

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11035 / February 25, 2022

SECURITIES EXCHANGE ACT OF 1934
Release No. 94317 / February 25, 2022

ACCOUNTING & AUDITING ENFORCEMENT
Release No. 4286 / February 25, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-20785

In the Matter of

PAUL M. GODFREY, JR.

Respondent.

**ORDER INSTITUTING PUBLIC
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933, SECTIONS 4C AND 21C OF
THE SECURITIES EXCHANGE ACT OF
1934, AND RULE 102(e) OF THE
COMMISSION'S RULES OF PRACTICE,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Sections 4C¹ and 21C of the Securities

¹ Section 4C provides, in relevant part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others; (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.

Exchange Act of 1934 (“Exchange Act”), and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice,² against Paul M. Godfrey, Jr. (“Godfrey” 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 him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 4C and 21C of the Securities Exchange Act of 1934, and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds³ that:

Summary

1. This matter involves violations of the antifraud, books and records, internal accounting controls and other related provisions of the federal securities laws by Paul M. Godfrey, Jr., a former plant controller at Commercial Vehicle Group, Inc. (“Commercial Vehicle Group”), an Ohio-based publicly-traded manufacturer of commercial vehicle components. Beginning in the first quarter of 2018 and continuing throughout 2019, Godfrey artificially inflated the financial results of Commercial Vehicle Group’s Kings Mountain plant making them appear in-line with internal corporate forecasts. Through a series of manually recorded journal entries, Godfrey reclassified legitimate manufacturing expenses as illegitimate prepaid assets, which significantly improved Kings Mountain’s operating performance. Godfrey’s misconduct caused Commercial Vehicle Group to overstate its operating income in its consolidated financial statements filed with

² Rule 102(e)(1)(iii) provides, in pertinent part, that:

The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

³ 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.

the Commission by \$3.9 million, or 6.2%, and \$4.6 million, or 10.2%, for the year ended December 31, 2018 and the nine month period ended September 30, 2019, respectively.

Respondent and Related Entity

2. **Paul M. Godfrey, Jr.**, age 66, is a resident of Grover, North Carolina. He was a plant controller at Commercial Vehicle Group's Kings Mountain facility from 1997 until his termination in January 2020.

3. **Commercial Vehicle Group, Inc.** is a Delaware corporation headquartered in New Albany, Ohio that provides components and assemblies for trucks and other commercial vehicles. The company's stock is registered under Section 12(b) of the Exchange Act and trades on the NASDAQ Global Select Market under the ticker symbol "CVGI."

Facts

Tooling Projects and Related Commercial Vehicle Group Accounting and Internal Accounting Control Policies

4. The Kings Mountain facility primarily manufactures cab and sleeper structures for use in the commercial trucking industry and is one of several Commercial Vehicle Group facilities that offers "tooling" services to its customers. The tooling program, which generally refers to the manufacturing of a unique "tool" or "fixture," allows customers to customize existing Commercial Vehicle Group products.

5. Pursuant to Commercial Vehicle Group's accounting policies, accumulated tooling project costs were required to be capitalized as incurred and recorded as "other current assets" in Commercial Vehicle Group's consolidated balance sheet (the "Tooling Policy"). Subsequent customer billings would then be used to offset the tooling costs with any difference being realized as a gain or loss within "cost of goods sold" on Commercial Vehicle Group's consolidated statement of operations. Godfrey was familiar with Commercial Vehicle Group's Tooling Policy and knew that only those costs associated with legitimate tooling projects qualified for capitalization in Commercial Vehicle Group's "prepaid tooling" accounts.

6. Commercial Vehicle Group also maintained two primary sets of internal accounting controls that impacted tooling-related accounting and financial reporting. First, the company required that all balance sheet accounts, including Kings Mountain's tooling-related asset accounts, be reconciled on a monthly basis and reviewed by the preparer's supervisor (the "Reconciliation Policy"). Second, Commercial Vehicle Group also required that all manual journal entries be reviewed on a monthly basis to ensure that, among other things, each manual journal entry contained adequate and appropriate supporting documentation (the "Manual Journal Entry Review Policy"). As the Kings Mountain plant controller, Godfrey was responsible for: (1) performing the required monthly balance sheet account reconciliations pursuant to the Reconciliation Policy; and (2) recording manual journal entries and providing supporting documentation for review pursuant to the Manual Journal Entry Review Policy.

