

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 84849 / December 18, 2018**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 4003 / December 18, 2018**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-18938**

**In the Matter of**  
  
**Paul A. Margis**  
  
**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 Paul A. Margis (“Margis” 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 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<sup>1</sup> that:

**Summary**

1. Beginning in 2007, Paul A. Margis (“Margis”) participated in a plan whereby Panasonic Avionics Corporation (“PAC”), a wholly-owned, U.S. subsidiary of Panasonic

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<sup>1</sup> The findings herein are made pursuant to Margis’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Corporation (“Panasonic”), offered a lucrative consulting position to a government official (“Government Official”) who assisted PAC in obtaining and retaining business from a state-owned airline (“Government Airline”). While PAC was negotiating two agreements valued at over \$700 million with the Government Airline, Margis authorized PAC to offer the Government Official a \$200,000 a year post-retirement consulting position. Ultimately, PAC retained the Government Official and paid approximately \$875,000 for his position, which required little to no work. Margis and others arranged for the Government Official to be paid through a third-party vendor that provided unrelated services to PAC. Margis also authorized payments of more than \$900,000 through the third-party vendor for the retention of two other individuals as consultants, although they provided little to no services. Through his conduct, Margis knowingly circumvented PAC’s system of internal accounting controls and knowingly falsified the company’s books and records. Margis also caused Panasonic to violate the books and records and internal accounting controls provisions of the federal securities laws. Finally, Margis made false representations to PAC’s external auditors that PAC did not have any deficiencies concerning its internal financial controls and books and records, thereby misleading the company’s auditors.

### **Respondent**

2. **Paul A. Margis**, age 64, was the President (2005-2007; 2012-2017) and Chief Executive Officer (2007-2017) of PAC. Beginning around June 2012, Margis also held concurrent positions at Panasonic Corporation, including serving as an executive officer of a Panasonic business segment, AVC Networks Company (“AVC Networks”), from 2013-2017.

### **Other Relevant Entities and Individuals**

3. **Panasonic Corporation** is a multinational corporation, headquartered in Osaka, Japan. During the relevant period, Panasonic’s global business was organized into eight business segments, including AVC Networks that included PAC. Panasonic’s securities were registered with the Commission pursuant to Section 12(b) of the Exchange Act until April 22, 2013, and its American Depositary Shares traded on the New York Stock Exchange under the ticker “PC.” From May 1, 2015 through June 20, 2016, Panasonic’s securities were registered with the Commission pursuant to Section 12(g) of the Exchange Act. During the periods when Panasonic securities were registered with the Commission, Panasonic was required to file or furnish periodic reports with the Commission pursuant to Section 15 of the Exchange Act.

4. **Panasonic Avionics Corporation (f/k/a Matsushita Avionics Systems Corporation)**, a wholly-owned subsidiary of Panasonic’s North American subsidiary, is a Delaware corporation headquartered in Lake Forest, California. PAC designs, engineers, manufactures, sells and installs in-flight entertainment systems (“IFE”) and global communication services (“GCS”) to airlines, aircraft leasing companies, and airplane manufacturers worldwide, including to state-owned airlines. Panasonic managed PAC via AVC Networks, and certain PAC officers, including Margis, also held concurrent titles at Panasonic. During the relevant period, PAC’s books and records and financial accounts were consolidated into Panasonic’s books and records and reported on Panasonic’s consolidated financial statements, which were filed or furnished with the Commission and reported to investors.

## FACTS

### Offer of Consulting Position to Government Official

5. In 1986, PAC retained a sales representative (“Sales Representative” or “Sales Rep”) to assist PAC in contract negotiations for the sale of IFE and GCS products to several airlines in its Middle East Region, despite the fact that he had no background or experience in avionics. Thereafter, PAC periodically renewed its agreements with the Sales Rep until around May 2016 when it terminated its relationship with him. The Sales Rep was engaged with the authorization of Panasonic executives, including Margis, who was also directly involved in authorizing the renewal of agreements between PAC and the Sales Rep.

6. Between 2007 and 2016, PAC paid the Sales Representative more than \$184 million in sales commissions through his British Virgin Islands entity. During this period, the Sales Representative directly reported to Margis, who authorized monthly commission payments of \$1-3 million to the Sales Representative. The Sales Representative gave Margis cash and luxury items valued at more than \$60,000.

