

# Key Tronic Case Shows SEC Isn't Ignoring Controls Violations

By **Tejal Shah and Bingxin Wu** (May 13, 2026)

On April 20, the U.S. Securities and Exchange Commission announced settled charges against a public company — Key Tronic Corp. — for books and records and internal controls violations relating to improper expense management at one of its facilities, and the way the company responded to allegations from a complaint related to that facility.[1]

This is the first nonfraud enforcement action brought against a public company during Chairman Paul Atkins' tenure. The SEC's settlement with the company does not include any penalty, and the order notes that the SEC took the company's cooperation and remedial actions into consideration in determining to accept its settlement offer.

The SEC also settled charges against the company's CEO and then-chief financial officer, Brett Larsen, and its senior vice president of U.S. operations, Nicholas Fasciana. This action against Key Tronic provides a helpful reference point for public companies engaged in settlement discussions with the SEC staff.

## Background

The SEC's order finds that in the summer of 2020, Key Tronic — which manufactures computer components and medical devices — faced a significant revenue shortage due to a decrease in orders at one of its facilities.

According to the order, Key Tronic, in turn, improperly increased income by changing the classification of raw materials to work-in-process in the company's inventory management system. The order describes, in detail, several conversations and emails reflecting that Key Tronic management provided specific work-in-process targets to personnel to meet internal profit goals.

The order also states that on the morning of its quarterly earnings release in January 2021, Key Tronic received an internal complaint about the inventory classification movements, and that within hours, it confirmed the complaint's core allegations.

According to the order, Key Tronic reopened its books and reversed the improper income, resulting in a quarterly financial impact of nearly \$1 million, but offset most of the effect by simultaneously recording about \$764,000 in pre-tax adjustments to correct other recently identified accounting errors. A portion of these adjustments were booked out-of-period, based on Key Tronic's conclusion that the adjustments fell below its materiality threshold.

The order states that Key Tronic did not conduct a sufficient materiality analysis, and that if Key Tronic had recorded the out-of-period adjustments in the periods in which the errors occurred, its reported quarterly net income of \$1.58 million would have been reduced by 44%. The order further finds that although Key Tronic's auditor advised it to consider delaying releasing earnings, Key Tronic released earnings as scheduled.

The SEC charged the company and two of its executives with books and records and internal controls violations. The SEC credited the company's cooperation with the SEC's



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investigation, as well as its remedial efforts, and did not impose a civil penalty.

The two executives agreed to pay civil penalties of \$20,000 and \$15,000, respectively, to settle the SEC's charges, and are still employed with the company.

## **Takeaways**

Since the beginning of his tenure, Atkins has repeatedly emphasized that the SEC is moving away from policing technical violations and will instead focus its enforcement power on cases involving "genuine harm and bad acts."<sup>[2]</sup>

The Key Tronic enforcement action reflects that, notwithstanding this shift in priorities, the SEC remains willing, under certain circumstances, to bring enforcement actions that charge books and records and internal controls violations, even if it ultimately declines to pursue fraud charges.

Notably, the order specifically details conversations and emails relating to the income classification issues, which the staff could have used to potentially support fraud charges. This precedent is beneficial to public companies conducting negotiations with the SEC staff, because it suggests that in the settlement context, the current commission may be amenable (at least in close cases) to accepting offers that only include nonfraud charges.

Another takeaway is that while the order states that Key Tronic did not conduct a sufficient materiality analysis, it did not go so far as to state that its materiality analysis resulted in the wrong conclusion, reflecting the commission's focus on the company's process.

Finally, the Key Tronic action highlights the SEC's focus on individual accountability. Although the company did not have to pay a penalty, two of its executives were charged and their settlements included penalties. However, the individuals' penalties of \$20,000 and \$15,000 were relatively low, and consistent with resolutions involving nonfraud charges, their settlements did not include officer and director bars.

In determining not to impose a penalty on Key Tronic, it is likely that the commission gave significant consideration to the factors described in its 2006 statement concerning financial penalties.<sup>[3]</sup> These factors are generally given more weight during Republican-led commissions, and staff making recommendations as to whether to impose a penalty on corporations are generally expected to provide a thorough analysis of each of the factors described.

Among other things, the factors include whether a corporation directly benefited as a result of the violation, and considerations such as investor harm, cooperation and remediation. The order states that Key Tronic publicly acknowledged the income classification issues in July 2021, but does not describe any corresponding drop in stock price — a factor that is generally evaluated when considering corporate benefit and investor harm.

The Key Tronic order states that the commission considered the company's cooperation with the staff's investigation and its remedial acts in deciding to accept its settlement offer.

The SEC's recently updated Enforcement Manual expands the cooperation framework and provides detailed guidance to companies on the steps they can take to potentially receive cooperation credit.<sup>[4]</sup> In particular, the Enforcement Manual emphasizes the importance of timeliness of cooperation, and encourages companies to provide assistance during the early stages of investigation.

Of note, income classification issues described in the order occurred in 2020, which falls outside the five-year statute of limitations generally applicable to SEC enforcement actions for nonscienter-based charges and for seeking civil penalties.

Companies and their counsel should carefully evaluate the strategic implications of any request to enter into or extend a tolling agreement, as the passage of time could affect the parties' leverage in negotiating the resolution of an SEC investigation.

Taken together, the Key Tronic resolution offers a useful road map for companies seeking to resolve SEC investigations on the best possible terms. The case indicates that a well-executed defense strategy could potentially result in the avoidance of both fraud charges and corporate penalties.

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[1] Press Release, SEC, SEC Institutes Settled Order as to Key Tronic Corporation, Former CFO (Now CEO), and Senior Vice President for Books and Records and Internal Controls Violations (Apr. 20, 2026), available at <https://www.sec.gov/enforcement-litigation/administrative-proceedings/34-105275-s>. In the Matter of Key Tronic Corporation, Brett R. Larsen, and Nicholas S. Fasciana, Securities Exchange Act Release No. 105275, Accounting and Auditing Enforcement Release No. 4591 (Apr. 20, 2026), available at <https://www.sec.gov/files/litigation/admin/2026/34-105275.pdf>.

[2] Paul S. Atkins, Keynote Address at the 25th Annual A.A. Sommer, Jr. Lecture on Corporate, Securities, and Financial Law (Oct. 7, 2025), available at <https://www.sec.gov/newsroom/speeches-statements/atkins-100925-keynote-address-25th-annual-aa-sommer-jr-lecture-corporate-securities-financial-law>.

[3] Statement of the Securities and Exchange Commission Concerning Financial Penalties (Jan. 4, 2006), available at <https://www.sec.gov/news/press/2006-4.htm>.

[4] SEC Enforcement Manual (Feb. 24, 2026), available at <https://www.sec.gov/divisions/enforce/enforcementmanual.pdf>.