Godfrey Improperly Reclassifies Manufacturing Costs as Prepaid Tooling Assets, Improving Kings Mountain Financial Performance

7. As part of its periodic financial planning and analysis, Commercial Vehicle Group management created monthly Kings Mountain forecasts to monitor critical financial performance metrics such as sales and gross margin.

8. As the sole bookkeeper and accountant at the Kings Mountain plant, Godfrey was responsible for recording journal entries and performing account reconciliations. In addition, he was charged with identifying material variances between actual and forecasted Kings Mountain financial performance and reporting his findings to upper management.

9. Beginning in at least January 2018, Godfrey began to identify material variances in Kings Mountain's actual gross margin performance relative to forecast. The primary driver behind the variance was higher than expected material and labor manufacturing costs.

10. Instead of engaging in the process of identifying why material and labor costs had increased, Godfrey, through manual journal entries, systematically transferred material and labor-related manufacturing costs from the Kings Mountain income statement and reclassified them as Kings Mountain prepaid tooling assets. Every month Godfrey improperly transferred expenses from the Kings Mountain income statement which reduced material and labor-related manufacturing costs and increased both assets and the monthly gross margin.

11. For example, in March 2019, Godfrey manually uploaded a journal entry that reclassified at least \$475,000 from a Kings Mountain expense account to a prepaid tooling asset account. Godfrey's manual journal entry had the effect of improving Kings Mountain's March 2019 actual gross margin from 7.8% to 13.8% and made the monthly margin appear more in-line with forecasts. Combined with Godfrey's other first quarter 2019 improper journal entry activity, the March 2019 reclassification caused Commercial Vehicle Group to materially overstate consolidated operating income by nearly \$1.5 million, or 8.4%.

12. Similarly, in September 2019, Godfrey manually uploaded a journal entry that reclassified at least \$513,000 from several Kings Mountain expense accounts to a prepaid tooling asset account. Godfrey's manual journal entry had the effect of improving Kings Mountain's September 2019 actual gross margin from 6.5% to 13.3% and made the monthly margin appear more in-line with forecasts. Combined with Godfrey's other third quarter 2019 improper journal entry activity, the September 2019 reclassification caused Commercial Vehicle Group to materially overstate consolidated operating income by nearly \$1.8 million, or 15.3%.

13. Godfrey knew that Kings Mountain's financial results were reported in Commercial Vehicle Group's consolidated financial statements. Godfrey also knew or was reckless in not knowing that his improper journal entry activity had a material impact on Commercial Vehicle Group's consolidated financial results. Godfrey's actions caused Commercial Vehicle Group to materially overstate operating income ranging from 3.6% to 15.3% for seven consecutive quarters

beginning in March 2018 and continuing through September 2019. Commercial Vehicle Group's materially misstated financial statements were incorporated into its current reports, quarterly reports, and an annual report filed with the Commission.

14. Godfrey took several steps to avoid detection. First, in preparing monthly tooling account reconciliations in accordance with the Reconciliation Policy, Godfrey concealed the manufacturing expenses he improperly capitalized by assigning these expenses to active Kings Mountain tooling projects. Second, Godfrey provided fictitious documentation to his supervisor in support of his manual journal entries in contravention of the Manual Journal Entry Review Policy. Finally, every quarter, Godfrey signed an internal letter of representation to senior management charged with preparing and reviewing Commercial Vehicle Group's consolidated financial statements that certified, among other things, that all balance sheet reconciliations provided adequate support for assets and liabilities and there had been no known instances of fraud. In 2018 and 2019, Godfrey executed the quarterly certifications knowing that he had improperly reclassified certain legitimate manufacturing expenses as illegitimate prepaid assets, falsified balance sheet reconciliations and posted unsupported journal entries.

