company to status quo from before the violation period. On the other hand, the SEC may decline to impose a penalty where, as suggested in the Key Tronic resolution, a corporate benefit cannot be established. Declining to impose a penalty where no corporate benefit is established aims to avoid imposing what amounts to a “double penalty” on innocent shareholders who did not benefit from the misconduct and yet typically must indirectly bear the costs to handle the investigation, such as through remediation efforts and legal fees.

- 3. A no-penalty settlement is possible even without self-reporting and less-than-extraordinary cooperation.** The SEC historically has brought zero-penalty cases when all four *Seaboard* factors are met: (i) self-policing, (ii) self-reporting, (iii) remediation and (iv) cooperation. The SEC diverged from this approach with Key Tronic, however, as the company did *not* receive self-reporting credit in the settlement. The SEC order discusses what appears to be less than the “extraordinary” cooperation that has become the requirement for zero-penalty settlements. The cooperation referenced in the order seems more similar to baseline cooperation language that is provided in settlements where cooperation was credited but was less than extraordinary. Instead, the SEC order credits Key Tronic’s self-policing — when the whistleblower complaint was received, the company acted immediately to investigate, substantiate and correct inaccuracies caused by the misconduct. And the SEC notes it considered Key Tronic’s remedial acts (although the order does *not* specifically describe the company’s remediation, other than that Key Tronic corrected the inaccuracies in the company’s books and records). Additionally, the remedial efforts did not include separating the current CEO and senior

vice president, who were also charged and nevertheless remain in leadership roles at the company. Interestingly, the SEC appeared critical of the company’s decision to release its earnings as scheduled despite its auditor’s advice to delay in light of the internal complaint’s allegations.

This settlement indicates that companies may still get significant cooperation credit and even a zero-penalty settlement even if they did not provide “extraordinary” cooperation that meets all the *Seaboard* factors, in particular not having self-reported the conduct to the SEC, and even where two sitting executives are charged. A company involved in an SEC investigation should keep this in mind and work to meet as many of the factors as possible to put itself in the best position possible for a favorable settlement, even if it has not self-reported the conduct at issue.

- 4. The SEC is focused on individual accountability.** The SEC’s imposition of a penalty on Key Tronic’s current CEO and a senior vice president is consistent with the SEC’s continued focus on individual accountability even in cases where fraud and materiality from the violations is not alleged. The total penalty, however, is relatively low (\$35,000 collectively), and, without fraud charges imposed, neither individual was required to accept a bar from serving as an officer or director. This suggests that the current SEC may impose settled penalties that are more closely aligned with the prescribed statutory civil penalties that a district court judge would consider as part of its judgment, were the SEC to prevail in a litigation. The SEC’s statutory penalty framework has tiers of increasing penalties based on the culpability of the charges brought, but, in recent years, there had been a litany of penalties assessed in non-fraud or controls-only actions, which the SEC would have been unlikely to achieve in a litigated context under the statutory guidelines.