7. Beginning in at least 2004, PAC maintained a separate, regional office in the Middle East. The office, based in Dubai, was staffed by sales and marketing professionals and had a repair shop, field engineers, and its own finance staff. Nevertheless, PAC continued to use the Sales Rep despite concerns raised by PAC employees that the Sales Rep lacked the qualifications to negotiate technical contracts related to IFE and GCS products and other red flags regarding his conduct, such as his possession of confidential and proprietary materials of PAC’s competitors and customers. In addition, Margis was aware of allegations from its regional employees that the Sales Rep was paying bribes to win business on PAC’s behalf.

8. While PAC engaged the Sales Rep as a sales agent through the entity that he owned, he operated as a PAC employee. The Sales Representative had: PAC business cards identifying him as PAC’s General Manager of Sales and Marketing in the Middle East, Africa and South Asia; his own office space in PAC’s Dubai office; a PAC phone number and email address; a PAC title; and numerous electronic devices.

9. In 2004, PAC and the Government Airline signed a ten-year Master Product Supply Agreement (“MPSA”) that ultimately grossed well over a billion dollars for PAC to provide IFE products and services for planes within the Government Airline’s fleet. Both Margis and the Sales Rep were involved in the negotiations of the MPSA, and Margis signed the MPSA on behalf of PAC. Significantly, the MPSA prohibited PAC from providing any consideration to employees of the Government Airline.

10. The Government Airline appointed its own executive, the Government Official, to serve as the primary point of contact for contract negotiations with PAC, including for the MPSA. During the relevant period, the Government Official reported directly to the Government Airline’s President. The Government Official had influence over the Government Airline’s contracting decisions, including influence over the airline’s decisions to award business to PAC as well as interpretations of specific terms in the MPSA and amendments thereto. Finally, the Government Official negotiated significant terms with PAC, including credits, concessions, and system/component price lists, and was involved in approving payments to PAC.

11. In 2006, the Sales Rep and the Government Official began negotiating an amendment to the MPSA (“Amendment One”) for the purchase of additional IFE products by the Government Airline. Negotiations for Amendment One, which was worth nearly \$360 million in additional business to PAC, continued through at least July 2007.

12. Over the course of 2007, PAC and the Government Airline also negotiated and entered into a second amendment to the MPSA (“Amendment Two”) for the purchase of additional IFE products. Due to the delay in the receipt of new aircraft by the Government Airline, certain IFE products that PAC and the Government Airline had contemplated being included in Amendment One were instead included in Amendment Two. Amendment Two was signed in November 2007, and was worth over \$353 million in additional business to PAC.

13. As with the MPSA, Margis and the Sales Representative were both involved in the negotiation of Amendment One and Amendment Two. Also as with the MPSA, the Government Official led negotiations of those amendments and signed Amendment One on behalf of the Government Airline.

14. During the course of negotiations for Amendments One and Amendment Two, the Government Official solicited PAC for personal benefits. Beginning in at least April 2007, the Government Official sent numerous emails to the Sales Representative about obtaining a position with PAC, which the Sales Representative brought to Margis’s attention. Subsequently on June 17, 2007, the Government Official informed the Sales Representative that he was seeking a position with PAC, including an annual salary of £150,000 and other benefits. The Sales Representative informed Margis of the specific request.

15. In or around September 2007, PAC offered the Government Official a position as a consultant for \$200,000 per year plus travel expenses, which would be effective after his retirement from the Government Airline. Margis authorized the offer of a consulting position to the Government Official, despite numerous red flags.

16. For example, PAC had no apparent need for the Government Official’s services. During the six years that he was paid as a consultant, the Government Official performed little to no work.

17. Additionally, the Sales Representative informed Margis and other PAC executives that the Government Official did not want any one contacting him due to his current status with his employer, the Government Airline.

18. In response, a senior PAC executive told Margis and others by email that, “We should be very sensitive to [Government Official’s] current position . . . . I will get in trouble if we act like a small company. What we are doing for [the Government Official] is a large risk for a corporation like Panasonic. I think we still should for good reasons, but we must get this done above the table with complete transparency.”