Commercial Vehicle Group Discloses Material Accounting Errors and Restates its Financial Statements

15. Godfrey's conduct caused Commercial Vehicle to materially misstate its consolidated financial statements as of and for the year ended December 31, 2018 included in Commercial Vehicle Group's 2018 Form 10-K, as well its consolidated financial statements for the quarterly periods ended March 31, 2019 and 2018, June 30, 2019 and 2018, and September 30, 2019 and 2018 included in its 2018 and 2019 Forms 10-Q.

16. After detecting Godfrey's conduct and taking remedial action, on March 16, 2020, Commercial Vehicle Group disclosed in its 2019 Form 10-K that the company's initially reported operating income was overstated by \$3.9 million, or 6.2%, and \$4.6 million, or 10.2%, for the year ended December 31, 2018 and the nine month period ended September 30, 2019, respectively.

Commercial Vehicle Group Offered and Issued Securities During the Relevant Time Period

17. Commercial Vehicle Group offered and issued securities in 2018 and 2019 pursuant to a Form S-8 that it originally filed on December 15, 2017. The Form S-8 incorporated by reference all subsequent periodic filings under the Exchange Act for securities offered and sold under this registration statement. Thus, it incorporated by reference Commercial Vehicle Group's 2018 Form 10-K, and Q1 2018 and 2019, Q2 2018 and 2019, and Q3 2018 and 2019 Forms 10-Qs, which materially overstated Commercial Vehicle Group's operating income.

Violations

18. As a result of the conduct described above, Godfrey willfully violated Sections 17(a)(1) and 17(a)(3) of the Securities Act, which prohibits fraudulent conduct in the offer or sale

of securities, and Section 10(b) of the Exchange Act and Rules 10b-5(a) and 10b-5(c) thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

19. As a result of the conduct described above, Godfrey willfully violated Section 13(b)(5) of the Exchange Act which prohibits anyone from knowingly circumventing or knowingly failing to implement a system of internal accounting controls, or knowingly falsifying any book, record or account. Also, Godfrey willfully violated Exchange Act Rule 13b2-1, which prohibits any person from, directly or indirectly, falsifying or causing to be falsified, any book, record or account subject to Exchange Act Section 13(b)(2)(A).

20. As a result of the conduct described above, Godfrey willfully aided and abetted and caused Commercial Vehicle Group's violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 promulgated thereunder which require issuers of securities registered pursuant to Section 12 of the Exchange Act to file periodic and other reports with the Commission, including annual, quarterly and current reports, on the appropriate forms and within the period specified on the form that must contain any material information necessary to make the required statements made in the report not misleading.

21. As a result of the conduct described above, Godfrey willfully aided and abetted and caused Commercial Vehicle Group to violate Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

22. As a result of the conduct described above, Godfrey willfully aided and abetted and caused Commercial Vehicle Group to violate Section 13(b)(2)(B) of the Exchange Act, which requires reporting companies 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 maintain accountability for assets.

Findings

23. Based on the foregoing, the Commission finds that Godfrey willfully violated Sections 17(a)(1) and 17(a)(3) of the Securities Act and Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5(a), 10b-5(c), and 13b2-1 thereunder and willfully aided and abetted and caused Commercial Vehicle Group's violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11 and 13a-13 thereunder.

24. Respondent has submitted a sworn Statement of Financial Condition dated August 31, 2021 and other evidence and has asserted his inability to pay a civil penalty.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act, Sections 4C and 21C of the Exchange Act, and Rule 102(e) of the Commission's Rules of Practice, it is hereby ORDERED effective immediately that:

A. Godfrey cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13, and 13b2-1 thereunder.

B. Godfrey is denied the privilege of appearing or practicing before the Commission as an accountant.

C. Based upon Respondent's sworn representations in his Statement of Financial Condition dated August 31, 2021 and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondent.

D. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Vanessa A. Countryman
Secretary