

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 53716 / April 25, 2006

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2417 / April 25, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12272

In the Matter of

JAMES JARRETT,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934

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 James Jarrett (“Jarrett” 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, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

A. Facts

Hayes Lemmerz International, Inc. ("Hayes") is a Delaware corporation that is headquartered in Northville, Michigan and has operations throughout the United States, South America, and Europe. The company is a major global supplier of automotive and commercial highway components (including wheels, brakes, powertrains, suspensions, and structural and other lightweight components). During the relevant time period, Hayes was a publicly-held company with securities registered with the Commission pursuant to Section 12(b) of the Exchange Act. Hayes' shares traded on the New York Stock Exchange until it was de-listed after the disclosure of the fraudulent accounting scheme described below. Hayes' common stock is now listed on the NASDAQ National Market.

James Jarrett, age 60, is a resident of Indiana. From May 2000 through October 2001, he was the Business Unit Controller for Hayes' North American Aluminum Wheel Group ("AWG"), which was a part of Hayes' North American Wheel Group ("NAWG"). Jarrett's responsibilities as the Business Unit Controller involved ensuring that AWG's books and records complied with Generally Accepted Accounting Principles ("GAAP") and Hayes' internal accounting policies.

From at least 1999 through the first quarter of 2001, Hayes, acting through senior officers and employees, engaged in a fraudulent scheme to achieve corporate earnings targets and mask declining operating results. Specifically, the fraudulent accounting scheme was carried out at certain Hayes plants and business units through three primary mechanisms: (1) inappropriately deferring operating expenses to balance sheet accounts, (2) failing to process vendor invoices, and (3) recording certain expenses as assets by improperly classifying expenses as gain contingencies or inaccurately recording customer credits as receivables. Hayes employees, including senior officers and accounting personnel, directed, ratified and/or knew of the above-listed practices. As a result of Hayes' fraudulent scheme, Hayes made materially false filings with the Commission in fiscal years 1999 and 2000 and for the first quarter of 2001. In December 2001, Hayes restated its results for fiscal years 1999, 2000 and for the first quarter of 2001. On December 5, 2001, Hayes filed for Chapter 11 bankruptcy due, in part, to revelations about its improper accounting practices. Hayes emerged from bankruptcy in June 2003.

As the AWG Business Unit Controller, Jarrett knew of and participated in at least some of the improper accounting practices described above because he either authorized the action and/or ratified the improper records that resulted from the practices. As the AWG Business Unit Controller, Jarrett was responsible for reconciling various income statements and balance sheet accounts and knew that these entries were false and that they misstated Hayes' financial statements. Specifically, Jarrett knew that in late 2000, approximately \$2.9 million of operating

¹ 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.

expenses (such as utility costs, freight, and machine repairs) were improperly deferred to AWG plant balance sheet accounts. Also, throughout 2000 and 2001, Jarrett failed to adequately accrue customer discounts on AWG financial statements, causing AWG's reported net sales to be overstated. Jarrett knew that failing to adequately accrue these discounts resulted in false entries on AWG's balance sheet. In February 2001, Jarrett knew that approximately \$3 million of operating expenses were inappropriately deferred to an AWG plant balance sheet. Finally, in 2001, Jarrett was present during a meeting in which a Hayes' executive directed an AWG plant controller, for whom Jarrett had oversight as the AWG Business Unit Controller, to stop recording supply invoices in months where the plant was not going to meet its internal earnings forecasts. The controller complied and a significant amount of unrecorded supply invoices accumulated at that plant. Jarrett knew that this directive would cause expenses not to be recorded and the plant's expenses to be understated.

B. Legal Analysis

As a result of the conduct described above, Jarrett violated Section 13(b)(5) of the Exchange Act and Rule 13b2-1 thereunder, and caused violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder.

1. Record-Keeping Provisions: Section 13(b)(2)(A) of the Exchange Act and Rule 13b2-1 Thereunder

Section 13(b)(2)(A) of the Exchange Act requires issuers with securities registered pursuant to Section 12 of the Exchange Act to make and keep books, records, and accounts that accurately and fairly reflect the transactions and dispositions of their assets. Rule 13b2-1 prohibits the falsification of any book, record, or account subject to Section 13(b)(2)(A) of the Exchange Act.

As AWG Business Unit Controller, Jarrett was responsible for reconciling various income statements and balance sheet accounts and authorized and/or ratified entries in Hayes' books and records that he knew inaccurately reflected transactions and dispositions of the company's assets. Jarrett therefore caused Hayes' violation of Section 13(b)(2)(A) of the Exchange Act and violated Rule 13b2-1 under the Exchange Act.

2. Internal Controls Provisions: Sections 13(b)(2)(B) and 13(b)(5) of the Exchange Act

Section 13(b)(2)(B) of the Exchange Act requires issuers with securities registered pursuant to Section 12 of the Exchange Act to devise and maintain a system of internal accounting controls sufficient to reasonably assure, among other things, that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP. Section 13(b)(5) of the Exchange Act prohibits any person from knowingly circumventing or knowingly failing to implement a system of internal accounting controls or knowingly falsifying any book, record, or account required to be made and kept pursuant to Section 13(b)(2) of the Exchange Act.

As AWG Business Unit Controller, Jarrett knew that the inappropriate accounting entries he and others made at the AWG plants would be included in Hayes' books, records, and financial results. Jarrett therefore caused Hayes' books and records to contain inaccurate and incomplete

descriptions of the accounting entries, which prevented Hayes from preparing financial statements in conformity with GAAP. By engaging in such conduct, Jarrett violated Section 13(b)(5) of the Exchange Act and caused Hayes' violation Section 13(b)(2)(B) of the Exchange Act.

3. Reporting Provisions: Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13
Thereunder

Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder require that issuers with securities registered under Section 12 of the Exchange Act file annual and quarterly reports with the Commission and keep this information current. By engaging in the above-described conduct, Jarrett caused Hayes to file inaccurate quarterly and annual reports with the Commission. Accordingly, Jarrett caused Hayes' violation of Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder.

IV.

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

Accordingly, it is hereby ORDERED that Respondent James Jarrett cease and desist from (1) committing or causing any violations and any future violations of Section 13(b)(5) of the Exchange Act and Rule 13b2-1 thereunder, and (2) causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder.

By the Commission.

Nancy M. Morris
Secretary