19. Finally, based on his prior interactions with the Government Airline, Margis was aware that the Government Official played a key role in the business relationship between the Government Airline and PAC, including in connection with the negotiations of the MPSA, Amendment One, and Amendment Two.

20. During the course of the negotiations for Amendment One and Amendment Two, and while seeking personal benefits from PAC, the Government Official was providing PAC commercial and proprietary information that helped PAC secure an improper advantage in

obtaining and retaining business from the Government Airline. This included confidential information of the Government Airline and PAC's competitors, tips on negotiating with the Government Airline, and advice on how to secure additional business from the Government Airline.

21. Rather than following PAC's standard procedures for retaining consultants, Margis arranged for PAC to retain the Government Official and pay him through an unrelated third-party vendor that otherwise prepared product manuals for PAC ("Vendor").

22. Ultimately, between April 2008 and January 2014, the Government Official provided little to no services, and PAC paid over \$875,000 to the Vendor for the Government Official's position. Margis was aware that the Government Official was providing few, if any, services. For instance, in May 2009, PAC employees requested to terminate the agreement with the Government Official because his services were not required. Nevertheless, Margis authorized the renewal of the agreement with the Government Official, and continued to authorize monthly payments to the Vendor for the Government Official through January of 2014.

### **Retention of Consultants through the Office of the President Budget**

23. From at least 2007 through at least January 2014, Margis and others authorized the engagement of various individuals as consultants in circumstances in which the consultants provided few, if any, services. Rather than following PAC's standard procedures for engaging consultants, these individuals were retained through the Vendor and paid through the Vendor from an Office of the President budget that Margis controlled.

24. The Office of the President budget was set annually by a senior PAC finance executive in consultation with Margis, based on the prior year's costs and anticipated changes to expenses. Expenditures from this budget were never meaningfully reviewed or approved by any Panasonic or PAC personnel, and there were no reasonable internal accounting controls in place surrounding its use. In October 2007, Margis used the Vendor as a conduit to pay a former PAC employee ("Consultant One"), who was also working as a consultant for one of PAC's largest domestic airline customers. Between October 2007 and December 2013, Margis authorized payments totaling approximately \$825,000 for Consultant One from the Office of the President budget via the Vendor. During this period, Consultant One was not supervised by anyone at PAC or Panasonic, and provided few, if any, services to PAC or Panasonic. Instead, Consultant One provided Margis and others at PAC with non-public information regarding the domestic airline customer, other airlines, and PAC's competitors, frequently passing information through emails that were marked "CONFIDENTIAL" or "DO NOT FORWARD."

25. In yet another instance, between January and December 2009, Margis used the Office of the President budget and the Vendor to pay \$60,000 for a consulting position for another former PAC employee ("Consultant Two"). In this instance, Consultant Two performed no work for PAC or Panasonic, and was paid solely to prevent him from working for any of PAC's competitors.

26. Margis authorized nearly all payments made out of the Office of the President Budget, including payments totaling more than \$1.76 million to the Government Official, Consultant One, and Consultant Two, who provided few, if any, services to PAC. These payments were falsely recorded in PAC's general ledger as consulting payments to the Vendor and the

consultants and incorporated into Panasonic's books, records, and accounts as "selling and general administrative expenses."

27. During the period that Margis used the Office of the President budget to pay the aforementioned consultants, PAC had established policies and procedures concerning the engagement of consultants. These policies and procedures set out a number of requirements, including defining the scope of work, engaging PAC Human Resources in the retention process, and limiting a contract's duration to six months. In fact, during this period, Margis authorized the engagement of several other consultants pursuant to PAC's consultant retention policies and procedures. Conversely, Margis circumvented those very same policies and procedures when authorizing the engagement of the Government Official, Consultant One, and Consultant Two.

28. Panasonic failed to maintain internal accounting controls reasonably designed to ensure that payments to the consultants only were made in exchange for the described consulting services, that services actually had been rendered, and that its books and records fairly reflected the transactions and disposition of Panasonic's assets. Panasonic also lacked sufficient internal accounting controls to effectuate its policies and procedures concerning the selection and engagement of these consultants.

29. Margis caused Panasonic to violate the books and records and internal accounting controls provisions of the federal securities laws by authorizing the engagement of the consultants through the Vendor and using the Vendor as a conduit for payments to the consultants, which were made from the Office of the President Budget that he controlled.

#### **Margis Misled PAC's External Auditors**

30. As a wholly-owned subsidiary of Panasonic, PAC senior executives provided annual certifications of its financial statements, known as "subcertifications," to PAC's external auditors ("Auditors") each quarter. Similarly, PAC senior executives also provided the Auditors with quarterly management representation letters confirming, among other things, that the company did not have any deficiencies concerning its books and records and its internal financial controls.

31. The subcertifications and management representation letters were presented to the Auditors in connection with the company's annual and quarterly reviews. The Auditors relied on these subcertifications and management representation letters as part of the normal course of their audits of the company and for the preparation of PAC's financial statements, which were incorporated into Panasonic's financial statements and included by Panasonic in its periodic Commission filings.

32. From at least 2007 through 2015, Margis provided annual subcertifications as well as management representation letters each quarter to the Auditors. At no time during this period did Margis disclose to the Auditors, or direct anyone else to disclose, the foregoing issues concerning the payments to the Government Official and other consultants, PAC's and Panasonic's lack of sufficient internal accounting controls, or the resulting falsification of PAC's and Panasonic's books and records.

33. Instead, Margis provided false subcertifications and management representation letters to the Auditors. For example, in the subcertifications Margis falsely stated, “no deficiencies have been identified and the internal control [*sic*] over financial reporting have effectively functioned....” Similarly, in the management representation letters, Margis falsely stated, “there are no material transactions that have not been properly recorded in the accounting records,” and “[t]here are no significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting....” Both of these certifications were false.

34. As a result of this conduct, Margis made materially false or misleading statements to the Auditors in connection with their audits of the company’s financial statements and internal financial controls.

### **LEGAL STANDARDS AND VIOLATIONS**

35. Under Section 21(C) of the Exchange Act, the Commission may impose a cease-and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Exchange Act or any rule or regulation thereunder, and upon any other person that is, was, or would be a cause of the violation, due to an act of omission the person knew or should have known would contribute to such violation.

36. As a result of the conduct described above, Margis violated Section 13(b)(5) of the Exchange Act, which states that no person shall knowingly circumvent or knowingly fail to implement a system of internal accounting controls or knowingly falsify any book, record or account.

37. Also as a result of the conduct described above, Margis caused Panasonic to violate Section 13(b)(2)(A) of the Exchange Act, which requires issuers that have a class of securities registered pursuant to Section 12 of the Exchange Act and issuers with reporting obligations pursuant to Section 15(d) of the Exchange Act to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and disposition of their assets.

38. As a result of the conduct described above, Margis also caused Panasonic to violate Section 13(b)(2)(B) of the Exchange Act, which requires issuers that have a class of securities registered pursuant to Section 12 of the Exchange Act and issuers with reporting obligations pursuant to Section 15(d) of the Exchange Act to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management’s general or specific authorization; (ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

39. Finally, as a result of the conduct describe above, Margis violated Exchange Act Rule 13b2-1, which states that no person shall, directly or indirectly, falsify or cause to be falsified, any book, record, or account subject to section 13(b)(2)(A) and Rule 13b2-2, which states, in relevant part, that no director or office of an issuer shall, directly or indirectly: (1) make or cause to be made a materially false or misleading statement to an accountant in connection

with; or (2) omit to state, or cause another person to omit to state, any material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading, to an accountant in connection with: (i) any audit, review or examination of the financial statements of the issuer required to be made pursuant to this subpart; or (ii) the preparation or filing of any document or report required to be filed with the Commission pursuant to this subpart or otherwise.

#### 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:

A. Pursuant to Section 21C of the Exchange Act, Margis cease-and-desist from committing or causing any violations and any future violations of Exchange Act Sections 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) [15 U.S.C. §§ 78m(b)(2)(A), 78m(b)(2)(B) and 78m(b)(5)] and Rules 13b2-1 and 13b2-2 thereunder [17 C.F.R. §§ 240.13b2-1 and 240.13b2-2].

B. Margis shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$75,000 to the Securities and Exchange Commission for remission to the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169.

Payments by check or money order must be accompanied by a cover letter identifying Panasonic as Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to Charles Cain, Chief, FCPA Unit, Division of Enforcement, Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondent, and further, any debt for civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Brent J. Fields  
Secretary